

Canadian Vehicle Market Review

Dennis DesRosiers – May 27, 2016

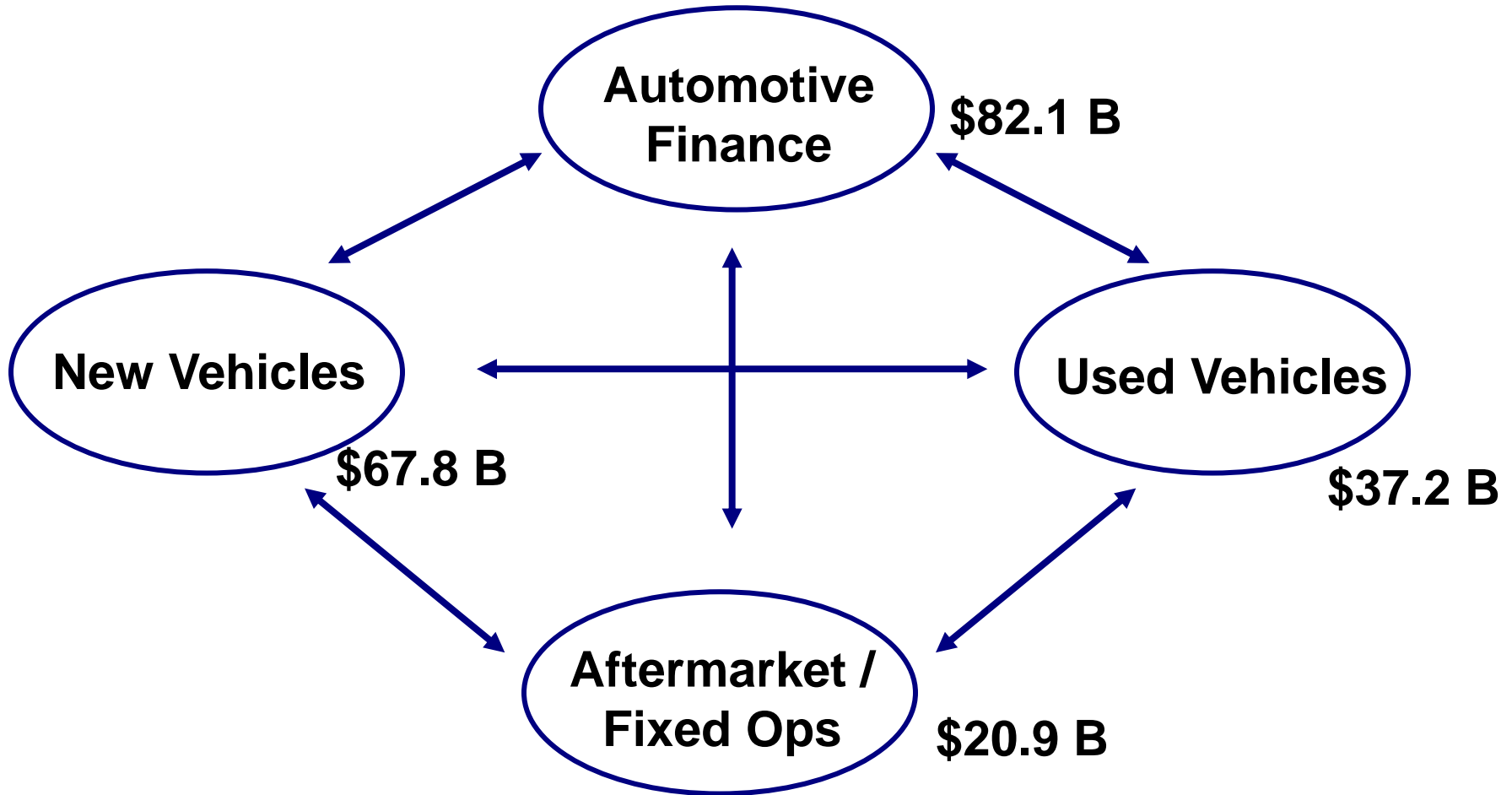


Market Review

- **Canadian Market Review**
- **Outlook for New and Used Vehicle sales**
- **Outlook for F & I**
- **Outlook for Fixed Operations**
- **Conclusion and Summary**

