

Transform Tomorrow's Off-Lease Overflow into Opportunity



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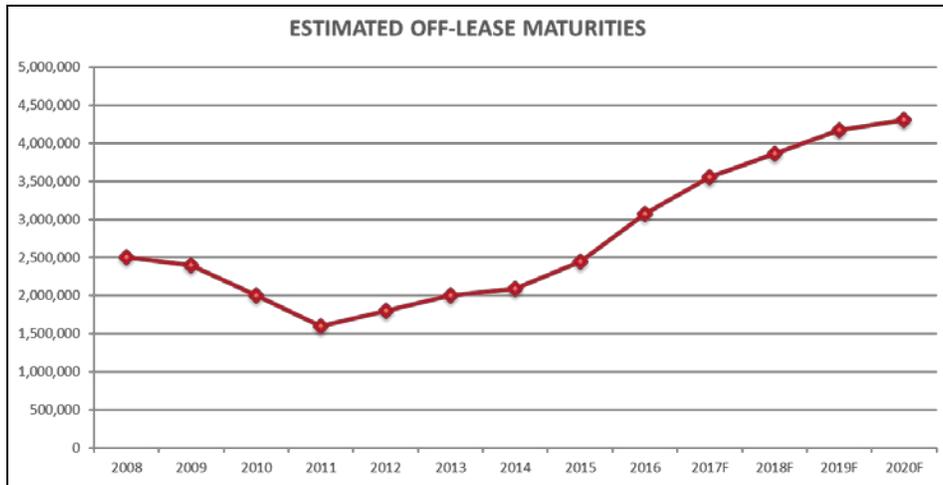
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Learning Objectives

Upon completion of this workshop, you will be able to:

- 1) Identify economic indicators that will impact the automotive business in 2018
- 2) Examine the risks and the opportunities presented by a record influx of off-lease vehicles
- 3) Use economic data to make short- and long-term tactical and strategic operational decisions
- 4) Optimize a CPO program designed to take full advantage of increasing off-lease vehicle supply

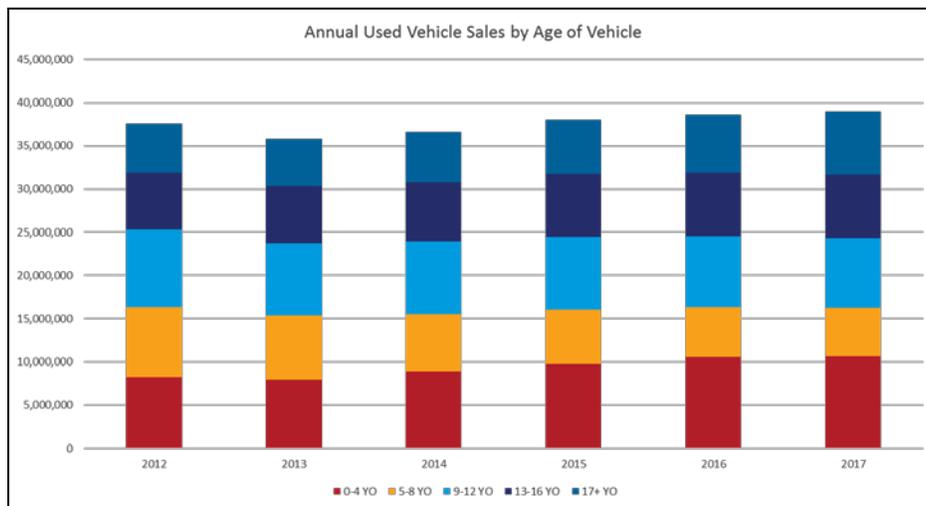
The Challenge: The Off-lease “Tsunami” Was Feared for Overwhelming Supply



- Analysts predicted a surge in supply of off-leased vehicles and plunging used car values in 2017
- This was reinforced by estimates of growth in off lease maturities from 1.6 million in 2011 to 4.3 million by 2020
- **But in the right context, supply can create demand – and that’s what we’ve seen**

Source: Cox Automotive estimates

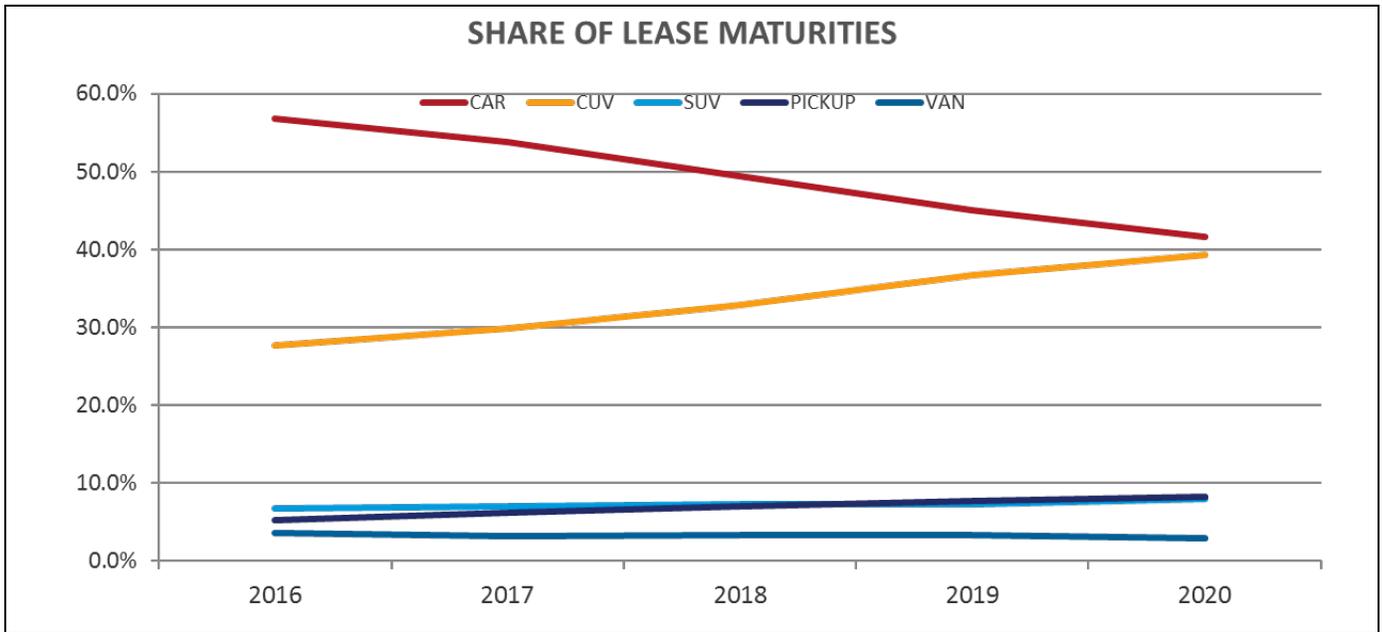
Demand Grew to Match the Supply



- 2017 should be remembered as the year of the used car
- New vehicle sales declined 2% while used vehicle sales grew 1%, with most of that growth from sales of vehicles less than four years old
- The off-lease vehicles predicted to lead to destruction actually led to growth and success in 2017

Source: Source: IHS Markit Polk Registrations, Cox Automotive estimates

Three More Years of Growth with Improving Mix



Key Factors:

