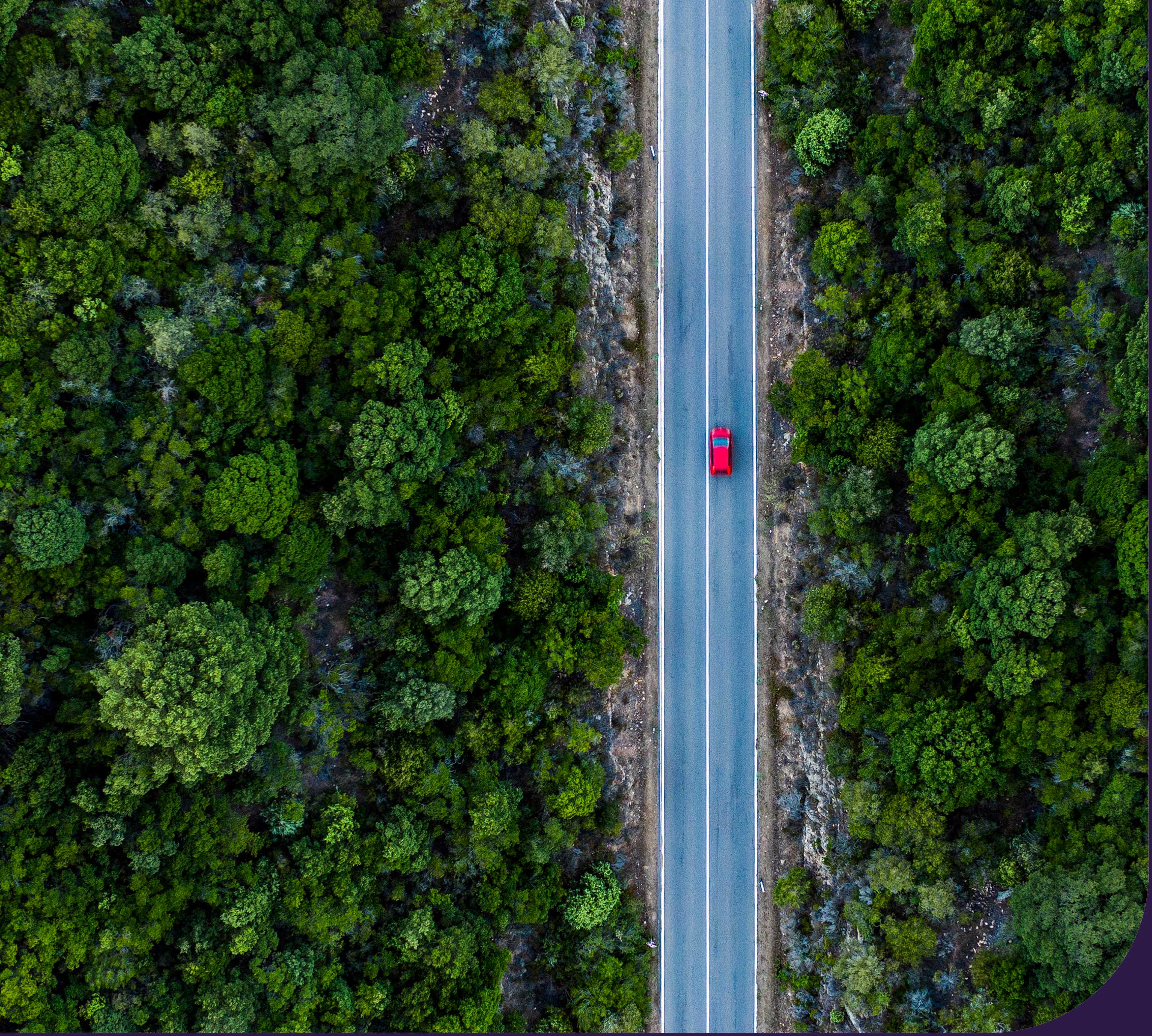

Truist Dealer Insider

The Automotive Retail Newsletter

Volume 3, Fall 2021

TRUIST

Dealer Services

Welcome to the Truist Dealer Insider

Dear Friends,

Welcome to the Fall edition of the Truist Dealer Insider. 2021 is ending, and while turbulent, it's been a rewarding year for those of us involved in the automobile industry. Profits for dealers, manufacturers, finance companies, and supply chain companies are all at or near record historical levels, but more importantly, we have found ways to operate safely, build community, and solve tough challenges in creative ways. Congratulations! There is a lot to be thankful for, and we at Truist hope your holidays are safe and joyous, however you choose to celebrate.

Looking forward, there's plenty to keep dealerships busy, and we'll explore some of those topics in this issue. The Rawls Group weighs in on dealership succession strategies, and McGriff Insurance briefs us on the timely opportunity to revisit inventory insurance coverage.

Additionally, we look at executive compensation structures and how they help you compete for talent, while Helion Technologies provides the latest on cybercrime affecting dealerships. And, Truist Head of Dealer Retail Services, Bill Jones, reviews progress toward the automotive digital buying journey and how Truist is enabling the digital marketplace.

You'll also meet our new Head of Dealer Commercial Services, Jason W. Smith, a seasoned financial and auto industry executive. Jason shares his vision of how Truist provides advice and solutions to help dealers navigate a changing industry landscape and reach their business goals.

In 2021, Truist said goodbye to David Stevens, our former Head of Dealer Commercial Services, as he retired from banking after 40+ years in the industry, most of those years serving auto dealers. David is a great leader and thoughtful strategist who benefitted the lives of his teammates and clients. He's been an advocate for auto retailing and the positive role that a strong banking partner can play in the sustained success of auto dealers.

The M&A market for auto dealerships continues at a high tempo. Not only will there be a record number of transactions this year, but there will be more franchises per transaction than ever before. Will it continue into 2022? Most assuredly! Dealers should follow the market closely to avoid missing out on what could be highly favorable conditions.

The immediate future looks bright for car dealers, and the valuations of auto dealerships continue to increase. Are there potential changes that could detract from that increase? There always are, but dealers have demonstrated both resilience and creativity over the last 18 months—and that bodes well for their continued success.

In early 2022, our next issue will explore the next wave of industry changes, strategies, and tactics. Until then, good selling and happy holidays!

JT Taylor*
Head of Automotive
Truist Securities

Jason W. Smith
Head of Truist
Dealer Commercial Services

Bill Jones
Head of Truist
Dealer Retail Services

*Denotes licensed with FINRA

Truist automotive 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

- Closed merger of equals between BB&T and SunTrust on December 6, 2019
- 275+ combined years of serving our clients and communities
- $530B total assets, $291B in loans, and $406B in deposits, as of 9/30/21
- Top 10 U.S. commercial bank
- Headquartered in Charlotte, N.C

Inside this issue

A financial partner to help build your dealership's value

Q&A with Jason W. Smith, head of Truist Dealer Commercial Services

Jason W. Smith
Head of Truist Dealer Commercial Services

In September 2021, Jason W. Smith assumed leadership of Truist Dealer Commercial Services. A 23-year veteran in the financial services industry, Smith has led the Dealer South division since 2007. In this discussion, Smith shares his vision of how Truist can support dealers with the advice and solutions they need to navigate a changing industry landscape and reach their business goals.

