

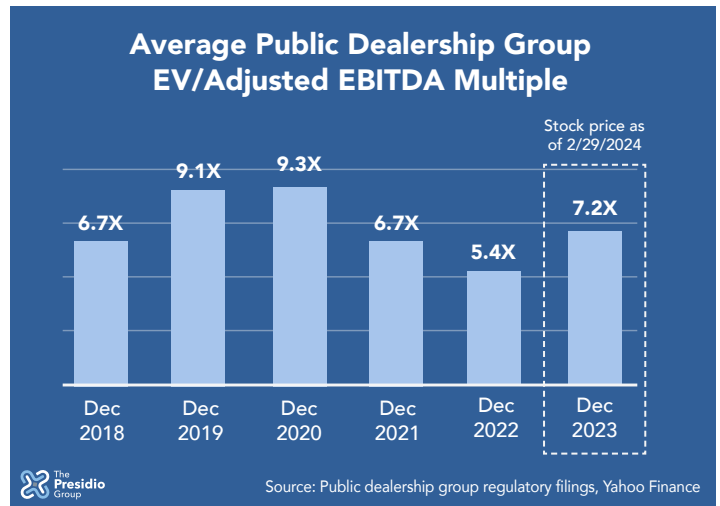
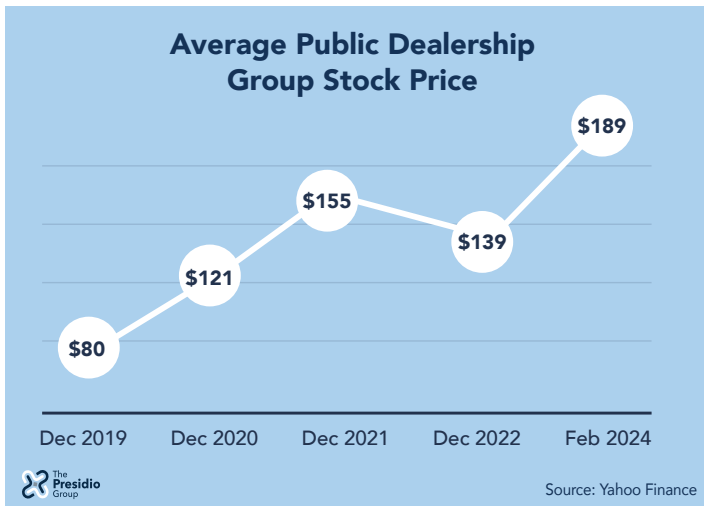
The six publicly traded dealership groups own around 6 percent of U.S. dealerships and provide a window into overall industry performance. Through year-end 2023, the publics saw per-unit gross profit on new vehicles continue to shrink as their vehicle supplies grew, but those new-car profits continued to be higher than before the pandemic.

Valuations of the public groups also 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 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)

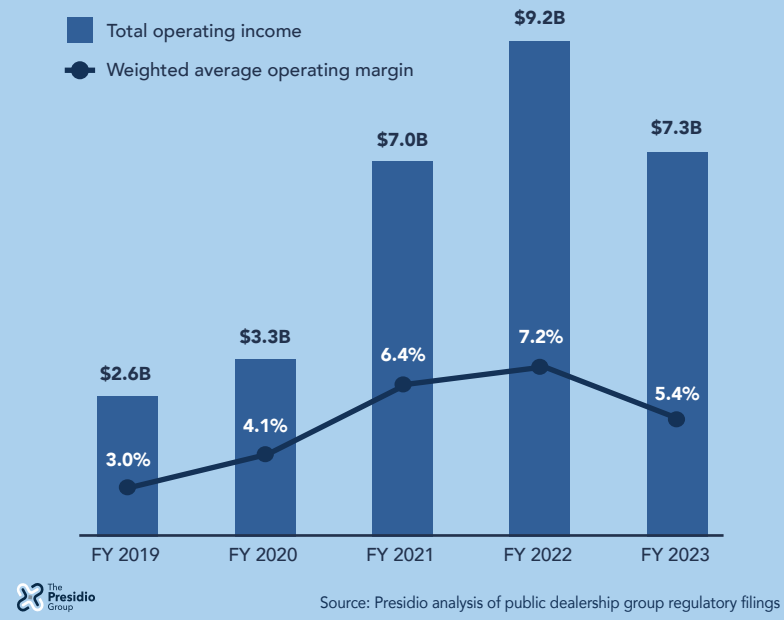
The publics collectively trade for 7.2X EBITDA based on their earnings and balance sheet data reported Dec. 31 and their stock price as of Feb. 29. Converting a blue-sky multiple to a total cash-flow multiple on average adds 1.5-2.0X in a typical transaction. That implies an estimated blue-sky multiple for public dealership groups ranging between 5.2 and 5.7X. While public retailer stock prices have benefited from \$6.5 billion of net stock buyback during the past four years, publics’ EV/EBITDA multiples remain more than 20 percent below their 2019 and 2020 peaks, indicating investors continue to discount current earnings as margins continue to normalize.



