

COVID-19: J.D. Power Auto Industry Impact Report

March 25, 2020

Webinar Dial-in: (562) 247-8422

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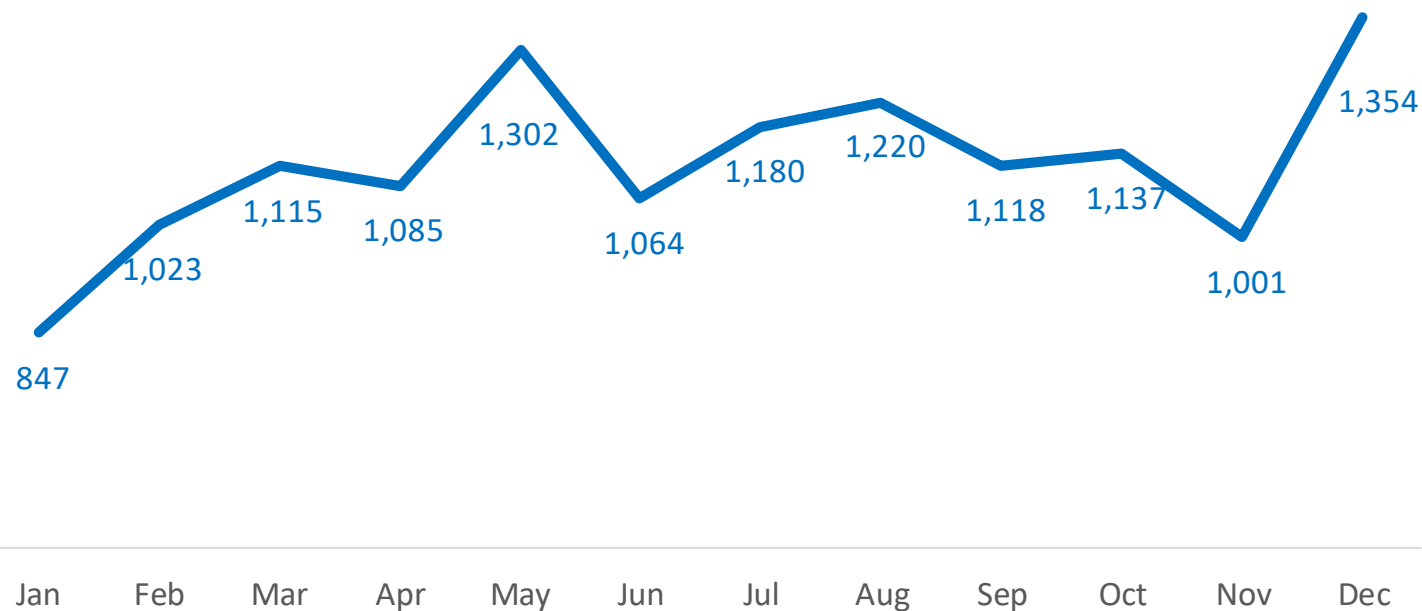
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Agenda

- 1. Retail Sales Impact through March 22**
 - 2. Sales Outlook**
 - 3. Other Considerations**
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1. Retail Sales Impact Through 3/22

2020 J.D. Power Pre-Virus Retail Forecast



Overview

This analysis uses the pre-virus retail sales forecast as the baseline for comparisons to actual results.

