AUTOMOTIVE TRENDS REPORT

2024 MID-YEAR SALES PERFORMANCE RESULTS

AUGUST 2024

WHAT'S INSIDE

INTRODUCTION

No one could have predicted that the first half of 2024 would end with a massive cyberattack on one of the largest dealership DMS providers. Those 10 days of shutdowns reverberated throughout the industry and beyond. Despite dealership personnel having to revert to methods not used in a decade or more in sales, service and F&I, and phone systems being offline for some dealers, the automotive industry pulled together to rally and recover amidst the challenges. We applaud each of you for your resiliency.

To illustrate how dealers performed so far this year, we compiled data from 1,700+ dealerships nationwide, covering metrics like PPD, Front PVR and F&I product penetration. As of publishing, we anticipate the majority of reporting is complete from the last three weeks of June, but this data may not reflect the full picture, as deals from June continue to become available.

KEY AUTOMOTIVE TRENDS IN MID-YEAR 2024

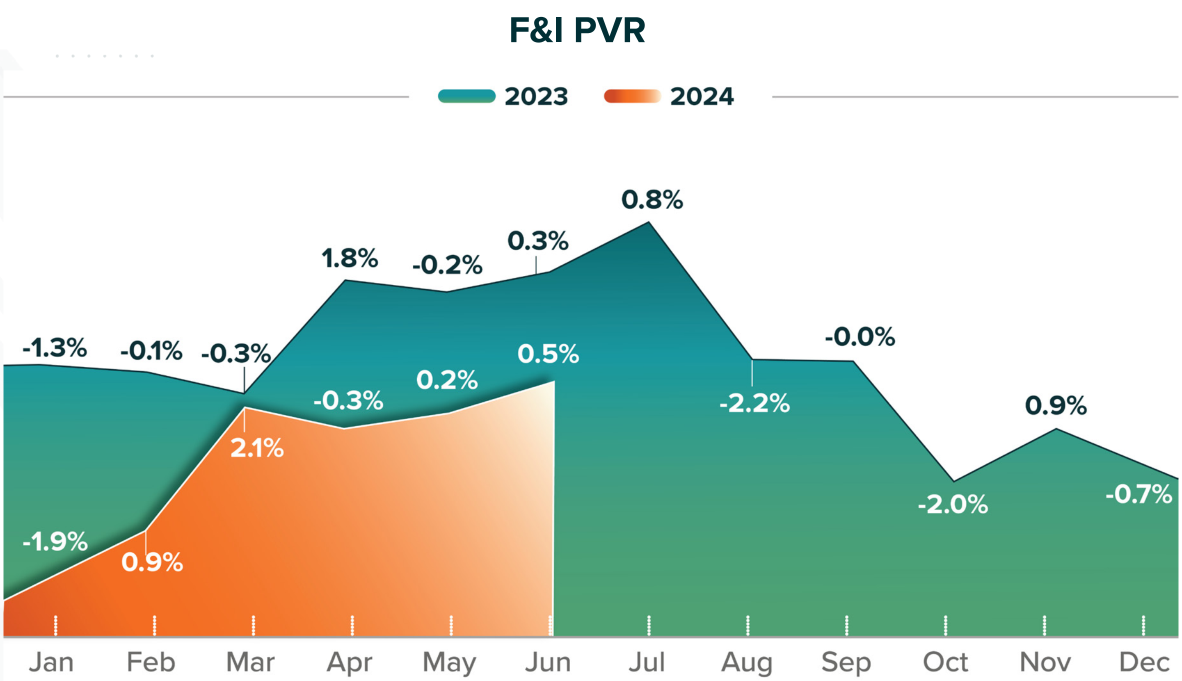
- **Dealership associates demonstrate resiliency**
- **F&I PVR is trending up while Front PVR levels decrease**
- **Product income share grows as interest rates persist**

