

Presidio Perspectives:

# **A Quarterly Outlook on Auto Retail and M&A Trends**

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**SECOND QUARTER 2024**

# Dealership profit declines show signs of leveling off as challenges persist

The Presidio Group welcomes you to our fourth issue of "Presidio Perspectives: A Quarterly Outlook on Auto Retail and M&A Trends." This rounds out the first full year of Presidio's quarterly publication that captures the shifts in dealership performance, auto technology developments and the dealership M&A market.

As this publication's first year wraps, it's now clear that many of the elements we began to document in the third quarter of 2023 developed further in the year that followed. Our first report detailed the many ways the retail automotive industry had started to normalize from peak pandemic profits, a transition we dubbed the Great Normalization. More than midway through 2024, those elements are in full swing, and pressure is being felt on all fronts — by automakers, dealers and consumers.

According to the Presidio-NCM Average Dealership Performance Benchmark, the average U.S. dealership's profit continued its slide through the first six months of 2024, but the rate of decline is showing signs of leveling off. Net pretax profit for the average franchised store slid 33.4 percent through 2024's first half compared with the same period in 2023. That was just 1 percentage point more than the profit decline for the first quarter of this year.

The slowdown in the earnings falloff is a positive signal, but it varies greatly by brand and geography. And even if the profit decline stabilizes, the coast isn't clear.

Presidio-NCM benchmark data shows that many dealers may not have acted quickly enough to rein in expenses that rose during the profit boom. The average dealership has seen variable gross profit plunge 32 percent since 2022, but total personnel expense has dropped by just 6 percent during the same period.

Said George Karolis, president of The Presidio Group: "We're surprised that the typical dealership hasn't adjusted its spending and variable costs as quickly and appropriately as it should have given the decline in profitability over the last two years. This is a time when dealers must be nimble and adjust quickly to the industry's changing circumstances, and many of them have not."

Inflation and low unemployment, however, are factors that may have pressured dealers on that front, Karolis notes.

Among other highlights in this report:

- While profitability for the typical franchised dealership continues to be well above the norms seen before the onset of the coronavirus pandemic in 2020, it has declined by roughly 50 percent from its peak in 2021.



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- Dealerships representing certain brands continue to operate at an elevated level, while more-challenged brands have seen dealership performance revert to levels closer to their historical norms. For more detailed insight, read our M&A section.
- Presidio's midyear Dealer Direction Survey showed that while dealers continue to expect profits and dealership valuations to moderate, they are interested in buying stores and expanding their networks. Toyota and Lexus continue to lead the pack on brand strength and valuation, BMW and Mazda are trending favorably, and Subaru continues to balance supply and retain a loyal customer base. We see positive momentum for those brands in the dealership M&A market.
- Nearly 60 percent of dealers responding to that survey also said this year's U.S. presidential election will affect the business of auto retailing — most are braced for a negative or mixed impact.
- Consumers are grappling with high transaction prices and interest rates that have increased loan amounts and delinquencies.

Of course, we can't go too far without examining one of the biggest stories of the year: cybersecurity.

The cyberattacks on CDK Global in late June touched all corners of the industry and affected both the Presidio-NCM metrics and public dealership group performance. Our technology section examines the CDK disruption and what dealers need to know to mitigate their risk going forward.

This is a front-burner topic taking up more dealer time and attention in the wake of the attack. As hackers get smarter and more targeted, the risk for both dealerships and auto retail software vendors has grown. A ransomware attack or other breach has the potential to cause lots of pain, cost huge amounts of money and increase legal liability.

Finally, in this issue we debut Presidio's Research Perspective — an analytical take highlighting multiple pain points facing the industry. The piece in part covers bloated fixed costs that make manufacturers slow to tap the brakes on production targets, leaving dealerships oversupplied and likely damaging profitability dynamics for both automakers and the retail base. The most immediate pitfalls for automakers include supply and demand imbalance; the tail end of the light-vehicle mix shift to trucks as a primary earnings driver; and the reality that electric vehicles are not ready to assume a profit leadership role.

There is no shortage of storylines as we head into year two of publishing Presidio Perspectives. We hope you enjoy our report.

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

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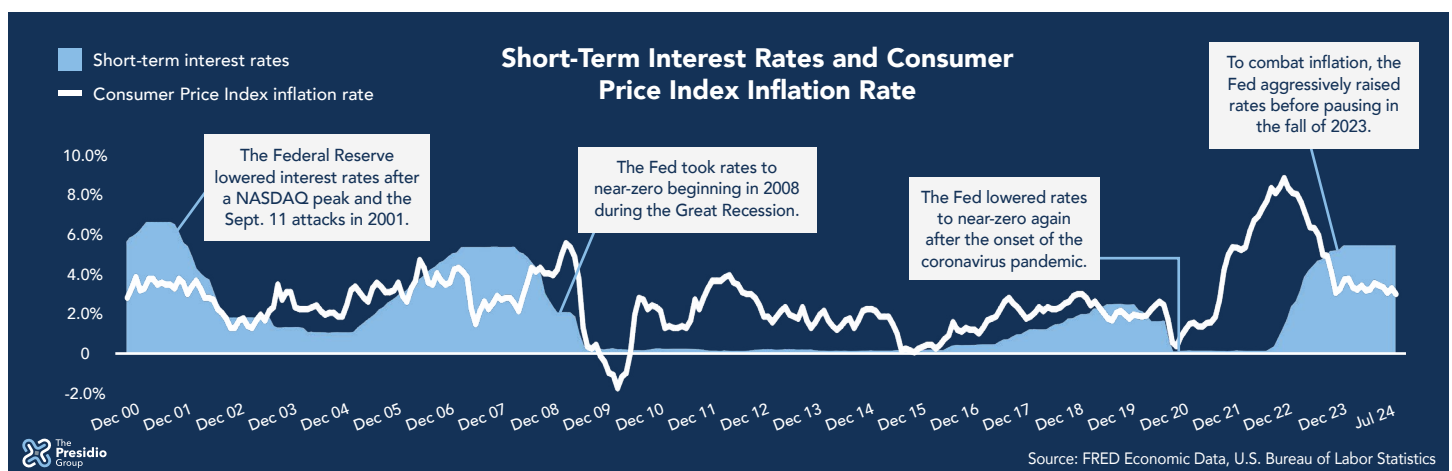
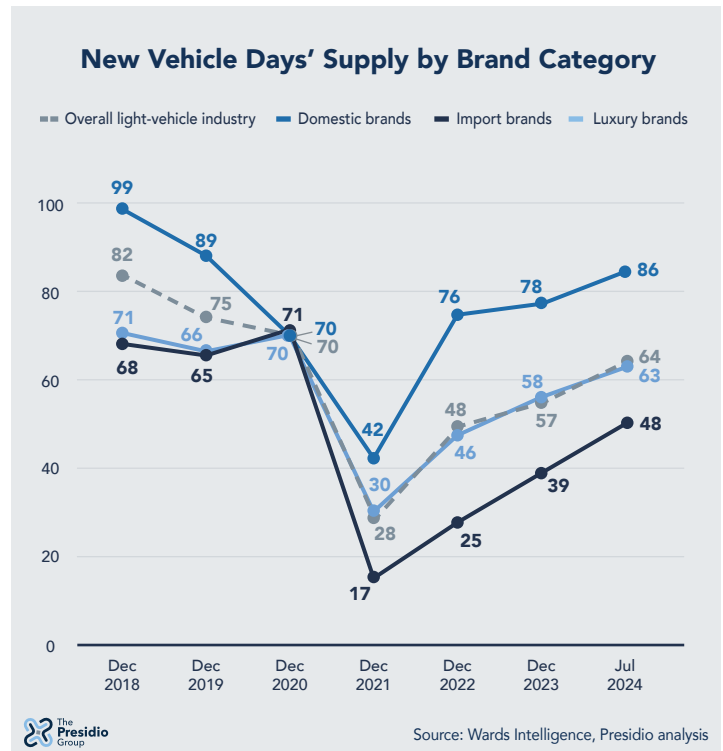
## On the watch for rate cuts

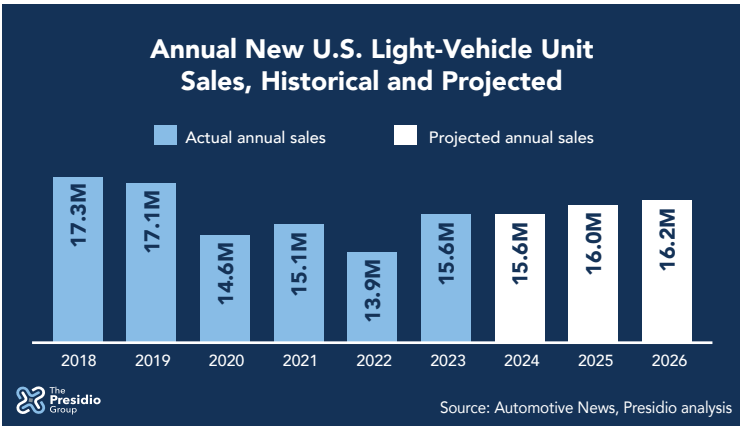
The impact of a mixed macroeconomic outlook in the U.S. is trending toward a net accommodative interest and pricing environment from the consumer perspective. Softer inflation readings for both producers and consumers are expected to prompt the Federal Reserve to start a measured easing cycle by trimming its federal funds rate. Cooling inflation since mid-2022 has positioned the Fed to cut rates, likely with steady 25 basis-point reductions starting at the central bank's next meeting on Sept. 17-18.

The Fed has held its benchmark rate level at a range of 5.25 percent to 5.5 percent since mid-2023. The consensus opinion of economists polled by Bloomberg in early August is that the Fed will make three quarter-point cuts at its final three meetings of 2024.

A half-point cut, however, could happen at one of those meetings should higher-than-expected unemployment readings emerge, demonstrating lingering economic weakness. The unemployment rate eased slightly to 4.2 percent in August.

The U.S. auto industry is on pace to sell 15.6 million new light vehicles in 2024. Barring the possibility of a black swan event, industry volume, pricing and profitability dynamics are likely to stay on track through the second half of the year. There doesn't appear to be an earnings catalyst on the horizon that would drive industry profits the way the mix shift to trucks has. Electric vehicles aren't there yet — that would take a surge in demand accompanied by significant improvement in the technology's margin profile.





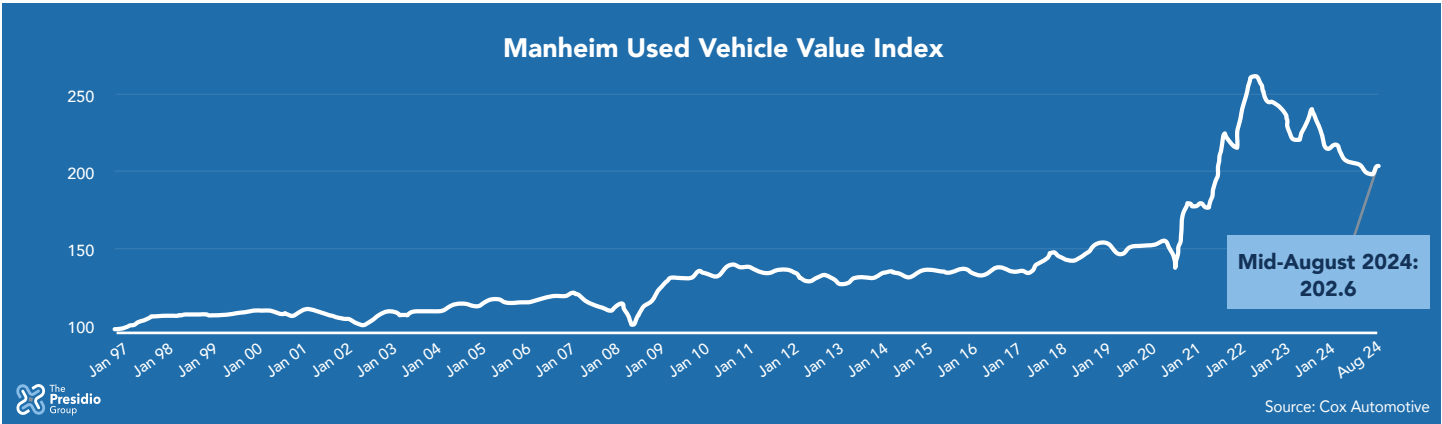
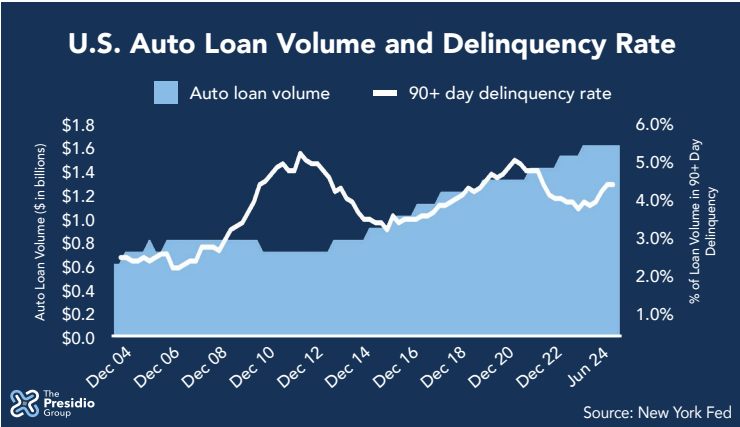
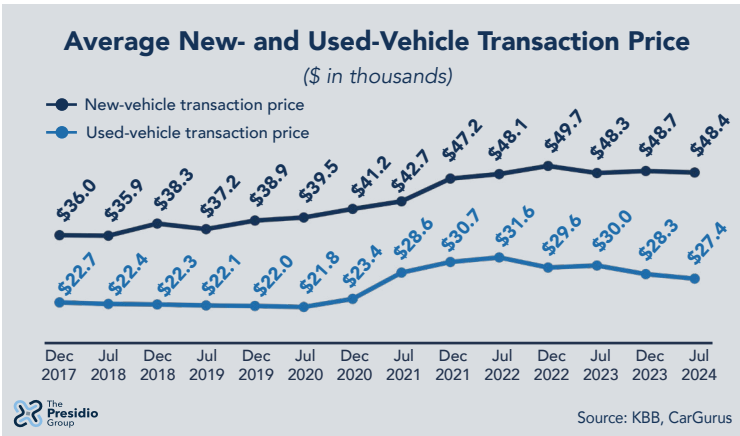
Automakers increasing production in pursuit of market share could push sales above 16 million, but doing so would come with the risk of weaker pricing and lower profit contribution despite higher volume. The U.S. seasonally adjusted sales rate has not crested 16 million units yet in 2024, and May's 15.9 million reading was the highest in three years.