How do you want to see Truist work with dealer clients?
Auto retailers need to navigate fluctuations in the economy while staying on top of complex financial and capital structure issues, including financing for their operations and their customers, digital payments, cybersecurity, M&A, and the overlap between their business finances and personal wealth. Auto dealers are a backbone of the economy. They create jobs, are highly philanthropic by nature, and are mainstays of their communities, with many going back across multiple generations. Our Truist Dealer Commercial Services team aims to bring insightful financial and business advice to support their success on all these fronts.

How do you want your team to create business value for dealers?
We want to deeply engage with our dealer clients and create relationships that are holistic and collaborative rather than sales-driven and transactional. That requires us to start with an extremely thorough understanding of each client and their vision for the business. That's the grounding we need in order to add real, ongoing value with our team approach and financial advice. And we do so by bringing clients fresh ideas and solutions that anticipate their needs.

Our team shows up on day one seeking a deep understanding of your dealership organization and its strategy, goals, and objectives. We're highly inquisitive—we ask a lot of questions and explore a number of topics to be sure we understand any challenges you may have and where you want to take the business. Perhaps you want to scale your organization, or maybe it's time to develop the next generation of your family or managers to run the business. Or maybe you like the size of your business as it stands, and you don't aspire to scale and grow. If that's the case, we want to help you be as effective as you can, every day. We want to meet dealers where they are and support them there. Above all, we aim to bring a highly customized and personal approach to each of our client relationships.

How do you assemble a team that effectively supports the unique needs of auto retailers?
At Truist, our purpose is to inspire and build better lives and communities. That's something that unites us, and we talk about it a lot and live into it as we serve our auto retailer clients—so that you can in turn serve your customers and your communities. Our team starts by aligning with your goals—that's the foundation of our relationship. That puts us in a position to provide strategic advice, help you solve challenges you'll invariably face, and be ready when a business opportunity presents itself. And with a bespoke suite of solutions designed for auto retailing, our team has the tools to deliver what you need to be successful.

Our people are the key. Dealership organizations are complicated businesses with complex operations, financing, risk management, and capital market needs, which must be woven together with the owners' personal financial plans. Additionally, dealer organizations often employ multiple family members with succession and active/passive family ownership issues to navigate. Our team understands the operating context that dealers are functioning in every day. It's the opposite of a one-size fits-all approach, and it lets our teams be truly consultative thought partners to dealers.

How do clients react to your approach?

We recently met with an auto retailer's CEO as well as the CFO, and a couple of members of the next generation. Our team asked them where they want to see the company in the next five to six years. Afterward, the CEO said, "It just feels different with Truist. I currently work with two other financial institutions. Neither of them has asked me piercing questions like you have, and no one's pushing me to think about strategy like your team." The CFO chimed in and said, "You're the only bank that's had me meet with a Treasury specialist, a financial risk management specialist, a relationship manager, a corporate finance specialist, a private wealth strategist, and a credit underwriting specialist—all dedicated to the dealer business." That tells me our approach resonates, and we can help that executive team be confident they have a partner that's looking at their full picture and cares about their business.

How does your team fit into the broader team of advisory experts most dealers use?

Auto retailing is a highly specialized business, and our clients work with third-party professional advisors such as CPAs and attorneys to make important decisions. We serve dealers best when we have relationships with their full team of advisors and can collaborate with them to act in the dealer's best interest. That dealership must be the center of the discussion, and its support must be a coordinated effort. It's a team sport. I've seen how powerful advisory teams can be when everyone's on the same page, working towards the same goal.

You can't just label yourself a "trusted advisor." You have to earn it, and it takes a lot of thought and listening and focus to get there. That ethos lets us have the greatest possible impact on our clients' businesses.

What is top of mind for dealers these days?

Whatever publication I pick up—the Wall Street Journal, Automotive News, USA Today—the pace of consolidation is front and center. Whether you're a private dealership business or a public group CEO, the question every dealer is asking is, "Where do I fit in this trend?"

I have two responses:

- First tell me, what and who do you want to be? What are your goals and objectives? Remember where you're trying to go and be true to that direction.
- Whether you are a growth-minded dealer or dream of your grandkids running the business and expanding it tenfold, stay informed on how deals are being structured and closed. If you're thinking of exiting, you want to understand how the dealer who wants to buy you is going to secure the capital for the purchase. You want to know where other dealers are finding growth, what's going on with the public groups and private dealerships, and what role family offices and private equity are playing in the automotive sector.

While you don't have to be a capital markets or finance expert, staying current on the market can help you be more informed as you think about your strategy, see potential blind spots, and be ready if an acquirer shows up with an unsolicited offer. Conversely, if your goal is to expand at rapid pace, having a strong understanding of specialized financing alternatives and solutions is equally as important.

Keeping you updated on the latest trends in the auto retailing industry is just one of the ways we can support dealers. It's our job to be their eyes and ears and to help them understand these bigger forces at work, so they can do more effective strategic planning, and have the solutions they need to manage day-to-day operations effectively.

If you have any questions or wish to discuss this information in more detail, please contact:
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2021 Dealership M&A and valuation overview

Recent noteworthy automotive retail M&A deals

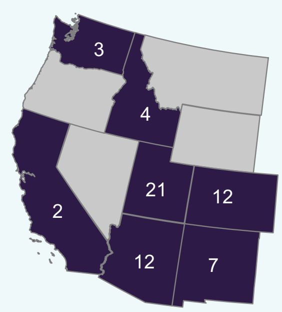
Asbury (NYSE:ABG) acquires Larry H. Miller Dealerships.

ASBURY AUTOMOTIVE GROUP acquires Larry H. Miller Dealerships

Announced: September 29, 2021
Transaction value: $3.2 billion

"This acquisition is a unique opportunity to rapidly expand Asbury's presence into these desirable, high-growth Western markets with strong accretion with this impressive group and its rich history."

– Asbury CEO David Hult



Larry H. Miller locations

Observations and takeaways

- The $3.2 billion acquisition, inclusive of $740 million of real estate, to be completed in 4Q21 includes 54 franchised dealerships, 7 used dealerships, and 11 collision centers.
- Larry H. Miller Dealerships has been selling over 115,000 new and used vehicles yearly.
- Asbury also added Total Care Auto, Powered by Landcar, in the deal that will add approximately $5.7 billion in annualized revenue.
- Expands Asbury's footprint into Arizona, California, Colorado, Idaho, New Mexico, Utah, and Washington.

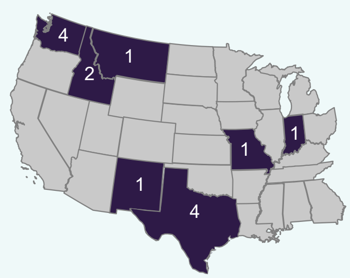
Sonic (NYSE:SAH) acquires RFJ Auto Partners.

Sonic Automotive acquires RFJ AUTO

Announced: September 22, 2021
Transaction value: $732 million

"Our focus on free cash flow generation and strengthening our balance sheet over the past few years has put us in the position to pursue strategic acquisitions like this while having the flexibility to allocate capital to our rapid EchoPark expansion plans, our dividend program, and opportunistic share repurchases."

