A Note From Sandy Schwartz

Year in Review and Outlook
As the economic expansion enters its fifth year of slow and sustainable growth, uncertainty and unease still reign. Looking ahead to 2014, we would be wise to distinguish between “the new normal” and “not normal.”

The Remarketing Industry
The total wholesale marketplace consists of some 20 million transactions per year, including NAAA-member-auction sales in the neighborhood of 8.2 million vehicles. Wholesale used vehicle prices as measured by the Manheim Index declined slightly from 2012 as additional inventory began to arrive in the wholesale market.

Dealers
New vehicle sales increased for the fourth consecutive year in 2013, and franchised dealers sold a record number of certified pre-owned vehicles. Increased financing availability balances out inventory acquisition challenges for independent dealers.

Q&A with NADA Chairman Forrest McConnell
Q&A with NIADA President Keith Hagler

Rental
Low fleet depreciation and inventory funding costs led to another record year despite a 1% decline in revenue per unit. New vehicle sales into rental were the most since 2007.

Leasing
At nearly 3.2 million, new lease originations were up 26% and reached their highest level since 2000. Increasing off-lease volumes in the years ahead will pose challenges to remarketers and opportunities for dealers.

Repossession
Repossession volumes increased 5% in 2013, totaling an estimated 1.37 million for the year with further increases expected in 2014.

Fleets
Commercial and government vehicle purchases increased for the fourth straight year, but are still well shy of pre-recession levels. New vehicle sales into fleets are expected to level off below 900,000 by 2015.

International
Wholesale volumes and prices were up in the U.K. in 2013, while at the retail level both new and used car prices improved. World markets such as China and India will experience rapidly growing used car sales in the years ahead.

Salvage
Dealer participation in salvage auctions has increased as they increasingly realize that often these vehicles can be repaired and sold to retail buyers. Prices at Manheim auctions for salvage units increased modestly from 2012, with volume up by 10,000 vehicles from a year ago.

Auto Industry Continues Strong Performance in New, Used and Wholesale Markets
The vitality of the new and used vehicle markets is ultimately determined by labor market and credit conditions, and the good news for automotive industry participants is that both indicators were supportive of vehicle sales in 2013; and we expect them to remain that way in the year ahead.

It was a good year to be a dealer: In addition to a fourth consecutive year of rising new vehicle sales in 2013, franchised dealers sold a record number of certified pre-owned vehicles. Whatever challenges independent dealers experienced in acquiring inventory were more than offset by the benefits of readily available retail and wholesale financing. Wholesale used vehicle prices as measured by the Manheim Index declined only slightly from 2012 as additional inventory began to arrive in the wholesale market. The continued access to capital, fueled in no small part by nearly $90 billion in automotive asset-backed securities, kept already-strong demand even stronger throughout the year.

Online growth at the wholesale level continued to accelerate in 2013, with more than a quarter of all Manheim sales taking place digitally through live-bid, listed-bid, and buy-now formats.

Along with the growth of online sales, the centralization of selling functions has risen significantly over the last year, with many consignors managing live-bid event sales through remote selling tools at their offices rather than being in attendance at every sale. This new capability has enabled consignors to sell more often, and to sell in more locations, than ever before.
A Note From
Sandy Schwartz

President, Manheim and AutoTrader Group

Manheim is proud to bring you the 19th edition of our Used Car Market Report. This annual report offers insights and observations about the used car industry and shows us all of the different ways that remarketing continues to become more efficient, more technological and more responsive to the needs of both buyers and sellers.

One of the things I tell the Manheim staff is: Get comfortable being uncomfortable because the pace of change isn’t going to slow down. In the face of these changes, our goal at Manheim is to always provide a trusted marketplace for buyers and sellers, in which we ensure the ease of doing business. We do this by providing an array of products that enable wholesale participants to appraise, finance, buy, sell, manage and transport inventory in the most efficient ways possible.

We see a number of forces making the market more fluid and mobile than ever. One factor would be an expected influx of off-lease cars. At the same time, dealers are increasingly sophisticated, adding more and more science to the art of inventory management. Dealer trade networks encourage inventory mobility and give dealerships access to even more inventory within self-managed trust groups. And the sheer amount of purchasing and behavioral data available to consignors and wholesalers is amazing.

So we’ve worked to match the sophistication of the market with a growing array of services: seamless integration with inventory optimization software from our cousin company vAuto; access to a nationwide network of dealers through DealerMatch; mobile auctions for more access; logistics through Ready Auto Transport; increased purchasing power through more than $700 million in working capital from NextGear Capital. We continue to build out the inner workings of the wholesale marketplace and facilitate a trusted exchange between buyers and sellers.

Besides staying ahead of customer needs, our goal is to make the overall auction marketplace more vibrant, free-flowing and efficient. To that end, we donated AutoGrade, an industry-first system that calculates the proper Manheim/NAAA vehicle condition grade based on the collected vehicle information. We think that when the industry as a whole has clearer condition reports, it makes it easier for everyone to do business with the transparency we all want.

For all of the positive changes our industry has and will continue to experience, we strive to be innovative and to always focus on making sure our fundamentals remain solid. I call that the blocking and tackling that makes your customer experience even and repeatable. Marketplaces that enhance trust, transparency and confidence will always attract and satisfy the greatest number of customers. And in the process of efficiently redistributing vehicles while also establishing their true value in the marketplace, auctions provide the right mix of products and services needed to enhance customer confidence.

At Manheim, our mission is to provide world-class products and services that simplify the trusted exchange of vehicles and maximize value for participants in the global automotive marketplace. We are committed to the industry as a whole, and we look forward to what 2014 will bring us in this exciting marketplace.

Sincerely,

Sandy Schwartz
President, Manheim and AutoTrader Group
“New Normal” Versus “Not Normal”

June of 2014 will mark the economic expansion’s fifth year. For some individuals and industries, it will mark a half decade of exceptional advancement. But for others, progress has been painfully slow or nonexistent. And for the macro economy, despite five years of slow and sustainable growth, there is a sense we’re just one lug nut away from the wheel falling off.

Explanations for the differing economic performances between groups of individuals and businesses, the lingering sense of unease, and the spate of unusual economic trends are often placed under the rubric—“the new normal.” Demographic forces do suggest that slower economic trend growth could be “the new normal.” Likewise, after a major financial collapse and the policy responses that followed, historically low interest rates and inflation may also become “the new normal.”

But some things should be called what they are—“not normal.” Having a stock market that has doubled since 2009 while the economy grew at a 2% rate is “not normal.” Having real median household income fall during an economic recovery is “not normal.” Having the long-term unemployed account for almost 40% of all the unemployed nearly five years after the recovery began is “not normal.”

Rather than tackle these big issues—more suited to a treatise than a Review and Outlook piece—let’s consider the fundamental forces that impact the new and used vehicle markets and, as we proceed, point out what may be a “new normal” and what is simply “not normal.”

Did you know... 
New car and light-duty truck sales rose for the fourth consecutive year in 2013, and average new vehicle transaction prices are up by more than $2,000 since 2009.

The annual growth in vehicles-in-operation will not return to the 5 million or 6 million pace recorded during the 1980s and early 2000s; something around 2 million per year is more likely.
Employment To Reach Record Levels in 2014

The vitality of the new and used vehicle market is ultimately determined by labor market and credit conditions. Both were supportive in 2013, and both will remain so in 2014.

Slow, but steady, employment gains (2.2 million in both 2013 and 2012, and 2.1 million in 2011) indicate that payrolls will exceed their all-time high of 138.1 million (reached in January 2008) sometime in mid-2014. To be sure, the time it took to get back to that previous peak (six and a half years) was, by far, the longest for any recovery.

It is also likely that the recovery in the labor market will continue to broaden out to include more sectors in 2014, and that greater income gains will be associated with the increased employment. That will help the used vehicle market. In 2013, we saw how the improvement in the housing industry led to increased demand for used pickups and cargo vans. And of course, the biggest positive for the used vehicle market coming from an improved labor market is that job stability leads to low auto delinquency rates, which, in turn, spurs more lending.

But there are fissures in the foundation of today’s labor market. During the recession, the spread in the unemployment rate based on education levels widened considerably. That’s normal. The spread remains wide today. That may be the new normal. But what is not normal is to have a double-digit unemployment rate for those with less than a high school education for 63 consecutive months. (Nor is it acceptable.) The number of involuntary part-time workers is higher than it has ever been at this stage in a recovery. And the number of long-term unemployed is elevated way beyond what anyone would call normal. Hence, the expiration of emergency long-term unemployment benefits at the beginning of 2014 became both a political and an economic issue. Congress is wrestling with the matter as of this writing and, with the use of accounting tricks, will likely pass and pay for another “temporary” extension. But the sad truth is that the long-term unemployed are more likely to permanently leave the labor force than find a job.

At the other end of the spectrum, we have college graduates whose unemployment rate has been below 4% every month since October of last year — and at the beginning of 2014, their unemployment rate was only 3.3%. Their jobs are also the ones providing wage gains. That explains a lot about the strength of the new vehicle market in an otherwise so-so economy.
What also explains the robustness of both the new and used vehicle market is the availability of attractive retail financing throughout the credit spectrum. This is an issue that is discussed in the repossession section of this report, so let’s move to the broader issue of monetary policy.

**Swings in Exchange Rates and International Capital Flows Will Add Economic Uncertainty**

Monetary policy has played an outsized role in the economy ever since the financial collapse. That influence, and the uncertainty it creates, will not diminish in 2014. In fact, the easing away from massive purchases of both mortgage-backed securities and Treasury notes will likely create greater volatility in international capital flows and foreign exchange rates, especially with the European Central Bank and the Bank of Japan continuing to add liquidity to the system in 2014.

In the U.S., an already steep yield curve will likely become steeper as long rates edge up and short-term rates are held down by Fed actions. How the market will react to this “not normal” situation is unclear. The mere talk of the Fed’s tapering in June of last year put markets into a hissy fit, while the actual announcement in December was shrugged off as a non-event. The key in 2014 will be how much, if at all, the Fed will need to diverge from market expectations of a continued slowing in asset purchases throughout the year, and then a complete halt by October. Although the Fed has continually, and clearly, stated that future policy is “data-dependent,” markets will likely overreact to any deviation from what they assume to be the future course.

The certainty in all of this is that we have already seen the lows in long-term Treasuries and, thus, mortgage rates. Will the housing market be able to continue its growth with a 5.5% mortgage rate? Yes, but 6.5% might prove stifling.

**10-YEAR TREASURY YIELDS**

The story with respect to home values is better. They have risen at a double-digit pace for the past two years. And, although still down 20% on a national basis, home values in many metro areas are now close to, or back to, pre-recession levels. Couple that with reduced mortgage debt (through foreclosures and short sales), and owners’ equity in their real estate rose to 50.8% in third quarter of 2013, up from less than 38% in 2009. Again, a tremendous benefit for many, but not so much for others. Rents rose 3.2% in 2013.

**Housing: Building Quickly on an Artificial Foundation**

It is easy to get caught up in the story of housing’s recovery in 2013. Home sales, starts, and values were all up by 20% or more during the year. But it is sobering to consider the low base from which these gains were made.

Consider starts, for example. They are up 100% from the 2009 trough, after rising 20% last year and 28% in 2012. But new housing starts are still only a third of their all-time high. In fact, housing starts in 2013 were at their sixth-worst year since 1960. (For perspective: If new vehicle sales had had their sixth-worst year since 1960, then sales would have totaled only 9 million units.)

**NEW HOUSING STARTS**

The story with respect to home values is better. They have risen at a double-digit pace for the past two years. And, although still down 20% on a national basis, home values in many metro areas are now close to, or back to, pre-recession levels. Couple that with reduced mortgage debt (through foreclosures and short sales), and owners’ equity in their real estate rose to 50.8% in third quarter of 2013, up from less than 38% in 2009. Again, a tremendous benefit for many, but not so much for others. Rents rose 3.2% in 2013.

Will housing’s recovery story continue in 2014 and beyond? It’s not at all clear. We obviously have the benefit of significant residual pent-up demand, but gains will likely be tempered by rising mortgage rates. And structural issues in the housing industry remain. Most notably, the large presence of Fannie, Freddie, and the Federal Reserve means that housing rests on an artificial foundation. Fannie and Freddie are backing a larger share of mortgages than they were before being placed under government conservatorship. And, in recent periods, the Federal Reserve’s purchases of mortgage-backed securities has often exceeded the amount of net new issuance.
This is “not normal,” and it makes the outlook less clear. The economics of the housing market can be captured by forecasting models; the politics cannot. And yes, the housing outlook will be influenced by politics. Witness the decision by the new Federal Housing Finance Agency’s director to put a hold on planned increased mortgage fees.

Nevertheless, the most likely scenario is that housing will continue to provide material support to the economy’s growth in 2014 and beyond. And that’s important because the outsized boost that has been provided by autos in recent years will probably start to level off.

