WARDS INTELLIGENCE U.S. OUTLOOK 2020

Detroit Assn. of Business Economists

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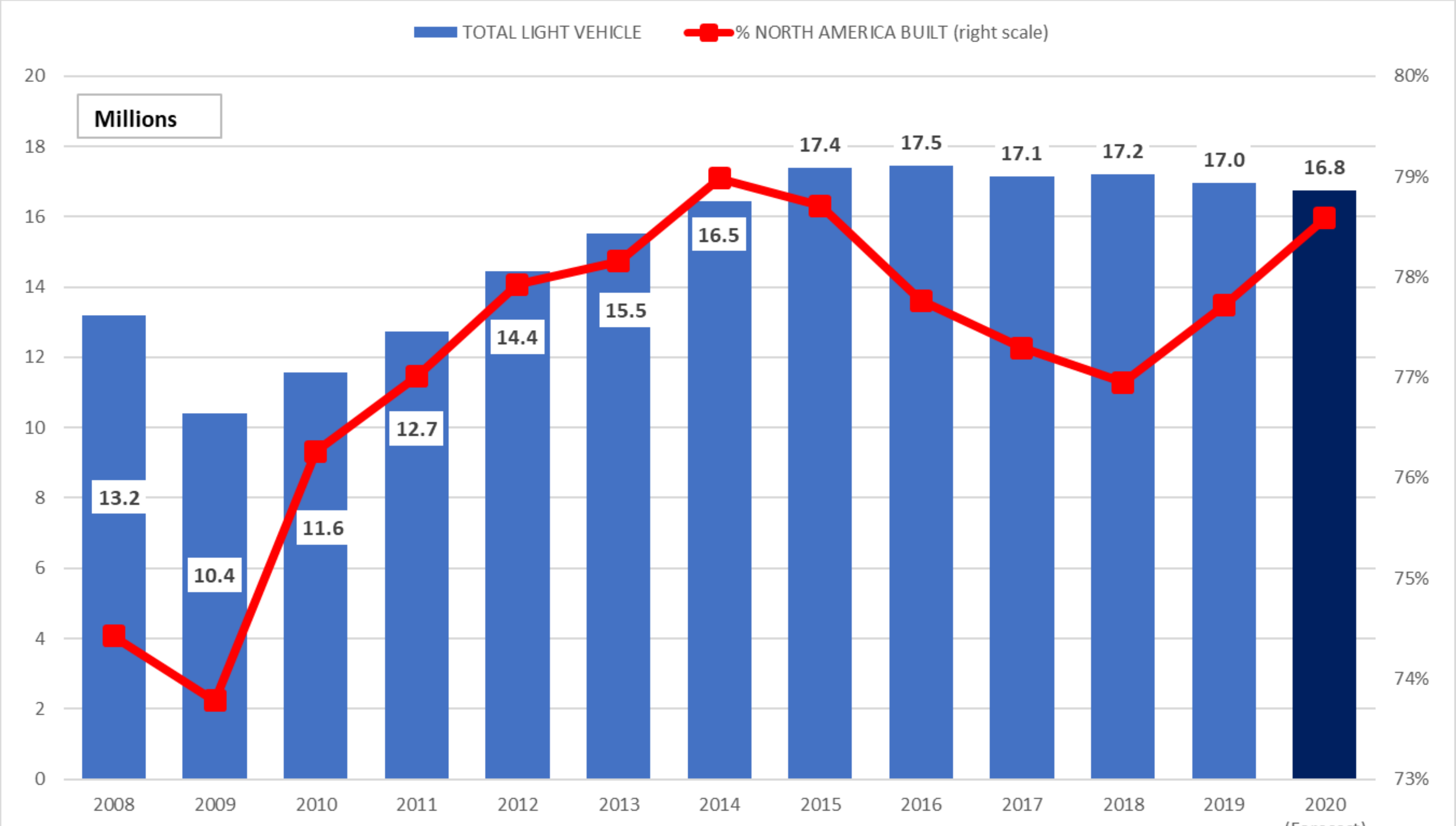
U.S. Market Outlook - 2020

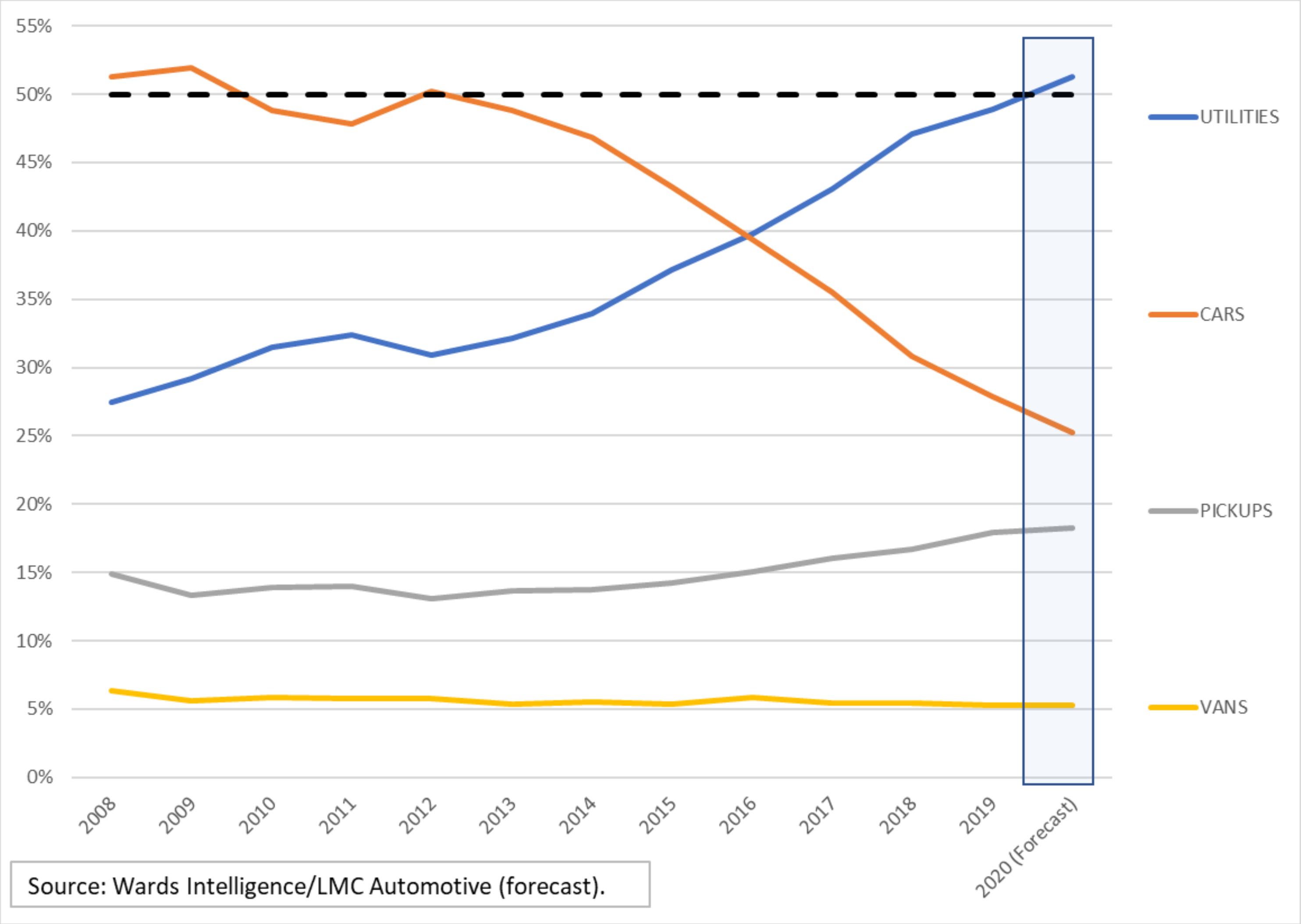
U.S. Light-Vehicle Sales



Source: Wards Intelligence/LMC Automotive (forecast).

