

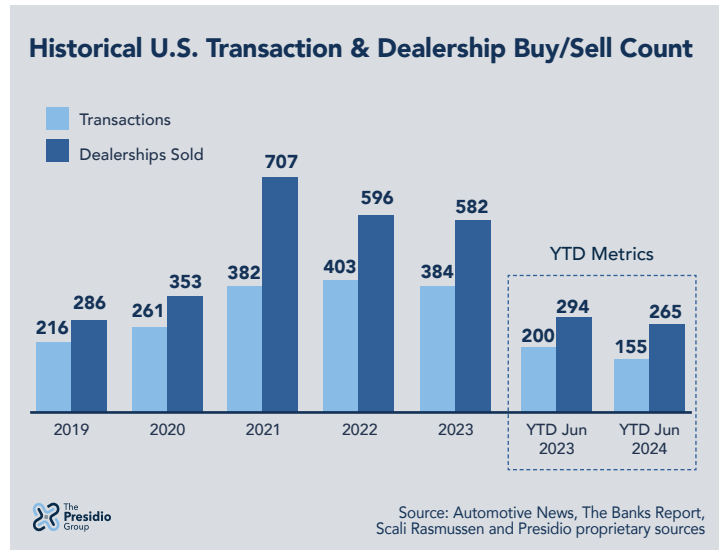
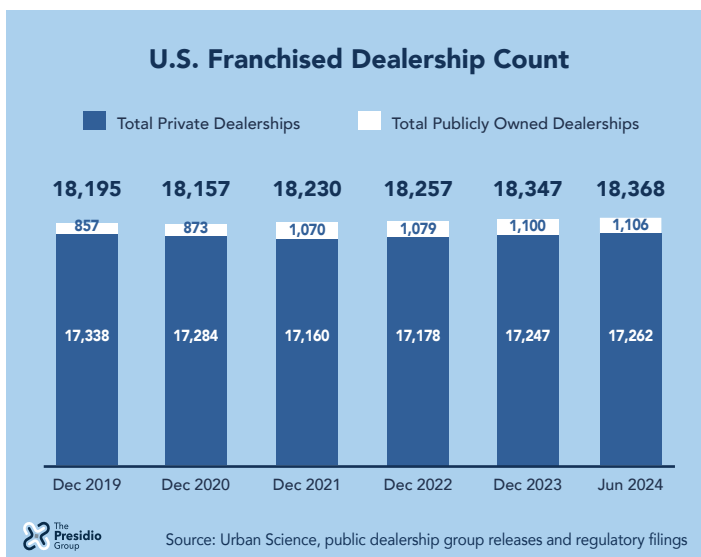
The Presidio Group’s dealership valuation expertise and insights on the latest trends in mergers and acquisitions are informed, in part, by our work with many of the country’s biggest and most influential dealership groups. These relationships give us an insider’s view of how experienced and sophisticated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

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

## Overall Market Update

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

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



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

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

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

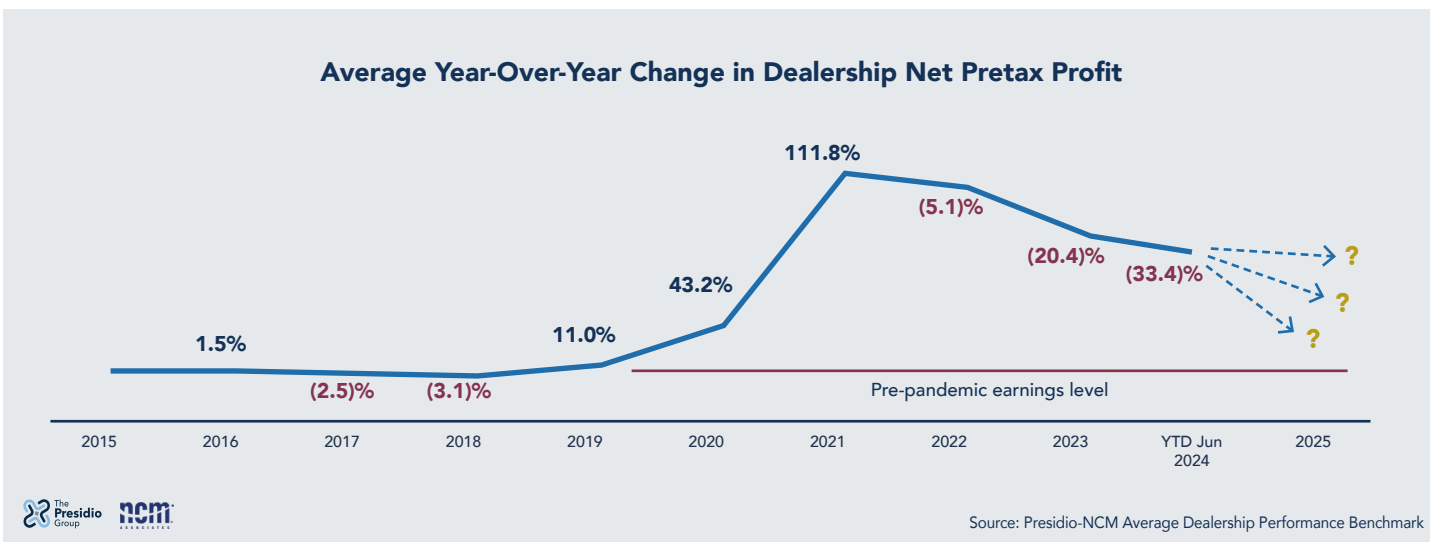
The publics bought 22 dealerships in the U.S. during the first half, a little behind the same period in 2023 when they acquired 28. They have picked up their pace on divestitures, however. The six companies sold 19 U.S. dealerships during 2024’s first half, more than double the nine divested during the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

