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INDUSTRY INSIGHTS:

Timely commentary from Jack R. Nerad, vice president, executive editorial director and executive market analyst, Kelley Blue Book's KBB.com: Are Used Electric Vehicles 'Sales-Proof?'

LATEST NEWS STORIES ON KBB.COM:The latest video and written news stories by the editorial staff of Kelley Blue Book's KBB.com

NEW-VEHICLE REVIEWS ON KBB.COM:All-new and updated video and written reviews from the editorial staff of Kelley Blue Book's KBB.com, and links to consumer reviews and ratings on KBB.com

WHAT'S NEW:

New-Car Sales Expected to Stay on Course Despite Expired Payroll Tax Holiday

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Kelley Blue Book® Fair Purchase Price Data Reveals Vehicle Segments Worth Purchasing New Rather Than Used

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INDUSTRY INSIGHTS:

Are Used Electric Vehicles 'Sales-Proof?'

- Jack R. Nerad, vice president, executive editorial director and executive market analyst, Kelley Blue Book's KBB.com

here are many reasons to like electric vehicles. Topping the list is the fact that they emit virtually nothing when in operation, an aspect that makes them the darling of many environmentalists. Extensive adoption of electric cars also would lessen our nation's reliance on foreign oil, and that certainly has major benefits. Taking a more micro viewpoint, electric cars have additional benefits that accrue to those who drive them. They are silent, smooth and surprisingly powerful. Their driver-vehicle interfaces are typically very engaging, and they offer the convenience of recharging at home, at work or at public recharging stations. And just to level-set, I personally consider myself both an environmentalist and a proponent of electric vehicles, which is why there is some personal pain in reporting what I'm about to report.

To all the hurdles that have been thrown in electric vehicles' way, you can add another — the big question of resale value. We at Kelley Blue Book believe that resale value is an important vehicle attribute. The top vehicles in each segment typically have higher resale value than their competitors. This reflects the fact that they are not only valued as new cars, but also are valued above the norm as used cars. But when you examine the predicted residual values of electrics and plug-in hybrids, they are substantially poorer than conventional vehicles of similar size and capabilities.

First off, the discussion must be prefaced by the fact that federal and other tax credits are one reason this is the case, and arguably the biggest reason. The \$7,500 federal tax credit is a strong incentive to purchase an electric vehicle. That is its intention. In practice, the federal tax credit also has other consequences, which we assume are unintended. The first is the tax credit lowers the effective purchase price of the vehicle, which pushes its residual value downward. The incentive also tends to benefit relatively affluent

individuals, since they are able to fully use the full tax credit. Finally, the tax credit has made 1- and 2-year-old electric cars virtually unsellable. Now nothing is really "sales-proof." As my grandfather was fond of saying, "You can sell anything; it just depends on the price." But a year-old LEAF might give him fits if he were still with us. After all, who would buy a year-old LEAF, which lacks the tax incentive, for anything more than its original suggested retail minus \$7,500 minus an additional allowance for wear-andtear and hours on the very expensive battery pack?

That, of course, brings up the bigger potential issue with electrics, calculating their residual value in light of the fact that the most expensive component — the battery pack — has a finite life and that such a vehicle is of no use without a functional battery pack. Since electrics and plug-ins are still relatively new to the market, we at Kelley Blue Book have not seen how this will play out over the course of a vehicle's 10 to 15 year lifespan. But we have already sensed reluctance on the part of consumers to buy used electric vehicles, and the odds are that phenomenon is not going to change over the next decade. Why? It stems not only from the fact that the battery packs have a finite life and are very expensive, but also from the fact that many consumers expect the battery technology and overall electric-car technology to improve in coming years. Just as not many of us are eager to fork over our money for 5-year-old mobile phones or 3-year-old laptops, so it might be with electric cars.

So, as we said at the outset, we are fans of electric cars and of electriccar technology. The electric vehicles we have driven are a revelation and a potential blessing to the planet. But early returns on the resale-value front indicate they have yet another hill to climb.

LATEST NEWS STORIES ON KBB.COM:

Check out the very latest news stories by visiting <u>KBB.com</u> and clicking the the <u>KBB.com Top Picks</u> tab on the home page. The following latest news stories by KBB.com's editorial staff went live on the site or were updated during February 2013.

