

TAKE IT TO THE LIMIT

NOVEMBER 9-10, 2015

SEMINOLE HARD ROCK HOTEL & CASINO, HOLLYWOOD, FL

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Cox Automotive

Tom Webb

Planning for the New Normal:

*Marco and Micro Drivers
Affecting Car Rental*

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Conclusion

- **Economic Outlook** – Consensus forecast is probably right, but there is an unhealthy disregard for the downside risks
- **Rental Industry** – Modest revenue growth, higher depreciation costs, efficiencies and utilization improve, new entrants nibble away
- **Wholesale Used Vehicle Values** – Ease due to growing supplies, but do not collapse given level of retail demand and dealer profits

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Manheim Used Vehicle Value Index

Concept:

A single measure of used vehicle price change that is independent of underlying shifts in the characteristics of vehicles being sold

STEPS:

- All Manheim U.S. sales
- Classify by market segment
- Account for shifts in mileage
- Weight to provide unchanging mix
- Seasonally adjust

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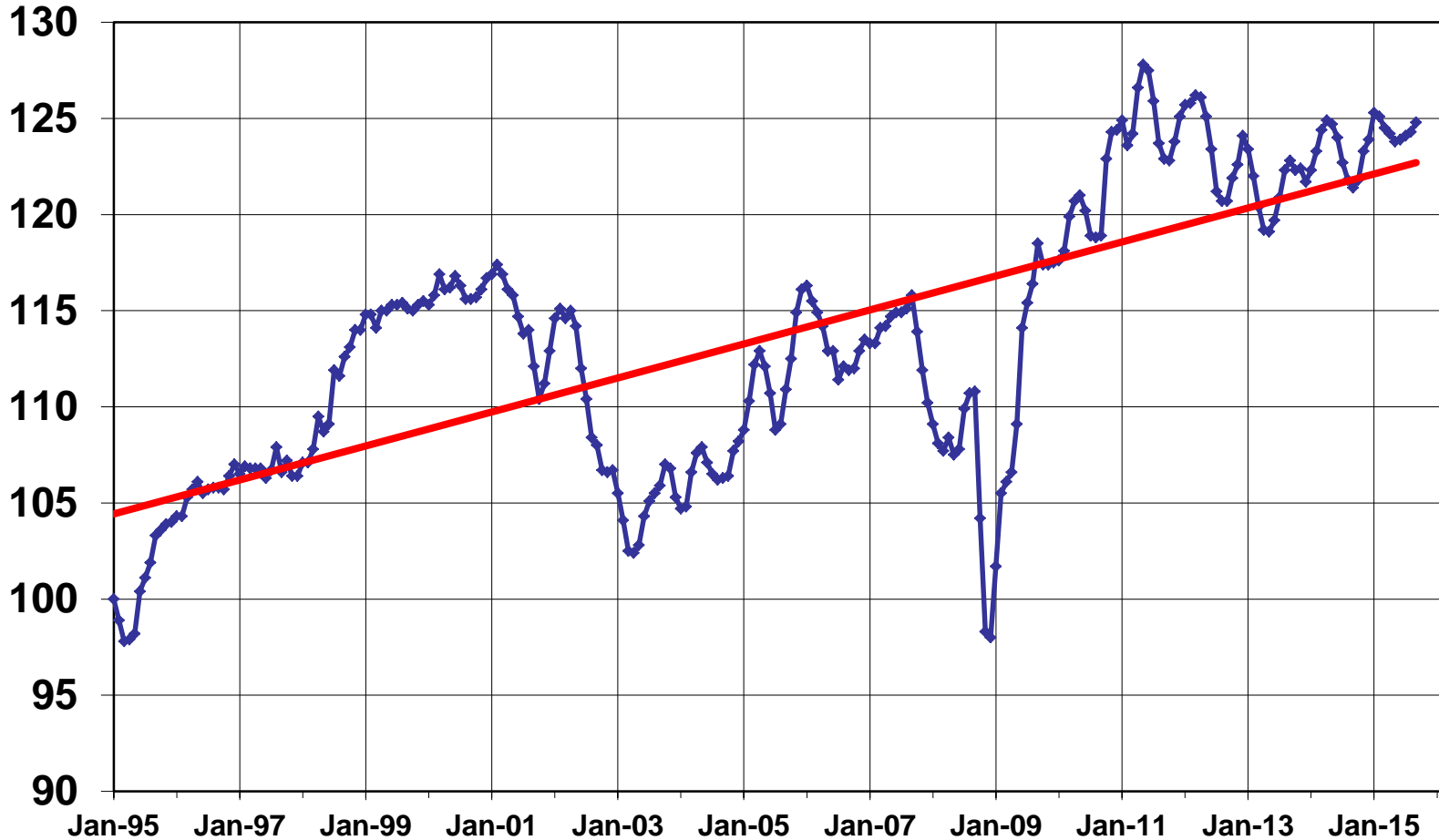
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Manheim Used Vehicle Value Index

January 1995 = 100



Source: Manheim Consulting

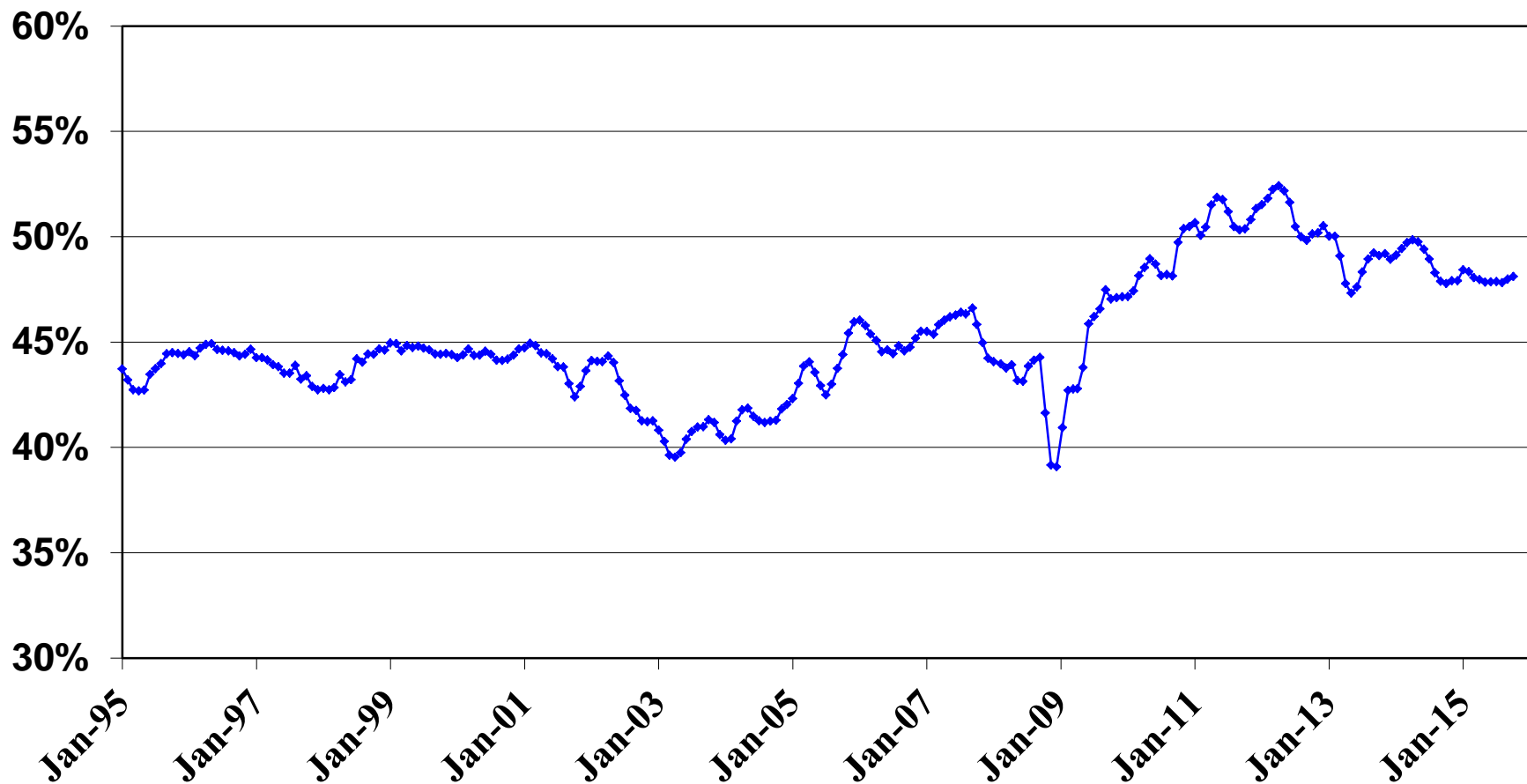
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Manheim Index versus Mix & Quality Adjusted New Vehicle Price with 3 ½ year lag



Source: Bureau of Labor Statistics & Manheim Consulting

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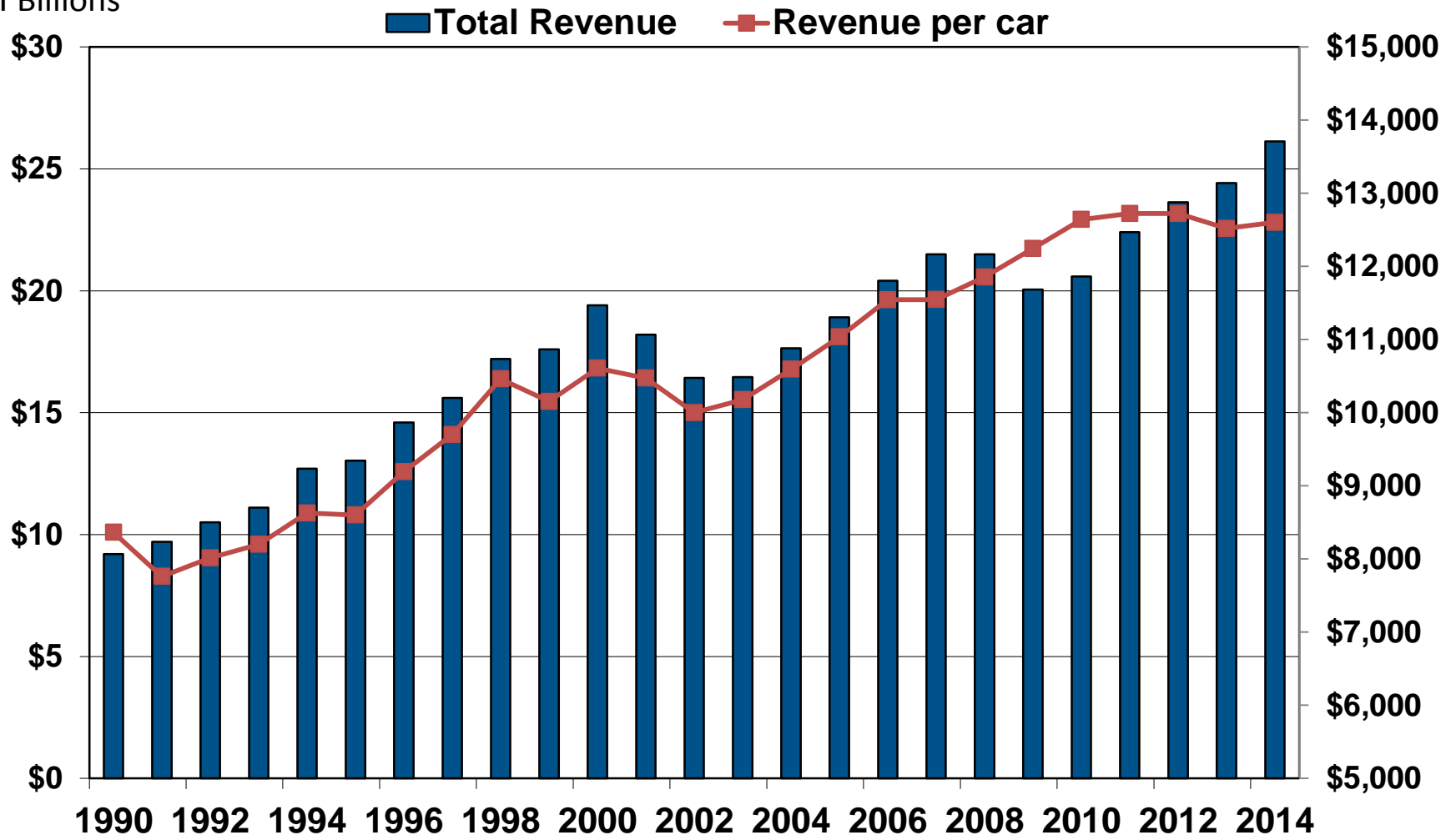
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U.S. Car Rental Market Revenue

