COMMERCIAL TRUCK GUIDELINES

INDUSTRY REVIEW

December 2019

J.D. Power Valuation Services

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SUMMARY

Class 8 Retail Depreciation Relaxed in November

Class 8 auction conditions were similar to last month. Depreciation relaxed in the retail channel, with pricing movement really only noticeable in trucks about to turn 3 years old. The medium duty market had another mixed month, with cabovers and Class 6 conventionals turning in an unimpressive performance.

CLASS 8 AUCTION UPDATE

The volume of 4-7 year-old trucks sold at auction in November was very similar to October. Pricing was mildly lower on average. Conditions felt similar overall. See below for detail.

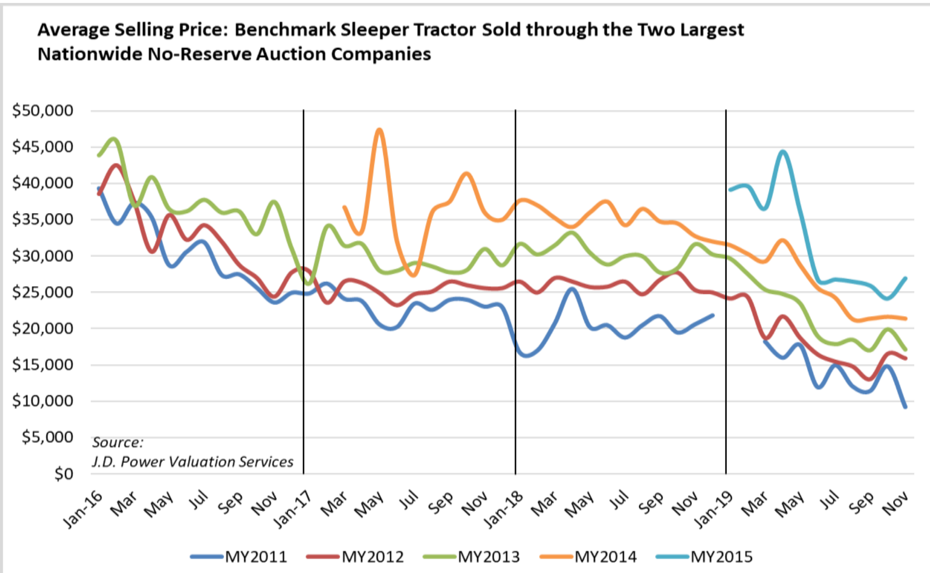
Conditions felt similar overall.

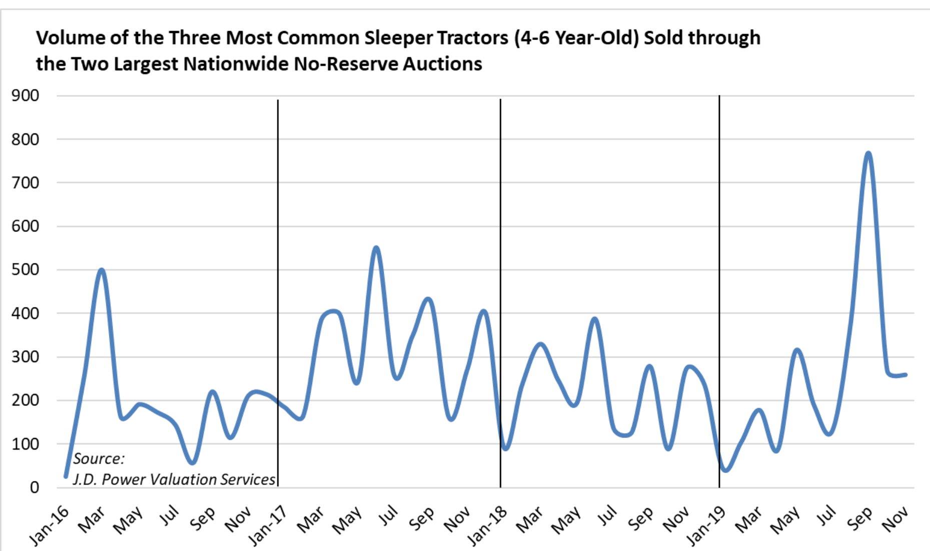
- Model year 2016: $30,750 average; $3,181 (9.4%) lower than October
- Model year 2015: $26.943 average; $2,772 (11.5%) higher than October
- Model year 2014: $21,366 average; $256 (1.2%) lower than October
- Model year 2013: $17,166 average; $2,775 (13.9%) lower than October
- Model year 2012: $15,950 average; $630 (3.8%) lower than October
- Model year 2011: $9,250 average; $5,593 (37.7%) lower than October