DEALERSHIP PERFORMANCE AND PROFITABILITY TRENDS

F&I PVR Continues an Upward Trend

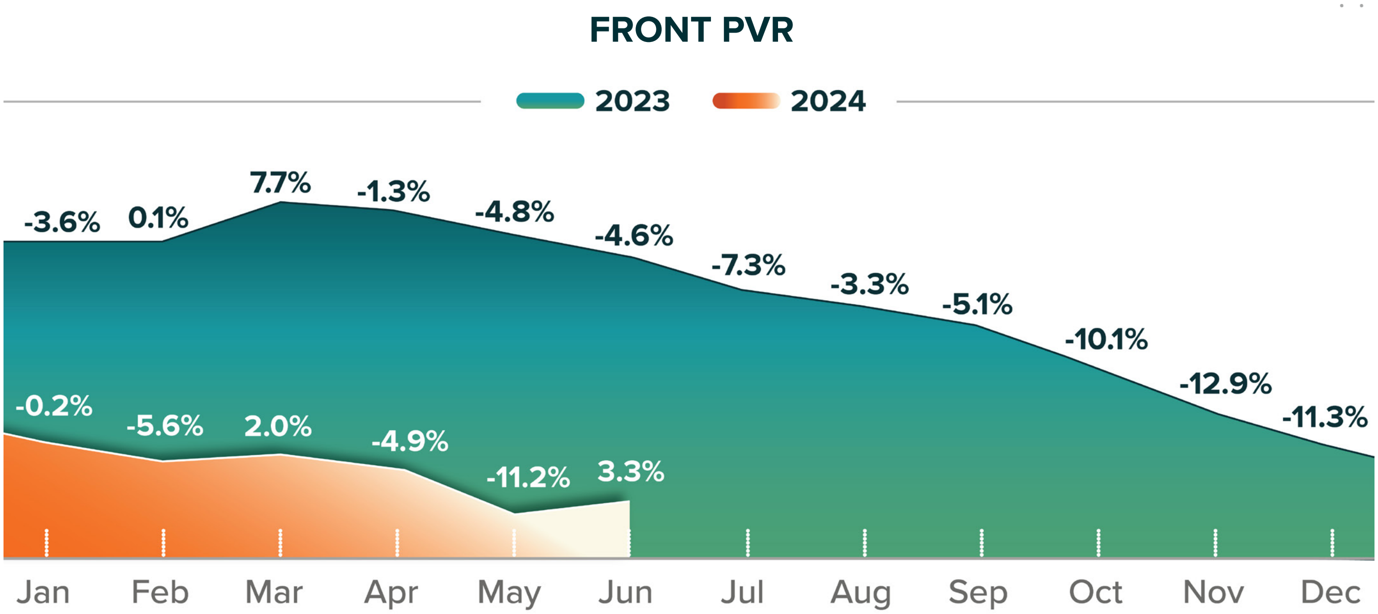
Following a decline in F&I PVR in the second half of 2023, performance rebounded, and Q2 2024 outperformed all of Q4 2023. While overall year-to-date performance is still tracking lower than the same time period in 2023, we are seeing a steady increase in this metric.

It's important to note that this is inclusive of CDK Global dealer data, another testament to the resilience of our industry and the people who make it such a dynamic sector to work in.



Front PVR Reaches a Low in May

Front PVR metrics have transitioned through a few ups and downs recently, with the lowest dip in recent years happening in May. Despite this fact, and even with a downward trend throughout 2023, we did see a slight rebound in June. As supply continues to build, customers have more options, causing manufacturers and dealers to feel competitive pricing pressure. This will be a metric to keep your eye on as inventory and incentives increasingly come into play.



