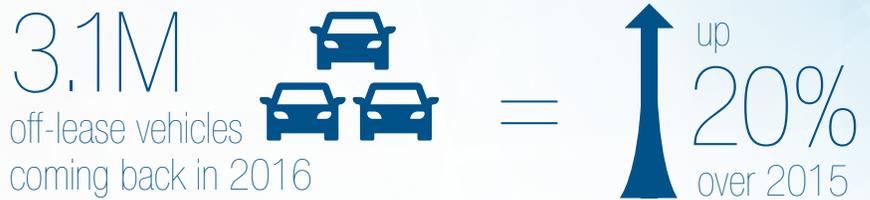


Too many used cars? Go CPO.

THE CHALLENGE

Around 3.1 million off-lease vehicles will be coming back in 2016, up 20% from 2015. Manheim forecasts those numbers will continue to grow in 2017 and 2018.¹ If they all go back to the auctions, supply could exceed demand, resulting in significantly lower used car prices, which may affect residual values. This scenario, combined with increasing MSRPs that are raising traditional leasing payments, have the potential to create a difficult environment for the industry.

Several OEMs and financial institutions are encouraging used car leasing, even going so far as to support CPO leasing. However, new car leases are typically incentivized by the OEM, making them far more attractive and affordable than a CPO lease — unless there's an incentive.



OEM-INCENTIVIZED NEW CAR LEASES DRIVE CONSUMERS AWAY FROM CPO LEASES WITHOUT INCENTIVES

New with incentive



CPO without incentive



Sales Price	\$42,000	\$27,940
Cap Cost	\$42,000	\$27,940
Customer Rebate	\$3,000	
Adj Cap Cost	\$39,000	\$27,940
MSRP	\$42,000	
RV%	57%	
RV\$	\$23,940	\$14,280
Term	36	36
Relative APR	0.50%	5.28%
Money Factor	0.00021	0.00220
Monthly Depreciation	\$418	\$379
Monthly Rent	\$13	\$93

Estimated \$4,000 above New RV for recon, certification and gross profit.

Estimated 34% of New MSRP at 6 years.

Incentivized CPO Leasing Gets Consumers into Your Brand and Helps Keep Them There



Cox Automotive analysis shows that CPO leasing can increase brand and make loyalty² because it provides car shoppers another option when getting into the market. With a used vehicle, rapid depreciation has already occurred, so there is opportunity for the OEM to provide lower rent charges and other incentives to make it a highly affordable and attractive proposition for consumers. Moreover, customers are covered under the remaining new car limited warranty in addition to the CPO warranty.³

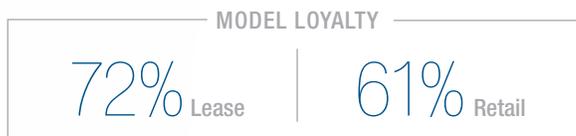
// A Cox Automotive analysis, based on Experian data, shows that loyalty among customers is **higher** for CPO than non-CPO pre-owned vehicles while leasing benefits from higher consumer loyalty.

// The 2016 Cox Automotive Maintenance & Repair Study found that service retention of customers that purchase either a new or used vehicle is significantly lower than lease customers. **60% of new purchasers and 56% of used purchasers did not return to the originating dealership** for service.

// However, the study found that **63% of customers that leased a vehicle did return to the originating dealership for service** in the last 12 months.

CPO LEASING DRIVES MORE LOYALTY THAN A TYPICAL USED CAR LOAN

LOYALTY	NEW	CPO	USED
OEM	65%	62%	60%
Make	58%	54%	47%
Model	26%	21%	15%



INCENTIVIZED CPO LEASING BENEFITS

- Dealer** |
- // Shorter customer lifecycle
 - // Higher customer loyalty and retention
 - // Increased off-lease volume / more profitable used-car sales



- Customer** |
- // Lower (more desired) monthly payment
 - // Consumer does not bear brunt of market depreciation
 - // No residual value risk

Sources

¹Automotive News, April 16, 2016

²Overby, J. (2016, April 7). *Why used-car leasing makes sense for Ally - and industry*. Retrieved April 9, 2016, from SubPrime Auto Finance News.

³McParland, T. (2016, April 9). *Used Car Leasing Is On The Rise, But Is It A Smart Move?* Retrieved May 9, 2016, from Jalopnik: jalopnik.com/used-car-leasing-is-on-the-rise-but-is-it-a-smart-move-1769089879

COX AUTOMOTIVE

