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BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES
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VALUE FOCUS

Auto Dealer Industry

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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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Q4 2023 Earnings Calls

New Vehicle Resilience, Lightly Used Inventory Scarcity, and Disappointing EV Sales

After reviewing earnings calls from executives of the six publicly traded auto dealers, the market for new vehicles appears resilient. Improved inventory balances and wider availability of models have relieved pressure from the new vehicle market. As a result, transaction prices have been falling and consumers have been able to find the models they are looking for with more success. Meanwhile, used vehicle availability has been mixed, with lightly used models falling short. The demand for electric vehicles has been disappointing, and capital allocation decisions have become more complicated in the current environment.

Here is what auto retailer executives had to say during the Q4 2023 earnings calls. The major themes from the Q4 2023 Public Auto Earnings Calls are outlined and discussed below:

Theme 1: The Market for New Vehicles Has Been Resilient

Auto retail executives emphasized that improving new vehicle inventory has led to greater sales volumes and a resilient top line performance for new vehicle departments. While GPUs for new vehicles have moderated, growth in sales volumes has more than made up for declining per-unit profitability.

"Consumer demand for new vehicles remains robust. During the quarter, our total new vehicles revenue increased 7.0%, and unit sales increased 5.0%. This reflected strong import growth, as well as a seasonal uplift in premium luxury sales. New vehicle margins continue to decline, but the rate of moderation in the fourth quarter, which is approximately $120 per month, was more modest than earlier quarters."

– Michael Manley, CEO, AutoNation

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"New vehicle units sold outpaced the industry. We were up 14.0% on a same store basis and up 19.0% on an as-reported basis. […] These strong unit sales reflect the resiliency of demand and our emphasis on driving volume. Gross profits performed about as expected and continue their slow glide path down as inventories return. […] Mood's good. Traffic counts are good. We were really pleased with our growth in the quarter, especially new vehicle. […] So the demand is soaking up that additional production. And we were ecstatic, especially with the last few days of December."

– Daryl Kenningham, President and CEO, Group 1 Automotive

"2023 was a record year for us as we reached just over $31 billion in total full year revenues. Results in the quarter were driven by continued strength in new vehicle sales with same-store units up 10% and aftersales revenues up 3%. This was offset by lower new vehicle GPUs continuing to normalize, declining approximately $150 sequentially per month, in line with our expectations for new vehicles. Our manufacturer partners continue to replenish inventory at a steady pace. With manufacturer incentives, both lower subsidized rates and cash rebates continued to support consumer demand across a variety of brands and models."

– Bryan DeBoer, President and CEO, Lithia Motors

Theme 2: Lightly Used Inventory Has Been Scarce, and Used Vehicle GPUs Have Been Soft

Auto retail executives highlighted the current issues surrounding used vehicle departments. While inventory balances are certainly easier to acquire than in 2022, there are still issues with acquiring lightly used units due to the large deficit of new vehicles accumulated over the last four years. Significant volatility in used vehicle pricing has been difficult to navigate for many dealers, though a couple of executives lamented not chasing more volume at the risk of exposing themselves to that volatility.

Many used vehicle consumers are returning to the new vehicle market, eroding used vehicle department profitability. On the dealer side, many operators are forced to go beyond the trade-in market to source used vehicles, further eating into department profitability. However, as noted above, dealerships can also have more profitable used vehicle departments if the increase in volume offsets declines in per-unit profitability.

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"The used vehicle market will likely remain constrained, as late model used vehicle availability remains limited […] The key is going to be our effectiveness, as always, in pricing and turning our inventory, and we're going to remain nimble in our approach to those things in the market as it develops. […] I think one of the things that, as we came into 2023, our inventory levels were very low, and I felt that we missed out on some of the marketplace."

– Michael Manley, CEO, AutoNation

"I would say that we have had a conservative approach on acquiring [used] inventory and maybe too conservative. We've been, right or wrong, more focused on gross profit than we have volume. We need to take a more aggressive stand at acquiring vehicles. Naturally, when we acquire or purchase a vehicle our gross profit is lower than when we take it in a trade.

– David Hult, President, CEO and Director, Asbury Automotive Group

"Used car gross is right now significantly below historic levels. And right now, trying to really procure and get the core product that we need, which is kind of those three to seven-year old vehicles, it's a firefight. The benefit we have as being a top-of-funnel new car dealer is 70% of our trades are coming in from consumers. […] Used vehicle revenue was down 11% and units were down 6%. […] Used vehicle pricing continues to moderate in line with the recovering supply of new vehicles. Sales of certified vehicles were up nearly 2%, while our core vehicle segment, which accounts for more than half of our used vehicle sales, was down 10% as the impact of COVID production constraints is working through the supply chain. […] Used vehicle GPUs, including F&I, were $3,789, down 7% from last year and well below our historic average. Our teams are reacting to a volatile used car marketplace in response to the massive rebound in new car inventory that continues to add new vehicle supply. As the average APR and used vehicle loan is almost 11. 7%, the outlook for lower consumer borrowing rates will eventually serve as a tailwind for consumers and relief in their monthly payments."

– Chris Holzshu, EVP and COO, Lithia Motors

"We ought to be in great shape for the year. The used car business is strong. It's always been strong. We've just been short on the one to five-year-old model for EchoPark, and that caused some turbulent times over the last couple of years. That's dissipating. And as we move throughout '24, it's just going to get stronger and stronger. […] We're not out of the troubled waters, but it's not anywhere near as choppy as it was. And with the wholesale market prices dropping, it's just progressively going to get better, as we move throughout '24 and into the beginning first quarter of '25."

– Jeff Dyke, President of Sonic Automotive

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Theme 3: Profitability and the Demand for Electric Vehicles Has Been Disappointing

Auto retail executives pointed to electric vehicle sales as an area of improvement. So far, GPUs for these vehicles have been lower than ICE vehicles due to the aggressive pricing strategies necessary to sell these vehicles. Furthermore, many of the transactions involving electric vehicles have been leases, which leads to more uncertainty down the line when lease terms inevitably expire.

"That's the headwind in the fourth quarter. So if you look at our blended GPU that we reported for Q4, it reflects a $400 headwind from EV GPUs, running at a lower rate than the remainder of the business."

– Danny Wieland, VP of IR and Financial Reporting, Sonic Automotive

"*There's no question that demand for BEVs has slowed. And when you look at our business, 51% of our BEV business is in California and, of that business, 90% is leased.*

– Roger Penske, Chairman of Penske Automotive

"Battery electric vehicle product introduction and customer interest in these vehicles is clearly going to be a key dynamic this year. As widely reported, bad PVRs consistently fell during 2023 and in most instances, are lower than similar combustion engine vehicles."

– Michael Manley, CEO, AutoNation

"Our electric vehicle day supply for Q4 was 91 days and about 54 days supply in the used car arena. We did see an increase from Q3 to Q4, specifically in the new car arena, we saw an increase of about 33%. So obviously there's no news out here, but EV sales [are] starting to slow down and inventory [is] starting to build. So we're managing that as best we can. […] So expect the GPUs to be lower than our [GPUs on ICE vehicles] and when we're working deals or work in leases, which most of these vehicles are being leased and that puts a little bit of pressure on the OEM or the lender institution from a residual factor. We're having to get pretty aggressive in discount[ing] cars much more than we do traditional combustion engines."

– Daniel Clara, SVP Operations, Asbury Automotive Group

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Theme 4: Share Buybacks More Favorable than M&A?

The six publicly traded auto retailers have been buying back shares for the last couple of years. This means that those retailers view their own stock as a good investment compared to other investment opportunities like mergers, acquisitions, and organic growth.

