



Presidio Perspectives:

A Quarterly Outlook on Auto Retail and M&A Trends

THIRD QUARTER 2023

Navigating the Great Normalization

Welcome to the launch of The Presidio Group's inaugural quarterly publication focused on automotive retail performance, technology and M&A trends.

This comprehensive collection of opinion, forecasting and analysis falls under the umbrella of Presidio Perspectives, the firm's new multichannel approach to thought leadership informed by leading industry sources and Presidio's own expertise. Presidio Perspectives includes podcasts, in-person conferences, insight reports and this quarterly publication.

The first issue of "Presidio Perspectives: A Quarterly Outlook on Auto Retail and M&A Trends" is more than a compilation of historical financial data. We are highlighting a central theme — a new short-term era we are characterizing as the Great Normalization.

This era follows the imbalance of these last, disruptive few years where production and vehicle inventory were misaligned with demand. What's more, the industry is entering a period where mergers and acquisitions may take on a heightened velocity – one fueled by the rapid exposure to advanced retail technology and disruption.

Going forward, the Great Normalization, and tech/disruption, are the calling cards for the near term – likely the remainder of this year and into next year.

The transition away from historic and unprecedented peaks means dealership operations and profitability are heading back toward typical results. When combined with technology advancements and accelerated disruption, this is a period of rapid evolution and, ultimately, consolidation.

Today we are also breaking new ground in the space with the launch of three data-driven pieces:

- The **Presidio-NCM Average Dealership Performance Trends** – a report based on aggregated financial results of around 4,400 U.S. franchised dealerships of all brands and sizes that work with NCM Associates, a provider of 20 groups, consulting and training to dealers across the country.
- The **Presidio Valuation Index** – an approach intended to help dealers triangulate the value of dealerships using several data points and formulas that will be updated on a quarterly basis including blue-sky earnings multiples, brand-specific revenue multipliers and return on investment percentages.



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The Presidio Group's Investment Banking services are offered through its subsidiary Presidio Merchant Partners LLC. Member FINRA, SIPC.

- The Presidio Group's inaugural **Dealer Direction Survey** – a quarterly read of the market's pulse informed by survey takers representing thousands of franchised dealerships. They weigh in with their outlook on dealership profitability and valuation, their interest in buying or selling dealerships and their opinions on the factors that will most challenge dealers in the short and long term. They also rate vehicle brands on how coveted they are as part of the Presidio Brand Desirability Rankings.

Additionally in this report we will offer a robust look at the profitability and performance of public dealership groups; M&A trends including transaction pace and outlook; auto retail technology trends; and an examination of disruptive forces at play in the industry.

In this first issue, the various elements we've tracked demonstrate that the auto retail sector has firmly moved into the Great Normalization. We now see that peak dealership profitability is ebbing and as our Presidio-NCM metrics and survey results bear out, the headwinds in the industry are real. The elements of normalization are more apparent as the year draws to a close. Nevertheless, there is still tremendous opportunity for dealers. Interest rates seem to have peaked, new-vehicle supplies continue to improve, and there is much pent-up consumer demand for cars. Throughout challenging times, the franchised dealership model keeps proving its resilience.

There couldn't be a better time to provide insights and a different view of the automotive retail market – a Presidio perspective. We hope you enjoy our inaugural report.

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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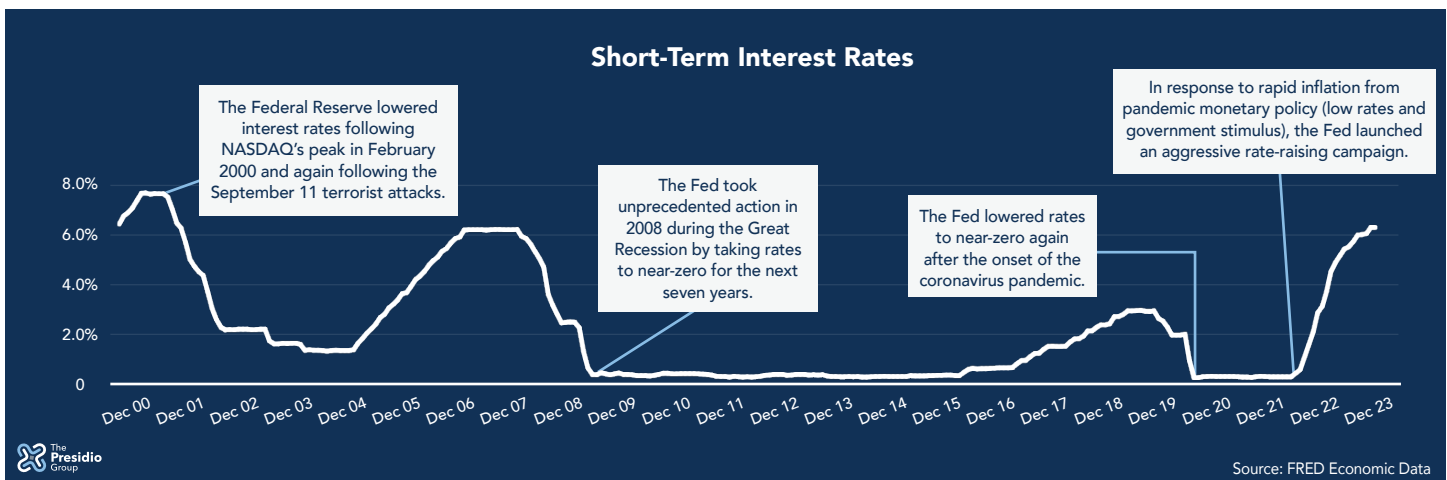
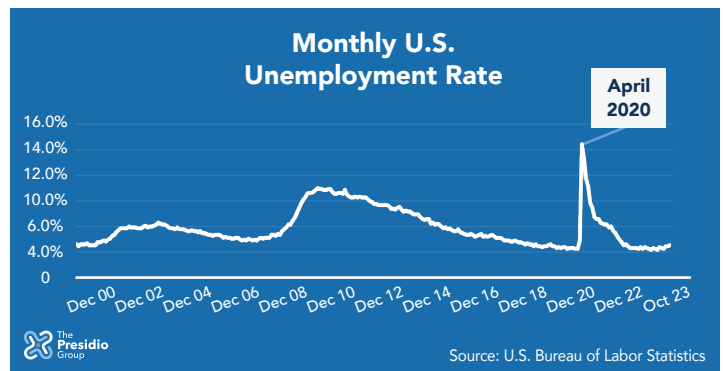
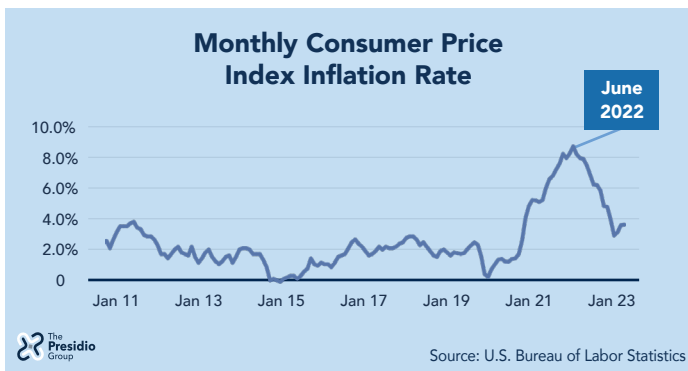
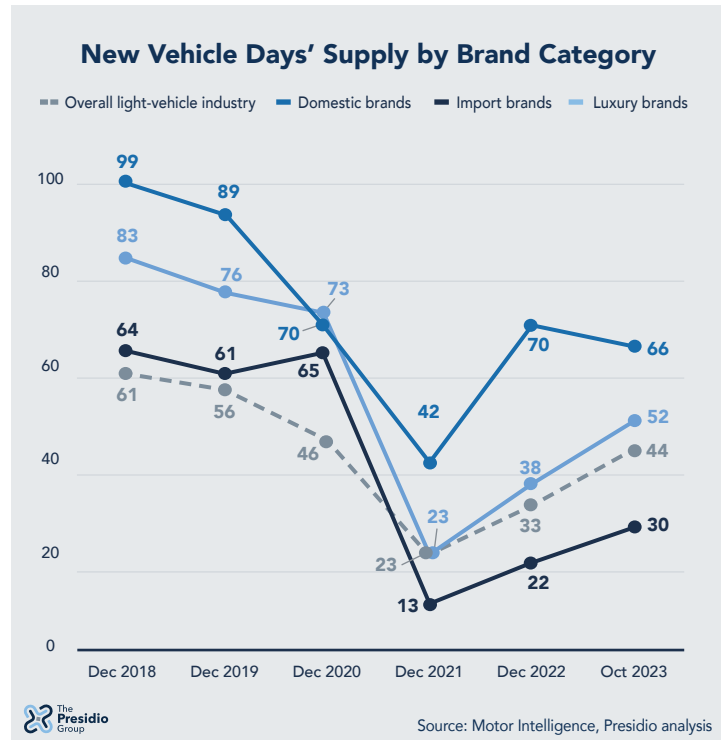


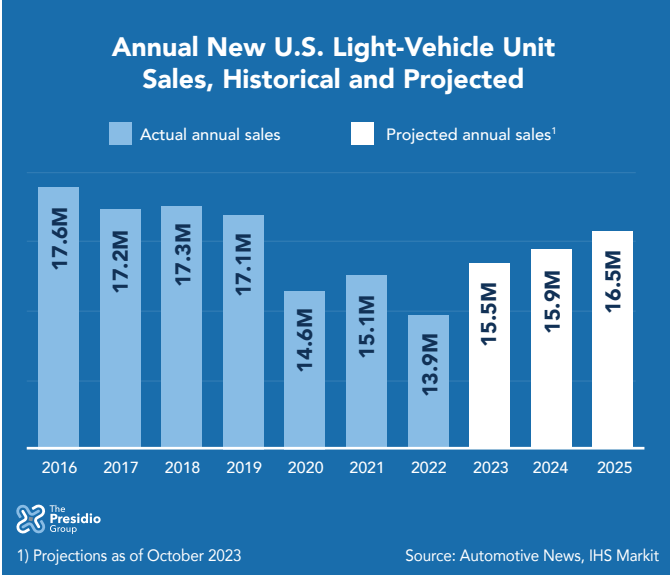
Economic challenges, days' supply on the rise

After an extraordinary period of vitality that stretched from mid-2020 through 2022, the auto retail sector is now in reset mode. Even as the unemployment rate remains low, the industry faces economic headwinds led by inflation, higher interest rates and dwindling excess consumer savings.

Those economic factors are presenting challenges in auto retail as inventory levels continue to recover. Low inventory numbers — which fueled high vehicle margins for most of the last few years — have reversed, most notably for domestic-brand automakers.