**Autos: Nearing Full Recovery**

In 2013, new car and light-duty truck sales rose for the fourth consecutive year. An overwhelming share of forecasters expect sales in 2014 will exceed 16 million. This would mark a full recovery from the depth of the sales recession in 2009. And, importantly, these sales gains were made on the basis of real demand, not artificial demand created by incentives. In fact, manufacturers, on the basis of strong product offerings and disciplined production, have been able to exhibit pricing power in recent years. According to series from both the Bureau of Economic Analysis and the Bureau of Labor Statistics, average new vehicle transaction prices are up by more than $2,000 since 2009.

To be sure, the ability to secure a higher new vehicle transaction price has been enabled by longer loans at lower rates, which kept the customer’s monthly payment almost flat; but those finance terms were the result of true market forces, not aggressive incentives. Likewise, a resurgent leasing industry allowed many households to acquire a new vehicle at an affordable monthly cost.

**NEW CAR AND LIGHT-DUTY TRUCK SALES**

Seasonally Adjusted Annual Rate: 3-month moving average

It is logical to assume that new vehicle sales will continue to grow in tune with the economy in 2014 and beyond, but projections that have sales quickly returning to 17 million and higher are probably fanciful. Demographics and lifestyle changes indicate that the growth of vehicles in operation will not return to the 5 million- or 6 million-a-year pace recorded during periods in the 1980s and early 2000s. Something around 2 million per year is more logical. And a case could be made for something substantially less than that considering that total vehicle miles of travel has flatlined during this recovery.

**The Certainty of Uncertainty**

For many years, this column has focused on the “certainty of uncertainty” as both policymakers and outside events presented numerous risks, any one of which could easily topple a fragile recovery. In 2013, many of those problems became less severe.

For example, the real risk of a European economic implosion and an unraveling of the euro morphed into a simple credit crunch for the credit-poor countries. That’s a real concern, but it is not a crisis. Likewise, at home, after ineptly struggling through debt ceilings, government shutdowns, and budget sequestration, Congress passed an actual budget in December 2013. And, with the help of short-term factors, the deficit is declining. Sure, another debt ceiling deadline looms in early 2014; but expectations are that the process will be non-disruptive.

So, for many issues the level of risk abated; but for none did it disappear. And new issues arose. Thus, there might be fewer hot spots; but there are many more very warm ones. So after five years, we have a recovery that has a large mix of the “new normal” and the “not normal” thrown in. Policymakers would be wise to recite the Serenity Prayer:

God, grant me the serenity to accept the things I cannot change,
The courage to change the things I can,
And wisdom to know the difference.
The Remarketing Industry

Auction Volumes Are Projected To Grow in Coming Years

The total wholesale marketplace consists of some 20 million transactions per year, including NAAA-member-auction sales in the neighborhood of 8.2 million vehicles; nearly a million more units wholesaled at non-NAAA-member-auctions and in online, offsite venues; and almost 11 million vehicles wholesaled in a non-auction process such as direct dealer-to-dealer trades or commercial accounts selling directly to dealers or consumers.

Manheim Consulting estimates that both auction and non-auction wholesale volumes will increase in 2014, 2015 and 2016. Although much of the growth will be accounted for by increased off-lease volumes, there will also be growth in other consignor groups.

Wholesale prices as measured by the Manheim Index declined slightly from 2012 as wholesale inventories increased. Still, the pickup truck and van segments both saw price increases.

The average age of vehicles sold at auction continued to increase in 2013, with more than 40% of vehicles sold being 7 years old or older.

Mobile applications are becoming increasingly valuable in the wholesale marketplace, allowing buyers and sellers to “be in more than one place at the same time,” either consigning or buying vehicles simultaneously from more than one source.

Even small, targeted investments in reconditioning can drive significant incremental value in the wholesale market.
Manheim Used Vehicle Value Index Declines Less Than 2% in 2013

Wholesale used vehicle prices as measured by the Manheim Index declined slightly from 2012 as additional inventory began to arrive in the wholesale market. The continued access to capital, fueled in no small part by nearly $90 billion in automotive asset-backed securities, kept already-strong demand high throughout 2013. Two segments saw year-over-year price increases, with pickup trucks rising 3.4% and vans gaining 1.2%. Compact car prices were down 1.3%, while midsize cars, SUVs/CUVs, and luxury cars all declined 3% or more.

Age of Vehicles Sold at Auction Moves Higher in 2013

Continuing a trend we have observed for many years, the average age of vehicles sold at auction increased again in 2013, with more than 40% of vehicles sold being 7 years old or older. As franchised dealers continue to source inventory from upstream remarketing channels, inventory sold at auction from three or four model-years prior remains somewhat scarce. This trend should ease a bit in 2014 as extensive lease penetration rates will funnel significant volume that many franchised dealers will be unable to absorb. On the opposite end of the spectrum, we continue to see vehicles older than 7 model-years growing in volume. Experian Automotive’s most recent Vehicles in Operation (VIO) market analysis, for example, shows that despite increased new vehicle sales, the average age of vehicles in operation was nearly 11 years, almost a full year older than in 2009.

2014: A Year of Challenges, Opportunities, and Solutions

Looking ahead, 2014 will reveal the next evolution of the wholesale marketplace, as declining margins, rising wholesale supplies, and increased market pressures require new tools and strategies. Buyers and sellers are demanding increased pricing and valuation transparency, while data-fueled consumer expectations are presenting remarketers with new challenges and opportunities. For several years, we have witnessed a continued reliance on data as consignors and dealer customers use new insights to create competitive advantages. Still, one point is clear: Singular reliance on a “golden-gut,” data-absent strategy, is costly.

Rising wholesale volumes will present unique challenges for consignors and offer new opportunities to buyers. Looking at off-lease volume increases, franchised dealers will be unable to absorb the entire set of off-lease inventory, even accounting for record-high CPO sales. Upstream pricing and inventory management solutions must evolve to meet this challenge. Across-the-board premium pricing and all-or-none, single-site listing approaches will be revealed as sub-optimal. Progressive remarketers will turn to inventory optimization solutions that blend real-time consumer demand and market-correct valuation with wholesale marketplace intelligence. Marketplaces that support a trusted exchange where buyers and sellers have easy access to the latest tools and technology will succeed. And questions that were once easy to answer will require new solutions that are more complex and intertwined. These include:

How Can I Get More Done in the Limited Time I Have Available?

Earlier this month at CES 2014, Yahoo predicted an estimated 3.8 billion connected devices worldwide by 2017. Mobile devices provide users with instant access to limitless information and, in turn, shape customer sentiment and expectations. Organizations of all kinds must evolve their customer experience and platforms accordingly, and the shift toward mobile solutions, access, and expectations is no different within the remarketing industry. In 2013, Manheim hosted more than 100,000 users each month on Manheim.com and its mobile applications, and nearly 14 million visits were made to our mobile website and iPhone and Android apps, representing a 30% increase from 2012. Continued confidence in condition, image, and seller reputation data fueled online growth, with more than a quarter of all Manheim sales taking place digitally through live-bid, listed-bid, and buy-now formats.

Along with the growth of online sales, the centralization of selling functions has risen significantly over the last year, with many consignors managing live-bid event sales through remote selling tools at their offices rather than being in attendance at every sale. This capability has enabled consignors to sell more often, and to sell in more locations, than ever before.

Mobile applications continue to provide buyers with the ability to buy whenever and wherever they want. In fact, we have observed that many dealers desire what was once thought impossible: to be in more than one place at the same time. Viewing simulcast sales on mobile devices, buyers can physically stand in one lane and buy a vehicle while digitally purchasing a vehicle from another lane or auction simultaneously.
The practice of posting vehicles on multiple online platforms began to emerge full-force in 2012. In previous years, some sellers had adopted this approach by posting used vehicles on multiple platforms via home-grown or third-party-powered solutions. These solutions were often built upon a “first bid wins” methodology, where the platform that secured the first bid was able to sell the vehicle to the highest bidder. In this scenario, the other platforms were asked to deactivate and remove the listing. Such a process was not optimal for either buyer or seller. Discussions on this topic at industrywide conferences accelerated in 2013, and the path forward was clear: Sellers desired the ability not only to broadcast inventory across multiple marketplaces simultaneously, but also to implement real-time, cross-platform bidding through coordinated bidding exchanges where incremental bids from several platforms raise the current asking price immediately. The benefits of multiplatform selling will provide buyers with a greater selection of inventory, on the platform they are most comfortable with, and provide sellers maximum exposure of their vehicles in the marketplace. The combination of a tailored customer experience and research, valuation, and confidence tools to facilitate transparent exchanges will further drive marketplace efficiency.

As technology becomes more prevalent and easier to use, we see the need for solutions that allow for even more automated buying and selling. Tools that seamlessly appraise, capture images, provide a grade, list vehicles to the cloud, and enable near real-time access to vehicles across both retail and wholesale markets will be necessary to increase market efficiency. For both buyers and sellers, solutions that remove the busywork and focus on the strategic decisions to be made will optimize their investment in time and money.

**How Can I Make Better Decisions To Increase my Proceeds, Move Inventory Faster, and Lower my Costs?**

**Inventory Optimization**

Our industry is quickly evolving to a position where buyers and sellers must take a comprehensive view of their inventory to make the best remarketing decisions based on the potential value of their entire portfolio. Making data-driven decisions about where, when, and how to remarket inventory will continue to be critical in maintaining margins in the used vehicle marketplace.

Dealers using the latest inventory management software suites are no longer willing to let used cars sit on the lot for 90 days. These progressive dealers seek quicker inventory turn times and will often accept a small initial sale loss to free capital for another vehicle purchase. The key is ensuring that they are purchasing the right inventory at the right cost, allowing for factors such as any necessary investments to make a vehicle retail-ready, and the consumer demand for that vehicle.

Removing the risk of buying the wrong vehicle is critical as dealers have continued to see erosion in front-end gross margins.

Knowing where to sell inventory within the wholesale marketplace is not as easy as it used to be. We often see consignors offering inventory at the wrong location, with serious financial implications; a data-driven approach often yields significantly better results. Recently, Manheim Consulting helped a progressive captive finance company determine that its "traditional" footprint may benefit from a fresh perspective. Following an extensive performance benchmark study by the Manheim Consulting team, it was clear the consignor was getting a lower price for vehicles sold on the West Coast. The consignor evaluated its inventory and accepted a recommendation to split inventory among two neighboring auction locations; targeting the right inventory to the right buyers produced an additional $450 per car sold.

Using a portfolio-based view, many remarketers are beginning to remove highly valued assets from rental, fleet, or lease service when market conditions are right, offering them for sale to a retail or wholesale buyer. This analytical approach ensures that they are delivering the right vehicles to the right buyers at the right time, contributing to a more vibrant and prosperous marketplace.

Once vehicles are made available for sale, some consignors are choosing to not sell cars when they cross an auction block or list in a digital sale. Their theory is they want to be sure “to get all the money.” This gut reaction is centered on another historical metric: conversion rate. Simply stated, conversion rate measures the percentage of cars offered at auction that actually sell to a buyer, a percentage that has been “stuck” at 60% to 65% industrywide. While most cars eventually sell at auction, the low conversion rate is hardly efficient. Some unsold units are returned to rental or fleet service, while others return to retail lots in hopes that the right buyer will come along the following weekend. These sale delays add depreciation and holding costs that affect the net retention of the sold vehicle. Consignors have traditionally sought to strike a balance between efficiency and price realization as a part of their overall remarketing philosophy.

Manheim studied this topic recently and determined that, despite sellers’ using varying strategies geared toward their individual objectives, a common industry refrain remains true, “The first money is often the best money.” Manheim Market Report retention was shown to decrease as the number of registrations increased, with a percentage point or more in lost retention with every additional registration. Additionally, after more than five registrations, the probability of experiencing a loss is significant, resulting in nearly $1,000 in lost value.
This past year, the distinction between price (the opening price, floor, and/or “buy it now” price) and valuation (what to expect to purchase a vehicle for) has become more important in determining how best to price vehicles and to retain the highest value.

We see that, on average, the value of the vehicle decreases as a vehicle cascades through the various sales channels. Vehicles that are sold to grounding dealers and in closed sales typically sell at a premium, while the remaining vehicles that move into open markets sell at a lower price. This is expected, as those vehicles that are the most desirable and in the best condition will be sold first and at a greater price. When pricing vehicles across this spectrum, both buyers and sellers are looking for a price and a market value that reflect the sales channel.

We have observed that real-time optimization tools around how best to price these vehicles—relative to time, condition, supply, demand, and geography—are increasingly needed in the marketplace.

