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Accelerate Your Business →



National Conference State Fleet Administrators

9/10/2007

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Top five factors influencing acquisitions:

- Need to keep fuel costs within budgetary constraints
- Corporate initiatives to reduce “carbon footprint”
- Right-sizing cargo-carrying vehicles and SUVs to improve fuel efficiency
- Finding “van” replacements as manufacturers change or eliminate their product offerings
- Anticipating / maximizing manufacturer incentive monies

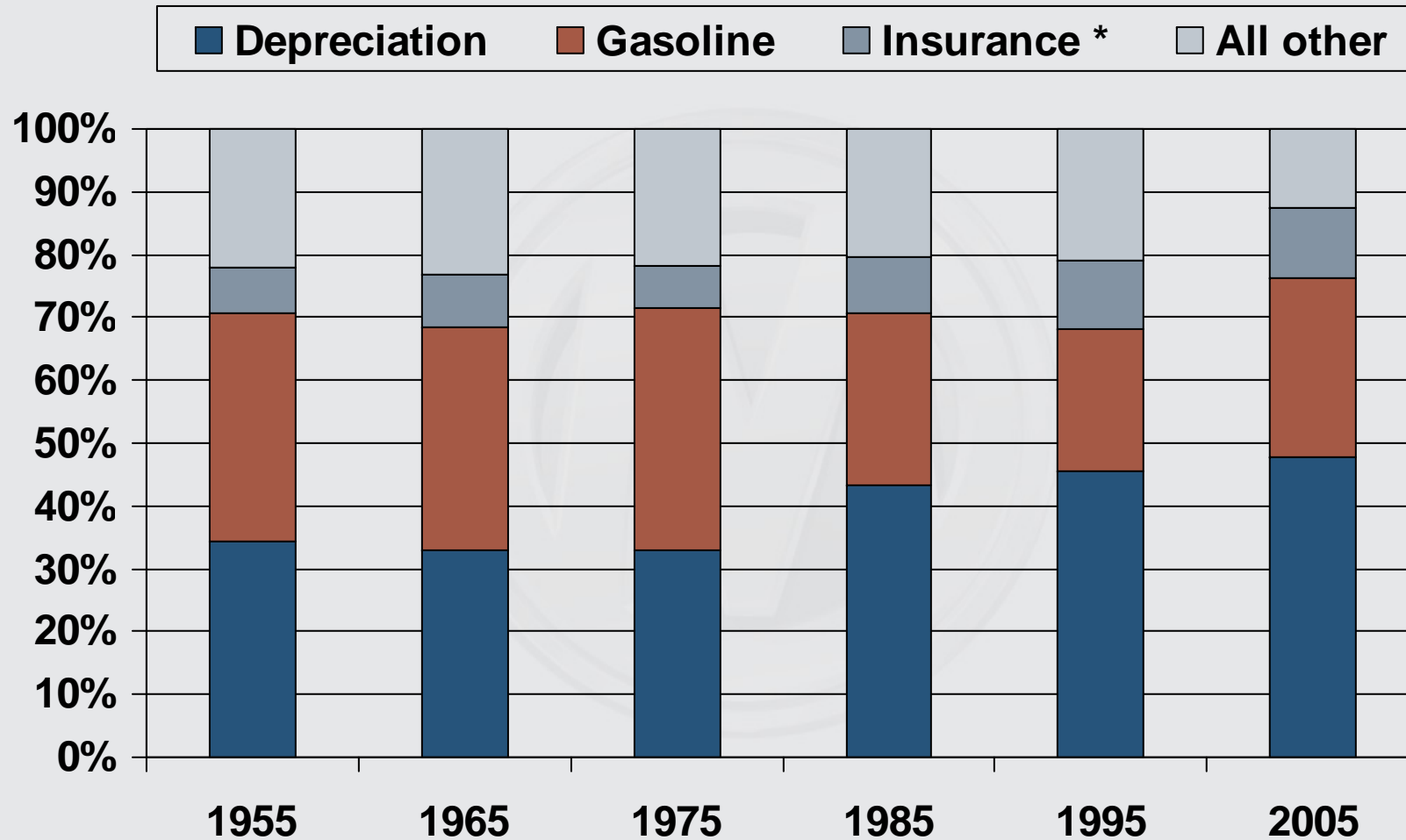
Source: Survey conducted by Automotive Fleet and published in July, 2007 issue



50 Years of Fleet Operating Costs



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* includes accident expense net of accident recoveries

Source: PHH Arval, as reprinted in Automotive Fleet

Topic Outline



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- Current wholesale pricing environment
 - Overall market
 - End-of-service fleet units
- Drivers of those changes
- “Making the best of the hand your dealt”





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 (5+ million annually)
- Classify by market segment
- Account for shifts in mileage
- Weight to provide unchanging mix
- Seasonally adjust



Manheim Used Vehicle Value Index



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Manheim Used Vehicle Value Index - January 1995 = 100



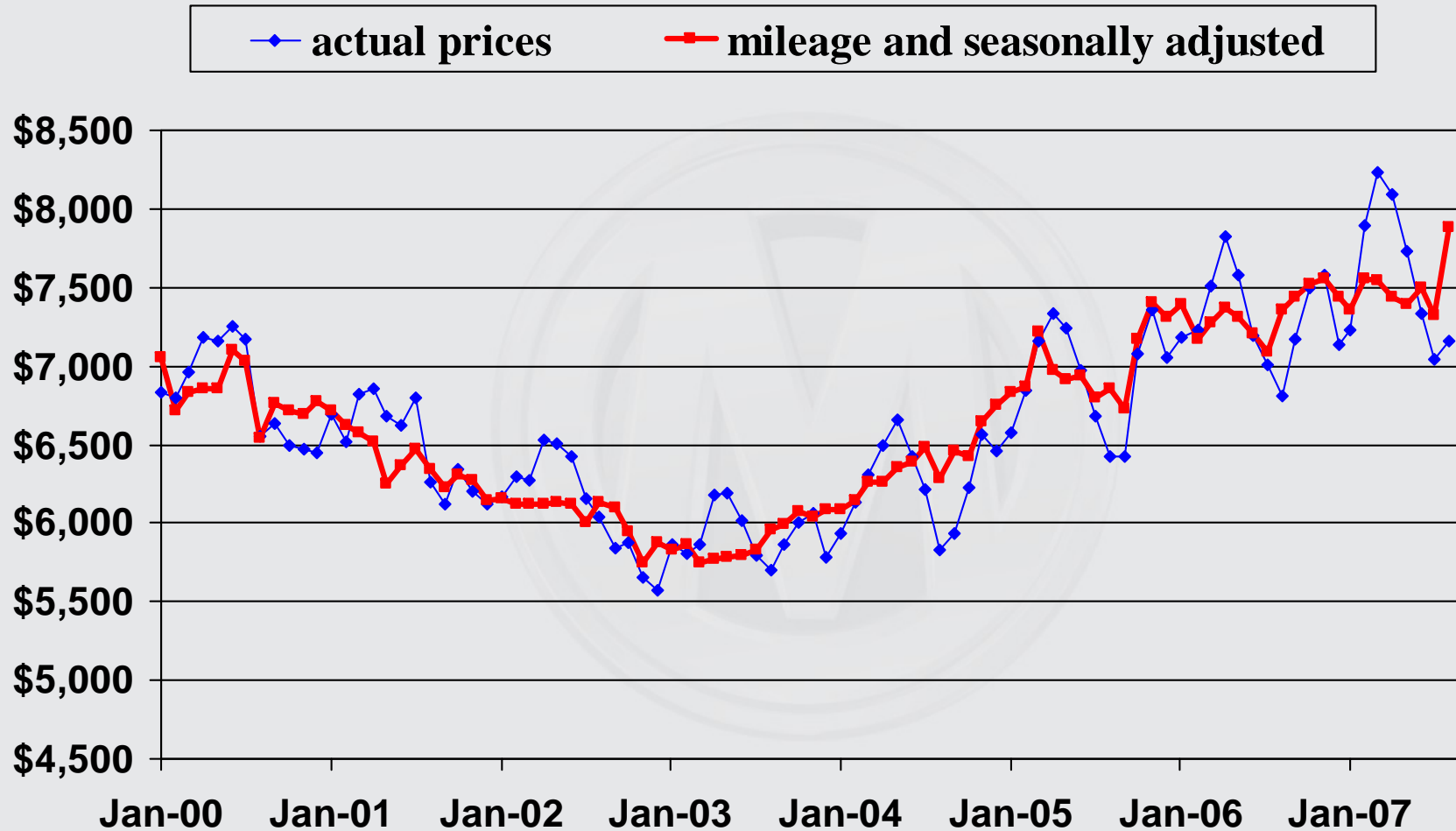
Source: Manheim Consulting



Average Auction Price - Commercial Fleet Units



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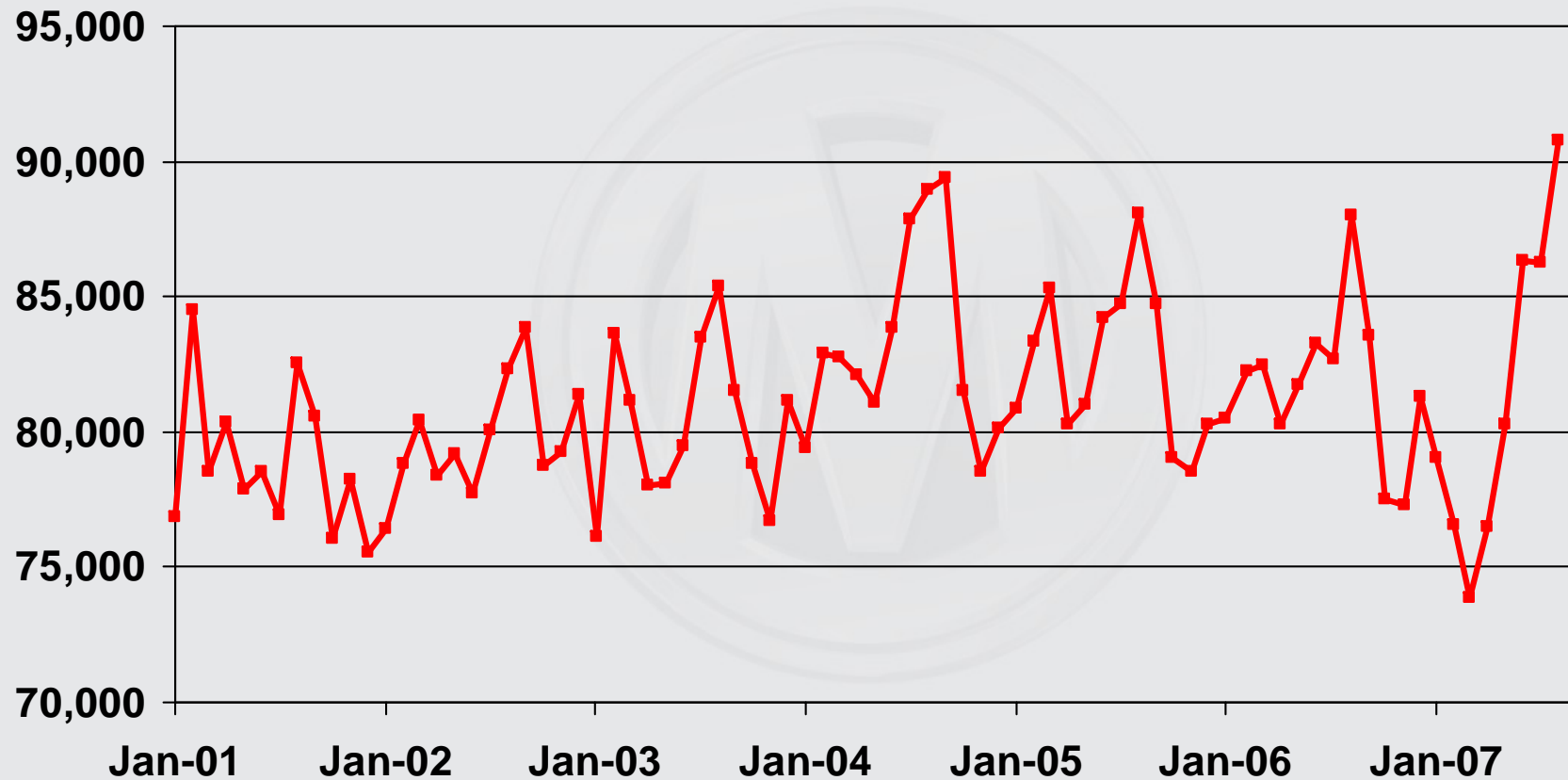
Source: Manheim Consulting



