MERCER CAPITAL
BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES
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VALUE FOCUS

Auto Dealer Industry

Issue No. 13 | Data as of Mid-Year 2024

Mercer Capital is a national business valuation and financial advisory firm. Valuations of auto dealers require special knowledge of the industry, hybrid valuation methods, and understanding of industry terminology. This newsletter provides useful statistical metrics of the auto industry as well as content about the unique industry factors and value drivers of business valuations. We can assist you and your clients in valuation and consulting matters within the auto industry.

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FEATURE ARTICLE

Mid-Year 2024 Review of the Auto Dealer Industry by Metrics

Tray Tables Up?

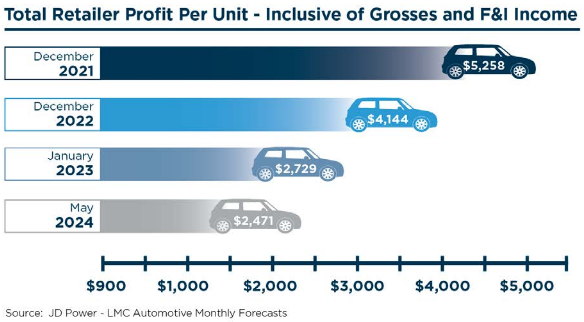
We've all been on an airline flight nearing the destination when the captain comes on the intercom and informs us that we are about to start our final descent, finish our beverages, and return our tray tables to the upright and locked position. Instinctively, we know this announcement signals that we have been cleared for landing and will be landing soon.

As we reviewed some of the key automotive statistics, we couldn't help but think, has the auto industry been cleared for landing after a three-year flight filled with periods of turbulence and smooth air? In this article, we discuss several key metrics we have tracked in this space over the last several years: new vehicle profitability, the supply of new vehicles, average trade-in equity values of used vehicles, fleet sales, and vehicle miles traveled.

New Vehicle Profitability

Total retailer profit per unit realized by auto dealers has continued to decline and normalize since an industry peak of $5,258 per unit in December 2021.

The chart on the right, created with elements provided by the JD Power and LMC Automotive forecast, illustrates that the current profit per new unit retailed is $2,471, compared to the pre-Covid figure of $2,053.



The current figure has declined by 53% but still remains 20% higher than the pre-Covid figure. Will this metric settle in at the current rates, or will it continue declining for a few more months before finally settling into the new or old normal?

FEATURE ARTICLE

Mid-Year 2024 Review of the Auto Dealer Industry by Metrics

Tray Tables Up?

(CONT.)

For context, JD Power reports that only 14.9% of new vehicles sold above MSRP in May 2024, compared to 50% of new vehicles selling above MSRP in June 2023.

If these trends continue along with increased incentives from manufacturers, average transaction prices for new vehicles will also continue to decline. Currently, the average transaction price for a new vehicle stands at $45,033, down $1,045 or 2.3% from May 2023.

Supply of New Vehicles

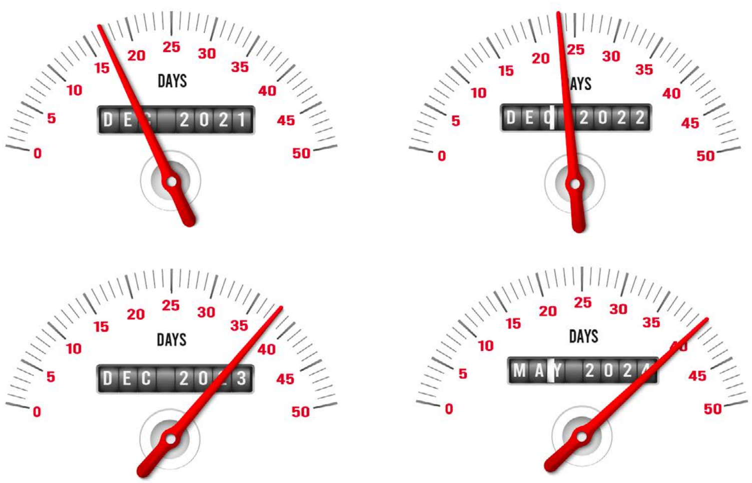
For the last couple of years, evidence of a tight supply of new vehicles could be seen in the lack of inventory on auto dealer lots across the country. We've written about average days' supply for both new and used vehicles in this space on numerous occasions. We've also viewed this trend from a similar metric measuring the average time in days that a new vehicle sits on a dealer's lot before it is purchased.

The monthly forecasts provided by JD Power/LMC Automotive report these figures as 38 days and 40 days as of December 2023 and May 2024, respectively. Both figures indicate a steady climb over the year-end low of 17 days in December 2021. Fortunately, this figure is still well below pre-pandemic levels of 71 and 72 days in December 2018 and 2019.

Within these average day figures, dealers are pre-selling smaller portions of their vehicle allocations. JD Power indicates that 33% of new vehicles are selling within ten days of arriving on a dealer's lot.

For context, this percentage is down from 58% of new vehicles sold within the first ten days on the lot in March 2022. The 40-day mark is up 38% from this time last year when new automobiles were averaging just 29 days on dealers' lots.

Average Time New Vehicle on Dealer's Lot



Source: JD Power - LMC Automotive Monthly Forecasts

FEATURE ARTICLE

Mid-Year 2024 Review of the Auto Dealer Industry by Metrics

Tray Tables Up?

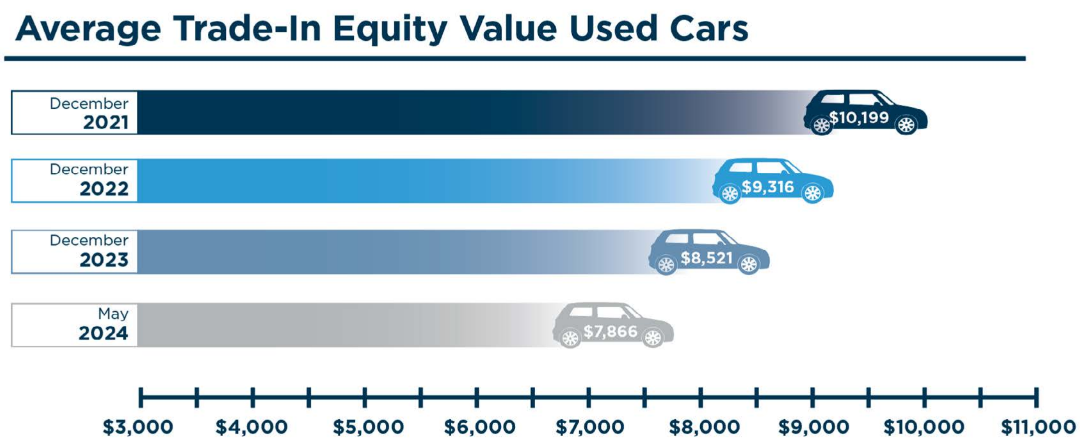
(CONT.)

Average Trade-in Equity Used Vehicles

Like new vehicles, used vehicle transaction prices have also cooled in recent months compared to soaring prices in 2022. Since fewer new vehicle units have been available to sell over the last few years, fewer used vehicles have been traded into the dealer for reselling. Increased demand for used vehicles led the average trade-in equity value for used cars to climb during the same period. As we discussed, the average trade-in equity value for used vehicles has normalized in the last 18 months.

According to the monthly forecasts from JD Power/LMC Automotive, the average trade-in equity value totaled $7,866 for May 2024 compared to $8,521 and $9,316 in December 2023 and December 2022, respectively.