Some executives noted high asking prices across the market for single-point dealerships and small dealer groups. It's also notable that share buybacks do not come with the execution risk of integrating new stores into existing operations; spending excess cash on buying back stock improves ROIC and EPS, which is not available to private auto groups. As in most quarters, executives talked about the capital allocation decision-making process as it pertains to buybacks and acquisitions. Dealers are considering acquisitions, but there was more discussion of valuations needing to be correct than has been discussed in prior quarters. Some executives are waiting for earnings to continue to fall, which they anticipate will bring valuations toward more normalized levels.

"Now that we have realized the skills necessary to find, fund and operate new adjacencies, we will evaluate share repurchases with parity to acquisitions. Past practices prioritized acquisitions as more beneficial strategically than buybacks, but at our current size and scale, we are now returning to a balanced deployment of free cash flows to drive the strongest possible returns. We continue to monitor valuations of both, being patient for strong assets priced within our acquisition hurdle rates. And in today's environment, what we're seeing is that these one -these single point stores and even the smaller groups are bringing massive multiples like selling for as much as 10 to 20 times normalized earnings. When the lookback is a three-year lookback, that's just not something that we're going to chase. […]We bought back $40 million or so of shares in the quarter, primarily, because when acquisitions are at 10 times and we can buy our shares back at 7 times, we're going to buy our shares back."

– Bryan DeBoer, President and CEO, Lithia Motors

"We believe the dealership business is the best use of capital and we have demonstrated our ability to successfully integrate acquisitions very quickly. We continue to explore opportunities, to capture immediate growth through acquisition, and we also believe divesting smaller, underperforming stores and brands is a critical part of our strategy as well."

– Daryl Kenningham, President and CEO, Group 1 Automotive

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"*You can imagine that sellers tend to have amnesia when it comes to where the prices used to be before. In all these run-ups in the last few years. But I don't think that there's been any market change in valuations, maybe here and there. […] And as we move frankly throughout last year and as we move further into this year, obviously the TTM is going to reflect the reality of the fact that there's a normalization in earnings and ultimately it will impact values.*"

– Thomas Szlosek, CFO, AutoNation

Conclusion

At Mercer Capital, we follow the auto industry closely in order to stay current with trends in the marketplace. These give insight to the market that may exist 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.

Harrison B. Holt

Harrison Holt

holth@mercercapital.com | 615.345.6881

FEATURE ARTICLE

No Soup for You

Lessons from Seinfeld on Customer Lifetime Value and Brand Loyalty in the Auto Industry

One of my favorite pastimes is attempting to explain abstract thoughts and experiences through the lens of a Seinfeld episode.

Two episodes came immediately to mind: **The Soup Nazi** and **The Mango**.

If you're not familiar with either, the Soup Nazi is a restauranteur with an exceptional array of soups and recipe offerings but an impeccable lack of patience with the consumer's etiquette in line and for the ordering process. The Soup Nazi would randomly accost a customer with his famous tagline "No soup for you; come back…one year" for any small infraction in this etiquette.

The Mango episode features Joe's fruit stand whose produce offerings were so superior to grocery store alternatives that Kramer would only buy from Joe. After insulting Joe while trying to return a bad peach, Kramer, and subsequently Jerry, get banned from Joe's fruit stand for life.

Both Joe and the Soup Nazi had superior products, but at some point, a negative customer experience could cause the customer to defect to another provider.

Like the price elasticity of automobiles, especially high-end automobiles, OEMs and auto dealers must confront the challenges of brand loyalty and customer retention. In this week's post, we discuss customer lifetime value ("CLV") and cost of customer acquisition ("CAC") and offer tips to auto dealers to achieve greater customer retention.

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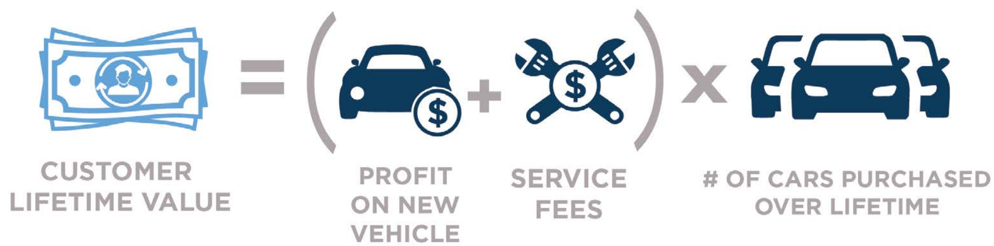
CLV/CAC Definition and Example

To calculate the customer lifetime value of an automobile consumer, we must understand the entire lifespan of the relationship between the auto dealer and them.

That relationship begins with the first purchase of a new or used vehicle, hopefully followed by regular semi-annual (if not more) service visits, before purchasing the next vehicle from the same dealership.

Therefore, the CLV to the auto dealer is the profit realized on the purchase of the vehicle, plus the incremental profits for the service visits during the life of that vehicle multiplied by the number of vehicles that a consumer will purchase and have serviced over their lifetime, as illustrated below:



To test the upper bounds of this formula, we must assume that the auto dealer is able to retain the customer during the entire life of the original vehicle and for the subsequent purchases of each new vehicle for the remainder of their life. However, maintaining customer loyalty by the OEM and the specific auto dealer retail location continues to be challenging.

For illustration purposes, we have estimated new vehicle profits at approximately $4,000 per unit based upon recent monthly averages, though we recognize these are elevated relative to historical figures and are a cyclical industry. For service revenue and frequency, we have estimated service profits at $225 per visit based on the assumption that the dealer would earn 50% margins based on the average service and parts purchase order, as reported in the ***2023 Mid-Year Report*** from NADA Data. We have assumed that the average consumer will frequent the original dealership twice annually over an eight-year life (2 x 8 x$ 225 = $3,600) and purchase nine vehicles in their lifetime. We have not factored in the profit to be gained from reconditioning and selling a trade-in.

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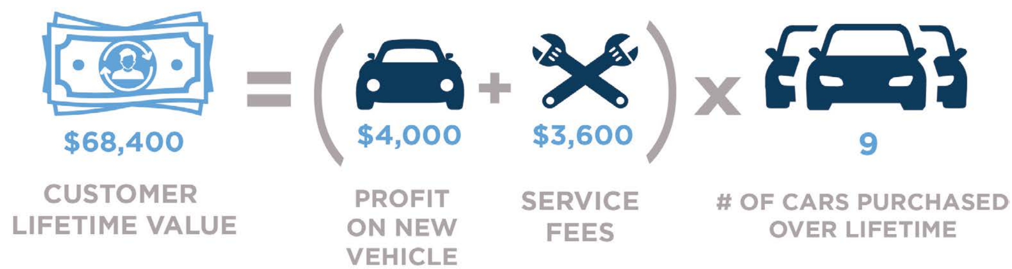
Therefore, the CLV utilizing these assumptions is $68,400, as illustrated below:



To determine the net CLV, we must consider the costs of customer acquisition, as illustrated by the following formula:

Auto dealers and OEMs initially spend $692 per new unit sold, as reported by **NADA**. This cost would not reflect the additional marketing expenses that auto dealers would incur during the remaining life of each customer relationship. However, we have not added any additional customer acquisition cost because, as auto dealers know, the best advertising is a good experience.

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The net CLV in our example would be $67,708, as illustrated below:

Brand/Customer Loyalty Statistics

In order for an auto dealer to realize the upper bounds of the net CLV in our example, a customer would have to remain loyal to the OEM and that particular dealer for their entire life. Both occurrences are far from guaranteed and come with many perilous opportunities.

