Truist Dealer Insider

The Automotive Retail Newsletter

Volume 5, Fall 2022

TRUIST

Dealer Services

Welcome to the Fall 2022 issue of the Truist Dealer Insider

Dear Friends,

Auto retailing's stellar performance persists—robust demand, constrained supply, and financially healthy consumers have supported dealer profitability while keeping capital flowing to the industry and M&A activity high.

Looking forward, we need to keep an eye on new developments in our industry, with our customers, and for the overall economy. In this issue:

- The Truist Dealer Services team reviews the industry and economic issues that you should be watching. There's no crystal ball, so every dealer needs to stay attentive to the market signals and interpret them for their own business.
- The Fed's response to inflation has interest rates up. That's the time to turn to risk management and consider changes to your dealership's capital mix.
- The Truist Securities team adds the latest data on trends, recent transactions, and our Blue Sky Index. Whether you are active in the M&A market, are thinking about it, or just tracking the latest on your dealership's value, you'll find this information useful.
- Damon Lester of the National Association of Minority Automotive Dealers (NAMAD) shares his thoughts on Diversity, Equity, and Inclusion (DEI) in the automotive business. Along with Truist's Jason Smith and Wendy McSweeney, he outlines progress made and the remaining journey to get to where we need to go as an industry.
- If you've flown lately, you know that COVID has not been kind to the commercial flying experience—private aviation can simplify travel, minimize unproductive time, and avoid an increasing number of delays.

While we created the *Truist Dealer Insider* to be a valuable source of industry information, we want to get to know your dealership, including your goals, challenges, and opportunities. 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, whether it's with capital structuring, auto finance, M&A strategy, or business and family transition planning. We're here to partner with you and offer strategic advice.

Jason W. Smith
Head of Truist
Dealer Commercial Services

Bill Jones
Head of Truist
Dealer Retail Services

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Truist Securities

*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

- Purpose-driven financial services company committed to inspiring and building better lives and communities
- Sixth largest U.S. commercial bank with $545 billion in assets, $296 billion in loans, and $424 billion in deposits. Market capitalization of $65.7 billion, as of 6/30/22
- Headquartered in Charlotte, NC

Inside this issue

Auto retailers lay out a path through a volatile economy

The unprecedented, good times that the auto industry has enjoyed are starting to contend with economic volatility that's equally unprecedented. That combination makes answering the "what's next" question much harder and leaves dealers sifting through today's economic indicators and consumer buying data as they project a path forward for their businesses.

Looking at the big picture

"We're getting mixed signals from the economy—annualized gross domestic product (GDP) declined in both the first and second quarter, while in the other direction, U.S. payrolls increased in August by 315,000, roughly in line with the consensus," says Michael Skordeles, Senior U.S. Macro Strategist at Truist Wealth.

"GDP may signal a slowdown, but labor market conditions are still solid—unemployment rose slightly to 3.7%, and the labor force participation rate saw a small increase, with gains in all major industry groups. Average hourly wages have been steady on a year-over-year basis for the third straight month," adds Skordeles.

Retail sales are strong and orders for durable goods are up as well while trucking and rail volumes grew again in August. Several manufacturing gauges held steady in August, and new orders rebounded after contracting for two straight months. Also, the pullback in the price paid component over the last five months suggests that inflation may have peaked in manufacturing.

Gas prices have fallen sharply from their peak earlier in the summer, but inflation hasn't disappeared. Combined with the solid, but cooling labor market, Skordeles believes the Fed will remain laser-focused on combatting inflation for the remainder of 2022.

Skordeles expects the economy to deliver more of the same—generally tightening financial conditions, a volatile bond and stock market, and prolonged sluggishness that's already showing signs of cooling the overheated economy. He also believes that a U.S. recession isn't necessarily inevitable.

Is auto retailing set for a soft landing?

The auto industry should be similarly positioned for a slow transition back to normal. Bill Jones, head of Truist Dealer Retail Services and CEO/President of Regional Acceptance Corporation says, "There's a confluence of forces in the

marketplace that I think will result in a gradual return to familiar operating conditions in the industry. But those forces are varied and, in some cases, are competing with each other."

Pricing in used cars has eased—from June to July, the average sales price of a used car dropped 1.2%, in line with the historic annual depreciation rate of 15-20%. "Used cars are going to go back to a normal cadence of depreciation," says JT Taylor, head of Automotive Retail at Truist Securities. "Last month was the first 30-day snapshot showing that trend. What we're observing in used car values bodes well for the car business, because the demand is still high, and people are working."