In Billions



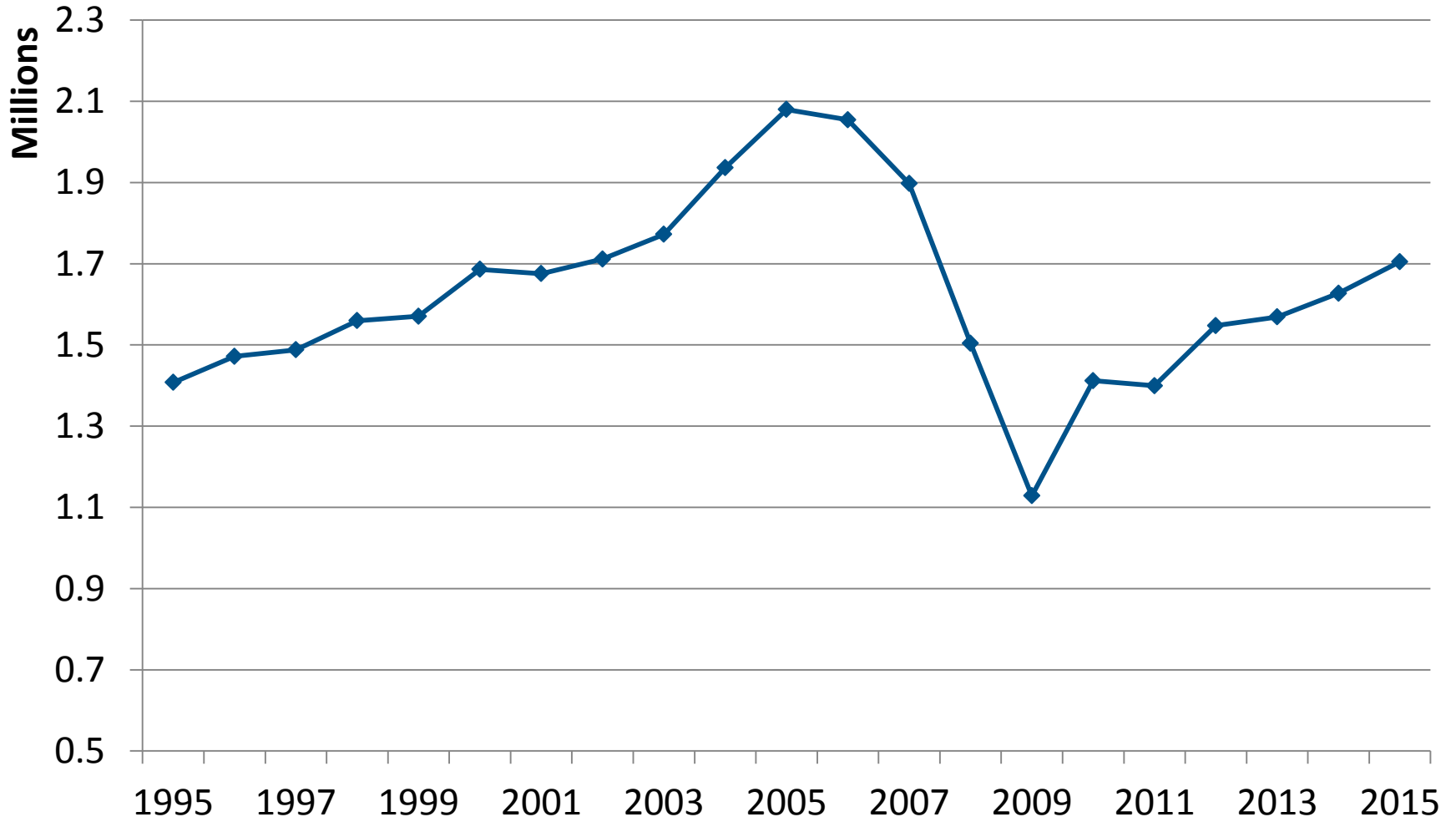
Source: Auto Rental News

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New Sales into Rental



Source: Auto Rental News & Automotive News

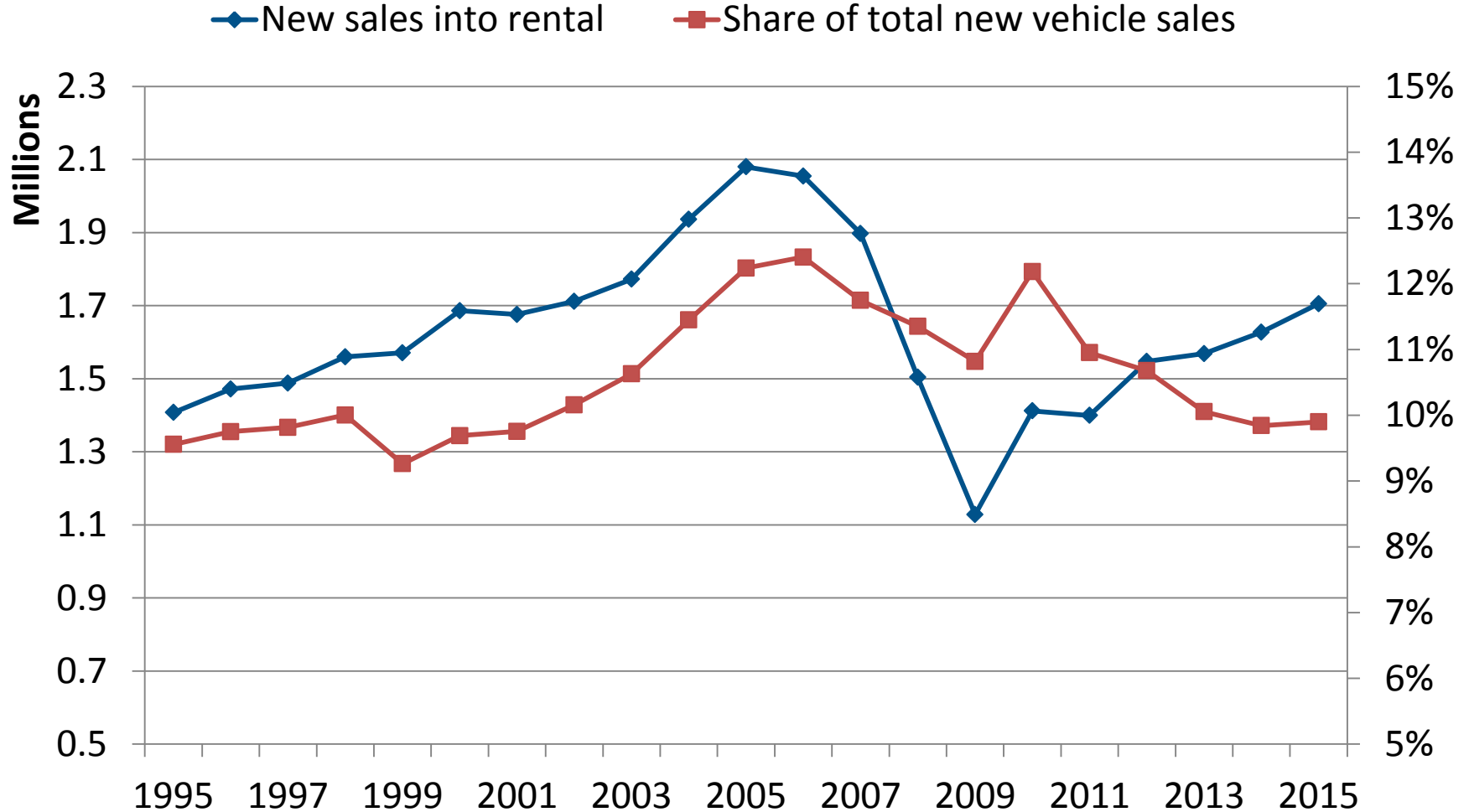
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New Sales into Rental & Share of Total Sales



Source: Auto Rental News & Automotive News

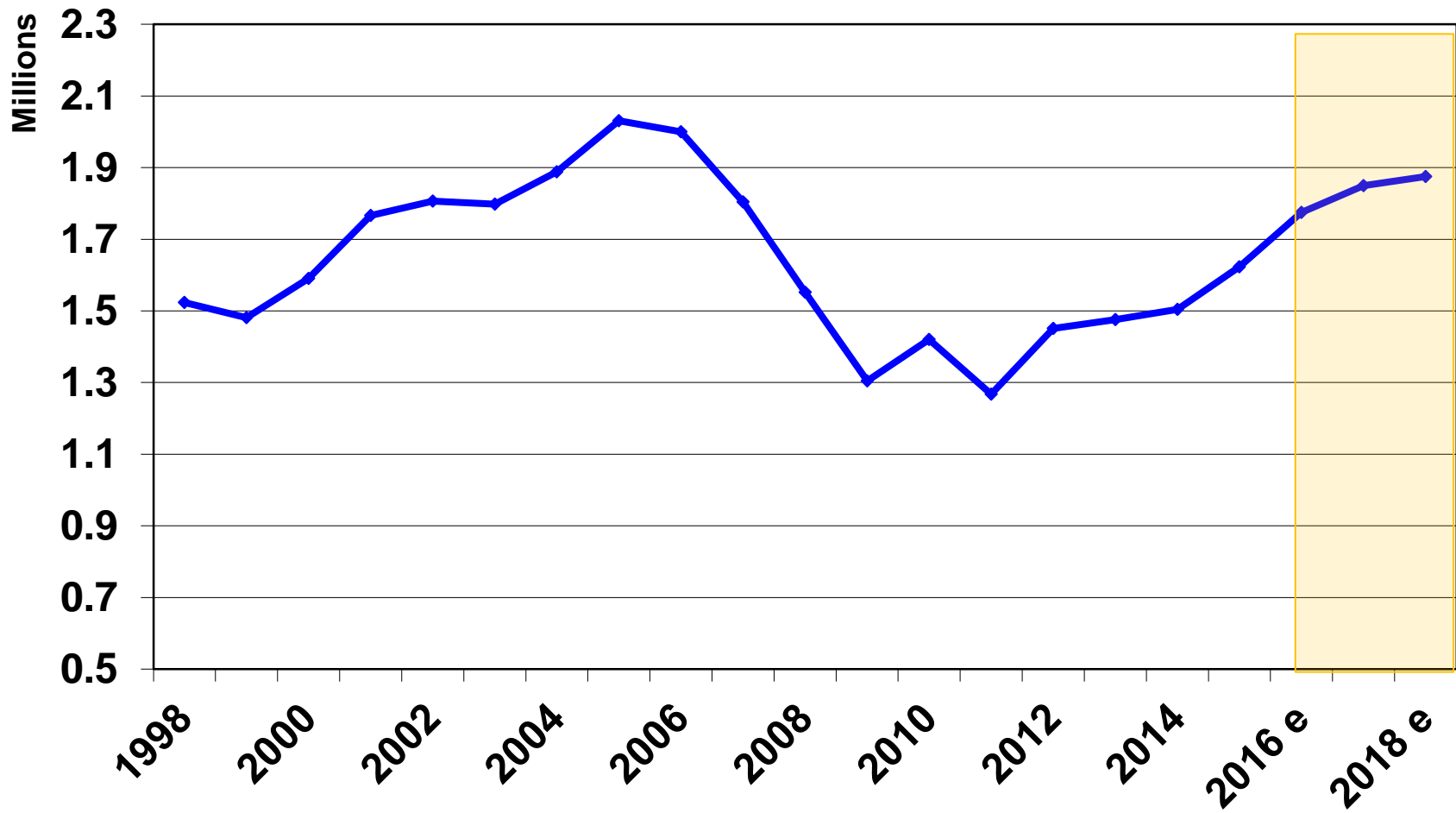
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Total Wholesale Supply: Off-rental