Here are a few auto-related statistics to highlight the risks involved in maintaining the customer relationship at both the OEM and auto dealer levels:

- **74% and 79% :** percent of all vehicle buyers and new vehicle buyers who reported a satisfying experience with the dealership or retailer experience in Cox Automotive's 2023 Car Buyer Journey Study;
- **3% :** percent of new vehicle buyers who remained loyal to the new car brand that they previously owned, as reported by a 2023 study by LexisNexis;
- **3% :** percent of new vehicle purchases that were associated with trade-in vehicles from the same LexisNexis study;
- **30% :** percent of all service visits that occur in dealership services lanes according to the 2023 Automotive Service Study by Cox Automotive, down from 35% just since 2021;
- **33% :** percent of owners who indicated that "general repair shops" were their preferred service provider over auto dealerships (only indicated by 31% of owners) in the same Cox Automotive study;

Notably, none of these statistics touch on how frequently consumers move to a different city, where even the best customer service experience likely won't retain the customer.

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On the purchase side of CLV, auto consumers have expressed a preference for an omnichannel approach to the process with a hybrid mix of online and in-person elements. On the service side of CLV, auto consumers have expressed concerns over trust, proximity, and cost as reasons to select a general repair shop over the dealership service center.

Understanding customer behavior can be essential to auto dealers as they chase customer retention and maximize Net CLV. Consider these statistics from **Semrush**:

- **60 – 70% :** percent chance of selling to an existing customer versus 5-20% chance of selling to a new customer;
- **67% :** percent that repeat customers spend more than new customers;
- **45% :** percent more that customers spend after 36 months from the initial purchase versus the first six months of the relationship;

Tips for Auto Dealers to Increase Net CLV

It would be wise for the fixed operations departments to align with the variable operations departments to strengthen customer loyalty together. What things can a dealership do to increase customer loyalty and, ultimately, net CLV?

Personalized Experiences – Auto consumers have expressed a desire to receive a personalized experience, not only in the buying process that we touched on earlier but throughout the life of the relationship. Dealers can seek to differentiate themselves from their competition by emailing customers about special offers related to the customer's vehicle of choice or opportunities to refinance their current vehicle under better rates.

Unified Shopping Experiences – During the digital portion of the buying process, consumers want a seamless experience that consistently navigates them to the proper location from a digital advertisement rather than a website homepage. Execution of a unified shopping experience will build trust between the consumer and the auto dealership.

Increased/Continued Contact – Reaching out to the customer throughout the relationship to schedule future service appointments, deals on vehicle upgrades, or lease renewals can be critical to increasing touch points. Connected cars make these contacts easier at both OEM and auto dealer levels. Service departments could increase the number of contacts by celebrating life experiences with their customers, such as birthdays, anniversaries, etc.

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Focus on Quality Customer Service – According to the Cox Automotive Service Study referenced earlier, 48% of vehicle owners were frustrated with at least one aspect of their recent service experience at a dealership. Frustrations include costs of service, service times extending longer than expected, service writers pushing additional repairs, and struggles to schedule appointments.

Conclusion

Even with superior products like the Soup Nazi's cold cucumber, corn and crab chowders, and mulligatawny, or Joe's avocados that are better too hard than too soft, customers will eventually seek alternatives if the customer service or overall customer experience declines.

OEMs and auto dealers must consider the customer's lifetime value and identify those areas where their service department and new/used vehicle departments can coordinate to strengthen and maintain the relationship with the customer over their entire lives.

Mercer Capital provides business valuation and financial advisory services, and our auto team helps dealers, their partners, and family members understand the value of their business. Contact a member of the Mercer Capital auto dealer team today to learn more about the value of your dealership.

Scott A. Womack, ASA, MAFF

womacks@mercercapital.com | 615.345.0234

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

As of Year-End 2023

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 attempts 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.

SAAR registered at 16.1 million units in December 2023, up 19.3% from 13.5 million units last December. The December SAAR marks a strong finish to 2023, with growth in line with the double-digit percent increases seen every month from March to September. The December SAAR extended the streak of consecutive year-over-year improvements to 17 months in a row. Moving into 2024, as inventory strengthens and talks of rate cuts resume, we are likely to see improved affordability and lower vehicle pricing permeate. While OEMs may experience lower per-unit profitability in 2024, greater affordability will likely drive sales volumes and promote stability and strength in overall OEM profitability. Following a year of recovery in 2023, the SAAR maintains potential for growth in 2024.

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

Source: St. Louis Fed

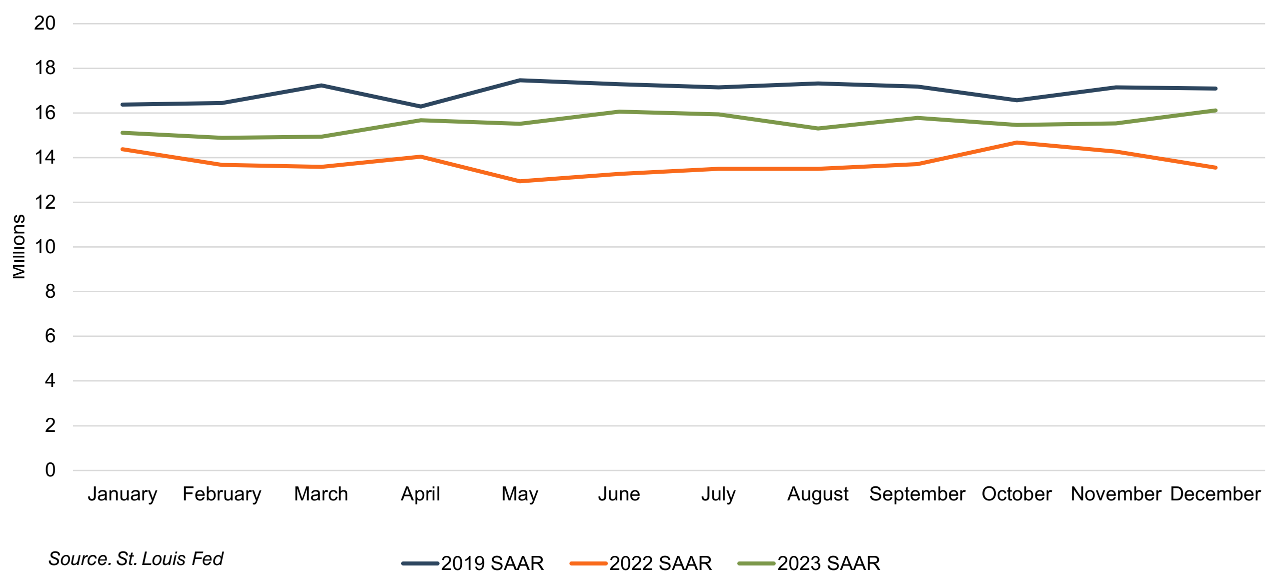
Light Weight Vehicle Sales: Autos and Light Trucks (SAAR)

As of Year-End 2023

(CONT.)

As seen in the chart below, SAAR remained fairly steady between 15-16 million throughout 2023, following the relative stability seen in 2022, though at consistently higher levels. It also tracked below the levels seen in 2019. We have removed 2020 and 2021 from this graph, which were considerably more volatile contractions appearing at the onset of the pandemic and outperformance appearing in the stimulus-heavy 2021 before inventory balances began to plague the industry. On average, SAAR was 1.4 million higher in 2019 than in 2023, which was 1.8 million higher than 2022.

