Truist Dealer Insider

Insights for Automotive Retailers

Summer 2023

TRUIST

Dealer Services

Welcome to our Summer 2023 issue of the Truist Dealer Insider

Dear Friends,

As we move through 2023, vehicle sales are climbing with production increases and inventory levels rising slowly from shortage-driven lows. The return to normal operating conditions is underway, and by all indications, it's a smooth one supported by robust demand and a gradual increase in vehicle supply. So far, this is the soft landing we've hoped for.

While these trends are an indicator of how the rest of 2023 could pan out, we'll still need to keep our eye on economic conditions, interest rates—and the strength of the consumer going forward. In this issue, we look at topics that can help dealership leaders guide their businesses to success:

- **Learn about current trends in dealership architectural design and conditions for construction within the automotive sector.**
- **Catch up on the economy with an update from Truist's head of U.S. Economics.**
- **Get the latest on M&A transactions, trends, and dealership valuations.**
- **Pick up strategies leaders can use to keep their teams engaged during times of change.**

The *Truist Dealer Insider* brings perspectives from Truist industry specialists and financial experts about the issues that are top of mind for dealership leaders. We hope these offer a glimpse into the value the Truist team can bring.

When we work directly with your dealership and get to know your goals, challenges, and opportunities, we bring solutions to inspire—and create—change. Wherever you are in your dealership's lifecycle, we're here to partner with you and offer proactive, strategic advice in capital structuring, auto finance, M&A strategy, and business and family transition planning.

To draw on our industry experience and deep roots in our local communities to support your business, contact any of us at Truist Dealer Services.


Jason W. Smith
Head of Truist
Dealer Commercial Services


Bill Jones
Head of Truist
Dealer Retail Services


JT Taylor*
Head of Automotive Retail
Truist Securities

*licensed with FINRA

Truist Dealer Services

~$50 billion of capital committed to dealers

700+ commercial dealer clients and 15,000+ retail dealer clients

Dedicated resources to support dealers throughout their entrepreneurial lifecycle, including automotive retail investment banking through Truist Securities, dealer commercial and retail services, business transitions advisory, and insurance and risk management.

Truist Financial Corporation

- Purpose-driven financial services company committed to inspiring and building better lives and communities
- Top 10 U.S. commercial bank with $555 billion in assets, $320 billion in loans, $413 billion in deposits, and market capitalization of $64.1 billion, as of 12/31/22.
- Headquartered in Charlotte, NC

Inside this issue

Dealership facility design adapts to shifts in auto retailing

Joe Pella
Head of Truist National Real Estate

Jason Smith
Head of Truist Dealer Commercial Services

Ryan Stancill
Principal/Owner
PRAXIS3

Auto retailing is in the midst of a construction boom fueled by favorable cash flow, upgrades after ownership changes, and the pent-up demand for facility updates to keep up with customers and serve them efficiently. To review current construction and design trends, we talked with Joe Pella, head of National Commercial Real Estate at Truist, Jason W. Smith, head of Dealer Commercial Services at Truist, and Ryan Stancill, Principal at architecture and multidisciplinary design firm PRAXIS3.

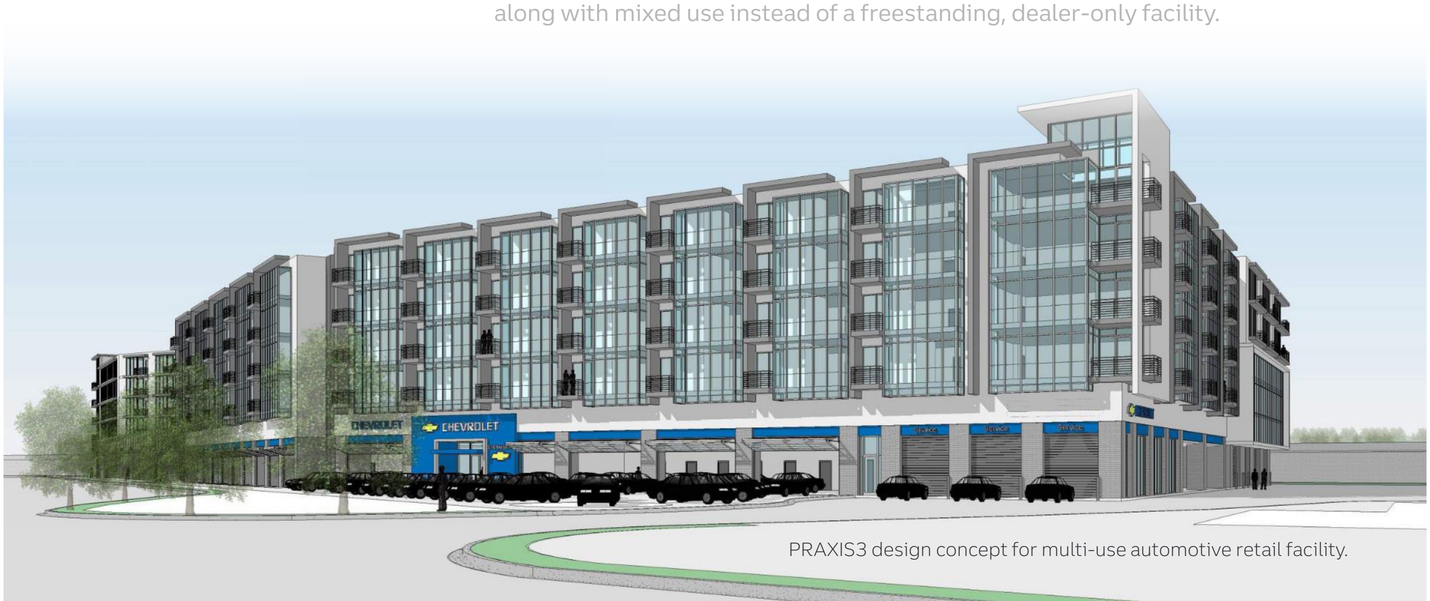
How has the rise of mixed-use development in major metro markets affected the way dealers approach the best use of their property?

Smith: As urban sprawl extends to dealerships that were once on the outskirts, developers have started approaching dealers about their valuable real estate. Dealers often sit on large, contiguous pieces of land in densely populated areas. With vehicle inventory projected to remain at lower levels, this opens dealership space for redevelopment. For dealers with the population density and location attractiveness to support it, why not monetize the excess land and bring in more retail traffic, integrating the dealership into the community at the same time?

Rethinking how much land you need and how that land can be used can point you to opportunities to unlock additional value, whether you develop the property yourself, partner with a developer, or sell a portion of your land.

Stancill: We're seeing a lot of mixed-use projects being discussed, and it's often the municipality pushing dealers in that direction. We've studied several projects where a mixed-use component was a requirement for project approval.

Mixed-use developments can bring resources and amenities closer together to create a more sustainable and walkable community. With these developments, dealerships can maintain a central presence in the community while blending residential, retail, and commercial uses to fit site and local market needs. Also, if you want to put valuable land to its best and highest use, you might consider vertical development along with mixed use instead of a freestanding, dealer-only facility.



PRAXIS3 design concept for multi-use automotive retail facility.

Pella: Given the increased density of their surrounding areas, dealerships can remake how they utilize their existing footprint by consolidating their dealer operations and creating available land to build commercial real estate. They're sited next to existing infrastructure with roads, utilities, and in many cases, public transportation. As a dealer, you've got the opportunity to think about how your dealership can become part of today's lifestyle while tying into the surrounding community. Consider experiential retail: people shopping, sitting outside, having a meal, enjoying live music—a place where things are happening. Experiential retail recognizes that the most successful mixed-use developments are fully activated spaces that provide a variety of amenities.

