Truist Dealer Insider

Insights for Automotive Retailers

Volume 6, Winter 2023

TRUIST

Dealer Services

Welcome to the Winter 2023 issue of the Truist Dealer Insider

Dear Friends,

As 2023 begins, most dealers are still experiencing momentum from the most profitable years in auto retailing history while realizing that at some point, there will be a return to historical margins and operating conditions.

That return could be a smooth one bolstered by backlogged demand and gradual ramp-up of manufacturer production. At the same time, challenging economic conditions, high interest rates, and consumers backing away from higher pricing levels could make for a much different story. In whatever way 2023 plays out, this issue's articles will help you plan for opportunities, risks, and volatility of the year ahead and beyond:

- **Understand the dealership buyer's perspective.**
- **Be ready for what comes next with planning around scenarios.**
- **Get the latest on M&A transactions, trends, and dealership valuations.**
- **Take an in-depth look at how automation is changing consumer auto financing.**
- **Discover the impact that financial education can have on your customers and your community.**

With the ***Truist Dealer Insider***, we've built a valuable source of industry information that provides a window into the insights that Truist can bring. Yet it's no substitute for the value we can deliver by working directly with your dealership and getting to know your goals, challenges, and opportunities.

Wherever you are in your dealership's lifecycle, Truist is here to partner with you and offer strategic advice to support you in capital structuring, auto finance, M&A strategy, or business and family transition planning. Contact any of us at Truist Dealer Services and draw on our industry experience and deep roots in our local communities to support your business.

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

Is now the right time to invest in auto retailing?

JT Taylor
Head of Automotive Retail
Truist Securities

The auto retailing sector has been booming over the past two years, but questions about extending current dealership profit levels into the future combined with current economic headwinds make forecasting challenging. For now, the auto retailing industry holds the interest of consolidators and investors looking for promising dealerships to buy.

The Automotive Retail team at Truist Securities advises a variety of dealerships across the country on buying, selling, and capitalizing their dealerships. JT Taylor, head of Automotive Retail at Truist Securities, shares his perspective on how buyers are viewing opportunities in the retail dealership business.

Investors remain bullish on auto retailing.

As investors look to buy dealerships, access to cost-efficient debt to fund acquisitions and a thoughtful financial partner like Truist are only the start. Of principal interest to investors is whether current operating conditions will continue to provide the margins and record levels of net profit auto dealers have enjoyed since May 2020.

The "unprecedented times" we're experiencing look remarkably like the post-WWII auto retail marketplace when it took 10 years for new vehicle production to catch up to retail demand and have predictable depreciation for used vehicles. The largest auto manufacturers are telling North American dealers to expect reduced levels of inventory for at least two more years, maybe longer. If unmet customer demand stays at approximately 1.5 million units per year, pent-up demand for new cars and trucks could be as high as eight million units by 2026. It would take four years to clear that backlog and return to a 45-day supply of vehicles at retail.

With such high demand, dealer profits should remain above historical levels for years to come, despite lower margins caused by rising interest rates. Even if gross profit margins decrease by 20-25% from the past two years' averages, increased volume could offset decreasing margins and hold net profit levels steady. Analysts expect comparable demand for parts and service during this period, giving dealers increased profit opportunity in fixed operations as well.

What about used vehicles? As supply constraints begin to ease, prices are normalizing slightly but demand for used vehicles remains strong at retail. And commercial vehicle businesses who can't meet user demand with new vehicles will rely on the wholesale market to supply their rental fleets. As scarcity drives pricing, fewer new vehicles today will result in fewer used vehicles tomorrow—values will be slow to decline and used vehicle prices will normalize gradually.

The auto industry is poised for transformation over the next 5-10 years—manufacturers will retool for a future with electric vehicles (EVs) and will experiment with agency models while dealers seek technology solutions to expand their value for customers. Do investors see an industry in transition as a red flag or a source of opportunity?

Current levels of M&A activity answer that question—so far, growth-minded dealers and investors remain bullish on our industry and its prospects. Although pressure from inflation, high interest rates, and staffing challenges may reduce profitability and result in dealership prices retreating from their peak, strong buyer demand will support auto retailer performance for the immediate future.

Is this dealership right for me?

When considering a particular dealership, buyers typically assess:

Management: Is there a trusted leader available to direct an acquisition and ensure it fulfills its promise? The top reason the right buyer declines an opportunity is not having the right leader for the business. There are no substitutes for leadership, and buyers may need to do a deep dive into the target's existing management to evaluate the talent they can tap into post-close. As one public auto retailer CEO put it, "It's easy to buy stores but much more difficult to find the people to operate them well."

Today's successful operator may not be equipped to compete and manage in tomorrow's marketplace. As the customer purchase journey becomes more sophisticated, it's critical to have data-driven people and processes along with savvy leaders to ensure the best car buying experience for customers now, and in the future.

Facilities: Electrification and the adoption of an order-and-wait-for-delivery model by consumers may make smaller dealership footprints viable for the future. So far, manufacturers seem reticent to lower land and building requirements, and brand imaging remains a major consideration when purchasing a dealership. Capital expenditures for facilities are expensive and time consuming, so astute consolidators complete detailed assessments of the condition of existing facilities and brand image compliance. In faster-growing areas like Florida, Texas, the Carolinas, and Northern Virginia, future add points in their markets of interest are a vital factor—nothing changes potential like the addition of a same brand competitor.

Is it time to sell?

