



TOP INSIGHTS *SHAPING THE AUTOMOTIVE INDUSTRY*

ISABELLE HELMS, VP, RESEARCH & MARKET
INTELLIGENCE

JONATHAN SMOKE, CHIEF ECONOMIST

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THE ECONOMY

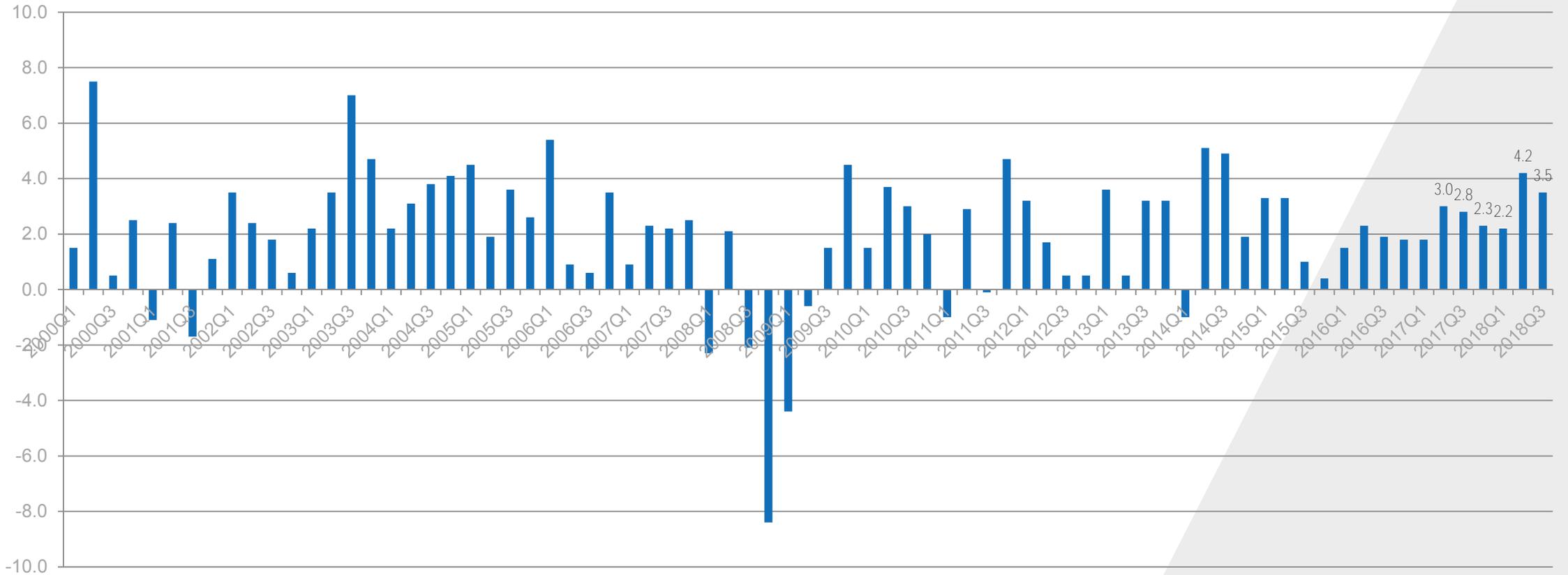


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ECONOMIC EXPANSION ACCELERATED IN 2018

GROWTH SLOWED IN Q3 FROM VERY STRONG Q2; BEST 2 QUARTERS SINCE 2014

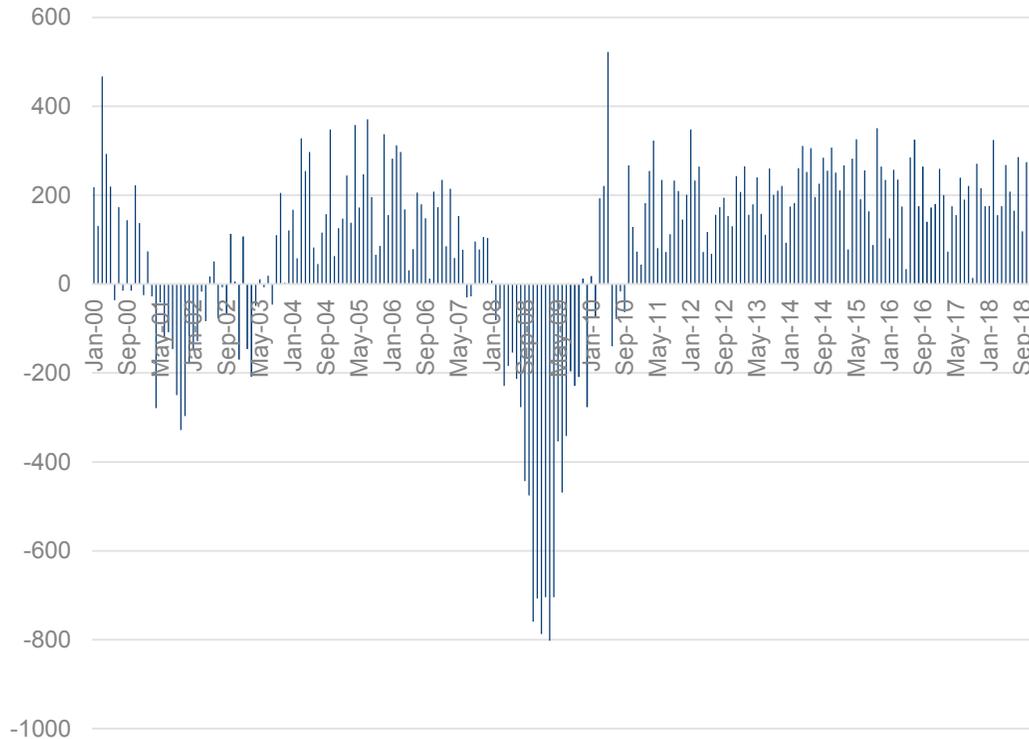
Real Gross Domestic Product (SAAR) % Growth by Quarter



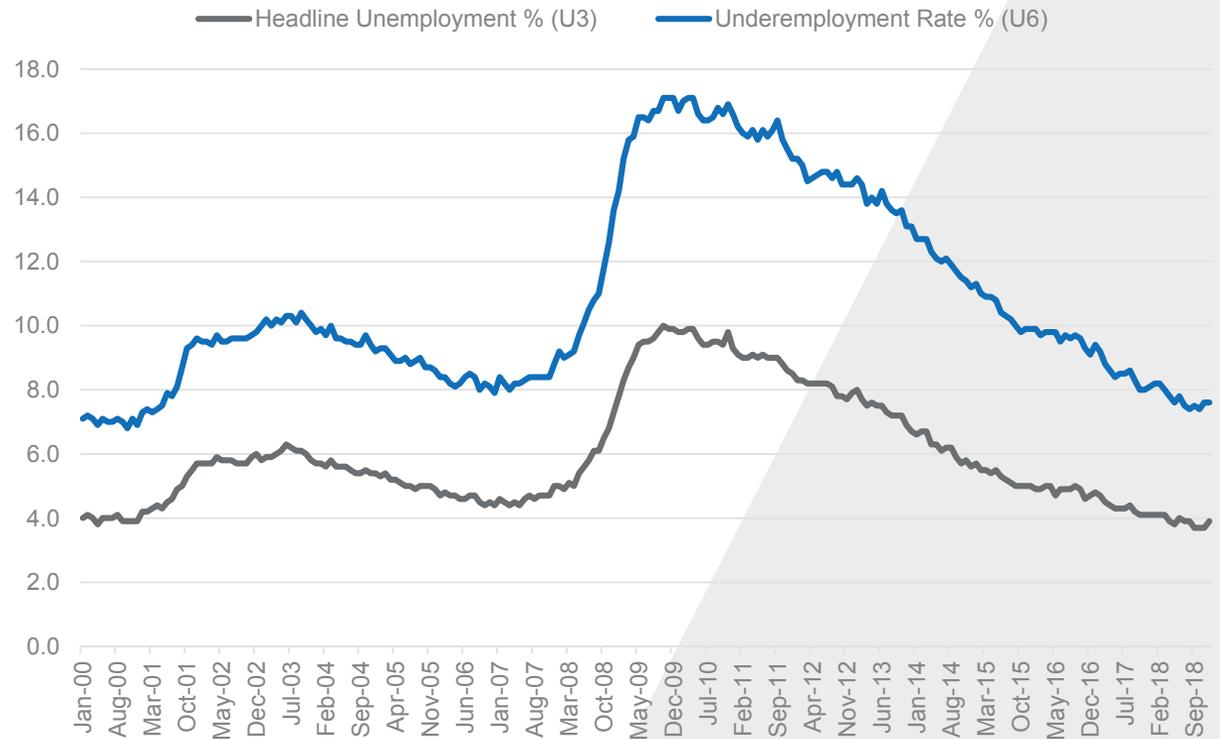
STRONG **JOB GROWTH** AND NEW LOWS IN **UNEMPLOYMENT**

