



Used Car Industry Report

2018 | A PUBLICATION OF THE NATIONAL INDEPENDENT
AUTOMOBILE DEALERS ASSOCIATION



FEATURING THE **2017** NAAA
YEAR IN REVIEW

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Average Dealer's
Cost-Per-Sale



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1. Research and Certified Days to close based on General Industry Perspectives. TrueCar data based on website building and sales including date. 2. Used Car traffic growth based on TrueCar website traffic, representing a compound annual growth rate from 2012 to 2016. 3. Shows ad spend per new vehicle based on 2015 NADA Data Report. *Available in participating AAA club territories.

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2018 | USED CAR INDUSTRY REPORT

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INDUSTRY CONFIDENCE REMAINS STRONG AMID GROWING RETAIL SALES, LOW UNEMPLOYMENT AND COMPETITIVE INTEREST RATES

DEALERS MEASURE OPTIMISM AGAINST INCREASING WHOLESALE COSTS AND A 10-YEAR HIGH IN CONSUMER WAGE GROWTH



**By Steve Jordan,
NIADA CEO**

The 2018 *Used Car Industry Report* picks up the industry narrative as it rebounds from the fluctuations in automotive lending and underwriting over

the past couple of years.

Prime and near-prime lenders are normalizing their marketplace positions and competing for customers with stronger incomes, and by extension are placing tighter restrictions on auto finance contracts for non-prime and subprime customers.

Auto lenders lending in their normal channels is good for the industry, especially Buy Here-Pay Here dealers and operators.

The report opens with detailed statistics and demographics from NIADA's members, a great tool to see how your dealership compares to other dealer members nationwide.

Special thanks to those who take the time to complete our membership surveys. Your time and effort is extremely important, ensuring statistical relevance and creating a benchmark for NIADA membership.

The NIADA Business Confidence Survey (Section 2) continues to add a unique, real-time dealer perspective on the state of the industry and its confidence regarding key business indicators.

The quarterly results, compiled with the assistance of industry partner Equifax, are a great educational tool to pass on to legislators, regulators, media and others who seek better insight into the industry on a timely, consistent basis.

As NIADA continues to educate national, state and local officials about the used auto industry, our strong alliances with industry associations

like NADA, NAAA and NABD are vital to our advocacy efforts.

We are proud to work include the 2017 NAAA Year in Review within this report (Section 17), including a summary of the annual *Manheim Market Report and Outlook* for the rest of 2018.

In Section 3, NABD provides in-depth analysis of the Buy Here-Pay Here segment for the year past, along with forecasts for what BHPH dealers can expect for the rest of 2018 and beyond.

The *Used Car Industry Report* is also filled with invaluable data from several of NIADA's industry vendor partners and leading nationally recognized automotive brands. These companies spend millions of dollars on research of the used vehicle industry, including dealer and consumer studies and while papers, contributing to the overall perspective and confidence we all have in the automotive industry.

In Section 4, J.D. Power/NADA Used Car Guide provides a breakdown of used car sales by channel by month. In Section 5 industry partner CarGurus goes a step further and details auto buying patterns by body style. And in Section 6, Dominion gives us details on Tesla vehicles and other electric vehicle sales.

Autotrader, Dealer.com and KBB teamed up once again to present the 2018 Car Buyer Journey Study in Section 7, an important look at the customers are who purchase used vehicles and how they shop.

NIADA has partnered again with Experian and Equifax to provide a detailed analysis of the used automotive finance and subprime markets and credit trends (Sections 8 and 9).

In Section 10, one of our newest industry partners, TransUnion, details its insights on consumers and the alternative credit market. More consumer data is presented by RouteOne in Section 11, taking a deep dive into consumer digital workflow experiences.

CARFAX summarizes vehicle history trends in Section 12, as well as providing a second year of data on vehicle recalls by state.

The chart on page 52 shows the number of recalled vehicles has dropped in nearly every state, illustrating how successful CARFAX and NIADA have been in moving toward the goal of a 100 percent completion rate for open recalls.

Dealers can alleviate consumer concerns about recalls by repairing and/or disclosing open recalls during the purchase process, boosting trust and making your dealership stand out from the competition.

We're pleased to offer a new section of data about impound storage fees and their costly effect to the bottom line of dealers nationwide, presented in Section 13 by another NIADA industry partner, GoldStar by Spireon.

Another new section providing data on blockchains and the effects alternative currencies such as bitcoin will have on the used auto industry is provided by another new NIADA industry partner, Acertus. See Section 14 for that fascinating narrative.

Dealer marketing is again included in this year's report, but with a fresh perspective presented in Section 15 by NIADA industry partner DealerCenter. It details website traffic and lead generation, where dealers are posting inventory online, Google search results, mobile search and much more.

And as always, industry partner Black Book provides its yearly retention values analysis (Section 16).

I'd like to thank all of our industry partners who help us make NIADA's annual *Used Car Industry Report* a must-have in understanding our industry.

And I want to thank you, our dealer members and our allied industry partners for your ongoing feedback and support of our shared goals.

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NIADA MEMBERSHIP DATA

Section 01 |

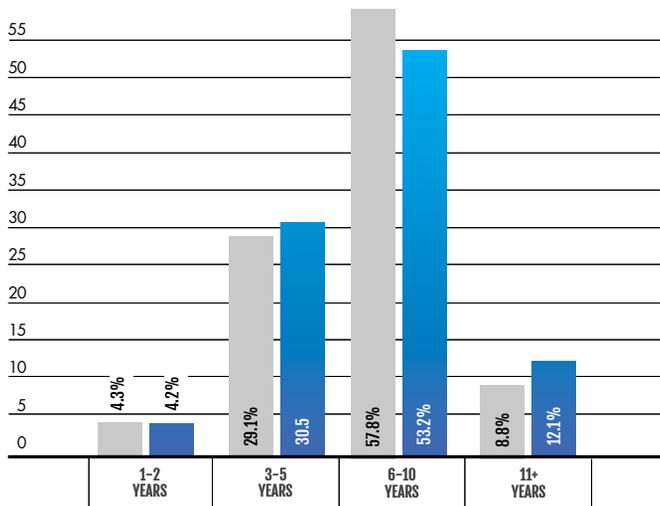
One of the best ways to gauge the success of your dealership and its operations is to compare your dealer demographics and your dealer data to those of other NIADA members around the country. Each year NIADA surveys its members on a quarterly basis on a variety of topics covering demographic and business data.

In addition, we were able to pull six key data points of our dealer members from our InfoGroup data on page 7 of this section. The six charts on page 7 are derived from over 10,700 confirmed dealer member records within our InfoGroup data, providing a 100% confidence level in the validity of the data on this particular page of the report.

- More than 53% of our membership sell vehicles in the 6-10 year old range.
- More than 60% of our dealer members sell vehicles in the retail price points of \$5,000 to \$10,000.
- 71% of our dealer members have annual sales volumes of \$2.5 million or less.
- 72% of our dealer members sell 400 units or less per year.
- 96% of our dealer members are single location dealers.
- 64% of our dealer members have 1-4 employees.
- NIADA Dealer Members overwhelmingly rely on online advertising as their main advertising avenue. Also, dealer members reported an 18% increase in mobile advertising.

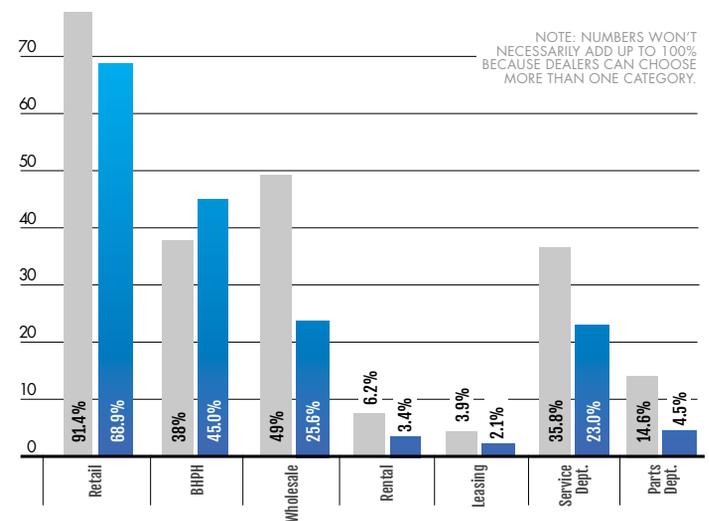
Age of Vehicles Sold

(PERCENTAGE OF RESPONDENTS) SOURCE: NIADA MEMBER SURVEY ● 2016 ● 2017



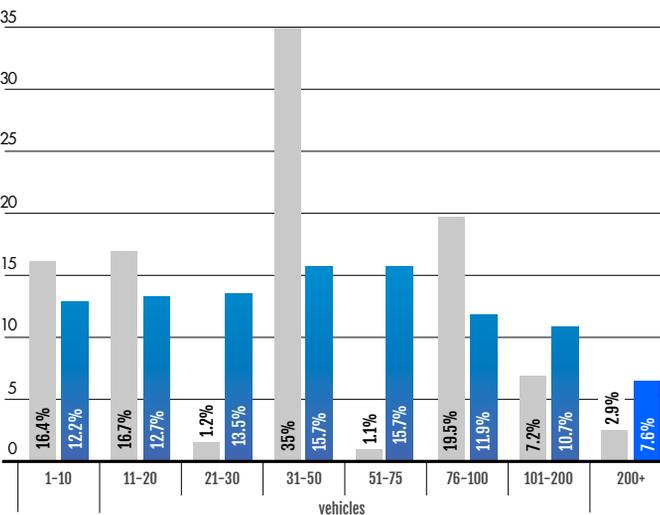
What is the Nature of Your Business?

(PERCENTAGE OF RESPONDENTS) SOURCE: NIADA MEMBER SURVEY ● 2016 ● 2017



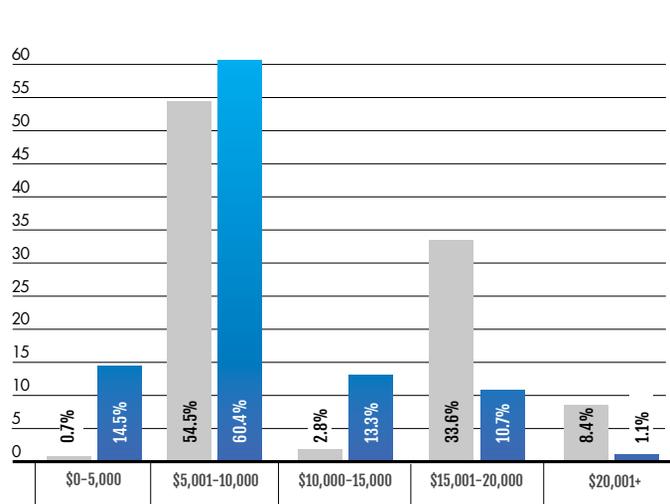
Average Vehicles in Inventory

(PERCENTAGE OF RESPONDENTS) SOURCE: NIADA MEMBER SURVEY ● 2016 ● 2017



Average Retail Price

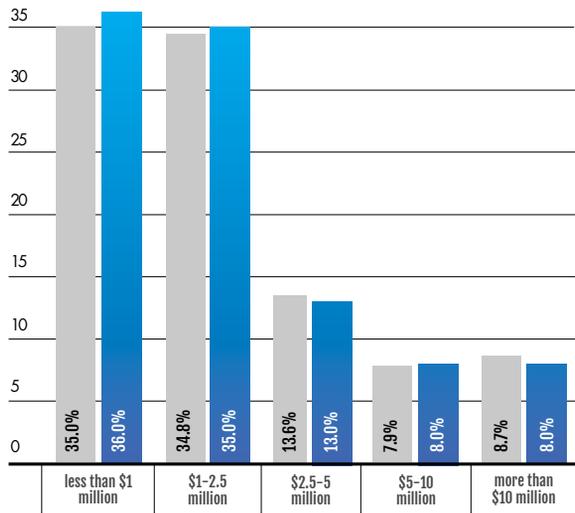
(PERCENTAGE OF RESPONDENTS) SOURCE: NIADA MEMBER SURVEY ● 2016 ● 2017



Annual Sales Volume

SOURCE: INFOGROUP

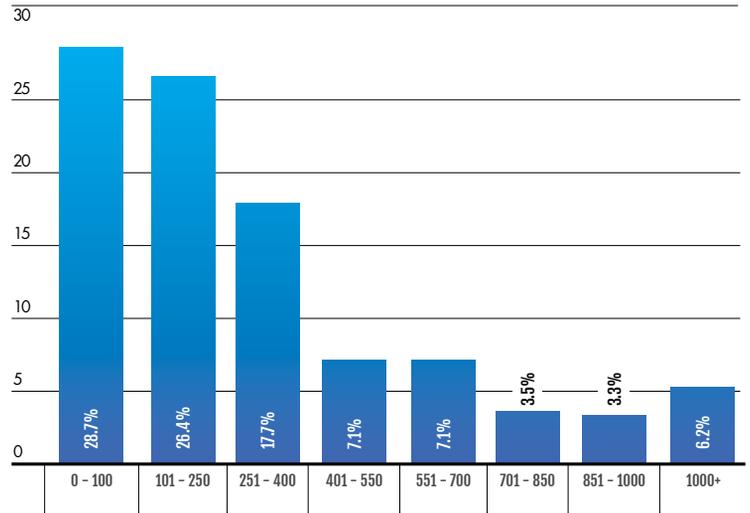
● 2016 ● 2017



Annual Retail Sales by Unit

SOURCE: INFOGROUP

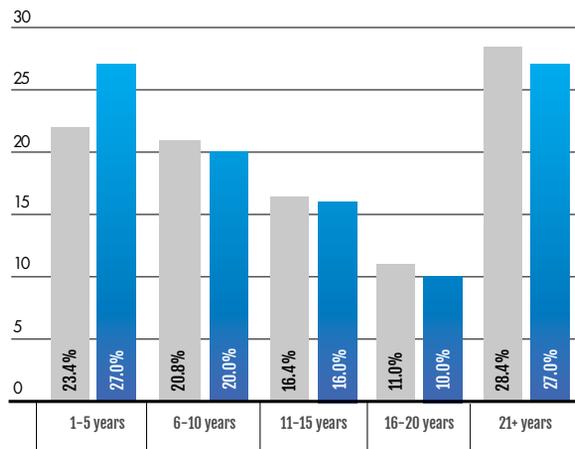
● 2017



Number of Years in Business

SOURCE: INFOGROUP

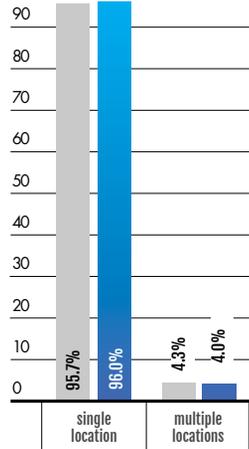
● 2016 ● 2017



Multiple Locations

SOURCE: INFOGROUP

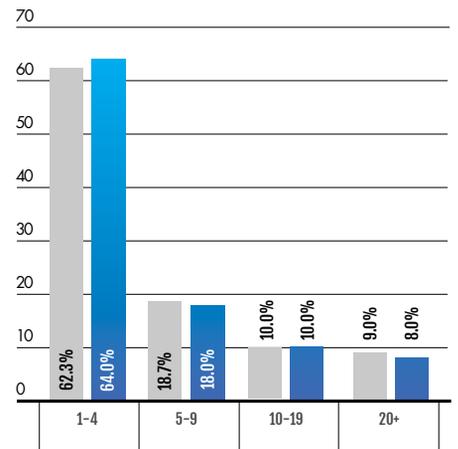
● 2016 ● 2017



Number of Employees

SOURCE: INFOGROUP

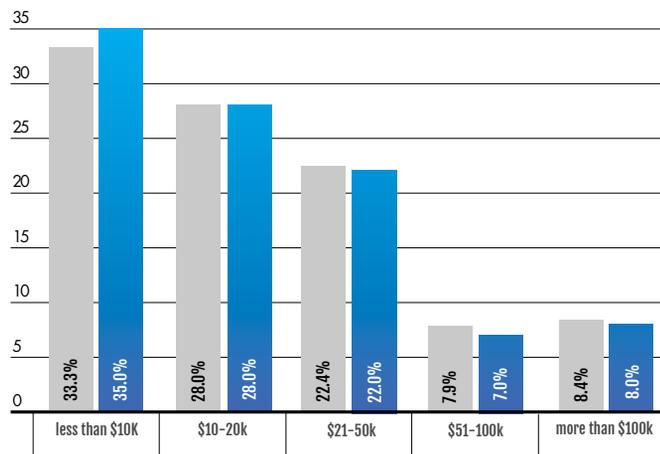
● 2016 ● 2017



Advertising Spend Annual

SOURCE: INFOGROUP

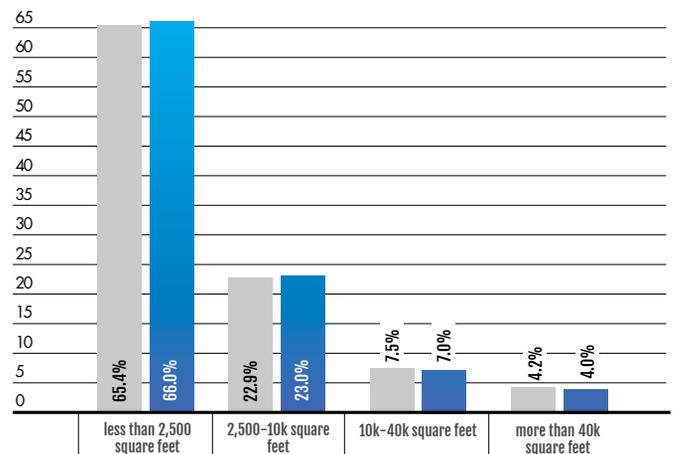
● 2016 ● 2017



Dealership Size by Square Footage

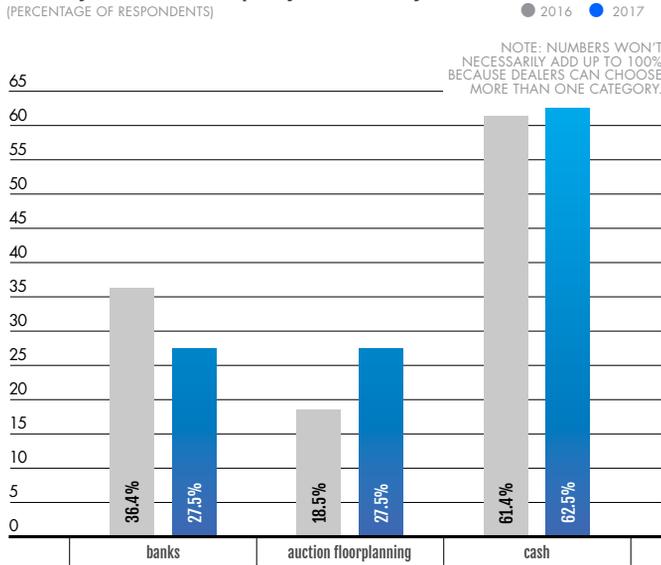
SOURCE: INFOGROUP

● 2016 ● 2017



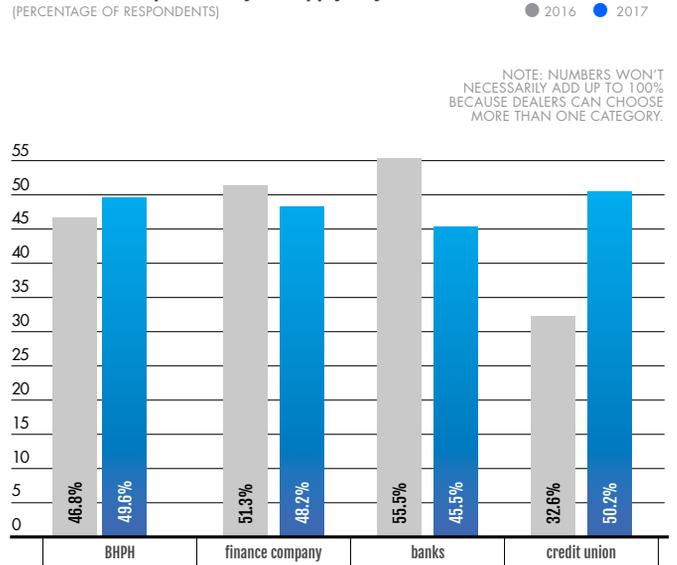
How do you Finance/Floorplan your Inventory?

(PERCENTAGE OF RESPONDENTS)



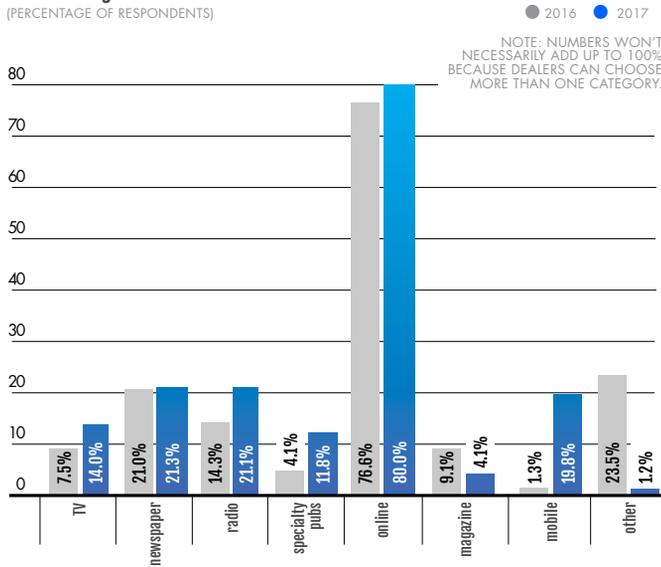
What Finance Options do you Supply to your Customers?

(PERCENTAGE OF RESPONDENTS)



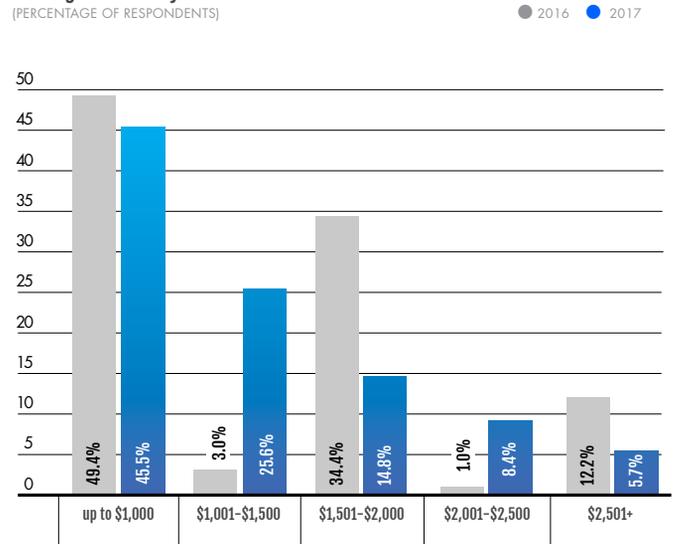
Advertising Media Used

(PERCENTAGE OF RESPONDENTS)



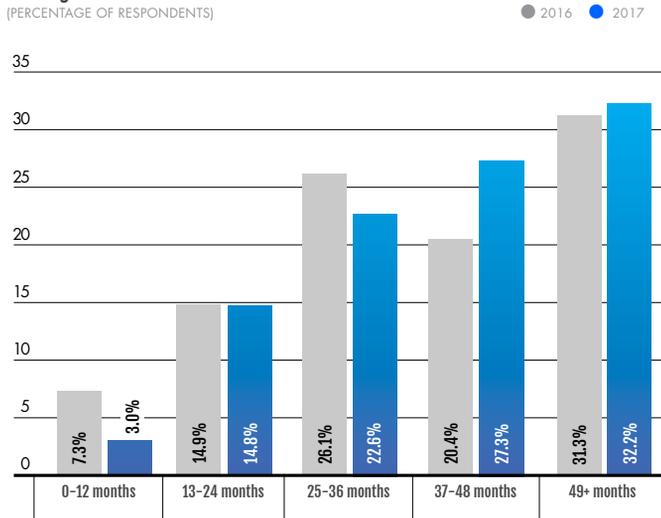
Average Down Payment

(PERCENTAGE OF RESPONDENTS)



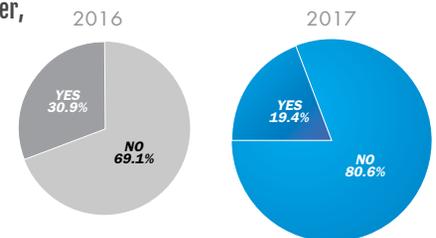
Average Term of Contract

(PERCENTAGE OF RESPONDENTS)



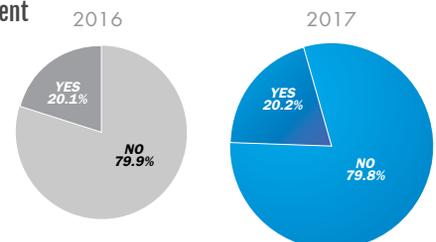
If you are a BHPH Dealer, do you have a Related Finance Company?

(PERCENTAGE OF RESPONDENTS)



Separate F&I Department

(PERCENTAGE OF RESPONDENTS)



MORE



**MARKET INSIGHTS TO
SOURCE THE RIGHT
INVENTORY**

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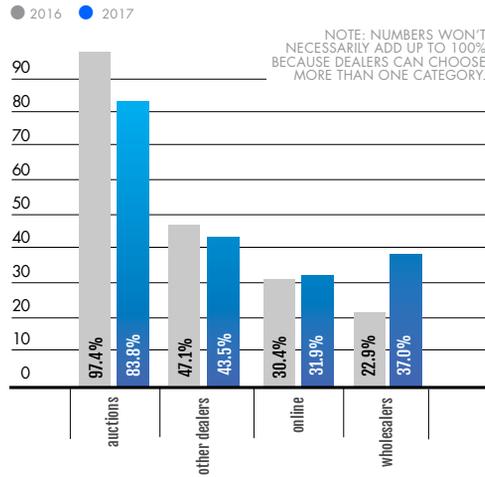
MARCOS ESQUIVEL | ESQUIVEL AUTO DEPOT

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NEXTGEAR
CAPITAL

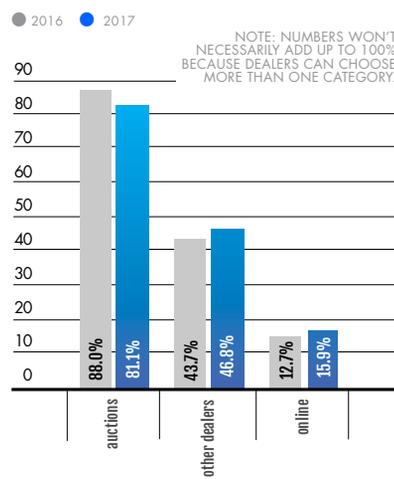
Where do you Buy your Vehicles?

(PERCENTAGE OF RESPONDENTS)



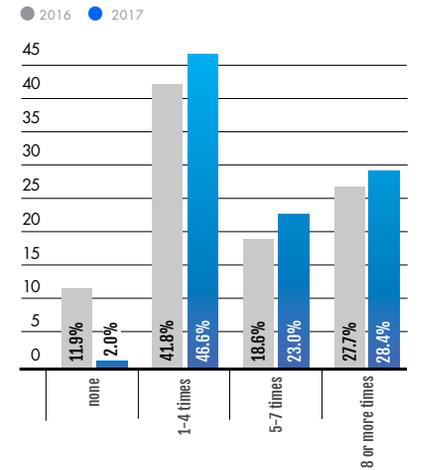
How do you Wholesale your Vehicles?

(PERCENTAGE OF RESPONDENTS)



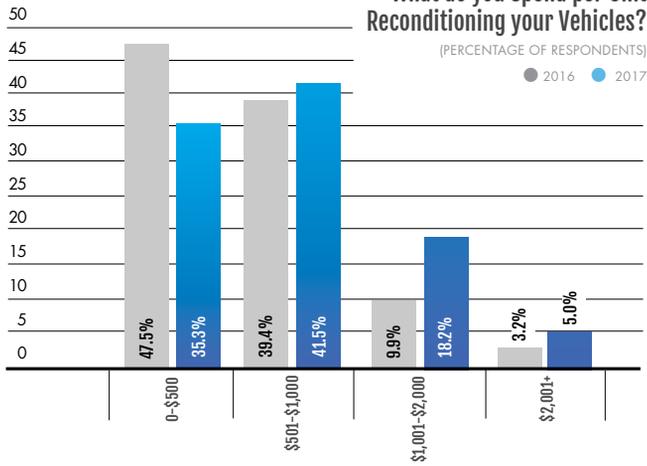
How Often Does your Dealership Attend Auctions Per Month?

(PERCENTAGE OF RESPONDENTS)



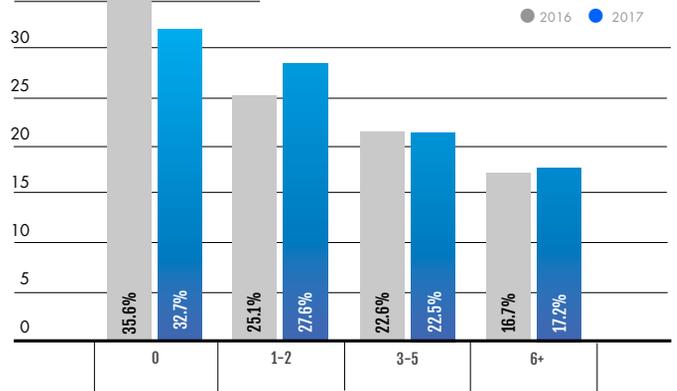
What do you Spend per Unit Reconditioning your Vehicles?

(PERCENTAGE OF RESPONDENTS)



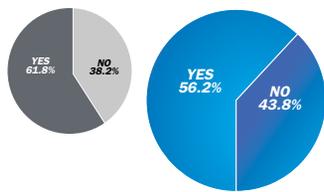
How Many Service Bays do you Operate?

(PERCENTAGE OF RESPONDENTS)

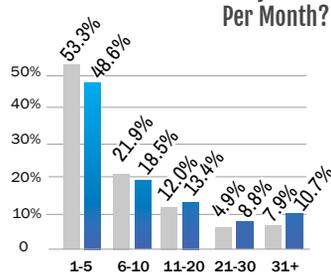


Do you Sell Warranties/ Service Contracts?