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



Source. St. Louis Fed

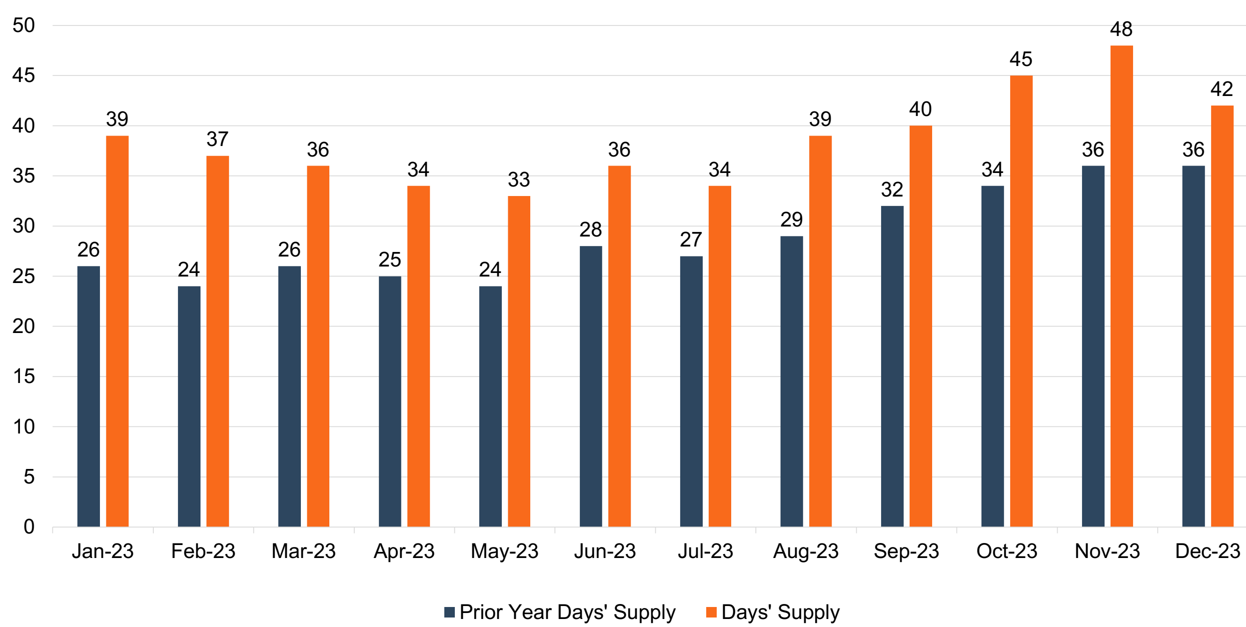
Inventory Analysis

Days' Supply

Days' Supply, which has steadily increased over the past year, is a good way to view the relationship between auto sales and inventory balances. In December 2023, Days' Supply fell to 42 days from the November 2023 high of 48 days. Taking a more long-term view, Days' Supply has markedly improved over the past couple of years. In 2022, there were only about 25 -35 days' worth of unit sales on dealer lots throughout the year. In late 2023, that number was closer to 50 days.

While this is still not back to pre-pandemic levels of between 60-90 days depending on the stage of the cycle, the decline in December indicates that OEMs may keep their promises this go-round with leaner inventories building up on dealers' lots. Still, OEMs will always be incentivized to produce more cars even if it is to the detriment of dealers, though there is optimism that the heightened profits of the past few years will encourage a more pragmatic approach. The chart below gives a closer look at **Days' Supply for U.S. Light Vehicles** over the past two years.

Days' Supply for U.S. Light Vehicles

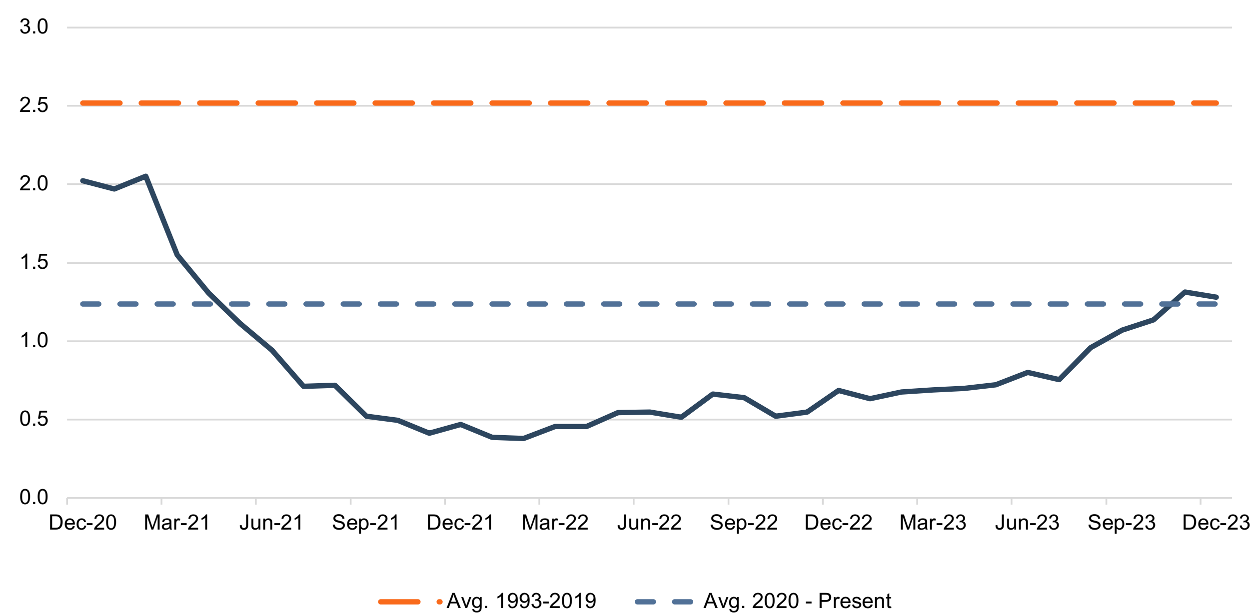


Inventory Analysis

Inventory/Sales Ratio

During late 2023, the industry's inventory-to-sales ratio crossed back above the 1.0x threshold. December 2023 data marked the fourth time the ratio has been above 1.0x since May 2021. For perspective, an inventory-to-sales ratio greater than 1.0x indicates that the seasonally adjusted inventory level at the end of the month was greater than reported sales. The December 2023 ratio of 1.28x signifies an expansion in nationwide inventory, contrasting with the suppressed inventory levels seen over the past few years. The chart below illustrates the industry's inventory-to-sales ratio over the last three years.

Inventory/Sales Ratio



Blue Sky Multiples

As of Year-End 2023

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. Since 2022, Haig Partners presented a multiple range for all dealerships given profitability across all brands.

Blue Sky multiples declined across all brands in Q1 2020 but had at least rebounded to neutral if not above by Q3 2020 once the uncertainty of the COVID-19 economic impact subsided and dealerships clearly began to benefit from the change in operating environment. In the next few years, changes in expectations for future earnings have played a larger role in changes in Blue Sky values than multiples, though there have been changes by brand over time.

While Blue Sky values have declined in 2023, this is due to earnings normalization rather than valuation multiples, as Haig Partners notes that public auto dealers saw a 23% decline in earnings in 2023. However, Haig notes it is important to consider the brand in question as some Toyota stores may not have seen declines whereas CDJR dealers could be all the way back to 2019 levels. Haig believes earnings will continue to decline at double digit rates with further normalization of new vehicle gross profits while floor plan costs and advertising expenses are expected to continue to increase.

With aggregate dealership earnings anticipated to continue to normalize, it continues to be important to apply these multiples to ongoing earnings expectations for the subject dealership. Depending on the brand, market, and earnings trajectory, the degree to which earnings may or may not continue to normalize will be specific to factors that are too difficult to determine on a national basis.