Source: Manheim Consulting

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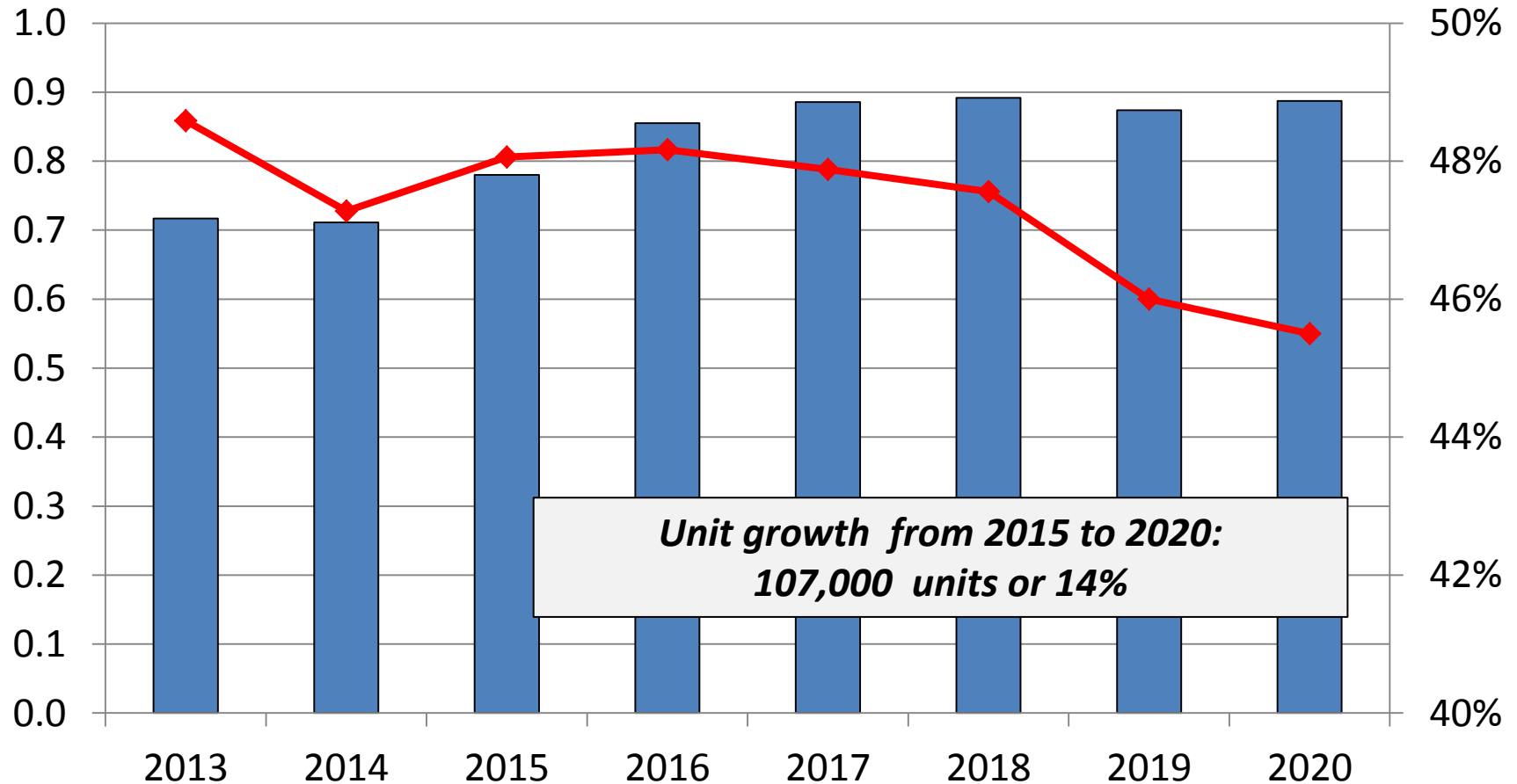
Off-rental "Return Rate"

(not sold directly to dealers or consumers)

Millions of units

Number

Percent



Source: Manheim Consulting

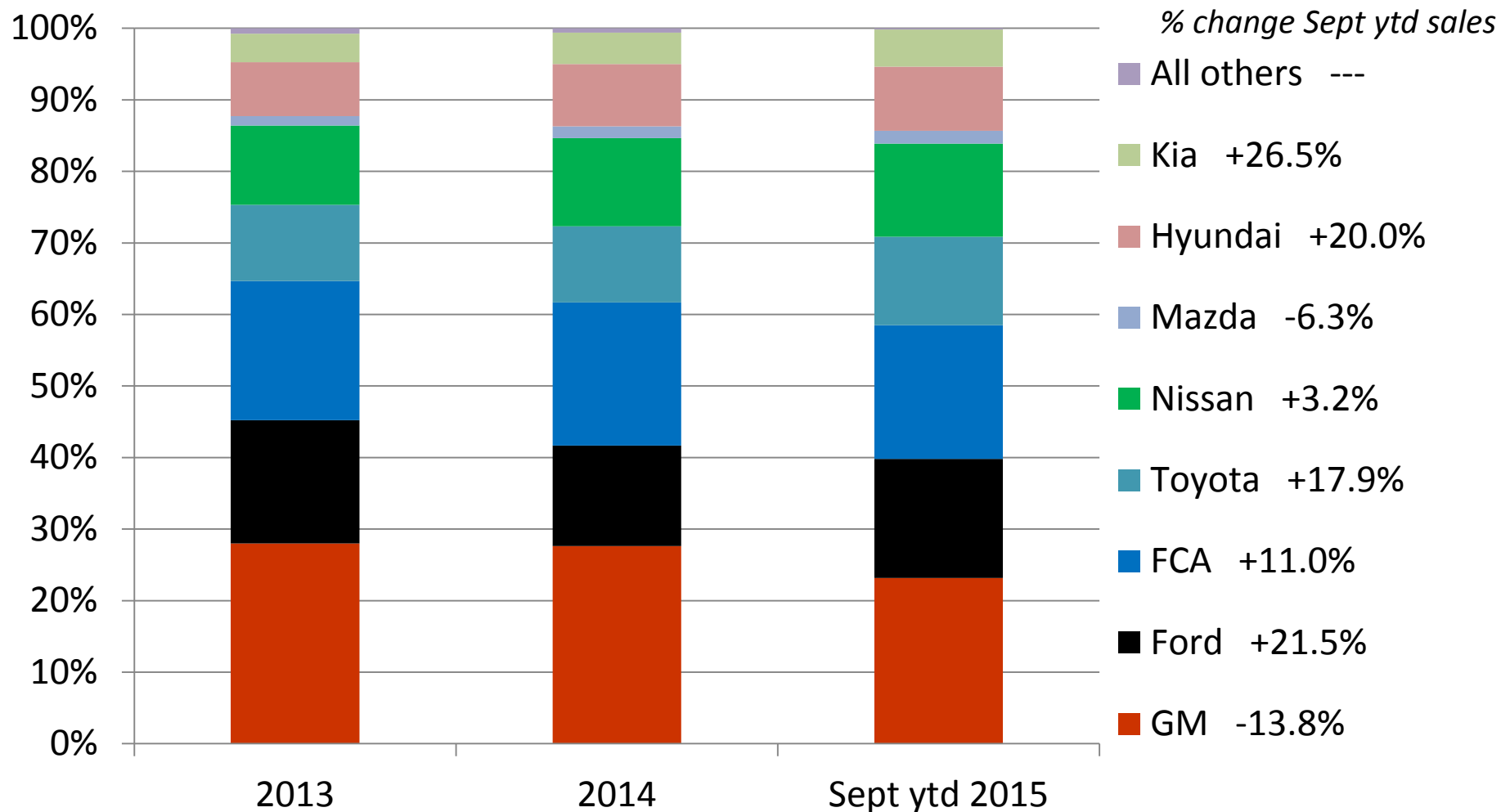
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Distribution of New Vehicle Sales into Rental by Manufacturer



Source: Bobit Business Media

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Rental Risk Vehicles Remarketed at Auctions

	2011 Q3	2014 Q3	2015 Q3
Number of unique year, make, model, body configurations sold	2,216	3,303	3,756
Share accounted for top 10 YMMB	28.2%	17.3%	15.6%
Share accounted for top 25 YMMB	46.5%	21.7%	26.9%
Number of YMMB to reach 50% share	31	86	85

Source: Manheim Consulting

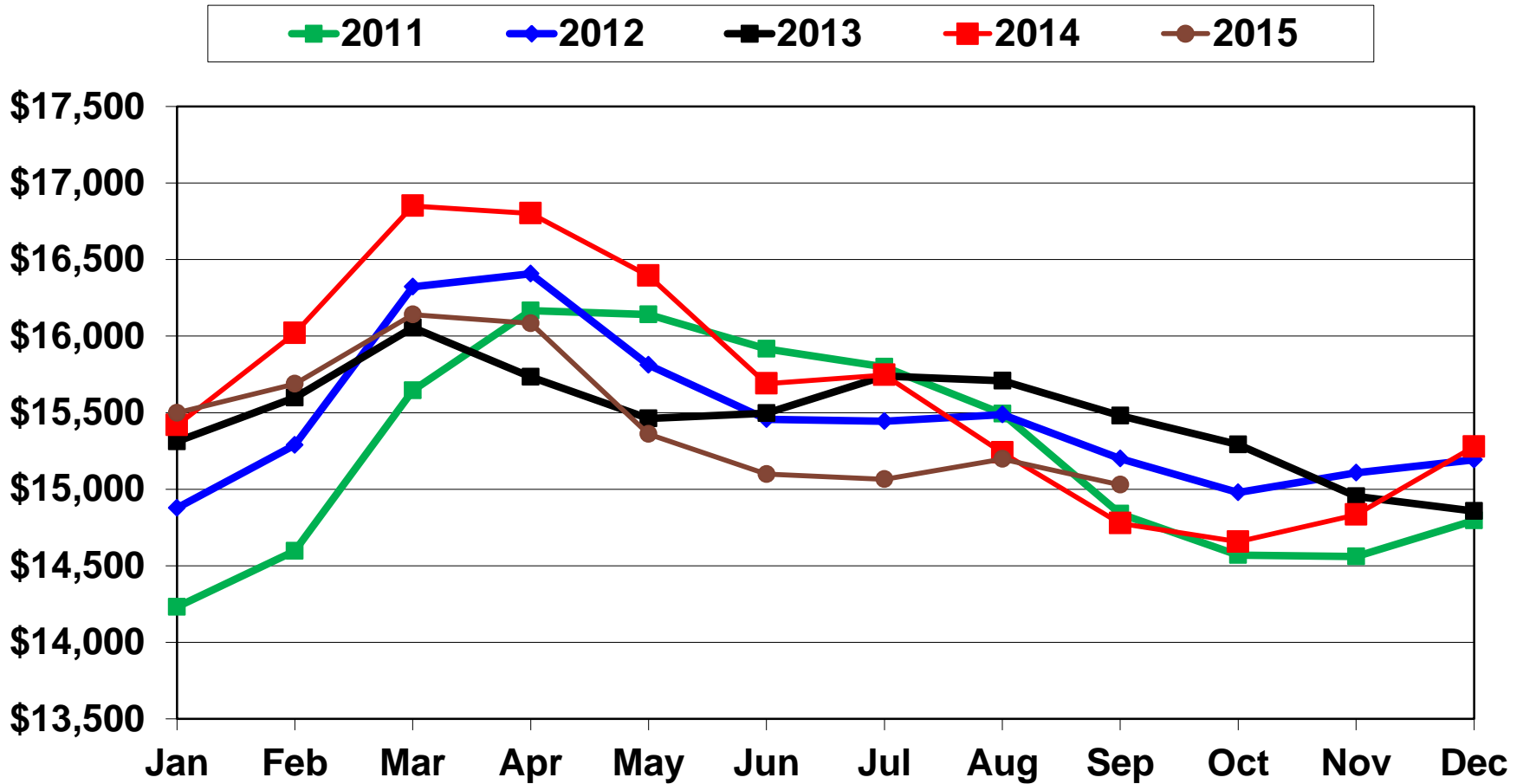
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Average Auction Price – Rental Risk Units

(mix and mileage adjusted)



