Truist Dealer Insider

Automotive Retail Newsletter

Volume 2, Summer 2021

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Welcome to Truist Dealer Insider

Dear Friends,

Welcome to the second edition of *Truist Dealer Insider*. We're pleased to provide you the latest auto retail market information, updates on M&A and lending conditions, and views from leaders who are shaping the future of the industry. We're here to provide you with insight and information that you can use as you work to make your business more valuable.

The economic recovery and rebound continue to favor auto retailers, and dealerships have been effective in managing through the cycle. Dealership balance sheets are strong, auto retailer profits are ahead 48% over last year, M&A activity is high, and prospects are favorable for the immediate future.

The digital transformation is in full gear, with many dealers working on digital marketing and sales strategies that make the buying process easier for customers and more efficient for dealers. (Nick Brunotte of Dixon Hughes Goodman discusses this on page 21.) Technology is advancing to reduce financing friction, with Truist Dealer Retail Services leading the way to digitize credit processing with more automated verification, reduced application decision times, and smoother e-contracting.

Looking forward, there are questions for the auto industry and the economy. The industry will need to cope with tight inventory, supply chain deficiencies, labor shortages, and escalating car prices. The shift to electric vehicles (EV) will keep leaders busy. And the course of the economic rebound—GDP growth rates, inflation, and interest rate changes—will shape conditions in the coming years.

What does this mean for your dealership? Whether you're in growth mode, tuning operations for maximum profitability, or preparing for family succession, we have the expertise to help you answer this question. Truist is one of the nation's largest commercial banks, and when combined with our full-service investment bank, Truist Securities, we can put our industry depth to work as you make your plans for the coming years.

Our visibility into a large volume of dealership transactions allows us to bring you the Truist Blue Sky Index—a confidential database of deal information combining years' worth of transaction data, a survey of 1,200 dealership owners, and public information about dealership transactions. We can help you see what buyers are paying for dealerships, how dealers value brands when pursuing acquisitions, and which capital structures work best for your desired transaction.

We hope this issue of *Truist Dealer Insider* helps you as you lead your dealership. And we look forward to hearing from you about your business plans and how we can help make them happen.

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Truist automotive dealer services

- ~$15 billion of capital committed to dealers
- 500+ 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
- $504 billion in assets. 59,000 teammates
- 6th largest U.S. bank in assets
- Headquartered in Charlotte, N.C

Inside this issue

Truist Securities

2021 Dealership M&A and valuation overview

Recent noteworthy automotive retail M&A deals

Lithia (NYSE:LAD) acquires The Suburban Auto Collection.

LITHIA MOTORS, INC. acquires SUBURBAN The Suburban Collection

Announced: April 13, 2021
Transaction value: Undisclosed

"The Suburban Collection is a leader in the Midwest automotive retailing sector and a respected fixture in its local communities for more than 70 years... We are pleased that David Fischer, Jr. will join our team leading and continuing to expand the Suburban Collection footprint in the North Central region."

– Lithia CEO Bryan DeBoer

Recent transactions

Date	Target	Headquarters
4/21	Planet Honda	Union, NJ
4/21	The Suburban Collection	Troy, MI
3/21	Avondale Nissan	Phoenix, AR
3/21	Fink Auto Group	Tampa, FL
2/21	Fields Auto Group	Orlando, FL

Observations and takeaways

- Acquisition includes all 56 Suburban Collection franchises, one of the largest number of franchises ever sold in a strategic transaction.
  - Larger enterprises are seeking scale while investing in new technologies and digital retail experiences.
  - Lithia has been highly acquisitive, acquiring combined annualized revenues of about $6.5 billion since it announced its five-year plan in July.
- The Suburban Collection is expected to contribute $2.4 billion in annualized revenues, the 12th-largest privately owned dealership group in the U.S.
- Founded in 1955, The Suburban Collection is headquartered in Troy, MI.

ACV announces closing of IPO (NasdaqGS:ACVA).

ACV Closes initial public offering

Announced: March 23, 2021
Transaction value: $414MM

"Traditional auctions currently play a major role in the wholesale market. We estimate that 50% of wholesale transactions occur through traditional auctions…We are seeing dealers become increasingly comfortable with transacting online, and we expect more dealers to use online solutions to source and manage their inventory."

– ACV CEO George Chamoun

ACV Companies	Description
ACV	Dealer-to-Dealer Digital Wholesale Marketplace
ACV	ACV Financing Arm
ACV	Coast-to-Coast Vehicle Delivery
TRUE360 The Car Inspection Company	Inspection Tool; live links to CARFAX & Autocheck

Observations and takeaways

- ACV sold 16,550,000 shares in the offering of its Class A common stock at a price of $25.00 per share.
- The stock traded up 25% on its debut as investors are receptive to ACV's plans to bring used-car wholesaling further into the digital age.
  - IPO proceeds will be used to grow ACV's virtual marketplace for dealers to buy used vehicles remotely.
  - The Company plans to expand its current footprint of 125 markets by 30% this year, boost R&D spending, and augment its nascent finance business.
- Founded in 2014, ACV Auctions is headquartered in Buffalo, NY.

LMP Closes on first franchises (NasdaqCM:LMPX).

LMPAUTOMOTIVE Announces closing stage 1 acquisitions[1]

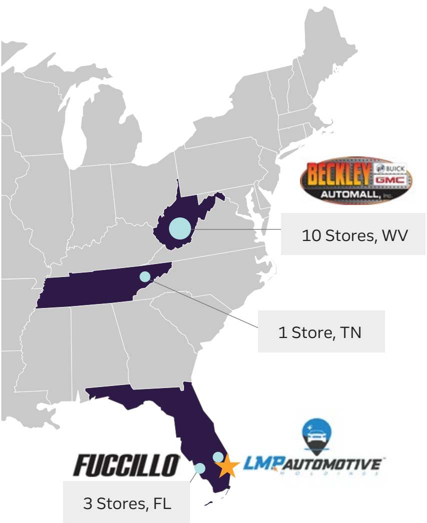
Announced: March 5, 2021

Transaction value: Undisclosed

"These partnerships significantly expand inventory on our proprietary e-commerce platform as well as our sales and fulfillment footprint in some of the fastest growing regions in the United States. We will have a more cost-efficient e-commerce fulfillment, reconditioning, and service capacity network. This also increases our vehicle storage capacity by approximately 6,000 units."

– LMP CEO Sam Tawfik

PF geographic footprint



Observations and takeaways

- Acquisitions are located in geo-centric markets characterized by strong population demographics to enhance distribution of the vehicles sold through LMP's omni-channel digital platform.
- LMP is pursuing a 3-pronged growth strategy:
  – Increase online sales and subscriptions by building inventory through auctions, wholesale dealer, excess inventory off-lease, and fleet purchases from OEMs.
  – Expand rental offerings and tailor fleet to cater to the growing rideshare driver demand.
  – Build a network of large, centrally-located dealerships, promoting operational and cost savings.

[1] As of June 18, 2021, LMP's acquisition of Hyundai of Beckley is pending.