– Sonic CFO Heath Byrd



RFJ Auto locations

Observations and takeaways

- With 33 locations in seven states and a portfolio of 16 automotive brands, RFJ Auto generated 2020 revenue of $2.8 billion, making it a top 15 U.S. dealer group by total revenues.
- Transaction adds six incremental states to Sonic's geographic coverage and five additional brands to its portfolio, including the highest volume CDJR dealer in the world.
- The acquisition diversifies Sonic's dealership revenues and represents an incremental 30% increase to the Company's previously stated revenue target of $25 billion by 2025.

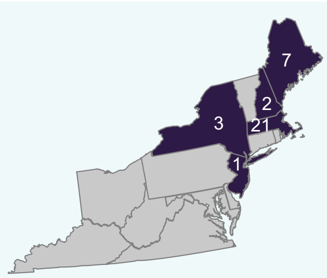
Group 1 (NYSE:GPI) acquires Prime Automotive Group.

GROUP 1 AUTOMOTIVE acquires PRIME AUTOMOTIVE

Announced: September 13, 2021
Transaction value: $880 million

"Group 1 has successfully operated in the Northeastern U.S. for many years. We are pleased to have this opportunity to leverage our existing cost structure and to further diversify our U.S. footprint."

– GPI CEO Earl J. Hesterberg



Prime Automotive Locations

Observations and takeaways

- Prime Auto Group generated $1.8 billion in revenues and retailed over 52,000 new and used vehicles in 2020.
- With 30 dealership locations and three collision centers in the Mid-Atlantic and New England markets, Prime Automotive adds several leading premium brands to GPI's portfolio.
- Pro forma the acquisition, Group 1's brand mix is expected to be approximately 43% luxury, 36% non-luxury import, and 21% non-luxury domestic.

Source: Capital IQ, Industry News

Summary of recent transactions in the auto dealership space

Announced date	Acquirer	Target	Region	TEV ($mm)	Target stores	Transaction commentary
11/8/21	Carter Myers Automotive	Miller Auto Group	Southeast	-	5	Deal includes two dealerships in Winchester, VA and three in Martinsburg, WV. With this acquisition, CMA will have 20 locations, representing 18 new car brands and nearly 1,000 employees.
10/5/21	Sewell Automotive Co.	Classic BMW	Plains	-	2	Classic BMW was founded in 1971 by Lee Maas and has grown to be the largest BMW dealership by footprint in the U.S. with a 160,000 square foot building on 24 acres in Plano, Texas.
10/4/21	Group 1 Automotive (NYSE:GPI)	Classic CDJR & Mazda of Denton	Plains	-	2	Group 1 adds the Company's 118th and 119th dealerships with the acquisition of Classic CDJR & Mazda of Denton. Classic CDJR & Mazda of Denton are expected to generate ~$150 million in annualized revenues.
9/29/21	Asbury Automotive Group (NYSE:ABG)	Larry H. Miller Dealerships	West	$3,200	72	Larry H. Miller Dealerships has been selling over 115,000 new and used vehicles annually. The deal expands ABG's footprint across the western half of the U.S.
9/23/21	Chapman Auto Group	Fisher Auto Group	Southwest	-	2	The two Yuma dealerships encompass more than 100,000 square feet with 60 lifts. The two combined for ~4,000 vehicles sold in 2020.
9/22/21	Sonic Automotive (NYSE:SAH)	RFJ Auto Partners	Plains	$732	33	RFJ Auto generated $2.8 billion in annual revenues in 2020, making it a top 15 U.S. dealer group by total revenues. The transaction will add six incremental states to Sonic's geographic coverage and five additional brands to its portfolio.
9/14/21	Lithia Motors (NYSE:LAD)	Curry Honda & Orange Coast CDJR	Southeast & West	-	2	Curry Honda, located in Chamblee, GA, is one of the top Honda HMC stores in the Southeast. Lithia also boosted its network with the buyout of the top Jeep volume dealer in California — the Orange Coast CDJR Fiat in Costa Mesa.
9/13/21	LMP Automotive (NasdaqCM:LMPX)	5 import dealerships & associated real estate	Plains	$118	5	LMP Automotive announced the purchase of five import dealerships in Texas, including the associated real estate, generating approximately $592 million in annualized revenue and $35 million in adjusted EBITDA.
9/13/21	LMP Automotive (NasdaqCM:LMPX)	Alan Jay Automotive Network	Southeast	$94	12	LMP Automotive announced the purchase of an 85% interest in the Alan Jay Automotive Network, a 12-dealership group in Florida, along with the associated real estate, generating approximately $345 million in annualized revenue and $18 million in adjusted EBITDA.
9/13/21	Group 1 Automotive (NYSE:GPI)	Prime Automotive	Northeast	$880	33	Group 1 Automotive entered a deal to buy Prime Automotive Group's 30 dealerships and three collision centers in a deal worth $880 million. Prime Automotive generated $1.8 billion in revenues last year and retailed more than 52,000 vehicles.
9/1/21	Mills Automotive Group	Tysinger Motor Co.	Southeast	$112	5	The transaction included Audi, Hyundai, Genesis, and Mercedes-Benz dealership franchises as well as a Mercedes-Benz Sprinter commercial van franchise. All are located in the Hampton Roads region of Virginia.
8/25/21	LMP Automotive (NasdaqCM:LMPX)	CDJR Tennessee	Southeast	$5	1	LMP Automotive announced the purchase of a CDJR dealership in Tennessee, generating approximately $42 million in annualized revenue and $1 million in adjusted EBITDA.
8/9/21	LMP Automotive (NasdaqCM:LMPX)	New York Kia	Northeast	$14	1	LMP Automotive announced the purchase of a Kia dealership in New York, generating approximately $82 million in annualized revenue and $3 million in adjusted EBITDA.

Source: Industry News

Factors influencing a pickup in M&A activity

Key factors

1 **Improved dealership performance and profitability lead to higher valuations.** With low interest rates and high throughput, investors are able to pay more and still receive acceptable returns. Performance has never been higher for auto retailers, and historical earnings drive blue sky values.

2 **Strategic buyers are generating significant dry powder to fuel acquisitions.** Large franchised retailers are using their existing cash on hand and a supportive interest rate environment to consolidate smaller dealership groups into their growing dealership network.

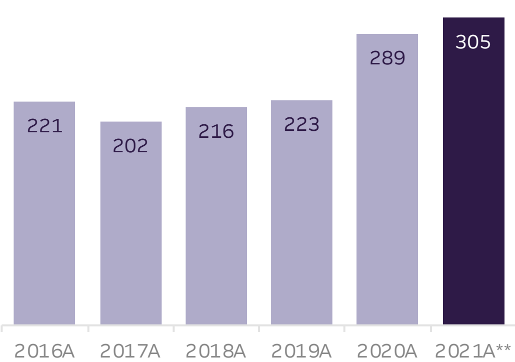
3 **Looming changes to capital gains tax rates are influencing the decision to sell today.** Potential increase in the capital gains tax rate has created a compelling rationale for many dealers to seek a near-term strategic exit and maximize their net proceeds.