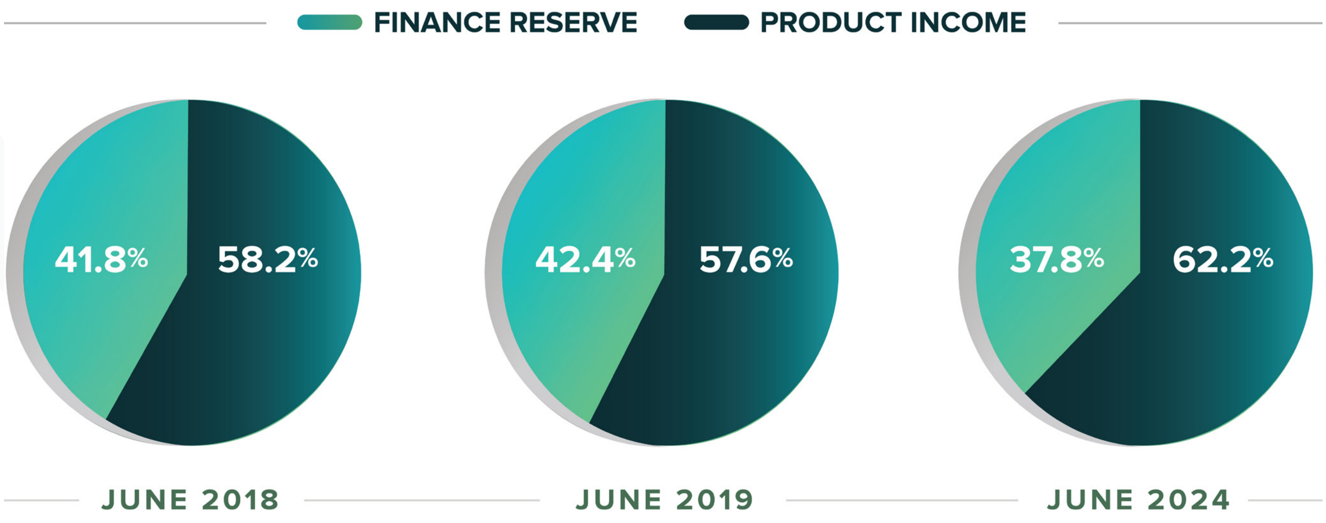
OUR TAKE

Despite this overall drop in earnings, the first six months of 2024 are still significantly above 2019 levels, the last normalized year before significant swings in the automotive industry began.

Product Income Versus Finance Reserve

Product income continues to be a larger percentage of dealer total revenue as compared to finance reserve. As interest rates remain high and customers are sensitive to the impact on their wallets, it can be more difficult to maintain finance reserve income. Manufacturers are increasing incentivized rates too, which can also limit reserve income.

PRODUCT INCOME VS. FINANCE RESERVE



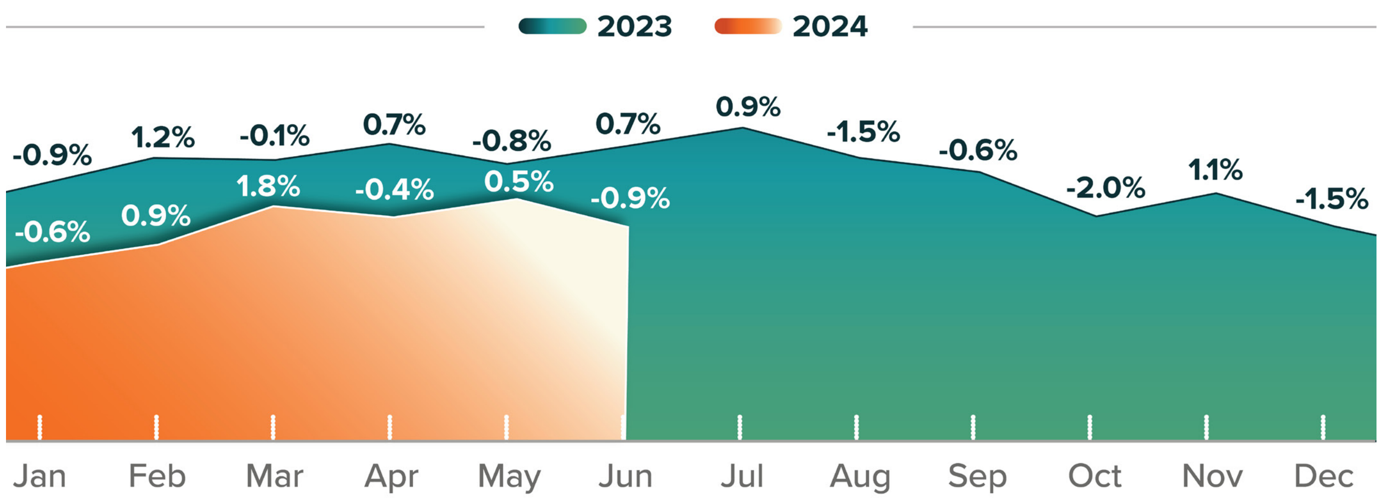
How can you ease customer hesitancy towards products and **help drive profitability**? Resiliency and adaptability are key.