"We've never been in a recession with unemployment as low as it is right now," Jones adds. "If you go back to the Great Recession, around one in every 10 people were out of work. That's not the case now—we've got a much more resilient consumer, even with inflation running at a high rate."

Tightening credit as Fed rates rise

Even with high employment, inflation and the reduced new vehicle output are pricing some consumers out of the new car market. The average price of a new vehicle jumped from around \$27K to nearly \$50K in just four years, and the full-sized pickups that Americans love now carry an average sticker price of $62K. Those prices leave a substantial number of buyers unwilling or unable to afford a new car or truck, while rising interest rates and a tightening credit market mean many buyers lack the borrowing power to purchase one.

"Lenders are normalizing after the effect of the CARES Act, which pumped liquidity directly to consumers and prompted lenders to provide extensions on loans," Jones explains. Delinquencies were at historic lows, lifting lenders' asset quality to new highs. As portfolios return to usual levels, Jones adds, "Lenders in the auto marketplace are being conservative about credit quality, loan-to-value ratios, minimum incomes, risk mix, and risk tiers."

The market should remain strong for both new and used vehicles for some time. "We're seeing plenty of pent-up auto demand right now," Jones says. "Consumers are sitting on the sidelines—subprime consumers have been priced out of the new car market, and there are prime consumers who aren't willing to pay the current prices over MSRP. As prices come down, those people will come off the bench." Only when that pent-up demand is satisfied can we expect a return to usual market conditions—and more typical margins for dealers.

Facing an uncertain future

While dealer margins have been high, "Most dealers expect a rationalization of margins to happen over the next few years, when supply more properly aligns with demand," says Taylor.

What will buying patterns look like once this period of constrained supply ends, and how can automotive leaders prepare their dealerships to thrive in the more competitive marketplace of the future? The volatility of recent years makes predictions difficult, but owners should:

- **Watch the Boomers.** They're retiring in record numbers, and they've always been crazy about cars. The labor participation rate is down, particularly with older workers. Will their exit from the job market change their buying behavior?
- **See how high gas prices will alter the market.** At this summer's peak, car buyers briefly retreated to sedans despite their affinity for big trucks and SUVs. Will gas prices stay above the critical threshold that makes sedans more desirable again?
- **Consider the impact of environmental concerns on consumer choices.** The shift to EVs is inevitable, but slow, with movement at the high end of the market but few options for other buyers. Are government incentives and green sentiment among some consumers enough to drive a dramatic change in purchasing patterns?

Choosing to grow or go

Dealers cutting back on variable expenses have seen higher profit margins in the short term, but strategic investment is critical for long-term success in the industry. "Dealers are advertising less. They are stocking fewer cars. And they're operating with fewer people as they invest in the right tools that boost productivity. But long-term success comes from healthy investment in both the tools that drive costs out of the business and the people who can use them effectively. That's the winning hand for dealers," says Taylor.

Jones adds, "There's a digitization revolution going on right now in auto retail financing, and it's reducing the need for salespeople, finance people, and office staff. But to invest in that, you've got to have a strong balance sheet. Dealers can't allow today's high margins to lull them into failing to invest in tomorrow's success."

> "We're seeing plenty of pent-up auto demand right now"

For those who aren't willing to invest the money or time necessary to join the next phase of auto retailing, 2022 represents an opportune moment to exit, with business valuations high and buyers plentiful.

"Invest in the future of the business or exit at the top of the market? Smart dealers will gravitate to one of those poles," says Taylor. "This is the golden age of auto retailing—high profits, high value, fairly liquid market for my business if I want to sell, and available businesses if I want to buy."

When attractive options are plentiful, it's not time for strategic procrastination. Commit to growth and making strategic investments that will enable your dealership to thrive long-term. If you're wavering on the investment and the energy that growth requires, think about exiting while the market is high. Don't hesitate—auto dealers must be ready to compete as the market returns to normal.

Diversity, equity, and inclusion in auto retailing

Diversity, equity, and inclusion (DEI) is top of mind for many in the auto industry as leaders set goals and strategies that will shape the industry for years to come. To explore DEI in auto retailing, we conducted a Q&A with Damon Lester, head of the National Association of Minority Auto Dealers and owner of Nissan of Bowie, and included Jason W. Smith, head of Dealer Commercial Services at Truist, and Wendy McSweeney, ESG Impact Advisor for the Commercial Community Bank and former Chief Diversity, Equity, and Inclusion Officer at Truist.