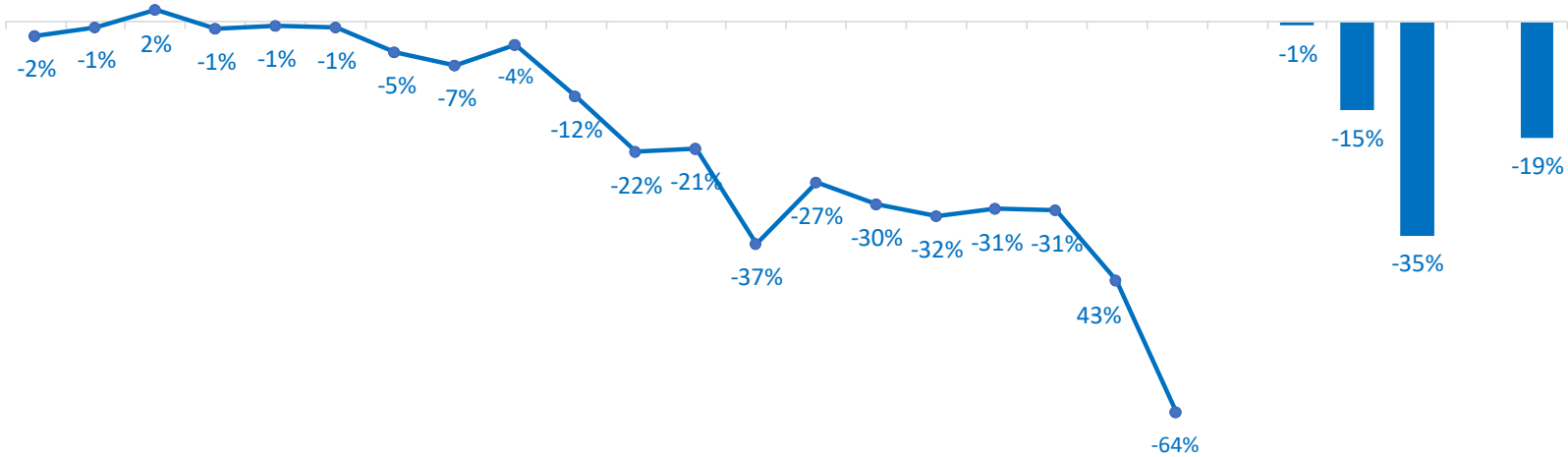
Pre-Virus Full Year Forecast

Prior to the escalation of the COVID-19 virus in the U.S., J.D. Power expected 2020 sales of 16.8 million new-vehicle total sales and 13.4 million retail sales, declines of 1.9% and 2.6% respectively from 2019CY.

Pre-Virus March Forecast

The pre-virus forecast for March 2020 was 1.48 million total sales and 1.12 million retail sales, declines of 0.5% and 1.7% respectively from March 2019.

March Retail Sales: Actual over/(under) Pre-Virus Forecast (000s)



Month-to-Date Impact

Through Sunday March 22, 543,000 retail sales have occurred, a decline of 129,000 units/-19% vs pre-virus forecast.

Weekly Deterioration

The weekly sales pace has been declining rapidly for weeks ending:

March 8: -1% or 1,000 units

March 15: -15% or 35,000 units

March 22: -35% or 93,000 units

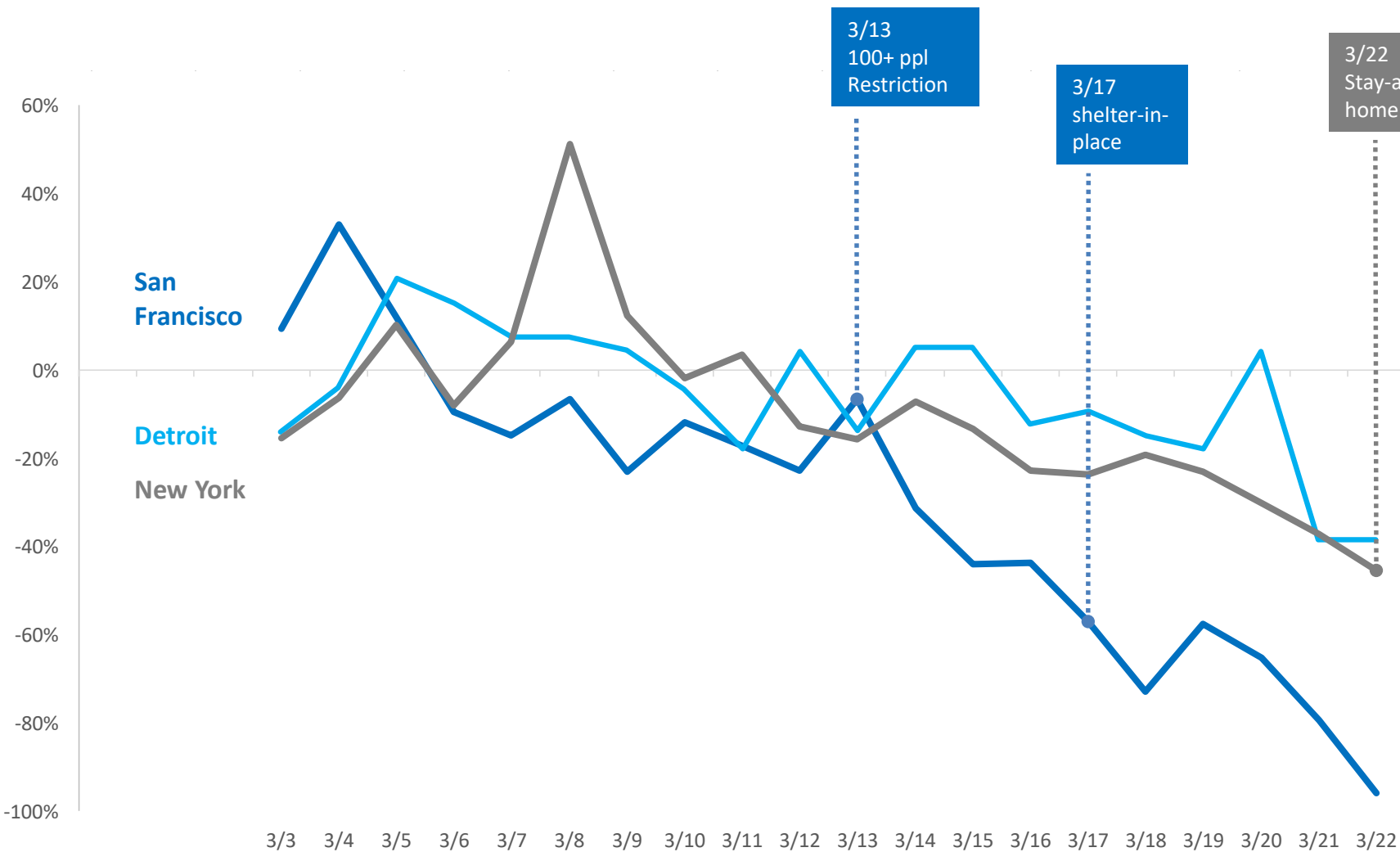
Weekend of 3/21-3/22

Sales pace declined significantly over the weekend (down 43% on Saturday 21st and 64% on Sunday 22nd).