Smith: As land gets more valuable and density becomes a requirement, Manhattan may be the place to look for models of what dealerships can look like. BRAM Group's Toyota and Lexus of Manhattan has a high-rise presence with new cars on the fourth floor, used cars on the roof, and a second lot in New Jersey to hold additional inventory. On the West Coast, Toyota of Hollywood has partnered with Houston-based Hines and announced its plans for a mixed use project including a high-rise residential tower, a residential village, an office building, and a public plaza with green space along with retail and dining.

What's being done in dealership design today to address where the automotive marketplace is moving and ensure that dealers are best positioned to meet tomorrow's needs?

Smith: In major metro markets, vertical development is starting to take hold in auto retailing, and that helps counter high land prices. Dealers are also re-evaluating the space devoted to service versus sales. In select, densely populated, urban areas we're seeing lifts used to put service bays on the second, third, and fourth floors, with mixed-use residential on top and parking somewhere in between. In coastal areas parking decks can help protect against hurricanes and in areas prone to hail damage, they can help you save on insurance costs.

Stancill: Online sales, lower vehicle inventories, and consolidation all make it easier for dealers to downsize their variable operations while building out their fixed operations. It costs less per square foot to build service and parts space than showroom space. In fact, a lot of dealers who've completed recent facility initiatives are ready to further expand their fixed operations—in some cases, more than doubling the size of a service department built just a few years ago. We're being very thoughtful about putting infrastructure in place as we plan dealerships, thinking about the location of utilities and how the building components are set up to make future expansion easier and less expensive.

Planning dealerships for service growth from the ground up is a smart approach. For example, we always try to work with the dealer to think about future parts and service expansion during the initial design to make tomorrow's expansion as painless as possible. We're also seeing a greater investment in technician spaces, such as larger and more comfortable locker rooms and break rooms. The goal is to look at anything that will help attract and retain top tech talent in a highly competitive labor market.

There's also a focus on designing parts and service departments to accommodate EVs with particular attention to the safe storage and handling of EV batteries. The "skateboard" batteries in EVs are almost the size of a car. They're exceptionally heavy, and the parts area in a typical dealership isn't designed to receive or store them. Plus, batteries pose additional safety and fire hazards that need to be considered in facility designs.

What challenges are dealers facing today when they undertake dealership construction projects?

Smith: We know EVs have fewer moving parts than internal combustion engines, but with the unknowns about EV service patterns and adoption rate, deciding on the optimal number of service bays may be a bit of an educated guess. In select instances when you're moving service areas higher, you'll also need to plan for additional infrastructure to support the added weight of EVs.

The faster chargers that OEMs are requiring dealers to install have much higher power needs and will require more investment. A Level 2 charger may cost $30,000 but installing Level 3 chargers can cost $500,000 – 700,000 from start to finish. Coordination with utility companies can be a lengthy process—the fastest chargers draw enormous amounts of electricity, and local utilities sometimes require a dealership to upgrade its power-handling capacity first. Sometimes the utility provider can't provide enough power without a line extension or other major work. After learning what's required, getting the permits and components lined up for a charger installation adds significantly to your project timeline. Also, solar panels could carry some of the load, and depending on where you're located, there could be tax rebates or grants to offset the cost of installation.

Stancill: One of the big problems now is scheduling projects. Everything takes longer than expected because the construction world has such limited availability, whether it's people, or products, or services. With architects backed up for months it's often impossible for dealers to complete a facility by the dates specified in their OEM agreements.

Hard bidding, which many dealers strongly prefer, makes it more difficult to complete a project on time. These days most contractors simply won't bother hard bidding a project—even a very lucrative one. They'd rather be a partner in figuring out how to compress the schedule and lower project costs without the risk of a fixed price. Dealers should be flexible in negotiations and be prepared to make their case for extended project timelines to OEMs.

How should dealers think about engaging the right resources and expertise—from planning and design to financing and construction—to get the most from their development investment?

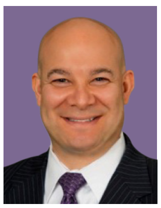
Pella: Reimagining the dealership space mandates conversations with partners and municipalities about what's already there and what the real estate market fundamentals are telling them. We see positive fundamentals for commercial real estate over the long term. Higher interest rates have slowed the market, but there are still good opportunities for certain asset classes in the right market. It's all about connecting with a partner that knows the local market to help you navigate the overall development process, including planning questions—particularly for mixed-use developments—that cover everything from zoning and parking to individual ownership arrangements and dealership access easements.

Stancill: The considerations needed to make sure a deal is supportable, marketable, financeable, and profitable can seem overwhelming. A lot of dealers may be interested in mixed-use development but hesitate to get out of their lane. They know dealerships, not commercial real estate. What can their land support, and how do they meet future spatial needs? Thinking through these questions—with the right team at the outset—helps get a project designed, zoned, developed, managed, and financed.

Pella: In the mixed-use space you've got to consider factors like market rents and lease-up trajectory (for commercial space), along with ground-up construction risks and various proposed uses. Compared to standard dealership buildouts, mixed-use developments require a more complex financing structure for the construction phase and an active commercial real estate oversight during each phase. The ownership structure and capital mix could provide your dealership—or your family—with opportunities to diversify your portfolio and generate additional returns.

Smith: Truist can connect dealers with commercial real estate specialists to help determine the best way to enhance the value of your property and to work with your municipality on zoning and permitting. We'll look at various ways to structure financing to achieve your project goals, minimize risk, and cover all the angles—at each stage. If you're thinking about a construction project, talk to someone on the Truist Dealer Services team who can assemble Truist resources to bring you the perspective and expertise you need.

Vehicle sales strong despite economic crosscurrents



Michael Skordeles AIF®
Head of U.S. Economics, Truist Wealth

Crosscurrents in the economy continue—some areas moving in a positive direction and others moving negatively—as the Federal Reserve (Fed) grapples with the tricky balancing act of reducing inflation while avoiding a recession.

Despite higher interest rates, tightening consumer credit, and a labor market that's starting to cool, macro conditions look favorable for retail auto dealers with steadily increasing new vehicle deliveries, historically strong used car prices, a backlog of demand, and employed consumers who need transportation and can pay for some type of vehicle—even if they can't afford the car of their dreams.

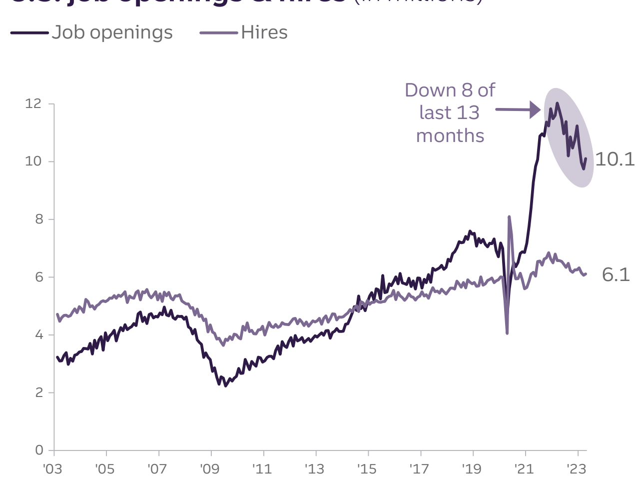
Sales of light-vehicles totaled 1.38 million in May, up 23% from May 2022*, aided by higher inventory levels. Supply chain issues may be lifting—although varying by manufacturer. While overall rail traffic in the U.S. was up .8% for May following on a 5% increase in April, motor vehicles carloads led the way with a 3.3% monthly increase to their highest level since September 2020.**

Labor market strong, but cooling

Robust job growth continues, with the labor force adding an average of 301,500 jobs over the past six months and eclipsing recent consensus predictions. While the labor force participation rate stayed at 62.6% in May, there were clear signs of cooling. Most notably, the unemployment rate jumped by 0.3 in May to 3.7%. Additionally, the monthly pace of average hourly earnings ticked down to a 0.3% rise, after averaging a 0.4% monthly rise in the previous year. Meanwhile, hours worked is in-line with the pre-pandemic 10-year average.