Where are we today with diversity, equity, and inclusion in the retail auto dealership business?

Lester: Dealer ownership is a key measure of DEI progress in the auto retailing business. At the end of 2021, there were about 1,300 ethnic minority car dealers (ethnic meaning African American, Asian, Latino, and Native American) out of 18,000 dealerships—7% of dealerships are minority-owned. We've got a way to go.

We've seen substantial improvements in year-over-year growth in DEI initiatives because of the commitments original equipment manufacturers (OEM) made in the wake of the Black Lives Matter movement and the shift in many parts of our society to focus on DEI at large. The media and publicity around the lack of diversity have brought awareness to the issue.

How are we progressing toward having a more diverse group of leaders in the next generation of industry leaders?

Lester: The responsibility for developing minority leaders falls both on retail dealers and OEMs.

At the retail dealer level, data shows a lack of diversity in upper management positions. While more minorities do find opportunities at the general sales manager (GSM) level, there's still a limited path to becoming a general manager. In general, minorities are underrepresented among dealership owners and managers.

How can this change? It starts with dealer owners stating a clear intention to hire, groom, and give opportunities to a more diverse group of candidates. Without that clear direction, it's easy for leaders and managers to fall into the long-standing, familiar patterns of hiring from the same sources, developing those they're most comfortable with, and promoting based on long-standing relationships. Until leaders and owners commit to creating a more diverse organization and to collaborating with managers to make that happen, change will be limited.

With 109 new minority dealers in just the past year, OEMs have started to follow through on their diversity commitments made in response to the social justice movement. Several OEMs have created minority associations—often built around each brand—that have 100% access to OEM leadership along with senior and middle managers as well. They're demonstrating the commitment and taking the time and energy to prepare a more diverse group of leaders for dealer ownership.

Also, OEMs are making sure there is diverse representation on dealer councils. This serves two purposes—underrepresented leaders have another development opportunity and dealer councils get richer perspectives on issues that affect minorities in the industry.

How are we progressing on increasing minority ownership of dealers?

Lester: Minority ownership of dealers is moving in a positive direction, but not as fast as we'd like. Many of the OEMs are setting bold goals and beating them. For example, Ford got a third of the way to its five-year goal in just the last year, and Stellantis added 28 new minority dealerships last year—the largest net gain in minority dealers after Ford.

Remember that much of the auto retail industry originated in family-owned multigenerational businesses which African Americans couldn't even own until the post-Civil Rights Movement. Majority owners had a 60-year head start, cultivating third, fourth, and fifth generation dealerships while 95% of minority dealerships are first generation. Closing that gap requires that leaders across the automotive industry make an active effort to provide opportunities to minorities. We need to spotlight diversity and inclusion and how minorities add to the industry and help it grow. This is not a zero-sum game—we can expand the pie, and it doesn't have to reduce the opportunities for non-minority owners.

There are headwinds—valuations and dealership consolidations in our industry are running at an all-time high and are making it more challenging to reach DEI ownership goals. And the traditional family-owned dealership is fading as consolidation brings about larger dealerships and more corporate-owned stores. That doesn't favor minorities looking to enter the business with their first dealership.

Smith: Valuations at dealerships are at a record level, which compounded with this 60-year head start, make it harder for someone to enter this capital-intensive sector given the equity and debt requirements.

McSweeney: It's substantially more difficult for an ethnically-diverse or gender-diverse dealer to break into the business while the gap gets larger as non-diverse dealers—the critical mass in the industry—continue to grow their businesses.

Lester: It's hard to buy a dealership because you need financing, and the lenders are going to require a substantial equity or cash infusion. While you may find the money to buy the dealership, you may not have the money to adequately capitalize it and sustain it after the purchase. During the 2008-2009 recession, 40% of minority dealers in this country disappeared, and many of them were first-generation, family-owned businesses, averaging two stores. Minority dealers don't have access to the excess capital needed to weather storms like larger multi-generational family businesses can.

As you're looking for capital, be sure to check out the major OEMs—some have direct financing initiatives to support minorities.