Note: Many stay-at-home orders were only recently enacted, effects of which are not reflected in 3/22 results.

	Day																Week Ending			MTD				
	3/3	3/4	3/5	3/6	3/7	3/8	3/9	3/10	3/11	3/12	3/13	3/14	3/15	3/16	3/17	3/18	3/19	3/20	3/21	3/22	3/8	3/15	3/22	Mar'20
Baseline (000s)	20	22	25	33	57	11	35	29	29	32	40	63	13	38	32	33	34	43	69	14	167	241	264	672
Actual (000s)	20	22	25	32	57	11	33	27	28	28	32	50	8	28	23	23	23	30	40	5	166	206	171	543
Delta (000s)	(0)	(0)	0	(0)	(0)	(0)	(2)	(2)	(1)	(4)	(9)	(13)	(5)	(10)	(10)	(11)	(10)	(13)	(29)	(9)	(1)	(35)	(93)	(129)

March Retail Sales: Actual over/(under) Pre-Virus Forecast (000s)



Regional Variation

All markets are experiencing declines, but severity has varied significantly by market based on virus progression. Stay at home legislation is now driving accelerated deterioration.

San Francisco

86% decline over weekend, Impacted by early restrictions (3/13) and then shelter-in-place order 3/17. SF is considered to be the template for markets with stay home legislation.

New York

Earlier start of sales declines commensurate with virus activity, likely to mirror SF as stay home rules take effect.

Detroit

Relatively robust sales in absence of stay-at-home legislation and lower virus activity, significant deterioration over the weekend.

Impact: Regional Retail Sales Decline Through 3/22 (000s)

	Mar-20			Δ Y/Y	Week Ending			Δ W/W
	Mar-19	Feb-20	MTD		2019-03-24	2020-03-15	2020-03-22	
National	1,225	1,023	543	-22%	274	206	171	-17%
New York	93	83	42	-13%	21	17	14	-14%
Los Angeles	80	68	35	-28%	18	13	9	-33%
Chicago	36	27	15	-26%	8	6	4	-26%
Dallas	33	28	17	-13%	7	6	6	-10%
Philadelphia	34	29	14	-22%	8	6	4	-25%
Detroit	31	26	16	-2%	7	6	6	1%
Boston	28	26	13	-19%	7	5	4	-22%
San Francisco	28	24	10	-41%	6	4	2	-61%
Houston	28	24	14	-17%	6	5	4	-14%
Miami	28	24	14	-16%	6	5	4	-22%
Washington, DC	26	22	11	-25%	6	4	3	-24%
Atlanta	24	19	11	-20%	5	4	3	-16%
Tampa	22	19	11	-15%	5	4	4	-4%
Phoenix	21	18	11	-16%	5	4	3	-6%
Orlando	20	16	9	-20%	4	3	3	-13%
Cleveland	19	15	9	-19%	4	3	3	-16%
Seattle	17	14	7	-29%	4	3	2	-13%
Minneapolis	17	13	8	-15%	4	3	3	-17%
Denver	14	12	7	-20%	3	3	2	-31%
Pittsburgh	14	11	6	-24%	3	3	2	-35%
Sacramento	13	11	5	-37%	3	2	1	-34%
San Diego	13	11	5	-38%	3	2	1	-36%
Rest of East	222	183	97	-21%	49	37	33	-10%
Rest of West	85	70	34	-32%	19	12	10	-18%
Rest of Central	279	229	124	-22%	63	47	40	-14%
Pre-Virus Forecast	1,225	1,023	672	-3%	274	206	241	28%

Market Highlights

In a week when the industry forecast called for 28% growth, only Detroit managed to post growth – a modest 1% vs. the previous week, but still a decline vs. pre-virus expectations. All other markets contracted last week as expected.

Seattle, which led the decline at first, is now only the fourth-worst-month-to-date, getting surpassed by Sacramento and San Diego last week.