If you've decided that a sale is the best option for you and your business, you can take advantage of historically high dealership valuations. If selling isn't already your strategic imperative, there are other considerations that may point you in a "sell" direction:

1. **Are dealership prices likely to go higher?** Economic conditions and industry factors have calmed the frenzied M&A activity that characterized the last two years, but healthy dealerships are still finding buyers at or near their asking price. The gentle slowdown in M&A is a reminder that there's no guarantee that delaying a sale and continuing to work is a decision that will give you the financial returns you desire.
2. **Does my business have the economies of scale to be successful?** Scale is critical to stay competitive in today's consolidating automotive market. As operating costs continue to rise, dealers need the cost reductions that economies of scale deliver to stay profitable. To achieve competitive scale, you may need to acquire dealerships or sell to a consolidator, protecting your dealership's value and maintaining its commitment to your employees and your community. There are still M&A funds available for those looking to acquire and grow, particularly as lenders make more funds available for deals during the first half of 2023.
3. **Is my dealership an attractive target for a growth-oriented consolidator?** There are financial investors from outside the industry who are driving M&A and looking for the right industry partners to add to their plaforms. If your dealership has a solid market position, with well-run operations and a strong management team, the best answer for the stakeholders in your business—including your family and the community you serve—may be to sell. The injection of capital and growth mindset can be a powerful combination.

Change is happening across the automotive industry along with the broader economy and today's automotive industry offers attractive opportunities for both buyers and sellers. For those who understand what it takes to thrive and are willing to do that work, it's a terrific time to be a buyer. High dealership valuations provide opportunities for sellers to make sure their plans realize their business's potential and maximize its value going forward.

Whether you consider yourself a buyer, a seller, or are still deciding, give us a call at Truist Dealer Services to help you look at the market and find the best path forward for your business. For more information, visit our website.

Scenario planning positions dealerships to embrace what's possible

Rick Schmersal
Senior Vice President,
Truist Corporate Finance Group

Cam Casto
Senior Credit Risk
Manager at Truist

Jason Smith
Head of Truist Dealer
Commercial Services

The dealership business is coming off some of its best years ever, and the combination of low unemployment and pent-up demand for vehicles will provide momentum for dealers going into 2023. Yet rising interest rates and a volatile economy could serve as a check on the appetite for vehicles while the pace of manufacturers' production ramp up remains a wild card that dealers need to watch closely. At some point, industry conditions and financial returns are likely to return to historical norms, a downshift from the operating conditions of the past few years.

Not only will dealers need to prepare for short-term market changes, but a leader also must consider longer-term moves to secure the business for future generations and maximize its enterprise value. Whether you have aggressive growth plans or want to maintain the status quo, you're the one responsible for ensuring the value of the enterprise and protecting the livelihoods of all those who depend on the business.

The process of developing dedicated plans and in-depth financial models takes time and can often require technical skills. Truist Dealer Services can help by providing planning expertise to model scenarios that will prepare your business for the future while keeping your management team focused on running your dealership's operations.

Go to the drawing board to start planning.

Planning starts with your strategic vision for the business—even the most sophisticated models are grounded in a succinct and straightforward statement of where you want your business to go and what you'll need over the coming years:

- What are your goals and objectives over the next 5-10 years?
- What is the plan beyond that intermediate 5–10-year horizon?
- Do you have the financial and intellectual capital (people and talent) to achieve those objectives?
- Are future generations prepared for their roles in the business? If not, what happens?

The answers to these questions come easily to some, but a strategic advisor like Truist can often help you frame your picture of the future.

Digging deeper, you'll want to take time to discuss and document key business elements. Some elements will apply to your business more than others, but a complete plan should consider the following:

- **Competitive strategy** – Are you in the right markets with the right brand mix?
- **Growth and acquisition strategy** – How do you assess new markets and how far can you extend your geographic reach? Are add points an option and are you cultivating your manufacturer relationships to position for those? How do you interact with potential sellers and position your dealership as a buyer of choice?
- **Potential divestitures** – How do you assess underperforming stores? Are you appropriately pruning your portfolio when necessary?
- **Capital strategy** – Do you have an efficient capital strategy that is easily (and quickly) scalable and can withstand an unexpected economic shock?
- **Talent strategy** – Do you have enough bench strength to manage the complexities of an acquisition and additions of new stores and/or brands?
- **Ownership, succession, and exit plans** – Do you have clear plans for transition? How prepared is your next generation for whatever role they'll have in the business going forward? Should you be considering an exit at some point in the future? If so, what type of planning are you doing now to prepare for that exit?

Part of effective planning includes gathering outside perspectives on the overall economy, the auto retailing industry, what other dealerships are doing, and the issues that are most pressing for your business. Here's another area where Truist can help—we'll share our views on what's most relevant for your business and outline the implications for your planning. That includes looking at consumer trends, economic forecasts, M&A opportunities, observed dealer best practices, geopolitical issues—helping you anticipate what comes next.

Using financial models to bridge to your long-term vision

Dealership financial managers and CFOs often have their hands full with day-to-day operating pressures and that can mean detailed financial modeling and scenario planning gets less attention than it should. It's not an easy task to assemble the tools and skills and carve out the time to build detailed models incorporating factors like cost of capital, economic volatility, and pressures on the auto retail businesses, while adjusting for business risk.

Detailed modeling matters—it's the key to preparing your business to handle whatever comes next and giving you a roadmap to critically assess the impact of future decisions. The scenario planning you do now, including modeling and stress-testing possible outcomes, puts you in a better position to act quickly later when acquisition or transition opportunities surface.

