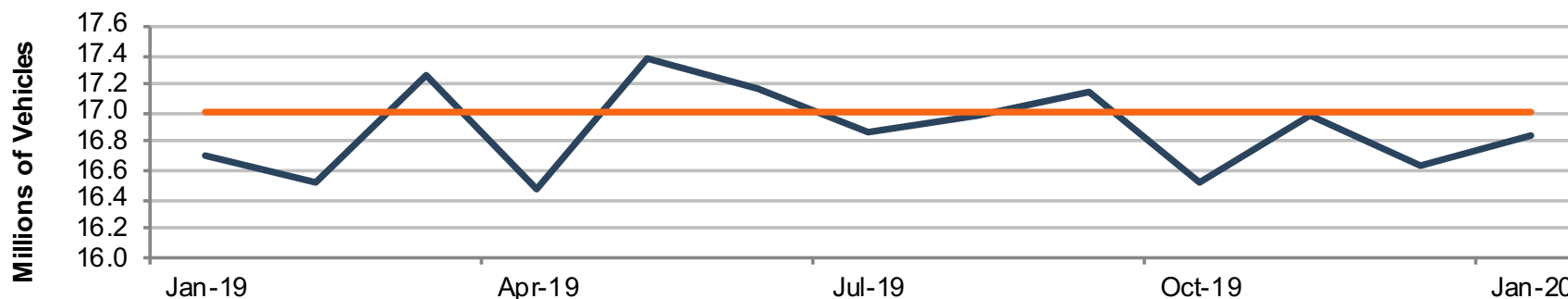


Light-Weight Vehicle Sales: Autos and Light Trucks (“SAAR”)



Source: St. Louis Fed

SAAR came in at **16.844 million for January 2020**, up about 1% from both the prior month and the prior year. Actual sales of 1.13 million units was slightly down from January 2019. Similarly, while SAAR was up from last month, sales volume was down 25% from December. However, this is the reason the auto industry seasonally adjusts, as dealers offer significant discounts (e.g. Toyota-thon and Happy Honda-Days) at year-end. In each of the past ten years, the month of December has had higher than average sales volume, whereas January and February have each had below average. October and November are also below average, as consumers anticipate falling prices. Incentives reached all-time highs in December at \$4,600 per vehicle, while January’s figure dropped to \$4,000 as dealers clear out 2019 model year inventory. As seen above, SAAR has been below 17 million more often than not in the past year.

NADA maintained their 2020 sales expectation of **16.8 million units**. This was higher than forecasts provided by Asbury Automotive Group and Group 1 Automotive of **16.5 million** and **16.7 million**, respectively. As unit volume is expected to drop below the 17 million threshold for the first time since 2014,

public company executives are distancing their companies from this metric. We listened to Q4 earnings calls for three of the public auto dealers (Group 1, Penske, and Asbury) within the past two weeks, and all three highlighted common themes to increased profitability.

“Our Service and Parts operation throughout the organization provide recurring revenue which generates 46% of our company gross profit. We continue to demonstrate that PAG’s business model is much more than monthly new vehicles sales or the SAAR.”

- Roger Penske, Chairman and CEO of Penske Automotive Group

“We were able to achieve record adjusted net income [...] by concentrating on areas of the business where we exert greater control: used vehicles, parts and service, F&I, and cost.”

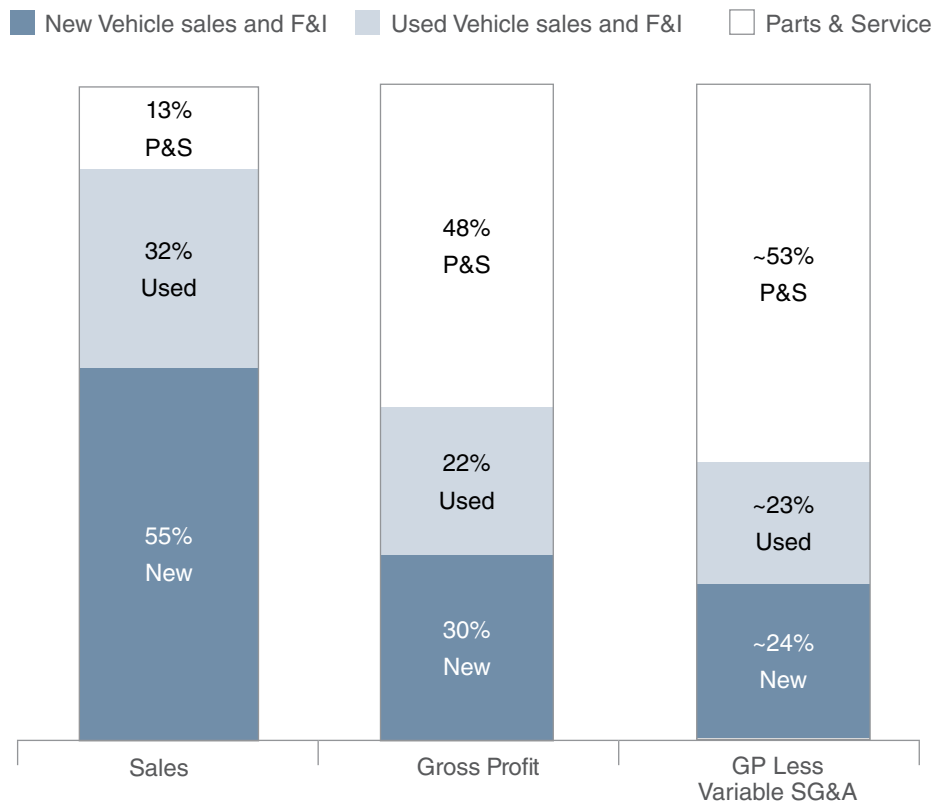
- Earl Hesterberg, President and CEO of Group 1 Automotive

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SAAR Is Not the Primary Business Driver



Large, stable and growing Parts & Service business offsets SAAR variability.



Asbury Automotive Group Q4 Investor Presentation

Executives are right to point out the relative impact of SAAR, particularly since national unit volume by nature tells nothing about an auto dealer's profitability, which ultimately drives value. While lower interest rates in 2019 likely aided SAAR, this lowers gross profit on dealers' F&I segment. Mitigating this, auto dealers' bottom lines were also aided by lower floor-plan interest expense as maintaining inventory on the lot for test drives continues to be a cost of doing business in the industry even as customers increasingly begin their shopping experience online.

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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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