Reconditioning Optimization

Reconditioning has always been an important part of the wholesale remarketing industry. Several consignors use detailed reconditioning programs to differentiate their inventory and to offer frontline-ready vehicles to franchised and independent dealers. Others choose to recondition their vehicles along with supplemental certification programs. These programs clearly have value, as buyers appreciate the inherent trust and transparency that come with sellers fully standing behind their inventory. While reconditioning can add additional time into the days-to-sell metric, it often produces an additional return on investment (ROI). This is especially true for luxury captive-finance companies, which rely heavily on lease penetration to drive new vehicle sales. Franchised dealers will be able to remarket many of these units via manufacturer-sponsored CPO programs, which had record sales in 2013. However, we have noted elsewhere that franchised dealers will be unable to absorb the entire portion of off-lease volume coming in 2014 and future years. Therefore, the independent dealer becomes much more important to these sellers. As a result, certified-ready vehicles, or those reconditioned to a high standard, will help these sellers capture a growing share of this important buyer segment. Progressive consignors have used data and analytics to take often-ignored inventory graded below 3.0 (average), make small targeted investments, and drive significant incremental value.

Sellers who invest less than $150 in the right areas can increase a vehicle grade by 0.3 points.

This lift may seem small; however, taking a vehicle from a grade of 1.7 to 2.0 results in an increased value of $1,000, assuming the original vehicle was $10,000.

Additional ROI opportunities exist with vehicles graded a “high 2”—as many individual and dealership buying centers filter searches for vehicles graded 3.0 and higher. Investing the same $150 on a vehicle graded 2.7 to achieve a grade of 3.0 can yield $500—an ROI of more than three times that amount.

### Retention Curve by Final Grade—Whole Car Sales

Sellers often ask, “Which repairs have the most impact on grade?” and analytics again provide the answer. The table below provides a list of repairs that most impact grade, sorted in descending order.

### Top Repairs That Increase Grade

- Replace, refinish, repair major body panels
- Replace, repair interior items
- Replace, repair windshield
- Replace, repair, refinish mid group body panels (bumpers, covers, etc.)
- Hail damage repair
- Install bedliner
- PDR
- Wheel replacement
- Air brush, brush touch
- Chip Wizard, de-identify, paint chip repair, touch up, wet sand

*Source: Manheim Consulting*
Integrated solutions will soon enter our marketplace, allowing sellers to quickly and accurately determine the incremental benefit of reconditioning decisions. This focus on informed decision-making and added transparency into this historical area of our industry will drive incremental value for buyers and sellers alike.

Logistics Optimization

Transportation can also drive decisions on where to remarket vehicles. Companies that move vehicles between sellers, auctions, and buyers are being increasingly recognized as critical business partners. Similarly, marketplace players are working to provide tools and processes that better integrate transportation to help both buyers and sellers. Tighter integration allows these players to give sellers a better picture of total remarketing spend, calculating inbound transportation costs to potential auction destinations. Similarly, these transportation providers can give buyers a more complete picture of the total cost of a vehicle at the bidding stage by including estimated transportation costs at the point of purchase. After the sale, vehicle information can then be provided directly to transporters to help simplify communications between buyers and transporters.

Last year, Manheim acquired Ready Auto Transport. While the two companies had long partnered to provide online shoppers with full-service transportation solutions, their integration allowed Ready Auto Transport to create an open marketplace for shippers and transporters to directly connect and negotiate for inventory and routes, via the (self-managed) 1Dispatch platform.

Looking ahead, we expect that transportation will become more automatic in the remarketing process, minimizing the work required and increasing the speed of processing and delivery. We expect transportation to become more preference-based, where buyers and sellers will be able set up their trusted networks of carriers and have the movement of inventory automatically triggered based on the variables customers set. Transportation should be something that just happens, enabling buyers and sellers to transact business faster in both the wholesale and retail spaces, while optimizing the cost and time of transportation.

How Can I Increase my Confidence in Buying and Selling?

Historically, little thought was given to wholesale-market vehicle imaging and condition reports. Originally, condition reports were geared toward assisting the consignor with pre-sale reconditioning and floor pricing, while buyers conducted their own visual inspections. As buyers continued to rely on digital channels for inventory acquisition, and as sellers sought to expand their traditional in-lane buyer base, images became more important. Initially, industry leaders helped define a standard set of images to be taken for every vehicle, including defined angles and views. Manheim helped build an industry standard several years ago when it introduced the InSight™ condition report. This next-generation condition report format provided digital and traditional physical auction buyers with enhanced data describing the vehicle, equipment, and other items. Buyers found this additional information helpful, but desired a more precise metric to evaluate vehicle condition quickly and accurately. The solution was AutoGrade™. Building on the traditional NAAA guideline of whole number condition scores ranging from 1 (poor) to 5 (excellent), a decimal point system was added, allowing additional condition gradients within these larger boundaries. This additional transparency was the linchpin to building digital sales channels. Digital channel-adopters are expected to take the ever-popular Retail View functionality easily, enabling quicker inventory turn times. Enhanced images give buyers a more complete picture of the total cost of a vehicle at the bidding stage by including estimated transportation costs at the point of purchase. After the sale, vehicle information can then be provided directly to transporters to help simplify communications between buyers and transporters.

Manheim has also conducted extensive buyer research and determined that customers desire additional improvements to vehicle condition and imaging solutions. These recommendations include the need for additional images of damaged areas and the vehicle interior; the need to use images to assess damage and verify vehicle options and packages; and more concrete disclosures related to mechanical items, interior condition, unique vehicle options, and damage assessments. Such feedback led to several recent enhancements, including the use of photo booth systems with standard lighting and background to enhance the vehicle’s image. The latest trend is a movement toward enhanced images, taken with high-resolution cameras and professional photographers, allowing prospective buyers to zoom in to view damage, features, and other attributes in fine detail.

These solutions will give buyers the trust and confidence to buy vehicles via digital channels, fueling the growth of this important sales channel. Similarly, these enhancements will help sellers capture vehicle attributes, images, and data quickly and easily, enabling quicker inventory turn times. Enhanced images are expected to take the ever-popular Retail View functionality even further, as progressive dealers use tools such as OVE.com as their virtual back lots. Using technology to sell at-auction vehicles to retail buyers from the comfort of their dealerships will yield incremental profits.
As our industry moves forward into simultaneous selling across multiple sale formats, the need for comprehensive and accurate condition reports on every vehicle is even more critical, and nearly a requirement, as we enter the “anytime and anywhere” era. Not only does accurate disclosure of a vehicle lead to more sales and proceeds, it also reduces the potential for arbitration while increasing overall trust in the marketplace.

Some buyers desire additional protection and assurance when purchasing used inventory. To address this growing trend, in 2013 Manheim introduced DealShield, which allows buyers to return a purchased vehicle to any Manheim location in North America for any reason, while eliminating the uncertainty of arbitration. This product protects buyers if they are unsure about the exact condition or equipment of a vehicle, or the reputation of a seller. They can drive the vehicle up to 500 miles, inspect the vehicle personally, and even attempt to retail the vehicle on their own lot. Within 21 days of purchase, they can simply return the vehicle and receive a refund of the total vehicle cost and auction fees.

Overall, analytical decision-making has contributed to, but not replaced, some of our longstanding methods. Our industry remains rooted in an entrepreneurial spirit, where dealers adapt, evolve, and prosper.

### Car Remarketing and Sustainability

As more sustainable or green practices are implemented throughout the automotive industry, it is important to note that the very nature of vehicle remarketing supports green goals. And as sales of new hybrid and electric vehicles increase, so too will our inventory of these more environmentally friendly units — giving us an opportunity to communicate their value to prospective buyers.

In addition to Manheim’s focus on repurposing used vehicles and being a trusted partner within the industry, we continue to reduce our total environmental footprint and leverage sustainability as a tool to optimize operational and financial performance. From implementing water conservation efforts to utilizing solar energy at 11 auction locations, we are committed to being part of the solution.

For Manheim, sales of hybrid and electric vehicles increased by 50% during 2013.

According to Navigant Research, combined worldwide sales of hybrid and plug-in electric vehicles will reach 6.6 million annual units by 2020 and become almost 7% of the total light-duty vehicle market. Gasoline prices are projected to increase at a 7.2% CAGR between 2013 and 2020, while HEV and PHEV battery pack prices are expected to decrease 10% and 26% respectively by 2020 as advanced research drives battery innovations.
Dealers

It Was a Good Year for All Types of Dealers

All in all, 2013 was a good year to be a dealer. In addition to a fourth consecutive year of rising new vehicle sales, franchised dealers had record sales of manufacturer-certified pre-owned units. And, at the same time, many franchised dealers kept their retail offerings expanded to include older, higher-mileage, vehicles—a practice they started out of need during the new vehicle sales recession.

Independent dealers continued to wrestle with inventory acquisition challenges as what used to be a strong, steady, and direct flow of units from franchised dealers remained lower than in the past. But that challenge was more than offset by the benefit of readily available retail and wholesale financing. For independent dealers catering to the subprime customer, it was an especially good year as lending sources continued to buy deeper.

That, in turn, created a challenge for Buy-Here, Pay-Here (BHPH) dealers as they saw a large swath of their customer base picked up by subprime lenders. But, as with independent dealers, the increased availability of capital was a more-than-adequate offset for BHPH operators. And that’s whether the capital was needed from floorplan lenders, from banks for a general line of credit, or from financial institutions buying notes at a discount.

Franchised Dealers Grow Sales, Profits, and Themselves

In 2013, franchised new car and truck dealers sold 15.6 million used vehicles at retail (this includes units that were sold on lots operated separately from the new car store). Franchised dealers wholesaled another 10 million units. And, despite narrowing gross margins, these used vehicle sales produced record profits. Give credit to quicker inventory turns, reduced selling expenses, and strong F&I income.

These favorable trends will likely continue, if not get even better, in 2014. Clearly, franchised dealers will benefit from the growing off-lease volumes as quality used vehicle inventory will literally be driven to their door. And that’s not to mention that the majority of returning lessees will buy or lease another new vehicle from that dealer.

2013 HIGHLIGHTS

New car sales increased for the fourth consecutive year, and franchised dealers also sold a record number of certified pre-owned vehicles.

Franchised dealers sold 15.6 million used units, and despite narrowing margins, those sales accounted for record profits.

The publicly traded dealer groups have posted 16 consecutive quarters of declining gross margins on a year-over-year basis.

For the second consecutive year, independent dealers underperformed the overall market as vehicles sold rose less than 2%, but a drop in the dealer count meant a greater market share for those remaining.

More important, greater wholesale and retail finance opportunities have made the modestly growing unit volume very profitable for independent dealers.

USED VEHICLE RETAIL SALES BY FRANCHISED DEALERS

Source: CNW Marketing Research
The sales and profit support provided by readily available retail financing is also not likely to change in 2014. To be sure, rates will rise. But, as the industry saying goes, “The availability of credit is more important than the cost of credit.” Given that any tightening of credit generally follows a deterioration in loan performance and given that portfolios are currently performing extremely well, the availability of retail financing should not be a problem in 2014. Do, however, expect dealer finance income to come under further direct, and indirect, regulatory pressure.

Strong past financial performance and bright prospects have combined with readily available capital to enable and entice existing dealers to grow through acquisition—and to pay top dollar for the stores bought. Acquiring dealers have been the large private groups as well as the publicly traded ones. And, with the lagging manufacturers of the past having now caught up in terms of product offerings and solid financial outlooks, the blue-sky multiples between franchises have evened out, as well as risen overall.

Public Dealer Groups Have a Record Year

Financial reports from the seven publicly traded dealership groups provide a good reflection of trends within the franchised dealer body. Yes, the largest of the publicly traded dealers (CarMax) is an independent, but its product offerings and price points are similar to those of a mainstream franchised dealer.

With respect to unit volumes, the trend has been very good. In the third quarter of 2013, the dealer groups posted their 17th consecutive quarterly increase on a same-store basis. Double-digit gains were recorded in both the second and third quarters of 2013. And, as noted earlier, they are also growing through acquisitions. In total, these seven dealership groups retailed 1.2 million used units in 2013.

With respect to margins, the trend is not as pretty. These same dealer groups posted 16 consecutive quarters of declining gross margins on a year-over-year basis. With quicker inventory turns, higher transaction prices, reduced selling expenses, and good F&I income, the reduced margins were manageable from the dealer’s perspective. However, the narrowing of margins is a long-term trend, which has at least two implications related to remarketing:

- Having thinner margins means that the linkage between the retail and wholesale market will become tighter. Changes in one market will be more quickly, and more acutely, felt in the other. With the cushion of wide margins gone, look for subtle shifts in retail demand to be quickly reflected in wholesale buying.

- As average margins have narrowed, so too has the range of grosses on individual transactions for individual dealers. Lacking “home-run” (high-gross) deals, dealers can now ill afford the outsized losses associated with buying the wrong car at the wrong price. So, for commercial consignors, who often benefited from that one dealer’s paying too much in a speculative bid, the need to get their portfolio in front of right buyer—the first time—takes on added importance.