With interest rates remaining at elevated levels, consumers tend to focus more on their monthly payments. Despite the cooling average used vehicle transaction prices, we anticipate many consumers will choose to hold on to their vehicles longer during this time.



Source: JD Power - LMC Automotive Monthly Forecasts

FEATURE ARTICLE

Mid-Year 2024 Review of the Auto Dealer Industry by Metrics

Tray Tables Up?

(CONT.)

Fleet Sales

Fleet sales consist of sales to large rental car companies, commercial users, and government agencies. Historically, fleet sales allowed auto dealers to sell surplus inventory and larger blocks of units at a time.

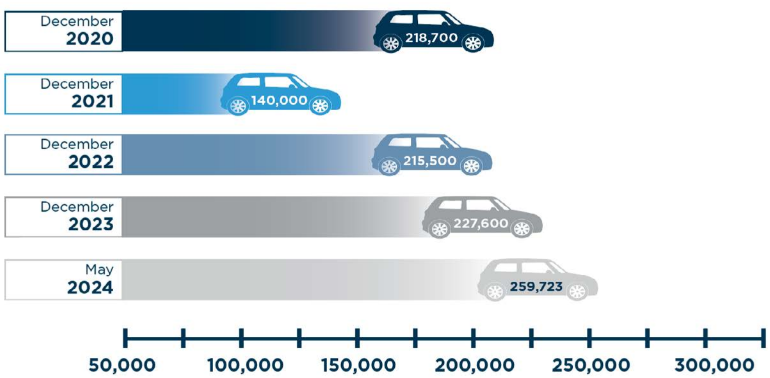
While fleet sales typically occur at reduced margins compared to retail sales, they allow auto dealers to put more vehicles in service. This benefits auto dealers fixed operations as those vehicles will eventually require service maintenance and parts. It also frees up capital for dealers to redeploy into inventory that will either sell at higher margins or turnover more quickly.

Auto dealers anticipate that buyers of new vehicles will continue to return to the same dealership for those services during the lifetime of the warranty period and hopefully beyond.

During the height of the pandemic, fleet sales declined significantly. Rental car companies weren't just canceling orders; they actively sold off their existing fleet to build up cash as cities endured temporary shutdowns and domestic travel was halted or significantly curbed. With travel returning and inventory supply improving, fleet sales are also steadily increasing.

Monthly fleet sales for May 2024 are estimated to be 259,200 units, a very comparable figure to amounts sold in December 2019 measured in the graph on the right.

Monthly Fleet Sales



Source: JD Power - LMC Automotive Monthly Forecasts

FEATURE ARTICLE

Mid-Year 2024 Review of the Auto Dealer Industry by Metrics

Tray Tables Up?

(CONT.)

Vehicle Miles Traveled

Another key indicator that portrays the health of the automotive industry is the number of miles driven or vehicle miles traveled ("VMT").

As with the number of vehicles in service, the number of miles driven contributes to the fixed operations of an auto dealer, as vehicles will require more parts and service when they are driven more frequently or for longer distances. Increased miles will also lead to the eventual purchase of a new vehicle from either new or used vehicle inventory.

VMT has been tracked since 1971, and a graphical view of the rolling 12-month average from 2002 through the present can be seen below.

Over time, VMT has generally increased as the population has grown and more vehicles have been serviced.

Since 1971, there have only been a few occasions where the rolling-12 month average has declined, which, as you'll note, tend to correlate with recessions: 1974, brief periods in the late 1970s and the early 1980s, the Great Recession in 2008 and 2009, and the pandemic in 2020. During the height of the pandemic, the rolling-12-month VMT average dropped below 3 trillion miles for the first time since mid-2014 and below 2.8 trillion for the first time since the early 2000s. The rolling-12-month average bottomed out in February 2021 at approximately 2.77 trillion miles but steadily climbed back to 3.26 trillion miles in December 2023, indicating almost a full recovery to the high-water mark of 3.28 trillion miles in February 2020.

FEATURE ARTICLE

Mid-Year 2024 Review of the Auto Dealer Industry by Metrics

Tray Tables Up?

(CONT.)

So how has the rolling-12-month average fared in the first half of 2024? Vehicle miles traveled have actually remained fairly flat, with a slight increase from year-end. The current figure of 3.27 trillion is almost completely back to pre-pandemic levels.

An auto dealership's service and parts department usually performs counter-cyclically to other departments during economic downturns and recessions. When consumers face pricing pressures, higher interest rates, and economic uncertainty, they often choose to hold on to their vehicles for a longer time—forcing the need for increased service work.

Auto dealers would be wise to focus on the service and parts department if new and used vehicle sale profits are normalizing, as the service and parts department has historically performed as one of the highest profit centers in the overall dealership.

Conclusion

Based on our review of key metrics, is it time for the auto industry to fasten its seatbelt, put the tray tables up, and begin descent for a safe, soft landing? Or has the flight tower alerted the pilots to circle the airport before clearance for the final landing? It will be interesting to see where these metrics settle in the next few months — whether it's a new normal or a return to the old normal.

For an understanding of how your dealership is performing and an indication of what your dealership is worth, contact a professional at Mercer Capital to conduct a valuation or analysis.

FEATURE ARTICLE

Q2 2024 Earnings Calls

Here is what auto retailer executives had to say during the Q2 2024 earnings calls. The major themes from the Q2 2024 Public Auto Earnings Calls are outlined and discussed below:

Theme 1: CDK Outage Impacted Operations for All Public Dealers but Hurt Some More than Others

In June 2024, CDK Global, a major provider of IT and software services for auto dealers, experienced a significant outage starting on June 19. This disruption affected various systems used by auto dealerships for their daily operations, including inventory management, customer relationship management, financing arranging, and service scheduling. The outage caused considerable inconvenience, leading to delays in transactions, difficulties in accessing essential data, and disruptions in customer service. CDK Global worked to resolve the issue and restore services, but the incident highlighted the dependency of modern auto dealerships on integrated digital platforms and the impact of such outages on their business continuity. The range of outcomes was large depending on each dealer's reliance on CDK; the outage deeply affected the operations of AutoNation and Asbury but had a negligible effect on Penske. Group 1, as was announced in real time, was one of the first large dealer groups to be brought back to fully operational.

FEATURE ARTICLE

Q2 2024 Earnings Calls

(CONT.)

"As I mentioned in today's press release, the CDK outage masked what was developing into a very positive quarter for AutoNation. […] Now to give you a sense of scope, virtually all of our business processes, including CRM deal processing, financial services, inventory management, after-sales systems, and accounting, I've hired in one form or another to the CDK backbone and, therefore, were all immediately impacted. And naturally, we worked with each of our business units to put in place interim solutions, some of which were off the shelf and some of which had to be developed. Now each solution based upon the discipline involved, returned our business to some level of functionality and productivity, but the workaround processes were in large part manual. For example, we manually processed close to 60,000 repair orders during the outage. And you can imagine this spoke things down tremendously.

– Michael Manley, CEO, AutoNation

"Overall, the Sonic Automotive team continued to execute at a high level despite operational challenges in the last 12 days of the second quarter as a result of the previously announced CDK software outage. […] However, we continued to experience operational disruptions throughout July related to functionality of certain CDK customer lead applications, inventory management applications, and related third-party applications integrations with CDK."

– David Smith, Chairman and CEO, Sonic Automotive

"Due to the length of the disruption, the recovery process took approximately 12 days. To give you a sense of scale, just within our parts and service business, almost 100,000 repair orders [had to be] recreated into CDK. […] I'd like to give some color on our performance in some of the revenue buckets and how the CDK outage impacted our business. Within customer pay repair order revenue, we were pacing up 10% at the end of May, ending the quarter up 4%. In warranty, we were up 17% before ending the quarter up 7% in revenue. The CDK outage was particularly significant for our wholesale parts and services business. Wholesale parts was flat through May before ending down 7%. The month of June had an $8 million decrease year-over-year, or 21%."