Auto dealership desirability trends

M&A observations

- Public and private dealership valuations remain near peak levels, with many franchised retailers reporting their most profitable year ever.
- Dealership buy-sell activity rebounded sharply after 1Q20, with the total number of transactions increasing 17% from 2019 to 2020.
  - Transactions have averaged ~1.6 rooftops per transaction since 2013.
- The rate of consolidation is accelerating, with public consolidators driving the market, growing scale through multi-point acquisitions such as The Suburban Collection, Park Place, and Peacock Automotive.
- Emergent factors are influencing today's M&A market:
  - Increased availability of both debt and equity capital for cash flow positive businesses.
  - Manufacturers tend to view consolidated ownership as a preferred structure, supportive of well-capitalized multi-point dealers.
  - The investor market has embraced the resilient franchise dealer business model, and outside capital is searching for opportunities in the sector.
  - Technological changes are forcing large CapEx in unproven platforms that can disadvantage smaller dealers.

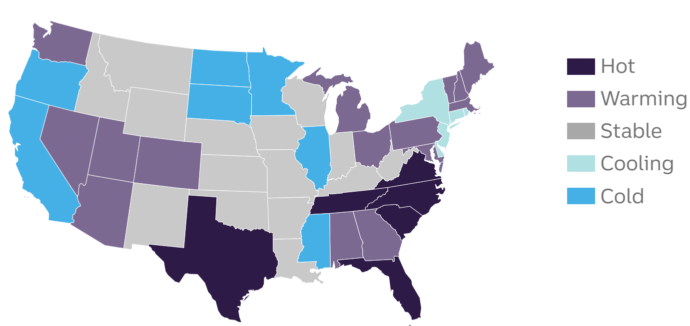
Brand M&A trends

Brand desirability is shifting based upon product changes, dealer relations, and consumer behaviors and tastes.

Hot	Warming	Stable	Cooling	Cold
BMW	Buick | GMC	Chevrolet	Audi	Acura
Jaguar Land Rover	Dodge	Ford	Honda	Alfa Romeo
Lexus	Chrysler	Toyota	Mazda	Cadillac
Mercedes-Benz	Jeep, Ram			Infiniti
Porsche	Hyundai			Lincoln
Subaru	Kia, Nissan			Mini
	Volkswagen, Volvo			Maserati
	Most exotics: Bentley, Ferrari, Lamborghini, McLaren, Rolls Royce			

Geographic M&A activity

Geographic regions with strong population and economic growth and a business-friendly regulatory environment are experiencing more dealership buy-sell activity and often attract top dealership valuations.



Source: The Banks Report, Industry News

Summary of recent transactions in the auto dealership space

Announced date	Acquirer	Target	Region	TEV ($mm)	Target stores	Transaction commentary
5/25/21	Lithia Motors (NYSE:LAD)	Hyundai Dealerships (Las Vegas)	West	-	3	Lithia Motors announced the acquisition of three Hyundai dealerships in the highly attractive Las Vegas metropolitan area, with expected annualized revenues of approximately $225MM and a strategic entry into the Las Vegas market with three of the four Hyundai points in the area
5/19/21	Foundation Automotive	Foundation Hyundai	Rocky Mountains	-	1	Foundation Automotive Corp. adds its first Hyundai dealership, marking the Company's 22nd acquisition since 2018 and its 7th in the Colorado market. Foundation Automotive expects to engage in 16-18 acquisitions in 2021
5/7/21	Ed Morse Automotive Group	Missouri Dealerships (Lindsay & Fairground Auto Group)	Plains	-	4	Ed Morse Automotive Group announced acquired four dealerships in Lebanon, Saint Robert, and Rolla, Missouri. These acquisitions will add over 150 employees to its 1,400+ employee base, growing its locations to 24 dealership locations, 42 franchises, and 15 automotive brands
5/5/21	HGreg	Buena Park Nissan & Puente Hills Nissan	West	$100	2	HGreg acquired Buena Park Nissan and Puente Hills Nissan, two established car retailers located in the Greater Los Angeles area. HGreg plans to invest $100MM in the purchase as well as renovations.
4/25/21	AutoNation	Peacock Automotive	Southeast	-	11	AutoNation has agreed to acquire 11 stores and a collision center in Georgia and South Carolina from Peacock Automotive Group. The 11 locations are expected to add $380MM to AutoNation's annual sales, totaling $21.6BN during YTD March of 2021
4/13/21	Lithia Motors	The Suburban Collection	Great Lakes	-	56	Lithia Motors acquired 56 franchises from The Suburban Collection, offering Lithia its first major platform in the northern central United States, with more than 34 locations across 33 brands. The new dealerships under Lithia's ownership will add $2.4BN of annualized revenue
3/30/21	LMP Automotive	WP & Yonkers CDJR	Mid-Atlantic	-	2	LMP Automotive has agreed to acquire 85% of two Chrysler Jeep Dodge Ram dealerships in New York. The dealership is expected to add $270MM to LMP's annual sales
3/16/21	Group 1	Prime Automotive (Hyannis & Cape Cod Toyota)	New England	-	2	Group 1 Automotive acquired two Toyota dealerships in Massachusetts, which are expected to generate $120MM in annualized revenues. The acquisition brings Group 1's total U.S. Toyota dealership count to 15 and increases the total representation in New England to 10 dealerships, which includes the Audi, BMW, Lexus, Subaru, and Toyota brands
3/16/21	Sonic Automotive	Carbiz	Mid-Atlantic	-	2	Sonic Automotive announced the expansion of its EchoPark specialty pre-owned vehicle network into the greater Baltimore-Washington metro area with the acquisition of the Carbiz dealership group. This latest addition, coupled with the recent acquisition of Used Car King, marks EchoPark’s entry into the mid-Atlantic and northeast markets
3/2/21	Lithia Motors	Fink Auto Group	Southeast	-	5	Lithia Motors acquired Fink Automotive Group, a move that continues to bolster Lithia’s presence in the Southeast. The purchase includes five locations and seven franchises (two Hyundai, two Genesis, and one each of Chevrolet, Volkswagen, and Mazda), and is expected to contribute $430MM to Lithia's annual sales
2/20/21	Five Star Automotive	Mike Raisor Auto Group (5 stores)	Great Lakes	-	5	Five Star Automotive Group acquired five dealerships from the Mike Raisor Automotive Group in Lafayette, Indiana. The deal expands Five Star's presence into the Midwest and includes two new brands (Audi and Volkswagen)
2/9/21	Lithia	Fields Auto Group Stores	Southeast	-	2	Lithia Motors has acquired two stores from Fields Auto Group, including a Land Rover and a Chrysler Jeep Dodge Ram, both located in the Orlando, Florida regional market. The acquisition will further expand the reach of Driveway in the growing Southeast Region, and is expected to contribute $200MM to Lithia's annual sales
2/3/21	John Smith, Jr.	Acura & Volvo of Athens	Southeast	-	2	John Smith Jr. acquired Acura of Athens and Volvo of Athens from Charles Middleton. Acura of Athens and Volvo of Athens were purchased by Charles Middleton in 1996 and became well-known hometown dealerships run by Middleton’s family, serving Northeast Georgia

Source: Industry News

Consumer demand and inventory constraints drive profitability.

Inventory shortages boost gross profit per unit.

Automotive dealerships are experiencing unprecedented macroeconomic shifts that have led to inventory shortages coupled with surging demand for both new and used vehicles. Elevated retail and wholesale prices have allowed dealers to capture increased margins on units sold. Automotive supply and demand dynamics are not expected to abate quickly, and dealers should be able to maintain or increase their gross profit per unit (GPU) over the near term.