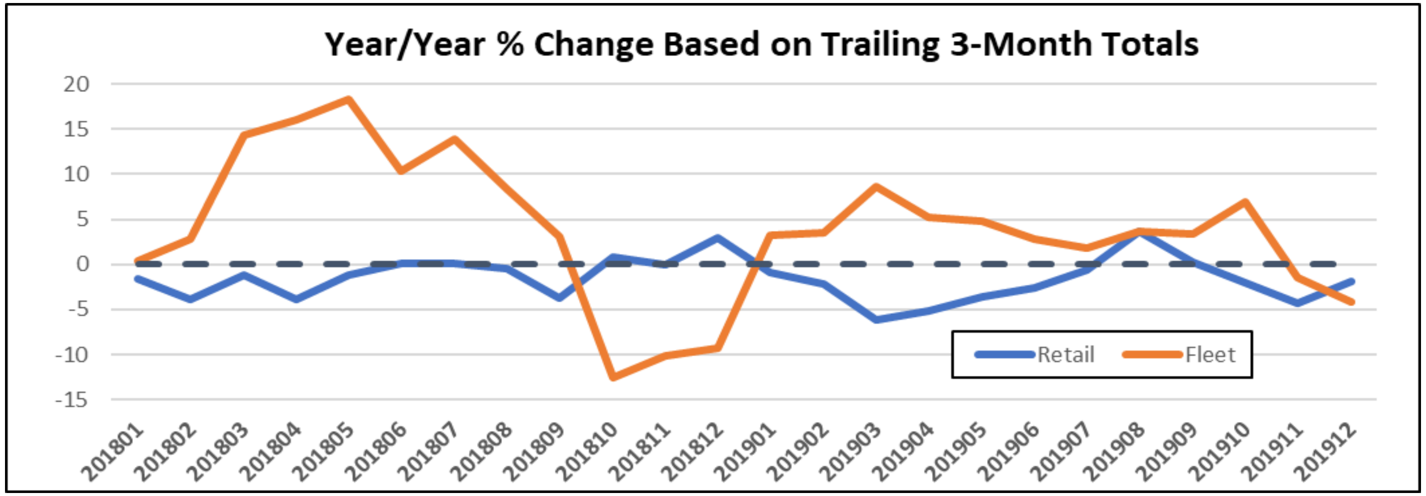
- Still historically strong but U.S. light-vehicle sales will decline in 2020
- Main reasons:
  - Excess, or pent-up, demand still largely satiated
  - Economic growth expected to slow
  - The mix continues moving toward higher priced vehicles

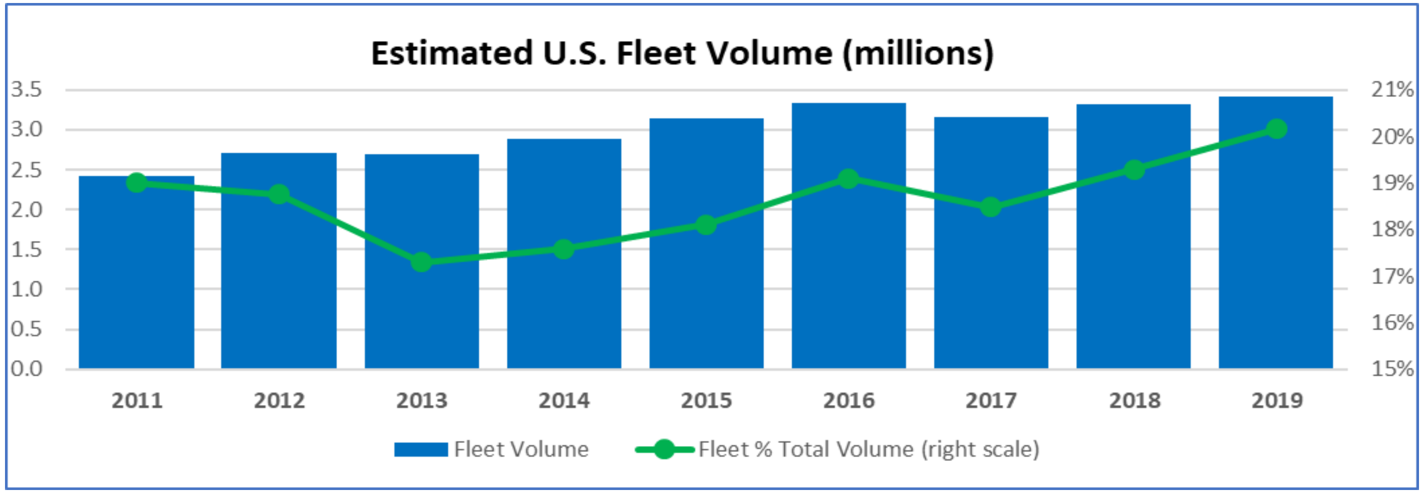
U.S. Light-Vehicle Sales by Type of Vehicle



- Utilities – crossovers and sports utilities – will top 50% of the market in 2020
- Cars decline to 25%
- Spurred by continued strong commercial fleet volume, and relatively fresh product, penetration of pickups will grow
- Vans will be nearly flat, limited by slowdown in fullsize versions more than offsetting a rise in demand for minivans, which will be reversing several years of decline

