

Dealership M&A and valuation overview

Recent noteworthy deals in auto retail M&A

Shift (NASDAQ:CVNA) merges with CarLotz (NASDAQ:LOTZ)



Announced: August 9, 2022
Transaction value: Stock for stock¹

"The Shift and CarLotz teams have admired each other and our respective businesses for quite some time. We've always seen a considerable amount of strategic and cost synergies with a combined entity."

– Shift Co-Founder & CEO George Arison



Observations and takeaways

- Shift and CarLotz generated last twelve months (LTM) through 6/30/2022 revenue of \$819 million and \$291 million, respectively.
- CarLotz's unique consignment relationships for sourcing vehicles will benefit Shift's key markets while CarLotz's retail locations will benefit from Shift's proprietary acquisition engine and technology.
- The newly merged entity, which will retain the name Shift, will direct its focus to its online sales channel and profitability with anticipated geographic and cost synergies.
- Pro forma ownership of the new entity based on fully diluted stock outstanding will be ~53% Shift and ~47% CarLotz.

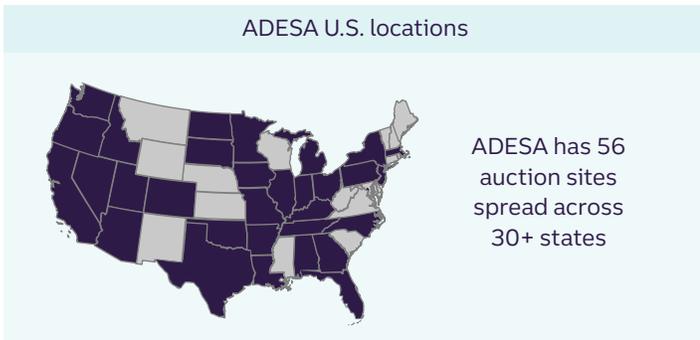
Carvana (NYSE:CVNA) acquires ADESA U.S.



Announced: February 24, 2022 **Transaction value:** \$2,200 million

"Together with Carvana's existing operations, ADESA U.S.'s nationwide infrastructure network and robust, highly profitable business will accelerate Carvana's progress toward becoming the largest and most profitable automotive retailer."

– Carvana Founder & CEO Ernie Garcia



Observations and takeaways

- The ADESA U.S. business generated over \$800 million of revenue and over \$100 million of EBITDA in 2021.
- ADESA U.S. is the second largest provider of wholesale vehicle auction solutions in the U.S. with 56 sites totaling approximately 6.5 million square feet of buildings on more than 4,000 acres.
- ADESA U.S.'s existing and potential reconditioning operations can contribute approximately 2 million incremental units to Carvana's annual production at full utilization.
- 78% of the U.S. population lives within 100 miles of either an ADESA U.S. or existing Carvana inspection and reconditioning center.
- Since its acquisition of ADESA, Carvana has embedded market hubs at ADESA locations, ramped overall inspection and reconditioning volume to over 500 units per week at ADESA sites, and enhanced scale and customer relationships.
- Carvana reported Q2 2022 wholesale gross profit per unit (GPU) of \$383, an increase of \$164 from Q1 2022, primarily driven by the ADESA wholesale marketplace, which contributed a \$43 increase.

Source: Capital IQ, Industry News, Company filings
¹ SFT to issue .692158 shares of its stock per each CarLotz share.