Average Mileage - Commercial Fleet Units



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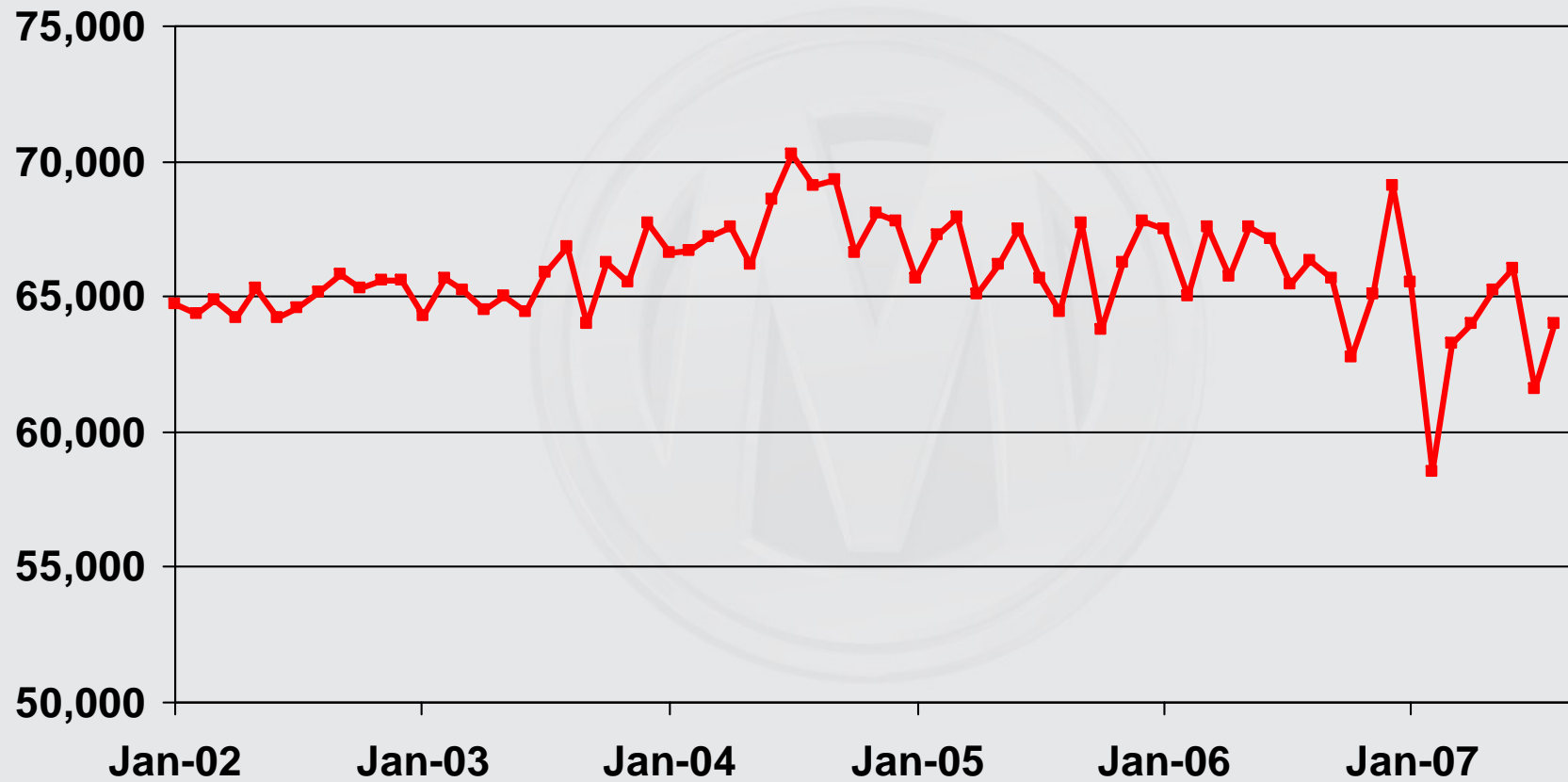
Source: Manheim Consulting



Average Mileage - Mid-size Fleet Cars



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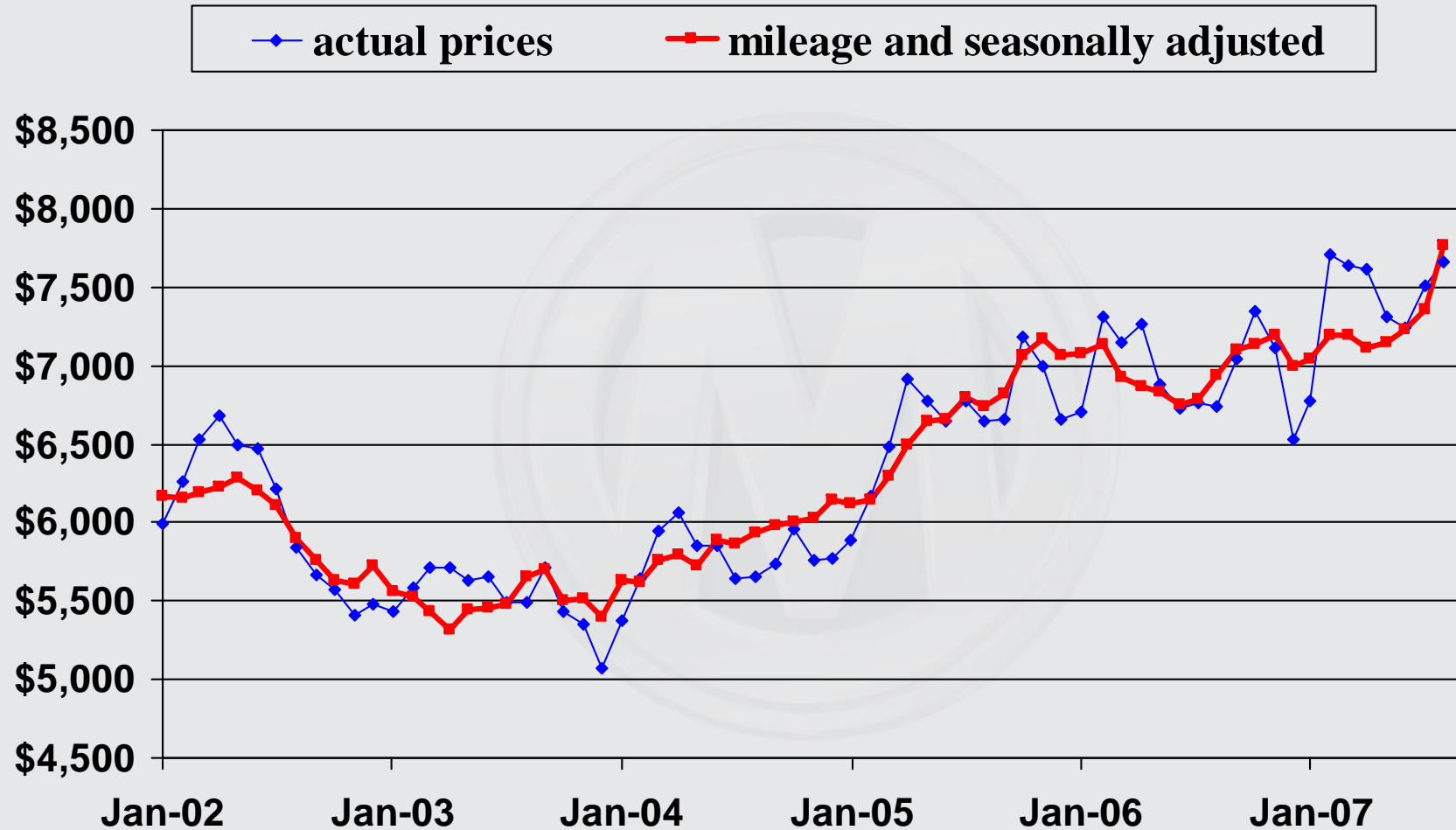
Source: Manheim Consulting