Both Fleet and Retail Likely Decline in 2020

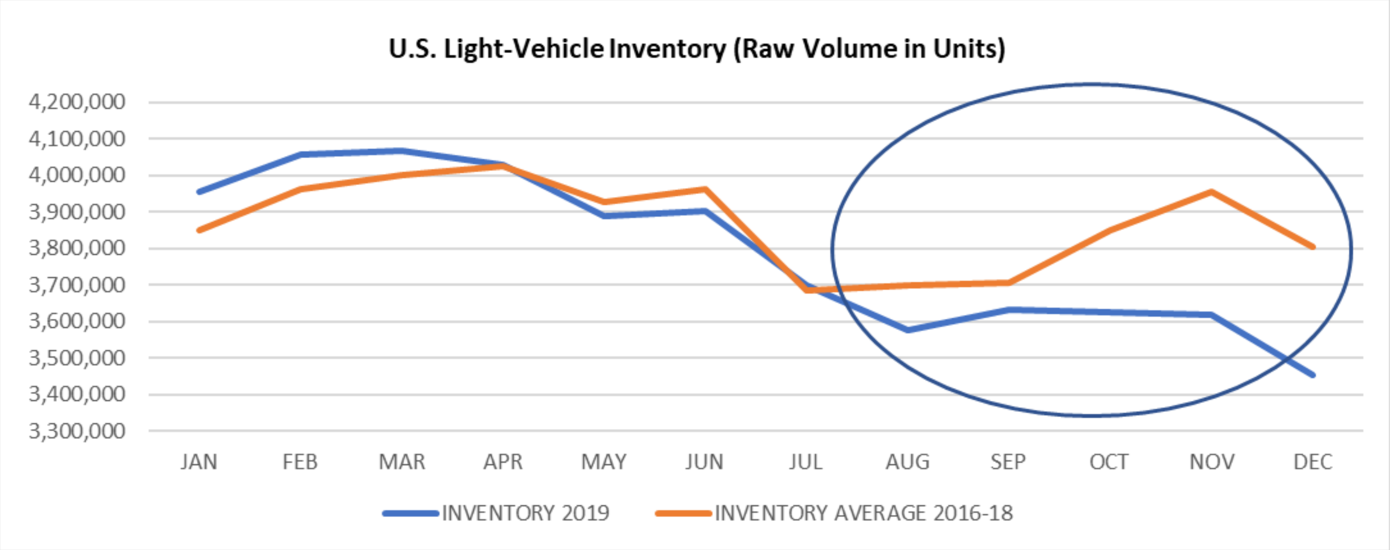


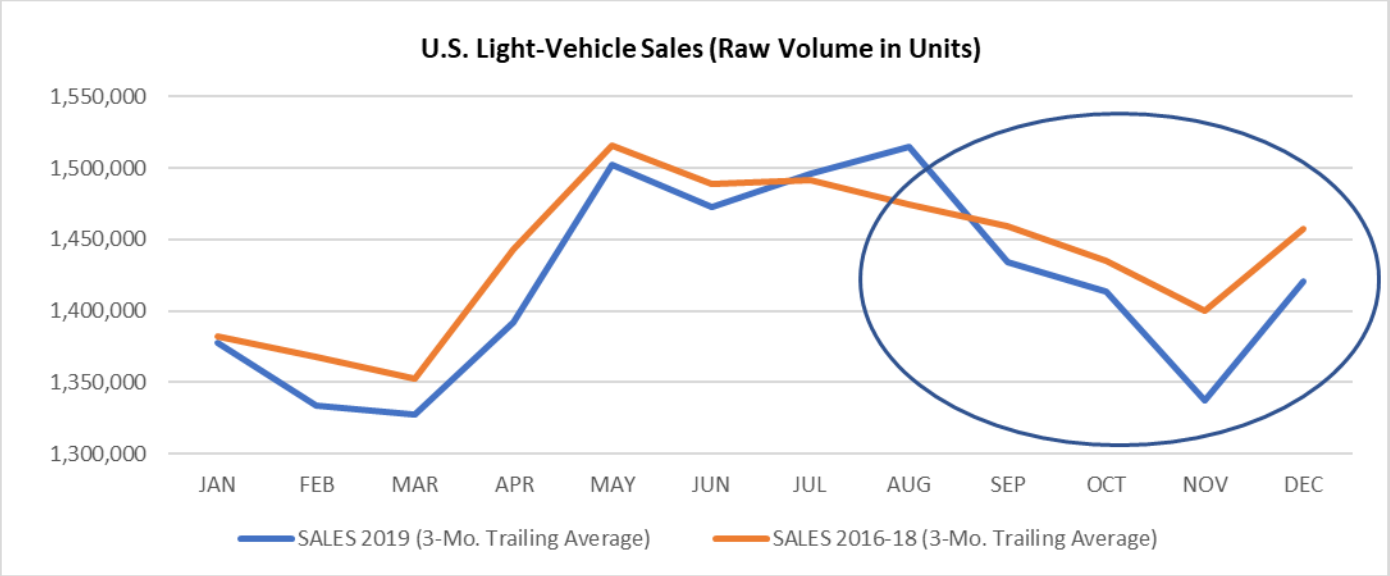


- Fleet demand largely was responsible for sales staying above 17 million units the past four years
- If not a record, fleet deliveries in 2019 were a long-time high, and likely was a peak year

Splits estimated based on Wards Intelligence monthly totals and data from LMC Automotive.

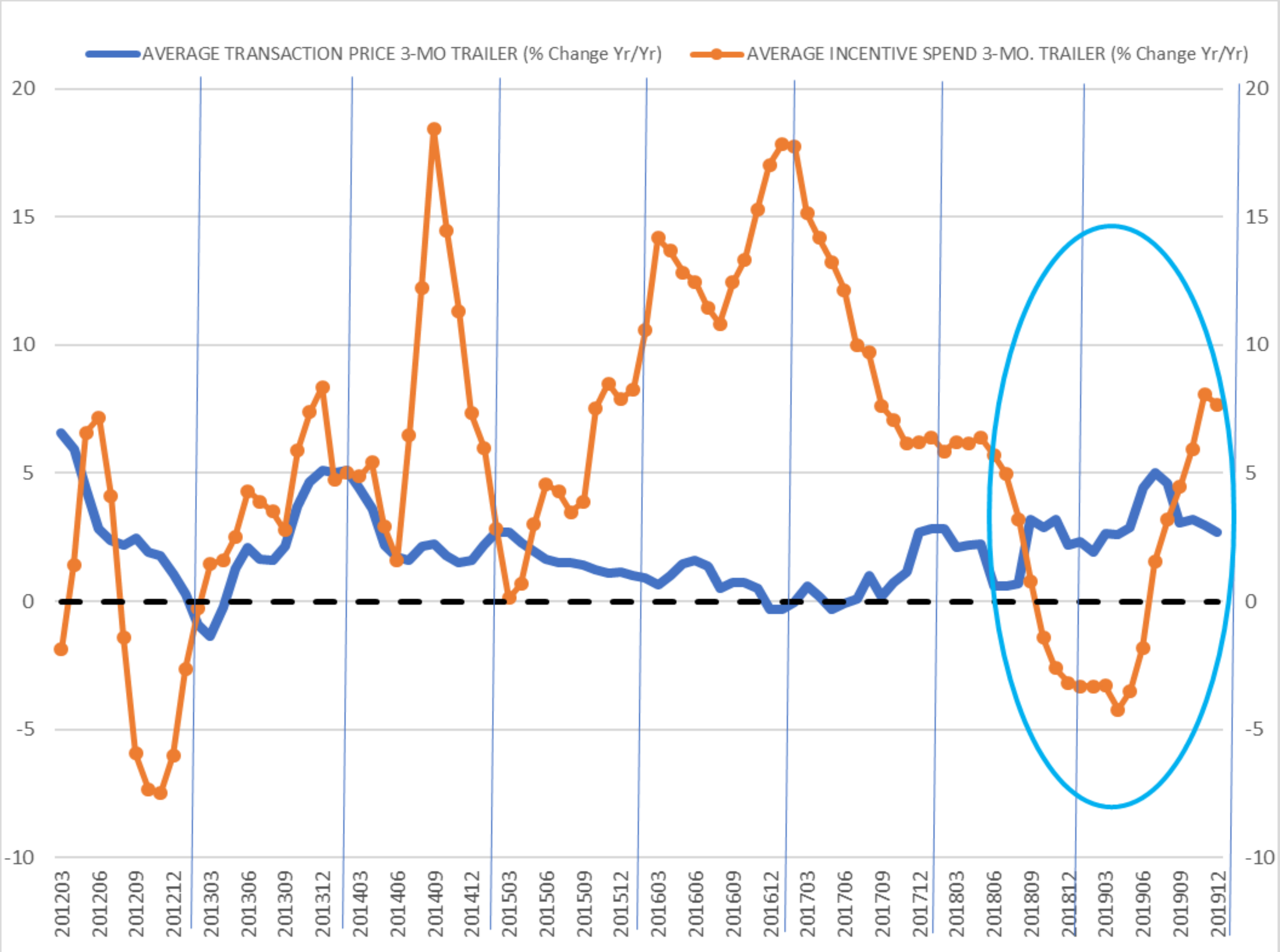
Not as Much Excess Inventory in 2020





- Inventory ended December at a 6-year low for the period
- There does seem to be a serious effort among automakers to keep inventory in line (or relatively in line) with declining demand
- Inventory levels influence incentive spending