- Especially in a buyer's market, Business Managers must adapt and get back to basics to enable product sales by using tried-and-true methods of interacting with customers.
- When customers see the need for protection in a climate of costly repairs and inflation, they naturally see value in protection products. Showcase how the benefits are designed to ease customers' burden and support the vehicle lifecycle.

Stability Apparent in Products Per Deal Levels

Following a lift in Q1, products per deal remained relatively stable in Q2. This year products per deal is slightly below 2023, but trending up year-to-date. However, it's important to keep in mind that full data from June is pending from dealers affected by the CDK Global outage.

PRODUCTS PER DEAL



OUR TAKE

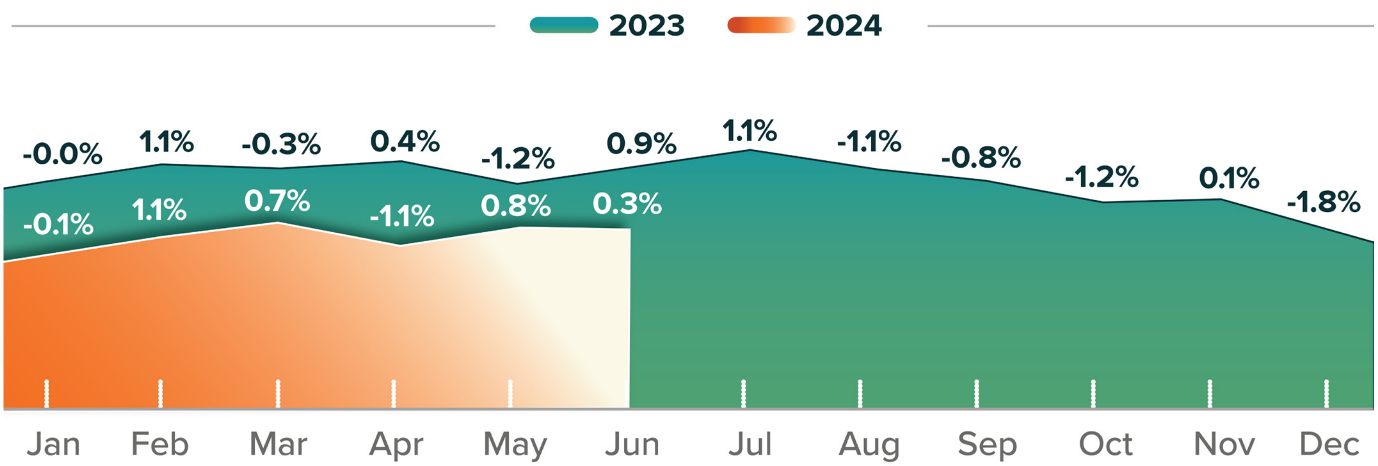
Attachment rates have remained in line with last year. On average, of all car buyers, nearly 7 in 10 bought an F&I product (from 2023 and 2024 data). This emphasizes that most customers continue to see value in products that enhance their ownership experience and help protect them from unplanned expenses.

High attachment rates contribute not only to dealership profitability but also to customer retention and present an opportunity for the dealership to **extend the customer lifecycle**.

Vehicle Service Contracts Follow 2023 Levels

Sales of VSCs are following trends close to the first half of 2023. Penetration levels are relatively stable in Q2.

