

NAAA
2013
ANNUAL
REVIEW

— STRENGTH IN NUMBERS —



STRENGTH IN NUMBERS

As you can see, the 2013 National Auto Auction Association (NAAA) Annual Review contains a cache of crucial data and useful information, but perhaps the most significant fact amongst the statistics is this: Last year was the second year in a row since the economic decline began in 2008 that the wholesale auto auction industry has seen an increase in volume. In 2013, NAAA member auctions experienced a 4.3 percent increase in vehicles entering their lanes and sold 8.2 million units worth \$75.7 billion.

The report shows the industry moving in an upward direction last year with many encouraging indicators pointing to growth and a substantially improved 2014.

Another positive sign can be found in the fact that despite the country's sluggish recovery from the Great Recession the typical NAAA member auction operates an 8-lane facility on 79 acres and employs an average of 140 people with a payroll of \$3.4 million. And in the 17 years the NAAA has been conducting its industry survey and producing this report, those member auctions have been responsible for the sale of 153 million vehicles!

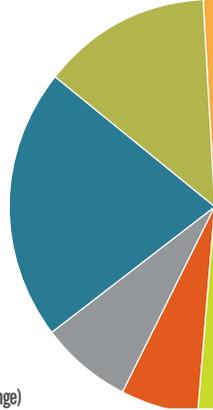
It's thanks to those dedicated auction owners, their hard-working staff, along with the loyal consigners and buyers standing together in tough times that helped the industry come through the dark economic tunnel and emerge on the other side. Uniting in efforts to establish universal policies and standards, streamline procedures, adopt new technologies, develop leadership, build strategic partnerships and increase legislative advocacy provide the strength to meet any challenge.

All the numbers contained in this annual review add up to one bottom line — working together can make a difference to the benefit of all in the remarketing industry and will continue to ensure its ongoing success.

National Auto Auction Association
5320 Spectrum Drive, Suite D
Frederick, Maryland 21703
(301) 696-0400
(301) 631-1359 - Fax
www.naaa.com
naaa@naaa.com - Email

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NAAA MISSION STATEMENT

The NAAA provides a unified voice for the auto auction industry, protects and promotes the interests of its members and leads with the highest ethical standards.

PURPOSE

Its purpose is to represent the auction industry to its customers; federal, state, and local legislative, regulatory, and enforcement authorities; national media and industry trade press; and the automotive industry at large.

CODE OF ETHICS

NAAA is composed of members who are entrusted by sellers and buyers of motor vehicles to be resold by them to the public. In order to carry out that trust NAAA, of which this auction is a member, has adopted this Code of Ethics:

- We will be fair to both sellers and buyers, and will give complete service, recognizing that both are our customers.
- We will protect the interest of our customers as we would our own.
- We will be honest and ethical in all of our dealings with customers, fellow members and others in the motor vehicle and allied industries.
- We will maintain specific documentation that directly supports the actual bid sale price and all of the administrative and operational fees that are charged.
- We will create an atmosphere at our place of business which will inspire confidence in ourselves and the auto auction business.
- We will do nothing to bring disrepute to NAAA or the auto auction business.
- We will expose or halt any scheme designed to deceive or defraud our customers, fellow members and others in the motor vehicle and allied industries.
- We will expose or halt any scheme designed to deceive or defraud any party that may be responsible for a deficit resulting from the sale of any vehicle or product at our auctions.
- We will keep abreast of business conditions and stay informed regarding all laws and legislative matters affecting our business and that of our customers in order to give intelligent advice and effective service.
- We will do everything we can to maintain the American system of free enterprise.
- We and all of our owners, directors, officers, managers, employees and agents will comply with national, state and local laws and rules, including those that regulate the conduct of the auto auction business, and will provide assistance as necessary to law enforcement agencies.