### USED VEHICLE RETAIL GROSS MARGIN
(Publicly traded Dealership Groups)

Sales-weighted average for KMX *, AN, PAG, SAH, GPI, ABG, and LAD

% CHANGE USED UNITS RETAILED—SAME STORE BASIS (Publicly traded Dealership Groups)

Weighted average for KMX *, AN, PAG, SAH, GPI, ABG, and LAD

*KMX shifted forward one month to correspond with calendar quarter

Source: Company filings
CPO Sales: How High Can They Go?

In 2013, sales of manufacturer-certified pre-owned (CPO) vehicles totaled a record 2.1 million units. Given the growing off-lease supply in 2014 and beyond, it is inevitable that even higher milestones will be reached in the years ahead.

**CERTIFIED PRE-OWNED SALES**

![Graph showing certified pre-owned sales from 2000 to 2013.](source: Automotive News)

But, is there a natural limit for future CPO sales? After all, the ratio of CPO sales to the number of new vehicles sold in the prior three years rose from 1% in 2000 to more than 5% in 2013. Does that suggest that the supply of potential CPO units is becoming stretched? Not at all. Note that several manufacturers that have long-established CPO programs, high lease rates, and remarketing processes that keep a large share of returning vehicles within their dealer network often have CPO-to-prior sales ratios in the double digits. This means that the CPO market has the potential to grow to more than 4 million units per year, in short order. It is only a matter of how much marketing muscle the manufacturers want to put behind the programs—and, of course, the dealer’s ability to continue to earn good profits on the sales.

**Did you know...**

**In 2013, CPO sales reached a record 2.1 million vehicles.**

Independent Dealers: Set for Growth

For the second consecutive year, independent used car dealers underperformed the overall used car market as unit volumes rose less than 2%, according to CNW Marketing Research. But that statistic belies what has been, for many independent dealers, a very strong recovery from the recession. For one, a drop in the dealer count means that fewer operators are sharing that modestly growing pie. More important, greater wholesale and retail finance opportunities have made that modestly growing unit volume very profitable.

**USED VEHICLE RETAIL SALES BY INDEPENDENT DEALERS**

![Graph showing used vehicle retail sales by independent dealers from 2003 to 2013.](source: CNW Marketing Research)

To be sure, high wholesale prices hurt gross margins and forced some dealers to alter either their inventory or customer profile; but these were changes that most dealers made smoothly. This means that independent dealers are well-positioned for 2014, when wholesale supplies are expected to flow more normally and the upward pressure on wholesale prices is relieved. In particular, independent dealers should experience larger, and better, inventory acquisition possibilities from lenders selling repossessions.

BHPH Dealers Adapt to Changing Conditions

The continuing core tasks of Buy-Here, Pay-Here (BHPH) dealers are sometimes simply referred to as “The Search for the Three C’s—Cars, Customers, and Capital.” Depending on where we are in the economic cycle, one of these tasks often becomes much harder than the others. For example, in recent years, record wholesale prices (as well as the supply destruction caused by cash-for-clunkers) meant that BHPH dealers could not find vehicles capable of running the term of the note at a price point that worked with their business model. At other times, like late 2008 and early 2009, when access to capital froze up, BHPH dealers were forced to slow sales since theirs is a business where one can easily “sell oneself into bankruptcy.”

In 2013, however, the biggest challenge for BHPH dealers was finding customers—or, more precisely, customers with good repayment prospects. That was a result of many subprime lenders’ buying very deep down into the low credit tiers and picking up customers who typically would have gone to BHPH dealers. The customers left behind were the ones least likely to pay. For BHPH dealers there is, however, an upside that will come from subprime lenders’ buying so deep. When those lenders put customers into a vehicle at a monthly payment they cannot afford, they are creating future BHPH customers. And, they are also creating BHPH inventory when the repo units are sold at auction.
Other factors challenging BHHP dealers in 2013 included: low and slow tax refunds, an increase in the payroll tax, and high gas prices at the beginning of the year. To handle these challenges, individual BHHP operators have developed a multitude of different business models. No longer is there a “traditional BHHP model.” Some operators significantly increased the price point of the vehicles they offer, others kept their price point and built in more goodwill policy work as a reserve, some moved to the Lease-Here, Pay-Here model, others adjusted interest rates to coincide with subprime lenders, and some worked diligently to capture more upfront money in the deal.

What $5,000 Will Buy

To give a sense of just how much wholesale prices have gone up over time in the lower price tiers, we have looked at the average mileage on auction vehicles that sold between $4,000 and $6,000 over the past 14 years. As seen in the graphic below, if you spent, on average, $5,000 for a vehicle at auction in 2000, you got, on average, a vehicle with 84,541 miles. That average mileage slipped over the following three years as wholesale supplies grew and the overall pricing environment was weakened. But, since 2003, average mileage for the typical $5,000 auction purchase rose every year, except for the recession of 2008-2009. In 2013, the average $5,000 auction purchase had more than 120,000 miles.

WHAT $5,000 WILL BUY...

Average miles at time of sale; all transactions between $4,000 and $6,000, sold between April 1 and May 15

Also presented here, for the past three years, are the top five years, makes, and models of vehicles sold between $4,000 and $6,000.

TOP 5 MODEL-YEAR/MAKE/MODEL

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<th>SEPT 2013</th>
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<th>SEPT 2011</th>
</tr>
</thead>
<tbody>
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<tr>
<td>2005 Toyota Camry</td>
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<td>2005 PT Cruiser</td>
</tr>
</tbody>
</table>

Share of dealer consignment sales made through pure online or Simulcast continues to grow. As a result, the condition reports on those vehicles have become more important.

In 2013, the movement toward enhanced images began to emerge as photo booths with consistent lighting and backgrounds presented a professional vehicle format for prospective wholesale and retail buyers. Additional enhancements planned for 2014 include enhanced images taken with high-resolution cameras, by professional photographers. These solutions will allow dealers to zoom in 16x to view damage, confirm vehicle option content, and review other attributes.

These solutions will give buyers the trust and confidence to buy vehicles via digital channels, fueling growth of this important sales avenue. Similarly, these enhancements will help sellers capture vehicle attributes, images and data quickly and easily, enabling quicker inventory turn times. Enhanced images are expected to take the ever-popular Retail View functionality even further, as progressive dealers use tools like OVE.com as their virtual back lot.

Dealer Consignment Remains at Record High Level

With commercial consignment volumes falling sharply during, and immediately following, the recession, dealer consignment reached a record high 58.4% of all NAAA-member-auction sales in 2012. Preliminary numbers suggest that high share was little changed in 2013 even as commercial volumes once again grew. Including non-NAAA-member auctions (such as SmartAuction, CarMax Auctions, and others) pushes the dealer consignment share above 60%. And, with the growth in online capabilities, auctions should be able to handle the coming growth in commercial volumes without losing dealer consignment due to the inability to provide prime lane opportunities.

**DEALER CONSIGNMENT SALES AS % OF NAAA-MEMBER-AUCTION VOLUMES**

![Chart showing dealer consignment sales as a percentage of NAAA-member auction volumes from 2001 to 2013. Source: National Auto Auction Association Surveys, 2001-2012]

2013 is a Manheim Consulting estimate based on both internal and industry sources.

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Dealers seeking a no-cost alternative to a traditional condition report have the ability to use Manheim’s new mobile listing application, which allows dealers to use a mobile device to create a seller disclosure and get an industry-trusted condition grade. The application helps sellers enter condition information, capture vehicle images, and accept live video feeds. Such disclosures are critical, as vehicles with a condition report are three times more likely to receive a bid, and are four times more likely to sell than are those vehicles without such disclosures.

**Dealers Seek Additional Marketplaces**

While dealer consignment remains strong overall, some segments require unique solutions. Online sales of units priced between $4,000–$6,000 grew by nearly 15% year-over-year, while overall dealer consignment declined within this segment. New solutions began to emerge in 2013 outside of the traditional auction environment. While auctions have benefited from increased dealer consignments, the auction is not the primary method that dealers use to exchange vehicles. Since the beginning of the industry, dealers have worked together to exchange vehicles—both directly and through wholesaler intermediaries. They also meet at the auction—in cafeterias, lobbies, and lanes—to compare inventory and discuss potential trades. Several industry estimates say U.S. auto dealers exchange as many as 10 million vehicles per year this way, in addition to their auction buying and selling.

Technology has helped make dealer-to-dealer exchange easier and more efficient. In 2013, Manheim continued the expansion of a new product called Dealer Trade Networks, used by large public and private dealership groups. Several dealership groups leverage Manheim’s online auction platform, OVE.com, to conduct private internal auctions where a group’s stores buy and sell vehicles from one another. Dealer Trade Networks allow dealership groups to have a transparent marketplace where they can move valuable used vehicles to the stores that can sell them best. DARCARS Automotive Group has been using the program for about three years. Other groups using the service include Asbury Automotive Group, Hendrick Automotive Group, Swope Automotive Group, and Ken Garff Automotive. Many dealer-to-dealer transactions occur via a smartphone, website, email or other method. Looking to help customers further grow their profits by sourcing directly through their trusted networks and relationships, Cox Enterprises invested in a new company, DealerMatch.

DealerMatch offers Web and mobile tools that give dealers visibility to inventory on other dealers’ lots across the country. DealerMatch’s team of trade desk and networking specialists help dealers conduct more business with existing dealer trade partners and to further build their network of trusted trading partners. DealerMatch is a subscription service, allowing members to buy or sell as many vehicles as they want for a flat monthly fee. As a sister company to Manheim in the Cox portfolio of businesses, DealerMatch and Manheim have collaborated to offer members additional services to help their dealer-to-dealer trading, including title and funding services as well as the industry’s first sight-unseen purchase guarantee, DealShield.

**Manheim and DriveTime Joint Venture—Go Auto Exchange**

As 2013 came to a close, Manheim announced a partnership with subprime credit used-car dealer group DriveTime to form Go Auto Exchange, a new separate and independent wholesale auction company focused on independent dealers and the low-end vehicle segment. The new auction company will focus on serving this growing segment and providing dealers with a new inventory sourcing alternative. AutoRemarketing reported in 2013 that DriveTime had retailed 10,000 additional vehicles vs. the same period in 2009.

**AVERAGE AUCTION PRICE—DEALER-CONSIGNED VEHICLES**

![Graph showing average auction price for dealer-consigned vehicles from 2011 to 2013.](source: Manheim Consulting)

**AVERAGE MILEAGE—DEALER-CONSIGNED VEHICLES**

![Graph showing average mileage for dealer-consigned vehicles from 2008 to 2014.](source: Manheim Consulting)
Q: How would you describe business conditions for franchised dealers in 2013?

A: Well, I think finally, after some really tough years, the market has come back. There are still challenges ahead, but most of them are on the political end. It’s a great time to be a dealer.

Q: How is technology changing the daily activities of franchised dealers when it comes to growing their businesses and moving units?

A: Obviously, dealers have embraced the Internet. Digital marketing is important, and new technology creates more opportunities in promoting dealerships and finding units. Despite advances in technology, dealers must remember that it is still all about the customer. If your customers aren’t happy, then your business is not going to be good. We should be using new digital tools to give customers more information and increase transparency. The software that dealers now have on hand for pricing vehicles and the availability of up-to-the-minute data let us provide our customers with more information than ever before.

Q: Will you share your perspective on how the leveling of new car sales will impact dealers in 2014?

A: Dealers are really good at adjusting to market conditions. Yes, dealers need to be carefully managing expenses; but it is important to keep in mind that this leveling is happening at a time when we are still close to record highs. Again, as things begin to level out, it is important to remember that customer service and retaining existing customers are key.

Q: What is your perspective on the increasing popularity of CPO units and what that means for franchised dealers?

A: CPO cars are an excellent entry point for new buyers of a brand. The guarantees and benchmark levels give buyers an increased level of comfort with their purchase and minimize their perceived risk. Studies show that buyers will often come back to the same dealer and brand and purchase a new vehicle the next time around.

Q: Customer service is such an important factor in today’s competitive business climate, across all industries. What are you and/or your association members doing differently to ensure that customers have an outstanding experience?

A: First, dealers must know that the key to long-term success is taking care of their customers during the entire purchasing experience. One thing we do is survey our customers regularly at the national level and even after they purchase a car or get service at our dealership. We think it is important to provide the best customer service possible, and we are always monitoring how we are doing on that front.

Forrest McConnell and his brother William own McConnell Honda/Acura in Montgomery, Ala., which was founded as Hupmobile in 1919. McConnell will take the reins as NADA chairman at the 2014 Convention and Expo in January.
Q&A With
NIADA President
Keith Hagler

Q How would you describe business conditions for used car dealers in 2013?
A Business was really mixed in 2013. Some people had a steady year, and others had a strong 2013. I haven’t heard of anyone having an awful year, though. I am a Buy-Here, Pay-Here dealer, and we were fortunate to have a fantastic year. In fact, we even added two more dealerships. Generally speaking, inventory availability and pricing seem to be improving, which is good news.