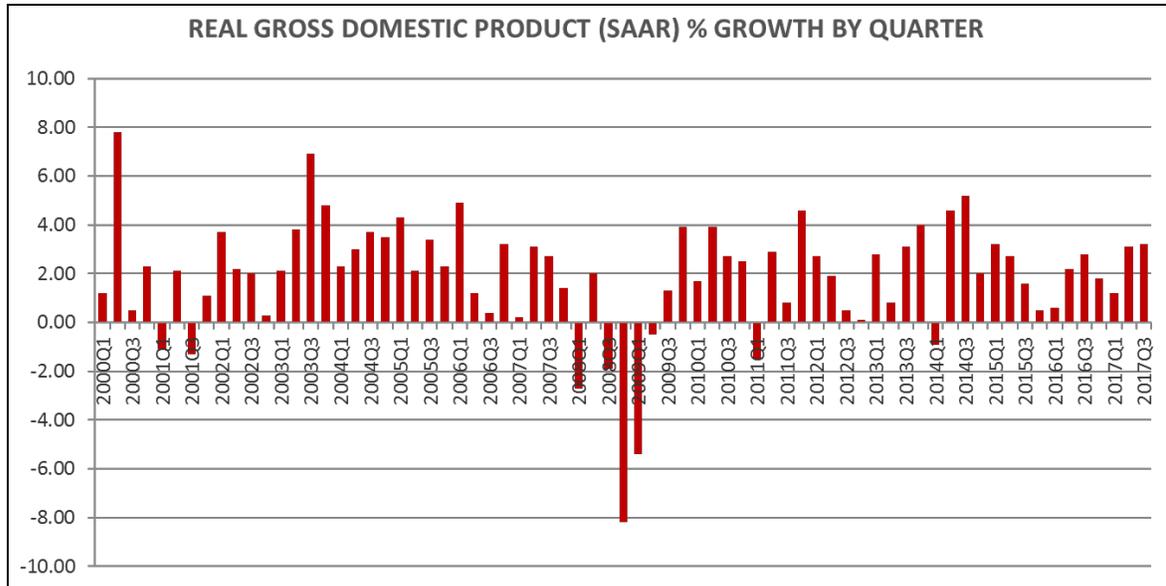
- Continued growth in off-lease supply
- Improving mix

- While the growth in off-lease supply won't be as large as we've seen the past two years, it will provide ample supply of vehicles less than four years old for several more years
- There also will be improving mix, with fewer cars (especially midsize sedans) and more CUVs, pickups and SUVs
- The vehicles that have grown in popularity in the new vehicle market will drive growth in used vehicle sales for the next several years

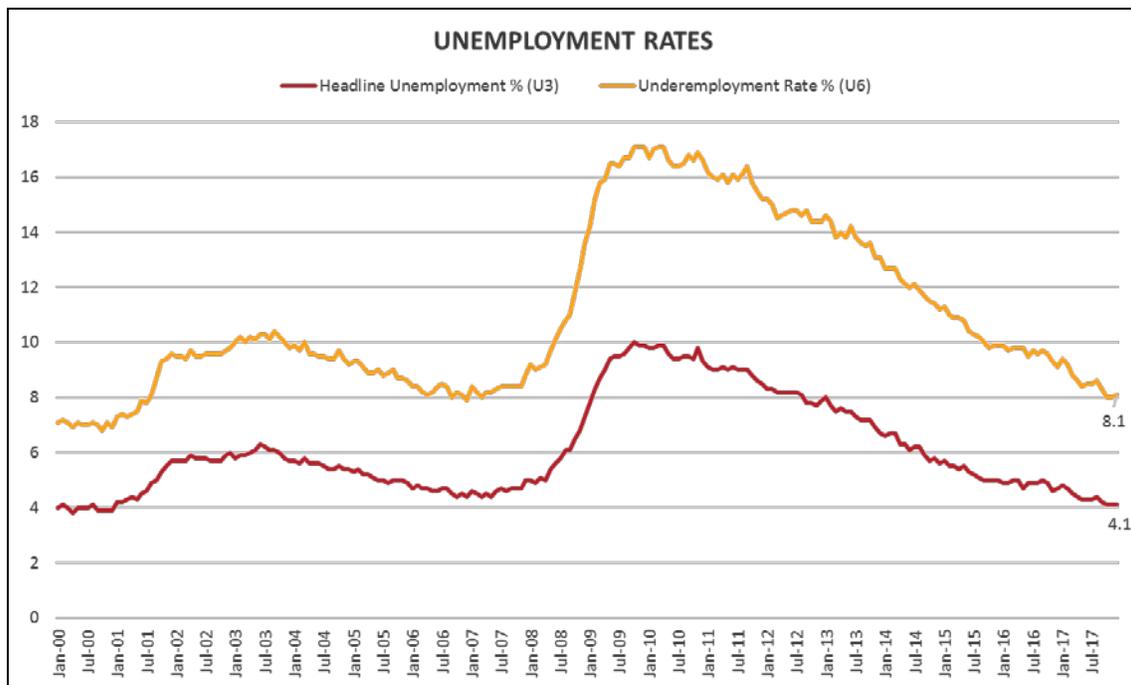
Source: Cox Automotive estimates

Economic Backdrop

- Economic growth is accelerating
- Unemployment continues to fall

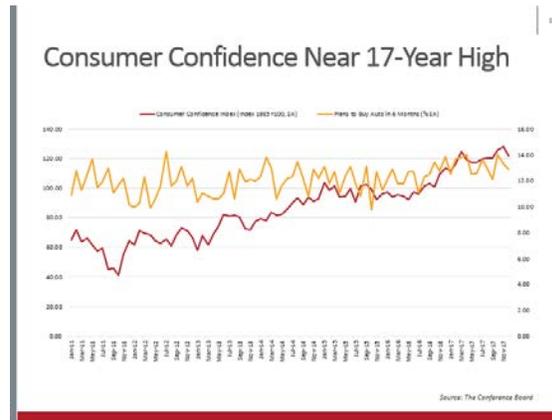


Source: United States Bureau of Economic Analysis



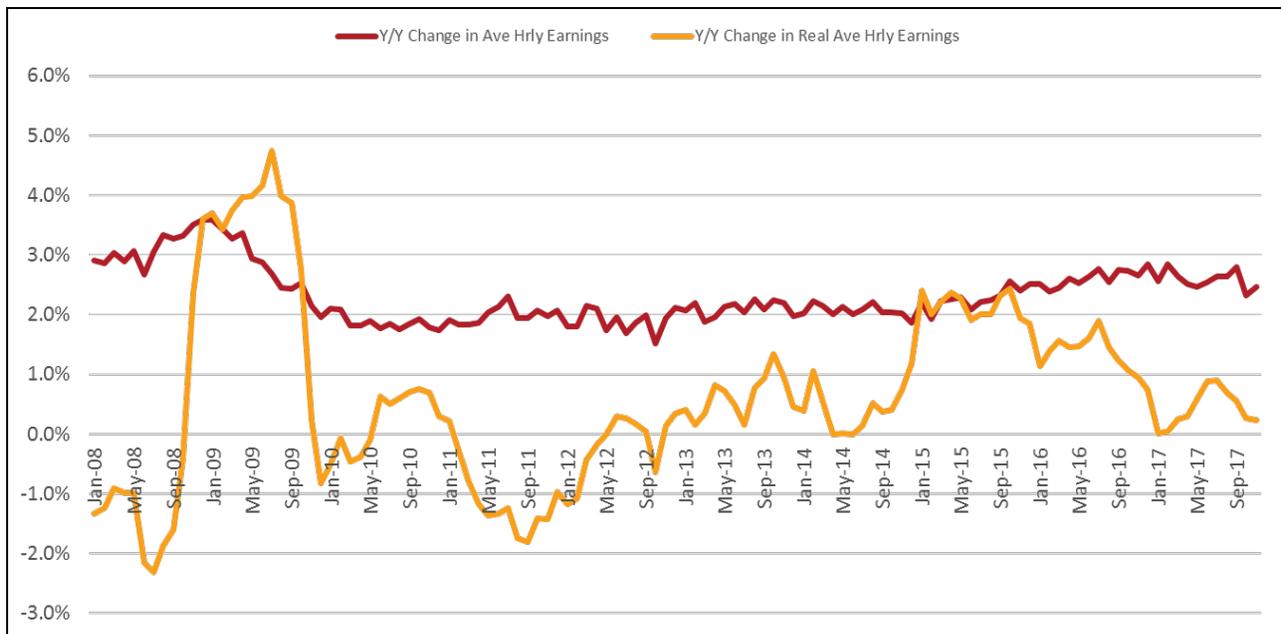
Source: United States Bureau of Labor Statistics