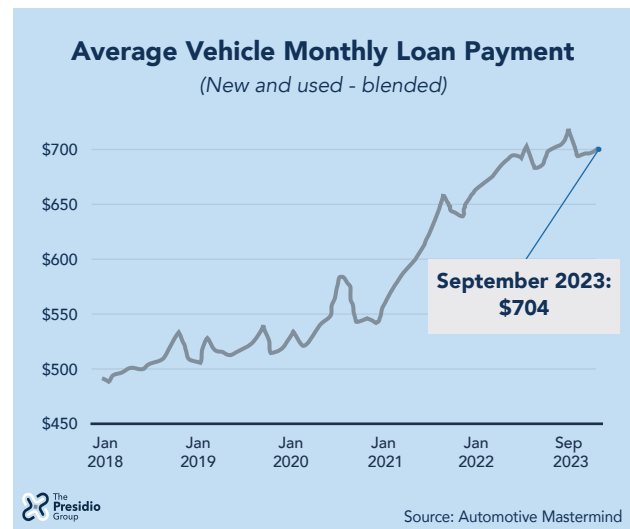
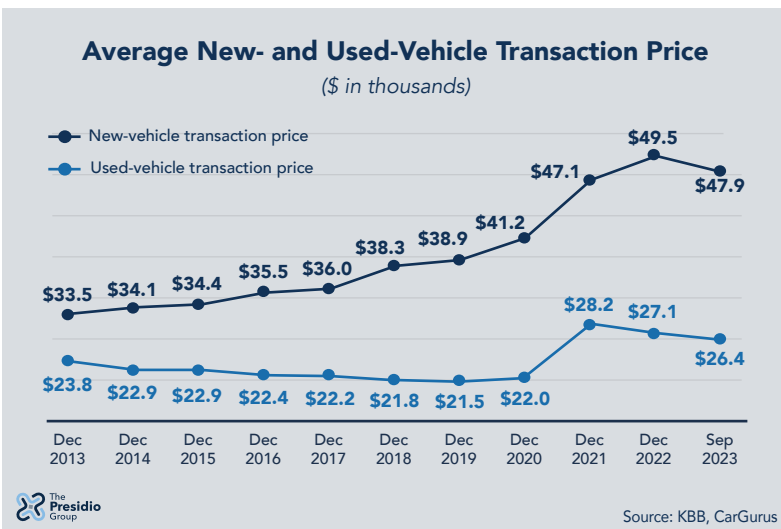
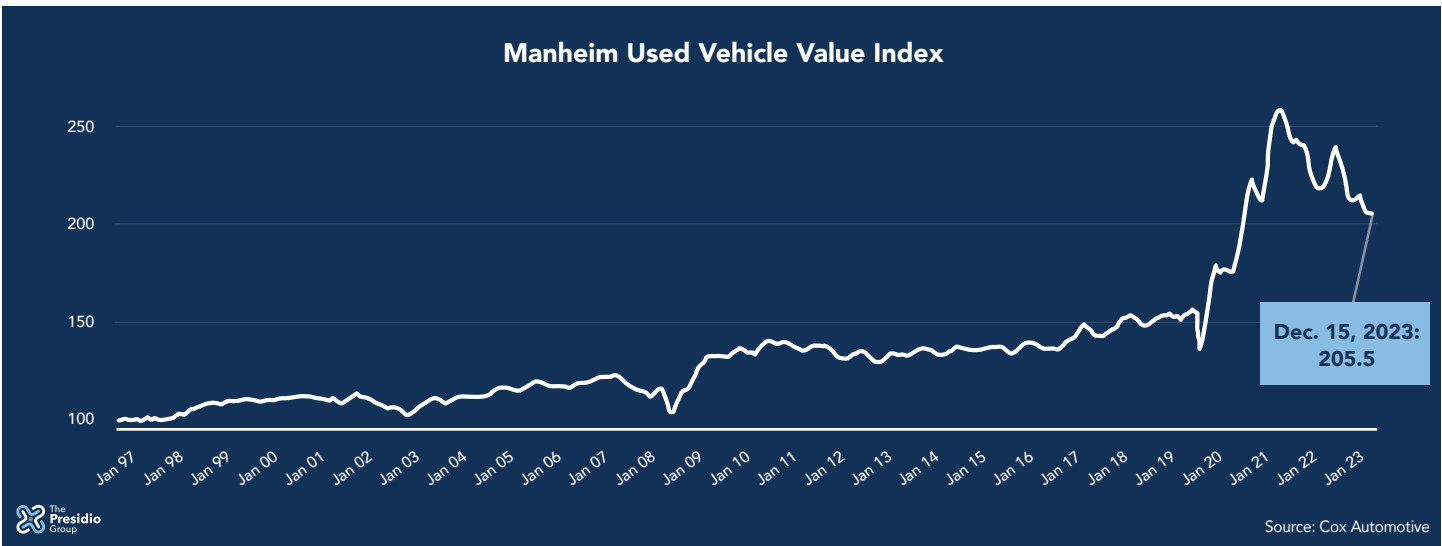
The macroeconomic and industry data presented in the Presidio Data Digest on this page and the next provide a snapshot of the transition. It's the Great Normalization at work.





The Presidio team speaks to dealers around the country on a daily basis. As we were finalizing our inaugural report, the tenor of these conversations took a turn. Dealers were telling us sales have slowed, profits continue to drop and expenses keep rising — adding up to November being one of their worst months since the early days of the pandemic. One dealer went so far as to say, “November was a bloodbath.”

These charts illustrate how high vehicle price and monthly payments and volatile used-vehicle values are challenging consumers and dealers. While the recent decline in used values helps with price relief for car buyers, it also means consumers who paid top dollar for vehicles in recent years face equity challenges when trading them in. High monthly payments — about 35 percent above pre-pandemic levels — also pressure the system and can lead to increased repossessions.





PRESIDIO-NCM AVERAGE DEALERSHIP PERFORMANCE TRENDS

Avid watchers of the franchised dealership business held their collective breath when the coronavirus pandemic sent shockwaves through the auto industry in March 2020. No one dreamed the business of selling cars was about to see profitability rocket to unimaginable levels.

But we know just how dramatically profits soared during the second half of 2020 and through most of 2021 because of the National Automobile Dealers Association’s average dealership financial profile, which had long been released monthly and reported on by industry media. Then NADA stopped sharing that data after October 2021, creating a vacuum in dealership performance data to inform the industry.

Until now.

With the debut of the Presidio-NCM Average Dealership Performance Trends report, The Presidio Group and NCM Associates are stepping in to fill that void. The report is based on aggregated financial results of around 4,400 U.S. franchised dealerships of all brands and sizes that work with NCM, 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.

While a dollar figure for the average store’s net pretax profit is not being shared right now, we are reporting the rate of change in that number. The trajectory of that change clearly shows where profitability is heading for the average car dealership in the U.S. — down from the record highs and moving closer to pre-pandemic levels.

The Presidio-NCM report clearly supports our view that the auto retail sector is now firmly experiencing the “Great Normalization” as pandemic-driven peak dealership profitability descends to levels more in line with historical patterns.

We believe sharing the average dealership’s performance metrics provides a service to the industry found nowhere else. Visibility around the typical dealership’s financial results creates a benchmark that all dealers can learn and benefit from.

“We thought it was important to share this information as the industry navigates significant change,” NCM Associates CEO Paul Faletti said. “We’ve been through an extraordinary

recent time, but the business is evolving fast. NCM and Presidio are providing crucial data and analysis that can help all dealers better manage their business through the near-term headwinds.”

Presidio President George Karolis said the Presidio-NCM report — which includes a breakdown by domestic, import and luxury-brand segments — will help dealership leaders gauge how their own operational performance compares.

“The dealers we talk to every day are seeing the market change rapidly and wondering how it will affect them,” Karolis said. “They are hungry for data that helps them assess their next steps with a view of the broader industry.”

The Presidio Group’s own view is that dealers should expect vehicle margins and dealership profitability to remain under pressure and continue to normalize.

Current Snapshot

Here’s a quick look at the average dealership performance through the first 9 months of 2023:

Profit change year over year:

↓ 19.5%

Revenue:
\$62.8M
↑ 1.3%

New vehicles retailed:
637
↑ 6.2%

Used vehicles retailed:
552
↓ 6.0%

Gross profit per new vehicle retailed:
\$3,498
↓ 26.2%

Gross profit per used vehicle retailed:
\$1,754
↓ 23.4%

F&I income per retail unit:
\$1,587
↓ 8.1%



Source: Presidio-NCM Average Dealership Performance Trends

† Automaker bonuses/incentives from adds and deducts are included in departmental gross; PVR only includes retail units; net profit is pre-LIFO

It's yet unclear what the new normal will be, but the rate of decline will likely be more gradual than the abrupt change seen at the beginning of the pandemic. The degree of change also should vary for each dealership depending on brand represented and geographic location. Stores selling luxury-brand vehicles, for instance, are experiencing slower profit declines than the rest of the industry, according to the Presidio-NCM analysis.

A more gradual normalization means dealerships will continue to enjoy somewhat elevated profits for a while and will have time to make strategic and operational shifts to help them manage the glide path down.

Data will be a key tool for them to use on the journey. The Presidio-NCM Average Dealership Performance Trends report provides it.

A deeper dive into dealership performance trends

Annual earnings for the average dealership peaked in 2021 as the inventory shortage presented unforeseen opportunities for profitability. While much of the growth was driven by new-vehicle transaction prices at or above manufacturer's suggested retail pricing, dealerships also put tremendous focus on growing their parts and service operations and managing costs in the extremely low interest rate environment.

According to the Presidio-NCM data, the average dealership's profit grew year over year from 2019 and into early 2022 before moderating at a 5.1 percent decline for the whole of last year. The amazing run dealerships have been on is revealed by looking at the cumulative profit gains over the last five years.

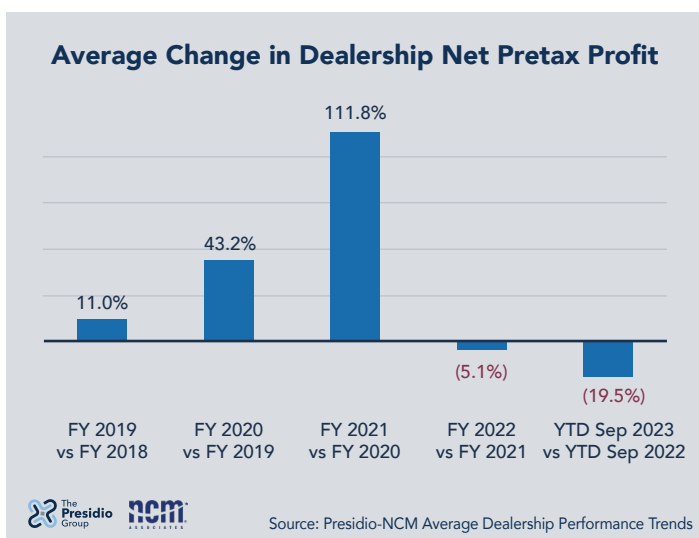
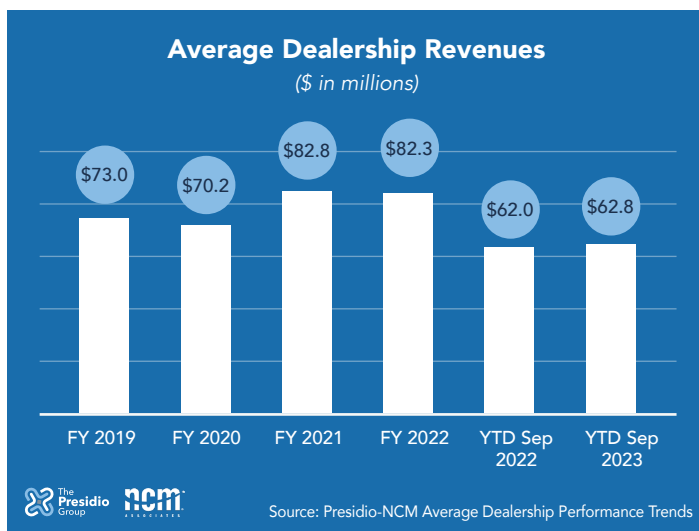
The average store saw profits rise about 237 percent from 2018 through 2021. And even with 2022's slight dip, the average dealership's income last year compared with 2018 was still up a whopping 219 percent. While the average store's profit has tumbled nearly 20 percent on a year-over-year basis through the first nine months of 2023, its earnings so far this year are still on track to be 2.5 times 2018's level.