The labor market's cooling becomes evident when coupled with other data. Weekly jobless claims and continuing claims are edging higher after bottoming in the third quarter of 2022. Fewer workers are voluntarily quitting as the so-called quit rate–officially known as the percentage of employees voluntarily quitting—was 2.4%, down from a cycle peak of 3% in 2022. Job cut announcements are averaging 83,500 per month year to date in 2023, significantly above the 2022 average of 30,300, according to the May Challenger Report. Small business hiring plans are trending lower, according to the National Federation of Independent Businesses (NFIB), as are the number of respondents saying positions are hard to fill.

U.S. job openings & hires (in millions)



Sources: Truist IAG, Bloomberg, Bureau of Labor Statistics; monthly data through April 2023.

Hiring components in other indicators are also showing softening, including the streak of contractions of the Institute for Supply Management (ISM) Manufacturing Index as well as the Federal Reserve district's regional conditions surveys.

Manufacturing contracted for seventh straight month.

Two separate manufacturing gauges showed weaker results. The ISM Manufacturing Index fell to a reading of 46.9 in May, the seventh straight reading below 50, which signifies a decrease in manufacturing activity. The prices paid component swung negative to 44.2 in May, meaning prices fell compared to the previous month and the lowest reading since December 2022. Additionally, the final May reading of S&P Global's U.S. Manufacturing Index fell to 48.4, contracting for the sixth time in seven months.

Existing home sales down 16 of the past 17 months.

Existing single-family home sales dropped 3.5% to an annualized rate of 3.85 million in April, which is 20.5% below the December 2019 level. Yet, with continued limited supply, home prices rose for the third consecutive month, up 3.6% to $393,300 in April. That's 42% above the December 2019 level. There's a wide variation based on location, with prices softening in markets that had the largest post pandemic increases, especially in the West.

Meanwhile, new housing activity is showing signs of stabilization. Total new building permits fell for a second month, though single-family permits increased for a third straight month after not increasing for 12 months prior. Housing starts rose in April, but the March figures were revised substantially lower. Both were dramatically impacted by the sharp increase in mortgage rates, which rose more than 3 percentage points during 2022. New home buyer traffic ticked higher the past few months, up from extremely depressed levels.

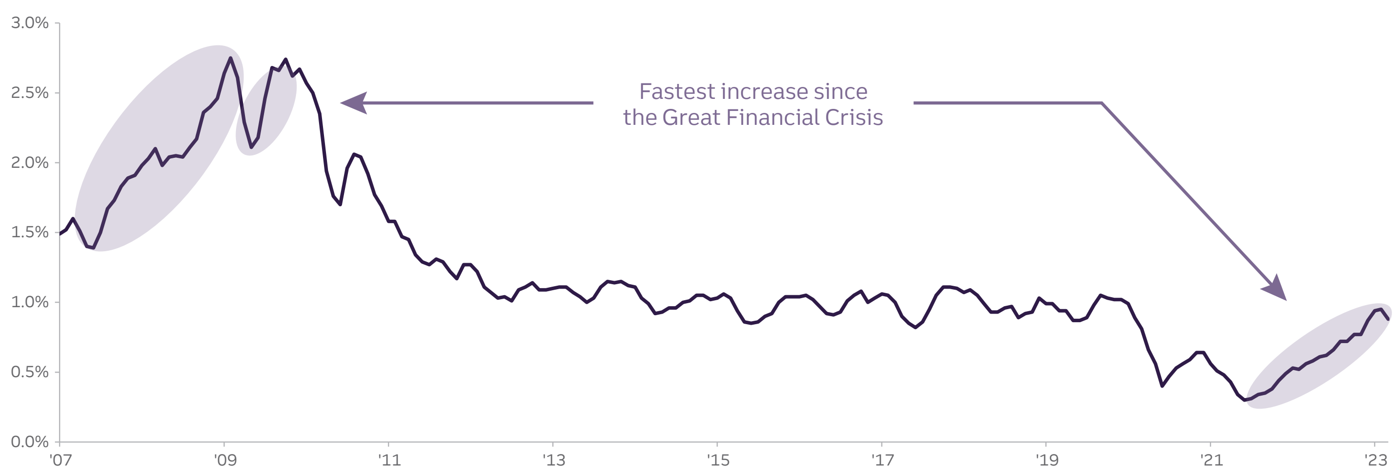
Consumers resilient but feeling pressure

Consumer spending has begun to flicker. However, it is markedly split by income level, whereby stronger higher end spending is masking weaker outlays by the masses. Retail sales fell for three of the past five months but is hovering near all-time highs (in dollar terms). Similarly, travel-related spending remains solid, including advanced paid bookings for this summer, especially international.

Credit quality has deteriorated further, though the largest deterioration has been chiefly with subprime income borrowers, and revolving credit balances continue to climb. The shift in spending from goods back towards services has continued. Supply is still an issue in parts of the economy, particularly housing and autos, which has helped stabilize activity in both.

Auto loan defaults and delinquencies signal increasing consumer stress

S&P/Experian auto loan default index



Sources: Truist IAG, Bloomberg, S&P/Experian Consumer Credit Auto Loan Default Index. Monthly data through March 2023.

Consumer prices (CPI) have cooled generally, to a 4.9% year-over-year pace in May from the peak of 9.1% in June 2022—that's still roughly double the 20-year average. However, wage growth has risen for 15 consecutive months, which has buoyed consumers, who are (so far) handling the economic conditions without a significant pullback in spending.

Despite the uptick in unemployment in May, more workers are holding jobs and collecting paychecks at a historically high wage rate. That's good news for auto retailers. While buyers may need to buy used instead of new vehicles or make mileage and age tradeoffs given current price levels and increased financing costs, the need for reliable work transportation is keeping fundamental vehicle demand strong. Combined with the demand backlog for "hot" new vehicles and the dearth of off-lease vehicles entering the used market, dealers are in an enviable position, even in a softening economy.

Rates will likely remain elevated as the Fed stays higher for longer.

As for monetary policy, elevated inflation remains public enemy number one and will dictate the Fed's future actions. The Fed rate-setting committee has pushed the target rate up 5% in the past 15 months from essentially zero and hasn't deviated from its goal to keep conditions tight and slay inflation.

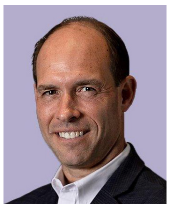
Mixed signals from the labor markets and ongoing indicators of price levels will all factor into the "hike/pause" calculations that the Fed will be called on to make in upcoming meetings. We maintain our view that Fed policy is being guided by scar tissue—from prematurely loosening policy in the past. While a sharp recession would precipitate rate cuts, given our view that the coming economic slowdown may be relatively mild, we're not expecting to see lower rates anytime soon.

Our take

A mild recession—compared to the Great Financial Crisis and the Pandemic recession—remains our base case as dramatically higher interest rates and tighter credit conditions place additional stress on consumers and businesses going forward. We anticipate a continued gradual weakening of the economy rather than a sudden downshift. Further, we also believe that the Fed will keep interest rates higher for longer.

*LMC Automotive data. The 1.36 million total includes sales figures that won't be reported publicly by some automakers until the end of the second quarter.
**Truist IAG, Bloomberg, Association of American Railroads. Number of rail carloads; monthly data through May 2023.

6 drivers to keep your dealership's team engaged in times of change



Don Geletko
Truist Leadership Institute

Jeremy Spidell
Truist Leadership Institute

The Truist Leadership Institute has dedicated more than a decade to researching and measuring the effect of engagement on workplace performance. Don Geletko, Senior Leadership and Business Advisor, and Jeremy Spidell, Director of Client Engagement at Truist Leadership Institute, share how building a more engaged workforce is especially important when conditions in the industry and overall economy are changing.