2016 2017

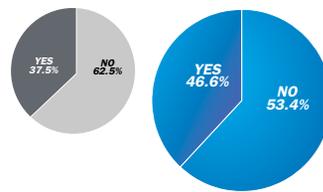


If Yes, How Many Warranties/ Service Contracts do you Sell Per Month?

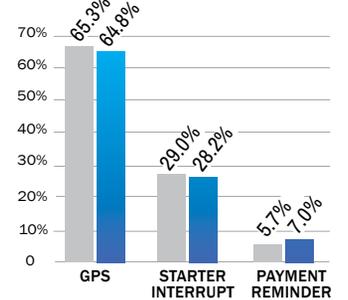


Do you Use GPS Devices?

2016 2017

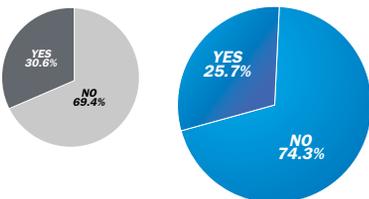


If Yes, What Functions are Included?



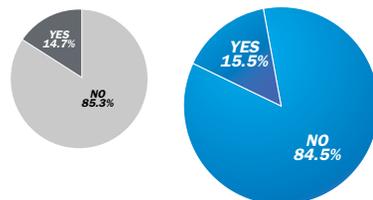
Do you Sell Aftermarket Products?

2016 2017



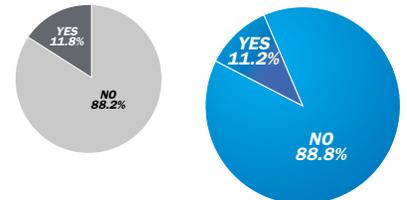
Do you Offer Certified Pre-Owned Vehicles?

2016 2017



Do you Have a Rental Car Operation?

2016 2017



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NIADA Q2 BUSINESS CONFIDENCE SURVEY

INDUSTRY NEWS

Section 02

The economic and corresponding retail sales growth expectations of independent used vehicle dealers continued to be very conservative in NIADA's business confidence survey for the second quarter of 2018.

Economic growth expectations were down 7 percent from the first quarter survey, with only 39 percent expecting improvement, and retail sales growth expectations rose slightly to 53 percent. Customer traffic expectations took a larger jump, with 49 percent of dealers saying they anticipate more customers coming into their dealership in the current quarter.

Those results align with the current environment of high consumer confidence, unemployment at its lowest rate since 2000, wage growth at a 10-year high and still historically competitive interest rates.

There are two major challenges to independent dealers taking advantage of those positive trends.

First is a retrenchment of auto finance funding, particularly in the subprime and nonprime credit tiers, as noted by the 40 percent of respondents to the NIADA survey who indicated auto finance companies were placing tighter restrictions on auto finance contracts.

To deal with that and to capitalize on the expected increase in customer traffic, dealers can be more creative with pre-approvals and credit checks.

Equifax's latest Auto Consumer Credit study showed 52 percent of prospective purchasers have undergone a credit check but just 15 percent intend to get pre-approved for their desired vehicle and 32 percent do not plan to seek approval during the shopping process.

Dealers can play a larger role in helping or encouraging pre-approvals, which can create a less adversarial negotiating environment and a faster shopping process.

Second, used vehicle inventory costs remain high – the latest Manheim Used Vehicle Value Index rose to 134.9, a 4.3 percent increase from a year ago and the highest level since last October.

That's also reflected in the Q2 business confidence survey, as 67 percent of respondents said they expect their dealership costs will increase this quarter.

The escalation of business expenses is also due in part to the significant investment independent dealers must make to compete in the digital showroom. The survey shows dealerships continuing to increase the digital component of their sales and marketing budgets.

On a positive note, U.S. retail sales rose solidly in June as households boosted purchases of automobiles and other goods, cementing expectations for robust economic growth.

The Commerce Department reported retail sales increased 0.5 percent in June and data for May was revised to show sales rising 1.3 percent, the largest since September 2017, instead of the previously reported 0.8 percent gain.



BY SCOTT LILJA
Scott Lilja is NIADA's senior vice president of member services. He can be reached at scott@niada.com.



BY JENNIFER REID
Jennifer Reid is Equifax's vice president of Automotive Marketing and Strategy Leader. She can be reached at jennifer.reid@equifax.com.

Overall, does your dealership expect economic conditions to improve, stay the same, or decline in the auto industry over the next quarter?

	Q4	Q1	Q2
IMPROVE	50%	42%	39%
STAY SAME	39%	48%	46%
DECLINE	11%	9%	15%

Does your dealership plan to expand its business over the next quarter? (i.e. add new equipment, enhance your building/property)

	Q4	Q1	Q2
YES	38%	34%	29%
NO	62%	66%	71%

What percentage of the following categories makes up your total retail automobile sales?

	Q4	Q1	Q2
PRIME	40%	36%	42%
BHPH	36%	40%	34%
SUBPRIME	24%	24%	24%

Do you expect your dealership's credit availability to expand, stay the same or reduce over the next quarter?

	Q4	Q1	Q2
EXPAND	31%	21%	26%
STAY SAME	67%	73%	72%
REDUCE	2%	6%	3%

Do you anticipate your dealership's total expenses (cost of business) to increase, stay the same or decrease over the next quarter?

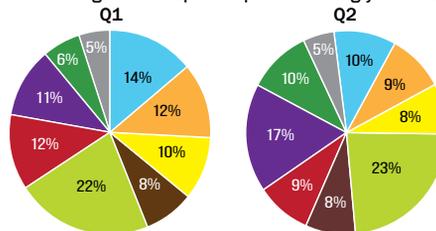
	Q4	Q1	Q2
INCREASE	57%	66%	67%
STAY SAME	37%	29%	31%
DECREASE	9%	5%	3%

Considering the following marketing channels, please indicate the level of investment your dealership plans to make over the next quarter.

	Increase	Hold	Decrease	Increase	Hold	Decrease	
*DIGITAL	49%	46%	6%	NEWSPAPER	4%	68%	28%
TV	2%	64%	34%	OUTDOOR	10%	59%	31%
RADIO	10%	63%	27%	DIRECT MAIL	9%	58%	33%

*ONLINE AND MOBILE

What is the single most important problem facing your business today?



Do you anticipate your dealership's retail sales to grow, stay the same or decrease over the next quarter?

	Q4	Q1	Q2
GROW	67%	50%	53%
STAY SAME	26%	40%	35%
DECREASE	7%	10%	12%

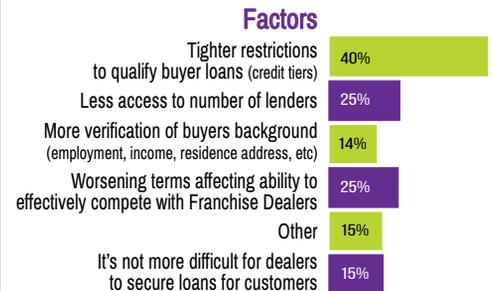
Do you see your dealership's cash flow improving, staying the same, or declining over the next quarter?

	Q4	Q1	Q2
IMPROVE	56%	45%	44%
STAY SAME	33%	37%	33%
DECLINE	11%	18%	23%

Does your dealership expect customer traffic to increase, stay the same or decrease over the next quarter?

	Q4	Q1	Q2
INCREASE	63%	41%	49%
STAY SAME	28%	42%	40%
DECREASE	9%	17%	11%

Which of the following factors are making it more difficult for dealers to secure loans for their customers?



Note: Numbers won't necessarily add up to 100% because dealers can choose more than one response.

In which department does your dealership anticipate hiring new staff over the next quarter?

	Q4	Q1	Q2
SALES	50%	23%	21%
FINANCE	8%	7%	6%
SERVICE	29%	22%	26%
OTHER	13%	6%	5%
DON'T ANTICIPATE HIRING	-	42%	41%

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Section 03



For 2017, The National Alliance of Buy Here, Pay Here Dealers (“NABD”) and Subprime Analytics, with the approval and participation of the National Independent Automobile Dealers Association (NIADA), prepared these industry benchmarks from a database of dealer/operators nationwide. The financial benchmarks included herein were prepared and contributed by SGC Certified Public Accountants (“SGC”). The financial information they used represents a composite of the “best performing” operators and not an average of the entire industry. These benchmarks also include operating information on sales, collections and recoveries, and inventory management, supplied by NCM and NIADA 20 Groups from composites of their BHPH members. Also included are portfolio performance metrics which were compiled electronically by Subprime Analytics (“Subprime”) which, to date, has analyzed approximately \$20 billion (nearly 2.0 million deals) of subprime installment contracts to identify loss rates, patterns, and trends. In the aggregate,

these statistics provide a comprehensive look at the financial and operating performance of the BHPH industry, and important trend information.

Effective January 1, 2018, NIADA purchased the assets and operations of NABD and merged the two organizations. Subprime Analytics has contracted to provide analytical services, including periodic benchmark data, to NIADA in the future to support important legal and regulatory positions for the used car industry. On June 18–21 NIADA and NABD hold a combined used car conference in Orlando at Rosen Shingle Creek Resort, where we discussed these benchmarks and trends to help operators understand the changing subprime auto finance market. For further information, visit www.bhphinfo.com or www.niada.com. Industry benchmark reports for the past five years can be downloaded free of charge at www.subanalytics.com.

2017 Year In Review!

The financial benchmarks for 2017 continue to reflect a high level of competition within the deep subprime market that began in 2013. The more significant factors that impacted deep subprime performance in 2017 were:

- 1) Unit sales were generally flat from 2016 volumes
However, operators increased sales prices and the related amounts financed in an attempt to maintain profitability. Absent corresponding increases in the down payments and repayments the terms of these originations were lengthened. Individual operators were affected by varying levels of competition in their local markets. Rural markets again were less competitive than major urban cities. A few operators added lots in an attempt to gain market share but their growth was restrained by capital availability. Experian automotive market data indicated a modest increase of only 0.4% in outstanding receivables for the BHPH industry in 2017 with larger increases in used financing shifting to captives and to credit unions. Wall Street auto securitizations of deep subprime paper slowed dramatically in 2017. Securitizations previously fueled significant growth in finance company portfolios during the last three years. Wall Street securitizers in 2017 tightened underwriting criteria and shifted their emphasis to prime and near prime customers as the year progressed.
- 2) Defaults on deep subprime auto bond securitizations in 2017 created a tightening of credit availability for subprime auto. Banks and other regulated capital providers implemented more stringent underwriting criteria and shifted to higher credit quality customers. Unregulated capital providers, like hedge funds and specialty finance companies, are entering the subprime financing market to supplement the capital needs.

- 3) Operators who did not increase the cost of vehicles they sold, lower their down payments, increase their sales prices and the corresponding amounts financed, enjoyed higher returns on their portfolio investments and stronger collection results.
- 4) Recovery values for repossessed vehicles which were not retailed stabilized in 2017, but remain more than 50% lower than realizations from a few years ago. This caused increases in net charge-offs and lowered the average recoveries expressed as a percentage of delinquency balances.
- 5) Financing rates which approximated 20% per annum have remained relatively consistent for the last three years in those states that do not have a mandated interest rate cap.
- 6) A comparison of the business models used by the independent operators surveyed, compared with those models used in deep subprime auto bond securitizations, indicated lower amounts financed, shorter terms, and lower average monthly payments by the independents.
- 7) “Cash in deal,” which measures portfolio risk, increased by approximately 12% when operators increased the average cost of the vehicles they sold.
- 8) Overall profitability improved slightly in 2017 due to higher financing income from new originations and reduced operating expenses from cost-cutting.



BY KENNETH SHILSON, CPA
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COST OF GOODS SOLD AND OPERATING EXPENSE DETAIL

COST OF VEHICLE SALES

% OF VEHICLE SALES

	2014	2015	2016	2017
Cost of Vehicles	50.06%	49.59%	49.24%	49.47%
Reconditioning Costs	7.63%	8.31%	8.39%	7.87%
Other	2.72%	2.44%	3.13%	2.66%
TOTAL COST OF VEHICLE SALES	60.41%	60.34%	60.76%	60.00%

TOTAL OPERATING EXPENSE

	2014	2015	2016	2017
Advertising	3.82%	3.93%	3.74%	3.53%
Bank Charges	0.28%	0.18%	0.17%	0.17%
Contributions	0.03%	0.02%	0.03%	0.03%
Depreciation	0.46%	0.52%	0.49%	0.43%
Dues and Subscriptions	0.12%	0.14%	0.15%	0.21%
Insurance	0.29%	0.32%	0.31%	0.39%
Legal and Accounting	0.45%	0.28%	0.24%	0.22%
Outside Services	0.20%	0.38%	0.79%	0.46%
Office Expense	0.83%	0.90%	0.79%	0.76%
Rent	2.20%	2.27%	2.28%	2.09%
Repairs and Maintenance	0.16%	0.34%	0.15%	0.31%
Salaries (Non-Owners)	10.56%	11.36%	11.97%	11.00%
Taxes - General	0.18%	0.07%	0.09%	0.12%
Other Operating Expense	0.03%	0.23%	0.16%	0.06%
Taxes - Payroll	0.84%	0.52%	0.51%	0.50%
Utilities and Telephone	0.67%	0.42%	0.59%	0.41%
Travel / Training	0.43%	0.38%	0.33%	0.31%
TOTAL OPERATING EXPENSE	21.55%	22.26%	22.79%	21.00%

LOSS STATISTICS 2014-2017

(STATISTICS SUPPLIED BY SUBPRIME ANALYTICS)

	2014	2015	2016	2017
	SUBPRIME ANALYTICS BENCHMARKS	SUBPRIME ANALYTICS BENCHMARKS	SUBPRIME ANALYTICS BENCHMARKS	SUBPRIME ANALYTICS BENCHMARKS
Average Gross Dollar Loss (Before Recoveries)	\$8,408	\$8,111	\$7,771	\$9,175
Average Net Dollar Loss (After Recoveries)	\$5,749	\$6,061	\$5,916	\$7,034
Average Default Rate (% of Loans Written Off)	31.16%	31.45%	33.96%	34.97%
Average Gross Dollar Loss Rate (% of Principal)	38.57%	37.35%	38.76%	40.66%
Average Net Dollar Loss Rate (% of Principal)	26.37%	27.91%	28.42%	29.29%
Average Recovery (% of Principal Charged off)	31.60%	25.30%	23.87%	23.33%
Highest Cumulative Default (Month After Origination)	18th Month	21st Month	22nd Month	22nd Month
Highest Frequency of Default (Month After Origination)	7th Month	7th Month	7th Month	7th Month
Worst Periodic Loss (Month After Origination)	February	February	February	February

THE ABOVE REFERENCED LOSS DATA WAS DETERMINED BY ELECTRONICALLY ANALYZING APPROXIMATELY 1.7 MILLION LOANS, AGGREGATING APPROXIMATELY \$15 BILLION, TO IDENTIFY LOSS RATES AND TO UNDERSTAND WHY THEY OCCURRED.

(FINANCIAL STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

What's Ahead For 2018?

Although 2017 was a challenging and competitive year, some new profit opportunities are ahead for independents in 2018 as follows:

- 1) Although capital availability for subprime auto will be tighter, competition from finance companies and captives will decline as they shift to higher credit quality customers. This creates an excellent opportunity for independents to regain market share if they have capital available to fund the growth.
- 2) Cash efficient business models will provide higher returns on portfolio investments and reduce portfolio risk.
- 3) Customer relationships are needed to regain and to retain the best subprime customers. Operators who proactively use social media to connect and collect with customers will do better. Advance tax refunds and irregular payments also help regain market share.
- 4) In order to control operating costs, implementing new technology to improve efficiencies is recommended. The biggest historical BHPH "game changers" have been pay portals (ACH, debit cards, etc.), GPS to improve recoveries and collections, and the use of related finance companies to reduce federal income taxes on "phantom income." Texting is the next "game changer" to connect with and collect from subprime customers.
- 5) As Congress enacts changes at the CFPB, compliance still remains very important. The state Attorneys General will become the new enforcers as the CFPB transfers its enforcement power to them.
- 6) Competition for the best subprime customers has diluted their overall credit quality. Therefore, tighter scrutiny of customer stipulations will be needed to "keep subprime vehicles sold."
- 7) While recovery rates stabilized in 2017, further declines should be expected in later model inventory where off lease and off rental vehicles remain in abundant supply. Operators must educate themselves on new market developments and market changes, the newest technology, state regulatory enforcement actions, and capital market availability to prosper on the opportunities ahead.



BY KENNETH SHILSON, CPA
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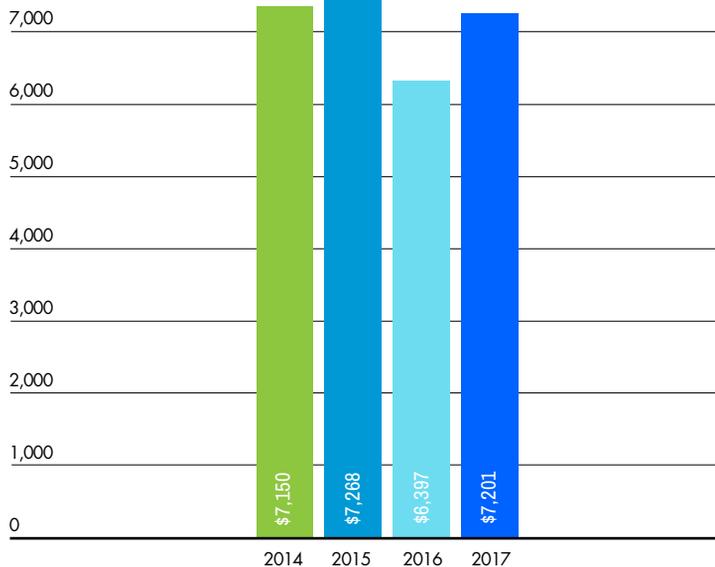
2014-2017 DEALER OPERATING INFORMATION

(STATISTICS SUPPLIED BY NCM ASSOCIATES, INC. AND NIADA)

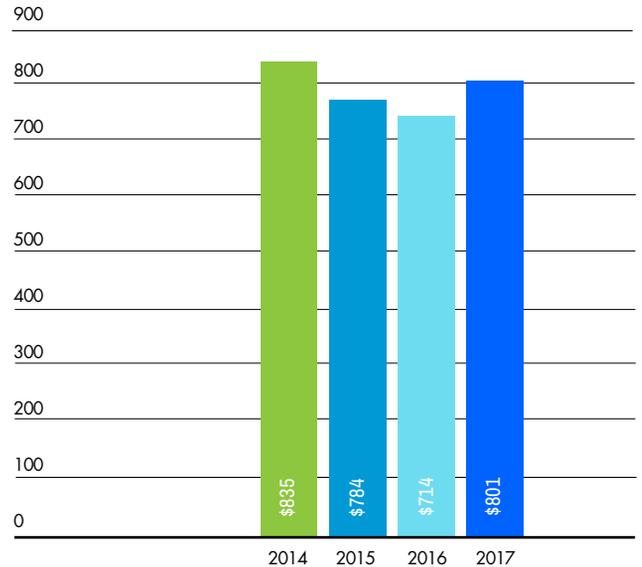
**NIADA DEALER
20 GROUP
BENCHMARKS
WERE USED FOR
2016 & 2017**
IN COMPARISON
TO PAST NCM
BENCHMARKS

	2014 NCM BENCHMARKS	2015 NCM BENCHMARKS	2016 NIADA DEALER 20 GROUP BENCHMARKS	2017 NIADA DEALER 20 GROUP BENCHMARKS
SALES				
Average Units Sold Per Dealer (BHPH Deals Only)	550	635	708	612
Average Cash In Deal Per Vehicle Sold	\$5,777	\$6,353	\$6,466	\$5,922
Average ACV Per Vehicle Sold (Includes Recon)	\$6,237	\$6,403	\$7,438	\$6,838
Average Reconditioning Cost Per Vehicle Sold	\$1,207	\$1,221	\$811	\$824
Average Gross Per Vehicle Sold	\$4,484	\$4,675	\$5,868	\$5,013
Average Down Payment	\$1,089	\$1,091	\$972	\$916
Average Amount Financed	\$10,567	\$10,909	\$12,862	\$10,935
Average Term Of Loan (In Weeks)	153	159	186	182
COLLECTIONS / RECOVERIES				
Average Weekly Payment Amount	\$89	\$91	\$98	\$92
Percentage Of Accounts Past Due	16.3%	17.6%	17.9%	17.3%
Average # Of Past Due Accounts Per Collector	101	82	94	88
Average Loss Per Charge Off	\$4,820	\$5,058	\$6,807	\$5,393
Average Portfolio Delinquency	83.80%	83.10%	82.10%	82.70%
Current	8.60%	9.70%	N/A	N/A
0-10 Days	N/A	N/A	10.50%	10.00%
1-15 Days	3.90%	3.90%	N/A	N/A
11-29 Days	N/A	N/A	3.60%	3.10%
16-29 Days	2.30%	1.90%	2.30%	2.40%
30-59 Days	0.90%	0.80%	0.80%	0.90%
60-89 Days	0.50%	0.60%	0.70%	0.90%
90+ Days	100.00%	100.00%	100.00%	100.00%
INVENTORY MANAGEMENT				
Vehicle Days Supply (Units)	91	84	59	53
Average Inventory Aging	42.40%	41.30%	48.70%	44.60%
0-30 Days	23.70%	22.20%	23.50%	24.80%
31-60 Days	15.50%	14.70%	14.30%	14.00%
61-90 Days	18.40%	21.80%	13.50%	16.60%
91+ Days	100.00%	100.00%	100.00%	100.00%

BHPH Financial Trends
Average Cost Per Vehicle 2014-2017 SOURCE: SUBPRIME ANALYTICS



BHPH Financial Trends
Average Customer Down Payment 2014-2017 SOURCE: SUBPRIME ANALYTICS



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customers to cars like never before."
- Dink Davis, iDrive 1 Motorcars*

CONNECTED LEADS

- ❑ WEBSITE
- ❑ CONTENT MARKETING
- ❑ PAID SEARCH
- ❑ SOCIAL MEDIA
- ❑ DIGITAL RETAIL

CONNECTED PROCESS

- ❑ CRM
- ❑ MOBILE CRM
- ❑ DESKING
- ❑ EQUITY MINING
- ❑ ANALYTICS

CONNECTED BUSINESS

- ❑ INVENTORY
- ❑ SERVICE MARKETING
- ❑ SERVICE SCHEDULER
- ❑ MOBILE CHECK-IN
- ❑ DMS



RATIO COMPARISONS, COMBINED BUY HERE-PAY HERE

(STATISTICS SUPPLIED BY SCG CERTIFIED PUBLIC ACCOUNTANTS)

COMBINED BUY HERE-PAY HERE BALANCE SHEET

	2014 AVERAGE	2015 AVERAGE	2016 AVERAGE	2017 AVERAGE
(Inventory X Days) / Cost Of Vehicle Sales	55.82 days	53.44 days	53.21 days	50.54 days
Cost Of Vehicle Sales / Average Inventory Dollars	6.54x	6.73x	6.89x	7.02x
Vehicle Sales / Average Inventory Dollars	11.47x	11.55x	11.39x	11.72x
Vehicle Sales / Total Assets	0.93x	0.89x	0.89x	0.87x
Total Assets / Total Liabilities	1.97x	1.78x	1.63x	1.63x
Allowance For Bad Debts / Finance Receivables*	23%	24%	26%	28%
Total Debt / Total Assets	51%	56%	62%	62%

* FINANCE RECEIVABLES ARE NET OF UNEARNED FINANCE CHARGES

COMBINED BUY HERE-PAY HERE INCOME STATEMENT

	2014 AVERAGE	2015 AVERAGE	2016 AVERAGE	2017 AVERAGE
Bad Debts / Vehicle Sales	26%	25%	27%	30%
Cost Of Vehicle Sales / Vehicle Sales	60%	60%	61%	60%
Gross Profit*** / Vehicle Sales	31%	31%	29%	29%
Operating Expense / Vehicle Sales	22%	22%	23%	21%
Interest Expense / Financing Income	18%	19%	18%	18%
Operating Income / Vehicle Sales	9%	9%	6%	8%
Financing Income / Vehicle Sales	17%	16%	17%	19%
Compensation** / Vehicle Sales	11%	11.4%	12%	11%
Reconditioning Cost / Vehicle Sales	8%	8.3%	8.4%	7.9%

NOTES TO RATIO COMPARISONS:

**COMPENSATION EXCLUDES THOSE OF THE OWNERS

***GROSS PROFIT IS NET OF BAD DEBTS AND FINANCING INCOME

X = TIMES

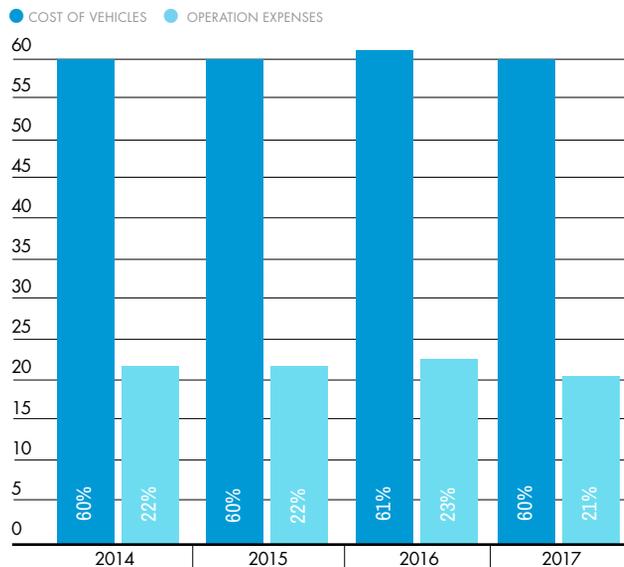
RATIO COMPARISONS, BUY HERE-PAY HERE INDUSTRY

BENCHMARKS PREPARED FOR NABD BY SCG CERTIFIED PUBLIC ACCOUNTANTS

THE NABD RESULTS - COMBINED DEALER AND FINANCE AFFILIATE NUMBERS - BREAK DOWN BALANCE SHEETS AND INCOME STATEMENTS INTO 16 CATEGORIES. IT ALSO COMPARES 2017 TO THE PAST THREE YEARS SO DEALERS CAN EXAMINE INDUSTRY TRENDS.

BPHH Financial Trends Costs/Expenses 2014-2017

NOTE: ALL EXPENSES ARE EXPRESSED AS A PERCENTAGE OF TOTAL SALES



SOURCE: SUBPRIME ANALYTICS

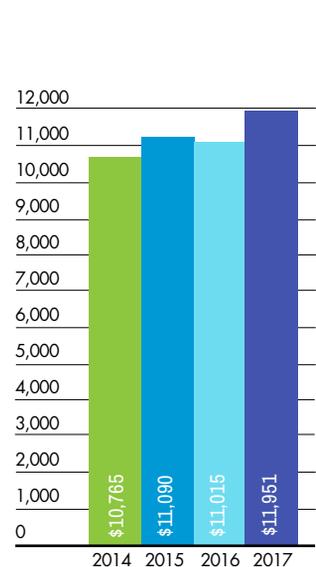
BPHH Financial Trends Average "Cash In Deal" 2014-2017

AVERAGE CASH IN DEAL PER UNIT SOLD



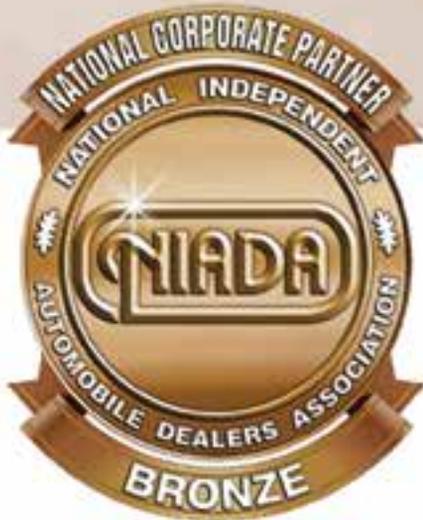
SOURCE: SUBPRIME ANALYTICS

BPHH Financial Trends Average Amount Financed 2014-2017



SOURCE: SUBPRIME ANALYTICS

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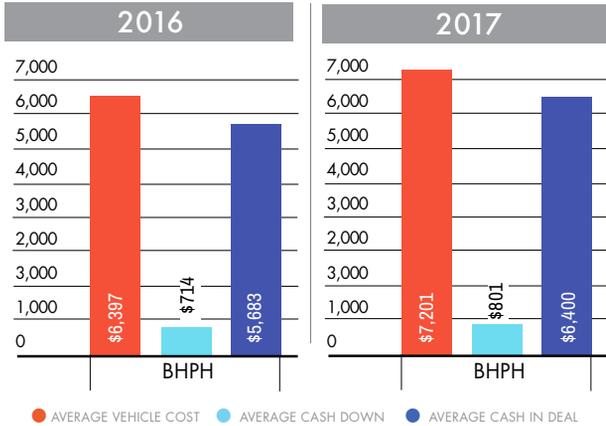


BUY HERE-PAY HERE INDUSTRY BENCHMARKS

BHPH Financial Trends

Average Vehicle Cost, Cash Down Payment, Cash in Deal:

Two-Year Snapshot SOURCE: SUBPRIME ANALYTICS



AVERAGE VEHICLE COSTS, CASH DOWN & AVERAGE CASH IN DEAL AMOUNTS INCREASED DRASTICALLY FROM **2016-2017**

BHPH LOSS METRICS-2017

- Average gross dollar loss (before recoveries)
- Average net dollar loss (after recoveries)
- Average default rate (% of loans written off)
- Average recovery (% of vehicle cost)
- Highest cumulative default month after origination
- Highest frequency of default (month after origination)
- Worst periodic loss month after origination

	2016	2017
Average gross dollar loss (before recoveries)	\$7,771	\$9,175
Average net dollar loss (after recoveries)	\$5,916	\$7,034
Average default rate (% of loans written off)	33.96%	34.97%
Average recovery (% of vehicle cost)	23.87%	23.33%
Highest cumulative default month after origination	22nd Month	22nd Month
Highest frequency of default (month after origination)	7th Month	7th Month
Worst periodic loss month after origination	February	February

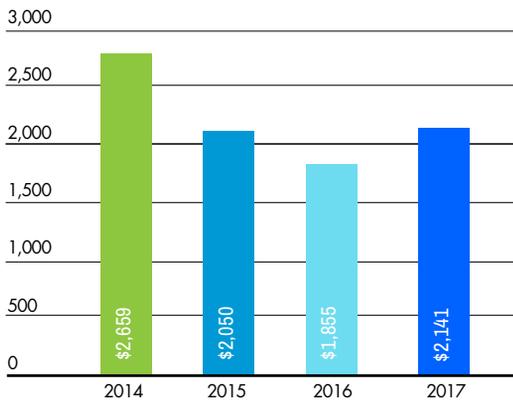
SOURCE: SUBPRIME ANALYTICS



BHPH Financial Trends

Average Recovery Dollars Per Charge Off 2014-2017

SOURCE: SUBPRIME ANALYTICS

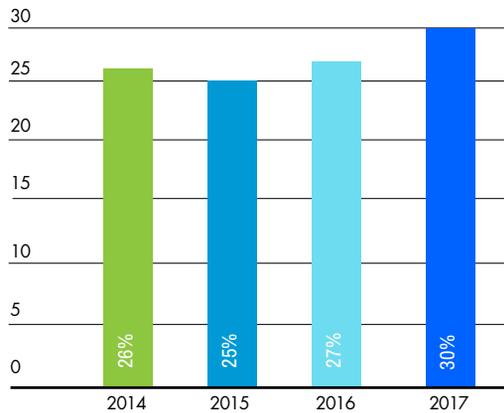


BHPH Financial Trends

Bad Debts 2014-2017

SGC CERTIFIED PUBLIC ACCOUNTANTS

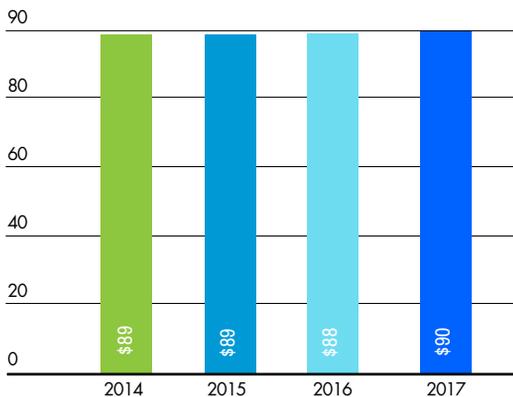
NOTE: PERCENTAGES ARE BASED AS PERCENTAGE OF VEHICLE SALES.