As you build scenarios, what should you be modeling? Below are essential factors to consider:

Your current capital structure and its implications. Take a step back for a better perspective on your dealership's capital structure—are there ways you can strengthen your capital base, improve your access to capital, or reduce your cost of capital? Do you have loans spread across different lenders, making it harder to consolidate equity and create strategic leverage? Have you considered a loan syndication that would give you ready access to committed capital to fund growth projects quickly and efficiently?

Future capital requirements. Do you have the necessary capital to facilitate planned organic growth such as real estate projects, facility upgrades, relocations, and add points? Do you have ready access to capital to support a growth-through-acquisition strategy?

Other needs within or outside of the dealership. Assess tax issues, estate planning, outside interests, and philanthropy plans. Do you want to diversify your family wealth and potentially consider a dividend recapitalization to "take some chips off the table"?

Once you have a sense of these factors, a detailed financial model enables you to see the immediate impact of various scenarios on both your balance sheet strength and future cash flows. You can stress test your initial assumptions for a wide variety of potential challenges like the potential for recession, increased interest rates, or manufacturer challenges. A well-thought-out model is an invaluable tool in the decision-making process.

What to expect from Truist scenario modeling

When it comes to supporting your dealership's plans, the Truist Dealer Services team offers you deep industry knowledge that ranges from corporate finance to M&A and from wealth management to treasury services. Our collaborative approach involves working with your leadership team to build out the models and tools you'll need to make informed, long-term decisions that minimize risk and grow enterprise value.

Here's how it works. We start with a joint working session to understand your vision for your business and then talk through what's happening with your employees, your leadership team, and your customers—all the key players. We'll share what we're seeing and what we're expecting moving forward.

We'll also discuss your family and workplace dynamics, as well as any succession plans you may have or want to develop.

From there, we'll gather vital statistics about your dealership. We'll model various scenarios using the levers available to you so you can see the impact of potential financing sources across time and how they might affect your business.

Building a workable roadmap

With your goals in mind, we'll create a comprehensive qualitative and quantitative analysis that looks out over the coming years. Then we'll come back to the table and talk through taking advantage of opportunities, looking out for hidden risks, and determining how you might be able to improve cash flow or rethink your capital mix. Most importantly, we'll help you get ready to act on the opportunities when they arrive.

Let us put our expertise to work and help you find the peace of mind of knowing your dealer business is prepared for the future. Talk to your Truist Dealer Services relationship manager to see how we can help you be prepared to turn possibilities into realities.

Dealership M&A and valuation overview

Recent noteworthy deals in auto retail M&A

Ritchie Bros. Auctioneers (NYSE:RBA) acquires IAA (NYSE:IAA)

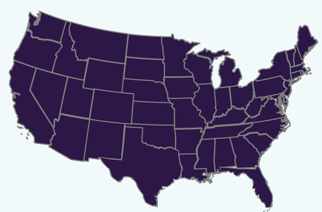
RITCHIE BROS. Auctioneers acquires IAA

Announced: November 7, 2022
Transaction value: $7.3 billion

"IAA accelerates our journey to become the trusted global marketplace for insights, services, and transaction solutions. Their highly complementary business in an adjacent vertical will allow us to unlock additional growth. Through our trusted brands, similar operating model, and complementary services, we expect to drive efficiencies and create a more resilient business."

– Ritchie Bros. CEO Ann Fandozzi

IAA U.S. locations



IAA has 150+ auction sites spread across all states with international locations in Canada and the U.K.

Observations and takeaways

- Combining Ritchie Bros. and IAA product offerings immediately creates a leading global marketplace for commercial assets and vehicles with pro forma revenue of ~$3.8 billion and adjusted EBITDA of ~$1.0 billion, excluding ~$350 million to $1 billion of incremental synergies.
- The transaction adds a successful business in a new vertical, diversifying Ritchie Bros. business by both customer type and geography and creating a more resilient business model.
- The combined company will have new opportunities to advance its yard strategy more efficiently in key regions across the United States and internationally.
- In January 2023, Ritchie Bros. amended the terms of the acquisition to a greater cash component following Starboard Value LP's plan to make a $500 million investment in Ritchie Bros.

AutoNation (NYSE:AN) acquires RepairSmith

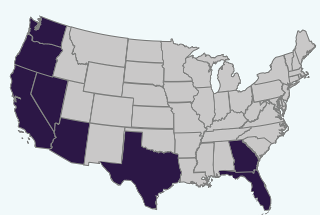
AutoNation acquires REPAIR SMITH

Announced: December 12, 2022
Transaction value: $190.0 million

"RepairSmith is the next step in our plan. It expands AutoNation's ability to penetrate the extensive after-sales service market and conveniently respond to our customers' needs by broadening the reach of our existing after-sales network."

– AutoNation CEO Mike Manley

RepairSmith U.S. locations



RepairSmith offers its mobile vehicle repair services across eight different states.

Observations and takeaways

- RepairSmith is a full-service mobile solution for automotive repair and maintenance headquartered in Los Angeles, CA with a significant operational footprint in the southern and western United States.
- The transaction supports AutoNation's core strategy of being the nation's most comprehensive provider of transportation solutions through a connected range of products.
- The acquisition of RepairSmith supplements AutoNation's after-sales business with another channel providing service to the existing customer base and access to vehicle owners who have purchased vehicles outside the AutoNation dealer network.
- RepairSmith offers customers the convenience of services and repairs at their home or workplace and provides on-site services for fleet vehicles.