Smith: In addition to traditional financing, family offices are looking for investment opportunities, and private equity (PE) firms like the high rates of return on equity in the auto industry. Additionally, there are investors with an ESG (environmental, social, governance) focus that might be particularly interested in backing a minority-owned dealership.

How is the industry progressing on DEI initiatives, such as recruiting talent into dealerships, developing them into leaders, and building diverse teams?

Lester: Over time, we've learned that diverse teams are oftentimes higher performing. To build those teams means making decisions that will result in more diversity in recruiting, talent development, and team building. Teams often follow their leaders, so we need to keep developing more diverse leaders, from first line management up to the top positions at the dealership.

Fair and open hiring processes draw people of color to these positions in the first place. You may have to reset your recruiting sources and messaging and actively recruit from schools with large minority populations. And, once in the business, you've got to support minorities and retain them—the next recruits are going to look around your business, and if they don't see people who look like them, they might not feel comfortable that they'll have a community of people like them or even question whether you have a supportive environment for minorities.

McSweeney: If we grow and create increased opportunities for diverse candidates, research shows that diverse teams produce and generate greater profits than non-diverse teams. At Truist, in addition to entry level positions, we're filling middle and upper-level positions with alumni of schools that have more diverse graduates. Truist's Grow, Retain, Accelerate, and Develop (GRAD) program invests in top performers in middle manager roles to grow a more diverse mix of senior leaders. We started the program in October and now have 50 teammates enrolled. Our first promotion was in June.

How will DEI initiatives affect my bottom line?

Lester: While we believe a commitment to diversity should come from doing the right thing, there's a strong business case as well.

For example, hiring Hispanic/Latinx managers shows you understand the needs of bilingual customers and are committed to the community—the result could well be increased sales.

The enhanced creativity, fresh perspectives, and broader buy in from diverse teams translates into better financial returns for your dealership. It's really that simple.

McSweeney: For a purpose-driven company like Truist, what's good for our clients, teammates, and the communities we serve is good for our business. From the beginning, Truist has led with DEI, and we're seeing that commitment pay off in the value that Truist delivers.

NAMAD
NATIONAL ASSOCIATION OF MINORITY AUTOMOBILE DEALERS

Dealership M&A and valuation overview

Recent noteworthy deals in auto retail M&A

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

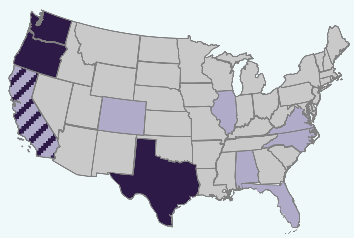
SHIFT merges with carlotz

Announced: August 9, 2022
Transaction value: Stock for stock[1]

"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

SFT / LOTZ U.S. locations



CarLotz location
Shift key market
Location overlap

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.

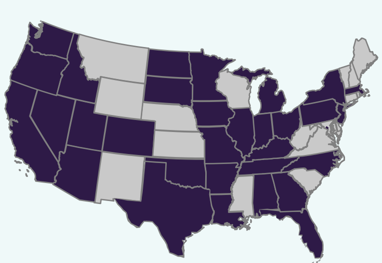
CARVANA acquires ADESA

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

ADESA U.S. locations



ADESA has 56 auction sites spread across 30+ states

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

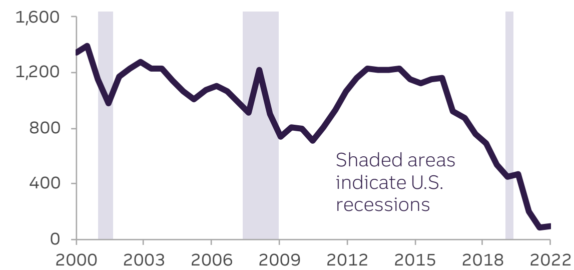
Profits persist as trend toward direct-to-consumer points to further industry consolidation

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.