The average new-vehicle transaction price continues to be well above pre-pandemic levels, though year-over-year growth has been a challenge this year as inventory levels have surged. July was the first month in 2024 with a year-over-year gain in transaction price. The declines from January through June, which averaged out to a mild dip of 0.9 percent, were the first retreats in that metric since March 2018.

High vehicle prices and rising interest rates have pressured the consumer, driving both average payments and loan delinquency rates higher.

The average amount financed on a vehicle purchase peaked at \$40,155 in the third quarter of 2022. While it has since declined 3.5 percent, it remained above \$38,700 at its last reading. Higher interest expense also is contributing to increased delinquency rates, which have risen for 10 consecutive quarters.

In the second quarter, 4.4 percent of U.S. auto loan volume was in serious delinquency, or overdue by more than 90 days. The percentage of loan accounts entering that seriously delinquent status for the first time was at 2.88 percent for the quarter, the highest since the first quarter of 2010. The average interest rate on a 60-month loan is reaching heights not seen for more than 20 years. It topped 8 percent in July, crossing that threshold for the first time since 2001 before falling back to 7.95 percent at the close of the month.





## Automakers face 4 key operating challenges that will also catch up with dealers



**Kevin Tynan**

Director of Research  
The Presidio Group

Automakers selling new vehicles in the U.S. are grappling with several key operational challenges as the industry cycles to a period of inflated overhead and tenuous consumer demand. Bloated fixed costs make manufacturers slow to tap the brakes on production targets, leaving dealerships oversupplied and creating damaging profitability dynamics for both the automakers and the retail base.

The most immediate pitfalls in this environment for automakers are:

- A supply and demand imbalance
- The tail end of the light-vehicle mix shift to trucks as a primary earnings driver
- Electric vehicles not ready to assume a profit leadership role
- And the dwindling number of affordable but profitable vehicles that can drive volume

While these strategy dilemmas plague the manufacturers, the profit impact also flows to the franchised dealer base. Dealership profitability already has declined significantly from pandemic heights. Pretax profit for the average store informing the Presidio-NCM Average Dealership Performance Benchmark is down 33.4 percent through the first six months of this year.

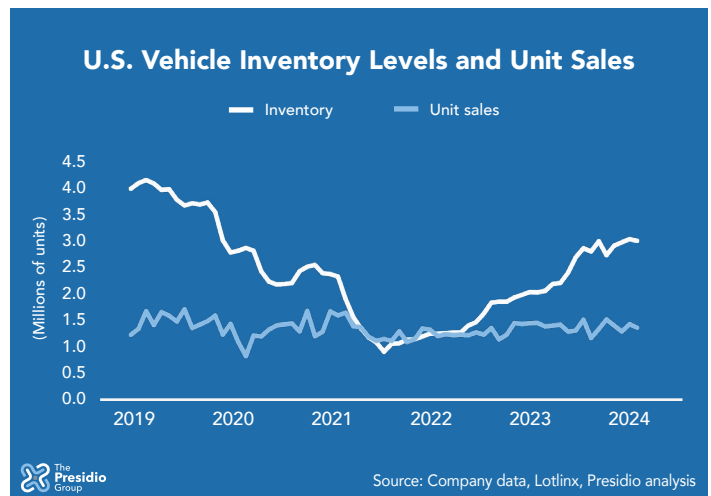
Dealers can still weather the storm more effectively than the manufacturing base by increasing their focus on used vehicles, finance and insurance and parts and service. New-vehicle gross margins for retailers will likely continue to be

compressed until the automakers implement production discipline, keep factory output consistent and aggressively subsidize the dealer base to leverage their selling, distribution and aftersales expertise to clear inventory.

### Supply-demand imbalance is catching dealers in profit crunch

The North America manufacturing environment is without supply chain disruption for the first time since 2019. While that supports firms throughout the automotive value chain, the potential of unconstrained output risks additional deterioration of financial results as supply outruns demand to the detriment of pricing power and margin stability.

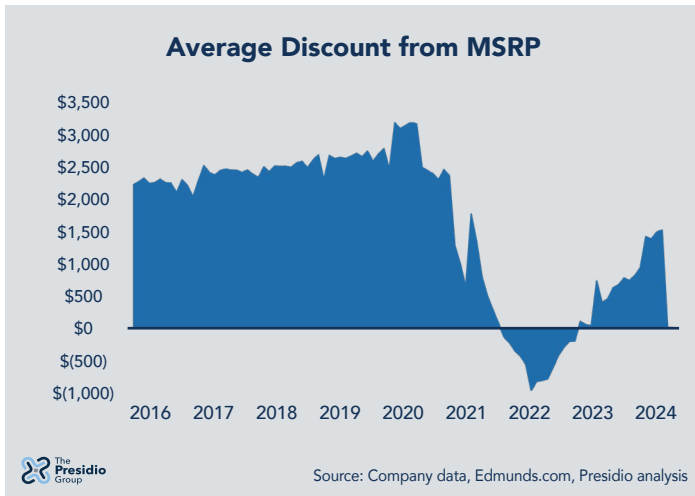
Unit sales in the U.S. averaged 1.27 million a month during the first seven months of 2024, while the long-term monthly average going back to 2000 was 1.29 million. That indicates that customer acquisition likely becomes more expensive with discounts and incentives to pull buyers off the sidelines and push the volume pace above the historical range.



During the peak volume years in the U.S. from 2015 through 2019 when 17.2 million vehicles on average sold annually, inventory each month averaged 3.8 million vehicles while monthly unit sales were 1.4 million — a 2.7x inventory-to-sales ratio. A value above 2.0x often leads to soft pricing dynamics.

The oversupplied state of the industry drove unit sales but also required retail discounting to get to the lofty totals. In 2019, the dollar difference between MSRP and transaction price was \$2,545 per vehicle. That spread, when multiplied by new-vehicle volume that year, represented \$43 billion in lost revenue opportunity for the dealer base.

As inventory dwindled to 800,000 units in 2022, the average transaction price paid from October 2021 through November 2022 topped MSRP. That equated to a total of \$7.6 billion in additional retail revenue, or \$484 per vehicle, over sticker price. The swing of approximately \$3,000 between the chronically bloated inventory days of 2019 and the supply constraints of 2021 and 2022 drove pretax profit for the publicly traded dealership groups to more than \$5 million per rooftop on average in 2022 compared with \$1.8 million in 2019.

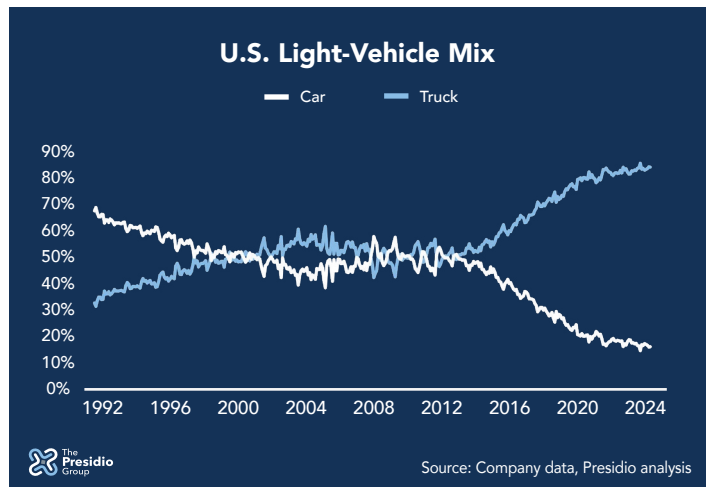


## Automakers have wrung out the profit-driving mix shift to trucks from cars

The product strategy of automakers selling in the U.S. has been an orchestrated shift to larger and more profitable SUVs, crossovers and pickups since 2013 — the last time the balance was even at 50-50. These light trucks represent 81 percent of total U.S. volume so far in 2024. The shift has

changed the revenue and profit contribution profiles of automakers and dealers for the last ten years.

In 2016, the highest volume year in U.S. history with 17.5 million vehicles sold, a 61 percent light-truck mix and \$35,000 average transaction price put the retail revenue pool at \$612 billion. With 2024's 81 percent truck skew driving a \$47,000 average price and a 15.6 million unit run rate through July, the retail revenue pool in the U.S. is on pace for \$732 billion — or \$120 billion more than in 2016 even though volume could be down by 1.9 million units.

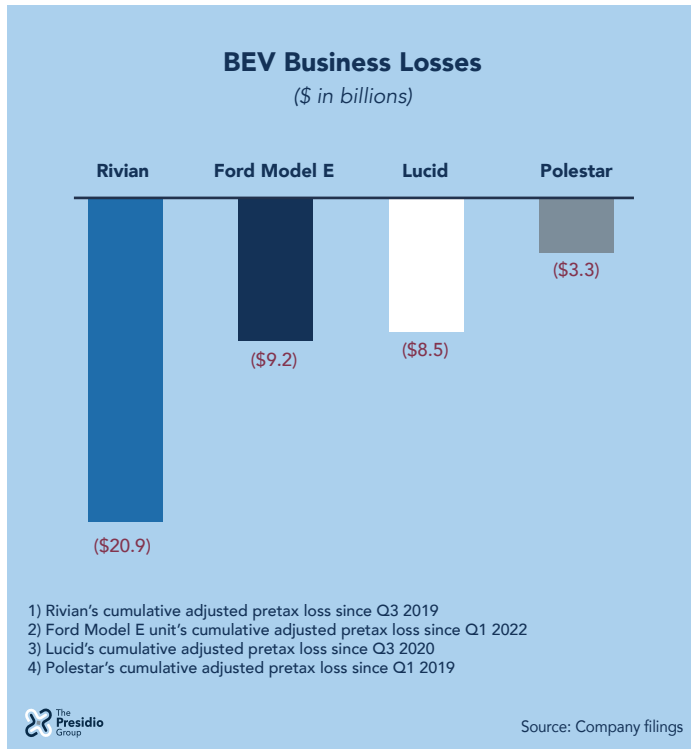


The domestic manufacturers are the most dramatic example of the mix shift and the little additional upside earnings potential that exists. For Ford Motor Co., the Mustang is its lone car nameplate, pushing the automaker's 2024 retail revenue mix to 98 percent truck in 2024. General Motors maintains the Chevrolet Corvette and two sedans in the Cadillac lineup, translating to a 93 percent light-truck revenue mix in 2024, with few new truck segments left to occupy.

## BEV mix is failing to become the next profit growth driver

Battery electric vehicles are hyped as the next catalyst of earnings growth for automakers in the U.S. as the mix shift to trucks is exhausted. Through mid-2024, Tesla is the only manufacturer with operating profit from BEVs — and even there, earnings are subsidized by billions in cost-free regulatory credit sales, deferred revenue from the company's self-driving software and a median employee compensation package of \$45,811 in 2023, significantly below competitors.

Tesla rivals are losing significantly on electric vehicles. Lucid's operating losses since the third quarter of 2020 totaled \$8.5 billion, while Rivian has amassed a \$20.9 billion operating loss since the third quarter of 2019. Polestar's adjusted operating loss was more than \$1 billion in 2023 alone. Ford's breakout of its Model E electric vehicle business unit disclosed a cumulative adjusted loss of \$9.2 billion before interest and taxes from 2022 through mid-year 2024.

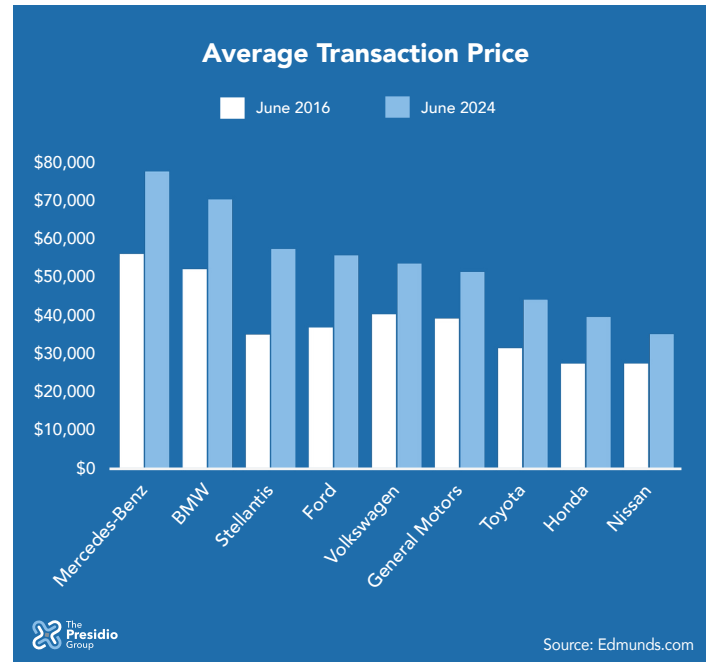


The spate of BEV-driven losses among most pure-play BEV makers and legacy automakers underscores that the drivetrain technology does not seem ready to underpin earnings of automobile manufacturers. That argument is strengthened by the dramatic decline in Tesla's automotive gross margin, down to 14.2 percent in the second quarter compared with GM at 15.2 percent.