Automotive dealers are experiencing changes and challenges on many fronts. On the labor front, record-high numbers of workers have quit their jobs in recent years in search of better opportunities, better pay, and better benefits. Dealerships need to continue attracting and retaining talented workers while providing them with the technical and management skills they need to succeed. The industry's shift toward digital buying and the continued expansion to electric vehicles only add to the new skillsets that dealers will require in the future.

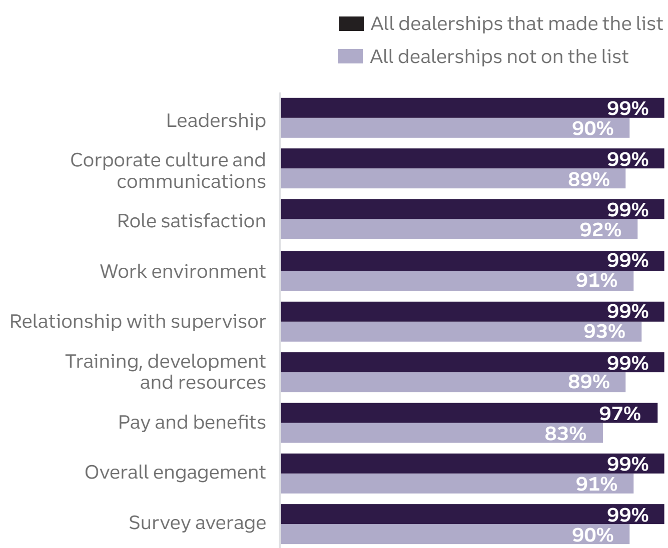
In this challenging environment, it's more important than ever that dealers focus on recruiting quality candidates, retaining key performers, and developing workers' talents. Building engagement with your employees and their teams is a key element in making this effort a success.

What makes engagement so important?

Research shows that engaged employees are dedicated, enthusiastic, immersed, passionate, and proactive. And when it comes to working hard—they go above and beyond. Plus engaged workers are often more resilient and respond better to the stress of change, whether in the workplace or in the world beyond.

Top dealership groups outperform on engagement.

% receiving positive responses from employees



Source: Moore, C.J., The pandemic exposed what dealership employees value, Automotive News, October 17, 2022.

Engagement doesn't just happen. It is usually the result of an intentional strategy. Dealers can raise workers' engagement levels by focusing on the six drivers of engagement:

1. Connectedness
2. Importance
3. Control
4. Competence
5. Clarity
6. Fairness

While each driver has its role, they're all interrelated and additive—getting the engagement you want comes from working on all six in concert. Learn more about each one and the actions you can take to keep your dealership team engaged.

1. Connectedness: "I belong."

Connected employees know they are part of a team. They trust the people they work with and feel supported by managers and company leadership. Their managers value their abilities, strive to provide what's needed to grow and develop their skills, and trust them to successfully perform their jobs.

Research shows that employees' perception of a company's executive leadership has roughly the same impact on engagement as their perception of an immediate manager.

As a leader, staying connected means listening and being tuned to what workers need while providing clear guidance on their job goals and honest feedback on their performance.

Action: Stay visible to employees through meetings, social gatherings, email, and dealership visits. Make a point of connecting with employees even when there's nothing new to report.

2. Importance: "My work is meaningful."

Employees who find meaning in their work are more engaged. They understand how their job has a positive impact on people's lives, and they can see where their contributions support your dealership's goals and purpose.

The sales you make and the service your dealership provides allow your customers access to the fundamental need of transportation—getting people to work, helping them get their kids to school, enabling them to go shopping, and providing a means for people to socialize. For many dealerships, this is the core component of their purpose, the core reason for being and the source of their positive impact on the world. One southeast dealer regularly reminds his team, "We're not just selling someone a car. We're actually helping improve how they live."

Engaged employees find merit in the work they do and look to align their work values with their personal values. Demonstrating your business's purpose and framing the way your dealership does business in terms of its meaning to your community allows employees to see your values in action and embrace them.

Action: Elevate your dealership's purpose and its goals. Make them visible and communicate them often through internal meetings and informal one-on-one discussions and externally in social media, in the press, and in your marketing and online presence.

3. Control: "I have a choice."

Engaged employees need the right amount of control and autonomy to understand the work that needs to be done, have the independence to do it the way they see fit, and the responsibility to do it correctly. Control that leads to success builds confident employees who can take on more, including charting their career path to places they feel most comfortable going and where they can excel.

For managers, the trick is to find the right amount of control that each person needs and seek each employee's input on decisions that affect them. Employees who have more control tend to be more open about any obstacles they're facing and that leaves them more willing to come up with solutions rather than waiting to be told what to do. And when it comes to team settings, employees who feel they have more control over their work can perform with less contention over job boundaries and roles.

Action: Match the right person to the right job, give them control to perform, and set clear expectations for success and accountability.

4. Competence: "I am capable. I am the right person for the job."

Engaged employees should be well-suited for the job they are assigned and have the skills and talents needed to meet challenges and complete their work. Carefully matching workers to the right jobs helps them get satisfaction from doing what they do best.

Be clear about opportunities for growth and skill development and give employees input into crafting their job. Could the job be better structured to align with their strengths? Are there strategies to move the job in that direction?

Managers with a growth mindset understand that mistakes happen when trying something new, and they let employees learn and grow from those missteps. That may often mean reframing mistakes as challenges to be overcome and growth opportunities to be gained.

Actions: Excellence at matching worker talents with task requirements should be a core skill for you and your management team. Make learning and employee growth a priority.

5. Clarity: "I know where I stand."

Engaged employees know the "why" behind decisions made and understand the contributions they must make to help the team reach its goals. This is especially important in unsettled times, when workers may wonder if they'll still have a job and are struggling to see the big picture.

Leadership and managers who communicate honestly and regularly about challenges the business is facing and how the dealership plans to adapt and respond can reduce uncertainty and resulting anxiety. If there's nothing new to report, say that, and let your staff know that when there's news, they'll hear it from you first.

You can use the time to ask for ideas and solutions from your workforce. You may come up with solid input from employees who know your business and see things you don't. Plus, you'll show them you're listening and reinforce the value they bring in helping your dealership devise answers and succeed. Employees will feel a measure of control, even when conditions are unsettled.

Actions: Communicate clearly and honestly about the challenges your business faces and your plans to address them. Solicit input from employees who know the business and are dedicated—like you—to its success.

6. Fairness: "I am treated with respect."

Employees feel respected when the workload is evenly distributed and their work is compensated fairly, yet there can often be different perceptions among leaders, managers, employees, and their peers about whether those two conditions are met. Discussions around assignments and compensation can be some of the trickiest to conduct, and confrontation-adverse leaders who shy away from these communications usually find that issues fester and grow.

Managers who are attentive to balanced assignments and appropriate pay stay ahead of situations by informing employees about why decisions were made and when—or if—they expect things to change. If there's a path to increase employee pay with greater contributions to the business, help them understand what they need to do and when they can expect to be rewarded.

Actions: Pay close attention to work/pay alignment and communicate about it openly, broadly, and frequently.

Ready to start your journey to greater organizational engagement?

There are many elements to increasing engagement, and it can seem daunting to know where to start. The Truist Leadership Institute team can help you identify where you are in the journey, accurately measure the gaps are that you can address, and advise you on actions to take to develop a highly engaged workforce.

Dealership M&A and valuation overview

Recent noteworthy deals in auto retail M&A

Anderson Automotive Group acquires Bradshaw Automotive.

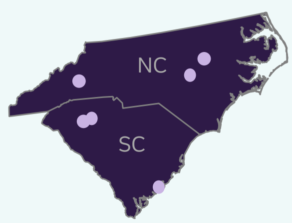
ANDERSON Automotive Group acquires BRADSHAW

Announced: February 1, 2023
Transaction value: Undisclosed

"We are eager to bring our company's culture, values, and high level of service to a new market, meet new customers, and work with new brands. I would like to also thank the Bradshaw family for this opportunity. They built an excellent business based on a deep commitment to their employees, customers, and community. We plan on building upon that legacy in the Upstate region."