Average Auction Price - Mid-size Fleet Car



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Source: Manheim Consulting



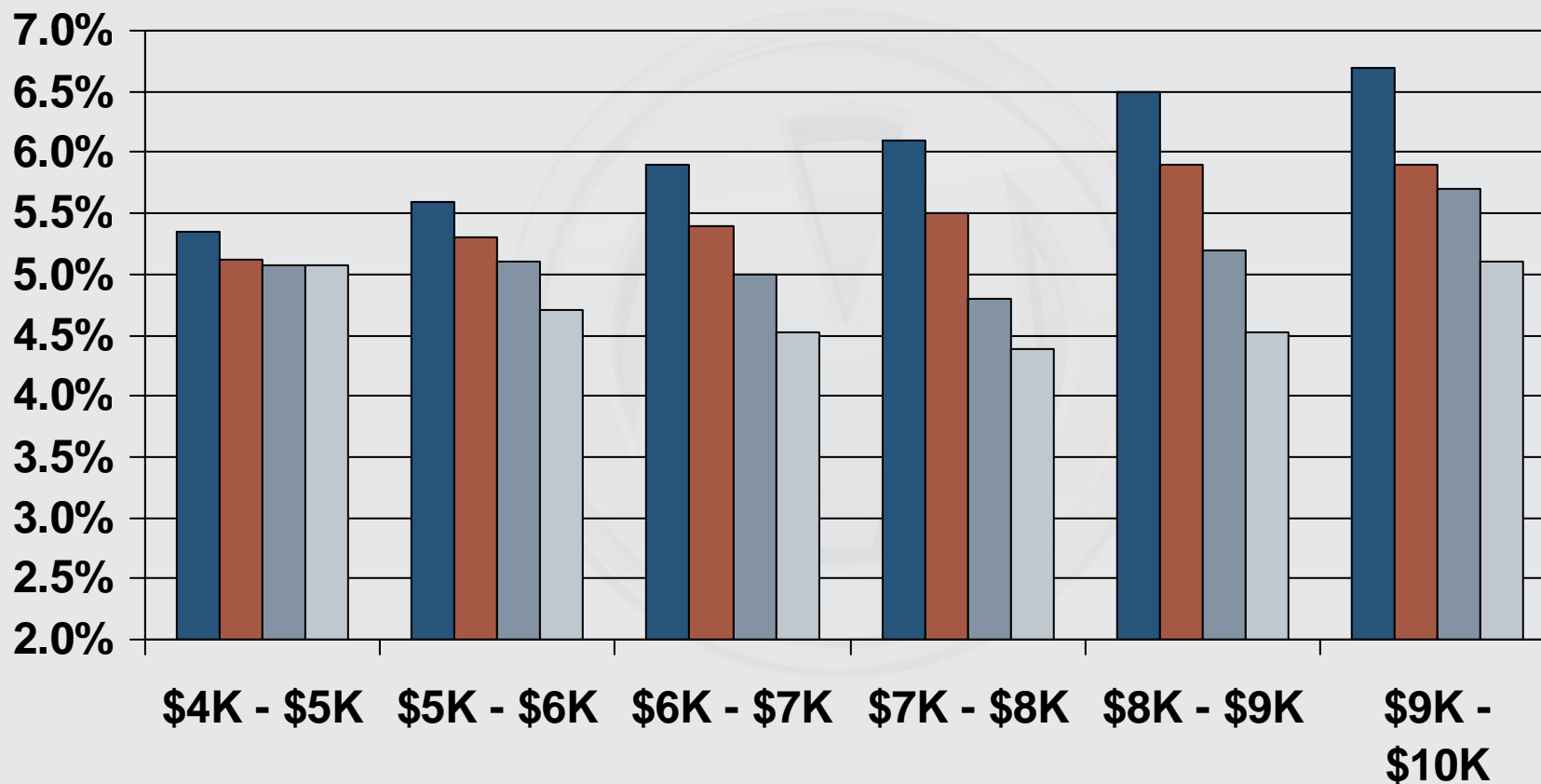


*Is it lower supply, higher
demand, or both?*





Percent of Total Auction Volume by Price Tier



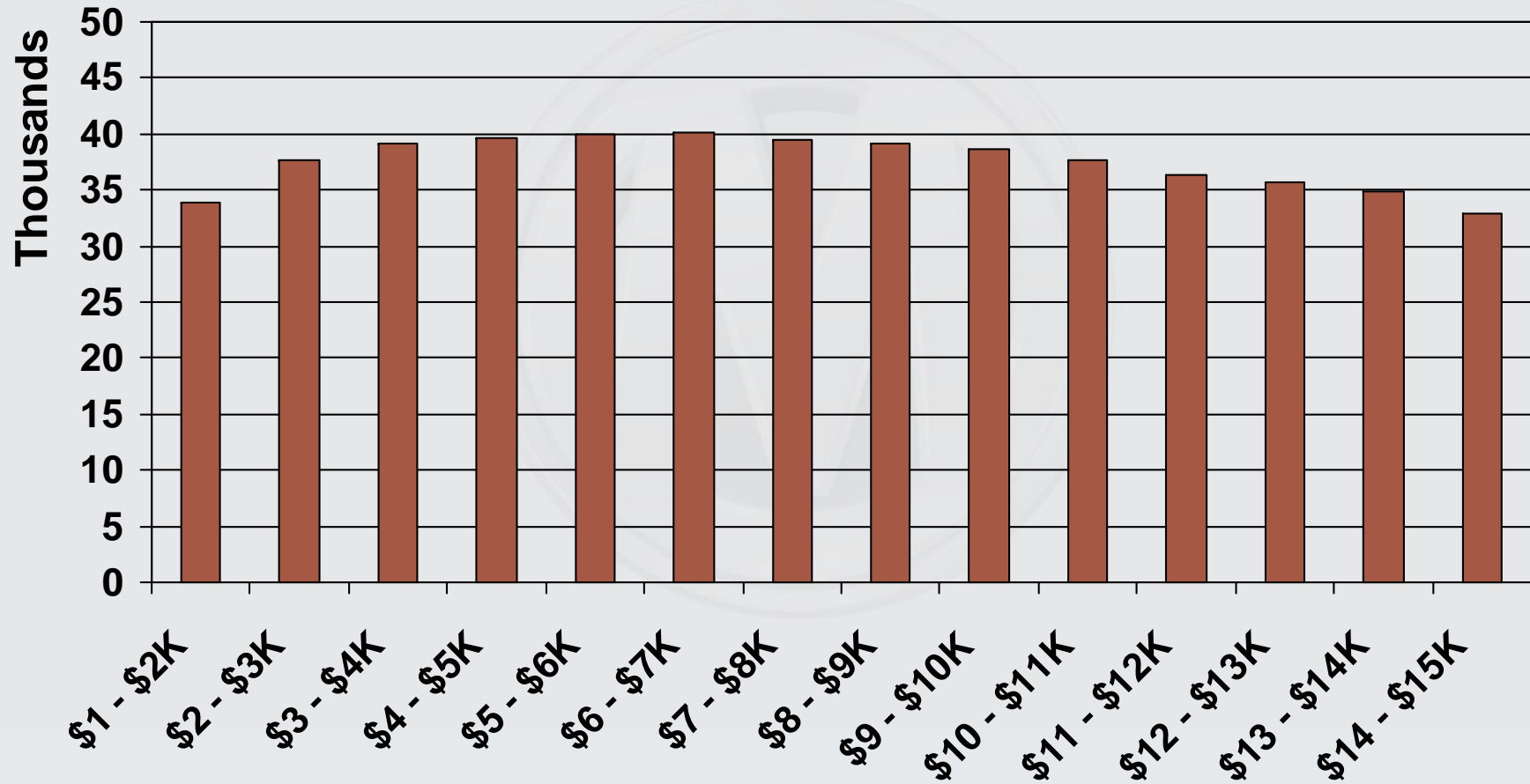
Source: Manheim Consulting





Number of Unique Buyers by Price Tier

Each year Manheim has approximately 100,000 unique buyers. The number of unique buyers within each price tier is evenly distributed even when the supply of vehicles is not.



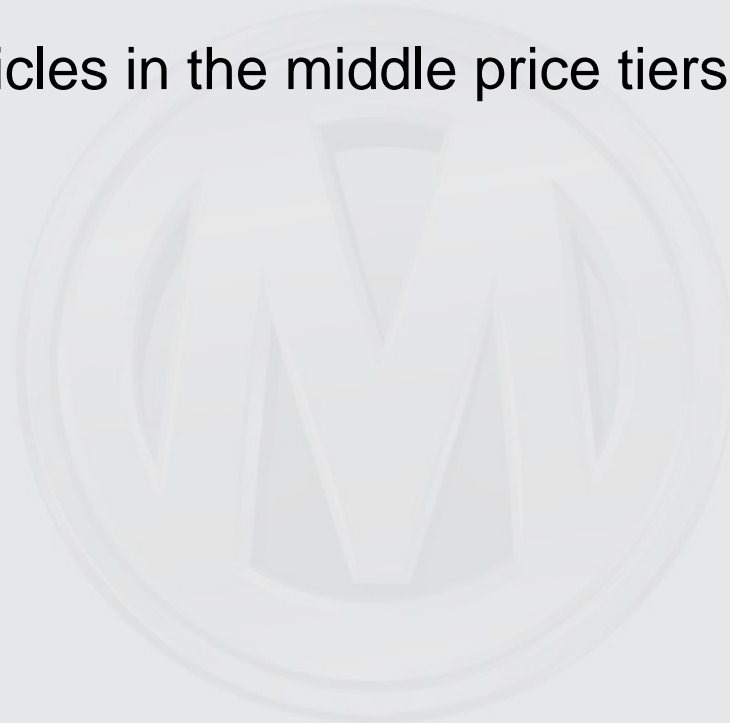
Source: Manheim Consulting





Message to Remarketers:

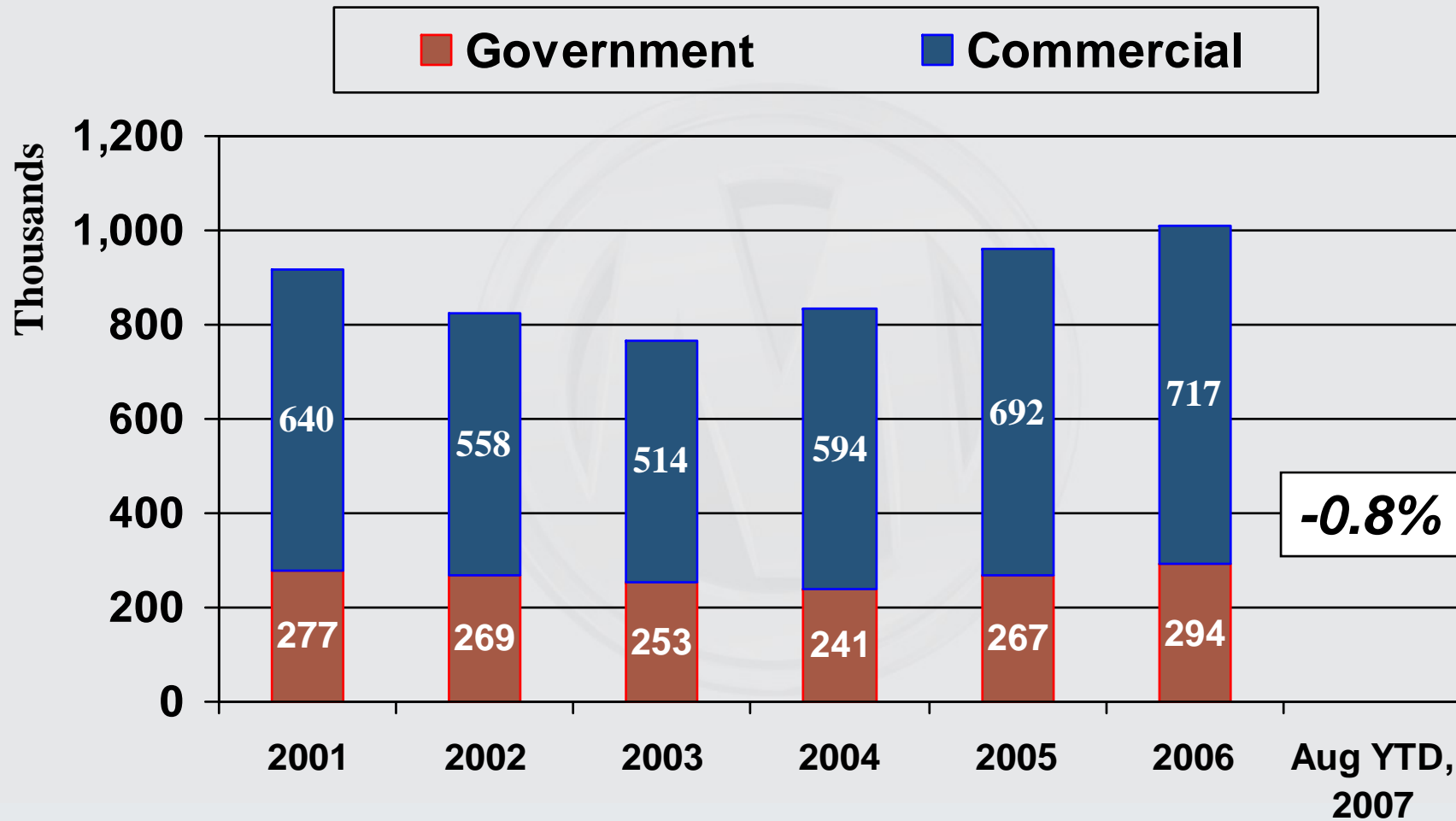
- Your vehicles are not unique
- The supply of vehicles in the middle price tiers are destined to grow.



New Vehicles Sold into Non-Rental Fleet



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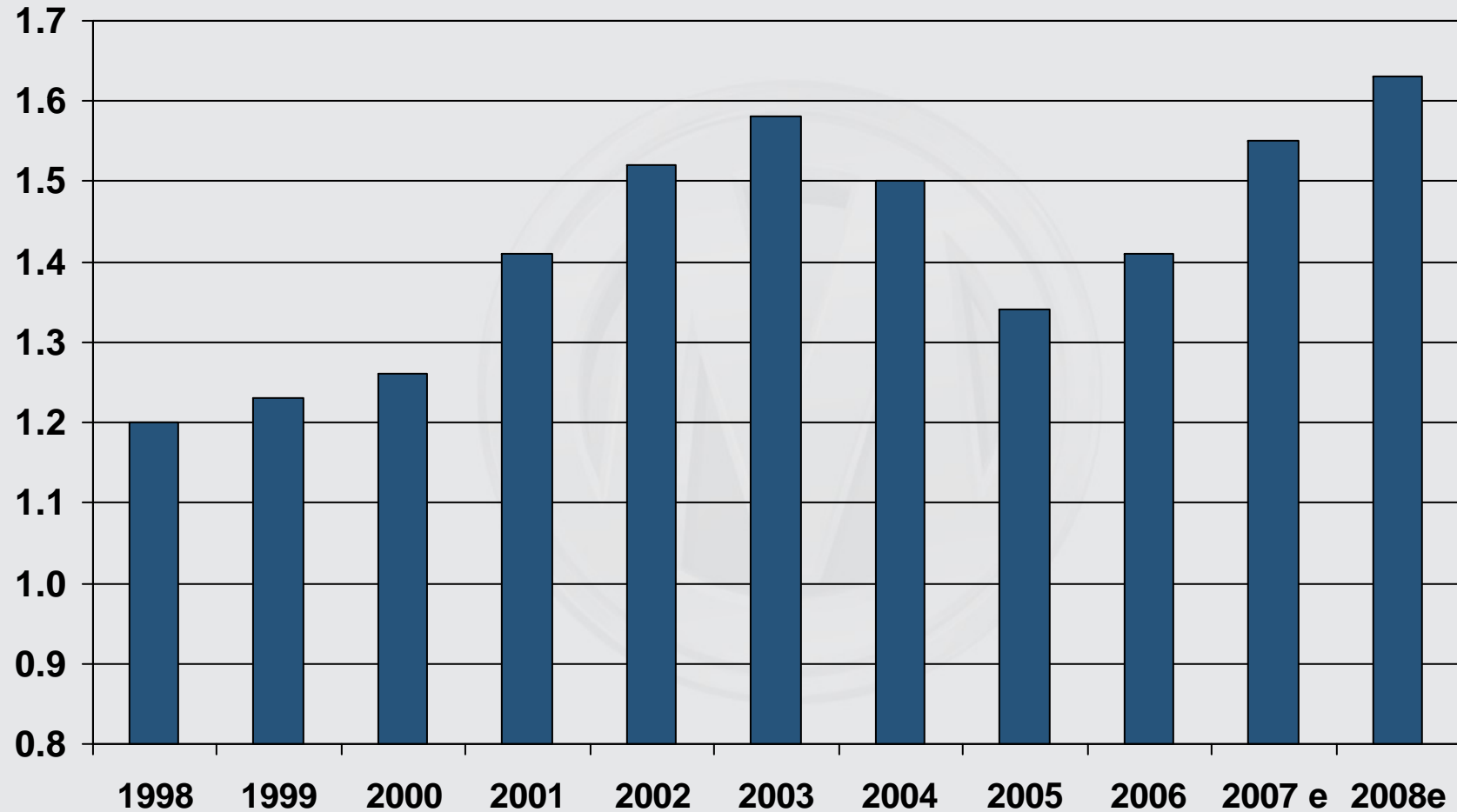
Source: Bobit Business Media





