

Presidio Perspectives:

A Quarterly Outlook on Auto Retail and M&A Trends

FIRST QUARTER 2024

First quarter's story:

Good news, bad news as profit slide accelerates

Welcome to the third issue of "Presidio Perspectives: A Quarterly Outlook on Auto Retail and M&A Trends," The Presidio Group's quarterly publication that chronicles and captures the shifts in dealership performance, auto technology developments and the dealership M&A market.

This issue highlights the good news-bad news dichotomy of the U.S. retail space as it goes through the Great Normalization.

First, the good news: During the first three months of 2024, profitability for the typical franchised store remained well above pre-2020 performance. The average dealership's net pretax profit was still around 1.8 times 2018's level, according to the Presidio-NCM Average Dealership Performance Benchmark.

The bad news: The profit slide continues to accelerate.

According to the benchmark, net pretax profit for the average franchised store slid 32.4 percent in the first quarter compared with the same period in 2023. The average store posted a drop of 20.5 percent in last year's first quarter, a rate of decline that generally continued throughout 2023.

As we examine data summarizing the first quarter of 2024, "it's important to view those results through the lens of normalization," said George Karolis, president of The Presidio Group. "The declines aren't extreme. It's the profits at the height of the pandemic that were extreme. They're just normalizing now."

Some other notable retail themes in our first-quarter report:

- Luxury stores remain more resilient overall to the downward pressure of normalization. Average gross profit per new vehicle for the luxury segment came in at a very healthy \$5,589, albeit down from the average of \$6,538 for all of 2023.
- Metrics on pre-owned operations are much closer to pre-pandemic levels of profit than the new-vehicle side. Meanwhile, expenses such as floorplan interest and marketing have increased, adding to profit pressures.
- While 2023 was clearly among the top three years on record for transaction volume, the pace of deals appeared to slow from the frenzied volume seen in 2021 and 2022. The 2023 count is still subject to change as news of more deals trickles out.



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With retail margins continuing to normalize, there is added pressure for all dealerships to maximize the performance of fixed operations. In this issue, we put a spotlight on the importance of fixed operations in several places. In our Presidio-NCM section, we share the latest data on how much fixed operations contributes to the average dealership's gross profit. In our M&A section, we take a deep dive into what a dealership's fixed operations performance says about the quality and sustainability of its earnings. And in our disruption section, we consider the risks and rewards that dealership service departments face with the industry's transition to electric vehicles.

Making the most of fixed, combined with paying attention to controlling costs, will be key to successfully riding out the continued slide in profitability from the earlier extremes.

Beyond dealership data, in this issue we also explore other sectors of the industry from several angles.

In the auto retail technology space, mobile solutions such as vehicle service, are expanding rapidly and drawing much investor interest and for good reason — they meet customers where they are. Providing such convenience to consumers ultimately will set winners apart from losers, particularly in certain segments of the industry. In recent years, startups that provide oil changes, tire service, car washes and detailing and light-duty repairs on the go have sprung up, attracting investor backing and expanding in some cases to coast-to-coast footprints.

"The world is convenience oriented, and consumers who care about saving time will pay a premium to avoid having to drive across town for a car wash or oil change," said Brodie Cobb, CEO of The Presidio Group. "The linchpin to making such mobile endeavors work is having incredible software that can efficiently manage the logistics of matching customer orders to the availability of mobile fleets and personnel. And that level of software has arrived."

From average dealership data to public dealership group profitability to disruption in the marketplace, we look back on the first quarter and look ahead to what's next.

We hope you enjoy the latest issue.

The Automotive Industry Is Evolving More Rapidly Than Any Time In Its History

The professionals at Presidio are here to help our clients navigate through these times.



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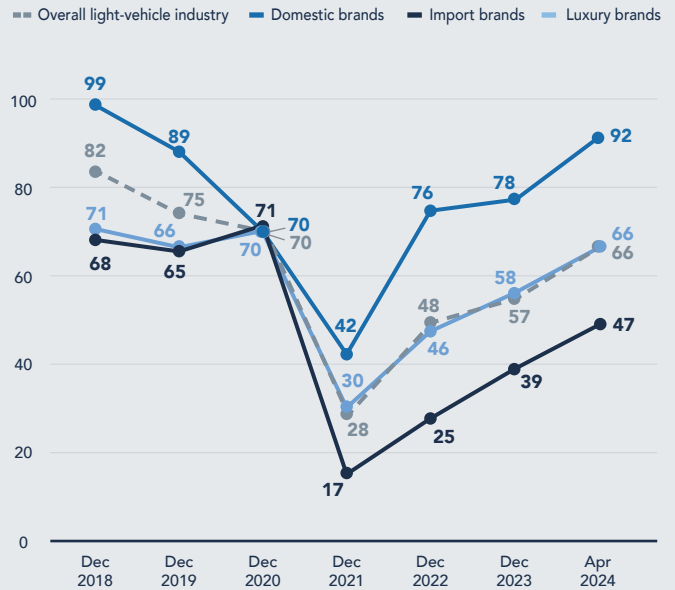


Sales, supplies increase, but rate picture is murky

The macroeconomic environment and certain auto retail data trends through nearly five months of 2024 are starting to strike notes of uncertainty though many industry watchers maintain tempered optimism for the year as a whole. U.S. new light-vehicle sales through the first four months of the year are pacing ahead of 2023, and industry analysts are projecting a moderate increase for the year. Still, after 20 straight monthly sales gains, volume dipped on a year-over-year basis in April, according to Wards Intelligence. Forecasts for full-year 2024 sales range from 15.7 million to 16.1 million vehicles.

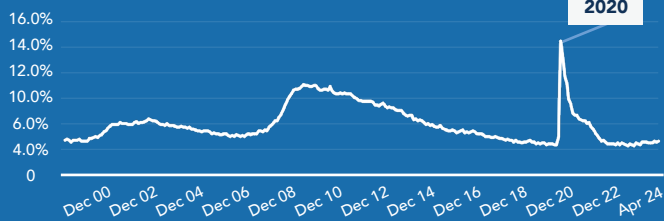
Supply levels continue to increase, rising to 2.7 million vehicles in inventory at the end of April, according to Wards. That equates to a 66-day supply, per a Presidio analysis.