VSC PRODUCT PENETRATION



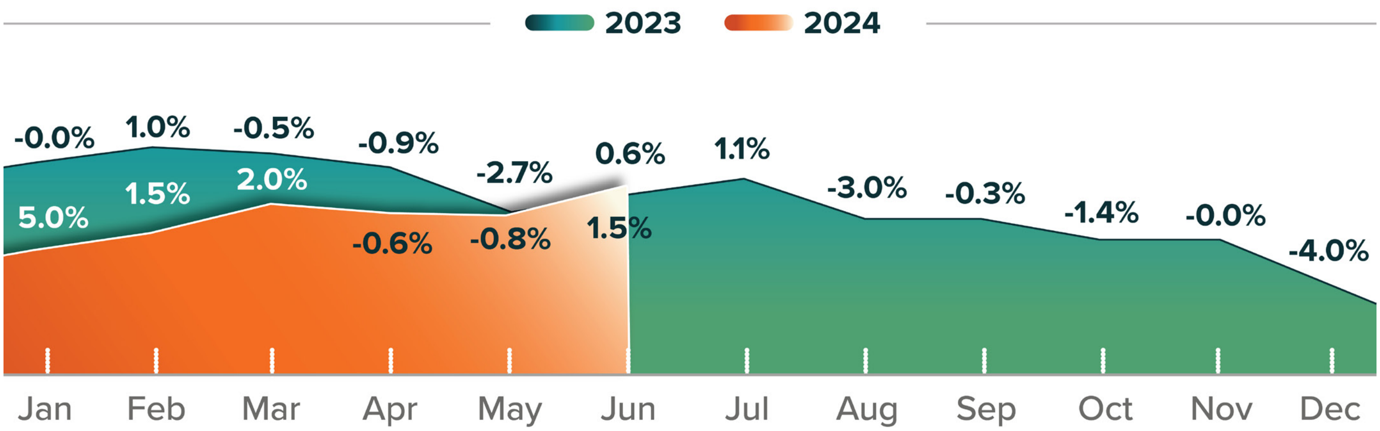
OUR TAKE

As inventory levels have improved and the industry gets adjusted to a higher inflationary period over the last few years, it appears that customers **continue to see the value of VSCs** for life's unexpected moments as an inflationary shield, especially as the cost of repairs and service remain high.

GAP Penetration Trends Upwards

After a slight downturn in the first two months of Q2, GAP penetration has risen, and June marks the first month of year-over-year performance growth this year.

GAP PRODUCT PENETRATION



OUR TAKE

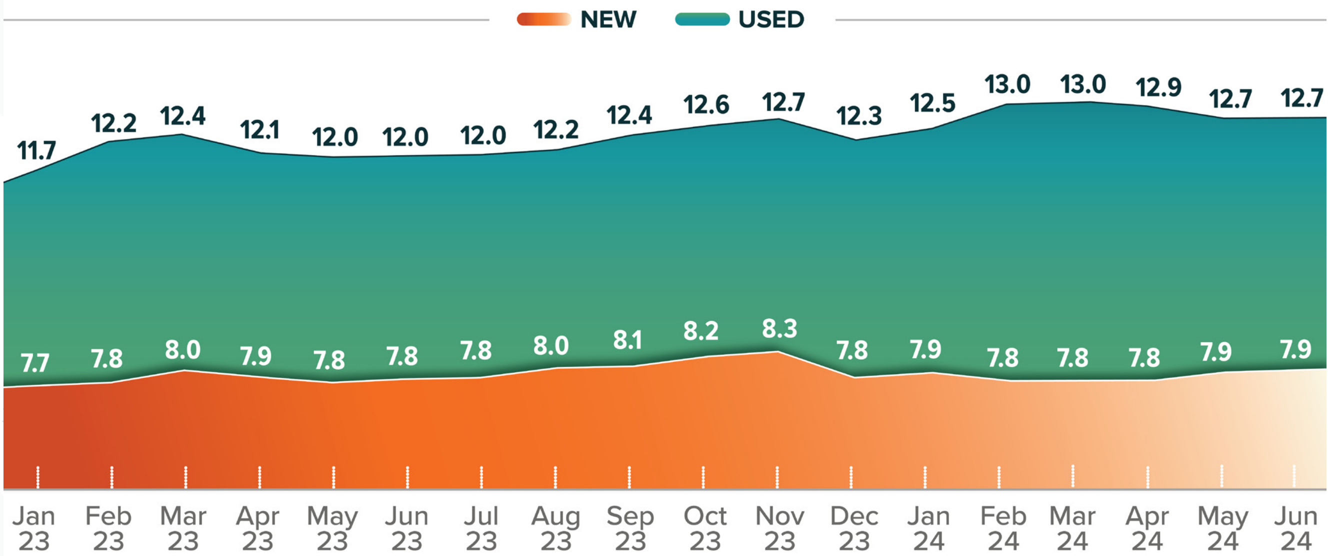
With recent years' record vehicle pricing and interest rates, more customers have negative equity, leading to a higher loan-to-value ratio as they trade in and upgrade, which makes GAP more relevant.