EXECUTIVE OFFICERS



Jack Neshe, President

Jack Neshe, President - Framingham, MA
Ellie Johnson, President-Elect - Kenly, NC
Mike Browning, Vice President - San Antonio, TX
Jay Cadigan, Executive Vice President - Clearwater, FL
Dave Angelicchio, Treasurer - New Stanton, PA
Warren Byrd, Secretary - Carmel, IN
Paul Lips, Chairman of the Board - Carmel, IN
Frank Hackett, Chief Executive Officer - Frederick, MD
Warren Young, Sr., President-Emeritus



Frank Hackett, Chief Executive Officer

BOARD OF DIRECTORS

Chad Bailey - Akron, OH
Warren Clauss - Akron, NY
Doug Doll - Kansas City, MO
Steve Kesler - Indianapolis, IN
Steve Krupa - Morton, IL
Rich Newey - Rio Linda, CA
John Odorisio - Bordentown, NJ
John Poteet - Hammond, LA
Joe Pyle - Shinnston, WV
Tommy Rogers - Williamston, SC
Peter Saldamarco - Hamden, CT
Ray Vickers - Farmington, NM



Ira Silver, Ph.D., Economist

OVERVIEW & HIGHLIGHTS

In 2013, the National Auto Auction Association's 325 North American member auctions sold 8.2 million vehicles with a gross value of \$75.7 billion, according to the association's 17th Annual Survey.



"The unit volume increase in 2013 shows a second year of growth during which the industry is expanding its services to buyers and sellers of used vehicles," notes NAAA President Jack Neshe.

The auto auction industry turned an important corner in 2013 with the second consecutive year increase in unit volume since 2007. This upturn demonstrates the strength and depth of a mature industry that despite various challenges over its seventy-six years has proven its resiliency.

NAAA's survey reported the number of units entered increased 4.3 percent to 15.2 million, while the number sold grew 4.2 percent to 8.2 million for a conversion rate of 54.2 percent.

Dealer-consigned vehicles represented the largest number of units sold with a 58.8 percent share, while financial/fleet accounted for 34.3 percent, manufacturer made up 5.7 percent and other sold at 1.2 percent.

Prices declined 2.2 percent as the increase in units entered put downward pressure on prices. Gross value rose from \$74.2 billion to \$75.7 billion.

It's important to recall that our industry sprang from the entrepreneurial spirit to meet a consumer need in the Great Depression, and has survived 14 recessions in its lifetime. By displaying that same ingenuity, the industry has not only met recent challenges, it will continue to be a vital and growing part of our nation's economy in the decades to come.

NAAA HALL OF FAME AWARD

The National Auto Auction Association in 2013 inducted two industry veterans into its Hall of Fame — ADESA-Dallas General Manager Ken Osborn and Carolina Auto Auction President and Owner Henry Stanley. Established in 1968, the Hall of Fame recognizes individuals whose long-term service to the auto auction industry and NAAA has contributed improvements to remarketing as a whole, has worked with the trade organization to benefit its members and has consistently followed the high standards of the association's Code of Ethics.



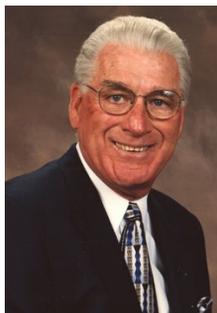
Ken Osborn

During his 30-plus-year career, Ken has contributed to the vehicle remarketing industry in a variety of roles as a used car manager, a partner in an independent auto auction, a general manager and executive in corporate auctions, as an active NAAA member, and even as a licensed auctioneer.

"Ken is a man who has his soul devoted to the betterment of the entire industry and has become one of its cornerstones through his selfless contributions to NAAA," notes Tony Moorby, principal of the Chattanooga Auto Auction. "He epitomizes the best of our business and what everyone in it should strive to be — honest, reliable, straightforward and hard working."