Diving deeper into 2023, the 19.5 percent drop in overall profit corresponds with a year-to-date decline in gross profit per new vehicle retailed of 26.2 percent. The year-over-year new-vehicle profit gap has widened as 2023 has progressed. Per-vehicle profit on the used car and finance and insurance parts of the business also fell through 2023's first nine months but to lesser degrees.

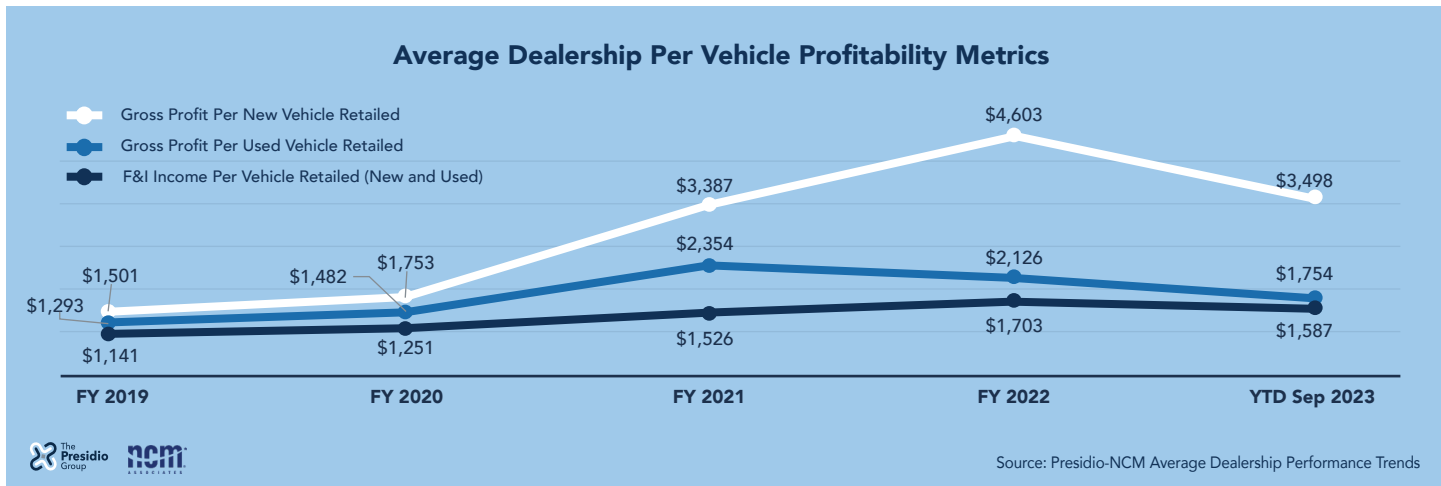
Additionally, dealerships are facing other headwinds affecting their performance that weren't present the prior three years. Interest rates have nearly tripled since March 2022 with the prime rate moving from 3.25 percent to 8.5 percent. While new vehicles are now more plentiful, dealerships' carrying costs for that inventory are now nearly three times higher. Elevated interest rates and tighter lending standards also are crimping buyer demand and straining some consumers' ability to qualify for loans.

Such consumer constraints have hurt the average dealership's F&I opportunity, leading to an 8.1 percent drop in F&I income per vehicle retailed during the first nine months of 2023 compared with the year-earlier period.

On the used side, the average dealership has seen unit sales decline 6 percent so far in 2023, on top of a 10.4



† Automaker bonuses/incentives from adds and deducts are included in departmental gross; PVR only includes retail units; net profit is pre-LIFO

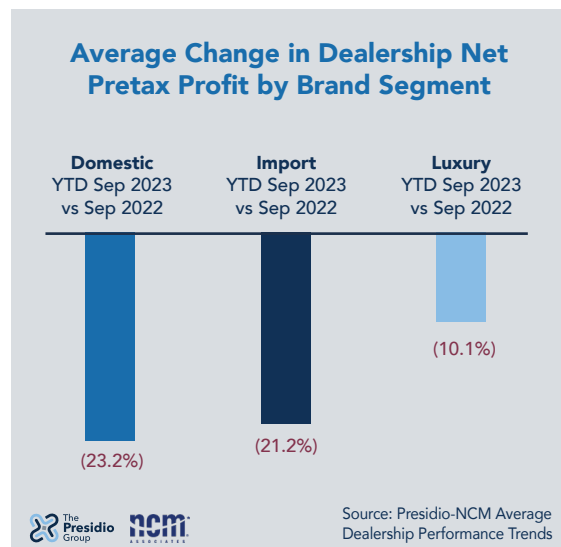
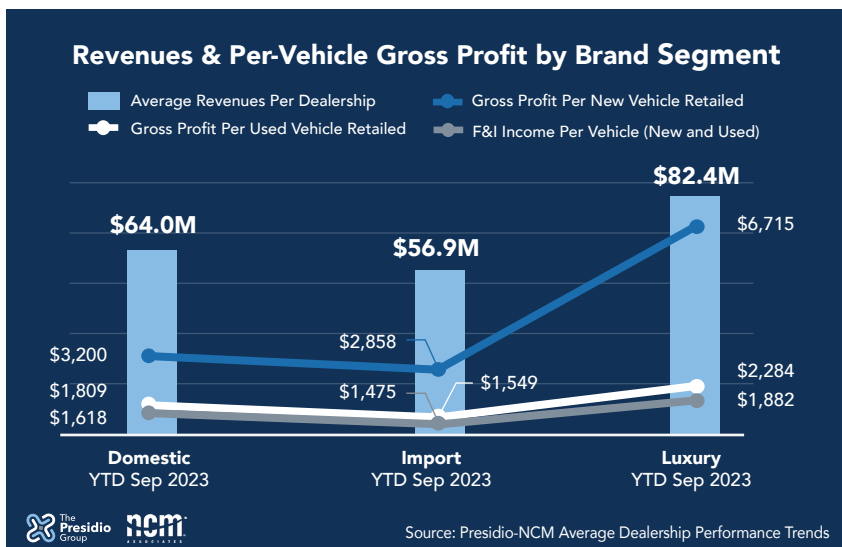


percent drop in 2022. In addition to shrinking used-vehicle volumes, the average dealership has experienced a 23.4 percent decrease in gross profit per used vehicle retailed so far this year.

As we referenced earlier, brand and geography can greatly affect how closely a single dealership is aligned with the broader trends. And the Presidio-NCM analysis gives us some visibility on the brand side into that. Dealerships representing luxury brands have been most insulated from normalization so far. Net pretax profit at the average luxury-brand store is down just 10.1 percent through the first nine months of 2023, compared with declines of 21.2 percent for import-brand stores and 23.2 percent for domestic-brand stores. The average gross profit per new vehicle retailed for luxury stores for that period is a strong \$6,715, while that metric is at \$3,200 for domestic-brand dealerships and \$2,858 for import-brand outlets.

Broadly speaking, the Presidio-NCM data shows that the industry is clearly well on the journey to the Great Normalization. We believe profits will continue to ebb and move closer to historical levels, though they are likely to remain elevated for a while yet. While the new normal is not entirely clear, there’s a good chance it could settle at a level above pre-pandemic norms.

There is still tremendous opportunity on the horizon for dealers despite today’s headwinds. Interest rates seem to have peaked, supply of new vehicles continues to improve, automakers largely have adjusted to healthier supply targets, and fixed operations are delivering growth for dealers. And the franchised dealer model keeps proving its resilience. Though the unprecedented profitability of the last few years is unlikely to return, we see the business in the years to come returning to its traditional cycles of growth and contraction — anchored around that yet-unknown new normal.



† Automaker bonuses/incentives from adds and deducts are included in departmental gross; PVR only includes retail units; net profit is pre-LIFO



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PRESIDIO DEALER DIRECTION SURVEY

U.S. auto dealers have a moderately negative outlook about how dealership financial performance and valuation will trend over the next year, but that hasn't dampened their enthusiasm about the industry. Retailers generally view the performance dip as part of the normalization process from pandemic profit highs. And even with the likely declines, the majority want to keep expanding their dealership groups.

Nearly 80 percent of dealers who responded to a survey conducted by The Presidio Group this fall expressed interest in buying dealerships over the next 12 months. But the share of dealers indicating interest in selling stores during the same period was much lower — just 11 percent of respondents.

The Presidio Group's inaugural Dealer Direction Survey was conducted from Oct. 3 through Nov. 3 and aggregated

responses from 108 survey takers representing nearly 2,500 franchised dealerships. In addition to their outlook about dealership profitability, valuations and acquisitions, we queried respondents on the factors that will most challenge dealers in both the short and long term. We also asked them to rate the most desirable brands to represent.

Their responses paint a picture of an auto retail sector facing increasing economic headwinds in the short term and threats to the franchised dealer model in the long term. But those concerns are balanced by dealers' desire to expand their businesses and their confidence that the franchise model will ultimately survive and thrive.

Wrote one survey respondent: "The franchise dealer model is and always will be the best model for consumers."

Dealers see a slowdown ahead

What they're worried about

Nonetheless, dealers foresee a continuation of the slowdown they're already experiencing in 2023. Eighty-six percent of respondents said they expect dealership profitability to decline during the next 12 months.

"Margins are going back to pre-COVID norms, and the economy overall is slowing," one survey taker wrote.

"COVID pop is over," another respondent wrote. "As availability normalizes, margins are dropping significantly."

Many dealers mentioned higher interest rates and tightening lending standards as prominent concerns. Those higher rates, dealers shared, have a two-fold effect on retailers — exacerbating affordability challenges by taking consumers out of the market and increasing dealership floor planning cost.

Dealers mentioned higher costs in other areas such as personnel, too.

"Expenses are skyrocketing," one respondent wrote.

In the near term, survey takers called out vehicle affordability, cost of capital and the possibility of a recession as their three most concerning headwinds.

In the long term, survey respondents called out two factors equally as presenting the biggest risks to the traditional franchised model: the industry shift to electric vehicles and legislative changes, particularly around dealer franchise laws. Half of respondents selected those two factors.

Challenges Ahead

Dealers responding to a Presidio survey identified the most concerning headwinds they face in the near term. Dealers could select up to three answers.

Vehicle affordability	53.9%
Cost of capital	43.1%
Possibility of recession	37.3%
Inflation	31.4%
Consumer demand	23.5%
Vehicle loan availability/lending standards	19.6%
Threats to the franchise model	18.6%
Inventory levels	12.8%
Dealer-factory relations	11.8%
Increased regulatory scrutiny	9.8%
Other	6.9%



Source: Presidio Q3 2023 Dealer Direction Survey

A third concern — automakers pursuing an agency model in which dealers have a diminished role compared with today — slightly trailed their other worries. Forty-nine percent of dealers selected the agency model as a top headwind. Survey respondents were allowed to select up to three long-term risks.