2018 SAW 2.6 MILLION JOBS CREATED OR 220K VS. 182K AVERAGE IN 2017 AND 195K AVERAGE IN 2016

Monthly Job Creation



Unemployment Rates

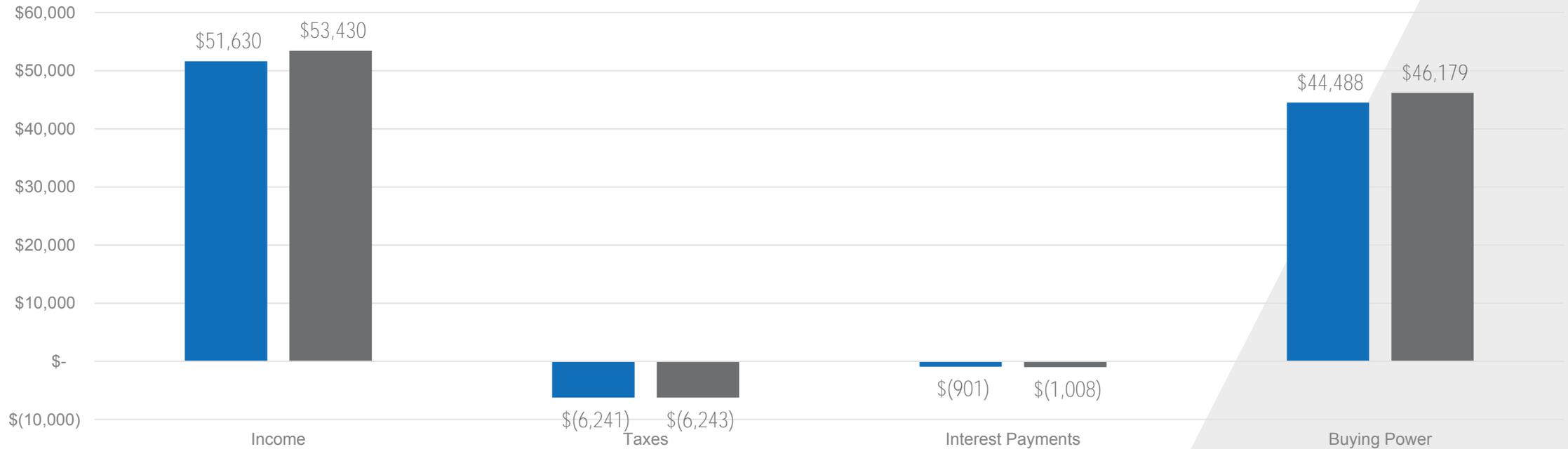


TAX REFORM BOOSTED DISPOSABLE PERSONAL INCOME

LOWER TAX RATES EFFECTIVELY ALLOWED AVERAGE INCOME GAINS TO TRANSLATE INTO EQUIVALENT GAINS IN SPENDING

Per Capita Income and Buying Power

■ 2017 ■ 2018

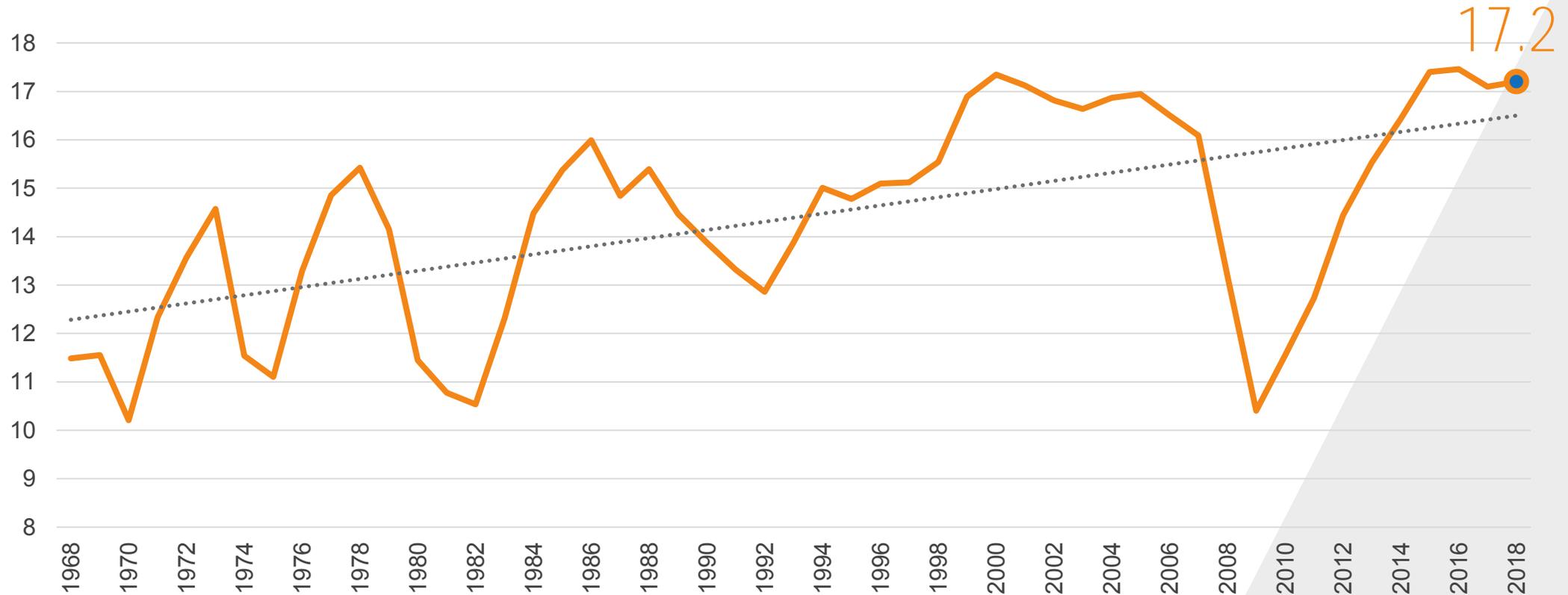


NEW VEHICLE SALES

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NEW VEHICLE SALES MANAGED A SLIGHT GAIN IN 2018

LIGHT VEHICLE SALES OUTLOOK (MILLIONS)



FLEETING STRATEGY

OEMs PULLED THE
FLEET LEVER IN 2018

FLEET SALES **UP**

7%

VS.