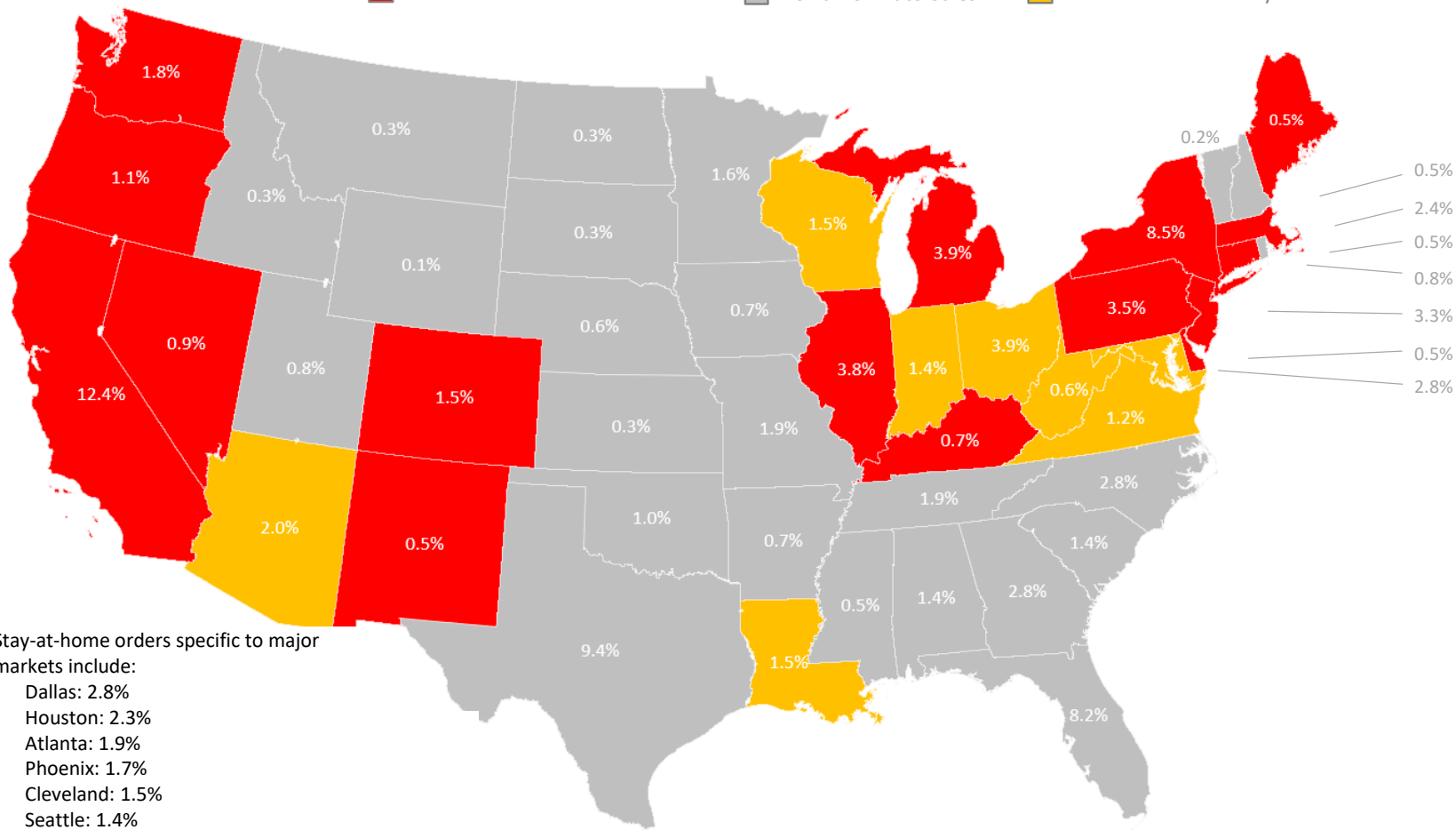
San Francisco fell 61% in a week when it should have grown 28% for a net 89ppt drop vs. forecast.

Additional impact from widespread Consumer & Business restrictions will take effect this week.

Note: Sales changes are selling-day adjusted. Y/Y compares MTD results with comparable period last year

Share of U.S. Retail Sales by State

■ Full or Partial Ban on Auto Sales
 ■ No Ban on Auto Sales
 ■ Essential Business Only



Stay-at-Home Status as of 3/25

25 states have enacted “stay at home” or “essential business” mandates that affect 199 million people, or 60% of the U.S. population.

Sales Operations Status as of 3/25

17 of these states have full or partial bans on automotive sales with many markets also closing dealerships.