Why they want to buy

Even with those concerns, dealers who took the survey are bullish about growing and buying more stores — but more than two-thirds of them think dealership values will decline over the next 12 months.

“Buyers will come back to reality in how they view the stores and discount COVID earnings,” one respondent said.

Others pointed out that fluctuation in value will largely depend on the brand represented and where a dealership

is located. And some said they think the dealership buy-sell market will remain resilient because consolidators want to continue to grow and potential buyers are flush with cash from record profit years.

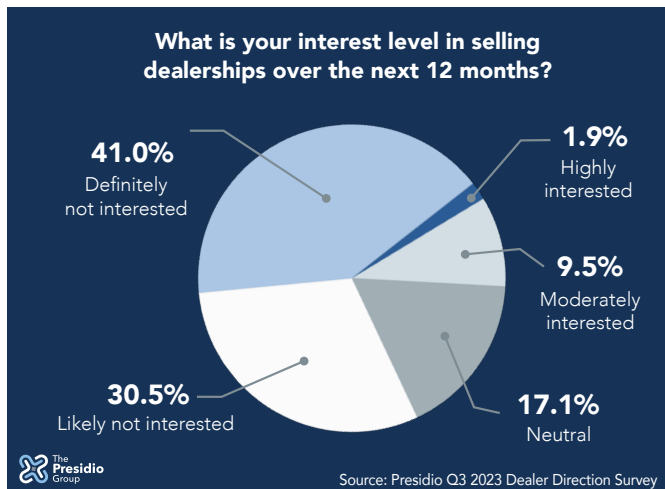
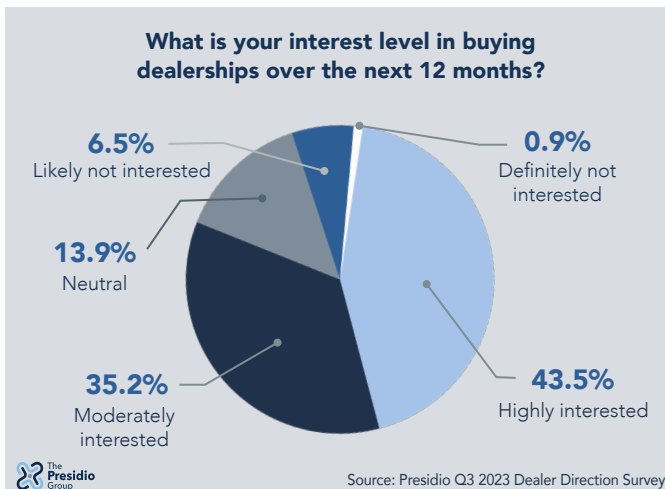
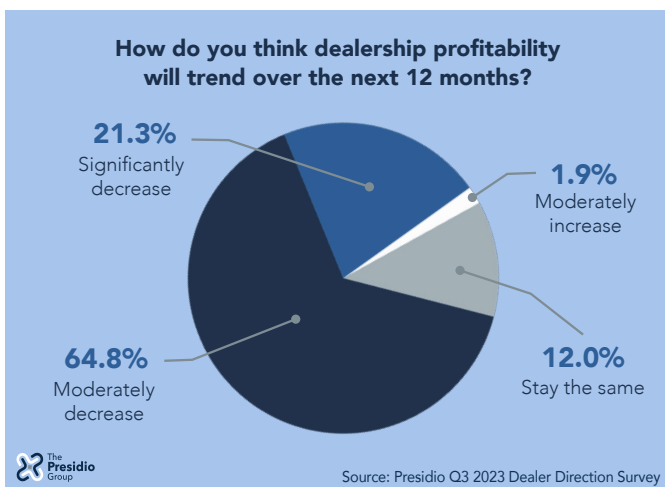
Indeed, survey takers indicated ongoing eagerness to buy dealerships. Nearly 80 percent said they are interested in acquiring stores in the next 12 months. Just 11 percent said they were interested in selling dealerships during the same period.

The reasons behind the interest are many, but enhancing their dealership portfolio by adding desired brands was the top reason with 57 percent of respondents choosing that option.

Generating a return on investment and adding stores in desired markets were the next most popular options for survey takers. Respondents could select up to three reasons for their interest in acquiring more stores.

“We believe the market will weaken in terms of pricing, and opportunities will exist.”

— Dealer respondent to The Presidio Group Q3 2023 Dealer Direction Survey





PRESIDIO BRAND DESIRABILITY RANKINGS

With our inaugural survey, The Presidio Group asked dealers to rank the desirability of owning dealerships representing specific brands. We included most brands sold in the U.S. as options and represented some of them as clusters of brands commonly found under one roof — Chrysler-Dodge-Jeep-Ram or Jaguar-Land Rover, for instance. We also presented an option for ultraluxury brands (such as Aston Martin, Ferrari and McLaren) grouped collectively.

With the resulting ratings, we present the Presidio Brand Desirability Rankings. We plan to regularly update these rankings in future versions of this report. This inaugural version reveals some unsurprising truths: Dealerships representing highly regarded Japanese brands and German luxury marques are the most coveted stores to own.

Topping the list is Toyota, while its luxury stablemate, Lexus, comes a close second. Those two brands, year after year, produce the highest throughput, or new-vehicle sales per U.S. dealership, in the industry. And Toyota Motor Corp.'s dealer-factory relations are generally regarded as the best in the business. It's no wonder dealers want to own stores representing those brands.

Porsche, Mercedes-Benz and BMW, long considered among the most valuable franchises to hold, make up the second cluster of most-coveted brands. But Subaru, a once second-tier Japanese brand that's grown tremendously in the last decade-plus, is on the heels of those mighty German brands and in front of stalwart Honda in terms of desirability.

Kia and Hyundai also ranked well, firmly in the top 10 and in front of Audi and all the domestic brands, something that would have been unheard of just a handful of years ago. While Chevrolet and then Ford led the domestics in desirability, they came in mid-pack, and several dealers leaving comments said they expect domestic brands to significantly drop in value.

Brand Rankings

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

 TOYOTA	Toyota	8.99
	Lexus	8.94
	Porsche	8.47
	Mercedes-Benz	8.20
	BMW	7.99
	Subaru	7.89
	Honda	7.73
	Kia	6.91
	Hyundai	6.67
	Audi	6.58
	Jaguar-Land Rover	5.80
	Chevrolet	5.45
	Ford	4.99
	Genesis	4.74
	Ultraluxury	4.42
	Volkswagen	4.30
	Mazda	4.21
	CDJR	4.20
	Cadillac	4.08
	Buick-GMC	4.06
	Volvo	3.87
	Nissan	3.52
	Acura	3.51
	Lincoln	2.56
	Infiniti	2.20

Why buy?

Dealers responding to a Presidio survey said adding desired brands to their portfolio and improving return on investment were their top reasons for wanting to acquire dealerships. Dealers could select up to three answers.

Enhancing dealership portfolio by adding desired brands	57.3%
Return on investment	56.1%
Enhancing dealership portfolio by adding desired regions/markets	35.4%
Building scale to leverage technology investments or other resources	31.7%
Creating opportunities for next generation or key operational talent	28.1%
Investing excess capital	23.2%
Diversification	17.1%
Other	4.9%



Source: Presidio Q3 2023 Dealer Direction Survey



Source: Presidio Q3 2023 Dealer Direction Survey



M&A UPDATE/PRESIDIO VALUATION INDEX

With the launch of its first quarterly report, The Presidio Group aims to share the firm’s dealership valuation expertise and insights on the latest trends in mergers and acquisitions. The Presidio team’s viewpoint and data analysis 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](#)

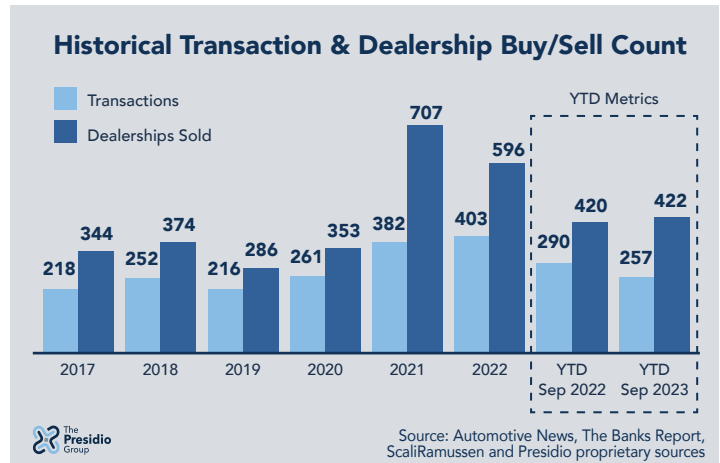
Overall Market Update

Dealership transaction volume, as tracked through the first nine months of 2023, declined approximately 11 percent compared with the same period in 2022, which produced an industry record number of 403 transactions per Automotive News reporting for the full year. Presidio estimates at least 257 transactions involving 422 dealerships occurred through September 2023. Even with the decline in deal activity so far this year, transaction volume is still well above pre-pandemic levels.

As of June 2023, there were 18,280 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, 92 percent of U.S. dealers owned one to five franchised stores as of mid-2023.

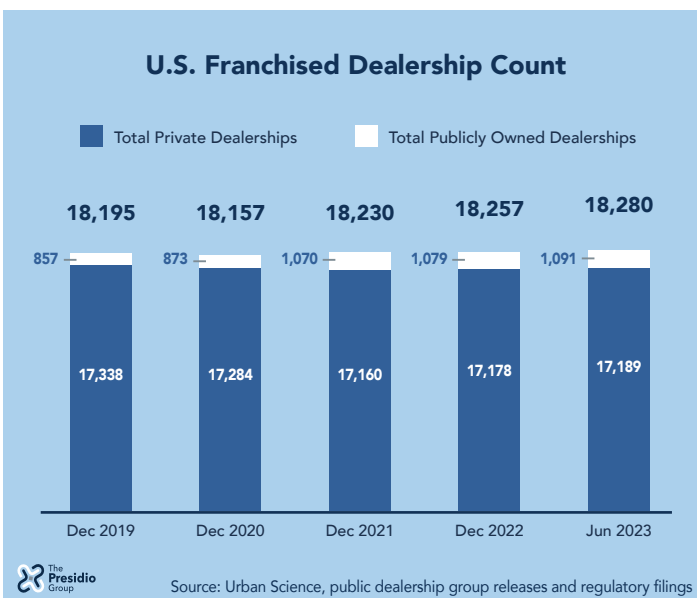
This year, private dealers continue to lead the way on acquisitions, accounting for 96 percent of all transactions reported by Automotive News through the third quarter.

For the first nine months of 2023, public groups collectively



“A few years ago, we were the smallest by far of the publics, and we’ve been trying to grow in markets where we think it will stabilize and strengthen our company. And we think we’ve effectively done that.”