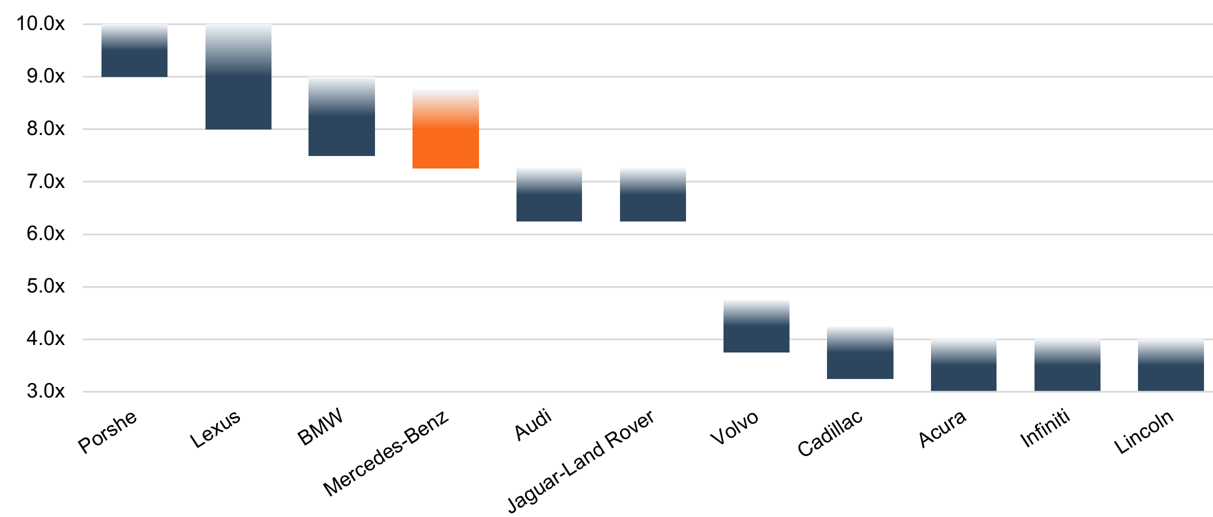
Blue Sky Multiples

As of Year-End 2023

Luxury Blue Sky Multiples

Less valuable luxury brands continue to be profitable and saw no changes in their multiples. At the high end of luxury, there had been no change in Blue Sky multiples in nearly three years until Mercedes-Benz was downgraded in Q4 2023, now a quarter turn multiple lower than its German counterpart BMW. The multiple range for both of these brands continues to be larger than the 1.0x range between low and high of every other brand besides Porsche which continues to be 2.0x different low to high. The downward adjustment to Mercedes-Benz' multiple range was attributed to struggles with EV profitability and demand from consumers as well as the OEM's preference that existing franchisees buy stores that come up for sale rather than allowing new dealers, restricting demand. Investors may discount the cost of due diligence as a "cost of doing business" when making numerous acquisitions, but it is hard to justify the expenses involved with underwriting an acquisition if you do not have confidence in factory approval. From a valuation standpoint, there is a similar concept to the applicable discount for lack of control/marketability applied to a minority interest holder in a dealership. All else equal, a right of first refusal discourages potential buyers.

Luxury Blue Sky Multiples Range



Source: Haig Partners

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

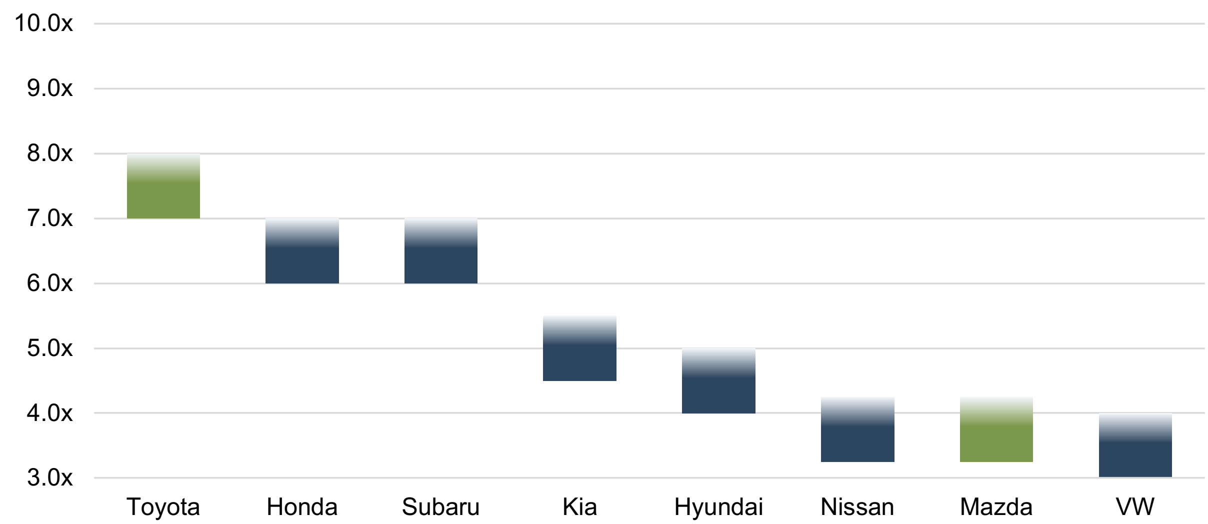
Blue Sky Multiples

As of Year-End 2023

Import Blue Sky Multiples

Since Q3 2020, there have been 16 changes to Blue Sky multiple ranges with only four changes to luxury (3) and domestic (1) with the other 12 changes being increases to multiples of import brands. Toyota and Kia have each seen four increases going from 6-7x to 7-8x and 3.25-4.25x to 4.5-5.5x, respectively. Toyota further increased in Q3 2023 and is now approaching Mercedes-Benz' multiple range of 7.25-8.75x. While there is still more upside for those dealers, it is a notable difference and credit to the perceived durability and balanced EV approach Toyota is taking. In Q3 2023, Mazda's Blue Sky multiple range increased 0.25x, putting it on par with Nissan whereas it was previously in line with VW.

Import Blue Sky Multiples Range



Source: Haig Partners

** Green indicates an increase in the multiple from the previous quarter*

Blue Sky Multiples

As of Year-End 2023

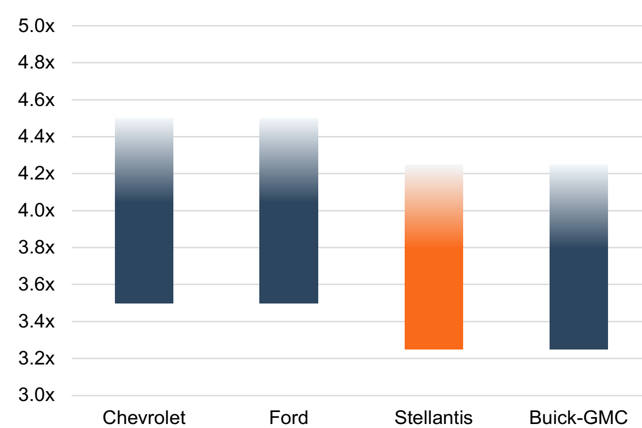
Domestic Blue Sky Multiples

Domestic franchise multiples had not changed since Q3 2020 until Stellantis' multiple range decreased in Q3 2023. With the trend towards bifurcation into approximately three tiers within luxury and import dealers, domestic franchise multiples are in line with the lowest tier of each of these.

Stellantis' four well-known domestic brands (Chrysler, Dodge, Jeep and Ram) have some of the highest Days' Supply of all franchises, raising floor plan and advertising costs. While it was hoped that the UAW strikes would draw down this inventory build, the relatively short nature of the strike appears to not have dented the accumulation of inventory. While non-CDJR dealers may count themselves fortunate to not be dealing with similar issues, it is important to note that there is potential risk for contagion as CDJR dealers selling vehicles at lower prices may pressure other brands to do the same. Additionally, other OEMs may feel the need to protect market share, pushing more inventory than dealers may otherwise want.