BHPH Financial Trends

Average Weekly Payment Amount 2014-2017

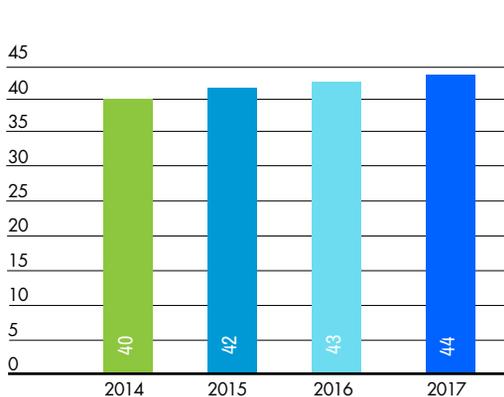
SOURCE: NCM, SUBPRIME ANALYTICS



BHPH Financial Trends

Average Original Term (Months) 2014-2017

SOURCE: NCM, SUBPRIME ANALYTICS





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NADA USED CAR SALES BY MONTH BY CHANNEL

2018
FULL-YEAR
EXPECTATIONS

Section 04



2018 J.D. POWER VALUATION SERVICES USED VEHICLE PRICE UPDATE

The used vehicle market has performed exceptionally well in 2018. Through July, the J.D. Power Valuation Services' Seasonally Adjusted Used Vehicle Price Index reached 119.3, a figure 4.7-percentage points above year-ago levels and 4.8-points above January 2018. Used vehicle prices really started showing strength in the middle half of 2017, and the trend has continued deep into the summer selling season this year.

Most of the used market's strength has been driven by mainstream car growth. Compact car prices are up 9% from January's level, followed by midsize and large car gains of 7%, respectively. Mainstream SUV prices have also shown significant positive movement, but not to the same degree as cars. For example, compact utility and midsize utility prices have increased 3%. While things are primarily positive on the mainstream side of the market, large SUV has registered a 2% decline, which can be largely explained by a 28% increase in 0-5-year-old wholesale volume.

Luxury segments are not performing as well as nearly all have experienced declines so far this year. Luxury large utility prices have deteriorated the most and are down 6% from January's level, while luxury compact utility prices are down ~2%. Other luxury segment losses haven't been as severe as prices for the collective are down by roughly 1%.

There are a few drivers behind the overall strength of the used market, including an increased dealer focus on used vehicle operations and vehicle affordability.

Consumers can save money buying a well-maintained late-model used vehicle, while dealers can capitalize on used vehicle sales where profit margins are higher than for new vehicle sales. Many of the country's top public dealership groups are capitalizing on this dynamic and the benefits were apparent in their latest earning reports. In their Q2 2018 earnings reports, Penske Automotive Group Inc., Group 1 Automotive Inc. and Sonic Automotive Inc. each increased used vehicle sales by sizeable amounts, up 10%, 13% and 17%, respectively. Each dealer group also credited used sales for the increase in profits and they continue to state plans for even bigger investments in used operations in the future.

While the used market is doing well, the year's improvement highlights the need for stakeholders to maintain diligence in their understanding of market dynamics and trends expected in the future. To that end, J.D. Power Valuation Services expects used vehicle prices for units up to eight years in age to increase by 1% in 2018 relative to 2017.

Negatives associated with weaker credit conditions, modestly higher incentives and yet another increase in used vehicle supply (+3% vs. 2017 for vehicles up to 5 years old) are expected to be offset by stronger employment, home prices, driving demand, and continued increases in vehicle quality. Gasoline prices are expected to have a relatively neutral impact.

SUV prices are expected to soften as more units return to the used market (especially compact SUVs). Mainstream passenger car prices should continue to firm up as supply falls, while luxury car prices will soften due to the increased competitive pressure associated with SUVs and mainstream cars whose prices are lower, yet whose design and optional equipment continue to push into luxury territory. Overall, 2018 should see used vehicle prices rebound back to levels recorded two years ago, placing them 5% below the record high observed in 2014.

USED UNITS SOLD BY NEW CAR DEALERS

	2015	2016	2017
January	719,904	785,159	816,509
February	660,171	756,414	810,355
March	916,664	813,834	844,694
April	1,298,815	1,371,871	1,344,962
May	1,558,152	1,534,867	1,479,451
June	1,601,582	1,670,202	1,615,366
July	1,625,629	1,687,580	1,636,852
August	1,485,028	1,527,600	1,551,214
September	1,363,032	1,383,885	1,683,582
October	1,153,571	1,182,376	1,122,971
November	1,118,468	1,142,912	1,102,685
December	1,146,519	1,111,505	1,099,194
Annual	14,647,535	14,968,206	15,107,834

USED UNITS SOLD BY USED CAR DEALERS

	2015	2016	2017
January	649,520	728,477	787,664
February	585,753	692,694	732,974
March	828,143	845,755	841,737
April	1,165,797	1,193,325	1,257,944
May	1,380,956	1,384,316	1,358,257
June	1,440,989	1,557,425	1,527,458
July	1,434,379	1,550,679	1,525,680
August	1,309,380	1,355,591	1,389,770
September	1,275,535	1,313,715	1,620,229
October	1,110,777	1,129,856	1,062,191
November	1,040,714	1,075,138	998,386
December	1,097,073	1,065,952	1,004,248
Annual	13,319,015	13,892,922	14,106,537

USED UNITS SOLD BY PRIVATE PARTY SALES

	2015	2016	2017
January	563,671	585,720	614,600
February	513,622	606,364	606,154
March	704,595	721,436	717,570
April	1,062,763	1,056,427	1,038,031
May	1,269,839	1,274,443	1,215,582
June	1,309,554	1,343,623	1,319,513
July	1,286,594	1,293,240	1,271,296
August	1,197,603	1,212,251	1,274,272
September	1,053,285	1,054,800	1,320,530
October	836,649	824,044	926,019
November	831,375	862,575	921,130
December	846,755	859,443	943,919
Annual	11,476,307	11,694,366	12,168,616

USED VEHICLE RETAIL SALES BY YEAR TOTALS

	2015	2016	2017
New Car Dealers	14,647,535	14,968,206	15,107,834
Used Car Dealers	13,319,015	13,892,922	14,106,537
Private Party Sales	11,476,307	11,694,366	12,168,616
TOTAL	39,442,856	40,555,494	41,382,987

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AUTO BUYING PATTERNS BY BODY STYLES

2018 DATA REVEALS
SHOPPER HABITS &
PRICE TRENDS

Section 05 | CarGurus®

Dealers already know that a truck buyer and an SUV buyer want different things — but at CarGurus, we like to get at the data behind auto shopping patterns and pricing trends. Here's a look at how pickup, SUV, and sedan buyers differ, according to data from CarGurus user activity and a survey of auto buyers of all types.

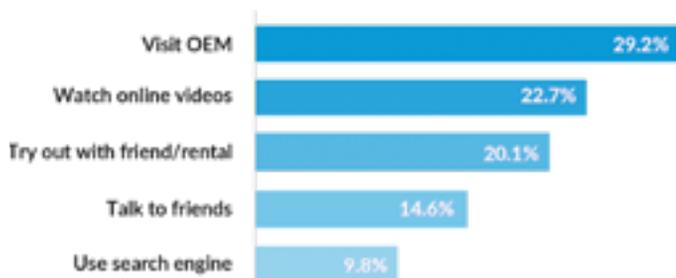
SUV buyers talk to dealers, pickup buyers do direct research

When we look at research habits of these types of buyers compared to the general population, we see that SUV buyers are more likely to contact and engage with dealerships, while pickup truck buyers are more likely to gather unbiased information themselves, through videos, talking to friends and family, and going directly to the manufacturers' sites.

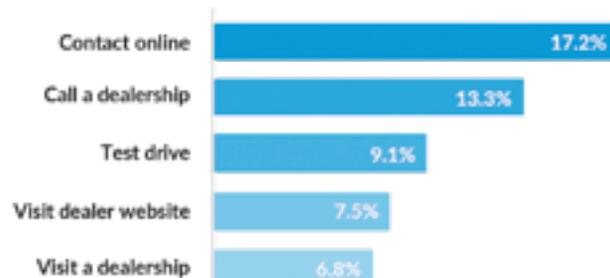
That theme carries through to their activities on CarGurus, too. Truck buyers are more likely to read customer reviews of specific cars (34.9% increase vs. baseline) — and much less likely to read expert reviews (58.8% decrease).

Increase in shopping activities compared to average used car buyers

Pickup buyers



SUV buyers



Top buyer concerns: pricing, choosing the right car

Overall, buyers are about evenly split on the most difficult factors, with 38% saying pricing and deal factors were the most challenging, and 36% saying it was choosing the right car. Digging into the concerns of SUV and truck buyers reveals some variation:

Most difficult parts of the buying process

Pickup buyers

1. Negotiating price
2. Finding the right fit/deciding on car
3. Finding car in my price range
4. Dishonest salespeople/false advertising/inaccurate info
5. Finding a good, quality car

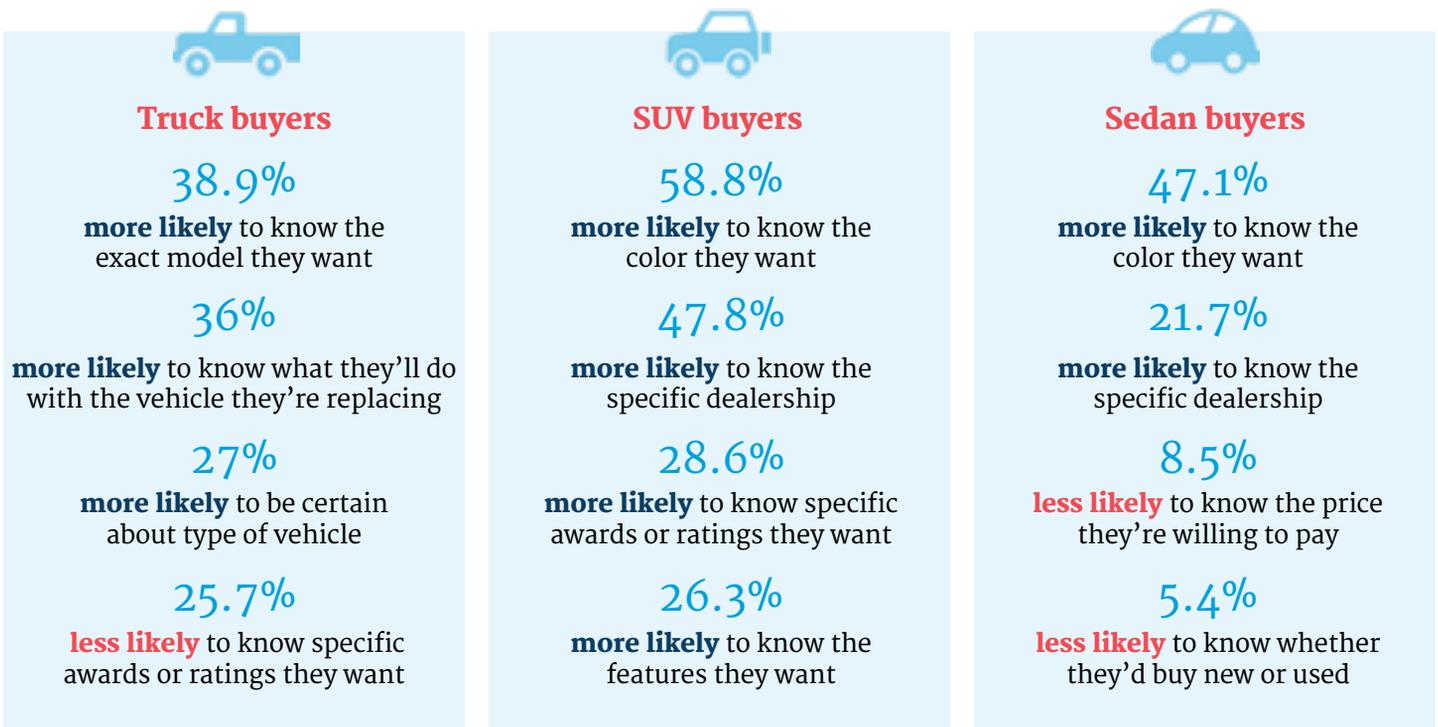


SUV buyers

1. Finding right fit/deciding on car
2. Finding car in price range
3. Negotiating price
4. Loan/financing process
5. Dishonest salespeople/false advertising/inaccurate info



What do they know when they start shopping?

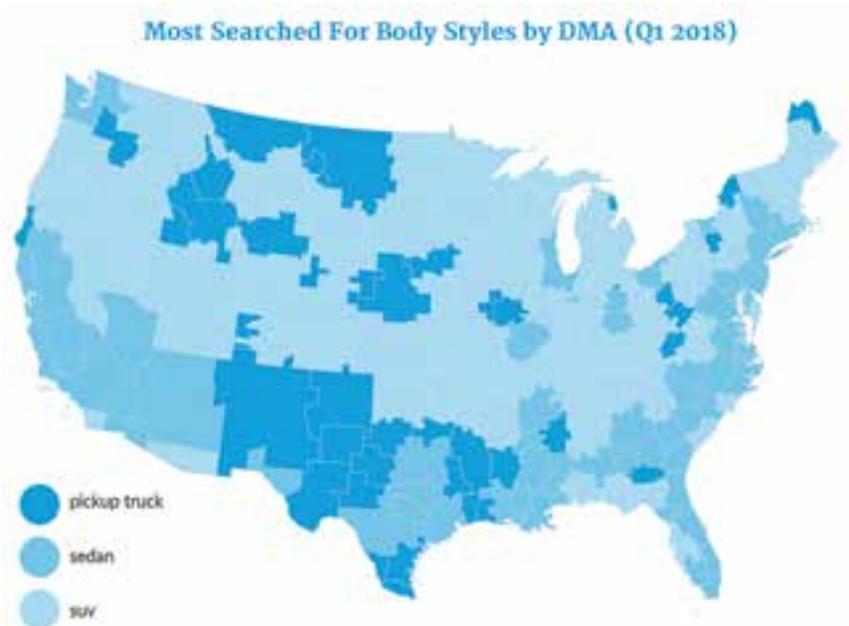


Body styles highlight urban/rural divide

In addition to varying buying habits, we can also see differences in the most popular body style by region. This map shows the most popular of pickups, sedans, and SUVs by metropolitan area.

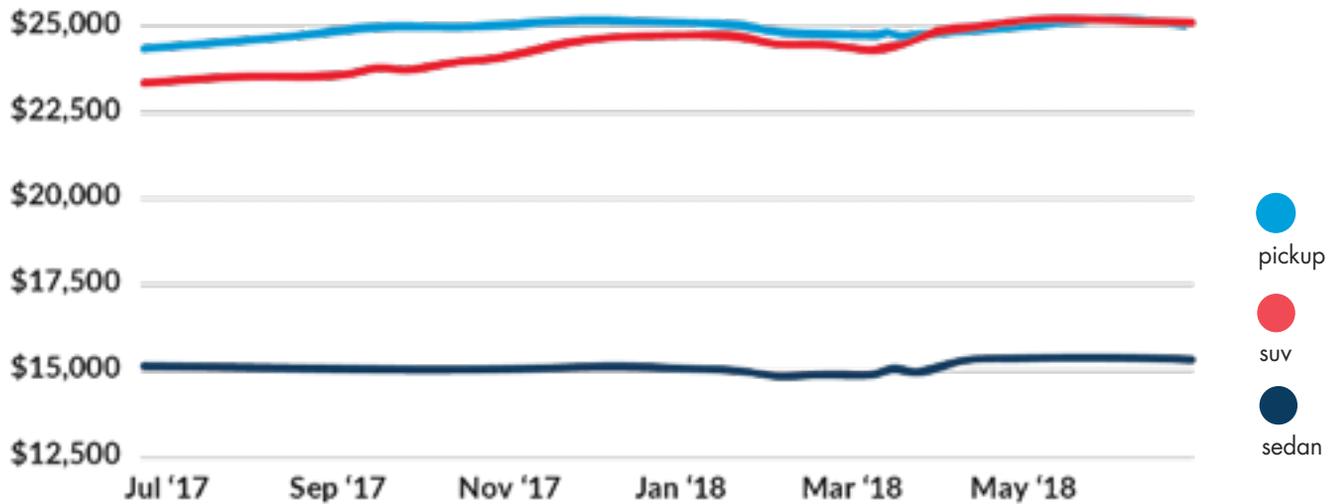
Pickups tend to dominate in more sparsely populated or rural regions. That's not a huge surprise — pickups make sense for farming, ranching, and other rural uses, and smaller cars make sense to many city dwellers. It is interesting to see how granular the city/rural divide is. Yes, Texas loves pickups — but in Houston, Austin, San Antonio, El Paso, Dallas, and Ft. Worth, and some surrounding areas, sedans are more frequently the first choice.

In more urban or suburban areas, SUVs dominate in northern climates, sedans win in the south. Again, not shocking: for AWD and general performance in snow, it makes sense that SUVs are more commonly searched in the colder parts of the country. The coasts aren't quite as into SUVs as the interior portions of the country, even as you move north into Seattle, or up the east coast as far as Boston.



Pricing trends swing away from pickups, towards sedans

Used car prices by body style, July 2017 - June 2018



Over the 13 months from July 2017 to July 2018, the overall trend isn't dramatically volatile. However there are notable fluctuations in each group, particularly from the first half of the year to the second:

	Jul '17-Jan '18	Jan '18-Jul '18
Pickup	↑ 2.6%	↔ 0.3%
SUV	↑ 5.2%	↑ 1.2%
Sedans	↓ 1.0%	↑ 2.5%

In the second half of 2017, SUV (and to a lesser extent, pickup truck) prices were climbing steadily, while sedan prices were falling. But from the beginning of 2018, the picture changed: SUV price growth slowed considerably, pickup prices flattened out entirely, and sedan pricing rebounded to grow 2.5% in the first six months of the year.

The contrast in the two periods is interesting. The end of 2017 was strong evidence of the continued ascendancy of SUVs, with prices up significantly while sedan prices fell. But perhaps the scales swung a little too far, as the first half of 2018 saw sedan prices grow twice as fast as SUVs.

Pickup owners keep vehicles longer

One possible reason for different research habits? On average, pickup buyers tend to hang onto their vehicles longer — 6 months longer than SUV buyers, and a year longer than sedan buyers.

Average years of ownership

Pickup	5.25
SUV	4.75
Sedans	4.24
All used	4.56

Sources: Regional searches and pricing data from internal CarGurus data, July 2018. All other data from GfK / CarGurus Automotive Study, 3/2018, n=3008.



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¹ Google Analytics (Internal Data) Q2 2018 ² CarGurus Shopper Insights Survey, June 2017

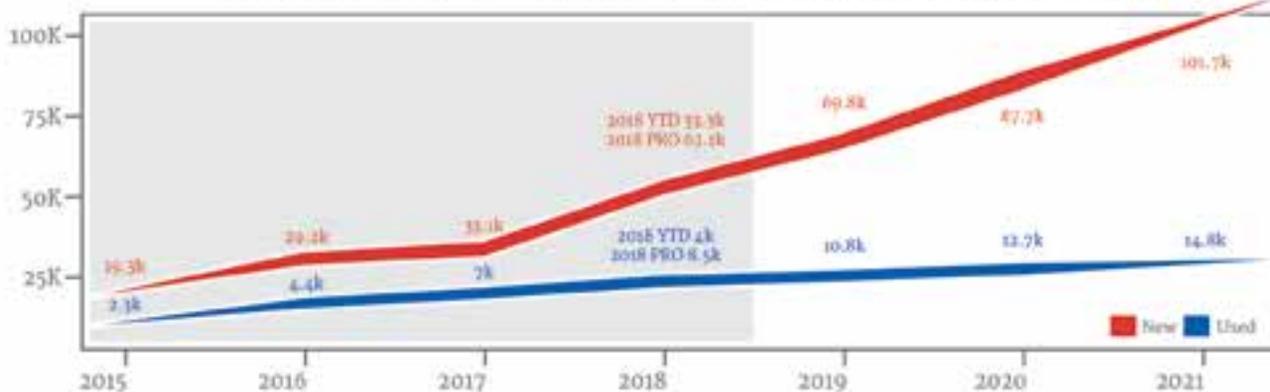
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TESLA: COMING IN HOT!

DISRUPTOR
OR JUST
ANOTHER EV?

Section 06 | **Dominion**
CROSS-SELL REPORT

TESLA: NEW CAR SALES FOR THE PAST 3 YEARS AND PROJECTED 3 YEARS



WHAT THE NUMBERS SAY

We are past the halfway mark of 2018 and Tesla continues to increase its sales and production rankings in the plug-in electric vehicles category. On its website, the electric car manufacturer stated, "Tesla's production plan is set to increase to a rate of 500,000 vehicles a year by 2018." However, according to Cross-Sell data and other sources, Tesla fell short of that goal. Despite this disappointment, the company is still disrupting the market. Many of us in the automotive community were wary of its unorthodox direct-to-consumer business model. Will it flip or flop? It's been 10 years since the launch of the Model S; let's take a look at where the brand stands today.

Tesla made a big splash in the market with its fashionable electric vehicle. The company's current, YTD market share hovers at .39 percent in the U.S. Ford, by comparison, holds 17.8% of the U.S. market share. Still, Tesla dominates the plug-in electric vehicle category, holding one third of that market.



Unfortunately, Tesla does not have the volume that it originally predicted; however, a general forecast of its used car sales is just over 8,000 for 2018, according to Cross-Sell data from 22 states. By 2019, it's estimated that there will be over 10,000 used Teslas in the market.

STORIES FROM THE ROAD: JORDAN AUTO SALES

It's likely that many used car dealers have not yet received a Tesla trade in. To understand the challenges of taking in a used Tesla, we spoke with an independent dealer in the Cincinnati area who has some experience with the matter.

Jay Alakroush is the General Sales Manager of Jordan Auto Sales in Ohio where he sees Tesla trade-ins as huge opportunities. Alakroush says that although Teslas aren't bringing in any more profit than other vehicles, the attractive electric vehicle is eye-catching on the lot. "I admire the design of these cars, and they bring people in. There is a lot of interest, everybody is curious in this market," stated Alakroush.

When the store acquired their first Tesla, the GSM took advantage of the unique inventory piece and made himself familiar with the car before he listed it. Alakroush took the 2013 Tesla Model S home and gave it a few test drives. To be successful you have to be passionate about what you're selling, right? Tesla made it easy for Alakroush to fall in love. "I like [Teslas] a lot, they make a great product," in addition, Alakroush stated, "Tesla is very helpful, one of the best services you can see in the market."

Even with their slick design and the scarcity of used Teslas on independent lots, Alakroush has experienced one big obstacle - financing! "Finding the right financing and getting people approved takes some time," he stated. It took him about 6 months to turn his first Tesla. According to Dominion Cross-Sell data, TD Auto Finance and Alliant Credit Union are the top lienholders for used Teslas across several states YTD.

* Tesla Motor's estimated U.S. market share from December 2017 to June 2018. In June 2018, California-based Tesla Motors held about 0.38 percent of the car and light truck market in the United States. | Source: Statista

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U.S. Plug-in Electric Vehicle Sales by Model

	Type	2011	2012	2013	2014	2015	2016	TOTAL
Nissan LEAF	EV	9,674	9,819	22,610	30,200	17,269	14,006	103,578
Chevrolet Volt PHEV	PHEV	7,671	23,461	23,094	18,805	15,393	24,739	113,163
Tesla Model S	EV	0	2,171	19,000	16,750	26,200	29,156	93,277
Toyota Prius Prime Plug-in	PHEV	0	12,749	12,088	13,264	4,191	2,474	44,766
Ford Fusion Energi	PHEV	0	0	6,089	11,550	9,750	15,938	43,327
Ford C-MAX Energi PHEV	PHEV	0	2,374	7,154	8,433	7,591	7,957	33,509
BMW i3	EV	0	0	0	6,092	11,004	7,625	24,721
Ford Focus EV	EV	0	683	1,738	1,964	1,582	872	6,839
Fiat 500E	EV	0	0	260	1,503	4,569	3,897	10,229
Tesla Model X	EV	0	0	0	0	208	18,028	18,236
Total		17,345	51,257	91,773	108,561	97,757	124,692	491,645

Not every market (or customer) is created equally, but if you're struggling with financing customers on a Tesla look to these companies first.

Overall, Jay Alakroush enjoys having a Tesla on his lot, "Any time I see one, I will jump on it. There's no reason to panic. Tesla makes a great product and people want them."

"Used car sales in particular are growing rapidly and are becoming more profitable. Structurally, as our vehicles come off lease and as our fleet gradually ages, used car sales will become a significant portion of our services and other business," Tesla noted in its Q2 2018 SEC filing.

Although Tesla made this statement on behalf of their business, we have no doubt that used Teslas will make a significant impact on dealership businesses as well. Get ready!

Did you receive a Tesla trade in? Don't panic! Here are some resources:

OnlyUsedTesla.com - An exclusive listing site for used Teslas. It's free to list; however, there is a fee for vehicles that are sold to a lead that came from the site. The company claims to sell 6-10 Teslas per month and has advertising resources that listers can utilize.

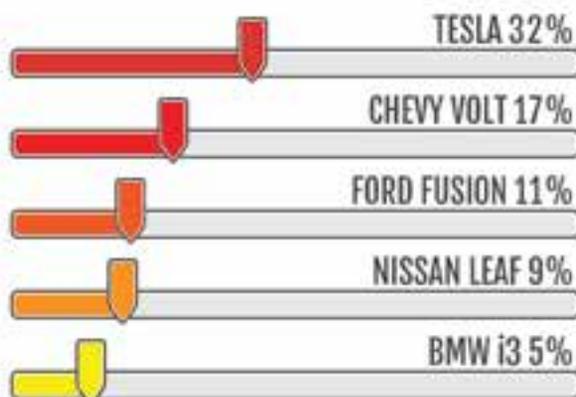
Tesla.com/support - Tesla customer and product support for scheduling a test drive, home charging installation, referral programs, warranties, maintenance plans, leasing, lending, trade-ins, body shops and more.

Financing:

TD Auto Finance - www.tdautofinance.com

Alliant Credit Union - www.alliantcreditunion.org

TESLA 2016 U.S. MARKET SHARE: PLUG-IN ELECTRIC VEHICLES



Data Source: <http://www.hybridcars.com> | Notes: PEVs include plug-in HEVs and extended range EVs, but do not include Neighborhood Electric Vehicles, Low Speed Electric Vehicles, or two-wheeled electric vehicles. Only full-sized vehicles sold in the U.S. and capable of 100mph are listed. Last updated 5/5/17

Acronyms: PEV: Plug-in Electric Vehicle | PHEV: Plug-in hybrid electric vehicle. These include any vehicle that has both an electric motor and gasoline engine, including extended range electric vehicles.



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Section 07 | Autotrader  DEALER.COM  Kelley Blue Book 

SHOPPERS ARE SPENDING LESS TIME IN-MARKET

Used-vehicle shoppers are spending seven fewer days in market for a car than last year. And, **2 in 3** state that they need, rather than want, a new vehicle.