Summary of recent transactions in the auto dealership space

Announced date	Acquirer	Target	Region	Target stores	Transaction commentary
1/20/23	Parks Automotive Group	Lake Norman & Gastonia CDJR	Southeast	2	Provides two high-performing stores and the CDJR brand to Parks Automotive Group's offering and further expands their presence to 13 dealerships in the Southeast region.
1/5/23	Hudson Automotive	Asbury Automotive Dealerships	Southeast	5	Hudson Automotive announced the acquisition of five Greensboro, North Carolina auto retailers, including a collision repair business, for $60.3 million. Dealerships included Crown BMW, Crown Honda, Crown CDJR, Crown Volvo, and Crown Acura.
12/7/22	Alpha Auto Group	Mercedes-Benz of Fresno	West	1	This acquisition is Alpha Auto Group's first expansion into California and the first Mercedes-Benz dealership among its current 13-store portfolio.
12/6/22	Lithia & Driveway	Ferrari of Denver	West	1	Lithia & Driveway announced the acquisition of their first Ferrari store. This is the only Ferrari location in the greater Rocky Mountains region, and it sells other luxury brands such as Bentley.
12/1/22	AutoCanada	Sterling Honda	Canada	1	AutoCanada's addition of Sterling Honda adds a high-quality, well positioned dealership in an attractive market. The deal advances the strategy of diversifying brand offerings with a geographic mix of locations.
12/1/22	Group 1 Automotive	Mercedes-Benz of Anaheim	West	1	With this addition, Group 1 deepens its global relationship with Mercedes-Benz to 17 dealerships in the U.S. and U.K. It also enlarges existing operations in the Southern California market.
11/30/22	401 Group of Companies	Lapointe CDJR, Pembroke Honda/Nissan, Peterborough Hyundai/ Subaru, Renfrew Chrysler and Stratford Hyundai	Canada	7	The 401 Group almost doubles its portfolio of new-car dealerships with two acquisitions accounting for seven stores in Southern Ontario. This purchase solidifies the firm's stance of broadening throughout the Canadian market by adding new franchises and bringing four new manufacturers to its product line.
11/29/22	Lithia & Driveway	Meador CDJR of Dallas/ Fort Worth	Southwest	1	By acquiring the second largest CDJR store in the Dallas/Fort Worth area, Lithia & Driveway continues the expansion of its nationwide network as part of the company's 2025 plan to reach $50 billion in revenue and $55 to $60 in EPS.
11/22/22	McGovern Automotive Group	Capital Luxury Cars	Northeast	2	The acquisition, which included Capital Volvo Cars and Jaguar Land Rover Albany, demonstrates McGovern's focus on buying premium brands in top retail locations.
10/27/22	AutoNation	Moreland Auto Group	West	4	AutoNation continues the larger trend of consolidation through the acquisition of four dealerships in Colorado that represent nine franchises.
10/19/22	Morgan Automotive Group	LMP Automotive Dealerships	Southeast	2	By adding Kia dealerships in Port Charlotte, FL and Cape Coral, FL, the deal grows Morgan's dealership base to 60 stores throughout the state of Florida.
10/18/22	Diehl Automotive	Waikem Auto Family	Midwest	6	Diehl Automotive extends its Ohio footprint with the purchase of six stores outside of Canton. Brands included in the transaction are Ford, Honda, Hyundai, Kia, Mitsubishi, and Subaru.
9/23/22	Lithia & Driveway	Wilde Automotive Group	Midwest	5	The five stores across the CDJR, Honda, Subaru and Toyota brands enlarge Lithia & Driveway's north central presence.
9/6/22	Group 1 Automotive	BMW/Mini Dealership and Collision Center	U.K.	5	With the acquisition of a BMW/MINI dealership and collision center in the town of Southend in the county of Essex, Group 1 bolsters its U.K. operations.

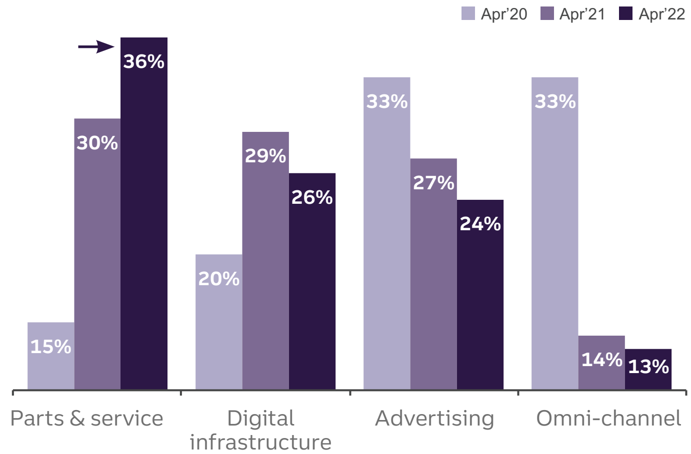
Source: Industry News

Industry trends — Franchised dealer investment can grow sustainable profits in the fixed operations segment.

Growing investment in parts and service initiatives provides a foundation for franchised dealers to capitalize on near- and long-term trends

- Fixed operations of automotive retailers provide steady gross profit margins (45%+ on average) and are a pillar of dealership profitability and stability to better weather economic cycles.
- Franchise dealers' fixed operations stand to benefit from increased, 50%+ margin, customer pay (off-warranty) repair business as the size of the four- to eight-year-old car parc cohort increases.
- Strong performance and improvements in the fixed operations segment are viewed more favorably by equity research analysts than variable operations, especially leading into a potential economic downturn.
- As the industry's trend toward consolidation continues, dealers of scale are investing capital in growing parts and service capabilities and digital infrastructure that can be shared costs across the enterprise.