Source: Manheim Consulting

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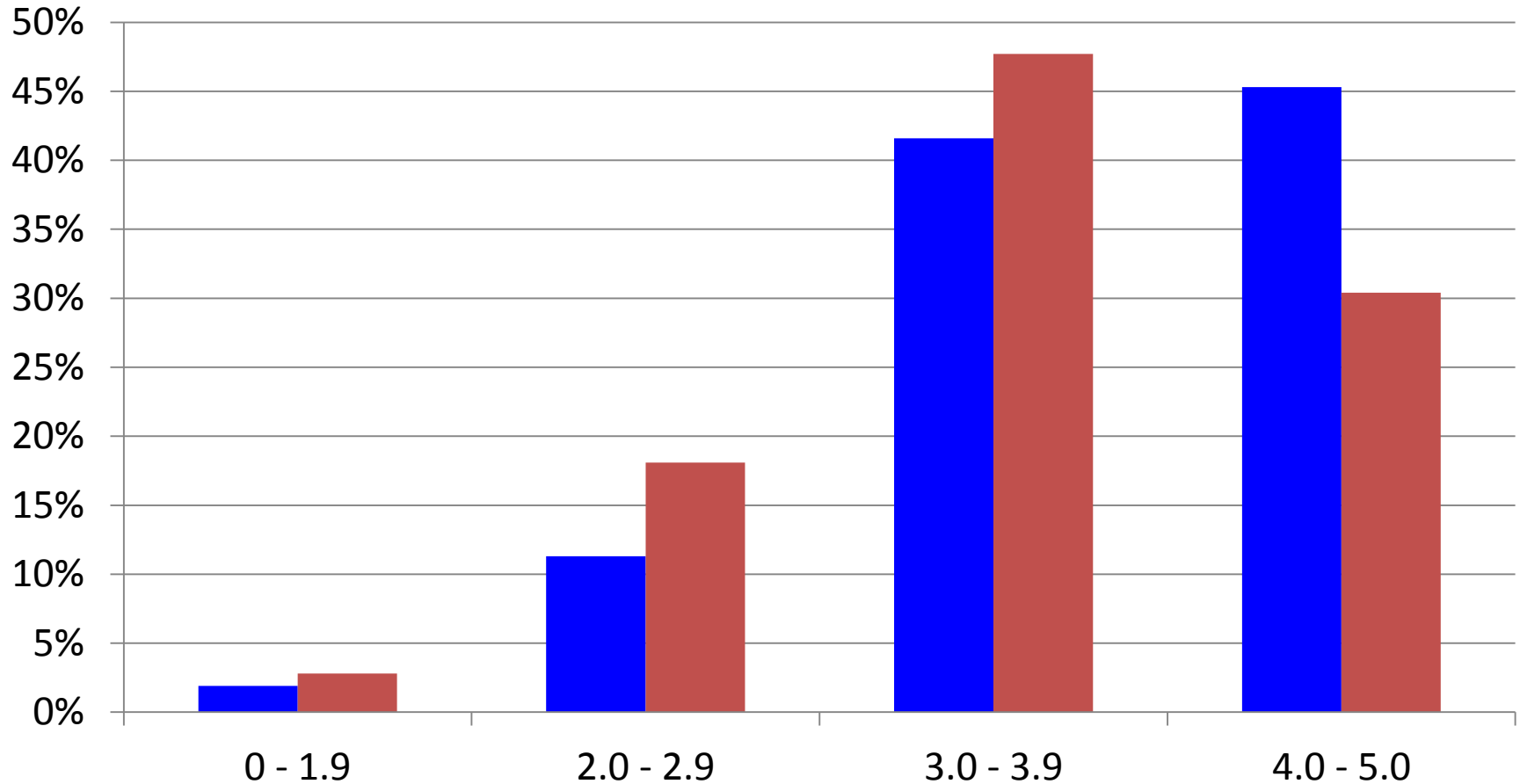
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Rental Risk Units Sold – Distribution by Condition

■ 2Q 2014 ■ 2Q 2015



Source: Manheim Consulting

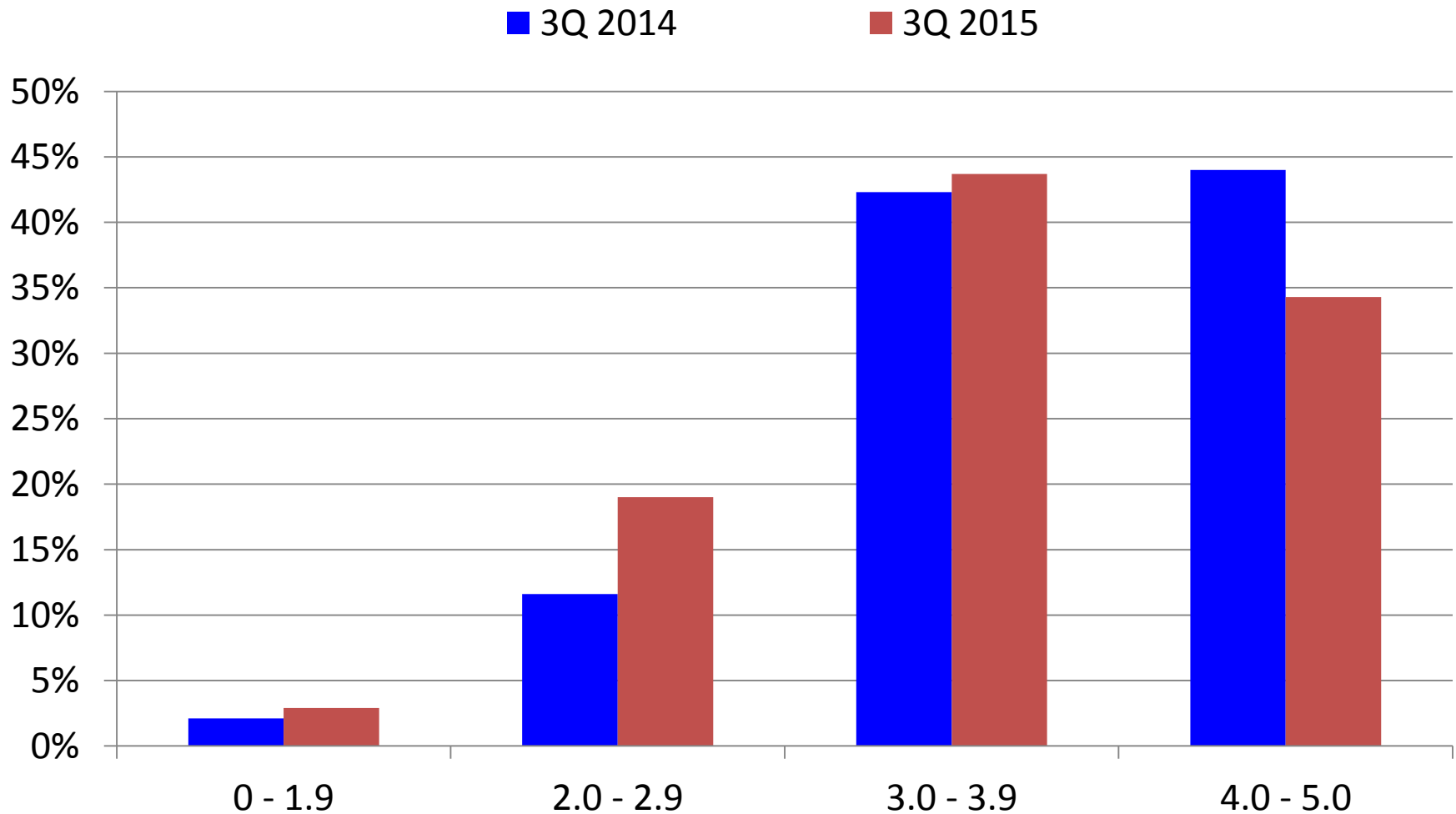
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Rental Risk Units Sold – Distribution by Condition



Source: Manheim Consulting

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Average Mileage Rental Risk Units Sold at Auction



Source: Manheim Consulting

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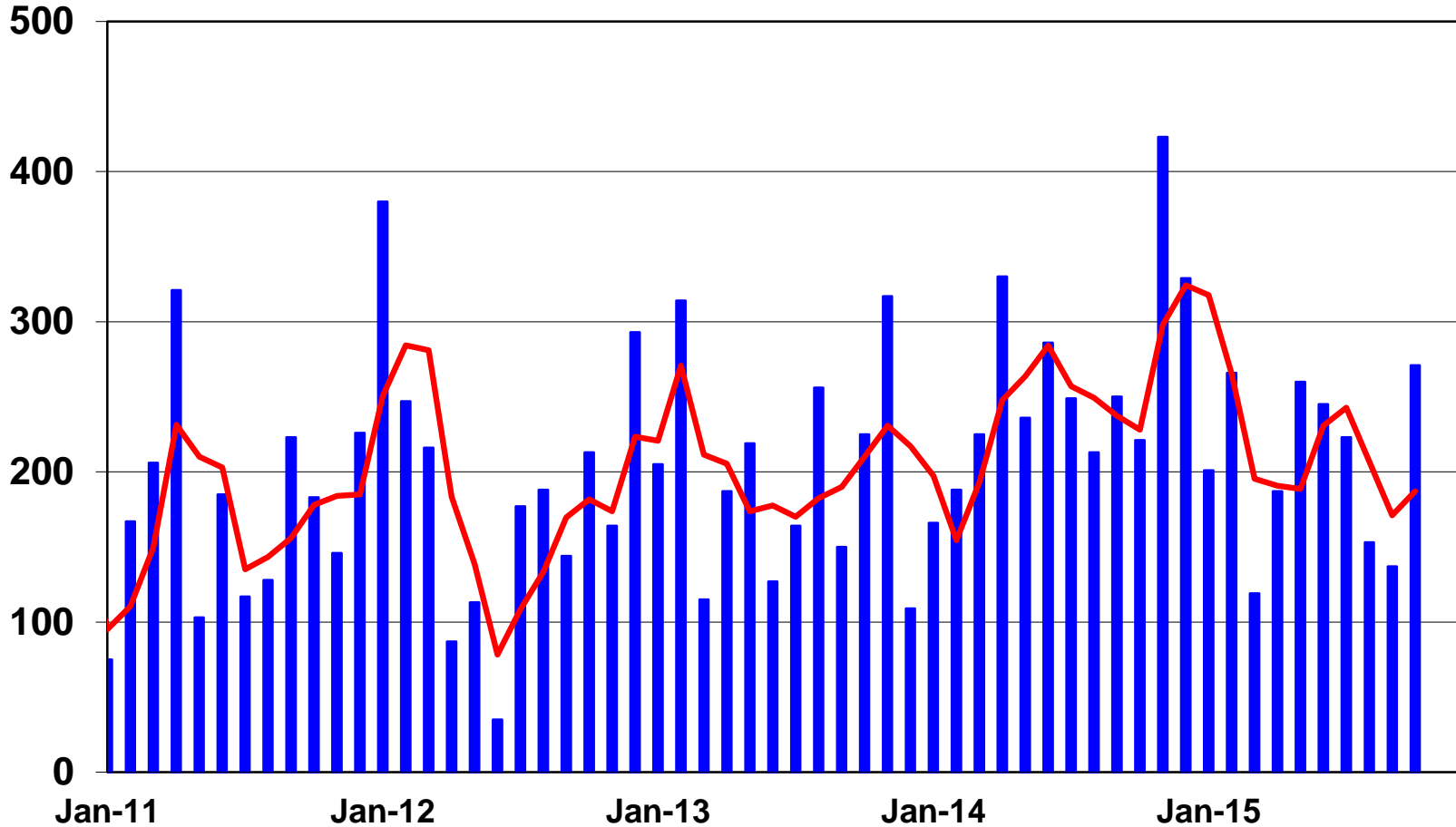
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Monthly Employment Growth

Monthly Change in Nonfarm Payrolls (in thousands)