ECONOMIC FACTORS SHAPING VEHICLE SALES

Interest Rates Remain High

New car auto loan interest rates have remained just below 8% for seven consecutive months, with more incentivized rates popping up as some manufacturers look to support sales as inventory grows in a high interest market. We are seeing higher interest rates on used cars in the first half of this year – reaching 13-percent – which was not seen in the entirety of 2023.

AVERAGE INTEREST RATES FOR 72-MONTH TERM



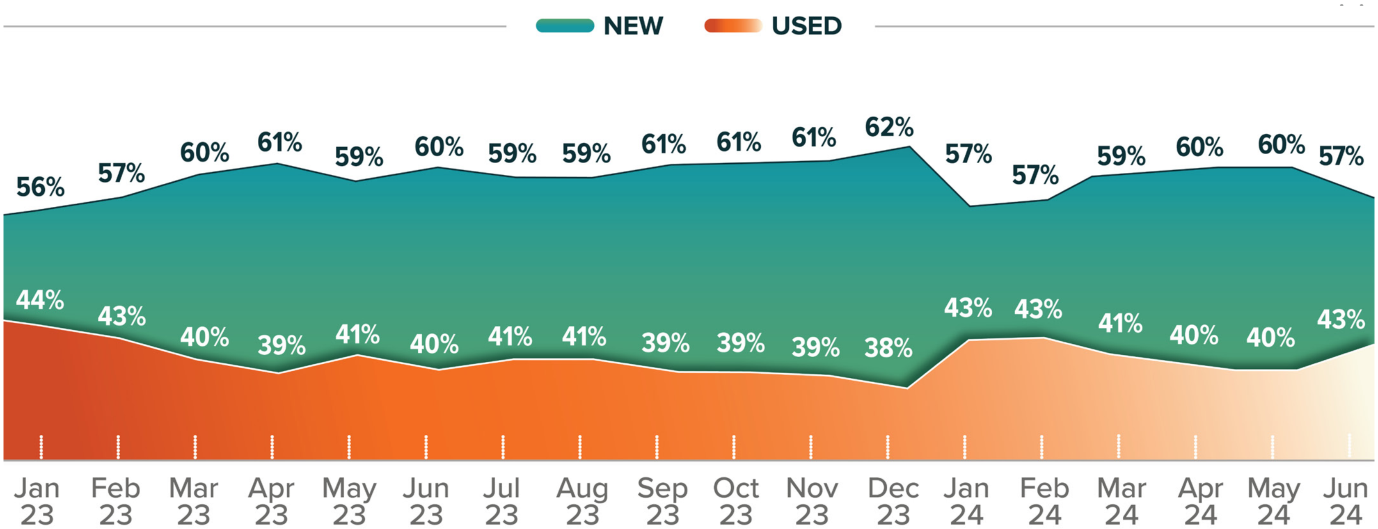
OUR TAKE

Higher auto loan rates means customers' budgets are pinched even further, and Vehicle Service Contracts and GAP can bring security in helping these customers minimize potentially devastating unexpected expenses. Interest rates are unlikely to see a significant decrease for the remainder of 2024, so it's important to discuss options like term length, deal type, products and make recommendations to suit the best interest of your customer. Encourage your sales and finance teams to serve as consultants for a better sales experience.

New and Used Vehicle Sales Return to January Levels

We saw the split between new and used vehicle purchases grow earlier in the year, but the divide got narrower in June. Although supply varies by brand, the overall new and used deal mix is balancing as inventory grows.