Summary of recent transactions in the auto dealership space					
Announced date	Acquirer	Target	Region	Target stores	Transaction commentary
8/17/2022	Sonic Automotive	Audi Owings Mills	Mid-Atlantic	1	Audi Owings Mills services the greater Baltimore area and surrounding regions. This acquisition further expands Sonic's presence in Baltimore after last year's acquisition of Volkswagen of Fallston.
7/11/2022	Morrie's Automotive Group	Forest Lake Auto Group	Great Lakes	2	Forest Lake Auto Group includes Forest Lake Chevrolet and Forest Lake CDJR. With this acquisition, Morrie's Automotive Group now operates 20 dealerships in Minnesota.
7/11/2022	Group 1 Automotive	Mercedes-Benz, Jaguar-Land Rover and Volvo Cars of Shreveport	Southwest	3	This acquisition adds to Group 1's existing Shreveport portfolio of two franchises. The acquired dealerships are expected to generate \$110 million in annual revenues.
5/27/2022	Wally's Auto Group	Fuccillo Auto Group	Northeast	12	The transaction adds CDJR, Ford, and Mitsubishi dealerships to the Wally's Auto Group portfolio and furthers its push to become a nationwide dealership group.
5/14/2022	Morgan Automotive Group	North Tampa Chrysler, Jeep, Dodge and Jim Browne Chevrolet Tampa	Southeast	2	Morgan Automotive Group (MAG) acquired CDJR of Tampa Bay and a Chevrolet dealership, marking MAG's first GM dealership in the Tampa Bay Area and 23rd overall dealership in the region. MAG's acquisition rational was further supported by GM's EV initiatives.
5/3/2022	Lithia Motors	Sisley Honda	Canada	1	Sisley Honda is one of the highest volume Honda dealerships in Canada and increases Lithia's Canadian footprint with a strong, mainstream import brand.
5/3/2022	Penske Automotive Group	Terry Lee Hyundai and Genesis of Noblesville	Midwest	2	With the acquisition of Terry Lee Hyundai and Genesis, Penske increases its presence in the Indianapolis metropolitan market. The acquisition is expected to generate additional revenue of \$80 million.
4/6/2022	Del Grande Dealer Group	Stevens Creek Hyundai, Genesis of Stevens Creek and Salinas Honda	West	3	This acquisition adds three import brand dealerships to Del Grande Dealer Group's Northern California footprint. These dealerships will enable home vehicle-delivery capabilities.
4/4/2022	Group 1 Automotive	Larry H Miller Toyota	Southwest	1	This acquisition adds to Group 1's existing New Mexico portfolio of 8 franchises representing the Company's 17th Toyota brand and adds \$115 million in annual revenue.
4/1/2022	Penske Automotive Group	BMW MINI	U.K.	3	Penske acquired three BMW MINI dealerships and a collision center in the U.K., complementing Penske's existing presence of 32 BMW MINI franchises in the U.K. market. The acquisition is expected to generate \$250 million in revenue.
3/28/2022	Lithia Motors	Stellantis Dealerships	West	3	With the acquisition, Lithia nearly doubled its presence in Las Vegas. Dealerships acquired include CDJR, Chrysler-Dodge-Ram, and a standalone Jeep dealership.
3/7/2022	Group 1 Automotive	Charles Maund Toyota	Southwest	1	Group 1 adds one of the 20 best performing U.S. Toyota dealerships and enlarges its portfolio of 13 franchises in Central Texas. The dealership is expected to generate \$435 million in annual revenue.
2/28/2022	Hudson Automotive Group	Summerville Ford	Southeast	1	Hudson Automotive Group adds its seventh dealership in South Carolina and third dealership in the Greater Charleston region.
2/28/2022	Rosenthal	Sussman Auto	Mid-Atlantic	4	Rosenthal adds Honda, Hyundai-Genesis, Mazda, and Acura brands in North Philadelphia. The transaction also included a used vehicle dealership.

Source: Industry News

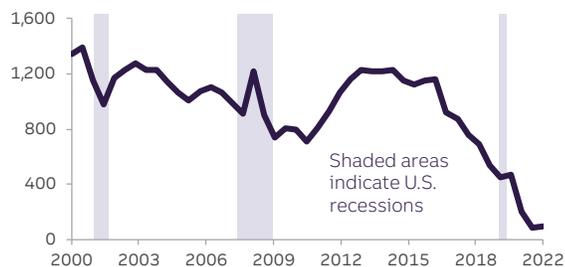
Profits persist as trend toward direct-to-consumer points to further industry consolidation

Auto inventory levels remain low with no signs of imminent rebound.