– David Hult, CEO, Asbury Auto Group

"This quarter brought a unique challenge when CDK faced a cyber-attack that impacted many of ours and others' dealer management systems. I'm proud of the way our team responded quickly pivoting to create solutions and continuing operations across our network. […] Our aftersales business was down 1.4% in the quarter. This decline is primarily related to CDK, which drove after sales down almost 40% during the 12 days of the outage. We expect some of the work will be deferred into early July as our systems and processes return to normal."

– Bryan DeBoer, President and CEO, Lithia Motors

FEATURE ARTICLE

Q2 2024 Earnings Calls

(CONT.)

"Our U.S. team persevered through extreme weather events and the CDK outage. We witnessed unprecedented teamwork focused on caring for our customers, communities, and our team members. The CDK outage was most significantly affected our U.S. operations from June 19 to June 26. […] We believe that we could have sold more vehicles and performed additional service and repair work in the June quarter, had we been operating at full capacity with our CDK dealer management systems. Once we were able to gain access to CDK on June 26, we mobilized our operations personnel to enter thousands of transactions performed during the outage into the CDK DMS, all of which were completed prior to June 30. […] We estimate the pre-tax income impact of the CDK incident to be approximately $17 million.

– Daryl Kenningham, President and CEO, Group 1 Automotive

"Lastly, our premier truck business was temporarily impacted by the CDK cyber-security incident in June of 2024. Our teams quickly implemented our incident response plan and alternative processes to keep operations open. Systems were restored in early July, and we resumed processing transactions through the CDK system. We do not believe the financial impact to be material in the quarter.

– Rich Shearing, North American Operations, Penske

Theme 2: Inventory Management Has Been a Hot Topic, as Some OEMs Have Overproduced While Others Are Managing Well

A significant focus for public auto dealers has been on managing inventory levels to maintain profitability and adapt to market conditions. While inventory was scarce during the pandemic, a recent build-up in inventory for certain brands has created problems for dealers, like rising floor plan interest expenses and stale units on dealership lots. Executives from the public dealers discussed their strategies to balance inventory, optimize sales, and improve gross profit per vehicle.

"Some of [the stability in front-end GPUs] is mix driven. Toyota margins are still good. They've got a 15-day supply of product on the ground and that brand is just on fire. But quite honestly, it's a tale of two cities because you've got other brands [like] Stellantis [and] Nissan. Some of these brands are 100, 200 days' supply of product out there that are just ridiculous. […] There's more incentives right now. High line incentives are out there. I expect that to get even more aggressive in the third quarter, in the fourth quarter, especially as manufacturers are trying to balance out some of the electric vehicle inventory that they are trying to reduce days' supply on. […] We're waiting patiently because I'd

FEATURE ARTICLE

Q2 2024 Earnings Calls

(CONT.)

like to see the average cost per unit to drop another $1,000 to $1,500, but that's coming with the days' supplies, and the manufacturer can't help themselves. We didn't learn a lesson in COVID, I wish we would have. It's have been a lot better for the industry overall, but they didn't, and you've got manufacturers out there that have just totally lost control of their days' supply."

– Frank Dyke, President and Director, Sonic Automotive

"The market performance back within sales to us had more to do with our brand mix. We have brands that are up year-over-year in sales. Stellantis is -we have 155 dealerships. It's almost 15% of our rooftops. And it's all brands are cyclical, but it's very – it's struggling right now. And when you look at our year-over-year decrease in unit sales in domestic, 100% of it is tied to Stellantis."

– David Hult, President and CEO, Asbury Automotive Group

"We are not in a volume race – and I think depending on the mix of our business, we don't have – we have very little of the big three. They could pull down – obviously, your grosses. But because our inventory is in such good shape, and we're going to keep it there. […] And certainly, when we look at the premium side, we're managing that quite well, still waiting for vehicles that are on stop sale […]"

– Roger Penske, Chair and CEO, Penske

"There's been a lot of discussion and debate about different OEMs and their volumes in the marketplace and inventory build. The reality is the reality is inventory, there are many OEMs that recognize they are where they want to be and maybe a bit higher on their inventory, and they're going to have to step into the marketplace to address that because dealers in and of themselves are not going to be able to get to the net transaction price that will create the volume momentum they need and they're looking for as well."

– Michael Manley, CEO, AutoNation

"We have tons of opportunity in terms of inventory and being able to control inventory and now that the ecosystem is fairly well built and our people are out there swinging, and they get this. We're talking about almost $1 billion cut in total inventory between new and used by year-end while still maintaining our same growth rates, okay? And if nothing else, improving velocity of our turns to be able to improve that. But we're talking that that's almost $100 million in interest rate savings at today's rate, compounded with the things that Tina just spoke to."

– Bryan DeBoer, President and CEO, Lithia Motors

FEATURE ARTICLE

Q2 2024 Earnings Calls

(CONT.)

Theme 3: Consumer Affordability Is Still Top of Mind for Public Auto Dealers in the Current Interest Rate Environment

Executives across public auto dealers emphasize the importance of managing vehicle affordability in response to high interest rates. Lower interest rates in the back half of 2024 are expected to boost used car sales and improve new car affordability, helping mitigate the financial pressure on consumers and dealership cost structures alike. As of the writing of this post, it is highly likely that the FOMC will reduce rates at their next meeting in September.

"We obviously have several [holdings] of variable debt. So there is a tailwind that we can get as rates get cut from that perspective. Around consumer affordability, it's impacted, and we've talked about that in the past around what that monthly payment is. And then I think that gives a good strength and tailwind for consumers going forward since they're monthly payment shoppers."

– Tina Miller, Senior Vice President and CFO, Lithia Motors

"There's no doubt that affordability is top of mind for many of the consumers that come into this marketplace, whether it's on new or used vehicles. […] We're also beginning to see increases, I think, in delinquency rates that I think are manageable and not where they were a year ago. But I do think there are signs in the marketplace that consumers continue to feel the pressure from the current environment."

– Michael Manley, CEO, AutoNation

"I think [lower interest rates] will help the used car buyer for sure. […] I think the used will continue to grow because of affordability, which has been a problem. On the new side, because of our leasing, the finance companies have been taking some of that interest rate hit by increasing residuals. So, I think that will balance out. But definitely, from a consumer perspective, I think it's going to help us. So, we've lost some business, I think, on a temporary basis because of the cost of interest and the cost to do business. […] And the monthly payment, if you look at the average, is really over $700. So that has to come down to make a big difference."

– Roger Penske, Chair and CEO, Penske

FEATURE ARTICLE

Q2 2024 Earnings Calls

(CONT.)

"One of the things that we are fortunate to have is a terrific financial services company attached to the OEMs that have been able to sub-vent the rates. You look at our attachment rates now, up to 75% penetration on new F&I, so that's a positive. And I think where we could also really pick up some business through lower rates on the used side because those penetration rates are 62%, 63%. [….] With lower rates, it's going to certainly help our used car business and make the new car affordability, I think better for the consumer."

– Pete DeLongchamps, Senior Vice President, Group 1 Automotive

"Elevated used retail prices remain a challenge for consumers, contributing to affordability concerns amid the current interest rate environment. However, the return to normal seasonal trends in the used vehicle wholesale pricing are positive for our business outlook and should benefit affordability and used vehicle sales volumes going forward."