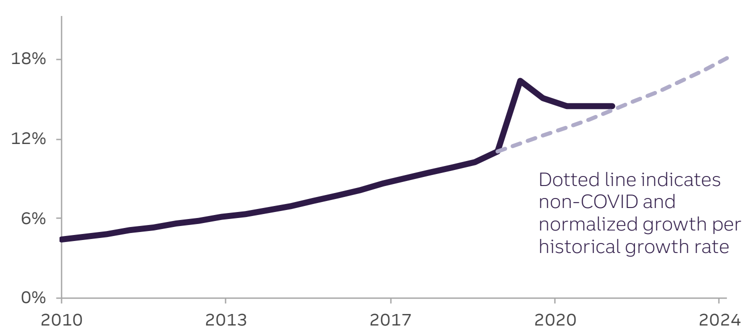
Domestic auto inventories

units in thousands



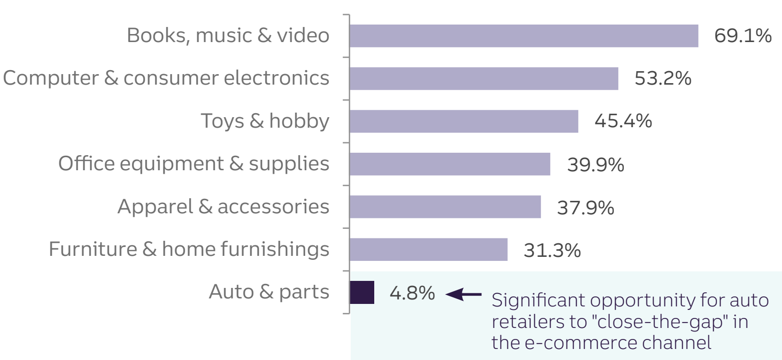
Adoption of direct-to-consumer capabilities will drive further industry consolidation

E-commerce sales as % of total retail sales



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

as of February 2021



- 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.
- 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.

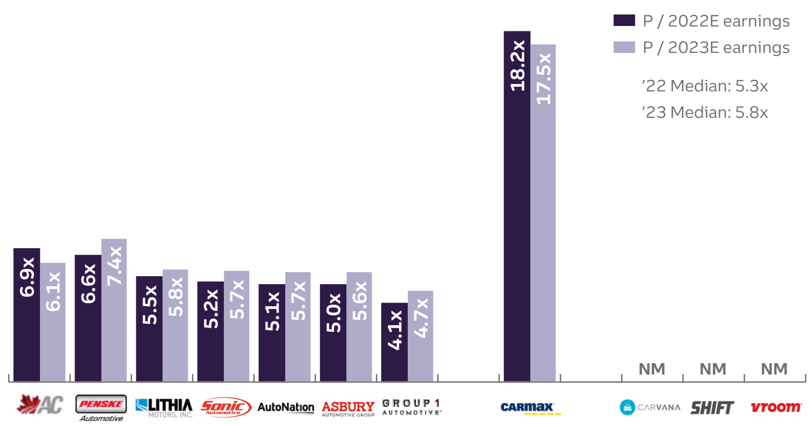
Source: Industry News

Public dealership valuation and performance

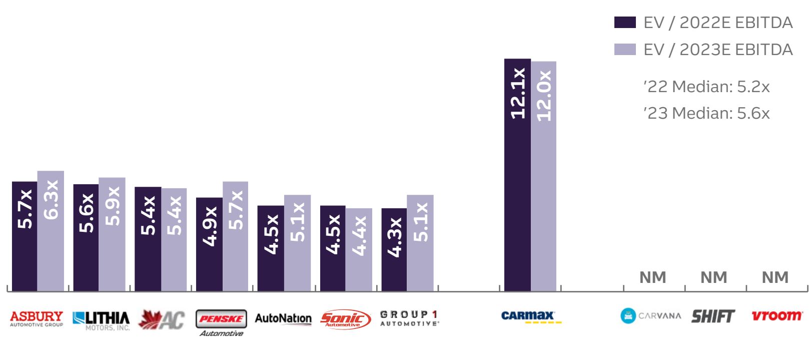
Market commentary

- 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.

