

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%

† 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.

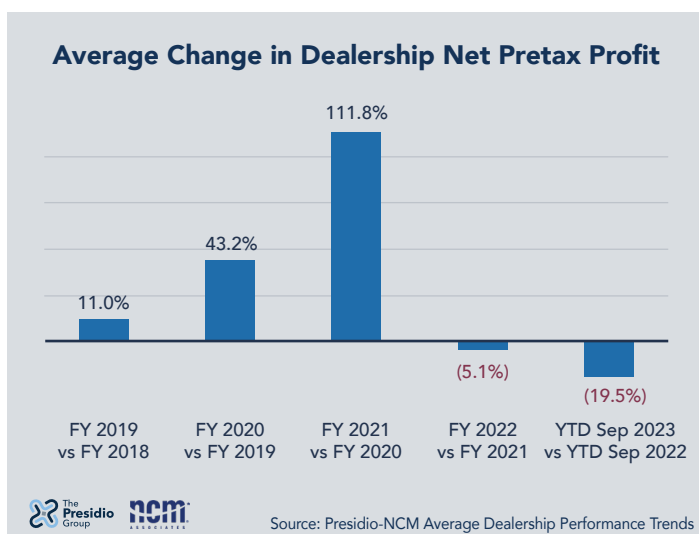
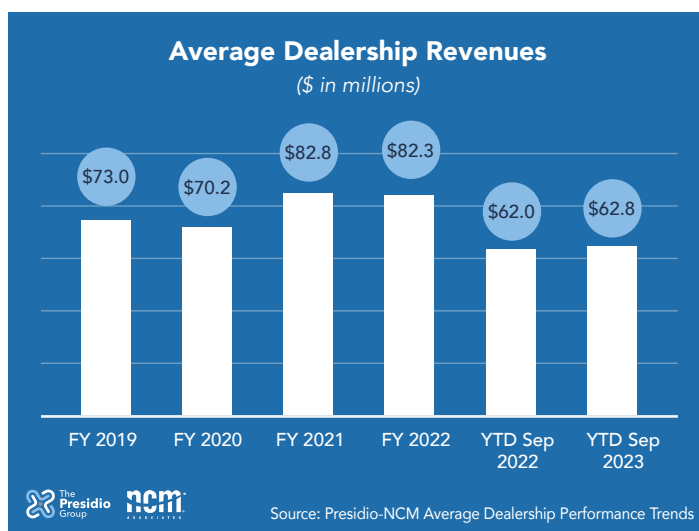
The average store saw profits rise about 237 percent from 2018 through 2021. And even with 2022's slight dip, the average dealership's income last year compared with 2018 was still up a whopping 219 percent. While the average store's profit has tumbled nearly 20 percent on a year-over-year basis through 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.