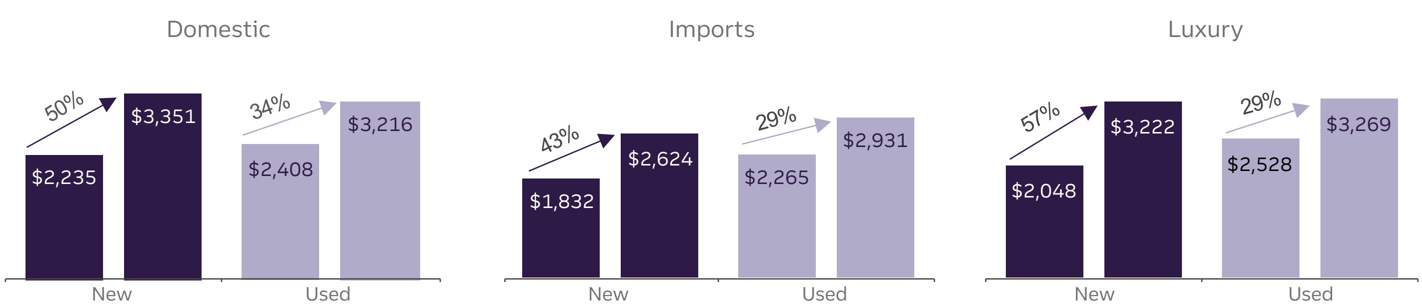
Major supply and demand factors influencing automotive retail

Microchip shortages are slowing production.
New tech-enabled vehicles compete for high-tech components with consumer electronic products that have experienced a similar surge in demand from the "stay-at-home" economy.

Re-opening requires transportation.
Mass vaccinations and reduced regulations across the U.S. have accelerated return to office commuting and vacation travel.

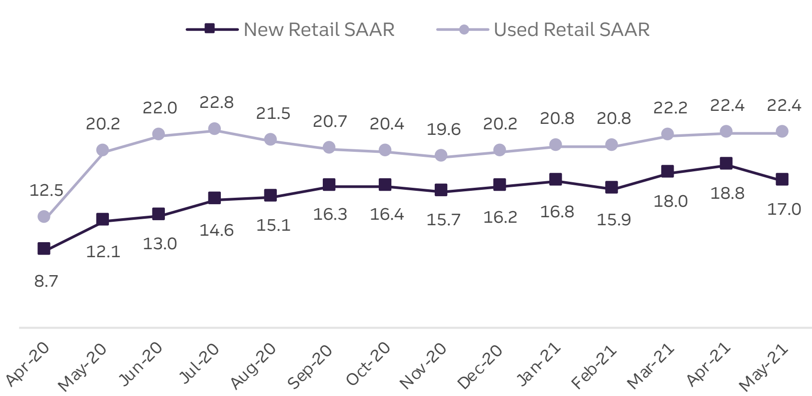
Stimulus provides purchasing power.
Consumer funds from additional stimulus checks combined with a low interest rate environment have sustained demand for replacement vehicles.

Average new and used GPU, YTD April 2020 vs. 2021



Monthly SAAR since April 2020 lows

(units in millions)



- When the pandemic began, April new vehicle SAAR estimates were as low as 3.3 million units, with full recovery to pre-pandemic levels of ~17.0 million units not expected until well beyond 2020.
- While sales were down 53% YoY in April 2020, sales rebounded sharply in May and have continued to outperform expectations through May 2021.
- New vehicle SAAR has been steadily increasing since its low in April 2020, while the used retail SAAR experienced a quicker recovery.

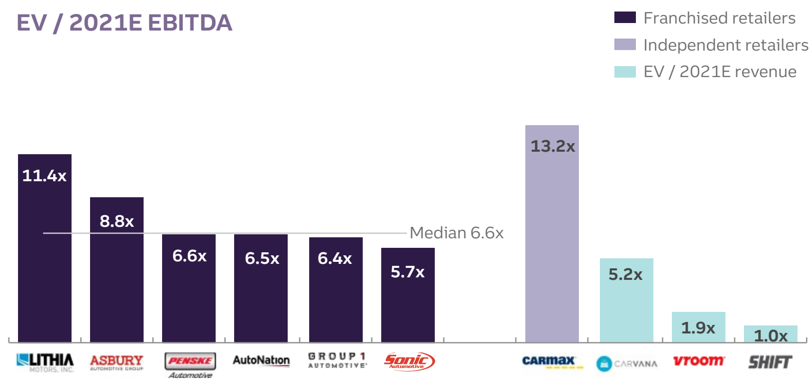
Source: Industry News, Company Filings, Capital IQ, FactSet, NADA, Cox Automotive

Public dealership valuation and performance

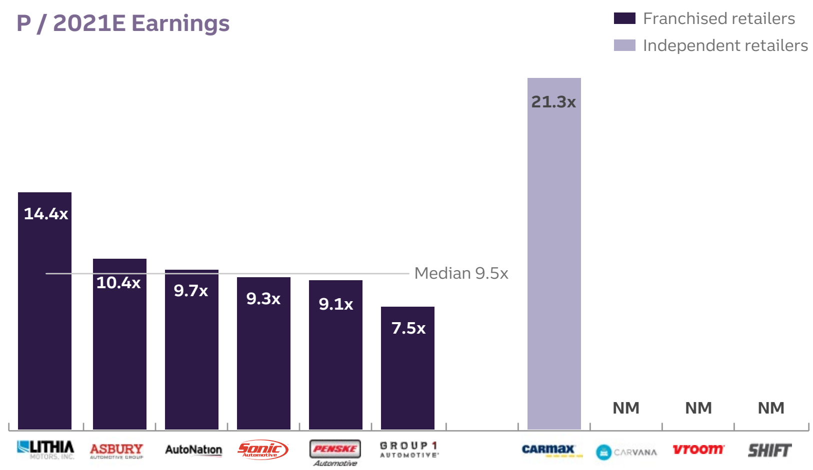
Market commentary

- Automotive retailers have exceeded their expected pace of recovery as new and used profits earned by dealers remained consistently high through the COVID-19 pandemic, helped by a collapsible cost structure and tightened inventory that supports increased margins on new and used vehicle sales.
- Profitability has been strong, with the six major public franchised retailers reporting combined earnings that surprised to the upside by ~29% in the last quarter.
- Growth-oriented dealerships Lithia and Asbury trade at a premium to their peers, benefiting from aggressive growth through acquisition pipelines while expanding a tech-enabled, omni-channel automotive retail platform.
- The public markets have rewarded technology-focused retailers Carvana, Vroom, and Shift with elevated valuations relative to other automotive retailers for aggressively employing digital platforms to capture share in the e-commerce automotive retail channel.
- CarMax's omni-channel approach coupled with its wholesale auction operations provides superior pricing and demand insights and allows efficient procurement of vehicle inventory directly from customers and subsequently made available for purchase online, nationwide.