New Vehicle Days' Supply by Brand Category



Source: Wards Intelligence, Presidio Analysis

Monthly U.S. Unemployment Rate



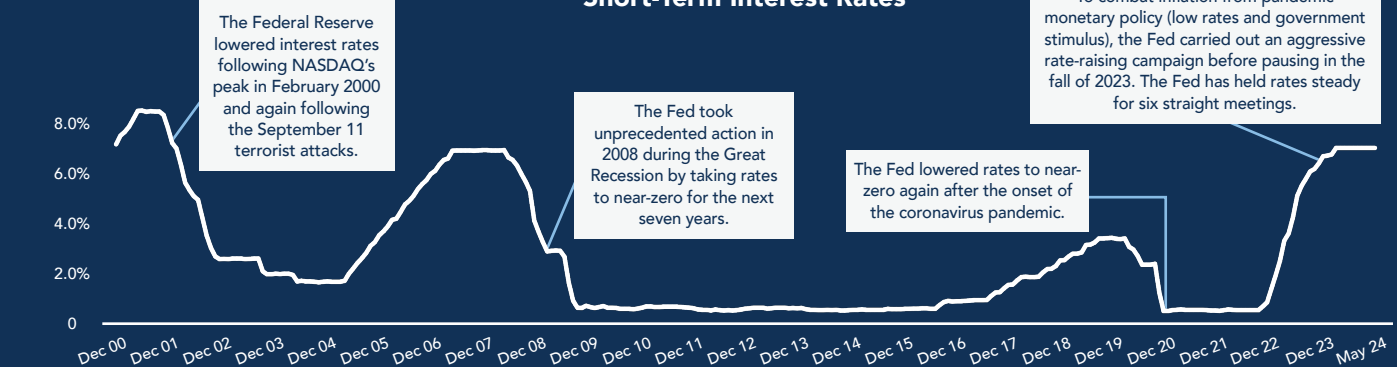
Source: U.S. Bureau of Labor Statistics

Monthly Consumer Price Index Inflation Rate

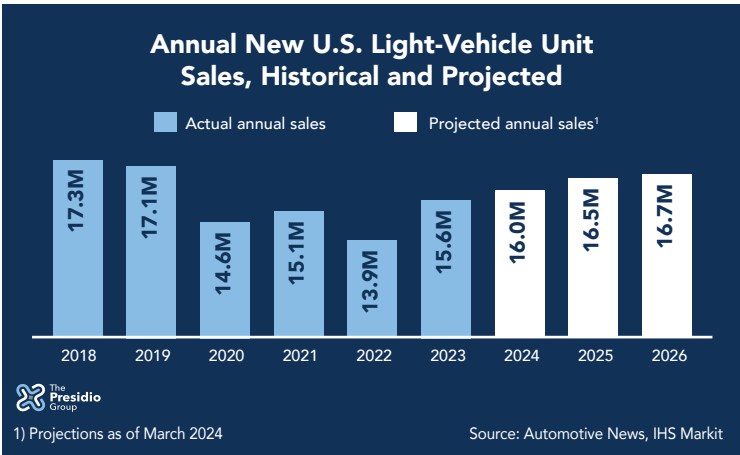


Source: U.S. Bureau of Labor Statistics

Short-Term Interest Rates

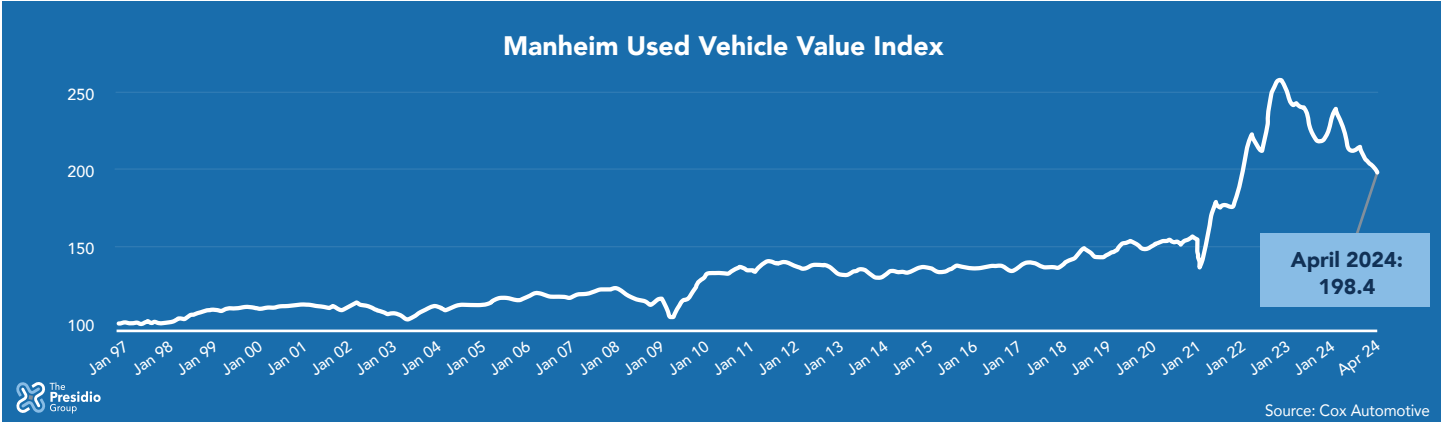
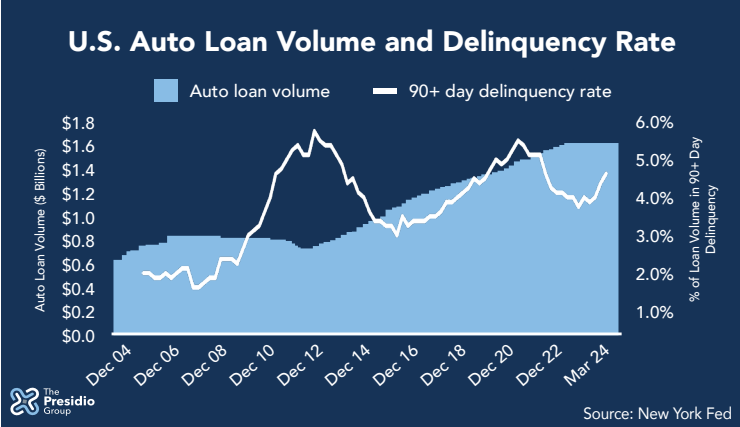
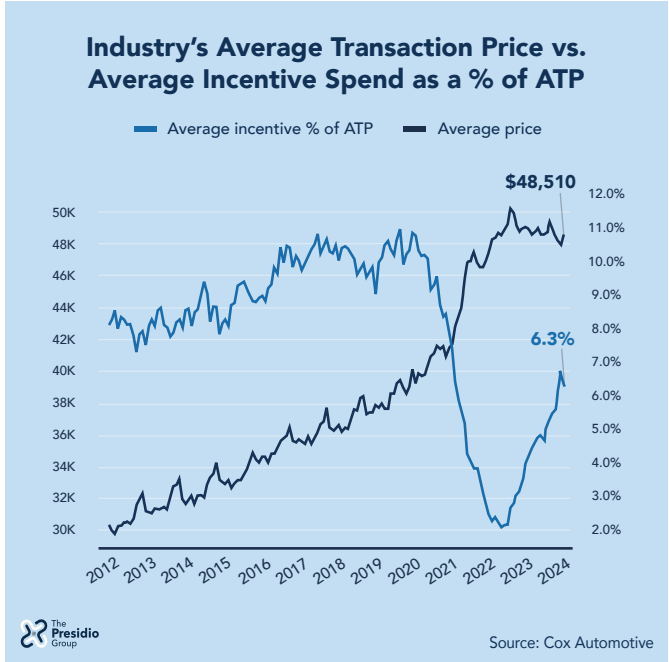
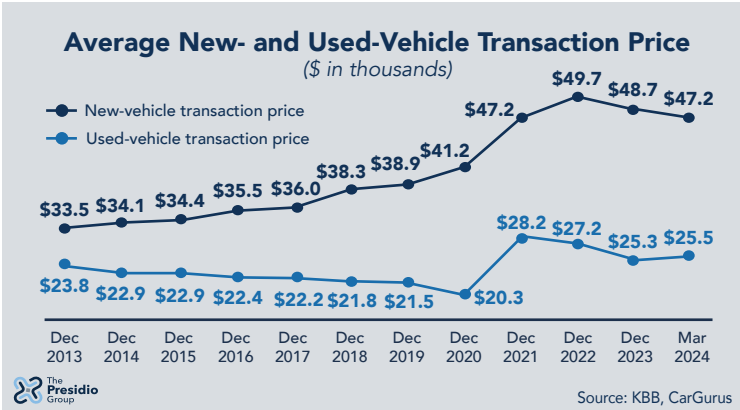


Source: FRED Economic Data



Affordability remains challenging. After three months of declines, the average transaction price ticked back up in April to \$48,510, according to Cox Automotive. Automaker incentives dipped in April, the first decline for the average incentive package as a percentage of transaction price since last October.

Interest rates, the other big factor influencing affordability, remain static, and high. The big question: When will the Federal Reserve cut the federal funds rate? After earlier indicating several rate cuts were likely this year, the Fed has held off on taking action until inflation stabilizes. Fed policymakers now say the central bank should wait several more months until it's clear inflation is truly under control. That has forecasters predicting the Fed won't act on rates until September at the earliest and may only cut rates once, twice — or potentially not at all — this year.





PRESIDIO-NCM AVERAGE DEALERSHIP PERFORMANCE BENCHMARK

While down from pandemic extremes, dealership profits remain higher than historical norms

The average U.S. dealership's profit slide accelerated during the first three months of 2024. While the Great Normalization from the record highs seen at the peak of the coronavirus pandemic clearly continues, the good news is that profitability for the typical franchised store remains well above pre-2020 levels.

According to the Presidio-NCM Average Dealership Performance Benchmark, net pretax profit for the average franchised store slid 32.4 percent in the first quarter compared with the same period in 2023. The average store posted a drop of 20.5 percent in last year's first quarter, a rate of decline that generally continued throughout 2023. The dollar figure of the average store's net pretax profit is not being shared.

"While the rate of decline accelerated as the year began, it's important to view those results through the lens of normalization," said George Karolis, president of The Presidio Group. "The declines aren't extreme. It's the profits at the height of the pandemic that were extreme. They're just normalizing now."

Even with the 32.4 percent decline in the first quarter, the average dealership's net pretax profit was still around 1.8 times 2018's level, according to a Presidio-NCM analysis.

The Presidio-NCM Average Dealership Performance Benchmark is based on aggregated financial results of more than 4,300 U.S. franchised dealerships of all brands and sizes that work with NCM Associates, which provides 20 groups, consulting and training to dealers across the country. The number of outlets contributing to the data represent nearly a quarter of all 18,000-plus dealerships in the U.S.

During this time of change, dealers should be getting their businesses ready for whatever the new normal ends up being, according to Paul Faletti, CEO of NCM Associates.

"As vehicle gross margins and total store profitability ebb, it is crucial that dealers take a close look at every aspect of their operations to make sure they have the right cost structure, the right people and the right processes and practices," Faletti said. "Having a strong playbook in place is how the best-performing dealership groups will ride out this normalization period."

Current Snapshot

Here's a quick look at the average dealership performance for the first quarter of 2024:

Profit change year over year:

↓ -32.4%

Revenue:

\$19.6M

↓ 3.1%

New vehicles retailed:

198

↓ 1.0%

Used vehicles retailed:

182

↓ 2.2%

Gross profit per new vehicle retailed:

\$2,524

↓ 31.8%

Gross profit per used vehicle retailed:

\$1,393

↓ 21.3%

F&I income per retail unit:

\$1,548

↓ 1.0%



Source: Presidio-NCM Average Dealership Performance Benchmark

More than two-thirds of dealers who took the most recent Presidio Dealer Direction Survey in January and February said they expect dealership profitability will decrease over the next 12 months. While it's not yet clear where profits and other key performance metrics will land, dealers and Presidio experts expect auto retailing to remain a profitable and robust business for the long term.

Inventory recovery continues to drive the profit decline. After supply levels fell to about 30 percent of the historical norm in 2021, Presidio estimates they are now close to 90 percent of pre-pandemic levels." Even though new-vehicle supplies have significantly improved, new-vehicle sales volume was essentially flat during the first quarter. The average dealership saw new volume dip 1 percent, from 200 vehicles to 198 vehicles.

The average gross margin per new vehicle retailed slid sharply by 31.8 percent to \$2,524. That gross, however, is still well above the \$1,300 to \$1,500 typically recorded in the years leading up to the pandemic.

The anemic new-vehicle sales pace in the first quarter is likely a result of a shrinking pool of pent-up new-car buyers, and this softening demand could add pressure to the industry's already swelling inventory levels and dealerships' floorplan interest expense.

The Presidio team strongly believes that brand and geography will play an increasingly prominent role in ongoing performance. Luxury-brand dealerships have outperformed their peers so far in retaining pandemic-era profits, but the slide for those stores is now firmly accelerating, according to Presidio-NCM segment data for the first quarter.

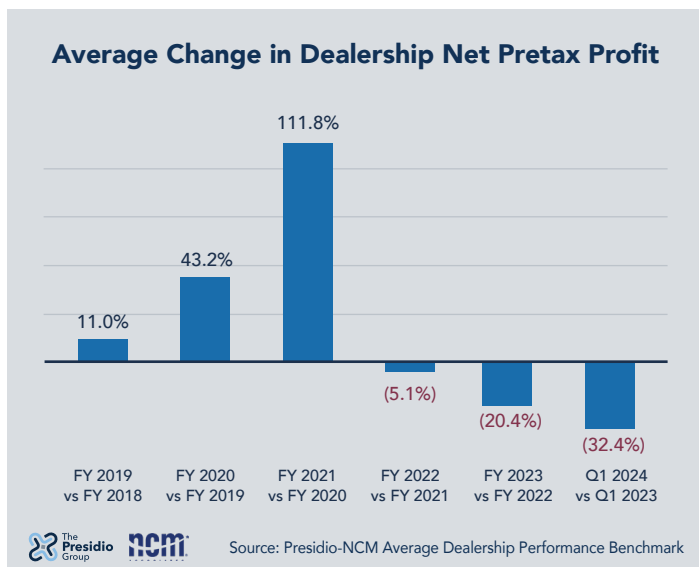
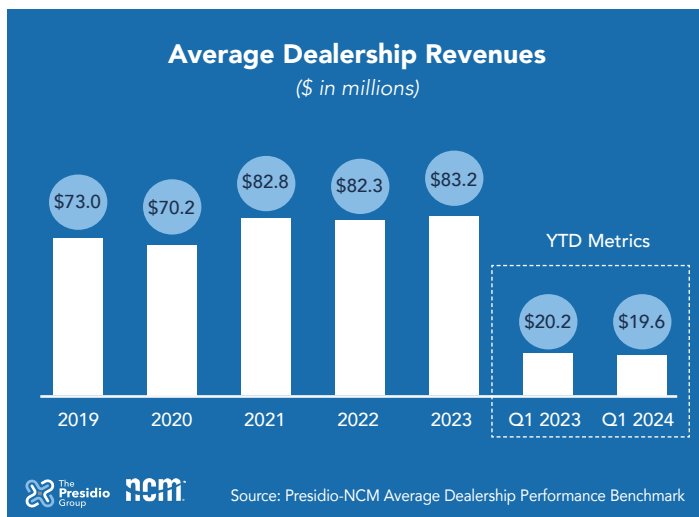
The average luxury dealership experienced a larger profit percentage drop for the first quarter than the average dealership, and the average luxury store's rate of decline also outpaced those for import-brand and domestic-brand stores. Luxury stores experienced a 34.1 percent average profit dip for the first quarter compared with the year-earlier quarter, according to the Presidio-NCM benchmark. The average import-brand store recorded a slide of 32.7 percent for the same period, and the average domestic-brand store posted a 31.3 percent decline.