Q What are the latest best practices in inventory sourcing for dealers?
A The auction is still the major supplier of cars, but now we have different ways to work within the auction system. The experience of buying online and not having to physically go to the auction gets better and better, and dealers are becoming more comfortable with it.

I’ve been in this business for more than 25 years. When I started, we used to only buy things locally. Now we’re seeing dealers using buyers to go out to other markets and find vehicles.

Q Your other investments include a car wash, storage facilities, oil and lube shops, and more. What lessons have you learned from those ventures that have helped you succeed as a dealer?
A One thing I have learned is that education is important no matter what business you are in. Get to know professional people you admire, and benefit from their knowledge. Dealers should get involved in NIADA and make certain to be a part of a Twenty Group. You can often learn from another dealer’s experiences, allowing you to avoid costly mistakes.

I’ve also learned that there is nothing like the car business. In terms of profitability, a car business run right and correctly is the best.

Q In today’s rapidly changing environment, what skills are most important for a dealer to have in order to be successful?
A Our industry is changing so fast. I was talking to a group of dealers recently about how much has changed just in the past six or seven years. Dealers must be aggressive and serious about education. All dealers need to be reading the Used Car Market Report and automotive trades and learning from other dealers across the country.

A dealer of today looks different from a dealer of 20 years ago. Capital is of course imperative for growth, and lenders are looking for dealers who are sharp, up-to-date on industry trends, and tech-savvy.

Q Customer service is such an important factor in today’s competitive business climate, across all industries. What are you and/or your association members doing differently to ensure that customers have an outstanding experience?
A Customer service is a main focus for us, and we work on it every day. Our team works with clients to keep them happy in all regards. I am constantly asking how we can do better. Our dealerships don’t advertise, we use word-of-mouth and referrals only and still sell 136 cars a month. I tell all my employees that we should use the Golden Rule as a benchmark for how we treat customers.
Rental

Rental Industry Revenues Approach $25 Billion in 2013

Total rental industry revenue in 2013 increased for the fourth consecutive year. From a cyclical trough of just over $20 billion in 2009, annual rental revenues rose to nearly $25 billion in 2013. Much of that growth occurred in the off-airport leisure and insurance replacement markets. Traditional on-airport rental showed a nice increase in transaction days, but revenue growth in that segment was modest due to competitive pricing.

The shift in types of rental business, along with competitive pricing, meant that revenue per unit in service declined by 1% to just under $12,600 per year. Nevertheless, low fleet depreciation and inventory funding costs propelled the rental industry to record profits in 2013.

U.S. CAR RENTAL MARKET

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Source: Bobit Business Media

2013 HIGHLIGHTS

Total rental industry revenue increased for the fourth consecutive year, to nearly $25 billion, up from $20 billion in 2009.

Low fleet depreciation and inventory funding costs propelled the industry to record profits.

New vehicle sales into rental hit 1.6 million units, the most since 2007 but well below the mark of 2.1 million units in 2005 and 2006.

The share of new vehicles sold into rental by domestic manufacturers fell for the third straight year.

Risk units account for a growing share of rental fleets (93% at Hertz, 66% at Avis/Budget, and nearly 100% at Enterprise).
Industry Consolidation Reaches Its End Game

The purchase of Dollar Thrifty by Hertz, which was consummated in November 2012, put a cap on earlier consolidation moves—the Avis purchase of Budget, ZipCar, and Payless, and Enterprise’s acquisition of National/Alamo as well as several local car-share companies. This means that the Big Three rental companies now account for more than 90% of all rental vehicles in service. More importantly, each of the large companies is now actively involved in every segment of the rental business—from prestige on-airport to discount off-airport, from value-based brands to special-interest vehicles, and from long-term insurance replacement to short-term car sharing.

New Vehicle Sales Into Rental Reach 1.6 Million in 2013

The number of vehicles purchased by rental companies increased 1.4% to 1.57 million in 2013. It was the highest purchase volume since 2007, but well below the 2.1 million new vehicles that were sold into rental in 2005 and 2006. Given the shift from program to risk units (and a longer average service life for risk vehicles), rental company purchases of new vehicles are not expected to reach 2 million units a year anytime soon.

As was the case in 2012, vehicle sales into rental in 2013 were front-loaded into the first half of the year, with sales through June accounting for 62% of full-year purchases. This front-loading of purchases has also meant higher remarketing volumes in the first half of the year, even though this is generally a time when rental companies are building up their fleets. The shifting pattern of purchasing and remarketing volumes has better enabled some rental car companies to buy used vehicles at auction to supplement their fleet. And, of course, with all of the majors now involved in all segments of the business, there is a greater opportunity to cascade vehicles down from premium brands to value brands as the units age.

The share of new vehicles sold into rental accounted for by domestic manufacturers fell for the third consecutive year in 2013. It marked their lowest share ever—save for 2009 when the GM and Chrysler bankruptcies forced rental companies to shift their purchasing patterns. The biggest increase in new vehicle sales into rental in 2013 was accounted for by Hyundai. After cutting back significantly in 2010 and 2011, Hyundai’s sales into rental rose 73% in 2013 to a record 118,000 units. Generally speaking, over the past decade, the mix of manufacturers and models comprising the rental fleet has become more representative of new vehicle sales overall.

### DISTRIBUTION OF NEW VEHICLE SALES INTO RENTAL BY MANUFACTURER

For individual rental car companies, the shift toward a more diverse fleet has been even more striking since, in earlier times, some of the companies had major supply agreements with only one or two manufacturers. The greater mix of models in the off-rental supply has had several implications for remarketing—most of them positive. Most important, it has helped protect residual values since one rental company is no longer forced to sell large numbers of any one model at any one point in time. The wider mix of off-rental units has, however, required that rental companies (and their auction partners) work harder to ensure that specific vehicles get exposed to the dealers most interested in that particular product.

### NEW VEHICLE SALES INTO RENTAL BY MONTH

![Graph showing new vehicle sales into rental by month from 2011 to 2013.](Source: Bobit Business Media)
Manheim data indicates that, in any given calendar quarter, rental car companies will remarket vehicles with some 2,500 unique individual year, make, model, and body-type configurations. In the third quarter of 2013, it took 69 unique year, make, model, and body configurations to account for 50% of all rental risk sales at auction. As recently as the third quarter of 2011, it took only 31 such unique configurations.

**RENTAL RISK VEHICLES REMARKETED AT AUCTIONS**

<table>
<thead>
<tr>
<th></th>
<th>3rd QTR 2011</th>
<th>3rd QTR 2012</th>
<th>3rd QTR 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of unique year, make, model, body configurations sold</td>
<td>2,216</td>
<td>2,455</td>
<td>2,620</td>
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<tr>
<td>Share accounted for top 10 YMMB</td>
<td>28.2%</td>
<td>17.0%</td>
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<td>Share accounted for top 25 YMMB</td>
<td>46.5%</td>
<td>30.6%</td>
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</tr>
<tr>
<td>Number of YMMB to reach 50% share</td>
<td>31</td>
<td>61</td>
<td>69</td>
</tr>
</tbody>
</table>

*Rental Risk Vehicles Continue To Command Strong Pricing at Auction*

In 2013, prices for rental risk vehicles sold at auction have continued at the same high level for the past three years. These high prices were recorded during periods of high off-rental auction volumes, as well as during periods of low volumes. This suggests that the bidding at auction is more closely tied to retail demand than auction supply. And, in recent years, that retail demand has been consistently strong—buttressed by retail credit availability and record sales for manufacturer-certified pre-owned units.

**AVERAGE AUCTION PRICE | RENTAL RISK UNITS**

*Prices for rental risk units at auction continued at the same high level as the last three years, suggesting that bidding is more closely tied to retail demand than auction supply.*

Hertz reported that 93% of its fleet was composed of risk units in the third quarter of 2013, up from 86% the prior year and only 31% in 2005. At 66%, Avis/Budget has the smallest share of its fleet composed of risk units, but that percentage is up from only 1% in 2005. Enterprise, as well as the small independent rental companies, operates fleets that are almost 100% risk. In their third-quarter earnings calls, both Hertz and Avis indicated that pricing for program units was once again becoming attractive, so the fleet share accounted for by risk units may decline slightly in 2014.

**AVERAGE MILEAGE | RENTAL RISK UNITS**

Although our index of rental risk auction prices appears to have significantly outperformed the overall wholesale market, we caution against simple comparisons. Yes, auction prices for end-of-service rental units have been strong; but those vehicles represent a unique slice of the overall wholesale market. It is a segment which is susceptible to swings in new vehicle inventory levels and pricing—both of which have been favorable of late.
For example, the Bureau of Economic Analysis (as part of national income accounting) produces a monthly series of average prices for new vehicles bought by businesses. If we take that series and relate it to the mix- and mileage-adjusted price series for rental risk units produced by Manheim, we find that off-rental auction prices are indeed performing well, but the results are not outside of historic norms.

**RENTAL RISK AUCTION PRICE VERSUS NEW VEHICLE SALE PRICE (BUSINESS) ONE YEAR PRIOR**

![Graph](Source: BEA & Manheim Consulting)

There is some justifiable concern that the influx of off-lease units in 2014 and beyond may dampen pricing for off-rental units. Although these two wholesale segments are not exact substitutes for each other (the distribution of model years, makes, and option-contenting are very different), there is the issue of share of the dealer’s mind and wallet. In 2014, returning lessees will be driving high-quality inventory right to the dealer’s door, and lessors will be enticing grounding dealers (with carrots and sticks) to buy these vehicles at fair market value (or sometimes even less) with no buy fee. Each such acquisition will mean the need for one less unit from other sources.

However, the biggest influence on off-rental pricing will, as always, be manufacturer practices with respect to incentives and inventory levels. On that front, it appears that manufacturers may remain committed to a better equating of production to demand. That should moderate any easing of off-rental pricing coming from other factors.

### Rental Car Companies Grow Digital Remarketing

Rental car companies have been quick to adopt, as well as develop, innovative technologies and strategies to remarket end-of-service units. The reason is simple — fleet depreciation is a major determinant of company profitability. When it comes to upstream remarketing, the rental companies have advantages and disadvantages. On the plus side, rental companies are long-established sellers in the wholesale market (which builds buyer trust), their end-of-service fleet is large, it is concentrated in a relatively narrow mileage and price range, and it often needs only modest reconditioning.

The disadvantage that rental companies face in selling upstream is that their time pressures are acute, and they certainly don’t want to marshal non-revenue-generating units. As such, the companies have developed strategies to pre-offer vehicles while they are still in service as rental units.

Digital remarketing of off-rental units is also driven by the fact that fleets are often concentrated in a particular geography — so much so that they can swamp local demand. Digital remarketing allows the seller to efficiently bring the buyer to the car rather than guess where to move the car.

In 2013, 30% of all Manheim auction purchases of rental risk units were made online, consistent with 31% in 2011. For these online purchases in 2013, the average distance between buyer and car was 448 miles, with 42% of the purchasers located more than 500 miles from the vehicle. For in-lane purchasers, the average distance was only 228 miles, with only 17% located more than 500 miles away.

Another remarketing technique that some rental car companies have used successfully is the offering of specific makes in conjunction with the factory sale of that brand on auction day. To be successful at that, rental car companies need to ensure that their offerings blend better with the other units in the lane. In other words, they need to do more reconditioning and strive for a consistently higher conversion rate.

### Remarketing Volumes Continue To Grow

In 2013, nearly 1.5 million off-rental vehicles entered the wholesale market. Of these, an estimated 45%, or 720,000 units, were sold at NAAA-member auctions. Another 200,000-plus were sold directly to retail customers, and the remainder were sold to dealers outside the traditional auction process. In 2014, off-rental volumes are expected to increase to more than 1.6 million units and to continue to grow in years following. The future growth in off-rental volumes will likely mirror the growth in the total rental fleet size, as we foresee no significant change in holding periods.
Leasing

New Lease Originations Soar to Highest Level in More Than a Decade

In 2013, rising new vehicle sales, as well as higher lease penetration rates, pushed new lease originations to their highest level since 2000. At nearly 3.2 million contracts, lease originations in 2013 were 26% higher than a year ago, and almost three times higher than during their cyclical trough in 2009.

![NEW VEHICLE LEASE ORIGINATIONS](chart)

As shown in the chart below, lease penetration rates for GM, Ford, and Chrysler products have now risen close to the industry norm after falling into the low single digits in 2009. Lease penetration rates for Hyundai/Kia vehicles have also increased significantly in recent years. That’s reflective of product offerings that have moved upscale, greater access to funding through the captive finance arm, and a history of strong residual performance. In the luxury segment, lease penetration rates have always been more than twice the overall industry average.

2013 HIGHLIGHTS

At nearly 3.2 million contracts, new lease originations reached their highest level since 2000.

This was up 26% from a year ago and nearly three times higher than during the cyclical trough of 2009.

Lease penetration rates for GM, Ford and Chrysler have risen close to the industry norm after falling into the low single digits in 2009.