— Asbury Automotive CEO David Hult on Asbury’s third-quarter earnings call



spent more than \$2 billion on acquisitions, including buying 30 stores in the U.S. Quietly, the public groups have also divested 22 stores this year. Some of these large consolidators also are expanding overseas. Lithia Motors in March acquired Jardine Motors, with more than 40 franchise points in the United Kingdom, and this fall struck a deal to buy Pendragon and its 160 U.K. outlets. Certain public groups have set bold acquisition growth targets, and Lithia and Asbury Automotive Group are both well over halfway to their expansion goals. Presidio expects the public retailers collectively will continue to buy high-caliber dealerships that further their strategic growth. And they have the financial muscle to do so; the average total liquidity of the six public groups has nearly doubled since the end of 2019.

The industry's four-year wave of robust earnings, which resulted in record dealership valuations, appears to have finally crested and is heading back down. Inventories and margins have begun to normalize, and cost increases across the board are creeping back into the market. With 2023 shaping up to be perhaps the third-most profitable year on record, earnings are still well above pre-pandemic levels, but it seems clear that dealership income and other financial measurements are moderating. It all adds up to what Presidio has dubbed the "Great Normalization." The industry still faces significant headwinds, including sustained high levels of inflation, higher interest rates and global political risks. And the effects of the industry's long-term supply chain disruption linger.

The changes are accompanied by a more balanced yet still strong M&A market. It's no longer purely a sellers' market, but plenty of buyers remain in the hunt to acquire the limited number of dealerships that come available each year.

"We're in a buy mode. We want to grow the company. We want to continue to expand our footprint. We like to grow and fill out in clusters where we are."

— Group 1 Automotive CEO Daryl Kenningham on Presidio's Full Throttle podcast in April 2023

Dealership demand remains strong across all states and geographies, but higher premiums continue to be paid for stores in pro-business states such as Texas, Tennessee and Florida vs. more heavily regulated states such as California, New York and Illinois.

Dealership Valuation Overview

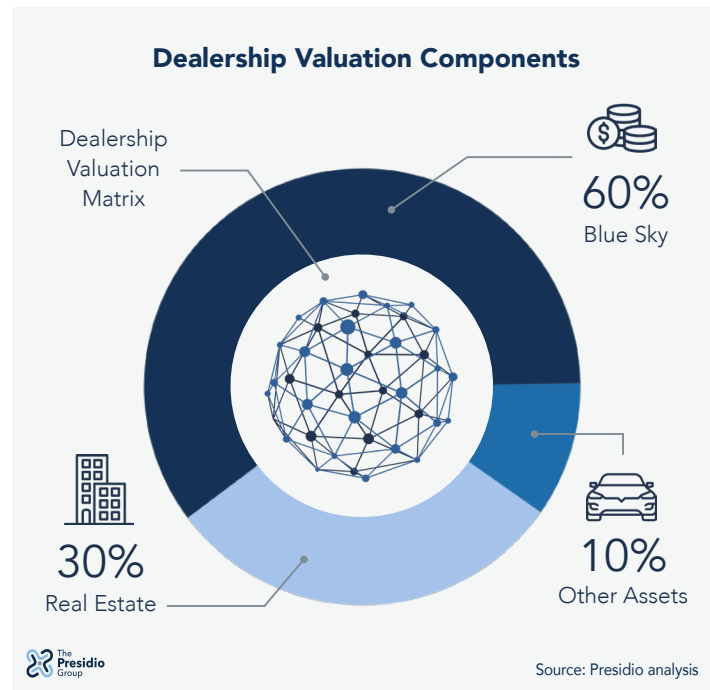
The Presidio team believes every dealership is unique and that the industrywide standard of applying a blue-sky multiple to earnings to determine value is far too simplistic and inadequate. Properly valuing these unique businesses requires an in-depth analysis of the specific factors and characteristics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

Getting to the right valuation also means considering the total investment, not just blue sky. Falling into the trap of 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, pre-tax 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. At Presidio, we focus 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

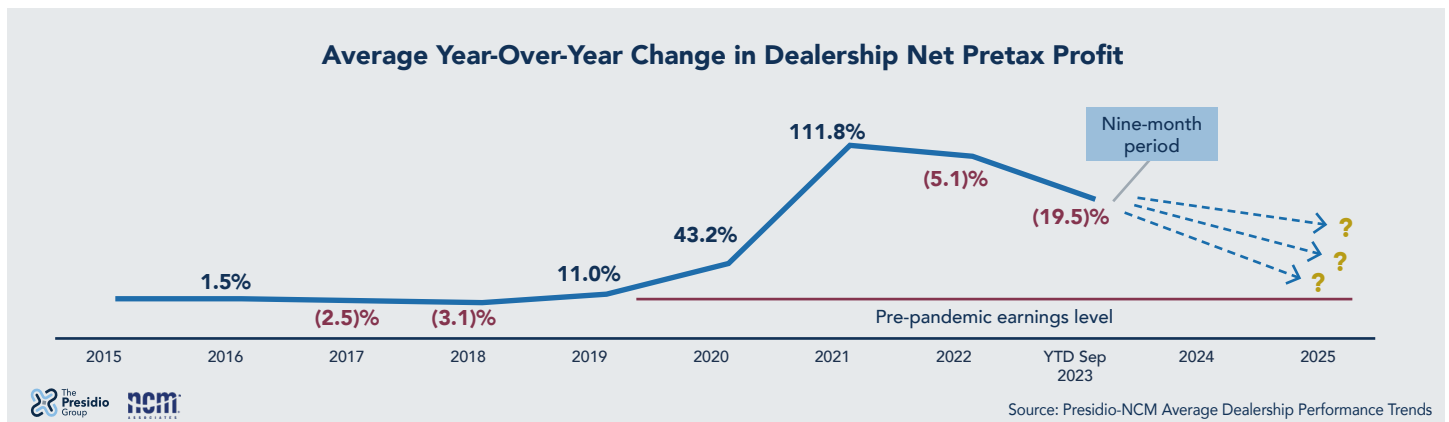
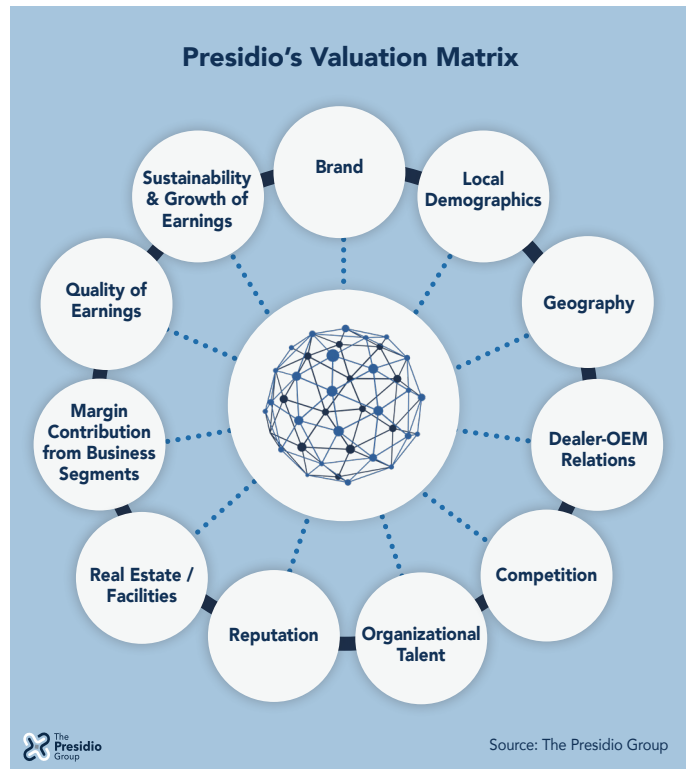
Focus on Sustainable Earnings

No two dealerships have the same individual characteristics, earnings potential and, ultimately, predictable and sustainable cash flows. Numerous factors come into play in determining cash-flow potential and sustainability, including brand, geography, competition, facilities and dealership reputation. The many factors are laid out in Presidio’s Valuation Matrix (right).

Historically, dealerships on average generated profit equaling about 3 percent of revenues. That varied, however, with dealerships representing luxury brands coming in above that average and outperforming their import- and domestic-brand peers. But from 2020 to 2022, those percentages doubled or even tripled — ranging from 6 percent to more than 10 percent in some cases. Such outsized profits were never sustainable, and a more normalized margin, inventory and cost environment is now upon us.

So where will dealership earnings ultimately end up?

The chart below depicts earnings growth for the average dealership during the last nine years, according to the Presidio-NCM Average Dealership Performance Trends report. The pandemic profit bubble is clearly seen in 2021 and 2022.



As earnings normalize, some brands may fully revert to prior levels, while others are more likely to remain elevated compared with pre-pandemic earnings, albeit not at the records seen in 2021 and 2022. Not all brands are created equal, and Presidio estimates the normalization process for earnings as a percentage of revenues will vary across segments generally as follows:

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

The Presidio Valuation Index

Historically, brand multiples have commonly been applied to trailing 12-month earnings streams 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 on a trailing 12-month level or across a three-year average captures the peak of the COVID bubble, and 2019 seems a lifetime ago.

Presidio also maintains that ROI is too often calculated incorrectly or not considered.

The Presidio Valuation Index is intended to help stakeholders triangulate an estimated value of a dealership using numerous data points and formulas that consider sustainable earnings, the unique micro and macro characteristics of each dealership and the total investment required (not just blue sky). Here are the approach's three central pillars:

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 as covered earlier in this section. The various characteristics laid out in Presidio's Valuation Matrix on the previous page, 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 this proprietary approach using revenue as a value indicator can help buyers and sellers triangulate blue-sky value ranges while mitigating volatility in times of uncertainty. As proven by the last three years, earnings can be erratic, making a calculation based on historical profit level less reliable. But a store's 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 investment or M&A decision, return on investment 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.

The Presidio Valuation Index

Valuing any business is complex. There is no cookie-cutter approach, and many factors must be considered. But the Presidio Valuation Index can help. It applies the three pillars of valuation and uses other key factors such as a brand's network size and average throughput (the number of new vehicles sold per outlet).

Our guide is still simply a guide though. Anyone looking to sell or buy dealerships should consider turning to experts to conduct a much deeper evaluation to determine value. The experts at Presidio, who have decades of experience and have completed 270-plus transactions valued at more than \$18 billion, are ready to assist.

