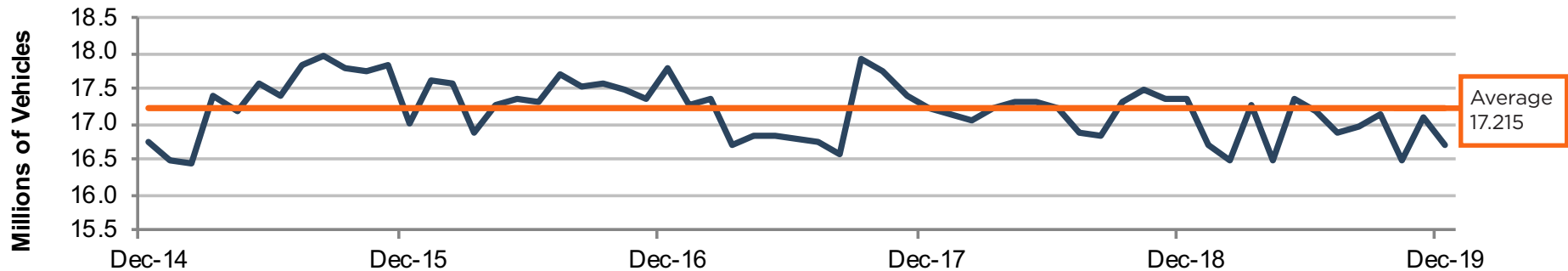


Light-Weight Vehicle Sales: Autos and Light Trucks (“SAAR”)



Source: St. Louis Fed

SAAR¹ came in at **16.70 million for December 2019**, as a shortened holiday season led to volume declines of **5.8%**. However, total volume was **17,047,725 for 2019**, the fifth straight year above 17 million. While volumes did decline, the drop was not as much as proffered at the beginning of the year as fears of a recession failed to materialize and the Fed cut interest rates three times to buoy affordability.² As seen in the graph above, SAAR generally lagged its 5-year average in 2019.

NADA is forecasting U.S. light-vehicle sales of **16.8 million**, which would represent a 1.2% decline and the second consecutive year-over-year decline. This would also be the first year under **17 million units sold since 2014**.

In the past decade, trucks have also taken over a significant portion of the market, from about a 50/50 split in 2010 to about **70/30 in 2019**. This includes the increasingly popular crossover segment which makes up about **40% of the new vehicle market**. Sedans have historically been the more fuel-efficient option, but lower gas prices and improved fuel efficiency have made roomier mid-sized cars more attractive. While sales volume has declined for new vehicles, this tends to be the

lowest margin business for dealerships who typically earn more gross profit per vehicle on used vehicles and significantly higher margins on its parts and service departments. Used car sales may continue to increase as many consumers are priced out of increasingly expensive new cars, particularly if interest rates creep back up. Additionally, a record **4.3 million leases are set to end in 2019**, which could increase fleet and used sales as consumers ponder next options. This would stand to compound the trend of slipping retail volumes, which was offset by higher discounts and more fleet sales.

While not frequently quoted for valuation purposes in the industry, all six of the public new vehicle auto dealers increased in value in 2019 in a bull market that saw the S&P 500 increase over 27%. Only Auto-Nation, Inc. grew by less (19%) while Sonic Automotive, Inc. more than doubled its market cap.

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¹ 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 (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.

² Declining interest rates also aided dealers on inventory carrying costs by lowering floorplan interest.

Mercer Capital

Auto Dealer Industry Services

Mercer Capital provides business valuation and financial advisory services to companies throughout the nation in the auto dealer industry.

Mercer Capital provides business valuation and financial advisory services to auto dealerships throughout the nation. We provide valuation services for tax purposes, buy-sell agreements, partner buyouts, and other corporate planning purposes. We also provide valuation and expert testimony in connection with marital dissolution (family law) and commercial litigation matters. Mercer Capital also works with owners who are considering the sale of their dealership or the acquisition of other dealership(s).

Services Provided

- Valuation of auto dealer stores and related industry companies
- Valuation of asset holding companies owning the dealership real estate
- Litigation support and valuation for marital dissolution
- Litigation support for economic damages and shareholder disputes
- Valuations for purchase accounting and impairment testing
- Fairness and solvency opinions
- Transaction advisory services for mergers, acquisitions, and divestitures

Contact a Mercer Capital professional to discuss your needs in confidence.

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