RETAIL SALES **DOWN**

1%

THE MARKET'S RELATIVE
STRENGTH HAS BEEN
**SUPPORTED BY GROWTH IN
FLEET SALES**

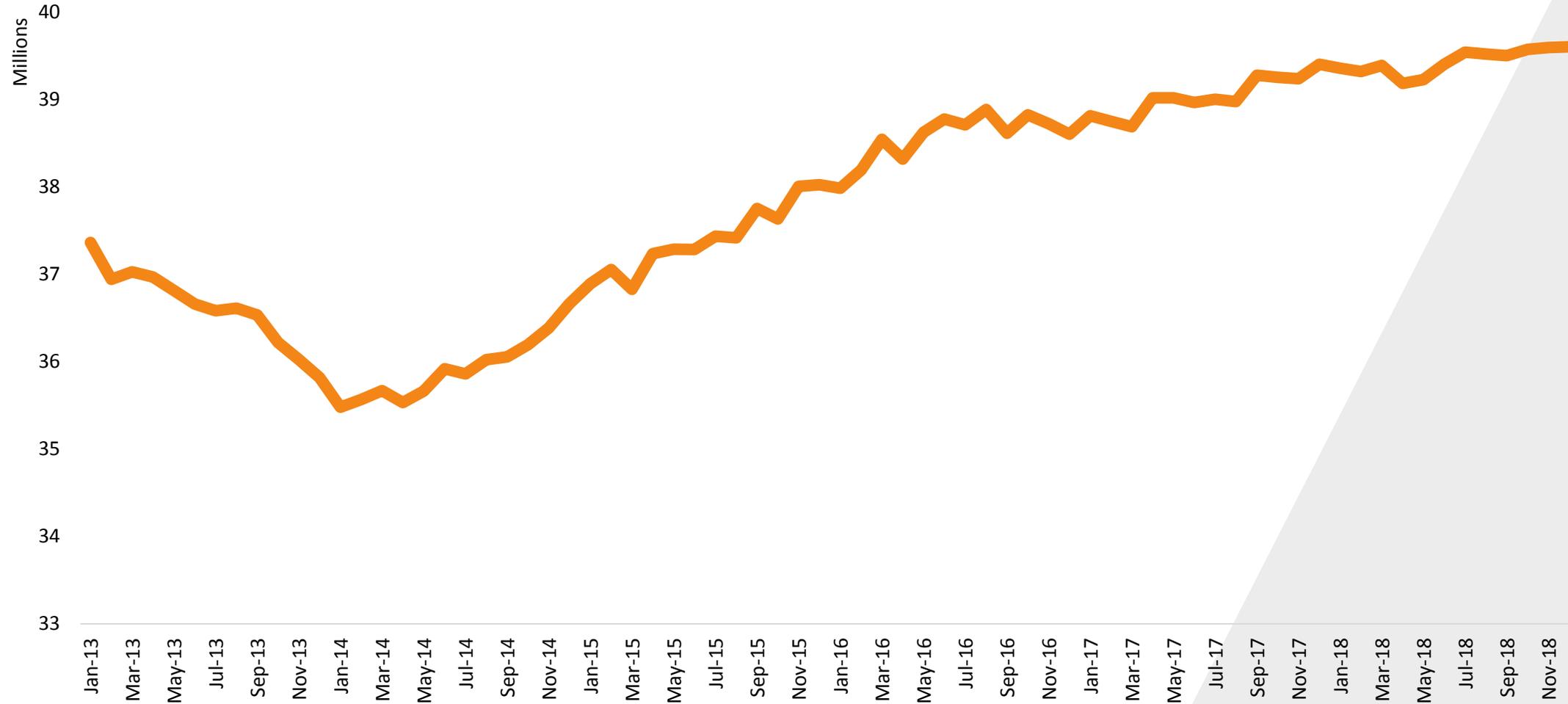
USED VEHICLE SALES



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USED SALES REACHED A NEW PEAK

USED VEHICLE REGISTRATIONS (ANNUALIZED VOLUME)