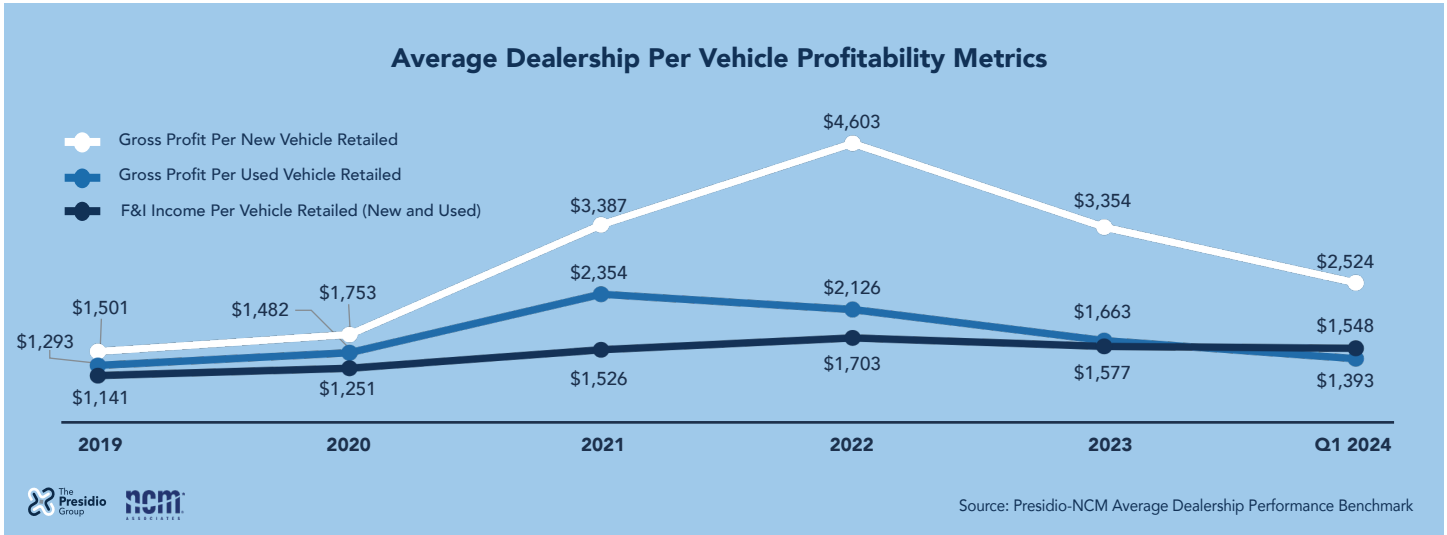
For all segments, the quarter-over-quarter slide for the first three months of 2024 significantly widened compared with the declines posted for full-year 2023 vs. 2022.

Luxury stores, however, remain more resilient overall to the downward pressure of normalization. Average gross profit per new vehicle for the luxury segment came in at a very healthy \$5,589, albeit down from the average of \$6,538 for all of 2023.

The domestic segment posted the next best gross profit per new vehicle, averaging \$2,278. That was down from an average of \$3,132 for all of 2023. The average import-brand store recorded a per-new vehicle gross profit of \$1,940, down from \$2,694 for all of 2023.

Metrics on the used side of the business are much closer to pre-pandemic levels of profit than the new-vehicle side. The average dealership saw retail used-vehicle volume dip 2.2 percent in the first quarter of 2024, and the average





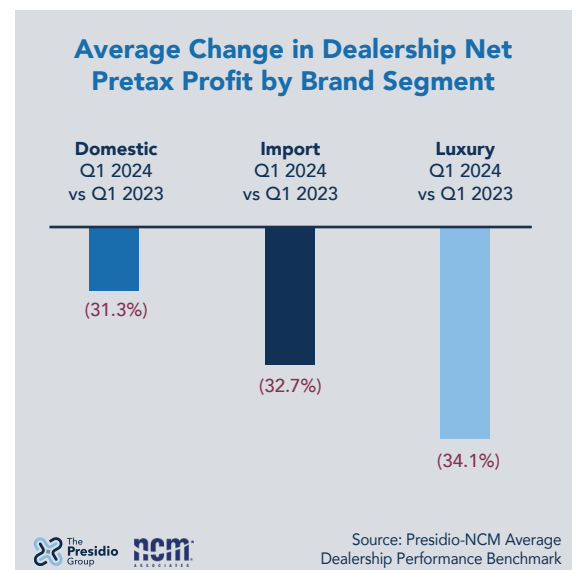
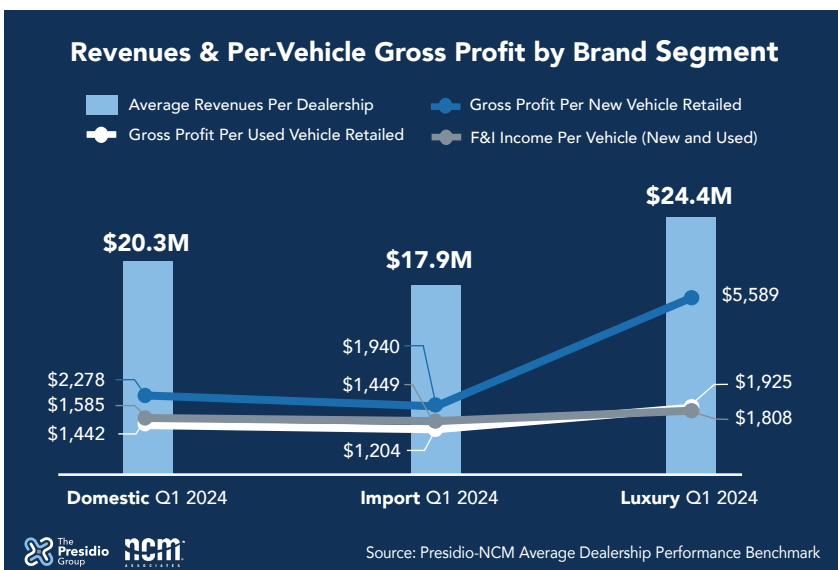
gross profit per used vehicle dropped 21.3 percent to \$1,393. That is more than \$1,000 lower than the average gross profit per used vehicle just two years earlier, and it is just \$100 higher than 2019's average of \$1,293.

The picture for the used business varies a bit among segments. The average luxury store recorded gross profit per used vehicle of \$1,925, while that metric came in at \$1,442 for the average domestic-brand store and \$1,204 for the average import-brand dealership.

While finance-and-insurance income is still much higher than before the pandemic, it also continues to soften, settling at an average of \$1,548 for the first quarter. That's down just 1 percent from 2023's first quarter but is nearly 10 percent lower than two years earlier.

As the average dealership's variable gross normalizes at a rapid pace, the parts and service business is stepping up. Fixed operations' gross contribution to total gross continued to increase across all segments in the first quarter of 2024, coming in at 50.3 percent for the average dealership compared with 45.2 percent for all of 2023 and in the mid-30s earlier in the pandemic. Read more about what a dealership's fixed operations performance says about the quality and sustainability of its earnings on pages 14-15.

With profits from vehicle sales and F&I falling, the pressure is on for all dealerships to maximize the performance of fixed operations. That, plus tighter cost controls that don't jeopardize variable sales performance, will be key to successfully riding out the continued slide in profitability from the earlier extremes.





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DEALER DIRECTION SURVEY/ BRAND DESIRABILITY RANKING

Presidio conducts its Dealer Direction Survey twice a year, providing a view into dealers' outlook on dealership profitability, value and the buy-sell market. Survey takers also rate vehicle brands to inform the Presidio Brand Desirability Ranking.

New surveys will be conducted for Presidio's second- and fourth-quarter publications. In reports that fall between queries, we'll recap the most recent survey — in this case taken by 285 dealers representing about 3,100 franchised dealerships from Jan. 19 through Feb. 15. Their responses revealed that dealers are increasingly concerned about economic headwinds and threats to the franchised model. But they want to expand their businesses and still feel confident about the strength of that model.

Dealers highlighted both rising expenses and profit declines that are expected to continue as the industry normalizes from pandemic-era highs. Just more than two-thirds expected dealership profitability to decline over the next 12 months, and nearly half expected dealership values to trend down during the same period. Even so, many still viewed values as strong and noted that store valuation changes will vary by brand and dealership location. More than half — 56 percent — expressed interest in buying dealerships over the next 12 months, while just 7 percent indicated interested in selling stores.

Survey takers identified interest rates, vehicle affordability and electric vehicle supply-demand balance as the most concerning factors for the industry in the short term. They selected direct sales as the biggest risk to the franchise model in the long term.

The Presidio Brand Desirability Ranking is determined by survey takers who rate the desirability of owning dealerships representing specific brands. Most brands sold in the U.S. are given as options, with some presented as clusters of brands commonly found under one roof — Chrysler-Dodge-Jeep-Ram, for instance.

Toyota and Lexus continued to hold the top two spots in the most recent ranking. Both brands saw sales of new vehicles per dealership soar in 2023 as inventory levels continued to recover.

Volume brands were generally the biggest movers up the list, while luxury brands generally slipped the most. Honda and Subaru made significant gains near the top of the ranking with Honda at No. 3, up four spots, and Subaru at No. 4, up two spots. The three most coveted German luxury brands — Porsche, Mercedes-Benz and BMW — each slipped two positions but remained highly ranked at Nos. 5, 6 and 7, respectively.

Brand Ranking

Dealers responding to a Presidio survey ranked the desirability of owning stores representing the following brands.

	Toyota	8.67
	Lexus	8.18
	Honda	7.76
	Subaru	7.66
	Porsche	7.10
	Mercedes-Benz	6.96
	BMW	6.90
	Kia	6.71
	Hyundai	6.45
	Chevrolet	6.28
	Audi	5.86
	Ford	5.52
	Buick-GMC	4.79
	Jaguar-Land Rover	4.71
	Mazda	4.57
	Genesis	4.47
	Volkswagen	4.39
	Cadillac	4.37
	CDJR	4.14
	Acura	4.11
	Ultraluxury	3.96
	Volvo	3.72
	Nissan	3.61
	Lincoln	2.90
	Infiniti	2.86



Source: Presidio Q4 2023 Dealer Direction Survey



M&A UPDATE/PRESIDIO VALUATION INDEX

The Presidio Group’s dealership valuation expertise and insights on the latest trends in mergers and acquisitions are informed, in part, by our work with many of the country’s biggest and most influential dealership groups. These relationships give us an insider’s view of how experienced and sophisticated operators value deals in the real world. Our analysis includes:

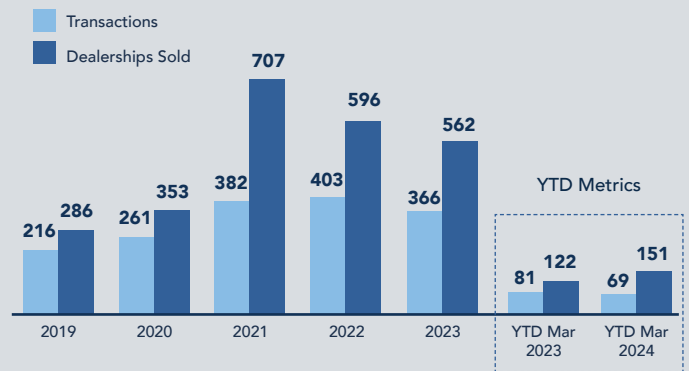
[Overall Market Update](#) | [Dealership Valuation Overview](#) | [Presidio Valuation Index](#)

Overall Market Update

While 2023 was clearly among the top three transaction volume years on record, the pace of deals appeared to slow from the frenzied pace seen in 2021 and 2022. The 2023 count is still subject to change as news of more deals trickles out. Preliminary data for the first quarter of 2024 reveals lower volume than the year-earlier period, but they were bigger deals with an average of 2.19 stores trading hands per transaction. The first-quarter tally of 69 deals involving 151 stores is expected to increase as there is typically a lag in reporting.