Source: Bureau of Labor Statistics

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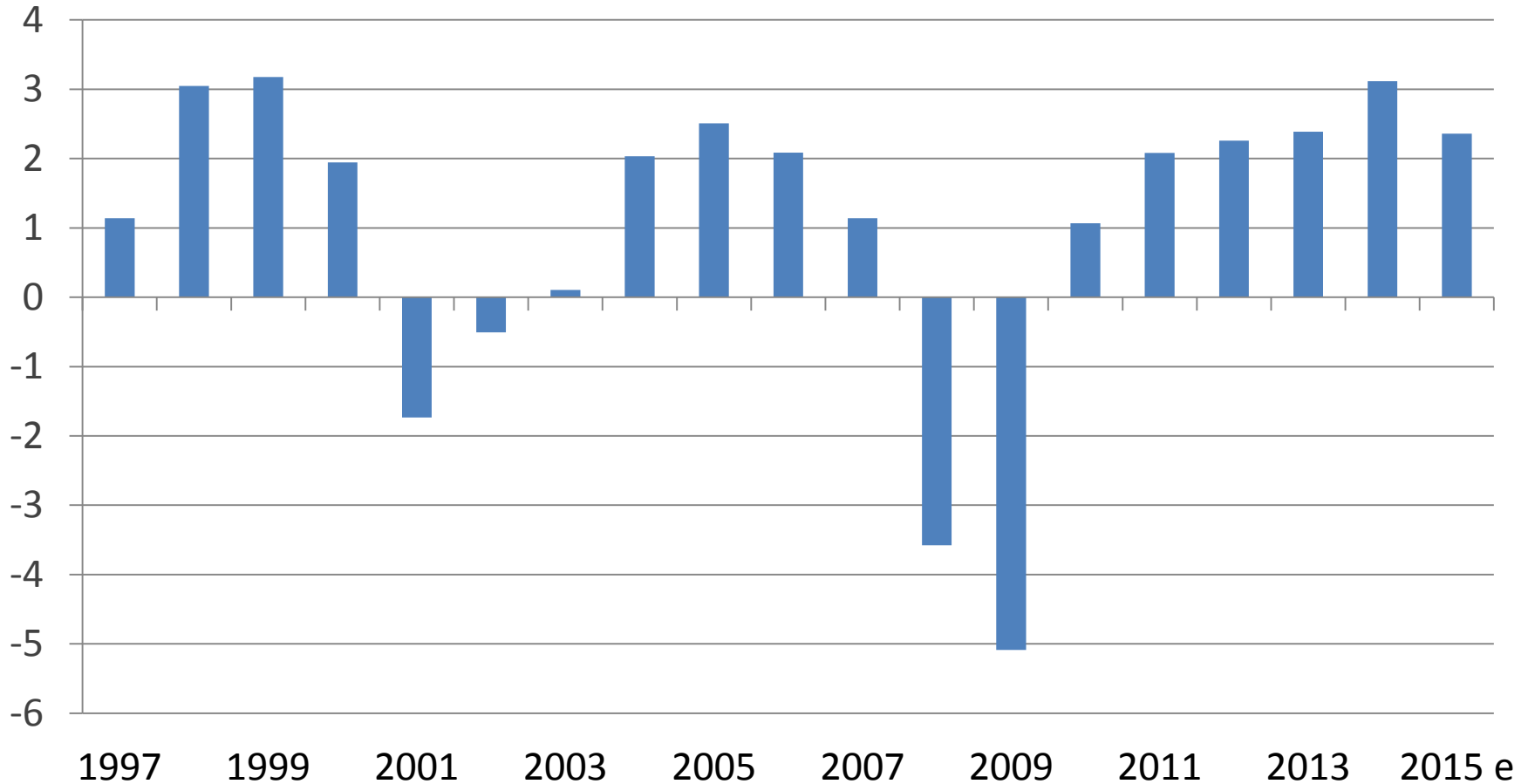
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Employment Growth Continues

Annual Change in U.S. Employment – in millions



Source: Bureau of Labor Statistics

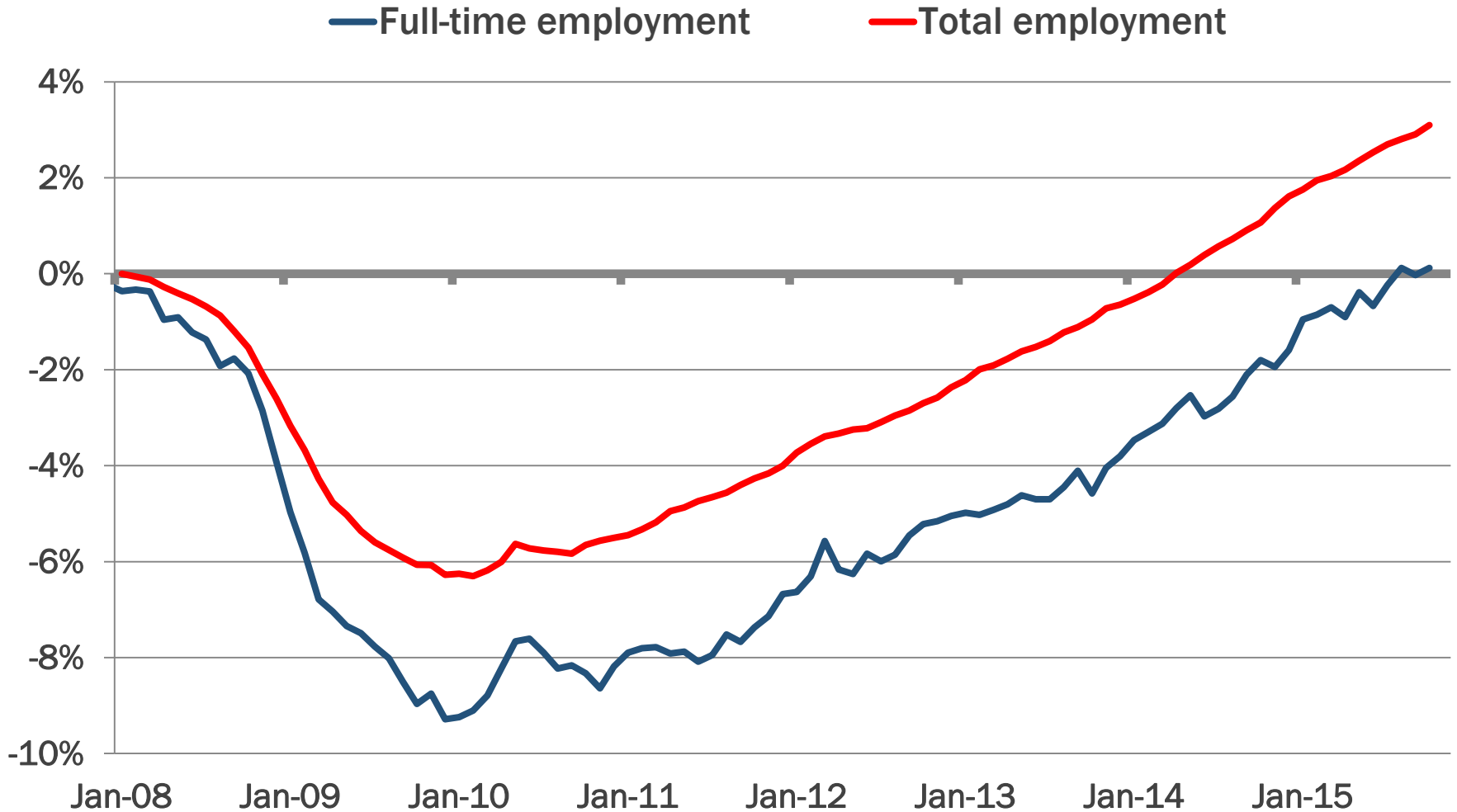
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Percent Change From Previous Peak



Source: BLS

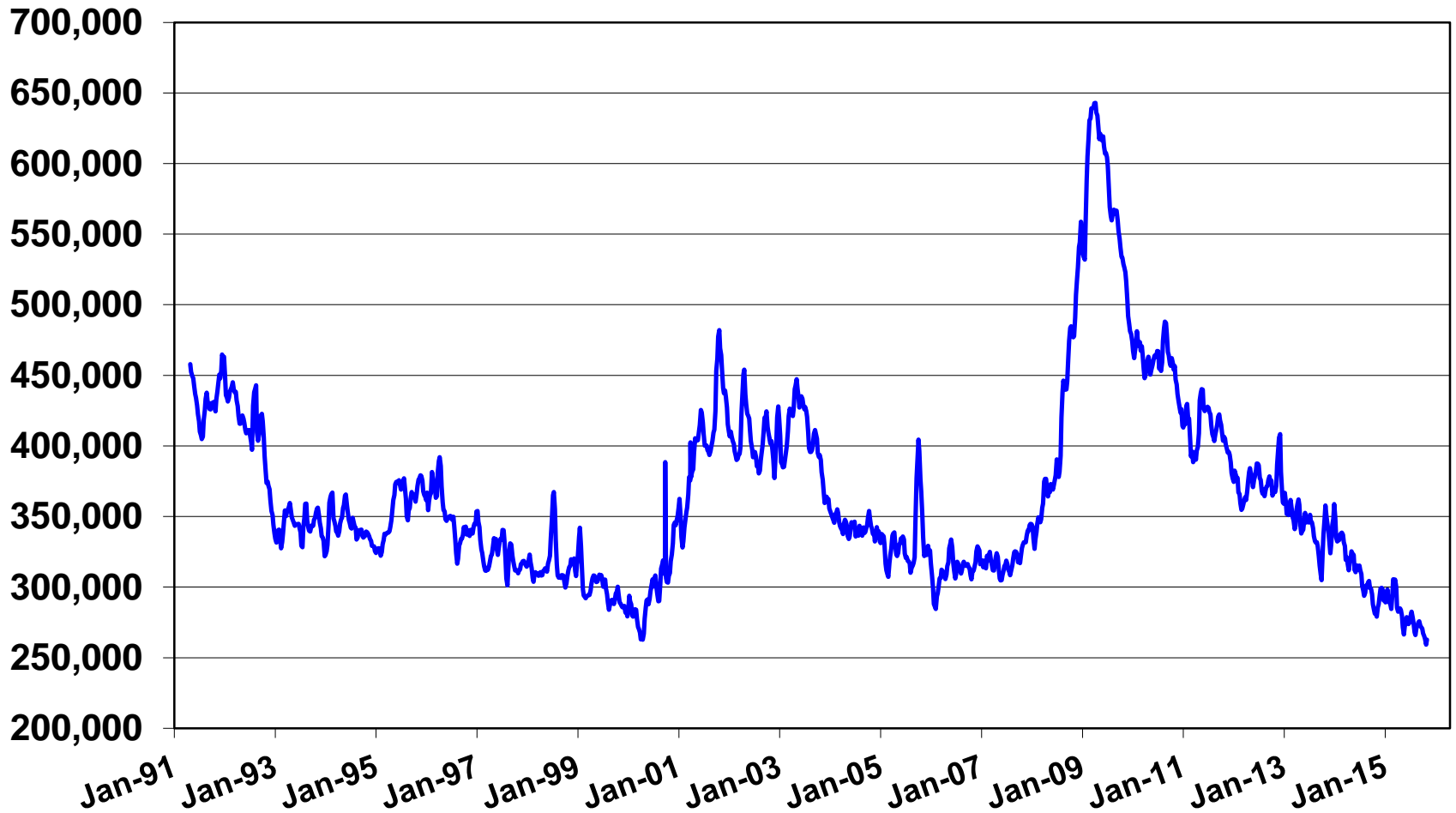
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Initial Jobless Claims



Source: Bureau of Labor Statistics

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Chart 1. Number of unemployed persons per job opening
Seasonally adjusted



The Retail Financing Market --

Longer loans with



Lower downs to



Lower FICOS



Record Lease Penetration



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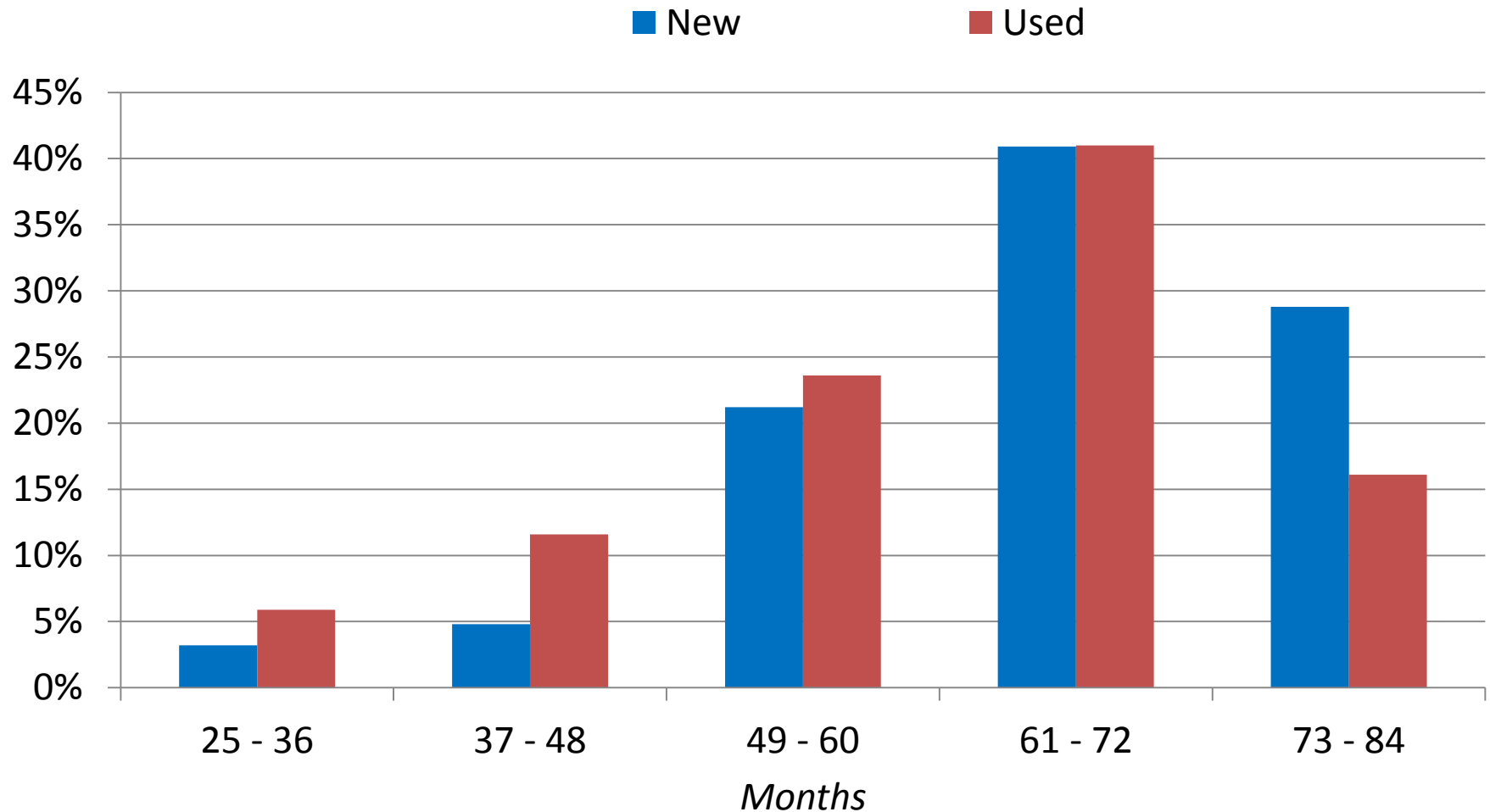
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Longer Loans