## Pursuit of profit from trucks and BEVs has pressured affordability

The orchestrated move upmarket by automakers selling in the U.S. has left dealers with fewer affordable vehicle choices to offer to consumers. While the shift in strategy has caused a surge in revenue and profit contribution per

vehicle, it has left automakers with the challenge of pushing to dealers a product portfolio that prices out a large percentage of consumers.



Manufacturers will likely be forced to subsidize the dealer base and incentivize the consumer to move record high-priced units at a scale that keeps the revenue and profit pools expanding. There is unlikely any appetite by automakers to offer more affordable vehicles to satisfy unprofitable demand pockets. In fact, every automaker has employed the opposite strategy since the peak volume year of 2016, killing off compact and midsize cars while replacing or adding crossovers and SUVs.

*Kevin Tynan, Presidio's director of research, has 25 years of investment research experience covering the automotive industry. He was global director of automotive research for Bloomberg Intelligence before joining Presidio in 2024. Contact Kevin at [ktynan@thepresidiogroup.com](mailto:ktynan@thepresidiogroup.com) or 631-671-9148 to discuss research topics.*



# PRESIDIO-NCM AVERAGE DEALERSHIP PERFORMANCE BENCHMARK

## Dealership profit continues decline

### But dealers have opportunities to bring their variable expenses more in line with lower margins

While the average U.S. dealership's profit slide has continued through the first six months of 2024, the decline is showing signs of leveling off. It remains to be seen whether the industry's Great Normalization journey is nearing its end, but the slowdown in that earnings falloff is a positive signal.

Profitability for the typical franchised dealership continues to be above the norms seen before the onset of the coronavirus pandemic in 2020, but it has declined roughly 50 percent from its peak in 2021. It's important, however, to view these results with a focus on brand and geography. Dealerships representing certain brands continue to operate at an elevated level, while stores representing other brands have seen performance revert to levels closer to their historical norms.

What is now clear — and troubling — is that many dealers aren't acting quickly enough to rein in expenses that rose during the heights of the pandemic profit boom. With this report, the Presidio-NCM Average Dealership Performance Benchmark is providing some new visibility into dealership expense data that makes that clear. The average dealership has seen its variable gross profit plunge 32 percent since 2022, but its total personnel expense, for instance, has dropped by just 6 percent during the same period.

"We're surprised that the typical dealership hasn't adjusted its spending and variable costs as quickly and appropriately as it should have given the decline in profitability over the last two years," said George Karolis, president of The Presidio Group. "This is a time when dealers must be nimble and adjust quickly to the industry's changing circumstances, and many of them have not."

According to the Presidio-NCM Average Dealership Performance Benchmark, net pretax profit for the average

franchised store slid 33.4 percent through the first half of 2024 compared with the same period in 2023. That's just 1 percentage point more than the profit decline for the first quarter of this year. The dollar figure of the average store's net pretax profit is not being shared.

### Current Snapshot

Here's a quick look at the average dealership performance through the first six months of 2024:

Profit change year over year:

↓ 33.4%

Revenue:

\$40.0M

↓ 3.4%

New vehicles retailed:

410

↓ 1.4%

Used vehicles retailed:

364

↔ 0.0%

Gross profit per new vehicle retailed:

\$2,408

↓ 32.9%

Gross profit per used vehicle retailed:

\$1,404

↓ 22.9%

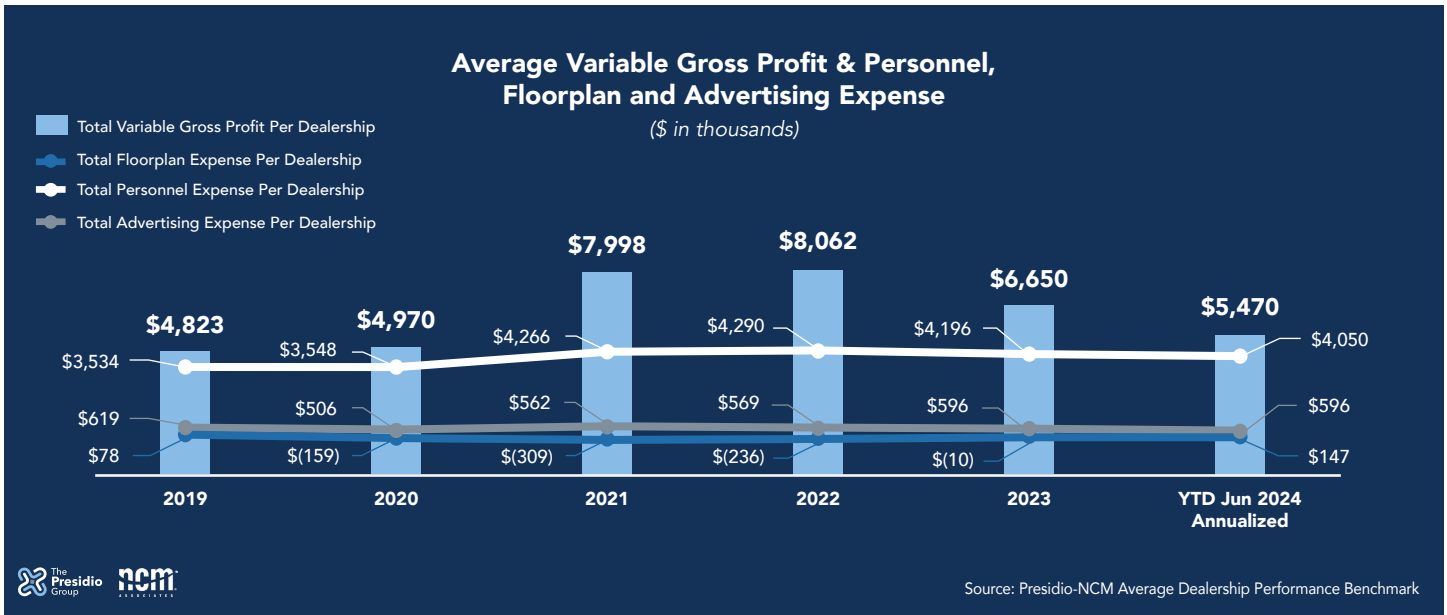
F&I income per retail unit:

\$1,574

↓ 0.6%



Source: Presidio-NCM Average Dealership Performance Benchmark



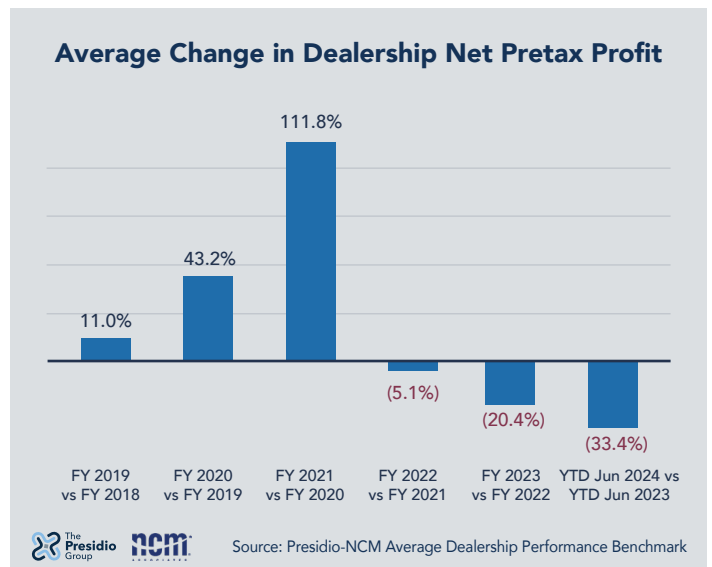
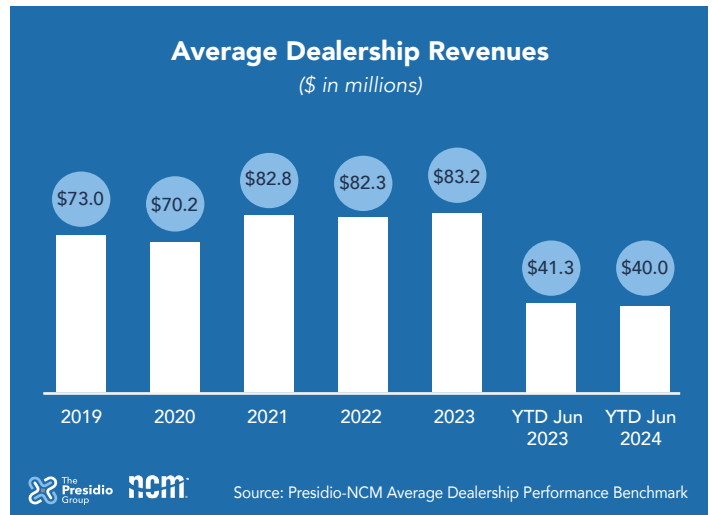
Despite that decline, the average dealership’s net pretax profit was still 1.7 times 2018’s level, according to a Presidio-NCM analysis.

The Presidio-NCM Average Dealership Performance Benchmark is based on the aggregated financial results of approximately 3,900 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 more than a fifth of all 18,000-plus dealerships in the U.S. A slightly smaller pool of dealerships than is typical contributed to the data for this period because the June cyberattacks on CDK Global Inc. delayed many dealership groups in reporting their results.

During this time of change, dealers should be adjusting their businesses models for whatever the new normal ends up being, said Paul Faletti, CEO of NCM Associates.

“The extraordinary profits that dealerships enjoyed in 2021 and 2022 have contributed to what now appears to be a slip in focus by some operators,” said Faletti. “The Presidio-NCM benchmark data now clearly shows that dealers have more work to do when it comes to managing expenses. It is crucial for all dealers take a close look at their operational metrics to ensure they are maximizing their earnings during this time of normalization.”

Dealers themselves expect future profitability to continue to wane. Nearly two-thirds of dealers who took the latest



Presidio Dealer Direction Survey this summer said they expect dealership profitability will decline over the next year. Their outlook over the next three years is moderately better — just less than half of respondents expected a profit dip, and the share of respondents expecting profit growth over that longer horizon was nearly double the share expecting it for the next 12 months.

It's clear to the experts at Presidio that dealers will continue to grapple with swelling inventory and that profits will continue on a downward trajectory this year. But it's important to consider the positives — while the average store's profit level is down 50 percent from its peak in 2021, it's still 69 percent higher than it was in 2018.

Is the industry approaching the new normal? It's possible, though we'll note that where profitability settles will vary depending on a dealership group's brands and geography. Some brands are outperforming others and doing a better job of managing production, inventory and incentives. Stellantis and Nissan in particular have been criticized by dealers for allowing supply to balloon.

And sales volume isn't keeping pace. The average dealership retailed 410 new vehicles through the first six months of 2024, down 1.4 percent. It retailed 364 used vehicles during the same period, the same number as in the year-earlier period. Total revenue per store came in at \$40 million, down 3.4 percent.

To be sure, vehicle volume and total revenue for the average dealership were likely hurt to some degree by the massive disruption caused by the June 19 cyberattacks on CDK. Affected stores had to scramble as their dealership

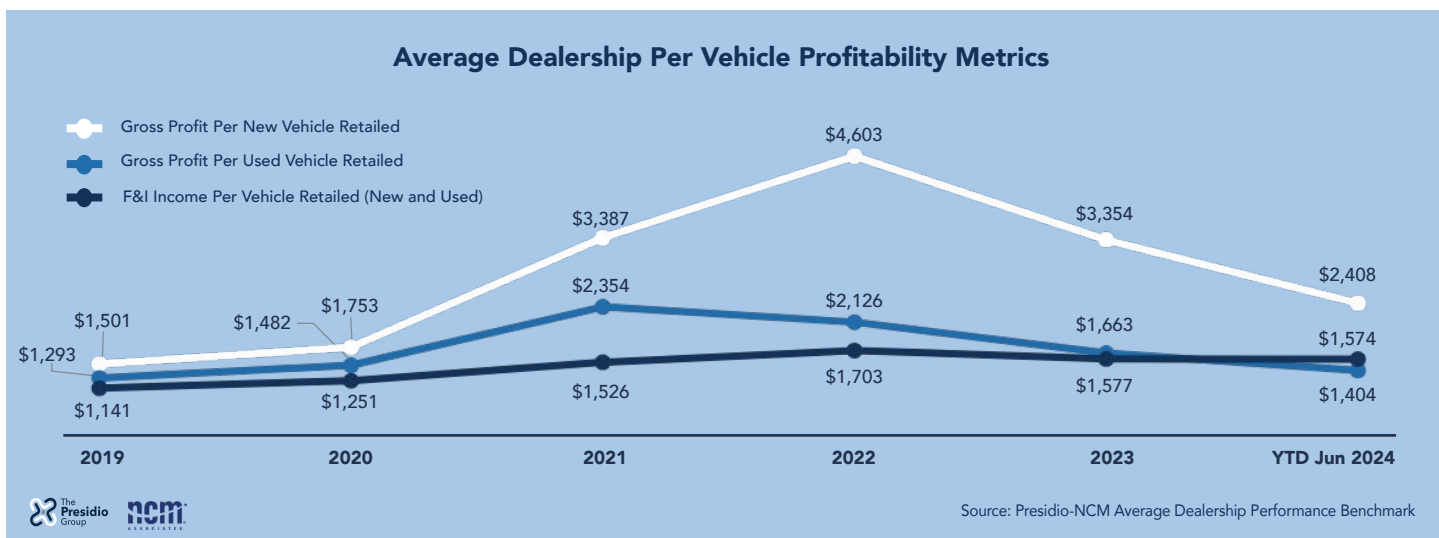
management systems and other tools and platforms were out of commission for the last 11 days of the month. The outages cost affected dealerships some vehicle sales for the period as many shoppers either deferred their purchases or took their business elsewhere. Parts-and-service sales also took a hit.