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	1,060
 Porsche	50% - 60%	9.0 - 10.0	↑	197	357
 BMW	45% - 55%	7.8 - 9.0		350	947
 Toyota	40% - 45%	7.5 - 9.0		1,238	1,494
 Mercedes-Benz	45% - 55%	7.5 - 9.0		383	916
 Land Rover	33% - 42%	6.5 - 8.0		200	284
 Audi	33% - 40%	6.5 - 7.5		304	615
 Subaru	30% - 35%	6.0 - 7.0		638	875
 Honda	26% - 35%	5.8 - 7.0		1,068	826
 Kia	18% - 23%	4.8 - 5.8		781	892
 Hyundai	15% - 20%	4.0 - 5.0		15%	835
 Chevrolet	15% - 20%	4.0 - 5.0	↓	2,904	517
 Ford	14% - 19%	3.8 - 4.5		2,967	593
 Cadillac	13% - 18%	3.5 - 4.5		564	240
 Volvo	13% - 18%	3.5 - 4.5		282	361
 Mazda	13% - 18%	3.3 - 4.3		543	543
 VW	10% - 15%	3.0 - 4.0		640	472
 CDJR	10% - 15%	3.0 - 4.0		2,410 ¹	638
 Buick-GMC	10% - 15%	3.0 - 4.0		1,672 ²	310
 Nissan	10% - 15%	3.0 - 4.0		1,079	633
 Acura	10% - 15%	3.0 - 4.0		271	378
 Infiniti	9% - 13%	2.5 - 3.5	20%	204	230

1) Dealership count represents Chrysler outlets

2) Dealership count represents GMC outlets

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



PUBLIC DEALERSHIP GROUP TRENDS

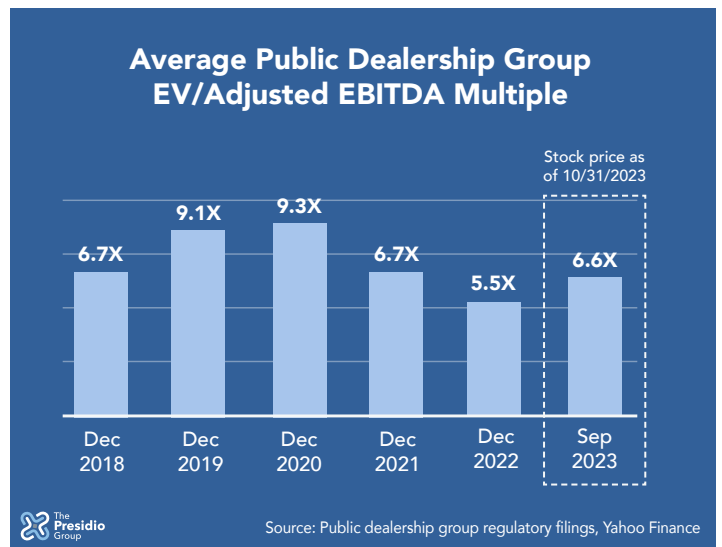
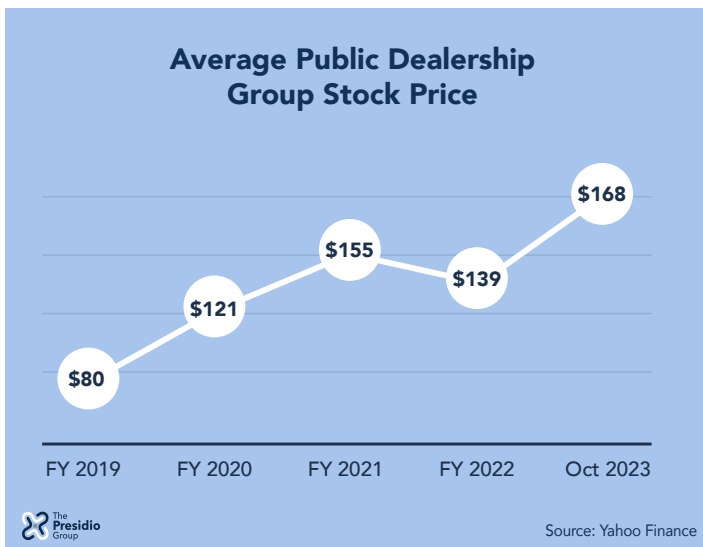
In the highly fragmented auto retail sector, the six publicly traded dealership groups provide a window into overall industry performance. In aggregate, the public retailers own around 6 percent of U.S. dealerships.

The valuations of the public groups also provide the only independent barometer of dealership values in a sometimes opaque industry. After all, the actual values and cash-flow multiples of nearly all the sector's dealership buy-sell transactions are not publicly disclosed. Dealership valuation insight from the publics doesn't come solely from their stock prices, which ignore numerous valuation-related components and are not 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 for the publics. 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 6.6X EBITDA based on their earnings and balance sheet data reported Sept. 30 and their stock price as of Oct. 31. 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 ranging between 4.6 and 5.1X. While public retailer stock prices are near all-time highs, their EV/EBITDA multiples are 25 percent lower than in 2019 and 2020, indicating the equity markets are discounting the multiple because current earnings levels are unsustainable.

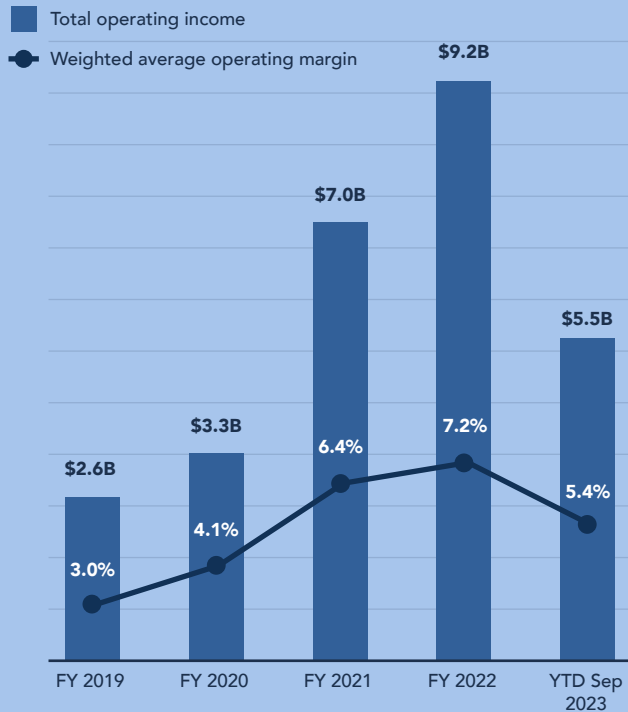


Indeed, as automakers have resolved supply constraints and ramped up inventory, margins have come under pressure.

Margins and profitability are moderating for both public and privately owned retailers as the industry normalizes. For the publics, gross margins per retail vehicle in new, used and finance and insurance have declined throughout 2023, while expenses have increased.

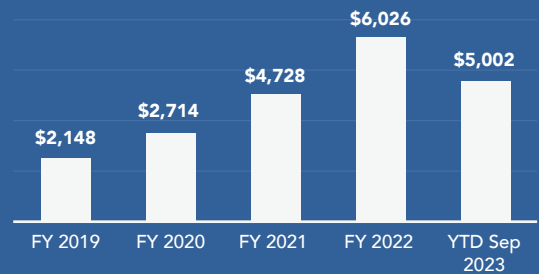
One bright spot is fixed operations, where gross profits rose by 23 percent on average for the publics on a same-store basis. That growth in part is tied to both an aging vehicle fleet with more intensive service needs and increasing labor rates for dealerships.

Total Operating Income and Weighted Average Operating Margin



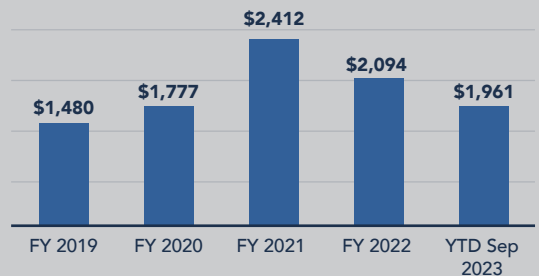
Source: Presidio analysis of public dealership group regulatory filings

Average Gross Profit Per New Vehicle



Source: Presidio analysis of public dealership group regulatory filings

Average Gross Profit Per Used Vehicle



Source: Presidio analysis of public dealership group regulatory filings

Public Company Liquidity & Growth Strategies

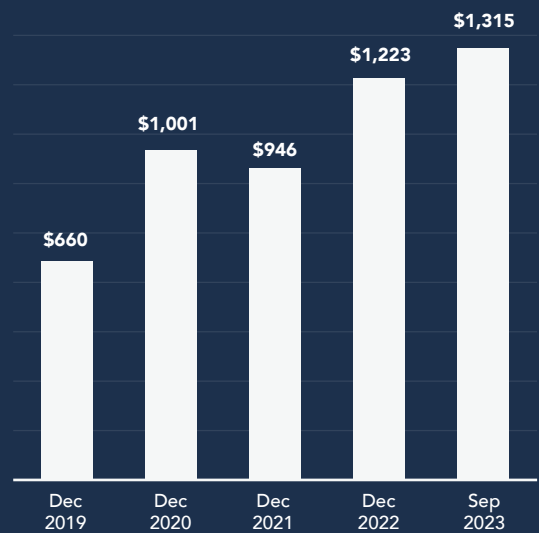
Even with the robust deal-making of the last few years, the balance sheets of the public retailers are primed for additional acquisitions. The publics at the end of the third quarter collectively had \$7.9 billion of capital available under current agreements, cash and short-term investments that could be called upon to finance acquisitions. That's double what the group had at the end of 2019.

Our expectation is that the publics will continue to drive consolidation. Large private dealership groups also have collected outsized profits in recent years, creating a well-funded and robust industry. We think some publics and key private dealers may be seeking large billion-dollar acquisitions in the near term.

The implication of that is two-fold:

- The industry is better set up for accelerated consolidation today than at any time in the past.
- There may be no better time for a private megadealer to pursue an exit than today.

Average Public Dealership Group Liquidity Level (\$ in millions)



Source: Presidio analysis of public dealership group regulatory filings

ASBURY AUTOMOTIVE GROUP Asbury is the most organic pure-play U.S. consolidator and one of the most aggressive bidders for large groups in its target markets today. It had been largely quiet on the acquisition front since closing its purchase of Larry H. Miller Dealerships in late 2021. After divesting some stores to appease automaker requirements and raising capital by selling a non-core platform, Asbury went back on the hunt in 2023 and in December acquired Jim Koons Automotive Cos.

AutoNation After a long period of relative inactivity in the buy-sell market, AutoNation is looking to purchase large dealerships in and around its core markets. In a pivot from previous management, CEO Mike Manley, a Brit, is open to overseas expansion as fitting with management's culture and knowledge. AutoNation made a play this fall for Pendragon of the United Kingdom, which eventually made a deal with Lithia.

GROUP 1 AUTOMOTIVE With nearly \$1 billion of revenues acquired through the first nine months of 2023, Group 1 is demonstrating efficient deployment of capital by buying dealerships for an estimated 30 percent of revenues collectively, excluding real estate, according to a Presidio analysis of company regulatory filings. Group 1's purchases — all in the country's fast-growth states of Florida and Texas — show there are large dealerships available at reasonable acquisition prices today. Group 1 also has divested several stores so far this year.