– Anderson Auto CEO Michael Anderson

Anderson Automotive footprint



13 dealership locations

Observations and takeaways

- Acquisition includes a Chevrolet Buick-GMC-Cadillac store in Greer, SC and Honda, Acura, Infiniti, and Mazda stores in Greenville, SC. Acquired dealerships will be rebranded under the Anderson name.
- The deal expands Anderson Automotive's footprint in the Carolinas and increases the total number of dealerships from 8 to 13, further establishing Anderson Automotive as one of the largest auto groups in the Southeast.
- Bradshaw Automotive Group was founded in 1979 and is headquartered in Greer, SC.
- Anderson Automotive was founded in 1955 and is headquartered in Raleigh, NC.

Lithia & Driveway (NYSE:LAD) acquires Jardine Motors.

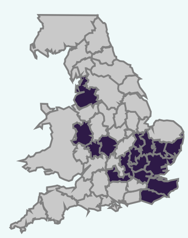
LITHIA MOTORS, INC. acquires Jardine Motors Group

Announced: March 16, 2023
Transaction value: Undisclosed

"Jardine's complementary leadership team, business model, sound financial performance and excellent OEM relationships make this group the ideal partner for our expansion into the United Kingdom. As part of our broader growth plan, we firmly believe the combination of our two businesses will deliver significant value for employees, partners, and customers alike."

– Lithia & Driveway CEO Bryan DeBoer

Jardine UK footprint



Jardine operates dealerships across several counties in the UK.

Observations and takeaways

- Acquisition represents LAD's entry into the United Kingdom after terminating their acquisition attempt of one of UK's largest automotive retailers, Pendragon PLC (LSE:PDG), in 2022.
- Equips LAD with agency model experience, including working with the manufacturer under the agency model construct.
- Jardine Motors will serve as a growth platform by adding over 50 complementary premium luxury retail locations for brands including Audi, Aston Martin, BMW, Mini, Jaguar, Land Rover, McLaren, Mercedes-Benz, Porsche, and Ferrari.
- The transaction brings LAD's 2023 annualized revenue to over $2.1 billion.

Parks Automotive Group receives investment from Franchise Equity Partners (FEP) and acquires two CDJR dealerships.

PARKS Automotive Group acquires LAKE NORMAN Chrysler | Dodge | Jeep | RAM, GASTONIA Chrysler Dodge Jeep Ram

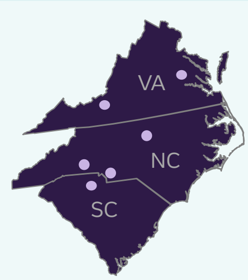
FEP Franchise Equity Partners invests in PARKS Automotive Group

Announced: January 19, 2023
Transaction value: Undisclosed

"We are excited to have the opportunity to partner with the many talented associates at the Lake Norman and Gastonia Chrysler-Dodge-Jeep-RAM dealerships. They have done an impressive job selling and servicing their markets, and their culture matches up perfectly with our organization."

– Parks Automotive President Adam Parks

Parks Automotive footprint



13 dealership locations

Observations and takeaways

- Acquisition of Lake Norman and Gastonia Chrysler-Dodge-Jeep-Ram represents Parks Automotive Group's first CDJR dealerships and expands the group to 13 dealership locations across North Carolina, South Carolina, and Virginia.
- The Lake Norman retailer is a high-performer amongst Stellantis dealerships and will relocate to a new 55,000-square-foot facility.
- The Gastonia dealership strengthens Parks Automotive Group's presence on I-85 and narrows the existing geographical coverage gap between Charlotte and Spartanburg.
- The transformative transaction was reinforced by FEP's second dealership group investment since launching in November 2021, allowing Parks Automotive Group to enhance its footprint within the Charlotte area.

Source: Capital IQ, industry news, company filings.

Summary of recent transactions in the auto dealership space					
Announced date	Acquirer	Target	Region	Target stores	Transaction commentary
5/23/2023	Franchise Equity Partners (FEP)	Parks Automotive Group	Southeast	NA	FEP makes $55 million capital investment in newly formed joint venture. The investment supports Parks Automotive Group's acquisition of two Stellantis stores near Charlotte, NC in January 2023.
5/8/2023	Group 1 Automotive	Beck & Masten Buick-GMC	Southwest	3	Group 1 expands its presence in Texas to 55 dealerships through acquisition of three high volume stores with expected annual revenues of $760 million.
5/4/2023	The Khoury Group	Don Elliott Auto World	Southwest	3	The acquisition of Don Elliott's Chevrolet, GMC, and Ram brands expands The Khoury Group's operations to 20 dealerships carrying 11 brands throughout Texas.
5/2/2023	Go Auto	Richmond Chrysler	Canada	1	Go Auto's footprint expands to 61 dealerships covering 28 brands and strengthens its presence in Lower Mainland, Canada alongside other premium and import brands.
5/1/2023	Leslie Doggett Industries	Kinsel Auto	Southwest	4	The acquisition included Kinsel's Toyota, Ford, Lincoln, and Mazda dealerships. Leslie Doggett's dealership are complemented by its John Deere and Toyota Material Handling segments.
4/18/2023	AutoCanada	Premier Chevrolet, Cadillac, Buick-GMC	Canada	1	AutoCanada announced the acquisition of its third dealership in Windsor, expanding its relationship with General Motors. The deal also included a collision center.
4/18/2023	Flow Automotive Companies	Umansky Automotive Group	Southeast	8	Flow Automotive adds several premium brands such as Audi, BMW, Mazda, Porsche, and Volkswagen brands in the Charlottesville area.
4/5/2023	Vann York Auto Group	Strider Subaru, Strider Buick-GMC	Southeast	2	The addition of Strider's dealerships in Asheboro represents Vann York's 7th and 8th dealership locations.
4/4/2023	Ken Ganley Automotive Group	Friendly Kia	Southeast	1	Ken Ganley, the largest dealer group in Ohio, expands its presence in Florida through the acquisition of Friendly Kia, the top volume Kia dealership in Florida.
3/28/2023	Group 1 Automotive	Estero Bay Chevrolet	Southeast	1	Estero Bay Chevrolet ranks fifth in new-vehicle volume among Florida Chevrolet dealerships and is expected to generate $150 million in annual revenues.
3/20/2023	Murgado Automotive Group	Motor Werks Auto Group	Great Lakes	6	Murgado expands its presence in Illinois through the acquisition of premium and import brands including BMW, Cadillac, Honda, Infiniti, Porsche, and Mercedes-Benz dealerships.
3/15/2023	Swickard Auto	Anderson Autos of Thousand Oaks	West	2	The acquisition of the Buick, GMC, Cadillac, and Chevrolet store is the continuation of Swickard's late 2022 acquisition of a total of five Anderson dealerships.
2/13/2023	Team Automotive Group	Addy's Harbor Dodge Ram Fiat	Southeast	1	The acquisition expands Team Auto Group's presence in the Carolinas and their first store in South Carolina brings the Team Auto Group to a total of seven dealerships.
2/9/2023	Foundation Automotive	Crossroads CDJR	Southwest	1	Crossroads CDJR is based in Texas and is the second dealership sold to Foundation by Glascock, Flores, Godwin, and Wagoner.
2/9/2023	Lithia & Driveway	Acura of Thornhill	Canada	1	The acquisition marks Lithia's 15th dealership in Canada and its latest Canadian acquisition since mid-2022. Lithia entered the Canadian market in 2021.
2/1/2023	Go Auto	Mercedes-Benz of Bellingham and Toyota of Bellingham	West	2	The Bellingham dealerships are Go Auto's first stores in the United States. The acquisition expands Go Auto's brands to include Mercedes-Benz.