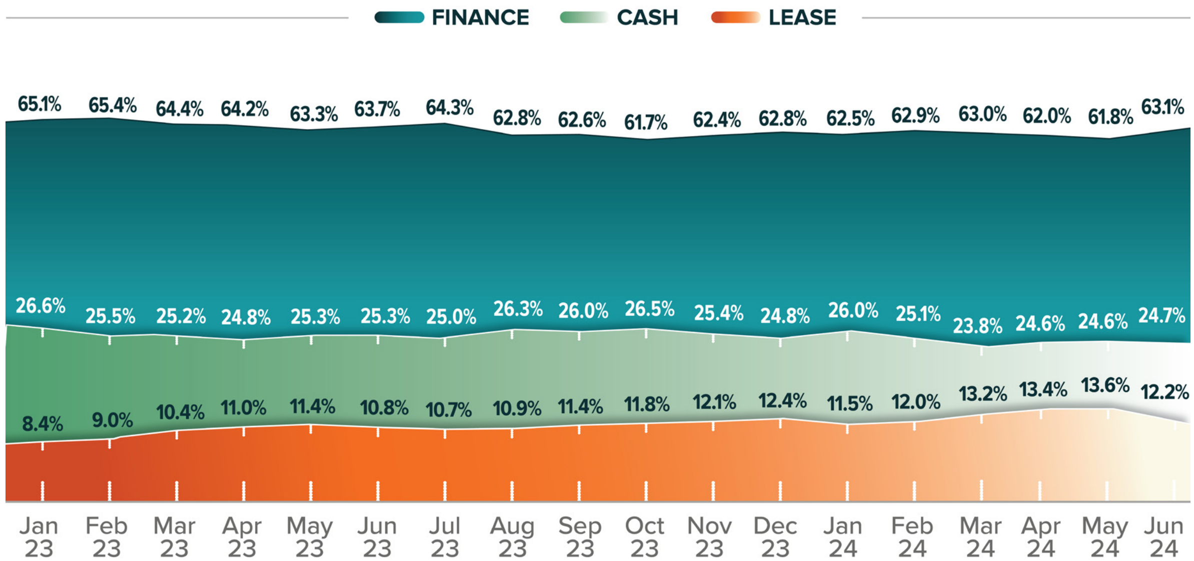
NEW AND USED DEAL PERCENT



Lease Deals are Still Up Year-Over-Year

Finance deals continue to make up nearly two thirds of all transactions, ending the quarter at 63.1%. In the first six months of this year, cash deals have lessened, reaching a low point in March at 23.8% but gaining speed in the second quarter. Lease deals have risen in 2024 as programs have become more attractive. Levels reached a high of 13.6% in May 2024 versus 11.4% in May of 2023.

FINANCE TYPE DEAL PERCENT



OUR TAKE

We saw a decrease in lease penetration for the first time this year in June. With systems down during outages, calculating finance deals could have been a more straightforward option than lease deals, which may be contributing to the shift we saw in June.

DEALER TIP

During the pandemic when inventory was low, manufacturers did not see the need to bolster lease programs. As a result, fewer people leased vehicles. Now, with inventory growing, manufacturers are rapidly introducing better programs.

We're likely to see an increase in lease penetration for the remainder of this year, but also in general. It's a win for the customer and the dealer. Leasing can be more affordable and convenient for customers due to less need for service, better features, comfort and safety. For the dealer, these customers are more inclined to service their car at the selling dealership, revolve through their vehicle faster and come back to buy a new one, increasing retention.

Here are three best practices to implement to help maximize on lease deals as we see more of them:

- Regularly publicize your current lease programs with the best payment options.
- Call customers 6-12 months prior to lease-end, to encourage them to return.
- Include a lease quote on every finance pencil to help drive customer adoption.