- The automotive retail industry continues to experience inventory constraints due to global supply chain disruptions, macro turmoil, and microchip shortages with inventory levels not expected to normalize until 2023 or 2024.
- Despite the ongoing supply shortages and capacity constraints, demand remains strong—elevating transaction prices and dealership profitability.
- The industry's supply and demand pressures suggest dealership margin and profitability levels will persist over the next several years—how and when they will revert to historical levels is uncertain.

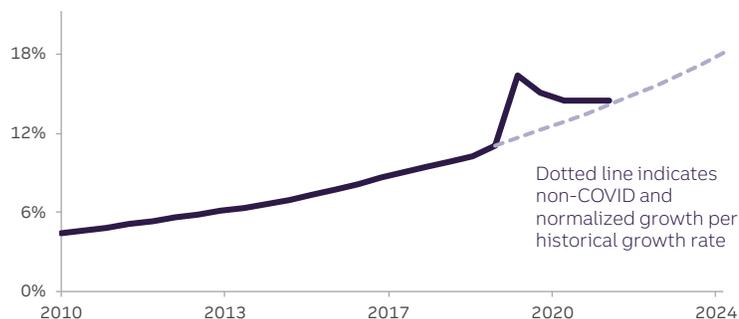
Domestic auto inventories

units in thousands



Adoption of direct-to-consumer capabilities will drive further industry consolidation

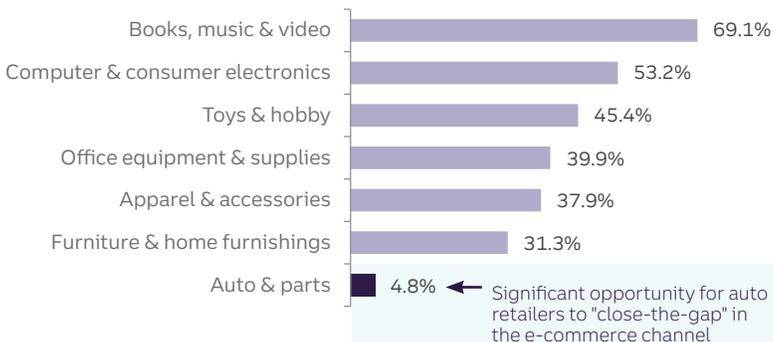
E-commerce sales as % of total retail sales



- E-commerce penetration has gradually increased in the overall retail market, representing over 15% of total retail sales.
- E-commerce adoption in the automotive industry has lagged, primarily because of high transaction prices and consumers' preference to experience and investigate prior to purchasing a big-ticket item.
- In other product categories with high transaction prices such as furniture, office equipment, and electronics, consumers have grown comfortable with digital retailing for large purchases, demonstrating that auto retailers have a significant opportunity to capitalize on direct-to-consumer investments.

E-commerce share of total retail sales in the U.S.

as of February 2021



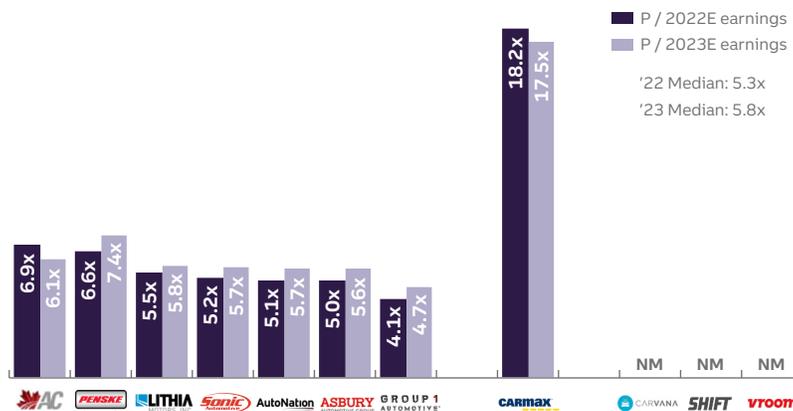
- With growing consumer preference for online transactions and direct-to-consumer models, scaled dealer groups with well-capitalized direct-to-consumer capabilities can spread their technology investments across multiple dealerships, realizing cost synergies, and enhancing market power.