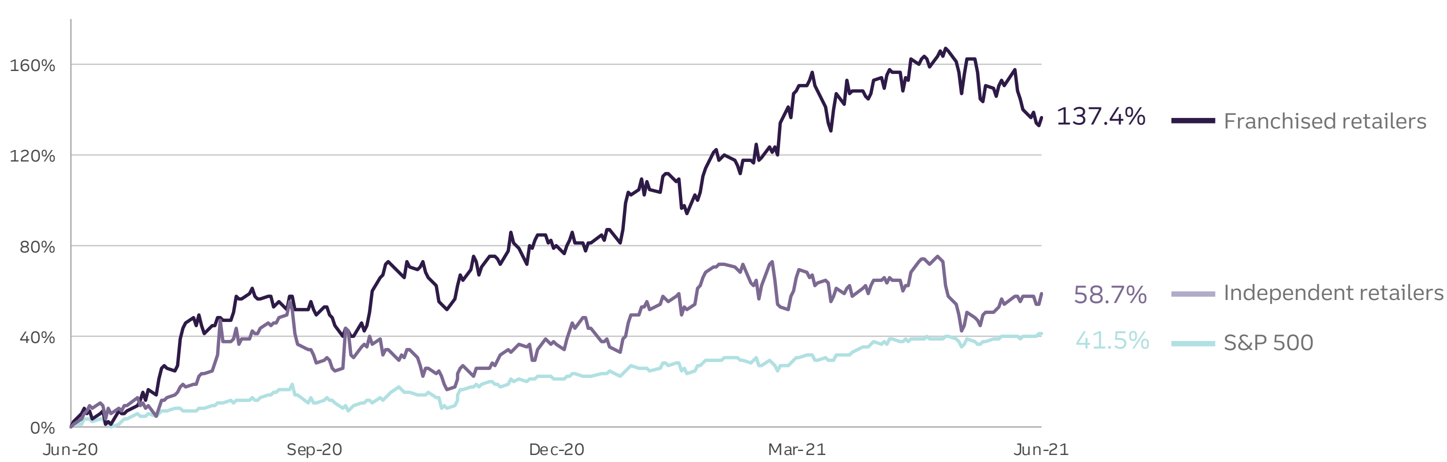
EV / 2021E EBITDA



P / 2021E Earnings



1-Year stock performance



Source: Capital IQ; Market Data as of 6/11/21

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 competitors.

Brand		Payback (YR)	TBI Brand Multiple of Adjusted EBITDA
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
	Volkswagen	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	$150,000,000	$800,000,000	DriveItAway	Carolina Coach & Camper	$191,650,000
Franchised Car Dealership	West Coast Dealer Group	SHIFT	LITHIA MOTORS, INC.	Investment from Knightsgate Ventures	Sale to RV Retailer, LLC	LMP Automotive
Sell-Side M&A Advisor	Sale-Leaseback & Build-to-Suit	Passive Bookrunner Conv. Note Offering	Senior Co-Manager Senior Notes	Strategic Advisor	Sell-Side M&A Advisor	Sole Lead Arranger Senior Credit Facilities
Pre-Market	*Mandated*	*May 2021*	*May 2021*	*April 2021*	*March 2021*	*March 2021*

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Dealers step up to new challenges during the recovery

David Stevens
Head of Truist Dealer Commercial Services

The year 2021 advances much like 2020 with resourceful auto retailers continuing to serve customers, support workforces, and sustain earnings during unprecedented economic conditions. As the pandemic recedes, however, the industry will need to manage tight inventory, supply chain deficiencies, labor shortages, and escalating car prices.

Dealers proved their resiliency.
Record profits in 2020 proved dealers are resilient and skilled at navigating a major crisis as they turned obstacles into opportunities. Deferrals on curtailments and P&I payments helped—early on, Truist proactively offered deferrals to our clients to provide short-term relief and to prepare them for the uncertainly of the unfolding pandemic.

We actively participated in both rounds of the Paycheck Protection Program (PPP), walking most of our dealer clients through each step of the process. Forgiveness is underway, although most PPP loans to larger dealers (in excess of $2 million) have been reviewed and decisioned by the originating banks and are now with the SBA awaiting final review and decision.

At the same time, dealers went into high gear with digital marketing and sales solutions that transformed the car-buying experience and enabled consumers to make vehicle purchasing decisions without leaving home.

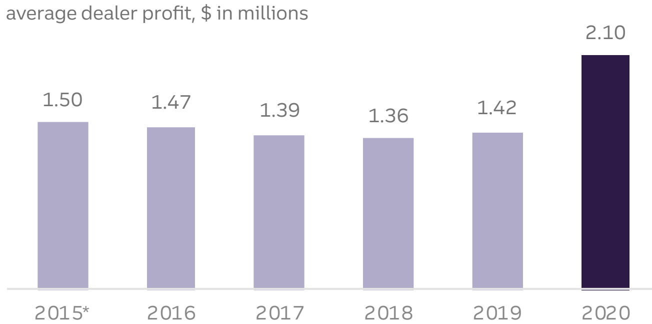
They moved quickly from a simple digital model, which allowed a prospect basic functionality to view inventory, to robust and sophisticated platforms where consumers can estimate trade-ins, select optional features, negotiate price and payments, apply for financing, upload required documents, and schedule either in-store pick up or home delivery.

When fully deployed by the dealer, these platforms drive operational efficiencies, reduce overhead, empower sales staff, and increase transparency while reducing friction in the sales process.

Strong demand and record profits
A positive surprise during the pandemic was the strong demand for new and used cars. Yes, the 2020 SAAR was down, but the bulk of the decline was centered on fleet sales. Demand for both new and used vehicles through franchised auto dealer channels remained incredibly strong. The record April SAAR of 18.5 million units further amplifies this point. As a result, we saw a significant increase in new and used gross margins and overall dealer profitability.

Limited supply, lower expense run rates, digital platform efficiencies, reduced borrowing levels, and decreased borrowing costs were the drivers behind U.S. dealerships posting record net pretax profits in 2020. NADA reported dealerships average net pre-tax profits in 2020 to be $2.1 million, up 48% over 2019 and 39% over the previous industry net pre-tax profit record in 2015. PPP loans that were forgiven and recognized as other income were also a contributing factor to the record year.

Dealer profits soar in 2020.
average dealer profit, $ in millions



*previous record
Source: NADA

Overall, dealerships are in great financial shape. They have strong balance sheets, improved leverage profiles, record profits, and significant liquidity. That's the good news.

The challenge is that at some point, the diminished new car inventory levels coupled with rapidly rising used car values will intersect and form a powerful combination that could create interesting financial challenges. Dealers will need to plan for potential downward margin pressure in 2022 and not assume 2020 profit levels are a permanent feature in the future.

All about inventory

The top three dealer concerns are inventory, inventory, and inventory.

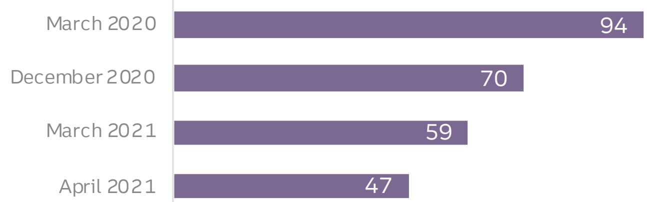
Dealers are asking, "Will I get a new vehicle allocation, how many, and when?" And in terms of used vehicles, "Will I be able to find the right late-model, low-mileage used cars, and will I have to pay an insane premium for them?"