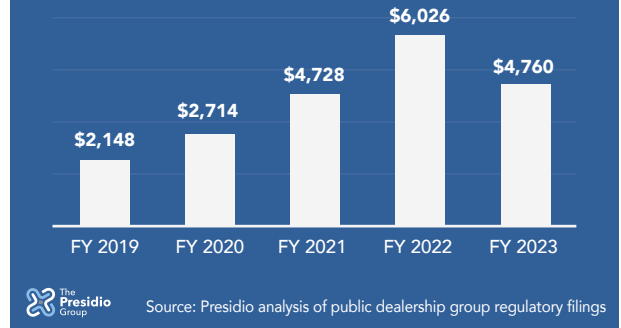
The publics’ average per-vehicle gross profit dropped 26 percent on the new side and 11 percent for used in the fourth quarter compared with the year-earlier period. Despite the declines, profits are well above 2019 levels. The variability of profits as shared via brand call outs by public dealership group executives is interesting — Nissan and Stellantis have had deep drops in margin, while the top luxury brands, Toyota, Honda and Subaru have experienced little to no erosion. A bright spot is fixed operations, where 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 \$16 billion in net expansion, primarily through dealership acquisitions, over the past four years, and this expansion is sure to raise long-term earnings no matter the margin environment.

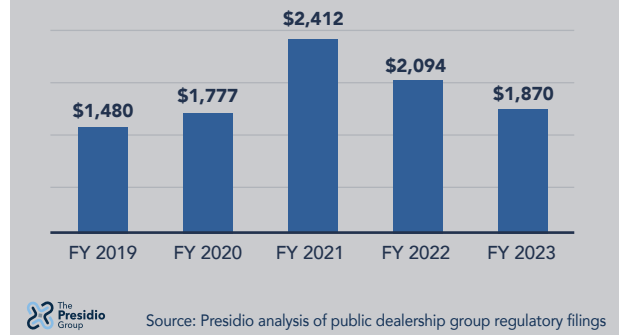
Total Operating Income and Weighted Average Operating Margin



Average Gross Profit Per New Vehicle



Average Gross Profit Per Used Vehicle



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 more acquisitions, or deployment of capital in other forms, such as share buybacks given the EV/EBITDA multiples discussed earlier. The publics at the end of 2023 collectively had \$7.1 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, is \$3 billion-plus more than four years earlier. And thanks to robust earnings that are still higher than before the pandemic, the publics continue to build reserves. Still, more than half the available funds belong to the companies that have been less acquisitive during the recent acquisition spree — AutoNation, for instance, had total liquidity of nearly \$2 billion at the end of 2023.

Our expectation is the publics will continue to drive consolidation. But deals likely will come at a less feverish pace, as they employ more disciplined capital allocation strategies, including share buybacks that may make sense at current EV/EBITDA multiples vs. the high implied multiples of certain acquisition opportunities. This leaves room for large private dealers who have also collected outsized profits in recent years to drive greater industry consolidation. We expect many more big deals to come. The number of large transactions announced during the first couple of months of 2024 demonstrates that the appetites and financial resources to support such deals persist among the industry’s largest retailers.

Average Public Dealership Group Liquidity Level

(\$ in millions)



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

ASBURY AUTOMOTIVE GROUP Asbury remains the most organic pure-play U.S. consolidator and an aggressive bidder for large groups in its target markets. Asbury in February revised its revenue target to at least \$30 billion, down from \$32 billion. It stretched out its timeline to achieve that to between 2025 and 2030. Since 2019, Asbury has bought dealerships representing about \$11 billion in annual revenue including Jim Koons Automotive Companies in December.

AutoNation After a long period of relative inactivity, AutoNation aims to buy large dealerships in its core markets and has shared interest in acquiring overseas. While outwardly posturing for deals, AutoNation remains committed to stock buybacks before acquisitions. While company leaders say they're seeking acquisitions, they also have said they believe vehicle margins will fully revert to 2019 levels. A return to 2019 profitability would make major acquisitions difficult in today's market.

GROUP 1 AUTOMOTIVE Group 1 bought dealerships representing \$1.1 billion of annual revenues in 2023, demonstrating efficient deployment of capital. CEO Daryl Kenningham has said the retailer is committed to portfolio management that emphasizes growth through larger dealership acquisitions while disposing of smaller, less profitable stores. In 2023, Group 1 bought six stores averaging annual revenue of \$183 million while divesting 11 stores averaging annual revenue of \$37 million. The pattern has continued early in 2024, with Group 1 making several large acquisitions and divesting a platform in a smaller market.

LITHIA Lithia has distanced itself from its goal of \$50 billion in annual revenue by the end of 2025 but remains committed to expansion albeit at a slower pace. CEO Bryan DeBoer says \$50 billion is still achievable in the next few years. Lithia made major inroads in the U.K. in the last year, capped by its Feb. 1 acquisition of Pendragon, expanding its U.K. store footprint and giving it a fleet business and a stake in a dealership management system company. Lithia in February trimmed acquisition targets, saying it now expects to add \$2 billion to \$4 billion of revenue annually instead of the previous plan of \$3 billion to \$5 billion. Acquisitions now require "massive multiples" that Lithia won't chase, DeBoer said. The retailer will still pursue deals but will opt for share buybacks when those make more sense.

PENSKE Penske remains committed to growth across product lines on an opportunistic basis. Penske in January bought 15 U.K. dealerships representing \$1 billion in annual revenue from Rybrook Group. CEO Roger Penske in February said he would like to see at minimum new business generating another \$1 billion in annual revenue this year. He foresees store valuations falling and aims to expand where Penske already has scale and can leverage existing overhead.

Sonic Automotive Sonic continues to expand outside of franchised automotive. Franchised deals, aside from its RFJ Auto Partners purchase in 2021, have been limited. The company is paring its EchoPark used-only business — in January closing its seven remaining Northwest Motorsport stores — and seems too deep in the EchoPark turnaround to focus on franchised store acquisition opportunities today.