After years of the opposite being true, it's important to remember this is a cyclical industry. According to Haig Partners, many CDJR dealers are also seeing profits fall to 2019 levels, which is not the norm for most other brands, and Haig finds that overall interest in the brand has declined particularly as compared to Ford and Chevrolet. Stellantis is now tied with Buick-GMC at the bottom for domestic Blue Sky multiples, and Buick-GMC has seen improvements in recent periods.

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 Year-End 2023

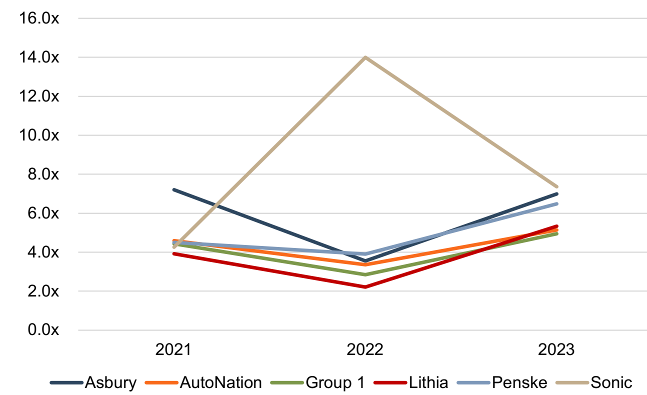
Blue Sky Multiples

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.

The average LTM Blue Sky multiple for the public auto dealers (6.0x) is up from the 5.0x seen at year-end 2022, indicating a recovery in valuations. The recovery is even more pronounced than the averages indicate, as Sonic's 14.0x multiple in 2022 materially impacted the average while the other five retailers had an average LTM multiple of 3.2x.

In 2023, stock prices improved while earnings normalized. The average decline in 2023 earnings (excluding Sonic) was 17.2%. Asbury's earnings decreased the most at 35.5% while their stock price rose 25.5%, which caused their Blue Sky multiple to nearly double from 3.6x to 7.0x. The 2022 decline in multiples and corresponding rebound was felt across all retailers excluding Sonic.

LTM Blue Sky Multiples



Source: Haig Partners

Implied Blue Sky Multiples	Asbury	AutoNation	Group 1	Lithia	Penske	Sonic	Average	Median
Stock Price	$224.97	$150.18	$304.74	$329.28	$160.51	$56.21		
less: Tang. Book Value per Share	$42.33	$4.38	($24.04)	($68.65)	($25.97)	($6.50)		
Implied Blue Sky per Share	$267.30	$154.56	$280.70	$260.63	$134.54	$49.71		
LTM Pre-Tax Income per Share	$38.22	$30.07	$56.84	$48.87	$20.78	$6.75		
2023 Blue Sky Multiple	6.99x	5.14x	4.94x	5.33x	6.47x	7.37x	6.04x	5.90x
FWD Pre-Tax Income per Share	$44.35	$28.00	$58.20	$48.85	$21.45	$9.77		
2023 Blue Sky Multiple	6.03x	5.52x	4.82x	5.33x	6.27x	5.09x	5.51x	5.43x
3-Year Avg. Pre-Tax Income per Share	$44.26	$28.82	$55.08	$52.52	$21.87	$6.90		
3-Year Average Blue Sky Multiple	6.04x	5.36x	5.10x	4.96x	6.15x	7.20x	5.80x	5.70x

Source: S&P Capital IQ Pro

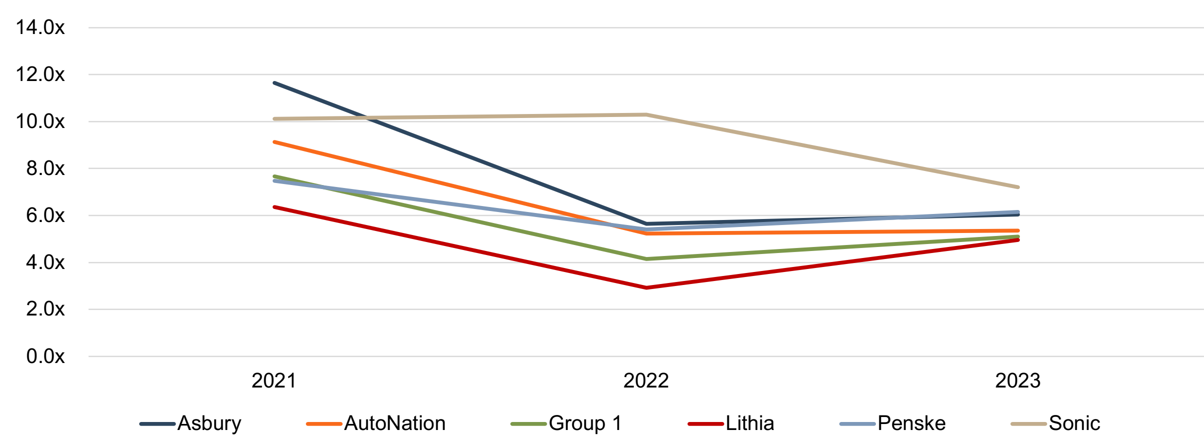
Guideline Public Company Analysis

As of Year-End 2023

Blue Sky Multiples (cont.)

Using a 3-year average methodology instead, Blue Sky multiples still largely moved in tandem and followed a similar trend, declining from higher levels in 2021 to a low in 2022 before rising again by year-end 2023. It makes sense that a multi-period average would moderate the change in valuations, and it also stands to reason that 2021 multiples were the highest, as earnings were expected to continue to be above pre-pandemic levels, which amounted to 2/3rds of the 3-year average. With earnings declining as expected in 2023, backward valuations are normalizing.

Three-Year Average Blue Sky Multiples



Source: Haig Partners

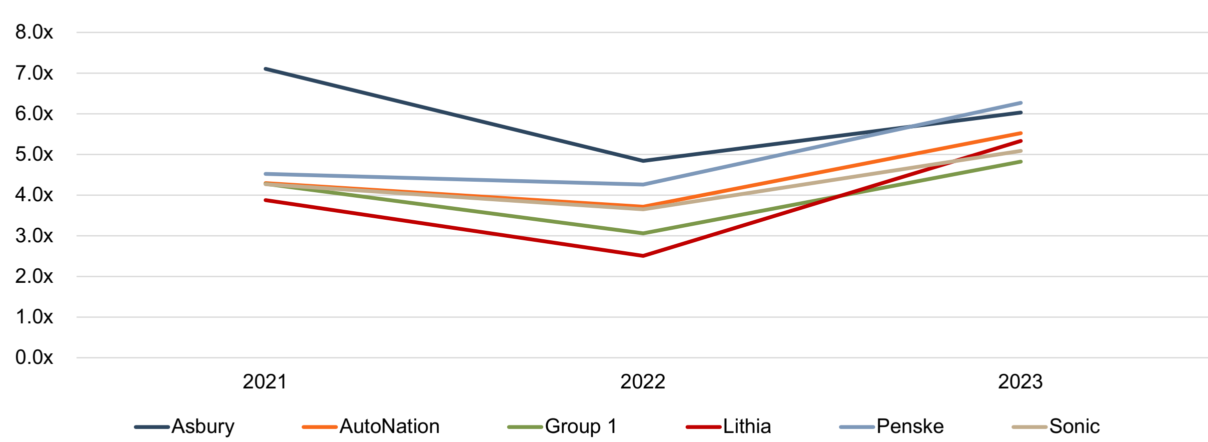
Guideline Public Company Analysis

As of Year-End 2023

Blue Sky Multiples (cont.)

Forward multiples are higher than they were in 2021, which we find interesting given the anticipated trajectory of earnings, which have normalized but remain above pre-pandemic levels. Higher valuation multiples may indicate the market has greater confidence in its earnings expectations, implying investors are therefore willing to pay more for auto retailers' earnings than they were in 2021 because of greater visibility. At year-end 2023, forward Blue Sky multiples were in a relatively tight range of 4.8x (Group 1) to 6.3x (Penske), which appears reasonable in light of Haig's reported Blue Sky multiple ranges.