Market Level Legislation as of 3/25

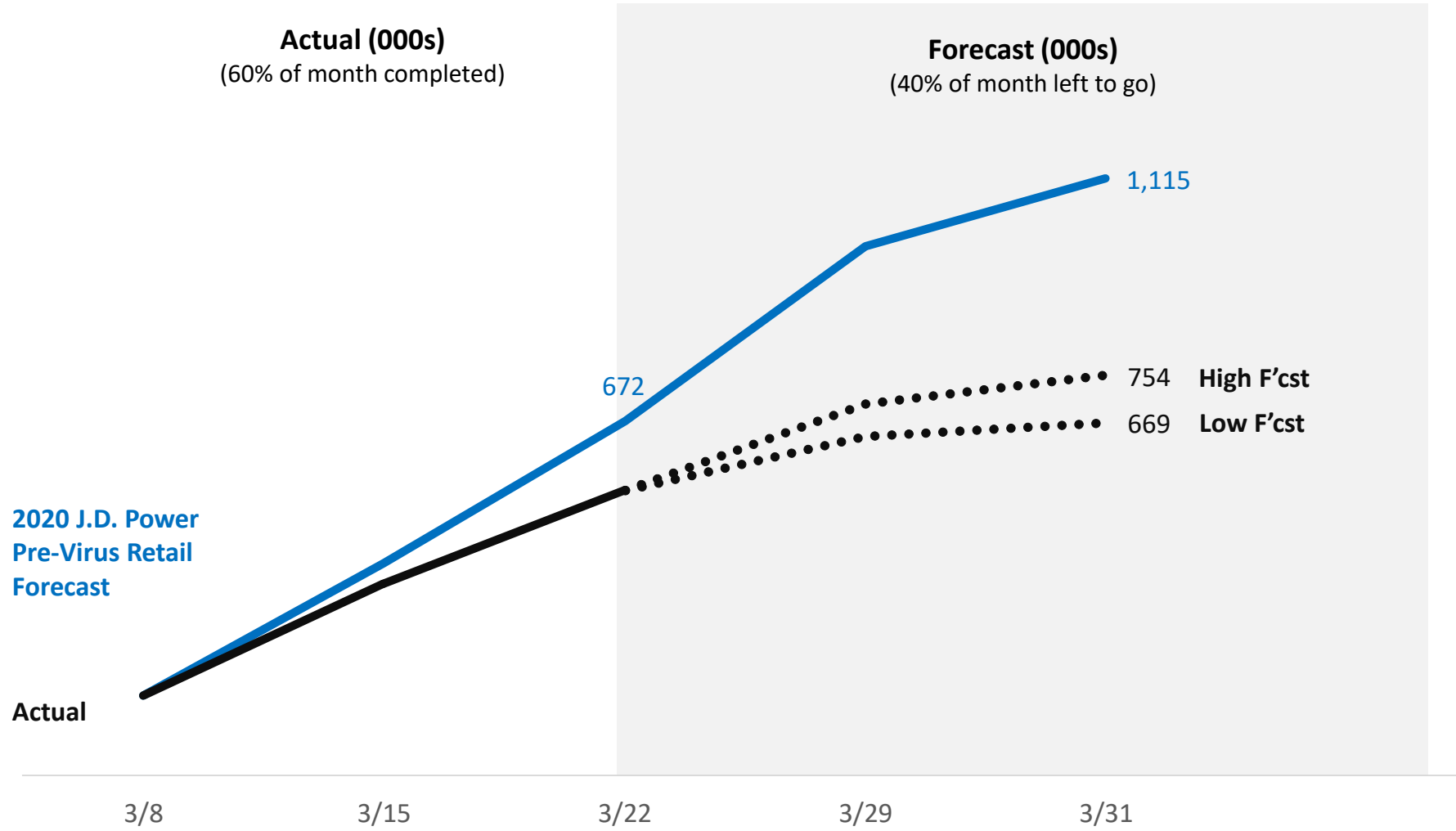
At least 8 markets are impacted by local legislation (e.g., Nashville but not TN).

Stay-at-home orders specific to major markets include:

- Dallas: 2.8%
- Houston: 2.3%
- Atlanta: 1.9%
- Phoenix: 1.7%
- Cleveland: 1.5%
- Seattle: 1.4%
- Raleigh, Charlotte: 1.0%
- San Antonio: 0.9%
- Nashville: 0.7%

Note: Twelve-month period ended February 2020

2. Sales Outlook



March Forecast

J.D. Power March retail sales outlook is for a range of 669,000-754,000 units. This is a decline of 32-40% from our pre-virus forecast, or a sales drop of 361,000-446,000.

Comparison to March 2019

Compared to March 2019 retail sales of 1,225,000, this expected range will be a decrease of 471,000-556,000, or a drop of 38-45%.