Just selling more than 1 million vehicles would be enough of a career achievement, but for Henry that was all in a day's work in a profession he loves. His countless accomplishments and contributions to the remarketing industry made during a career spanning more than half a century has earned him induction into the association's gallery of distinguished members.

"Henry is a self-made man who has done a variety of jobs in the industry but no matter what the job was, he just always wants to be the best at whatever he does," explains Tommy Rogers, the general manager of Carolina Auto Auction, about the man he's known for 17 years. "Everything that he's involved in — whether from the auction lanes to the golf course — he wants and expects excellence. With Henry, it's not so much about the profit or bottom line as much as it is about the challenge to offer the best experience and achieve the best results possible."



Henry Stanley

2013 AUCTIONEER OF THE YEAR

A successful career of more than a half-century that began as a boyhood fascination with listening to auctioneers on the radio earned Jack Davis the Bernie Hart Memorial Auctioneer Award for 2013. Named in honor of Bernie Hart, who served as NAAA's executive director for more than 30 years before retiring in 1988, the annual award recognizes the industry's most visible person.



Jack Davis

"Jack Davis commands attention on the block, not only because he's a tall man wearing a cowboy hat, but because he has a positive, upbeat personality, a great sense of humor and the ability to motivate anybody," says the owner and general manager of Indianapolis Car Exchange Danny Hockett, who has known Davis since the mid-1960s. "With his entertaining stories, two-million-dollar smile and charming southern drawl, Jack is a superstar who can just grab a crowd's attention and mesmerize them."

2013 INDUSTRY PIONEER AWARD

The Industry Pioneer Award, given to those who have worked in the wholesale motor vehicle industry and/or NAAA, recognizes an individual who has innovated or enhanced methods of