- Consumer confidence is at a 17-year high
- Earnings are consistently beating inflation
- Interest rates have been very favorable

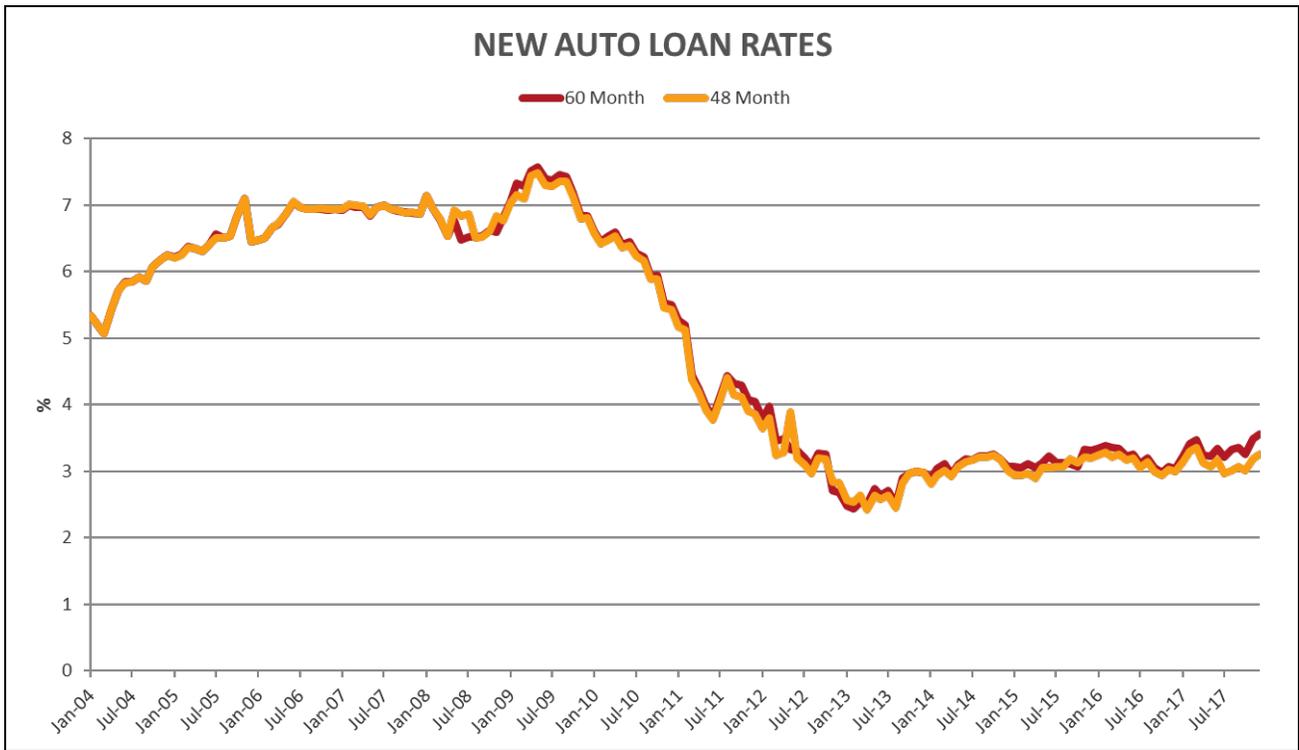


Source: The Conference Board

EARNINGS CONSISTENTLY BEATING INFLATION

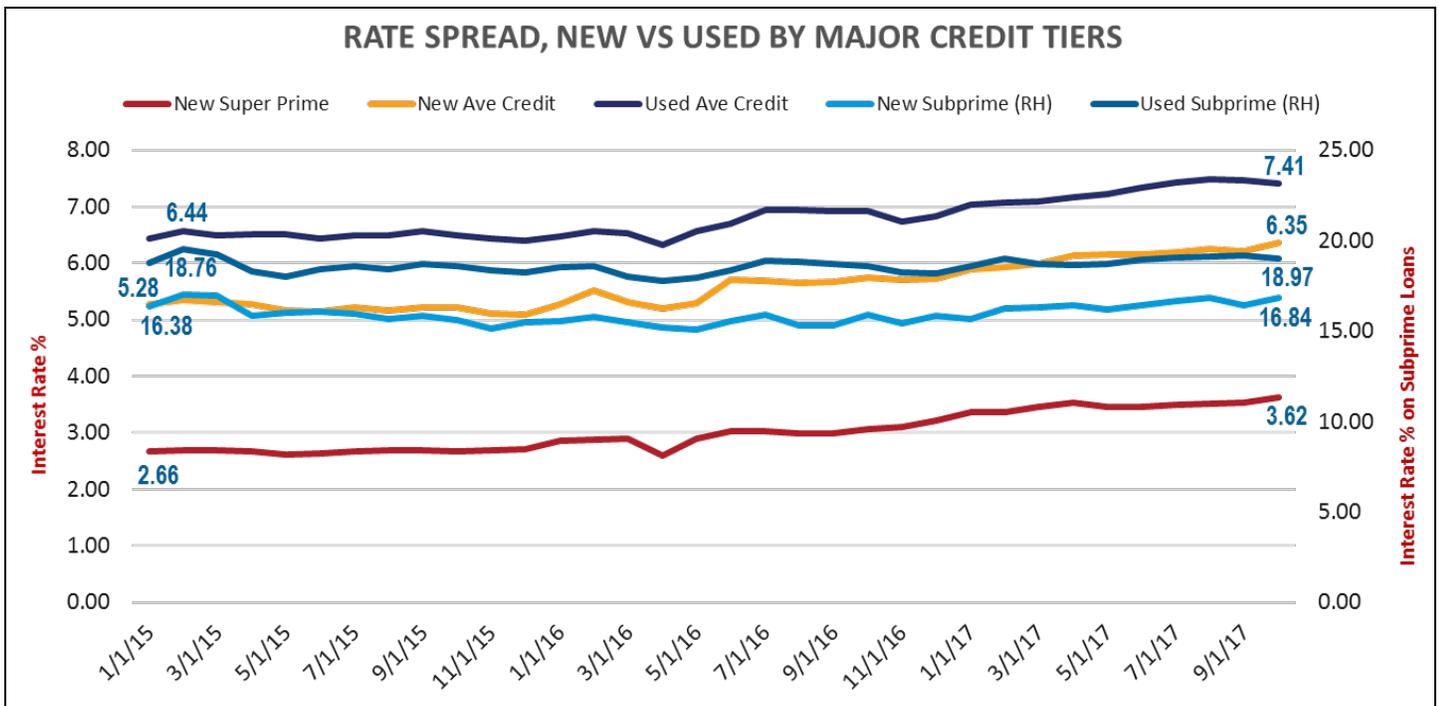


Source: United States Bureau of Labor Statistics



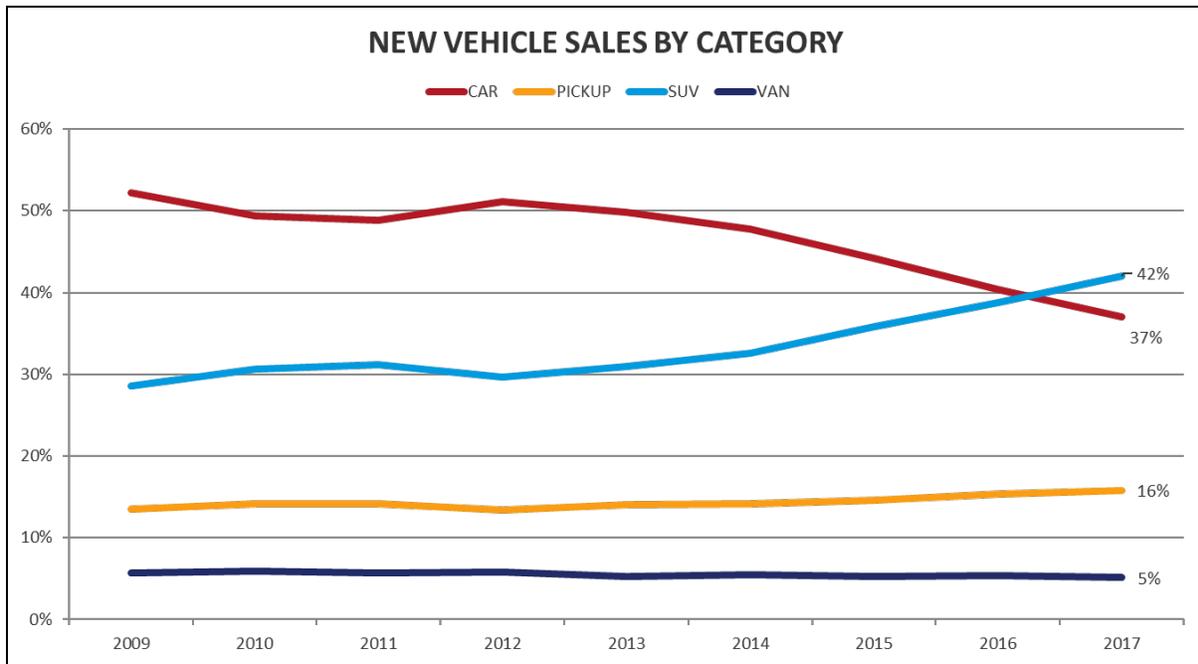
Source: Source: Bankrate.com Auto Loan Rates via Bloomberg

But... Rates Vary



Source: Dealertrack Credit Applications, Cox Automotive calculations