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

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

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

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



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

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

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

## Presidio's Valuation Matrix Spotlight

### Real Estate/Facilities

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

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

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

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

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



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

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

**Scenario 2 (Includes Real Estate)**

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



Source: Presidio analysis

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

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

### Leasing vs. Owning

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

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

### Upgrade Requirements' Effect on Blue Sky

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

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

### Tax Implications

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

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

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

# Brand Watch

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

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

## PRESIDIO IS RAISING VALUATION GUIDELINES FOR:

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

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

## PRESIDIO IS LOWERING VALUATION GUIDELINES FOR:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## The Presidio Valuation Index

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

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

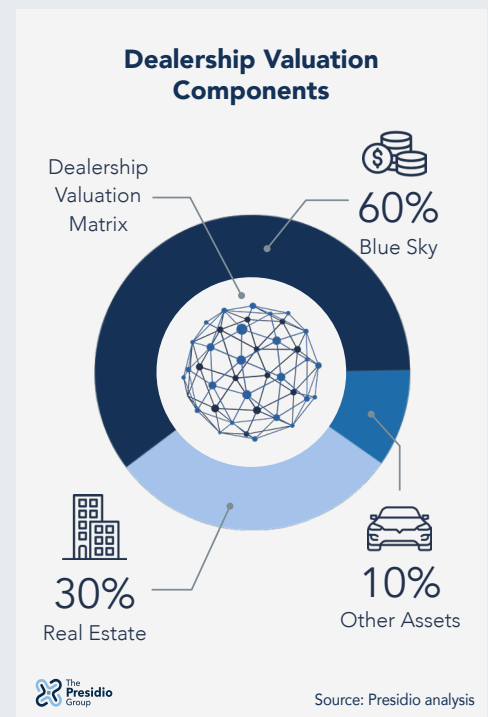
**Luxury brands: 4-7% | Top-tier import brands: 3-5% | Domestic/Other value brands: 1-3%**

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

### Dealership Valuation Overview and Methodology
















The Presidio team believes every dealership is unique and that the industrywide standard of applying a blue-sky multiple to earnings to determine value is inadequate. Solely focusing on blue sky ignores about 40 percent of the total investment represented by real estate and other assets. The symbiotic relationship among these components correlates to a dealership's total cash flow and, ultimately, return on investment.

Presidio has created an index that includes three pillars of valuation — blue-sky earnings multiples, a multiplier based on a percentage of dealership revenue and a return on investment calculation — and uses other key factors such as a brand's network size to help stakeholders triangulate an estimated value of a dealership. Presidio will evaluate each brand's status with regard to the three pillars twice a year and then revise multiples or other factors as needed. While we believe our approach can help triangulate value, it's important to note that our guide is still simply a guide. Anyone looking to sell or buy dealerships should consider using experts to conduct a deeper evaluation to determine value. For more information on Presidio's valuation methodology, go here: <https://thepresidiogroup.com/valuationmethodology>



# The Presidio Valuation Index

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

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

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

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