From March 2020, the start of the pandemic shutdown, to April 2021, we saw the national average of inventory days fall from 94 to 47, a 50% decline. Lexus has the lowest days' supply at 38 days, followed by GMC, Land Rover, Chevrolet, and Mercedes-Benz, all under 47 days. May and June will be even more dramatic and will place added pressure on the system.

We all know the reasons behind current inventory challenges—strong consumer demand coupled with plant shutdowns and supply chain disruptions, the latest roadblocks being shortages of microchips, foam, and rubber. We do not see these issues subsiding until late in 2021 or early 2022, and it could take even longer to resolve delays in production.

Inventory levels drop to new lows

Days on hand of inventory – national average



Source: Cox Automotive

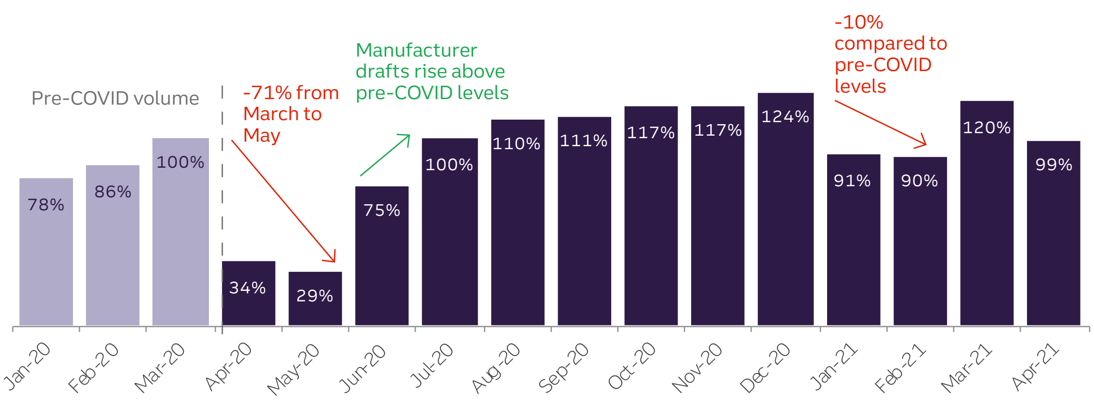
Take the microchip shortage. Auto makers have lots full of "build shy" vehicles, meaning fully built but lacking the critical microchip required for operation. Right now, GM has 15,000 such vehicles parked in Indiana and another 30,000 parked in Missouri. Ford has 22,000 Super Duty trucks sitting still and unsellable in Kentucky. Even when the manufacturers can order microchips again, when can the vehicles be returned to the production line for installation?

Floorplan lines of credit

The impact of supply chain and inventory shortages appears in reduced bank floorplan outstandings and increasing volatility in manufacturing drafts, which are what OEMs (original equipment manufacturers) send to the bank when they deliver cars to a dealer. We fund the draft, send the OEM proceeds for the cars delivered, add the units to our floorplan line of credit, and create new floorplan outstandings.

Manufacturer draft volumes return to pre-COVID-19 levels

Index – 100% = March 2020



Source: Truist Dealer Commercial Services

As units are sold, the dealer pays down the floorplan accordingly, completing the cash conversion cycle. Manufacturer drafts can show how inventory levels are trending. In April and May of 2020, when most North American auto manufacturing facilities were shut down, there was a massive drop in manufacturer draft volume. The numbers bounced back in the second half of 2020, but the pace of new car sales kept inventory levels depressed.

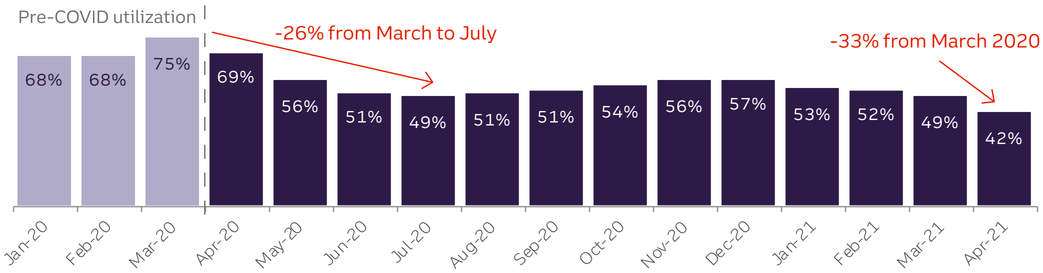
While some industry experts predicted we would see inventory levels recover by now, the microchip shortage changed the timeline. Declining inventory production coupled with April's record SAAR will push inventory levels even lower.

Floorplan utilization has not recovered either. If a dealer owes $7.5 million on a $10 million floorplan line, the floorplan utilization is 75%. That's what the average dealer had in March 2020, but by April 2021 the average utilization rate was down to 42%.

Now, when demand is high, low inventories and utilization levels translate into reduced borrowing cost and the ability to generate higher margins. But when you don't have enough product to meet consumer demand at any price, it becomes a serious issue. Add a dramatic increase in used car prices, and there's an interesting industry challenge ahead.

Floorplan utilization drops a third since March 2020.

% Utilization of floorplan line of credit



Source: Truist Dealer Commercial Services

Escalating sticker prices

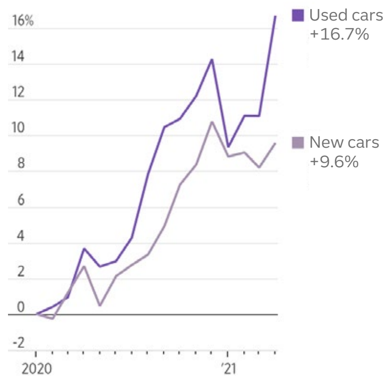
New car prices are up 9.6% since January 2020. Supply issues are playing a role, but the reality is consumers are demanding more options, the latest technology, and the "cool factor." And there's a cost associated with lessening environmental impact through greater government regulation to reduce emissions.

Used car prices are up even more—16.7% since January 2020. The decrease in new car inventory has played a crucial role as well as the significant decline in off-lease and rental car units. In addition, a new phenomenon, bulk used car purchases by large players like CarMax and rental car companies are driving used prices even higher.

The wildcard in this scenario is what will happen to used car prices when new car inventory returns and the other imbalances are corrected.

Steep rise in new and used car prices

% increase in prices versus March 2020



Source: J.D. Power

Looking forward

Dealers proved their ability to navigate an economic crisis. They fortified their balance sheets, built strong cash reserves, captured new efficiencies via cost reductions, embraced digital marketing and sales, and posted record profits. They will need to take care not to assume 2020 margins and record profits are permanent. Inventory management, especially on the used car side, will not only be a key to success but also a challenging task given the new variables. Consolidation and M&A will remain hot topics given the aging dealer population and current multiples.

Truist maintains a positive outlook for the dealer sector in 2021 and beyond. We stand ready to provide you with strategic advice, capital, and banking solutions as the year unfolds.

If you have any questions or wish to discuss this information in more detail, please contact:

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Retail financing update

State of the consumer

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

There's probably never been a time in our professional lives where so many key economic variables are in flux. This has caused forecasting anything lately to be quite challenging. Look at the grave predictions about vehicle values, consumer demand, unemployment, and the subsequent recovery that arrived with the pandemic—most of which never came to fruition.

As I think about the current situation and its likely impact over the near to intermediate term, I look at key consumer and supply side variables and how they might affect our economic environment going forward.