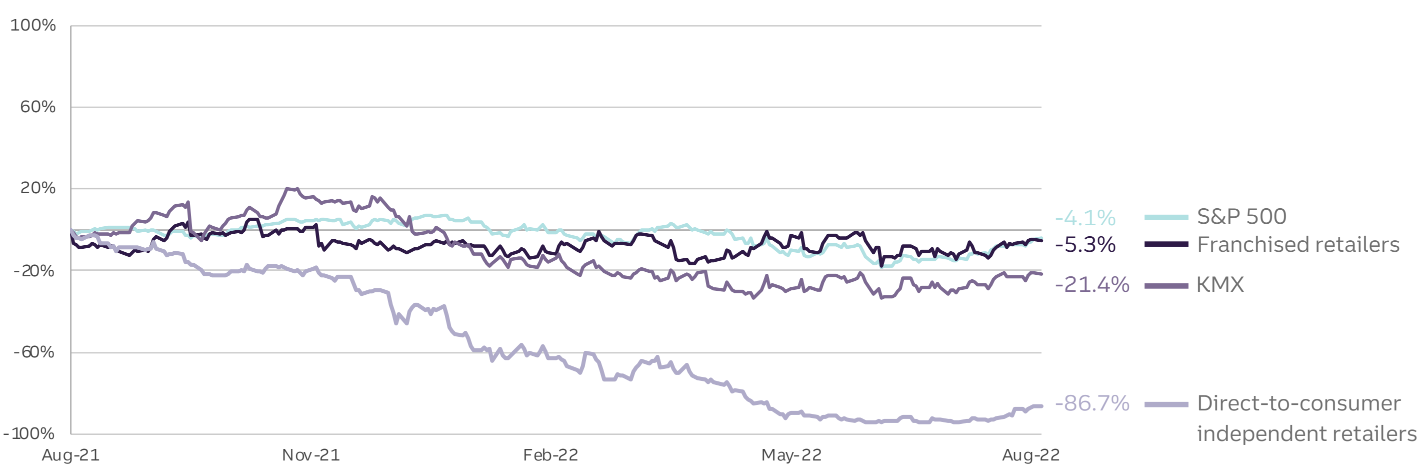
P / 2022E & 2023E earnings



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	
Leading Premium	Lexus	0.5x	6%	8.0x	9.5x
	BMW	—	—	7.3x	8.8x
	Mercedes-Benz	0.3x	4%	6.5x	8.0x
	Audi	0.8x	14%	5.5x	7.0x
Premium	Porsche	0.5x	7%	7.5x	9.0x
	Jaguar Land Rover	0.3x	4%	6.0x	7.5x
	Volvo	—	—	4.0x	5.5x
	Acura	0.4x	11%	3.3x	4.5x
	Cadillac	0.5x	18%	2.5x	4.0x
	Lincoln	(0.3x)	(7%)	2.5x	4.0x
	Infiniti	(0.6x)	(17%)	2.5x	3.5x
Leading Mainstream	Toyota	0.5x	8%	5.8x	7.3x
	Honda	—	—	5.0x	6.5x
	Chevrolet	—	—	3.5x	5.0x
	Ford	0.3x	6%	3.5x	5.0x
Mainstream	Subaru	0.8x	15%	5.0x	6.5x
	Buick | GMC	0.5x	12%	4.0x	5.5x
	Nissan	(0.1x)	(3%)	3.5x	5.0x
	VW	—	—	3.5x	5.0x
	Hyundai	0.5x	13%	3.5x	5.0x
	Chrysler Dodge Jeep Ram	—	—	3.5x	5.0x
	Kia	0.7x	23%	3.3x	4.8x
	Mazda	0.3x	8%	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

Project Rodeo	**Project Spider**	**Project Panther**	**Project Power**	**$175,000,000**	**$700,000,000 / $850,000,000**	John Greene
Franchised Car Dealership	Franchised Car Dealership	Franchised Car Dealership	Franchised Car Dealership	Auction Credit XLFunding	AutoNation	Sale to TEAM Automotive Group
Sell-Side M&A Advisor	Sell-Side M&A Advisor	Sell-Side M&A Advisor	Buy-Side M&A Advisor	Lead Arranger / Lead Bookrunner Senior Secured ABL Revolving Credit Facility	Active Joint Bookrunner 7 & 10-Year Senior Notes	Sell-Side M&A Advisor
In-Market	*In-Market*	*In-Market*	*In-Market*	*July 2022*	*Feb 2022 / Jul 2021*	*December 2021*

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The right time for a risk management reset

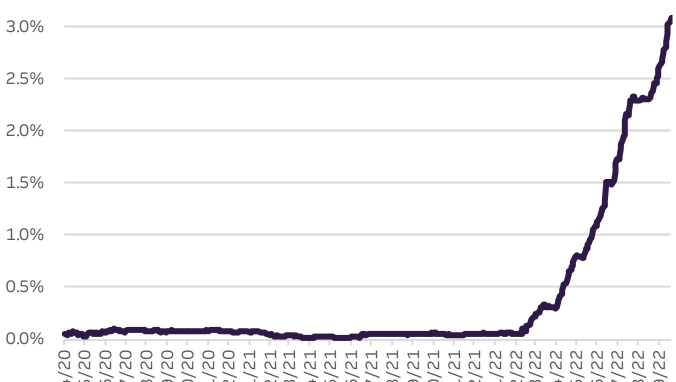
Brandon Artigue
Director, Financial Risk Management
Truist Securities

The past two years have seen auto retailers adapt to limited vehicle inventory and pandemic restrictions while driving profits to new heights. Now dealers face rising interest rates—a critical concern for an industry that relies on capital to fund operations and growth. For some, it's time for a balance sheet review and risk management reset.