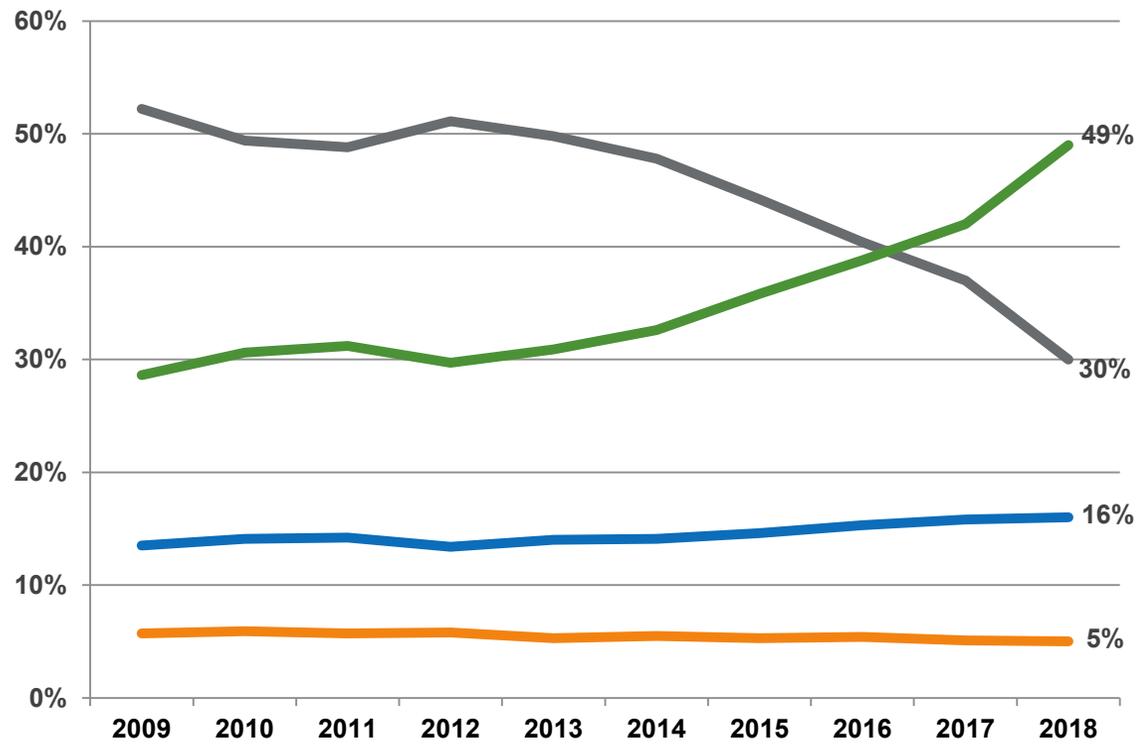


DECLINE OF CARS **NOT REFLECTED IN WHOLESALE MARKET VOLUMES**

THE SUV REIGNS SUPREME IN NEW VEHICLE SALES WHILE CARS STILL DOMINATED THE USED CAR MARKET

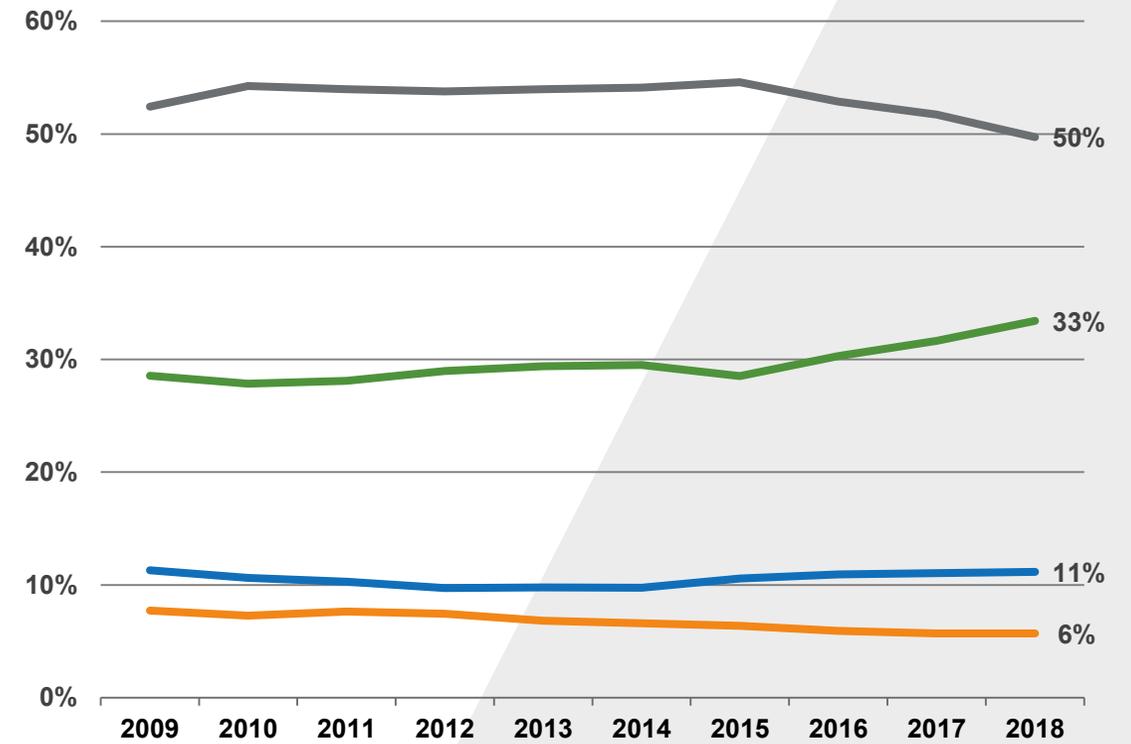
New Vehicle Sales by Category

CAR PICKUP SUV VAN



Manheim Sales by Category

CAR PICKUP SUV VAN



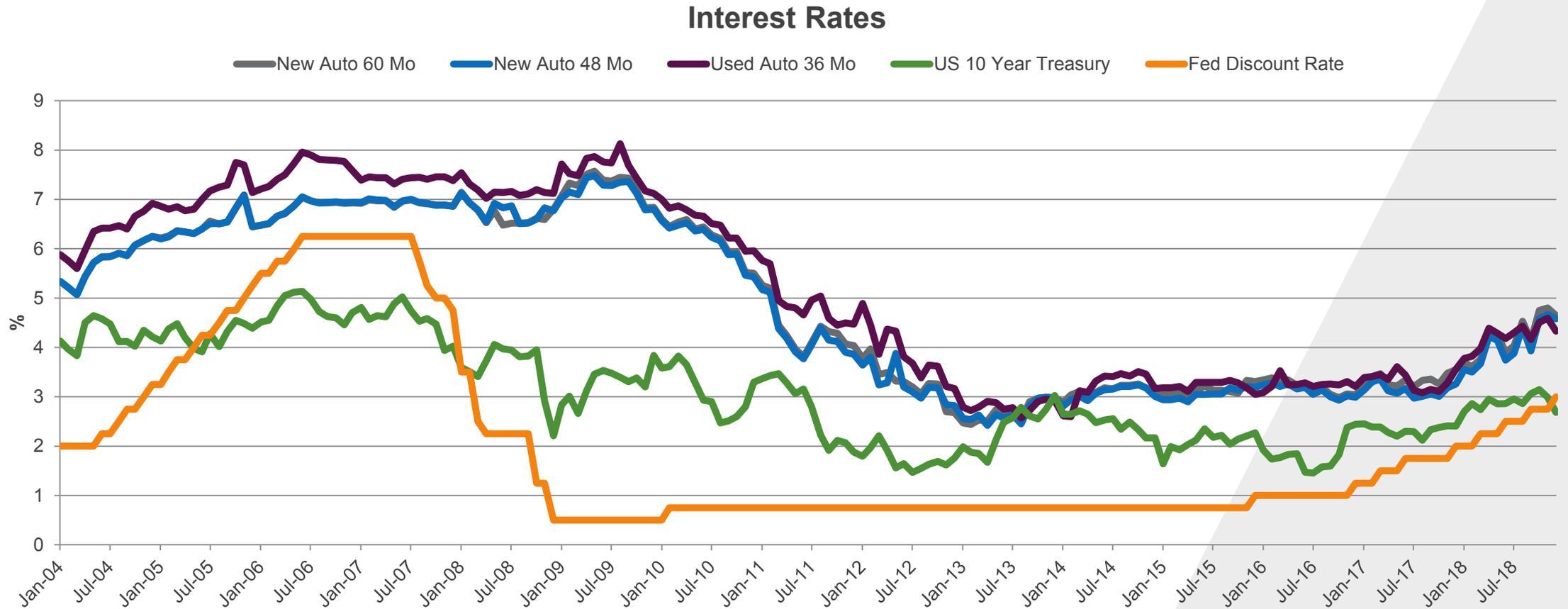


INTEREST RATES AND PAYMENTS

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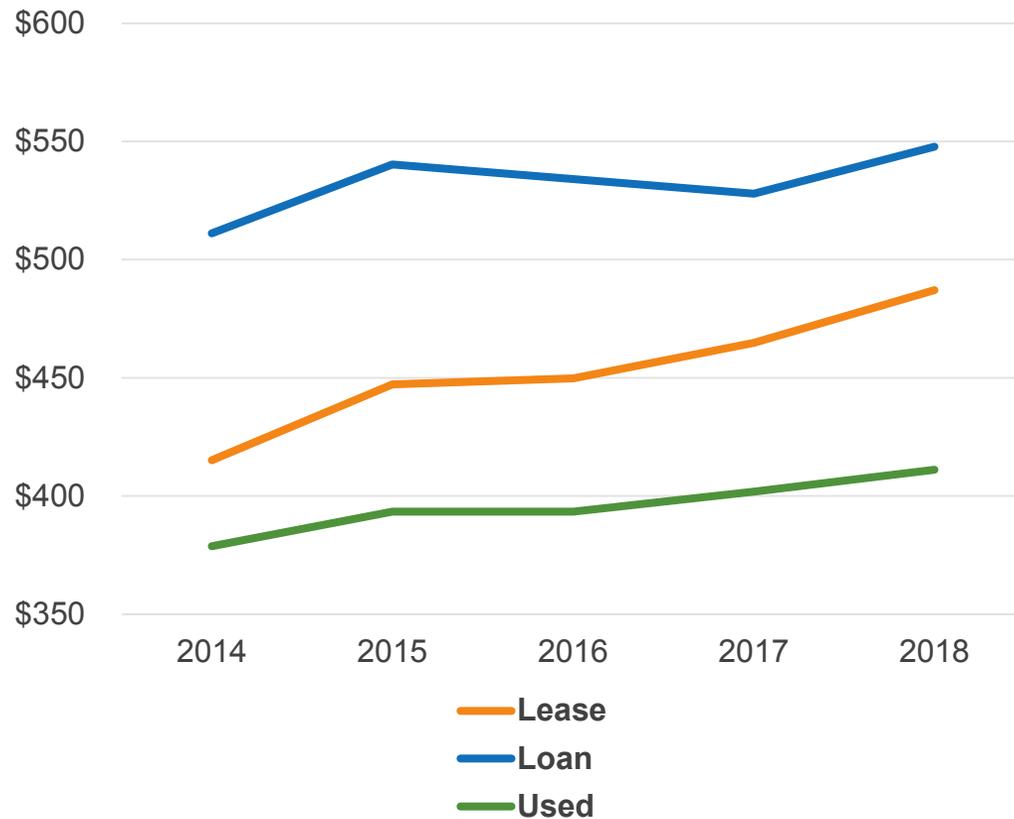
“BEST AVAILABLE” AUTO RATES AT SEVEN-YEAR HIGH