– David Smith, Chairman and CEO, Sonic Automotive

Theme 4: Electric Vehicles Have Been Harder to Sell While Hybrid Demand Has Grown

Public retailers highlighted the importance of vehicle mix and its impact on profitability. This reflects broader trends in the auto industry toward balancing traditional and new energy vehicles while managing profitability and market demand.

"I think our brand mix helps. Toyota is performing well. Their hybrid mix helps. Hybrid is, in total, our most profitable vehicle to sell. So, I think that certainly helps. But I do think there is some moderation across the board on the decline. And – so I believe we will see that. And we saw some improvement in things like EV gross margin. Even though it's a very small part of our mix, we did see some strengthening in EV margins this quarter, and that was good to see because they were really tough in the first quarter."

– Daryl Kenningham, President and CEO, Group 1 Automotive

"So, to me, the only thing that would be a negative, and I don't think there's hundreds of dollars up or down that we're going to see over the next couple quarters. The only thing would be that the BEV vehicles [have] the highest discount right now, probably about $6,000 under MSRP. And if you look at a normal ICE vehicle, it's somewhere between $2,500 and $3,000."

– Roger Penske, Chair and CEO, Penske

FEATURE ARTICLE

Q2 2024 Earnings Calls

(CONT.)

"Our team continues to work closely with our manufacturer partners to manage new vehicle inventory levels and better align powertrain options with evolving customer demand, which should benefit inventory days' supply, floor plan interest costs, and new vehicle GPU."

– David Smith, Chairman and CEO, Sonic Automotive

"We always have internal discussion on our PVRs. And I think you guys will recall on the call when I was asked this question coming into the year. I think many of you thought I was relatively pessimistic when I said our expectations are they'll be fully normalized back to '19 at the end of the year. I have to say I'm moderating that view on our experience over recent months. I still think that there will be some continued moderation for the year, but probably not at the pace that saw before. If you even look at the difference in mix, for example, of BEVs now compared to what it was expected to be, and I think, as you all know, the margin on full battery electric vehicles for the OEMs and for us is significantly lower than their combustion and their hybrid counterparts. So, you're going to see a moderation on our outlook for BEVs, I think, in the year, which will also moderate our outlook on PVR. So, in summary, we're still going to see some moderation in my view on those, but not to the level I'd anticipated early in the year.

– Michael Manley, CEO, AutoNation

Conclusion

At Mercer Capital, we follow the auto industry closely to stay current with marketplace trends. These give insight into the market for a private dealership, which informs our valuation engagements. To understand how the above themes may or may not impact your business, contact a professional at Mercer Capital to discuss your needs in confidence.

Light Weight Vehicle Sales: Autos and Light Trucks (SAAR)

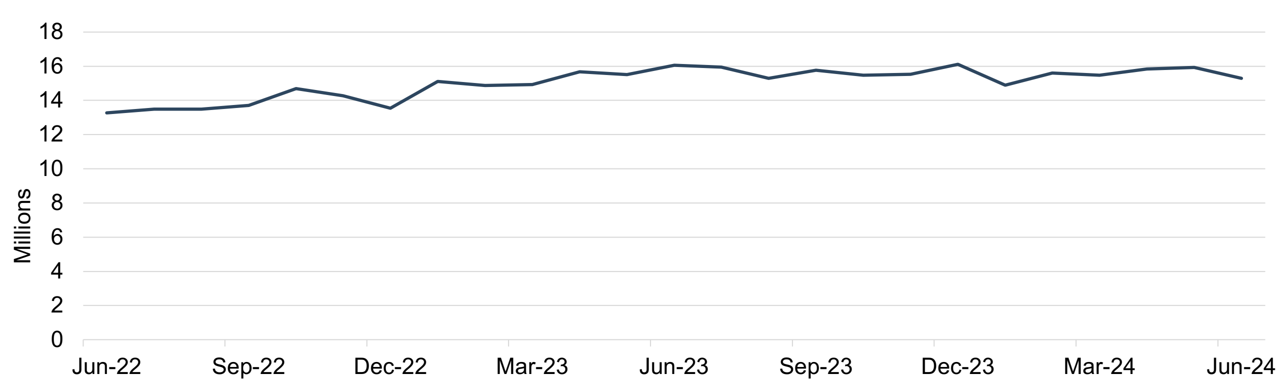
As of Mid-Year 2024

A Seasonally Adjusted Annual Rate (SAAR) is defined as a rate adjustment used for economic or business data, such as sales or employment figures that attempt to remove seasonal variations in the data. In the automotive space, it is understood to mean the number of light weight vehicles sales (autos and light trucks) sold in a given month, adjusted for seasonal factors and scaled up to a year's worth of sales based on that month.

The June 2024 SAAR came in at 15.3 million, a 4.0% drop from last month and a 4.8% drop from June 2023. According to **Wards Intelligence**, the CDK cyberattack caused a 50,000-unit deficit during June 2024; Impacting the dealership management ("DMS") used by nearly 15,000 stores nationwide, the cyberattack forced dealers to revert to manual processes that hindered vehicle sales throughout the rest of the month. For more background on the CDK cyberattack, take a look at our recent **blog post** covering the attack. We now know that all stores substantially impacted by the cyberattack are back online as of July 2024.

However, second-quarter sales were still relatively flat (-0.4%) from the second quarter of 2023 as only 11 of 91 days were impacted in the quarter. We have observed stability in the SAAR since mid-way through 2023, which bodes well for dealers and manufacturers alike. While there were certainly winners and losers over the last several years due to volatility in market conditions, stability in the SAAR implies both dealers and OEMs can better plan for their production and inventory management going forward.

Light Weight Vehicle Sales: Autos and Light Trucks, Seasonally Adjusted Annual Rate