Hypothetical impact of change in capital gains tax rate
($ millions)

	Capital gains tax structure	
	Current	**Proposed**
Total Purchase Price	$400.0	$400.0
Implied LTM Blue Sky Multiple	6.0x	6.0x
Federal Capital Gains Tax Rate	20.0%	28.8%
Capital Gains Liability	$80.0	$115.2*
Net Proceeds to Seller	$320.0	$284.8
Potential Lost Proceeds	—	($35.2)

- The proposed federal capital gains tax rate by the Biden administration moves the highest long-term capital gains rate from 20.0% to 28.8%.
- If enacted, the proposed increase to the capital gains tax rate is expected to impact asset sales that occur in/after 2022.
- Significant increases in dealership EBITDA and/or blue sky multiples are required to offset the potential lost proceeds to the seller under the proposed tax structure.

Annual dealership M&A transactions



- The environment that accelerated the buy-sell market in 2020 persists in 2021 and is pointing to another record year of dealership M&A activity.
  - Dealership profitability remains at or near historic highs.
  - Access to outside capital remains robust.
  - Manufacturers are becoming more supportive of investment capital.
  - Uncertainty surrounding future of capital gains tax rates.
- 2021's pace of dealership transactions is up ~25% over the same period in 2020, with 135 buy-sell transactions closing as of June 8.

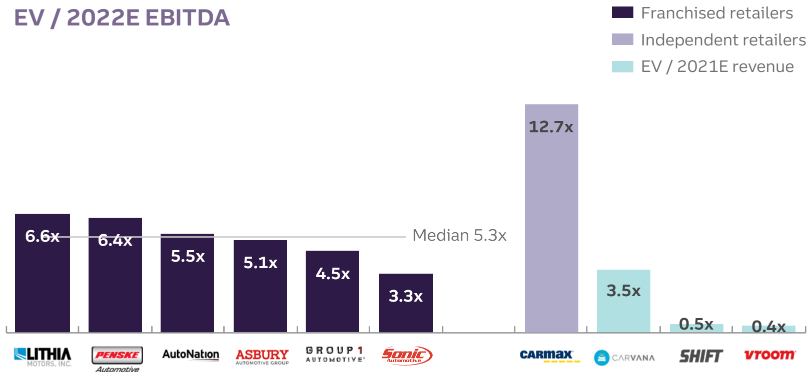
Source: Industry News, Company Filings, Capital IQ
* Capital gains liability shown assumes a $0 basis in assets sold. An increase in basis may meaningfully reduce seller's tax liability.
** Annualized run-rate for closed dealership M&A transactions through June 8, 2021.

Public dealership valuation and performance

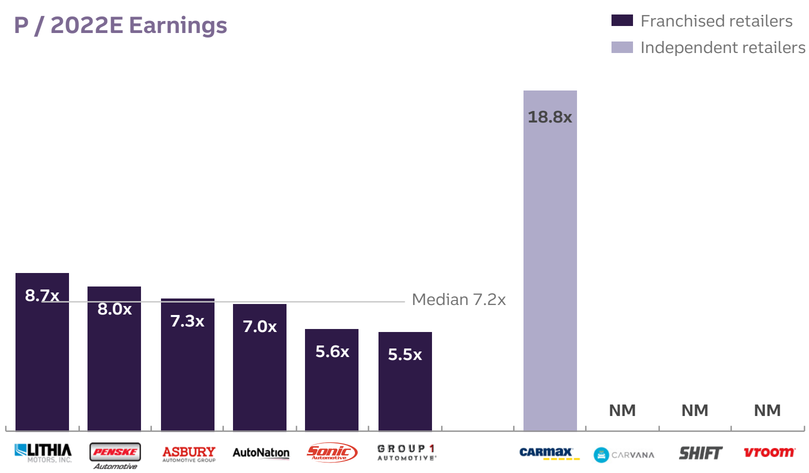
Market commentary

- Consumer demand remains robust for new vehicles against a backdrop of chip shortages & supply constraints, a trend supportive of higher margins that is expected to persist well into 2022.
  - Dealership earnings growth has likely peaked relative to recent quarters as inventory remains low with replenishment bound to increased OEM production.
  - Reduced new vehicle sales and associated F&I revenue has been offset by muted floorplan expenses and aggressive used vehicle procurements strategies & sales.
  - Exposure to used vehicle pricing may negatively affect gross margins if supply constraints ease and prices fall.
- M&A remains a strong driver of earnings growth as public retailers capitalize on excess FCF and synergies of scale.
  - Recently announced mega-deals (Asbury, Sonic, Group 1) highlight the benefit of large, tech-enabled dealership groups with access to capital.
  - Market placing less emphasis on "peak-ICE" profits with a preference toward reinvestment in omni-channel and digital e-commerce solutions.
- Valuations being pressured by elevated labor costs and new risks posed by the ramp up of EVs and competing direct-to-consumer models.

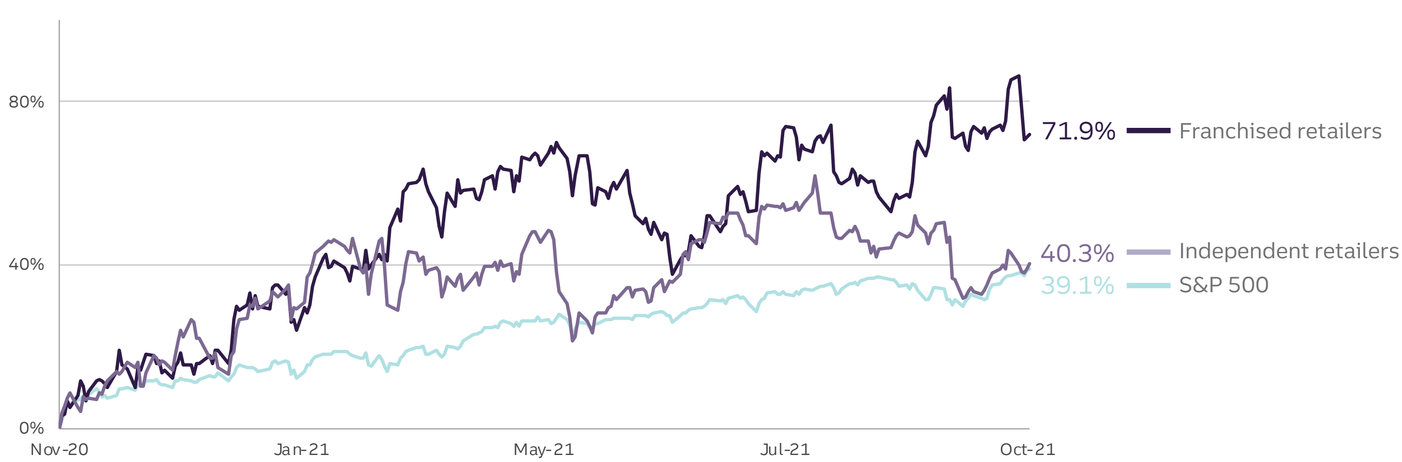
EV / 2022E EBITDA



P / 2022E Earnings



1-year stock price performance



Source: Capital IQ; Market Data as of 10/29/21

Truist Blue Sky Index

Leading premium brands command a premium valuation.

Brand valuation estimates created using transaction data, 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) 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 are not inclusive of a dealer group "consolidation premium," which typically adds an incremental 0.5x-1.0x the implied blue sky value of the group.