THE DISCOUNT RATE ENDED 2018 UP 1% WHILE BEST AVAILABLE AUTO RATES WERE UP MORE AND UP 2.4% FROM ABSOLUTE LOW

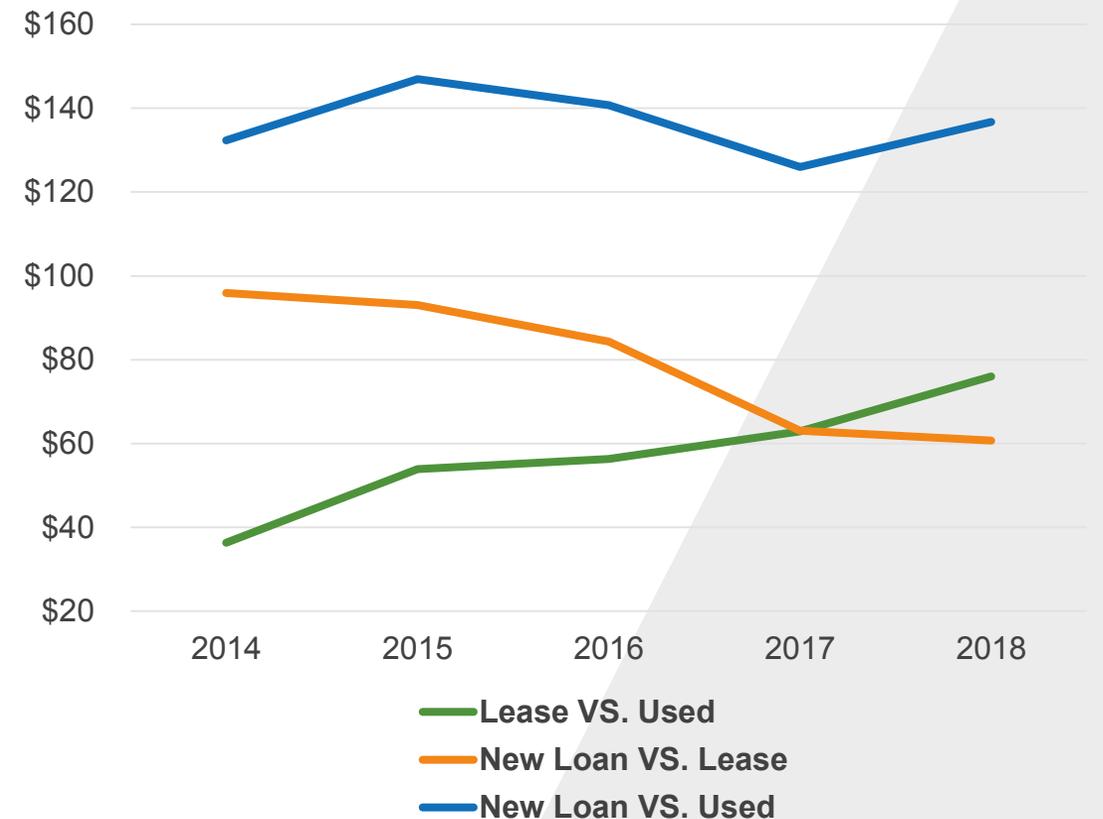


PAYMENT INFLATION IMPACTED CONSUMERS

MONTHLY PAYMENT



PAYMENT DIFFERENCES



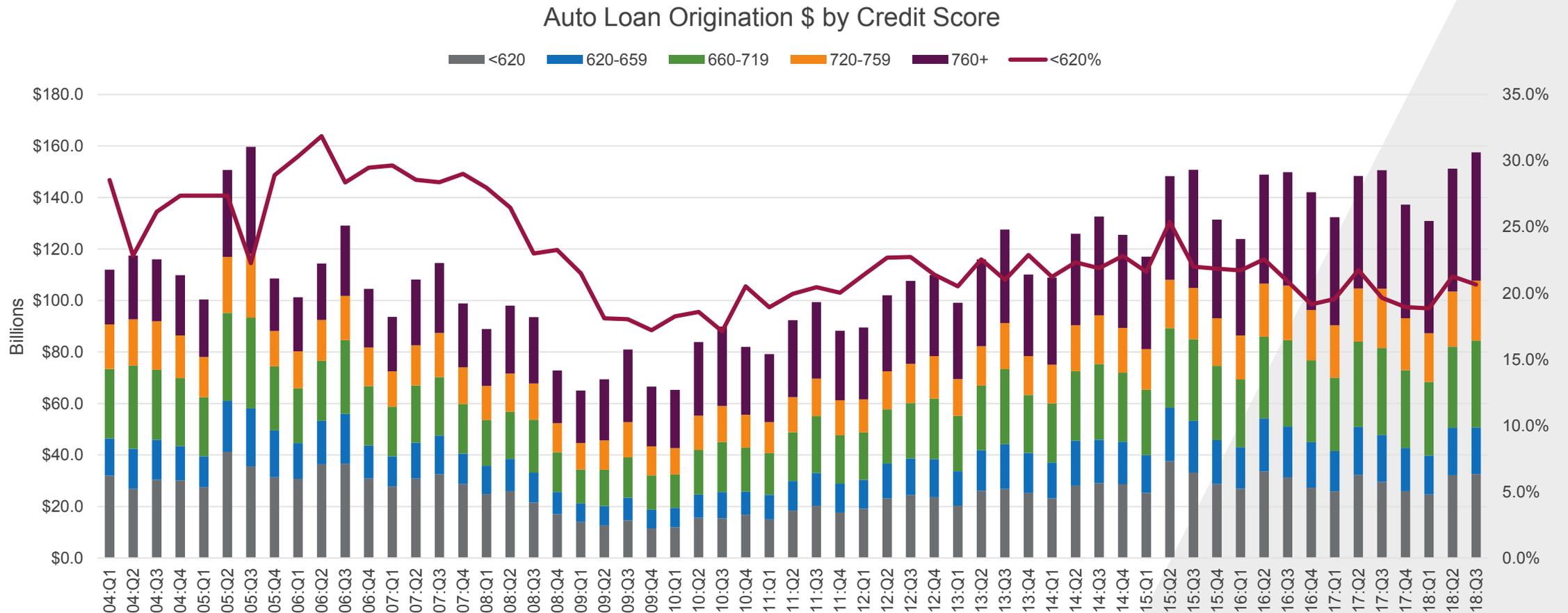
AUTO LENDING



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EASIER LENDING SUPPORTED PEAK AUTO SALES; LENDING EXPANDED IN Q3

LENDING GREW BY 4.6% Y/Y IN Q3 BY 10% GAINS IN SUBPRIME AND 8% GAINS IN 760+ \$ VOLUMES

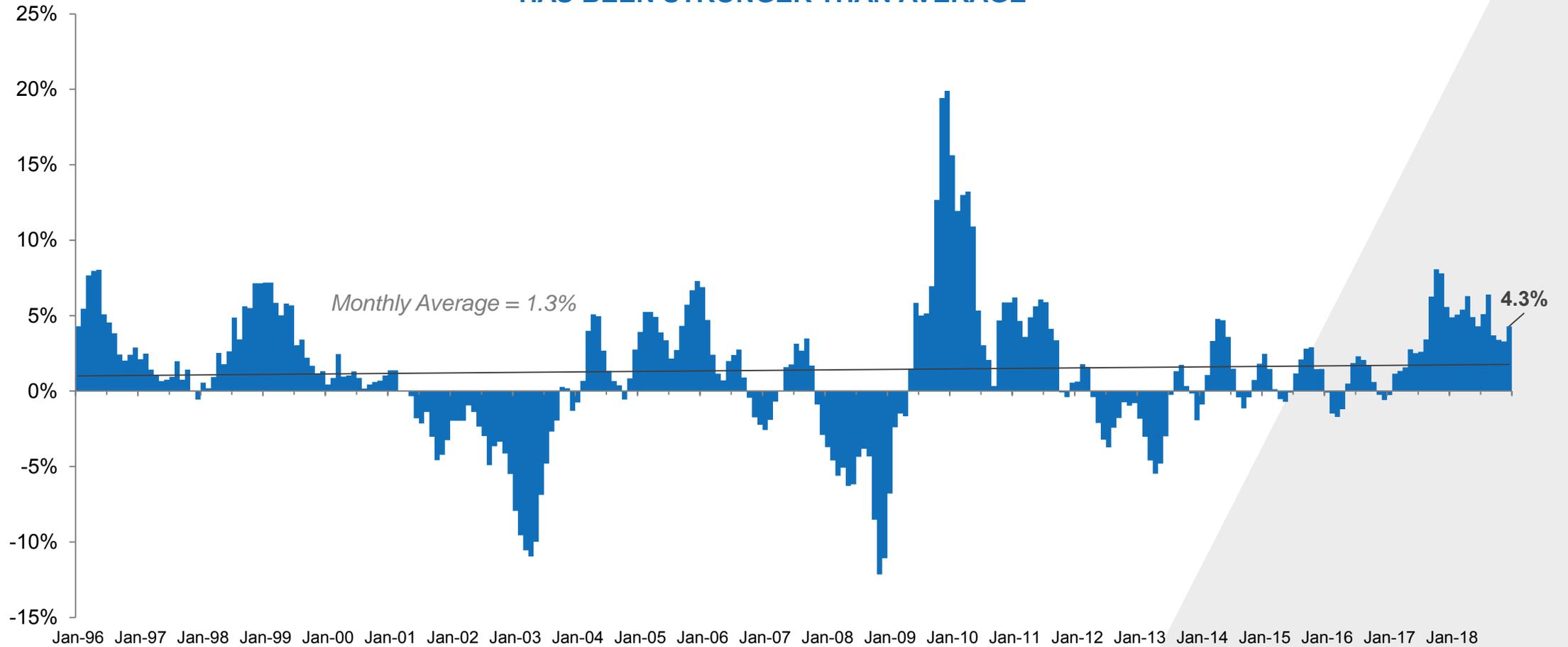


USED CAR PRICES

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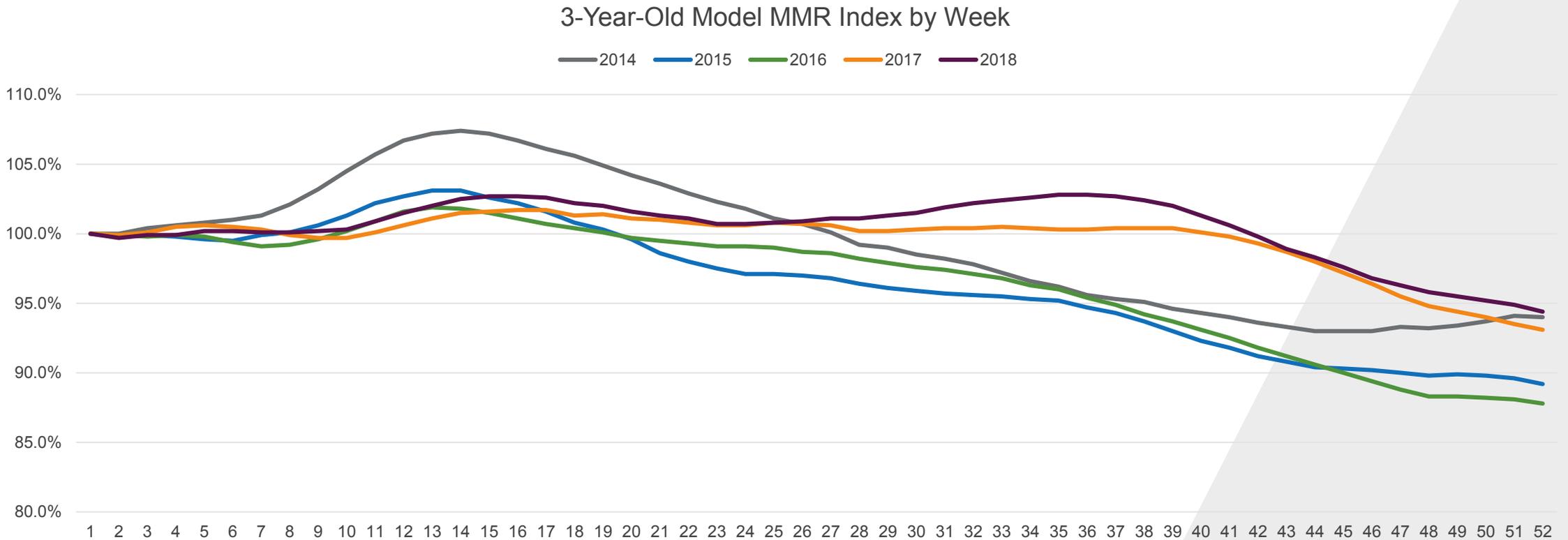
USED VEHICLE VALUES SAW ANOTHER ABOVE AVERAGE YEAR

YEAR-OVER-YEAR PRICE PERFORMANCE ON MANHEIM USED VEHICLE VALUE INDEX HAS BEEN STRONGER THAN AVERAGE



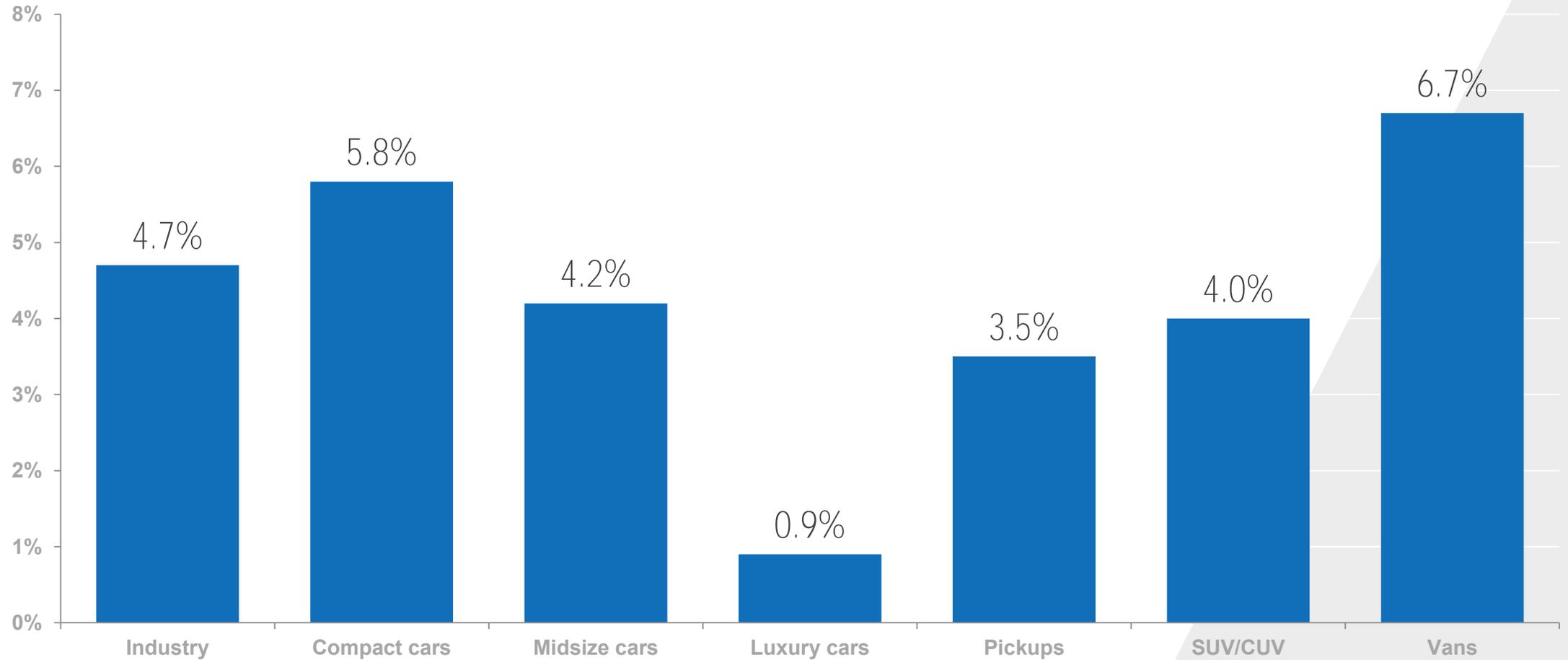
