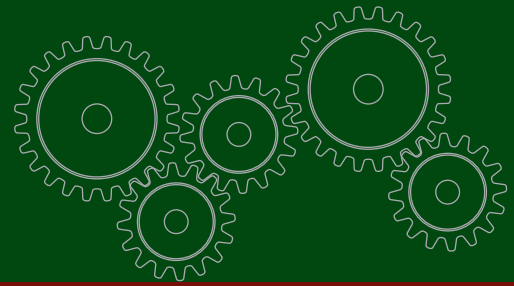




MANHEIM CONSULTING

6205 Peachtree Dunwoody Road Atlanta, Georgia 30328
phone: 678.645.3500 www.manheimconsulting.com



Accelerate Your Business →

June 2007

OVERALL INDUSTRY:

- Ford took top honors in the J.D. Power 2007 Initial Quality Survey which measures car problems within the first 90 days of ownership; the J.D. Power Dependability Study-which measures problems experienced by owners of three-year old vehicles-is due out in August. Ford took top honors in five of the 19 vehicle segments while Toyota took four (down from 11 last year). Ford was the only domestic manufacturer to finish above the industry average.
- U.S. automakers continue to make huge strides on the manufacturing front as well; in the Harbour Report released on May 31, they are now, on average, within about three hours of Toyota-Honda-Nissan in terms of total hours of labor per vehicle manufactured in North America (34 vs. 31). Japanese automakers, however, are still way ahead on profitability: Toyota and Honda earned a \$1,200 margin on each car sold in North America last year, while Chrysler lost \$1,072, GM lost \$1,436 and Ford lost \$5,234.
- Global Insight Market Research predicts that between now and 2012, market share for the Detroit Three will drop by seven points (each point = 160,000 vehicles) while total industry sales will jump 9% from 16.2 million this year to 17.7 million in 2012.
- In May, reflecting the surge in gas prices to over \$3.00 per gallon, passenger cars outsold light trucks for the first time since May of 2002. Incentives on full-size pickups, not surprisingly, are the largest of any vehicle type: example, \$6,000 on a Dodge Ram.
- Leasing is forecast to account for nearly 22% of all consumer car and light truck purchases this year. Automakers are doing this to stimulate new vehicle turnover and to create a steady flow of returning vehicles for their used-car certification programs. For Manheim, that is good news because of the more predicable flow of vehicles; how many we will see is the \$64,000 question because the OEMs are depreciating them more realistically such that their book value at the end of the lease is much closer to market value; that gives both the driver and dealer an incentive to buy them then before we get a shot at them.
- Lithia, an Oregon mega-dealer with 104 dealerships, will launch a stand-alone used-vehicle chain this year, dubbed "L2;" they see the potential to develop it into a national chain a la CarMax. For all vehicles: fixed price, F&I products, a comprehensive warranty and a no-questions asked return policy.



GENERAL MOTORS:

- G.M. will sell 600,000 to 625,000 cars and light-trucks to car rental fleets this year (combination of “program” and “risk”), down from 800,000 two years ago. Program cars will also cost more. Last year, two-thirds of G.M.’s sales to the rental companies were program cars, but that % will decrease this year.
- G.M. with Chevrolet, starting with the 2008 Malibu this fall, hopes to duplicate the success of its Cadillac turnaround by “designing cars that people actually want.” (June 18 Business Week). Early reviews of the Malibu, which will compete against Camry and Accord (Camry was all-new this year, Accord will be for 2008) are very positive.

FORD:

- Last week started Ford’s national launch for the 2008 Taurus-that name is now applied to what was the Ford Five Hundred/Mercury Montego-but with an all-new engine, interior and five-star safety ratings. It will compete in the full-size segment against Toyota Avalon etc.
- Ford has announced that it is looking to sell Land Rover/Jaguar. Land Rover is seen as worth about \$2.7 billion (they paid \$3 billion for it seven years ago) while Jaguar’s value-Ford is basically trying to sell them as a package-is up in the air. Ford bought Jaguar in 1989 for \$2.6 billion but has invested 3-4 times that amount in Jaguar since then.

CHRYSLER:

- Cerberus Capital Management, a 15-year old Wall Street private equity hedge fund firm, is buying Chrysler for \$7.4 billion. The way the deal is structured, however, “Cerberus is actually being paid \$675 million to take the troubled automaker off the hands of DaimlerChrysler,” and the German company will be renamed Daimler. Mercedes bought Chrysler in 1998 for \$36 billion.
- Among the 300 investment and operations employees at Cerberus are 150 former top executives, including Treasury secretary John Snow. Cerberus also has several highly regarded “car guys,” such as Tom Gale (a former Chrysler designer) and Wolfgang Bernhard, ex-Chrysler COO who also worked at VW. Cerberus also has a 51% stake in GMAC.
- What Cerberus does with the \$18 billion in health care obligations that Chrysler owes its retirees, plus their whole relationship with the UAW now that the company will be private, will be very closely watched by GM and Ford; their four-year contracts with the UAW expire this September.





TOYOTA:

- According to Automotive News this week, “Toyota, by an iota, tops GM in '06 worldwide sales.” In 2006 worldwide, Toyota sold 8,808,000 vehicles while G.M. sold 8,679,860—a 128,140 vehicle margin. A little known Chinese microvan played a role in Toyota’s victory: GM had included in their figures sales of a vehicle by a Chinese company (420,140 units), a joint-venture they have called SAIC-GM-Wuling Automobile company; turns out that its parent, Shanghai Automotive Industry Corp., owns 51%, and Automotive News’ Data Center credits sales of a subsidiary to the company with a majority share.
- Toyota this week announced that it has sold more than one million hybrid vehicles since 2000, half of them in the U.S., and they are targeting worldwide hybrid sales of one million per year within about five years.

HYUNDAI:

- Hyundai is lengthening the power-train warranty on its certified used vehicles—from five years and 60,000 miles to 10 years and 100,000 miles—in an effort to boost sluggish sales. Hyundai dealerships now pay \$449 to certify a used vehicle, up from \$289 before. Eligible vehicles have to be less than five model years old with fewer than 60,000 miles. Hyundai has operated a certified program since 1998. Hyundai has 775 U.S. dealerships and 275 of them are eligible to sell certified units.
- “Hyundai Still Gets No Respect,” May 21, 2007 Business Week. Hyundai needs a new “big idea” to redefine its brand (as it tries to go upscale) and move it away from an association with cheap, tin-pot vehicles. Only 23% of all new-car buyers last year even bothered to consider a Hyundai vs. 65% for Toyota and 50% for Honda. Hyundai is still seen as a cheap, entry-level brand—it debuted in the U.S. in 1986 with the \$4,995 Excel. Consumers are skeptical of its high J.D. Power quality ratings and aren’t going to fork over \$30K+ for an Azera or Veracruz (SUV); at that price, they want a brand with “cachet.”