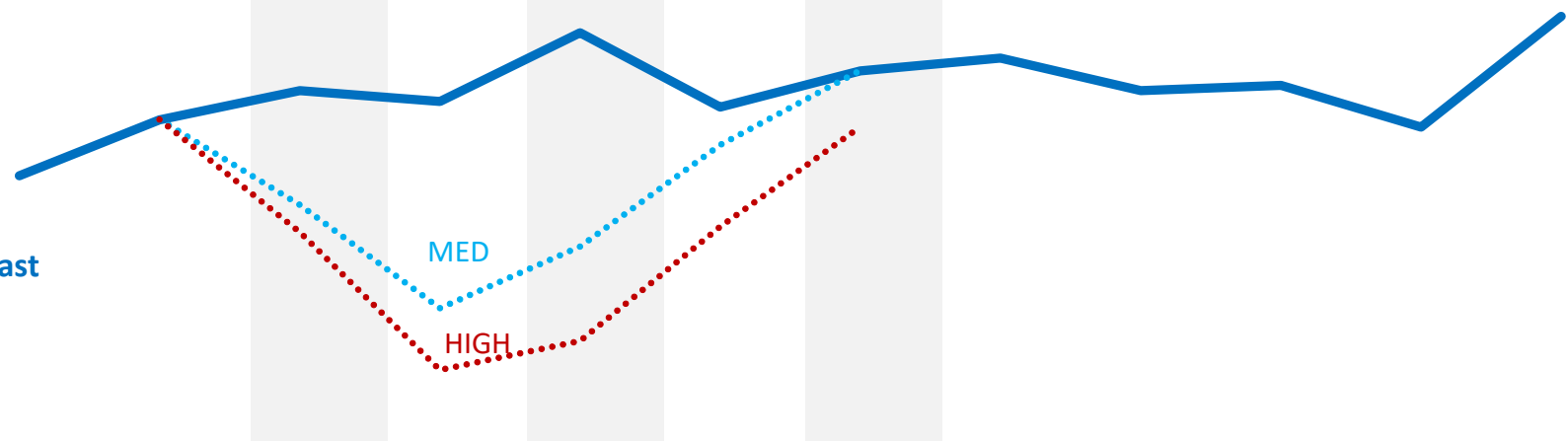
Determinants of High/Low Forecast

- Additional states/markets with stay-at-home mandates
- Additional state/market classification of dealership sales operations as non-essential
- Rising personal safety concerns
- Rising economic concerns

Sales vs. Prior Year

		<u>Phase I</u> RAMP	<u>Phase II</u> RAMP	<u>Phase III</u> PLATEAU/ RECOVER	<u>Phase IV</u> RECOVER	<u>Phase V</u> NORMAL	<u>Total Risk</u> <u>(through July)</u>	
							%	UNITS
MED		32%	60%	52%	11%	0%	32%	1.8M
HIGH		40%	78%	75%	35%	15%	49%	2.8M

2020 J.D. Power Pre-Virus Retail Forecast



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Baseline			1.12	1.08	1.30	1.06	1.18					
MED			0.75	0.43	0.62	0.94	1.18					
HIGH			0.67	0.23	0.33	0.69	1.00					
<u>Delta vs. Baseline</u>												
MED			(0.36)	(0.65)	(0.68)	(0.12)	0.00					
HIGH			(0.45)	(0.85)	(0.98)	(0.38)	(0.18)					

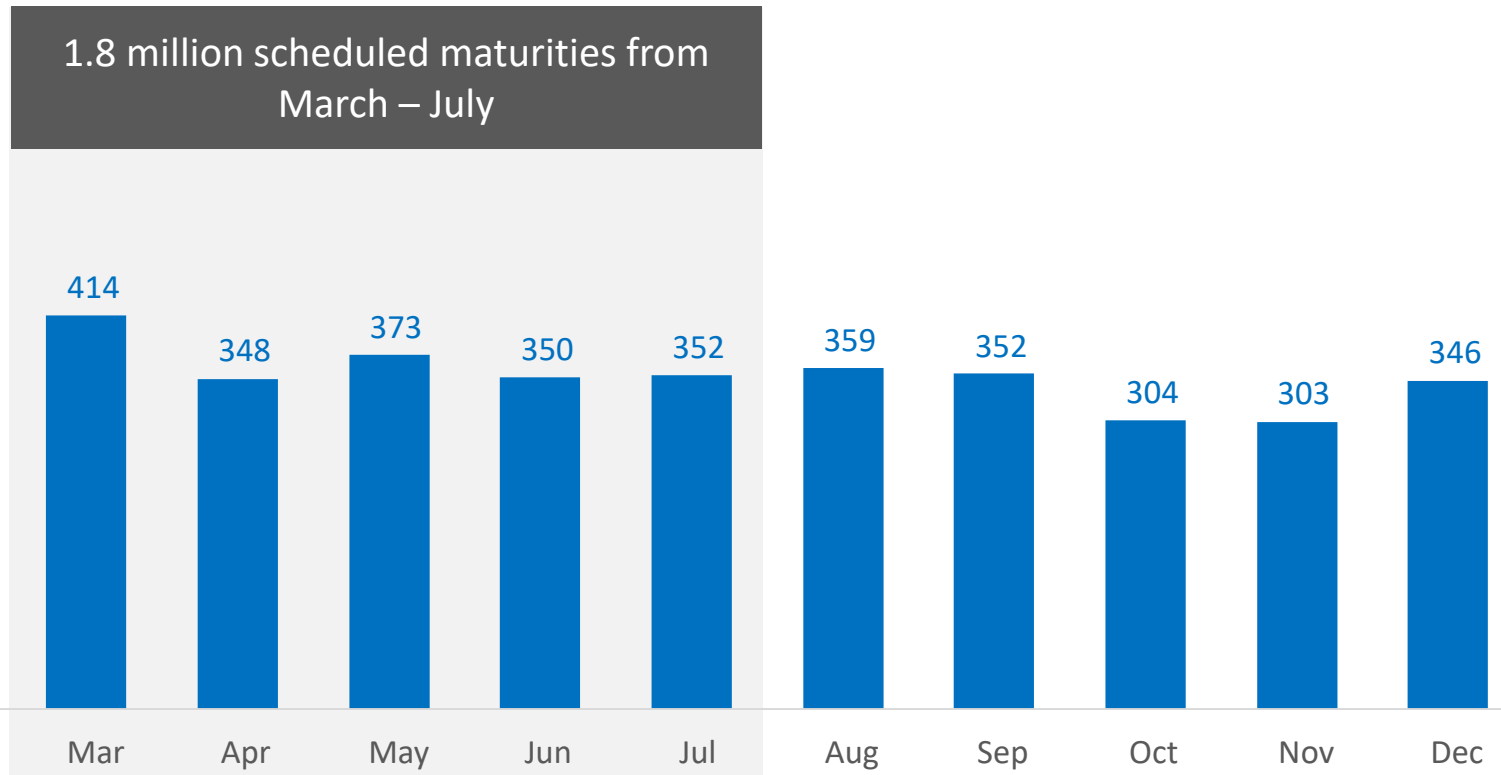
Sales Impact March-July
The virus is projected to remove 1.8-2.8 million sales over the five months of March-July.