The sheer volume of new lease originations could pose a challenge to remarketers in future years when off-lease volumes increase.

It will be critical over the next three years that lessors continue to improve their remarketing practices and ensure that all units are exposed to all potential buyers. Grounding dealers will not be able to acquire the same share of off-lease units as in recent years.

![LEASE PENETRATION RATES BY MANUFACTURER](chart)

*November year-to-date

Source: J.D. Power and Associates
Have Lease Penetration Rates Risen Too High?

Some analysts suggest that recent increases in total new vehicle sales have been artificially lifted by leasing, and that the lease penetration level may have moved beyond its “natural rate.” That, however, has not been the case. In fact, today there are more people in long-term retail contracts who should be in leases than there are people in leases who should be in retail contracts. Consider a few of the factors that have put some people into a retail contract when a lease would be a better fit for them:

• The pullback from leasing during the financial collapse was severe. That means there are many salespeople today who don’t even offer the lease product because they are not used to, or are untrained in, selling it.

• Compensation packages (whether for up-front grosses, F&I products, salespeople, or general managers) often favor the retail contract over the lease.

• The dearth of off-lease returns (just now easing) has meant a significant reduction in the most logical lease customer — a returning lessee.

Given that future new vehicle sales will likely continue to become increasingly skewed toward high-income households, then lease penetration rates should trend up over time. That’s because these are the very households that want to trade on a short, and regular, cycle. Putting this type of customer into a 72- or 84-month loan may garner near-term profits, but it will breed long-term customer dissatisfaction.

In the years ahead, it will be important that lessors continue to improve their remarketing processes to ensure that off-lease units are properly exposed to all potential buyers.

That said, the sheer volume of new lease originations could pose a challenge to remarketers in future years. The key will be the level of subvention entailed in the original lease. When not overly subvented at origination, a lease return is viewed by the lessor and grounding dealer as an opportunity to sell a satisfied customer another car. But, if overly subvented, that lease return can start a downward spiral in both residual values and customer satisfaction.

Off-lease Volumes Will Rise Significantly

Since new lease originations grew by a million vehicles between 2009 and 2011, and then by another million units between 2011 and 2013, we can be assured of a similar rise in off-lease volumes in the coming years. And since the increases in lease penetration rates were not consistent across manufacturers, neither will be the changes in off-lease volumes. Note, for example, that although total lease originations in 2013 are nearly three times higher than in 2009, new lease volumes have grown by a factor of 10 or more at GM, Chrysler, and Hyundai/Kia.

The industry’s ability to absorb these off-lease volumes has been questioned by some. Rest assured that all of these off-lease units will be subsequently retailed in the used vehicle market — and in short order, for a profit. The question is only to what level prices need to adjust to effect these transactions.

It is likely that the needed residual adjustments in 2014 will be modest. Keep in mind that, unlike 2002, next year’s off-lease volume will be coming back into a more favorable retail market — and one which is considerably larger. Consider, for example, that in 2002 the CPO market was less than 40% the size of total off-lease volume. In 2013, the CPO market was 23% bigger than total off-lease volumes.

Nevertheless, in 2014 (and more significantly in 2015 and 2016) it will be important that lessors continue to improve their remarketing processes and ensure that all units are properly exposed to all potential buyers. Grounding dealers will not be willing, or able, to acquire the same large share of off-lease units that they have in recent years.
Lessors Continue To Post End-of-term Gains

Lease remarketers are well-acustomed to cyclical swings in their portfolio performance. For example, they went from large losses on end-of-term vehicles in 2008 to record gains on units sold in 2011. End-of-term gains remained in place in 2012 and 2013, but should start to diminish in 2014. There is no aggregated data on the performance of all lease portfolios; but the graphic below, which depicts the results for Ford Credit and Ally leases, is not atypical.

AVERAGE_GAIN_OR_LOSS_ON_LEASE_RETURNS

These swings in portfolio performance are an inherent, and unavoidable, risk contained in the lease business model. New lease originations generally peak at the top of the economic cycle when residual value projections are lofty (since they are based, in large part, on past experience). That means that the peak in off-lease volumes will often come back during a down economic cycle when used vehicle valuations are low. Swings between gains and losses are also amplified by the fact that lease return rates (i.e., the share of off-lease units not bought by either the lessee or grounding dealers) are strongly and inversely correlated to used vehicle values. When wholesale prices were at their lowest in 2008, lease return rates were often well above 80%. As wholesale values reached new highs in 2011 and 2012, return rates fell below 50%. With off-lease volumes rising in 2014, and wholesale prices likely to moderate, lease return rates should begin to creep back up, but it is unlikely they will approach earlier highs. That’s because lessors have a greater variety of tools — carrots and sticks — to help and entice grounding dealers to purchase a reasonable share of returning units.

Data from Ford Credit shows that its spread between contract residuals and projected ALG residuals has remained fairly consistent over time. This suggests that, for Ford Credit, the swing between end-of-term losses and gains was the result of market forces and inaccurate residual forecasts, rather than variations in the subvention level.

Off-lease Remarketing Prioritizes the Grounding Dealer

All captive finance companies, as well as the major independents, use at least one Internet upstream platform that offers end-of-term vehicles to an ever-widening audience of dealers prior to sale at physical auction. And those technologies, platforms, and processes have improved significantly in recent years.

Most of the captives are using these technologies to keep a large share of the returning lease volume within their dealer network — and, most notably, the grounding dealer. Securities and Exchange Commission filings show that Toyota Dealer Direct accounted for 44% of all Toyota off-lease sales in its fiscal year ending March 31, 2013. That was down from a record 63% in the prior year. And, in both cases, most of the sales were to the grounding dealer. As off-lease volumes grow in coming years, it is likely that the share of off-lease units bought by the grounding dealer will decline, but probably not by much since the captive lessor will still put priority on that first possible sale.

DISTRIBUTION_OF_TOYOTA_FINANCIAL_SERVICES_OFF-LEASE SALES IN U.S. (PERCENT)

Source: Toyota Financial Services and SEC filings
Repossessions

Retail Credit: From Dry Times to High Times

The availability of retail credit has always played a critical role in the vitality of the new and used vehicle sales market. That linkage was clearly visible in the last economic cycle.

As the credit markets literally froze up in 2008, an already weak environment for vehicle sales quickly turned dismal. There were still borrowers with the willingness and ability to pay; but, with no access to funds themselves, lenders could not lend. Or, at least not in the quantity they were used to. After all, most lenders had become accustomed to funding their operations by packaging loans and selling them in the asset-backed securitization market—a market which, in late 2008, for all practical purposes, did not exist.

Fortunately, this was one segment of the financial market that the government was quickly able to stabilize with minimal risk and effort. The Term Asset-Backed Securities Loan Facility (TALF) was initiated in late November 2008 and enabled the Federal Reserve to lend $1 trillion to holders of top-rated ABS loans. TALF quickly opened up the market for auto loans. There is a reason that this program worked so well while others failed—auto loans were never a cause of the financial market blow-up. Auto loan portfolios, in fact, performed well throughout the recession, and more important, the indirect auto lending model never had the inherent conflicts that were built into the mortgage market.

*Wall Street is virtually throwing money at lenders, who are enthusiastically offering that money to dealers. Will lenders and dealers push this credit cycle too far and start making silly loans? Absolutely! But the bubble hasn’t been reached yet; might as well make the most of it while it lasts.*

During the recovery, auto financing first opened up for prime credit borrowers; but by 2011, subprime auto lending was already making its resurgence. Fast-forward to today, and we see Wall Street virtually throwing money at lenders (it is only natural as everyone seeks yield in a zero-interest-rate environment) and then lenders enthusiastically offering that money to dealers.

Will lenders and dealers push this credit cycle too far and start making silly loans? Absolutely! It happens in every cycle. But this cycle has not yet reached the bubble stage. It has further to run, and the auto industry should enjoy it, and make the most of it, while it lasts.

### 2013 HIGHLIGHTS

- The asset-backed securitization issuance in the auto industry reached nearly $90 billion, the third-highest level ever.
- The dollar amount of auto loans outstanding totaled $783 billion, an increase of $103 billion.
- The average new car loan amount was $26,719, an increase of $756 over 2012.
- More than half of used car loans are for 61 months or longer. More than 12% are for 73 months or longer.
- Used auto loans to persons other than prime borrowers accounted for 55% of all contracts.

The dollar amount of auto loans outstanding totaled $783 billion, an increase of $103 billion.
Asset-Backed Securitization Market Keeps Credit Flowing

Asset-backed securitization issuance in the auto market reached nearly $90 billion in 2013, the fifth-highest level ever, even as many large banks relied heavily on deposit-backed funding for loan originations. The terms of the securitization deals (for example, the amount of overcollateralization needed to achieve a given credit rating) remained favorable to issuers. So too did credit spreads.

Although recent vintage loans are not performing as well as the 2009 and 2010 pools, their loss rates are below long-term historic averages. As such, we expect the auto ABS market will remain favorable for both issuers and investors in the near term.

Auto Lending: A Big Business With Many Players

The dollar amount of auto loans outstanding totaled $783 billion as of the third quarter of 2013, according to Experian. That’s an increase of $103 billion over the past year and is the result of both more, and larger, loans. The average new car loan amount was $26,719 in the third quarter of 2013, an increase of $756 from the prior year. But, due to a lower interest rate and a longer term, the average monthly payment went up only $6.

Unlike the lease market, retail financing has low levels of lender concentration. On the new vehicle side, the top 10 lenders control 58% of the market (it’s 87% for leasing). And, on the used vehicle side, the top 10 lenders account for only 30% of all financing. As a result, there are many banks, finance companies, and credit unions with small auto loan portfolios and, thus, few repossessions. This has created an opportunity for third-party providers to handle the collateral collection and remarketing needs of these lenders.

There are many banks, finance companies, and credit unions with small auto loan portfolios and, thus, few repossessions. This has created an opportunity for third-party providers to handle the collateral collection and remarketing needs of these lenders.
Loan Terms Lengthen and Loan-to-Value Ratios Rise

In 2013, loan-to-value ratios for used vehicle financing increased at all types of lenders and in every risk segment. So too did the length of loan terms. By the third quarter of 2013, more than half of all used vehicle loans were for 61 months or longer. More than 12% were for 73 months or longer.

TERM DISTRIBUTION OF USED VEHICLE LOANS ORIGINATED IN THIRD QUARTER OF 2013

Lenders report that longer loans, in and of themselves, do not materially impact repossession rates. It is, however, inarguable that longer loans increase the severity of loss on credit defaults. And, since the equity point is reached further out in long-term contracts, it is reasonable to expect that more repossessions will also take place further out in the contract.

Subprime Loans Grow

In the third quarter of 2013, used auto loans to persons other than prime borrowers accounted for 55% of all contracts, according to Experian. That is within historic norms and suggests a healthy flow of credit to all types of borrowers.

Repossession Volumes Rise in 2013

Total repossessions increased by about 5% in 2013 to an estimated 1.37 million. In 2014, the jump will likely be more substantial, but it will be an increase driven by a higher number of contracts outstanding and the mix shift toward lower credit tiers—not any wholesale, or unexpected, deterioration in portfolio performance.

NUMBER OF REPOSSESSIONS

In fact, on a credit-adjusted basis, default rates should remain below historic norms. In addition to a secular shift wherein households have placed a high priority on auto debt relative to other obligations (witness the S&P default indices), there are also current short-term forces that will better enable customers to make their monthly car payments.

CREDIT DEFAULT RATES

Relative to a year ago, average interest rates on used vehicle loans have risen for subprime and deep subprime borrowers, but have fallen for all others. That, combined with a shorter loan term than for prime and non-prime loans, means the average monthly payment for subprime and deep subprime borrowers ($366 and $371, respectively) is higher than the overall average ($350) even though the typical amount financed is considerably less.
Most notable is the significant deleveraging in the household sector. The Financial Obligation Ratio (the sum of mortgage, rent, auto lease and loan, and property tax payments as a percent of disposable personal income) is currently running at 30-year lows. This clearly indicates that most households are operating from a very solid financial base. And, in the near term, it is unlikely they will be not off that base by sudden job loss (often the precipitating event leading to repossession). Although net job creation remains less than spectacular, that’s because of modest hiring, not wholesale firings. Initial jobless claims and other indicators of involuntary job separation are back to pre-recession lows.

**FINANCIAL OBLIGATION RATIO**

*Total household mortgage, rent, auto loans & leases, and property taxes as % of disposable personal income*

![Graph showing the Financial Obligation Ratio from 1981 to 2013](image)

*Source: Federal Reserve Board*

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**Repossession Remarketing: Quick Conversions for High Returns**

Lenders are naturally focused on converting repossessed units into cash as quickly as possible. Various laws and regulations dealing with the processes of collateral collection and liquidation often present a stumbling block to that quick conversion, but lenders and their auction partners have been successful in streamlining the processes that they do control.