At year-end 2023, there were 18,347 franchised dealerships in the U.S., according to Urban Science. Private dealers owned 94 percent of stores, while public consolidators held 6 percent. According to the National Automobile Dealers Association, 91.6 percent of U.S. dealers owned one to five franchised stores as of the end of 2023. That percentage keeps shrinking because of consolidation, which has picked up in recent years. Data from Automotive News also demonstrates how consolidation is reshaping the dealership landscape. The top 150 dealership groups

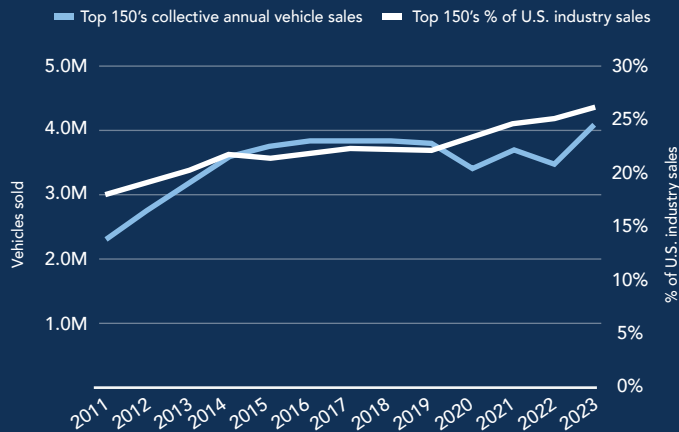
Historical U.S. Transaction & Dealership Buy/Sell Count



Source: Automotive News, The Banks Report, Scali Rasmussen and Presidio proprietary sources

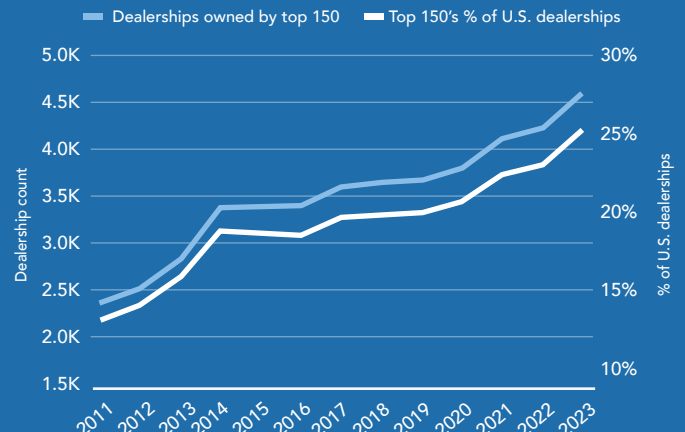
as ranked by Automotive News were responsible for 25.8 percent of U.S. new light-vehicle sales in 2023, up from 18.2 percent in 2011. Those top 150 groups owned 25.4 percent of U.S. franchised stores at the end of 2023, up from 13.9 percent in 2011, according to Automotive News.

Automotive News Top 150 Dealership Groups' Share of U.S. Vehicle Sales



Source: Automotive News Research & Data Center

Automotive News Top 150 Dealership Groups' Share of U.S. Dealerships



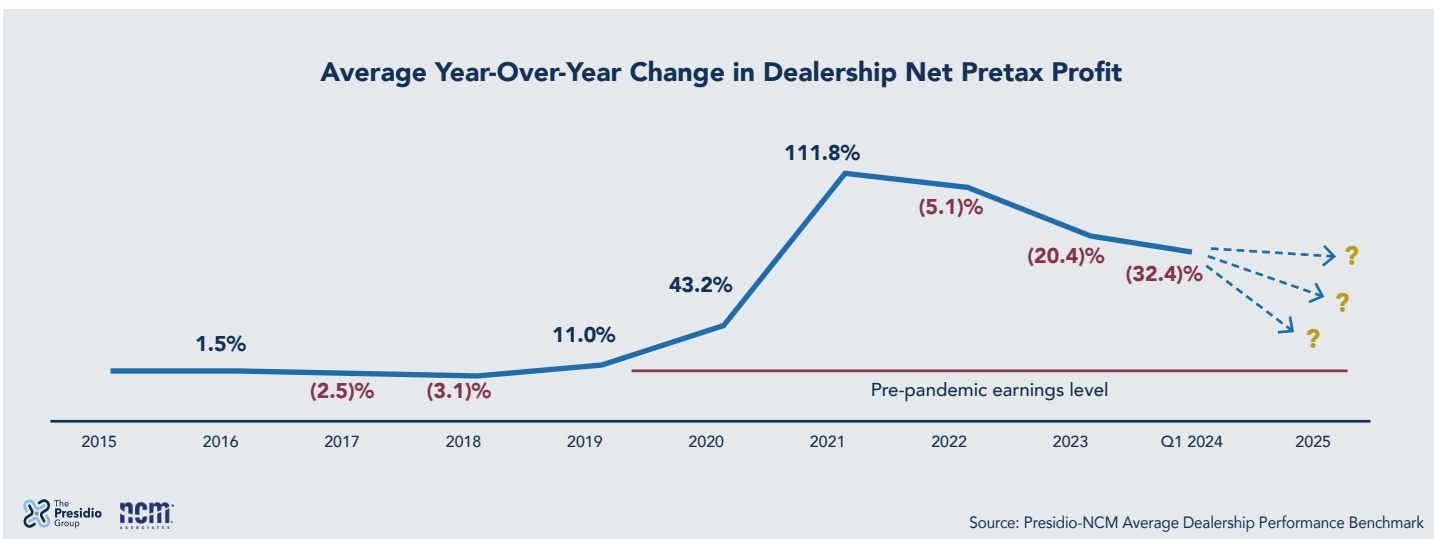
Source: Automotive News Research & Data Center

Private dealers continue to lead the way on acquisitions, accounting for 93 percent of all transactions recorded so far for 2024’s first quarter. Public groups collectively spent more than \$2 billion on acquisitions in the first quarter, including buying 20 stores in the U.S. The publics also divested eight U.S. stores in the first quarter. Of those, Presidio advised Group 1 Automotive Inc. on the sale of six dealerships in Texas and Asbury Automotive Inc. on the sale of one dealership in Delaware. Some publics also are expanding overseas. Group 1 has been the most active public acquirer so far this year, buying nine dealerships and announcing it would buy Inchcape PLC’s retail operations in the U.K., which is expected to add \$2.7 billion in annual revenues once the deal closes in the third quarter.

“We continue to monitor valuations on both acquisitions and share repurchases, being patient for strong assets priced within our acquisition hurdle rates.”

— Lithia Motors CEO Bryan DeBoer on Lithia’s first-quarter earnings call

While public companies are likely to continue to add stores over the long term, several of the companies’ leaders sounded a louder drum beat for more diversified and balanced capital allocation strategies as forecasted by Presidio in its last quarterly report.



The industry’s pandemic-fueled profit boom began to develop deeper cracks in 2023, with the typical store recording a 20.4% decline in net pretax profit, according to the Presidio-NCM Average Dealership Performance Benchmark. That accelerated in the first quarter to a 32.4 percent drop. Still, the first-quarter average is 1.8 times the average store’s profit in 2018. Robust earnings at the height of the pandemic led to record dealership valuations, but both are now waning as inventories continue to improve and consumer demand faces pressure. When will these declines — part of what Presidio has dubbed the Great Normalization — end? Only time will tell.

Presidio continues to believe that every deal is unique, but that brand and geography matter more than ever. While it is still a seller’s market, the tides are shifting. Sellers have to be rationale as buyers take a more measured approach to deal pricing and execution.

There are still more buyers than available dealerships for sale. This makes for a slightly imbalanced overall market that favors rational sellers. Dealership demand continues to be strong across the country, but higher premiums remain the norm for stores in pro-business states such as Texas, Tennessee and Florida.

Dealership Valuation Overview

The Presidio team believes every dealership is unique and that the industrywide standard of applying a blue-sky multiple to earnings to determine value is too simplistic and inadequate. Properly valuing these businesses requires an in-depth analysis of specific factors and characteristics. We detail that later in Presidio's Valuation Matrix.

Getting to the right valuation means considering the total investment, not just blue sky. Solely focusing on blue sky ignores nearly 40 percent of the overall investment equation. Blue sky typically accounts for about 60 percent of total investment in the average dealership, while real estate and other assets make up the remaining 40 percent. The symbiotic relationship among these components correlates to a dealership's total cash flow and, ultimately, return on investment.

So what about blue sky?

In its simplest form, total blue-sky value is calculated using earnings before interest, taxes, depreciation and amortization — essentially, pretax earnings — times a multiple. For too long, a majority of

dealership buyers and sellers have placed too much emphasis on blue-sky multiples and not enough on the appropriate level of sustainable, long-term earnings or other investment components required to operate dealerships.

The most common question asked of Presidio team members is: "What is my blue-sky multiple?" Presidio focuses very little on multiples, which have remained in a tight band since consolidation activity first escalated more than 20 years ago and typically change little within a brand. Moreover, it is not productive to adjust multiples too often. Presidio will revise multiples twice a year going forward, based on dealer conversations, actual deal data for the previous six-month period and results of our semi-annual dealer survey. Presidio focuses most of our attention and expertise toward evaluating earnings, the unique components of each dealership supporting its earnings and the remaining components of the investment equation.

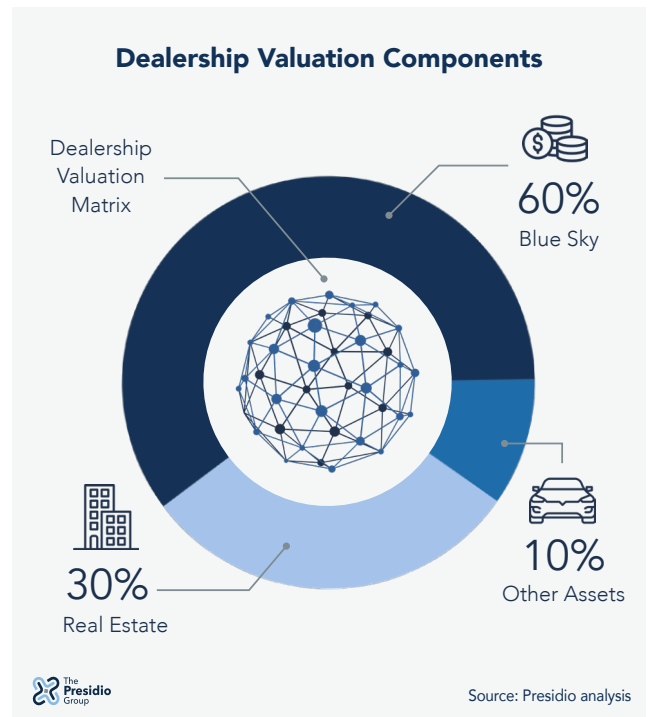
Focusing solely on blue-sky multiples is problematic for several reasons, including:

1. Blue-sky value is driven primarily by earnings, with a focus on pro forma historical earnings, sustainability of future earnings and prospects for earnings growth. Many factors contribute to the unique value of each dealership, with earnings having a greater bearing on ultimate value than blue-sky multiples.
2. Blue sky ignores a significant portion of the total equation — on average 40 percent as referenced earlier. That results in unreliable and incomparable return-on-investment assumptions. Earnings used by many in the industry contain a rent or equivalent expense related to property values that is incorrectly applied.
3. Returns calculated solely on blue sky are not accurate. Buyers and sellers should consider return on investment based on expected future cash flows — in other words, the level of sustainable earnings. What matters is the total investment required, which includes the value of real estate and excludes associated carrying costs, not just blue sky.