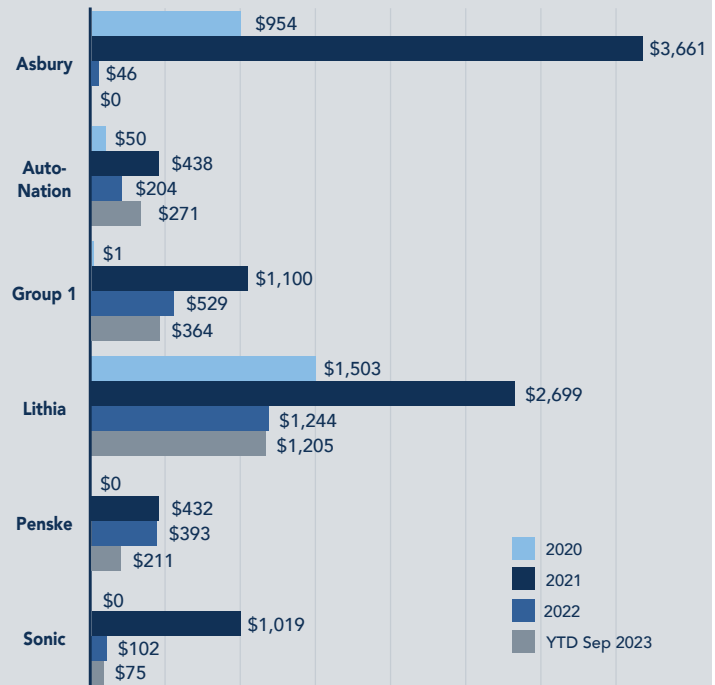
LITHIA Lithia aims to reach \$50 billion in annual revenue by the end of 2025 and has targeted acquiring \$3 billion to \$5 billion of revenues annually. While the U.S. is considered its primary market, Lithia is opportunistically looking globally, evidenced by two large deals this year. Lithia purchased Jardine Motors of the United Kingdom in March and has agreed to buy Pendragon of the U.K., with the latter transaction expected to close by late 2023 or early 2024. Lithia's strategic focus in the U.S. is to have locations within 100 miles of most U.S. households thereby allowing the company to leverage its Driveway digital retailing platform.

PENSKÉ Penske has been a fairly inactive acquirer of U.S. dealerships among the publics in recent years. In early December, it announced an agreement to buy 15 U.K. dealerships representing \$1 billion in annual revenue from Rybrook Group. Penske has one of the most diverse set of offerings in the peer group and plans to continue to expand opportunistically.

Sonic Automotive Sonic continues to expand segments of its business outside of franchised automotive. Sonic's franchised dealership buys — outside of its large RFJ Auto Partners acquisition in 2021 — have been limited. The company is paring its Echo Park used-only segment and expanding a fairly new powersports unit.

Public Dealership Group Acquisition Spending by Company

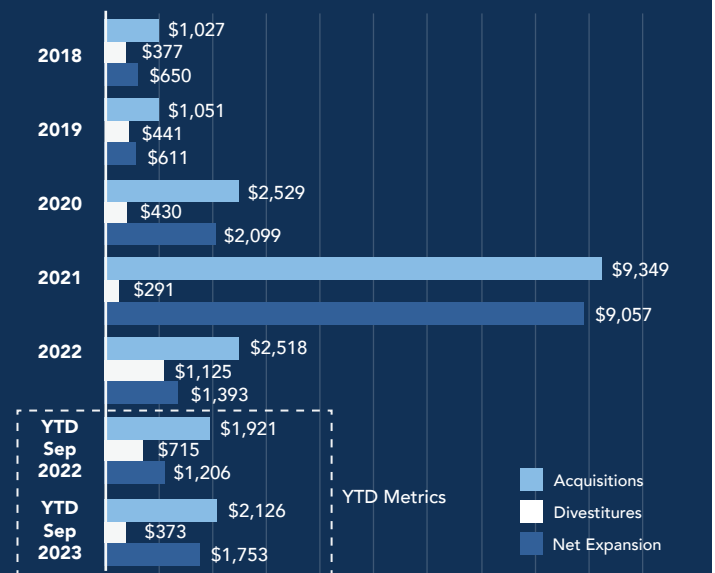
(\$ in millions)



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)



Auto tech takes center stage: **Public retailers place their bets; private retailers need to get involved**

Months of negotiation and a public bidding war for Pendragon, one of the U.K.'s largest dealership groups, shines a spotlight on the pivotal role technology will play in the future of auto retailing. Lithia Motors won the battle against public dealership group rivals, and the deal includes a key tech component: Lithia is taking a 16.7 percent ownership stake in Pendragon dealership management system unit Pinewood Technologies and forming a joint venture to introduce a DMS platform in North America. With this bold move, Lithia has placed a strategic bet on driving value through owning and developing core automotive technology.

It's a bet that the team at Presidio believes more public and large private retailers should be making. Technology tools that help drive the vehicle purchase process and improve customer experience are already front and center in automotive retail, and their importance is growing every day. And there is room for dealers to have a louder voice in the development and expansion of these tools. Some, like Lithia, are taking action and increasingly investing in software to fix their pain points. The massive rise in dealership profitability since the onset of the coronavirus pandemic means that retailers are well positioned to both influence and benefit from the next generation of auto technology.

We at Presidio consider this a long time coming. For decades, we've watched as dealers have assisted third parties, including industry outsiders, in developing technology for use in auto retail. These retailers have helped teach tech company leaders about this unique and lucrative industry, contributed to the design and testing of their products and even gone out to their peers to help spread the word about the resulting tools. The outcome has frequently been a sale of the tech company, enriching these third parties and often leaving the dealers behind.

RECENT INVESTMENTS IN DEALER TECH

Venture capital partners with entrepreneurs

1. Orbee, Inc. raised a Series A round of financing in September 2023

- **Round amount:** \$4.0 million
- **Lead investor:** FM Capital
- **Participating investors:** Holman, Flow Automotive Companies, Mills Automotive Group, Qvale Auto Group, Basil Family Dealerships, Ron Frey, Pohanka Automotive Group and The Presidio Group

2. Skaivision ("SKAI") raised a Series A round of financing in July 2023

- **Round amount:** Not disclosed
- **Lead investor:** JM Family Enterprises
- **Participating investors:** Not disclosed

3. DealerCue Automotive Corp. ("VINCUE") raised a Series B round of financing in August 2023

- **Round amount:** \$2.3 million
- **Lead investor:** Holman
- **Participating investors:** Autotech Ventures and Automotive Ventures

But that is now changing. There are various pathways for dealers, depending on company size and their inclination, to break new ground — as evidenced by recent moves made by public dealership groups in the U.S. Higher profits have given the publics increased bandwidth to get creative on corporate strategy particularly as it pertains to technology

DEALERSHIP TECH THAT DELIVERS

Presidio scans the market for technology that improves the customer experience, drives revenue, and/or enhances profitability

While many technology companies launch new products for use in dealerships, not all providers have the data available to prove their product’s measurable impact on dealership operations. In this section, The Presidio Group highlights companies that have collected data and crunched the numbers to provide prospective customers with actual results achieved by other dealers after the implementation of their products.



WarrCloud turbocharges automotive warranty processing by providing fully outsourced warranty claims management for auto dealers via an artificial intelligence-driven technology platform. Jim Roche, WarrCloud founder and CEO, said, “The automotive industry is undergoing tremendous change, with warranty the fastest-growing component of the dealer’s service business. Dealers need new technology services to capitalize on these changes to drive top- and bottom-line growth.” WarrCloud has proven that it can deliver...

- **12-plus percent increase** in warranty billings
- **60 percent reduction** in warranty claims expense
- Warranty claims processed up to **5X faster**

**Presidio’s Perspective:
WarrCloud is a no-brainer that delivers!**

solutions. They’ve gone from developing their own proprietary solutions, such as Lithia’s Driveway and Asbury’s Clicklane digital retailing platforms, to buying tech-enabled companies outright, evidenced by AutoNation’s acquisition of RepairSmith earlier this year.

But as demonstrated by the recent Lithia-Pendragon deal, the biggest moves are still ahead. In investing in Pinewood — but not acquiring it outright — Lithia aims to expand that DMS platform globally, including to the U.S. and potentially to dealerships far beyond the Lithia network. It stands to reason that Pinewood’s technology will be both enhanced and expanded by its connection with Lithia. Lithia CEO Bryan DeBoer has called Pinewood the “major focus” of the transformative Pendragon deal. With his plan, DeBoer is clearly demonstrating that he is a forward thinker who understands the value of unlocking a tech-based business that can make his own operation far more efficient and profitable.

Private dealers also have a role to play, and armed with pandemic-era profits, many are jumping in feet first. Dealer Don Flow says, “What’s about to explode in front of us is a whole new shift — I call it a tectonic shift — at the retail level.” That shift, in which technology drives every process in the dealership sales and service environment, will allow dealers to scale their businesses at a level of excellence they’ve never been able to achieve before, Flow added. He is positioning his own dealership group as a testbed for innovation with such moves as Flow Automotive Companies’ investment in Orbee, Inc., which provides software that collects a dealership’s data sources into a centralized platform helping it better manage and maximize that data. Other retailers are making their own investments — dealer Mike Maroone’s Maroone USA is a backer of STELLA Automotive AI, Inc., a provider of conversational artificial intelligence tools that help dealerships streamline repetitive tasks and provide customer behavior analytics.

Through such investments in earlier stage technology companies, auto dealers are getting a seat at the table to influence how technology changes the face of auto retailing. Working directly with tech entrepreneurs, dealers will help shape the strategic roadmap by accelerating the development of new products and driving adoption of those products among retailers. And this time, they will have the opportunity to financially benefit as shareholders of a successful technology company.

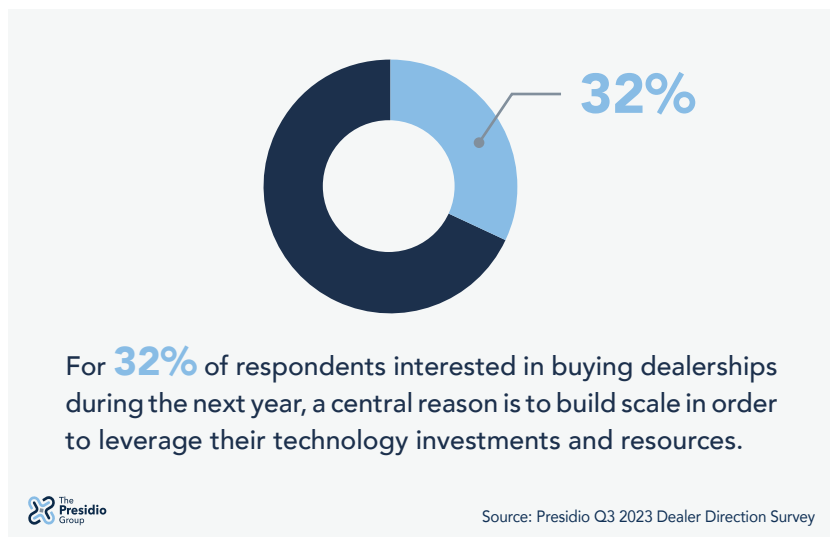
The Presidio point of view is that the current quality of automotive tech companies focusing on dealership operations is the best we have seen in decades. Not only are the software and other technologies delivering on promises made, but the management teams and cap tables are the strongest ever. As the industry moves from the various COVID effects to the Great Normalization of profitability, this will be an opportunity for forward-thinking leaders to harness technology across the entire retail spectrum to differentiate themselves from their competitors. The bigger the public or private group, the greater the opportunity to separate themselves from the competition. These advanced dealership technologies will deliver to the largest groups greater profitability, higher valuations and almost certainly higher customer satisfaction.

Mark our words: this is the dawning of a new age in U.S. auto retail. If you're a dealer who wants a seat at that table, reach out to Presidio's AutoTech Services team. We can make the connections that allow dealers to participate this way in the auto tech world. Come join us.

