

September 2009 Kontos Kommentary

Current Used Vehicle Market Conditions and Outlook

Summary

The used vehicle market seemed to take a pause in September from its very robust performance throughout most of 2009. Auction prices and conversion rates fell as dealers grew more conservative in their inventory management strategies in light of tight working capital availability. Franchised dealers in particular waited to be repaid by Uncle Sam for the money they had fronted Cash-for-Clunkers customers. At the same time, consumers slowed down their used vehicle purchases considerably, perhaps reflecting a “hangover” from the euphoria of Cash-for-Clunkers.

We continue to expect used vehicle demand to strengthen as consumers resume their vehicle shopping with a strengthening economy. At the same time, used vehicle supplies will be tight until trade-in volume picks up with stronger new vehicle sales. Thus, wholesale used vehicle prices will continue to recover on a year-over-year basis, even as they moderate towards their typical year-end pattern.

Details

According to ADESA Analytical Services' monthly analysis of [Wholesale Used Vehicle Prices by Vehicle Model Class](#)¹, wholesale used vehicle prices in September averaged \$9,742 -- a 2.1% decrease from August but a 2.1% increase from September 2008. Generally, prices for the truck segments were harder hit than for the car segments, as corrections following last year's gasoline price volatility have largely played out.

All major seller types showed year/year price gains, with average prices for vehicles sold in manufacturer sales up 16.8% year-over-year, fleet/lease sales prices up 5.4% and dealer consignment sales prices up 3.9%. Late-model, off-rental units remain in short supply and are fetching top dollar, a fact that should not be lost on rental companies seeking to replace units whose service lives have been extended beyond traditional limits.

ADESA Analytical Services estimates that auction industry inventory levels stood at a relatively low 33 days at the end of September, which is the same as last month but below the 44 days registered last September. Conversion rates (units sold as a percentage of units offered) have receded towards the 60% norm, as dealers grew more conservative in their inventory-stocking/working-capital-management strategies.

Based on data from CNW Marketing/Research, retail used vehicle sales in September were down on a year-over-year basis by 20.5% for franchised dealers, 6.9% for independent dealers and 14.0% overall.

¹The analysis is based on nearly seven million annual sales transactions from over 170 of the largest U.S. wholesale auto auctions, including those of ADESA as well as other auction companies. ADESA Analytical Services segregates these transactions using the J.D. Power and Associates Vehicle Segmentation Guide to study trends by model class.

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