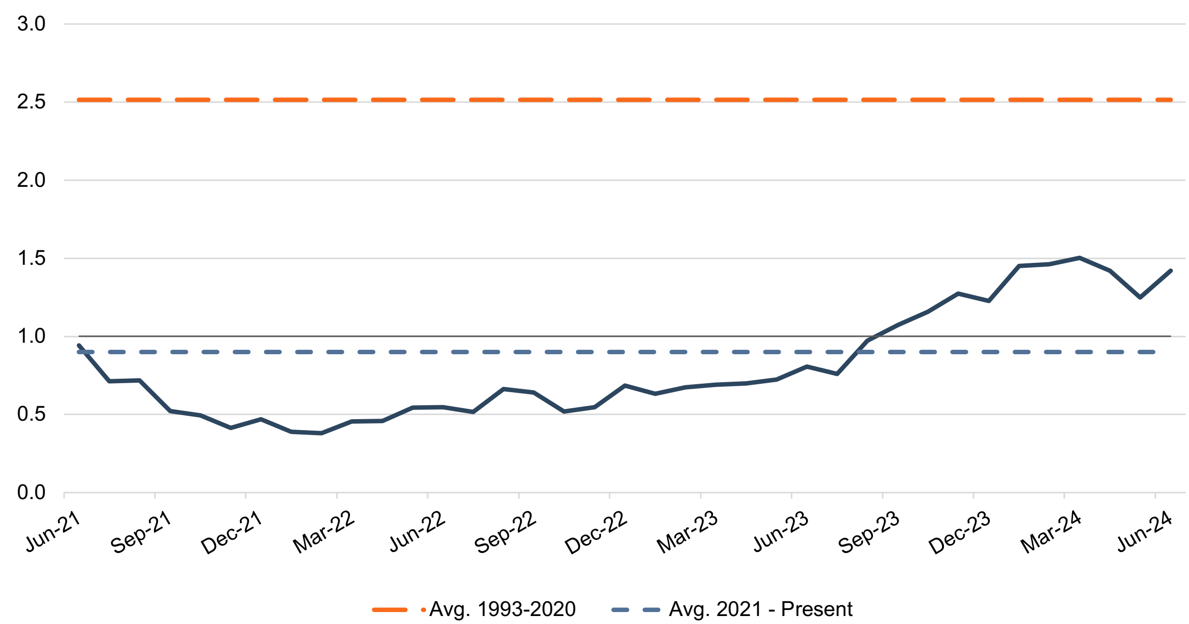


Inventory Analysis

Inventory/Sales Ratio

In June 2024, the inventory-to-sales ratio jumped to 1.42x from 1.25x in May 2024. As we expected, the spike in this metric reflects the impact the CDK cyberattack had on the industry during late June. Looking at the longer-term trends in the metric, inventories across most brands have been recovered for some time now. In general, dealers are adding to inventory faster than they're selling after years of the reverse being true. Some public auto dealers have even complained about an elevated days' supply in their most recent **Q2 earnings calls**, as dealers typically have little control over how many units they are allocated. The chart below illustrates the industry's inventory-to-sales ratio over the last three years.

Inventory/Sales Ratio

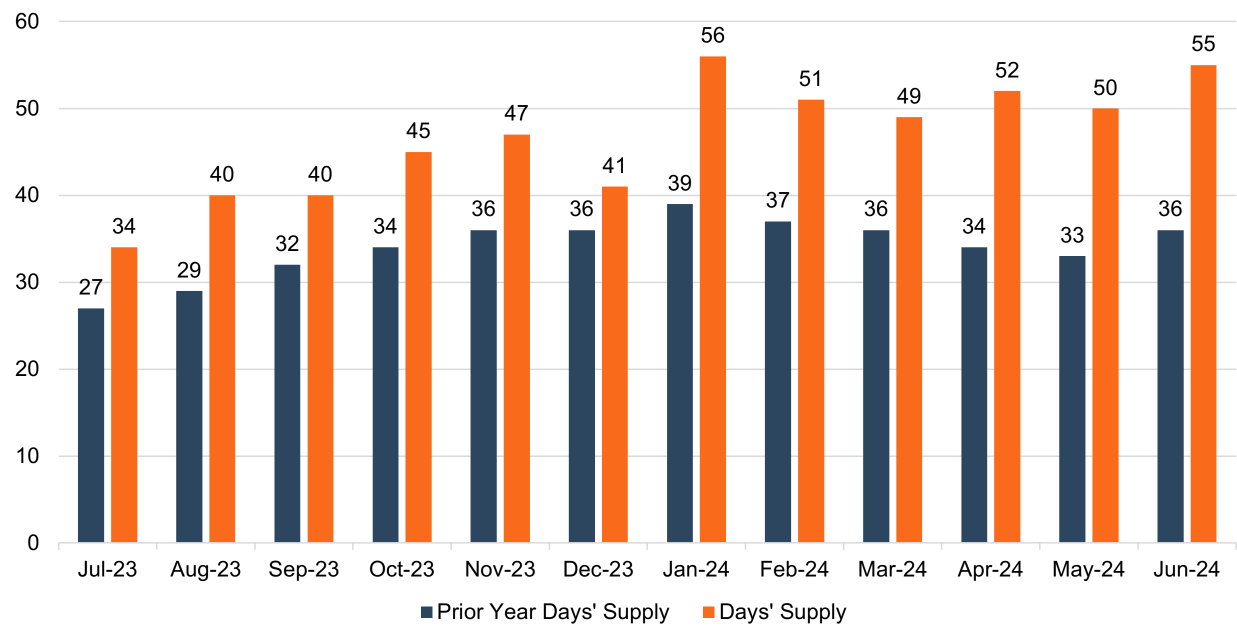


Inventory Analysis

Days' Supply

Days' Supply, another indication of the relationship between auto sales and inventory, came in at 55 days in June 2024. While inventory was somewhat elevated during June due to the reduced sales capacity associated with the CDK cyberattack, we believe that Days' Supply will likely be closer to 50 days in the coming months. However, it's worth noting that industry averages were closer to 60-90 days pre-COVID and chip shortage. June's high could be a blip, but it still indicates a larger trend returning to normal despite some auto executives indicating years ago that the lower Days' Supply might end up being a "new normal."

Days' Supply for U.S. Light Vehicles



Source: Wards Intelligence

Blue Sky Multiples

As of Mid-Year 2024

Blue Sky multiples come from the Haig Report and are calculated as a multiple of adjusted pre-tax profits. The ranges are an expression of what buyers in a competitive situation will pay for the goodwill of dealerships. Dealerships that are underperforming or in desirable markets will have high multiples while those that are over-performing, are in less desirable markets, or have significant real-estate issues will have lower multiples. In some cases, only a franchise value range is reported, indicating underperforming brands that potentially have negative earnings for which a pre-tax multiple would be non-meaningful.

Over the last few years, changes in expectations for future earnings have played a larger role in changes in Blue Sky values than the multiples themselves. Since 2019, only Volvo and Stellantis have seen their Blue Sky multiple ranges decline (each by 0.25x) while Lexus, Toyota, Kia, Hyundai/Genesis, and Mazda have all improved by more than a full turn in profit (improvements ranging from 1.25x to 1.75x for these brands).

The theme of the Haig Report in Q2 2024 is that the "too good to be true" conditions that were prevailing for the 2-3 year run post-COVID and chip shortage have continued to normalize. Gross profits on new vehicles are normalizing, and dealerships are starting to see increasing operating expenses after a couple of lean years. Dealership profits are down approximately 30% in the first half of the year compared to the first half of 2023, which itself was lower than the boom years. Despite this, dealerships are still experiencing double the profitability of pre-COVID on average.

In strong markets, all strategies can win. Certain brands are struggling more than others in 2024 as profits normalize, and not all strategies appear as strong. Key differentiators are inventory levels, powertrain strategy, and affordability. Buy-sell activity is slowing as valuation gaps are rising, but the potential for cooling interest rates may support the acquisition of both vehicles and dealerships.

Blue Sky Multiples

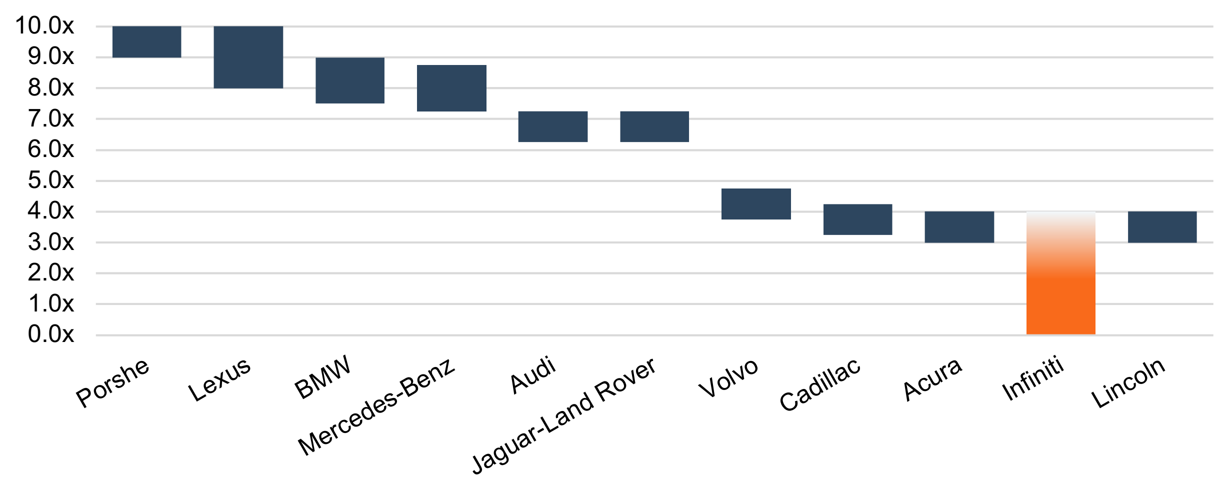
As of Mid-Year 2024

Luxury Blue Sky Multiples

At the high end of luxury, there had been no change in Blue Sky multiples in nearly 3 years until Mercedes-Benz was downgraded in Q4 2023. Over the past two quarters, Mercedes has stabilized as the OEM worked to right-size its EV rollout. Porsche continues to command the highest multiple, which one of its dealers indicated to Haig was due to the balance all dealers hope their OEM can achieve: grosses remaining elevated at pandemic levels while balancing inventory mix and days' supply.

