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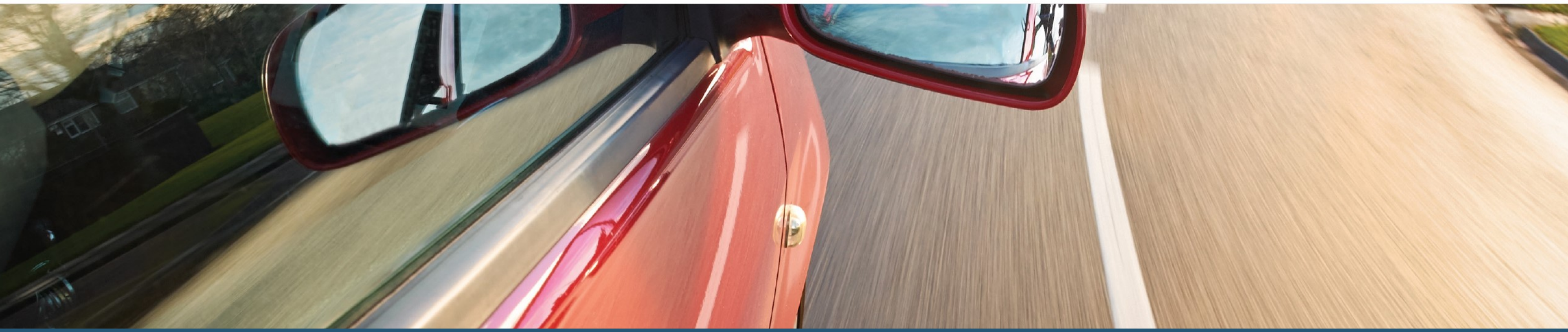

PERSPECTIVE

OCTOBER 2018

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

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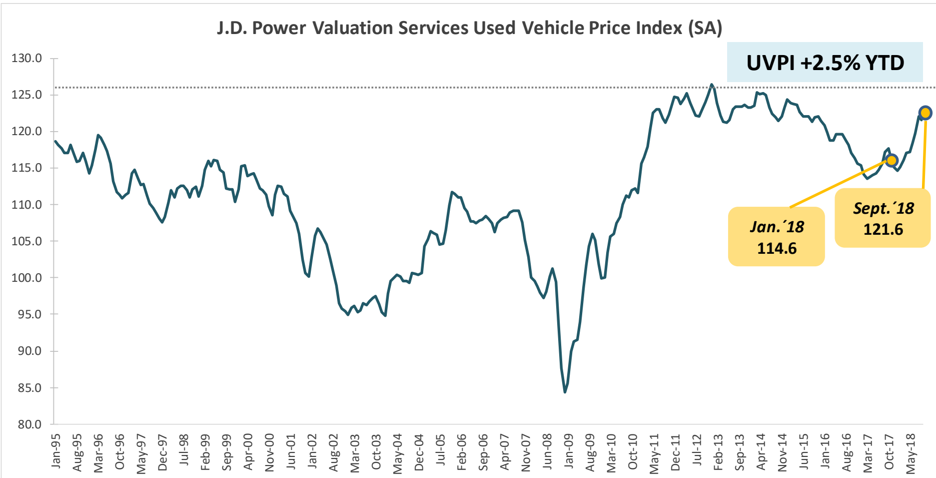
2018 J.D. Power Valuation Services Used Vehicle Price Update



The used vehicle market has performed exceptionally well so far in 2018. In September, the J.D. Power Valuation Services Seasonally Adjusted Used Vehicle Price Index reached 121.6, a figure 4.4% above last year's level. Year-to-date used vehicle prices are 2.5% greater, on average, than they were in 2017.

While there has been a lot of talk recently about used prices potentially increasing because of Hurricane Florence's destruction, J.D. Power Valuation Services doesn't think there will be much effect on used vehicle values. The main reason for this is simply the scale of the storm's damage. Relative to other recent hurricanes over the past few years, fewer vehicles were destroyed because of Hurricane Florence. Most analyst projections show that around 20K–40K units were lost, whereas last year Hurricanes Harvey and Irma took out approximately 1M units collectively.

Looking back on the impact Harvey and Irma had on used prices, we observed increases around 1%–1.5% in the month after impact; however, things quickly returned to normal. There's currently plenty of replacement supply in the marketplace; year-to-date wholesale volume for units up to 5 years in age is 4.5% greater than the same period in 2017. So, ultimately, there should not be any significant lift in used prices due to Hurricane Florence alone.

The used vehicle market really started showing strength in the middle half of 2017, and the trend continued through the summer selling season this year. Most of the market's year-to-date strength has been driven by mainstream car growth. Passenger cars of all sizes have experienced some sizable improvements this year. Compact car prices are up 9.4% from 2017's level, followed by midsize and large car gains of 7.4% and 7.3%, respectively. Mainstream utility prices have also shown significant positive movement, though not nearly at the same level as their car counterparts. For example, compact utility prices have increased 2.2%, while midsize utility price growth has reached 3.3%. While things are primarily positive on the mainstream side of the market, large SUV prices have registered a 4.6% decline, which can be largely explained by a 29% increase in wholesale volume for units up to 5 years old.