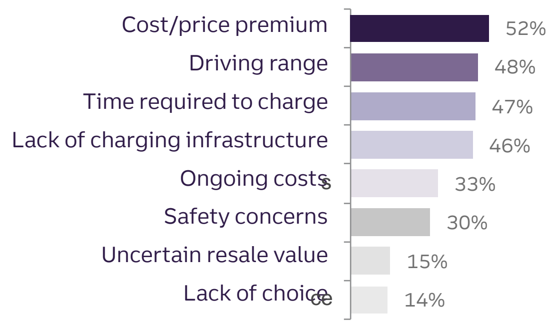
Source: Industry news.

EV adoption and its potential impact on dealership fixed operations

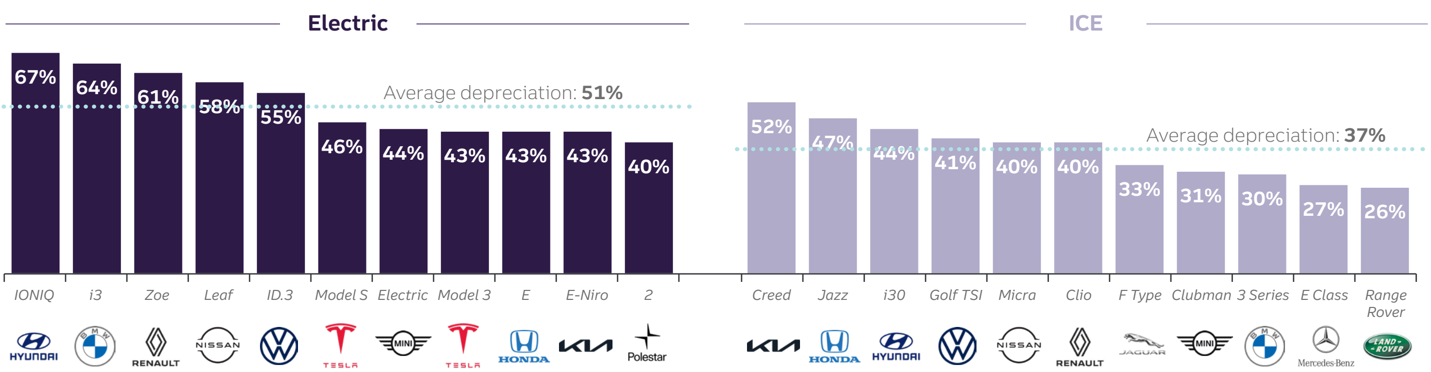
Resale value adds to EV adoption headwinds.

- The number of consumers who say they are unlikely to buy an EV is up 3% in 2023, while those likely to buy one remains flat. Adoption forecasts are varied and range from 40% to 50%+ of new car sales by 2030. While some believe we are in the decade of EVs, consumers are increasingly hesitant to pivot from the familiarity of ICE vehicles.
- More aggressive forecasts believe government policies such as federal tax credits will drive EV demand while recent depreciation statistics reveal that EV purchases may be slowed by lower EV residual values.
- EVs are depreciating at an accelerated rate to that of ICE vehicles, losing more than half their value in just three years. The trend is expected to continue until more EVs hit the road and stabilize depreciation rates.

2023 U.S. consumer EV adoption concerns



3-year vehicle depreciation: 2020 – 2023



EVs impact on fixed operations remains unclear.

- Vehicle service and repair is a major component of dealership revenue and profitability, and EV adoption presents an opportunity for franchise dealers while also introducing risks to the current business model.
- Although EV adoption is underway, a full transition will take time, and ICE vehicles will remain on the roads for decades. Fixed operations revenue from ICE vehicles will continue well into the future, benefiting both independent repair shops and franchised dealers who offer new, used, and repair services.

Potential opportunity

- **Increased revenue service per hour**
  EVs are equipped with more complex sensors and instruments, requiring advanced service capabilities and greater demand for parts.
- **Franchised groups as preferred service providers**
  Franchised dealers of scale can leverage efficiencies to offer specialized technicians and equipment to gain competitive advantage over small and independent dealers.
- **Incremental revenue streams**
  Dealers can maintain existing lines of business and diversify into opportunities such as over-the-air (OTA) services.

Potential risk

- **Reduced service and maintenance**
  High potential for reduced revenue from servicing EVs versus ICE vehicles due to lower wear and tear per mile driven.
- **Increased capex spend**
  EVs require greater technical skills and specialized service equipment, calling for significant investment.
- **Potential disruption to current business**
  OTA software and software as a service (SaaS) may reduce trips to dealerships, and the dealer/OEM revenue share model is yet to be determined.

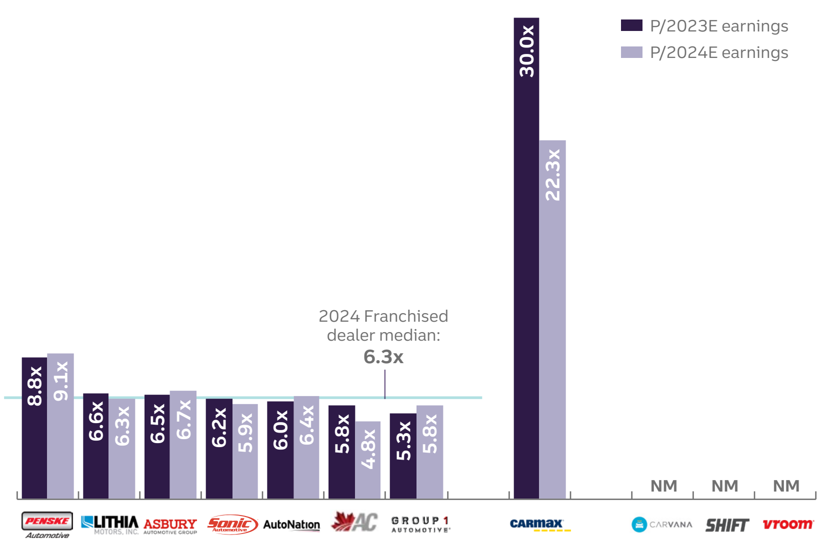
Source: Over-the-air vehicle updates can help dealership service departments, Automotive News, December 15, 2019; Electric Car Depreciation, choosemycar.com, accessed April 2023; Deloitte 2023 Global Automotive Consumer Study; Are EV sales declining? Electrifying the car market may be getting harder. Here's why USA Today, May 8, 2023; Will EVs Dent the Auto Repair Business?, Wall Street Journal, May 12, 2023.

Public dealership valuation and performance

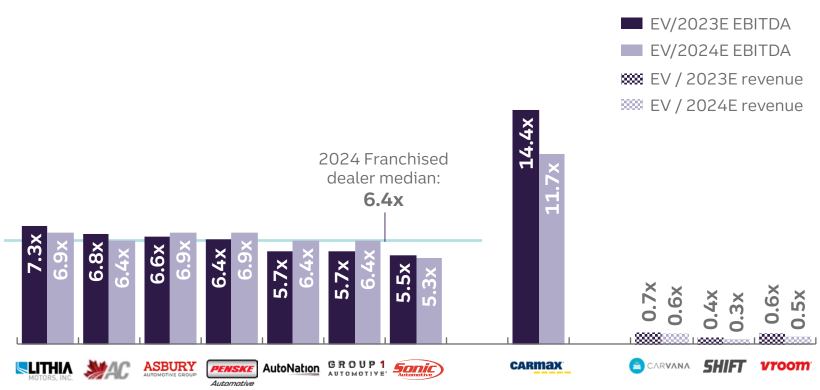
Market commentary

- Valuation multiples remain compressed because of ongoing supply challenges, high interest rates, and risk of a potential recession. Franchise dealer comps vary with Asbury Automotive Group (NYSE:ABG) and Lithia Motors (NYSE:LAD) trading down recently relative to peers.
  - Investor concerns of exposure to Stellantis have impacted ABG. Unlike other manufacturers, Stellantis has continued producing at an elevated pace, resulting in an oversupply of new vehicles pressuring margins.
  - LAD shares the same Stellantis concerns, in addition to weaker results from its captive finance company, Driveway Finance Corporation, which is expected to post a $40 million loss this year. The loss mainly results from a reclassification of net charge-offs, not a deterioration in core loss expectations.
  - A resilient parts and service category is providing earnings sustainability, and continued growth is expected as miles driven increases with a challenging affordability backdrop supporting maintenance demand.
- Direct-to-consumer (DTC) independent retailers saw equity valuations collapse in late 2022 when investors shifted to favoring cash flow positive assets amidst an inflationary environment. Valuations have recovered a portion of those losses as interest rate increases and recessionary fears have waned.
  - After losing ~93% of its market cap, Carvana (NYSE:CVNA) has recovered a portion of those losses, largely by easing solvency concerns with a $1B debt-to-equity exchange.

