

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

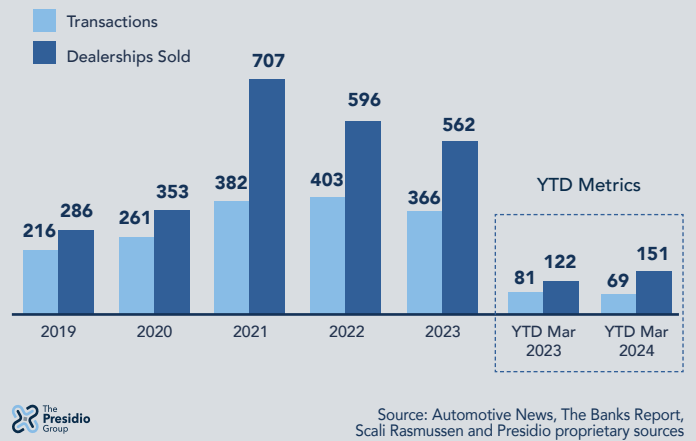
[Overall Market Update](#) | [Dealership Valuation Overview](#) | [Presidio Valuation Index](#)

Overall Market Update

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

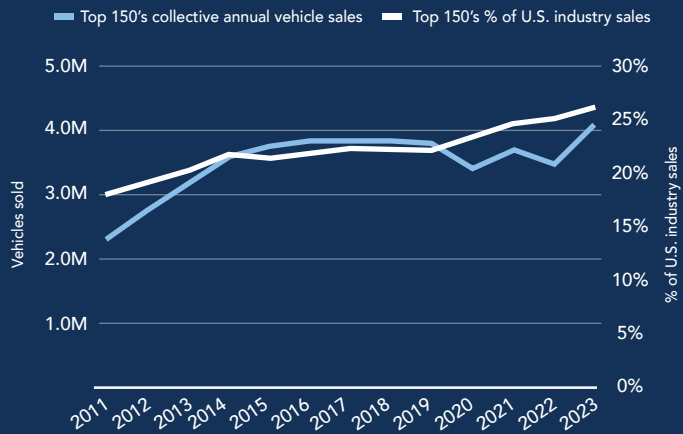
At year-end 2023, there were 18,347 franchised dealerships in the U.S., according to Urban Science. Private dealers owned 94 percent of stores, while public consolidators held 6 percent. According to the National Automobile Dealers Association, 91.6 percent of U.S. dealers owned one to five franchised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

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

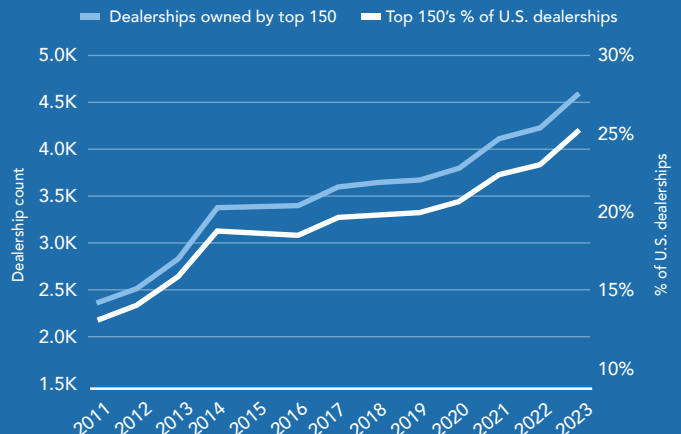


as ranked by Automotive News were responsible for 25.8 percent of U.S. new light-vehicle sales in 2023, up from 18.2 percent in 2011. Those top 150 groups owned 25.4 percent of U.S. franchised stores at the end of 2023, up from 13.9 percent in 2011, according to Automotive News.