TOTAL DAYS SPENT IN MARKET

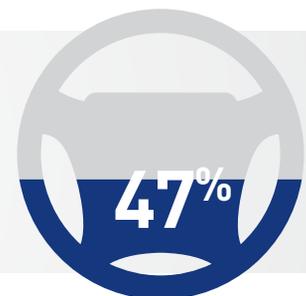


SHOPPING DRIVEN BY NEED VS. WANT



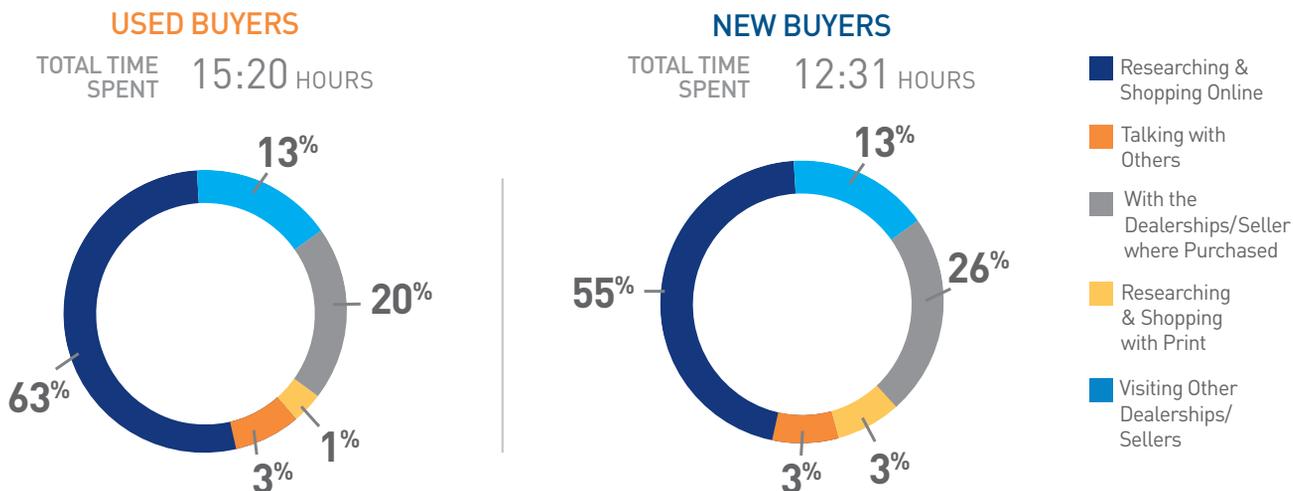
BUYERS WANT TO KNOW THE TOTAL PRICE OF THE VEHICLE

While **53%** of car buyers look for monthly payment information while researching a vehicle, **47%** of buyers said that the total price of the vehicle is more important than the monthly payment.



CAR BUYERS SPEND 63% OF THEIR TIME ONLINE

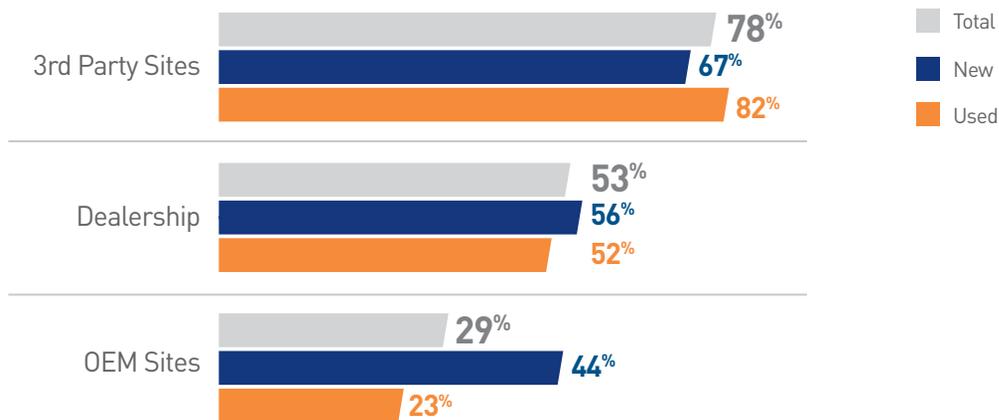
(among those who shopped online)



THIRD-PARTY SITES ARE THE MOST-USED SITES FOR ONLINE CAR SHOPPING

While car buyers use a variety of sites to shop, third-party sites are the most-used site of any online resource.

SOURCES USED TO SHOP*

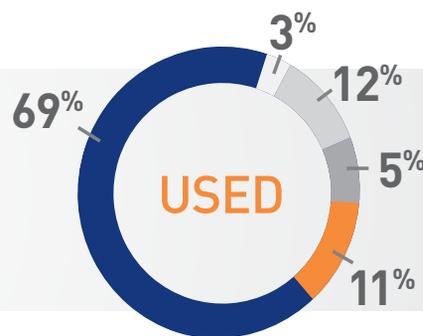


*Respondents were asked, "Please select the names of the specific website(s)/apps that you used." Some selected more than one answer.

TIME SPENT ON VARIOUS SITES

Buyers continue to spend most of their time shopping on third-party sites.

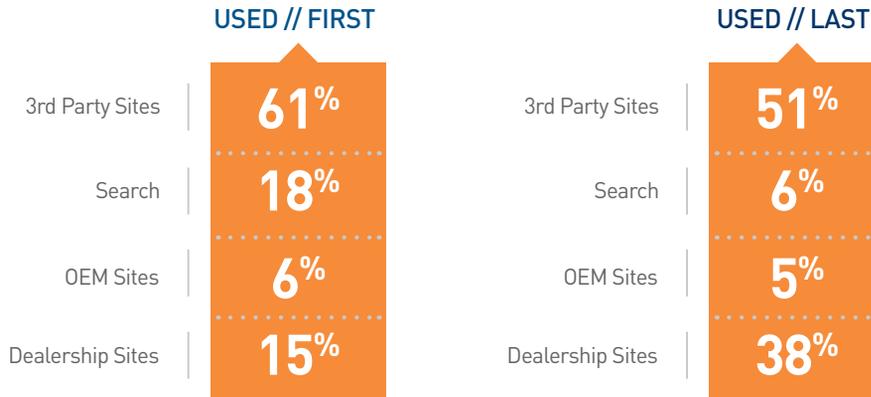
■ 3rd Party Sites
 ■ Dealership Sites
 ■ OEM Sites
 ■ Search
 ■ Other



BUYERS MOST OFTEN START AT THIRD-PARTY WEBSITES

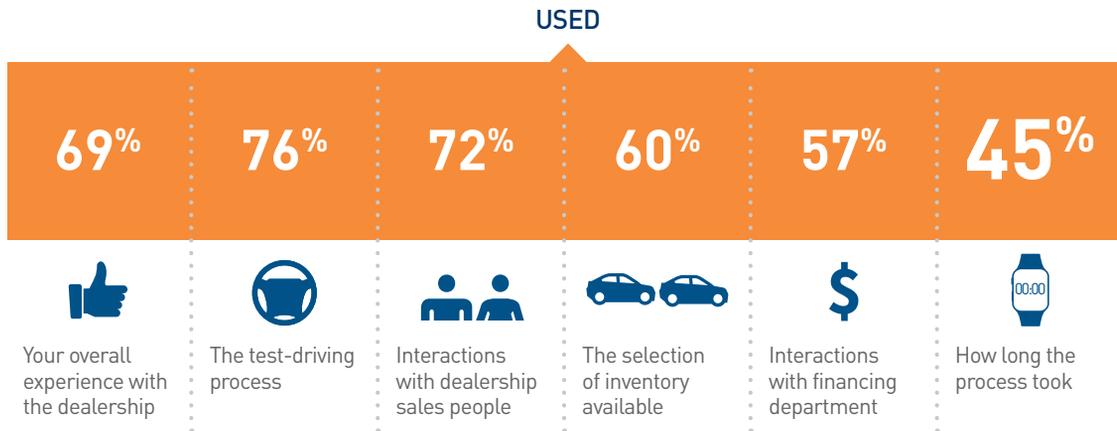
When researching online, Used buyers often start and end at third-party sites. Dealers should focus on unique ways to deliver a consistent overall message across all sites. It is also critical that dealership websites are user-friendly, compelling, easy to search, consistent across devices and accurately reflect the pricing, incentives, services and amenities that are offered when the consumer visits the brick-and-mortar dealership.

FIRST AND LAST WEBSITE VISITED



BUYERS ARE LEAST SATISFIED WITH LONG PURCHASE PROCESS

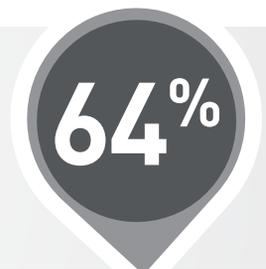
SATISFACTION WITH DEALERSHIP PROCESS



WHAT PART OF THE PROCESS TOOK LONGER THAN YOU EXPECTED?*

FINANCING/PAPERWORK

Buyers spend nearly 40 minutes idle at the dealership. Leaving customers idle has the potential to lead to headaches in finalizing the sale, as some start to rethink the deal during that time.



*Among buyers who were dissatisfied with how long the process took

220%
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LIVE MARKET VIEW

AUTOMOTIVE FINANCE

MARKET

EXPERIAN'S 4TH Q 2017
STATE OF THE AUTOMOTIVE
FINANCE MARKET

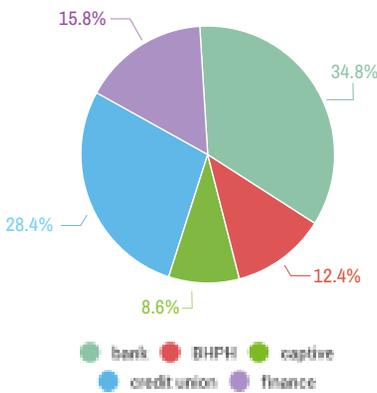
Section 08 | 

The following is taken from Experian's 4th Quarter 2017 State of the Automotive Finance Market Report. For the purposes of this section, we highlight the reliance upon financing and automotive loans by risk segment and by lender type. Average credit scores by vehicle type are also noted. The second page of this section details average amounts financed, average used monthly payments, average used loan term, and average used loan rates. This section also highlights all four major areas broken down by loan type. The sidebar to the very right details leasing data.

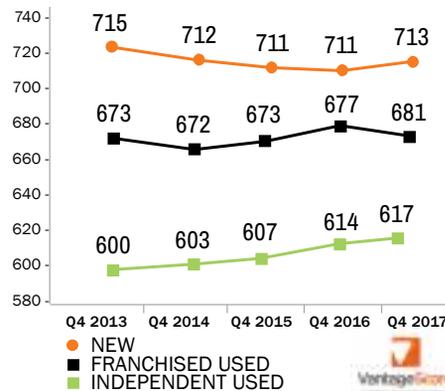
Additionally, Experian published a summary of their entire 4th quarter 2016 report below:

- Outstanding loan balances continue to set record highs
- Delinquency rates beginning to improve
- Leasing remains strong with over 28% of all new consumer vehicle sales
- Credit scores improve as lending continues to shift into more prime segments
- Deep subprime reaches record lows in used lending
- Loan amounts and payments reach record highs for both new and used vehicle financing
- While longer term loans remain the norm, there's a decrease in 72-84 month loans in both new and used financing; while new sees slight growth in 85+

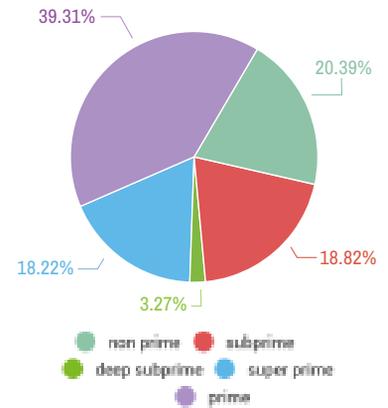
Used Automotive Finance by Lender Type Q4 2017



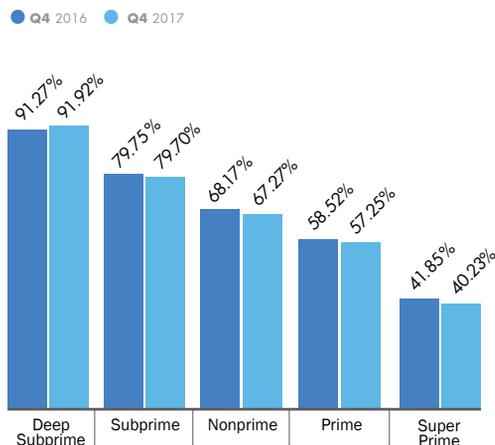
Average Credit Scores by Vehicle Type



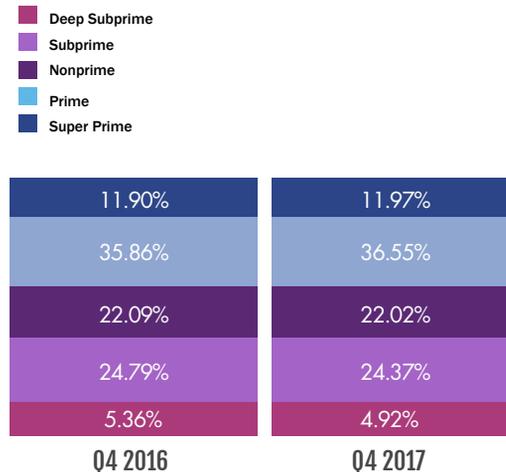
New & Used Automotive Loans by Risk Distribution Q4 2017



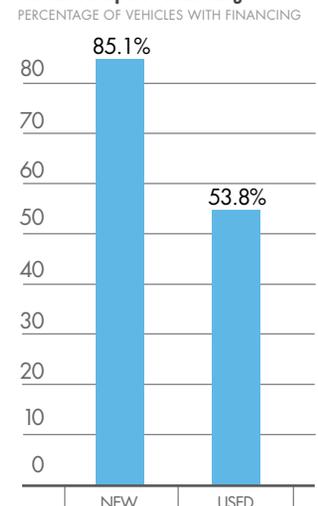
Percentage of Consumers by Risk Tier Choosing Used Loans



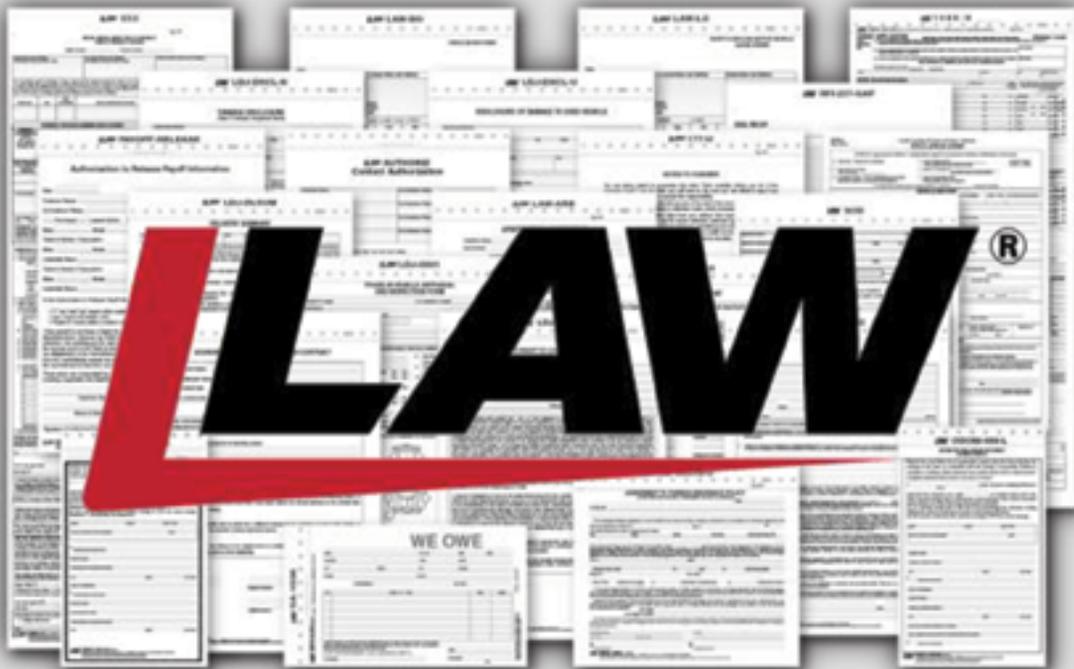
Used Risk Distribution



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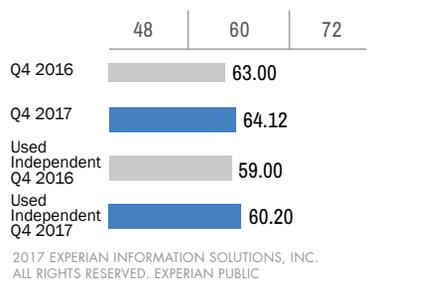
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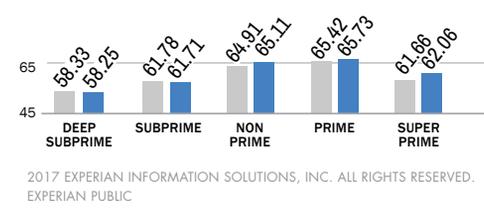


Document Services

Average Used Loan Term



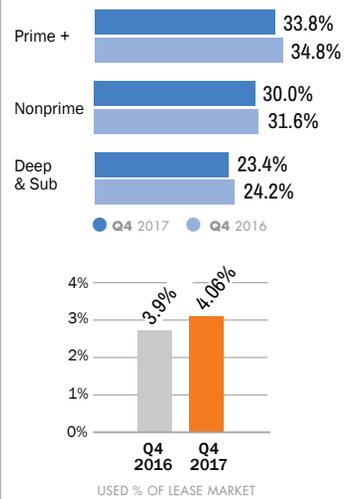
Average Used Loan Term



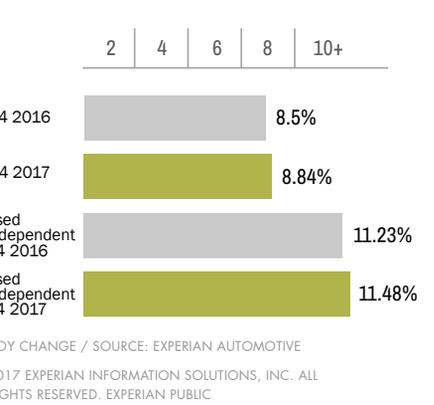
LEASING DATA

Leasing remains very prime despite a drop in prime level consumers choosing to lease.

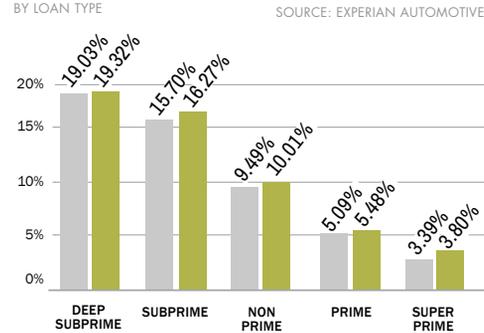
% of New Borrowers Choosing to Lease



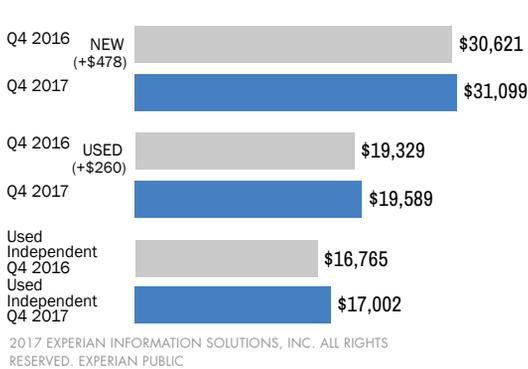
Average Used Loan Rate



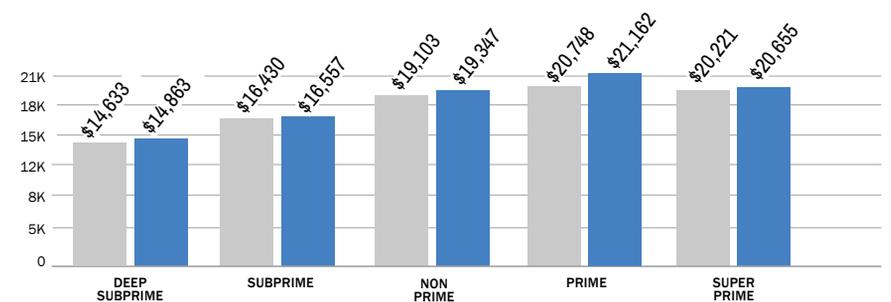
Average Used Loan Rate



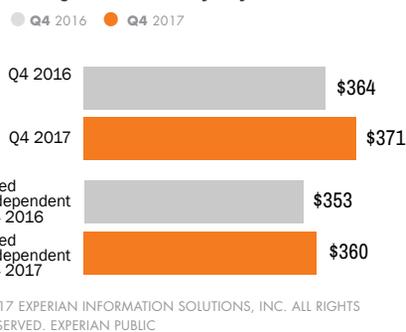
Average Amount Financed



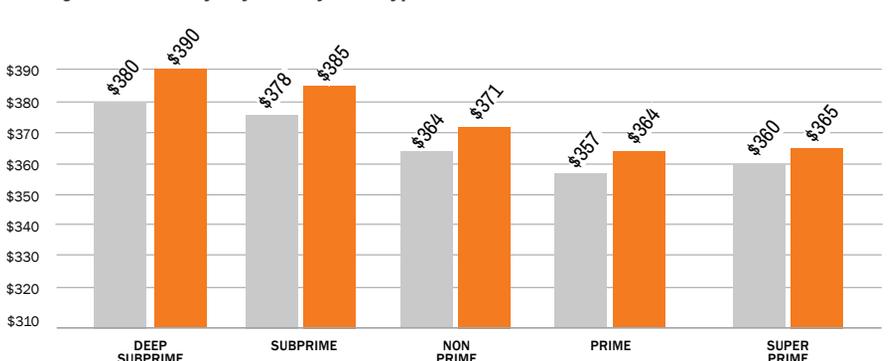
Average Used Amount Financed by Loan Type



Average Used Monthly Payment



Average Used Monthly Payment by Loan Type



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SUBPRIME CREDIT & LENDING TRENDS

Section 09 | **EQUIFAX**

2017 was a solid year for the auto industry and subprime lending, rivaled only by 2016.

All of the historical data that follow are taken from Equifax's Credit Trends 5.0 product. For the purposes of this analysis, we classify loans to borrowers with a VantageScore 3.0 credit score of 620 or less (including unscored) at origination as subprime.

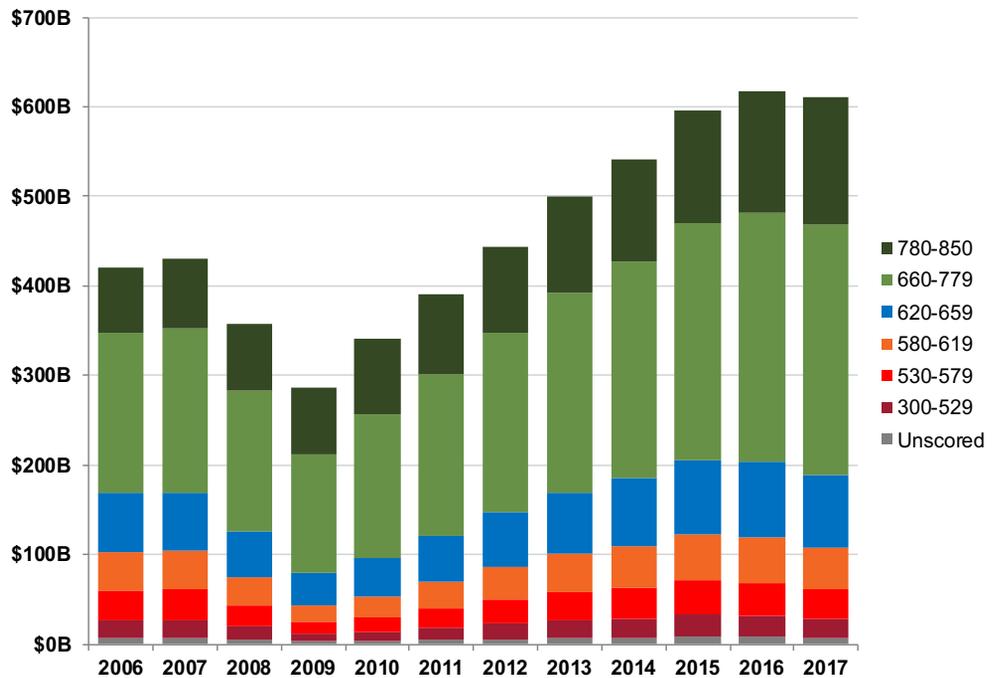
A close look at subprime originations revealed the following:

While auto lending overall saw only a slight decline (-1.1%), the subprime share of auto lending continued to drop. Total subprime originations declined by 9.5% in 2017 in comparison to the previous year. Prime lending grew slightly at a rate of 0.9%. The net effect was that the share of subprime loans as a proportion of total auto lending decreased to 17.7% in 2017 from 19.4% in 2016. Through the first two quarters of 2018, the subprime share improved to 18.2%.

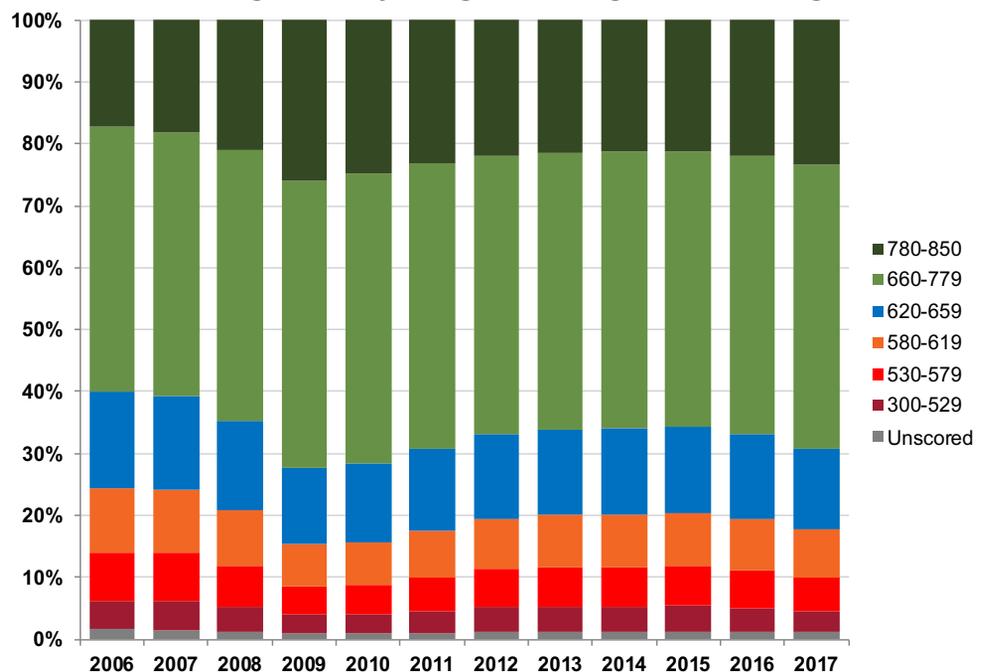
Longer loan terms continue gaining in popularity. In 2017, 23.5% of auto loans had a term of 7 years or more. Within subprime, 16.3% of auto loans had a term of 7 years or more. While subprime leases remain rare, these also tend to be longer: 39.1% of 2017 subprime leases had terms of 4 years or more.

Recent subprime vintages performance is fair: better than 2007 vintages, but not as well as 2010. 2017 vintages showed early signs of high defaults, but have improved as of late. Performance weakness in subprime overall is largely due to performance in deep subprime, which makes up a larger share now than in 2010.