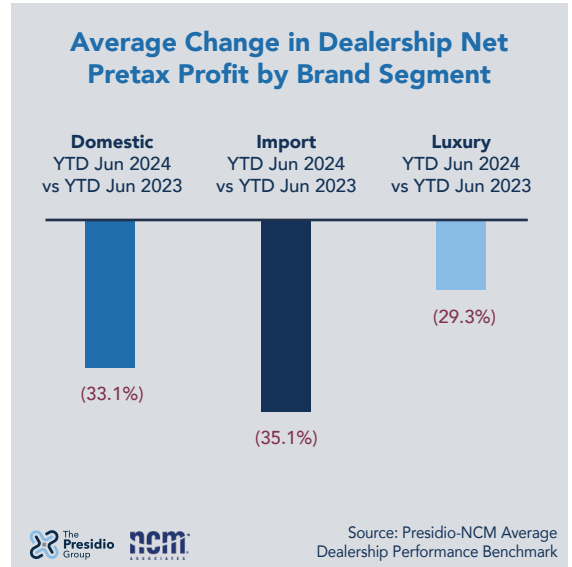
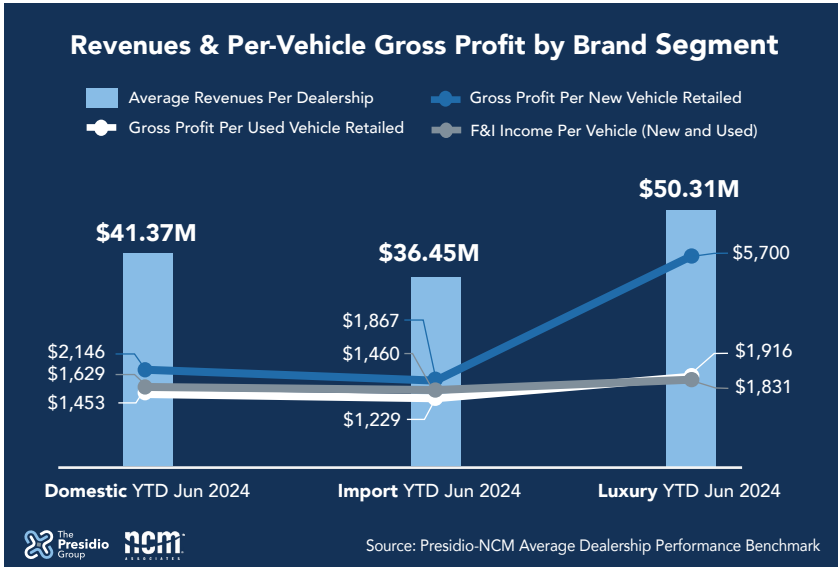
With sales flat to down, inventory levels rising and interest rates up, dealers' floorplan expenses are rising, too. In 2024, the average dealership's net floorplan interest has firmly swung from a credit to an expense.

Through the first six months of 2024, the average dealership posted net floorplan interest expense of nearly \$74,000. That's a swing from a gain of approximately \$23,000 for the same period in 2023. Dealers can make money on floorplan during low-rate environments because of floorplan interest credits that automakers pay to dealerships. Examined another way, floorplan is costing the average dealership \$100 more per new and used vehicle retailed so far this year vs. 2023 and a whopping \$245 more compared with 2022.

Per-vehicle gross profits have continued their slide this year, though the rate of decline accelerated only slightly from the first quarter through the first half. The average gross profit per new vehicle retailed dropped by 32.9 percent to \$2,408. The average gross profit per used vehicle dropped 22.9 percent to \$1,404. Finance-and-insurance income declined by 0.6 percent to an average of \$1,574 for the first half.

On the fixed operations side, gross profit rose 3.0 percent for the average dealership through the first half of 2024. Fixed-ops gross as a percent of total gross profit came in





at 50.1 percent. The average dealership’s fixed absorption rate was 69.3 percent for the first half.

Though profits are dropping across the industry, luxury-brand dealerships continue to be more resilient than their peers. The average luxury store experienced a 29.3 percent average profit dip for the first half compared with 2023’s first half, according to the Presidio-NCM benchmark. The average import-brand store saw a 35.1 percent slide for the same period, and the average domestic-brand store recorded a 33.1 percent drop.

Luxury store vehicle margins also continue to hold up better. The average gross profit per new vehicle for the luxury segment was \$5,700 through the first six months — up from the first quarter’s \$5,589 but down from the average of \$6,538 for all of 2023. The average luxury store recorded gross profit per used vehicle of \$1,916.

The domestic segment posted the next best gross profit per new vehicle, averaging \$2,146, down from \$2,278 in the first quarter and \$3,132 for all of 2023. The average domestic store posted gross profit per used vehicle of \$1,453. The average import-brand store recorded a per-vehicle gross profit of \$1,867, down from \$1,940 in the first quarter and \$2,694 in 2023. The average import store posted gross profit per used vehicle of \$1,229.

In addition to floorplan, which we talked about earlier, personnel and advertising costs comprise what is often viewed as a dealership’s big three expenses. Because floorplan is so closely tied to interest rates, it is less controllable than the other two. That’s part of why it’s

surprising to see that the typical dealership hasn’t done more to rein in its expenses in those other two categories over which they have more discretion.

There is some room to take action on the advertising front — the average dealership is spending \$52 more on that per vehicle retained than it did in 2018 and \$10 more per vehicle than a year ago.

But the biggest opportunity without question is in personnel expense.

The average dealership recorded personnel expense of \$2.02 million through the first six months of 2024, compared with \$2.12 million for the comparable period in 2023. That is an expense decline of just 4.5 percent during a period in which the average store’s pretax profit dropped 33.4 percent.

Viewed another way, the average dealership’s personnel costs went from \$1,828 per vehicle retained in 2018 to a high of \$2,729 per vehicle in 2022 to \$2,617 so far in 2024 — an expense decrease of just \$112 per vehicle during the past two years even though profits have dropped significantly during that period. That’s not a sustainable model.

Brands and geography continue to be all-important when it comes to dealership profitability. But they’re not factors that can be changed, while variable expenses can be reworked. Better expense control is possible for everyone, and this expense data clearly shows that dealers have room to improve. If they can make smart adjustments, they’ll be better positioned to weather any storms as they ride out this journey to the industry’s new normal.



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**Fixed Operations:** Key metrics for service departments, parts and accessories departments, and collision centers.

**Variable Operations:** Averages for sales and gross profit, controllable expenses, UV asset management, employee productivity, and e-commerce.

Scan to download the latest KPI reports for domestic, import, and luxury franchises.





# PRESIDIO DEALER DIRECTION SURVEY

While the Presidio Midyear 2024 Dealer Direction Survey recognizes the reality of today's falling dealership profits and valuations, it also reveals the optimism that dealers have about the business over the long term.

Almost two-thirds — 63 percent — of U.S. auto dealers who participated said they expect dealership profitability to decline over the next 12 months, down from 68 percent of respondents in last winter's survey. While that acknowledges that profit levels are still normalizing, dealers' views in the midyear survey were more positive over a horizon of the next three years. Just more than half expect profits to stay the same or increase over that longer period.

"At some point we will all find our equilibrium," one survey respondent wrote.

Dealers generally want to keep expanding. About 69 percent of survey takers said they were interested in buying dealerships over the next year. A majority of respondents — nearly 55 percent — said they think dealership valuations will drop over the next year, but that view fell to just less than half when applied to a three-year horizon.

"We are actively shopping and waiting for a little air to come out of the valuations," one respondent wrote.

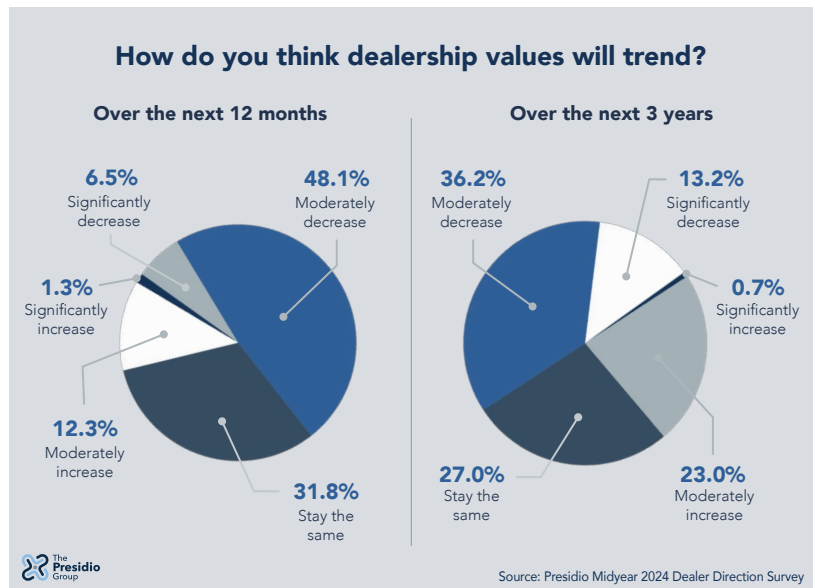
Another said return on investment would have to justify an acquisition, but "scale is important."

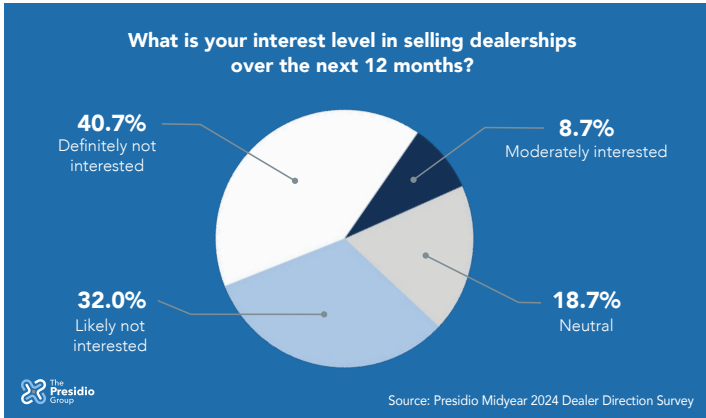
Several dealers indicated they are looking for bargains when it comes to acquisitions — and that they think a window could be about to open where there are good deals to be had, especially as bigger groups that have expanded rapidly look to sell stores as part of portfolio management efforts. Some respondents acknowledged they indeed are likely to divest some underperforming dealerships.

"The time to buy is when others are not," one survey taker wrote. "Most of the larger groups will need to purify their mix of locations and brands. ...It's occurring NOW and will continue to evolve over the next two years."

Another wrote, "I want to buy broken stuff for low dollars and bet on a guy to fix them."

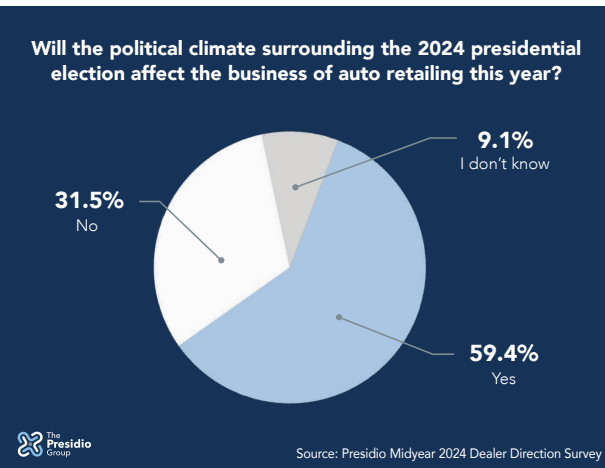
The Presidio Dealer Direction Survey is conducted twice a year to provide a view into dealers' outlook on dealership profitability, valuation and the buy-sell market. The latest survey was conducted from June 10 through Aug. 1 and aggregated responses from 163 dealers and top dealership group executives representing more than 2,600 franchised stores. In addition to their outlook on dealership profitability, valuations and acquisitions, we queried survey takers on the factors most challenging for dealers and asked them to rate the most desirable brands to represent.





Dealers continue to be most worried about economic issues like higher interest rates and vehicle affordability in the short term and direct sales models and automaker margin cuts in the long term. Several expressed fear that the automakers will shift costs to them with traction on electric vehicles falling off. Some called out specific brands as problematic, saying in part that some automakers need to do more to stabilize inventory levels.

“Manufacturers need to stop producing so many vehicles and control the unreasonable spike in prices,” one respondent wrote. “They are pricing themselves out of selling new vehicles, and the carrying cost is staggering with the current interest rates.” It’s “brand dependent,” another wrote. “Some brands have already normalized, others only partially.”



## Most dealers foresee election hang-ups

Nearly 60 percent of dealers responding to the Presidio Midyear 2024 Dealer Direction Survey said this year’s U.S. presidential election will affect the business of auto retailing. And most are braced for a negative or mixed impact.

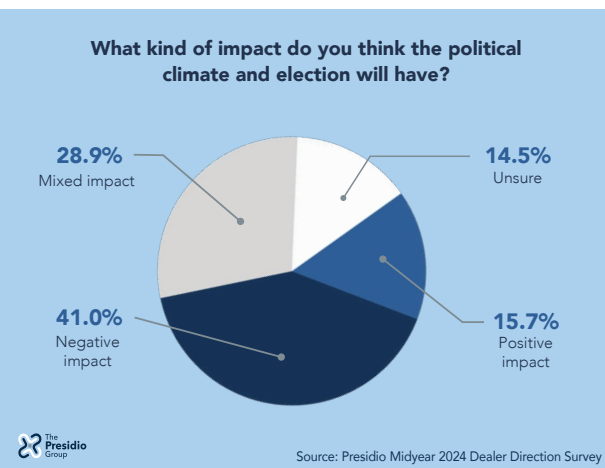
“I don’t remember ever experiencing a political climate as volatile as the current one,” one respondent wrote. “The only certainty at the moment is uncertainty.”