Consumer Preferences in New Vehicles Are Shifting

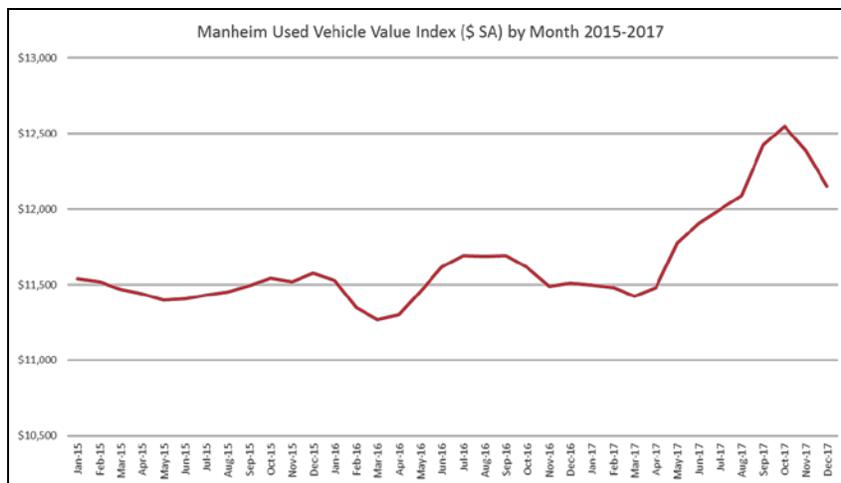


Source: Source: Autodata new vehicle sales by segment, Cox Automotive

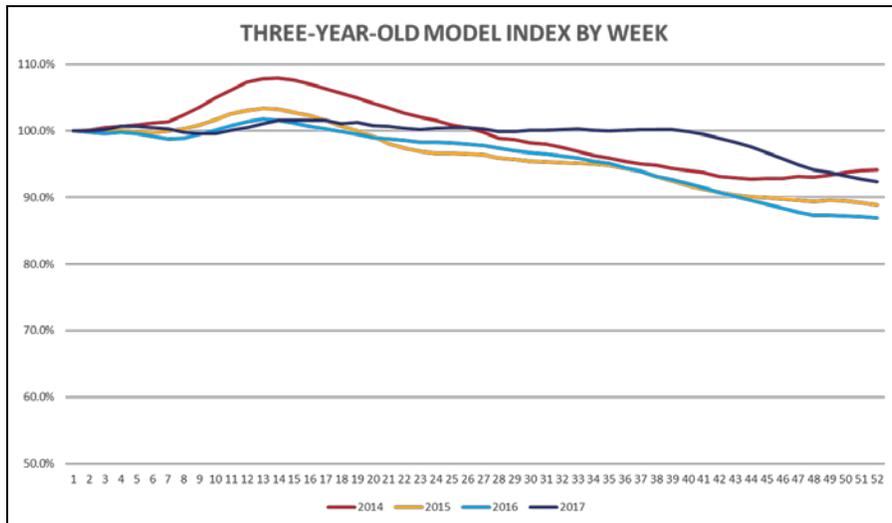
Key New Vehicle Sales Changes:
 -SUV sales increased to 42% of vehicles sold
 -Car sales declined to 37% of vehicles sold

Additional Economic Trends in 2017

- Used prices had distinct cycles in 2016-2017
- Abnormal depreciation pattern in 2017



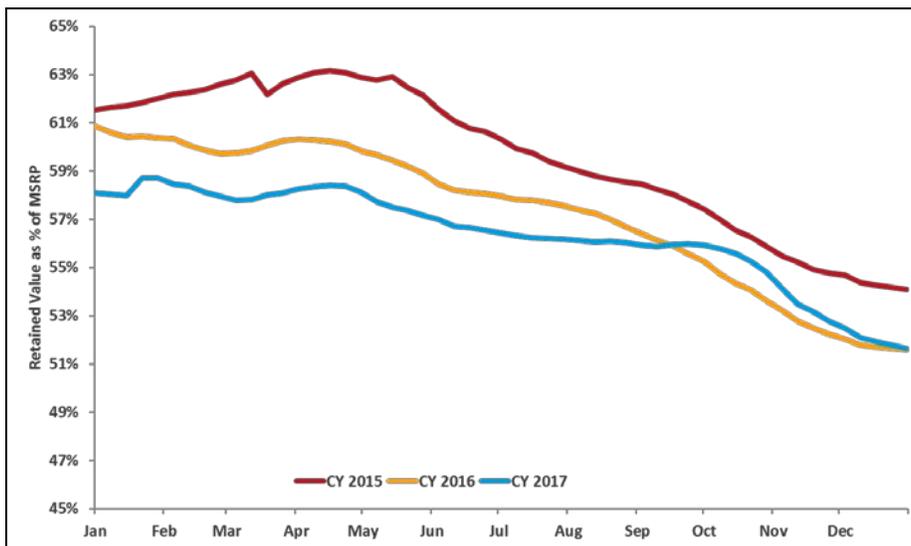
Source: Manheim Used Vehicle Value Index, Cox Automotive