LESS FOCUS ON BLUE SKY → MORE FOCUS ON ROI

Not all brands are created equal. Presidio expects the normalization process for earnings as a percentage of revenues will continue to vary across segments. No changes have been made to these ranges from last quarter, but Presidio expects certain brands and the overall groupings to shift to the mid-lower ranges of the bands for these three segments:

Luxury brands: 5-7% | Top-tier import brands: 4-6% | Domestic/Other value brands: 2-4%



A quarterly deep-dive into one of the factors driving dealership value

Presidio's Valuation Matrix Spotlight

Margin Contribution by Business Segment

The Importance of Fixed Gross Profit

Evaluating gross profit contribution from a dealership's various business segments is key to determining the quality and sustainability of any given operation's earnings. We specifically recommend comparing the mix of variable gross profit from new-vehicle, used-vehicle and finance-and-insurance sales against gross profit derived from fixed operations (parts and service).

"When variable gross profit goes down, fixed sticks around!"

During the peak of the pandemic inventory shortage and earnings spike, most dealerships sold new vehicles at or near MSRP — and some charged markups well above MSRP, a practice frowned upon by automakers. The higher the gross generated from these sales practices, particularly when charging above MSRP, the higher a store's variable gross profit contribution — and the less reliable and sustainable a store's overall earnings.

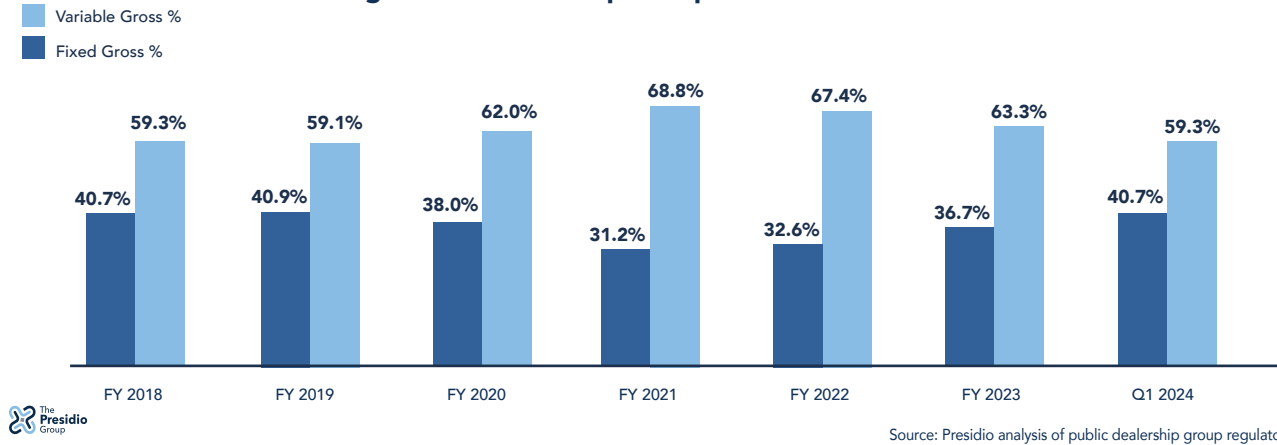
By contrast, dealerships with balanced selling practices during that period and more reasonable transaction prices (even when those prices rose above historical norms) have experienced narrower declines in overall profitability. Those stores have a more sustainable earnings stream during this Great Normalization period that is underway.

The six publicly traded dealership groups provide more insight. While the publics followed the market in charging more and generating historically high vehicle margins, they generally were more disciplined about markups than many competitors.

The publics collectively saw the percentage of gross profit from the variable side of the business swell from around 59 percent in 2018 to 69 percent in 2021 at the height of the pandemic supply shortage before dropping back to 63 percent last year. Correspondingly, the percentage from the fixed side of the business dropped from



Average Public Dealership Group Fixed vs. Variable Gross Mix



nearly 41 percent in 2018 to 31 percent in 2021 before rebounding to nearly 37 percent last year. The good news: the total gross profit dollar figure from fixed for the publics actually soared by 63 percent between 2018 and 2023.

For the average dealership represented in the Presidio-NCM benchmark, fixed operations’ gross contribution to total gross continued to increase in the first quarter of 2024, coming in at 50.3 percent for the average dealership, up from 45.2 percent for all of 2023 and in the mid-30s earlier in the pandemic.

As far as valuations, Presidio expects that dealerships with a higher mix from fixed operations as a percent of total gross will be viewed more favorably by buyers. Such dealerships likely will attract higher purchase prices.

During the earnings spike of 2021 and 2022, Presidio saw some dealerships getting more than 80 percent of gross profit from the variable side. Such levels indicate a higher risk and less sustainable earnings stream. Dealerships with that kind of recent mix history likely will attract lower offers.

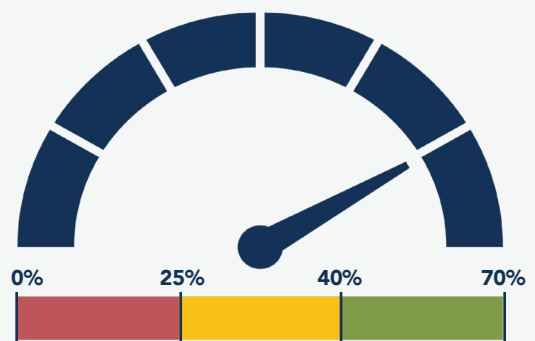
A balanced mix between variable and fixed makes for a strong and stable operation. The higher the margin contribution from fixed, the lower the risk of earnings volatility.

Presidio expects the fixed gross contribution to increase as variable gross profit normalizes. Continual

quarter-over-quarter and year-over-year growth in fixed operations is what will differentiate the best dealerships and acquisition opportunities. Many dealerships in recent years have been able to increase labor rates and get higher warranty rate reimbursements from automakers, and this will provide benefits for years to come and may lead to even higher margin contribution from fixed. Fixed performance does face certain risks and rewards with the industry’s transition to electric vehicles, as we detail starting on page 26. But even in an EV future, we believe fixed operations will be the ultimate differentiator between the good, better and best dealerships.

Fixed-to-Total Gross Profit Speedometer

A dealership that gets 40 to 70 percent of its gross profit from its fixed operations business is more likely to be strong and stable over the long term.



The Presidio Valuation Index

Valuing any business is complex. There is no cookie-cutter approach. But the Presidio Valuation Index can help. It applies three pillars of valuation and uses other key factors such as a brand's network size to help stakeholders triangulate an estimated value of a dealership with consideration for sustainable earnings, a store's unique micro and macro characteristics and total investment required (not just blue sky).

Presidio's approach varies from the historic method of applying brand multiples to trailing 12-month or three-year average earnings streams to calculate blue-sky values. Given the unpredictability of normalized profit levels, the Presidio team believes earnings as a percentage of dealership revenue is an alternative — and less volatile — concept to apply. After all, using earnings across a three-year average captures the peak of the COVID bubble, and 2019 seems a lifetime ago. Return on investment also is key; Presidio maintains that ROI is too often calculated incorrectly or not considered.

Here's a more detailed look at the three central pillars in Presidio's approach:

Blue-Sky Earnings Multiples | Revenue Multiplier (%) | Return on Investment (ROI)



Blue-Sky Earnings Multiples

Blue-sky multiple ranges should be cautiously applied once comfort is attained regarding sustainable earnings levels. The various characteristics laid out in Presidio's Valuation Matrix, including brand, growth trajectory and real estate, must be weighed when applying these multiples.



Revenue Multiplier

Presidio's revenue multiplier ranges can be applied to normalized revenue streams (so excluding large fleet sales or one-time revenue items) to estimate blue-sky value ranges. The Presidio team believes using revenue as a value indicator can help buyers and sellers triangulate blue-sky value ranges while mitigating volatility in times of uncertainty. Earnings can be erratic, making a calculation based on historical profit level less reliable. Store revenue is generally more consistent, making a calculation based on both that and brand a more appropriate predictor of worth.

For example: \$100 million in revenue x 40 percent (the Toyota revenue multiplier) = \$40 million in blue sky



Return on Investment

In any M&A decision, ROI ultimately is all that matters. Since blue sky only accounts for approximately 60 percent of total investment required, an ROI calculation that factors in real estate and other assets required to operate a dealership, while considering appropriate risk levels, is more inclusive and accurate. ROI percentages are the inverse of blue-sky multiples — the higher the ROI, the lower the multiple and vice-versa. In other words, more risk yields more reward. To calculate ROI, one must first understand: a) a dealership's total cash flow (sustainable earnings with rent or related expenses added back) and b) total dealership investment.























Brand Watch

Presidio will revise multiples twice a year going forward, based on dealer conversations, deal data for the previous six-month period and results of our semi-annual dealer survey. Multiples haven't varied much historically, and we don't believe in changing them for the sake of change. Between updates, we will monitor and share news, trends and other factors that may impact the future performance, desirability and ultimate value of individual brands.

While we believe our approach can help triangulate value, it's important to note that our guide is still simply a guide. Anyone looking to sell or buy dealerships should consider using experts to conduct a deeper evaluation to determine value.

The Presidio Valuation Index

Recent developments that may lead to changes in brand-level valuation metrics in the near future include but are not limited to: **Audi**, transitioning its product lineup; **Chrysler-Dodge-Jeep-Ram**, low product demand and ballooning inventories; **Ford**, reviving stair-step incentives but pausing dealer electric vehicle infrastructure investment; **Honda**, trimming dealer margins; **Hyundai**, challenging dealer relations and facilities programs pressure; **Mercedes-Benz**, revising its EV strategy; **Nissan**, trimming its sales and profit outlook.

Presidio Valuation Pillars →		Blue Sky as % of Revenue Range	Blue-Sky Multiple Range	Average Estimated ROI	Number of Dealerships	Number of New Vehicles Sold/Dealership
	Lexus	50% - 60%	9.0 - 10.0	<10%	244	1,312
	Porsche	50% - 60%	9.0 - 10.0	↑	198	381
	BMW	45% - 55%	7.8 - 9.0		349	1,035
	Toyota	40% - 45%	7.5 - 9.0		1,237	1,558
	Mercedes-Benz	43% - 53%	7.25 - 8.75		384	916
	Land Rover	33% - 42%	6.3 - 7.8		202	323
	Audi	33% - 40%	6.3 - 7.3		305	750
	Subaru	30% - 35%	6.3 - 7.3		640	989
	Honda	26% - 35%	6.0 - 7.3		1,070	1,088
	Kia	18% - 23%	4.8 - 5.8		788	997
	Chevrolet	15% - 20%	4.0 - 5.0		15%	2,898
	Hyundai	15% - 20%	4.0 - 5.0	↓	841	956
	Ford	14% - 19%	3.8 - 4.5		2,902	648
	Volvo	13% - 18%	3.5 - 4.5		282	457
	Cadillac	12% - 17%	3.3 - 4.3		567	260
	Mazda	13% - 18%	3.3 - 4.3		542	669
	Buick-GMC	10% - 15%	3.3 - 4.3		1,671	337
	VW	10% - 15%	3.0 - 4.0		640	514
	Acura	10% - 15%	3.0 - 4.0		272	536
	CDJR	9% - 14%	2.8 - 3.8		2,406	666
	Nissan	9% - 14%	2.8 - 3.8		1,079	773
	Infiniti	9% - 13%	2.5 - 3.5	20%	201	319

1) Dealership count represents Chrysler outlets 2) Dealership count represents GMC outlets

Source: Presidio proprietary data/analysis, Automotive News Dealer Census

The stars come out in Dallas

Presidio was honored to host its annual U.S. Auto Retail Conference in Dallas on May 1. Keynote speakers and Dream Group partners Nick Saban and Steve Cannon talked about their successful business, and the former Alabama coach talked about leadership in sports and business. A mix of CEO panels and standalone speakers filled the afternoon, and dealer legend Carl Sewell Jr., with daughter Jacquelin Sewell and son Carl Sewell III looking on, received The Presidio Group Lifetime Achievement Award from Presidio CEO Brodie Cobb and President George Karolis. Presidio will host its sixth annual retail conference in spring 2025.