Our inaugural TBI shows the continued trend of higher valuations for Premium franchise brands relative to those categorized as Mainstream, with domestic premium brands trading at a discount to the market. Additionally, sales volume significantly influences brand value—with Leading Premium & Mainstream brands trading above their counterparts. In general, import brands are favored relative to domestic brands, and buyers require longer payback periods following their acquisition.

We expect these trends to continue: Premium franchises trade higher than Mainstream; sales volume drives desirability; and import franchises are preferred to domestic counterparts. Brands trading at discounts to their peers traditionally struggle with OEM-dealer relationships, low service absorption rates, or a lack of vehicle diversity relative to their competitors.

Brand		Payback (YR)	TBI Brand multiple of adjusted EBITDA (low)	TBI Brand multiple of adjusted EBITDA (high)
Leading Premium	Lexus	5.9	7.5x	9.0x
	BMW	5.5	7.3x	8.8x
	Mercedes-Benz	5.3	6.3x	7.8x
	Audi	5.4	4.8x	6.3x
Premium	Porsche	5.2	7.0x	8.5x
	Jaguar Land Rover	4.9	5.8x	7.3x
	Volvo	4.1	4.0x	5.5x
	Infiniti	8.0	3.0x	4.3x
	Lincoln	4.8	2.8x	4.3x
	Acura	5.6	3.0x	4.0x
	Cadillac	5.5	2.0x	3.5x
Leading Mainstream	Toyota	5.1	5.3x	6.8x
	Honda	4.9	5.0x	6.5x
	Chevrolet	4.5	3.5x	5.0x
	Ford	4.5	3.3x	4.8x
Mainstream	Subaru	4.8	4.3x	5.8x
	Chrysler Dodge Jeep Ram	4.6	3.5x	5.0x
	Nissan	5.0	3.8x	5.0x
	Buick GMC	5.0	3.5x	5.0x
	VW	4.4	3.5x	5.0x
	Hyundai	4.5	3.0x	4.5x
	Kia	3.4	2.5x	4.0x
	Mazda	5.9	2.5x	4.0x

Source: The Banks Report, Cox Automotive, Industry News

Truist Securities automotive 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

Project Eagle	Undisclosed	$200,000,000	$850,000,000	$150,000,000	$800,000,000	Carolina Coach & Camper
Franchised Car Dealership	West Coast Dealer Group	Group 1 Automotive	AutoNation	Shift	Lithia Motors, Inc.	Sale to RV Retailer, LLC
Sell-Side M&A Advisor	Sale-Leaseback & Build-to-Suit	Co-Manager HY Add-On	Active Joint Bookrunner 7/10-Year Senior Notes	Passive Bookrunner Conv. Note Offering	Senior Co-Manager Senior Notes	Sell-Side M&A Advisor
In-Market	*Mandated*	*October 2021*	*July 2021*	*May 2021*	*May 2021*	*March 2021*

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Auto retailers pursue the digital buying journey

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

With the Manheim index over 200 (up 38% over last year),[1] auto inventories at all-time lows, and loan performance holding up well, these unprecedented conditions have dealers looking for business opportunities as they work to meet customers where they are in today's digitized buying journey.

Our industry has been undergoing digital transformation for years. But it's a journey that's never done. Dealers will continue to evolve their technology capabilities and choose strong fintech providers that enable the digital purchasing journey. Auto retailers will be better positioned to serve customers the way they want to be served—and at the same time gain more control over the selling and financing process.

With the pandemic serving as a catalyst, the digital buying journey has come closer to becoming a reality. COVID-19 revealed the powerful consumer appetite for digital buying, financing, and purchasing from the sofa. With cars moving off the lot and margins at high levels over the past year, dealers of all sizes have been able to invest in further building out the digital buying experience.

As we continue our efforts to help dealers respond to changing market dynamics, there are a few foundational capabilities that our team is actively expanding. These solutions are ones we firmly believe will create the most value for dealers in your efforts to expedite the sales and contracting process and manage credit risk, operate efficiently, and drive profitability.

Dealers integrating with emerging fintechs – One path to the digital journey is through automotive fintech solutions that work with, not around, dealers to create efficiency for both buyers and sellers in the buying process. Automotive shopping sites continue to evolve their platforms—typically through APIs (application programing interfaces)—to seamlessly connect dealers with partners who can help them deliver the full digital buying experience, from shopping to closing. We are integrating with fintechs who are working with our dealer clients.

Prequalification of buyers to enable the earliest stages of the sales process – We are investing in capabilities that help dealers identify qualified buyers who come to the table pre-screened and with financing options in hand. Dealers will be able to manage risk, especially with sub-prime purchasers, and have more visibility during the earliest stages of the sales process. Buyers will get more control over financing and will be able to model various financing scenarios.

E-contracting capabilities for your buyers across the credit risk spectrum – While the industry has made great strides in speeding up the contracting process, it remains one of the most time-consuming aspects of the business. Technologies that make the process faster and more seamless will benefit buyers and dealers alike. We continue to expand functionality on this front.

We're operating in a market that is shifting with changes in wages, credit scores, supply chain impacts, technology, and more. At current new and used car pricing levels, affordability is an issue for higher risk customers, and it remains to be seen whether labor market strength, wage growth, and the continued softening of demand will resolve this issue.

While we might not have seen the last of pandemic-driven changes, and the market is hardly settled, we're excited about what the future holds for dealers. We'll continue to expand our capabilities, drive process automation, and work with key fintechs to deliver a full spectrum, best-in-class solution that will position our dealership clients for whatever comes next.

[1] Manheim Used Vehicle Index, Cox Automotive, accessed 11/23/2021.

If you have any questions or wish to discuss this information in more detail, please contact:
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The right time to revisit inventory insurance rates

Travis Johnson
Auto Dealer Practice Leader
McGriff Insurance Services, Inc.

By now, you've undoubtedly had plenty of first-hand experience running your dealership at historically low inventory rates. As you continue to assess operations and look for ways to manage costs, don't overlook a unique savings opportunity—the chance to lower insurance premiums on your insurance for your lot inventory.

If you haven't shopped your rates recently and your inventory levels are lower, there's a good chance you are paying for coverage you don't need. Depending on your state, climate, and other factors, you could save by adjusting your coverage levels based on your most recent inventory level averages.

A tighter standard: three-month rolling average

"Many insurers continue to insist on using a 12-month rolling average for determining the average inventory levels. But given the circumstances, that model is outdated and inaccurate," explains J. Travis Johnson, Auto Dealer Practice Leader with McGriff, Truist's auto dealer insurance partner. "When we're working with insurers, we make sure they stay in line with current market dynamics and offer you revised premiums based on a three-month standard," Mr. Johnson adds.

Look at inventory again in early spring.

It's important to revisit your coverage and premium expenses again in the spring as the likelihood of weather events (such as hail) ramps back up. While you have a chance right now to potentially save by adjusting your coverage, you want to be sure you go into any known bad weather season with adequate coverage.

Consider self-insuring a portion of your inventory.

Many dealers insure lower-cost inventory through self-insurance structures. If this is something you're able to do, it could help you lower operating costs.