And uncertainty leads to consumers throttling spending on large-ticket items, other survey takers wrote.

Of those expecting the election to affect business, 41 percent foresee a negative effect, nearly 16 percent foresee a positive effect and 29 percent expect a mixed impact. The rest of dealers answering that question were uncertain themselves.

“As the election gets closer, people tend to hold on to their money and wait for the outcome,” one respondent wrote. “No matter who wins, 50 percent of the country is happy and 50 percent unhappy.”

Presidio’s findings dovetailed with research from Cox Automotive. A recent Cox consumer survey concluded that many vehicle shoppers may be staying on the sidelines. In Cox’s latest quarterly Dealer Sentiment Index poll, undertaken this summer, political climate was No. 3 among franchised dealers’ biggest concerns — 49 percent said it was holding back business, up from 26 percent a year earlier.





# PRESIDIO BRAND DESIRABILITY RANKING

Toyota, Lexus and Honda once again topped the Presidio Brand Desirability Ranking, followed by German luxury brands Porsche and BMW and then Subaru, a mass-market Japanese brand that has become a winner on throughput, or sales per dealership. Mercedes-Benz, Kia, Hyundai and Audi round out the top 10.

The ranking is based on responses to the Presidio Dealer Direction survey, which asks dealers to rate the desirability of owning dealerships representing specific brands. We included most brands sold in the U.S. as options and presented some as clusters of brands commonly found under one roof — Chrysler-Dodge-Jeep-Ram or Jaguar-Land Rover, for instance. We also gave an option for ultraluxury brands (such as Aston Martin, Ferrari and McLaren) grouped collectively.

After producing three sets of rankings, patterns have emerged: top-tier Japanese brands are generally most favored by dealers, followed by top German luxury makes and then the South Korean brands. The domestic brands come in anywhere from the middle of the pack to near the bottom of the list. None of this comes as a surprise to the Presidio team, which has been seeing these dynamics play out in the dealership buy-sell market for a while now.

No one moved up or down the ranking more than one or two spots this time save for one troubled domestic-brand entrant — Chrysler-Dodge-Jeep-Ram, which dropped by four places to the No. 23 position. An inventory pile-up and weak consumer demand for the automaker’s products is decimating profit margins at CDJR dealerships. Those factors, plus the view of our survey takers, contributed to Presidio’s decision to reduce blue-sky valuation multiples this quarter for the Stellantis brands.

Three players dropped in ranking by two spots —Buick-GMC, Cadillac and Subaru. Even though Subaru slipped down the list by two spots, its rating of 7.69, on a scale of 10, actually nudged slightly higher as it was surpassed by the two brands above it by a tenth of a point or less. As referenced earlier, Subaru has become a popular brand with consumers and dealers.

The biggest movers up the list this time, rising two spots each, were BMW, Acura and the collection of ultraluxury brands. Another handful of brands rose by one place each.

Brand Ranking		
<i>Dealers responding to a Presidio survey ranked the desirability of owning stores representing the following brands:</i>		
	Toyota	9.33
	Lexus	9.01
	Honda	8.26
	Porsche	7.79
	BMW	7.78
	Subaru	7.69
	Mercedes-Benz	7.59
	Kia	6.88
	Hyundai	6.56
	Audi	6.01
	Chevrolet	5.66
	Ford	5.34
	Jaguar-Land Rover	5.03
	Mazda	4.81
	Buick-GMC	4.62
	Genesis	4.52
	Volkswagen	3.99
	Acura	3.96
	Ultraluxury	3.90
	Cadillac	3.75
	Volvo	3.42
	Nissan	2.97
	CDJR	2.82
	Lincoln	2.78
	Infiniti	2.59

Brand Ranking Biggest Gains & Declines			
Biggest Gains:		Biggest Declines:	
Current place	Change in place	Current place	Change in place
#18	Acura	↑ 2	
#5	BMW	↑ 2	
#19	Ultraluxury	↑ 2	
		#23	CDJR
		↓ 4	
		#15	Buick-GMC
		↓ 2	
		#20	Cadillac
		↓ 2	
		#6	Subaru
		↓ 2	



Source: Presidio Midyear 2024 Dealer Direction Survey



Source: Presidio Midyear 2024 Dealer Direction Survey



# M&A UPDATE/PRESIDIO VALUATION INDEX

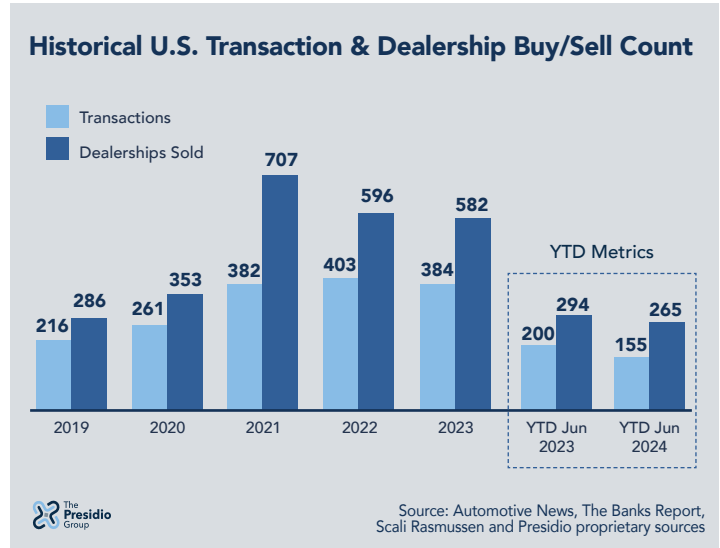
The Presidio Group’s dealership valuation expertise and insights on the latest trends in mergers and acquisitions are informed, in part, by our work with many of the country’s biggest and most influential dealership groups. These relationships give us an insider’s view of how experienced and sophisticated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

[Overall Market Update](#) | [Presidio’s Valuation Matrix Spotlight](#) | [Brand Watch](#) | [Presidio Valuation Index](#)

## Overall Market Update

Halfway through 2024, industry transaction volume clearly seems to have ebbed from the heady pace of the pandemic’s early years. But plenty of deals — large and small — continue to come to market, and consolidation-minded owners remain on the prowl to buy stores to help them scale operations. At the same time, many large operators are using this time to fully examine their footprints and sell stores that may no longer justify their time and resources — whether for reasons of brand, geography or performance. This kind of active portfolio management is happening with both the public dealership groups and private owners, and the Presidio team, which has advised many dealers on such moves, fully expects it to continue. Many aging dealers also are nearing the end of long and successful careers, and some are exploring exits while valuations remain relatively strong.

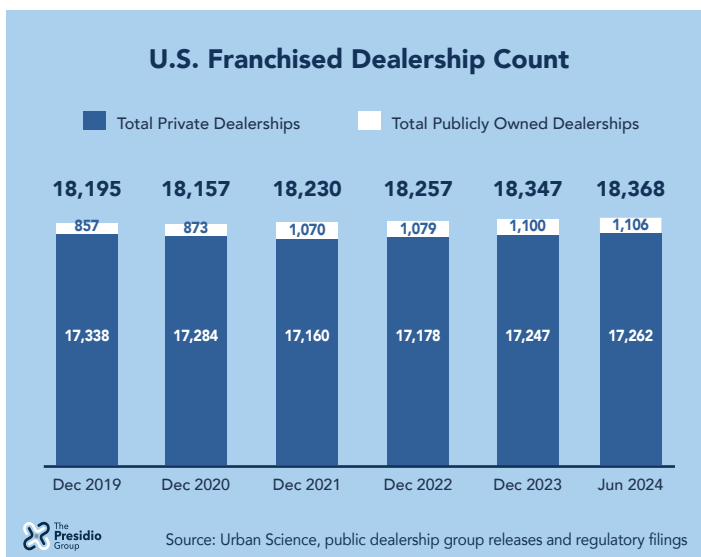
Transaction counts through June are pacing lower than in the first half of 2023, with 155 transactions involving 265 dealerships recorded so far. But data is still preliminary, and this first-half tally is likely to increase as news of more deals trickles out.



According to Urban Science’s 2024 Midyear Franchise Activity Report, the U.S. franchised dealership count rose by 21 stores to 18,368 at the end of June. That represented a gain of just a fraction of a percentage point since the end of December. Those dealerships accounted for 30,313 franchises, taking the U.S. franchise count down by 191 during the six-month period, Urban Science said.

Private dealers continue to own about 94 percent of stores, while public consolidators hold about 6 percent. Private dealers bought 92 percent of all dealerships trading hands in 2024’s first half.

Public groups collectively spent nearly \$2.4 billion on acquisitions in 2024’s first half, up from nearly \$1.8 billion in the year-earlier period. The 2024 tally included some spending overseas such as Lithia Motors Inc.’s acquisition of Pendragon in the U.K. and Penske Automotive Group Inc.’s purchase of Rybrook in the U.K. and two Porsche dealerships in Australia. Group 1 Automotive Inc. on Aug. 1 confirmed that it finalized the purchase of Inchcape PLC in the U.K.; that transaction will be included in the company’s acquisition disclosures for the third quarter.



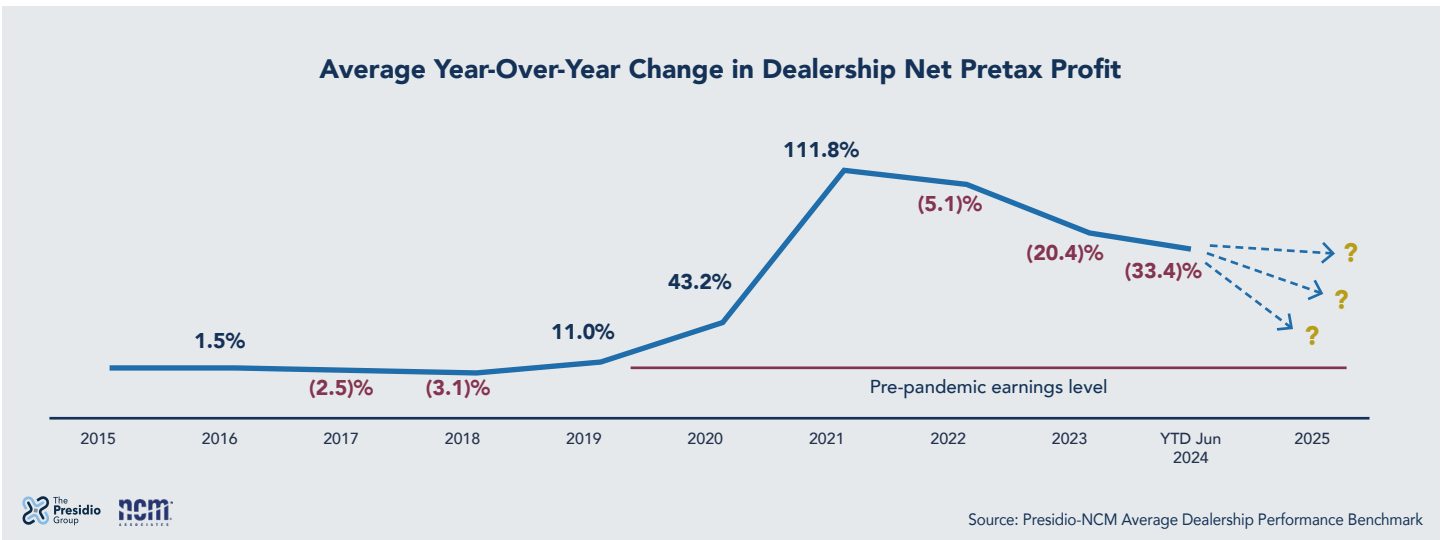
The public bought 22 dealerships in the U.S. during the first half, a little behind the same period in 2023 when they acquired 28. They have picked up their pace on divestitures, however. The six companies sold 19 U.S. dealerships during 2024's first half, more than double the nine divested during the same period in 2023. Asbury in April said 10 of its dealerships were up for sale; it has since sold some of those stores.

This divestiture pace shows that the public companies are fully engaged on portfolio management and will sell stores that don't fit their investment criteria. Some of that activity is to be expected in the aftermath of the peer group's big acquisitions and integrations in recent years. Among the divestitures in the first half, Presidio advised Group 1 on the sale of six dealerships in Texas and Asbury on the sale of one dealership in Delaware.

***“When we’re faced with an acquisition, we want to do the math on ... using that capital for a [stock] buyback or using that capital for an acquisition. And if it’s close, we’ll do the acquisition because we want to grow the company and we think scale is important and growing in clusters is important.”***

— Group 1 Automotive CEO Daryl Kenningham on Group 1's second-quarter earnings call

While we believe the public retailers will likely continue buying stores over the long term, it's important to note that public group CEOs this year have stepped up rhetoric around having more diversified and balanced capital allocation strategies. And the peer group has opened the door wider to share repurchases, even instead of acquisitions in some cases.



Through the first half of 2024, the typical U.S. franchised dealership recorded a 33.4 percent decline in net pretax profit, according to the Presidio-NCM Average Dealership Performance Benchmark. That's an acceleration in the rate of decline compared with 2023, but that rate did show signs of moderating in 2024's second quarter. Despite that drop, the average store is still making 1.7 times what it did in 2018. These earnings declines mean the record dealership valuations and sales prices seen a couple of years ago generally continue to wane as the retail auto industry rides out what Presidio has dubbed the Great Normalization.