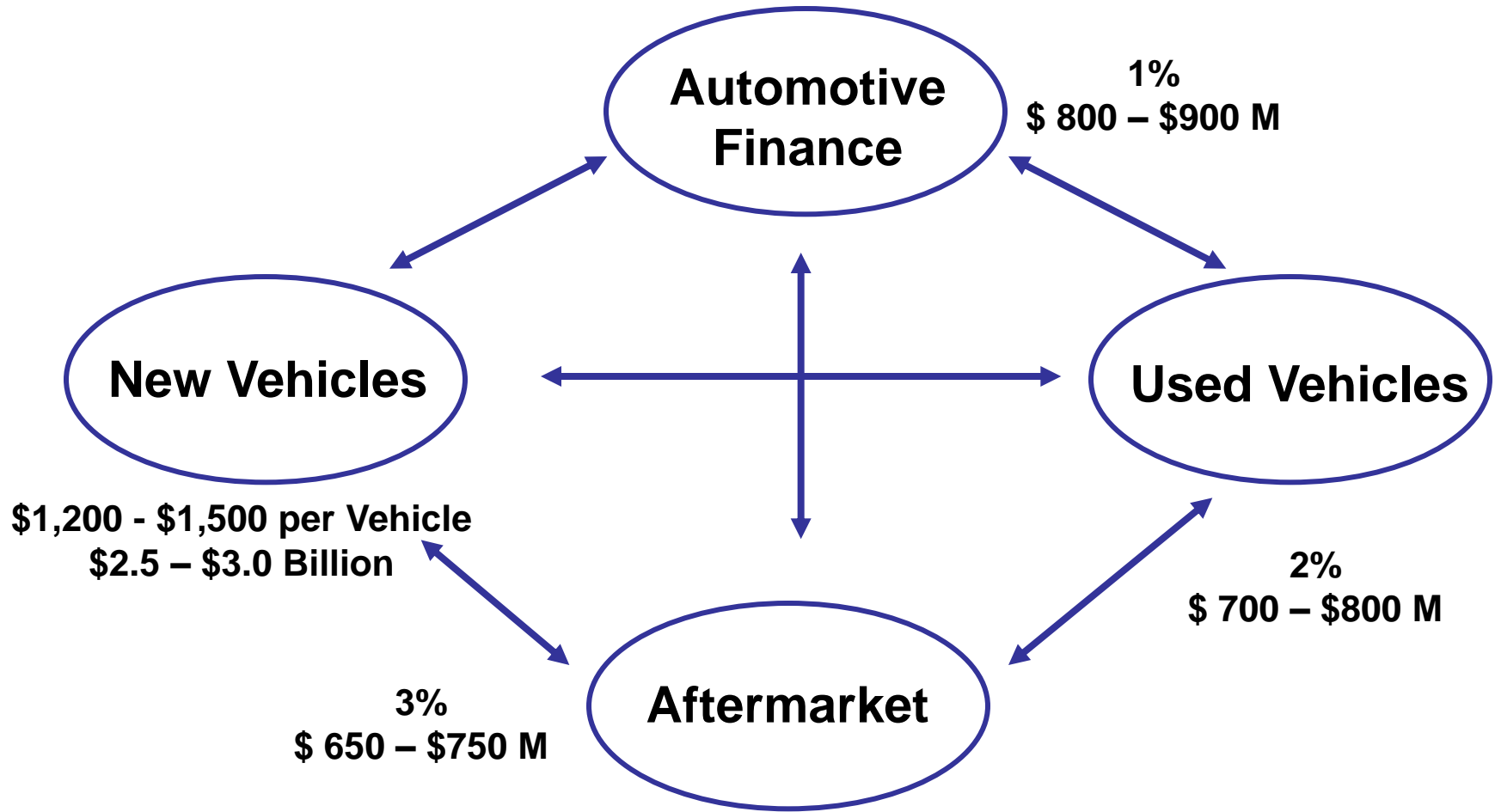
Four Windows into the Automotive Sector

The Automotive Sector is Huge and Represents near Unlimited Opportunity



2015 - Final Retail = \$208.0 Billion including Financing –

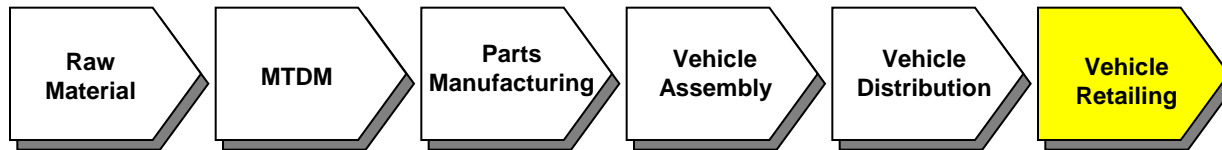
Media Spending Estimates



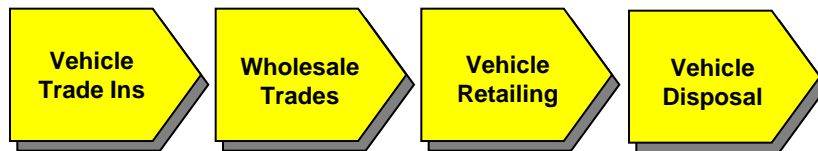
\$ 4.5 – \$ 5.5 Billion

Four “Windows” to Automotive

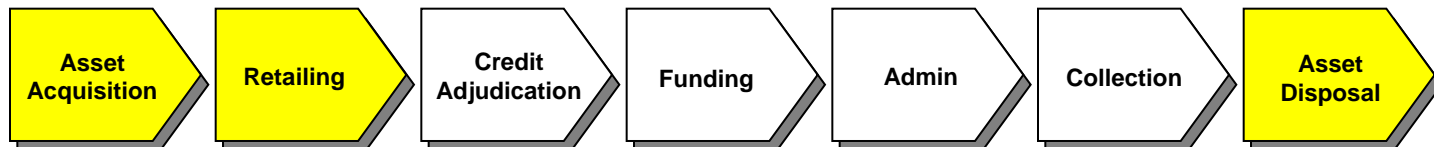
New Vehicles



Used Vehicles



Vehicle Finance



Aftermarket



Four “Windows” to Automotive

- **Increased quality and longer lasting vehicles forces more attention to be put on the entire “value chain” of the vehicle (ie. finance, aftermarket, the used vehicle, etc.)**
- **Access to the “value chain” of the vehicle is very dependent on the sale of the vehicle**
- **This positions the “New Vehicle Dealer” as a critical player in the success of “third party” initiatives in this industry including media players**

Strategies For Success

- **Focusing on the “New Vehicle Dealer” should be one of the key strategic initiatives for any Media Group**
 - **Key decision makers for “tactical” advertising**
 - **Key influencers for “strategic” advertising**
 - **Key role in all Four value chains**