2021 Key economic considerations for the auto industry

Plus
High demand: 15-18 million units annually
Cash from stimulus payments: Q1/Q2 2021
Strong GDP growth: 6.4% Q1 2021
Increasing consumer sentiment: 85 March 2021 -> 88 April 2021
Decreasing unemployment: 6% March 2020
Minus
Low inventory: New at 47 days (vs. norm of 60 days); Used at 33 days
High prices: Manheim index at 191 in April 2021 (previous record 165)
Interesting
Lender risk tolerance: easing, but still modestly tighter than pre-COVID-19

Strong consumer demand, excess consumer liquidity, robust GDP growth, high consumer sentiment, and reasonable and improving unemployment would usually lead to an incredibly positive auto environment. The question is simply, will there be enough inventory to meet the demand? Translating these trends into dealer results is not as easy as it may seem at first glance.

The insatiable demand for autos is disrupting the supply chain, and limited supply is driving pricing to unprecedented levels. A recent cover story in Automotive News entitled, "Lots of Scarcity" suggested that the April seasonally-adjusted sales rate could exceed 18 million units while the end of March light vehicle inventory has fallen to 2.4 million vehicles, the lowest point in over a decade.

High pricing will create strong gross profits for dealers and low loss severity on repossessed collateral for lenders. It will also result in customers being frustrated by their inability to get the vehicle they want, and it will leave higher risk customers concerned about affordability. Scarce inventory and related lower sales levels will eventually affect dealer's service and parts revenue to the extent there are fewer customers on the service drive. Unfortunately, nobody knows when the supply shortage will end, making the outlook less favorable than it may otherwise seem.

Electric vehicle industry developments

Electric vehicles (EV) hold great promise, with the share of sales projected to grow from 2.5% in 2020 to 27% in 2030, according to a study by Deloitte.[1] To date, sales have been held back by consumer concerns about a lack of charging infrastructure, driving range, and price/cost.

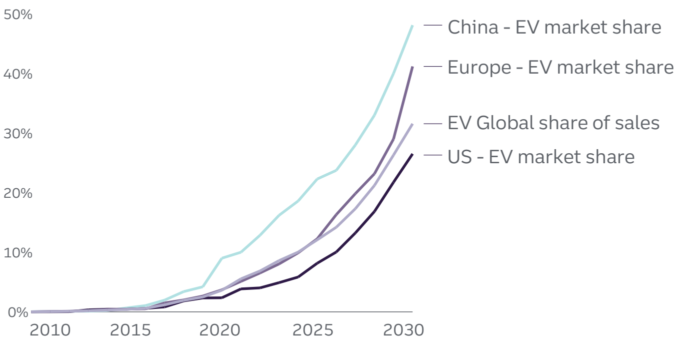
With limited historical performance, EV financing options have been reduced to shorter terms to control for unknown risks. Collateral performance, maintenance, battery life, and customer satisfaction have limited financing options. The combination of higher auto prices and shorter terms has led to financing targeting super-prime consumers and that leaves lenders with uncertainty about the performance of EV loans to broader populations of consumers.

The auto industry is poised to be transformed by EV's, propelled by the recent commitment from the federal government to infuse federal stimulus for national charging infrastructure and a number of manufacturers outlining

[1]Deloitte Insights. "Electric Vehicles Setting a Course for 2030", July 28, 2020

their timelines to total EV production. **Given the continued evolution of these products and the emerging demand for EV's, we recently made the decision to handle EV credit underwriting consistent with traditional auto financing in our prime financing business**. We believe it's the right thing to do, and it will also support our strategy to grow our auto finance business over the next decade and beyond.

Outlook for EV market share by major region



Source: Deloitte Insights – "Electric Vehicles Setting a Course for 2030" – July 28, 2020.

Technology transformation in Truist Dealer Retail Services

The pandemic has accelerated the pace of technology transformation over the past year, and auto dealers are no exception. It's clear from a lender's perspective that reduced financing transaction friction is paramount to strengthening relationships with our dealer partners. We believe this will become increasingly important in maintaining and growing market share in the near term. Creating reduced transaction friction starts with decreased application decision times, automated verifications, and e-contracting.

At Truist, we're focused on improving application decision times by automating more credit decisions. In our prime DFS business, we've seen our auto decision rates increase from 50% to around 65% in the last 12 months. Our goal is to continue to drive the auto decision rate up as high as possible over the next year. We believe we can ultimately get it well above 70% within that period.

In our near-to-subprime Regional Acceptance business, we have been averaging approximately 50% auto decision rates for the last several years, and in May, that number will approach 60%. We have another round of programming changes coming in July that should take us close to 65%. By year-end, with some additional improvement around conditional auto decision logic, we will get to around 70%. These improvements will drive improved turnaround times on manually-decisioned applications as well, which will reduce transaction friction and improve our service levels to our dealers and their respective consumer customers.

On the higher risk end of the credit spectrum, we believe reducing approval stipulations will help dealers gain market share. We are currently working on automating several critical stipulations on applications.

Authenticating the client, validating the client's address, verifying income, and confirming trim level and options is never easy with subprime applicants—it's an inefficient, labor-intensive process to secure these documents from consumer customers on the dealer side while verifying the documents on the lender side. Getting this accomplished will greatly reduce transaction friction and improve our service levels to our dealers and their respective consumer customers.

Finally, having the ability to support e-contracting is becoming the "price of admission" for lenders in establishing new relationships with dealers as well as in growing existing relationships. We have enhanced our e-contracting capabilities with our prime DFS business, boosting penetration levels from approximately 20% to around 35% over the last several months. We are currently working on implementing e-contracting capabilities in our Regional Acceptance near-to-subprime business. We expect to have that in place by the middle of next year.

Establishing a solid foundation in these three critical areas will allow us as well as other lenders to adjust as the industry's transformation to digital retail transactions continues.

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Truist Securities

Recovery revs up the economy

Brandon Artigue
Director, Truist Securities

From an economic downturn to a recovery that's on the borderline of "running hot" with inflation, labor shortages, and supply chain disruptions, auto retailers have seen it all over the past year. This year has been marked by bold action, including a government stimulus package and a broad array of monetary actions from the U.S. central bank (the Federal Reserve or "Fed") designed to restore a desperate economy damaged by business closures, event cancelations, and work-from-home policies.

The shape of the recovery is as unprecedented as the downturn and just as challenging to predict. As the U.S. edges back towards full strength, businesses are looking for signs from the markets and the Fed as it actively manages interest rates and monetary policy for a smooth recovery. Interest rates will be a key indicator of progress in Fed policy to get businesses the funds they need and put people back to work without overwhelming the economy.

How we got here: the response to COVID-19

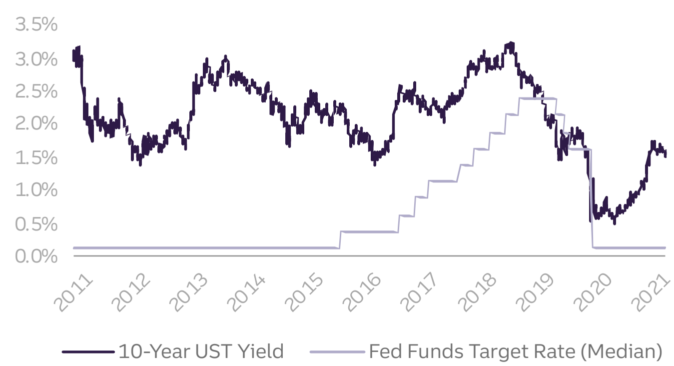
As COVID-19 containment measures and business shutdowns gripped the economy in 2020, the Fed responded by cutting the target for the federal funds interest rate to 0% from 1.5% in March 2020. It also provided up to $2.3 trillion in lending to support households, employers, and financial markets, as well as state and local governments. Congress passed the $2.2 trillion CARES act to stimulate the economy with direct assistance to workers, families, and businesses. This emergency-type support ensured that funds continued to flow to households and businesses so that the financial system's illiquidity didn't amplify the shock to the economy.