Incentive Spending Rising

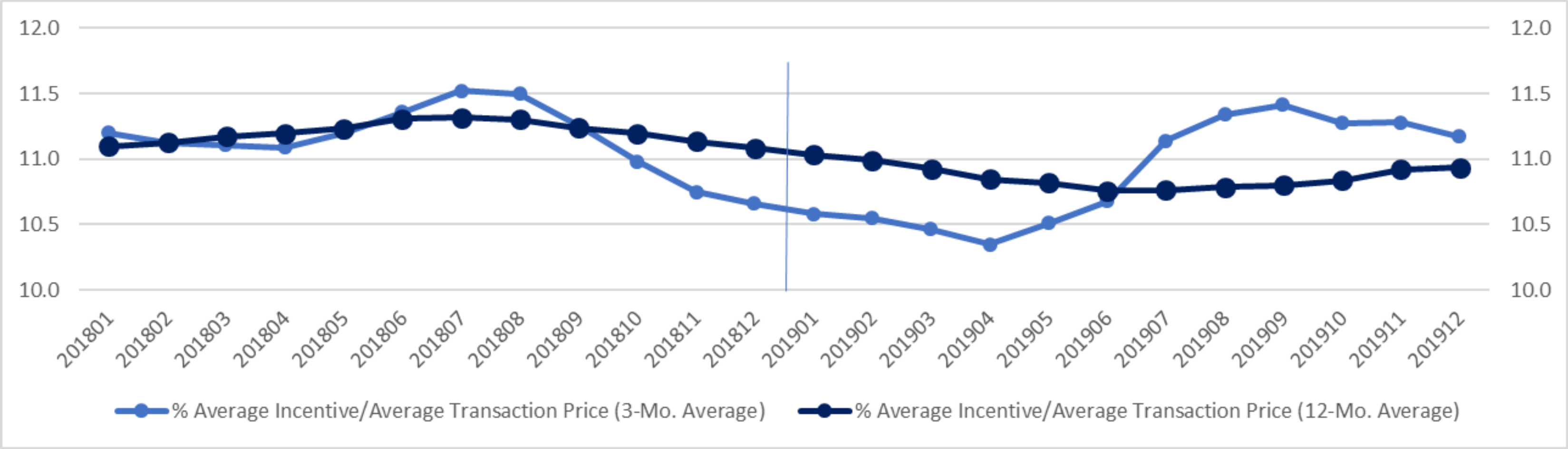


Source: Calculated by Wards Intelligence from data sourced to ALG.

- Incentive spending turned back up in the second half of the year as inventory of ’19 models began piling up
- Average transaction prices are rising as truck volume increases, but also because price-conscious buyers are choosing to stay out of the new-vehicle market

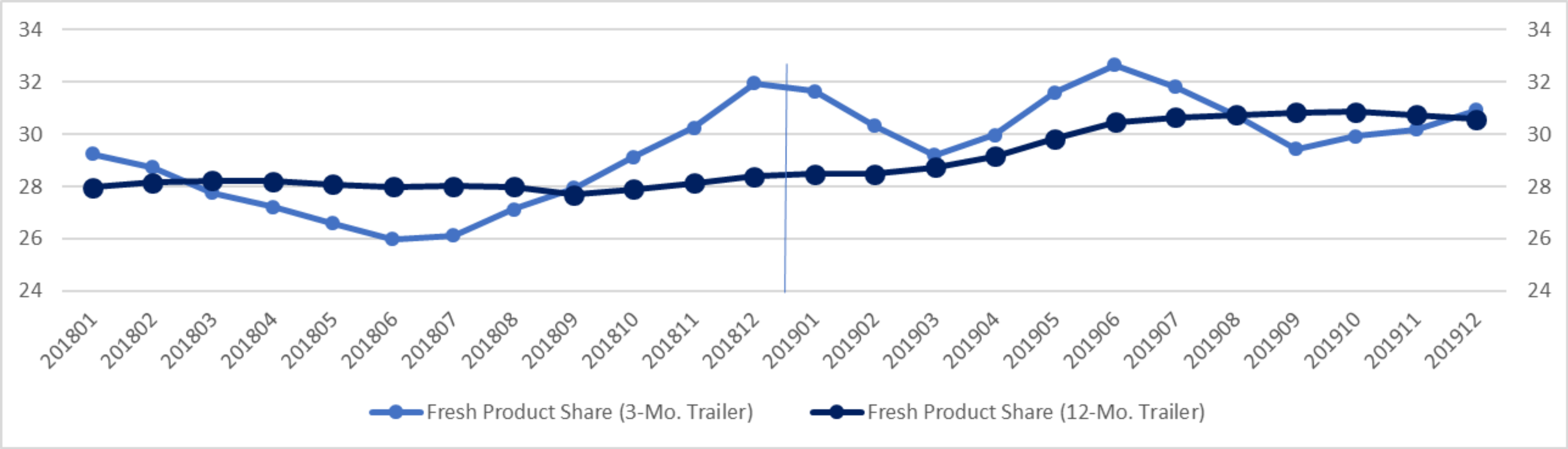
Rising Fresh Product Mix Should Lessen Pressure for Incentives

Incentives



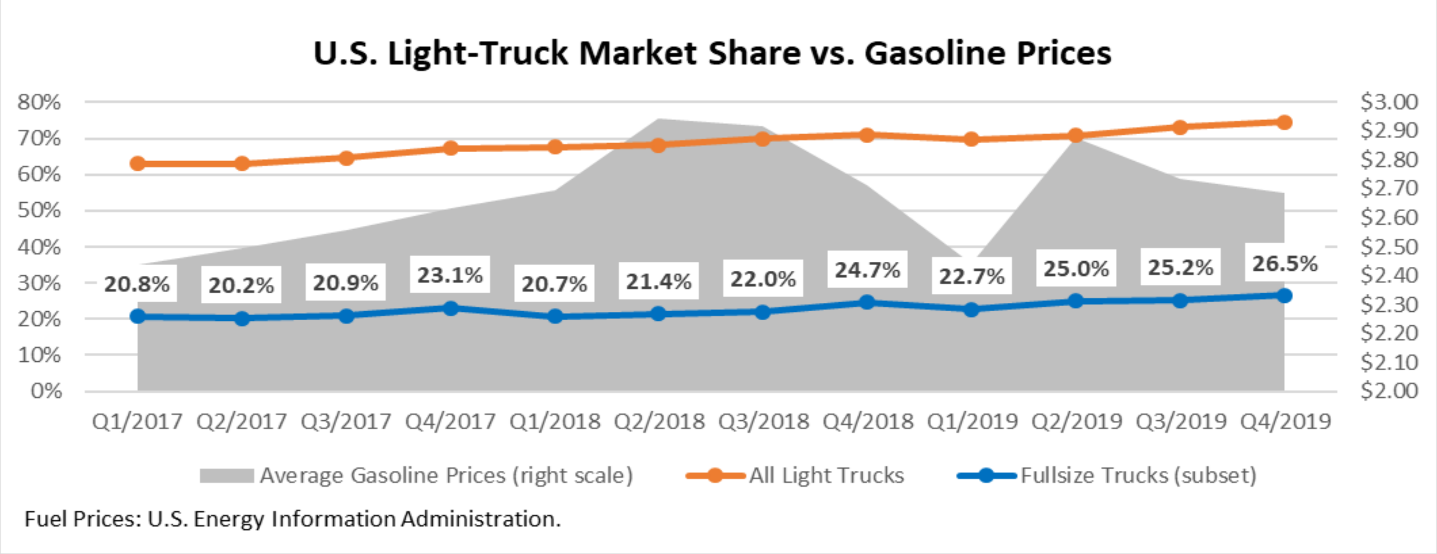
Percentages calculated by Wards Intelligence from data sourced from ALG.