Repossessions Likely to Reach Record in 2008

Repossessions in Millions - New and Used Contracts



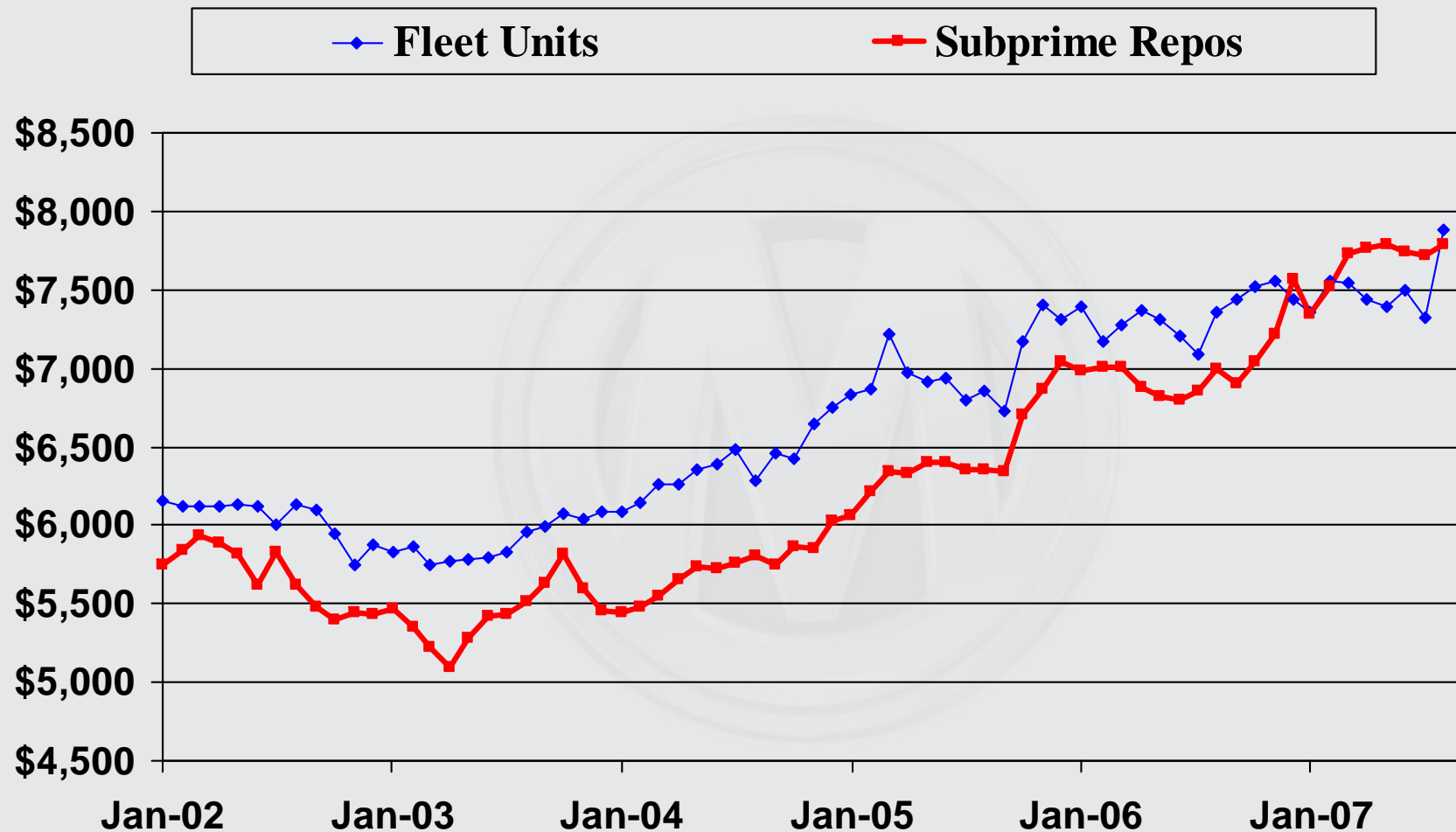
Source: Manheim Consulting



Average Auction Price - Fleet Units versus Subprime Repossessions



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Source: Manheim Consulting





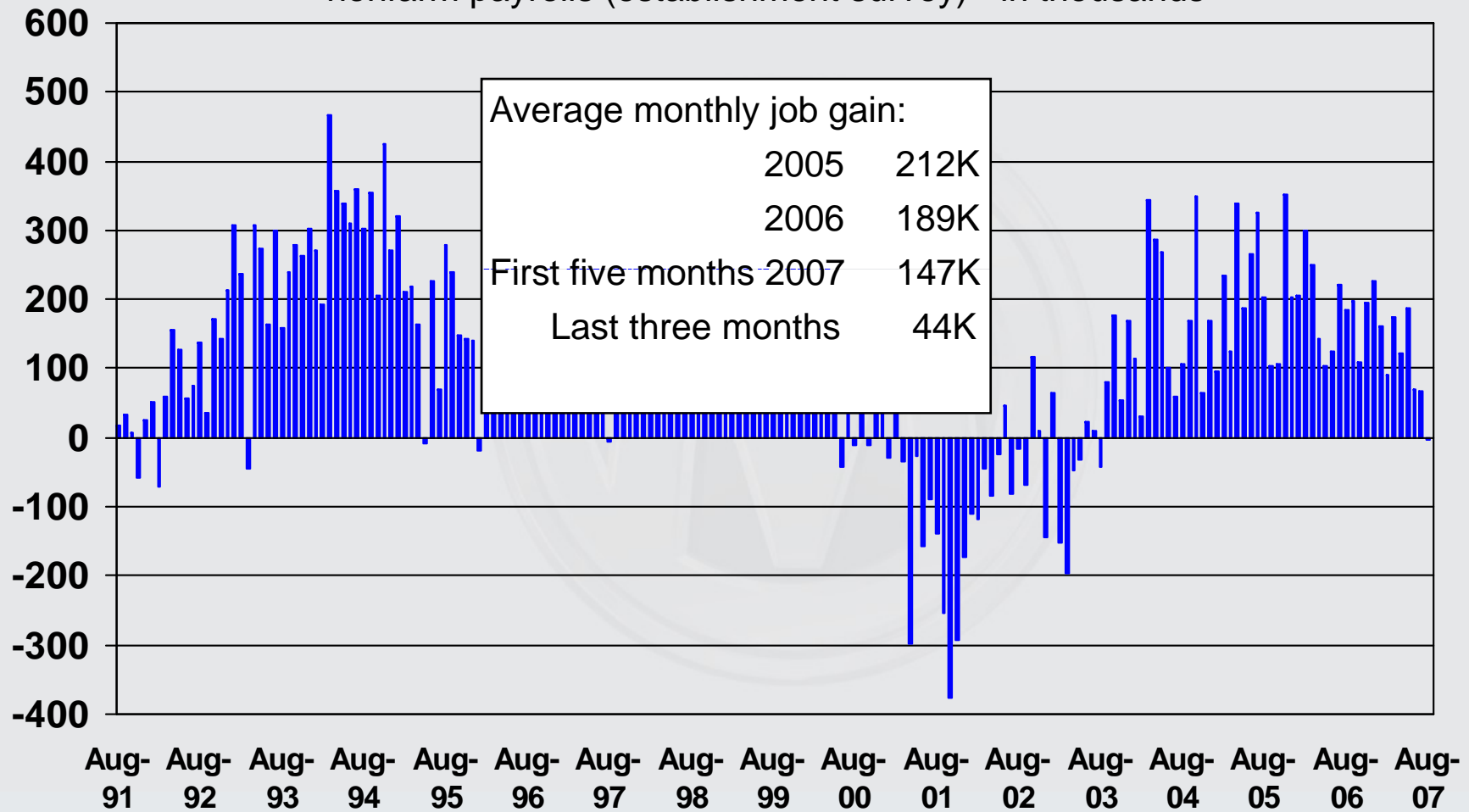
Retail Demand Driven by Labor Market and Credit Conditions