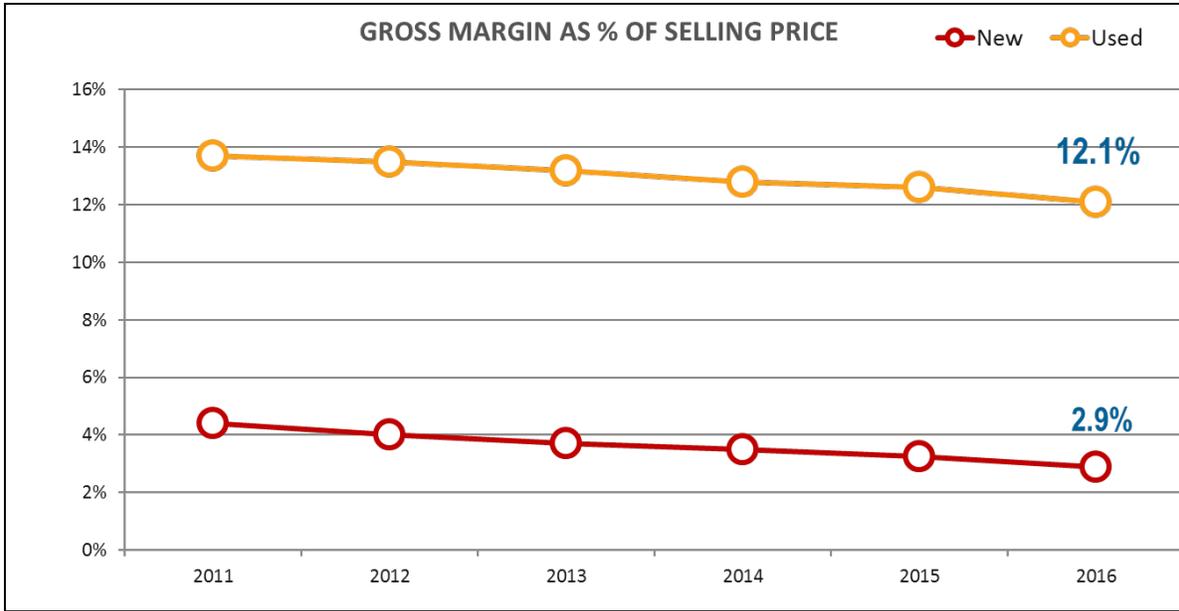
Source: Manheim, Cox Automotive

- Retention values also saw a shift in trend
- Margins continue to decline

RETENTION VALUES (1 TO 3 YEAR OLD MODELS)



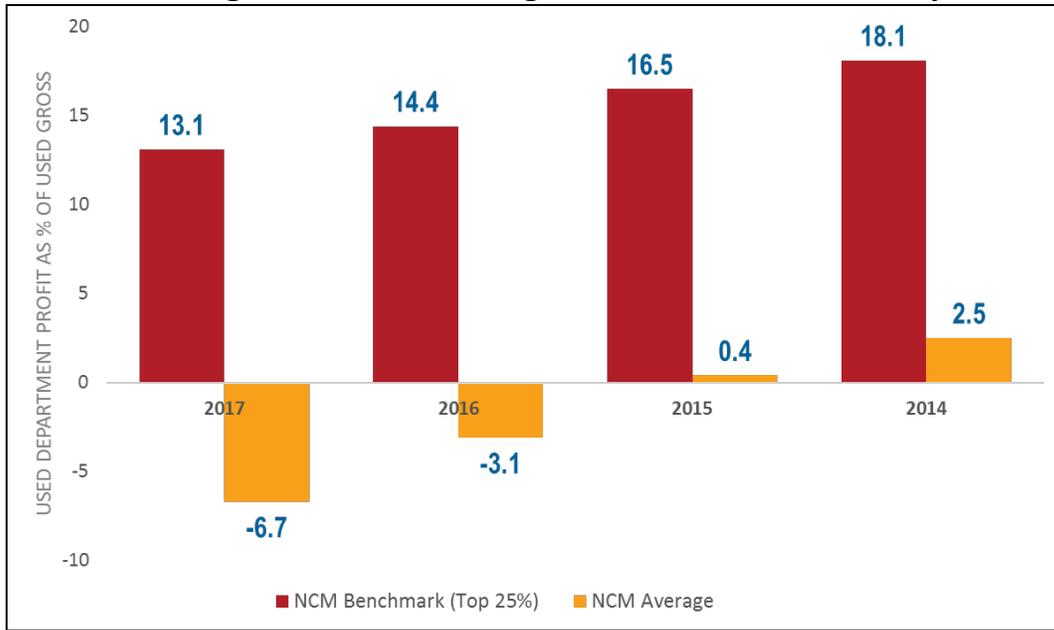
Source: Kelley Blue Book, Cox Automotive



Source: NADA

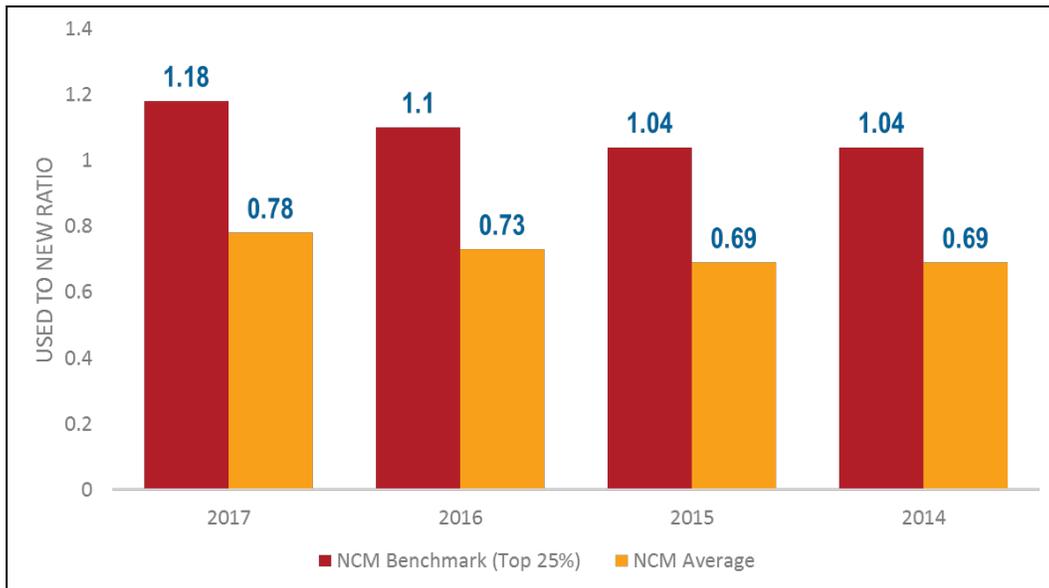
Top Dealers Are Focusing More On – And Selling More – Used Vehicles

Best Performing Dealers See Strong Profits from the Used Department



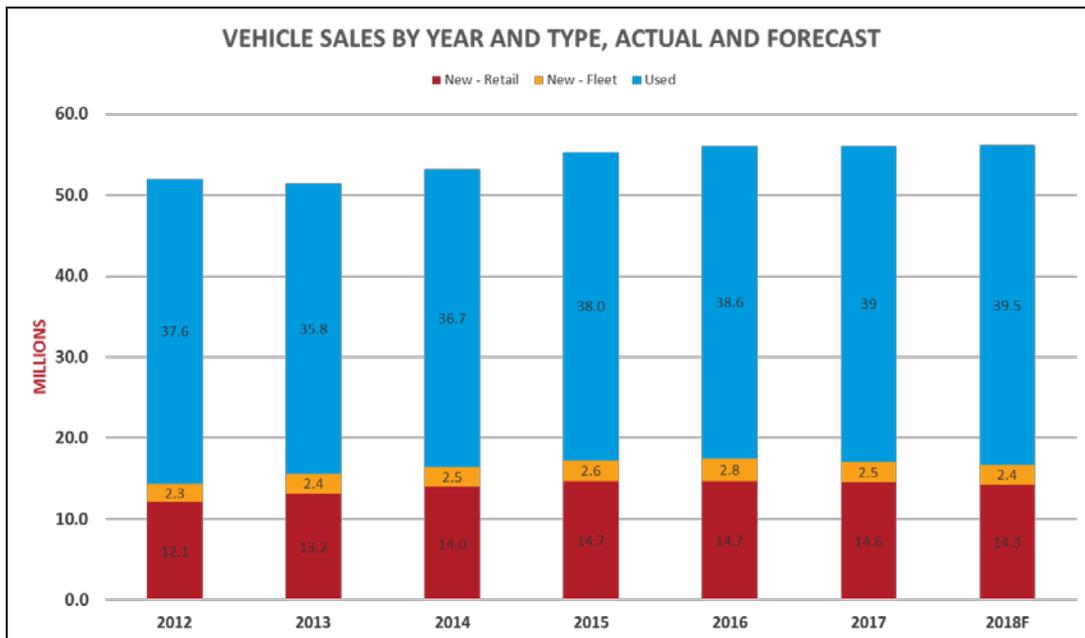
Source: NCM Associates Benchmarks, All NCM Dealers, 2017 = YTD November