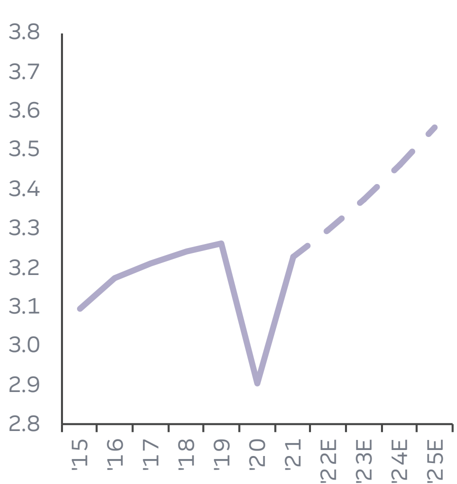
Dealership capex shifts to parts and service.



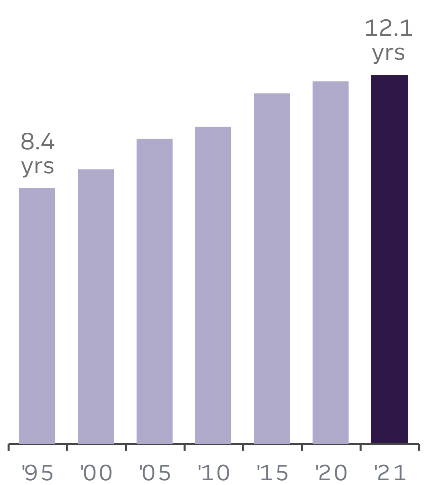
OEMs are aggressively expanding EV capabilities and portfolios. > **New product lines are proving a catalyst for facility upgrades to support EV service & parts, with an average investment of $300,000+ per dealership.**

Miles driven & vehicle longevity trends provide a tailwind for repair demand.

Post-pandemic recovery in miles driven
(Miles in millions)



Average age of car on the road



- As the COVID-19 impact fades, miles driven have returned to historically normal patterns.
- Due to the lack of supply and high prices of vehicles, consumers are retaining their vehicles instead of replacing them.
- Growing vehicle complexity and the onset of EVs are increasing the average age of vehicles, driving increased demand for service, parts, and collision repair.

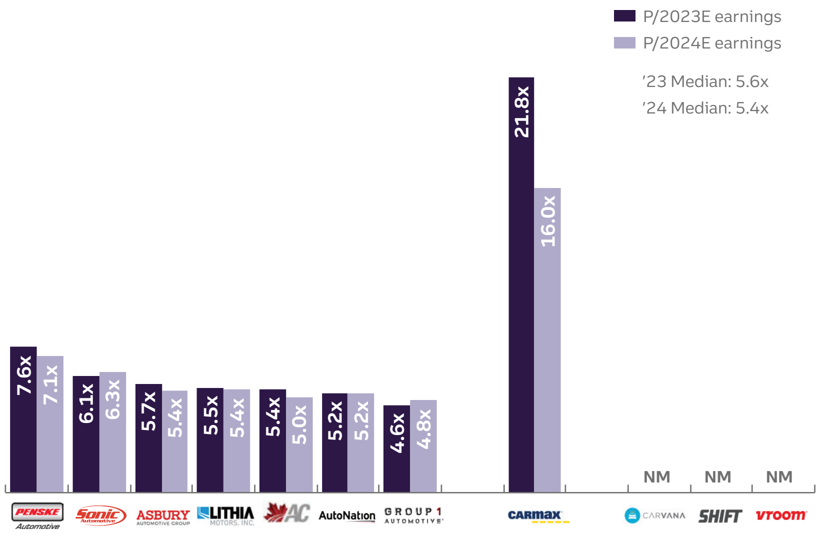
Source: Bureau of Transportation Statistics, Equity Research, IHS Markit, NADA, and U.S. Federal Highway Administration.