Monthly Job Growth

nonfarm payrolls (establishment survey) - in thousands



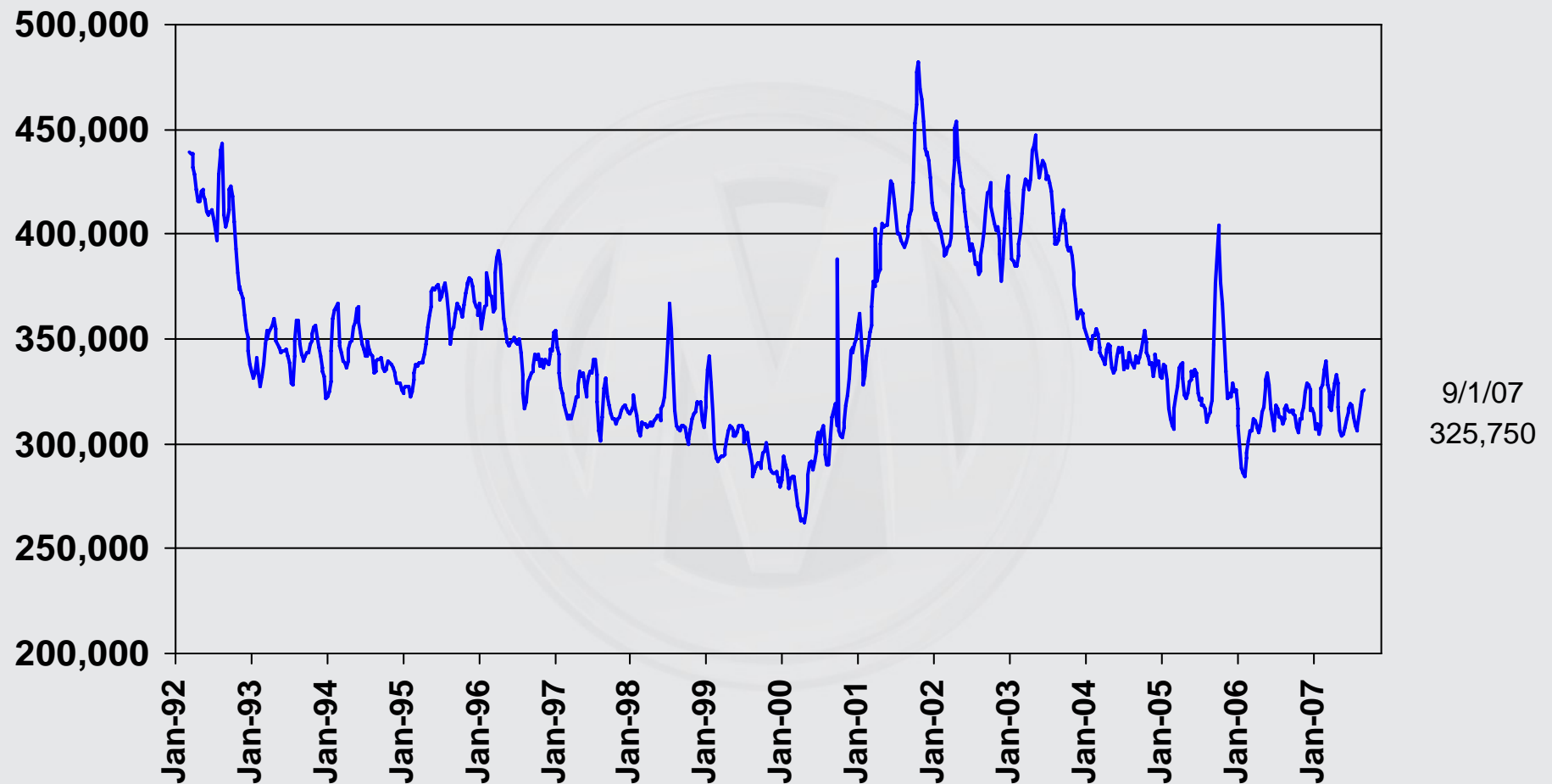
Source: Bureau of Labor Statistics 19



Initial Jobless Claims – 4-week moving average



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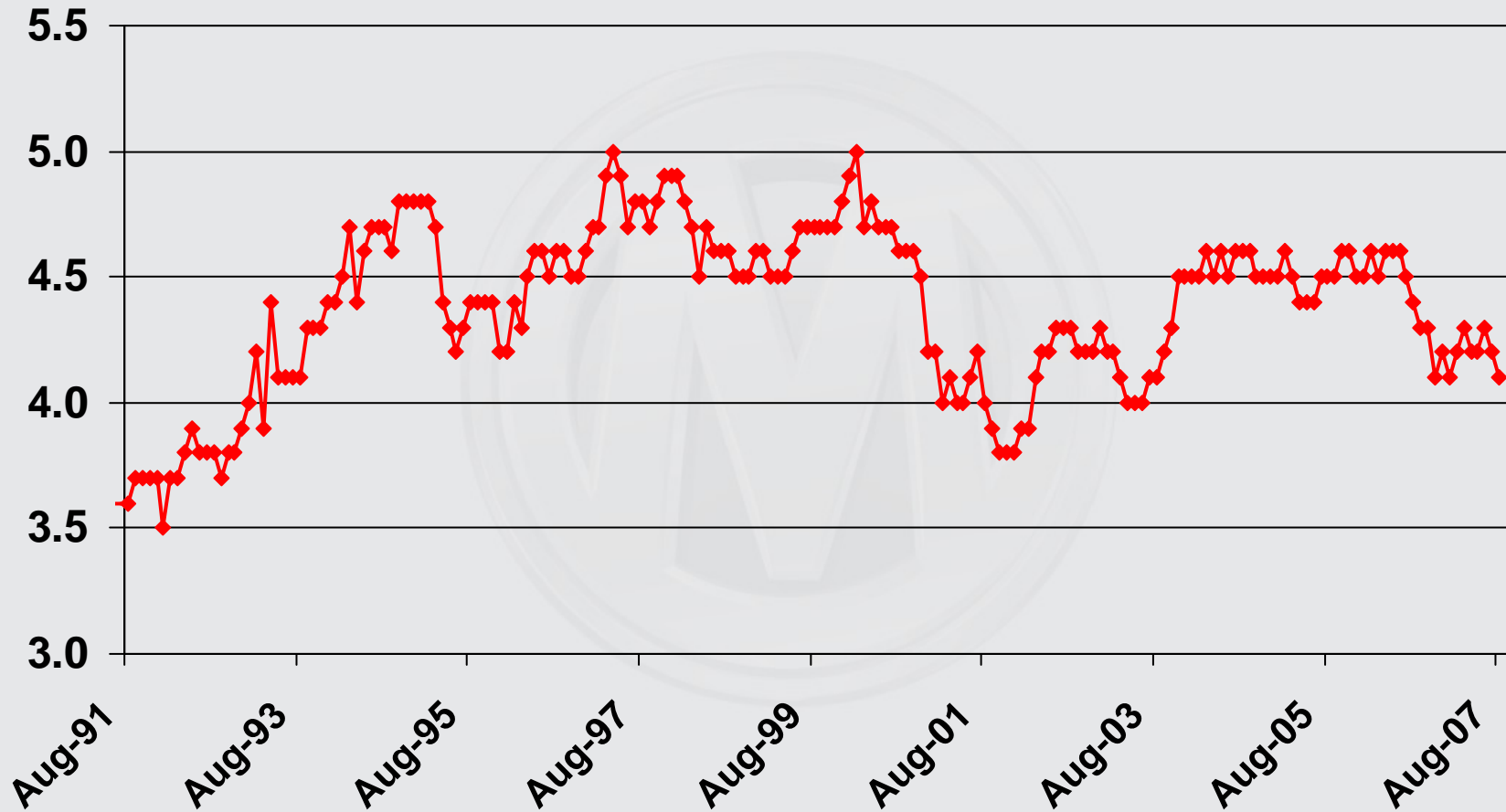


Source: Bureau of Labor Statistics 20





Average Weekly Overtime



Source: Bureau of Labor Statistics

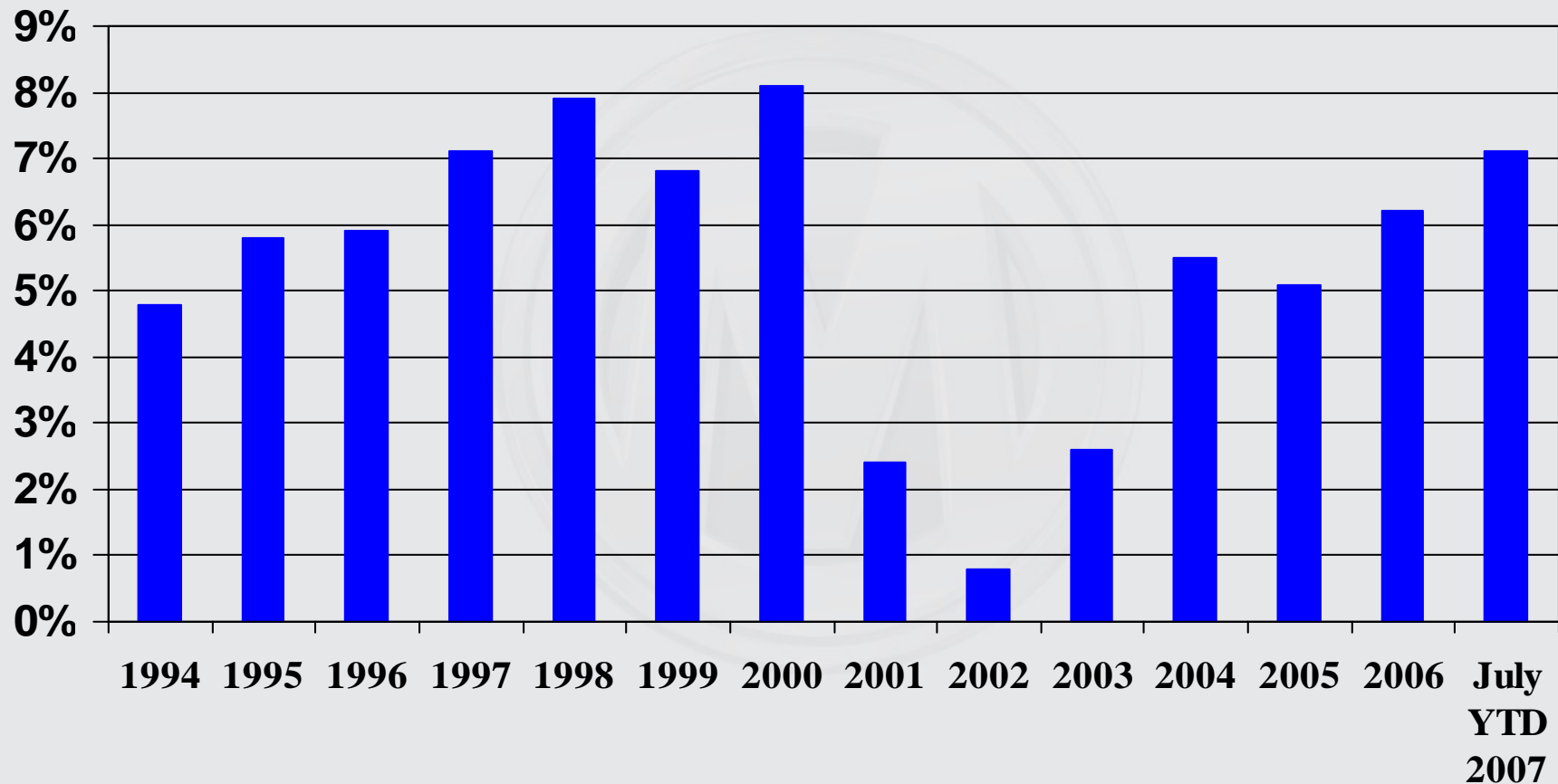


Wage and Salary Growth



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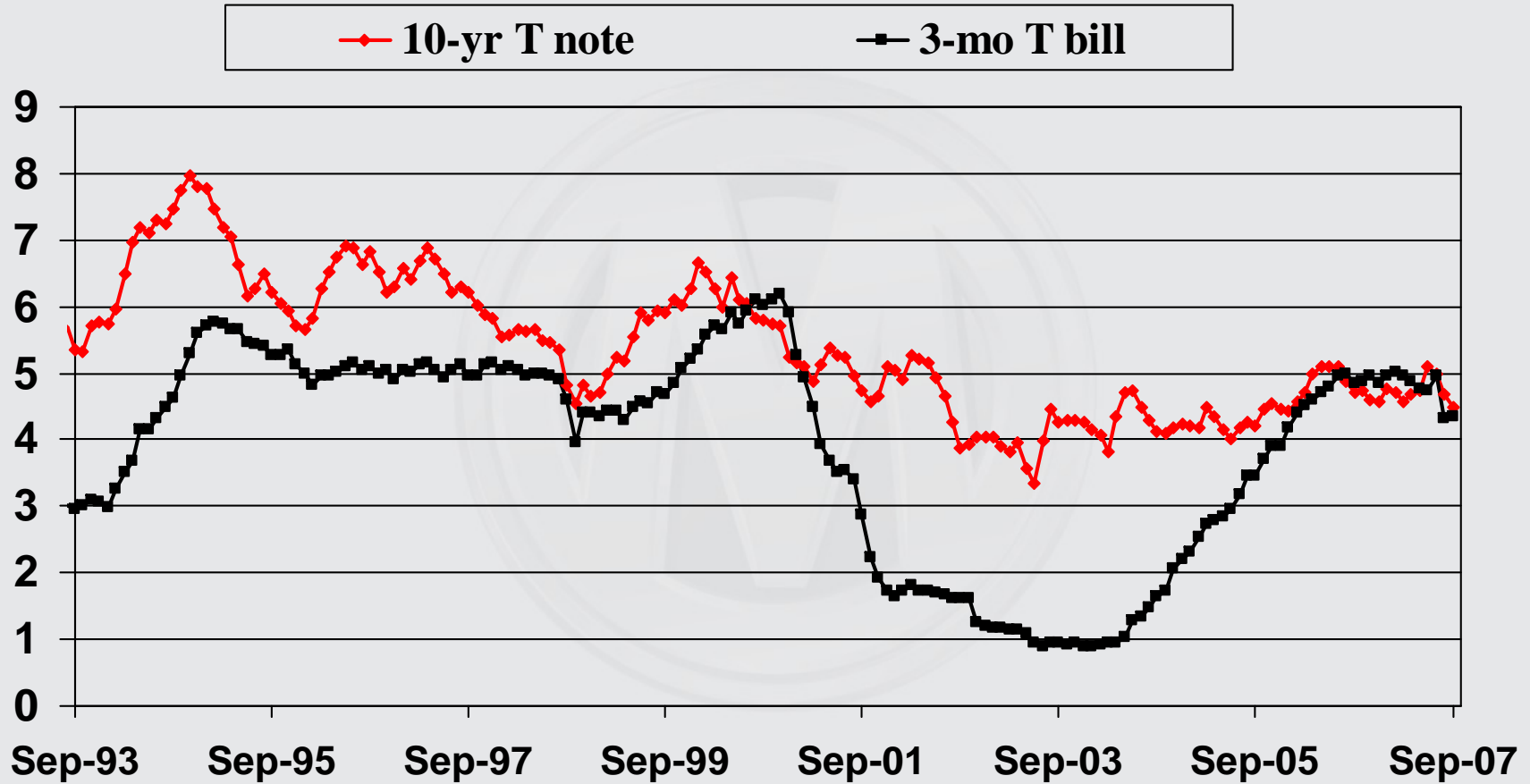
Annual Increase in Wages and Salary