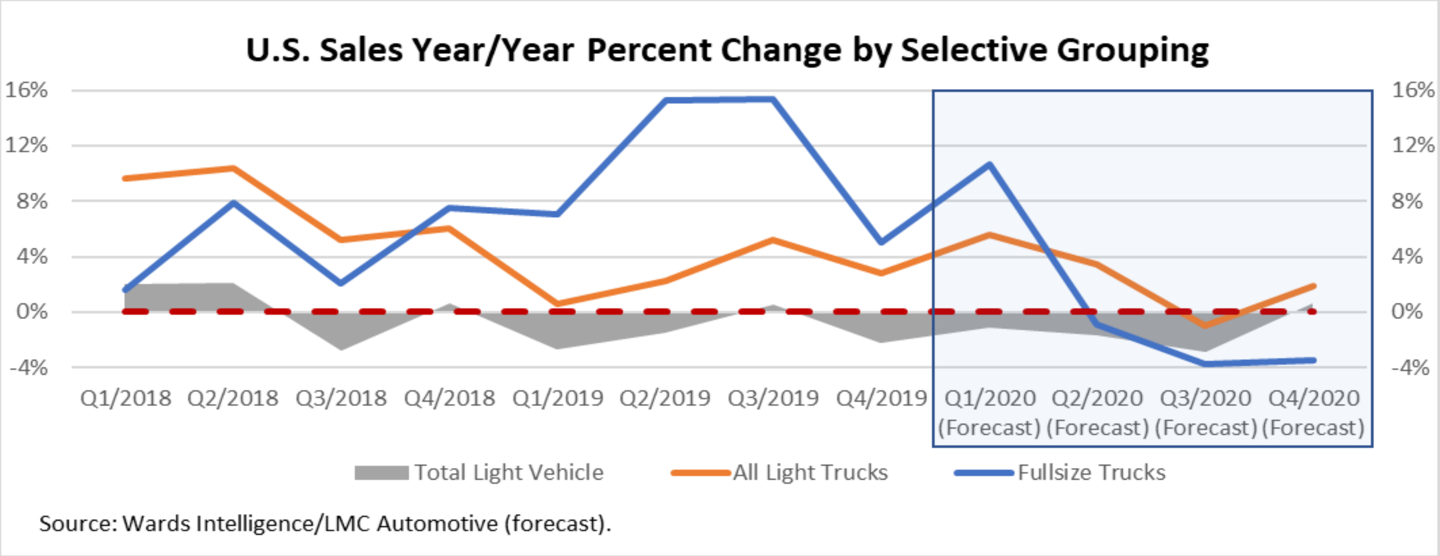
Fresh-Product Mix - % Share of Total Light-Vehicle Sales



- The share of new and recently redesigned products totaled 30.6% in 2019, highest in five years
- With a high count of more new/redesigned products scheduled in 2020, the mix will increase from 2019
- Higher fresh-product mix typically improves pricing power, with downward pressure on incentives

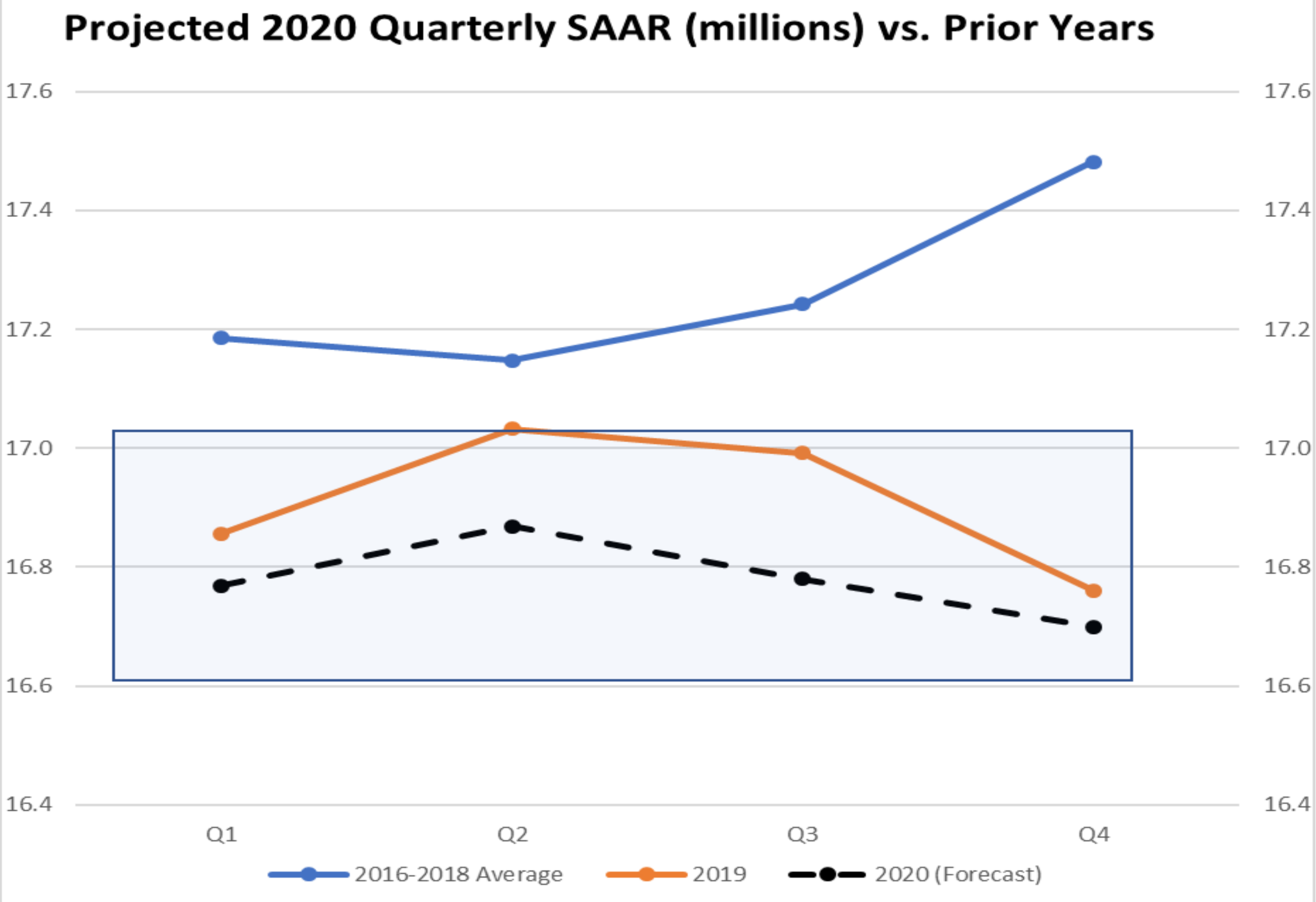
Fuel Prices Remain a Positive for New-Vehicle Demand





- Rising light-truck share, and more specifically, fullsize trucks, are a good indicator that fuel prices are not much of a hindrance to overall demand
- However, market share for fullsize trucks is forecast to decline in the latter half of 2020, mainly due to a currently fresh products starting to age and commercial fleet deliveries start falling year/year