In the first eleven months of 2019, our benchmark group of 4-6 year-old trucks brought 12.3% less money than in the same period of 2018. If we narrow our comparison to October-November 2019 vs. October-November 2018, the variance increases to 30.3%.

Monthly depreciation for 4-6 year-old trucks is averaging 3.4%. In the same period of last year, there had been essentially no depreciation. Pricing for late-model trucks is now mildly lower than the last market bottom in 2016. We don't expect much change in conditions next month, as we enter the four-month period with fewer auctions on the calendar.

See the "Average Selling Price: Benchmark Sleeper Tractor…" and "Volume of the Three Most Common Sleeper Tractors…" graphs for detail.





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CLASS 8 RETAIL UPDATE

November's retail environment was in line with expectations, with no notable pre-holiday bump, and average-mileage trucks continuing to lose ground. On the bright side, low-mileage trucks remained strong. The only notable delta in the averages below is for model year 2018 trucks, which declined due to a combination of a higher-mileage mix of trucks sold and natural market movement.

The average sleeper tractor retailed in November was 76 months old, had 485,541 miles, and brought $45,762. Compared to October, the average sleeper was 4 months older, had 22,838 (4.9%) more miles, and brought $4,819 (9.5%) less money. Compared to November 2018, this average sleeper was 7 months older, had 21,157 (4.6%) more miles, and brought $11,882 (20.6%) less money.

Looking at trucks two to five years of age, November's average pricing was as follows:

- Model year 2018: $95,102; $5,367 (5.3%) lower than October
- Model year 2017: $74,884; $508 (0.7%) lower than October
- Model year 2016: $58,633; $149 (0.3%) lower than October
- Model year 2015: $45,194; $1,221 (2.6%) higher than October

Year-over-year, late-model trucks sold in the first eleven months of 2019 brought an average of 5.4% more money than in the same period of 2018. This positive result is due entirely to market strength in the first half of the year. Narrowing our focus to October-November 2019 vs. October-November 2018, 2019 is running 6.5% behind.