Pure upstream selling is sometimes hampered by various obstacles to the efficient production of quality condition reports for repossessed units. But, after crossing that hurdle, repo remarketers can easily avail themselves of many opportunities to offer units 24/7 while in transit to, or awaiting sale day at, the auction.

Given the lender’s strong focus on time to sale, they generally strive for, and achieve, high conversion rates. That, coupled with little or no reconditioning, means that wholesalers are often the buyers of repo vehicles. Sometimes they will do some light cosmetic work and then re-wholesale the unit. That arbitrage should not be regarded as a lost opportunity, but rather simply the wholesale market’s efficiently getting vehicles to the ultimate end dealer in the condition desired.

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New Vehicle Fleet Purchases Increase Slightly in 2013

New car and light-duty truck purchases by commercial and government fleets increased less than 1% to 795,000 units in 2013, and that gain was largely driven by a 13% jump in December truck purchases as businesses took advantage of the accelerated depreciation tax incentive that was set to expire at the beginning of 2014. Although commercial and government fleet purchases in 2013 increased for the fourth consecutive year (from a trough of only 588,000 such purchases in 2009), they were still well shy of the million-plus units that were sold into fleets in both 2006 and 2007.

Given ongoing employment shifts between industries, the changed occupational distribution within industries, and the continued tight rein on both private and public fleet budgets, it is expected that new vehicle sales into fleets will start to level off below the 900,000 level by 2015. For 2014, several surveys indicate that fleet managers have a heightened interest in refreshing and expanding their fleets. Offseting that demand will be reduced purchases from companies that cycled their fleets out early in 2012 and 2013 to take advantage of high wholesale prices and, in some cases, attractive fleet incentives.

NEW VEHICLE SALES INTO COMMERCIAL AND GOVERNMENT FLEETS

Even excluding businesses that operate fewer than 15 vehicles, commercial and government fleets had more than 6.4 million vehicles in operation in 2013, according to Automotive Fleet. That’s a foundation for steady, and healthy, replacement demand.

Fleet Operating Costs Improve in 2013

Most surveys indicate that fleet managers had flat fleet operating costs in the first half of 2013. With fuel prices declining in the second half of the year, it is likely that many fleets had reduced per-vehicle costs for the full year.

2013 HIGHLIGHTS

Commercial and government fleet vehicle purchases (795,000 units) increased for the fourth consecutive year.

Still, the 2013 total was well shy of the million-plus units sold into fleets in 2006 and 2007.

New vehicle sales into fleets are expected to level off below 900,000 by 2015.

The top five car models accounted for more than 45% of all new fleet vehicles.

Wholesale pricing for end-of-service fleet units in 2013 was not as strong as the previous two years, but it was not weak.
Fleet expenses have been kept in check by reduced maintenance and repair costs associated with today’s higher-quality vehicles and, in some cases, extended powertrain warranties. When repair incidences do occur, however, they are significantly more expensive than in the past as the diagnosis is often more complex and the part prices are higher. Similarly, the prevalence of synthetics has made oil changes more expensive, but it has lengthened service intervals. Additionally, fleet operators, like retail consumers, have benefited from manufacturer programs that cover first-year oil changes and tire rotation.

Fleet Fuel Efficiency Continues To Improve

For many years, fleet managers have worked hard to right-size the vehicles in their fleets to precisely meet needed requirements. After achieving the proper market class mix, they then strived to purchase the most fuel-efficient models and equip them with the proper options. This practice not only lowered annual fuel costs but, in many instances, also protected resale values. Gasoline prices, which hit their record high in May 2011, were even higher in 2012 on an annual average basis. That helped support the wholesale value of fuel-efficient end-of-service fleet units. And, in 2013, even as gas prices were more stable and lower, the used vehicle market continued to place a price premium on fuel efficiency.

GASOLINE PRICES

Since fuel costs are by far the largest operating expense in fleet budgets, operators have been quick to use technology to reduce those expenses, most notably, telematics that promote route optimization and reduced idling. Fleets have also benefited from the fact that new vehicles across the board have become more fuel efficient. Over the past six years, the average fuel economy of vehicles sold in the U.S. increased by 22%, from 20.4 mpg to 24.8 mpg.

Alternative-fuel vehicles have often been placed in fleet service due to corporate sustainability dictates, not because of expected savings. Nevertheless, the total cost of ownership for these vehicles has sometimes been in line with, or even better than, conventionally powered vehicles. The major drawback for alternative-fuel vehicles has been their higher acquisition cost, not their depreciation rate. But, of course, alternative-fuel vehicles do open up the fleet manager to greater residual risk since the end-of-service value is less predictable and subject to short-term swings.

Concentrated, but Complex, Buying Decisions

Unlike rental, commercial and government fleet purchases are generally concentrated within a few makes and models. Registration data from Polk Automotive shows that the top five car models accounted for more than 45% of all the new cars registered to commercial fleets in calendar year 2012. In the van and multipurpose vehicle segment, the top five models accounted for 87% of all registrations.

TOP FIVE VEHICLE* SHARE COMMERCIAL FLEET SALES

*Based on “Top 5 Vehicle Registrations by Segment.”

Source: Polk Automotive

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Source: Polk Automotive
Part of this concentration is a result of historic buying patterns geared toward domestic manufacturers that are fleet-friendly with respect to order-to-delivery times, custom up-fitting, and incentives. But, it also reflects the fleet manager’s conscious decision to reduce the number of models available to drivers on fleet selector lists.

More concentrated buying has not meant less complicated buying. In fact, the practice of staggered new model introductions throughout the year has made the fleet manager’s task more difficult. It’s impossible for the fleet manager to do model-to-model comparisons when the final specs of potential buys have not yet been released. And, staggered new model introductions invariably lead to staggered purchasing and remarketing cycles, something the fleet manager would prefer to avoid.

**Fleet Depreciation Trends Stable in 2013**

Wholesale pricing of end-of-service fleet units in 2013 was not as strong as either 2011 or 2012, but it was not weak. Wholesale supplies grew, but they were still relatively low given the stronger dealer demand created by the greater availability of both retail and wholesale financing.

**AVERAGE AUCTION PRICE — MIDSIZE FLEET CARS**

![Graph showing average auction price for midsize fleet cars from 2002 to 2013.](source: Manheim Consulting)

Straight dollar averages over a long period of time show that the average price for a midsize fleet car is now higher than that of the overall average auction unit. It used to be considerably lower. That change occurred as auction sales shifted toward more dealer consignment sales, which are typically older, less expensive units. With the average fleet unit now priced right in the mix with many other types of auction units and sellers, the fleet reseller faces more competition in attracting buyers. Additionally, since the average wholesale price of a fleet unit has risen so much over time, it is important for fleet remarketers to recognize that their buyer base has also changed.

In 2011, 2012, and to a lesser extent, 2013, fleet managers availed themselves of opportunities to cycle out of fleets early to take advantage of higher wholesale prices. Interestingly, at the same time, some fleets were extending the service life of their vehicles. As a result, the mileage on fleet units being remarketed has become more dispersed. On average, however, mileage has continued to trend up. The average end-of-service fleet car sold at auction now has more than 75,000 miles, whereas a decade ago the average mileage was 65,000 miles. For pickup trucks, the average mileage has risen from 100,000 miles to more than 115,000 miles.

**Fleet Management Companies Drive Remarketing Improvements**

Fleet management companies (FMCs) have been pioneers in using analytics to protect residual values, for example, studying the impact that various vehicle options have on resale value or determining the optimal service life for particular types of vehicles. FMCs have also been innovators as well as catalysts in moving the whole remarketing industry forward (e.g., upstream selling and multiplatform listing).
All of this belies the common myth that fleet management companies are less interested in resale value since, generally, they do not carry the residual risk. The FMC/fleet manager client relationship, like most others in the remarketing world, is built on a true partnership working toward mutually beneficial goals.

### TOP 10 FLEET MANAGEMENT COMPANIES

<table>
<thead>
<tr>
<th>Company</th>
<th>Vehicles Funded &amp; Managed</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE Capital Fleet Services</td>
<td>758,383</td>
</tr>
<tr>
<td>ARI</td>
<td>751,416</td>
</tr>
<tr>
<td>PHH Arval</td>
<td>493,000</td>
</tr>
<tr>
<td>LeasePlan</td>
<td>385,000</td>
</tr>
<tr>
<td>Wheels</td>
<td>296,000</td>
</tr>
<tr>
<td>Enterprise</td>
<td>281,237</td>
</tr>
<tr>
<td>Donlen</td>
<td>188,000</td>
</tr>
<tr>
<td>Emkay</td>
<td>85,000</td>
</tr>
<tr>
<td>Mike Albert</td>
<td>37,100</td>
</tr>
<tr>
<td>Merchants Fleet Management</td>
<td>35,343</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,310,479</strong></td>
</tr>
</tbody>
</table>

(Source: Automotive Fleet 2013 Fact Book)

### FUNDED AND MANAGED VEHICLES—TOP TEN LESSORS

![Graph showing the number of funded and managed vehicles from 2008 to 2013.](source)
International

U.K. Market

Manheim is the second-largest auction company in the United Kingdom, with 17 auction centers and a number of online auction and fixed-price buying channels. Figures from Manheim’s Market Analysis report, based on transaction data, reveal that in 2013 wholesale prices increased by an average of 2.7% in the first six months of 2013 and by 5.2% in the last half of the year. The report also shows that in the second half of 2013, monthly auction volumes were up 19%. In part, this was driven by an increase in trade-ins, as U.K. retail new car sales were up 15%.

After posting consecutive second and third quarter GDP growth rates of 0.8%, the U.K. economy is currently recovering more quickly than its European partners, and this is evident with house prices rising by 8.4% in 2013 and new car sales 10.8% ahead of 2012 figures.

New car sales in other European markets are sluggish at best; in Germany sales compared to 2012 are down 8.1%, France down 11.2% and Italy down 10.3%. In two of the hardest-hit economies of Spain and Portugal, registrations have done better at down 4.9% and up 2.9% respectively. According to the Organisation Internationale des Constructeurs d’Automobiles (OICA), overall registrations in Europe were down 5.8% in the first half of 2013 vs. 2012, although there was some improvement as the year progressed, with scrappage and taxation incentives assisting in some markets.

What is also interesting about the U.K. market is that used prices have strengthened throughout 2013 at a time when supply has improved, suggesting that the U.K.’s love of the automobile is matched only by the U.S.

YEAR-ON-YEAR VOLUME VARIANCE*

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Age (Months)</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>55</td>
<td>55</td>
<td>55</td>
<td>53</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>53</td>
<td>51</td>
<td>54</td>
</tr>
<tr>
<td>Selling Price (£)</td>
<td>7,417</td>
<td>7,089</td>
<td>7,477</td>
<td>7,425</td>
<td>7,407</td>
<td>7,243</td>
<td>7,733</td>
<td>7,599</td>
<td>7,505</td>
<td>7,749</td>
<td>8,211</td>
<td>7,896</td>
<td>7,315</td>
</tr>
<tr>
<td>% New Price</td>
<td>36%</td>
<td>36%</td>
<td>37%</td>
<td>37%</td>
<td>36%</td>
<td>36%</td>
<td>37%</td>
<td>36%</td>
<td>36%</td>
<td>37%</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>YOY Vol. Var.</td>
<td>1%</td>
<td>-2%</td>
<td>9%</td>
<td>-4%</td>
<td>9%</td>
<td>-22%</td>
<td>38%</td>
<td>5%</td>
<td>28%</td>
<td>23%</td>
<td>10%</td>
<td>30%</td>
<td>15%</td>
</tr>
</tbody>
</table>

*The Year-on-Year Volume Variance is derived from the number of cars sold during a given month and in the same month of the previous year by a representative sample of vendors who have traded in both periods. This approach gives a much truer indication of year-on-year volume variance.

2013 HIGHLIGHTS

In the U.K., Manheim’s physical auction volumes were up more than 12% in 2013.

The new and used car economy in the U.K. appears to be recovering more quickly than that of European counterparts.

Wholesale prices in the U.K. rose by 4% in 2013 despite an increase in market supply.

New car sales in China and Brazil rose 13.8% and 3.8% respectively over the first half of 2013. Meanwhile, new car sales in Russia and India both declined, down 6.2% and 11.6% respectively.