Tech is an acquisition driver

Technology is a prominent factor driving U.S. dealers to expand their operations through acquisition, according to a survey conducted this fall by The Presidio Group.

The Presidio team believes large acquisitive groups that harness technologies across their dealerships for a higher return on sales will benefit through more accretive acquisitions. This should both accelerate dealership consolidation and give a distinct pricing advantage to large technology-tuned acquirers.



“A customer-centric dealership that practices operational excellence and that embraces technology that enhances the guest experience and improves efficiencies is a formidable force for creating value for customers and outstanding financial returns for owners.”

— Dealer respondent to The Presidio Group's Q3 2023 Dealer Direction Survey

PRESIDIO AUTO TECHNOLOGY SUMMIT SPOTLIGHT

Presidio's inaugural tech event: **Where innovation meets capital**

Innovation and capital are natural partners in the ever-changing automotive retail model, and both groups are focused on finding a winning formula as the industry moves into uncharted territory in the coming years.

At the first annual Presidio Auto Technology Summit on Nov. 15 in Denver, the message from both entrepreneurs and investors was direct: To win in this new disruptive world, innovators and capital providers will partner on solutions to dominate the future of auto retail.

The areas of opportunity are ripe.

Artificial intelligence, vehicle logistics, consumer data and a changing retail model are in the bullseye of disruption.

Strategic capital, venture capital and private equity will play prominently in the space as the industry seeks new tools.

What will that mean for the future of auto retail? More than two dozen speakers at the Denver event concurred: Change will be rapid, and technology will dominate the transformation.

Keynote speaker Ernie Garcia, founder and CEO of online used-vehicle retailer Carvana Co., underscored that. "The automotive landscape is ripe for change – and all of it driven by tech," Garcia told attendees. "There's no going back, and there's never a better time to play in the space."



Dealers Don Flow, Rick Ford and Bill Cariss discuss tech with Presidio's George Karolis.

"The automotive landscape is ripe for change – and all of it driven by tech."
 — Carvana Founder & CEO Ernie Garcia at the Presidio Auto Technology Summit

Among other themes:

- The velocity, enormity and prevalence of artificial intelligence will not subside. Microsoft executive John Reed, and a panel of AI experts, said AI's change on auto retail is well underway. While many retailers may lag on AI adoption now, that will change in the next five years as dealers become more comfortable with the tools and realize the added benefit of the technology's capabilities.
- A panel of dealer experts — Don Flow, Bill Cariss and Rick Ford – agreed that retailer consolidation will accelerate as the level of tech investments increase along with demands for infrastructure improvements and transformation.
- The final barrier in the vehicle logistics transformation involves a greater emphasis on using technology to increase efficiency in last-mile delivery. Logistics executives Trent Broberg of Acertus and Kevin Malik of RunBuggy predict that the Amazon method of delivery will find its way into the retail space sooner than most expect.
- Private equity, venture capital, and strategic investors are poised to assist leading tech companies in the transformation by investing heavily in auto tech.

The Presidio Auto Technology Summit, produced in partnership with Holman, had the support of lead sponsor JM Family Enterprises, along with gold sponsors Acertus and Shift Digital.

For more information on the lineup and on future Presidio events, visit thepresidiogroup.com/events.



Triple threat to dealer franchise model?

Dealers worry that electrification, legislative risks around franchise laws and automaker interest in moving to an agency-style distribution model present the greatest long-term threats to the traditional franchised dealership business.

That was the consensus among more than 100 dealers recently surveyed by The Presidio Group when it comes to future risk and disruptive forces in the industry. Their concerns mirror many others in the industry looking at disruption.

Headwinds emerging around the transition to electric vehicles dominated the feedback from respondents to the Presidio survey.

There are “unreasonable and unattainable electrification demands on dealers,” one respondent wrote.

Another expressed concern about demand keeping pace with industry and governmental goals. “Regulation: How do we sell electric when demand dies off? It’s one thing to sell 10-to-20% of the market on electric. 70% [is a] hard sell,” the dealer wrote.



“So far, we have not seen enough momentum going towards the EV.”

— Rita Case, CEO of Rick Case Automotive

Others indicated concerns about EVs being rejected by consumers.

Their sentiment is echoed by many across the industry who believe there’s been an overreach on EV regulation and point out that consumer interest in EVs hasn’t kept up with increasing production levels, particularly as transaction prices soared.

That has some dealers willing to draw a line on what they’ll stock.

“If there’s a demand for EVs, there’s going to be products out there to buy from all the manufacturers. If there isn’t demand in our market, then we’re not going to be inventorying it,” said Rita Case, CEO of Rick Case Automotive, on a recent episode of Full Throttle, Presidio’s biweekly podcast. “The people are going to inventory where they can sell the cars. And, so far, we have not seen enough momentum going towards the EV.”

Disruption on the horizon

Dealers responding to a Presidio survey identified the biggest long-term risks to the traditional franchised dealer model. Dealers could select up to three answers.

Industry shift to electric vehicles	50.0%
Legislative changes, particularly around dealer franchise laws	50.0%
Agency model	49.0%
New automaker competitors	21.6%
Regulatory scrutiny	18.6%
Inventory instability	17.7%
Rise of online retailers	15.7%
Autonomous vehicle technology	6.9%
Other	4.9%



“The excitement that existed a year ago around EVs has definitely faded.”

— Jonathan Smoke, Cox Automotive chief economic advisor

In anticipation of new regulatory standards, automakers have aggressively introduced new EV models and ramped up production of existing ones.

The number of available EV nameplates in the U.S. is expected to double by 2027, according to Cox Automotive, which estimates that 33 new EVs launched in 2023 alone and that more than 50 new or updated EVs will debut next year.

But inventory levels, incentives and EV sales growth are not tracking at the pace some had estimated just a year ago.

At the same time, prices of EVs are still higher than internal-combustion engine vehicles – but so are incentives on new EV models.

Cox Automotive reported that the average price paid for a new electric vehicle in November was \$52,345, up from a revised \$51,715 in October and supported by incentive levels well above the industry average. In November, EV incentives reached their highest point of 2023 at 8.9 percent of average transaction prices. A year ago, EV incentives were less than 2% of the average price. Thanks in part to discounts and above-average inventory levels, EV transaction prices last month were only 8.5% higher than the industry average price of \$48,247.

“In recent months, price parity between EVs and ICE has almost seemed possible,” Stephanie Valdez-Streaty, director of strategic planning at Cox, wrote in a Dec. 11 report. “It is a complicated measure with plenty of variables, but newer products and higher discounts have brought down average EV prices, even before potential tax incentives. A year ago, the EV premium was more than 30%. Today, it’s less than 10%.”

While EV sales have been growing, gasoline-powered vehicles are still king overall, accounting for nearly four-fifths of U.S. vehicles sold this year, according to Cox. That share is on the decline as some consumers turn to hybrid vehicles and others to pure EVs.

Dealers are getting pessimistic about the EV future, according to the most recent Cox Automotive Dealer Sentiment Index released in early December. Index scores for EV sales expectations were at their lowest points since the topic was added to Cox’s dealer survey in mid-2021, with the score for franchised dealers tumbling by nine points compared with the previous quarter and by 17 points compared with the previous year.

“The excitement that existed a year ago around EVs has definitely faded,” wrote Jonathan Smoke, Cox Automotive chief economic advisor, in the Dec. 7 report. “Although EV sales are growing, supply is growing faster. The EV transition is requiring more effort from dealers than before, so it makes sense that enthusiasm has declined.”

EV days’ supply has swelled in 2023, according to Cox Automotive and Motor Intelligence, more than doubling from year-earlier levels. Several models – the Cadillac Lyriq, Mustang Mach-E, Audi E-Tron, Mercedes-Benz EQB and Jaguar I-Pace – have seen their supply levels top 100 days this fall.

Clearly, EVs have a long way to go to become mainstream. With EV inventory levels on the rise and doubts about whether consumer demand will support the number of coming EVs, automakers are starting to tap the brakes on EV projects and investment.

That is happening as other disruptive forces take shape for dealers.

Other concerns for retailers include competition from new entrants, automakers’ interest in direct sales or a move to an agency model. Such developments naturally invite questions about the long-term viability of the dealer franchise model.

So what will the future model of the dealership look like?

Daryl Kenningham, CEO of Group 1 Automotive, shared some insights about that public dealership group’s experience operating under the agency model at a Mercedes-Benz store in the United Kingdom since early this year.

“There are different variations on agency,” Kenningham told Presidio on the Full Throttle podcast. “And all of the OEMs are taking a little bit different view of it in the U.K. But it remains to be seen how successful it will be if it’s a pure agency model where basically we just deliver the car and the OEM does all the marketing and the price is fixed and [the dealer] will participate in the used car, trade (and) F&I if there’s a need for a customer to do that.”

Still, Group 1 is “leaning into” the agency model to try to learn as much as it can, he said.

“What I’ve learned from OEMs is that — and I was on the OEM side for 20 years — they want to do what’s best for



“These last years have taught us all to have a lot of respect for the unexpected and not having a crystal ball.”

— Mark McLarty,
CEO of McLarty Automotive Group

customers too and they need healthy happy dealers to be successful, because healthy happy dealers invest in their brand and hire great people and invest in their franchises and things like that,” Kenningham said. “So they can’t do agency at the expense of dealers. And I think the good OEMs realize that. And I believe that, certainly, Mercedes-Benz in the U.K. realizes that. They’ve really worked closely with the dealers to get to this point.”

Mark McLarty, a dealer who analyzes change repeatedly, sees a mixed outlook when it comes to disruptive activity — EVs, technology and an unsettled world.

“The fact they’re all happening at once is quite notable,” McLarty said on the Full Throttle podcast. “It’s a higher degree of humility than usual. ... If anything, these last years have taught us all to have a lot of respect for the unexpected and not having a crystal ball.”

Kenningham said there are areas in its business where Group 1 can make it easier for customers to do business.

“And we want to be really easy to do business with us. We want customers to do business on their terms — when and how they want to do business with us. And a lot of times using technology is the way to do that,” he said. “And whether they’re scheduling with us, or whether they’re paying for service with us, or whether we’re paying them for a trade, or whether they’re shopping and buying a car online, there’s an infinite number of ways we can leverage technology to improve our business and take cost out of our business.”

The dealership business is in transition as progressive operators work to tap that technology.

Group 1, for instance, is using robotic process automation in credit applications, invoicing and inventory to increase efficiency — among many innovative measures, Kenningham said.

“We’re using artificial intelligence to drive our marketing decisions and touch customers in a way that’s relevant for them and relevant for how they want to do business,” he said. “There’s all sorts of opportunity to leverage technology in our business to be able to try to drive a better customer experience.”

Looking into the future, how will the buying process change? Or where will it most radically change?

Said Kenningham: “We just want to make it as easy as possible to do it, integrate as many steps as we possibly can, take steps out of the process. That’s really what our focus is.”

The bottom line: Facilities will change, dealer requirements will change and EV sales will continue to grow but likely at a slower pace than anticipated. That slower-than-anticipated EV adoption will translate to demand for internal-combustion engines being sustained throughout the current decade.

And dealers should plan to maintain a portfolio mix of both types of products while balancing the reality of consumer EV adoption against automakers’ demands for EV investment that continue to increase in size and scope.

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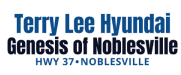

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