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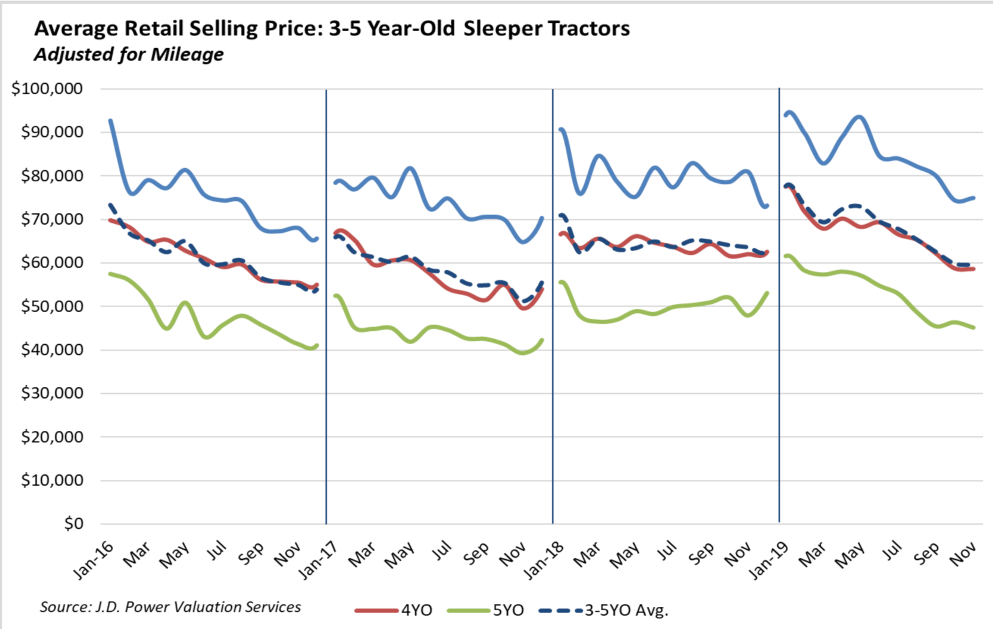
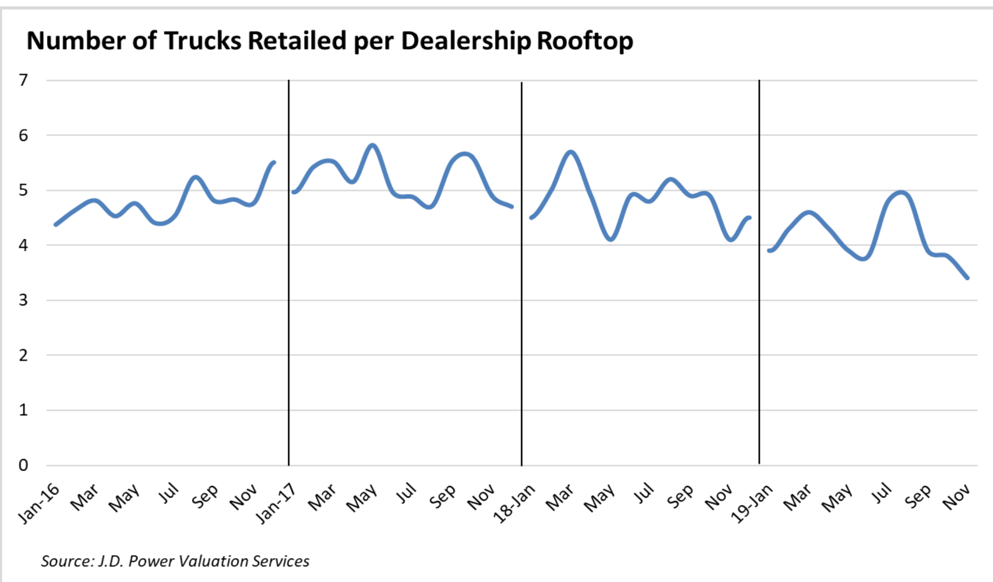
Depreciation in the first eleven months of 2019 averaged 1.9% per month, compared to well under 1% in the same period of 2018. This figure doesn't change notably if we look only at the most recent 2-3 months. Pricing is now roughly on par with the last market bottom in 2016.

Dealers retailed an average of 3.4 trucks per rooftop in November, the lowest figure in at least 11 years. Even during the last market downturn in 2015, this average stayed above 4. November is not typically a strong month for used truck sales, but conditions slowed down notably this fall. See the analysis below for insight on factors behind this pullback in demand.

See the "Average Retail Selling Price: 3-5 Year-Old Sleeper Tractors" and "Number of Trucks Retailed per Dealership Rooftop" graphs for detail. Note we are no longer including the "Average Retail Selling Price of Selected 3-5 Year-Old Sleeper Tractors" graph in this report, as we feel this type of comparison is most valid when drivetrain specs are included. We offer this analysis through our consulting services.





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To wrap up the year and provide some insight into our thought processes for 2020, we'll look more closely at the factors behind our longer-term valuations.