Videos Posted to KBB.com:

2014 Chevrolet Cruze Turbo Diesel - 2013 Chicago Auto Show 2013 Ford Fusion Video Review

2014 Kia Forte 5-door - 2013 Chicago Auto Show 2013 Nissan Juke Nismo - 2013 Chicago Auto Show

2014 Nissan 370 Z Nismo - 2013 Chicago Auto Show 2013 Tesla Model S Video Review - LA to Vegas the hard way

2014 Toyota Tundra - 2013 Chicago Auto Show Kia Cross GT Concept - 2013 Chicago Auto Show

2014 Volkswagen Beetle GSR - 2013 Chicago Auto Show Kia Optima Hybrid Superman Concept - 2013 Chicago Auto Show

2013 Ford C-MAX Video Review

Written Stories Posted to KBB.com:

2014 Chevrolet SS unveiled Mercedes-AMG and Cigarette Racing launch world's fastest EV boat

2014 Corvette introduces GM's new lightweight 'smart materials'

Mitsubishi GR-HEV and CA-MiEV Concepts teased for Geneva

2014 Jeep Cherokee teased for New York debut New Holden VF Commodore previews 2014 Chevrolet SS

2014 McLaren P1 hybrid supercar will make 903 horsepower New Panasonic Energy Recovery System enhanced for start-stop use

2014 Mercedes-Benz CLA Edition 1 coming to America Nissan bolsters performance division, confirms new GT-R Nismo

2014 Ram 1500 pickup to offer turbodiesel option Revealed: 2014 Alfa Romeo 4C - Geneva 2013

2014 Volvo S60 Sedan/Volvo XC60 SUV Updated Revealed: 2014 Audi A3 e-tron Concept - Geneva 2013

2014 Volvo S80 Sedan Updated Revealed: 2014 Audi RS Q3 - Geneva 2013

2014 Volvo XC70 Crossover updated Revealed: 2014 Bentley Flying Spur - Geneva 2013

2013 Cadillac CTS/CTS-V add Silver Frost/Stealth Blue Editions Revealed: 2014 Qoros 3 Sedan - Geneva 2013

2013 Mini John Cooper Works GP First Review: The Maximus of Minis Revealed: 2014 Volkswagen Golf GTD - Geneva 2013

2013 Tesla Model S: LA to Vegas the Hard Way (VIDEO) Revealed: 2014 Volkswagen Golf GTI - Geneva 2013

Alfa Romeo Gloria Concept teased for Geneva 2013

Revealed: Aston Martin Rapide Bertone Concept - Geneva 2013

Audi builds its 5 millionth vehicle with a Quattro AWD system Revealed: Qoros 3 Cross Hybrid/Estate Concepts - Geneva 2013

Class of 2014: The All-New Cars and Models Revealed: Rinspeed microMAX Concept - Geneva 2013

Continental shows new driver-distraction prevention technology Revealed: Volkswagen XL1 - 261-mpg car gets real - Geneva 2013

GM to offer in-car 4G LTE connectivity on its 2015 models

Spyker B6 Concept teased for Geneva

J.D. Power study finds Lexus the most dependable brand Ssangyong SIV-1 Concept teased for Geneva

KBB.com: best deals exist on new compact cars and compact SUVs Subaru VIZIV Concept previewed for Geneva

KBB Poll: Payroll tax increase will impact auto buying decisions

KBB Weekend: Best deals, 261-mpg VW, our Tesla adventure

NEW-VEHICLE REVIEWS ON KBB.COM:

The following new-vehicle reviews written by KBB.com's editorial staff went live on the site or were updated during February 2013. To see any new-vehicle review from KBB.com's editorial staff, please visit <u>KBB.com</u> and click on the *Car Reviews* tab, then select the make and model.

2014 Honda Accord

The 2014 Honda Accord Plug-in is a hybrid that, thanks to a larger lithium-ion battery, has the ability to travel about a dozen miles on electricity alone. When battery capacity dips below a certain point, the car automatically switches to a traditional gasoline/electric hybrid operation. This setup allows the Accord Plug-in Hybrid its electric-only range of 13 miles, 46-mpg fuel economy as a hybrid, and single-occupant access to carpool lanes in California, which, along with New York, is initially selling the 2014 Accord Plug-in Hybrid in limited numbers...

2014 Kia Sorento

Having undergone a more extensive update than its mildly refreshed exterior would suggest, the 2014 Kia Sorento is now an even more appealing package for tech-minded shoppers who want 3-row flexibility but not the bulk of a typical midsize SUV. But the Sorento is also available in a 2-row configuration, making it a viable alternative to 5-seat SUVs like the Ford Edge, too...

To read the latest Consumer Reviews & Ratings on this vehicle, click **here**.

2014 Mazda MAZDA6

The mid-size sedan segment is filled with all-new versions of popular nameplates this year, but among them, the 2014 Mazda6 seems the most willing to break from the "appliance-car" mode in both its exterior styling and its sports-sedan-inspired handling. In a quest to improve across-the-the-range fuel economy while refusing to sacrifice dynamic handling, Mazda has filled the model with a number of related technologies under the Skyactiv umbrella...

2014 Subaru Forester

Fully redesigned, the 2014 Subaru Forester enters its 4th generation the beneficiary of a comprehensive improvement program that makes this mainstay of the automaker's lineup an even more attractive choice in one of today's hottest segments. Available in several naturally aspirated (2.5i) and turbocharged (2.0XT) trim grades, each with standard all-wheel drive (AWD), this compact 5-passenger SUV complements a new sense of style and refinement with numerous structural and chassis enhancements, more fuel-efficient powertrains, greater passenger/cargo space and significant new tech touches...