Carl Sewell (center) accepts his award from The Presidio Group. Joining him (left-to-right) are son Carl Sewell III and daughter Jacquelin Sewell, alongside Presidio CEO Brodie Cobb and President George Karolis.



More than 150 guests and speakers joined the Presidio event at the Frontiers of Flight Museum at Love Field in Dallas.



Presidio Managing Partner Keith Style, left, moderates a panel discussion with CarMax board member Mark O'Neil, JM&A Group President Scott Gunnell and Del Grande Dealer Group CEO Jeremy Beaver.



Cobb (left) enjoys a pre-event moment with Asbury Automotive Group CEO David Hult (center) and Maroone USA CEO Mike Maroone (right).



Cobb delivers Presidio's Lifetime Achievement Award to Sewell as the Sewell family and Karolis look on.



Karolis moderates a conversation with Cannon and Saban, who discussed the principles of leadership and winning.

Presidio Transaction Highlights

For more than 25 years, Presidio has assisted clients with everything from single-store deals to some of the largest multi-store transactions in the history of U.S. auto retail. Here are some of our notable recent transactions:

GROUP 1
AUTOMOTIVE
BEAUMONT, TX



acquired by

DOGGETT
AUTOMOTIVE GROUP

LEXUS
LEXUS OF WILMINGTON
ASBURY
AUTOMOTIVE GROUP

acquired by

MileOne
AUTO GROUP

Park Place
DEALERSHIPS

acquired by


ASBURY
AUTOMOTIVE GROUP

SUBURBAN
Suburban Collection Holdings

acquired by

LITHIA
MOTORS, INC.

QVALE
AUTO GROUP
LIVERMORE, CA



acquired by

UMANSKY
AUTOMOTIVE GROUP

Anderson Autos

acquired by

John K. Swickard
SWICKARD AUTO GROUP

UMANSKY
AUTOMOTIVE GROUP
CHARLOTTESVILLE



acquired by

FLOW

Land Rover Shreveport
Volvo Cars Shreveport

GROUP 1
AUTOMOTIVE

acquired by

MILLS
AUTOMOTIVE GROUP

Terry Lee Hyundai
Genesis of Noblesville
HWY 37 • NOBLESVILLE

acquired by

PENSKE
Automotive

MileOne
AUTO GROUP
CHESAPEAKE, VA
NEWPORT NEWS, VA



acquired by

ATLANTIC COAST
AUTOMOTIVE GROUP

JOHN EAGLE
DEALERSHIPS

acquired by

LITHIA
MOTORS, INC.

Dave Edwards
TOYOTA

acquired by

Hudson
Automotive Group

AUTO TECH SERVICES TRANSACTIONS

FINK
AUTOMOTIVE GROUP



acquired by

LITHIA
MOTORS, INC.

The Presidio Group

served as the exclusive financial advisor to

spiffy

\$30 Million Series C Financing

The Presidio Group

served as the exclusive financial advisor to

STELLA
AUTOMOTIVE AI

\$19.7 Million Series A Financing

The Presidio Group

served as the exclusive financial advisor to

Norbee

\$4 Million Series A Financing



PUBLIC DEALERSHIP GROUP TRENDS

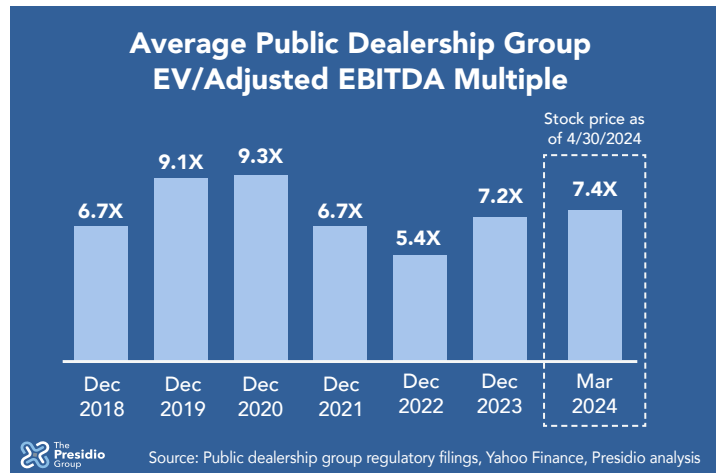
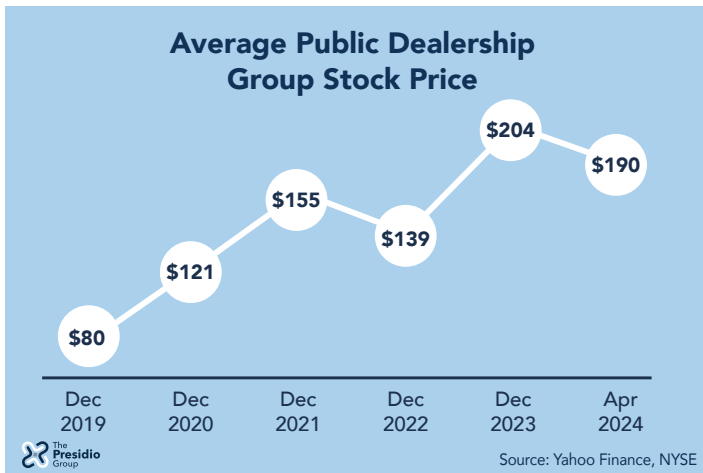
The six publicly traded dealership groups, which own approximately 6 percent of U.S. franchised dealerships, provide a window into overall industry performance. In the first quarter of 2024, the publics saw new-vehicle profitability continue to slide as vehicle supplies grew. While pressure on margins is likely to continue throughout 2024 as inventory returns to levels close to historical norms, these new-vehicle profits are still higher than before the pandemic. As the public dealership group leaders guide their operations through the Great Normalization, it remains to be seen how much of that lift, if any, can be retained long term.

Valuations of the public groups provide the only independent barometer of dealership values in what can be an opaque industry. Actual values and cash-flow multiples of nearly all of auto retail's dealership buy-sell transactions are not publicly disclosed. Valuation insight from the publics doesn't come solely from their stock prices, which ignore numerous valuation-related components and aren't comparable to how private dealerships trade. Rather, that insight comes from calculating a ratio of enterprise value to earnings before interest, taxes, depreciation and amortization. That EV/EBITDA ratio essentially equates to a total cash-flow multiple based on the total combined value of the given business.

Enterprise Value (Market Cap + Debt Outstanding + Working Capital)

Trailing Adjusted EBITDA (Earnings before interest, taxes, depreciation and amortization)

The publics collectively trade for 7.4X EBITDA based on their earnings and balance sheet data reported Mar. 31 and their stock price as of April 30. Converting a blue-sky multiple to a total cash-flow multiple on average adds 1.5-2.0X in a typical transaction. That implies an estimated blue-sky multiple for public dealership groups between 5.4 and 5.9X. The conventional wisdom that the stock market always looks forward suggests that the publics' EV/EBITDA multiples will rise as margin compression continues. Many of the public groups indicated in their first-quarter calls that such compression will be ongoing.

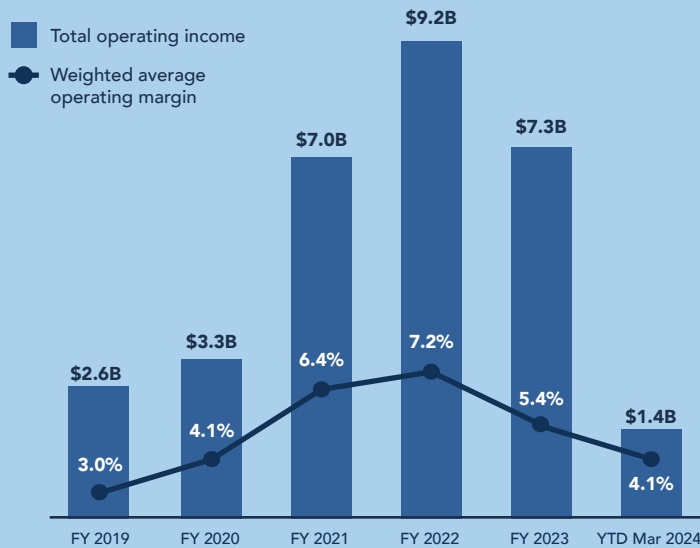


The publics' average per-unit gross profit dropped 28 percent for new vehicles and 10 percent for used vehicles in the first quarter compared with the year-earlier period. On a sequential basis, gross profit per new vehicle declined 9 percent and gross profit per used vehicle rose 9 percent compared with 2023's fourth quarter. Despite the softening figures, profits and margins remain well above 2019 levels. The variability of profits by brand coalesced more quickly in the first quarter with most brands declining in step with higher vehicle availability in the industry.

Fixed operations continue their strong showing. The publics retailers are seeing growth in part because of an aging vehicle fleet with more intensive service needs and increasing labor rates for dealerships.

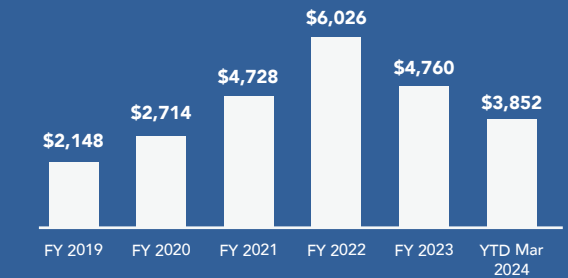
The publics have collectively invested nearly \$17.5 billion in net expansion, primarily through dealership acquisitions, during the past 4.25 years, and this growth bodes well for long-term earnings.