In an environment of declining profitability and dealership valuation, it's important to emphasize that brand and geography matter a great deal. A dealership selling a highly desirable brand and located in an in-demand market like South Florida or parts of Texas still is likely to attract premium offers. As these dynamics play out, the tides continue to shift — whether it's a seller's market or buyer's market is entirely dependent on the brand a dealership represents.

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

## Presidio's Valuation Matrix Spotlight

### Real Estate/Facilities

This key component is often overlooked because of overreliance on blue sky

Real estate may be the most fundamental yet misunderstood component of a dealership investment. In an environment where many stakeholders have been improperly trained to focus only on blue-sky values, real estate is often ignored or not considered as much of a key factor of the required investment of a dealership. But while blue sky typically equates to approximately 60 percent of the total investment equation, real estate represents about 30 percent, a significant portion.

Numerous factors, both financial and operational, are considerations when it comes to real estate and facilities. They include location, quality, compliance with automaker image program requirements and overall cost (both value and carrying cost). These are core components of every dealership investment. Yet dealers and investors often ignore their significance and impact on a dealership's revenue potential, resulting profitability and overall return on investment.

Moreover, many industry stakeholders have historically ignored the true cost of real estate's role in a transaction and applied an inaccurate real estate carrying cost assumption to the cash flows and resulting valuation of a dealership. When this happens, the underlying value of the real estate is ignored in favor of a hypothetical rent expense. The math in these calculations often understates the impact of the real estate investment and typically results in a lower overall cash flow valuation multiple and a higher return on investment compared with business valuation methodologies used in nearly every other industry.

Certain benchmarks and historical averages can be applied when evaluating whether the real estate value and overall carrying cost (which can be thought of as rent) can be supported by a typical dealership. That rent, expressed as a percentage of gross profit, is considered reasonable at 10 percent or less, and a best practice benchmark



**Example: Real Estate Value \$10 Million (Rent Charge \$800,000)****Scenario 1 (Excludes Real Estate)**

Earnings, including rent charge	\$2,000,000
Blue sky + other assets, excluding real estate	\$10,000,000
<hr/>	
Implied pre-tax ROI (blue sky only)	20%

**Scenario 2 (Includes Real Estate)**

Earnings, excluding rent charge	\$ 2,800,000
Blue sky + other assets, including real estate	\$ 20,000,000
<hr/>	
Implied pre-tax ROI (total investment)	14%



Source: Presidio analysis

average is more like 8 percent. At this level, the cost of real estate does not pressure the operating profile or impair the dealership's implied blue-sky value.

These other factors also should be considered when examining real estate's role in a deal:

### Leasing vs. Owning

Rent expense, whether an actual cost involving a third party or a hypothetical calculation when real estate is owned, typically provides a more positive return on an investment calculation. Leasing, however, is considered a form of financing by many. Whether a property is leased or owned, the rent should be included in earnings, and the property value should be included in the return profile calculations. Many public companies and large sophisticated private dealers apply this approach.

Leasing in the short term provides certain benefits to dealers, including reducing an often-significant initial capital requirement. But escalation of lease payments and ever-evolving automaker capital expenditure and image demands often result in excessive rent charges over time, forcing dealers to allocate funds to leased property with no long-term return. As a result, many dealers and investors view ownership as a way to build long-term equity and retain control while allowing them to invest in an asset they own.

### Upgrade Requirements' Effect on Blue Sky

Automakers' image programs are continually changing and can add costly requirements, many of which provide no true return on investment to dealers. Even so, dealers

should expect to invest significantly every five to 10 years to maintain facility quality and compliance with image programs. This is simply a general cost to be in the franchised dealership business. When evaluating acquisitions, a dealership facility's quality and level of image compliance directly affects valuations. Blue-sky value is often lowered if a store needs image program investment. While there is no cookie-cutter approach, some buyers factor this expected future outlay into a dealership's overall costs and expected future cash flows to determine the blue sky they are willing to pay. Others may reduce blue sky by a portion of these estimated costs — in many instances by 50 percent.

### Tax Implications

Often overlooked by dealers and investors are the tax benefits of owning dealership properties. Favorable tax rules mean real estate investments can become large tax shelters in both the short term via cost segregation analysis and accelerated depreciation and the long term with capital improvement amortization and building depreciation. The near-term benefits can lead to lower taxes in the years right after a transaction closes, ultimately providing a lift to cash flows.

This spotlight only scratches the surface of real estate's role in a transaction, which is significant.

Bottom line: Real estate's numerous considerations and its ultimate financial impact on overall dealership valuations and returns are material and shouldn't be overlooked.

# Brand Watch

Each quarter, the Presidio team will share our view on certain automaker brands operating in the U.S., particularly when Presidio has changed valuation parameters for a brand. Our aim is to inform readers about factors that affect both brand health and the valuation of dealerships representing those brands.

Across the industry, Toyota and Lexus continue to lead the pack on brand strength and valuation. BMW and Mazda are trending favorably, while Subaru continues to balance supply and retain a loyal customer base. We see positive momentum for those brands in the dealership M&A market, and dealers responding to Presidio's midyear Dealer Direction Survey validated that sentiment. Mercedes-Benz and Honda show signs of stabilizing after experiencing some noise earlier this year — Mercedes had felt pressure around dealer relations before revisiting its electric-vehicle strategy, while some Honda dealers were dismayed when the brand cut the profit margins it pays dealerships. No changes are being made to valuation guidelines for these brands, and they continue to be desired by acquirers and are expected to trend and trade positively for the time being.

## PRESIDIO IS RAISING VALUATION GUIDELINES FOR:

### ↑ **Ford** | +25 basis points to a blue-sky multiple range of 3.75x – 4.75x

Presidio is slightly increasing blue-sky multiples on the top end of the range to put the brand in-line with Chevrolet, driven by a slight uptick in dealer relations, EV strategy changes and positive recent M&A transaction data. The Ford brand had a 62-day supply of vehicles to start August. Ford appears to have ample units of its most important nameplates — the F-150, Explorer, Bronco and Transit. As consumers move downmarket, Ford is seeing volume gains in lower-priced vehicles, such as the Maverick, Edge and Escape, all of which have transaction prices below Ford's second-quarter average of just under \$52,000. Ford's struggling battery electric vehicle unit — which has generated \$9.2 billion in losses before interest and taxes since 2022 — is forcing the profitable product lines such as Bronco, F-150 and Explorer to carry an even heavier load. Some stress is starting to show on the automaker side of the equation, but Ford's shift away from an aggressive EV approach bodes well for dealers.

## PRESIDIO IS LOWERING VALUATION GUIDELINES FOR:

### ↓ **Audi** | -25 basis points to 6.0x-7.0x

We are lowering blue-sky multiples at both the low and high end of the range given the brand's high inventory, weakening demand and stale product lineup. As Audi has moved downmarket in the German luxury field, it has found some pricing white space setting it apart from BMW, Mercedes and perhaps even Porsche. Unit sales have been helped as the brand settled into the role of attainable German technology. But it means Audi's \$100,000-plus e-tron BEVs have launched in a price segment where fewer shoppers are considering the brand. And Audi is challenged with high inventory, having started August with an 85-day supply as it came off a second quarter in which volume dropped 12 percent. Working through the inventory for the rest of 2024 could generate volume gains at the expense of more pricing and revenue weakness. Audi's current product lineup is stale, which probably explains its high days' supply count. But the pipeline of new models the brand is launching over the next 24 months is solid, with several cars and crossovers slated for updates.

### ↓ **Infiniti** | -25 basis points to 2.25x-3.25x

We are reducing Infiniti's multiple range on both ends given the challenges facing the brand and its dealers. Nissan North America has effectively moved its Infiniti brand far enough up market to distance its premium products from the volume Nissan-brand nameplates. Trouble is, Infiniti's \$58,000 average transaction price in 2024 pits it squarely against Toyota's

Lexus brand, the undisputed leader in the Japanese luxury set. Infiniti volume dropped 13 percent in 2024's first half, putting it on track for full-year sales of 56,000 vehicles. Infiniti last topped 100,000 U.S. deliveries in 2019 — it seems buyers who went away during the pandemic haven't returned. Retail revenue for Infiniti dealers fell 17 percent in the second quarter on a 15 percent decline in units and a 3 percent decline in average price. Infiniti's inventory is at a manageable 68 days, but the brand has no product to speak of to generate meaningful volume for its dealerships. Dealers can likely expect the next step from the manufacturer to be a ramp in incentive spending before turning to production cuts.

↓ **Kia** | -25 basis points to 4.5x-5.5x

We are slightly reducing Kia's multiples to be more in line with current trends, but are still marking it higher than stablemate Hyundai, given its positive dealer-factory relations and its favorability with consumers. Kia may be experiencing growing pains after its parent company, Hyundai Motor Group, introduced vehicles in every segment. The automaker also dove deep into BEVs for both the Hyundai and Kia brands to bypass traditional competitors — essentially Ford and General Motors since no Japanese brands have shown much commitment. The South Korean company eventually aims to challenge Tesla volume. But even if Hyundai and Kia are willing to ride out the difficult profit dynamics of BEVs, they may have miscalculated U.S. demand for them. Kia's most expensive BEV — the EV9, selling at an average approaching \$70,000, is 93 percent above the brand's \$36,000 overall average.

Kia has been reasonably good in avoiding overproduction and quality issues, but as it reaches the end of its volume growth runway, an updated perception of organic supply and demand balance will be required. Inventories are back to more normalized levels, and profitability for Kia dealerships is coming back down after the lofty pandemic-era performance of recent years.

↓ **Land Rover** | -25 basis points to 6.0x-7.5x

We are reducing multiples on both ends given rising inventory and pricing volatility. Owner Tata's Jaguar-Land Rover combination is increasingly dependent on truck-only Land Rover. Jaguar represents just 13 percent of JLR's U.S. volume so far this year. Land Rover volume is up 20 percent this year, and its average transaction price topped \$100,000 in June and July for the first time since supply-constrained 2022. Inventory levels are significantly higher, making pricing more tenuous — the brand had an 84-day supply on Aug. 1 vs. only 23 days at the same point in 2022. After peaking in November 2022 above \$105,000, Land Rover's average price fell 12 percent, dipping below \$93,000 in December 2023. Dealers with more inventory now than during the 2022-23 fluctuations face the possibility of similar volatility.

↓ **Nissan** | -25 basis points to 2.5x-3.5x

We are reducing multiples at both ends of the range for the brand. Nissan has lacked strong North American leadership since the departures of Carlos Ghosn and former U.S. chief Jose Munoz. While the brand did well, like nearly all brands, during the inventory-strapped years of the pandemic, Nissan has now reverted, and management appears less willing than it was years ago to throw incentive money at market share. The brand has volume strength from some nameplates — Rogue tops 200,000 units per year, and Sentra's volume is pacing ahead of last year's 100,000-plus — because they are more affordable, albeit potentially less reliable, alternatives to Honda and Toyota's entries. But dealers are struggling to sell enough vehicles at reasonable margins to maintain healthy operating levels. Nissan's reliance on selling the deal more than the vehicle makes for a less loyal customer base. And its service business has historically lacked the strength and customer loyalty that could help Nissan dealerships offset variable margin difficulties. Like Stellantis, Nissan needs strong leadership in North America and a major effort by management to stay relevant in the U.S.

↓ **Stellantis (Chrysler-Dodge-Jeep-Ram)** | -25 basis points to 2.5x – 3.5x

Presidio is reducing blue-sky multiples at both the low and high ends of the range. Stellantis seems to have lost touch with the U.S. market. The automaker's 92-day supply to start August is the worst among the domestic peer group. Stellantis' core domestic business is increasingly dependent on Jeep and Ram as Dodge and Chrysler have each been

whittled to a single nameplate underpinning revenue. For Dodge, Durango was the only nameplate generating more than \$1 billion in retail revenue for dealers last quarter — and just barely at \$1.1 billion. At Chrysler, it was Pacifica at \$1.8 billion. CDJR depends on the Ram 1500 and Jeep Grand Cherokee and Wrangler to carry the weight for the unprofitable brands. Heavy oversupply — which will take time and money to work through — has wiped out most of the new-vehicle retail gross profit for dealers. Inventory is piling up at dealerships, and with weak consumer demand, a race to the bottom is underway.

## The Presidio Valuation Index

When valuing a dealership, it's all about expected normalized future earnings, which typically influence 80 percent of the equation for most mainstream brands. Presidio considers this when determining both blue-sky earnings multiples and our brand revenue multipliers, which are based on earnings as a percentage of dealership revenue. Multiples have not changed much the past two decades, while dealership earnings have grown and changed dramatically. Predicting sustainable earnings is the more volatile part of the calculation, particularly in the current era where dealership profitability is erratic and seeking its new normal.

Average dealership profitability dropped about 20 percent in 2023 and was down more than 30 percent through the first half of this year, though 2024's rate of decline appears to be leveling off. Sustainability of earnings varies significantly by brand and often geography. Thus changes to Presidio's estimated ranges across brand segments for net profit as a percentage of sales are necessary. We are lowering those as follows:

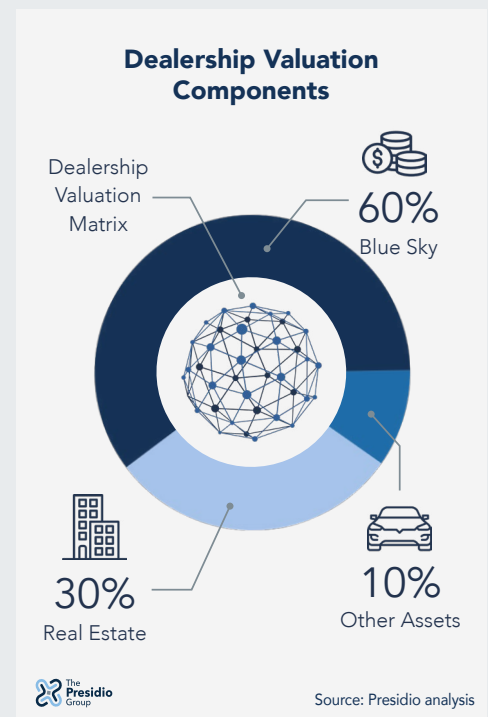
**Luxury brands: 4-7% | Top-tier import brands: 3-5% | Domestic/Other value brands: 1-3%**

Presidio also is adjusting some brands' revenue multipliers, which help eliminate volatility associated with changes in dealership earnings. The revised multipliers can be seen on the Presidio Valuation Index page that follows. Revenue multipliers remain a great barometer for estimating initial dealership valuation as they help neutralize earnings volatility and associated unknowns.

