

## **FCA Canada Inc. Explanatory Note on Sales Reporting Process**

September 1, 2016, Windsor, Ontario - On July 26, 2016, FCA US LLC issued an explanatory note to clarify how its vehicle unit sales have been reported historically, to explain some modifications to the future reporting process to provide its best available estimate of vehicle unit sales and to provide monthly data for vehicle unit sales as reported historically and as determined using FCA US's new methodology.

On August 3, 2016, FCA Canada reported its July 2016 sales using a new sales reporting methodology, similar to that which was implemented by FCA US and outlined in its explanatory note, as modified to reflect differences in the Canadian sales reporting process<sup>[1]</sup>.

This note explains further how FCA Canada has adopted the new reporting methodology and provides transparency to the FCA Canada sales reporting process as well as to historical monthly sales applying the new methodology.

The vehicle unit sales data reported by FCA Canada comprises three main components: (a) sales made by dealers to retail customers; (b) sales of vehicles shipped directly by FCA Canada to fleet customers and (c) other retail sales including vehicles delivered to FCA employees and retirees and vehicles used for marketing.

### **Dealer Sales**

Retail sales data is collected from the dealers (through a reporting system called the New Vehicle Delivery Report, or NVDR). This system is primarily designed to capture the time of a retail sale for two purposes. First, the date of sale recorded in the NVDR system begins the retail customer's warranty coverage on the vehicle. Second, the recording of the retail sale in the NVDR system triggers FCA Canada's obligation to make any manufacturer's incentive payments to the dealer. These incentives may be based on the particular model sold, the number of certain models sold in the period and the achievement of certain overall dealer volume objectives.

These retail sales are made by dealers out of their own inventory of vehicles. This inventory was purchased by the dealers from FCA Canada before any retail delivery to the customer. Consistent with other automakers' practices, it is this initial sale -- by FCA Canada to the dealer -- that triggers revenue recognition in FCA Canada, and not the ultimate sale of the vehicle by a dealer to a retail customer. It is for this reason that the process of reporting monthly retail unit sales has no impact on the revenue reported by FCA in its financial statements.

The NVDR system in place between FCA Canada and its dealers does not have the capability for a dealer to automatically "unwind" a transaction recorded in the NVDR system and return the vehicle to the dealer's unsold inventory. However, dealers can edit data previously entered into the NVDR system, including to record a new purchaser and a new sales date at the time the vehicle is subsequently sold by the dealer. Data edits may be made in the NVDR system for other reasons including to correct or update a purchaser's name, address or other personal data; therefore FCA Canada cannot readily determine whether a particular updated NVDR entry represents a subsequent sale of a previously unwound vehicle. As a result, FCA Canada does not have an automatic process to identify which transactions are unwound after an initial sales transaction. FCA Canada has not historically reflected either sales unwinds or subsequent sales of previously unwound vehicles in its sales reporting. As a safeguard against double reporting, however, the sales reporting process blocks any vehicle identification number (VIN) from being reported twice.

### **Fleet and Other Retail Sales**

The other component of the monthly reported unit sales has been vehicles that FCA Canada delivers directly, principally to fleet accounts, and retail and other sales consisting of a small number of vehicles for company and marketing uses.

It has been a matter of historical practice for FCA Canada to maintain a "reserve" of vehicles in this category that had been shipped but not been reported as "sold" in the monthly sales reports. While the origin of this practice is

unclear and is being looked into, FCA Canada believes that it was probably originally intended to exclude from the reported sales number vehicles that were in transit to fleet customers, as well as vehicles that were not yet deployed in the field (because, for example, they were being tailored by the fleet customer or a third party to the fleet customer's specifications). The rationale for this exclusion, we believe, was to introduce some level of conformity in the reported monthly numbers, since the sales data was intended to reflect vehicles put in use during the month.

This "not-in-use reserve" has ranged in size from month to month, and resulted from a subjective assessment at month-end. A review of the data suggests that the reserve has always been positive, such that FCA Canada has always, in the aggregate, reported fewer sales than the aggregate number of shipped units on a running basis. Nevertheless, there appears to be no objective methodology for establishing and maintaining such a reserve and thus several plausible values exist for such a reserve. To the extent that the methodology historically used does not yield a unique value, the outcome is inherently arbitrary.

FCA Canada has therefore decided to report monthly sales with a revised methodology from July 2016.

- Total sales will comprise:
  - Dealer reported sales in Canada;
  - Fleet sales delivered directly by FCA Canada; and
  - Retail other sales.
- Dealer reported sales (derived from the NVDR system) will be the sum of
  - all sales recorded by dealers during that month.
- Fleet sales will be recorded as sales upon shipment by FCA Canada of the vehicle to the customer or end user.
- Other retail sales (as defined above) will be recorded when the sale is recorded in the NVDR system.

The objective of this new methodology is to provide in FCA Canada's judgment the best available estimate of the number of FCA Canada vehicles sold to end users through the end of a particular month applying a consistent and transparent methodology. It continues to include some level of estimation in respect of, for example, unwound transactions and fleet deliveries, which may be placed into service at various times after shipment and delivery. FCA Canada believes, however, that the consistency in application and transparency of this new methodology provides the most appropriate data for the limited uses to which the monthly vehicle unit sales data should be applied.

FCA Canada has prepared unit sales reports going back to the beginning of 2011 using this approach, and has included the results in the attached Exhibit. The Exhibit also compares the data derived under this new methodology with previously reported Canada monthly sales data. This comparison yields the following results.

1. FCA Canada in November 2015 last commented specifically about a "streak" of year-over-year monthly sales improvements since December of 2009. Applying this new methodology, during the periods presented below, year-over-year monthly sales would have declined in April 2012 (-6%). The so-called "sales streak" would have stopped in April 2012.
2. Annual sales volumes under the new methodology for each year in the 2011-2016 period are within approximately 0.6% of the annual unit sales volumes previously reported and in the aggregate are 180 units (0.01%) higher than the prior methodology.

FCA Canada will be reporting its August 2016 sales using the new methodology, which was also applied for its July sales.

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[1] Sales by FCA Canada's dealers are derived from the New Vehicle Delivery Report, or NVDR system and reported upon the first sale reported in the NVDR system because the NVDR system deployed to FCA Canada dealers does not have the capacity to record "unwinds" automatically. Unwinds of previously reported sales and subsequent sales of those vehicles do not affect the reported vehicle sales. Under

the new reporting methodology, fleet sales are recorded as sales upon shipment by FCA Canada of the vehicle to the customer or end user.

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