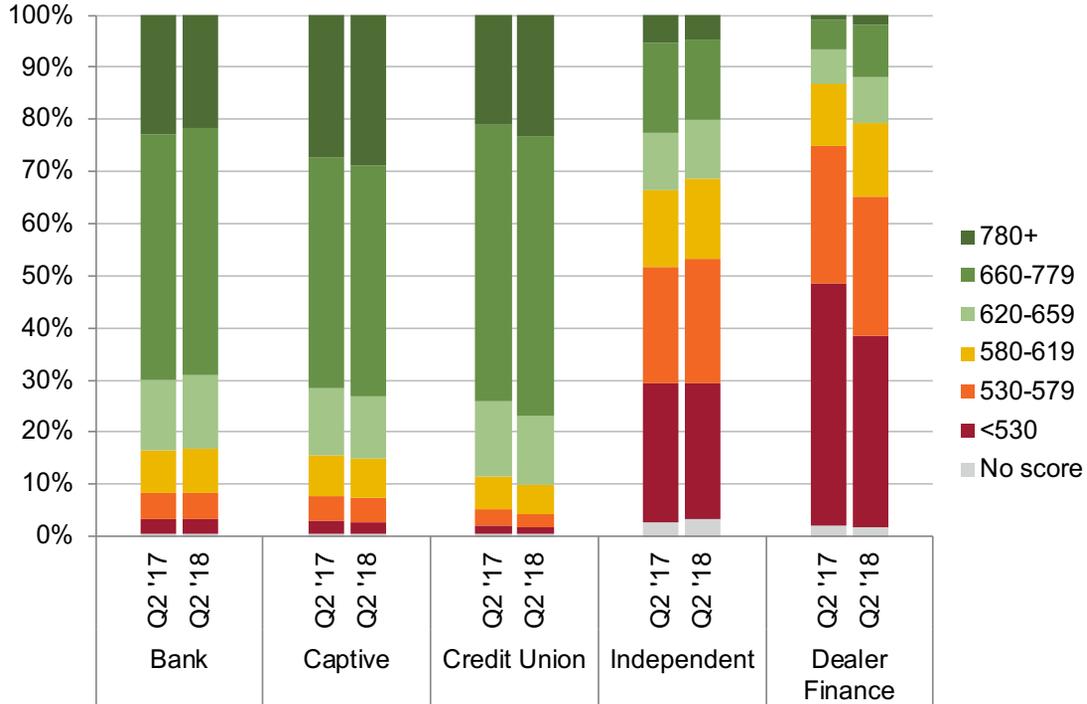
Auto Originations by Vintage and VantageScore® 3.0 Range



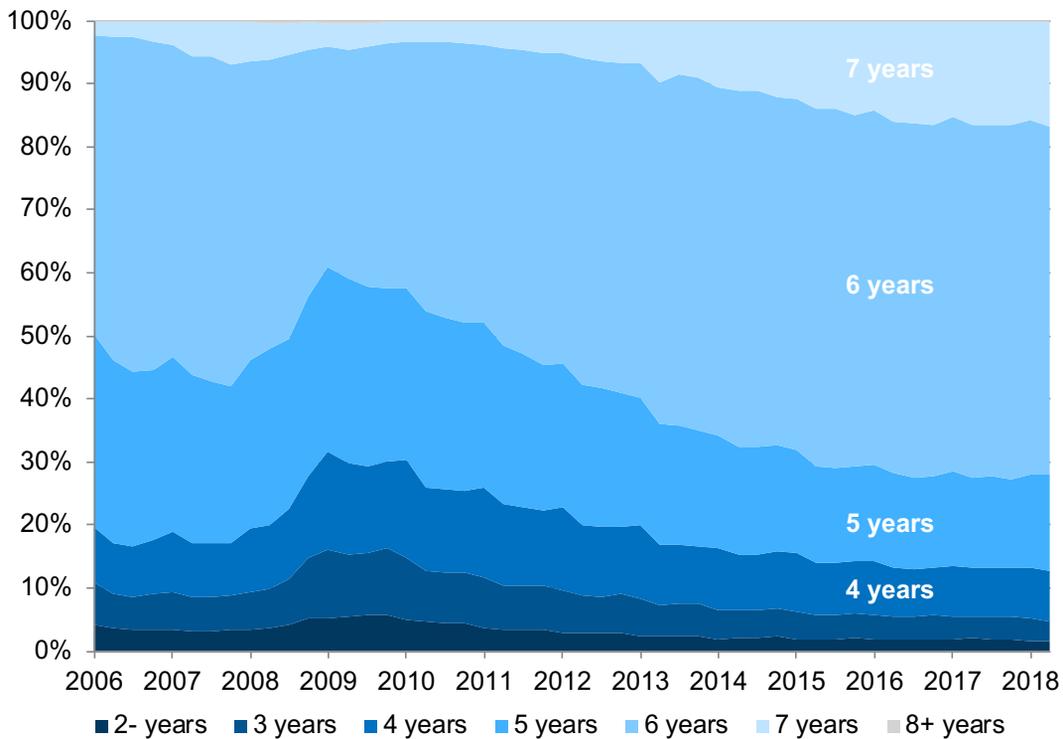
Auto Originations by Vintage and VantageScore® 3.0 Range



Share of Origination Balances for 2017 Q2 vs. 2018 Q2, by Lender Type and VantageScore® 3.0 Credit Score, NSA

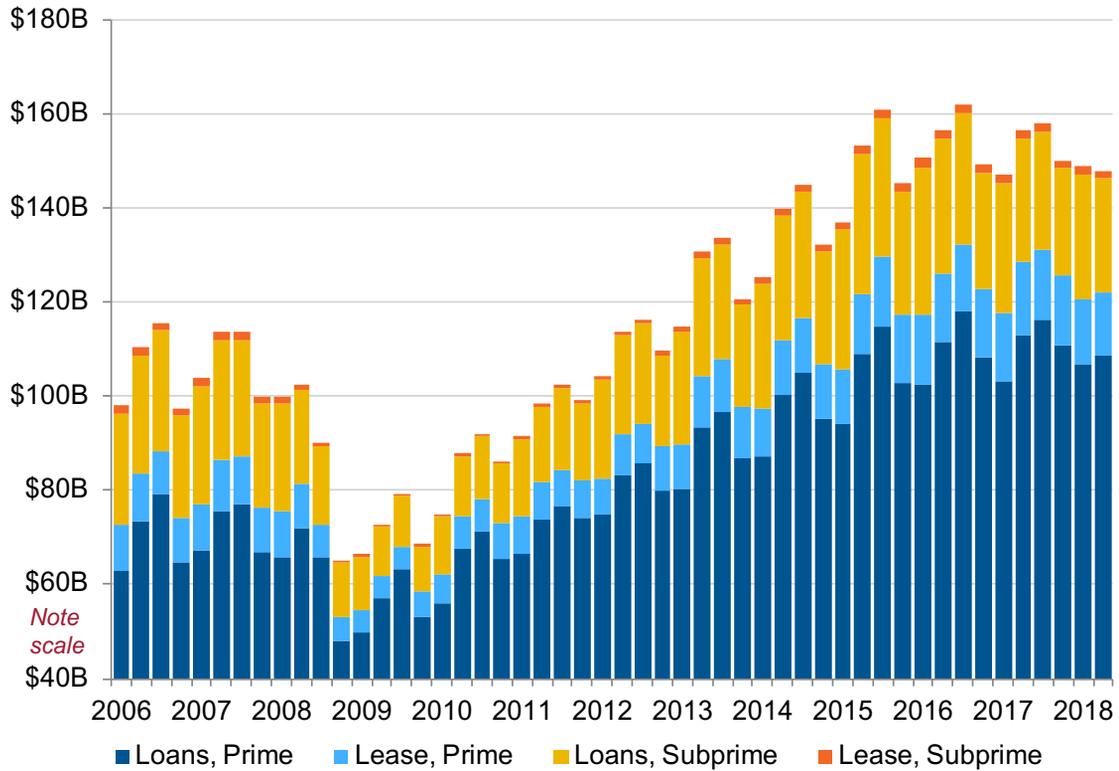


Share of Subprime Auto Loan Origination Balances, NSA

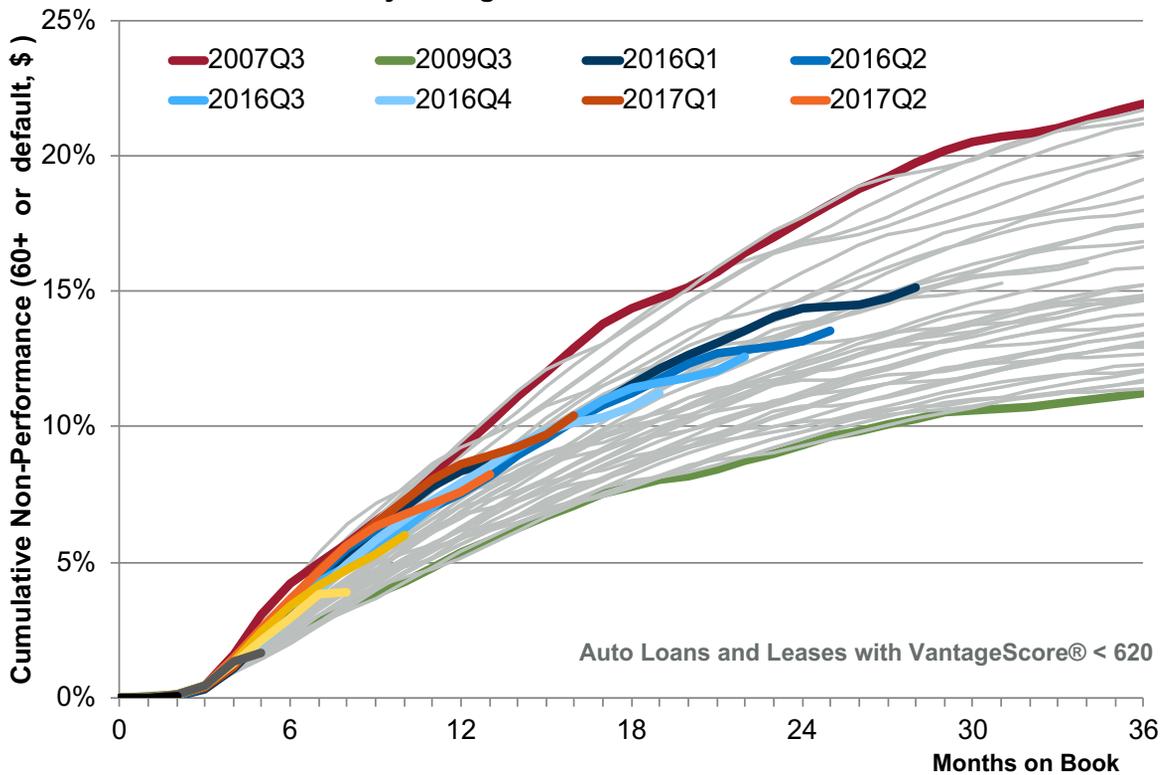




Loan and Lease Share, Prime vs. Subprime Originations



Subprime Auto Cumulative Non-Performance Rate by Vintage and Months on Book



SEAL THE DEAL.



Close more deals confidently with insights that drive.

When driving business growth is a key dealership objective, you need deep consumer insights that help you find the right customers and sell more cars.

Equifax has you covered with:

- Real Time (Soft Pull) Credit and Prescreen Offers
- Credit Risk Decision Information
- Consumer Income and Employment Data

We're here to help you learn more about your market and accelerate dealership growth—on and off the lot.

Focus on the right shoppers, get more qualified leads, close more deals, and build lasting customer loyalty and trust with Equifax.

Get started today.

Equifax.com/Automotive
800-685-5000

SHOULD YOU CONSIDER ALTERNATIVE LOAN BORROWERS?

TRANSUNION STUDY OFFERS INSIGHTS ON CONSUMERS AND THE ALTERNATIVE CREDIT MARKET

Section 10 | TransUnion^{tu}

Consumers who turn to alternative loan products are commonly perceived as underbanked or too risky to access traditional credit products. In a recent study conducted by TransUnion, findings suggest there's a creditworthy segment of alternative loan borrowers who also perform well with traditional credit products like a credit card, or auto or personal loan.

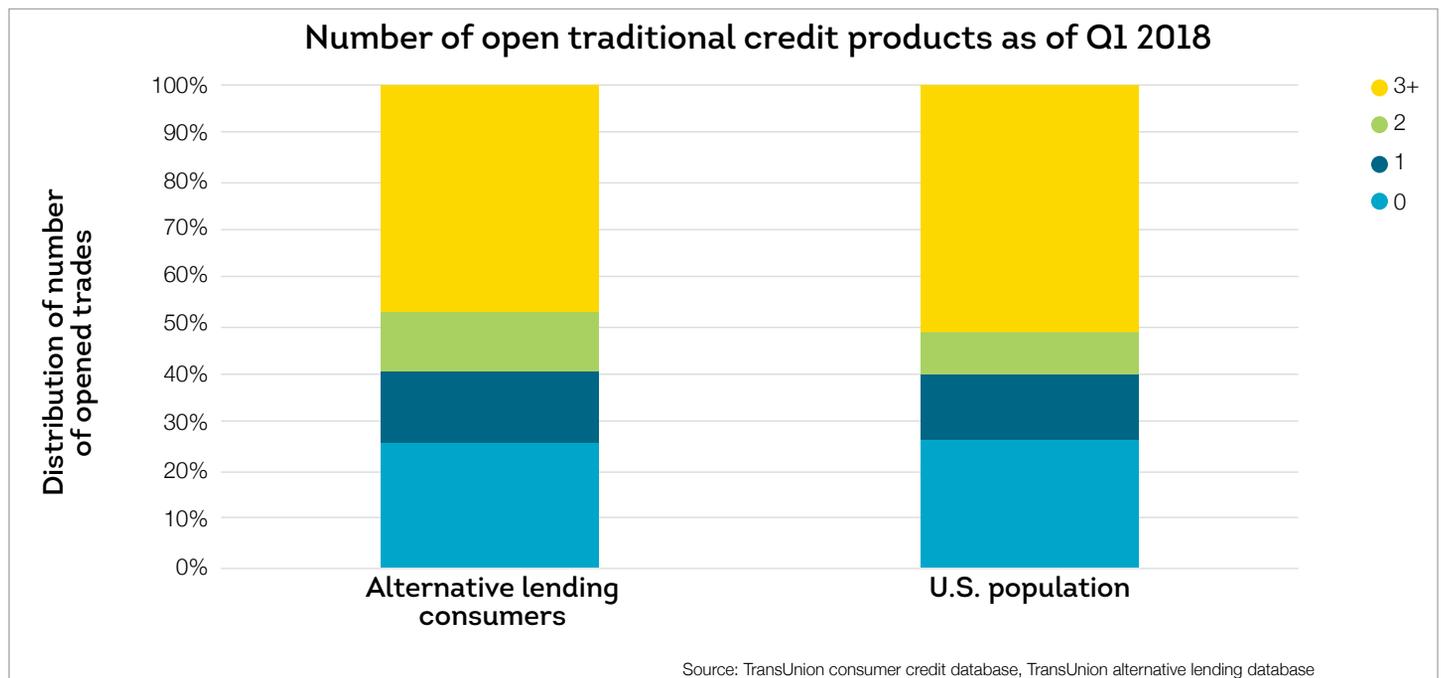
Alternative loans — which include short-term loans, short-term installment loans, virtual rent-to-own (or point-of-sale finance) and auto title loans — are a category of credit obligations not visible on traditional credit reports. In TransUnion's alternative credit database, which includes consumers who've applied for or received one of these

loans in the past seven years, 66% of the population was considered subprime, compared to the risk distribution of the overall credit-active population which typically stands at 25%.

While the study found that consumers who utilized alternative loans are inherently more risky from a traditional perspective, conventional wisdom has suggested these consumers participate in this market because they can't access traditional credit products. However, TransUnion took a closer look and found not only do 12% of these consumers have prime and above VantageScore[®] scores, many across all risk tiers have recently opened traditional credit products.

Hypothesis #1: Short-term borrowers are unbanked — they don't have access to traditional loan products.

False: Alternative credit market participants have opened traditional credit products on par with the U.S. population. Of the over five million consumers who opened a traditional product, 8% were present in the alternative lending database.



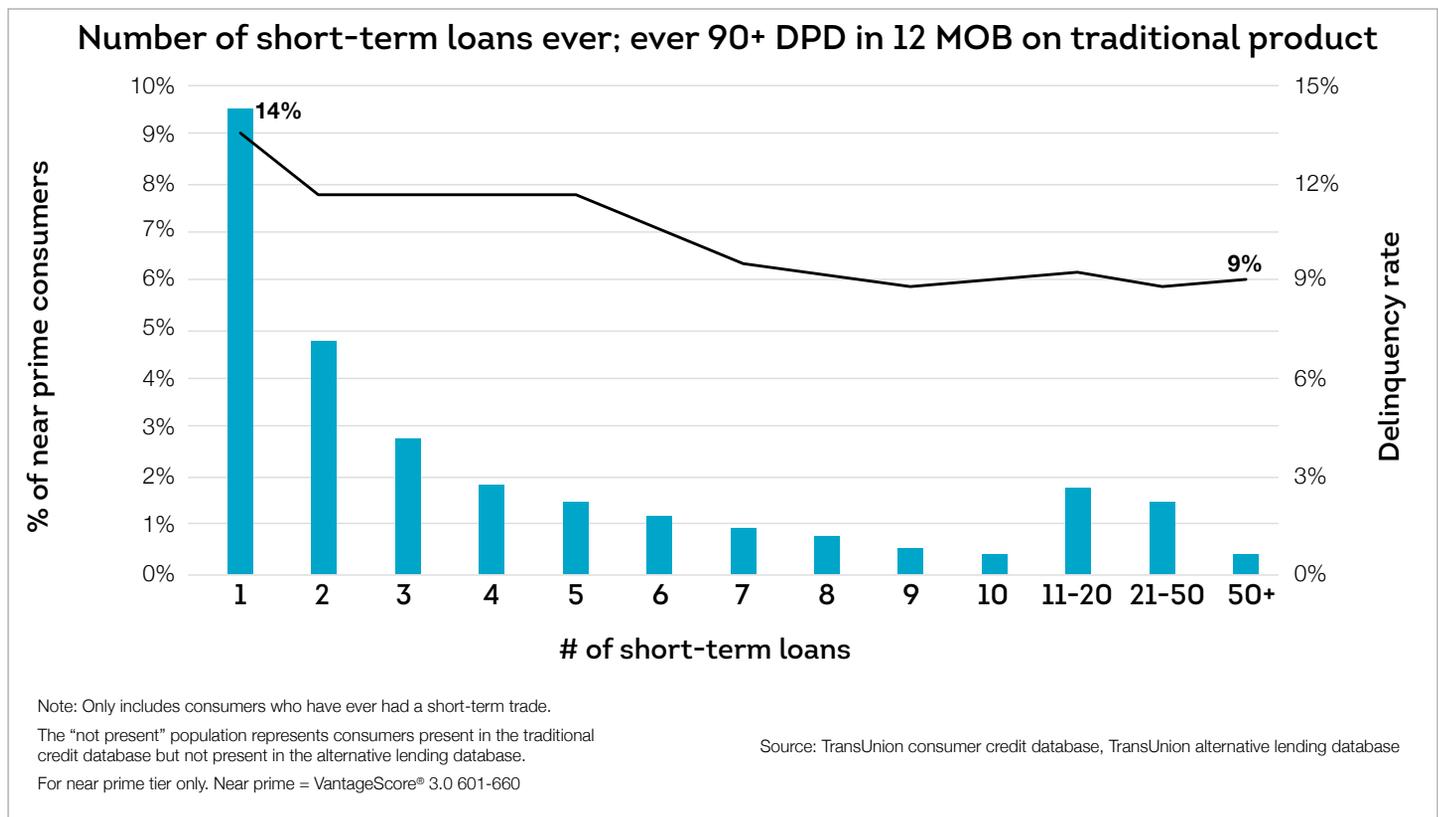
Hypothesis #2: Consumers present in the alternative credit database utilize traditional credit differently.

True: These consumers are more likely to open auto and personal loans, but they're present across all products.

TransUnion studied over 5 million consumers who originated a traditional credit product between Q2 2015 and Q1 2016 and measured the performance for 12 months following the origination of the loan. Approximately 450,000 (or 8%) were also present in TransUnion's alternative credit database. TransUnion then compared the performance of consumers present in the alternative credit database to those who didn't participate in this market.

REGULAR USERS OF SHORT-TERM LOANS MANAGE DEBT RESPONSIBLY

While it continued to hold true that many alternative credit consumers had higher delinquency rates on traditional loans, the study also identified material pockets of consumers whose good performance in the alternative credit markets may be an indicator of lower delinquency levels on auto loans or credit cards, among other traditional credit products. The study concluded that consumers who utilize short-term loan products as a regular credit vehicle for managing their finances appear to manage all debt more responsibly than other borrowers in the database with the same traditional credit profiles.

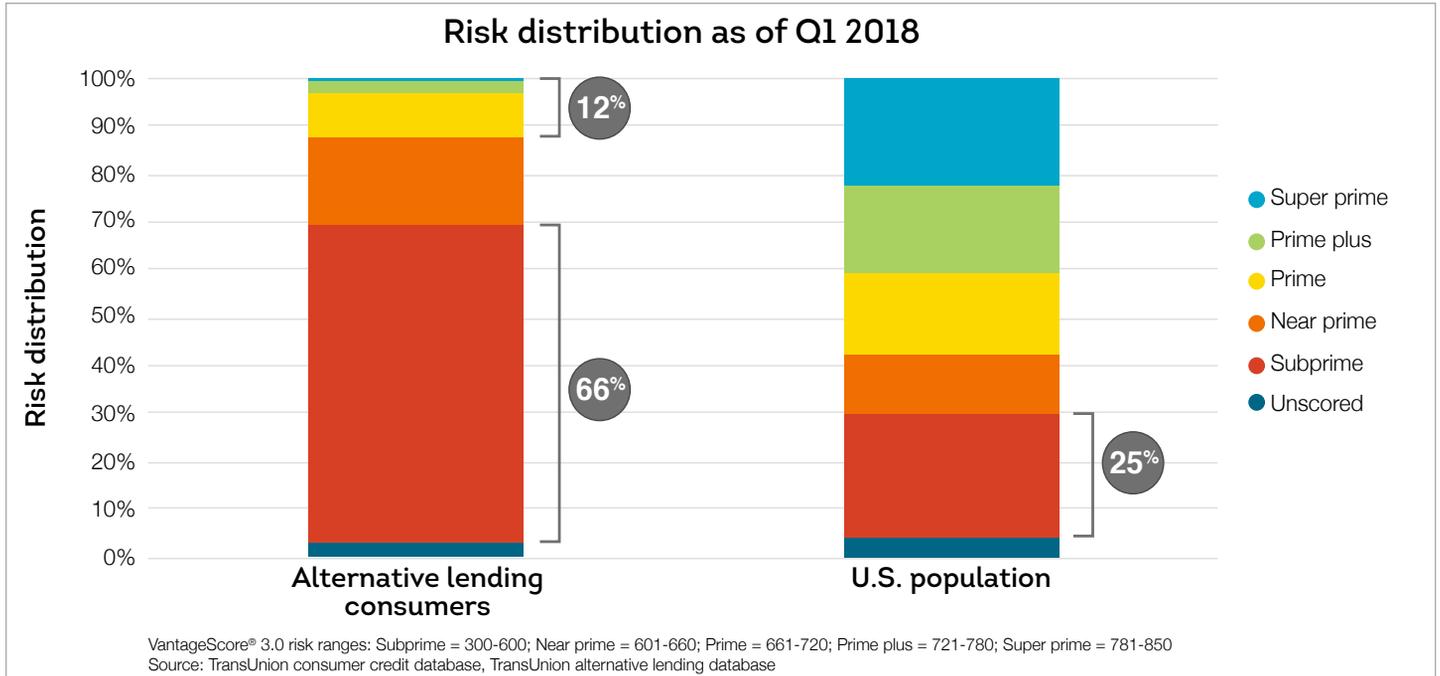


These findings present an interesting opportunity for traditional finance companies that don't have insight as to which customer segments are using, or have used, alternative credit products. By looking at credit risk more comprehensively and taking alternative loan data into consideration, lenders may be able to more accurately differentiate higher-risk from lower-risk consumers, and have a better ability to identify and quantify risks.



Hypothesis #3: Consumers active in the short-term loan market are riskier than those who are not.

True: Alternative credit consumers are much more likely to be subprime, but over 30% are near-prime or better.



ALTERNATIVE DATA CAN PROVIDE DEEPER INSIGHTS INTO CONSUMER BEHAVIOR

Currently, the majority of lenders aren’t getting the full picture on this consumer segment, as alternative loans are one of the largest credit categories not reflected in the traditional credit file. Arming lenders with more data to evaluate consumers can provide them with greater confidence to extend credit where they may not have previously. As a result, borrowers would also benefit by gaining greater access to traditional credit products and building their credit files. Taking a deeper dive into the data and behaviors of consumers with alternative loans may not only result in a larger financial inclusion story, but may also be a “win-win” opportunity for the whole market.

Go beyond traditional data to fortify your overall lending strategies

The combination of trended and alternative credit data allows you to:

- Reach more motivated, in-market consumers
- Make more timely and relevant offers
- Mitigate associated risk

Discover how a company in the automotive space used alt data insights to boost their marketing returns; **sales grew by 32%** and **revenue increased by 55%** in subsequent campaigns.



To learn more, download the alternative data insight guide at transunion.com/altdataguide or call **844-205-4111**.

CONSUMER EXPERIENCE

THE RISE OF THE DIGITAL WORKFLOW

Section 11 |

Today's shoppers can purchase virtually ANYTHING online, and they expect this convenience. Rising consumer expectations are pushing businesses to adapt accordingly, causing the widespread availability of digital retailing functionality. Not to be left out, the vehicle finance industry can offer consumers the end-to-end digital experience they desire, seamlessly connecting a virtual at-home process with the final in-dealership transaction. The new digital consumer experience is improving CSI, creating efficiencies for finance sources, saving dealers money, and improving workflow for everyone.

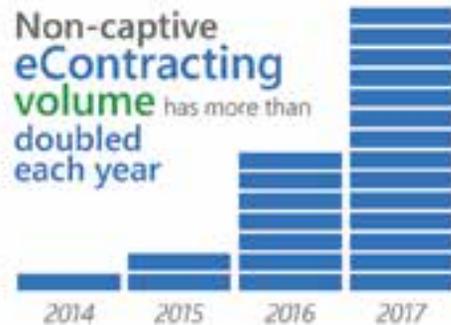
1400% increase
in consumer initiated financing
2014-2017



7 out of **10** RouteOne credit applications are eligible to be eContracted

RouteOne activates **700+** additional eContracting dealers every year
Average 2015 - 2017

97% ★★★★★ satisfaction among dealers utilizing eContracting
2017 RouteOne Annual Customer Satisfaction Survey



On average, **4.5** deals fund days faster with eContracting

Dealers could have saved **\$128 Million+** if all eligible contracts were booked by eContracting
2017 RouteOne Contracts

One Connection to All Your F&I



With our suite of products and network of integration partners, we help dealers deliver a seamless, F&I experience to today's consumer. With RouteOne, dealers can create an eContract from an online credit application, add insurance products, and electronically deliver the eContract to customers for review and eSigning. Provide your customers with the digital experience they desire and get paid faster too.

Discover what RouteOne's eContracting can do for your business today.

If you have any questions, please call
866.768.8301 or visit www.RouteOne.com.



USED CAR MARKET VEHICLE HISTORY TRENDS

Section 12 | CARFAX

Vehicle history is an integral part of the car buying process today. With thousands of dealers integrating vehicle history into all aspects of their used car operations, and consumers asking for it before they buy, it's no surprise that more than 340 million CARFAX Reports will be viewed in 2018 alone.

While vehicle history information builds customer confidence at retail, dealers use it most at acquisition. By running a CARFAX Report during the acquisition process, dealers can make informed decisions about their inventory, helping to ensure they're paying the right price for the right car.

But vehicle history can bring you more than just important information about a single car's past—it can also provide valuable insight into what's trending in the used car market. As you look into acquiring vehicles for your inventory, the data below can help you make the right buying decisions for your dealership and your customers.

The Average Used Car

With over 265 million vehicles on the road, we wanted to look at what the average used vehicle looks like. As you consider vehicles in the auction lanes or coming in on trade, here's what you might expect to see*:

AVG. USED VEHICLE	
AGE	10.8 YRS.
SERVICE RECORD	9.35
OWNERS	2.28
MILEAGE	95,320
DRIVEN PER YEAR	13,053

*BASED ON INFORMATION REPORTED TO CARFAX AS OF 3/22/2017

1-Owner

One of the most important vehicle history attributes consumers look for in a used car is the number of owners. While the average vehicle on the road has just under two owners, dealers seem to understand the value of vehicles with only one owner. In fact, nearly half (41%) of the vehicles listed for sale by dealers in July 2018 were CARFAX 1-Owner vehicles. How does your inventory stack up?

Creating the right mix of CARFAX 1-Owner vehicles should be an important part of both your inventory acquisition strategy and your marketing strategy. CARFAX 1-Owner vehicles are highly sought-after by consumers, so making sure these premium vehicles are a part of your inventory can help lower turn time and maximize profits.

Use Type

Another important factor to look at when acquiring a car is usage. In recent years, the number of people choosing to lease vehicles has increased. In 2014, personal lease vehicles accounted for 3.52% of all vehicles on the road, and in 2018 that number has dropped to 3.7%. Because these vehicles are prime candidates

for certification programs, including independent programs like NIADA Certified Pre-Owned, it is important to identify these vehicles during acquisition.

USE TYPE	2015*	2016*	2017*	2018+
PERSONAL	83.13%	83.38%	83.50%	83.10%
PERSONAL LEASE	3.78%	4.33%	4.30%	3.70%
COMMERCIAL	3.63%	3.54%	3.60%	5.30%
RENTAL	1.06%	1.07%	0.90%	2.40%
LEASE	0.63%	0.62%	0.60%	0.70%
OTHER	7.77%	7.06%	7.10%	4.80%

* BASED ON INFORMATION REPORTED TO CARFAX AS OF 8/1/2018

Fraud

Despite efforts to combat it, vehicle fraud and other crimes continue to plague consumers and dealers alike. Dealerships, law enforcement, and companies like CARFAX are working together to help protect people from buying flooded cars, cars with rolled-back odometers, clones and other costly scams that can put dangerous cars on the road. Using vehicle history at acquisition can help you identify these vehicles to protect both your business

OTHER	VEHICLES
REPO	4,518,150
STOLEN	2,256,534
ROLLBACK	1,531,880

and your customers.

Open Recalls

One of the ongoing concerns in the automotive industry is the record number of vehicle recalls issued year after year. Thanks to programs like the myCARFAX app and increased consumer awareness CARFAX data suggests a 9% decrease in unfixed recalled vehicles from 2017 to 2018. Consumers are often unsure about the impact of an open recall, which can negatively affect their buying decision. Your efforts to alleviate concerns about recalls by disclosing open recalls up front can give an added boost to your customer service and make your dealership stand out from the competition. Providing customers with recall information and offering to help facilitate getting it fixed can actually remove

CALENDAR YEAR	OPEN RECALLS (MM)
2015*	46
2016*	47
2017*	63
2018+	57

* BASED ON INFORMATION REPORTED TO CARFAX AS OF MARCH 2018

a point of friction and help you close more deals.

The map on page 52-53 shows the impact of open recalls in each state.