Review of the Canadian Market

Automotive Revenue - Canada - \$ Billions

	Total Revenue New Vehicle Sales	Total Revenue Used Vehicle Sales	Total Revenue Parts and Service Sales	Total Revenue Automotive Finance Sales	Total Automotive Revenue In Canada
2006	\$52.3	\$25.9	\$16.7	\$54.2	\$149.2
2007	\$52.5	\$25.9	\$17.6	\$58.1	\$154.2
2008	\$50.4	\$28.2	\$18.3	\$55.0	\$151.8
2009	\$46.2	\$29.9	\$18.7	\$51.7	\$146.5
2010	\$51.4	\$32.4	\$19.2	\$58.2	\$161.2
2011	\$53.0	\$35.1	\$19.6	\$61.8	\$169.5
2012	\$55.6	\$35.5	\$19.3	\$67.5	\$177.9
2013	\$59.8	\$35.9	\$20.1	\$73.5	\$189.3
2014	\$64.7	\$34.5	\$20.2	\$77.3	\$196.7
2015	\$67.8	\$37.2	\$20.9	\$82.1	\$208.0
% Change	4.7%	7.7%	3.6%	6.3%	5.7%

- It was a record year for revenue in the automotive sector with all elements of the industry growing and reaching new all-time records and logic would say that it was also a record year for media spend

All Vehicles 2010 – 2015

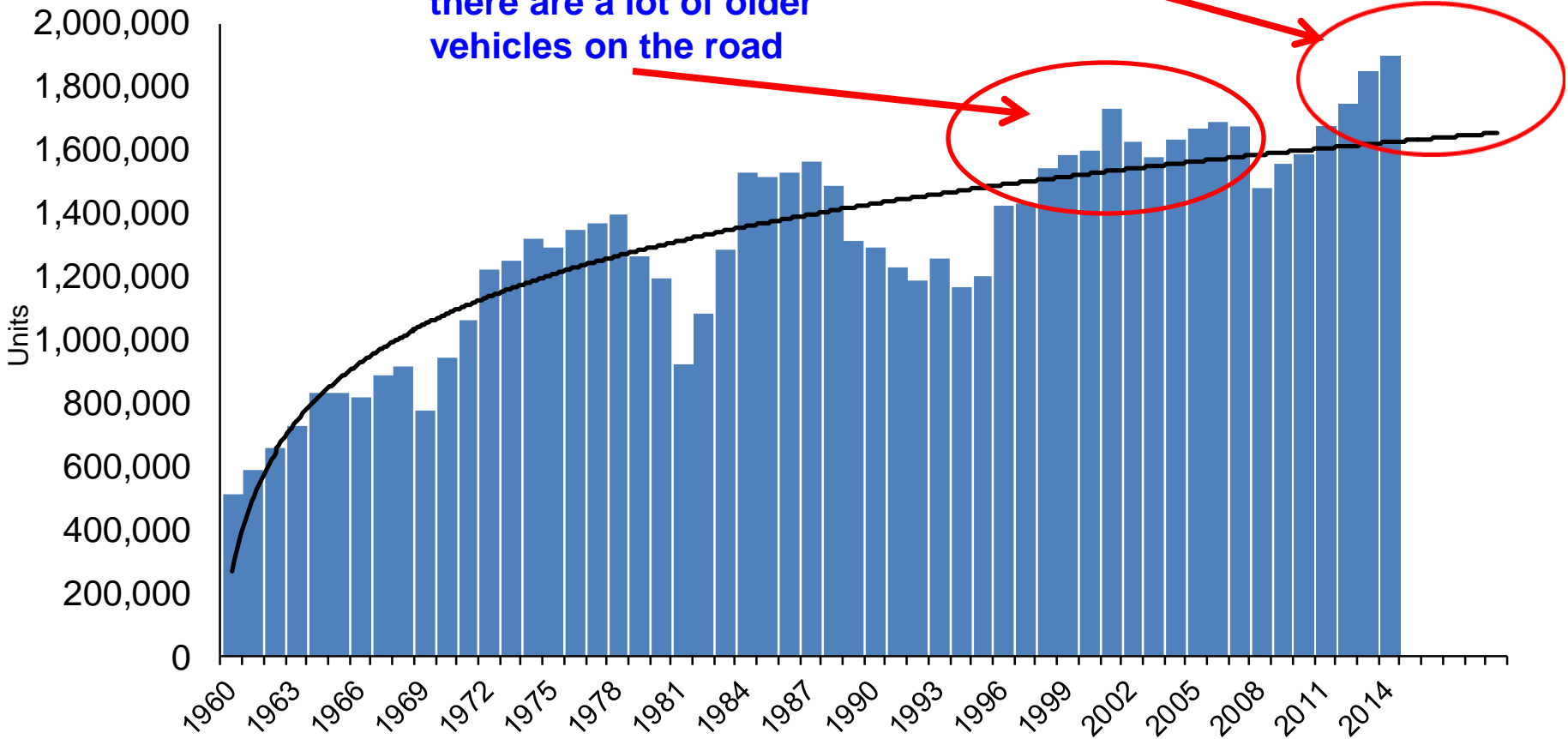
Light Vehicle Sales - Canada

Canada	2010	2011	2012	2013	2014	2015	Change
Total Light Vehicles	1,557,121	1,585,519	1,675,675	1,744,567	1,851,373	1,898,485	2.5%
Total Light Vehicle Sales - Share							
GM, Ford, FCA Vehicles	46.2%	47.2%	44.5%	44.6%	44.9%	44.0%	
Import Nameplate Vehicles	53.8%	52.8%	55.5%	55.4%	55.1%	56.0%	
Total Light Vehicles	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