Changing conditions dealers must watch

The Fed (Federal Reserve) has already taken aggressive steps by raising rates to throttle persistent inflationary pressure in the US. So far this year, we've seen the Fed hike the short-term rate 3.00% (300 basis points). But with low inventory and reduced need for floor plan loans, many dealers haven't yet felt the full impact of rising rates.

1-month CME Term SOFR since the beginning of pandemic



As you imagine what's next for the economy and for your dealership, the impact of rising rates comes into sharper focus. For instance, if vehicle supply and demand start to realign, higher inventory levels could mean more floor plan loans on balance sheets.

As you look at business assets, the recent surge in inflation strengthening real estate values could provide an additional source of funds that you can tap into if needed. Unfortunately, when it comes to expansion and new construction, inflation will cut the other way by driving up building costs and the loans needed to finance them.

Sustained volatility in economic and market conditions makes planning for these possibilities and others both challenging and critical. Your risk management planning needs to focus on balance sheet moves available to you today—options that may be closed off tomorrow—to protect your dealership from economic and rate volatility and keep your cost of capital low.

Actions to get ahead

As economic and market conditions are shifting, you'll want to ground your capital decisions in your business plans for your dealership and your personal goals as an owner. You can walk through a few steps—on your own or with your banker—to gauge the impact that rising rates will have on your business and identify actions you can take to mitigate their effect.

Step 1 – Start with your goals and plans.
Balance sheet risk management starts by asking, "Where will my business be in five years?" Your goals might lead you to look for funds to grow, to seek ways to release capital to equity holders or lenders, or to explore other restructuring moves that might accomplish a bit of both.

Timing of those capital flows matters, and your options may look very different if you're planning to exit the business versus committed for the long haul.

Step 2 – Evaluate funding flows.
Look at where you need funds, where you have them, and what sources (and especially at what cost) you can tap into to find capital. What happens to your cost of capital and valuation as rates rise? Where do you have needs in the future that will likely have to be met with additional, higher-cost capital? Have you considered ways to manage cash more strategically now that effective liquidity management can yield elevated returns?

Step 3 – Envision what the future looks like for your dealership.
Add the dynamics that you expect will change over the coming years. When do you think floor plan inventory will return to normal levels? 1 year? 2 years? Potentially a longer time frame? What do higher construction costs mean for your dealership? Will the economy cool before you have to undertake your next building project? What changes will the ongoing electrification of vehicles and any regulatory shifts bring to your dealership?

Step 4 – Get specific about actions you should take.
When you're protecting yourself in a rising rate environment, your primary move is to raise capital earlier when rates are lower and consider financial instruments like swaps as insurance. It doesn't make sense for all situations, but often commercial real estate and blue-sky loans are amenable to this strategy.

As you're thinking about what works for your business, some of the strategies below might fit your situation:

If you expect inventory to return to more normal levels but want to protect your business from the risk of higher floating rates, you could target more liquidity to cushion against increased interest expense on floor plan lines. Or, to protect your bottom line, consider fixing rates on other outstanding loans that may currently be variable and subject to future rate hikes.

If you want more cash to invest in growth or to be ready for whatever comes next, you can secure loans now. Consider a cash-out commercial mortgage that, if fixed, could protect you from higher interest rates down the road and give you funds for capital expenditures like renovations or preparing for the shift to EVs. If rates continue to climb, you'll have the peace of mind of having funds at a lower cost to cover future uncertainty. (Don't forget that the cash-out proceeds from the loan can be earning interest all along.)

If you need cash for family/shareholder dividends or to finance a transition or succession, think about a dividend recap, particularly if you need liquidity now while you're continuing to make moves that could help your dealership draw a higher valuation in the future. Or, as mentioned before, you could tap into increased real estate values to provide these proceeds.