In recent months, we've made note of trends in the industrial sector. Manufacturing activity is still strong by historical standards, but the recent pullback can no longer be blamed on just "tough year-over-year comparisons" at this point. The strategy of building up inventory in advance of new tariffs is largely behind us, as firms are working with new international partners and devising shipping workarounds. Recent layoffs in this sector are of concern, particularly on the white-collar side.

Fleet bankruptcies are another area of concern, leaving well over 20,000 trucks to be scrapped, sold, or left to sit in inventory in 2019 according to news articles referencing data from Broughton Capital. This figure is nearly ten times larger than 2018. Increased insurance costs, lower "book value" of assets (trucks), and regulatory mandates are among the major factors behind these bankruptcies, but lower freight volume is the main underlying story. Capacity will continue to correct from the anomaly of 2018, but a sustained increase in the number of larger fleets going out of business would be an undeniable leading economic indicator.

On the policy side, a deal with China appears to have been struck to cancel additional tariffs that were set to go into effect December 15th, although an official Chinese statement had not yet been released at the time of this writing. Existing tariffs remain in place, but this apparent deal could at least stave off even more tariffs on Chinese goods. Another recent bit of good news was the bipartisan agreement on final wording of the USMCA, which will replace NAFTA assuming it is ratified by the Canadian legislature. Reducing the uncertainty around tariffs and multinational trade agreements will encourage business investment and return efficiencies to the global trading environment.

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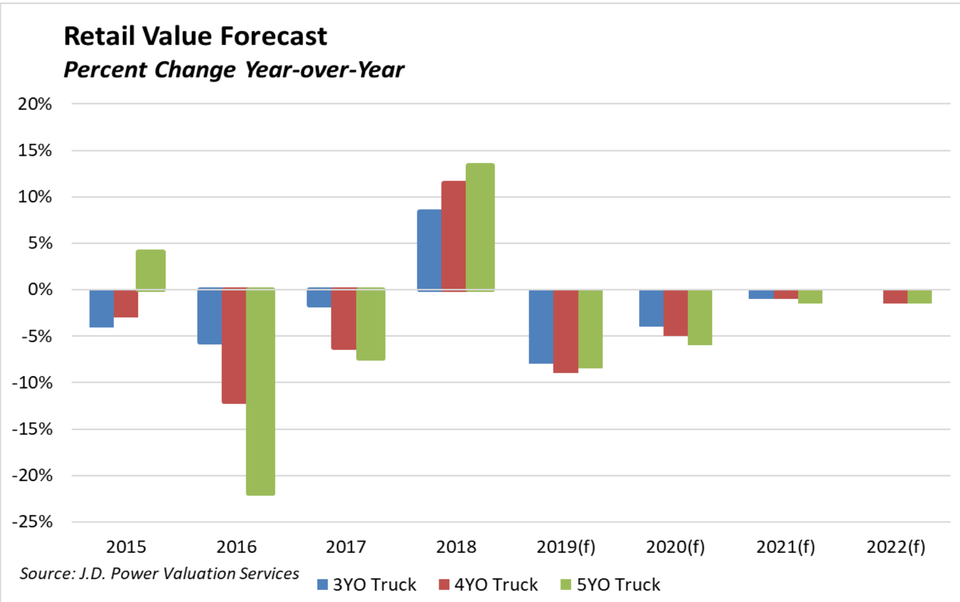
Macro estimates of global economic growth for 2020 have been mildly downgraded, a trend we expect to continue. Even with an apparent mild cooling off of the tariff war, there is still a long way to go on that front. Other headwinds include political turmoil in Western nations, ongoing renegotiation of trade agreements, and multiple nations' efforts to onshore manufacturing.

In the next few months, we'll be watching employment figures. If manufacturing layoffs start to bleed over into other industries, we'll be down the road to a broader economic pullback. Whether it's a 2015 pullback or something worse will come down largely to whether we can return some stability to global trade and maintain some semblance of a functional government in 2020.