Interest rates—both short-term and long-term—fell over the course of 2020. One-month LIBOR—a short-term interest rate—began 2020 at 1.73% but ended the year at 0.14%. The 10-year US treasury yield—a benchmark for long-term interest rates—fell from 1.88% to a record low of 0.51% in August—driven by uncertainty around the November presidential election, social unrest, and coronavirus-related developments—before finishing the year at 0.93%.

2021 and the building recovery

2021 is shaping up to be a different story as segments of the economy reopen and forecasters ratchet up expectations on how the U.S. economy will perform. With the unemployment rate recently dropping below 6% from pandemic peaks of nearly 15%, the labor markets have tightened. Positive economic data coupled with trillions in fiscal spending has led to higher medium and long-term interest rates. The 10-year treasury yield closed at 1.74% on March 31st, representing an increase of 82 basis points in just three months and a return to pre-pandemic levels.

10-year Treasury vs Fed funds target rate



Despite improvement, several factors still present headwinds to the outlook for global growth and a continued rise in rates. Though currently regarded by the market as net positives, the prospect for additional infrastructure stimulus packages has raised concerns around ballooning US debt—already above wartime levels—and whether it will hamper growth.

As the recovery continues, problems with the global supply chain have presented risks to the growth outlook. The blocking of the Suez Canal in March exposed the fragility of the world's interconnected supply chain, while the semiconductor chip shortage threw the viability of a rapid economic rebound into question. The chip shortage has especially hampered car production, with companies like Ford, GM, and Toyota facing production slowdowns—leaving dealerships with low inventory levels.

Inflationary pressures guide higher long-term yields.
Inflation—a measure of changes in price levels within an economy—plays a major role in an economic outlook and future interest rates. Recent inflation data—as measured by consumer goods in the Consumer Price Index (CPI)—shows prices rose 5.0% year over year in May, which raises the possibility that inflation is building. The combination of supply chain disruptions, pent up demand from the slowdown, a tight labor market, stimulus inflows, and an infrastructure bill all potentially point to inflation.

The Fed has made it clear that it intends to let the economy "run hot"—signaling a willingness to tolerate inflation above its 2% target—which effectively removes the risk of an artificial "ceiling" on inflation from the Fed. Yet, a "reflation trade"—a bounce back of medium and long-term interest rates in the face of inflation—is a definite possibility as the financial markets weigh the possibility that inflation will force the Fed to raise rates to smother inflation. The coming months will tell us whether the upward price pressures are transitory or sustained and in need of Fed actions.

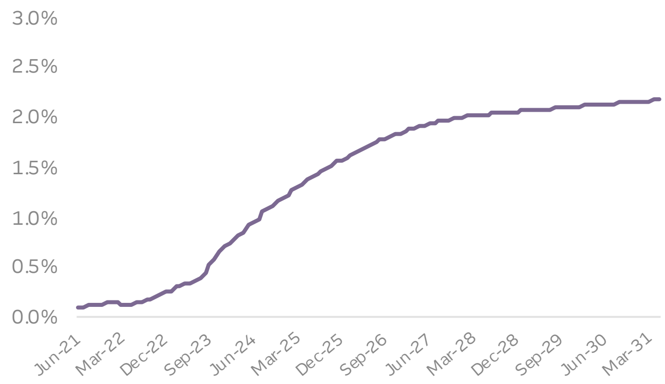
Competing signals from the Fed and rate markets
As you read the economy to understand how it might affect your capital cost to finance construction, a real estate project, the blue-sky portion of an acquisition, or your floor plan, realize that signals from the Fed and the rate markets can sometimes be at odds.

Starting in 2020, the Fed has maintained that the US economy—severely hampered by the pandemic—needs to be supported by keeping interest rates at historic lows until there's a sustained and proven move upward in both growth and inflation. That means a "wait and see approach" until economic data is higher than the Fed's inflation goals.

While the Fed's actions are based on realized growth, the rate market looks at expectations of future growth. The recent string of positive headlines surrounding the U.S.'s vaccination efforts have spurred confidence that the rebound in economic activity could be faster and larger than policymakers are currently forecasting. At times, the rate markets seem to believe that inflation will rise much quicker than the Fed is expecting, and that the Fed will be forced to raise rates in response.

The current LIBOR forward curve—shown below—illustrates the market's optimistic view of the economy and implies that the pace of growth and the potential for inflation will push the Fed to raise rates as early as 2022—almost a full year before the Fed's own projections.

LIBOR forward curve



What's next?
Many believe the reflation trade will continue as the pent-up demand and government spending fuel an economic rebound in the wake of the COVID-19 recession. The median projection from a Bloomberg poll of economists expects the benchmark 10-year yield to increase 43 basis points by the end of 2021 (to 1.88%) and another 30 basis points (to 2.18%) by the end of 2022.

Dealers will need to stay vigilant in the face of changing economic predications and conditions. With the moving parts in the economic picture—recovery that drives consumer demand, interest rate changes that affect your cost of capital and your customer's cost of auto financing, and industry supply chain constraints—you'll want to keep up with the latest trends and be ready to respond.

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Truist Wealth

Planning for dealership succession

Duncan Moseley
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Fairly dividing multiple dealerships amongst family
Middle-market business transitions are rarely simple, and family dealership transitions are among the most complex.

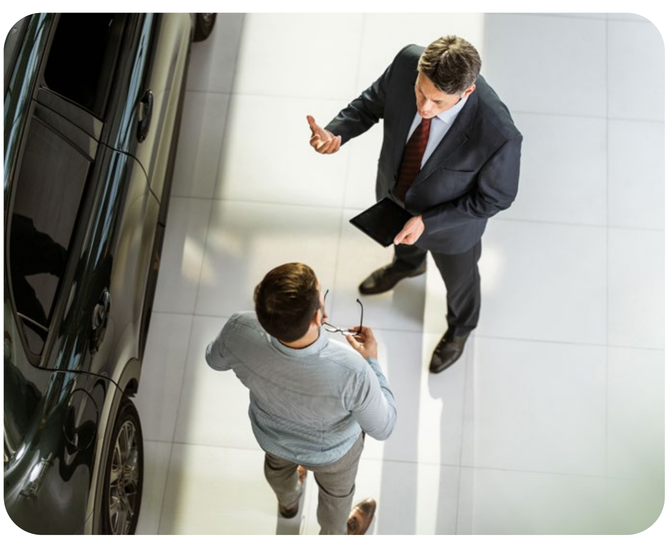
Typically, a dealership begins after one family member opens a dealership and then decides to add more over time. Indeed, successful dealers say the best way to expand wealth in the industry is to increase the number of dealerships held.