- The new vehicle market reached a new record in 2015 with just under 1.9 million units sold
- The Japanese and European brands continued to gain share at the expense of Detroit and Korean brands and import nameplate brands returned to their previous high of 56.0 percent share
- All things considered the change in market share between brands year to year is very slight

Record Sales here mean there are a lot of older vehicles on the road

Replacement Demand is Captured Here



- Pent-up demand is exhausted ... now the market is thriving on Replacement Demand**

Provincial Sales

	YTD 2015	YTD 2014	% Change
British Columbia	207,163	193,619	7.0
Alberta	236,208	267,414	-11.7
Saskatchewan	53,793	56,396	-4.6
Manitoba	55,820	55,900	-0.1
Ontario	760,521	718,152	5.9
Quebec	444,557	420,688	5.7
New Brunswick	43,288	41,405	4.5
PEI	7,897	7,394	6.8
Nova Scotia	54,361	53,441	1.7
Newfoundland	34,877	35,195	-0.9
Total Canada	1,898,485	1,849,604	2.6

- The diversity of sales performance between provinces was significant with any province touching the oil patch and in particular Alberta doing very poorly ... fortunately Canada's largest provinces, Ontario, Quebec and B.C. performed well enough to offset the declines related to the Oil patch.

Light Vehicle Sales - Canada

Canada	2010	2011	2012	2013	2014	2015	Change
Total Passenger Cars	705,324	693,735	759,795	764,382	763,792	715,719	-6.3%
Total Light Trucks	851,797	891,784	915,880	980,185	1,085,812	1,182,766	8.9%
Total All Vehicles	1,557,121	1,585,519	1,675,675	1,744,567	1,849,604	1,898,485	2.6%
Total Passenger Cars - Share	45.3%	43.8%	45.3%	43.8%	41.3%	37.7%	
Total Light Trucks - Share	54.7%	56.2%	54.7%	56.2%	58.7%	62.3%	
Total Light Vehicles	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

- Almost all the growth in the market over the last few years has been on the light truck side of the market ... Light trucks now account for 62.3 percent of the total market ...
- This is very positive for OEMs and their dealers in that trucks have higher prices points ... higher margins ... and more fixed ops opportunity through their life.

New Vehicle Sales by Province - Percent Light Truck

	2010	2011	2012	2013	2014	2015
Newfoundland	55.8%	59.4%	57.7%	59.0%	62.2%	66.9%
Prince Edward Island	49.5%	51.2%	49.0%	45.4%	48.9%	56.2%
New Brunswick	55.2%	57.0%	52.1%	52.6%	55.3%	61.8%
Nova Scotia	48.6%	48.3%	46.3%	47.0%	50.3%	57.1%
Quebec	43.4%	43.9%	42.0%	43.4%	45.3%	50.6%
Ontario	54.8%	55.1%	52.6%	54.3%	57.7%	62.4%
Manitoba	64.7%	66.2%	65.2%	65.3%	68.6%	71.3%
Saskatchewan	73.1%	76.1%	75.2%	78.1%	78.2%	80.3%
Alberta	71.4%	75.5%	75.0%	75.6%	77.6%	78.1%
British Columbia	56.4%	58.6%	57.2%	58.4%	60.0%	62.7%
Total	54.7%	56.2%	54.7%	56.2%	58.7%	62.3%

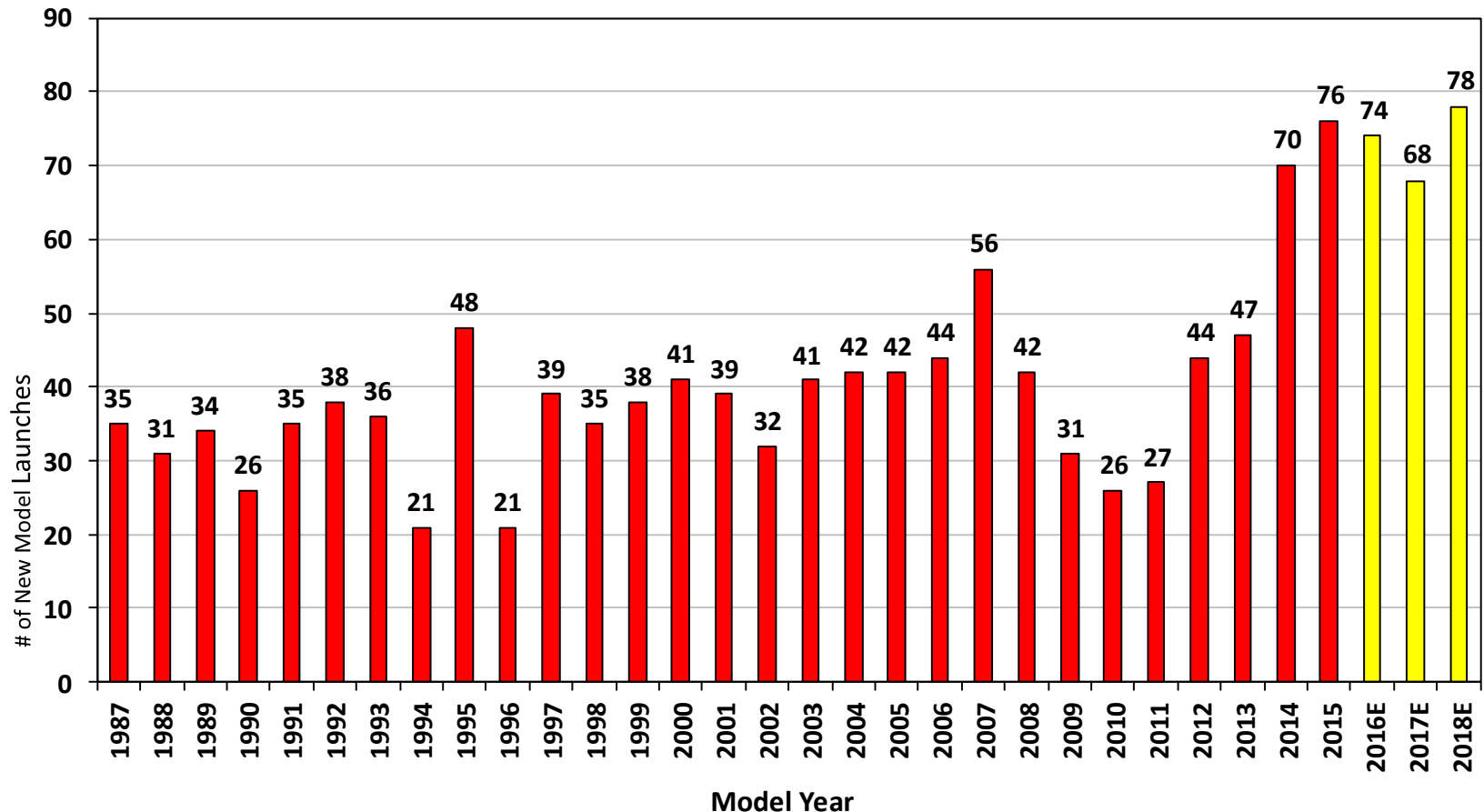
- Western provinces have the highest penetration of light trucks but ALL provinces are rapidly increasing their penetration of light trucks