See the "Retail Value Forecast" graph for a look at how we see used truck pricing unfolding over the next three years.



Medium Duty Trucks

Cabovers had another weak month. The Class 4 market was identical to October, while Class 6 conventionals pulled back despite much lower volume.

Cabovers had another weak month.

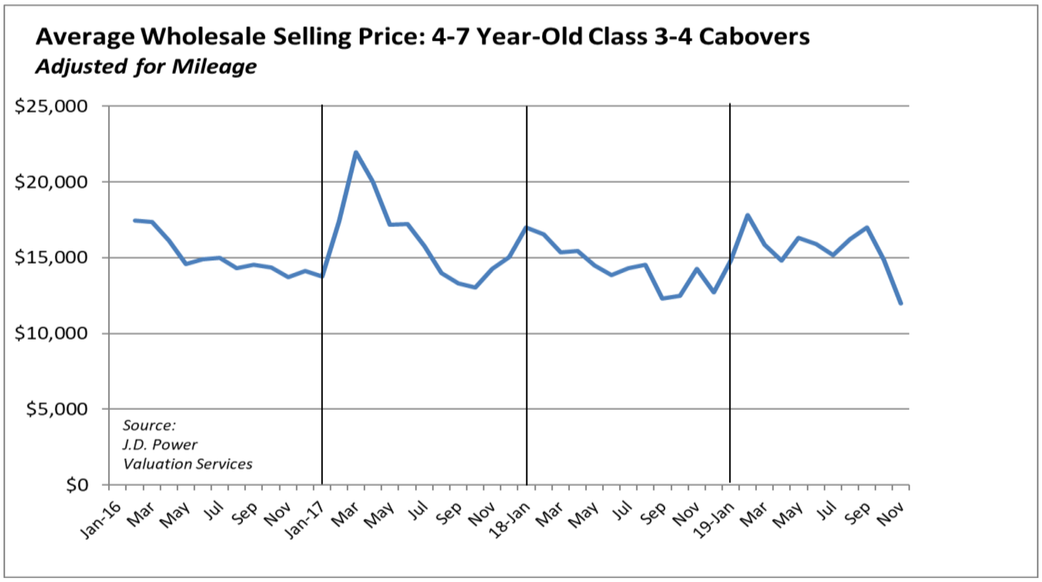
Starting with Class 3 – 4 cabovers, November's average pricing recovered slightly from October's unusually low figure to $12,195. This figure is $454 (3.9%) higher than October, but $2,511 (17.1%) lower than November 2018. Despite the two-month downturn, in the first eleven months of 2019, pricing is still running an average of 6.9% higher than the same period of 2018. Average monthly depreciation has increased to a historically typical 2.0%, slightly behind 2018's 1.8% per month figure.