Best Performing Dealers Sell More Used Vehicles Relative to New



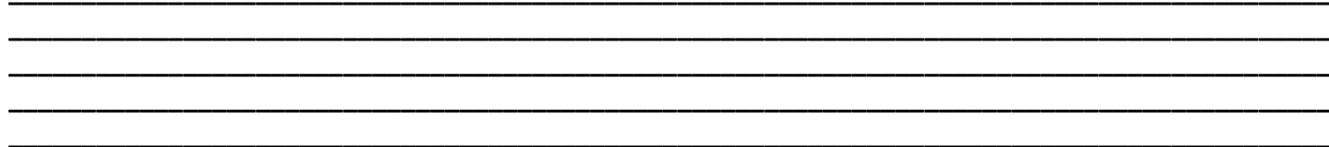
Source: NCM Associates Benchmarks, All NCM Dealers, 2017 = YTD November

The Forecast Sees Growth in Used, Not New



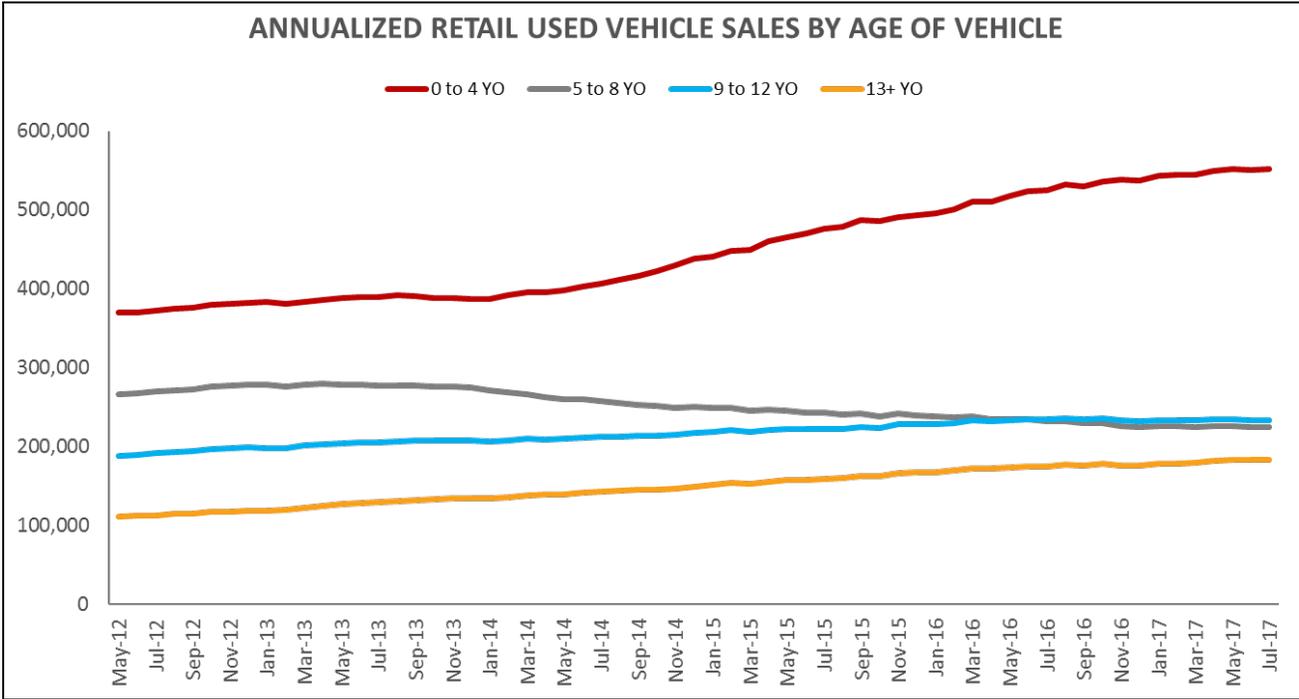
Source: BEA New Vehicle Sales, Bobit Fleet Sales, and IHS Markit Registrations (history); Cox Automotive forecast

Used Vehicle Sales Forecast for 2018:
\$39.5 million

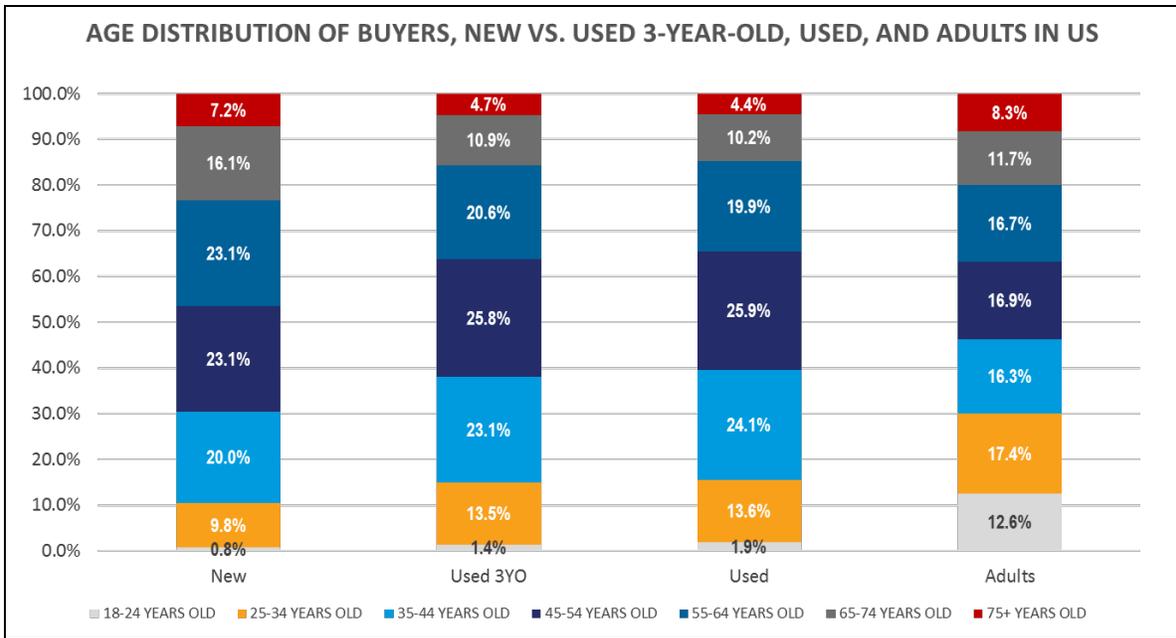


Used Vehicle Sales Trends

- Vehicles less than four years old are the source of growth
- Buyers of used vehicles trend younger