New Vehicle Market Outlook

Positive metrics include:

- **Almost free money ... some worry that increased rates could torpedo sales ... Although this is possible increased rates would only likely come forward with a better economy so the downside for vehicles may be less than what some think**
- **A stunning array of new vehicles with not only every nook and cranny being filled but almost all new vehicles are loaded with technology that is attractive to consumers witness the Vegas and Detroit Auto Show**

New Model Launches by Model Year



- Record number of new products are headed towards the market ... this likely means there will be very high marketing dollars thrown at the market

Positive metrics include:

- **A reasonably positive economy and most forecasts pointing to continued growth**
- **A recovering US economy is providing strength in British Columbia, Quebec and Ontario our largest three markets**
- **Fleet sales (typically as much as 20 percent of the market) have considerable upside as a healthy economy is helping companies renew their fleets ...**
- **Very strong replacement demand as the record number of vehicle bought between the late 1990's and the mid-2000's come off the road**

Positive metrics include:

- A myriad selection of more fuel efficient vehicles have been introduced and despite lower gas prices 'fuel efficiency' is still one of the top three attributes consumers look for in a new vehicle
- There is currently little to no price inflation with operating costs depreciation, maintenance and repair, fuel cost, financing ... etc.
- Used vehicle prices particularly in the middle of the market are increasing providing an indirect incentive to owners who trade for a new vehicle ... at least \$2-3k per vehicle and in many cases much more

Positive metrics include:

- **And most importantly there has been a lot of innovation in the automotive finance field which is helping both new and used buyers access a vehicle**
 - **Sub-prime financing**
 - **Longer amortization of loans**
 - **The return of leasing**

The downside threats to demand include:

- A weak Canadian dollar ultimately needs to be reflected in prices ... we have begun to see this emerge with some price inflation but more importantly a pulling back of incentives and marketing dollars and some de-contenting ... this is perhaps the biggest downside threat
- High debt levels in Canada although most of this is mortgage or credit card debt and the increase in vehicle debt is primarily a function of the volume of vehicles bought the last five years
- Tough fuel efficiency standards that have to be met by 2025 which could increase the price of vehicles ... this is a serious threat but NOT in the immediate term ... ZEV mandates also fall into this area and would hurt the auto sector

Some Supporting Data

**CANADIAN VEHICLES ON THE ROAD
ALL VEHICLES ON THE ROAD - AS OF JULY 1**

MODEL YEAR	1990 ACTUAL	2000 ACTUAL	2010 ACTUAL	2015 ACTUAL
ONE TO FIVE YEAR OLD	6,408,185	5,533,617	7,219,643	7,746,616
SIX TO TEN YEAR OLD	4,824,317	5,271,895	7,026,723	7,721,587
TEN PLUS YEAR OLD	3,896,409	6,295,387	7,754,912	10,092,573
TOTAL	15,128,911	17,100,899	22,001,278	25,560,776
ONE TO FIVE YEAR OLD	42.4%	32.4%	32.8%	30.3%
SIX TO TEN YEAR OLD	31.9%	30.8%	31.9%	30.2%
TEN PLUS YEAR OLD	25.8%	36.8%	35.2%	39.5%
TOTAL	100.0%	100.0%	100.0%	100.0%
AVERAGE AGE	7.25	8.74	9.23	9.62

The foundation for replacement demand is the age structure of vehicles on the road ... there are now over 10 million vehicles on the road OVER 10 years old ... almost all will disappear over the next 7 or 8 years providing about 1.3 million units of base demand ... add in accidented and high mileage younger vehicles and replacement demand should be in the 1.5 to 1.8 million unit level ... this also forms the basis for strong used vehicle demand

