FOR IMMEDIATE RELEASE

EFG Predicts Increased Focus on F&I and Service Drive to Foster Customer Loyalty

- Rising Vehicle Prices, Manufacturer Incentives, Strained Profit Margins, Consumer Communication, and Growth Potential in Auto Finance Make the List -

DALLAS, TX (November 14, 2017) EFG Companies, the innovator behind the award-winning Hyundai Assurance program, announced its 2018 predictions and recommendations for the retail automotive and powersports' F&I markets today. These insights, formed through thousands of conversations with the nation's leading dealership principals and lenders, reflect another year of cautiousness on the horizon. However, there are many options for dealers, lenders, and agents to successfully navigate an uncertain business climate for a prosperous 2018. For more information, visit http://bit.ly/Intel2018.

"2017 has been one eventful year. We've seen three rate increases so far from the Federal Reserve. The CFPB's influence has been curtailed by Congress and the current Administration. While new unit sales have flattened, the effects of the hurricanes in Southeast Texas, Florida and Puerto Rico - and the California wildfires - loom large," said John Pappanastos, President and CEO, EFG Companies. "For the retail automotive and powersports industries, we're still seeing a holding pattern. 2018 sales volumes are expected to be roughly the same as 2017, barring any significant economic fluctuations. The challenges and opportunities ahead will largely revolve around customer retention, building up the service bay, and leveraging changing consumer trends to foster market differentiation."

Utilizing its 40-year history in the F&I industry, EFG Companies offers the following predictions for 2017:

Marginal Uptick in Unit Sales, Strained Profit Margins, and Increased Focus on Customer Retention for Retail Automotive

> Manufacturers learned a big lesson in 2017. Today's consumers want SUVs and CUVs. As manufacturers update their vehicle line-up, we should see slightly more new unit sales in 2018 than we did in 2017, but not significantly. The trend of rising vehicle prices will only continue. Combined with manufacturer incentives, dealer front-end margins will continue to be strained. As such, dealers will increase their focus on their F&I operations from both an up-front profit and a customer retention standpoint. Expect dealers to retool their product menus and F&I pay plans based on products that encourage consumers to return for service. In addition, dealers will put an even greater emphasis on their service drive to better utilize their time with the customer and enhance their ongoing communication. In this same vein of consumer communication, we're seeing more dealers becoming open to listing F&I product benefits online as a way to speed up the F&I process, increase consumer interest in available benefits, and increase product penetration rates.
>
> *John Stephens, Executive Vice President, Dealer Services*

Acquisitions and Engagement Will Be the Name of the Game for Agents

Going into a second year of relatively flat unit sales, agents are already becoming much more engaged with dealerships on a day-to-day basis, and are focusing more of their efforts on increasing their dealership client base. In their acquisitions efforts, agents will be much more circumspect and selective when it comes to approaching dealers. There will be an increased competition among agents for those higher-volume dealerships, which will force agents to differentiate themselves based on more than just products. Strategic agents will take a more engaged approach to both servicing and acquiring clients, identifying needs, providing training, product menu updates, pay plan guidance, recruiting support, pre-owned inventory analysis, and even providing compliance services. This holistic approach will separate the high performing agents from their peers.

Adam Ouart, Vice President, Agency Services

Growth Potential for Lenders Who Leverage Today's Economic and Consumer Trends

Even with rising delinquencies and flat vehicle sales, economic indicators continue to be strong. As more consumers delayed making their next vehicle purchase in 2017, the pent-up demand will begin to unfurl in 2018 – especially as SUVs hit the market. With this in mind, there is growth potential for the auto lending environment in 2018. To get in front of more consumers, we'll see lenders increasing their direct-to-consumer auto lending marketing spend. They'll also shore up their dealership relationships by buying more aggressively when possible, scheduling ongoing in-dealership meetings at least once a week, and reviewing profit metrics with dealership leadership once a quarter. In addition, lenders will evaluate other solutions to both protect their loan portfolios and enhance their market differentiation for consumer protection products.
Brien Joyce, Vice President, Specialty Services

Growth Challenges Continue for Powersports Dealers

The powersports industry saw similar challenges as the automotive industry in 2017. Unit volume did not hit projections and we're seeing more dealers sell inventory at or below costs just to keep it moving. To recoup this lost profit margin in 2018, dealers will be evaluating how to drive as much traffic their way as possible, and how to increase customer retention. We will see more powersports dealers use F&I products to meet both goals. They'll focus their product menus and pay plans around those products that differentiate them in their given market and encourage repeat business in the service bay. In addition, consumer demand for pre-owned inventory will continue to be higher than demand for new, as consumers are still wary of an uncertain economy. For this reason, dealers will utilize strategic CPO programs to differentiate themselves and increase their back-end profit.

Glenice Wilder, Vice President, Powersports

More Proactive Reinsurance Positions Ahead

Hurricanes Harvey, Irma and Maria, along with the California fires, have taken a toll on dealer reinsurance positions. Right now, dealers are still working to understand how much these catastrophic events undermined their positions. In 2018, they will need to apply the lessons learned from 2017 to rebuild and better insulate their positions for the future. One of the biggest take-aways from 2017 is that when a dealer decides to take part in a reinsurance position, they are acting as an insurance provider. Yes, reinsurance is a wealth management tool, but the key word in reinsurance is “insurance”. With reinsurance, dealers are insuring that they will cover the risk of an adverse event. In the case of GAP, they are insuring against a total loss. Unlike service contracts, GAP losses are impacted by both single event losses, such as vehicle theft, and catastrophic losses, wherein one event i.e., “Harvey” results in a significant number of total losses. With reinsurance companies, there will always be claims and dealers need to be prepared to take losses, including catastrophic losses, based on the makeup of their portfolio. As far as the immediate need of recouping losses from 2017 GAP claims, dealers need to take a long-term approach. If dealers try to recover the entire amount in 2018, the necessary price increase for product sales may price them out of the market. A better approach will be to plan to recover the amount lost over a span of three to five years, so as to stay competitive with product pricing. In addition, dealers need to re-evaluate how they buffer against future catastrophic events. The best way to do this is to understand your market and the likelihood of a catastrophic event, then price F&I products accordingly. For example, dealers operating in areas where hurricanes occur frequently should have higher F&I prices than those who operate in areas where there is little chance for a natural disaster.

Rick Christensen, Vice President, Product Development

About EFG Companies

EFG Companies drives the industry’s highest-reported compliant F&I profitability through its distinct engagement model in which the company operates as an extension of the dealer’s management team. EFG addresses total dealership performance, and its client satisfaction Net Promoter score is higher than national corporate leaders such as Southwest Airlines, USAA Banking and Finance, and Nordstrom. Learn more about EFG at: www.efgcompanies.com.

###