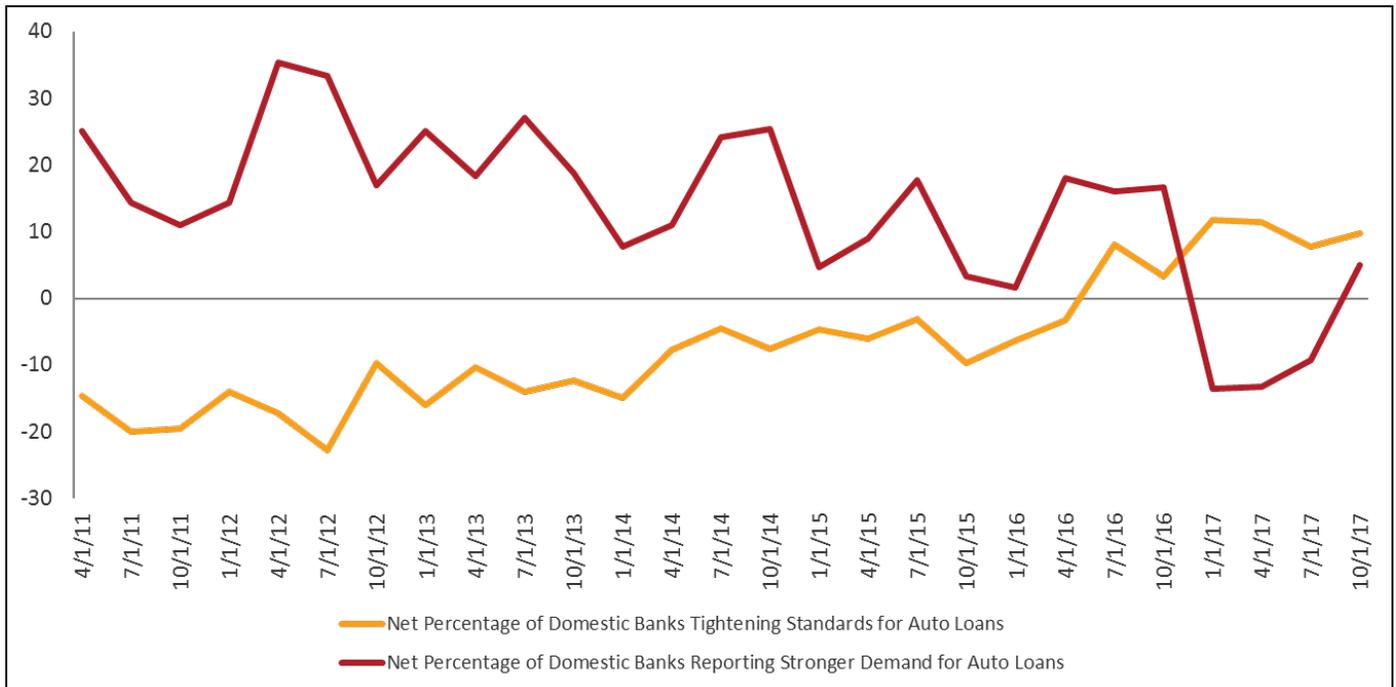


Source: IHS Markit Polk Registrations, Cox Automotive analysis



Source: IHS Markit Polk Registrations, Cox Automotive calculations, Claritas Pop-Demographics 2017

Credit Continues to Tighten



Source: Federal Reserve Bank Sr. Loan Officer Survey

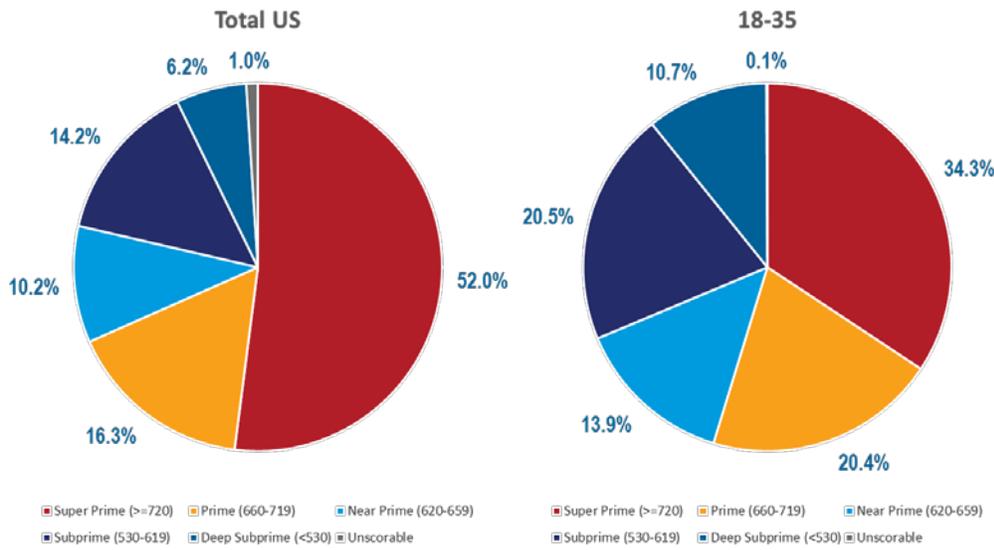
So what can the consumer control if...

Prices are rising...
 And rates are rising...
 And credit is tightening?

The consumer is left with...

The amount of the loan, or
 the vehicle price and down
 payment

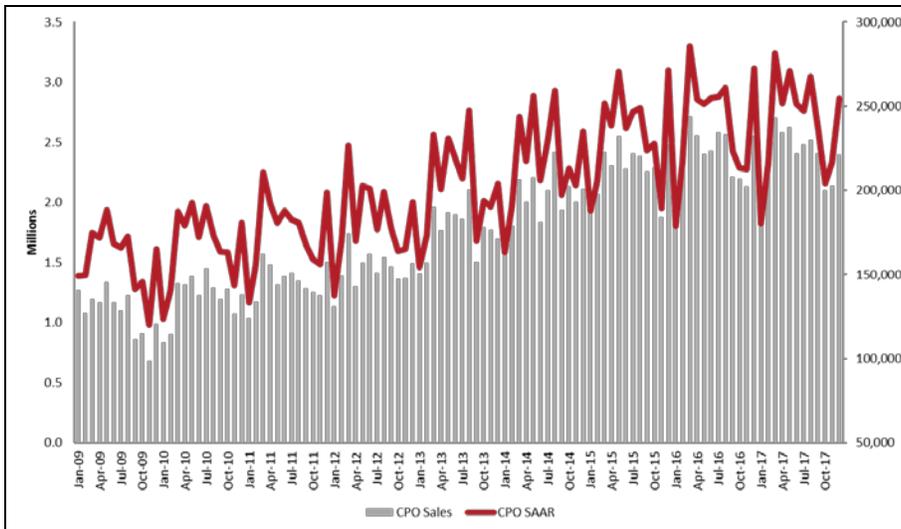
Credit and Age are Related



Source: Equifax Vantage Score Distribution of Active Credit Consumers, December 2017