Public dealership valuation and performance

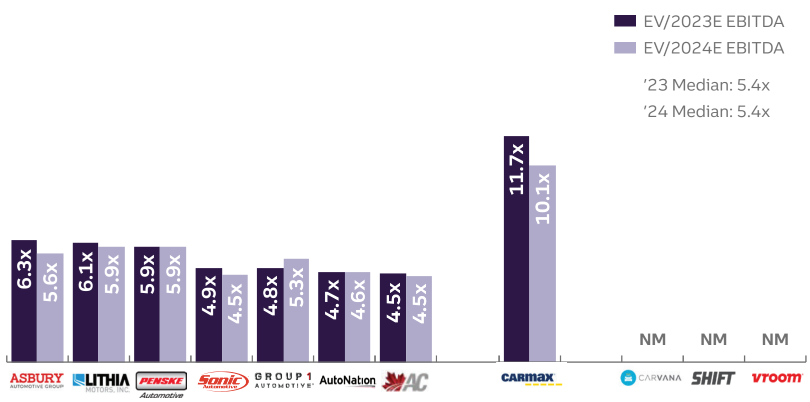
Market commentary

- Forward multiples have compressed as investors weigh the difficult macroeconomic environment of rising interest rates, softening demand, and increased material costs. However, a preliminary easing of supply chain conditions as well as moderating used car prices are positive signs for the industry.
  - The parts and service category represents a key area of sustainable, countercyclical growth and investor focus in 2023. Repair versus replace and increasing vehicle complexity provide earnings resiliency against vehicle sales headwinds.
  - Company-specific initiatives (technician development, digital and cross-selling) can capture incremental high-margin parts and service business and increase customer retention to improve dealership profits.
  - The more resilient fixed operations gross profit declined ~10% during the Great Recession whereas new and used vehicle gross profit declined ~46% and ~29%, respectively.
- Franchised automotive retailers have been disciplined in the deployment of capital in 2022, shifting investment from M&A transactions to e-commerce initiatives, facility upgrades, and share repurchases. An opportunistic approach to M&A is likely to persist in the first half of 2023 as compressed valuation multiples make certain acquisitions less accretive to shareholder earnings.
- Direct-to-consumer independent retailer equity valuations collapsed in 2022, acutely demonstrated by Carvana shedding ~98% of its equity valuation as a result of softening demand, rising interest rates, and a drop in used vehicle prices that have raised questions about the company's path to profitability.

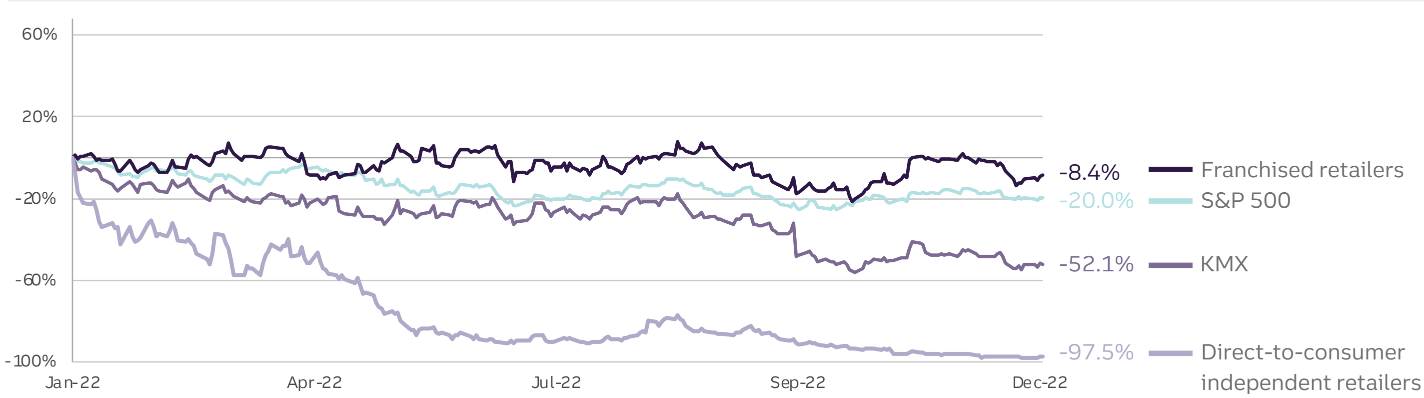
P/2023E & 2024E earnings



EV/2023E & 2024E EBITDA



1-year stock price performance



Source: Capital IQ
Market Data as of 12/30/2022
Note: Franchised Auto Retailers index includes AN, ABG, GPI, LAD, PAG, SAH, and TSX:ACQ; DTC Independent Retailers index includes CVNA, SFT, and VRM.

Truist Blue Sky Index

Blue Sky multiples stable amidst volatile macroeconomic backdrop.

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

Baseline blue sky multiples of dealership EBITDA have remained relatively stable amidst the backdrop of a potential recession. Since late 2020, dealership profitability, strong cash flow, and sustained consumer demand moved automotive franchise valuation sentiment sharply higher. Despite a sharp rise in interest rates, consumer demand for vehicles remains robust. Strong demand coupled with reduced vehicle inventory relative to historical norms has buttressed dealership profit margins across the sector. Uncertainty surrounding both the timing and magnitude of reversion-to-mean profit margins, as well as the severity of a possible recession, is a consistent theme of buy-sell negotiations. Although brand multiples exhibit stability, forward-looking investors utilize various methods in estimating an appropriate multiplier in determining a target's blue sky value versus the traditional last twelve months performance. Buyer/seller disagreement over value is anticipated to narrow as the pace of Federal Reserve interest rate increases slows, recessionary fears pass, and dealership profits prove resilient in the current environment.

While somewhat insulated from public market volatility, economic uncertainty and elevated borrowing costs have pressured private automotive franchise dealership valuations lower from their 2021 highs. However, desirable assets located in growing markets continue to receive strong investor demand and premium valuations. Dealerships with proven management, access to new and used inventory, and leading market presence are best-positioned to create value for both current and future owners.