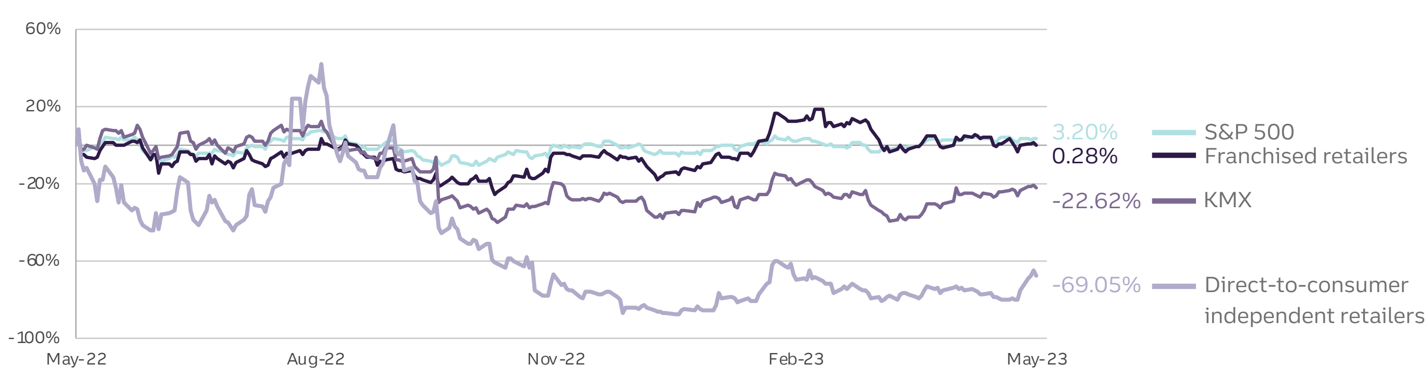
P/2023E & 2024E earnings



EV/2023E & 2024E EBITDA



1-year stock price performance

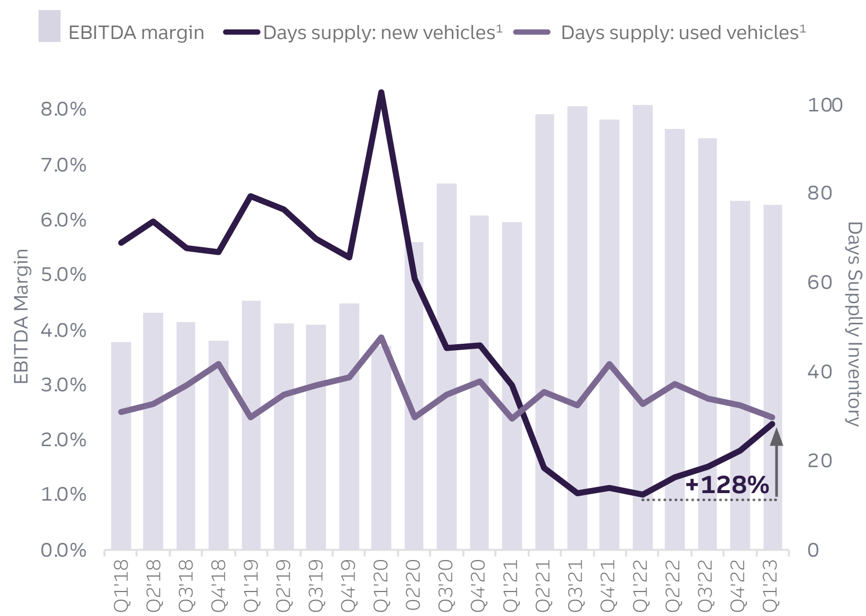


Source: Capital IQ.
Market data as of 5/15/2023.
Note: Franchised auto retailers index includes AN, ABG, GPI, LAD, PAG, SAH and TSX:ACQ; DTC Independent retailers index includes CVNA, SFT and VRM.

Public dealers experience increased supply.

- For the past couple of years, low supply and high demand allowed dealers to capture increased front-end margin on both new and used vehicles. Profit margins expanded 3x–4x when reduced inventory coupled with strong demand diminished consumers' bargaining power at the dealer.
- New vehicle supply is trending higher with domestic brands close to full production, while import supply remains tight. However, sale prices continue to move higher while incentives remain at historical lows, suggesting that underlying demand remains strong.
- Strong pricing, relatively low inventory, and high consumer demand are supportive of dealer profit margins in the near term.
- Demand for used vehicles has been resilient with used vehicles serving as an alternative to buying new given economic headwinds and limited incentive support from OEMs so far this year.

Publicly traded franchised auto retailers EBITDA margins and days supply inventory



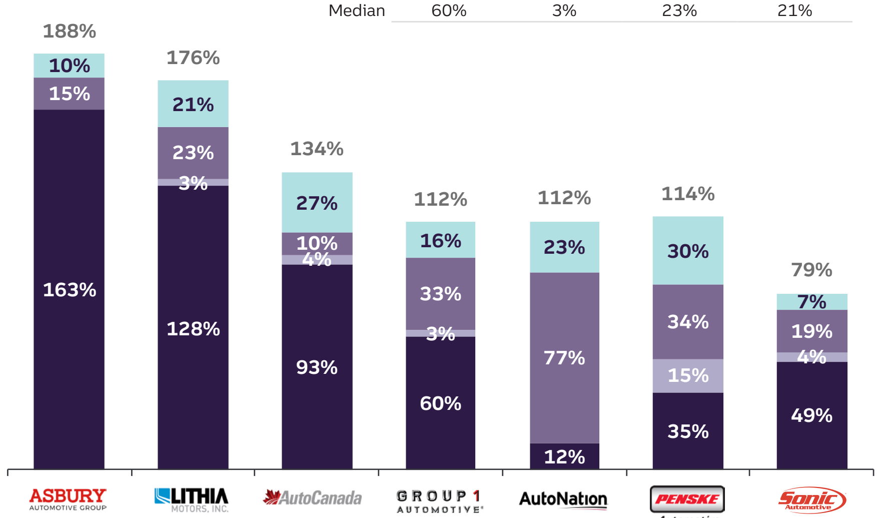
[1] New and used days supply not available for GPI Q1'18-Q1'20 and PAG Q1'18; New days supply not available for SAH Q1'18-Q3'18, Q1'19-Q3'1, and Q1'20.

Capital allocation is poised to swing back to acquisitions.

- Cash generation and balance sheet strength drove high capital allocations over the last five years. Additionally, Asbury, Lithia, and AutoCanada took advantage of periods of low interest rates and access to external funds by deploying capital beyond their generated free cash flow.
- Public dealers have prioritized deploying capital for acquisitions, with AutoNation being the notable exception. Following heightened acquisition spending from 2020-2021, share repurchases have increased. However, acquisition prioritization over repurchases may resume as prices moderate.
- More recently, public dealers have remained disciplined, with capital allocation strategies driven by a returns-based framework that deploys a balanced allocation of repurchases and acquisitions. To a lesser extent, capital is also being returned to shareholders and used for capital expenditures.