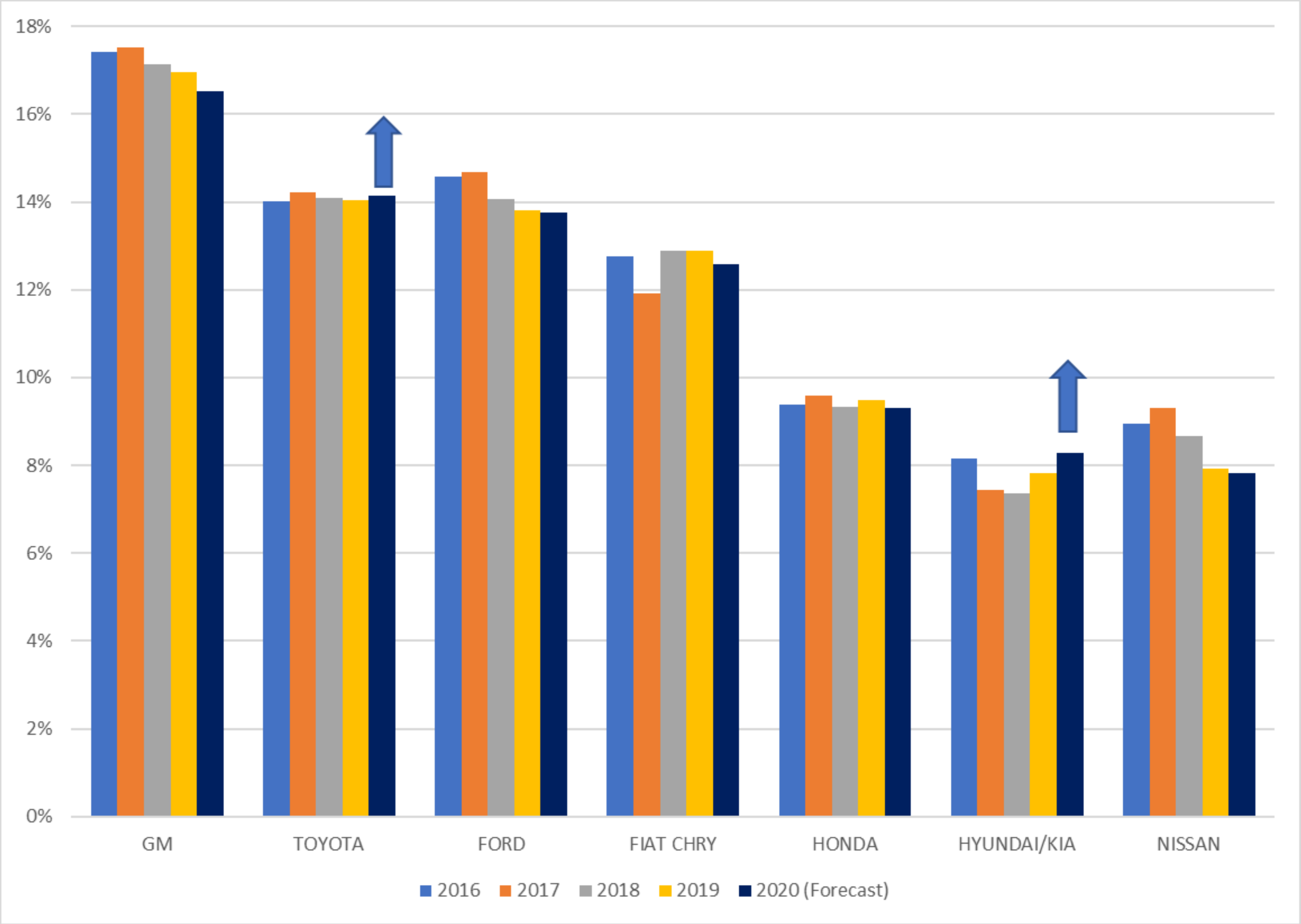
Sales Follow 2019 Cadence and Weaken in Second Half



SAAR is seasonally adjusted annual rate for sales and calculated based on factors from the Bureau of Economic Analysis and Federal Reserve.

- With demand seeming to be firmly entrenched on the downward side of the current cycle, 2020 sales on a seasonally adjusted basis are expected to follow 2019's cadence, as opposed to the 3-year average ending in 2018

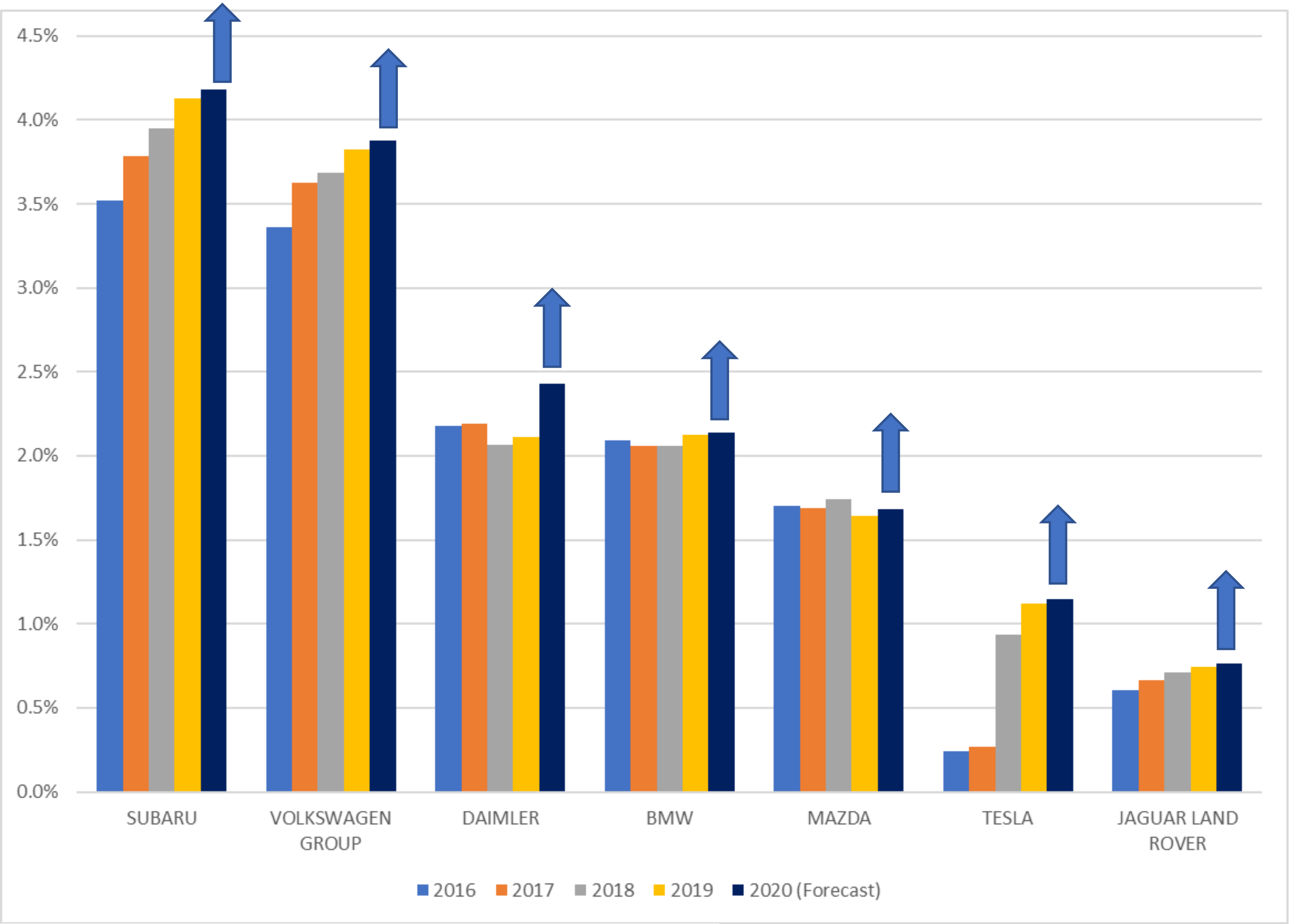
Toyota, Hyundai/Kia Record Share Gains Among Top 7 Automakers



- Among the Top 7, accounting for over 80% of the market, only Toyota and Hyundai Group are expected to increase market share in 2020 over 2019
- Toyota's relatively strong presence in cars helping prop market share
- GM and Ford have cut their car portfolios
- Fiat-Chrysler, Honda and Nissan product lines getting a little old
- Ford and Nissan start upturns in second-half 2020

Source: Wards Intelligence/LMC Automotive (forecast).