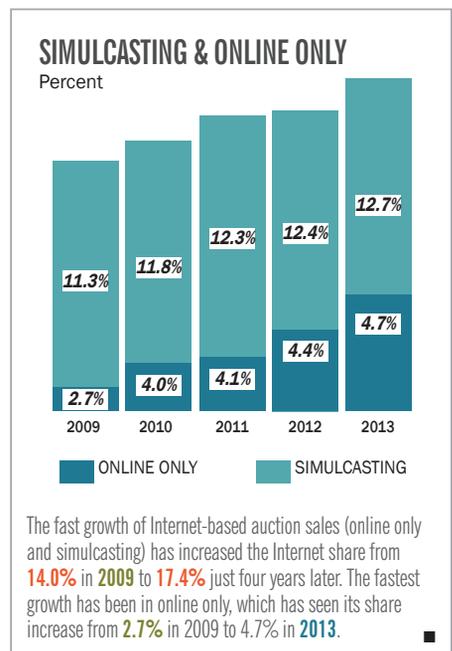
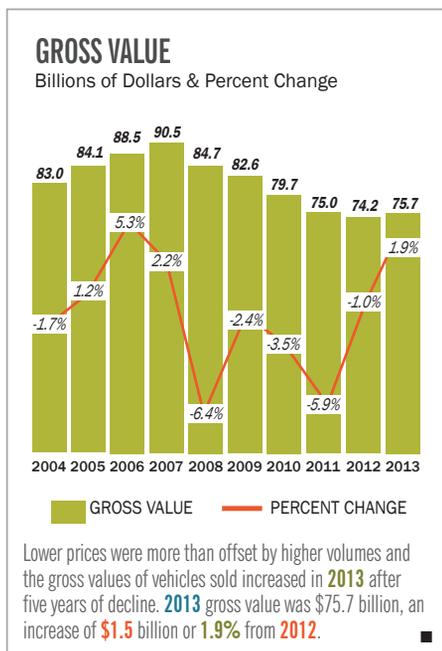
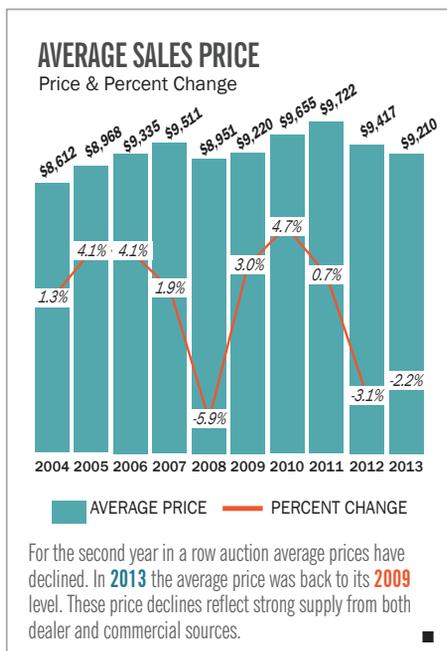
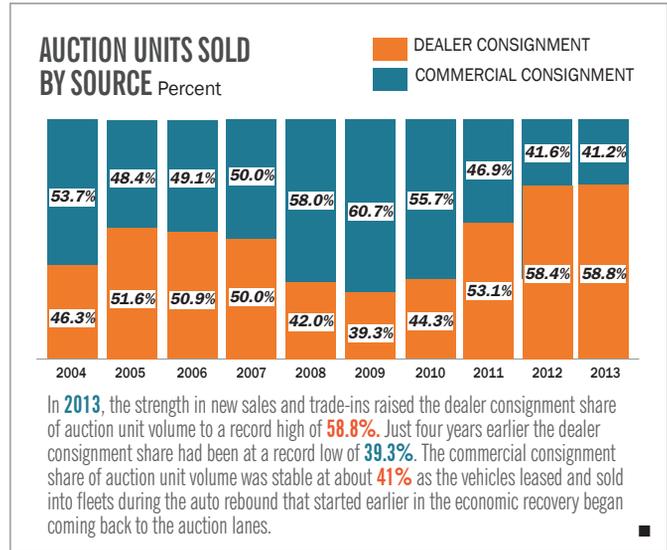
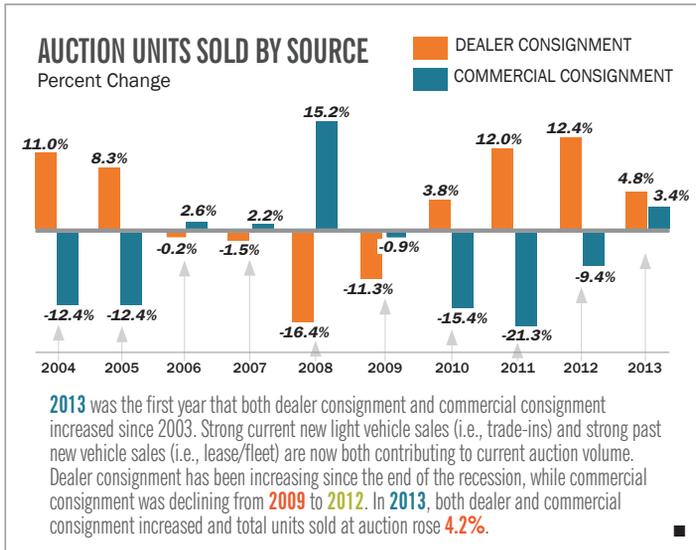
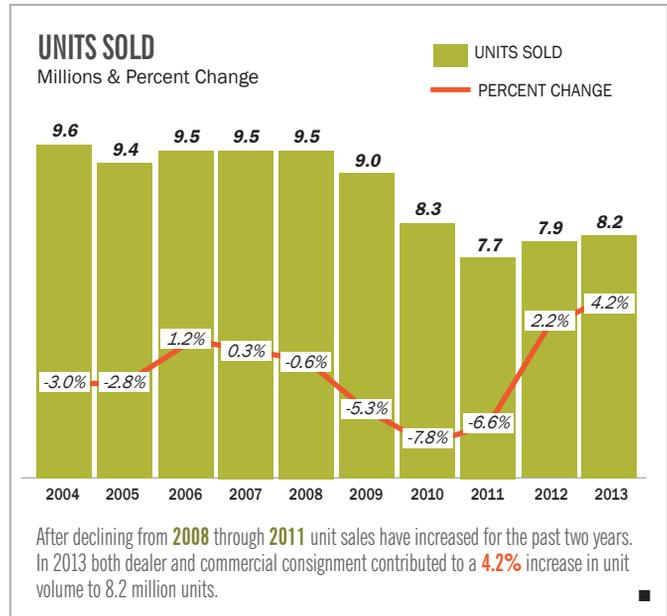
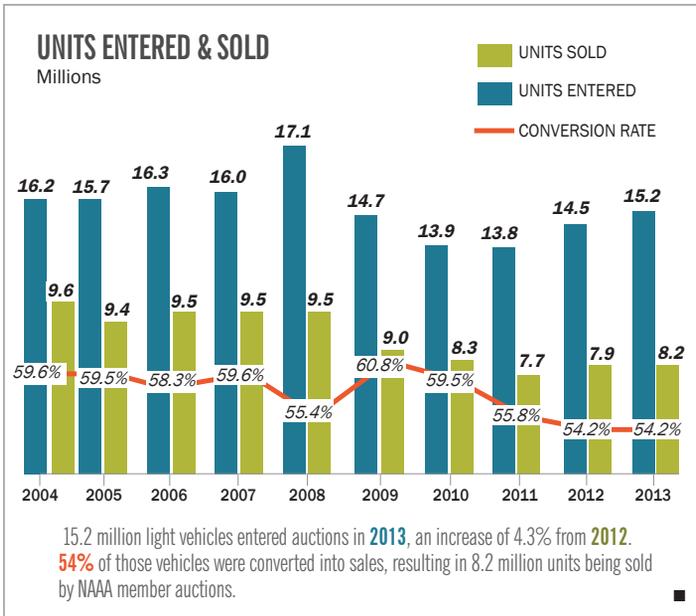