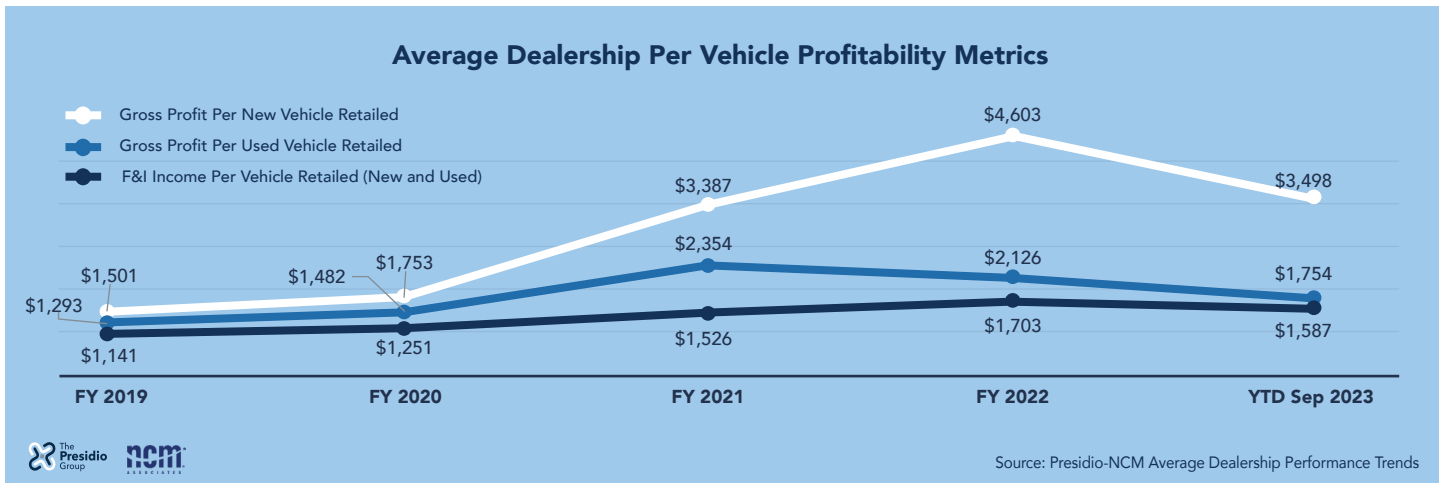
Additionally, dealerships are facing other headwinds affecting their performance that weren't present the prior three years. Interest rates have nearly tripled since March 2022 with the prime rate moving from 3.25 percent to 8.5 percent. While new vehicles are now more plentiful, dealerships' carrying 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



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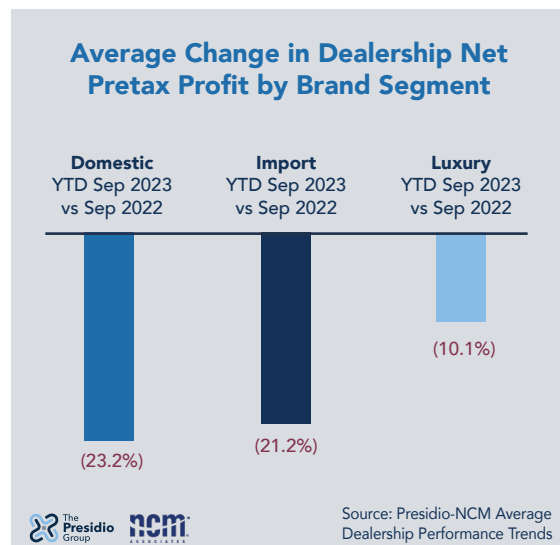
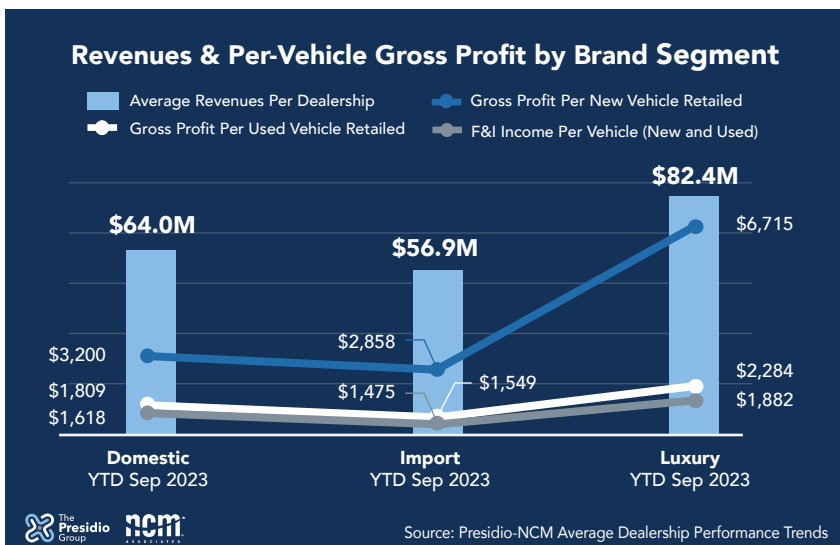


percent drop in 2022. In addition to shrinking used-vehicle volumes, the average dealership has experienced a 23.4 percent decrease in gross profit per used vehicle retained so far this year.

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 retained 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.



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