Term Distribution of New and Used Loans (originated 2015 Q2)



Source: Experian

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10-year Treasury Yields



Source: Federal Reserve Board

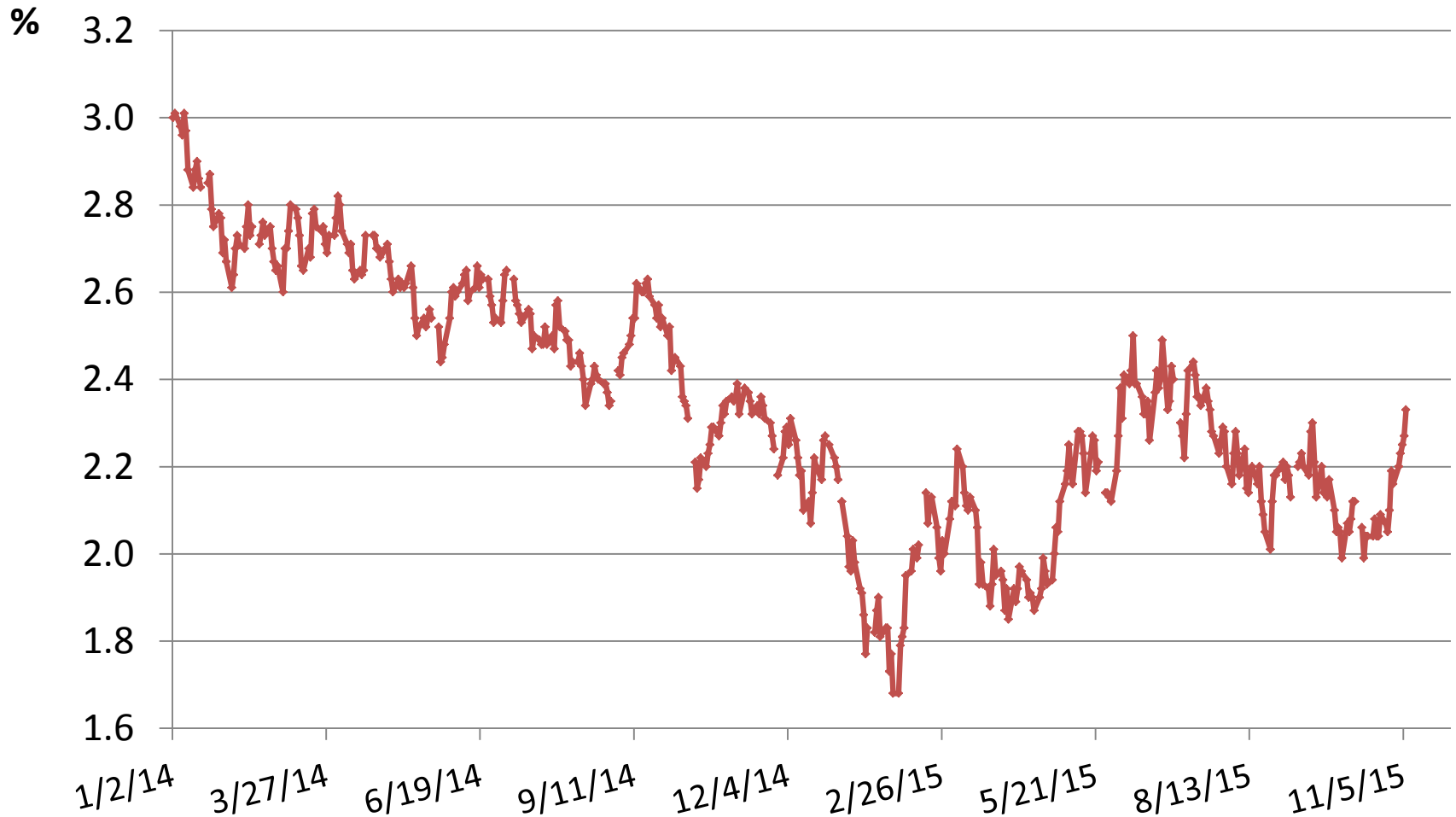
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10-year Treasury Yields (daily)



Source: Federal Reserve Board

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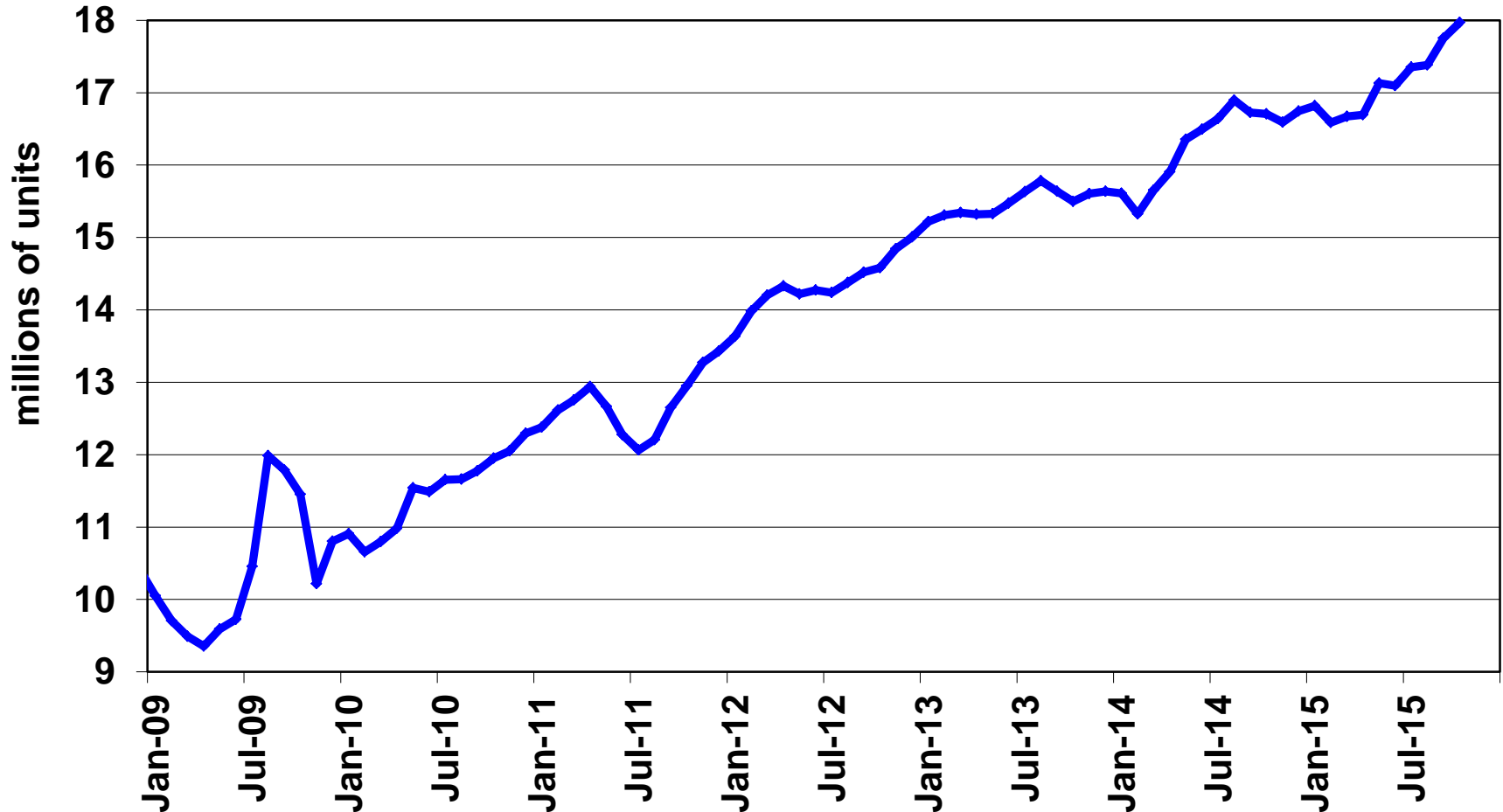
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New Car & Light-Duty Truck Sales

Seasonally Adjusted Annual Rate - 3-Month Moving Average



Source: BEA

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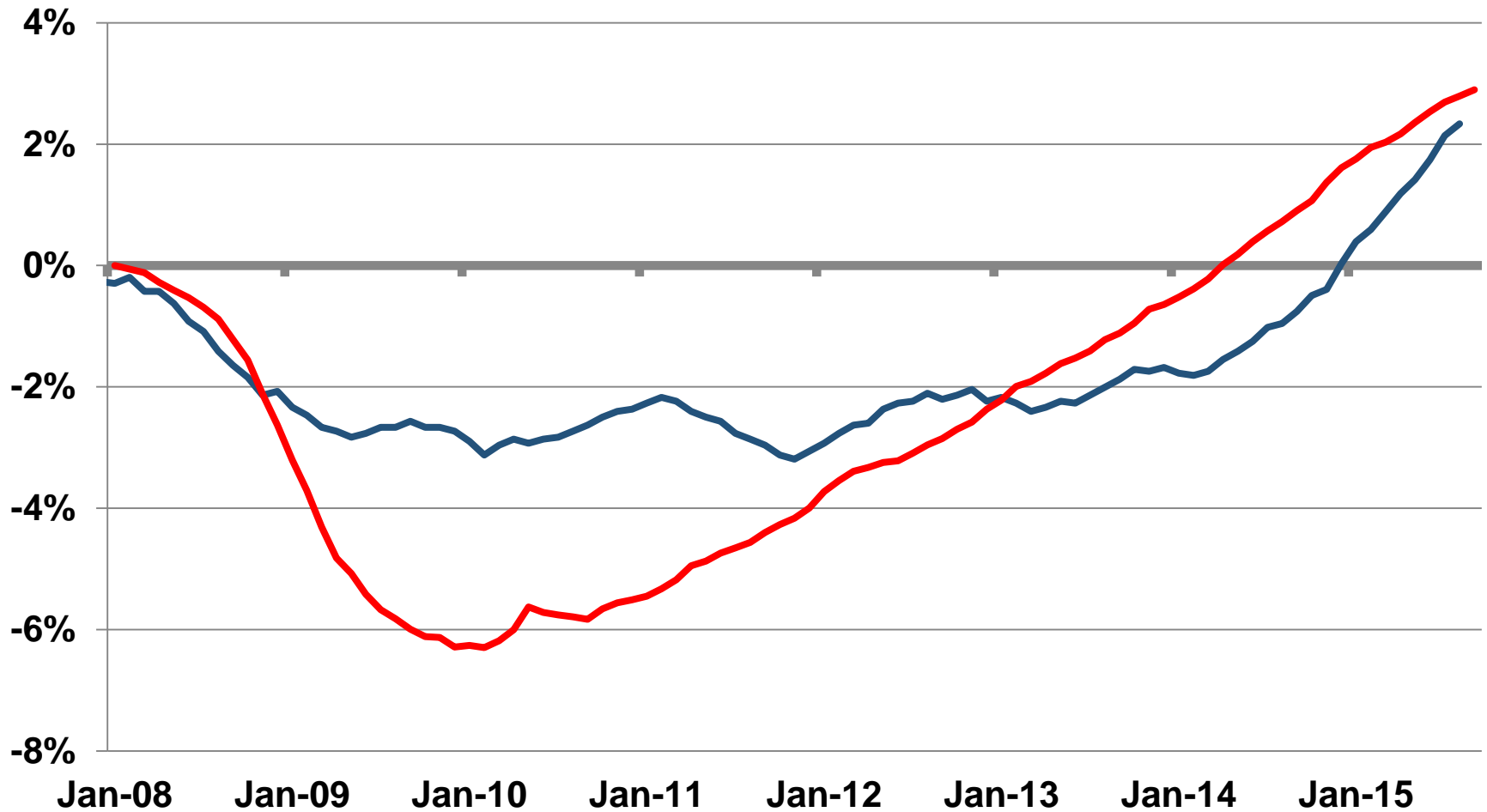
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Percent Change From Previous Peak