2013 Aston Martin DB9

In the world of luxury performance cars, British automaker Aston Martin neatly fits above brands such as Audi and BMW, and just below exotics like Ferrari and Bentley. The 2013 DB9 holds the middle ground of Aston's lineup, above the sport-oriented Vantage and below the new Vanquish GT...

To read the latest Consumer Reviews & Ratings on this vehicle, click here.

2013 Mini Paceman

The 2013 Mini Paceman is the newest member of the Mini family. Like the original Hardtop that revived this British car company a decade ago, the Paceman is a 2-door hatchback with seating for four. But it's really more similar to the Countryman, which is longer, wider and taller than the Cooper Hardtop...

WHAT'S NEW

New-Car Sales Expected to Stay on Course Despite Expired Payroll Tax Holiday

Kelley Blue Book Analysts Predict 15.3 Million SAAR, Especially Strong Month for Pickup-Truck Sales

IRVINE, Calif., Feb. 26, 2013 - For the month of February 2013, analysts predict <u>new-car sales</u> will maintain the momentum from the previous three months and hit 15.3 million seasonally adjusted annual rate (SAAR), a 3.4 percent year-over-year improvement, according to Kelley Blue Book <u>www.kbb.com</u>, the leading provider of new and used car information. Although shy of the 14 percent annual gain the auto industry experienced in January, sales should improve more than 7 percent after adjusting for the number of selling days in February.

"Similar to previous months, consumers will be lured to dealer showrooms by low finance rates, affordable lease payments, and most importantly, new and compelling product," said Alec Gutierrez, senior market analyst of automotive insights for Kelley Blue Book... MORE

KBB.com: Today is a Great Time to Buy a New Car with Recently Redesigned Models Available at Reasonable Prices

Consumers Should Take Advantage of Attractive Incentives, Ample Inventory

IRVINE, Calif., Feb. 19, 2013- Although economic concerns remain, consumers in a position to buy a <u>brand-new vehicle</u> have more amenity-laden, reasonably priced options today than ever before, according to Kelley Blue Book <u>www.kbb.com</u>, the leading provider of new and used car information.

"Since the 2011 model year, nearly every vehicle in each major selling category has undergone a significant redesign that has upped expectations of consumers by a sizable margin," said Alec Gutierrez, senior market analyst of automotive insights for Kelley Blue Book... MORE

Kelley Blue Book® Fair Purchase Price Data Reveals Vehicle Segments Worth Purchasing New Rather Than Used

Comparable New and Used-Car Pricing Found in Compact Car and Compact Crossover Categories; Used Mid-Size Sedans Continue to Offer Substantial Savings

IRVINE, Calif., Feb. 14, 2013 - Consumers looking for a compact car may want to consider purchasing new rather than used, according to Kelley Blue Book <u>www.kbb.com</u>, the leading provider of new and used car information. Kelley Blue Book <u>Fair Purchase Price</u> data reveals that shoppers can purchase a new compact car for as little as \$339 per month with a five-year loan, which is only \$30 per month more expensive than a comparable one-year-old used variant.

The Kelley Blue Book Fair Purchase Price is the price people typically pay a dealer for a <u>new car</u>, based on actual new-car transactions and adjusted regularly as market conditions change. This information can help reduce the friction between dealers and consumers, offering buyers a realistic and relevant picture of what others are paying for similar models in their area... <u>MORE</u>

Annual Car Sales Strength Expected to Slow Following Three-Year Trend of Double-Digit Growth, According to Kelley Blue Book Analysts

Industry Sales Will Continue to Outpace Economic Growth; Affordable Pricing and Credit Environment Keeps Consumers Coming Back

IRVINE, Calif., Feb. 13, 2013 - New-vehicle sales are expected to grow nearly 6 percent in 2013 to 15.3 million units overall, breaking the three-year trend of double-digit sales growth that has persisted since 2010, according to Kelley Blue Book www.kbb.com, the leading provider of new and used car information.

"Although the sales pace is expected to slow this year, automakers have demonstrated that they can generate solid profits with sales at current levels, which is a strong indication that they will remain disciplined by continuing to match production to meet demand," said Alec Gutierrez, senior market analyst of automotive insights for Kelley Blue Book... MORE

About Kelley Blue Book (www.kbb.com)

Founded in 1926, Kelley Blue Book, The Trusted Resource®, is the only vehicle valuation and information source trusted and relied upon by both consumers and the industry. Each week the company provides the most market-reflective values in the industry on its top-rated website www.kbb.com, including its famous Blue Book® Trade-In and Suggested Retail Values and Fair Purchase Price, which reports what others are paying for new cars this week. The company also provides vehicle pricing and values through various products and services available to car dealers, auto manufacturers, finance and insurance companies as well as governmental agencies. KBB.com provides consumer pricing and information on cars for sale, minivans, pickup trucks, sedan, hybrids, electric cars, and SUVs. Kelley Blue Book Co. Inc. is a wholly owned subsidiary of AutoTrader Group.