VEHICLE OWNERSHIP TRENDS - CANADA

CALENDAR YEAR	TOTAL VEHICLE SALES UNITS Inc HD Truck	Percent Truck	VEHICLE USAGE BILLIONS OF KILOMETRES	Percent Change	Expected Useful Life KILOMETRES	TOTAL UNITS IN OPERATION	TOTAL UNITS IN OPERATION PERCENT TRUCK	VEHICLES PER DRIVING AGE POPULATION
1960	523,188	14.4%	118		226,493	5,937,660	23.9%	50.4%
1970	774,372	17.3%	176	0.5%	227,620	8,111,166	24.4%	53.8%
1980	1,263,807	26.2%	231	-3.0%	182,728	11,742,670	25.5%	63.5%
1990	1,314,118	32.6%	333	-0.3%	253,406	15,128,911	26.6%	70.1%
2000	1,586,083	46.5%	395	2.2%	248,994	17,100,899	37.5%	70.1%
2010	1,583,388	56.1%	524	0.8%	331,161	22,001,278	45.2%	78.4%
2011	1,620,221	57.9%	529	0.9%	326,443	22,184,955	46.3%	78.1%
2012	1,716,178	56.4%	537	1.6%	313,077	22,502,815	47.0%	77.3%
2013	1,780,523	57.6%	562	4.6%	315,631	23,521,261	47.9%	79.8%
2014	1,889,437	60.0%	599	6.5%	316,805	24,479,774	48.7%	82.0%
2015	1,950,502	61.9%	635	6.1%	325,639	25,532,938	49.7%	84.6%

Canadians ownership levels continue to grow and indeed Canadians are embracing personal use vehicles faster than any developed country in the world ... usage is growing with lower gas prices and more vehicles on the road... expected useful life is slowing These trends help bring forward replacement demand.

Canadian Sales - Scenarios

	Light Vehicle Sales	Units in Operation	Sales as a % of UIO
2006	1,614,701	19,365,344	8.3%
2007	1,653,388	20,242,775	8.2%
2008	1,635,986	21,203,541	7.7%
2009	1,460,582	21,674,752	6.7%
2010	1,557,120	22,001,278	7.1%
2011	1,585,520	22,184,955	7.1%
2012	1,675,676	22,502,815	7.4%
2013	1,743,112	23,521,261	7.4%
2014	1,851,373	24,479,774	7.6%
2015	1,898,485	25,560,776	7.4%

Long term Average

8.0%

Market Decline Scenario

2016 Forecast	1,856,482	26,144,162	7.1%
2017 Forecast	1,812,914	26,613,507	6.8%
2018 Forecast	1,767,967	27,011,991	6.5%
2019 Forecast	1,815,982	27,418,652	6.6%
2020 Forecast	1,927,832	27,885,142	6.9%

Optimistic Growth Scenario

2016 Forecast	1,950,502	26,204,399	7.4%
2017 Forecast	2,000,161	26,826,254	7.5%
2018 Forecast	2,050,178	27,471,907	7.5%
2019 Forecast	1,944,072	28,066,714	6.9%
2020 Forecast	1,867,226	28,544,814	6.5%

- New vehicle sales have the potential to reach 2 plus million units by 2020 ... we are forecasting somewhat lower levels but the new vehicle market is likely to come in plus/minus 50K units around 1.9 million units. 1.9 million would be a fairly safe prediction
- It is unlikely to hold but for the first three months of 2016 the market is tracking at close to 2.1 million units

The Used Vehicle Market

Why is there a Used vehicle Opportunity

- **Quality, Quality, Quality For the most part consumers are NO LONGER buying someone else's problem when buying 'used'.**
- **The Used business model has significantly improved from a business ethics point of view and from an operational point of view which has made it much 'safer' for consumers to buy used vehicles.**
- **The 'used' market has a very wide price point variance which can accommodate a wider group of consumers**

The Used vehicle Opportunity

- Record new vehicle sales the past decade increases the supply of used vehicles in Canada this decade
- Longer lasting vehicles increases the supply of older less expensive used vehicles
- Scrappage of vehicles is strong and will continue to grow so a lot of older vehicles will need to be replaced and owners of older vehicles being scrapped are the most likely to buy used

The Used vehicle Opportunity

- A tougher regulatory regime for sellers of used vehicles has cleaned up some of the 'riff-raff' in the used vehicle sector although work still needs to be done
 - Controls on 'curbsiders'
 - Licensing of used vehicle dealers
 - Safety and environmental inspections
- Used vehicle sellers have access to more information so there is more transparency in the market
- A number of new retail formats have developed: used vehicle superstores, online buying etc. providing consumers much more choice

New and Used Vehicle Sales in Canada - 000's of units

	New Sales 000's	Percent New	Used Sales 000's	Percent Used	Total Sales 000's	Total Units in Operation (Millions)	Sales as a Percent Of UIO
2010	1,557	34.7%	2,926	65.3%	4,483	22,001	20.4%
2011	1,586	34.4%	3,028	65.6%	4,613	22,185	20.8%
2012	1,676	36.8%	2,873	63.2%	4,549	22,503	20.2%
2013	1,745	38.4%	2,801	61.6%	4,546	23,521	19.3%
2014	1,850	40.5%	2,714	59.5%	4,563	24,479	18.6%
2015	1,898	40.0%	2,842	60.0%	4,741	25,561	18.5%
2015/2014	2.6%		4.7%		3.9%	4.4%	
2016 F	1,951	40.1%	2,917	59.9%	4,867	26,371	18.5%
2017 F	2,000	40.3%	2,968	59.7%	4,968	27,140	18.3%
2018 F	2,050	40.5%	3,018	59.5%	5,068	27,915	18.2%
2019 F	1,944	37.1%	3,295	62.9%	5,239	28,621	18.3%
2020 F	1,867	34.7%	3,520	65.3%	5,387	29,190	18.5%

- Total sales as a percent of vehicles on the road are still at historical lows and should have considerable upside ahead ... it is more a case of whether consumers buy new or used ... in 2015 both markets were growing.