Source: Bureau of Economic Analysis



Interest Rates



Source: Federal Reserve Board

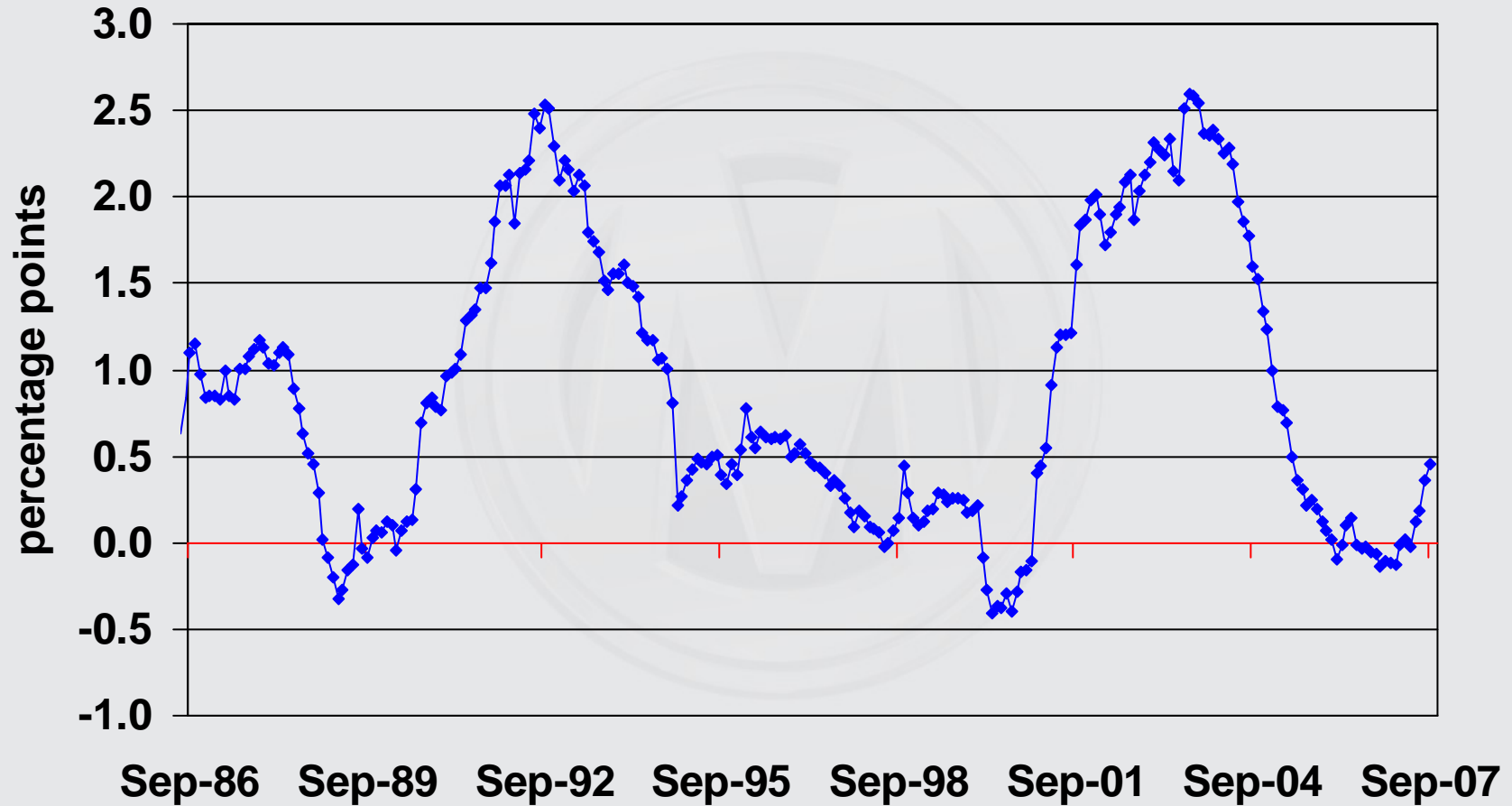


Interest Rate Yield Curve



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Spread between 10-year and 2-year Treasuries



Source: Federal Reserve Board

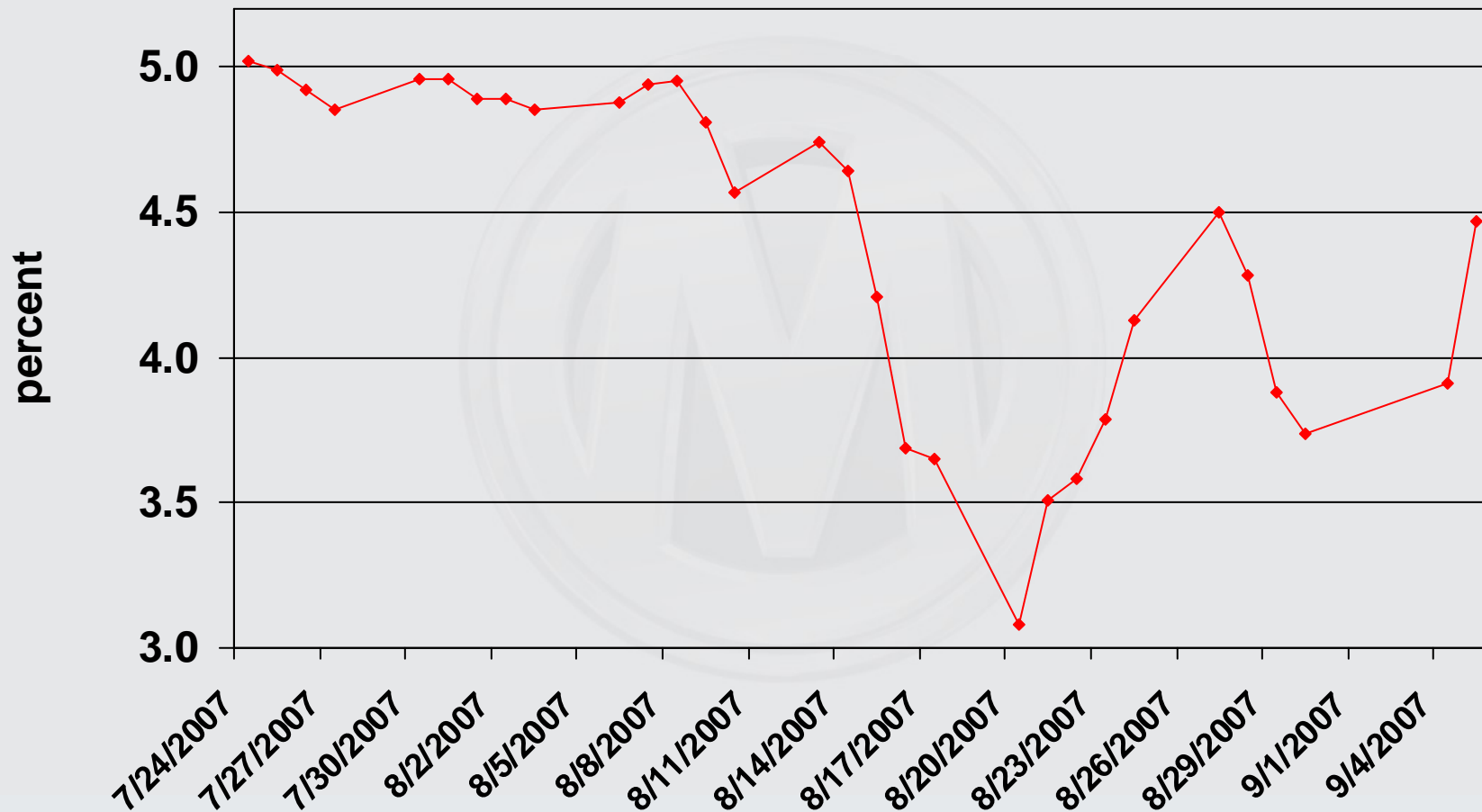


Treasury Yields Plummet During Week of Turbulence



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Three-Month Treasury Bill - Daily Yield