FWD Blue Sky Multiple



Guideline Public Company Analysis

As of Year-End 2023

Market Capitalization, Revenue, and Dealership Count

Public auto dealers saw their market caps improve by a median percentage of 25.8% during 2023, which modestly outpaced the 24.2% improvement in the S&P 500 index during that same period. Furthermore, due to the outperformance of Group 1 Automotive and Lithia Motors' stocks, the group of six public auto retailers experienced an average stock price increase of 32.8% in 2023. While all six of the public dealers saw their stock price increase in 2023, the magnitude of stock price increases was a mixed bag with Sonic's stock only increasing 5.7%. Gains for the group can be attributed to rising tides in the greater market which helped fuel a rally for all of the public auto retailers.

This mixed bag performance in 2023 can be attributed to differences in growth strategies, prices paid for recent acquisitions and business models/revenue mix between business segments, among other factors. Each one of the public dealers is faced with similar challenges in the market but have differing business models and capital allocation strategies compared to one another.

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	Dealership Count	6 Mo. Change in Dealerships	12 Mo. Change in Dealerships
Asbury Automotive Group, Inc.	ABG	$4,629	-10.6%	16.7%	$14,803	-0.6%	-4.1%	158	14.5%	6.8%
AutoNation, Inc.	AN	6,386	-14.9%	20.1%	26,949	1.1%	-0.1%	252	-0.4%	2.0%
Group 1 Automotive, Inc.	GPI	4,084	15.3%	61.1%	17,874	5.6%	10.2%	199	-2.9%	-2.5%
Lithia Motors, Inc.	LAD	9,062	8.2%	61.9%	31,042	5.8%	10.1%	344	-0.3%	16.2%
Penske Automotive Group, Inc.	PAG	10,780	-6.2%	31.5%	29,527	2.7%	6.2%	336	-0.3%	1.2%
Sonic Automotive, Inc.	SAH	1,905	12.8%	5.7%	14,372	1.3%	2.7%	108	0.0%	-2.7%
Average		**$6,141**	**0.8%**	**32.8%**	**$22,428**	**2.7%**	**4.1%**	**233**	**1.8%**	**3.5%**
Median		**$5,508**	**1.0%**	**25.8%**	**$22,411**	**2.0%**	**4.4%**	**226**	**-0.3%**	**1.6%**

Guideline Public Company Analysis

As of Year-End 2023

Market Capitalization, Revenue, and Dealership Count (cont.)

Group 1 and Lithia both reported revenue growth of more than 10.0% in 2023; given Wall Street's affinity for growth, it is not surprising these stocks performed the best in 2023. What is notable is how the two companies differed in their growth. Lithia, long known as the serial acquirer in the space has eclipsed Penske in terms of dealerships thanks to a 16.2% increase in 2023. While Group 1 raised its revenues like Lithia, it remarkably was able to achieve this despite finishing the year with fewer dealership locations than it began. Group 1 Automotive attributed its financial successes in 2023 to its parts and services business, and also reported record revenues from its U.K. operations.

Public Auto Dealers	LTM Revenue	6 Mo. Change in Revenue	12 Mo. Change in Revenue	Dealership Count	6 Mo. Change in Dealerships	12 Mo. Change in Dealerships
Asbury Automotive Group, Inc.	$14,803	-0.6%	-4.1%	158	14.5%	6.8%
AutoNation, Inc.	26,949	1.1%	-0.1%	252	-0.4%	2.0%
Group 1 Automotive, Inc.	17,874	5.6%	10.2%	199	-2.9%	-2.5%
Lithia Motors, Inc.	31,042	5.8%	10.1%	344	-0.3%	16.2%
Penske Automotive Group, Inc.	29,527	2.7%	6.2%	336	-0.3%	1.2%
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Average	**$22,428**	**2.7%**	**4.1%**	**233**	**1.8%**	**3.5%**
Median	**$22,411**	**2.0%**	**4.4%**	**226**	**-0.3%**	**1.6%**

Presented in $000,000s except dealership counts

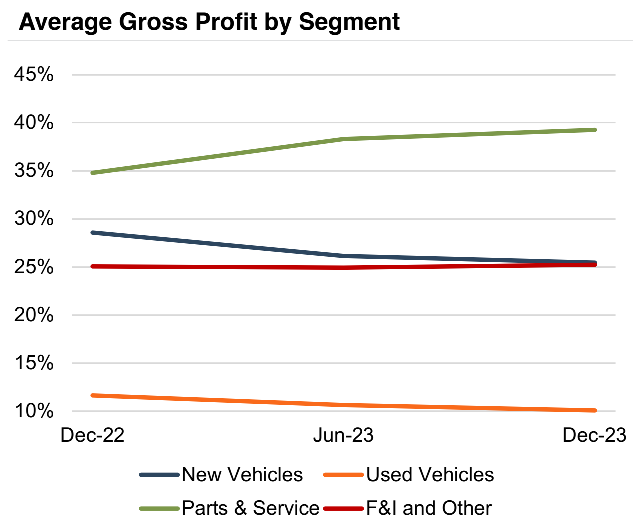
Guideline Public Company Analysis

As of Year-End 2023

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 selling operations at a typical dealership, and the public dealers have leveraged their fixed operations to stay profitable while selling margins have normalized.

Gross profit from finance and insurance departments has remained stable as a percentage of total gross profit during the last three years, as both rising and falling sticker prices on vehicle sales are strongly correlated to F&I sales. Higher-priced vehicles make insurance desirable, and financing becomes more important to keep monthly payments affordable. Furthermore, higher prices result in longer loan terms, which supports growth in financing income.



Public Auto Dealers	New Vehicles	Used Vehicles	Parts & Service	F&I and Other	Total
Asbury Automotive Group, Inc.	25.5%	9.6%	41.8%	23.2%	100.0%
AutoNation, Inc.	20.7%	9.9%	41.7%	27.7%	100.0%
Group 1 Automotive, Inc.	25.4%	9.8%	40.2%	24.6%	100.0%
Lithia Motors, Inc.	26.8%	13.9%	33.7%	25.7%	100.0%
Penske Automotive Group, Inc	30.3%	10.6%	39.3%	19.9%	100.0%
Sonic Automotive, Inc.	24.0%	6.6%	38.9%	30.4%	100.0%
Average	**25.4%**	**10.1%**	**39.2%**	**25.2%**	**100.0%**

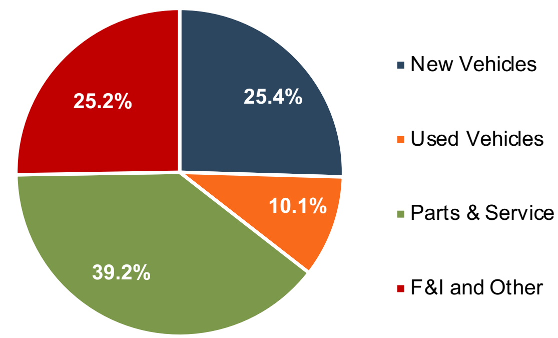
Guideline Public Company Analysis

As of Year-End 2023

Gross Profit by Segment (cont.)

After almost two years of elevated transaction prices and GPUs, gross margins for new and used vehicle sales moved towards (but not back to) normalized, pre-pandemic levels. As a percentage of total gross profit, new and used sales modestly decreased over the last year. While new vehicle departments are contributing closer to historical levels, used vehicle departments are falling behind as the volatility in used car prices can negatively impact dealers, particularly those carrying larger inventory balances as prices drop.