Key Variables
The primary initial driver of the severity of the sales loss is the length and duration of consumer and business restrictions.

As restrictions are removed, sales will be driven by economic conditions and the impact of government and manufacturer stimulus actions.

There is likely to be significant pent-up demand that will be released in May or June, but the net impact will be mitigated by a general reduction of demand due to economic conditions.

New Vehicle Leases Scheduled to Expire by Month (000s)



Leasing in the U.S. Market

Leases accounted for 31% of U.S. retail transactions in 2019 and represent a key opportunity for manufacturers and retailers to maintain a base level of new-vehicle sales during this period of uncertainty.

Options for People with Expiring Leases

Lessees with expiring leases must take action. Choices include:

- Leasing or buying another vehicle
- Extending term of existing lease
- Buying out existing lease
- Not replacing lease/walking away

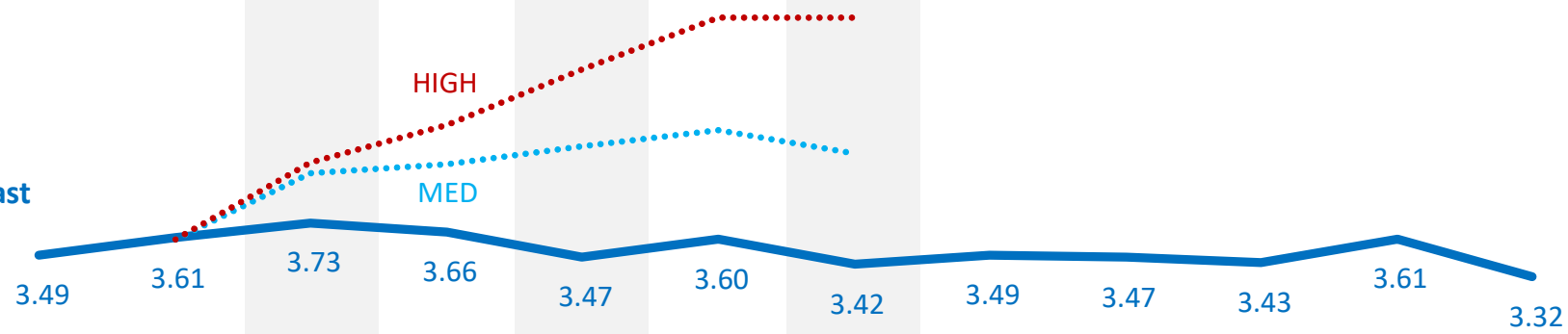
Potential Sales Impact

If 50% of March/April lease expirations are extended, there is potentially 350,000 units of “pent-up” demand ready to return to market immediately once restrictions end.

Inventory vs. Prior Year

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Phase V</u>
	RAMP	RAMP	PLATEAU/ RECOVER	RECOVER	NORMAL
MED	10%	14%	24%	23%	24%
HIGH	12%	22%	40%	46%	54%

2020 J.D. Power Pre-Virus Retail Forecast



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Baseline			3.73	3.66	3.47	3.60	3.42					
MED			4.09	4.16	4.29	4.41	4.23					
HIGH			4.17	4.45	4.86	5.25	5.25					
<u>Delta vs. Baseline</u>												
MED			0.36	0.51	0.82	0.82	0.82					
HIGH			0.45	0.79	1.39	1.65	1.83					

Scenario Assumptions – Ability to Produce

Production outlook is uncertain but majority of domestic and many global facilities are shut for at least two weeks based on virus-driven restrictions.

Expectation is that shutdowns will be extended and production will be disrupted by supply chain issues once plants re-open.