Brand		TBI multiple of EBITDA (low)	TBI multiple of EBITDA (high)
Leading Premium	Lexus	8.0x	9.5x
	BMW	7.3x	8.8x
	Mercedes-Benz	6.5x	8.0x
	Audi	5.5x	7.0x
Premium	Porsche	7.5x	9.0x
	Jaguar Land Rover	6.0x	7.5x
	Volvo	4.0x	5.5x
	Acura	3.3x	4.5x
	Cadillac	2.5x	4.0x
	Lincoln	2.5x	4.0x
	Infiniti	2.5x	3.5x
Leading Mainstream	Toyota	5.8x	7.3x
	Honda	5.0x	6.5x
	Chevrolet	3.5x	5.0x
	Ford	3.5x	5.0x
Mainstream	Subaru	5.0x	6.5x
	Buick / GMC	4.0x	5.5x
	Nissan	3.5x	5.0x
	VW	3.5x	5.0x
	Hyundai	3.5x	5.0x
	Chrysler / Dodge / Jeep / Ram	3.5x	5.0x
	Kia	3.3x	4.8x
	Mazda	2.8x	4.3x

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: The Banks Report, Cox Automotive, 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

Project Rodeo	**Project Octane**	BRADSHAW Sale to Anderson Automotive Group	Lake Norman Chrysler Dodge Jeep Ram Gastonia Chrysler Dodge Jeep Ram Sale to Parks Automotive Group	**$175,000,000** Auction Credit XLFunding	**$700,000,000/ $850,000,000** AutoNation	John Greene Sale to Team Automotive Group
Franchised Car Dealership	Franchised Dealership Group			Lead Arranger/ Lead Bookrunner	Active Joint Bookrunner	
Sell-Side M&A Advisor	Private Placement	Sell-Side M&A Advisor	Buy-Side M&A Advisor	Senior Secured ABL Revolving Credit Facility	7 & 10-Year Senior Notes	Sell-Side M&A Advisor
In-Market	*Mandated*	*January 2023*	*January 2023*	*July 2022*	*Feb 2022/Jul 2021*	*December 2021*

Truist Securities Automotive Retail team

James (JT) Taylor
Managing Director
Head of Automotive Retail
954-415-9105
jt.taylor@truist.com

Eddi Zyko
Director
404-439-9721
eddi.zyko@truist.com

Don Lambing
Vice President
678-480-3417
don.lambing@truist.com

Doug Roberts
Associate
404-804-5078
doug.roberts@truist.com

Brevin White
Analyst
661-600-5964
brevin.white@truist.com

Auto financing advances to meet buyers' changing needs

Bill Jones
Head of Truist Dealer Retail Services and CEO/President of Regional Acceptance Corporation

Consumer financing in auto retailing is shifting towards automation at every stage of the financing process. Advancements have resulted in a faster, easier, and more efficient buying process that benefits consumers and dealers alike—and there's more on the way.

What can we expect in 2023?

The economy, the consumer, and the automotive industry are sending mixed signals on what 2023 will bring.

Affordability of vehicles continues to be a challenge and demand has fallen in recent months. High inflation and rising interest rates are starting to affect consumers' behavior and their buying power.

The supply of new and used vehicles is still limited, but availability is improving and used car prices are moderating, which encourages buyers to come off the sidelines. Prices are still higher than in 2019 and as interest rates rise, the market is effectively splitting. Prime and near-prime buyers can afford new vehicles, yet many consumers are cautious about borrowing at current price levels and interest rates. Those with subprime credit may be unable to qualify for financing on a new car or truck, making a used vehicle the better option.

A looming recession could dampen consumer buying enthusiasm and further limit borrowing in both the new and used sectors. For now, consumers have jobs and default rates remain low. Another positive sign is the repossession redemption rate which has remained unusually high as the combination of soaring prices, elevated interest rates, limited supply, and tight credit provide incentives for consumers to stay current on payments and keep the vehicle they have.

Efficiency is the goal.

The dynamics of inflation, rising interest rates, and unusual demand have been a catalyst for innovation and improvements in auto financing. Together, they've spurred new, more efficient capabilities that are emerging as best practices for dealers and lenders across the industry.

Getting the best possible financing offer on the table is always important, especially with buyers more wary in the face of an unpredictable economy. And keeping rates and fees as low as possible can help consumers overcome the rising costs of financing.

Putting attractive financing offers in front of potential buyers is only the first step. The verification process—whether for buyers at the dealership or for those shopping virtually—needs to move quickly to keep the customer engaged. E-contracting provides a faster, easier, closing option for time-pressed buyers, streamlining the financing process while improving dealer finance team productivity.

Large dealer groups recognize the value of consumer financing improvements and are using their leverage and scale to press for financing process redesign. Investing in technologies to deliver the best offers to their customers means they're more likely to close a buying transaction.

Relationship-focused, full-spectrum lenders, like Truist, are taking a leadership role in customer financing transformation, setting a development roadmap to drive improvements and efficiencies across the industry. Though many of the innovations we're seeing now have been envisioned for some time, the pandemic accelerated the pace of change. As car buyers sought to minimize face-to-face interactions, they essentially pressured dealers and the finance organizations that serve them to drive up auto-decisioning and e-contracting rates, resulting in a simpler and speedier financing process.

4 pillars of effective automation

The drive for effective auto financing technology is currently centered on development in four key areas:

1. **Prequalification of customers**
   to enable them to shop with confidence
2. **Auto-decisioning**
   for faster, automated application approvals
3. **E-verification**
   to validate customer data and allow a closing to proceed quickly
4. **E-contracting and loan fulfillment**
   to close the deal

We find automation of these components at varying stages of development as dealers strive to offer customers more ways to shop and buy, to create more efficiencies for dealerships, and to work closely with point-of-sale financing solutions.

Credit prequalification shows a buyer what they can afford based on their credit capacity and helps them divide the total cost into manageable monthly payments. Lowering this barrier keeps an active buyer engaged in shopping and opens the door for dealers to use customer-specific credit information in targeting and marketing potential customers.