Total Operating Income and Weighted Average Operating Margin



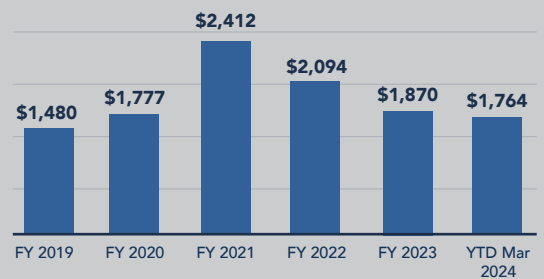
Source: Public dealership group regulatory filings

Average Gross Profit Per New Vehicle



Source: Public dealership group regulatory filings

Average Gross Profit Per Used Vehicle



Source: Public dealership group regulatory filings

Public Company Liquidity & Growth Strategies

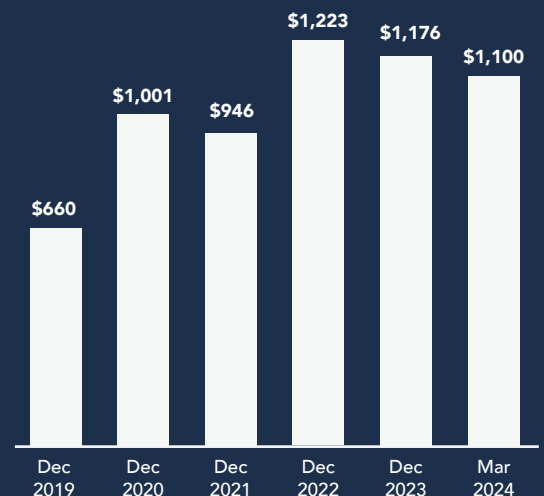
The public dealership groups still have plenty of liquidity to pursue deal-making, but the mindset of their leaders is changing as they consider how best to deploy their capital. While acquisitions are still on the menu, stock buybacks and dividends are now on par or even favored in some cases over buying more stores. Public company executives are clearly indicating that they'll choose buybacks over acquisitions when they believe their own stocks are priced better than the dealerships coming to market.

The publics at the end of the first quarter collectively had \$6.6 billion of capital available under current agreements, cash and short-term investments that could be called upon to finance deals. That total, which excludes Penske's non-U.S. credit agreements, was \$2.6 billion more than they had at the end of 2019. The distribution of that \$6.6 billion varies, with Lithia and Penske each holding about \$1.3 billion and AutoNation with nearly \$2 billion at the first quarter's end. Group 1, Asbury and Sonic all held significantly less than \$1 billion each at quarter's end.

While the Presidio team expects the publics will continue to roll up stores, it seems likely they will be more selective as they balance their capital allocation strategies, including making share buybacks that may make sense at current EV/EBITDA multiples. This means large private dealers, also well capitalized after the profit boom of recent years, may drive greater industry consolidation. More big and medium-sized acquisition deals are on the horizon for the rest of 2024.

Average Public Dealership Group Liquidity Level

(\$ in millions)



† Penske's figures include its cash totals and U.S.-only credit agreement



Source: Public dealership group regulatory filings

ASBURY AUTOMOTIVE GROUP After closing on the purchase of Jim Koons Automotive Companies in December, Asbury remains on the hunt for acquisitions that fit its model. Asbury's current annualized revenue is about \$17 billion, more than halfway to its revised target of \$30 billion in revenue by 2030. The retailer said in April that 10 of its dealerships are up for sale in what looks to be a portfolio management move to maximize return on investment.

AutoNation AutoNation CEO Mike Manley said in April that the company "ended up passing on a number of M&A opportunities that did not meet our return requirements" but is still interested in acquisitions. Meanwhile, AutoNation continues to buy back its own stock, which has been a consistent strategy for the retailer over many years. During the past decade, AutoNation has spent \$7 billion on share repurchases; the retailer's market capitalization as of late May was \$6.9 billion. Over the same period, AutoNation has been one of the least acquisitive of the public dealership groups.

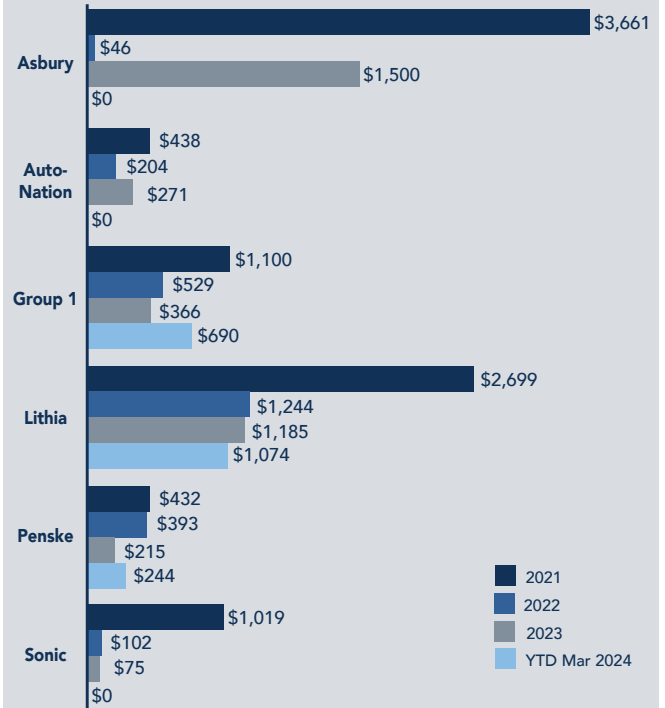
GROUP 1 AUTOMOTIVE Group 1's approach to capital allocation values returns over revenue in order to maximize shareholder returns. CEO Daryl Kenningham said in April that the retailer during the last two years has balanced its acquisitions and divestitures with share repurchase. Said Kenningham: "We've bought \$3 billion of revenue, disposed of \$945 million of revenue and repurchased 23 percent of the company." Group 1's approach is likely to create a larger, more diversified company as the industry normalizes.

LITHIA Lithia has transformed itself from a company with \$12.7 billion in revenue in 2019 to \$30 billion in 2023. The retailer acquired Pendragon in the U.K. and Carousel Motor Group in the U.S. this year and added \$5.4 billion in annual revenues during the first quarter. Since 2019, Lithia has allocated 76 percent of its capital to acquisitions. These choices have fundamentally rebuilt the company. But Lithia now seems to be pivoting. Executives have said it will take longer to get to the company's stated goal of \$50 billion in revenues. They've also indicated they're stepping back from a heavy acquisition approach given elevated deal pricing. CEO Bryan DeBoer in April said Lithia adjusted its capital allocation strategy "to target 50 percent to 60 percent toward acquisitions, 25 percent toward internal investments...and the balance of 15 percent to 25 percent towards shareholder return."

PENSKE Penske continues to expand across product lines and geographies on an opportunistic basis. With a domestic dealership purchase in new market Massachusetts and further expansion in dealerships and the power business in the U.K. and Australia, Penske is pulling all levers to maximize acquisition opportunities. CEO Roger Penske in April said he sees dealership valuations falling after being some of the highest ever during the last couple of years. "We're seeing those come down now, which makes some opportunities more attractive to us, and we're going to look at those," Penske said.

Sonic Automotive Sonic spent the last few quarters getting its EchoPark used-only business back to profitability. While the first quarter was positive at Echo Park, it remains to be seen how repeatable that will be for the company. The company could see better returns on its time, operating expertise and capital by making new franchised dealership acquisitions.

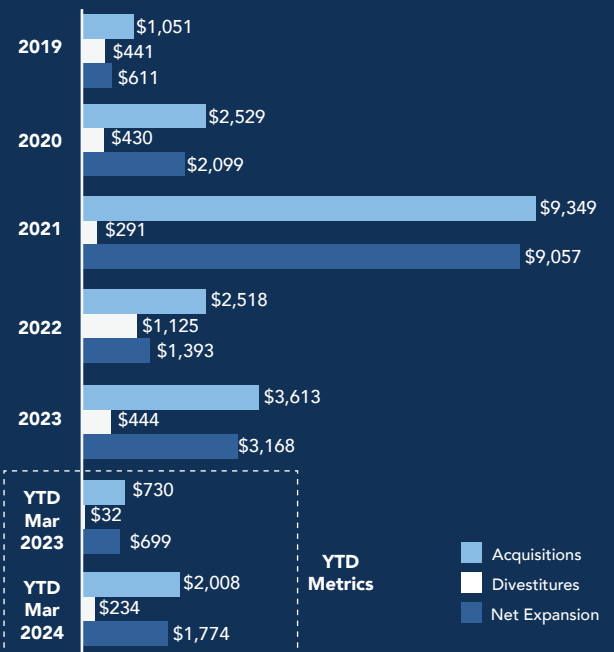
Public Dealership Group Acquisition Spending by Company (\$ in millions)



Source: Public dealership group regulatory filings (Asbury, AutoNation, Group 1, Lithia, Penske, Sonic)



Public Dealership Group Acquisition & Divestiture Totals (\$ in millions)



Source: Public dealership group regulatory filings (Asbury, AutoNation, Group 1, Lithia, Penske, Sonic)





The time is right for mobile tech

Mobile solutions in the auto tech space are expanding rapidly and drawing much investor interest and for good reason: They meet the customer where they are. Providing such convenience to consumers ultimately will set winners apart from losers, particularly in certain segments of the industry.

Take vehicle service as an example. In recent years, startups that provide oil changes, tire service, car washes and detailing and light-duty repairs on the go have sprung up, attracting investor backing and expanding in some cases to coast-to-coast footprints. For instance, companies such as Get Spiffy, Inc. and Yoshi Mobility have drawn significant venture capital as they expand. The segment is ripe for growth — so much so that automakers such as Ford Motor Co. are building out their own mobile service capacity and large public dealership groups such as AutoNation, Inc., with its 2023 acquisition of RepairSmith, are diving into the space.

“The world is convenience oriented, and consumers who care about saving time will pay a premium to avoid having to drive across town for a car wash or oil change,” said Brodie Cobb, CEO of The Presidio Group. “The linchpin to making such mobile endeavors work is having incredible software that can efficiently manage the logistics of matching customer orders to the availability of mobile fleets and personnel. And that level of software has arrived.”

The potential for mobile vehicle service is huge. The U.S. oil change market approaches \$11 billion annually, and the U.S. car wash and detailing services industry tops \$17 billion annually, according to market research firm IBISWorld. The replacement tire market for passenger vehicles totaled \$38 billion in 2023, according to research firm Statista. And those are just a few of the sectors where mobile service is possible.

RECENT AUTO TECH INVESTMENTS

Strategic investors back AI, CDP and mobile initiatives

Stella raised an oversubscribed Series A round of financing in April 2024

- **Round amount:** \$19.7 million
- **Participating investors:** Included Reynolds and Reynolds, Flow Automotive Companies, Mills Automotive Group, Qvale Auto Group, OREMOR Automotive Group, Czubay Family Enterprises, Maroone USA, Bowers Automotive Group, MileOne Autogroup, Sewell Automotive Companies, MBB Auto Group, West Herr Auto Group, Ford Family Investments and The Presidio Group

Orbee raised convertible note financing in April 2024

- **Round amount:** Not disclosed
- **Lead investor:** FM Capital
- **Participating investors:** Holman Enterprises, Flow Automotive Companies, Mills Automotive Group, Qvale Auto Group, Basil Family Dealerships, Pohanka Automotive Group, Ron Frey and The Presidio Group

Yoshi Mobility raised a Series C round of financing in April 2024 that moved the company's valuation above \$200 million

- **Round amount:** \$26 million
- **Lead investor:** General Motors Ventures
- **Participating investors:** Bridgestone Americas, Universal Motors Agencies and Shikra Limited

“Mobile service providers that can disrupt these segments have the potential to become major players in the industry,” said Keith Style, Presidio managing director. “These services are on-trend in a consumer marketplace that was upended by the pandemic. It’s where the world is going. If you don’t believe it, look at DoorDash and the market surge for food delivery services.”

After going public at the end of 2020, food delivery application DoorDash had a market capitalization of nearly \$48 billion as of mid-May. And what DoorDash and other companies have accomplished in food delivery can translate to vehicle-related services. Winning at the mobile game in auto boils down to supplying straightforward services that have always been needed but delivering them where the customer wants, with the transactions enabled by complex logistical software that connects consumer and provider seamlessly.