What to look for in a broker

Brokers who specialize in auto retailing understand unique dealer needs and can source multiple coverage options. In addition, they can help to create healthy competition among insurers as they shop your coverage to various companies.

Look for transparency when selecting broker. Your broker should share which companies they're comparing, as well as details about how they're negotiating on your behalf. "They should be willing to show you starting and ending figures, so you understand what kind of value you're getting from the relationship. Especially right now, with the market becoming soft and several players offering highly competitive rates," explains Mr. Johnson, "you want to be sure they're helping you take maximum advantage of any chance to lower your premiums."

Comparison shop for significant savings now

If you haven't yet made it a priority to revisit your rates on coverages, it's an ideal time to do so. Insurers are actively competing for business, and you might be surprised just how much you can save. A good broker can assess your unique business situation, communicate it to insurers who want to vie for your business, and secure the best deal for your dealership.

Check out your savings on inventory insurance.

Talk to your Truist Dealers Services relationship manager and see how Truist and McGriff can help you match your lower inventory levels with a lower cost of insurance.

If you have any questions or wish to discuss this information in more detail, please contact:
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Providing a competitive edge to executive compensation

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Employee retention has always been essential and top-of-mind for dealerships, and executive employees are no exception.

As such, many dealers are actively seeking to hire at the executive level and retain those who they cannot afford to lose. Attracting the right talent at this level of the company takes the right amount of incentive; in many cases, this means negotiating with compensation packages.

Compensation can vary depending on the nature of the dealership and the position for which the company is hiring. For some, it may mean providing some type of company ownership. However, for others, it may be alternative forms of compensation for executive employees that do not relinquish ownership of the business. Regardless of varying circumstances, compensation plans should meet employee motivations, contribute to retention and push overall performance. The following are some top considerations for dealerships as they look to develop competitive executive compensation plans to attract top talent.

Established company brand and culture

While it may seem obvious, one of the most fundamental ways to creatively attract the right executives for your dealership is by having a well-established brand and culture. Consider how your dealership is recognized within its geographic footprint, both professionally and within local communities. Communicating such external recognition of excellence contributes to the overall brand and becomes an attractive feature when recruiting executives. Overall company culture can also play an impactful role when recruiting executives, which includes any shared set of values, attitudes, goals/missions, and practices of an organization. The specifics of a compensation plan may carry more attractive weight when the position comes with a favorable company brand and culture.

Profit sharing with vested bonuses

Compensation can take the form of benefits that stretch across longer periods of time. One option is to offer profit sharing with vested bonuses every three or five years. An additional option would be to tie the vested bonus to your intended goal for the executive's retirement. Allowing the largest reward to arrive at the end of the time period creates incentive for remaining with the company for many years. Another variation of this option is the blended use of part regular cash bonuses with part longer-term vesting bonuses, or some other form of a longer-term benefit. For consideration, you can also ask the executive for key clauses such as covenants not to compete or to solicit employees.

Small percentage ownership or phantom stock payouts

For company owners who may be wary of offering ownership as part of compensation, one consideration for executive compensation is profits interests or "phantom stock," which provide executives a portion of the profits of the company in which they would be granted "phantom ownership." This allows an owner to recruit executives who are driven by ownership opportunities but are not willing to give up ownership in their company. For those company owners who are willing to lock-in key executives with actual ownership,

there are many ways to finance an executive and truly partner with someone you hope will drive the business. In these cases, your shareholders agreement will become your governance structure, which would provide the owner and the executive the road map as to how they get into ownership and how to transition out. At any one of these levels, there is no downside to grow with the company, and the situation can be beneficial for the executive and the owner when there exists some vested interest in company value and profits.

Proprietary management company (pmc)

PMCs can also work well for compensation packages that allow an executive an alternative form of ownership interest in a company that is not the actual operating business. PMCs are usually structured as pass-through entities and help to provide benefit to the employee by using a formula to take profit from the operating business. The PMC is generally structured in situations where there are multiple underlying operating companies where the PMC provides service to all. These would be structured in such ways in which the company owner can retrieve the management company if for any reason the employee resigns or is terminated. Depending on the desires of the owner, the PMC may also offer creative forms of what may be known as "B membership" or "B partnership" interests to provide the executive ownership in the company, and therefore a profits interest, but no actual vote in the company. Documentation of the PMC is crucial in order to define the financial relationship between the operating business and the PMC.

Indirect compensation alternatives

Depending on the circumstances and desires of an executive employee prospect, companies may be able to negotiate indirect compensation alternatives to meet specific needs of the employee. For example, an executive employee may be willing to accept less direct pay to have more flexibility as a caregiver for young children or an elder living in the home – in this example, part of the compensation package can include more flexibility in a working schedule as well as specific or even increased provisions or subsidies for dependent long-term care, childcare, etc.

Tax planning considerations

There are also important tax planning considerations when deciding the details of an executive compensation plan. Based on the components previously mentioned, the following are a few of the tax considerations for each.

Profit sharing with vested bonuses: Qualified plans can provide for current deductions from income to the employers for contributions to the plan, tax-free growth of the plan assets, and deferral of income until funds are distributed to employees. Profit-sharing plans are also considered "defined contribution plans" because of the following:

- There is an individual account for each participant.
- Benefits are based on that individual participant's contributions to the account
- These plans allow for discretionary contributions each year.
  - These plans do not provide for a specified benefit at retirement, so the risk of investment lies with the participant. In-service distributions are subject to income tax.
  - 10 percent early withdrawal penalty may also apply if the participant is under 59 ½ years of age.

Non-qualified supplemental executive retirement plans (SERPs), which are used in most cases to motivate and retain key executives, are not deductible to the employer as the benefit accrues on the company's books until the key executive has vested in the benefit. At that time, the company could deduct the payout, and the executive would recognize it as income for tax purposes. In addition, at this point, the hope would be the executive would be in a lower tax bracket at "retirement" to recognize the income tax.

Small percentage ownership/PMCs: The tax impact of small percentage ownership plans and PMCs depends on entity structure. Many dealerships are set up as pass-through entities (taxed as partnerships or S-corporations); therefore, any individual who holds an ownership percentage in the pass-through entity will receive a Schedule K-1 reporting on their allocation of the profits and losses of the company each year. This information is then reported, and taxed, on the individual's personal income tax return. Basis schedules should be maintained during the time in which ownership is held in order to properly calculate the ultimate gain/loss on disposal of the investment when the ownership interest is sold. In a dealership set up as a C-corporation, the small ownership will not create additional tax burden, similar to passthrough entities, but it can create additional tax to the extent dividends are paid to the owners.

Crafting the right compensation plan can be challenging and require the help of a team of advisors. For more information regarding development of competitive options for executive compensation plans, reach out to our team at dealerships@dhg.com.

DHG Rawls BUSINESS SUCCESSION PLANNERS

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Special contribution article

Get big or get out are not the only options

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The past 18-24 months will go down in the history books of auto retailing. For most dealers, business has been terrific, in some of the most upside-down times ever seen.

Supply chain and chip issues have led to inventory shortages, and, in some cases, no inventory at all. Cars are being sold in route and delivered before even coming to your store. Talent and recruiting have become even more challenging as job openings skyrocket across the industry. The evolution of EVs raises additional questions as manufacturers figure out new delivery methods. Lockdown complications and COVID-19 variant outbreaks keep everyone on edge. Add natural disasters and potential regulatory and tax shifts, and it’s no surprise that stress levels are running high.