Infiniti appears to be one of the brands struggling the most with striking the right balance of hybrids and EVs. In Q1 2024, Haig recognized the lack of profitability many dealers are experiencing by foregoing a multiple range and instead indicating a dollar-value range between $0-2 million. This is a reminder that auto is a particularly cyclical industry. An investor would never pay anything for a company that was never expected to generate profits. Since you can't apply a multiple to negative earnings to derive a positive Blue Sky value, Haig's range implicitly indicates that profitability is expected to rebound in future product cycles. The relatively low range, however, demonstrates the luxury brand is struggling.

Luxury Blue Sky Multiples Range



Source: Haig Partners

** Orange indicates a decrease in the multiple from the previous quarter*

Blue Sky Multiples

As of Mid-Year 2024

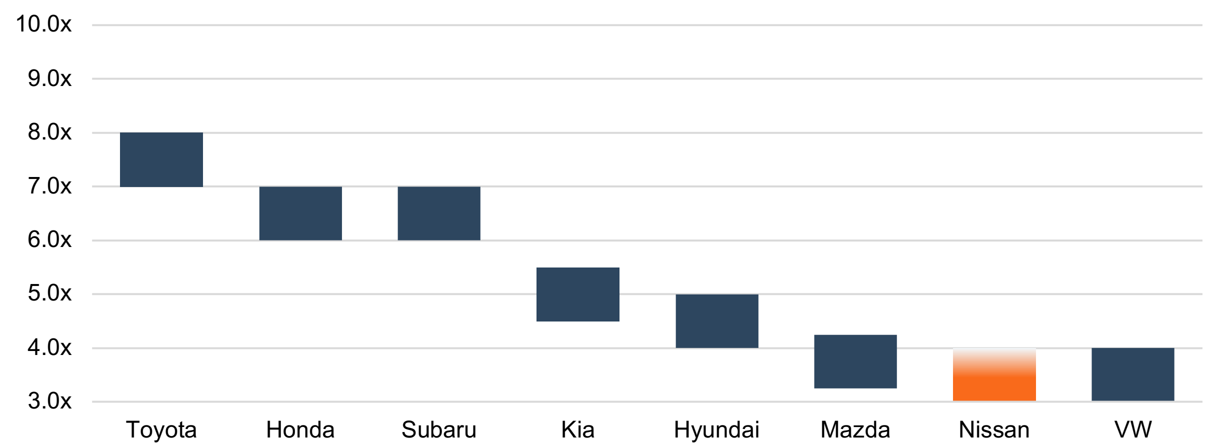
Import Blue Sky Multiples

Over the past year, Mazda and Nissan have swapped places, with Nissan falling to the 3-4x multiple range in Q1 2024 previously occupied by Mazda as recently as Q2 2023, which has edged up to 3.25x-4.25x.

Mazda has built on its own record-setting 2023 with continued success in 2024. Furthermore, Mazda has had a more limited dealership expansion, leading to stronger performance at the dealership level. Sales at the average Mazda dealership now exceed the average Nissan store. The brand's partnership with Toyota is paying dividends, who is currently the in-vogue brand from a dealer ownership perspective.

By contrast, Nissan was downgraded in the first quarter of this year because of its elevated inventory levels that have been passed onto dealers who are in turn forced to increase sales to fleets. This practice impairs longer-term brand value in addition to residual values. While Nissan's products are well engineered, dealers indicate the problem is that the price point and consumer options are very limited with no hybrids and only one EV nameplate. There are rumors that Nissan could merge with Honda, which would hopefully lead to improvements like Mazda has achieved by partnering with Toyota. A potential merger could help reign in research and development costs for the powertrain mix of the future.

Import Blue Sky Multiples Range



Source: Haig Partners

** Orange indicates a decrease in the multiple from the previous quarter*

Blue Sky Multiples

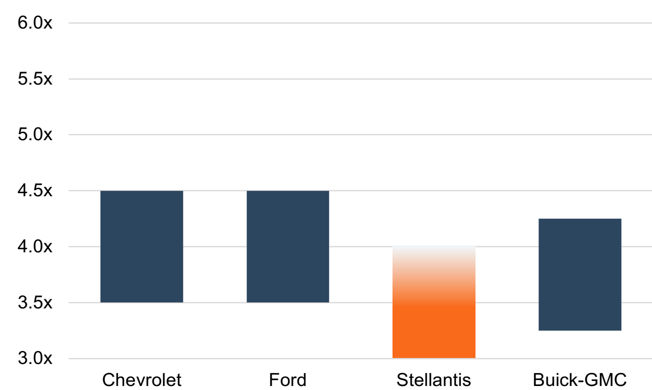
As of Mid-Year 2024

Domestic Blue Sky Multiples

Stellantis has again been downgraded and now lies in the lowest range of the domestics, in line with the lowest multiples of luxuries (Acura and Lincoln) and imports (Nissan and VW) at 3-4x normalized profits. Stellantis' market share has deteriorated from 12% in 2022 to 8.5% halfway through 2024, which appears small but is statistically significant and uncommon for this large of a decline in such a short amount of time. Among other issues, Stellantis' brands continue to have some of the highest days' supply of all franchises, with all four of their domestic brands over 100 days. Larger dealer groups who are effectively portfolio managers are looking to divest their exposure to the OEM, though this represents a potential buying opportunity near the bottom of the cycle for entry-level dealer principals who can work to improve operations for a stable of brands that have high opportunity.

While Ford's multiple range is unchanged, it may be looking up from the dealers' perspective as the OEM announced in June that significant investments would no longer be required to sell its electric vehicles. This is in recognition that sales have been much smaller than hoped, and as a corollary, the brand has underinvested in ICE and hybrid vehicles. Leadership has expressed an interest in changing this, which may bring renewed interest in the Blue Oval. GM has been even stronger in its reversal from a full-EV push, which has garnered favor with Chevy and Buick-GMC dealers.

Domestic Blue Sky Multiples Range



Source: Haig Partners

** Orange indicates a decrease in the multiple from the previous quarter*

Guideline Public Company Analysis

As of Mid-Year 2024

Market Capitalization And Dealership Count

Over the past six months, market caps for the six publicly traded dealers are relatively flat (Asbury, AutoNation), modestly down (Group 1 and Sonic), or more meaningfully down (Penske and Lithia). This stock price performance comes amidst increasing revenue growth across most players in the industry. While higher revenue is typically a good thing for dealers, the positives are being largely offset by falling gross profit per unit for new vehicles and rising overhead costs that have been a drag on profitability.