Pre-qualification comes in two varieties, soft and hard, depending on whether a credit bureau pull occurs. "Soft" pre-qualification gives a buyer a sense of what they can afford and counts on the verification for confirmation when the buyer moves forward with a vehicle purchase. With a "hard" credit pull, the technology provides a buyer with a firm approval while they're at the dealership or before they even get there.

Automating the loan process, both for hard pre-qualifications and for customers ready to buy, improves the customer buying experience and speeds the close of a sale. Lenders continue to develop auto-decisioning capabilities—two-thirds of Truist's auto loan applications are "auto-decisioned" this way—and are connecting with dealer financing platforms that are digitizing the loan approval process on behalf of dealers. Truist is working with these financing platforms to make automated conditional approvals available. Buyers can then secure conditional financing approval—either on-the-spot at the dealer or before they go there—and can be confident they can secure a loan for the car they want.

Lending decisions necessitate verifying borrower data, and e-verification capabilities are expanding. Truist's e-verification combines advanced authentication platforms, data sources, and an ever-increasing number of technologies to digitally validate the elements of a loan application and speed the verification process.

For an auto retailer looking to provide its customers with a full digital buying experience, the importance of e-contracting cannot be underestimated. Lenders are fulfilling this need—Truist currently offers e-contracting for prime borrowers and will implement this capability for non-prime applicants as well in 2023. Additional advancements are in the works, making this part of the auto financing process even more scalable while adding productivity and efficiency.

Paving the way for a seamless financing experience

These technology enhancements will enable dealers' finance and insurance offices to become more virtual. The result will be that auto retailers can close deals faster, so that more shoppers become buyers.

With e-contracting, dealers can reap savings and finance operational efficiencies by reducing printing and paper used for traditional contracts, which saves money. Digitally signed and transmitted loan agreements can be uploaded automatically, making loan funding available at a faster pace.

While these technology-driven advancements represent an exciting evolution, strong relationships remain at the heart of any successful dealer and financing partner relationship. Staying at the forefront of the consumer auto financing industry allows Truist to serve its dealers' customer financing needs—a key part of our overall partnership with our dealer clients. We are committed to meeting our dealers where they are today and to anticipating their future needs through automation and more.

Your Truist Dealer Services relationship manager can help you find ways to take advantage of the latest developments in customer financing. To find out more, visit Truist Dealer Services.

Financial education informs auto buyers and communities

A discussion with Geoffrey Pohanka, Chairman of NADA.

Buying a car is one of the largest purchases most Americans make. A financially astute buyer comes to a dealership with an appreciation for the size of the purchase, knows what they can afford, and understands how credit and financing work—that's the ideal customer for most dealers. Preparation equips this financially savvy buyer for a smooth closing on a vehicle that's within their means, a win for dealerships and a positive for a customer's financial wellbeing.

Incoming Chairman of the National Automobile Dealers Association (NADA) Geoffrey Pohanka understands the value that financial literacy brings to auto dealers and their customers. A third-generation owner of a DC-area dealership group, Pohanka knows firsthand what happens when customers arrive at the dealership unaware of what they can afford or how their access to credit is determined.

"People come in with their heart set on a certain car, but making it fit within their budget or overcoming credit challenges can be an obstacle," Pohanka points out. "Many customers don't understand that missed or late payments on relatively small expenses like cell phones can create credit problems that can balloon. The rules of the game of life are often financial in nature and not everyone knows them. Knowing how credit scores are established and how to manage them puts customers on a path to one day being able to finance larger purchases."

Involvement in financial education

Witnessing the credit challenges that can occur from small financial missteps inspired Pohanka to action. He urged local education leaders to implement a financial literacy program in the Prince George's County school system—one of the nation's largest—where he serves as a community-based business advisor. High school students in the county now take part in a comprehensive financial education program, offering teenagers practical tools to help them succeed as adults.

The program's impact extends beyond the high school students taking the financial education course. Pohanka explains, "Our top goal is to get young people off to the right financial start, but we often find that the student brings financial literacy materials into their homes, and the entire family benefits from that exposure."

Advancing financial skills doesn't stop at the schoolhouse door. "In addition to our work with the Prince George's schools, Pohanka Automotive Group has supported a Junior Achievement program that we sponsor alongside Truist. It helps the students put what they've learned in class into action."

Call the community to action.

Not only a leader and education advocate in his hometown, Pohanka also has a national voice as the 2023 NADA Chairman, and he's bringing his financial literacy message to the podium. "One of the things I'm focusing on is a call to action for the nation's dealers to promote financial literacy in our communities."

"As dealers, we can raise awareness of the community need for higher levels of financial responsibility and use our voice as business leaders to push for implementation of financial literacy education in the school curriculum. What better way for our members to have a positive impact on their communities?" he adds.

Pohanka is bullish on what NADA can do to provide dealers with the tools to support financial proficiency in their communities. "I've seen first-hand the role that NADA can play as a leader in education and information-sharing—my father worked with NADA to get Automotive Service Education (ASE) and certification in place. I know what NADA can accomplish."

Going a step further, dealers can extend financial education to their employees. "Offering this life skill to our team strengthens their financial expertise and aids with staff recruiting and retention."

Dealers should get involved.

As dealers work to help buyers find a vehicle they want and can afford, informed, financially aware customers make that job easier, resulting in better buying and ownership experiences.

Financial literacy has a tangible impact—it not only empowers individuals, but it also contributes to community vitality. “Giving kids financial instruction improves their lives and sets them up for more opportunities—that changes the financial trajectory of families for generations. That’s the kind of powerful effect that auto dealers need to make in our communities.”

TRUIST

Dealer Services