Several Companies Pull Share from Top Automakers

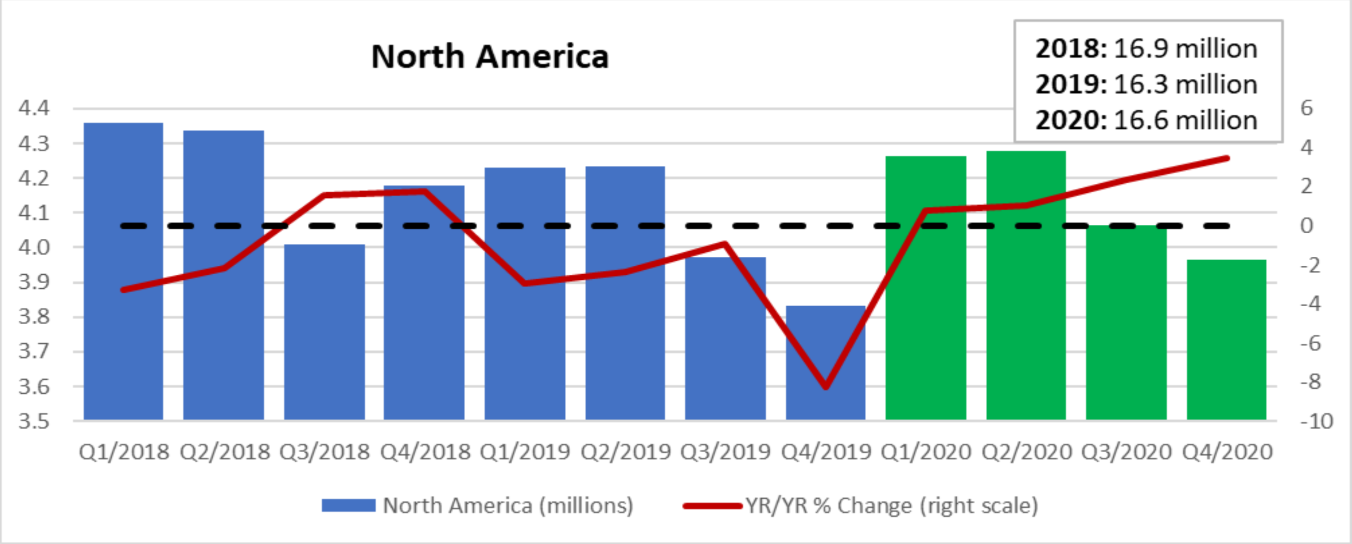


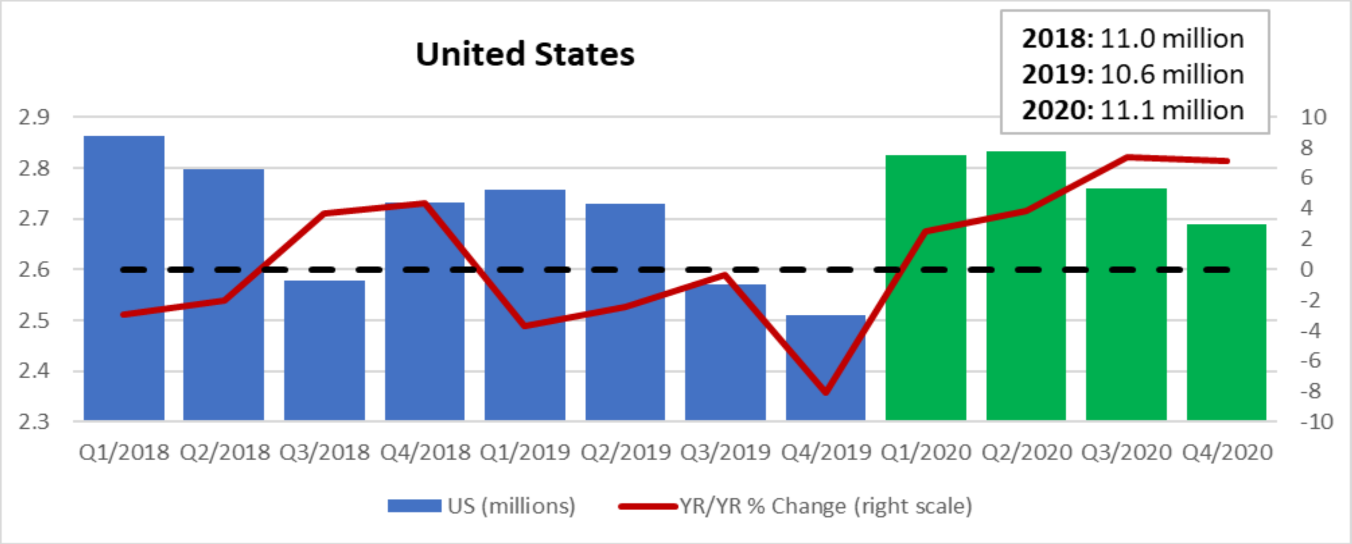
Source: Wards Intelligence/LMC Automotive (forecast).

- Share is rising for all the automakers that make up the rest of the industry – including Volvo and Mitsubishi (not shown in graph)