Lithia's growth is supercharged by its highly acquisitive strategy as seen in the growth of its dealership count. The company also now has 155 locations in the UK after its transformative acquisition of Pendragon. As the most acquisitive retailer, a declining industry sentiment can most negatively impact the company that is most aggressively growing. The timing is also influential as the CDK cyberattack had not been resolved as of June 30, creating significant uncertainty which has since subsided.

Public Auto Dealers	Ticker	Dealership Count	6 Mo. Change in Dealerships	12 Mo. Change in Dealerships
Asbury Automotive Group, Inc.	ABG	155	-1.9%	12.3%
AutoNation, Inc.	AN	251	-0.4%	-0.8%
Group 1 Automotive, Inc.	GPI	202	1.5%	-1.5%
Lithia Motors, Inc.	LAD	470	36.6%	36.2%
Penske Automotive Group, Inc.	PAG	380	13.1%	12.8%
Sonic Automotive, Inc.	SAH	107	-0.9%	-0.9%
Average		**261**	**8.0%**	**9.7%**
Median		**227**	**0.6%**	**5.8%**

Presented in $000,000s except dealership counts

Public Auto Dealers	Ticker	Market Capitalization	6 Mo. Change in Market Cap	12 Mo. Change in Market Cap	LTM Revenue	6 Mo. Change in Revenue	12 Mo. Change in Revenue
Asbury Automotive Group, Inc.	ABG	$4,597	-0.7%	-11.2%	$15,925	8.4%	6.9%
AutoNation, Inc.	AN	6,418	0.5%	-14.5%	26,626	-0.9%	-0.1%
Group 1 Automotive, Inc.	GPI	3,928	-3.8%	10.9%	18,352	5.1%	8.5%
Lithia Motors, Inc.	LAD	6,919	-23.6%	-17.4%	33,745	11.3%	15.0%
Penske Automotive Group, Inc.	PAG	9,966	-7.5%	-13.3%	29,864	2.0%	3.9%
Sonic Automotive, Inc.	SAH	1,846	-3.1%	9.3%	14,065	-2.2%	-0.8%
Average		**$5,612**	**-6.4%**	**-6.0%**	**$23,096**	**3.9%**	**5.6%**
Median		**$5,507**	**-3.5%**	**-12.3%**	**$22,489**	**3.6%**	**5.4%**

Guideline Public Company Analysis

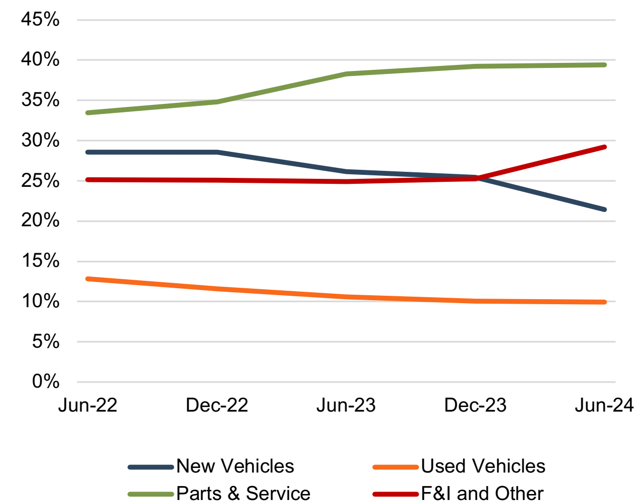
As of Mid-Year 2024

Gross Profit by Segment

As has historically been the case, parts and service departments have made the largest contribution to gross profit for the six publicly traded dealers. Gross margins are more favorable for fixed operations than sales operations at a typical dealership, and the public dealers have leveraged their fixed operations to stay profitable while sales margins have normalized.

Gross profit from finance and insurance departments has remained stable as a percentage of total gross profit during the last couple of years before notably increasing during the first half of 2024. Of note, AutoNation skews this analysis as its new, used, and particularly parts and service departments all saw declines as its F&I department contributed 46% of the company's total gross profit. Other than AutoNation, the other dealers have remained at an average of 25% of total gross profit for F&I departments.

Average Gross Profit by Segment



Source: Haig Partners

Public Auto Dealers	New Vehicles	Used Vehicles	Parts & Service	F&I and Other	Total
Asbury Automotive Group, Inc.	21.5%	9.0%	45.5%	24.0%	100.0%
AutoNation, Inc.	16.4%	9.4%	27.9%	46.3%	100.0%
Group 1 Automotive, Inc.	21.8%	10.6%	41.7%	25.8%	100.0%
Lithia Motors, Inc.	22.6%	13.9%	37.8%	25.7%	100.0%
Penske Automotive Group, Inc.	27.5%	11.3%	41.5%	19.7%	100.0%
Sonic Automotive, Inc.	18.8%	5.3%	42.0%	33.8%	100.0%
Average	**21.4%**	**9.9%**	**39.4%**	**29.2%**	**100.0%**

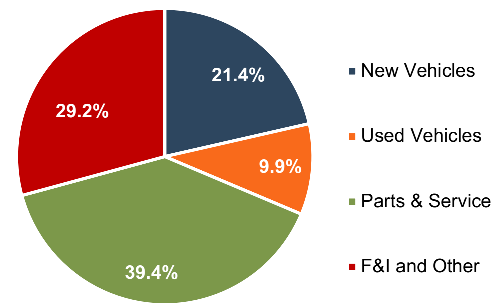
Guideline Public Company Analysis

As of Mid-Year 2024

Gross Profit by Segment (cont.)

After almost three years of elevated transaction prices and GPUs, gross margins for new and used vehicle sales continue to move towards normalized, pre-pandemic levels. Lower gross profit per unit for new vehicles has caused the department's contribution to gross profit to significantly fall. After being somewhere between 25-30% of total gross profit, new vehicles are contributing close to 20% now. F&I is picking up the slack as financing becomes more important with constrained affordability.

Average Gross Profit by Segment



Source: Haig Partners

Guideline Public Company Analysis

As of Mid-Year 2024

Blue Sky

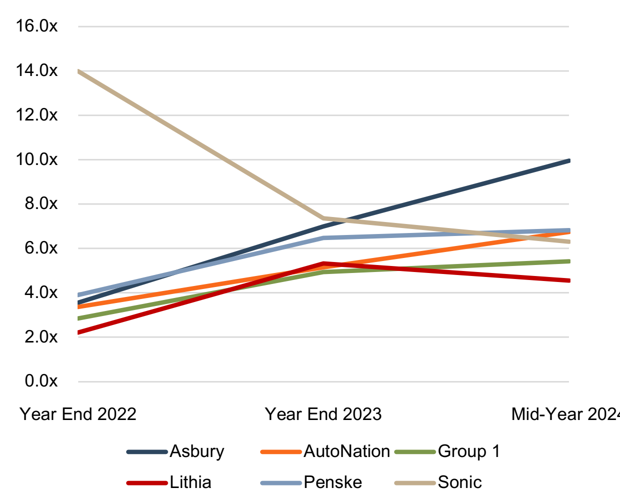
While the public auto dealers are too diversified to analyze Blue Sky multiples at the brand-level, implied Blue Sky multiples are still illustrative of how public market investors are valuing auto dealership groups.