THREE-YEAR-OLD VEHICLES SAW ABNORMAL SUMMER APPRECIATION

11 WEEKS OF APPRECIATION IN THE SUMMER BROUGHT PRICES TO A NEW EQUILIBRIUM REFLECTING AN AVERAGE 2% INCREASE IN VALUE



AFFORDABLE CARS OUTPERFORMED THE USED CAR MARKET

PERCENT CHANGE IN MANHEIM INDEX YEAR-OVER-YEAR IN 2018



TARIFFS

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FRANCHISE DEALERS WORRY ABOUT **IMPORT TARIFFS**

OVERALL	Q4 2018	Q3 2018
Positive Impact	10%	11%
No Impact	51%	51%
Negative Impact	39%	38%

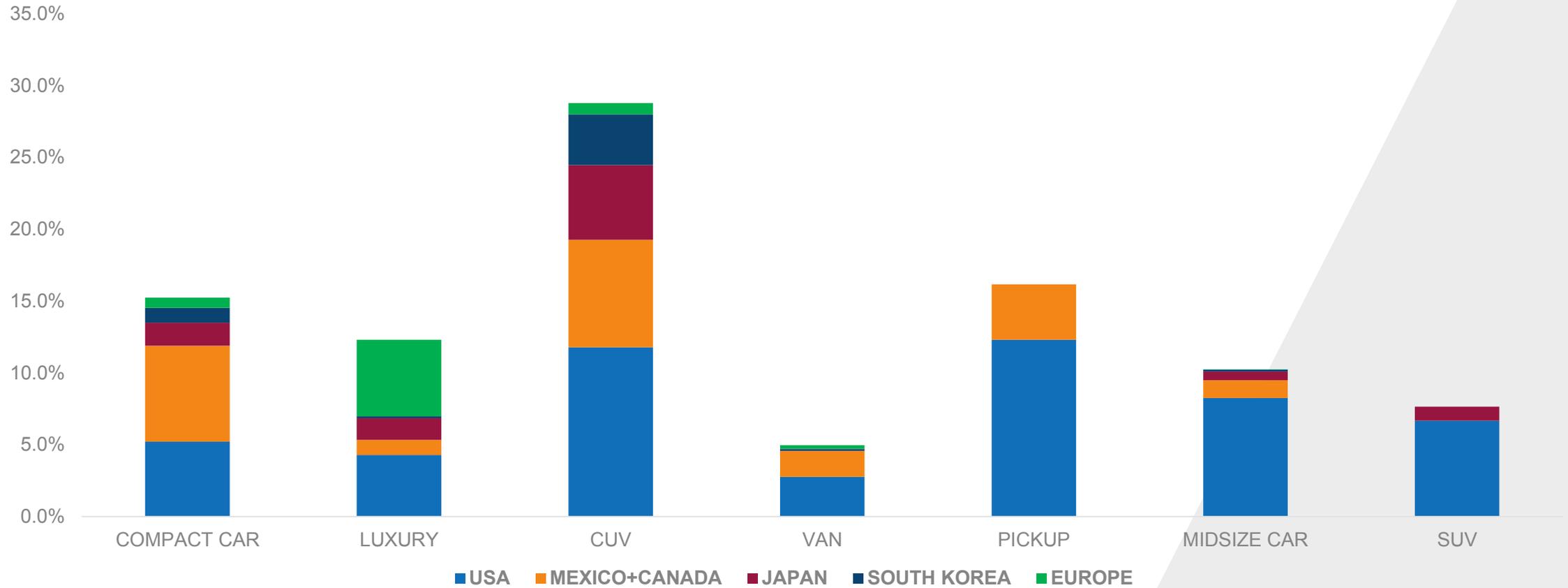
FRANCHISE		
Positive Impact	9%	9%
No Impact	34%	35%
Negative Impact	57%	56%

INDEPENDENT		
Positive Impact	11%	11%
No Impact	56%	57%
Negative Impact	33%	32%

Q: Which of the following best describes the impact on your business' profitability next quarter if tariffs are imposed on imported vehicles and parts?