PUT **CARFAX ACCIDENT LEADERSHIP** TO WORK FOR YOU



TAKE THE FREE CARFAX ACCIDENT CHALLENGE

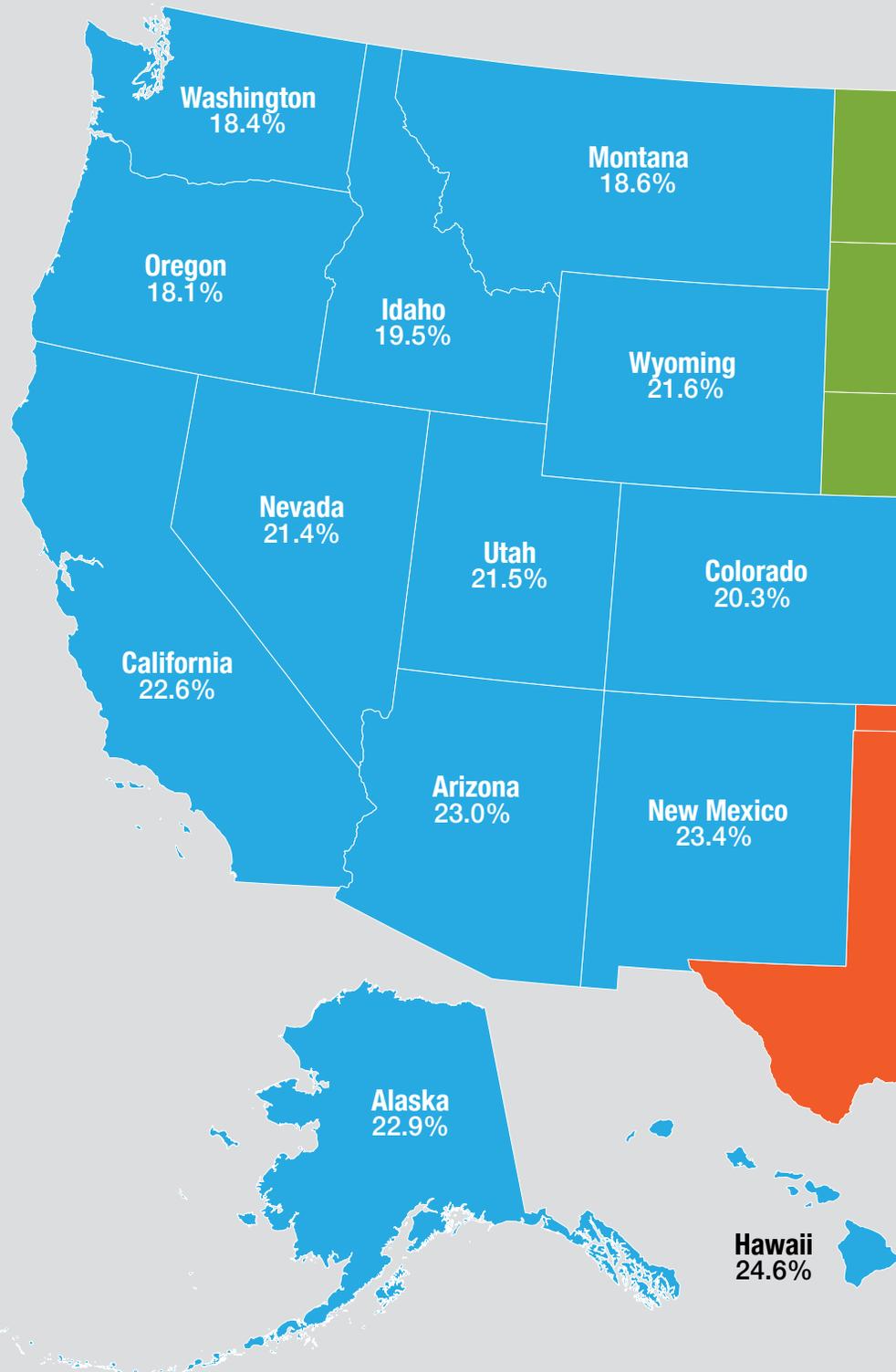
Get your FREE inventory review to identify the accidents only CARFAX can show

Go to CARFAXaccidentchallenge.com or call 888.253.9470

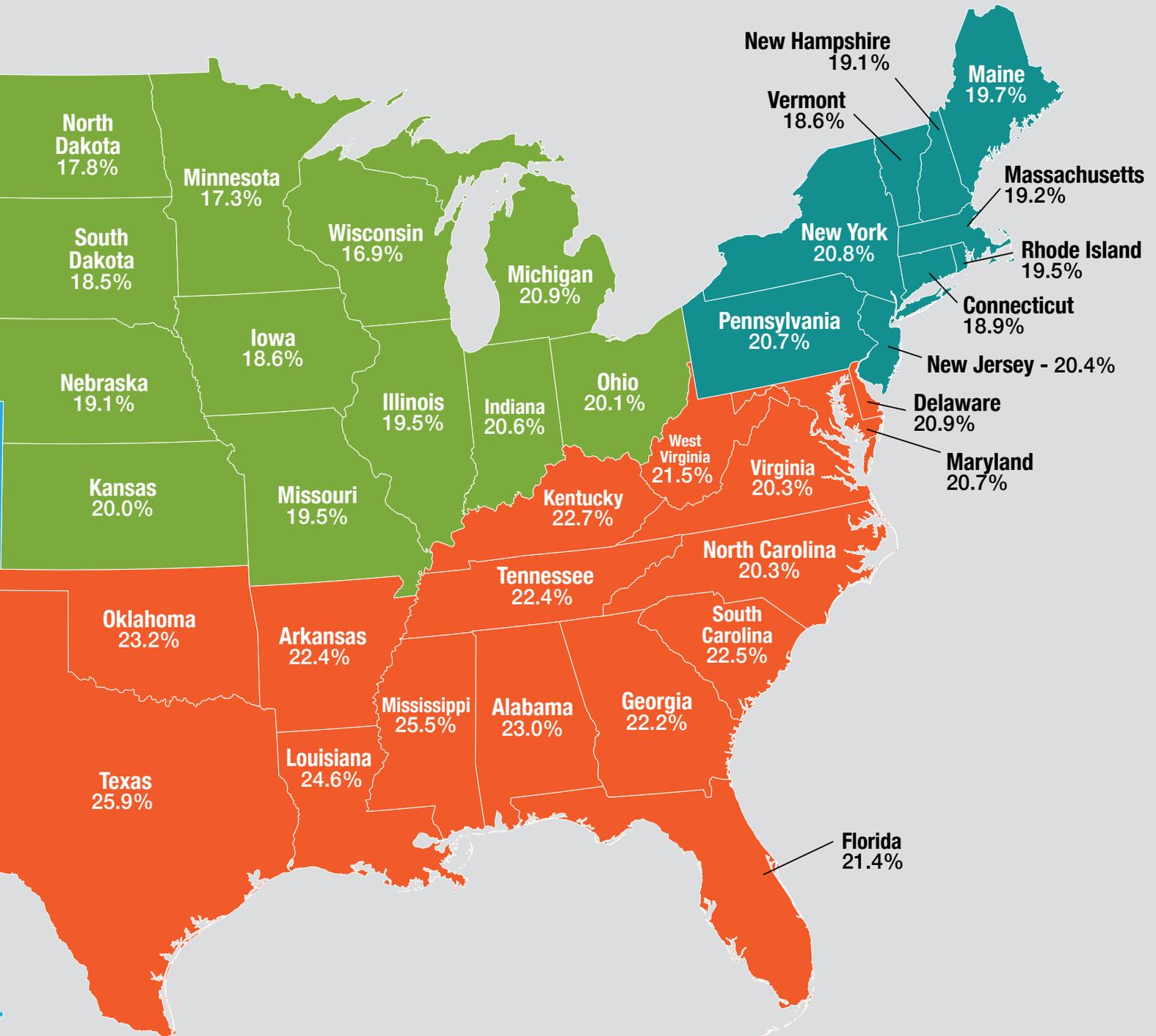


THE MAP BELOW SHOWS THE IMPAC

OPEN RECALLS	2016	2017	% INC/DEC YOY
Alabama	1,154,354	1,089,364	-5.6%
Alaska	157,775	145,226	-8.0%
Arizona	1,396,060	1,358,761	2.7%
Arkansas	617,242	574,689	-6.9%
California	7,726,624	7,015,956	-9.2%
Colorado	1,097,810	1,020,042	-7.1%
Connecticut	638,572	562,204	-12.0%
Delaware	198,169	173,828	-12.3%
Florida	4,004,687	3,561,040	-11.1%
Georgia	2,049,913	1,905,358	-7.1%
Hawaii	314,923	332,986	5.7%
Idaho	343,458	326,403	-5.0%
Illinois	2,291,334	2,002,885	-12.6%
Indiana	1,373,357	1,226,474	-10.7%
Iowa	643,741	572,192	-11.1%
Kansas	600,321	532,835	-11.2%
Kentucky	982,756	905,462	-7.9%
Louisiana	994,892	924,105	-7.1%
Maine	268,270	242,979	-9.4%
Maryland	1,053,604	941,925	-10.6%
Massachusetts	1,173,115	1,005,117	-14.3%
Michigan	1,806,617	1,838,789	1.8%
Minnesota	1,011,578	843,859	-16.6%
Mississippi	704,745	687,311	-2.5%
Missouri	1,183,643	1,031,222	-12.9%
Montana	235,651	231,771	-16.6%
Nebraska	401,654	365,647	-9.0%
Nevada	525,799	492,428	-6.3%
New Hampshire	279,620	240,028	-14.2%
New Jersey	1,601,082	1,412,816	-11.8%
New Mexico	451,098	439,593	-2.6%
New York	2,654,158	2,365,864	-10.9%
North Carolina	1,921,824	1,773,724	-7.7%
North Dakota	148,362	137,536	-7.3%
Ohio	2,394,060	2,084,549	-12.9%
Oklahoma	827,710	804,786	-2.8%
Oregon	729,702	666,030	-8.7%
Pennsylvania	2,715,163	2,417,820	-11.0%
Rhode Island	189,101	166,564	-11.9%
South Carolina	1,127,368	1,070,721	-5.0%
South Dakota	189,471	174,793	-7.7%
Tennessee	1,442,062	1,343,693	-6.8%
Texas	6,135,430	5,716,471	-6.8%
Utah	599,982	541,291	-9.8%
Vermont	124,406	106,805	-14.1%
Virginia	1,646,541	1,517,153	-7.9%
Washington	1,260,827	1,232,660	2.3%
West Virginia	383,032	342,294	-10.6%
Wisconsin	1,005,410	885,798	-11.9%
Wyoming	139,511	131,293	-5.9%



T OF OPEN RECALLS IN EACH STATE



IMPOUND STORAGE FEES, A BILLION-DOLLAR PROBLEM

According to Experian, there are approximately 25.3 million vehicles financed to below-prime consumers on the road today. Spireon data indicates that about 76,000 are impounded each day. Considering average daily storage fees, vehicle impounds cost these consumers, dealers, and lenders \$3.04 million a day or \$1.1 billion per year nationwide — and this isn't even taking into account a wide range of flat fees that vary wildly from lot to lot.

This is a problem.

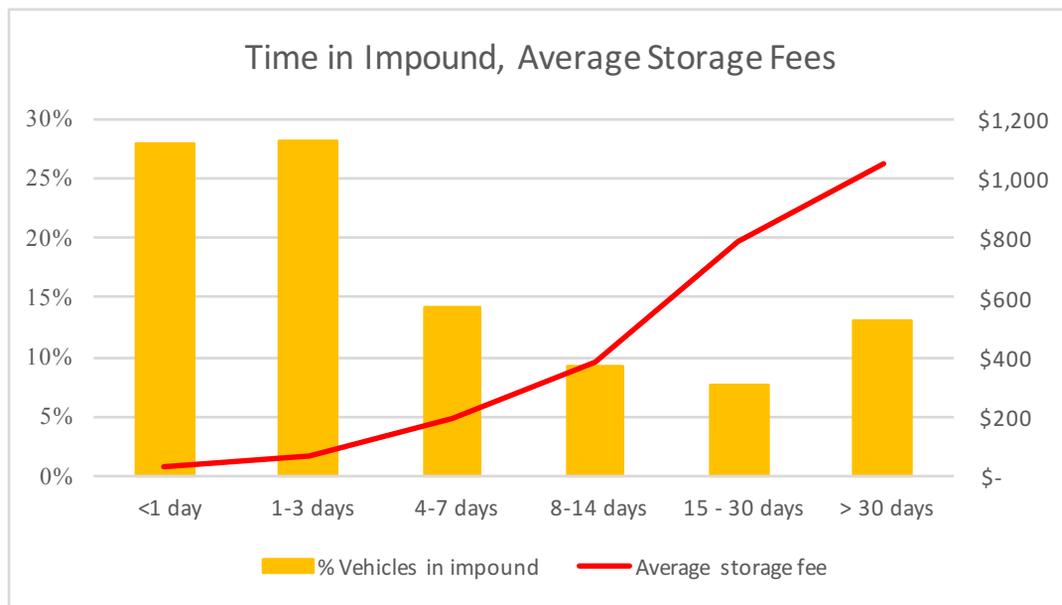
Spireon has tracked more than 360 billion driving miles from nearly 4 million active telematics devices in consumer and commercial vehicles through its NSpire technology platform. The resulting 700 million data events per month cross-referenced with sophisticated algorithms and more than 10,000 hand-drawn geofences around impound lots across the United States

provides incredible insight into this billion-dollar problem.

A TechValidate survey queried used car dealers across the country about their impound experiences. According to respondents, it takes seven days on average to receive notification about a vehicle that has been impounded. In one instance, the bill for seven days in impound reached \$645 in the Nashville, Tennessee, area. The average number of impound recoveries per dealer per year, conservatively, stands at four.

The numbers don't lie: each passing moment in impound is costly. If consumers don't pick up their cars, BHPH dealers and lenders are on the hook and must recover their vehicles as soon as possible — or face the expensive consequences.

Time in Impounds



~ Year-to-date Spireon NSpire analytics (through July 2018) and June 2018 TechValidate dealer survey

Time is Money

Based on Spireon NSpire analytics and research, approximately 44 percent of impounded vehicles remain on an impound lot for four days or more, incurring excessive per-day storage fees. About 22 percent stay even longer at 15 days or more when recovery costs really begin to soar. These costs don't even account for a wide range of varying flat fees.

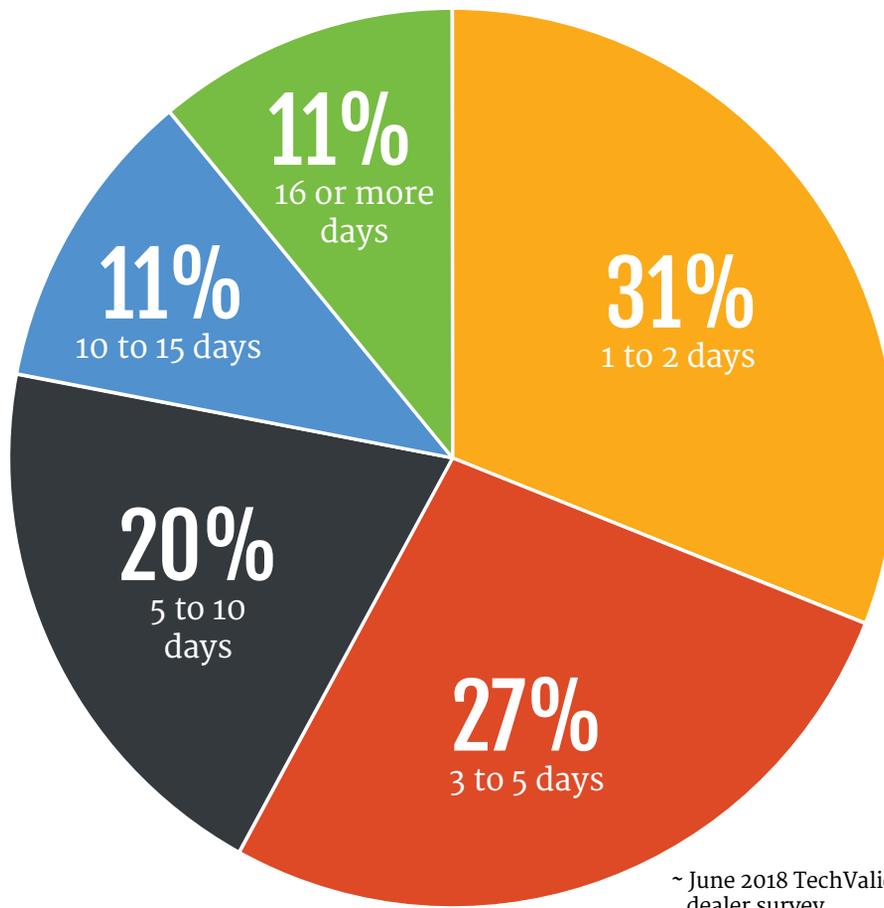
Survey Says

Q: What is one thing you as dealer would like to know when it comes to impounds?

A: “Where new lots pop up so we don’t lose money.” — BHPH dealer via June 2018 TechValidate survey

Impound isn’t a static problem. The information dealers need to combat it is dynamic, including the latest impound lot locations and faster impound notifications. The sooner a vehicle is recovered, the lower the chance of storage damage and reconditioning costs.

On average, how long is a vehicle in impound before receiving notice from the impound lot?



Highest Impound Incidents by State

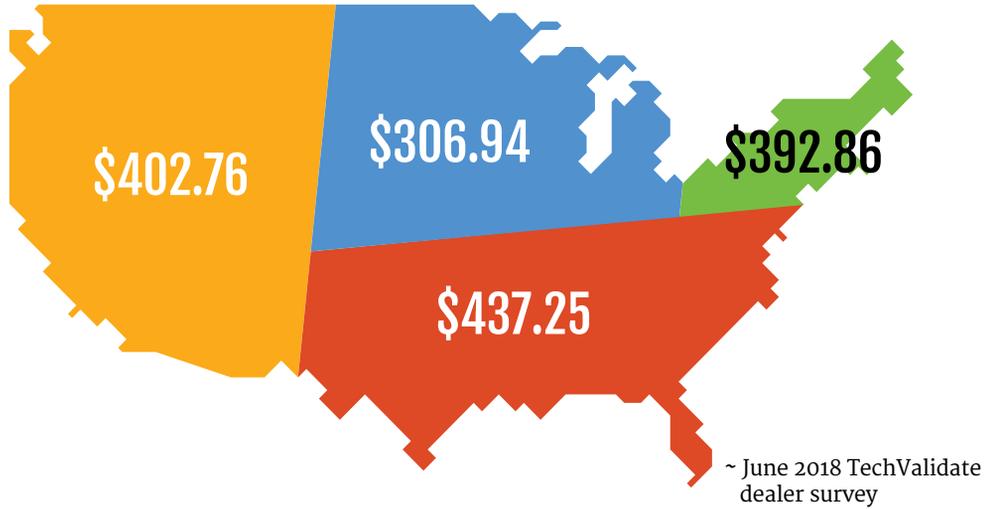
1. Ohio 9.49%
2. Utah 7.38%
3. Minnesota 6.15%
4. Illinois 6.04%
5. Nebraska 5.79%

Vehicle Make and Model with Highest Impound Rate

1. Nissan Altima
2. Chevrolet Impala
3. Toyota Camry
4. Hyundai Sonata
5. Ford Focus

~ Year-to-date Spireon NSpire analytics (through July 2018)

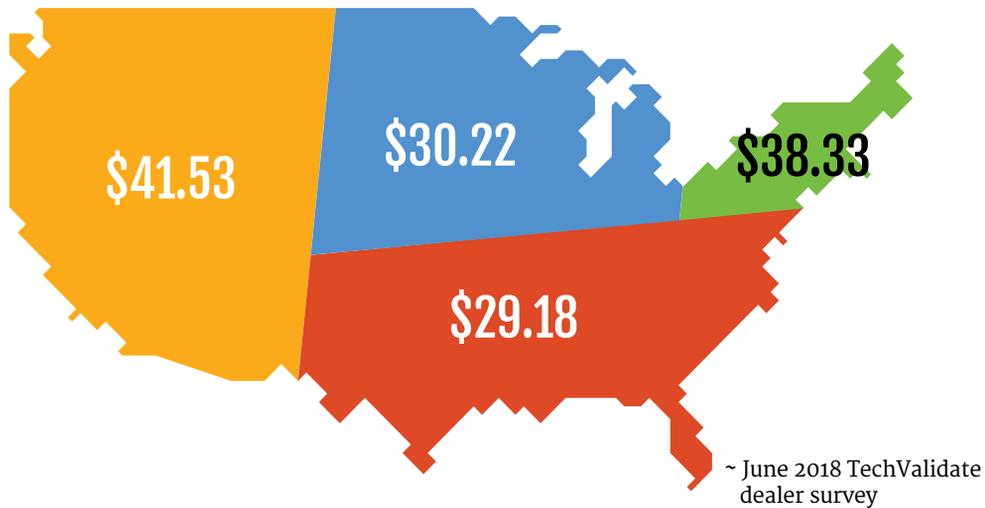
Average Total Recovery Costs by Region



Go (Mid)West, Young Man

Average total recovery cost for impounded vehicles is lowest, by nearly \$100, in the Midwest. Southerners, on the other hand, take the brunt of the damage at over \$135 more than the Midwest.

Average Total Cost of Storage Fee by Region



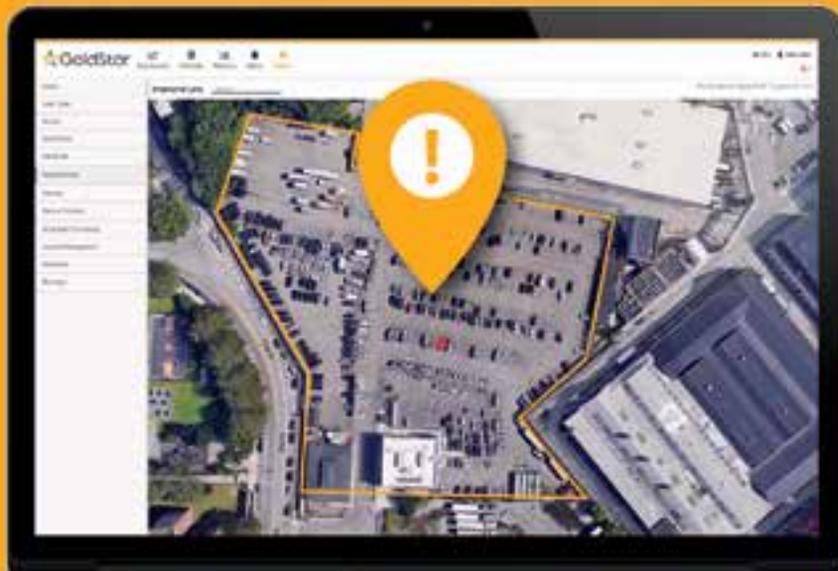
Southern Charm

Average daily storage fees are lowest in the lower states, whereas the West suffers the highest average fees. The differences between average daily storage fee and average total recovery cost may be due to variances in flat fees and time spent in impound.

The Billion-Dollar Solution

GoldStar Impound Lot Alerts

Impound lot fees are a \$1.1 billion industry problem.
The #1 GPS provider has a solution.



Nationwide impound lot database | Early impound notification
Lower storage and reconditioning costs | Operational efficiency, higher profits

Nearly 4 Million
Active Devices

20,000 Devices
Shipped Weekly

97% of Orders
Shipped Same Day

24/7 Award Winning
Customer Service



Find out why GoldStar is the best option for impound recovery, bar none.
spireon.com/vehicle-impound-data | 855-867-2684

BLOCKCHAIN: TRANSPARENCY, INTEGRITY, RELIABILITY

WHAT THE
INDUSTRY
NEEDS

Section 14



Do you remember the first time you saw a new technology and knew it was going to change everything? Seeing bitcoin in action was one of those moments for me.

I've been following bitcoin since it was valued at under 10 cents and believe it is a great investment. Why? Only 21 million bitcoins will exist, 17.2 million have already been produced, and there is a current market cap of 111 Billion USD at the time of this article. Its value is created by artificial scarcity and the price point it is currently at is very attractive over the long term.

What makes Bitcoin stand out is the technology that powers Bitcoin, blockchain. Blockchain technology is much more than a financial ledger. It creates a decentralized, self-sustaining information store for recording transactions – public or private. There are many incredible uses for this technology in the automotive logistics industry.

What could an automotive-focused blockchain provide that is not currently available to the market? Transparency, Integrity, and Reliability.

Transparency. The blockchain stores committed records of events (or transactions) that can be shared between multiple parties. Many corporations, groups, and entities are interested in vehicle transportation.

- Carriers who are assigned the vehicle
- Individual drivers assigned by the carrier
- Clients (OEM, dealerships, auctions)
- Final mile / end consumers
- Insurance and claim providers
- Third-party carrier rating service providers
- Storage locations
- Attorneys
- Managed service providers / transaction brokers
- Financial institutions
- Payment organizations

As events and transactions are recorded to the blockchain, the data is grouped into blocks, validated, and then committed to the chain. There is no dispute in the chain's transactions because all entities on the chain see the same version of the ledger. The data is available to each of these participating parties.

Integrity. Once a block of data has been committed to the blockchain, it cannot be erased or retroactively altered without altering all the subsequent blocks, which requires

consensus of the network majority. Complete copies of the ledger are distributed over many nodes (computers/servers). There is not one absolute source of truth for a transaction – the network majority ensures the validity of blocks being added to the chain. No official centralized copy exists, and no user is trusted more than any other.

Reliability. The chain has a high fault tolerance. The blockchain is nothing more than a transport layer. The data is decentralized and distributed, typically over a peer-to-peer network, so individual node failures would not cripple systems or the network. There is no central point of failure. Every node in a decentralized system has a copy of the blockchain. Any software package a partner uses could connect to one or many nodes and receive the same information.



How can this help you ship a car faster, more efficiently, and more safely? Say Dealership X wants to move a vehicle from Point A to Point B for their customer. Simple contracts could be put in place with an individual carrier, or in a network of carriers. The details of the vehicle, contract information, pickup location, delivery location, and payment information could all be stored in the chain as part of the transaction. As events happen throughout the transaction, data is added to the chain. Imagine how quickly you could remove siloed, manual processes in your organization:

- A Customer calling Dealership X wants to know the ETA of their vehicle
- Dealership X begins making phone calls asking for status of the vehicle shipment
- Insurance companies idly waiting to receive claims on transportation-related damage, typically days or weeks after the event has occurred

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ARE NOW  ACERTUS

*Together, we're now the only company
in the industry that promises complete,
end-to-end services across the entire
lifecycle of a vehicle. We say we deliver.
And we do. All with a single call.*

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FLEET
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TITLE &
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INNOVATIVE
TECHNOLOGY



COMPLIANCE &
CARE SERVICES



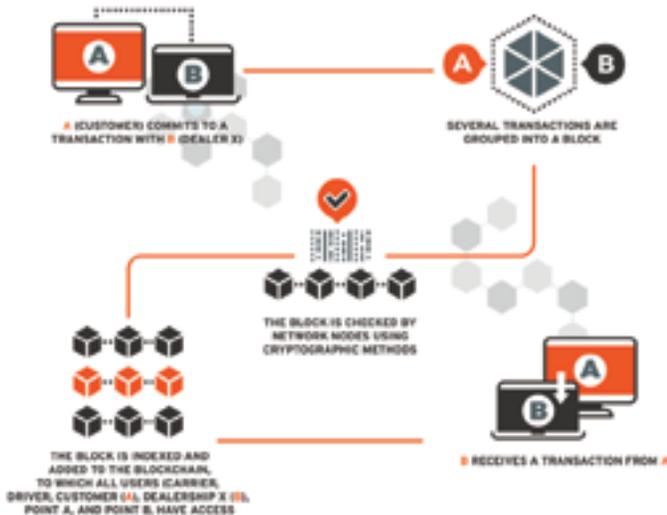
STORAGE



FINAL MILE
DELIVERY

RELENTLESS DRIVE TO DELIVER

- Carriers updating the status of the shipment with multiple people, in different methods (email, phone calls, ePOD transactions, etc.)
- Cumbersome “unique” data uploads (ftp/sftp/as2) detailing new orders, order status, financial payment information, and vouchers - all using proprietary formats



In a perfect world - all the participants, and their systems, could be watching the blockchain to receive the most up-to-date information from the latest committed blocks. No custom one-to-one integrations would be

needed - everyone is just using the same data, committed to the blockchain, to build their own business logic around the committed transactions.

In our example - all the participants benefit. The Carrier, Driver, Customer, Dealership X, Point A, and Point B all have access to the same information and are aware of the status of the transaction. As an example, once the movement has occurred and the participants have acknowledged each of the required aspects, payment transactions could be made in accordance to the contracts established earlier in the transaction. All of this could happen with very little interaction from the end users - the data is committed to the blockchain and each of the parties handle their own individual parts of the transactions. Carriers would be paid quickly, clients and customers could have the visibility they need, Dealership X would see vehicles moving quicker with less confusion. It is a pretty amazing concept.

I am committed to helping each of the individual parties operate efficiently in our ecosystem - and as such, I want to continue to find and fund newer technologies like Blockchain (and Bitcoin, to a lesser extent for payment transactions), that will help revolutionize automotive logistics. Many people will fear the idea of opening their data in such a public and standardized manner - but the end result will lead to a much more efficient, reliable, and responsive market that truly benefits all of the participants involved.

Q & A HOW WILL YOU ANSWER A FEDERAL ENFORCEMENT INVESTIGATION INTO YOUR BUSINESS PRACTICES?

- A. SUBSCRIBE TO AND COMPLETE THE NIADA ONLINE DEALER COMPLIANCE PROGRAM
- B. INSTALL SELF-POLICING POLICIES
- C. CREATE A CULTURE OF COMPLIANCE
- **D. ALL OF THE ABOVE**

NIADADEALERCOMPLIANCE.COM

TRAIN DOCUMENT TRACK COMPLY

ANNUAL COMPLIANCE SUBSCRIPTION IS ONLY \$495 PER LOCATION!

Finally, a comprehensive dealer compliance solution that fits your schedule... and your budget.

NIADA ONLINE DEALER COMPLIANCE

Now more than ever, independent auto dealers must show their diligence in operational compliance. Federal agencies like the FTC and CFPB have made it no secret that your business needs to play by the rules and show that you are taking every step to train your employees well.

Available online for your entire staff (per location), NIADA'S Online Dealer Compliance modules includes 13 video training session topics below and include interactive testing after each video session:

VIDEO TOPICS

- THE RED FLAGS RULE
- THE SAFEGUARDS RULE
- UNITED STATES PATRIOT ACT: DFAC
- U.S. PATRIOT ACT: IRS/FENCEN FORM 9300
- NATIONAL DO NOT CALL ACT
- THE FEDERAL USED CAR RULE
- COMPLIANT SALES PROCESS
- DEALER ADVERTISING GUIDELINES
- OSHA: DEALER HEALTH & SAFETY PROGRAM
- OSHA: HAZZARD COMMUNICATION PROGRAM
- OSHA: AUTO REPAIR SAFETY
- WORKPLACE DIVERSITY
- SEXUAL HARASSMENT

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MARKETING EFFECTIVENESS

LEAD SOURCES & MAXIMIZING ENGAGEMENT

Section 15 | DEALERCENTER DEALER MANAGEMENT SOLUTIONS

One of the biggest expenses in running a dealership is spending to advertise inventory. The vast majority of this spend goes towards online marketing in order to generate leads. It's not a mystery that car shoppers will conduct their search online to find what they are looking for. But where and how are they searching? And is your Internet Lead Management process optimized to maximize your return on investment?

DealerCenter analyzed data from over 1,800 independent dealerships across the country to identify online marketing trends and customer engagement activity to gain insights into generating and converting leads. Dealers have more technology than ever before at their disposal to help reach car shoppers. Are you casting your net wide and deep enough to catch your share of the business?

INVENTORY PRICING IMPACTS LEAD GENERATION ACTIVITY

From an inventory perspective, consumer price sensitivity can be seen in the following graph. Clearly consumers are shopping for vehicles with a list price of \$15,000 or less. The sweet spot is between \$5,000 to \$10,000 that generates the most consumer lead generation activity.