As the number of dealerships grows, so too does the number of family members involved in the business. An owner's children may decide to work in the business and some might even make it their career, while others may choose to work in another field.

As their children become adults, dealership owners begin to wonder how they can plan for the succession of their business and the distribution of its assets amongst their children without risking the business itself or family relationships.

When owners have multiple dealerships and several children working in the business, they ask, "Should I put my children in business together, should I separate the dealerships and divide them amongst my children, or should I just sell the business altogether?"

When owners decide to keep the business, they want to know how to provide for their children with other careers.



Take Marty, for instance. He started with one dealership and now has five, with a combined worth estimated at $150 million. Additionally, Marty owns the land where the dealerships are located, which is worth a combined $50 million.

Outside of the business, Marty has about $10 million in assets, including a $3 million home and a $3 million beach property enjoyed by the entire family. But most of his wealth—like the airplane available to all family members—is tied up in the business.

Marty has three children. Alton and Betty grew up working at the dealerships and want to continue working in the family business. While they have quite different personalities, neither can run the business alone. The third child, Carl, is happy with his own career outside of the business.

Marty's total estate is $210 million, or $70 million per child. He has three goals: expanding the dealerships under the family name, giving each child a fair share of the wealth, and doing so in a way that maintains family harmony.

However, accomplishing these goals may become complicated. For example:

- If Marty divides his estate by three, there aren't enough personal assets for Carl to receive an equivalent value to that of his siblings without including some business interest.
- If all three children receive a third of the business assets, the dealerships may suffer if they disagree on business goals. Moreover, Carl may resent salaries paid to his siblings and they may resent him for taking a third of the profits when he doesn't contribute.
- If Alton and Betty can't run the business together, there isn't an even number of dealerships to divide between them and the dealerships may lose value by not being part of a larger group.
- The airplane and beach home may present a source of conflict if certain family members lose access to an asset they've enjoyed for years.

And so, Marty is left with two crucial questions: "How do I treat each child fairly? And does the division have to be equal to be fair?"

The following eight points are important for any succession strategy:

1. **Interview your children to determine the intent and desires of each**. Do they want to work in the business? Can they succeed together? Can they manage the business as a whole?
2. **Educate your children about what it means to be in business together**.
3. **Explain how assets are not equal**. Why might a fair share not be an equal share? Why is $20 million in cash not equivalent to a dealership valued at $20 million?
4. **Set clear expectations on what your children must do to maximize the benefits of your plan**.
5. **Involve your children in the business** so you can mentor them, assess their capabilities, and examine their ability to work together.
6. **Guide your children on managing their own personal financial lives** and assess their ability to use the business's assets responsibly.
7. **Set a plan for children not involved in the business**. If your children can work together but don't all want to work in the business, consider including the other children as non-voting owners, communicating clearly what they might receive based on your projected growth strategy.
8. **Consider alternative ways to pass value to children who aren't working in the business**. You'll need a different approach for a child who doesn't want to be involved with the business or whose involvement would disrupt the family dynamics or the business. Consider options like a life insurance policy, a dividend recapitalization to extract value, selling a business asset (including one or more of the dealerships), or prolonging a growth strategy for the business to keep that child's inheritance on par with the other children. Discuss your approach with your child, showing your commitment to a fair—but not necessarily equal— distribution to a child who has chosen to pursue other opportunities outside the business.

What are the keys to creating a successful plan?

- **Time** - Allow enough time to prepare the proper strategy. A succession plan is neither created nor accomplished overnight.
- **Education** – Ensure you and your children have a thorough understanding of the options available within your business and outside of it so you can structure an appropriate plan.
- **Communication** – Set clear expectations for your children, make sure they understand your approach, and get their buy-in at every step of the process.
- **Flexibility** – Make your plan flexible enough to accommodate changes in your business operations, family dynamics, and personal goals of your children.

Want help preparing your dealership succession strategy? The Truist Business Transition Advisory Group has helped many dealership owners prepare and successfully transition their businesses, breaking through roadblocks with an integrated approach that leads to success and peace of mind for owners and their families. Developing a transition that supports both the needs of your business and your family ensures your hard work will provide for generations to come.

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Special contribution article

Dealership digital marketing steps to the forefront

Nick Brunotte
Director, Dealerships Industry Practice, Dixon Hughes Goodman

In the past year, our industry learned to navigate growing uncertainty and adjusted our day-to-day operations to meet the demands of our customers. As the pandemic hit, we recommended that you adopt the mindset that the impending change was not one-dimensional. And it still isn't. Outside of prioritizing the safety of your staff and creating the best possible shopping experience for your customers, the same key marketing initiatives that helped ensure the health and longevity of your advertising strategy one year ago still apply today.

With varying limitations on travel, regional mandates, and social distancing, the automotive industry was forced to adjust the way we communicate with customers. In hindsight, it may have been the wake-up call we all needed. Among other things, the last year has yielded less time in the car and more time at home. As a result, exposure from some traditional media, like radio ads, continues to diminish. But did you scale back your radio spending one year ago? While radio may exist as a viable media option, a more digital-focused approach avoids spending a significant portion of your budget to generate a limited return.

Also, consider the increase in time spent online. The likelihood of customers visiting your 24/7 showroom and watching auto (or non-auto) related videos has continued to make substantial jumps since the onset of COVID-19. But what can be done to make sure this shopping experience is meeting the needs of your customers? First and foremost, merchandising. While often left out of the marketing conversation, strong merchandising can engage customers quickly and get them further down the funnel, if executed well. Check that your inventory is front-line ready with custom photos, comments, price, and descriptions.

Another bi-product of increased time online is the necessary adjustments required to your search engine marketing (SEM) or pay-per-click campaigns. Your customer's online search habits have changed, and your ads should too. From shopping for the right vehicle (at times of the day that we have not historically seen) to the content in the ad, the movement to align your content with customer intent is growing stronger all the time. If we've learned anything, it's that dealerships and agencies need to talk about how to evolve and implement their strategy. Ask questions regarding budget and key word recommendations, implementations, and any additional measures being taken to ensure long-term success.

Finally, remember to keep looking forward. As previously mentioned, people continue to spend more time online, and video views have followed suit. Do you have a video pre-roll campaign to accommodate the exposure you may receive from this shift? Exposure to your message is paramount, and video pre-roll is a tremendous way to achieve it. Among the trends that have continued to gain momentum, video pre-roll was and still is an important element of your marketing strategy. But what about third parties? It's important to know how changes to their business models, dashboards, and technology allow you to become better connected to your customers. It's also important to understand how your package accommodates your changing lot size. Has your mix of new to used inventory flipped due to supply limitations on new car inventory?

Ultimately, the changing times of the past year forced widespread adaptation, especially when it comes to your marketing strategy. Simply put, increased time online continues to mean more opportunities for conversion. Adapt with the climate and succeed long-term with a sound, forward-thinking strategy that will continue to deliver the shopping experience your customers deserve.

Special thanks to Nick Brunotte, Director of the dealerships industry practice at Dixon Hughes Goodman, for this special contribution article. Nick helps dealerships optimize both their exposure and profitability by way of vendor selection, digital audits, continuous monitoring, and management reporting of digital performance. If you have questions about the material covered in this article, please contact Nick at 704-644-4816 or Nick.Brunotte@DHG.com.

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