— Vehicle Miles of Travel

— Employment



Source: U.S. Department of Transportation & BLS

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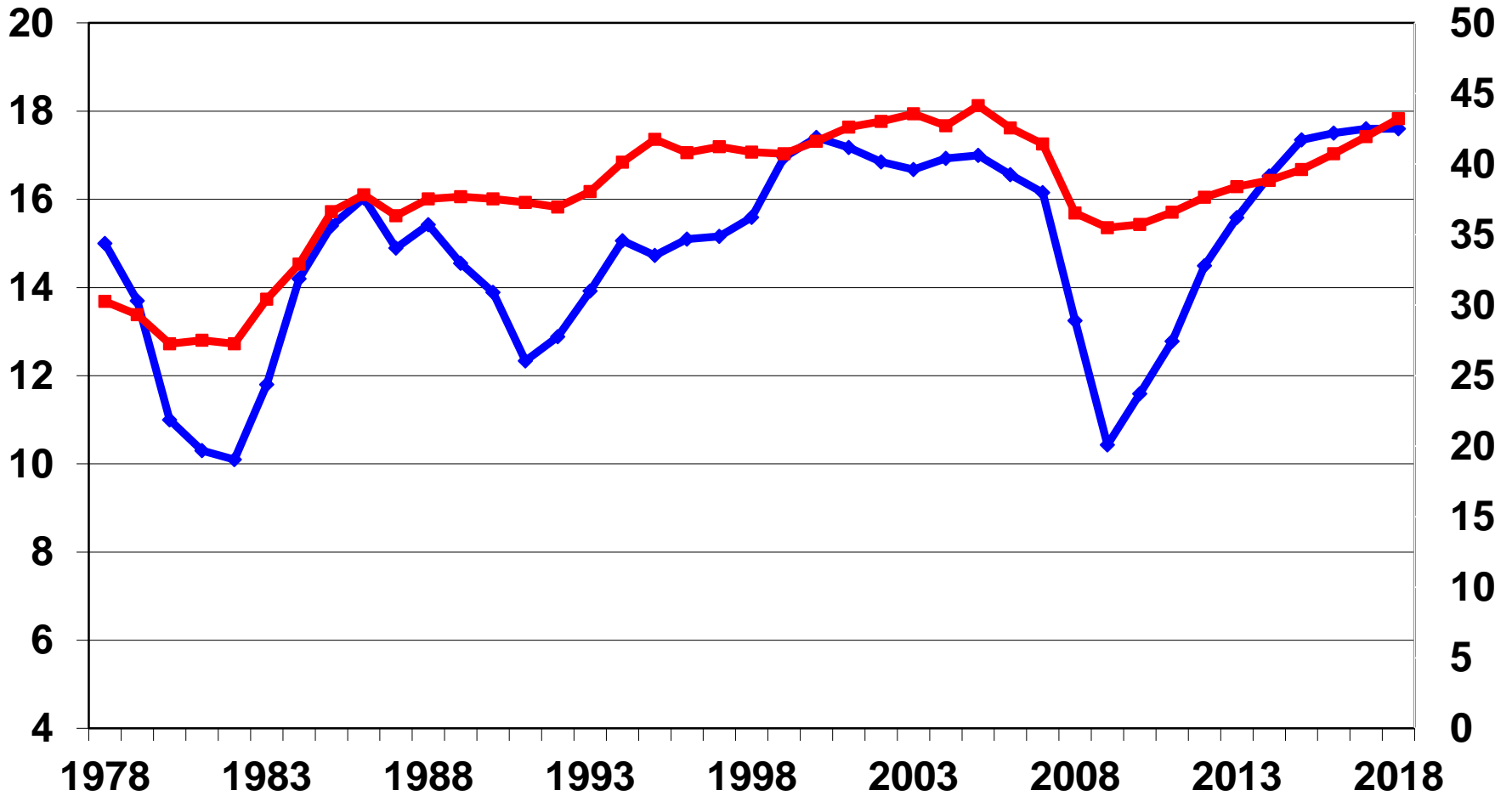
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New Vehicle Sales vs Used Vehicle Sales

millions of units

◆ New

■ Used



Source: Automotive News, CNW, NADA

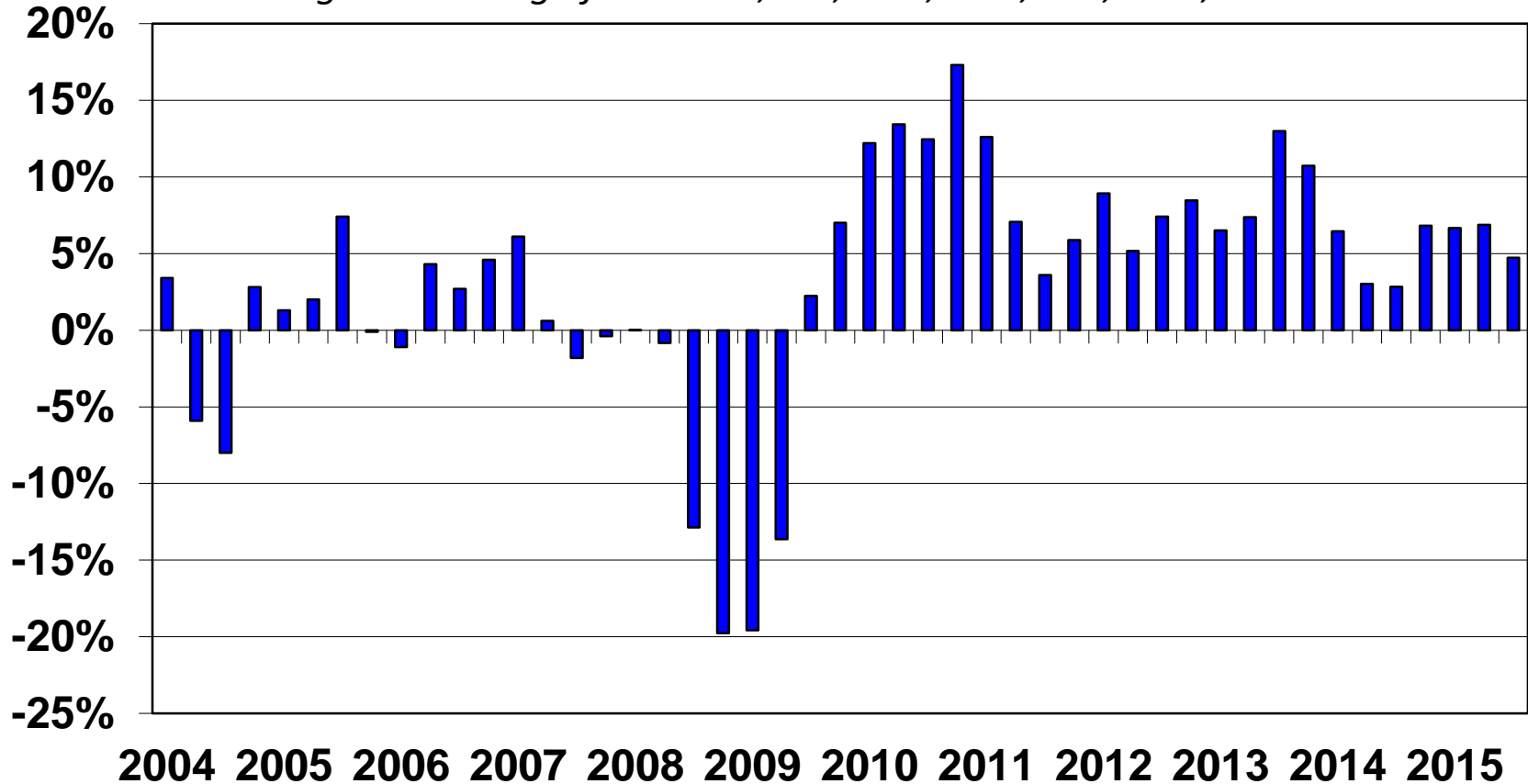
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% Change Used Units Retailed – Same Store Basis (Publicly-traded Dealership Groups)

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



**KMX shifted forward one month to correspond with calendar quarter*

Source: Company filings

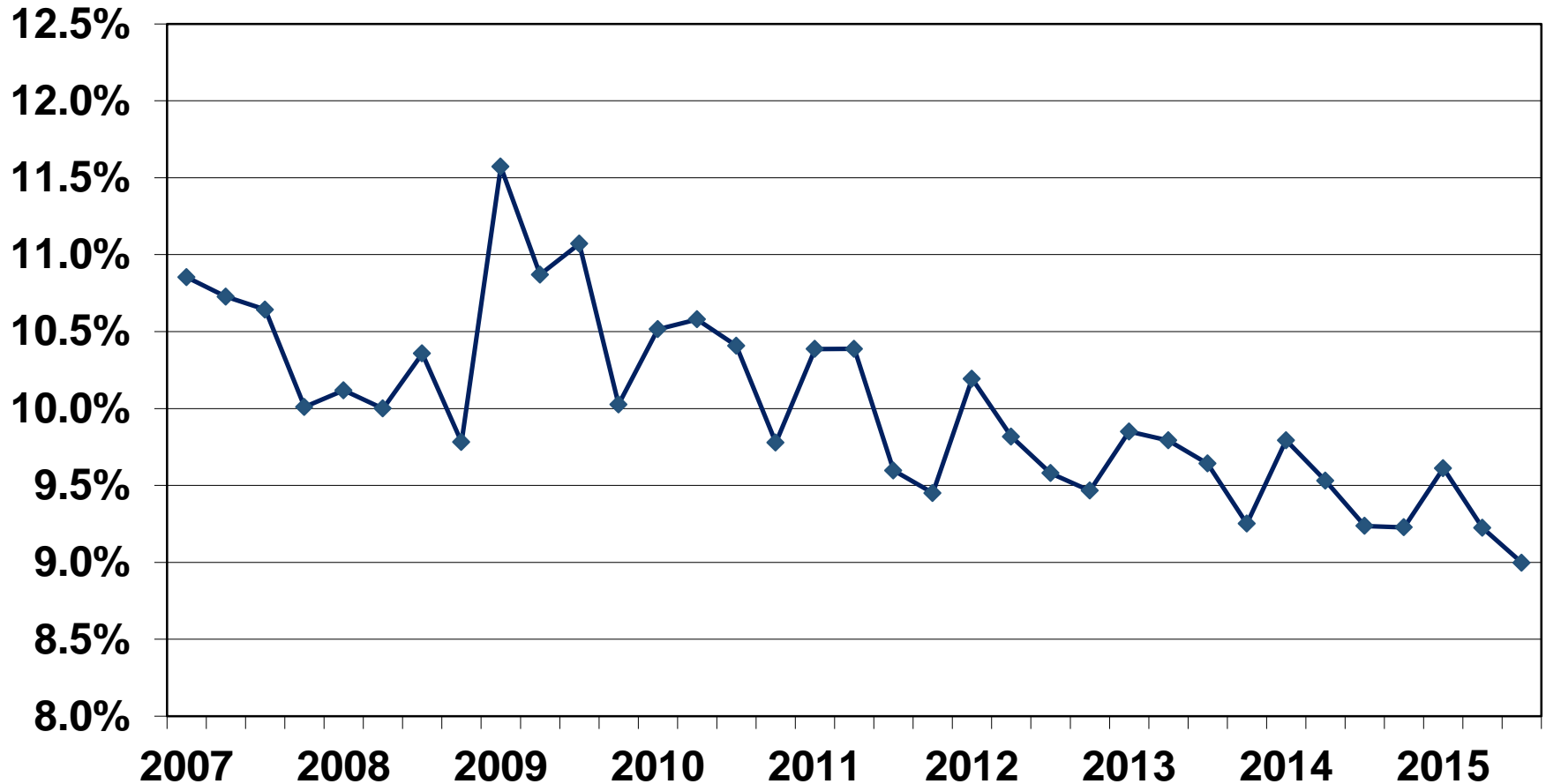
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Used Vehicle Retail Gross Margin (Publicly-traded Dealership Groups)