Auto retailers have fared well, seeing record profits and demand to help dealers who want to grow. Consolidations and stores changing hands have continued at a stepped-up pace. Many auto retailers have been advised to, "Get Big or Get Out” (GBGO).

Should I “trade-in” my business for another income-generating asset?

The market is prime for those dealers who have been considering an exit and those looking to grow. But you don’t have to feel the pressure of GBGO—your business may be more valuable to you than another substitute income-generating asset a sale could create. You’ll have plenty of options if you resist the urge to sell or commit to aggressive growth and consider all options.

You should be thinking about the future of your business every day, considering the possible versus probable success it can sustain in today’s lucrative environment. That simple process—one part planning and one part dreaming—is the foundation of succession planning.

Succession planning creates the foundation for good decision-making and keeps events from driving your strategic timetable. If you are feeling the pressure of GBGO, turn to succession planning for the answers.

Investing in succession planning helps you build value and allows you to create the choice you desire for the future of your business. It provides a complete analysis of your structure, people, strategy, processes, procedures, and profitability, while removing the anxiety that can accompany uncertainty as you make decisions about your future. With a proper succession plan in place, you are in control of the future of your business, not dependent on the latest uptick in blue sky multiples or the attraction of a buyer.

Engaging in the proper planning allows you to be in the decision maker's driver seat. Succession planning allows you to build generational wealth by ensuring transfer of ownership through to the next generations and beyond.

Before capitalizing on the GBGO wave, get informed. Look at your current succession planning scenario and understand what’s best for you and your business, whether that’s growth, a sale, or staying the course through to steadier times.

Special thanks to Champ Rawls. As part of his own family's business, he has insight into the difficulties, challenges, and triumphs families face when combining family and business. Champ has been officially associated with The Rawls Group since 2012, although it could be said he became part of the team in 1984, when he was born into the family business. For more information visit seekingsuccession.com.

Rawls | BUSINESS SUCCESSION PLANNERS

Is your dealership prepared to deal with cybercrime?

Identify threats and build defenses

Erik Nachbahr
President and Founder
Helion Technologies

Cybercrime poses a constant threat to businesses and their customers, with criminals committing fraud by stealing identities or using phishing to illegally gain access to a company's computer network.

In recent years, cybercriminal attacks have caused major consumer information breaches at retailers, social media platforms, and credit information providers. Seventy-four percent of companies have been the targets of attempted or actual payments (check, wire, or ACH) fraud.

The pace of attack increased in 2020 with two-thirds of companies reporting an increase in fraud attempts since the COVID-19 crisis began.[2] And anti-fraud professionals are almost unanimous in predicting an increase in fraud in 2021.[2] Cybercrime attacks—from ransomware to payments fraud—show no sign of going away.

"Many dealers don't think hackers are looking at them," explains Erik Nachbahr, Certified Information System Security Professional (CISSP) and President and Founder of Helion Technologies. "Dealerships are increasingly a target of cyber threats with their high volume of large dollar transactions and lack of digital security." As criminals develop more sophisticated cybercrime techniques and states implement stricter consumer privacy legislation, cybersecurity and data protection should be top priorities for dealers. That means heightened security to ensure data privacy, combat potential attacks, and mitigate losses.

According to the 2021 IBM/Ponemon "Cost of a Breach Report," it takes, an average of 287 days to identify and contain an attack. Data breaches that took longer than 200 days to identify and contain cost an average of $4.87 million, while those that took less than that cost an average of $3.61 million. Lost business accounted for 38% of the overall cost, including increased customer turnover, lost revenue from system downtime, and additional marketing expenses to overcome damage to the business's reputation.[3]

Key dealership cybercrime threats

Dealerships generally have a complex technology architecture that makes cyberattack protection challenging. "Many dealership computer systems have hardware added in a one-off manner, are built without a complete system plan, and utilize older, outdated software. In some cases, they underpower their virus protection by using freeware software. Further, weak security protocols that allow user account sharing can undermine a dealer's business," Mr. Nachbahr explains.

Increasingly sophisticated ransomware attacks targeting dealerships are on the rise. "These criminals know dealerships have money and are aware of dealer vulnerabilities. That makes dealerships a lucrative target," continues Mr. Nachbahr. "The attacks aren't typical automated intrusions; they are enterprise-grade attacks, with live hackers combing through a dealer's systems. Because dealers have many, disparate components and don't tend to use standard protocols, once their systems are exploited, the breach is difficult to fix."

Other cyber threats focus on personally identifiable information (PII) which can be stolen and resold to bad actors. Forty-four percent of data breaches included customer PII, making it the number one type of data stolen.[3] Dealerships regularly handle vast amounts of PII, particularly financial information, so it's no wonder they're an attractive cybercrime target.

In today's environment, protecting dealership computer systems and their customer data is essential. "As cybercriminals are becoming increasingly adept, more dealers are realizing an attack could be a 'business-ender.'

The cost when cyber criminals strike

Cost of a data breach:

$180

per PII record stolen[3]

Loss of customer loyalty:

25%

of customers say they will leave after a data breach[6]

Cost of ransomware attack downtime:

19

days in length[5]

$274,200

average cost of related downtime[4]

Forward-thinking dealers are investing in technologies that protect against these full-scale attacks. Information technology security is now being viewed as a priority, not simply an expense to be controlled," states Mr. Nachbahr.

The cost of cybercrime

The likelihood that a business will experience financial damage after a cybercrime attack is rising quickly. The average cost of downtime from a ransomware attack has doubled over the past year to $274,200.[4] The average downtime is now 19 days; a three-fold increase from 2019.[2]

Direct economic losses are compounded by lost revenues from operational disruptions, brand reputation damage, and decreased customer loyalty. A 2021IBM/ Ponemon Institute survey found that a data breach costs U.S. businesses an average of $180 for each accessed/stolen record containing customer PII.[3] For dealerships with thousands of records, the damage can add up quickly, not to mention the impact on customer relationships. A Ping Identity consumer attitude survey reported that 25% of respondents would stop using a business after a data breach.[6] The potential for cybercrime to inflict direct losses, reputational damage, and customer loss highlights the importance of making data security and cyberfraud defense a priority.

Ransomware: A simple mistake cost a dealership a week of operational downtime and a month for a system rebuild.

A salesperson responded to a phishing email, opening a malicious file with ransomware and providing cybercriminals access to that computer. The salesperson did not suspect an intrusion. Once behind the firewall, the hackers were able to access the dealership's entire system and servers. The hackers used the compromised computer to probe the network, looking for vulnerabilities to lock up the dealership's computer operations.

The criminals were able to shut down the dealership's systems for over a week—asking for payment in bitcoin to relinquish control of the systems. All of the dealership's servers and emails and one-third of their 300 computers were inoperable. They chose not to pay the ransom, but instead took the next month to rebuild their systems completely.

How could this cyberattack have been prevented?

