

AutoNation, Inc.

4Q23 EPS Beat, New Vehicle Sales +8%

Earnings Review

4Q23 EPS Beat, New Vehicle Sales +8%

AutoNation (AN) reported 4Q23 revenues +1% YoY to \$6.9bn, above Bloomberg consensus of \$6.7bn. Adjusted diluted EPS was \$5.02/share, beating Bloomberg consensus of \$4.93. Gross profit was down 5% YoY to \$1.2bn. New vehicle GPU decreased 35% YoY to \$3,653 and used vehicle GPU decreased 21% YoY to \$1,455. New vehicle retail unit sales were up 8% and used vehicle retail unit sales were down 4% YoY. Adjusted SG&A as a percentage of gross profit was 65.1% vs. 58.7% at 4Q22, slightly higher than recent periods reflecting investments in technology and growth initiatives. Same-store total revenue declined 1% YoY to \$6,600mn. Same-store new vehicle retail unit sales were 63,410, up 6% YoY and same-store new vehicle GPU was 35% lower YoY to \$3,679mn. Same-store used vehicle retail unit sales were 62,213 down 8% YoY and same-store used vehicle GPU was down 21% YoY to \$1,466mn. Segment results for the fourth quarter: Domestic segment income -38% YoY to \$74mn and revenue -4% YoY to \$1.8bn. Import segment income -22% YoY to \$137mn and revenue +7% YoY to \$2.0bn. Premium Luxury segment income -21% YoY to \$195 million and revenue -1% YoY to \$2.6bn. During the quarter, AutoNation repurchased 1.15 million shares of common stock (3% of shares outstanding at start of quarter) for an aggregate purchase price of \$151mn. In addition, during 2023 AutoNation made operational and expansion investments, including capital expenditures of \$410mn and acquisitions of \$271mn.

Liquidity and Leverage

As of December 31, 2023, AN had \$1.5bn of liquidity, including \$61mn in cash and \$1.46bn of availability under its revolving credit facility, net of commercial paper borrowings. Free cash flow for the full year was \$969mn, and cash conversion sat at 94% of net income. AutoNation had approximately \$4.0bn of non-vehicle debt outstanding as of 12/31/23 compared to \$3.9bn at 9/30/23. Its covenant leverage ratio was 2.2x at the end of 4Q23, up sequentially from 2.0x in 3Q23. Management remains committed to maintaining a leverage ratio between 2x-3x, and moving forward plans to allocate capital to maximizing shareholder value.

Maintain Overweight

We remain Overweight because bonds look cheap against IG and BBB names, and although pricing is falling/moderating, the credit profile is still very strong. Auto retailers also benefit from their stable parts and services businesses which should continue to perform in the face of an uncertain macro environment, serving as a hedge to the new and used vehicle segments. On a relative value basis, the AN 3.85% 32s are being offered at \$87.20 or a g-spread of 159bps, 34bps wide to the ICE BofA BBB index with a g-spread of 125bps. We see the credit as a low risk BBB- name, with excellent carry compared to our BBB index.

13 February 2024

High Grade Credit
United States
Automotive Suppliers

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Table 1: Ratings & recommendations

AutoNation Ratings and Recommendations

| Agency Ratings | BBDBCN |
|-------------------|----------------|
| Moody's/S&P/Fitch | Baa3/BBB-/BBB- |
| Outlooks | S/S/S |

BofA Credit Recommendations

Bonds Overweight

Source: BofA Global Research, Moody's, S&P, Fitch.

BofA GLOBAL RESEARCH

Table 2: Bond Pricing

AutoNation Bond Pricing

| Sr. Unsec. | Price | YTW | G-Spread |
|-------------|---------|-------|----------|
| 2.400% 2031 | \$79.18 | 5.89% | 161 |
| 3.850% 2032 | \$87.20 | 5.87% | 159 |

Source: BofA Global Research, Bloomberg
Levels are offer side.

BofA GLOBAL RESEARCH

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Valuation & risk

AutoNation Inc (AN)

AutoNation has a strong business profile that is resilient to economic downturns. This is largely due to its economies of scale and high degree of variable costs, as well as its diversity in revenue from its profitable parts & services business that compliments new and used vehicle sales. The senior notes are guaranteed by AutoNation's subsidiaries, which rank equal to the revolving credit facility. Risks are potential deterioration of credit metrics in an economic downturn, likely driven by decreasing margins and pressure on top-line. Based on management commentary, AutoNation is also likely to continue to expand via acquisitions, which could result in increasing leverage if funded through debt. We are Overweight.

Analyst Certification

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Security/Loan pricing

AutoNation, Inc. / AN

| | Amt | | Ratings | | | Yield | Spread |
|---------------------------|-----|---------------|-------------------|-------|-------------|-------|--------|
| Security | | Maturity date | Moody's/S&P/Fitch | Price | Price date | (%) | (bps) |
| 4.5, Senior, USD, 2025:B | 450 | 01-OCT-2025 | Baa3/BBB-/BBB- | 98.44 | 12-Feb-2024 | 5.51 | 89 |
| 3.5, Senior, USD, 2024:B | 450 | 15-NOV-2024 | Baa3/BBB-/BBB- | 98.34 | 12-Feb-2024 | 5.77 | 67 |
| 3.8, Senior, USD, 2027:B | 300 | 15-NOV-2027 | Baa3/BBB-/BBB- | 93.63 | 12-Feb-2024 | 5.71 | 148 |
| 4.75, Senior, USD, 2030:B | 500 | 01-JUN-2030 | Baa3/BBB-/BBB- | 95.44 | 12-Feb-2024 | 5.62 | 148 |
| 3.85, Senior, USD, 2032:B | 700 | 01-MAR-2032 | Baa3/BBB-/BBB- | 87.54 | 12-Feb-2024 | 5.81 | 166 |

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

AutoNation, Inc. / AN

| Company | Date ^{R1} | Action | Recommendation | |
|---------------------------|--------------------|-------------------|----------------|-------|
| AutoNation, Inc. / AN | 31-Jan-2021 | | Overweight | |
| Security | Date ^{R1} | Action | Recommendation | Price |
| 4.5, Senior, USD, 2025:B | 31-Jan-2023 | | Overweight | |
| 3.5, Senior, USD, 2024:B | 31-Jan-2023 | | Overweight | |
| 3.8, Senior, USD, 2027:B | 31-Jan-2023 | | Overweight | |
| 4.75, Senior, USD, 2030:B | 31-Jan-2023 | | Overweight | |
| 3.85, Senior, USD, 2032:B | 31-Jan-2023 | | Overweight | |
| | 21-Jul-2023 | Added to iQ Model | Overweight | 85.78 |

Table reflects credit opinion history as of previous business day's close.^{R1} First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

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Overweight: Spreads and/or excess returns are likely to outperform the relevant and comparable market over the next three months.

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R2} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 144 | 37.21% | Buy | 119 | 82.64% |
| Hold | 193 | 49.87% | Hold | 163 | 84.46% |
| Sell | 50 | 12.92% | Sell | 37 | 74.00% |

^{R2} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only corporate credit issuer recommendations. A corporate credit issuer rated Overweight is included as a Buy, a corporate credit issuer rated Marketweight is included as a Hold, and a corporate credit issuer rated Underweight is included as a Sell.

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