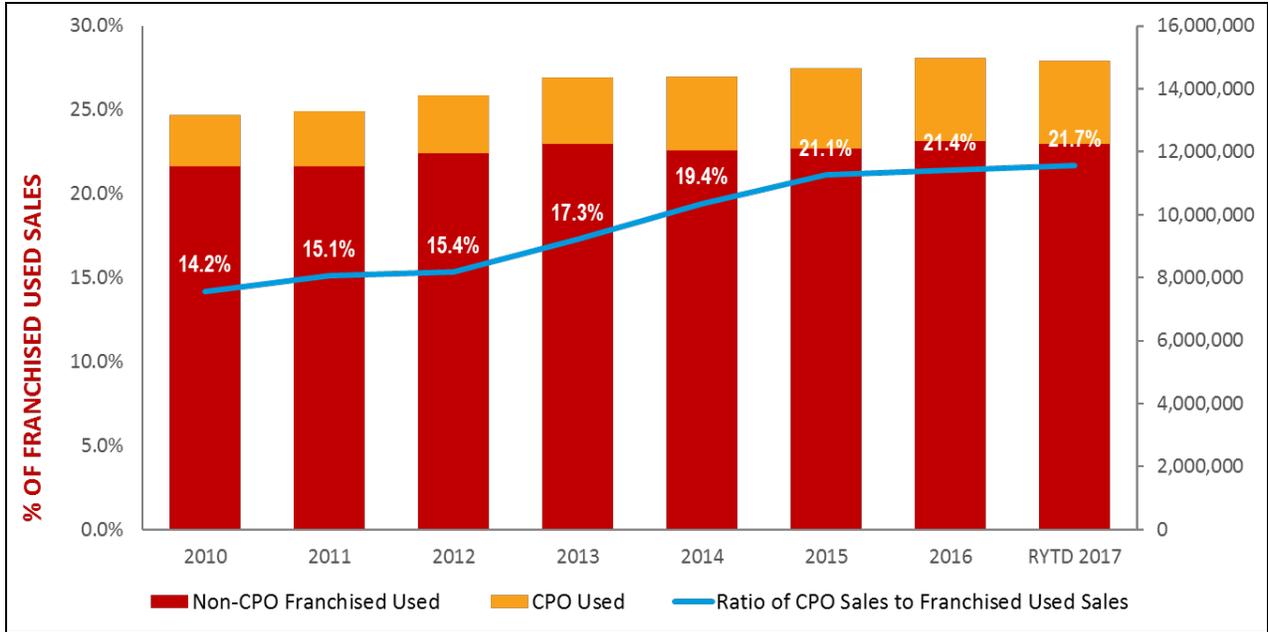
CPO Sales

MONTHLY CPO SALES AND SAAR



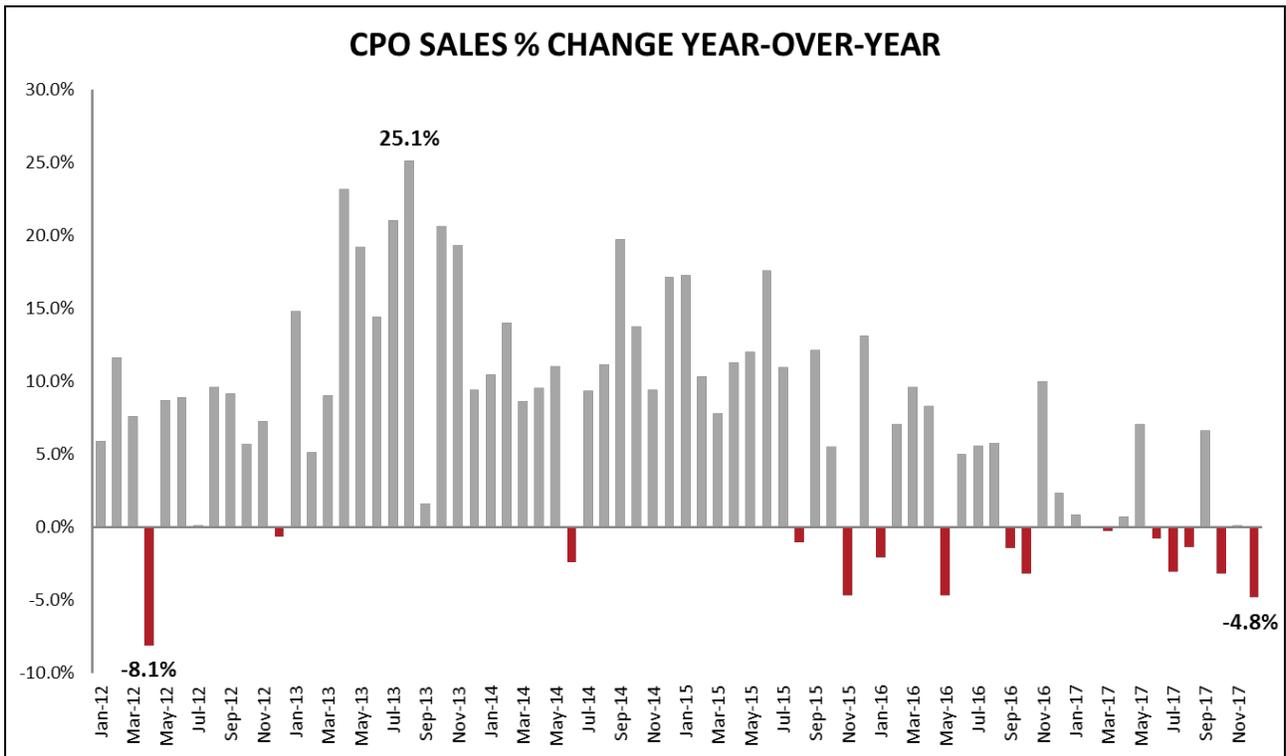
Source: Autodata (CPO sales), BEA (SAAR factors), Cox Automotive calculations

GROWING SHARE OF CPO SALES



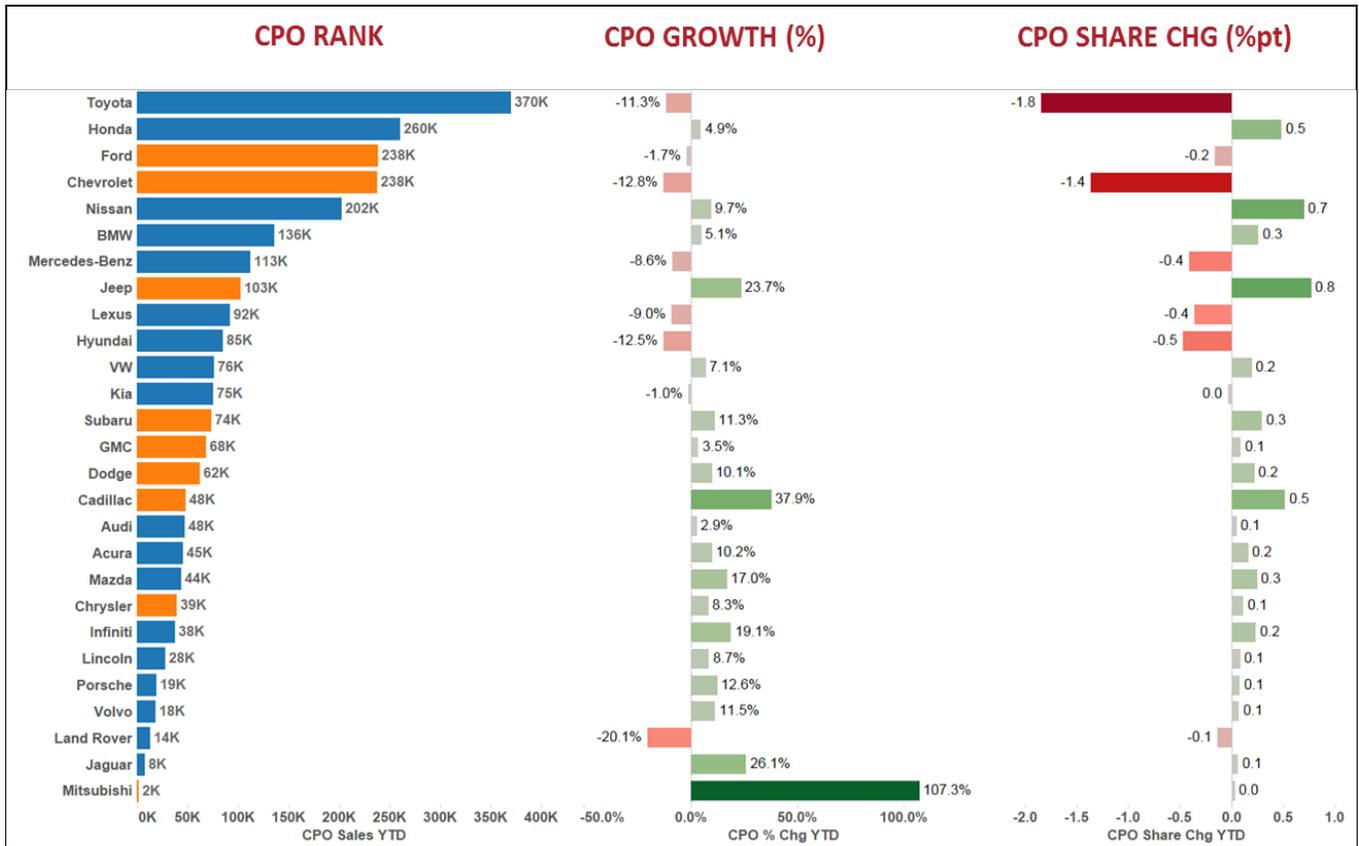
Source: NADA (YTD November Franchise Used Sales), Autodata (CPO Sales), Cox Automotive

GROWTH IN CPO SALES FLATTENING OUT



Source: Autodata

Declining Shares in Non-Luxury Brands



Source: Autodata (CPO sales), Cox Automotive calculations