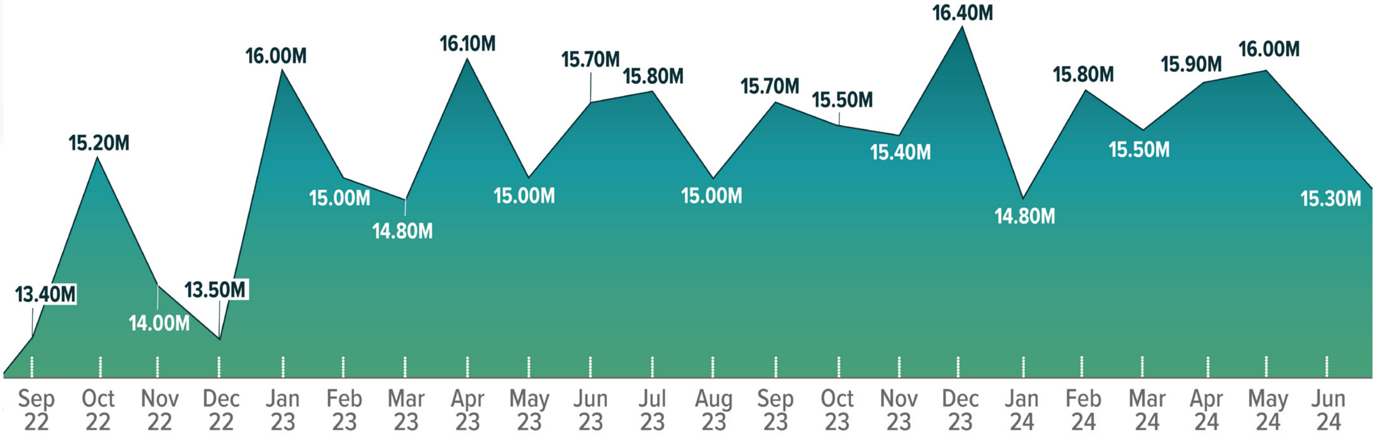
- Nolan Santana, JM&A Group Dealer Performance Manager

Seasonally Adjusted Annualized Rate (SAAR)

In April, we mentioned that all signs point to inventory returning, and the pent-up demand from consumers for cars. Although customers are facing economic uncertainty and budgetary concerns, **Cox Automotive** forecasts 2024 sales to exceed 2023.

Some of the dip in June may be attributed to delayed reporting as dealers finalize their books, but projections remain strong.

SAAR



AUTOMOTIVE INDUSTRY TRENDS AND UPDATES

CDK Global Outage Reverberates Across the Industry

The cyberattacks that impacted CDK Global starting June 19th were one of the most significant events affecting dealers in the first half of 2024, whether dealers were on the platform or not. This outage raised the need for heightened security, an evaluation of current systems and processes and business continuity during disruptions. As reports emerge, the full effects of the attacks may not be seen for weeks or months to come.

> "The industry just saw once again the innovation, adaptability and the resiliency of the dealer body that is preached so often," said Ian Hunter, our AVP of Sales. "There should be great consideration and appreciation for those teammates that were in the store from the sales force to the service advisors, those F&I managers who saw those deals and the paperwork stacking up…there's a lot to be grateful for and certainly that thanks and sentiment I know has been shared throughout the industry."

For more of what we learned after the attacks, watch the full interview with Ian, dealers and tech experts on this Automotive News discussion.

Survey Shows the Approaching Election Period May Impact Sales

In a study of auto shoppers and U.S. auto dealers **conducted by Cox Automotive**,

- 60% of consumers believe the November election will affect their next vehicle purchase.
- Nearly 3 in 4 consumers expect the upcoming U.S. presidential election to impact the economy.
- Approximately 66% of consumers and 82% of dealers say the outcome of the election will affect interest rates.

During an election period, some customers may be hesitant when making a big purchase like a vehicle. This is an important time to reiterate best sales practices for your team to use when interacting with customers who are battling uncertainty in a tough economy.

DEALER AGILITY IN AN INCREASINGLY CHALLENGING MARKET

One of the top lessons from the first half of this year? Dealers and those making up the automotive industry are resilient in the face of adversity. We have seen this time and again – from the uncertainty and challenges during the pandemic years to a massive security breach on a system that powers over 50% of dealerships nationwide. When we come together, we go farther. As we look towards the back half of 2024, the tried-and-true methods remain top of mind – honing your sales process, creating a top-notch customer experience that promotes retention and training your team to maximize sales and the unknowns when they do arise.

Let's have a strong finish in the last two quarters of this year!