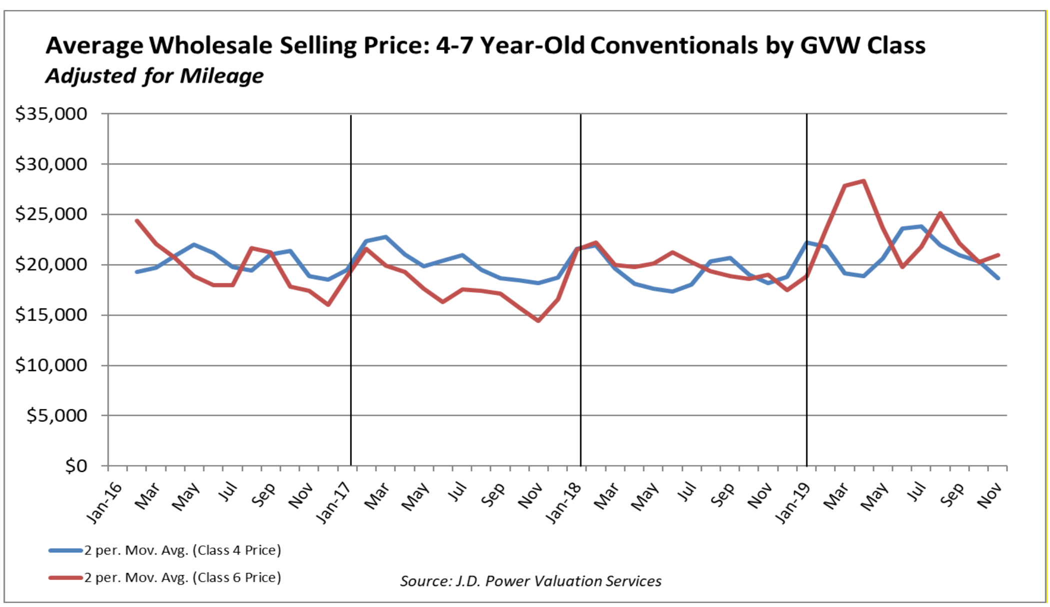
Looking at Class 4 conventionals, November was basically a carbon-copy of October in terms of pricing and volume. Average pricing for our benchmark group was $18,593, $87 (0.5%) lower than October, and $196 (1.1%) higher than November 2018. In the first eleven months of 2019, pricing for this group is running an average of 9.5% higher than the same period of 2018. Depreciation in 2019 is averaging 0.8%, essentially identical to 2018.

Class 6 conventional volume in November was well off October, with no large packages of identical trucks cycling through the market. This drop in volume did not translate to higher selling prices, and in fact November's average was notably lower than October's. In November, our benchmark group averaged $20,351, $1,183 (5.5%)

lower than October, but $1,726 (9.3%) higher than November 2018. In the first eleven months of 2019, average pricing for these trucks is running an average of 15.1% higher than the same period of 2018. Average monthly depreciation in 2019 to date is 1.5%, compared to 1.4% in the same period of 2018.

See the "Average Wholesale Selling Price: 4-7 Year-Old Class 3-4 Cabovers" and "Average Wholesale Selling Price: 4-7 Year-Old Conventionals by GVW Class" graphs for detail.





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Forecast

With fewer auctions on the calendar in the upcoming winter months, it will be more difficult to identify developing pricing trends. We expect current conditions to be in place until late in the first quarter. At that point, we'll have some sense of whether pricing has reached a bottom. Auction pricing will most likely bottom out before retail pricing. As we said in the forecast section above, economic strength will depend on whether general uncertainty improves or gets worse.

Commercial Truck Consulting Services

J.D. Power Valuation Services leverages its database of retail, wholesale, and auction transactions to provide residual value forecasting, inventory analysis, competitive model positioning, and other used truck market metrics. Consulting products are customized to each customer's specific needs. Contact Chris Visser to discuss J.D. Power's capabilities.

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J.D. Power is a global leader in consumer insights, advisory services, and data and analytics to help clients measure and improve the key performance metrics that drive growth and profitability. J.D. Power's industry benchmarks, robust proprietary data, advanced analytics capabilities, and reputation for independence and integrity has established the company as one of the world's most well-known and trusted providers of consumer and market insights for more than a dozen industries. Established in 1968, J.D. Power is headquartered in Costa Mesa, California, and has 17 global locations serving North/South America, Asia Pacific, and Europe.

About J.D. Power Valuation Services (formerly NADA Used Car Guide)

J.D. Power Valuation Services, formerly NADA Used Car Guide, is a leading provider of vehicle valuation products, services and information to businesses. Its team collects and analyzes over 1 million combined automotive and truck wholesale and retail transactions per month, and delivers a range of guidebooks, auction data, analysis and data solutions. J.D. Power acquired NADA Used Car Guide in 2015, forming a powerful combination that brings the automotive industry rich data sets, strong analytics and over 130 years of market experience.

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