Luxury segments are not enjoying the same positive trend as their mainstream counterparts, due in part to higher incentive spend on the new side of the market. Nearly all luxury segments

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Wholesale Auction Sales Volume (0-5Vehicles)

Segment	CYTD ´16	CYTD ´17	CYTD ´18		CYTD Change (´17 vs.´18)
Compact Car	430,534	464,804	454,491	▼	-2.2%
Compact SUV	338,025	402,196	453,390	▲	12.7%
Large Car	98,027	87,206	80,142	▼	-8.1%
Large Pickup	252,406	257,780	293,340	▲	13.8%
Large SUV	40,402	41,642	53,787	▲	29.2%
Large Van	15,372	13,458	15,234	▲	13.2%
Midsize Car	559,075	576,403	566,816	▼	-1.7%
Midsize Pickup	31,180	33,300	35,844	▲	7.6%
Midsize SUV	268,646	293,241	313,737	▲	7.0%
Midsize Van	94,016	104,491	108,336	▲	3.7%
Small Car	163,656	160,958	148,609	▼	-7.7%
Sporty Car	62,609	59,994	61,052	▲	1.8%
Compact Premium Car	114,136	120,173	129,488	▲	7.8%
Compact Premium SUV	25,812	39,086	57,416	▲	46.9%
Large Premium Car	18,879	20,815	18,380	▼	-11.7%
Large Premium SUV	21,486	21,672	25,416	▲	17.3%
Midsize Premium Car	44,999	39,235	39,160	▼	-0.2%
Midsize Premium SUV	66,341	76,988	83,658	▲	8.7%
Premium Sporty Car	30,538	35,817	40,029	▲	11.8%
Industry	2,676,139	2,849,259	2,978,325	▲	4.5%

have experienced declines in 2018. Similarly to the segment's mainstream counterpart, luxury large utility price losses have been some of the greatest in the industry, down 6.1% from 2017's level. Additionally, luxury compact utility prices are down 2.4% so far this year.

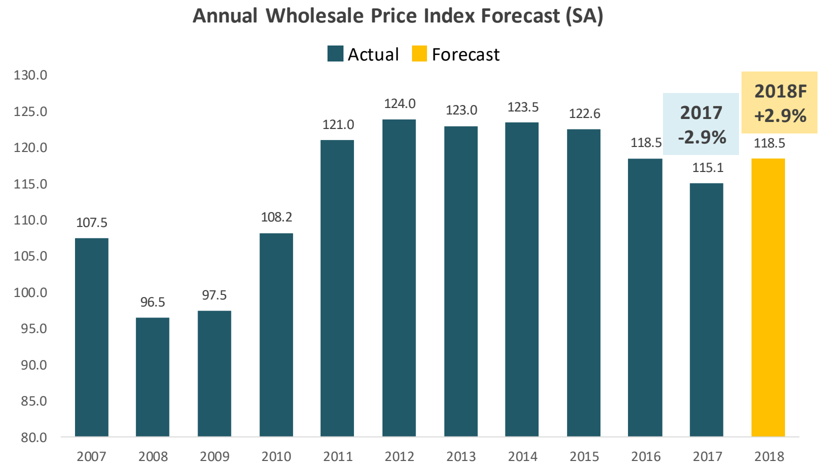
There are a few drivers behind the overall strength of the used market. Two primary reasons are an increased dealer focus on used vehicle operations and vehicle affordability.

Used vehicles continue to gain popularity with consumers and dealers alike. Consumers can save money by buying well-maintained late-model used vehicles (especially as overall vehicle reliability continues to improve), while dealers can capitalize on used vehicle sales where profit margins are higher than for new vehicle sales. With a 4.5% increase in overall wholesale auction volume for units up to five years old through September, consumers and dealers alike can choose from a large selection of late-model cars, SUVs, and trucks for as much as 50% (or more) off their original MSRPs.

Many of the country's top public dealership groups are capitalizing on this dynamic, and the benefits are apparent in their Q2 earnings reports. Penske Automotive Group, Group 1 Automotive, and Sonic Automotive each increased their used vehicle sales by sizable amounts in Q2, up 10%, 13%, and 17%, respectively. Lithia Motors and Asbury Automotive Group posted smaller but still impressive gains of 4.4% and 7%, respectively. Each dealer group credited increased used vehicle operations for the increase in profits, and they continue to state plans for even bigger investments in used operations in the future.

While the used market is doing well, the year's improvement highlights the need for stakeholders to maintain diligence in their understanding of market dynamics and trends expected in the future. To that end, with the exceptionally strong performances observed over the summer months, J.D. Power Valuation Services expects used vehicle prices for units up to 8 years in age to increase by 2.9% in 2018 relative to 2017.

Negative effects associated with weaker credit conditions, modestly higher incentives, and yet another increase in used vehicle supply are expected to be offset by the positive effects of



strong employment, home prices, driving demand, and continued increases in vehicle quality. Gasoline prices are expected to have a relatively neutral impact.

Through the remainder of the year, both mainstream and luxury segment prices are expected to be softer for utilities as more units return to the used market. Mainstream passenger car prices should continue to firm up as supply falls, while luxury car prices will soften due to the increased competitive pressure associated with luxury utilities as well as mainstream cars whose prices are lower, yet whose design and optional equipment continue to push into luxury territory. Overall, 2018 should see used vehicle prices rebound back to levels recorded two years ago, placing them 4% below the record high observed in 2014.