Used Vehicle Sales by Age Group in Canada - 000's of units

	One to Five Year Old	Six to Ten Year Old	Over Ten Year Old	Total Sales 000's
2010	957,454	1,258,244	709,837	2,925,535
2011	991,480	1,291,497	744,855	3,027,832
2012	873,861	1,266,662	732,600	2,873,122
2013	860,286	1,232,794	708,210	2,801,289
2014	911,641	1,134,978	666,996	2,713,615
2015	944,783	1,182,792	714,444	2,842,019
2015/2014	3.6%	4.2%	7.1%	4.7%
2016 F	998,732	1,155,487	762,350	2,916,569
2017 F	1,046,033	1,116,513	805,481	2,968,026
2018 F	1,093,837	1,074,963	849,232	3,018,032
2019 F	1,227,250	1,107,787	960,180	3,295,217
2020 F	1,346,215	1,218,597	955,312	3,520,124

Who Dominates each
market segment →

New Dealers Independent Used Dealers Private Sales

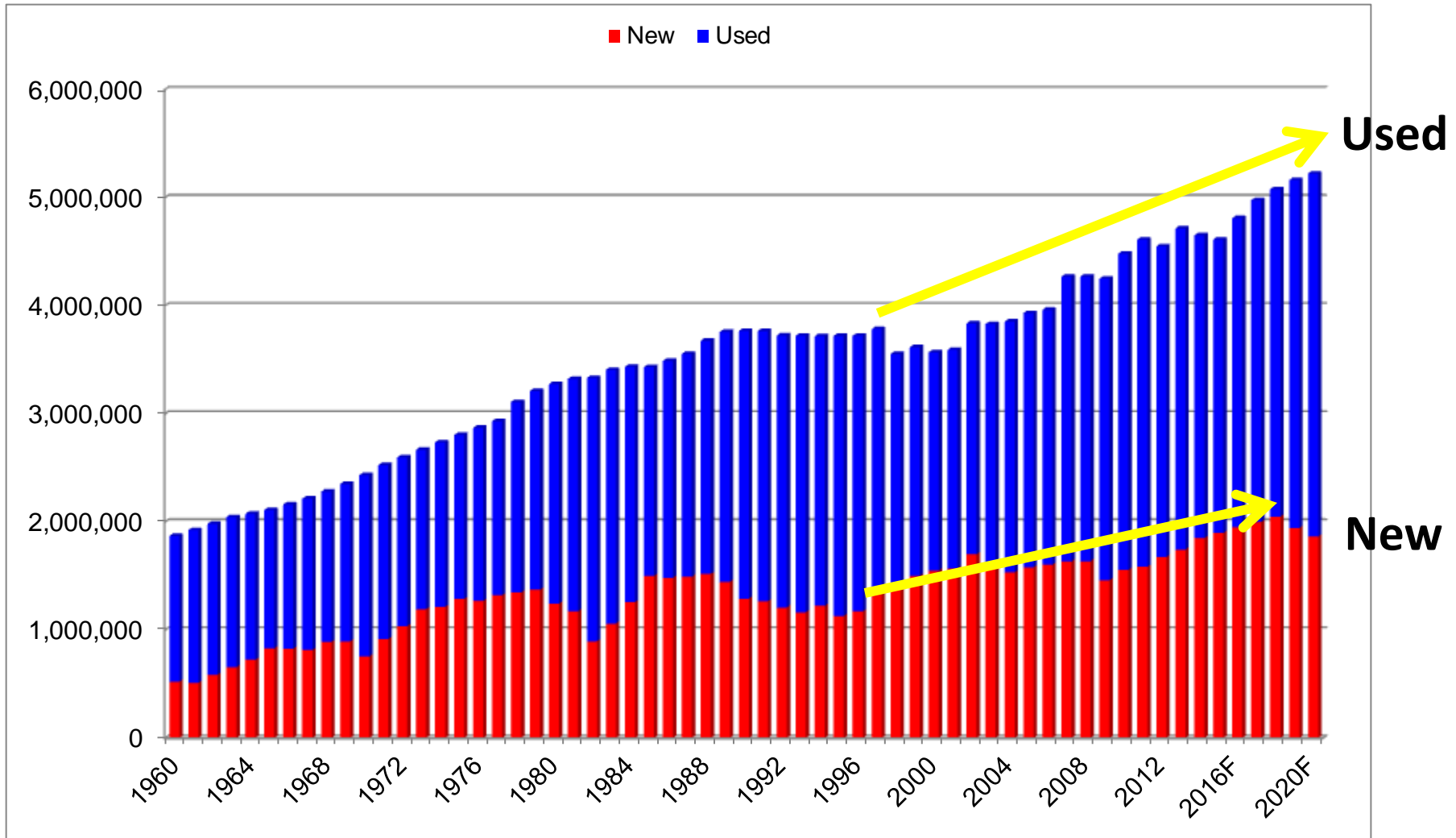
Sales distribution is very important. New dealers dominate younger vehicles, independent used dealers dominate the middle aged market and private sales dominate older vehicles

