

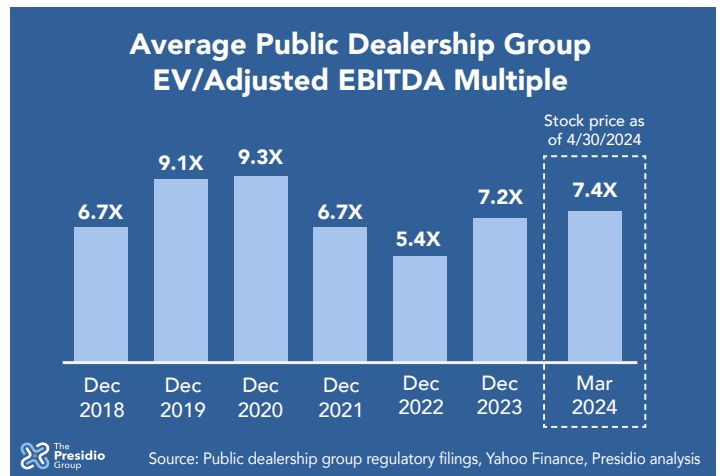
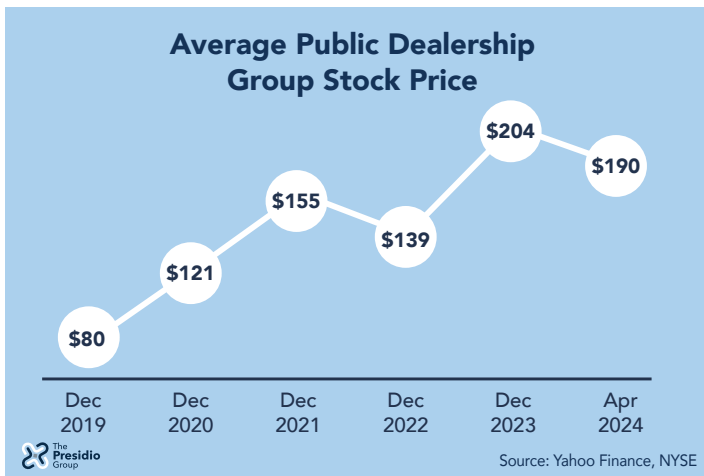
The six publicly traded dealership groups, which own approximately 6 percent of U.S. franchised dealerships, provide a window into overall industry performance. In the first quarter of 2024, the publics saw new-vehicle profitability continue to slide as vehicle supplies grew. While pressure on margins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

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

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

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

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

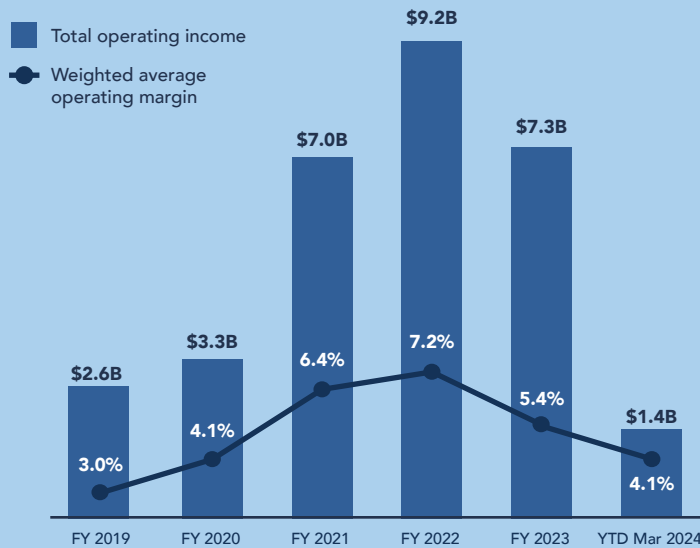


The publics' average per-unit gross profit dropped 28 percent for new vehicles and 10 percent for used vehicles in the first quarter compared with the year-earlier period. On a sequential basis, gross profit per new vehicle declined 9 percent and gross profit per used vehicle rose 9 percent compared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

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

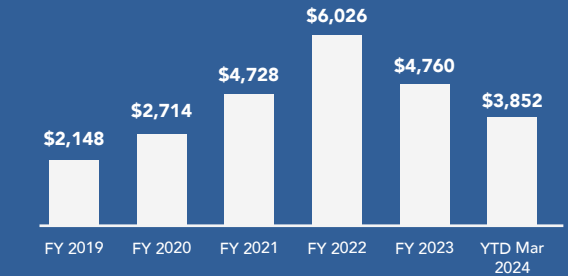
The publics have collectively invested nearly \$17.5 billion in net expansion, primarily through dealership acquisitions, during the past 4.25 years, and this growth bodes well for long-term earnings.