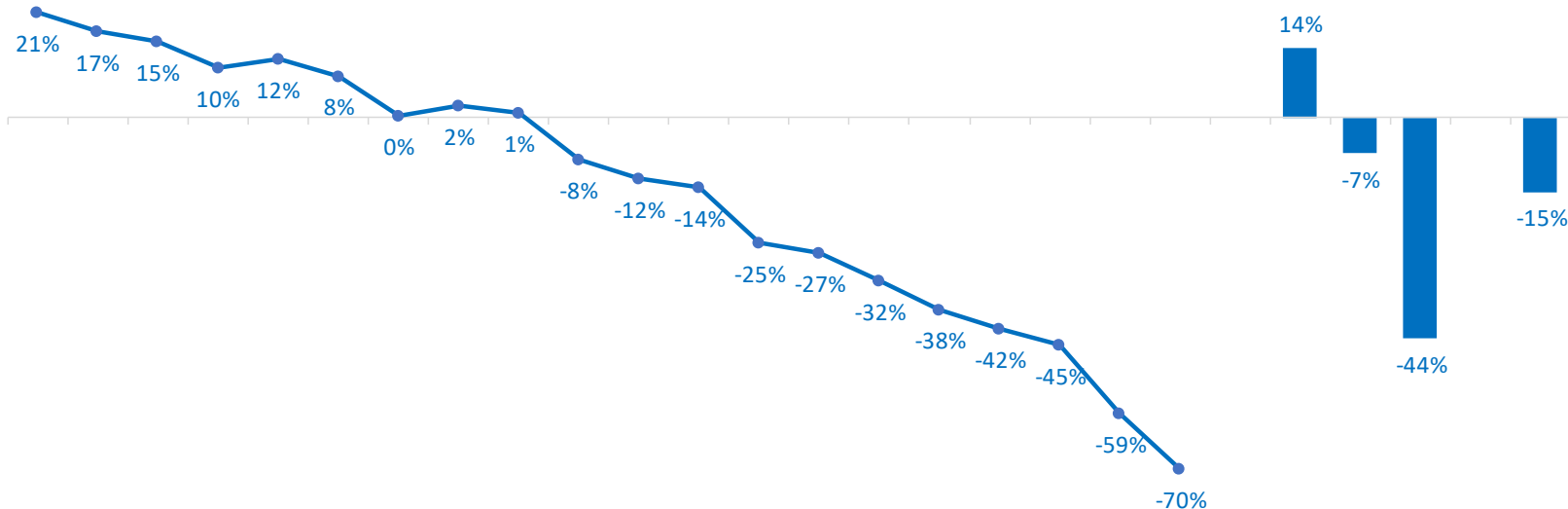
Baseline assumption is production declines of 50% in April, 33% in May and 10% in June.

Outcome

Sales declines will lead to rising inventories if manufacturers resume production once they are able. Inventory projections indicate that demand-driven production cuts will be necessary over and above those driven by consumer and business restrictions.

3. Other Considerations

March Used Sales @ Franchised Dealers: Actual over/(under) Pre-Virus Forecast (000s)



Month-to-Date Impact

Used-vehicle sales are falling faster than new vehicles as economic concerns weigh heavily on the used car space.

Rising Risk to Used Prices

Retail prices have been stable, but cashflow issues may drive prices down at dealerships able to operate.

Auction (wholesale) volumes have fallen sharply due to disruption to physical auction operations. Wholesale prices fell by 7% relative to expectations during the week starting Mar 16.

Consequences if Prices Fall

Losses on used vehicles in inventory will compound cash flow and profit issues for retailers. OEMs may realize losses on off-lease vehicles.

	Day																		Week Ending			MTD		
	3/3	3/4	3/5	3/6	3/7	3/8	3/9	3/10	3/11	3/12	3/13	3/14	3/15	3/16	3/17	3/18	3/19	3/20	3/21	3/22	3/8	3/15	3/22	Mar'20
Baseline ('000)	24	25	27	34	57	9	36	29	29	31	37	58	9	36	29	30	30	37	60	10	176	229	233	638
Actual ('000)	29	30	31	38	64	9	36	30	30	28	32	50	7	26	20	19	18	20	25	3	200	213	131	544
Delta ('000)	5	4	4	3	7	1	0	1	0	(3)	(4)	(8)	(2)	(10)	(9)	(11)	(13)	(17)	(35)	(7)	24	(16)	(102)	(94)

Example: 0% 72 month Loan

\$30,000 Financed
= \$417 Monthly Payment



Example: 0% 84 month Loan

\$30,000 Financed
= \$357 Monthly Payment
14% Payment Reduction

Or

\$35,000 Financed
= \$417 Monthly Payment
17% More Buying Power

Importance of High Transaction Prices

Average vehicle transaction prices have risen consistently post-08/09 recession.

Prices averaged \$33.6K in 2019, up from \$31.2K in 2018, powering OEM profitability, in spite of falling retail sales in recent years.

Economic Challenges = Risk to Prices

Virus is reducing sales volumes but economic conditions also pose a threat to average prices, which would result in a further deterioration to the profitability of OEMs.

84-Month Loans = Powerful Lever

Increased use of 84 month loans, which historically accounted for less than 7% of vehicle sales, mitigate risk to prices.

Comparing a 0%/72mo loan with a 0%/84mo loan, consumers could:

- Reduce payments by 14%
- Borrow 17% more and maintain payments

Next Briefing: April 1st, 2pm EDT