Jack and Jacquie Kesler

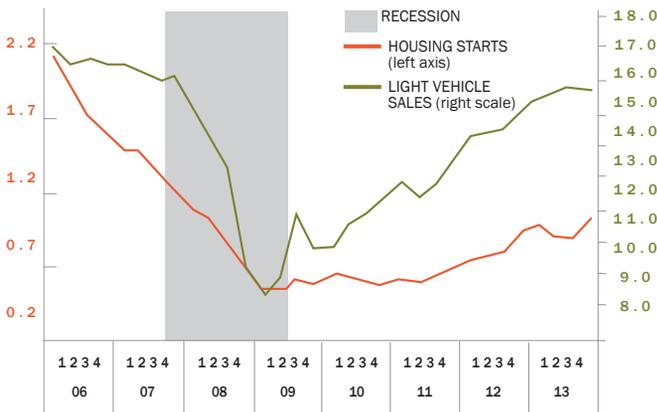
improving services to remarketers through NAAA member auctions; has championed NAAA member auctions as providing services for motor vehicle remarketers unavailable from any other source; and has consistently followed the ethical standards of the NAAA Code of Ethics.

NAAA named Jack and Jacquie Kesler, owners of Kesler-Schaefer Auto Auction (KSAA), its 2013 Industry Pioneers for their achievements and contributions to the remarketing profession.

In 1956, the young couple took over from Jacquie's mother the reins of a business founded by her late father that had gone from a humble beginning of a dozen cars in a rented tent on a gas station lot in 1943 to a permanent building where 100-200 cars were auctioned a week. Following two moves for the expansion and upgrading of the growing auction over the decades, today KSAA handles an annual sales volume of more than 26,000 vehicles under the management of the family's third generation, their son Steve.