Used Vehicle Sales by Channel in Canada - 000's of units

	New Car Dealer	Independent Used Car Dealer	Private Sale	Total	Total Units in Operation (000's)	Sales as a Percent Of UIO
2010	860	1,032	1,033	2,926	22,001	13.3%
2011	921	1,050	1,057	3,028	22,185	13.6%
2012	911	975	987	2,873	22,503	12.8%
2013	893	961	948	2,801	23,521	11.9%
2014	894	915	905	2,714	24,479	11.1%
2015	947	950	945	2,842	25,561	11.1%
2015/2014	6.0%	3.7%	4.5%	4.7%	4.4%	
2016 F	978	986	953	2,917	26,371	11.1%
2017 F	1,001	1,016	952	2,968	27,140	10.9%
2018 F	1,024	1,045	950	3,018	27,915	10.8%
2019 F	1,124	1,154	1,017	3,295	28,621	11.5%
2020 F	1,208	1,247	1,065	3,520	29,190	12.1%

- We expect new car dealer volumes to grow as availability of younger used vehicles increase and this should significantly strengthen the financial performance of these dealers

New vs. used vehicle sales in Canada 1960 – 2020F



The used vehicle market has been growing much faster than the new vehicle market and will continue to do so

Canadian Market Review – F & I Office products

- **Profit in a dealership's F & I office is directly correlated and proportional to sales of new and used vehicles ... healthy new and used vehicle sales should lead to significant opportunity in a dealership's F & I office**

There is a lot of concern about longer Amortization, increased use of sub-prime and the higher levels of leasing

- **There is no evidence that any of these issues have developed in a negative way although Canada is still relatively early in the use of some of these finance tools**

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- **There is no evidence that any of these issues have developed in a negative way although Canada is still relatively early in the use of some of these finance tools**

- **There is a fear that Longer amortization could lengthen ownership experiences and ultimately slow the turnover of the fleet for those who buy new vehicles ... ownership levels in Canada are currently in the 7/8 year range so this lessens the threat but on the margin this could be negative**
- **Question ??? Do amps follow the length of ownership or does the length of ownership follow amps ???**

- **Sub-prime financing is currently more for Used vehicle purchases and is a relatively small part of new vehicle financing but its use with new vehicles is growing rapidly and is one of the reasons the market has been so healthy the last couple years**
- **Regulators could attack Sub-prime which would threaten its USE (this is happening in the US)**
- **And consumers who use sub-prime are very vulnerable to any downturn in the economy and could back out of the market quickly**

Canadian Market Review –Parts, Service and Body Shop (Fixed Operations) at dealerships

- **A very Positive Outlook for Fixed Operations at all Dealerships:**
 - **New vehicles now typically carry at least a 5 year warranty and some customers purchase extended warranties and new vehicle dealers are in the best position to do warranty work**
 - **Used vehicle warranties are becoming more popular**

- **A very Positive Outlook for Fixed Operations at all Dealerships:**
 - **By selling the new and/or used vehicle the dealer is able to access the customer information necessary for their CRM system and thus are in a very good position to hold customers loyal to their dealership not only to retain parts and service work but also eventually to sell the customer another new or used vehicle.**

- **A very Positive Outlook for Fixed Operations at all Dealerships:**
 - **Vehicles are becoming increasingly complex and dealers have access to the latest equipment to diagnose the required service work and the OEM parts to repair the vehicle**
 - **The best margins at a dealership are in fixed operations (70+ % for service and 40+% for parts) so dealers should be motivated to hold customers loyal for service work**

- **A very Positive Outlook for Fixed Operations at all Dealerships:**
 - Every time a new vehicle dealership sells a new or used vehicle **they are in essence creating an 'annuity'** in their fixed operations department that will yield \$350 to \$500 of gross profit per year per vehicle for at least three years
 - Good dealers can increase this to over \$600 and extend this to 4 or 5 years
 - Exceptional dealers can extend this to 8 to 10 years

- **A very Positive Outlook for Fixed Operations at all Dealerships:**
 - **And most importantly fixed operations profit is ‘baked’ into a dealer’s operations since the vehicles have already been sold... there isn’t a lot of market risk**
 - **A good dealer will benefit from past sales at least until the end of the decade and with any growth in the market their fixed operations growth should last well into the next decade.**

Conclusion

- **The Canadian market is nearing its peak ... we can build a case for continued growth to the 2 million range but there is an equal chance that the market could back off slightly.**
- **The fundamentals are strong so we don't anticipate any free-fall in the market but for the first time since 2009 there is some downside threat especially in the resource based provinces**
- **There will be a fairly significant difference between some segments, brands and regions but the market has the potential to stay in the 1.9 to 2.0 million units range through to 2018.**

- **Used vehicle sales and especially younger used vehicle sales should be very healthy as the record number of vehicles sold over the last 5 years reach middle age**
- **Dealers dominate the sale of younger used vehicles so are perfectly positioned to capture increased used vehicle sales**
- **Total volume of younger used vehicle sales will grow by over 400K units by the end of the decade**

- **Profits from the F and I office have a direct relationship with new and used vehicle sales so sales increases should result in similar increase in F & I profitability**
- **New vehicle dealerships see between \$350 and \$500 of gross profit in their service department per new or used vehicle sold for at least 3 years and better dealers a lot longer ... this acts as a hedge against soft vehicle sales**

**Most OEMs and their Dealers can look ahead to the best performance in their history and this should continue well into the next decade
I cannot envision a better environment for media players to benefit from the automotive sector**

Questions?

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