Total Operating Income and Weighted Average Operating Margin



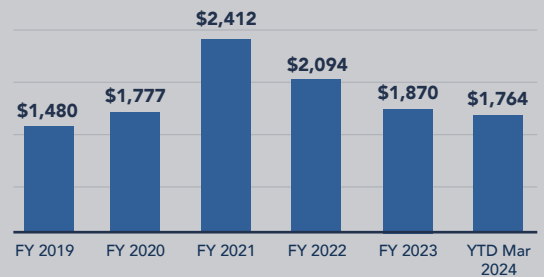
Source: Public dealership group regulatory filings

Average Gross Profit Per New Vehicle



Source: Public dealership group regulatory filings

Average Gross Profit Per Used Vehicle



Source: Public dealership group regulatory filings

Public Company Liquidity & Growth Strategies

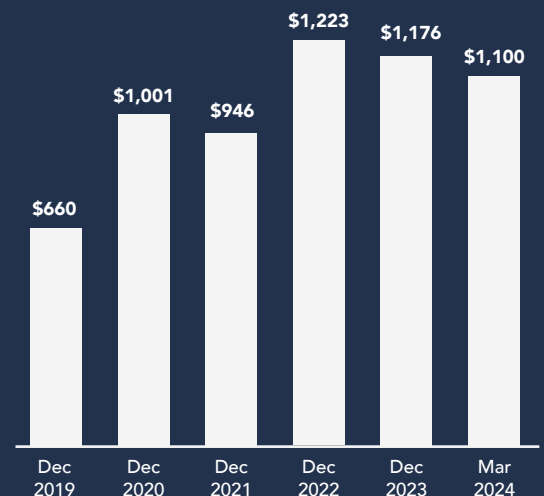
The public dealership groups still have plenty of liquidity to pursue deal-making, but the mindset of their leaders is changing as they consider how best to deploy their capital. While acquisitions are still on the menu, stock buybacks and dividends are now on par or even favored in some cases over buying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

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

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

Average Public Dealership Group Liquidity Level

(\$ in millions)



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



Source: Public dealership group regulatory filings

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

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

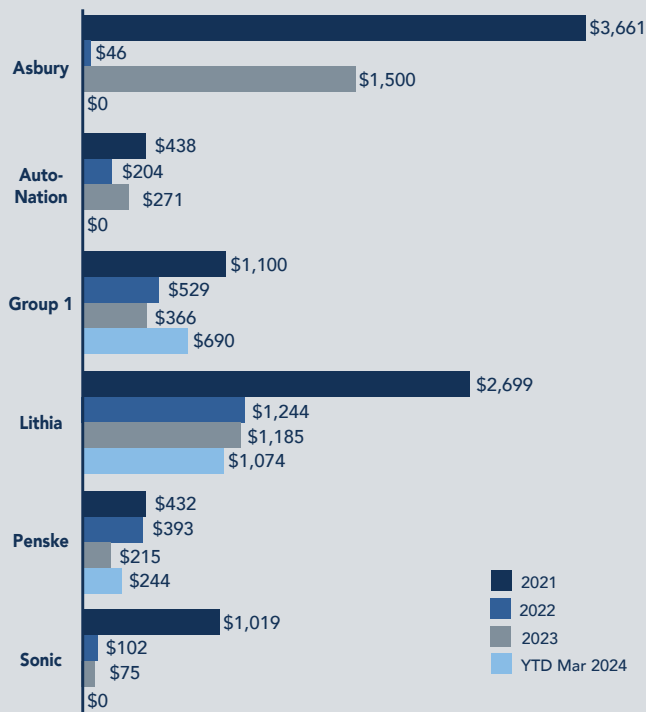
GROUP 1 AUTOMOTIVE Group 1's approach to capital allocation values returns over revenue in order to maximize shareholder returns. CEO Daryl Kenningham said in April that the retailer during the last two years has balanced its acquisitions and divestitures with share repurchase. Said Kenningham: "We've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

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

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

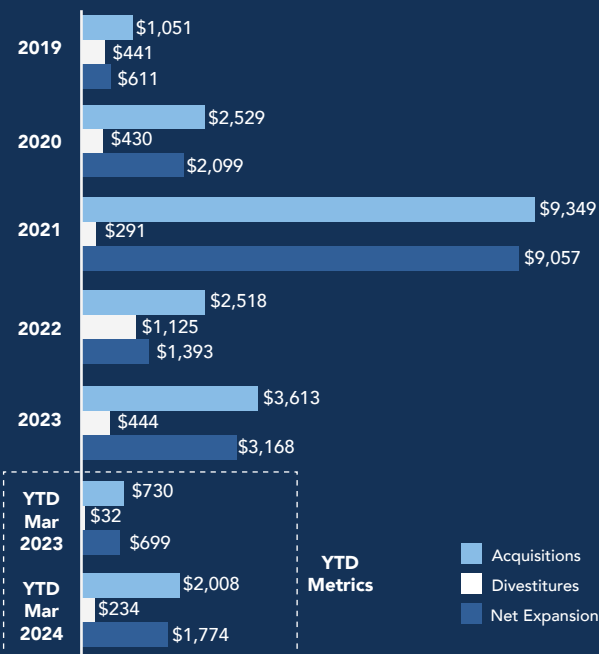
Sonic Automotive Sonic spent the last few quarters getting its EchoPark used-only business back to profitability. While the first quarter was positive at Echo Park, it remains to be seen how repeatable that will be for the company. The company could see better returns on its time, operating expertise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

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



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

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



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