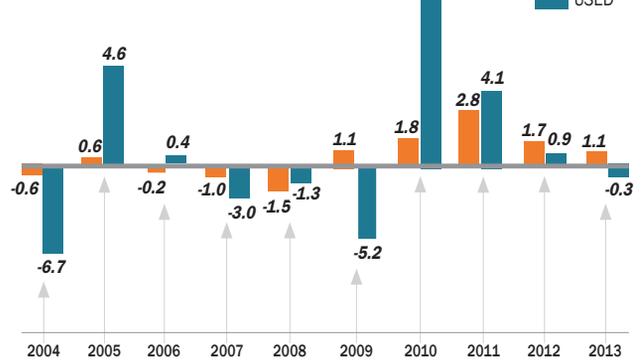
LIGHT VEHICLE SALES & HOUSING STARTS Millions



While housing has not followed its typical surge during the early stages of the economic recovery, new light vehicle sales have recovered strongly. Higher incomes, easier credit, a surging stock market, and improved consumer confidence have combined with pent-up demand to produce a near normal auto rebound in a subnormal economic recovery. At the end of **2013** new light vehicle sales were approaching **16 million** units at an annual rate. ★

LIGHT VEHICLE RETAIL PRICES

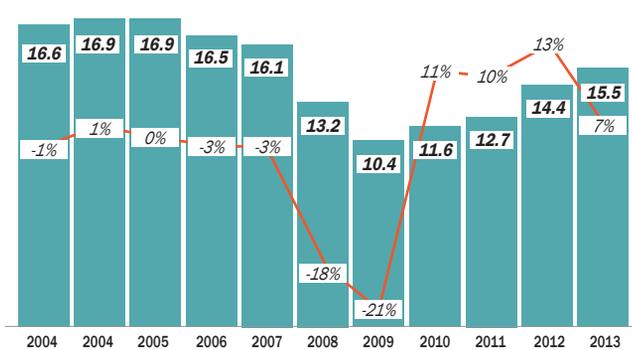
Percent Change



In **2010** and **2011** a lack of used vehicle inventory related to weak new sales and trade-ins during the recession which led to sharp price increases as recovery driven demand surged. More used supply coming from increased new sales and trade-ins brought down used vehicle inflation significantly in **2012** and **2013**. During the recovery new car price inflation has been relatively tame except in **2011** when the Japanese earthquake reduced vehicle supply. ▲

NEW LIGHT VEHICLE SALES

Millions of Units & Percent Change



New light motor vehicle unit sales increased **7%** in **2013** to 15.5 million. This is the fourth consecutive increase of more than 1 million units. During **2013**, monthly new light vehicle sales reached 16 million at an annual rate in August and November. An improving labor market and the associated income growth should help new vehicle sales move above 16 million on a consistent basis and even approach 17 million during the next few years. ★

USED LIGHT VEHICLE RETAIL SALES

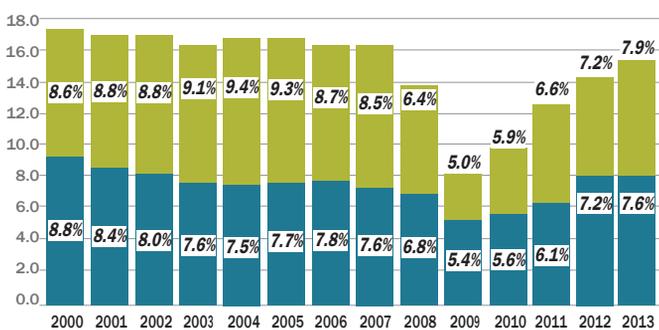
Millions of Units & Percent Change



Used light vehicle retail sales increased for the fourth year in a row in **2013** to 42 million units, after four years of decline. Used vehicle sales have now exceeded their pre-recession level of **41.4 million** in **2007** as an improved economy and higher new sales increased both demand and supply. Retail sales in the used vehicle market tend to follow new sales trends as trade-ins create used supply. However, used retail sales tend to be less volatile than new sales as their prices are lower, leading consumers to trade down to used vehicles during economic downturns and trade up to new vehicles when economic conditions improve. ●