Average Gross Profit by Segment



Sales Satisfaction Index

As of Year-End 2023

Every year, JD Power releases the Sales Satisfaction Index ("SSI") Study, measuring satisfaction with the sales experience among new-vehicle buyers and rejecters (defined as those who shop a dealership and purchase elsewhere).

Buyer satisfaction is based on six measures: delivery process (26%), dealer personnel (24%), "working out the deal" (19%), paperwork completion (18%), dealership facility (10%), and dealership website (4%). Rejecter satisfaction is based on five measures: salesperson (40%), price (23%), facility (14%), variety of inventory (11%), and negotiation (12%). Scoring is based on a 1,000-point scale and the 2023 study is based on responses from over 37,000 buyers who purchased or leased their new vehicle from March-May 2023. Satisfaction of rejecters was measured from July-September 2023.

Key findings from the 2023 SSI study include:

- **Smaller percentage of buyers are paying above MSRP:** As inventory improves, many dealers are finding it harder to charge more than the suggested price for vehicles. While this trend might negatively affect immediate dealer profitability, it certainly aids overall sales satisfaction. Buyers who paid more than MSRP are much less satisfied with the sales process than those who paid MSRP or less. The study finds that 15% of mass market buyers paid above MSRP, a decrease from 25% in 2022. Among buyers of premium vehicles, 10% paid more than MSRP this year vs. 19% a year ago. These customers also have lower service loyalty and dealer advocacy.
- **Satisfaction with price improves but remains below pre-pandemic levels:** Increasing inventory levels have led to moderating vehicle prices. However, customer satisfaction is still below pre-pandemic levels. This year, buyers of mass market vehicles provide a rating of 8.04 (on a 10-point scale) for fairness of price paid vs. 8.14 in 2020. Buyers of premium vehicles provide a rating of 8.18 for fairness of price paid, down from 8.42 in 2020.
- **Notable gaps in salesperson expertise:** Salesperson expertise is a key factor, resulting in lower satisfaction among EV buyers than experienced by ICE buyers. Among mass market brands, EV buyer perception regarding the expertise of the retailer staff results in a rating of 7.81 vs. 8.75 for perception of ICE staff expertise. Premium brands offer a similar story. Premium EV buyers rate dealer staff expertise at 8.59 compared with 8.95 for ICE retailer staff expertise.

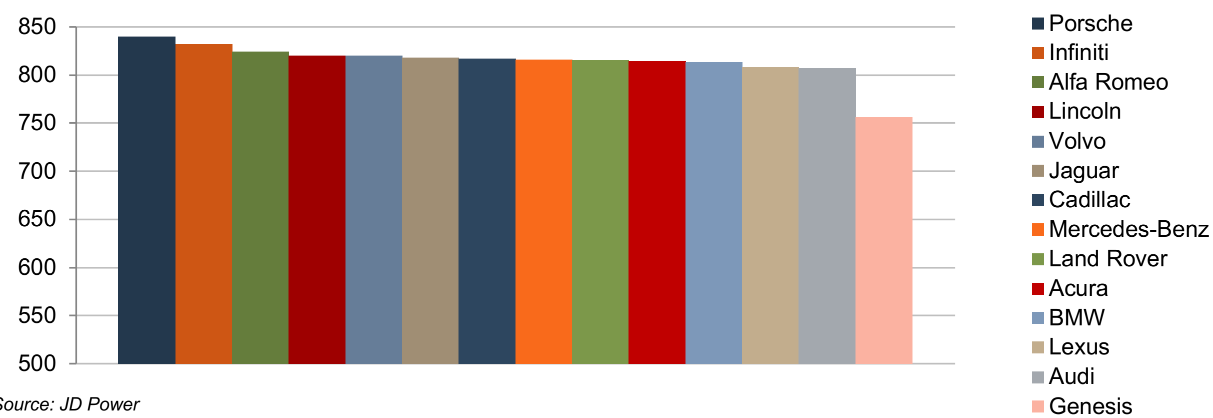
Sales Satisfaction Index

As of Year-End 2023

- **Tell me more, tell me more:** More than 30% of EV buyers say they would like additional information on their vehicle's maintenance schedule and 7% say they would like additional assistance on setting up their home charging. Notably, 11% of EV buyers say they would like further explanation on how to charge their vehicle at home or elsewhere. "Buyers of ICE vehicles don't need to be taught how to put fuel in the gas tank," Sutton said. "But salespeople need to show EV buyers how to charge their vehicles at home and what's involved in using a public charging station." Dealer profitability has been higher post-pandemic in part due to reduced head count; it remains to be seen whether dealers can remain as efficient with rising inventory levels and increasing complexities of powertrains.

Luxury

The SSI rankings of luxury brands has shifted a good bit in the last year. On a relative basis, this year's satisfaction scores were higher across the board by an average of 9.4 points. Volvo was the biggest upward mover in the group, moving up 32 points and eight spots from last year to finish fifth in the group. The largest downward mover in the group was Lexus, which fell 11 points and nine spots from third to twelfth. Lexus has been a staple in the top five of the group, and this year's performance in the rankings comes as a bit of a surprise.



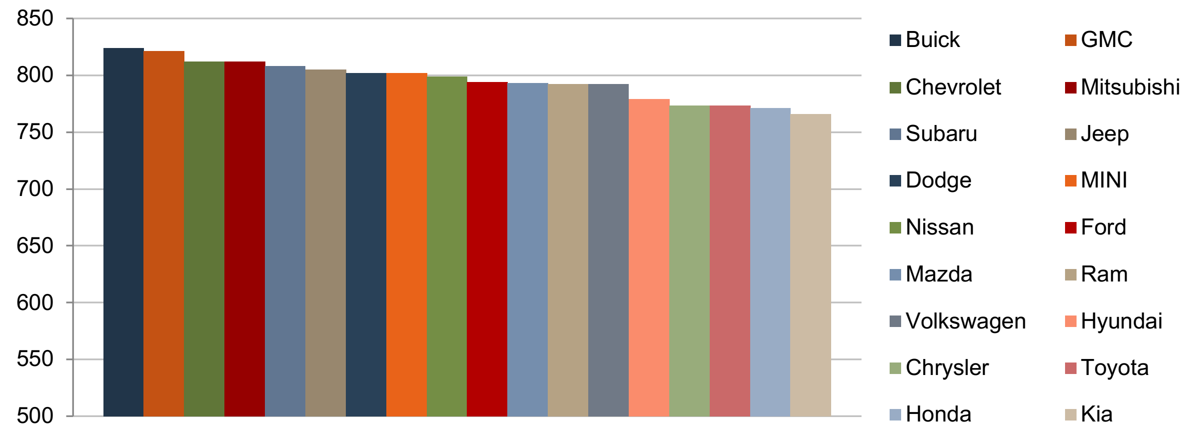
Source: JD Power

Sales Satisfaction Index

As of Year-End 2023

Mass Market

The SSI rankings for mass market brands also had some notable movers over the last year. On a relative basis, this year's satisfaction scores were an average of 5.5 points higher than last year. Buick maintained the top spot in the group, hammering home that consumers have been very satisfied with the Buick buying process. Mitsubishi has been added back to the group after three consecutive years of omission, ranking fourth overall in 2023 satisfaction in their first year back. Dodge fell 14 points and five spots from second to seventh and GMC took the second place spot, moving up 19 points and three spots from fifth.



Source: JD Power

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Contact Us

Scott A. Womack, ASA, MAFF
615.345.0234
womacks@mercercapital.com

Nicholas J. Heinz, ASA
901.685.2120
heinzn@mercercapital.com

David W. R. Harkins, CFA, ABV
615.345.0272
harkinsd@mercercapital.com

Harrison Holt
615.345-6881
holth@mercercapital.com

Kate Mabry
615.288.0031
mabryk@mercercapital.com

Mercer Capital

www.mercercapital.com

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