POSTING TO MORE SITES GENERATES MORE LEADS

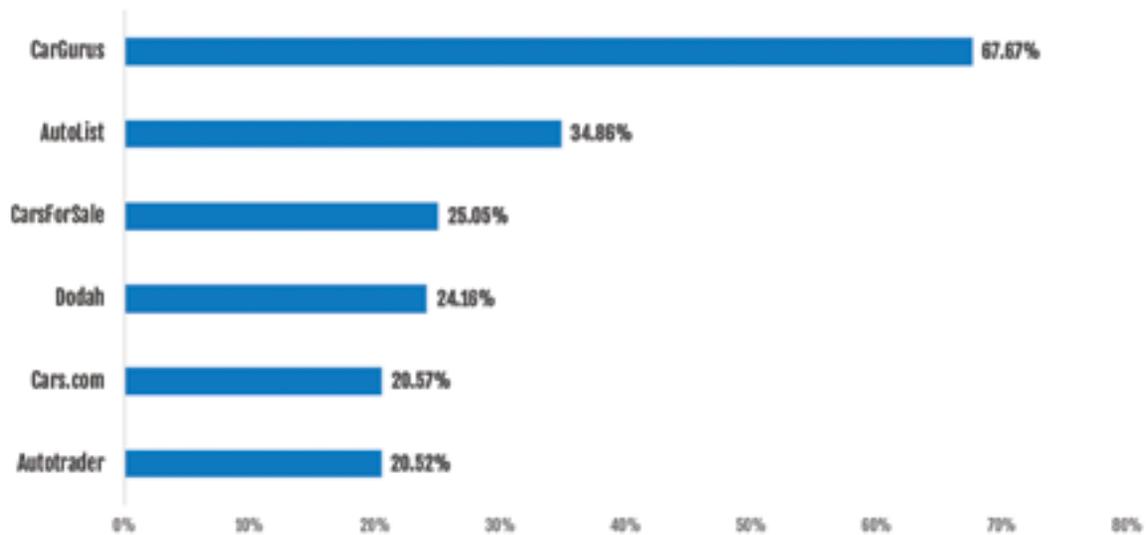
The data also shows that dealers who post to more sites generate more dealer website traffic and leads for themselves, resulting in more vehicles sold. The table below illustrates the upward trend more exposure produces.

	Average Dealer Website Views Last 30 Days	Average Leads Per Dealer Last 30 Days	Average Vehicles Sold Per Dealer Last 30 Days
Inventory Listing Sites Posted 1 to 2	1094	13.32	10.28
3 to 4	1250	70.85	13.37
5 to 6	1758	127.97	17.69
7 to 8	1799	216.57	22.09
9 to 10	1971	303.38	28.97
11+	2466	382.68	34.26

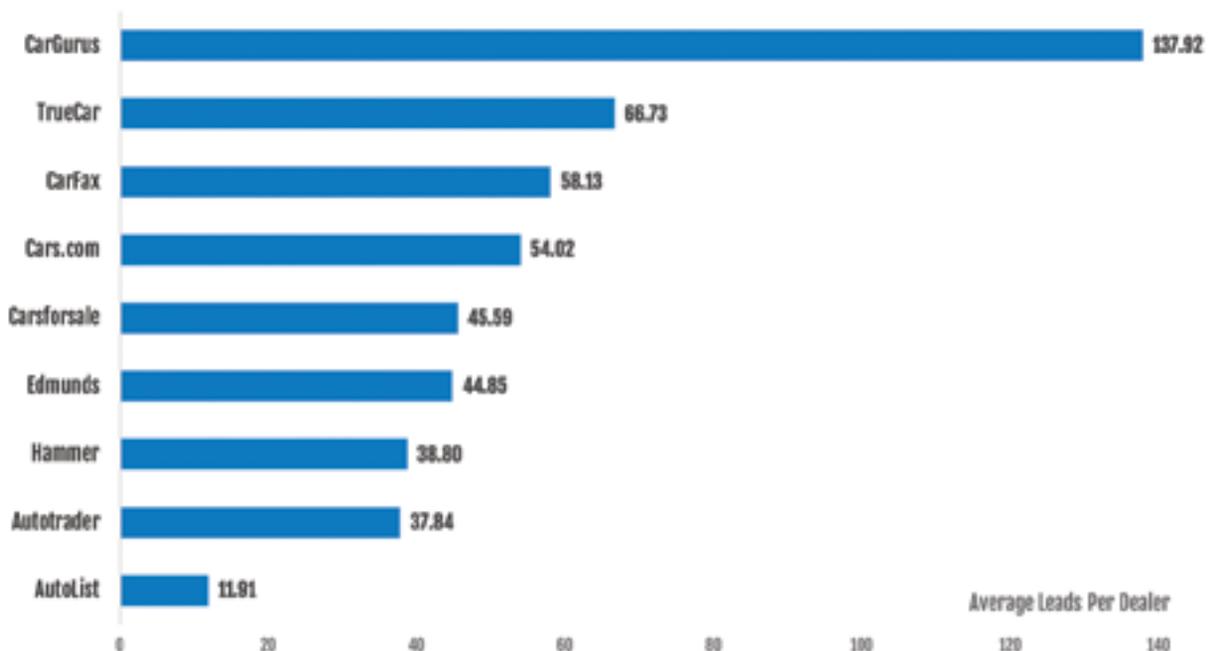
On average, dealers are posting 46 vehicles online to various inventory listing sites.

WHERE ARE DEALERS POSTING INVENTORY?

With so many different sites for posting inventory, below are the sites most commonly used by the dealers we analyzed.



Almost 68% of dealers are posting inventory on CarGurus.com, clearly the leading choice for dealers. And for good reason, when we analyzed where dealers were getting the most lead activity, CarGurus.com produced the most leads on average per dealer. But several other sources generate strong lead activity as well worth noting, see below.



GOOGLE SEARCH IS KEY

Did you know that over 60% of dealer website traffic originated via Google search? This means it is critical for dealerships to have a business listing page on Google and reputation management practices to present themselves in a professional and reputable fashion.



MAKE SURE YOU'RE MOBILE FRIENDLY

Did you know that over 69% of the leads dealerships received originated from a mobile device? This means it is critical that dealerships maintain a responsive website that is compatible with iPhones, Androids, tablets and computers. If consumers can't view your website on their phone, chances are you will lose their interest.

BRINGING IT TOGETHER

The bottom line is if you're looking for growth and to scale your dealership, advertising on more sites pays dividends. With DMS automation to push inventory out, this has become more viable and should be a standard practice. There are some free posting sites that can also be automated that allow dealerships to gain greater online presence and exposure.

Once you generate the leads, what are you doing with them? How are you engaging the car shopper to convert into sales? Technology now enables you to correspond more efficiently and timely than ever before. With instant responses and bulk SMS/email campaigns the interaction with car shoppers is much easier than it used to be.

Email open rates are approximately 47%, where SMS text messaging renders an impressive 38% response rate for outgoing messages.

Lastly, don't be afraid of technology and what a CRM system can do for you. With DMS integration and mobile capabilities, CRM tools can be the difference as consumer leads expect immediate response times for a positive customer experience. No more excuses, the tools are available and affordable to help you drive your business.

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RETENTION VALUES

ANALYSIS

USED VEHICLE MARKET
SHOWING GREAT
RESILIENCE IN 2018

Section 16

Black Book

Used Vehicle Market Showing Great Resilience in 2018

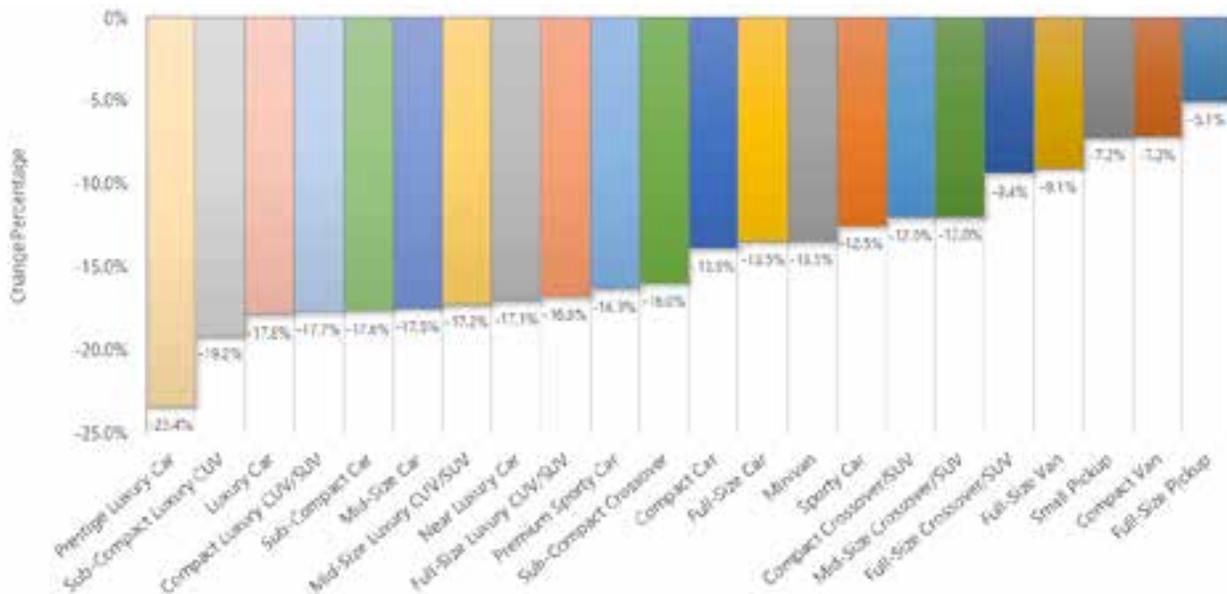
The used vehicle market continues to perform with resilience in mind throughout 2018, in spite of an automotive market that continues to see slightly lower new sales compared with the previous year. In fact, new sales off pace is one reason why the used market has performed with such strength recently.

Over the last few years, many used segments, particularly smaller car segments, have seen slightly higher-than-average annual depreciation. With values showing great

value, many consumers have turned their attention toward used vehicles. What's more, the replacement activity from last year's fall hurricanes carried over into the beginning of 2018, spurring a stronger-than-expected spring market that lasted longer than typical spring seasons. The Black Book Used Vehicle Retention Index has shown positive changes over the last several months as a result.

However, it is expected that the vehicle depreciation across all segments will see typical acceleration as the year wears on.

12-Month Depreciation Rates by Segment Jan 1, 2017 - Jan 1, 2018
Two- to Six- Year Old Vehicles



Vehicle Retention Trends Over the Last Year

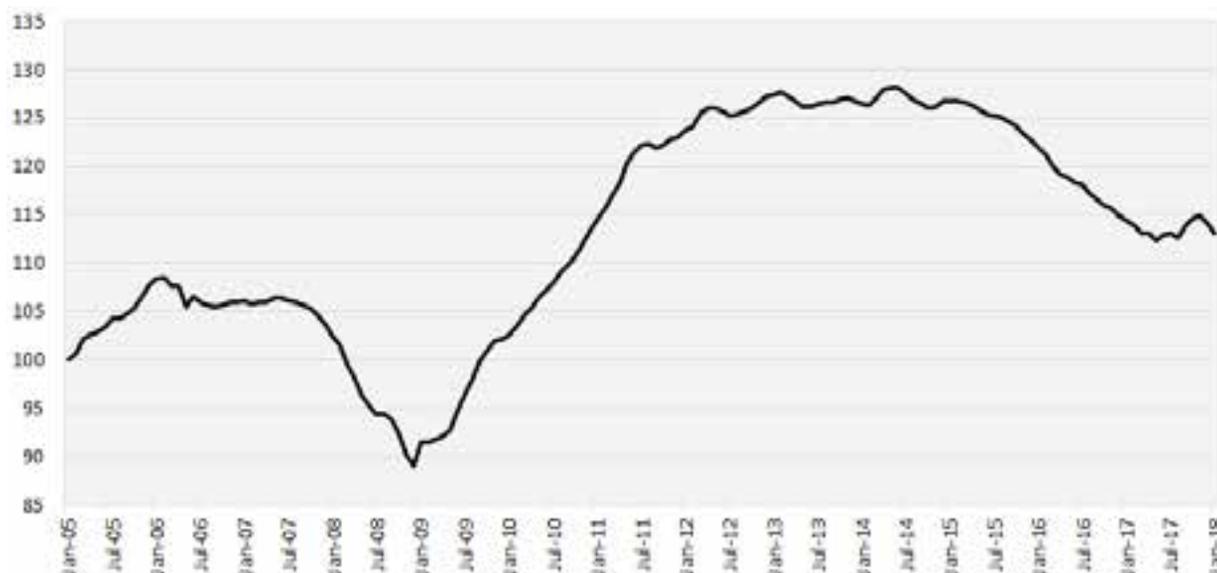
New light vehicles sales volume decreased by 2% in 2017 to 17.14 million units, below the record of 17.46 million in 2016, as reported by the Bureau of Economic Analysis. Sales were slightly higher than our forecast a year ago, due to the unexpected replacement demand created after hurricane damage. Light trucks, including SUVs, crossovers and pickups continue to increase in new sales, constituting 65% of the volume compared to 57% in 2016 and 55% in 2015. Pickup trucks alone accounted for 14% of the new sales. Leasing activity hit a peak in 2017 as residual losses increased on some vehicle segments. Discounts on new vehicles are helping to retain sales volume. Incentive spending by auto

manufacturers grew year-over-year in 2017, ending the year at nearly \$4,000 in average incentive amount on new vehicles.

At the beginning of 2017, Black Book had predicted a 17.5% depreciation rate for 2017, which is where the market was headed by mid-year. However, the year ended four percentage points better at 13.2%, with at least three percentage point lift attributed to the sudden and strong demand for replacement vehicles created due to the hurricanes. Black Book expects used vehicles to depreciate at a rate of 17% in 2018, up from the year before.

Credit availability and job growth have been the strongest factors keeping used vehicle demand high even as used supplies rose. After the Great Recession, many banks

BLACK BOOK USED VEHICLE RETENTION INDEX

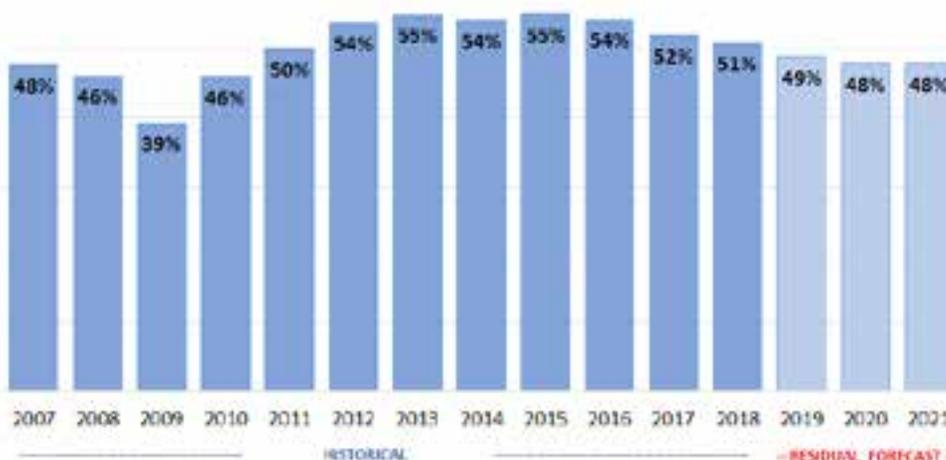


became full-spectrum lenders and independent finance companies grew by specializing in credit to subprime and deep subprime consumers looking to purchase vehicles. Loss rates on subprime auto loans have increased with more consumers falling behind on loans. As auto loan losses have increased recently, particularly in subprime, the lenders have started to pull back. Lenders have been tightening their credit criteria since late 2016. Credit availability in the prime tier, however, continues to be relatively high. On the other hand, loan terms continue to increase. As a result, there is increased loan severity risk. With longer term, the loan pay down is slower and, compounded with higher depreciation of underlying asset, negative equity persists for a longer time thereby creating higher loan loss exposure. Demand for used vehicles has been high as job creation continues to be good and the economic activity remains strong. The unemployment rate has fallen to 4.1% and is headed lower. The housing market has regained its pricing strength. The prospect of accelerating economic growth and inflation could prompt the Fed to lift interest rates faster than anticipated. While most indicators point to positive economic expectations, the uncertainty is rising. It is advisable to analyze downturn economic scenarios to better evaluate risks.

The Forecast For 2018

Black Book is forecasting new vehicle sales to drop to 16.7 million in 2018 as auto manufacturers cut production to match easing consumer demand. Fitch’s sales prediction is

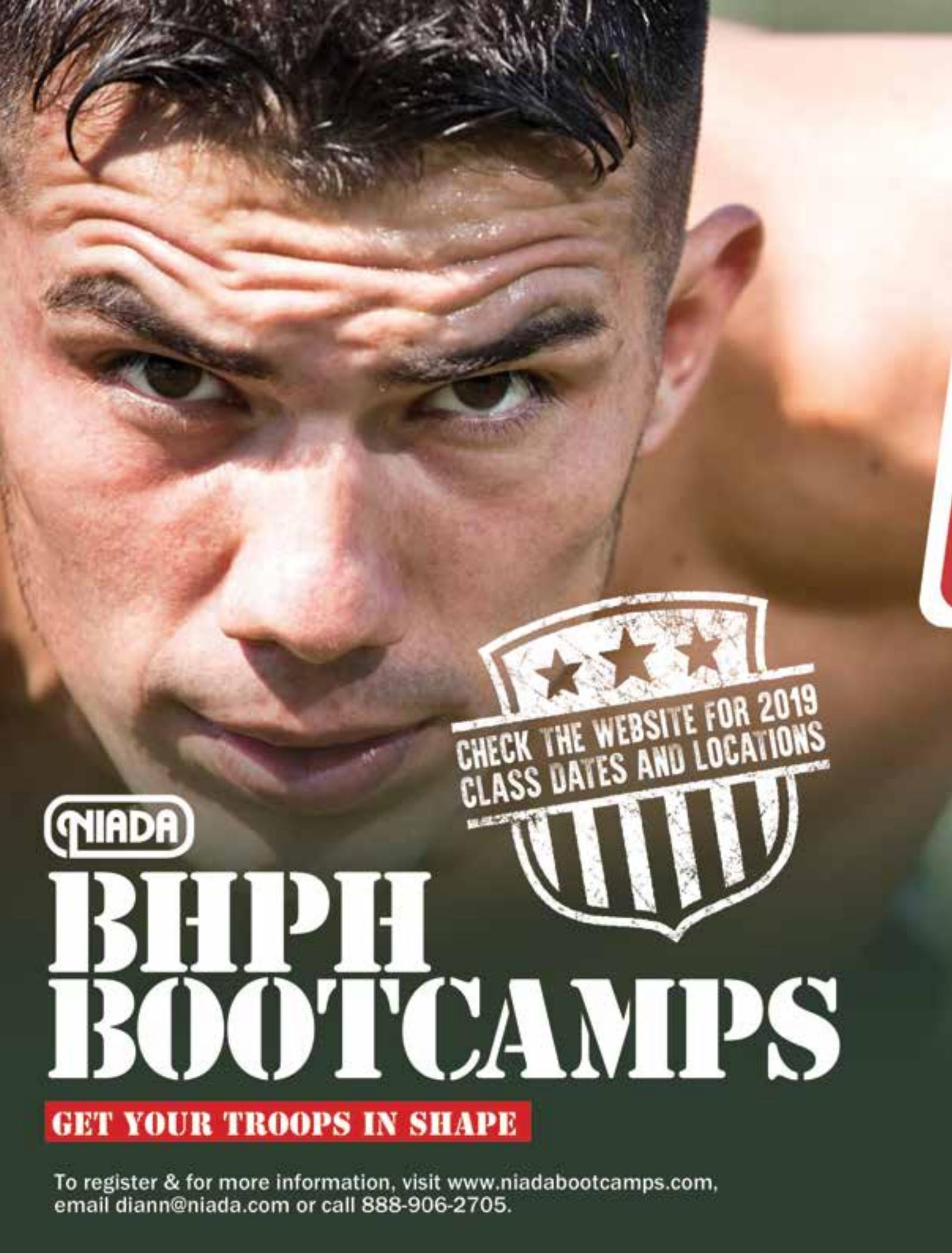
Three-Year Residuals Publish - January Publish



Black Book Wholesale Average Value as Percent of New Typically-Equipped MSRP; Published January Values Averaged across All Three-Year Old Models

16.8 million units for 2018, in range of Black Book’s forecast. Incentive activity will likely not increase significantly as automakers will need to weigh in that further increases in incentive spending will accelerate the decline in residual values. Higher supply of used cars, particularly off-lease units, results in lower residual values which in turn will likely limit growth in high levels of leasing.

The forecast for residuals further out shows a stabilization through years 2019 through 2021, with Black Book projecting average vehicle residuals settling in between 49% - 48% of original equipment values. This rate represents a healthy used vehicle market in the years to come, pending any drastic changes in fuel prices, interest rates or the global economy.



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DAY 2: MANAGERS BOOTCAMP

Identify Key Drivers, Industry Benchmarks, Inventory Management, Expense Allocation, Pricing, Management, Hiring Practices

DAY 3: COLLECTIONS BOOTCAMP

Collection Changes and Opportunities, Customer Retention, Alternative Communication Methods Relationship Building, Objection Handling, Providing a Road-Map to Your Day

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BEFORE THEY WALK INTO YOUR DEALERSHIP

EXPERIENCE

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2017 | NAAA YEAR IN REVIEW

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One for the Record Books

The results of the National Auto Auction Association's 2017 Annual Industry Survey put the icing on the cake as we celebrate 80 years of progress in the wholesale auto auction industry and NAAA's seven decades of service promoting and protecting the interests of our members.

Founded in 1948 to nurture and safeguard the fledgling, entrepreneurial industry of about 80 auto auctions in the entire country, today NAAA represents 342 auctions in 47 states, Puerto Rico, Canada, England, Australia and Japan, as well as 134 associate members in a variety of industry-related fields.

In 2017 those NAAA member auctions conducted weekly sales of all types of motor vehicles, totaling more than 10 million units worth \$105.6 billion in what proved to be a record-setting year that demonstrates the ongoing strength of bricks-and-mortar auctions.

Other signs of sustained improvement indicated by the data in our 21st annual survey, conducted by CliftonLarsonAllen LLP of Arlington, Va., include the following trends:

- Steady sales growth for the past five years, up 2.5 percent from the previous year
- Best conversion rate in five years at 57.8 percent
- Average price per vehicle sold continues to climb in the last five years, up 3 percent

It's also worth noting the survey reports that the average NAAA member auction operates an 8-lane facility on 78 acres, employs 137 people with a payroll of \$4.5 million, and contributes \$14,526 annually to charities in their communities.

Clearly the facts and figures show NAAA and the auto auction industry have something to celebrate this anniversary year. But what may not be so obvious in our survey is the reason for this lasting success — the dedicated, hardworking people whose excellence in customer service has earned the confidence and trust of our loyal consigners and buyers.

Thanks to all NAAA members for your support of our efforts to develop universal policies, establish industry standards, enhance workplace safety, streamline procedures, adopt new technologies, promote leadership, increase legislative advocacy and build strategic relationships with the goal of creating better business practices for a better bottom line.

AUTO AUCTION OF THE YEAR AWARD FOR EXCELLENCE IN COMMUNITY SERVICE & CHAPTER AUTO AUCTION OF THE YEAR AWARDS



2017 AUTO AUCTION OF THE YEAR

Charleston Auto Auction

Laura Taylor, General Manager

The National Auto Auction Association established the annual "Auto Auction of the Year Award for Excellence in Community Service" and Chapter awards to recognize the many charitable acts auctions already perform, to show appreciation to auction staff for their volunteer efforts and to encourage even greater public service. The prestigious award goes to the auction with the most outstanding service conducted by members of its auction staff.

Charleston Auto Auction, a member of the XRate Group, was named the National Auto Auction Association's 2017 "Auto Auction of the Year for Excellence in Community Service." The Moncks Corner, South Carolina, business was chosen for its depth of commitment in going beyond financial support to an active role in making a local high school principal's dream of a residence for homeless students a reality.

Presented during the association's 69th annual convention, the award included a \$20,000 check payable to a charity of the auction's choice along with a large crystal loving cup.

The auction was featured in NAAA's *On The Block* magazine and the 2018 membership directory. Charleston Auto Auction had previously won a \$5,000 check for charity as one of four regional finalists chosen earlier this year to receive the NAAA Chapter Auction of the Year Award, which recognizes outstanding public service of the Eastern, Midwest, Southern, and Western chapters.

2017 CHAPTER AUTO AUCTION OF THE YEAR AWARD WINNERS



Eastern Chapter Winner

ADESA Winnipeg
Manitoba, MB Canada



Midwest Chapter Winner

Clark County Auto Auction
Jeffersonville, IN



Southern Chapter Winner

Charleston Auto Auction
Moncks Corner, SC



Western Chapter Winner

Metro Auto Auction of Phoenix
Phoenix, AZ

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Akron, NY

Chad Bailey, President-Elect

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Laura Taylor, Vice President

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Frank Hackett

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HONORABLE DISTINCTIONS

NAAA HALL OF FAME AWARD



Dave Angelicchio

Dave Angelicchio became the newest member of the National Auto Auction Association Hall of Fame. The recently retired chairman and chief executive officer of Pittsburgh Independent Auto Auction, which was acquired by ADESA in 2015, was inducted at NAAA's 69th annual convention in La Quinta, California, in 2017.

The innovative initiatives and forward-thinking management style he brought to NAAA serving in various executive positions at NAAA, including president, chairman of the board and treasurer, earned him the honor.

Membership in the Hall of Fame, established in 1968, recognizes individuals whose long-term service to the auto auction industry and NAAA has contributed improvements to remarketing as a whole, has worked with the trade organization to benefit its members and has consistently followed the high standards of the association's Code of Ethics.

"Under Dave's successful leadership, NAAA reached some major milestones and arrived at many noteworthy achievements that were unprecedented in the organization's history," remarked NAAA Chief Executive Officer Frank Hackett. "And policies developed during his tenure have had a positive impact on our industry."

Drawing on his previous professional experience in business, finance and accounting, Angelicchio's initiatives focused on delivering value to members and customers through streamlining operations, forging strategic partnerships and creating standards.

Angelicchio believed that standardized practices create efficiencies at the auction level, reduce confusion on the part of the buyers and

ultimately result in higher residuals for the sellers. So he encouraged the establishment of standards for arbitration, wholesale certification and electronic condition reports that have now been universally adopted by the industry.

INDUSTRY PIONEER AWARD



Larry Brasher

The National Auto Auction Association named auto auction veteran Larry F. Brasher a pioneer of the industry for his achievements and contributions to the remarketing profession. The honor was presented to the former owner and chief executive officer of West Coast Auto Auctions during NAAA's 69th annual convention.

This Industry Pioneer Award, given to those who have worked in the wholesale motor vehicle industry and/or NAAA, recognizes an individual who has innovated or enhanced methods of improving services to remarketers through NAAA member auctions; has championed NAAA member auctions as providing services for motor vehicle remarketers unavailable from any other source; and has consistently followed the standards of the NAAA Code of Ethics.

During his more than a quarter century in the wholesale vehicle remarketing industry, Brasher oversaw such advancements as expanded video sales, developing the Auction Viewmaster System in 1995 that allowed all vehicles — regardless of size or location — to go on the block, including boats and RVs. The system displayed still video images of the vehicles and sale data on monitors throughout the facility.

He was also one of the founders in 1987 of the ServNet Auction Group that created a network of independent auto auctions strategically located across the country working together to provide customers with the latest in services and technologies.

Brasher has the distinction of being the first son of a former NAAA president and Hall of Fame member to hold the same office and join that illustrious group. Elected president in 1989 and inducted into the Hall of Fame in 2005, Brasher followed in the footsteps of his father Frank, who served in the top executive post from 1973 to 1974 and entered the Hall of Fame in 1987.

The younger Brasher has served as NAAA secretary from 1994 to 1996 and is a former president of the Western Auto Auction Association.

BERNIE HART MEMORIAL AUCTIONEER OF THE YEAR AWARD



Dean Fumasi

Dean Fumasi was presented the NAAA Bernie Hart Memorial Auctioneer Award at the organization's 69th annual convention in La Quinta, California, in 2017.

Fumasi has been an auctioneer since 1986. In 1996, he began working for Brasher's at its two auctions in Oregon. ADESA, the wholesale auction business unit of KAR Auction Services, Inc., acquired the eight-auction Brasher's Group in 2016.

The Bernie Hart Memorial Auctioneer Award honors "the most visible person in the auction industry." It is named after long-time NAAA Executive Director Bernie Hart of Lincoln, Neb., who served the association for more than 30 years before retiring in 1988. Fumasi said he never considers being an auctioneer "work."

Jerry Hinton, who is general manager of ADESA Portland, said Fumasi has worked for him for more than 20 years. Hinton nominated Fumasi for the Auctioneer of the Year award.

"He's excellent at intuitively reading the dealers," Hinton said. "He pushes the market and can get as much money as anyone, anywhere in the country. He's very deserving of this award. Dean has the best reputation for honesty, integrity and fairness."