- Through employee education on the hazards of downloading unsubstantiated files or clicking on suspicious links
- With proper web filters and controls to block hazardous links
- By implementing fraud software to quickly find, mitigate, and recover information compromised by fraud and ransomware attacks

Limiting primary fraud threats

When it comes time to address criminal activity targeting payments, banking transactions, customer data, communications, and computer systems, it is important to analyze both non-cyber and cyberfraud. Equally important is identifying the sources of threats—internal and external—and dealing with each accordingly. Simple protection measures along with insurance for business crime, cybercrime, or data breaches can dampen losses. Measures to limit risks include:

Employee education is the top method for lowering the risk of fraud in general, and cyberfraud in particular. A company culture that values overall fraud prevention sends a powerful signal to employees. Employee education about fraud awareness is one of the best ways to get started. Fraud barriers include:

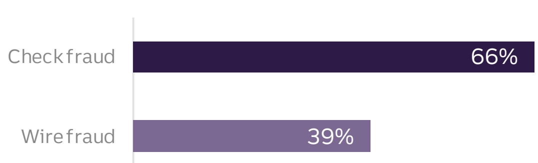
- Clearly defined fraud prevention roles and responsibilities for you and your employees
- Separation of duties, checks and balances, and multi-factor authorizations for funds transfers
- Secured computers with password protection, changed periodically
- Restricted user account access to individual owners with no shared access
- Web filters and controls that block clicks on potentially fraudulent links

Check and wire fraud are the top two payment fraud threats for any business. Sixty-six percent of companies reported that check payments were subject to fraud, and 39% were victims of wire fraud attempts.[1] Dealership payment volumes – both paper and electronic – make an attractive target for fraud. Implementing a few simple, inexpensive processes can protect your dealership.

- Use positive pay services. You'll be able to verify the authenticity of checks by looking over the issue date, check number, amount, and payee name to catch check fraud.
- Protect check stock with dual authorization before use.
- Authentication is further enforced through online banking platforms which require additional authentication for wire transfers through assigned user ID and password logins, requestor authentication, and dual approvals.

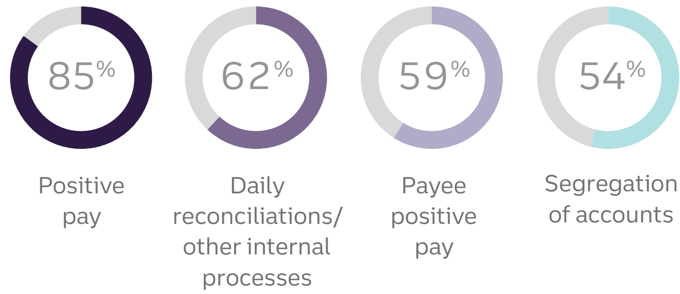
Fraud by the numbers[1]

% of companies experiencing fraud:



Payment fraud prevention measures[1]

% of organizations using these measures:



Phishing and social engineering attacks scam employees into believing an email is from a reputable company or dealership employee. The recipient then reveals sensitive information, passwords, and credit card or account numbers. Phishing emails can appear to be from the dealership owner, ordering large sums to be wired to external accounts, which then vanish moments after the transfer. Phishing emails entice unsuspecting employees to download innocent looking files or click on malicious links and infect computers with spyware, viruses, or ransomware.

"Phishing attacks are one of the most common and damaging ways for hackers to access your systems," Mr. Nachbahr explains. "Your employees should be the frontline defense against attack—your 'human firewall'. Ongoing employee training, education, and support allows them to recognize social engineering attacks and thwart costly episodes before they begin." Preventative measures include:

- Web filters and controls that restrict access to phishing links
- Multi-factor authorizations for wire transactions
- Limits on payment amounts that a single employee can authorize
- Cloud backup for restoration following a malicious software attack
- Intrusion detection software to identify suspicious network activity

Synthetic identity fraud is another risk to dealers today. Imposters use fake information to create fictitious identities, combining stolen identity information to create new credit files. These new synthetic identities allow criminals to qualify for a loan to buy vehicles, putting dealerships at risk for losses. Background checks verifying customer identity offer the best protection.

When cyber fraud does penetrate a dealership, speed is the key to mitigating its impact—the faster an attack in progress can be detected and stopped, the less its damage. Quick detection and speedy remediation deploys an entire set of technologies, processes, and expertise—including digital forensics, threat hunting, malware reverse engineering, and technical surveillance countermeasures—that most dealers don't have. Mr. Nachbahr explains, "Dealers need a Security Operation Center (SOC) to monitor the network 24/7/365 looking for signs of malicious behavior. Tools like advanced endpoint threat protection and security information event management (SIEM) allow security professionals to sift through and correlate data and identify suspicious patterns of behavior so they can shut down the attack early and limit damage to the dealer."

"Dealers are quickly recognizing the need for a SOC, but security professionals with the training and certification to run the centers are hard to find. Most dealers are turning to outsourcing to protect their business."

Cyber liability insurance

Cyber liability insurance protects your dealership when cybercrime happens. "Many dealers don't think cybercrime will happen to them and are not prepared when it does," explains J. Travis Johnson, Auto Dealer Practice Leader at McGriff Insurance, a subsidiary of Truist Insurance Holdings, Inc. "Due to their systems and transaction levels, dealers are one of the many low-hanging fruits for cyber criminals. While some OEMs do require cyber liability insurance, dealers who aren't required to purchase policies typically don't think the premium money spent is worth it. Not realizing the overall benefit of a cyber liability policy is relatively inexpensive when compared to the damage a cyberattack can cause."

Dealerships interested in cyber insurance policies undergo an extensive cyber risk review that rates them on existing cybersecurity vulnerabilities and defenses in place. Your level of cybersecurity preparation determines your premiums. Some of the coverages include the cost of identifying where the attack came from, making ransom payments, paying rewards for informants, repairing or/replacing computer hardware, and potential court costs. If an attack happens, most insurance carriers offer a 24/7 on-call teams to advise you on next steps and help you get the problem resolved as quickly as possible so you can get up and running again.

Don't think you are flying under the radar.

Headline-making data breaches typically occur at large, well-known companies, but that that doesn't mean your dealership can rest easy. Fraud criminals are constantly looking for the easiest marks, and sizeable transaction volumes combined with disparate systems make dealerships particularly vulnerable. Take protection measures seriously to avoid being a victim.

Can I afford to ignore cybercrime?

A serious cybercrime attack can be crippling. A ransomed network, infected server, or compromised bank account can be as much of a disaster as a flood or fire. As more dealerships rely on digital customer interactions and transactions, the benefits of protecting your dealership, your data, and your finances from fraudulent activity have never been greater.

Don't let cybercriminals steal your business.

Talk to your relationship manager or treasury consultant to discuss your business plans and your dealership's fraud defenses, including ways to mitigate damages through McGriff Automotive insurance policies.

[1] "2021 AFP Payments Fraud and Control Survey Report", Association for Financial Professionals (AFP), 2021.
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Thanks to Erik Nachbahr, President and Founder of Helion Technologies, for this special contribution article. Helion is the largest IT/cybersecurity services provider in the country exclusively serving the needs of auto and heavy truck dealers. For more than 20 years, Helion has been optimizing the IT infrastructure and cybersecurity of dealerships across the country. For more information, contact Erik ENachbahr@heliontechnologies.com.

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