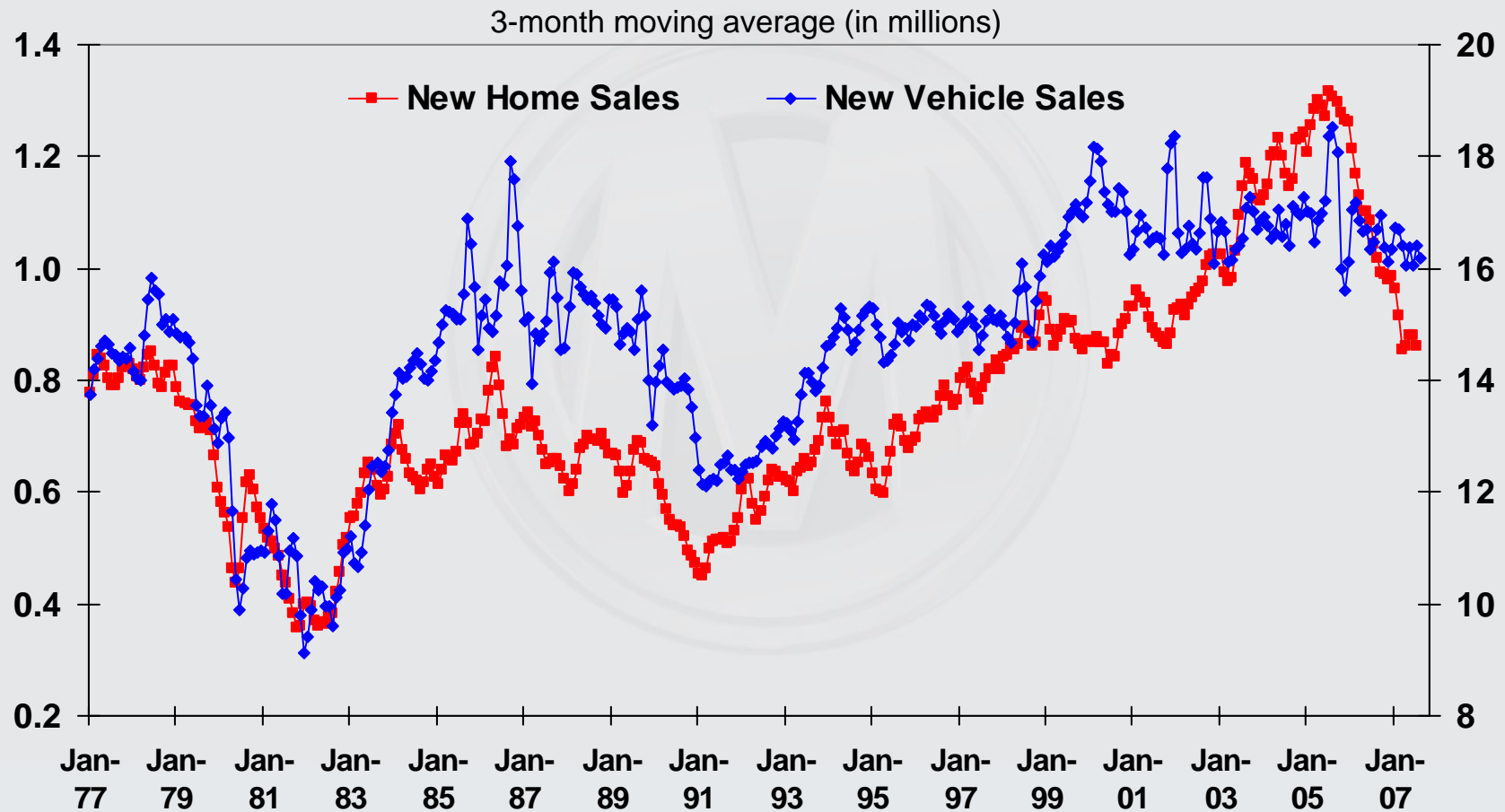


Source: Federal Reserve Board





The Coal Mine Canaries



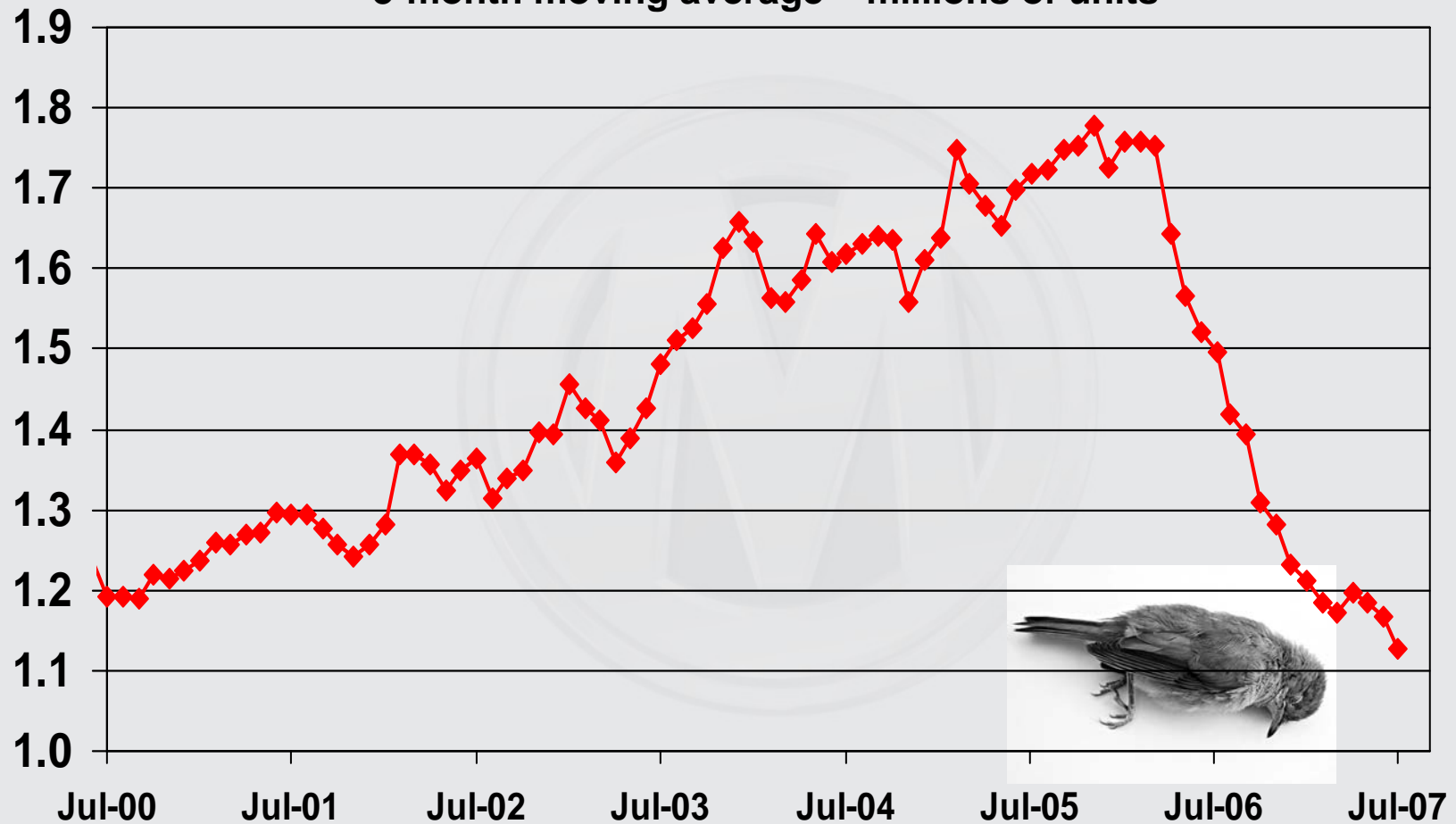
Source: U.S. Census Bureau & Automotive News





Housing Starts Fall to Decade Low

New Single Family Starts 3-month moving average – millions of units



Source: U.S. Census Bureau



Why Subprime Auto Loans Do Not Equal Subprime Mortgage Loans



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- Better loans
- Fixed rates versus adjustable
- Experience with previous cycles
- Mortgage broker / lender relationship versus F&I manager / lender relationship
- Collateral expectations and results



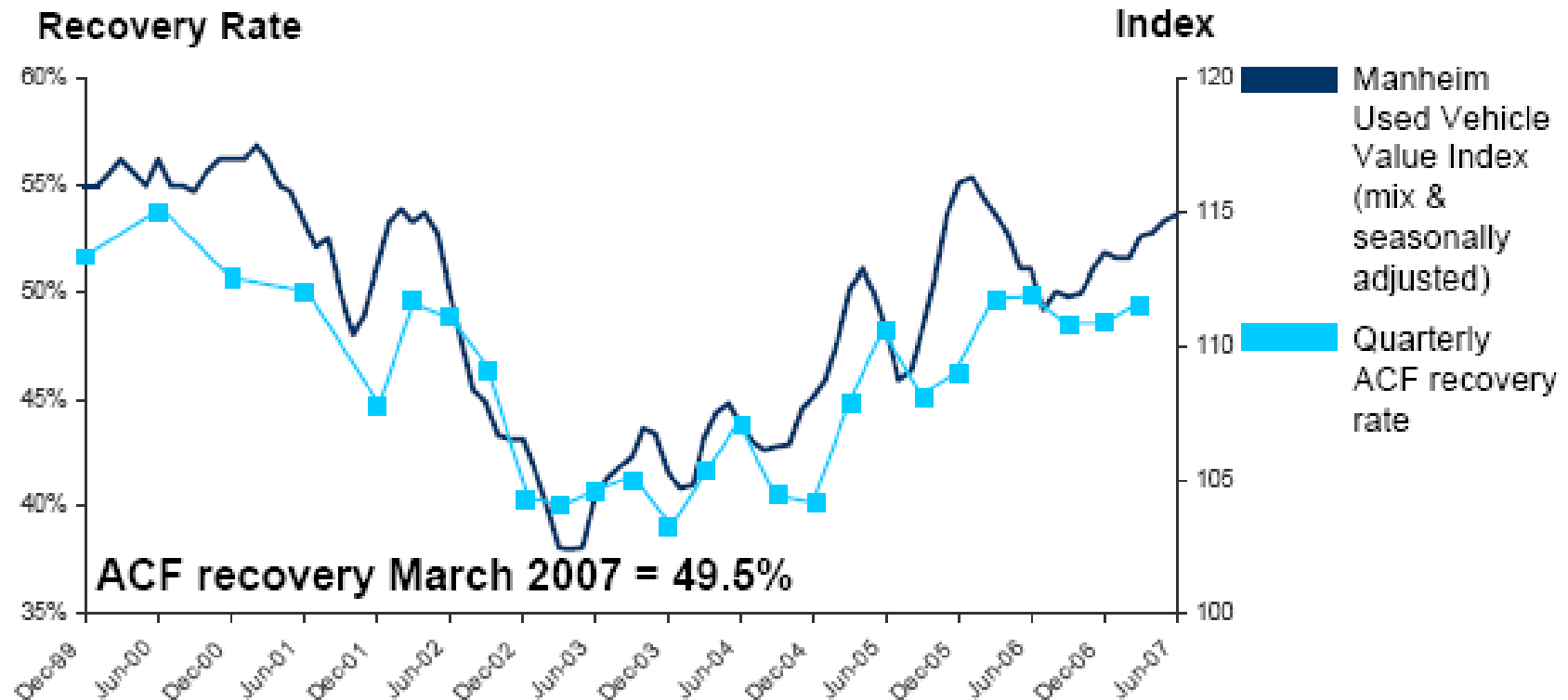


Subprime Auto Lending

- Hard to over-emphasize importance
 - \$100 billion in annual originations.
 - More than 40% of all used vehicle financing is subprime.
- Industry currently in “sweet spot”
 - Originations growing, defaults declining, recovery rates rising, credit ratings upgraded.
 - Fragmented, but consolidating industry.
- Cautions
 - Borrowers are highly leveraged and sensitive to gas prices.
 - Growth in subprime mortgages adds a new wrinkle.
 - Industry is prone to cycles.



Recovery Rates Correlate to Manheim Index



- **Recovery rates expected to remain stable with normal seasonality**
 - Reduction in new car production
 - Fewer cars entering market through fleet liquidations

Collateral Trends In Auto Loan Securitization

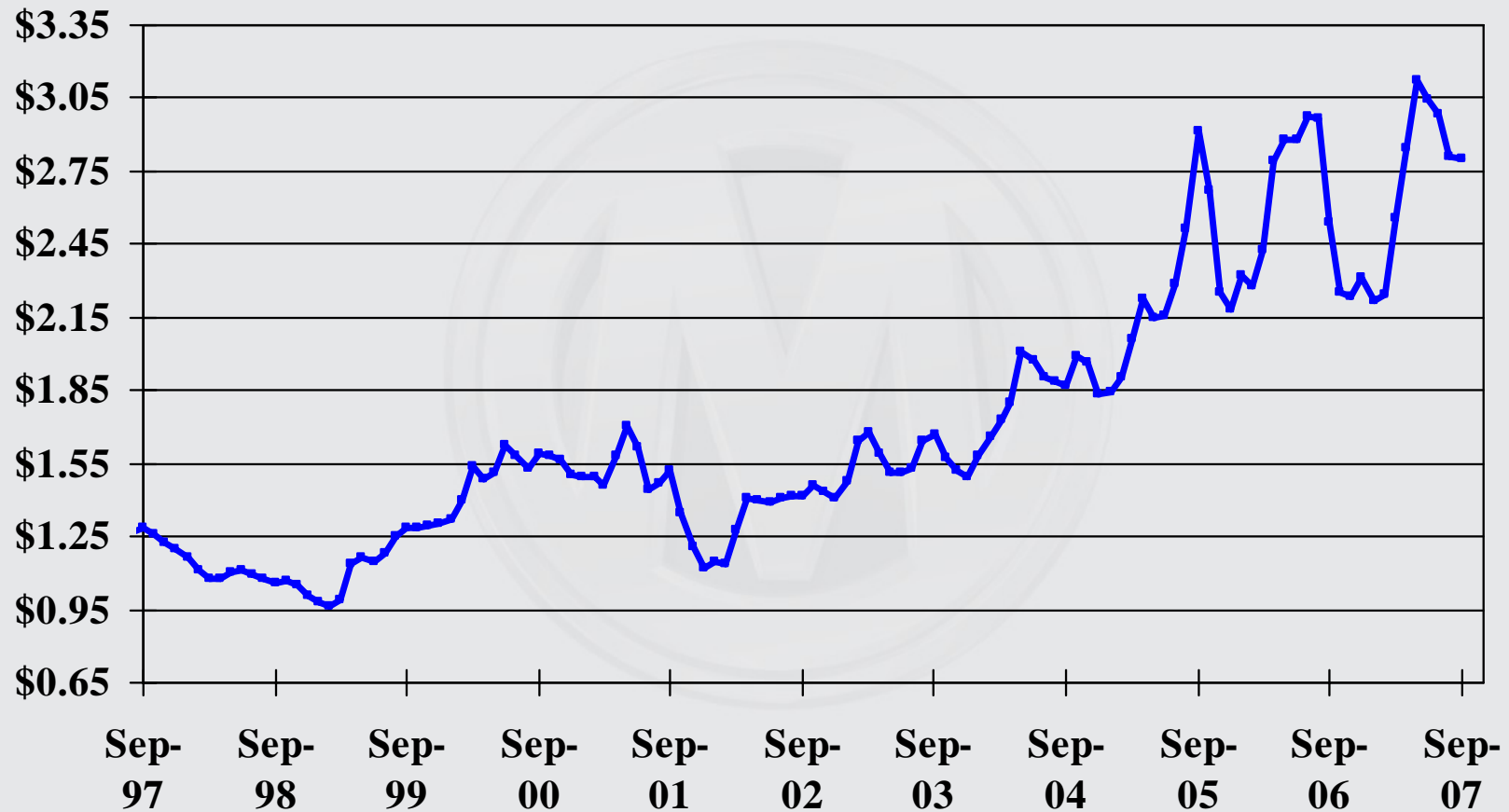
Vintage Year	Weighted Average APR %	% Used Collateral	Contracts With Original Maturities > 60 Months (%)	Weighted Average FICO Score
Prime				
2000	8.63	31.23	20.32	691
2001	7.67	25.51	11.38	699
2002	5.90	20.64	12.02	707
2003	5.27	21.39	14.68	718
2004	5.35	28.66	30.00	719
2005	5.79	24.59	31.62	719
2006	5.50	22.41	39.38	716
Nonprime				
2000	12.54	55.84	1.12	658
2001	12.49	60.57	23.12	653
2002	12.03	66.75	46.12	653
2003	10.47	62.26	51.79	661
2004	10.05	58.81	57.04	655
2005	10.82	62.15	56.35	649
2006	11.43	55.11	66.20	654
Subprime				
2000	18.87	76.17	13.03	577
2001	17.41	63.81	29.20	587
2002	15.70	57.93	32.69	602*
2003	16.13	68.84	42.81	591
2004	16.26	63.97	45.86	590
2005	14.95	63.52	52.25	592
2006	15.28	71.20	68.25	591

* The high FICO score is due to transactions from one issuer being reclassified from nonprime to subprime due to the high level of losses on these pools