5-Year capital allocation for public dealers

	Acquisitions	Dividends	Share repurchase	Capex
Average	77%	4%	30%	19%
Median	60%	3%	23%	21%



Data as of FYE 12/31/18 through FYE 12/31/22

Source: Capital IQ, industry news, company filings.
Note: Franchised auto retailers index includes AN, ABG, GPI, LAD, PAG, and SAH.

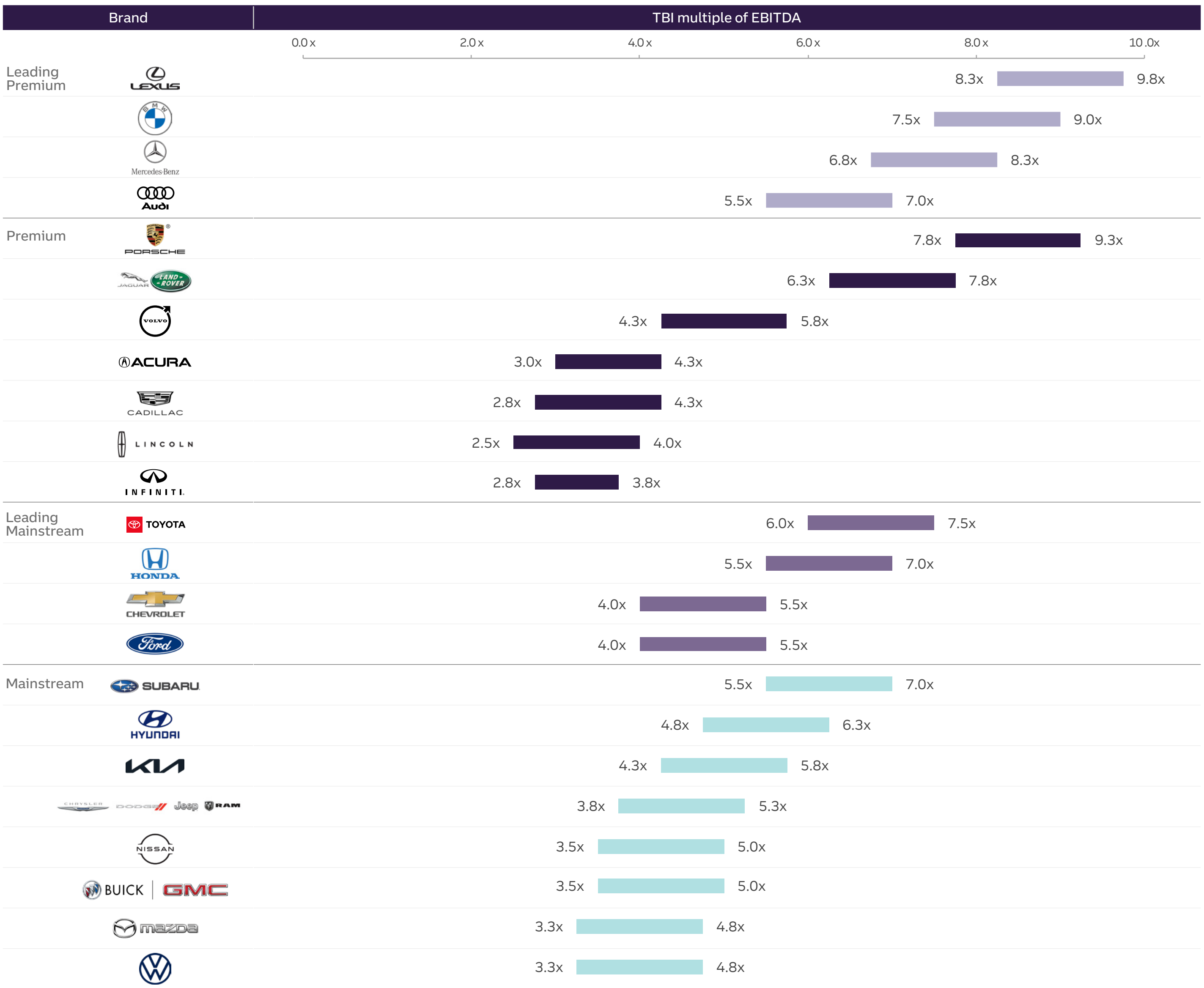
Truist Blue Sky Index

Franchised dealership buy-sell Blue Sky multiples trend higher over prior year.

Truist estimates for brand valuation include a mix of precedent transactions, Truist Blue Sky Index survey results, and industry observations.

The volume of dealership buy-sell transactions remains robust, and over the last twelve months, the industry has experienced a broad increase in blue sky multiples paid for franchised dealerships. This positive trend reflects the competitive nature of recent transactions stemming from well-capitalized buyers pursuing desirable assets. Franchised dealerships that exhibit strong new and used sales volume, increasing market share, efficiency gains post-COVID, and investment in facility EV and service capacity upgrades are well-positioned for future growth despite potential macroeconomic headwinds. Smaller tuck-in or larger acquisition prospects present synergistic opportunities for dealership consolidators, often providing a lift to the final purchase price. Hyundai and Kia brands have demonstrated strong recent performance, leading to increased buyer interest and an outsized increase in blue sky value.

The valuation disconnect between buyers and sellers has narrowed, but disagreements remain with respect to future performance. While brand blue sky multiples are generally agreeable, estimating appropriate multiplier often incorporates various assumptions to forward performance. Risks surrounding macroeconomic uncertainty, rising interest rates for both consumers and floorplan expense, and increasing vehicle inventory remain, but growth-minded dealers continue active consolidation of the space.



The table represents our estimate of the multiple of earnings before interest, taxes, depreciation, and amortization (EBITDA) that a motivated buyer participating in a competitive sales process would pay to acquire the goodwill or blue sky portion of a franchised dealership. Public and private transaction data was supplemented with a survey of Truist's dealership clients to inform the valuation ranges. The multiples reflect the estimated standalone value of a brand and do not include dealership-specific adjustments or any dealer group "consolidation premium," which typically adds an incremental 0.5x - 1.0x to the implied blue sky value of the group.

Source: Truist Bank, industry news.

Truist Securities Automotive Retail capabilities

Sell-side advisory

- Exclusive sell-side advisory role
- Evaluation of potential or existing unsolicited offers
- Negotiation of terms and conditions
- Manage an organized and competitive marketing process in either a targeted or broad auction format depending on client concerns and objectives
- Broad access to financial sponsor/ family office investors interested in automotive retail

Buy-side advisory

- Advisory role for buyer when evaluating an identified and actionable acquisition
- Valuation analysis to support the acquisition
- Negotiation of deal structure and key terms
- Coordinated effort with financing team to evaluate optimal pro forma capital structure

Financial advisory/capital raising

- Advisory services to determine best strategic alternative
- Private capital-raising initiations to support growth or selling to minority holders
- Recapitalizations to facilitate management buyouts or succession planning
- Leading equity platform provides a breadth of experience to advise on any equity offering

Select recent automotive transactions

FEP has made a minority investment in Parks Automotive Group	Friendly Sale to Ken Ganley Auto Group	$2,800,000,000 IAA / RB Ritchie Bros. Auctioneers	Bradshaw Sale to Anderson Automotive Group	Lake Norman / Gastonia Chrysler Dodge Jeep Ram Sale to Parks Automotive Group	$175,000,000 Auction Credit / XLFunding	John Greene Sale to Team Automotive Group
Private Placement Agent	Buy-Side M&A Advisor	Co-Manager Acquisition Financing	Sell-Side M&A Advisor	Buy-Side M&A Advisor	Lead Arranger/ Lead Bookrunner Senior Secured ABL Revolving Credit Facility	Sell-Side M&A Advisor
May 2023	*April 2023*	*March 2023*	*January 2023*	*January 2023*	*July 2022*	*December 2021*

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