NEW RETAIL SALES

Millions of Units



A stronger housing market and continued low gas prices contributed to an increase in the light truck share of light vehicle sales in **2013**. Light truck sales had been particularly weak during the recession and then rebounded in **2010** and **2011** to over a **50%** share. In **2012**, the auto share moved back to **50%** as many new attractive, highly fuel-efficient passenger cars were introduced, particularly by the recovering American manufacturers. ★

NAAA SOURCE KEY

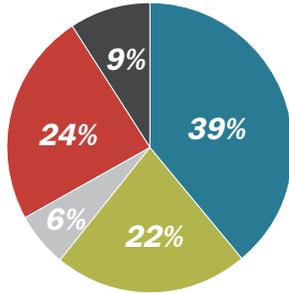
- NAAA Industry Survey
- ★ U.S. Department of Commerce
- ▲ U.S. Department of Labor
- CNW Research
- NADA Industry Analysis Division
- ◆ NADA Member Survey

SOURCES OF USED VEHICLES RETAILED BY DEALERSHIPS

By Department

2012

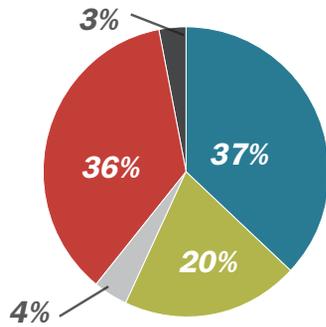
- TRADE-IN ON NEW VEHICLE
- TRADE-IN ON USED VEHICLE
- STREET PURCHASE
- AUCTION PURCHASE
- OTHER



In **2012**, new vehicle dealers acquired 61% of the used units they retailed from trade-ins, 24% from auctions, and the remaining 15% from street purchases and other sources. Over the decade auctions as a source of used cars have declined from 36% to 24%.

2002

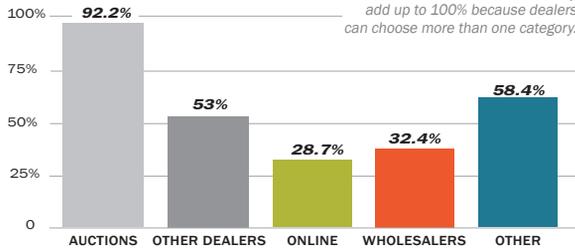
- TRADE-IN ON NEW VEHICLE
- TRADE-IN ON USED VEHICLE
- STREET PURCHASE
- AUCTION PURCHASE
- OTHER



SOURCE OF USED VEHICLE INVENTORY FOR INDEPENDENT DEALERS

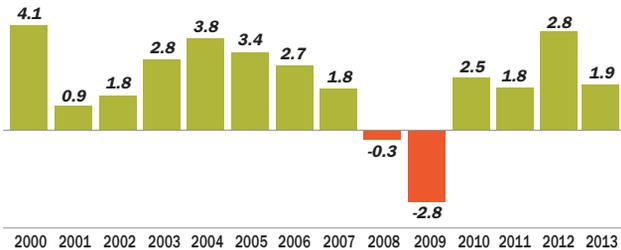
Percentage of Respondents

Note: Numbers won't necessarily add up to 100% because dealers can choose more than one category.