Implied Blue Sky Multiples	Asbury	AutoNation	Group 1	Lithia	Penske	Sonic	Average
Stock Price	$227.87	$159.38	$297.28	$252.45	$149.02	$54.47	
less: Tang. Book Value per Share	$31.87	$4.80	($5.98)	($62.75)	($24.96)	($8.02)	
Implied Blue Sky per Share	$259.74	$164.18	$291.30	$189.70	$124.06	$46.45	
LTM Pre-Tax Income per Share	$26.08	$24.32	$53.81	$41.71	$18.19	$7.37	
LTM Q2 2024 Blue Sky Multiple	9.96x	6.75x	5.41x	4.55x	6.82x	6.30x	6.63x
Fwd Pre-Tax Income per Share	$39.65	$24.51	$52.52	$39.05	$18.15	$7.85	
Fwd Blue Sky Multiple	6.55x	6.70x	5.55x	4.86x	6.83x	5.92x	6.07x
3-Year Avg. Pre-Tax Income per Share	$41.21	$28.85	$57.84	$50.02	$21.28	$5.72	
3-Year Average Blue Sky Multiple	6.30x	5.69x	5.04x	3.79x	5.83x	8.13x	5.80x

The average LTM Blue Sky multiple for the six public auto dealers at mid-year (6.6x) has improved from year-end 2023 (6.0x). Generally speaking, we would anticipate multiples to improve to more normalized levels as abnormally high earnings normalize. Conceptually, an investor is willing to pay less for earnings that are less repeatable, so declining earnings amid stable share prices would lead to higher multiples.

Lithia's multiple dropped from 5.3x to 4.5x while Sonic dropped from 7.4x to 6.3x. This movement can be explained by struggling stock prices and stable earnings, as Lithia's and Sonic's market capitalizations have dropped 23.6% and 3.1%, respectively, during the past six months. A lower multiple does not always indicate distress when compared to a higher multiple, as there are examples of higher LTM Blue Sky multiples due to both low valuations and lower earnings.

LTM Blue Sky Multiple



Source: Haig Partners

Guideline Public Company Analysis

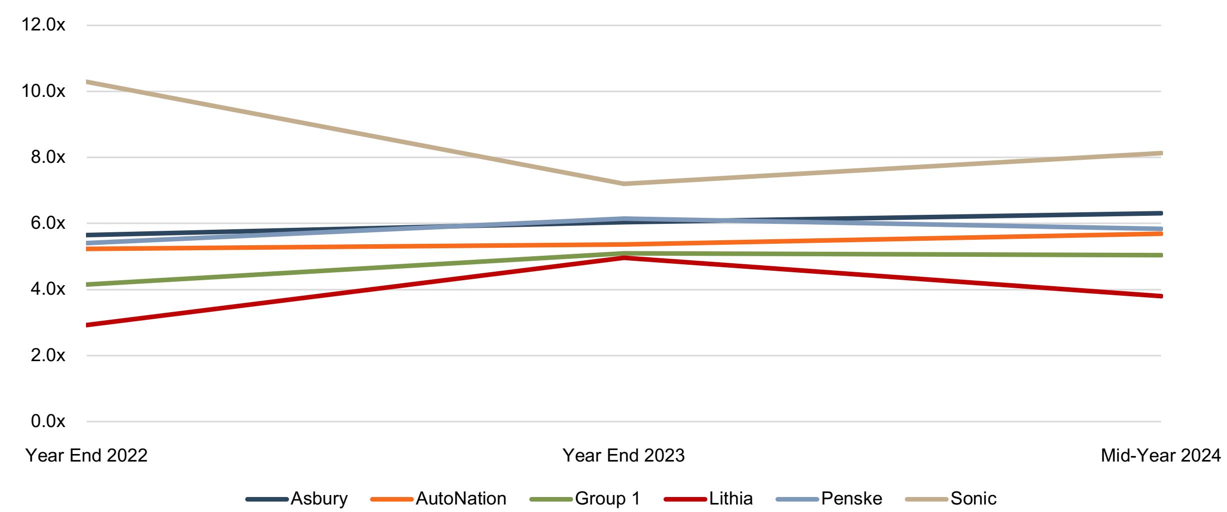
As of Mid-Year 2024

Blue Sky (cont.)

The other four public auto dealers' LTM Blue Sky multiples increased. The largest increase in LTM Blue Sky multiple was Asbury, as its multiple grew from 7.0x at year-end to 10.0x at mid-year. AutoNation's multiple made a large jump as well, moving from 5.1x to 6.8x. These increases in LTM Blue Sky multiples can be attributed to lower earnings amidst stable valuations. Group 1 and Penske saw more modest increases to their multiples, as market capitalizations were down amidst lower earnings.

Using a three-year average methodology instead, Blue Sky multiples still largely moved in tandem and followed a similar trend with moderations in the magnitude of movements. In fact, at mid-year 2024, the average three-year Blue Sky multiple remained flat at 5.8x when compared to year-end 2023, despite all of the movements in individual company's LTM multiples. This multi-period indication of value does a better job than LTM multiples at mitigating outlier performances and showing longer-term trends, as one would expect.

3-Year Average Blue Sky Multiple



Source: Haig Partners

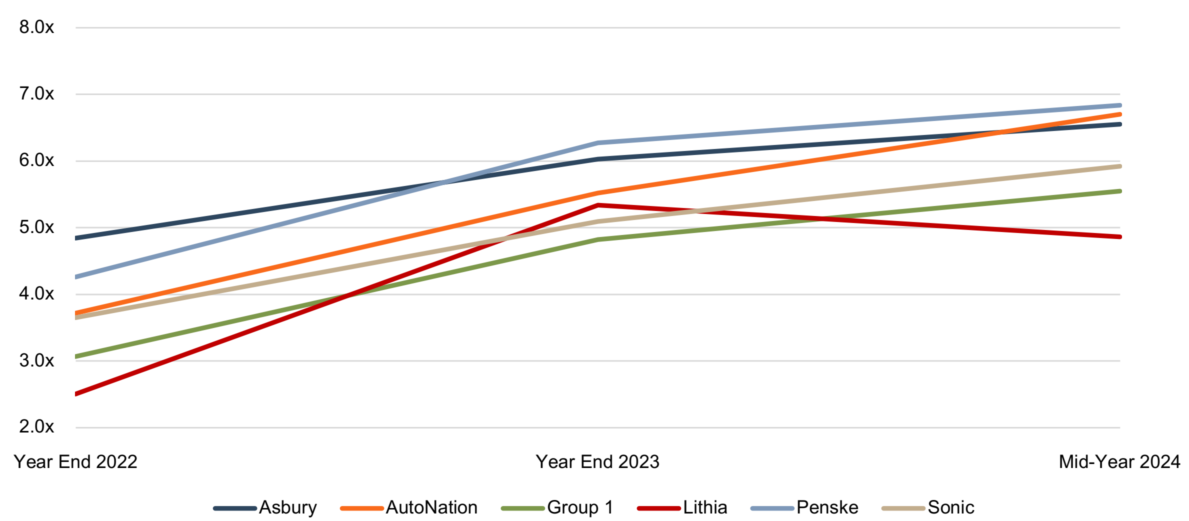
Guideline Public Company Analysis

As of Mid-Year 2024

Blue Sky (cont.)

Forward multiples at mid-year 2024 largely reflect that forward-looking earnings estimates from analysts following the six publicly traded auto dealers are either flat or modestly higher than LTM earnings. The only outlier is Asbury, whose analysts expect them to increase pre-tax income per share from roughly $26/share to $40/share. This makes sense, because earnings of that magnitude would position Asbury's Blue Sky multiple at 6.6x, which is much more in line with the rest of group compared to its LTM multiple of 10.0x.

Fwd Blue Sky Multiple



Source: Haig Partners

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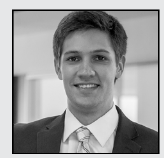

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