North America and U.S. Production Outlook - 2020

Production Rising Despite Lower Sales

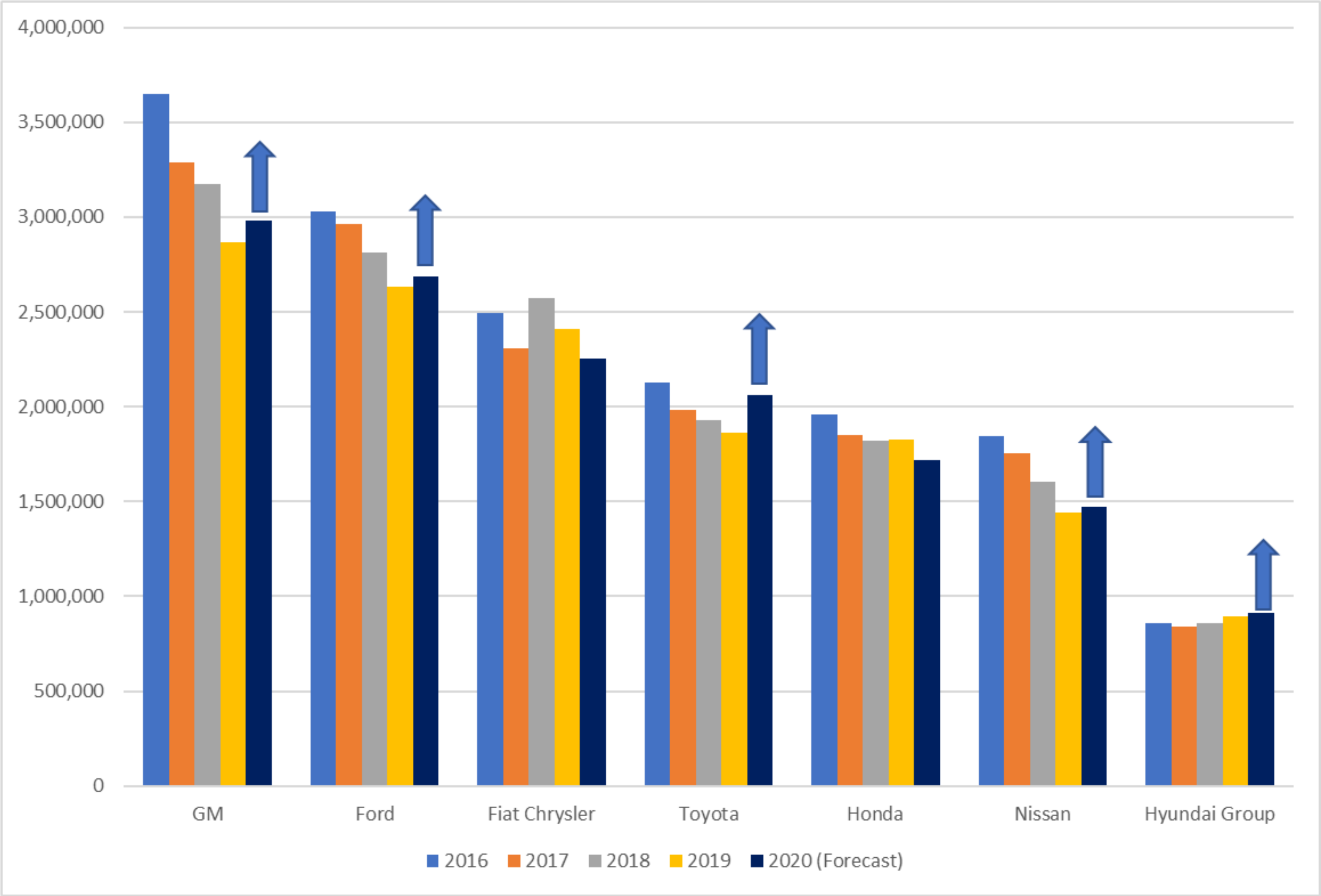




Source: Wards Intelligence/LMC Automotive (forecast).

- Rising demand for trucks (including utilities), recent/upcoming production starts of all-new vehicles and increased local sourcing of previously imported vehicles, will spark a 1% increase in North America production
- U.S. production has a major reversal – up 4.7% - from 2019 due to capacity expansions and ramp-up of new and redesigned products

Five of Top 7 Manufacturers Forecast for Gains in North America Production

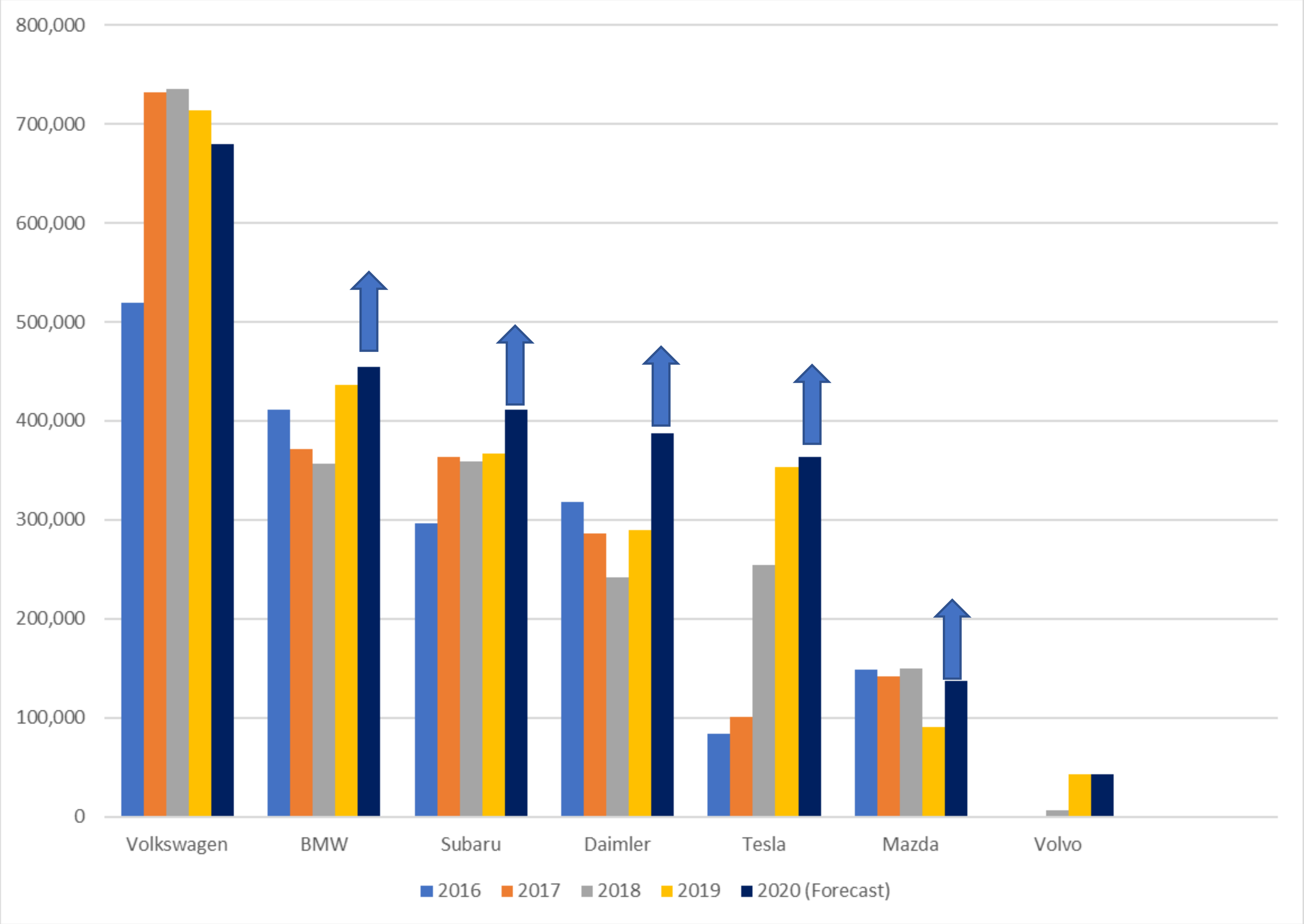


- Accelerated production at plants building new or redesigned products are pushing up output at five manufacturers
- GM also increased capacity for its fullsize pickups and is recouping some of its strike-related lost output from 2019
- Fiat Chrysler and Honda downturns are demand-related

Note: Toyota includes production for it by Mazda; Nissan includes production of Nissan products from its COMPAS joint-venture with Daimler.

Source: Wards Intelligence/LMC Automotive (forecast).

Most Other Manufacturers Also Pegged for Gains



- New products, including import replacement, are main drivers for increases from the smaller manufacturers
- Increased demand for manufacturers’ product also a primary reason

Note: Daimler includes production of Mercedes products from its COMPAS joint-venture with Nissan; Mazda excludes production for Toyota.

Source: Wards Intelligence/LMC Automotive (forecast).

Summary: U.S. 2020 Market Outlook

- Light trucks, especially utilities and pickups, will continue to increase penetration
- Retail will decline (a fifth straight year) and fleet expected to fall from what we believe was a peak in 2019
- Inventory will continue throughout 2020 at long-time lows
- Incentives will continue to rise – how much will depend on each manufacturers reaction to falling volume (and whether inventory remains at long-time lows)
- Dealers will have a higher mix of newer product
- Other:
  - Interest rates/financing costs remain low, possibly declining further
  - Another roughly 4-million leased vehicles enter the used-vehicle inventory, keeping the pool of high-quality, lower-priced alternatives strong

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