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



**KMX shifted forward one month to correspond with calendar quarter*

Source: Company filings

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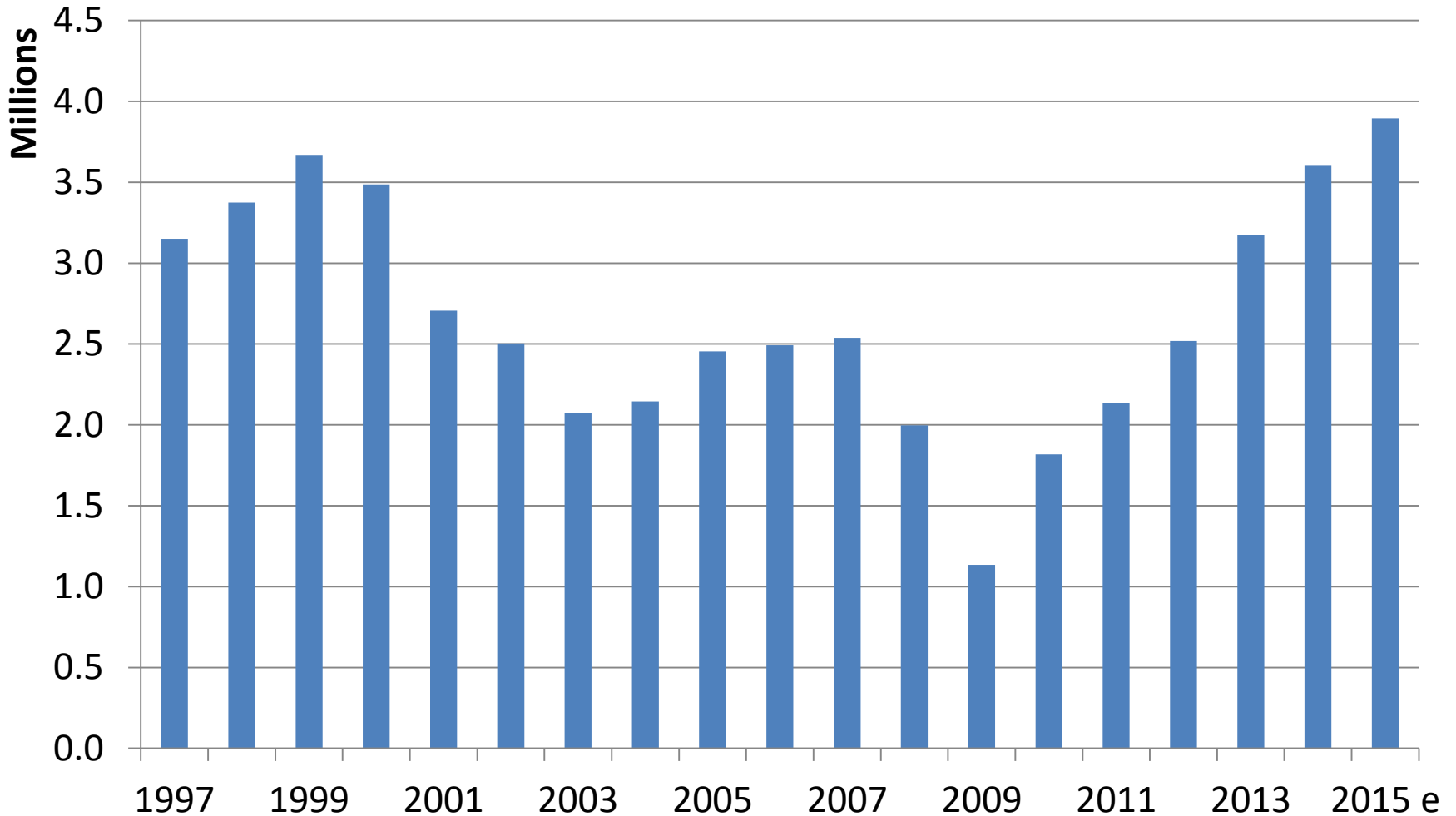


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Wholesale Supplies



New Vehicle Lease Originations



Source: Manheim Consulting

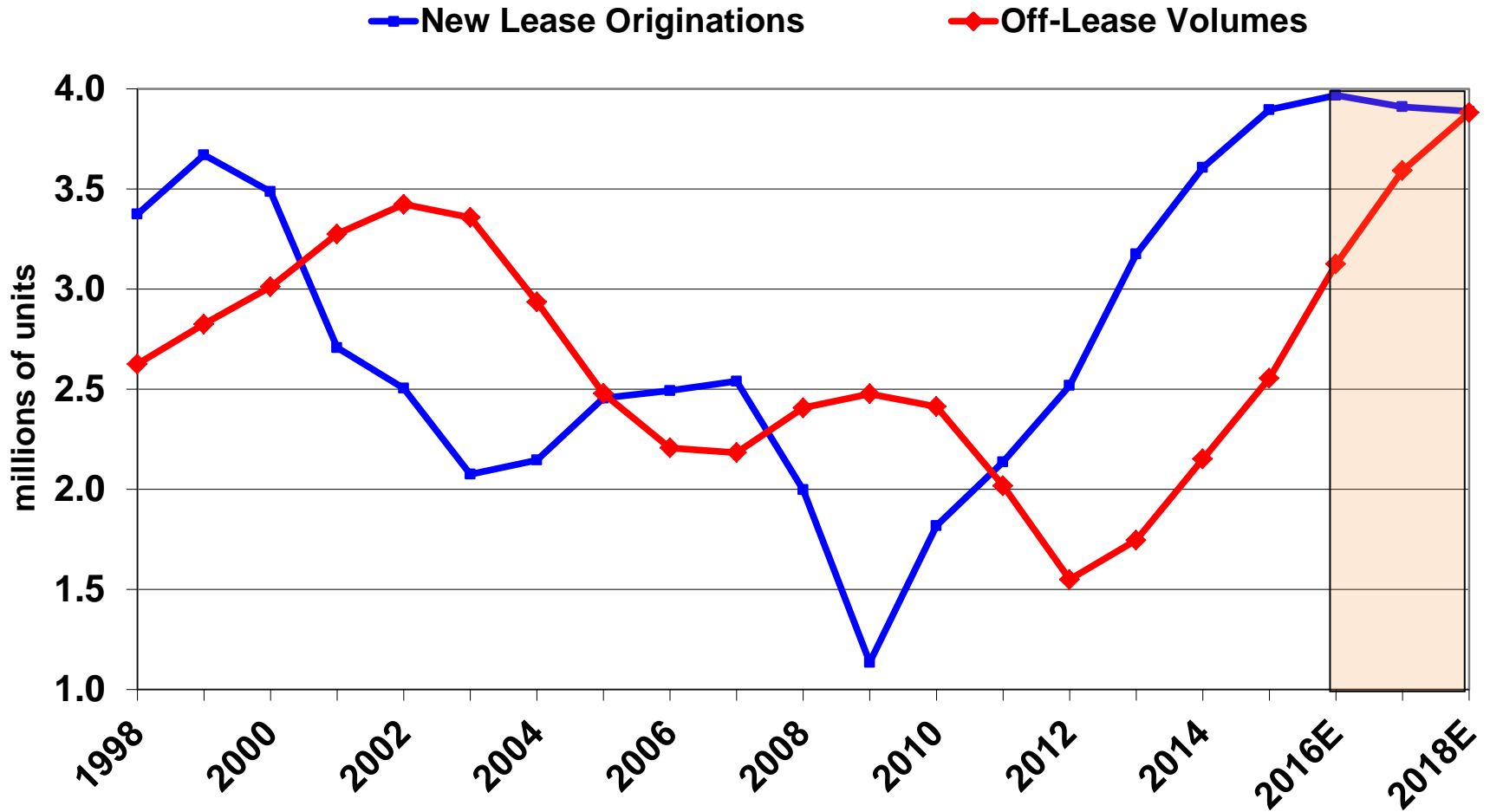
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Off-Lease Volumes – Further Growth Ahead



Source: Manheim Consulting

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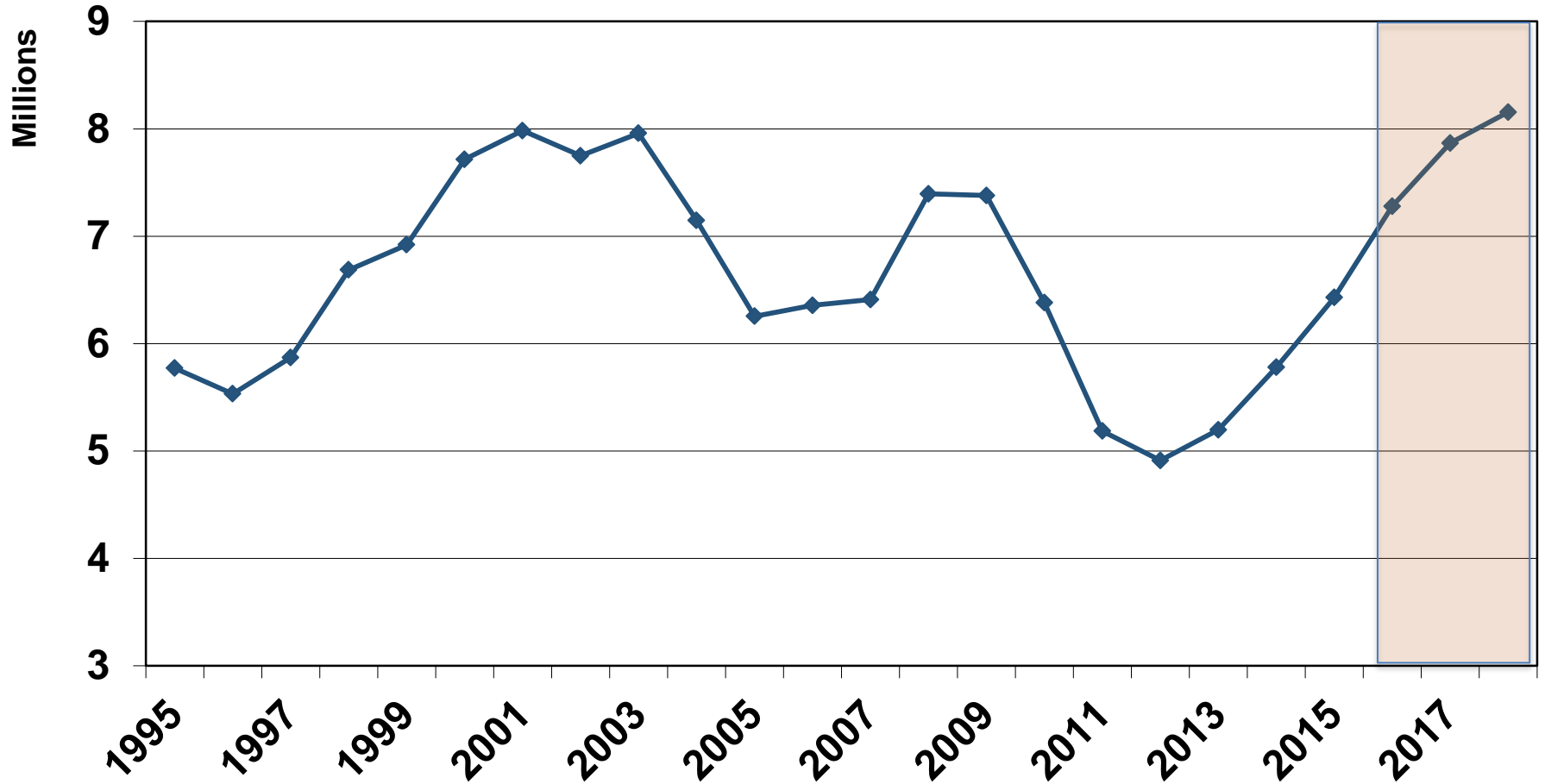
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Total Commercial Wholesale Supply

(off-lease, off-rental, repo, fleet, company car, & other)



Source: Manheim Consulting

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The Under-Appreciated Risks

- **China** (*a managed economy that will not manage*)
- **Russia** (*an aggressive power that will not manage*)
- **Europe** (*a declining power that will not manage*)
- **Japan** (*a declining power that will not manage*)
- **Emerging Markets** (*a rising power that will not manage*)

The Coming Fed Pivot

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Questions / Comments

Remember, I'm an economist –
that means I've been
professionally trained to speak on
subjects about which I know
absolutely nothing.

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