Gasoline Prices Decline From May Peak

Unleaded Gasoline – Cost per Gallon – National Average

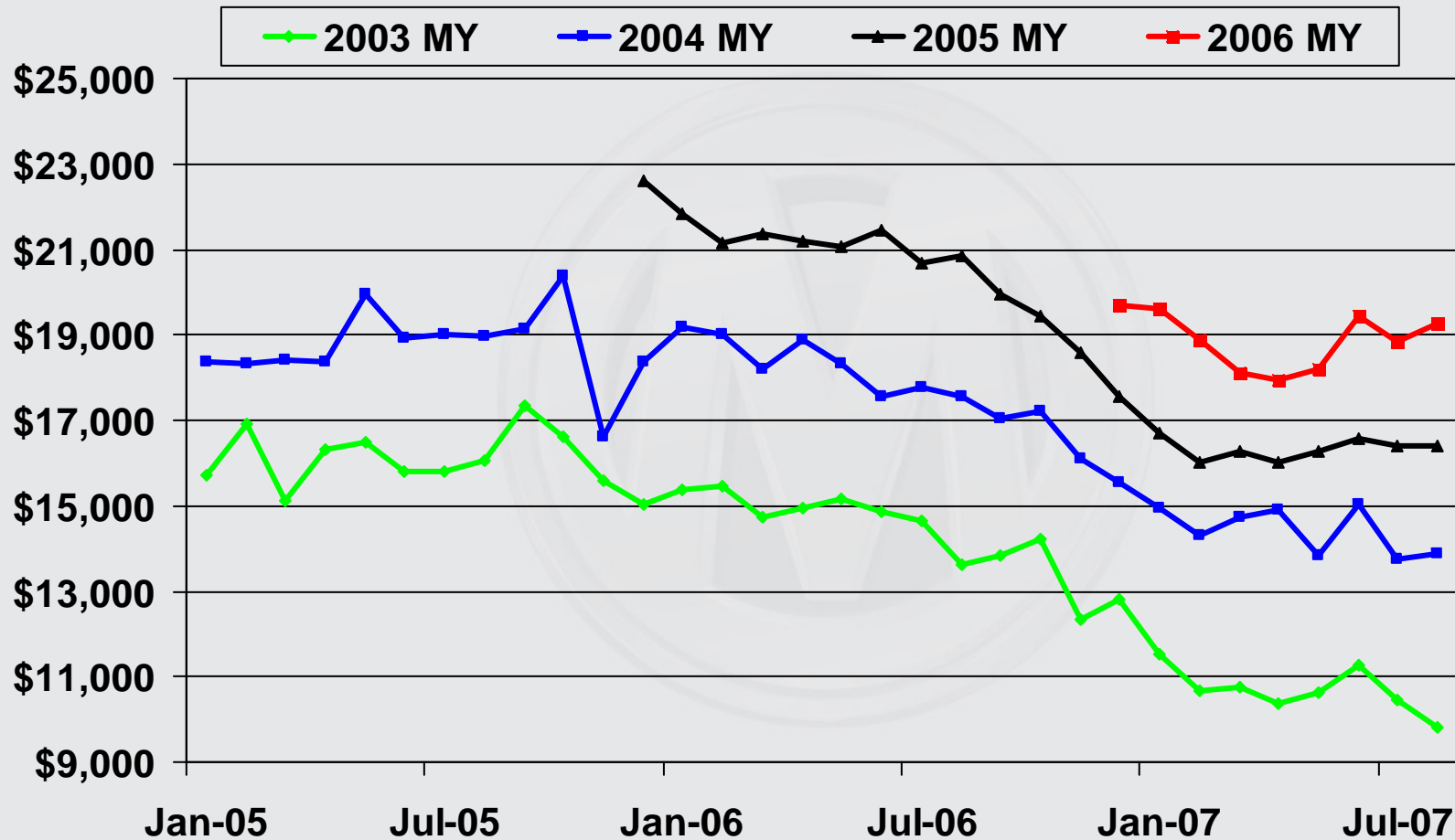


Source: Oil Price Information Service





Prius Auction Prices by Model Year



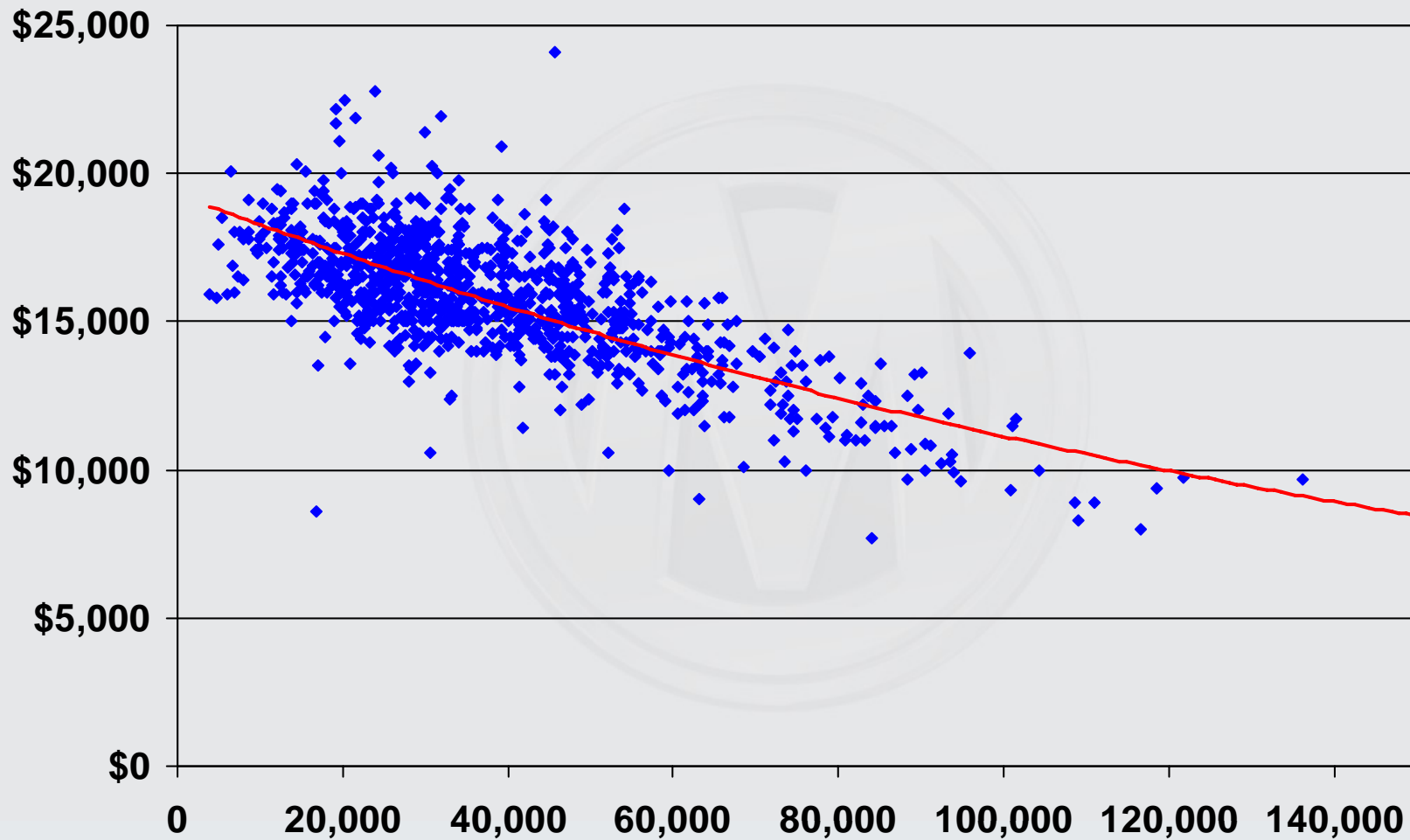
Source: Manheim Consulting



04 & 05 MY Prius Sold in 2007



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Source: Manheim Consulting



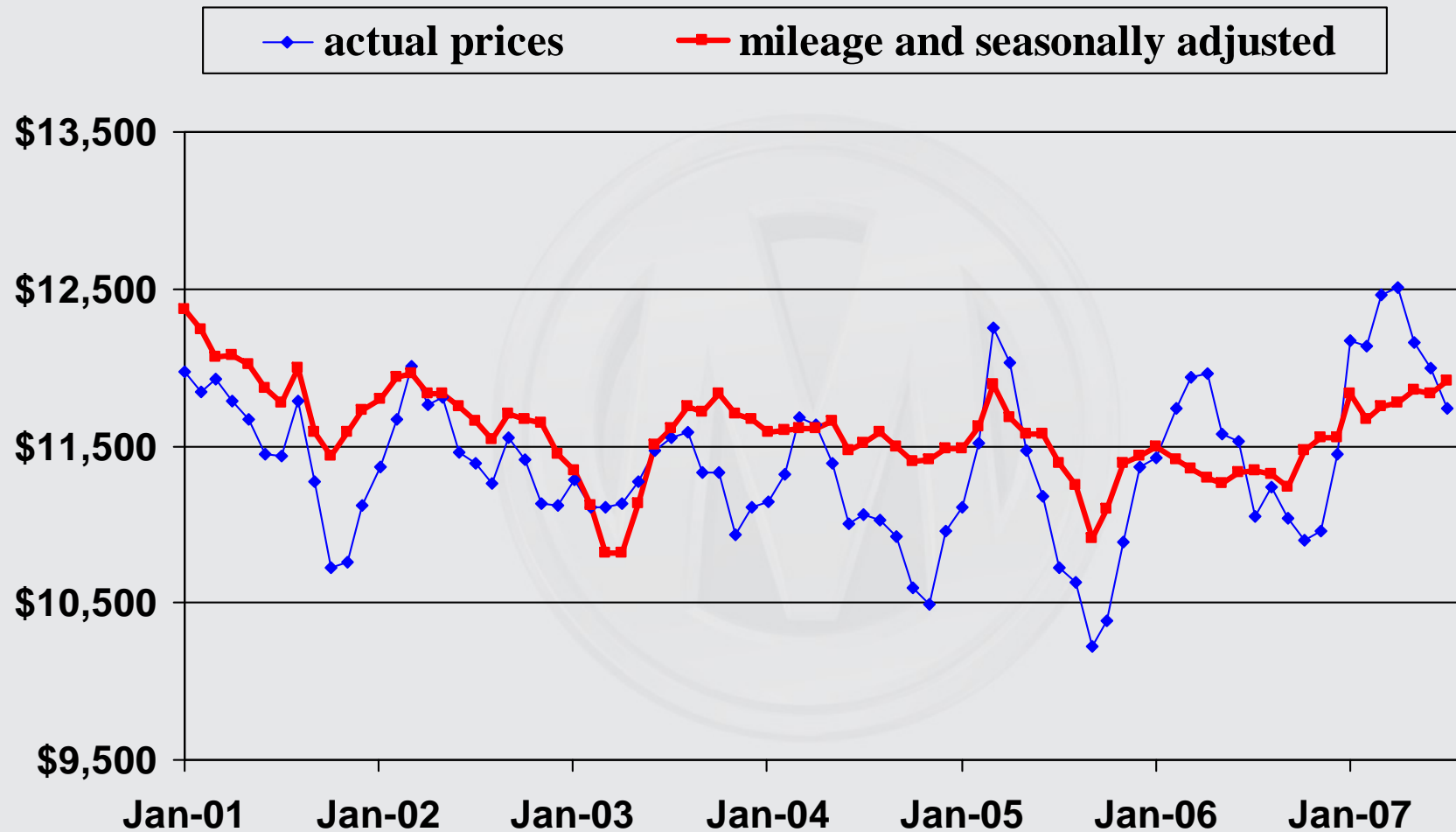


Price premium for diesels





Full-size Pickups – Average Auction Price



Source: Manheim Consulting





Conclusions

- Slower growth, but growth
- Many conflicting forces impacting different demographic groups differently
- Further separation between good and great dealers
- The tailwinds that have pushed wholesale used vehicle prices upward will ease slightly.



Summary and Review of Economic and Industry Events That Will Influence Used Vehicle Values



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- **Housing Market** -- *the drag continues.*
- **Subprime Lending** -- *the differences between mortgages and auto loans.*
- **Gasoline Prices** -- *world demand continues to grow.*
- **UAW Negotiations** -- *concessions for sure, but how willingly given?*
- **U.S. Economic Recovery** -- *solid fundamentals, but slower growth ahead.*
- **Retail Used Vehicle Market** -- *profitable, but higher acquisition costs increasingly difficult to pass on.*