CELEBRATING

AUCTION MEMBER MILESTONE ANNIVERSARIES 2018



America's Auto Auction - Greenville
Greer, SC
Rawls Auto Auction
Leesville, SC
Kesler-Schaefer Auto Auction
Indianapolis, IN



Manheim Darlington
Darlington, SC
Grand Rapids Auto Auction
Jenison, MI



ADESA Flint
Flint, MI



Manheim Nashville
Mt. Juliet, TN
Columbus Fair Auto Auction
Columbus, OH



Manheim Palm Beach
West Beach, FL
Abingdon Auto Auction
Bristol, VA



Plaza Auto Auction
Mt. Vernon, IA



Manheim Detroit
Carleton, MI
Akron Auto Auction
Akron, OH



ADESA Brasher's
Rio Linda, CA



ADESA Pittsburgh
New Stanton, PA
KCI Kansas City
Kansas City, MO
Manheim Dallas
Dallas, TX
Morton Auto Auction
Morton, IL
ADESA Indianapolis
Plainfield, IN



ADESA Lexington
Lexington, KY
I-135 Auto Auction
Wichita, KS
Mid-State Auto Auction
New York Mills, MN
ADESA Toronto
Brampton, ON Canada



Dealers Auto Auction of Oklahoma City
Oklahoma City, OK
Long Beach Auto Auction
Long Beach, MS
Loveland Auto Auction
Johnstown, CO
Manheim El Paso
El Paso, TX
Manheim Riverside
Riverside, CA
Port City Auto Auction
Richmond, ME
Tupelo Auto Auction
Tupelo, MS
U.S.A. Auto Auction
Amarillo, TX
ADESA Halifax
Enfield, NS Canada



ADESA Montreal
St-Eustache, QC Canada
ADESA Portland
Portland, OR
Central Mass Auto Auction
Oxford, MA
Lincoln Auto Auction
Waverly, NE
Manheim Phoenix
Tolleson, AZ
South Bay Auto Auction of Gardena
Gardena, CA
ADESA Edmonton
Nisku, AB Canada



ADESA Shreveport
Shreveport, LA
ADESA St. Louis
Barnhart, MO
Autonation Auto Auction
Gardena, CA
ADESA Long Island
Yaphank, NY



America's Auto Auction - Atlanta
Cartersville, GA
Auto Auction of Montana
Billings, MT
Rochester's Central Auto Auction
Rochester, NY
South Florida Auto Auction of Ft. Lauderdale
Lauderdale Lakes, FL
Wolfe's South Bend Auto Auction
South Bend, IN
ADESA Raleigh
Clayton, NC



Big Valley Auto Auction
Donna, TX
Cross Point NW
Portland, OR
Des Moines Auto Auction
Des Moines, IA
Manheim Montreal
St-Eustache, QC Canada

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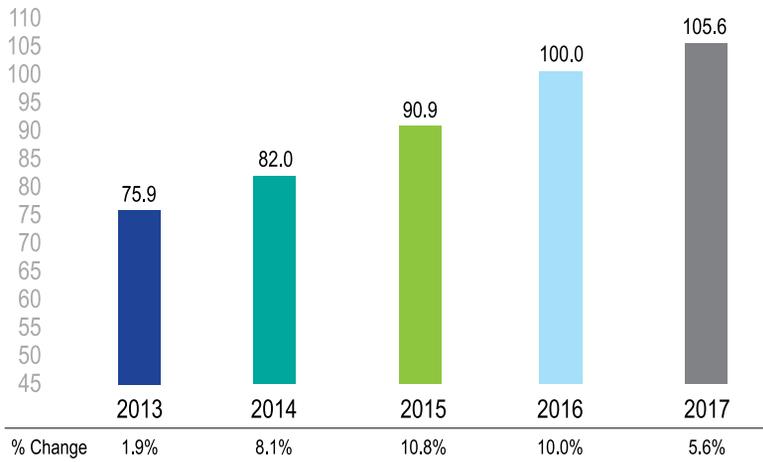
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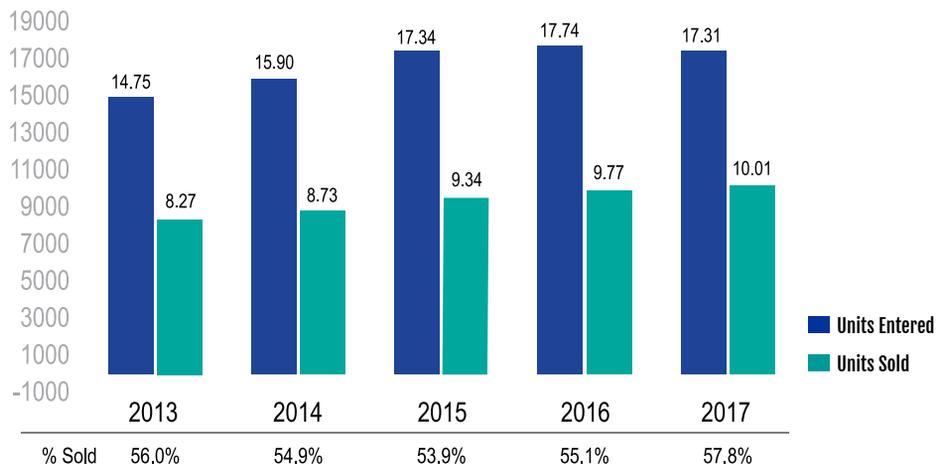


**2017
INDUSTRY
SURVEY
RESULTS**

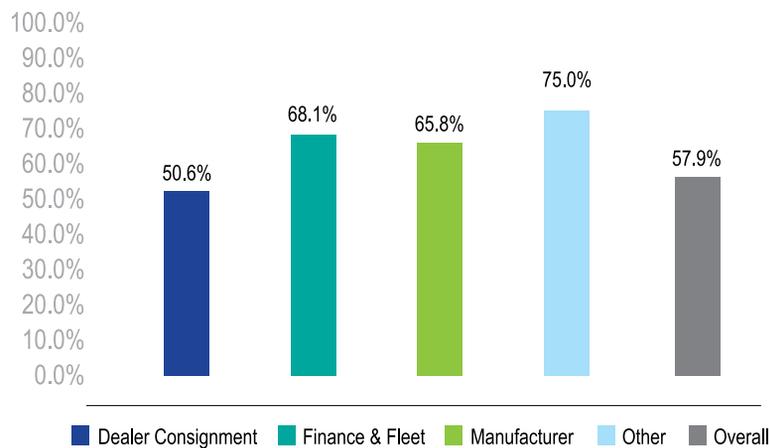
PROJECTED GROSS VALUE OF UNITS SOLD (BILLIONS)



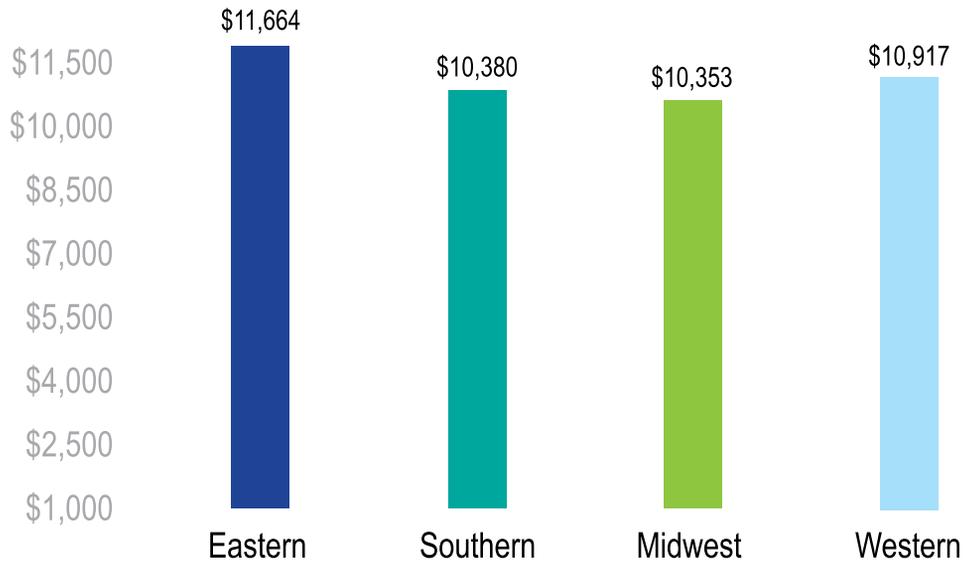
PROJECTED UNITS ENTERED AND SOLD (MILLIONS)



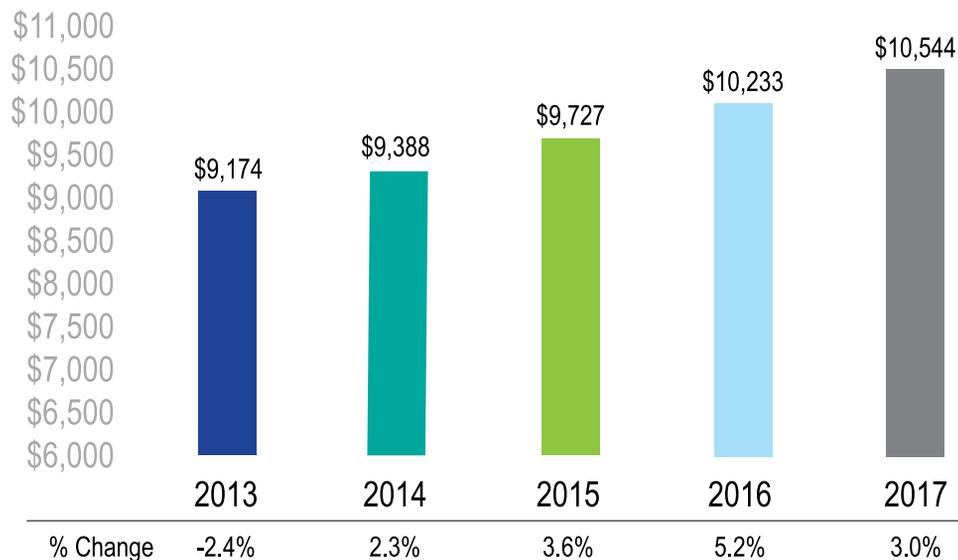
PERCENTAGE OF UNITS SOLD TO ENTERED



AVERAGE PRICE PER UNIT BY REGION



PROJECTED AVERAGE PRICE PER UNIT



2018 USED CAR MARKET REPORT & OUTLOOK

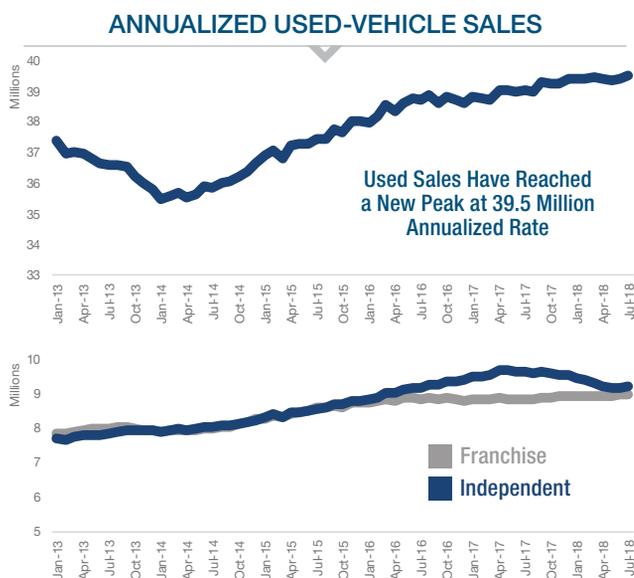
AND MANHEIM
USED VEHICLE
VALUE INDEX

Section 17 | COX AUTOMOTIVE™  Manheim

USED-VEHICLE SALES GROW

Cox Automotive forecasts that used-vehicle sales will grow to 39.5 million in 2018, a new high for this economic expansion. The growth in used sales in 2017 more than offset the decline in new and enabled a peak in total sales. Demand in the used-vehicle market was steady for the first half of 2018 and accelerated slightly in July.

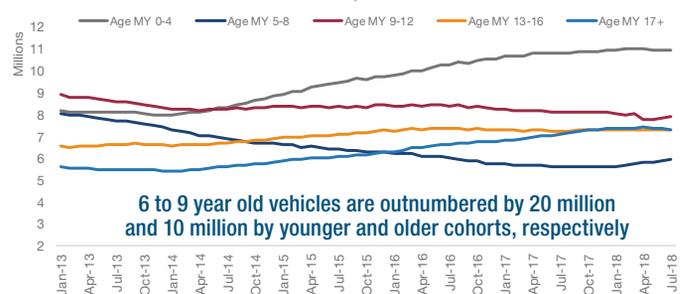
According to Jonathan Smoke, chief economist at Cox Automotive: “Used-vehicle sales have grown steadily over the last four years. Since the spring of 2017, used-vehicle sales have continued to grow while new-vehicle sales started to decline. We are at the stage of the automotive cycle where affordability challenges are pushing consumers into the used market as higher interest rates and prices make new vehicle payments more challenging. At the same time, used-vehicle supply has also grown to accommodate the demand. We now appear to be reaching a peak at an annualized level of 39.5 million units. The used market is also impacted by higher interest rates limiting more growth and demand, and at the same time, wholesale supply is also reaching a peak.”



According to Cox Automotive estimates, used-vehicle sales volume increased by 3 percent year-over-year in July, even with having one fewer selling day. The annualized pace of used-vehicle sales was up 1 percent over last year to 39.5 million, a new peak for this expansion period. The estimated July used SAAR was 39.2 million, the strongest July reading in 6 years.

The strong U.S. economy continues to contribute to strong demand, but the uptick in sales in July could also be a result of consumers moving up purchase plans in fear of possibly higher prices ahead due to relentless media coverage of new tariffs being imposed on imported autos and parts.

THE INDUSTRY CAN'T SELL WHAT IT DOESN'T HAVE



VEHICLES OF A CERTAIN AGE IN SHORT SUPPLY

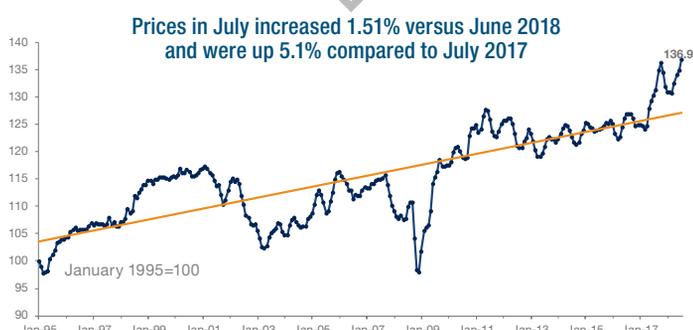
Besides the emphasis on leasing during the recovery period, the Great Recession is having other lasting effects on the used-vehicle market. New-vehicle sales fell well below trend from 2008 through 2012, creating a significant supply constraint for some used sales today. Vehicles ages 6 to 10 years old are in limited supply, having implications for both used car buyers and sellers. Sales in the used market vary greatly by the age of the vehicle. Cox Automotive tracks the market in model year age groups: 0-4 years old, 5-8, 9-12, 13-16 and 17+. Franchised dealers dominate the sales of “gently used” vehicles (0-4 model years old), while older, less expensive vehicles are sold primarily by independent dealers. However, because of supply constraints, many independent dealers are being forced to buy newer, more expensive vehicles if they want to have inventory. And, many consumers who are budget-constrained are forced to buy above or below their desired vehicle age due to supply limitations.

WHOLESALE PRICES RISE—SURPRISE

Wholesale used-vehicle prices (on a mix-, mileage-, and seasonally adjusted basis) increased 1.51 percent month-over-month in July. This brought the Manheim Used Vehicle Value Index to 136.9, which was a 5.1 percent increase from a year ago and the highest level ever for the series. Year-over-year price comparisons will be tougher through the rest of the year,

but weekly increases so far this summer have been higher than 2017, keeping current price performance ahead of last year.

MANHEIM USED VEHICLE VALUE INDEX AT NEW RECORD



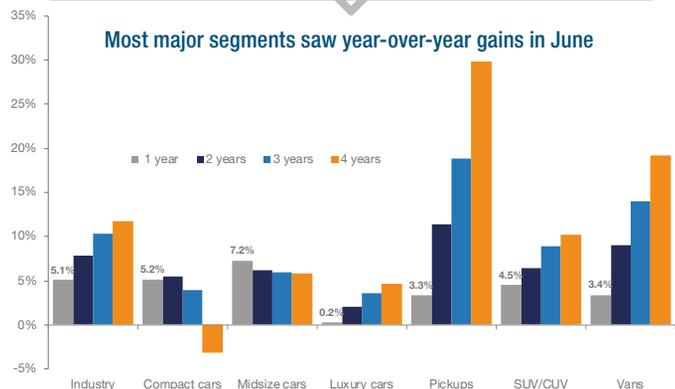
The strange summer price appreciation in used cars is partly a function of a strong economy at its peak, with mounting affordability challenges for the consumer that favor growth in used-vehicle sales at the expense of new. These conditions have supported strong used-vehicle prices for over a year. The catalyst for even stronger price movement this summer is the fear of import tariffs leading to higher prices in the future. Higher prices and the related declining level of supply create a psychological feedback loop for consumers, encouraging buying now with the expectation that prices may be higher later.

On a year-over-year basis, all major market segments saw price gains in July; but more affordable vehicles are seeing the greatest increases in values. Compact cars and midsize cars outperformed the overall market, while vans, utility vehicles, and pickups underperformed the overall market.

SEGMENT PRICES SHIFT

The segment level price performance in July was a bit different than what we have been seeing for the last few years. In July on a year-over-year basis, pickups, SUVs and vans no longer outperformed the market, but do remain positive. Compact cars and midsize cars outperformed and posted the largest year-over-year gains. Luxury cars were effectively flat year-over-year and were the weakest overall segment.

PERCENT CHANGE IN WHOLESALE PRICES IN JULY



Inflation is not controlled for by the Manheim Index calculation. If we assume a 2.9 percent inflation rate consistent with the consumer price index, used-vehicles in aggregate were up by 2.2 percent in July. The segment level performance has shifted, which suggests that demand for cars and more affordable vehicles in general has improved over last year. The changes in price performance, most notably in improvement in compact cars that has been in play all year, is a response to strengthening demand and reduced supply in the new vehicle market.

WHOLESALE SUPPLY FLATTENS

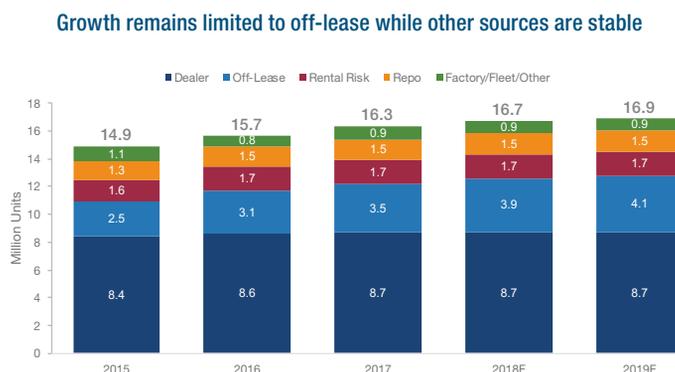
Dealers do not need to consign as many vehicles because of strong retail demand. Repossessions continue to be flat as defaults remain low as a result of very low unemployment and higher take home pay from tax reform. Rental risk sales are down as rental car companies seem to be maintaining or even growing their fleets again but are also moving more rental risk sales direct to consumer or dealers and avoiding the auction channel entirely. The end result is that wholesale volumes will be flat this year, and when viewed by channel, digital is growing and upstream channels are growing, but physical auctions will be flat or down. Therefore, for many dealers, especially Independents, wholesale supply is down.

This is indeed a great time to sell. Pull ahead as many transactions as you can that otherwise would happen later in the fall. Dealers who are buying and struggling with how quickly prices are moving need to keep in mind that the retail demand behind this surge is real. But they need to be prudent about inventory acquisition and management. The price increases are showing no sign of slowing down, but eventually they will.

While we expect used retail sales to reach a peak soon, we are expecting sales to plateau at the peak and not decline for at least a year. That means demand should be fairly consistent once this summer sense of urgency calms down. At that point, supply flows will have a greater impact on pricing, and supply will likely increase marginally leading to faster depreciation.

When the market reaches the point that supply is more in balance, the faster depreciation should boost sales volumes, not hurt them.

WHOLESALE VOLUMES ONLY SEEING MINOR GROWTH



COX AUTOMOTIVE™

OPPORTUNITIES AHEAD DESPITE SOFTER ECONOMIC GROWTH

By Jonathan Smoke

The used car market is tracking toward a slight sales gain in 2018, but it's been a challenging year for independent dealers.

Against a backdrop of positive economic news, negative supply-demand trends led to most independents selling fewer vehicles.

Looking toward 2019, economic forecasts aren't as strong, but the shifting trends are creating new growth opportunities.

The strong 2018 economy has meant higher prices for inventory and marginally lower sales for independents.

Dealers started the year with great optimism about tax reform leading to a stronger economy and more sales. Tax reform delivered peak growth for the economic expansion, but that growth also led to higher interest rates, which drove consumers to buy more used cars as payment challenges took buyers from the new car market.

That sounds like perfect conditions for used car dealers, but stronger demand came against an inventory-challenged market.

Growth in wholesale volumes over the past several years has been driven by large increases in off-lease vehicles. But independents, who cater to value-seeking, often credit-challenged customers, usually seek 5-8-year-old vehicles, and those have been the hardest to find due to low production during recession.

Worse yet, strong demand against limited supply led to another year of big increases in used vehicle prices.

Many vehicles appreciated in value during the summer as inventory moved more rapidly while buying seemed to intensify as news about new auto import and parts tariffs permeated the media.

Economic growth is likely to slow in 2019 as the gains from tax reform dissipate against increasing headwinds from trade wars, higher prices and higher interest rates. Used vehicle sales are likely to be flat as wholesale supply stops growing.

But that bad news might actually be good news for independents.

For example, higher rates and tighter credit standards for subprime borrowers will push consumers further down the value continuum. Buy Here-Pay Here dealers should see very strong demand.

Simultaneously, wholesale supply will shift. Off-lease volumes will reach their absolute peak in 2019, so sales of less-than-4-year-old vehicles will stop growing. Recession vehicles will no longer dominate among 5-8-year-old vehicles, so sales of those vehicles will likely grow faster than other ages.

Resolving the tariff talk will also create some opportunities. If a new tariff is implemented on all auto imports, new vehicle prices will rise while corresponding sales will decline. More buyers will be pushed into the used vehicle market.

Ultimately that will lead to higher used car values as well, but there will be surging demand as consumers try to beat the increases.

If new tariffs are not implemented, or existing tariffs are eliminated or reduced, used vehicle prices should correct lower, which should boost used vehicle sales volumes over the longer term.



Jonathan Smoke is chief economist for Cox Automotive. Contact him at jonathan.smoke@coxautoinc.com or follow him on Twitter at [@SmokeonCars](https://twitter.com/SmokeonCars).

WHOLESALE MARKET HOLDING STRONG AGAINST INCREASED SUPPLY



By Tom Kontos

After four months of year-over-year declines, average wholesale used vehicle prices registered a slight increase in July.

That, however, was again primarily due to a shift in sales mix toward truck model classes and the continued influx of younger off-lease vehicles, both of which have been tending to drive up average prices.

Still, the summer market for used vehicles appeared to be solid, at both the wholesale and retail levels.

According to ADESA Analytical Services' monthly analysis, wholesale used vehicle prices in July averaged \$10,902 – up 0.1 percent compared to June and up 0.1 percent relative to July 2017.

But more car and truck segments showed month-over-month declines than showed gains, with a slight uptick in the mix of trucks accounting for the small overall average gain.

Truck model classes now make up 53 percent of the total units sold at auction, with the 50 percent threshold having been reached about a year ago.

The wholesale used vehicle market has so far held up well against the influx of supply anticipated by the growth in new vehicle sales and leasing since the recession ended – especially since the record years of 2015 and 2016.

A key reason for that is upstream remarketing, which has effectively prevented a significant portion of off-lease volume from reaching physical auctions.

On the demand side, strong retail used vehicle sales – especially CPO sales – and controlled growth in new vehicle incentives have also minimized the downward impact on wholesale values.

The challenge will be sustaining those favorable conditions going forward. Moreover, there will be more supply pressure on truck model class segments, reflecting strong new vehicle sales of trucks in recent years.

As a result, truck prices will soften in parity with car prices, whereas they previously showed greater resistance to supply growth than car prices.

For the independent dealer, the growth in supply and the downward pressure on wholesale values should mean greater selection and more favorable pricing in sourcing vehicles at auction, both in-lane and online.

Specifically, there will be growth in older units as we move further past the lean model years of 2008 and 2009, when new vehicle sales dropped by more than six million units over a two-year time frame. And younger off-lease models will be in such abundance that independent dealers seeking those units should be able to purchase more of them in “open” upstream online sales as well at physical auctions.



Tom Kontos, chief economist for KAR Auction Services, has more than 25 years of experience in market research, financial analysis and strategic planning. Follow his monthly Kontos Commentary, offering analysis of the wholesale used vehicle market, at www.adesa.com/kontos-kommentary.

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ServNet

MID-YEAR REPORT REVEALS STRONG MARKET AND THRIVING SALES ENVIRONMENT AT SERVNET AUCTIONS

By Eric Autenrieth

It has been an interesting, though positive, market in 2018. Tax time took hold early and never really stopped, with the dip we generally expect to see following the refund checks not really materializing this year. While dealer inventory is a bit light, we're making up for that in institutional business. Dealers who report that they're short on supply are looking for cars on all platforms, which has resulted in strong pricing and strong conversions.

ServNet owners have continued to improve their facilities and processes to better serve their customers. BSC America's Bel Air Auto Auction nears the 1st anniversary of the opening of its new 185-acre facility that has set a new standard as one of the most innovative facilities of its kind. Likewise, customers are reaping the benefits of doing business at Clark County Auto Auction, which recently opened its new world-class facility in Jeffersonville, Indiana. KCI Kansas City has just unveiled a new 5,000 square foot Commercial Accounts Building. Making way for increasing consignments, Indiana Auto Auction paved an additional 15 acres, while Carolina Auto Auction expanded its lot with 16 acres of gravel. Greenville Auto Auction recently broke ground on a new detail, condition report, online and marketing facility.

ServNet owners are also employing many alternate tools to ensure success for their customers: selling upstream, expanding online capabilities and engaging buyers after vehicles have crossed the block. ServNet recently conducted a highly successful and first-of-its-kind sale for U-Haul by way of a weekend online-only event through SmartAuction. It was one of the many ways that ServNet auctions collaborate to enhance market exposure for its customers, and is the kind of event we expect to use even more in the future.

In addition to attending to business at their auctions, ServNet owners have focused a good deal of time and energy to nurture the health and growth of the industry, serving the NAAA and other industry organizations to establish policy, explore solutions to common challenges, and consider the innovations that will benefit the wholesale buying and selling process. Leading that group is Chad Bailey, president of Akron Auto Auction, who takes on the post of NAAA President in the fall. This service beyond the auction contributes to our shared success, and it is gratifying to see how much our owners contribute.

In looking forward to year's end, I hold no crystal ball to forecast the future, but all indicators point to a strong finish for 2018. A lively economy, a healthy market, involved and committed leadership, and customer-focused service will continue to spell success for buyers and sellers at ServNet auctions.



Eric Autenrieth is President of ServNet.

INTRODUCING THE NEW IAG

Independent Auction Group **IAG** 

By Lynn Weaver

Earlier this year, an important change was introduced to the auction industry: the new Independent Auction Group (IAG). Originally known as the Independent Auctions Advisory Committee of the NAAA, IAG was established in the mid-1980s to unify, protect and promote NAAA-member independently owned auctions. In the ensuing 30-plus years, our industry, and the independent auction community along with it, has undergone tremendous change, and we came to realize that the independent auctions needed stronger leadership and direction.

We took note that companies like Manheim and ADESA have staffers in corporate positions dedicated to policy within the NAAA and outside it. While the IAG committee endeavored to do the same work, it was difficult to do all that was needed without a formal structure and a position with a full-time focus on the challenges we face in the auction industry. A restructuring has been in the planning stages for nearly two years to shift IAG from its initial emphasis on public relations and resources to an organization with a stronger emphasis on policy and issues.

At the NAAA/CAR Conference in March we were pleased to introduce the new IAG. Our new mission is broader and more proactive in representing and promoting the interests of the independent auto auction community. As the IAG's Executive Director, I am pleased to be assisted by co-chairs Dave Blake and Charlotte Pyle in addressing the needs of independent auctions, and making an impact on the challenges we face, particularly in the areas of training and technology.

Our meeting in March was a productive one. We created a working budget and structured a fund balance in a very positive position. At the top of our agenda was creating the IAG Executive Committee, a vital element in IAG's effectiveness. These committee representatives are our eyes and ears in the various areas that affect today's auto auction and will facilitate the flow of information between IAG and the 196 independent auto auctions that are members of the NAAA.

Executive Director:

Lynn Weaver

Co-Chairs:

Dave Blake, Charlotte Pyle

Legislative:

Emily Barber

Safety & Compliance:

Jason Cotton

Standards:

Greg Mahugh

Technology & IAASC:

Steve Krupa

IARA Rep:

Tim Bowers

ServNet Rep:

Kevin Brown

America's Auto Auction Rep:

Ben Lange

XLerate Rep:

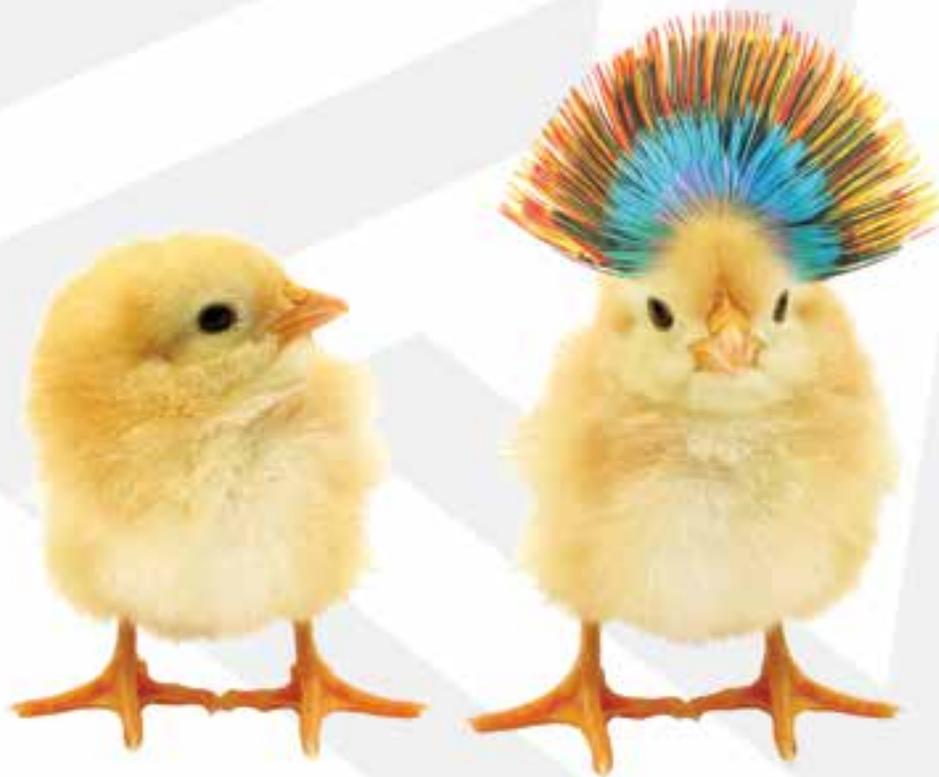
Cam Hitchcock

We are committed to the independent auction community and are eager to take on the challenges of the industry on your behalf. Please reach out to any of us for information that you may need. We look forward to meeting with you at our national meeting in November.



Lynn Weaver is the Executive Director of Independent Auction Group.

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