“We see this being the growing preference of consumers going forward,” Todd Rabourn, Ford’s North America regional customer experience director, told Automotive News last year. “We know customers want convenience.”

Many Ford dealers, who have received automaker money and support to expand mobile offerings, are signing on, and Ford has now deployed thousands of Transit vans and Escape crossovers to mobile service fleets at dealerships. Ford in March said it was delivering an average of 375,000 remote services per month and completed 2.4 million remote service appointments in 2023.

Dealers who embrace mobile service can grow their parts and service revenue and profits. Service and parts sales at franchised dealerships in the U.S. totaled \$143 billion in 2023, according to the National Automobile Dealers Association, and mobile service could help increase that, particularly if dealerships can take share from aftermarket providers. On the flip side, dealerships that don’t adopt



A Ford dealership technician answers a service call at a customer’s home.

mobile offerings could see their service business erode as mobile-minded competitors, both franchised and aftermarket, lure away customers.

AutoNation is such a believer that it spent \$190 million in January 2023 to acquire mobile provider RepairSmith, later rebranded as AutoNation Mobile Service. AutoNation CEO Mike Manley said in February that the unit is gaining revenue, piloting new services such as glass repair and has thus far introduced more than 120,000 new customers to AutoNation. Adding those customers who otherwise may not have been exposed to AutoNation’s franchised or used-only stores “is exactly what we wanted it to do,” Manley said.

Smaller dealership groups can pump up mobile service offerings without acquisitions or relying on help from automakers by using platforms offered by companies like Get Spiffy, Inc., an on-demand car care, technology and services company. Spiffy, which is a Presidio client, offers dealers a white-label mobile service solution that includes a customer-facing app, dealer-branded software



“We see this being the growing preference of consumers going forward.”

— Todd Rabourn, Ford Motor Co.’s regional customer experience director

and customized mobile service vans. Several notable dealership groups — including Bowers Automotive Group, Qvale Auto Group and Performance Automotive — made strategic investments in Spiffy as part of a \$30 million Series C financing round in 2023.

Spiffy CEO Scot Wingo on Presidio’s Full Throttle podcast last fall predicted that the digital wave for consumer services, including mobile vehicle services, will be speedy.

“This model of me being able to get services from my phone is so much better for convenience than anything that exists out there,” Wingo said. “It will get a rapid adoption, and that’s going to happen faster than in e-commerce.”

After all, convenience-oriented consumers dislike the conventional car care experience and are craving a convenient alternative like the Spiffy van that shows up at their office park, Wingo said.

Software-enabled mobile service companies also have lots of promise to help major fleet businesses like rental car or delivery companies more efficiently maintain their vehicles. Companies like Spiffy and Yoshi Mobility, which recently raised \$26 million in Series C funding, both target businesses with large fleets. And Cox Enterprises, which has acquired several mobile maintenance companies via its Cox Automotive unit in recent years, also has demonstrated the potential for fleets.



“This model of me being able to get services from my phone is so much better for convenience than anything that exists out there.”

— Scot Wingo, CEO of Get Spiffy, Inc.

Ultimately, the success of these mobile service ventures will ride on how much value customers get out of them. For Jeff King, vice president and general manager of Bozard Ford-Lincoln in St. Augustine, Fla., that value is clearly being delivered by the dealership’s 17 mobile service vans.

Said King to the Detroit Free Press: “You blow the customers away, it’s so convenient.”



A Spiffy employee washes a customer’s vehicle at an office park.



Dealership service departments face risk, reward in an EV future

Conventional wisdom about how the electric vehicle transition will affect the dealership service business has been largely gloomy. After all, EVs have fewer moving parts, don't need oil changes and are more likely to get over-the-air software updates away from the dealership to fix many issues.

But the outlook for franchised dealerships on EV service might be more optimistic than that, at least for the early to medium years of the shift.

"When an EV consumer comes in, they might not come in as often, but the type of work that needs to be done is more expensive," said Stephanie Valdez Streaty, director of industry insights for Cox Automotive.

That higher cost — and potentially more profit for the dealership — comes from specialized parts and higher hourly labor rates for the technicians certified to work on EVs, Valdez Streaty said.

EV service prospects

CDK Global surveyed nearly 200 dealership managers about their current electric vehicle service business and their expectations for the future. Here are key findings:

- 85%** currently service EVs
- 88%** expect EV repair orders to increase
- 89%** expect EV warranty work to increase
- 78%** expect EV service revenue to increase
- 48%** expect EV owners to come in for service once a year
- 42%** say it's difficult to persuade technicians to get EV training
- 37%** expect customer retention to improve with the introduction of EV service



Source: 2023 CDK Global EV Service: Today and Tomorrow study

Other potential upsides for franchised dealerships in the near term:

- EVs are new and complex enough that consumers are much more likely to go to the franchised dealership for service needs, even beyond the warranty period.
- Because EVs are heavier than internal combustion engine vehicles, their tires and suspension components wear out faster, giving dealerships the chance to sell more tires and replace worn-out parts.
- Though dealers have balked at times at the cost of training and equipment required to prepare their service departments for EV work, that outlay means EVs in need of repairs are more likely to be brought to them vs. independent repair shops for a long time.



Dealers are "going to have to get creative and think of new revenue streams."

— Stephanie Valdez Streaty, director of industry insights for Cox Automotive

"Servicing EVs requires some very expensive investments that [independent shops] aren't ready to do yet because the volume isn't there," Dave Thomas, director of content marketing and industry analysis at CDK Global, told Automotive News for a March story.

Recent surveys by CDK and Cox Automotive reveal both the risks and potential rewards in the EV future for service departments, which already are crucial contributors to dealerships' total earnings as detailed earlier in this issue. Uncertainty is clearly an underlying factor to it all for retailers.

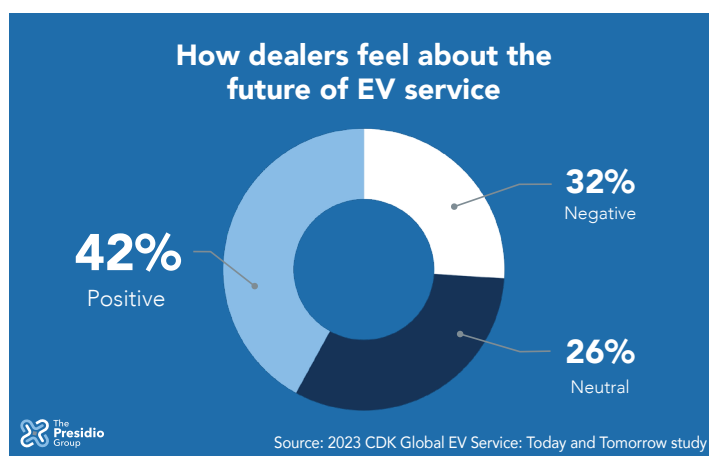
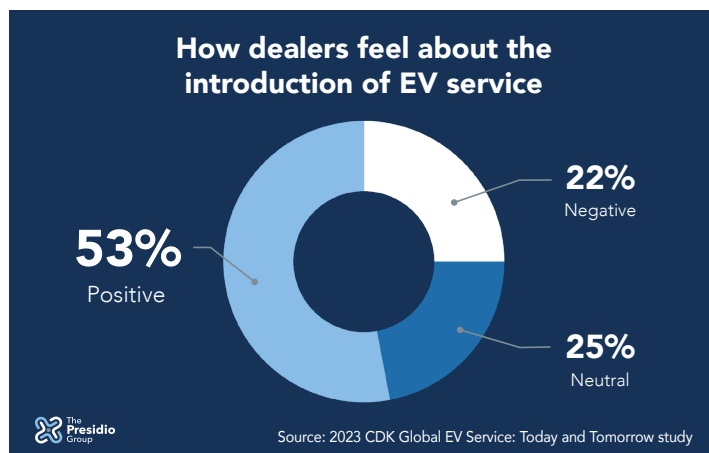
Of CDK's survey respondents, 53 percent indicated positive feelings about the introduction of EV service. Still, they aren't "exactly jumping up and down about it," Thomas told Automotive News. In response to a separate question

about the future of EV service, 42 percent of respondents said they felt positive, while 32 percent indicated negative feelings. CDK's EV service survey was released in October.

Cox's broader service survey, released in December, found that dealerships, while still the industry's biggest provider of service based on service visit volume, have lost ground to other competitors since 2021. Consumer trust in dealerships also has eroded during that period. The survey also found that while dealerships are preparing for an increase in EV service by adding infrastructure and training, much more investment is needed.

A more recent Cox study on EVs, released in May, showed that automakers have stepped up their cooperation with dealers. Survey respondents in that study reported increased support such as free maintenance offers for EV buyers in some cases. But more resources are needed such as additional service incentives and advertising co-op funds to promote EV service, respondents said.

With automaker help and by taking more initiative on their own, dealers can do well in service in the EV future over the long haul, experts said.



"They're going to have to get creative and think of new revenue streams," Valdez Streaty said. "Long term, that's where the risk is."

Dealerships that put extra effort into developing new revenue streams and better exploiting existing ones like tire replacement or repairing older vehicles will likely improve their profitability, operational stability and, ultimately, their own value.

"One of the things that I would say that dealerships probably struggle the most with is tire selling," said Skyler Chadwick, director of product consulting for Cox Automotive. "Well, guess what? This may change their focus on how to become better tire sellers... This is going to change the way we do things."

Another huge opportunity for dealers is the customer experience, Chadwick said. With fewer visits and thus touch points with customers expected, it is more crucial than ever for dealerships to deliver an exceptional experience.

"Most of the time, we will buy tires or service from the first person who actually quotes us. That's just human nature," he said. So if dealerships create a topnotch experience, they'll be more likely to be the first place a consumer goes when in need.

"This is an opportunity for dealerships to hold their customers, keep on them, and really retain them and make sure that they continue to buy their vehicles and service their vehicles at their dealership," Chadwick said.

Valdez Streaty said dealerships may have brand-new opportunities with consumers around EV infrastructure, providing charger installation service as part of a vehicle purchase, for instance.

Some dealership groups are already doing just that.

Jamie Darvish, CEO of DARCARS Automotive Group, said at the Automotive News Retail Forum: NADA in February that his company has an electrician on staff who goes to customers' homes to help them figure out what they need for installing at-home chargers.

In the end, cars will still break and will still require maintenance, and dealership operators are counting on that, even if the day comes when most of them are EVs.

"The need for those kinds of things isn't going away," Jeff Daniel, service director at Maple Hill Auto Group in Kalamazoo, Mich., told Automotive News. "It's premature to think about service departments running out of work. EVs are not perfect vehicles — they still break down."



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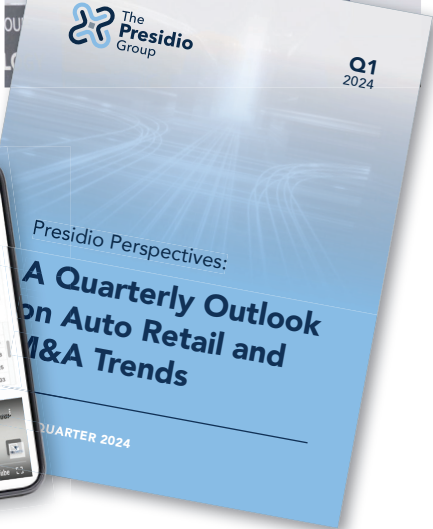
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