Step 5 – Look at all elements of financial risk.
Interest rates may be front and center, but a comprehensive approach to financial risk needs to look beyond the cost of capital. Cyberfraud threats and weather events along with business property, lot inventory, and liability exposure can have a devastating effect on a thriving dealership. Insurance can protect you from events that can put your dealership at financial risk—talk to Truist's McGriff Insurance to see how we can help.

Have you taken measures to keep your cost of capital low while rates rise?

Preparing your dealership for a range of financial possibilities should be a priority for you and your financial advisors. The Truist Dealer Services team can help you think through where you're taking your business and help you put together the right strategies. Tell us where you're headed so we can help you manage the financial risks in a way that will get you there.

With a rising rate environment, now's the time to talk to your Truist Dealer Services relationship manager about a balance sheet risk management review.

Auto dealers put private aviation to work

Running an automotive dealership requires travel for acquisitions, OEM meetings, and industry conferences that can sap dealership owners of the time and focus they need to keep their business on track. As your dealership business grows and your time becomes increasingly valuable, flying privately for your business or even leisure can help you put that time to best use.

Craig Hannon, Rob Morse, Tom Aiken, and Jeff Dunn, Aviation Finance at Truist

The benefits of flying privately

When taking commercial flights, even at the most convenient airports, you'll likely spend hours getting to the airport, clearing security, retrieving your baggage, and traveling to your destination. Smaller airports that cater to private aircraft are more widely distributed geographically—often closer to your destination—and can significantly reduce your travel time. While on board, you'll have the privacy to hold business meetings, be able to stay connected via Wi-Fi, and arrive more relaxed after traveling in a more comfortable setting.

Besides time, crowds, and hassle, there are the pervasive health concerns of flying in an age of global pandemics, and that's created many first-time aircraft buyers. Smaller airports, smaller planes, and less time in crowded public places (whether at the airport or on commercial flights) add up to a reduced risk of exposure to germs.

Lately, travel delays have been more than mere inconveniences—they can disrupt your business commitments and schedule. In the first six months of 2022, 24% of commercial flights in the US have been delayed and 3.2% have been canceled.[1] What happens when cancelled flights lead to missed meetings or a change of plans at the last minute? Private aviation can help protect you from the opportunity costs of lost time.

The comfort of traveling in your own plane makes a difference when your business depends on your leadership. A flight in a cramped seat next to a traveling companion you didn't select likely won't leave you rested and ready for business.

How much will it cost?

Choosing the private aviation that's best for you starts with your approach to what types of trips you'll want to take, where you need to go, how often you'll travel, how many other passengers will travel with you, etc. Your plans will determine what type of aircraft would best meet your travel needs—turboprop, light jet, or large cabin aircraft.

You may choose to buy an aircraft and offset a portion of the ownership expenses by placing the aircraft on a Part 135 certificate with an aircraft management company. Consult with your financial and tax advisor as it relates to current bonus deprecation benefits for new and preowned aircraft as well as Part 91 and Part 135 usage.

By the Numbers

TYPICAL AVIATION PURCHASE

Aircraft:	Turboprop or jet
Age:	15 years or less; up to 20 years on an exception basis
Financing:	75-85% loan-to-value
Term:	5-7 years with a balloon (amortizations vary based on usage)
Rate:	Fixed or floating

Structuring the transaction

A financing partner with extensive experience in aircraft transactions can provide a wide range of financing options and will work with you to tailor a financing arrangement that meets your needs. There are several banks and lending sources, including Truist, that have a dedicated team of aviation financing specialists that can share their expertise and provide a smooth transaction. These sources are typically active members of several associations including NBAA and IADA which are like the auto industry's NADA. NBAA hosts their annual conference in October. www.nbaa.org

Your financial advisors and attorneys can help you structure the transaction in a way that yields optimal incremental depreciation and other potential tax benefits for your business. Most dealers set up a limited liability corporation (LLC) or another entity specifically dedicated for the purpose of owning the aircraft.

If you fly regularly on behalf of your dealership, it's worth consulting your advisors about whether private aviation makes sense for your business. Talk to a Truist Dealer Services relationship manager about how Truist can help you explore options to structure aviation financing for your business. For more information, visit Truist.com/dealerservices.

[1] After a summer of flight delays and cancellations, federal officials issue an ultimatum to the airlines, nbcnews.com, August 19, 2022.

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