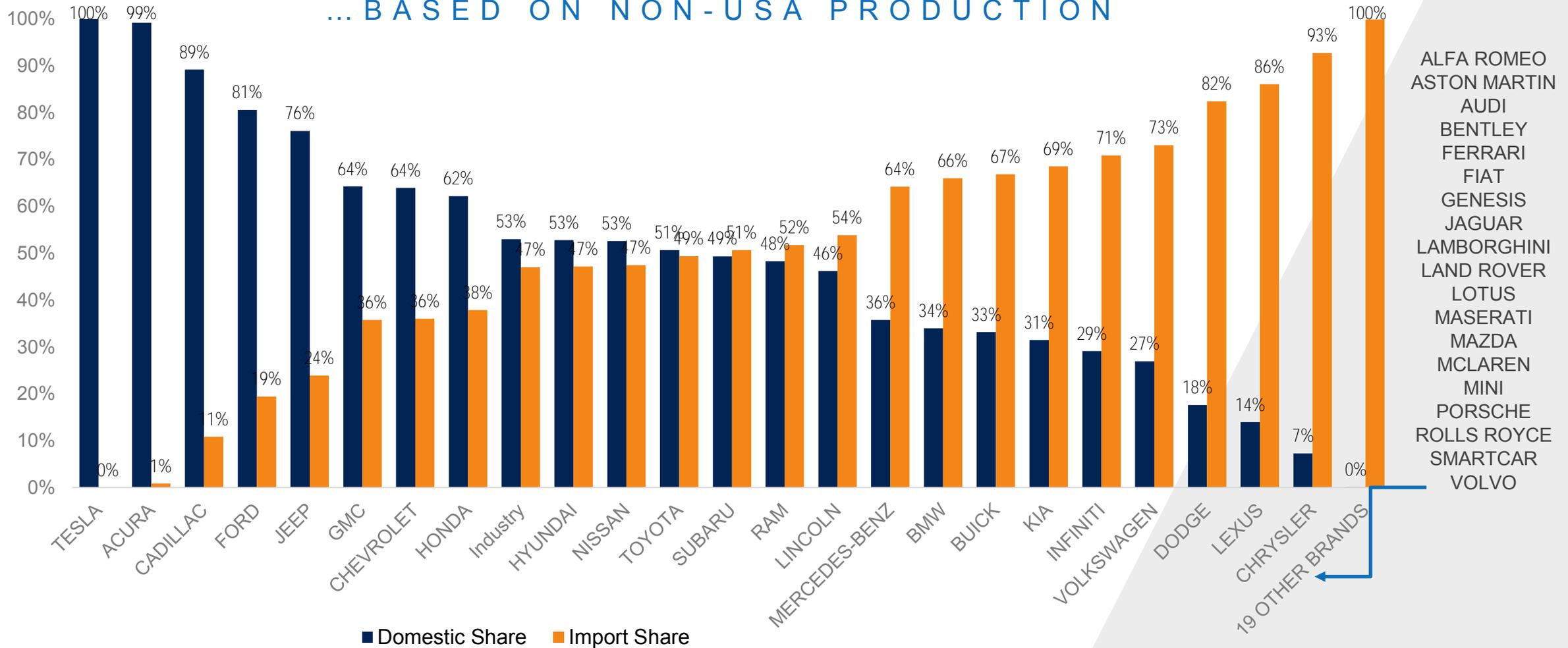
THE **US MARKET** IS HEAVILY DEPENDENT ON A COMPLEX GLOBAL SUPPLY CHAIN

COMPOSITION OF NEW VEHICLES SOLD IN THE US BY MAJOR SEGMENTS AND MAJOR REGIONS OF ORIGIN



EACH BRAND'S **EXPOSURE TO TARIFFS** DIFFERS

... BASED ON NON-USA PRODUCTION



DIGITAL RETAILING

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“I AM SATISFIED WITH...”

77%

Test Drive

73%

Interactions with
Sales people

59%

Interactions with
F&I Department

46%

Length of Process



83%

want to do one or more steps of
the purchase process online





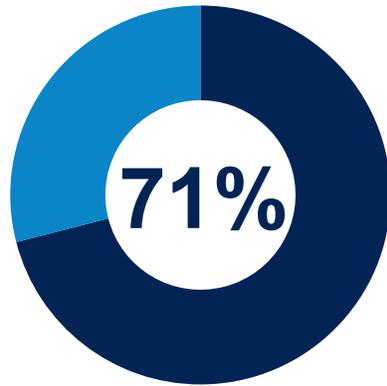
Average time saved on the deal
by completing steps online

30 MINUTES

WHAT CONSUMERS WANT VS. WHAT THEY DO TODAY

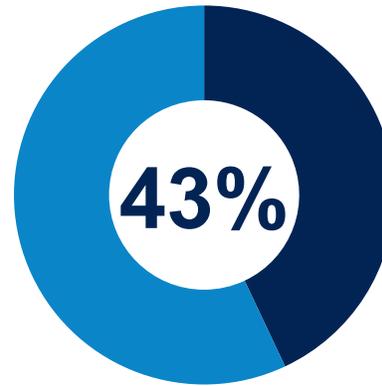
GET INFORMATION ABOUT THE DEAL

find info on incentives, trade-in value, info on add-ons, trade-in offer



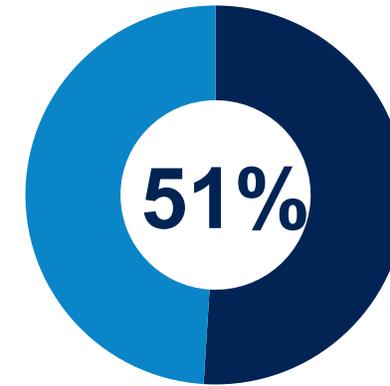
UNDERSTAND & SECURE FINANCING

apply for financing, notified of financing qualification



STRUCTURE THE DEAL

select add-ons, four square, make a deposit, finalize price



% of buyers who did at least one step online away from dealership

56%

25%

14%

85%

more likely to buy from a dealership that allows them to complete steps of the vehicle purchase online



FIXED OPERATIONS

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70%

of consumers who purchased or leased from a dealer did not return for service in the past year

\$266B

annual lost revenue
across all franchise dealers¹

\$15.9M

annual lost revenue
per franchise dealer²



Cost and Location Are the Top Barriers to Retention

**TOP REASONS
WHY CONSUMERS
DON'T USE
DEALER OF PURCHASE
FOR SERVICE**

1. Total cost is **NOT** reasonable
2. **NOT** a convenient location
3. They will overcharge me
4. Unreasonable labor charges
5. Unreasonable parts charges

IF THE PROVIDER OFFERED ENHANCED SERVICES (on left)...