A compound annual growth rate (CAGR) in used car sales of 22% is expected in India over the next five years; meanwhile, the CAGR in China of 13% over the last five years will grow to 28% between 2017 and 2020.
Although the so-called BRIC (Brazil, Russia, India and China) economies have not been immune to the worldwide recession, their new car sales results have varied considerably. Figures from OICA show that for the first half of 2013, while China and Brazil reported increases of 13.8% and 3.8% respectively, Russia and India’s sales fell by 6.2% and 11.6% respectively. In all four markets, the ratio of used to new car sales is considerably different from mature markets, as shown below: 

| Ratio of Used to New Car Sales | US 3.3 | Brazil 2.6 | India 1.0 | Sources: KPMG Chinese Car Auction Market July 2013 / KPMG India Auto Market April 2013 / CarBizz Data (Fenabrave) / AA Autosat / Automotive World |
|-------------------------------|-----------------|-----------------|-----------------|
| The ratio of used to new car sales is considerably different from mature markets, as shown below: |

There is no doubt that reductions in new car sales are only temporary in these markets, and it is likely that used car markets will undergo a transformation over the next few years. Looking at the China and India markets in particular, the wholesale market infrastructure is weak, franchised dealers are focused on new car sales, and independent dealers are largely unorganized.

A compound annual growth rate (CAGR) on used car sales of 22% is expected in India over the next five years. In China, the CAGR on used cars of 13% over the last five years is predicted to increase to 28% from 2017 to 2020. As the chart below on current used car penetration by population shows, even with high growth rates the used car will still be a luxury item for many in these economies for many years to come.

**CAR PENETRATION—POPULATION**

To aid the supply of used cars in developing economies, Manheim ExportTrader is one of the specialists supporting the movement of used cars from areas of relative oversupply to areas of high demand. Although import tariffs on used vehicles limit the supply into some markets, we are seeing significant movements of vehicles from the U.S., Western Europe and Japan to support this appetite.

**Channel Management**

With such attractive opportunities, the focus of OEMs and their dealers in developing markets has been on new vehicle supply, but as markets mature, OEMs will seek to protect residual values by creating pre-owned-vehicle programs. This challenge is shared by leasing and rental companies operating in developing markets where the lack of a sophisticated wholesale used car market creates uncertainty on value, limitations on disposal options, and limited transparency in the remarketing process.

Mature markets may have more remarketing channels available, but with all aspects of cost under scrutiny and all consignors seeking to maximize values, there is a common need to improve ease of process, transparency, and cost by consignors around the globe.
Technology Fuels Additional Growth

Manheim’s global remarketing management system, RMS, enables a consignor (be that a manufacturer or commercial seller) to:

• Manage the process through which used vehicles are sold.
• Integrate data from a variety of sources.
• Manage inventory across national boundaries from the initial point of defleet to resale in a wholesale or retail environment.
• Adapt to local markets in terms of currency, language, and taxation arrangements.
• Manage interactions with third-party suppliers from transport providers to vehicle inspection and remarketing companies.
• Create a remarketing channel cascade for fixed price sales, online bidding, physical auctions, or even sale to a driver.
• Create and manage buyer groups.

Products such as RMS have enabled Manheim to grow its international presence, but the company’s core operating model is already well represented outside of North America in Europe, Australia, New Zealand and Thailand, in addition to AutoTrader’s investment in Bitauto, owners of the leading Chinese automotive classified.

Manheim’s research into additional markets clearly highlights that the future is not just about online sales channels. “Physical” services such as marshaling, vehicle inspection, photography, and logistics are essential in any market. What these services enable is the technology to work in the most effective manner to bring buyer and seller together. In China, the Chinese Automotive Dealer Association (CADA) has introduced a common inspection standard for both the wholesale and retail environments. In 2013, the U.K.’s National Association of Motor Auctioneers (NAMA) established a five-point grading standard on vehicles across member auctions (and pioneered by Manheim) to help buyers understand the estimated reconditioning cost on cars.

Physical auctions are present in many developing markets, but without the “clicks and bricks” experience which a product like Simulcast brings, a pure online model remains the most attractive option to most sellers. Manheim’s own experience in Turkey has shown that buyers in a less organized market are comfortable using technology to buy vehicles providing they have trust in the auction company and the quality of the data supplied on vehicles. In Turkey, 45% of physical auction vehicles were sold on Simulcast in 2013.
Salvage

Salvage Auctions: An Important Source of Diverse Inventory

Last year, we mentioned that salvage auction participants found marketplace conditions similar to those of whole-car auctions. The same held true for most of 2013 in the salvage marketplace, where tight supplies and continued strong used vehicle demand have contributed to higher prices. Buyers of total-loss units continued to work harder to find units that were competitively priced with enough room to allow them to turn a reasonable profit.

While these forces continued into 2013, they should soften somewhat in 2014 due to rising wholesale supply. In particular, increasingly diversified rental fleet units, repossessions, and near-record-high off-lease volume will ease the pain for salvage buyers. Similarly, the effect of the 2009 cash-for-clunkers program, where more than 750,000 units were removed from active service, has softened somewhat. This is due largely to the rising gap between new vehicles sold and those scrapped (“scrappage” defined as a failure to re-register in the U.S.). In fact, there were nearly 2 million more new vehicles sold than those scrapped in 2013.

NEW VEHICLE SALES AND SCRAPPAGE

Source: Based on Polk and Automotive News data and Manheim Consulting estimates

Total-Loss Vehicles Continue Three-Year Rise in Age

As noted in earlier sections, the average age of vehicles sold at auction increased again in 2013, with more than 40% of units sold being 7 years old or older. As franchised dealers continue to source inventory from upstream remarketing channels, inventory sold at auction from three or four model years prior remains somewhat scarce. This trend should ease a bit in 2014 as extensive lease penetration rates will funnel significant volume that many franchised dealers will be unable to absorb. On the opposite end of the spectrum, we continue to see vehicles older than 7 model years as a growing segment. Experian Automotive’s most recent Vehicles in Operation (VIO) market analysis showed that, despite increased new vehicle sales, the average age of vehicles in operation was nearly 11 years, almost a full year older than in 2009.
would have been otherwise. These units more attractive to the wholesale buyer than they a salvage-title brand. Near-term historical demand has made stolen or are excessively older with higher mileage could receive when the cost of repairs exceeds 75% of the vehicle’s actual salvage-titled units. Units will typically receive a salvage title however, they have become increasingly comfortable purchasing Dealers continued to focus primarily on clean-titled vehicles; unlike last year, the actual cash values (ACV) softened a bit from their high-water mark in 2011. Some ACV softening was noted in the SUV and wagon segment, with a smaller decline noted in the van segment. Some ACVs rose again in 2012, with the most notable gain in the coupe segment.

Salvage Auctions Remarket More Clean-Titled Vehicles

Dealers continued to focus primarily on clean-titled vehicles; however, they have become increasingly comfortable purchasing salvage-titled units. Units will typically receive a salvage title when the cost of repairs exceeds 75% of the vehicle’s actual cash value, but there are notable exceptions. Units that are stolen or are excessively older with higher mileage could receive a salvage-title brand. Near-term historical demand has made these units more attractive to the wholesale buyer than they would have been otherwise.

Dealer Participation Increases in Salvage Auctions

We continue to observe that salvage sales are increasingly co-located within traditional auction sites, allowing buyers to gain additional exposure and familiarity with these vehicles. As they become more comfortable recognizing that often these units can be repaired and sold to retail buyers, bidding activity increases, including activity from digital sales channels such as Simulcast. Independent dealers in particular have found these units to be a profitable and available source of inventory. While additional off-lease volume will become more plentiful to independent buyers, the salvage segment will retain much of the favor it has garnered.

Foreign Buyers Compete for Late-Model Repairable Units

The trend of international buyers’ sourcing inventory from salvage auctions continued in 2013, driven primarily by the increased adoption of digital sales platforms abroad. Indeed, Manheim’s ExportTrader reported that it shipped vehicles to more than 170 countries. As noted in prior years, buyers from the Middle East and Europe continue to favor late model vehicles, particularly those from luxury manufacturers. These units are often pre-sold to waiting buyers, where dealers account for repair and shipping costs when determining the transaction price for their retail buyer. Alternatively, Mexican importers continue to favor more affordable non-luxury units and often compete with domestic buyers, leading to increased bidding activity.

2013 Brings Slight Price Declines and Higher Sales Volumes

Salvage auctions remain one of the most variable marketplaces within automotive remarketing. These facilities remarket many different products, from recovered-theft inventory to late model rental units, to vehicles with catastrophic loss. Recognizing increased buyer familiarity and demand, 2013 prices at Manheim auctions for salvage units increased modestly from 2012, with more than 10,000 additional vehicles sold vs. the prior year. Not unlike in previous years, values are affected by the ultimate disposition of the unit. Some buyers intend to part-out the vehicle and sell the remaining recyclable components for scrap, while others will invest in repairs and will ultimately resell the unit to a retail buyer.

Global commodity prices will always heavily influence this industry segment, and 2013 was no different. While month-to-month volatility occurred in the scrap metal marketplace; the overall values of crushed auto bodies rose in 2013 vs. 2012. Thankfully, though, we did not reach the inflated highs of 2011.
August 2012 remains a low-water mark for values, when the average scrap metal price reached $234 per ton. August 2013 values of $311 represent a nearly 30% year-over-year increase. Foreign demand from China, Turkey, South Korea, Taiwan, and Japan varied throughout 2013, following a similar trend of domestic supply. Similar to 2012, foreign exports affected values by introducing more low-priced steel into the marketplace, depressing prices for scrap steel and crushed auto bodies alike. The end of the fourth quarter brought about lower prices as the last few months of the year delivered nearly the lowest prices observed all year.

Non-insurance vehicles continued their run of strong demand, bought by dealers and exporters alike, as price trends mirrored those for whole-car auctions—similar to last year’s trend.

### WHOLE CRUSHED AUTO BODY PRICES

<table>
<thead>
<tr>
<th>AVERAGE PRICE PER TON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-10 190</td>
</tr>
<tr>
<td>Feb-10 210.6</td>
</tr>
<tr>
<td>Mar-10 239</td>
</tr>
<tr>
<td>Apr-10 244</td>
</tr>
<tr>
<td>May-10 268.4</td>
</tr>
<tr>
<td>Jun-10 232.4</td>
</tr>
<tr>
<td>Jul-10 234.8</td>
</tr>
<tr>
<td>Aug-10 212.2</td>
</tr>
<tr>
<td>Sep-10 241.4</td>
</tr>
<tr>
<td>Oct-10 257.4</td>
</tr>
<tr>
<td>Nov-10 235</td>
</tr>
<tr>
<td>Dec-10 261.8</td>
</tr>
</tbody>
</table>

Source: American Recycler Magazine, Marketwatch

### Salvage Buyers Rely on Technology

As in the whole-car business, salvage buyers have become increasingly dependent on technology to buy, sell, and manage their inventory. Multiple purchasing options exist, including real-time sequential bidding via Simulcast, 24/7 bidding and buy-now sales via OVE.com, and new mobile bidding technology allowing buyers to place live bids for Simulcast sales via a mobile device. Buyers often attend physical sales and purchase vehicles at one location, while purchasing vehicles from a second location using their mobile device. Similar to sales of whole-car units, many buyers have found increasing favor with buy-now sales, as they allow buyers to know an exact price for their desired inventory and determine their repair costs before making a firm offer to a retail buyer. Sellers of these vehicles have recognized this trend, and often market their vehicles accordingly.
Manheim Consulting

A Unique Resource for the Remarketing Industry

Manheim, the leading wholesale vehicle auction and remarketing company in North America, formally established Manheim Consulting in 2005 as a separate research unit. Manheim recognized an opportunity for commercial consignors and dealers to develop remarketing strategies around data-driven research. Wholesale vehicle transactions through all Manheim channels comprise a historic and real-time database that permits clients to examine any aspect of their remarketing strategy.

For nearly a decade, Manheim Consulting statisticians, mathematicians, and consultants have conducted research and performance studies for Manheim clients, while providing a broader perspective on the industry at large for those who follow the automotive sector. Using the data generated from every vehicle listing, every visit to a live or digital auction, every bid, and every outcome, our team helps clients execute effective remarketing strategies as technology, market conditions, and buyer and seller expectations change.

Clients have examined seasonal, regional, and national pricing behavior for their vehicle portfolios in addition to more granular questions related to the value of specific vehicle features, condition, setting reserve prices, and impact of channel selection. Manheim Consulting provides periodic performance reviews for clients and conducts one-of-a-kind research tailored to specific client objectives.

Our services include:

• Proprietary client research, including remarketing performance and peer benchmark studies for dealers;
• Client and industry presentations on economic and used vehicle industry conditions; and
• Case studies and white papers on topics important to remarketing and automotive professionals.

Manheim’s annual Used Car Market Report examines the economic underpinnings of the entire used vehicle market and sector-specific trends that influence the supply and pricing of used vehicles. The Manheim Used Vehicle Value Index is the most reliable and widely followed indicator of wholesale used vehicle values. The Index is updated on the fifth business day of each month. Additionally, in January, April, July, and October, Manheim’s chief economist, Tom Webb, hosts a conference call during which he responds to participant questions and provides supplemental data on the used vehicle marketplace.

Follow Tom on Twitter @TomWebb_Manheim and on his blog at www.manheimconsulting.typepad.com.

For more information on these and other services provided by Manheim Consulting, visit manheim.com/consulting.