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



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

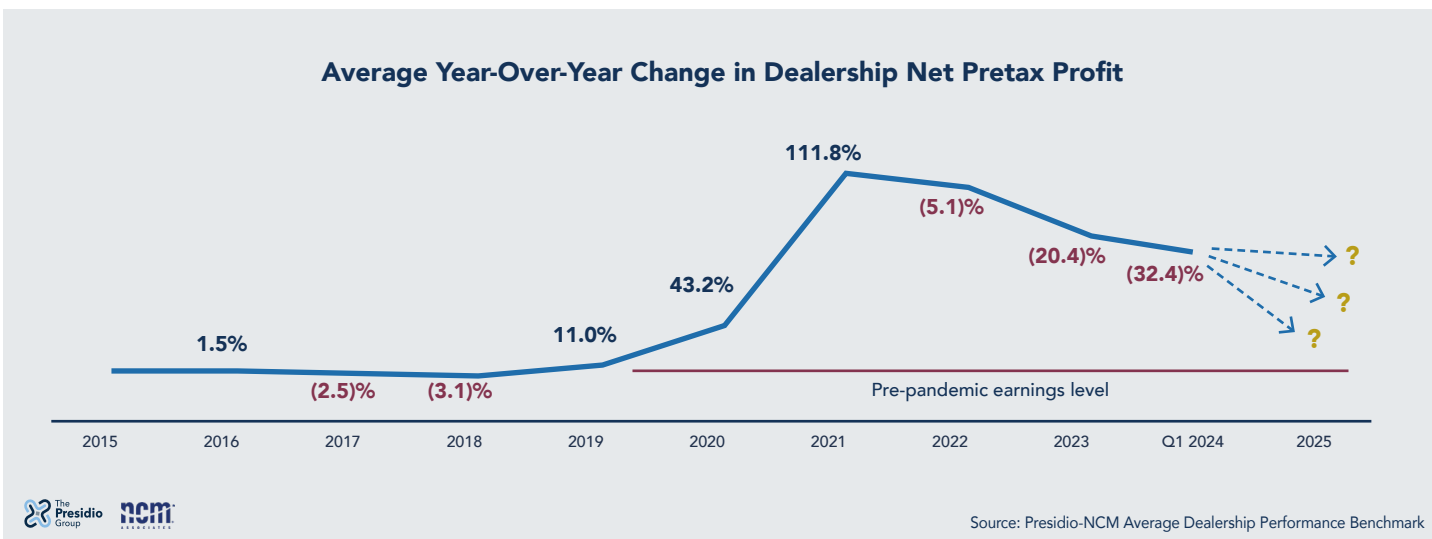


Private dealers continue to lead the way on acquisitions, accounting for 93 percent of all transactions recorded so far for 2024’s first quarter. Public groups collectively spent more than \$2 billion on acquisitions in the first quarter, including buying 20 stores in the U.S. The publics also divested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

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

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

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



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

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

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

Dealership Valuation Overview

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

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

So what about blue sky?

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

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

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

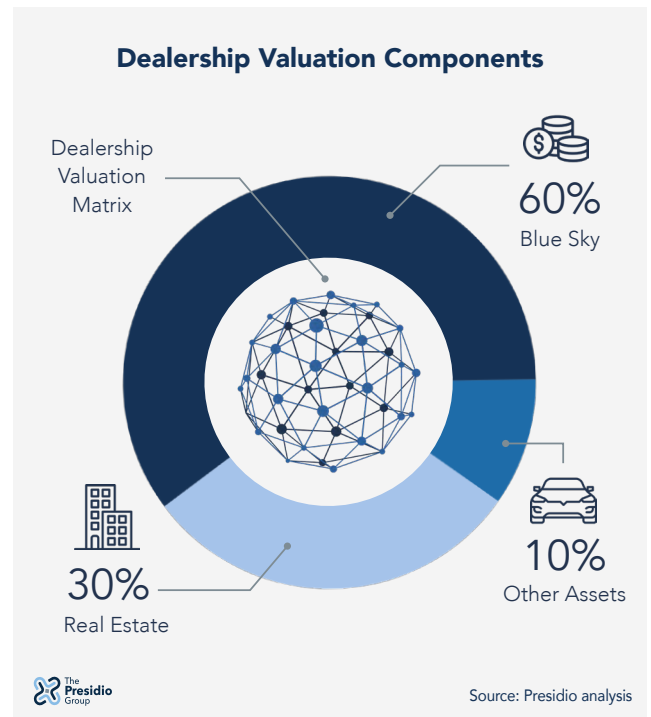
Focusing solely on blue-sky multiples is problematic for several reasons, including:

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

LESS FOCUS ON BLUE SKY → MORE FOCUS ON ROI

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

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



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

Presidio's Valuation Matrix Spotlight

Margin Contribution by Business Segment

The Importance of Fixed Gross Profit

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

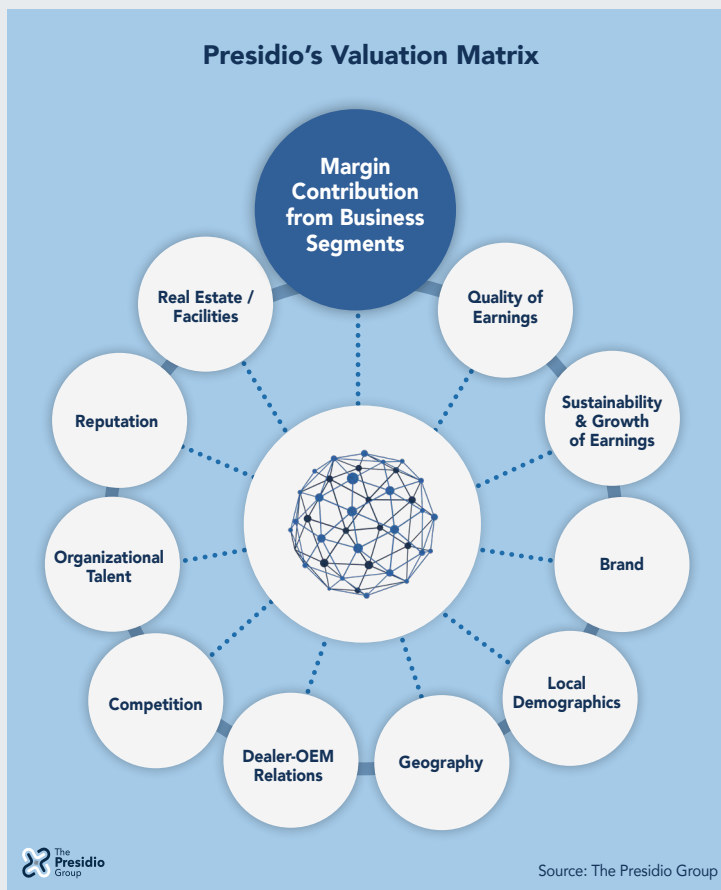
"When variable gross profit goes down, fixed sticks around!"

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

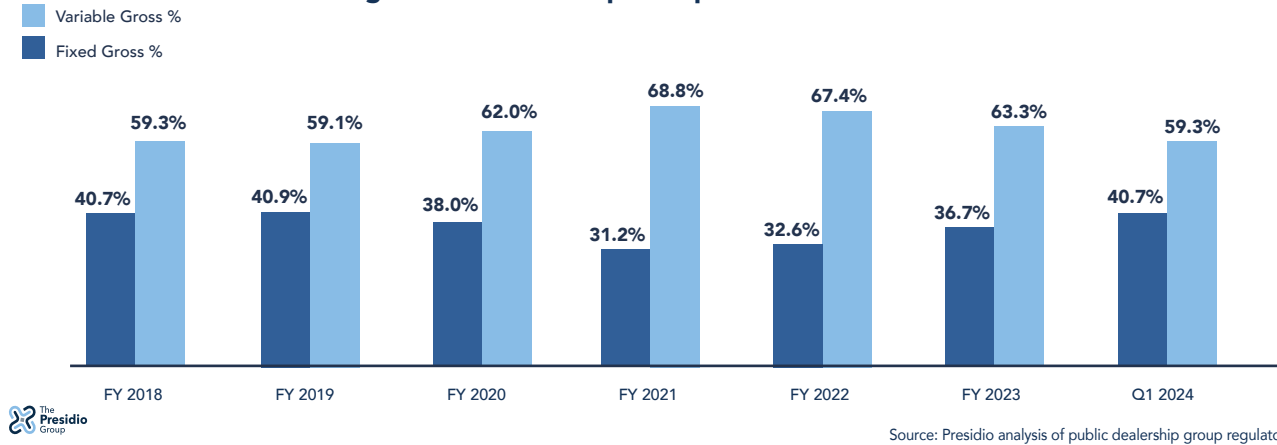
By contrast, dealerships with balanced selling practices during that period and more reasonable transaction prices (even when those prices rose above historical norms) have experienced narrower declines in overall profitability. Those stores have a more sustainable earnings stream during this Great Normalization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

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

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



Average Public Dealership Group Fixed vs. Variable Gross Mix



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

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

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

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

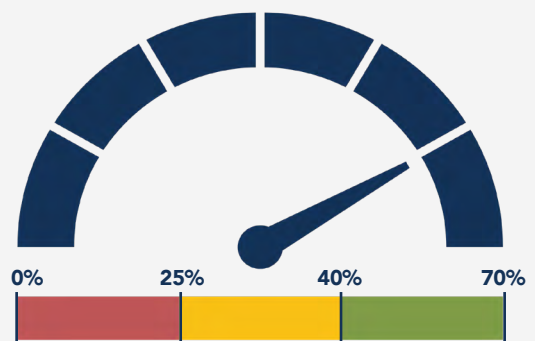
A balanced mix between variable and fixed makes for a strong and stable operation. The higher the margin contribution from fixed, the lower the risk of earnings volatility.

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

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

Fixed-to-Total Gross Profit Speedometer

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



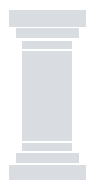
The Presidio Valuation Index

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

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

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

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



Blue-Sky Earnings Multiples

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



Revenue Multiplier

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

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



Return on Investment

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























Brand Watch

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

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

The Presidio Valuation Index

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

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

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

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