ENHANCEMENTS:

Request service
visit add-ons online

Minimal-click
scheduling via
mobile device

Review/approve
estimates
electronically

Video or pictures of
recommended
service

Ride-sharing
services provided

Online bill pay

Valet service

In-lane bill pay
via mobile device

Guaranteed
loaner vehicle

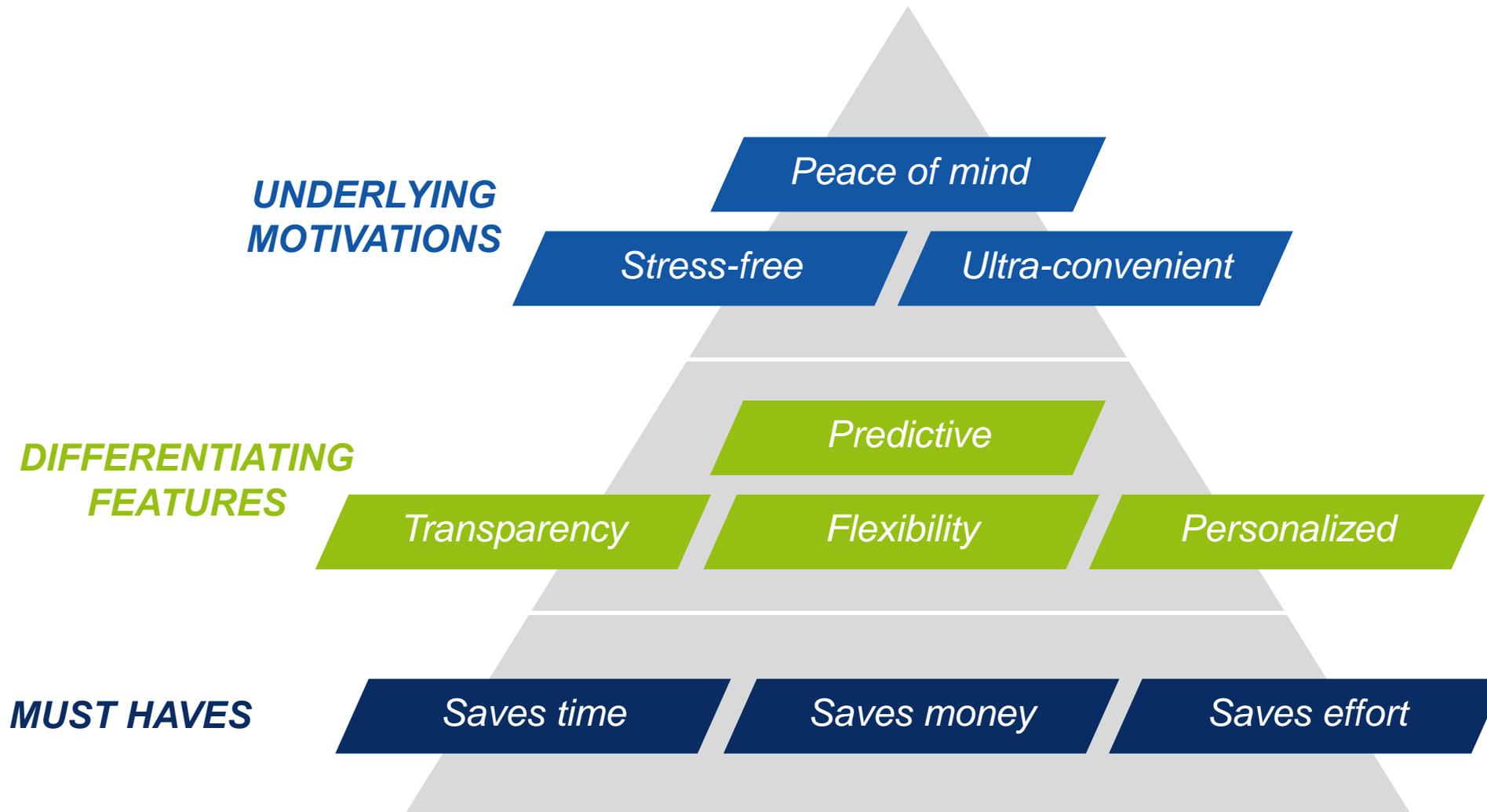
60%

of consumers are more willing to
travel further for service

54%

of consumers are willing
to pay more for service

Ultimately, Consumers Want Ease!





MOBILITY

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“Having Transportation is Necessary, but Owning a Vehicle is Not”

% Agree

35%

2015

39% ↑

2018



**“Consumers’ Primary Mode of Transportation
Will **Not** Be a Personally-Owned Vehicle”**
(among dealers)

...in 5 years

28%

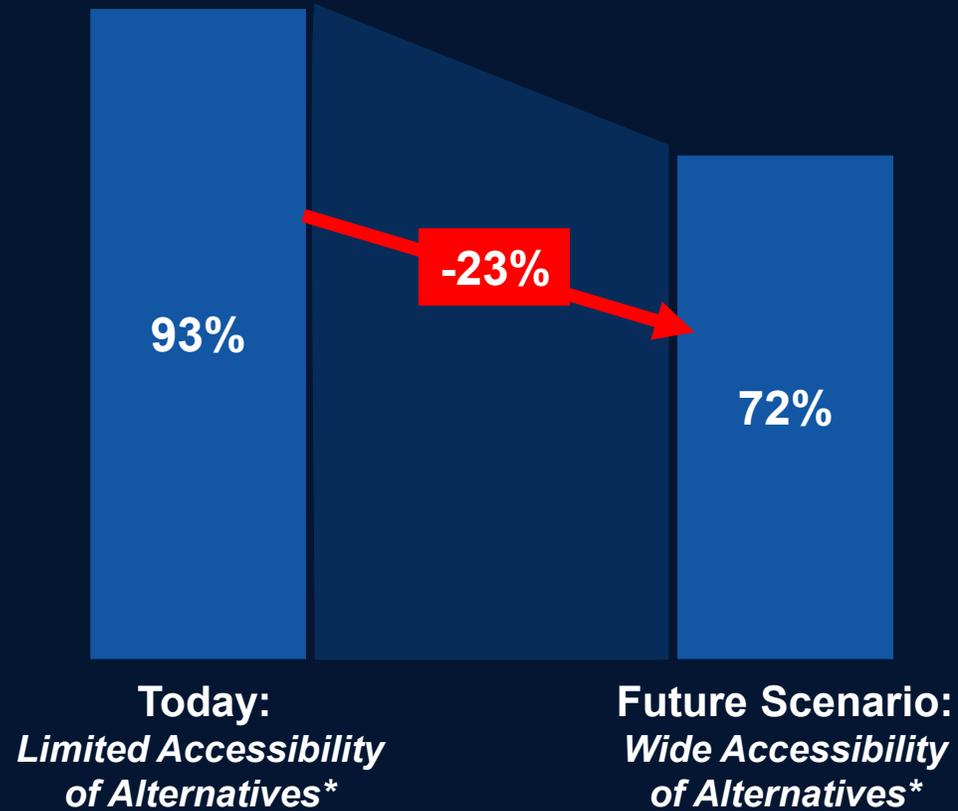
...in 10 years

35%

Source: 2018 Cox Automotive Evolution of Mobility Study



Share of Miles Traveled by Personally-Owned Vehicle



*transportation alternatives: public transportation, ride-hailing, car-sharing, & vehicle subscription

Share of Miles Traveled by Alternative Ownership Models

Today: <i>Limited Accessibility of Alternatives</i>	Future Scenario: <i>Wide Accessibility of Alternatives</i>	Change:
Car Subscription*: 0.2%	Car subscription*: 9.5%	+4,650%
Ride-hailing: 2.1%	Ride-hailing: 1.3%	-38%
Car sharing: 0.5%	Car sharing: 1.1%	+120%

Transportation alternatives: public transportation, ride-hailing, car-sharing, & vehicle subscription

*Defined as Multi-vehicle Luxury Subscription

Dealer Motivators for Offering Car Subscription / Car Sharing Solutions

(in descending order)

75%

of dealers believe there are benefits to offering car subscription / car-sharing services

1	To create NEW revenue streams
2	To appeal to a NEW consumer base
3	To appeal to younger consumers
4	To stay relevant
5	To prepare for the future

Dealer Barriers For Offering Car Subscription / Car-Sharing

(in descending order)

83%

of dealers believe there are challenges to ramping up a car subscription / car-sharing service

1	Not enough knowledge about how to set it up
2	Concern that it would cost more to incorporate than it would be worth
3	It would require too many resources to change the business model
4	Need for outside support to get it off the ground
5	It's too different from the current dealership model

Ideal Partner

Among Franchise Dealers Who Plan to Adopt a Fleet-Based Model

OEM/Franchise & third party/specialty company	46%
OEM/Franchise	33%
Third party/specialty company	10%
None, I'd prefer to do it myself	6%
Technology-only company	4%