### Dealership Valuation Overview and Methodology























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 inadequate. Solely focusing on blue sky ignores about 40 percent of the total investment represented by real estate and other assets. The symbiotic relationship among these components correlates to a dealership's total cash flow and, ultimately, return on investment.

Presidio has created an index that includes three pillars of valuation — blue-sky earnings multiples, a multiplier based on a percentage of dealership revenue and a return on investment calculation — and uses other key factors such as a brand's network size to help stakeholders triangulate an estimated value of a dealership. Presidio will evaluate each brand's status with regard to the three pillars twice a year and then revise multiples or other factors as needed. 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. For more information on Presidio's valuation methodology, go here: <https://thepresidiogroup.com/valuationmethodology>



# The Presidio Valuation Index

Presidio is raising valuation guidelines for **Ford**, on EV pullback and core product strength. Presidio is lowering guidelines on **Audi**, for stale product; **Chrysler-Dodge-Jeep-Ram**, for high inventory and weak demand; **Infiniti**, for dwindling volume; **Kia**, for moderating profits; **Land Rover**, for high supplies and volatile pricing; and **Nissan**, as dealers struggle to maintain healthy operating levels.

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
	Porsche	55% - 70%	9.0 - 10.0	<10%	198	381
	Lexus	50% - 65%	9.0 - 10.0	↑	244	1,312
	BMW	45% - 55%	7.75 - 9.0		349	1,035
	Toyota	40% - 50%	7.5 - 9.0		1,237	1,558
	Mercedes	43% - 53%	7.25 - 8.75		384	916
	Land Rover	33% - 42%	6.0 - 7.5		202	323
	Honda	26% - 40%	6.0 - 7.25		1,070	1,088
	Subaru	30% - 35%	6.25 - 7.25		640	989
	Audi	30% - 40%	6.0 - 7.0		305	750
	Kia	15% - 25%	4.5 - 5.5		788	997
	Hyundai	15% - 25%	4.0 - 5.0		15%	841
	Chevrolet	14% - 20%	3.75 - 4.75	↓	2,898	586
	Ford	14% - 20%	3.75 - 4.75		2,902	648
	Volvo	13% - 18%	3.5 - 4.5		282	457
	Cadillac	12% - 17%	3.25 - 4.25		567	260
	Mazda	12% - 17%	3.25 - 4.25		542	669
	Buick-GMC	10% - 15%	3.25 - 4.25		1,671	337
	Acura	10% - 15%	3.0 - 4.0		272	536
	Volkswagen	10% - 15%	3.0 - 4.0		640	514
	CDJR	4% - 10%	2.5 - 3.5		2,406	666
	Nissan	4% - 10%	2.5 - 3.5		1,079	773
	Infiniti	4% - 10%	2.25 - 3.25	20%	201	319


1) Dealership count represents Chrysler outlets

2) Dealership count represents GMC outlets



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

# 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:




acquired by

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## AUTO TECH SERVICES TRANSACTIONS




acquired by


served as the exclusive financial advisor to




\$30 Million Series C Financing




served as the exclusive financial advisor to



\$19.7MM Series A Financing



served as the exclusive financial advisor to



\$4 Million Series A Financing



# PUBLIC DEALERSHIP GROUP TRENDS

The six publicly traded dealership groups represented 6 percent of new-vehicle retail franchises and 8 percent of new-vehicle unit volume in the second quarter, and thus are a reasonable proxy for volume, revenue and profit dynamics in the U.S. retail automotive industry. The publics continued to see earnings slide last quarter as adjusted pretax profit for the collective group decreased 32 percent to \$1.18 billion. The publics saw a 31 percent drop in earnings per dealership, given the group's 12 percent gain in store count. Several of the retailers pointed to the late-June disruption caused by cyberattacks on dealership software giant CDK Global as crimping results for the period.

The publics' adjusted pretax profit total has declined sequentially in seven of the last eight quarters since peaking in the second quarter of 2022 at \$2.17 billion. The 32 percent year-over-year tumble in 2024's second quarter is worse than 19 percent decrease in the peer group's cumulative profit in 2023's second quarter. The most recent decline also is the most dramatic of seven consecutive year-over-year drops, worse than the 25 percent slide seen in this year's first quarter.

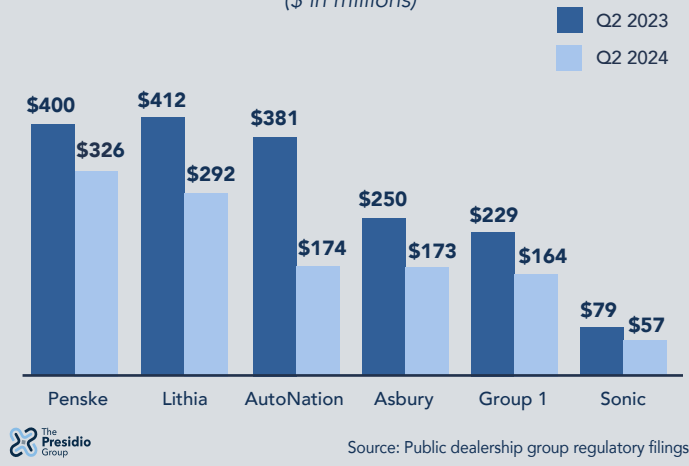
AutoNation posted a 54 percent retreat in adjusted pretax profit in the second quarter, the largest drop of the peer group. While none of the six managed a year-over-year increase, Penske's 19 percent decline represented the best earnings performance compared with year-earlier results among the six public dealership groups. That smaller drop relative to its competitors also made Penske the top adjusted pretax profit earner in the quarter when measured by total dollars. Its \$325.5 million surpassed Lithia's \$292.1 million in the quarter.

Ample new-vehicle inventory is providing a revenue tailwind for the publicly traded retailers. Combined new-vehicle revenue for the peer group was \$17 billion in the second quarter, up 1.1 percent year over year. Combined new-vehicle volume also rose 1.1 percent, and those units sold for an average transaction price of \$52,800, flat compared with the year-earlier period. The publics collectively posted a 23 percent decline in new-vehicle gross profit even with higher volume and flat pricing. That demonstrates that automakers continue to focus their production resources on the more expensive end of their portfolios. Average manufacturer's suggested retail price rose 2.1 percent year over year for the quarter — with MSRP above \$49,000 every month in the quarter for the first time in history. That indicates automakers are building the most expensive nameplates and trim levels, while the excess supply is causing transaction prices to soften. Since November 2022, average transaction price fell 1.3 percent while the average MSRP for typically equipped vehicles rose 2 percent.

The publics' average EV/EBITDA multiple at the close of last quarter was 8.4x, up from 7.4x the prior quarter. 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

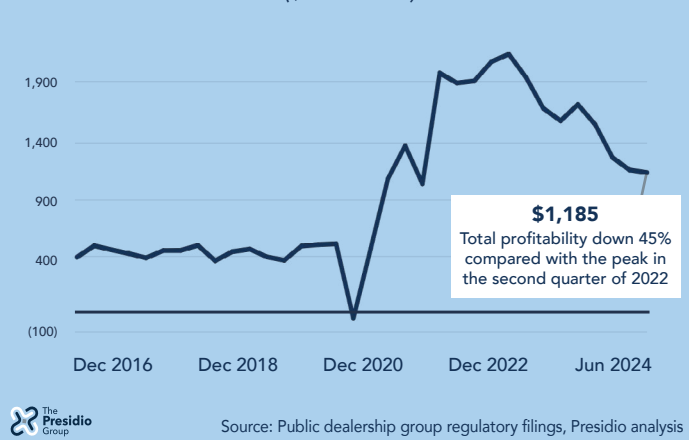
## Public Dealership Group Quarterly Adjusted Pretax Profit by Company

(\$ in millions)



## Public Dealership Group Quarterly Total Adjusted Pretax Profit

(\$ in millions)

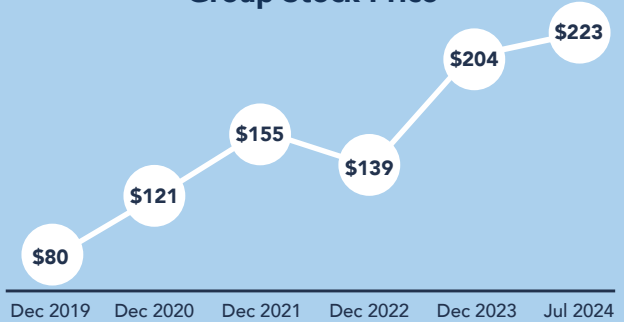


### Total Operating Income and Weighted Average Operating Margin



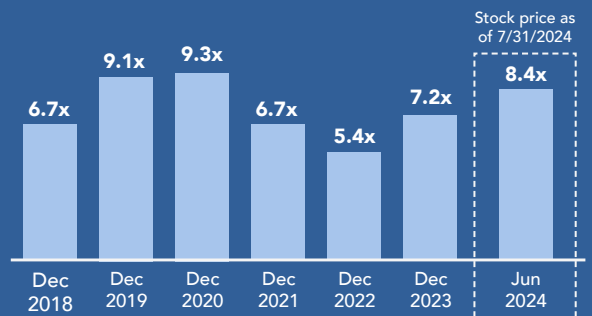
Source: Presidio analysis of public dealership group regulatory filings

### Average Public Dealership Group Stock Price



Source: Yahoo Finance, NYSE

### Average Public Dealership Group EV/Adjusted EBITDA Multiple



Source: Public dealership group regulatory filings, Yahoo Finance, Presidio analysis

groups of between 6.5x and 7.0x, higher sequentially as margin compression continues to drive down earnings.

### Public Company Liquidity and Capital Allocation Strategies

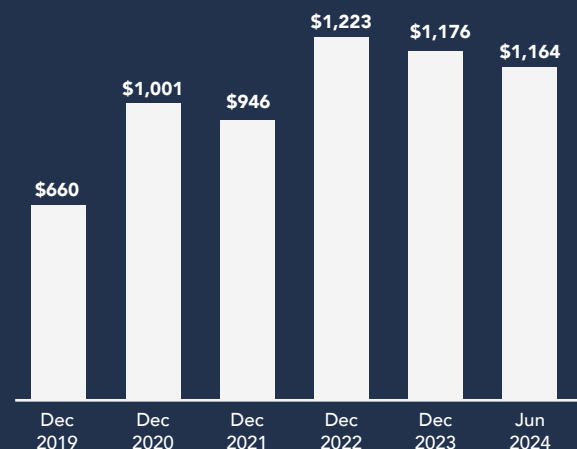
Liquidity for the public peer group – like most metrics – is off the peak, while still higher than pre-pandemic. The combination of cash on the balance sheet and available lines of credit totaled \$6.5 billion at midyear across the six firms, an average of \$1.2 billion per public.

Each public dealership group cites a version of a balanced, efficient, opportunistic capital allocation strategy. The lag in the M&A cycle made 2021 the peak year for acquisition activity as deals were based on pre-pandemic financial results while margins and profitability were increasing.

Integration of deals completed the last few years has become a larger focus now that valuations appear frothy when based in part on the unprecedentedly high earnings environment of 2021 and 2022. But deal action by the publics is still robust. Through the first half of 2024, cumulative spending on acquisitions by the peer group approached \$2.4 billion, up 36 percent year over year.

### Average Public Dealership Group Liquidity Level

(\$ in millions)



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



Source: Public dealership group regulatory filings

**ASBURY** AUTOMOTIVE GROUP Asbury took in \$4.2 billion in revenue in the second quarter. Management considers integrating recent acquisitions and managing its broader portfolio to be a sound capital management strategy in a period of rationalizing valuations. The group has not completed any acquisitions in 2024 but divested a Lexus store in March. It said in April that 10 dealerships were for sale and has divested two Nissan stores and a Chevy dealership since. It completed \$130 million of share repurchases in 2024's first seven months.

**AutoNation** AutoNation took in \$6.5 billion in revenue last quarter. Management states it is committed to the "efficient" allocation of capital between M&A and share repurchases. AutoNation flipped from \$415 million in borrowing to support M&A and share buybacks in the first half of 2023 — in a better interest rate environment — to repaying \$15 million in debt in the first half of 2024. That may indicate the company expects a rationalization of asset prices and a more favorable M&A valuation market (for its preferred return profile) in the future than exists presently.