REAL GROSS DOMESTIC PRODUCT

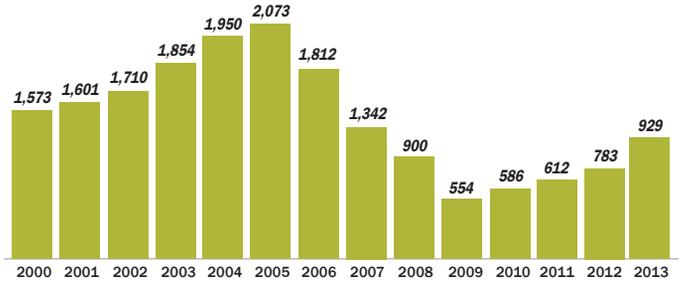
Percent Change



For the fourth year in a row growth in real GDP has been positive but below what would have been expected after a serious recession. Due to the low rate of real GDP growth, labor and product markets remain relatively slack preventing the increases in inflation and interest rates that usually follows a period of strong economic growth and leads to the next downturn. Until labor and product markets tighten significantly, low inflation and interest rates should support continued economic growth. ★

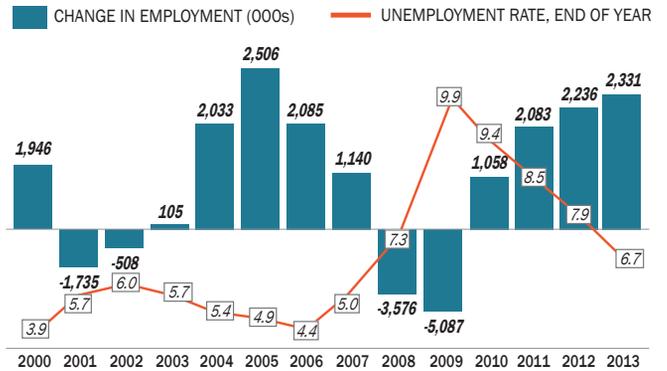
HOUSING STARTS

Thousands of Units



2013 was the second year in a row that housing contributed to GDP growth instead of dragging it down. In past recoveries, new home construction was a strong contributor to economic growth early on in the pickup. Instead of this normal surge, housing starts remained near their recession low two years into the recovery. This lack of a pickup in home construction has been a major factor in the weakness of the overall economic recovery. In **2012**, housing starts began to increase as home prices stabilized and started to rise. In **2013** housing starts increased to almost 1 million, almost double the recession low, but still about 50% below a normal rate. ★

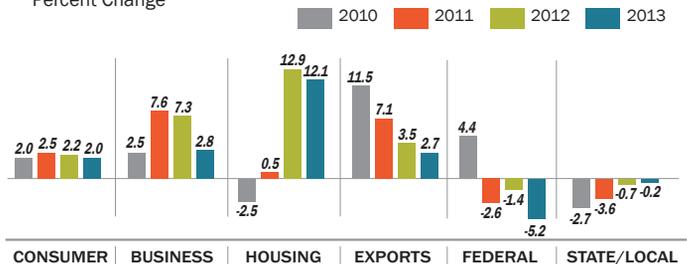
EMPLOYMENT GROWTH AND END OF YEAR UNEMPLOYMENT RATE



While GDP exceeded its pre-recession peak by the end of **2011**, employment did not reach that milestone until March of **2014**, more than 6 years after its pre-recession peak. Since the end of the recession businesses have been able to increase output without adding significantly to payrolls. The unemployment rate, which had only declined about 2% from its recession high of 10% by the end of **2012**, moved down sharply to 6.7% at the end of **2013**. Some of this decline is related to a drop in the number of people seeking employment rather than an increase in hiring. The Federal Reserve has explicitly recognized the importance of jobs by pledging to not raise interest rates until the labor market has improved substantially. ▲

A CLOSER LOOK AT REAL GROSS DOMESTIC PRODUCT

Percent Change



The leading sectors during the economic recovery have shifted as the economy has grown over the past four years. In **2010** exports and federal spending drove growth. In **2011** and **2012** business investment picked up while federal and state/local spending was a drag on growth. Adding to GDP in **2012** was a major turnaround in housing from years of decline to a sharp increase. Housing continued strong in **2013** as business spending and exports weakened. Tax increases and a sharp reduction in federal spending reduced **2013** real GDP growth by at least 1%. ★