Public dealership valuation and performance

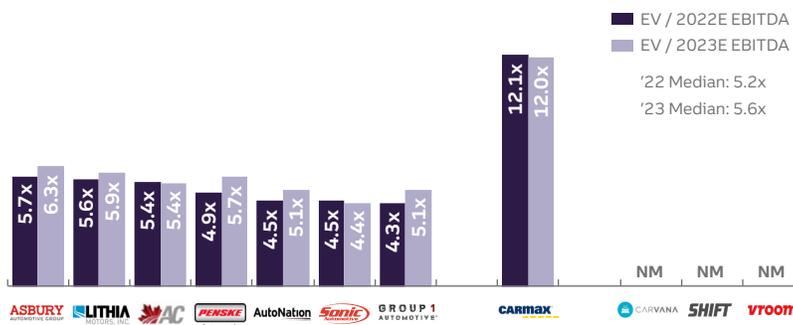
Market commentary

- Valuation multiples have been suppressed by the continuation of supply chain disruptions and macro challenges. Investors' sentiments remain positive showing increased confidence in the sustainability of recent earnings and the recession-resistant nature of the industry.
 - Dealership earnings will remain stronger for longer as new vehicle inventory will take years to build, and margins will remain elevated.
- Automotive retailers are generating a significant amount of free cash flow, building robust M&A pipelines, and investing in tech-enabled products and services.
 - Public companies have been more selective in 2022, focused on opportunistic M&A that is supportive of strategic goals and are accretive to earnings.
- Within the direct-to-consumer independent retailers, equity investors have been critical of margins, working capital efficiency, and cash flow while the companies execute strategies in line with their long-term growth trajectories.

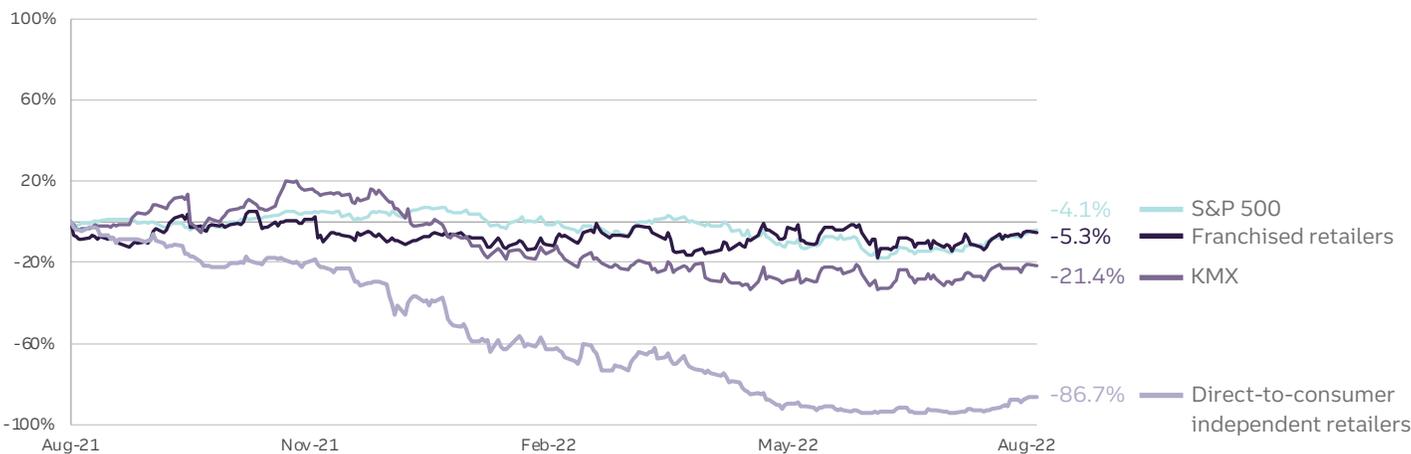
P / 2022E & 2023E earnings



EV / 2022E & 2023E EBITDA



1-year stock price performance



Source: Capital IQ
Market data as of 8/15/2022
Note: Franchised auto retailers index includes AN, ABG, GPI, LAD, PAG, SAH and TSX:ACQ; Direct-to-consumer independent retailers index includes CVNA, SFT and VRM.

