

Introduction

Welcome to the latest edition of GVR, ADESA Analytical Services' annual study of long-term trends in the North American vehicle remarketing industry. This year's GVR includes two "storyboards" that provide an at-a-glance synopsis of the nearly 60 graphs and tables contained in the body of the report. The first storyboard (pg. 4) provides a summary of the overall findings of the report with regard to the remarketing industry's potential for growth over the next five years. The second storyboard (pg. 20) is geared toward helping dealers consider the ways auctions can be used as an extension of the inventory management policies they have at their stores. We hope you like these latest enhancements.

Another noteworthy change in this year's report is that the tables and graphs shown include data beginning in 2000 rather than providing historical data going back in some cases to 1990. This change was made to enhance readability and dilate on trends that have occurred since the turn of the century/millennium. However, if the reader is interested in obtaining more history or additional background content, we would refer him/her to past GVRs and would be happy to provide those as needed.

I hope you enjoy this edition of GVR and I look forward to your feedback.



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Executive Summary

Growth in the number of vehicles on the road, an upturn in rental and commercial fleet sales over the last two years, and an anticipated return of off-lease volumes are positioning the North American vehicle remarketing industry for growth. Based on a detailed look at the long-term trends covered in this report, a modest decline in auction volumes in 2005 should give way to growth in the years ahead.

One of the other major findings detailed in GVR is that auctions are a good source for quality, retail-ready vehicles, especially those less than five years old. Moreover, reconditioned vehicles have proven to bring top dollar, both in the auction lanes and on the lot. Statistics also show sending excess inventory quickly to competitive bid auctions can help dealers minimize losses often incurred using other wholesale channels.

Other key findings and projections detailed in the GVR include:

- After dropping by almost 700,000 units between 2003 and 2005, off-lease volumes are projected to drop only 70,000 units in 2006 and then begin increasing – modestly in 2007 and more significantly thereafter.
- After a two-year period of softness following 9/11, rental and commercial fleet vehicle sales have grown by nearly 500,000 units over the last two years. These vehicles will provide a steady influx of volumes to auctions both near-term and longer term.
- Dealer consignment volumes grew by more than 200,000 units, offsetting the decline in off-lease volumes in 2005. However, repossession volumes dropped as the economy continued to improve, contributing to an overall decline in U.S and Canada auction volumes from about 9.7 in 2004 to 9.5 million vehicles in 2005.
- Used vehicles retailed by franchised dealers that were proactively sourced from finance companies selling at auction yielded an average gross profit of \$1,892, almost \$70, or four percent higher, than vehicles taken in trade. Dealer purchases at other auction sale types also yielded respectable retail margins.
- As a result of insurance companies' focus on reducing the "cycle time" required to process vehicles involved in accidents and declared total losses, salvage vehicle remarketing companies are providing new logistical services such as title procurement and additional transportation methods.

ADESA Analytical Services

ADESA Inc.'s Chief Economist, Tom Kontos leads the company's effort to provide value-added analytical services to ADESA customers, the media, and the investment community. These services include timely market analysis on a monthly, semi-annual, and annual basis, via the Kontos Kommentary, *Pulse*®, and the award-winning Global Vehicle Remarketing publication series. In addition, the Analytical Services team provides custom analysis of wholesale price trends for ADESA's remarketing clients.

In January 2001, ADESA introduced *Global Vehicle Remarketing: U.S. & Canadian Markets (GVR)*. These markets represent over one-third of the world's vehicle population. Long-term trends and issues relative to the \$81 billion vehicle remarketing industry in these critical markets - where ADESA, Inc. is a leading player - are covered in GVR.

Pulse®, introduced by ADESA in June 2001, provides a periodic review and outlook of economic indicators and remarketing trends pertinent to the industry.

On a monthly basis, the Kontos Kommentary provides analytical observations, indexes, and review of the current trends within the wholesale used vehicle market and other information which is posted regularly to www.adesainc.com.

Through these publications and postings, ADESA Analytical Services provides timely, comprehensive and authoritative coverage of the used vehicle market and the vehicle remarketing industry in North America for key ADESA clients and industry contacts.

Other Analytical Services available to ADESA remarketers and dealers include:

- Presentations at industry conferences
- Design, tabulation, analysis, and reporting of targeted surveys
- Peer group and market benchmarking studies
- Analysis of the benefits of reconditioning
- Analysis of auction promotions
- Site selection for optimized remarketing of off-lease units
- Portfolio analysis of auction sales
- Computer-generated mapping and buyer analysis
- Other customized studies

Combined, these efforts have helped make ADESA a "Trusted Business Advisor" in the remarketing industry long before other companies found it fashionable to follow suit.