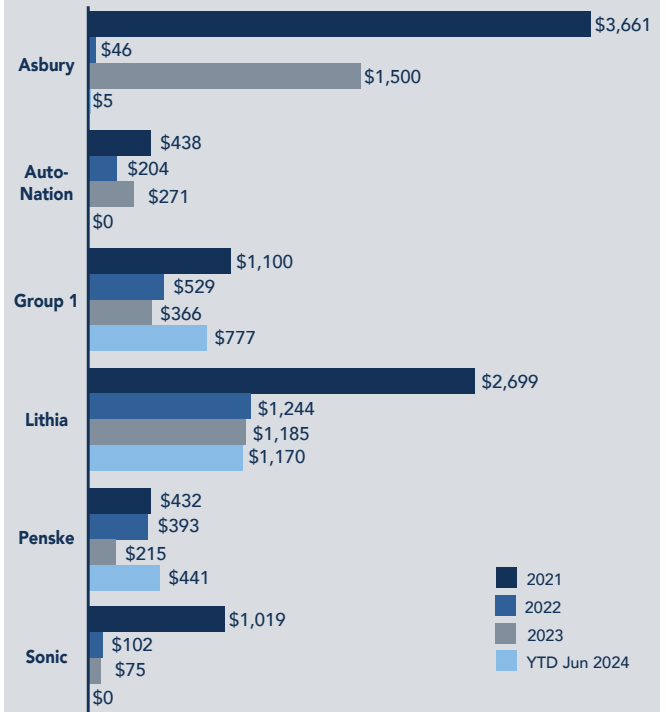
**GROUP 1** AUTOMOTIVE Group 1 took in \$4.7 billion in revenue last quarter. It continues to balance acquisitions and dispositions with share repurchasing, which is significant. The company on Aug. 1 finalized its purchase of 54 Inchcape dealerships in the United Kingdom, adding \$2.7 billion in revenue and doubling its U.K. presence. Group 1 has bought 2.6 percent of its shares back in 2024 for \$100 million, bringing its repurchase percentage to 25 percent of stock in the last 30 months.

**LITHIA** Acquiring an average of \$4.5 billion in annual revenues each of the last four years has made Lithia the largest U.S. dealership group with \$9.2 billion in revenue in the second quarter. Lithia acquired \$5.6 billion in annual revenue in the first half of 2024 but has indicated acquisitions will slow going forward. Its annual target now is to buy dealerships representing \$2 billion to \$4 billion in revenue at a cost ranging from 15 percent to 30 percent of sales. That would equate to annual acquisition spending of \$300 million to \$1.2 billion. At the same time, the company is ramping up stock repurchases, buying back \$202 million in shares in this year's first half. In recent weeks, Lithia bought a minority stake in fleet management company Wheels Inc. and increased its stake in U.K. dealership management system provider Pinewood Technologies.

**PENSKE** Penske collected \$7.7 billion in revenue last quarter. The company's revenue diversity from commercial trucking and international markets enables it to be opportunistic with acquisition resource allocations. Penske has added a total of \$2 billion in annualized revenues so far in 2024. Among its purchases were three Freightliner and Western Star truck dealerships, two independent repair facilities and two Porsche stores in Australia. Penske in July also acquired the largest Ford dealership in the world — Bill Brown Ford of Livonia, Mich., in a transaction facilitated by The Presidio Group.

**Sonic** Automotive The smallest public dealership group with \$3.5 billion in revenue in the second quarter, Sonic remains focused on its Echo Park standalone used-vehicle business and maintaining that unit's fledgling profitability. The used market continues to face inventory acquisition challenges given industry production constraints and low lease penetration during the first few years of the pandemic, which translates to an under-supply of used vehicles through at least 2026.

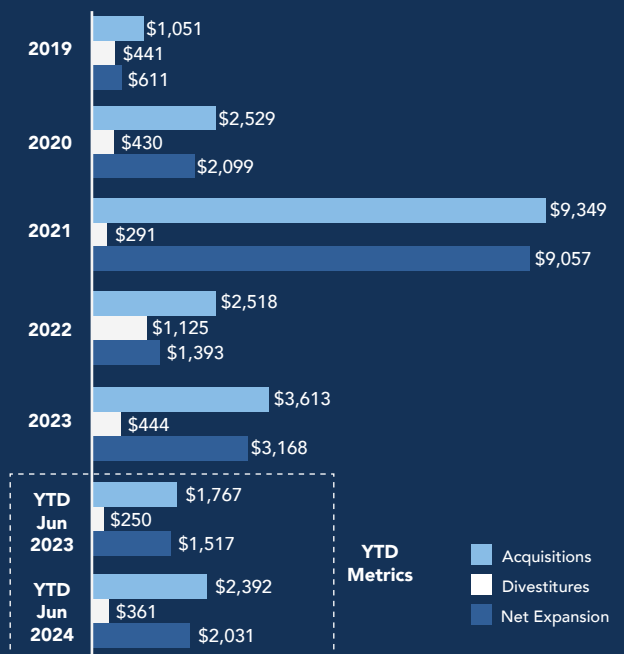
**Public Dealership Group Acquisition Spending by Company (\$ in millions)**



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)





## CDK breach means dealers, vendors double down on cybersecurity protections

When hackers breached CDK Global on June 19, the resulting paralysis for thousands of dealerships across North America turned into a wakeup call for the entire auto industry on the growing cybersecurity threat it faces.

CDK, the largest dealership management system provider in the U.S., was forced to shut down most of its systems until early July and reportedly paid a \$25 million ransom to the hackers. The cyberattack crippled operations at thousands of dealerships across the country using CDK software and may have cost the industry \$1.02 billion and 56,200 new-vehicle sales between June 19 and July 15, Michigan consulting firm Anderson Economic Group estimated. A number of lawsuits have been filed against CDK in the wake of the breach. Five of the six public dealership groups reported that the outage took a toll on second-quarter results.

Moreover, the incident laid bare the serious vulnerability dealerships and auto retail vendors have when it comes to cyber crime. Cyberattacks are growing in both volume and sophistication across the globe in the auto industry and beyond.

It has dealers and vendors across the country intensively studying the processes and protections they have — or should have — in place.

“We should not put ourselves in position to be able to be brought to our knees because something happens to a key vendor,” said Rob Cochran, CEO of #1 Cochran Automotive, a 32-store group based in suburban Pittsburgh and a CDK client. “There have to be better strategies for all of us.”

Cochran told The Presidio Group that he and his employees, after an initial day or so of near-paralysis when CDK’s systems first shut down, banded together to come up with creative solutions to process deals and serve customers during the outage. His executive team planned to study the issue further and talk to peers and outside experts to determine necessary risk mitigation and contingency measures.

### RECENT AUTO TECH INVESTMENTS

#### DMS, AI efforts gain backing and, in one case, a buyer

##### Tekion received a nine-figure infusion of development capital in July 2024

- **Amount raised:** \$200 million, at a \$4 billion valuation
- **Why:** Expand cloud-based dealership management system provider Tekion’s product offerings for dealerships and improve its customer support experience
- **Investor:** Dragoneer Investment Group

##### AutoComplete raised capital from venture and dealer investors in July 2024

- **Amount raised:** Not disclosed
- **Why:** Further expansion and development of an artificial intelligence-based technology platform for auto insurance that can be used in dealerships during the vehicle sales process
- **Participating investors:** Bain Ventures, FM Capital, AutoNation Inc., Butler Automotive Group, Flow Automotive, Ken Garff Automotive Group, Mills Automotive Group, OREMOR Automotive Group, Pohanka Automotive Group and The Presidio Group

##### Digital marketing provider Impel acquired Outsell in July 2024

- **Acquisition price:** \$100 million, plus Impel equity for some Outsell leadership and investors
- **Why:** The deal creates a combined company serving 8,000-plus dealerships in 51 countries and focused on artificial intelligence-driven sales and marketing automation

Having those measures in place is essential for every dealership group in the country.

Information technology and security experts have reported that hacking attempts against auto retailers spiked during and after the CDK disruption, likely as cyber criminals were alerted to the potential by news of the attack. Many of the attempts have been phishing experiments, where fraudsters try to gain access to a company's systems by convincing an employee to click a link or download a document containing malicious software.

Some respondents to the Presidio Midyear 2024 Dealer Direction Survey wrote in cybersecurity as one of the top long-term risks facing franchised dealerships. And CDK Global CEO Brian MacDonald in late August remarks to *Automotive News* described the industry as an "attack vector" for hackers.

The costs associated with failing to prevent cyberattacks are huge and growing. The average cost to a company of a data breach as of mid-2024 was \$4.88 million, up 10 percent from a year earlier, according to IBM research. The median ransom payment made to hackers was \$1.5 million in the first half of this year, blockchain data platform Chainalysis reported.

"The complexity of today's auto tech ecosystem presents significant risks to operators," said Keith Style, managing director of The Presidio Group and a former CFO of public retailer Asbury Automotive Group, Inc. "Leveraging best-in-class technologies and ensuring consistent discipline around employee training with regard to cybersecurity are paramount in today's operating environment."

Auto retail technology vendors are taking it seriously. CDK competitors like Reynolds and Reynolds Co. and Tekion Corp. stepped up during the initial outage, offering affected



**"This could happen to anybody."**

— Chris Walsh, president of Reynolds and Reynolds

## COST OF A BREACH

The frequency of cyberattacks and the costs associated with them are increasing in auto retailing and beyond:

- **17 percent** of dealer respondents to a 2023 survey by CDK Global said they'd experienced a cyberattack or incident in the prior year, a higher occurrence rate than in 2022
- **3.4 weeks** was the average length of downtime from a ransomware attack, according to a 2023 study by data protection vendor Veeam
- **\$4.88 million** is the average cost of a data breach in 2024, up 10 percent from 2023, according to IBM research
- **\$1.5 million** was the median ransom payment made to hackers in the first half of 2024, according to blockchain data platform Chainalysis



Source: CDK Global, IBM Cost of a Data Breach Report 2024, Veeam 2023 Ransomware Trends Report, Chainalysis

dealers access to some tools and forms free of charge. Since the attack, vendors are studying where vulnerabilities lie for both themselves and dealerships and are working on solutions. New technology products could be a result of the examination, experts say.

"This could happen to anybody," Reynolds and Reynolds President Chris Walsh told The Presidio Group. "It's certainly caused us to reflect on what are we doing today."

While Reynolds is reviewing protocols for preventing attacks on its own systems, company leaders also are examining how to enhance cybersecurity offerings to dealership clients. Offering cyber insurance is one initiative under consideration, Walsh said.

Reynolds has been interested in the space for more than five years, Walsh said. The company in 2022 acquired Proton Dealership IT, which offers cybersecurity and info tech products and services to dealerships. In 2023, Reynolds opened a state-of-the-art security operations center at its headquarters in Dayton, Ohio, to enhance its constant monitoring of cyber threats against both dealership clients and its own operations.

Reynolds declined to disclose its investment in the center but Brad Holton, president of Reynolds' Proton unit described it as a "massive, multimillion dollar facility."

Such investment was justified because ransomware attacks against dealerships have escalated greatly the last several years, growing across the board in scope, damage threat and monetary demand, Holton said. Ransom demands have gone from thousands of dollars to millions or even tens of millions.

“Ransomware attackers understand how much money is in the automotive industry,” Holton said. “We’re definitely in the crosshairs.”

Hackers, once they breach a system, now spend hours or even days exploring the network looking for points of leverage like finding file servers and crippling storage backups, said Nikhil Kalani, Reynolds’ chief information security officer, who identified phishing as the trigger for 98 percent of dealership breaches.

Even with the growing threat, a significant percentage of dealerships don’t have the right processes and tools in place. Kalani said dealers need to put in many layers of protection:

- Get the best email filter possible
- Train employees on cyber risks constantly
- Establish a workplace culture of security from senior leadership on down
- Install and regularly update robust detection and protection tools on dealership computers and networks
- Put backup and recovery systems in place
- Establish workaround contingencies to keep stores operating as smoothly as possible in the event of a breach



***“We should not put ourselves in position to be able to be brought to our knees because something happens to a key vendor. ...There have to be better strategies for all of us.”***

— Rob Cochran, CEO of #1 Cochran Automotive

The National Automobile Dealers Association provided continuous guidance to dealers during the CDK disruption and has continued to share resources and educate them about threat risks and best cybersecurity practices in a series of new webinars, a spokesman said.

And dealership group leaders across the country are spending more time than ever trying to button up the gaps in their risk mitigation plans.

At the most basic level, that work may boil down to this guidance that CDK chief Brian MacDonald shared with *Automotive News*: “Educate your employees. And be ever vigilant.”



Reynolds and Reynolds opened a security operations center at its Dayton, Ohio, campus in 2023 to boost its cybersecurity capabilities for dealership clients.



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# PRESIDIO PERSPECTIVES: LEADING VOICES

With a broad mix of multimedia platforms and in-person events, The Presidio Group leads the way in analysis and insights – helping our clients stay ahead of trends in auto retail.

## FULL THROTTLE PODCAST

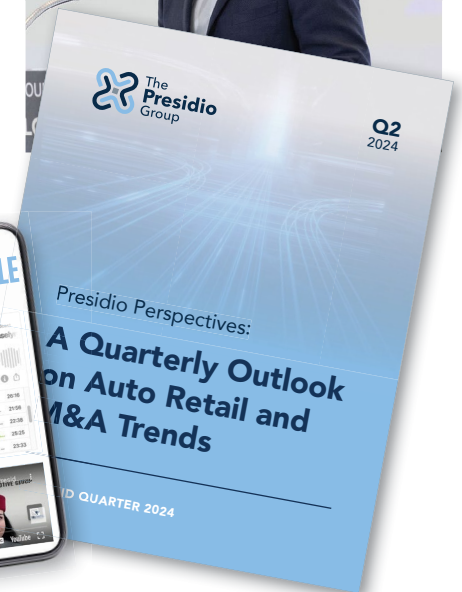
From legendary dealers to up-and-coming technology entrepreneurs, our biweekly audio and video conversations focus on innovation and game-changing trends. Hear directly from the leaders who are making news.

## WRITTEN PUBLICATIONS

Our Presidio Perspectives lineup includes a quarterly report, which offers Presidio-NCM Average Dealership Performance Benchmark data. This information provides a new lens into franchised dealership profitability and retail performance.

## CONFERENCES

Each spring, the single-day Presidio Retail Conference brings together titans of the industry to discuss the direction of retail. Each fall, the Auto Tech Summit connects entrepreneurs with capital in a unique, 20+ speaker format.



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