Truist Blue Sky Index

Blue Sky multiples are trending higher

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

The table below 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 supplemented with a survey of Truist’s dealership clients informs the valuation ranges. The multiples reflect the estimated standalone value of a brand and are not inclusive of a dealer group “consolidation premium”, which typically adds an incremental 0.5x – 1.0x to the implied blue sky value of the group.

Blue sky multiples and valuations have generally drifted higher since late 2020, primarily a result of sustained dealership profitability and upward revisions to future cash flows, a high level of M&A activity driving competition for dealership assets, and access to capital at near historically low interest rates. Leading Premium and Leading Mainstream brands have all held or increased their valuation multiples as their higher sales volume, profitability, and attractive product lineup have led buyers to expect a higher rate of return on investment.

We expect blue sky multiples to remain steady for the next twelve months, but are monitoring the potential impact on franchised dealerships from a rising rate environment, increased OEM supply, and the proposed shift to EV products & services.

Brand	Change 2020 - 2021	% Change	TBI multiple of EBITDA		
			Start	End	
Leading Premium	LEXUS	0.5x	6%	8.0x	9.5x
				7.3x	8.8x
				6.5x	8.0x
Premium	PORSCHE	0.5x	7%	7.5x	9.0x
				6.0x	7.5x
				4.0x	5.5x
Leading Mainstream	TOYOTA	0.5x	8%	5.8x	7.3x
				5.0x	6.5x
				3.5x	5.0x
				3.5x	5.0x
				5.0x	6.5x
				4.0x	5.5x
				3.5x	5.0x
Mainstream	SUBARU	0.8x	15%	5.0x	6.5x
				4.0x	5.5x
				3.5x	5.0x
				3.5x	5.0x
				3.5x	5.0x
				3.5x	5.0x
				3.3x	4.8x
				2.8x	4.3x

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 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

<p>Project Rodeo</p> <hr/> <p>Franchised Car Dealership</p> <hr/> <p>Sell-Side M&A Advisor</p> <p><i>In-Market</i></p>	<p>Project Spider</p> <hr/> <p>Franchised Car Dealership</p> <hr/> <p>Sell-Side M&A Advisor</p> <p><i>In-Market</i></p>	<p>Project Panther</p> <hr/> <p>Franchised Car Dealership</p> <hr/> <p>Sell-Side M&A Advisor</p> <p><i>In-Market</i></p>	<p>Project Power</p> <hr/> <p>Franchised Car Dealership</p> <hr/> <p>Buy-Side M&A Advisor</p> <p><i>In-Market</i></p>	<p>\$175,000,000</p> <p>Auction Credit XL Funding</p> <p>Lead Arranger / Lead Bookrunner Senior Secured ABL Revolving Credit Facility</p> <p><i>July 2022</i></p>	<p>\$700,000,000 / \$850,000,000</p> <p>AutoNation</p> <p>Active Joint Bookrunner 7 & 10-Year Senior Notes</p> <p><i>Feb 2022 / Jul 2021</i></p>	<p>JOHN GREENE INVESTMENTS</p> <p>Sale to</p> <p>TEAM AUTOMOTIVE GROUP</p> <p>Sell-Side M&A Advisor</p> <p><i>December 2021</i></p>
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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



Jason Hong
Associate
704-969-5467
jason.hong@truist.com



Shamon Oglesby
Analyst
864-561-6220
shamon.oglesby@truist.com



Securities

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