

Penske Auto Group

Heavy truck load weighs on otherwise strong auto retail business – 4Q first take

Reiterate Rating: BUY | PO: 200.00 USD | Price: 149.74 USD

4Q results miss on Trucks, Retail Auto still solid

PAG reported 4Q:23 adjusted EPS of \$3.45, a bit below our estimate of \$3.70 and Bloomberg consensus of \$3.66. On an operating basis, the miss was largely driven by a slower truck market that hit both truck dealers and PTS, along with slightly worse than expected SG&A cost control. Performance for the retail automotive business was solid. New grosses faded, but were more resilient than expected. The US auto market continues to recover with total industry unit sales up 7% YoY in 4Q to 3.8mm or 15.5mm on a SAAR basis. We also note PAG recorded a non-cash goodwill impairment charge of \$40.7mm (\$0.61/sh) related to international used vehicle dealerships, indicative of the struggling used market in the UK. Capital allocation and dividends along with solid execution remain a structural positive. Therefore, we reiterate our Buy rating.

New, Used, and F&I same-store sales outperform

For the Automotive business, New vehicle same-store sales were up +7.6% YoY, better than our estimate for a 6.4% YoY increase. New retail units (ex-Agency) increased 2.6%, and revenue per unit increased 4.2%. Used vehicle same-store sales decreased -1.0% YoY, which was much better than our estimate for -4.9% YoY decrease. Used vehicle revenue was driven by a -0.9% YoY decrease in revenue price per unit and a 0.1% YoY decrease in unit volumes. Same-store F&I sales were up 3.2% YoY and were better than our forecast of -3.4% YoY. P&S same-store sales increased +6.7% YoY versus our rather optimistic forecast for a +8.0% YoY increase, solid performance given tough comps.

Vehicle margins in-line, New GPUs and F&I strong

Total gross margin of 16.3% was in-line with BofAe of 16.3%, driven by slightly lower margins on Used and P&S while New was above. New gross margin of 10.1% was just above BofAe of 10.0%, while Used retail margin of 4.2% was below BofAe of 4.5%. P&S gross margin of 58.1% was also lower than BofAe of 59.0%. F&I per vehicle retailed ex-Agency (FIPVR) was up \$18 YoY to \$1,876. On a per-unit basis, grosses were still relatively strong. Total New Auto retail GPU (ex-Agency) was down \$936 YoY, but still strong at \$5,531 (BofAe \$5,041), while Used Auto retail GPU has largely “normalized,” declining \$291 YoY to \$1,448 (BofAe \$1,488).

Cost execution remains good

SG&A as a % of gross profit of 71.0% was up 210bps YoY from 68.9% in 4Q:22, and above our estimate of 70.2%. Despite the higher YoY SG&A as a % of gross profit, Penske has demonstrated that at least some of the cost removed in 2020 at the height of COVID was more structural in nature.

Cap allocation and diversification a major positive

PAG's capital allocation and diversification efforts continue to be major positives and are supported by strong FCF and low adj. net leverage. In January 2024, PAG closed the acquisition of the Rybrook Group, expanding in the UK with 16 automotive retail dealerships expected to generate ~\$1bn in annual revenues. The company repurchased 2.6mm shares in 2023 for a total of \$359mm, equating to a share count reduction of ~5%. PAG also increased its dividend by 53% in 2023, from \$0.57/share to \$0.87/share.

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Stock Data

Price	149.74 USD
Price Objective	200.00 USD
Date Established	28-Nov-2023
Investment Opinion	B-1-7
52-Week Range	128.37 USD - 180.84 USD
Mkt Val (mn) / Shares Out (mn)	10,159 USD / 67.8
Free Float	28.1%
Average Daily Value (mn)	26.48 USD
BofA Ticker / Exchange	PAG / NYS
Bloomberg / Reuters	PAG US / PAG.N
ROE (2023E)	25.8%
Net Dbt to Eqty (Dec-2022A)	36.3%
ESGMeter™	Medium

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F&I = Finance & Insurance

FIPVR = Finance & Insurance per Vehicle Retailed

GPU = Gross profit per unit

P&S = Parts & Service

PTS = Penske Transportation Solutions

SAAR = Seasonally adjusted annual rate

SSS = Same-store sales

Exhibit 1: Quarterly results YoY and versus BofAe

PAG reported 4Q:23 adjusted EPS of \$3.45 versus BofAe of \$3.70

	YoY Change			Variance		
	4Q:23	4Q:22	% Δ	4Q Actual	4Q BofAe	% Δ
Revenue						
New vehicles - retail	\$2,989,200	\$2,763,800	8.2%	\$2,989,200	2,975,519	0.5%
Used Vehicles - retail	1,970,000	1,992,100	-1.1%	1,970,000	1,949,748	1.0%
Finance and insurance	207,600	201,300	3.1%	207,600	196,143	5.8%
Parts and services	680,900	633,700	7.4%	680,900	703,252	-3.2%
Fleet & Wholesale	330,200	319,500	3.3%	330,200	338,470	-2.4%
Total Auto Retail	\$6,177,900	\$5,910,400	4.5%	6,177,900	6,163,133	0.2%
Commercial Truck (US & Intl)	1,094,200	1,101,400	-0.7%	1,094,200	1,272,400	-14.0%
Total Revenue	7,272,100	7,011,800	3.7%	7,272,100	7,435,533	-2.2%
COGS	6,084,000	5,828,600	4.4%	6,084,000	6,225,428	-2.3%
Gross Profit	1,188,100	1,183,200	0.4%	1,188,100	1,210,105	-1.8%
SG&A	844,100	815,500	3.5%	844,100	848,889	-0.6%
D&A	37,600	32,200	16.8%	37,600	35,800	5.0%
Operating Profit	306,400	335,500	-8.7%	306,400	325,416	-5.8%
Floorplan interest expense	(38,900)	(22,100)	76.0%	(38,900)	(38,000)	2.4%
Other interest expense, net	(23,100)	(19,000)	21.6%	(23,100)	(27,500)	-16.0%
Pretax income	244,400	294,400	-17.0%	244,400	259,916	-6.0%
Minority interest & equity income	52,100	100,400	-48.1%	52,100	75,000	-30.5%
Provision for income taxes	(63,800)	(95,500)	-33.2%	(63,800)	(88,372)	-27.8%
Income from continuing operations	232,700	299,300	-22.3%	232,700	246,545	-5.6%
EPS - Cont Ops	3.45	4.21	-18.1%	\$3.45	\$3.70	-6.8%
Diluted average shares	67,165	70,800	-5.1%	67,165	66,692	0.7%
Gross Margin Detail:	4Q:23	4Q:22	Bps Δ	4Q Actual	4Q BofAe	Bps Δ
New Vehicle Retail	10.1%	11.8%	(168)	10.1%	10.0%	12
Used Vehicle Retail	4.2%	5.1%	(83)	4.2%	4.5%	(27)
Parts & Service	58.1%	58.4%	(29)	58.1%	59.0%	(86)
Total Gross Margin	16.3%	16.9%	(54)	16.3%	16.3%	6
SG&A as % of Gross	71.0%	68.9%	212	71.0%	70.2%	90
Same-Store Sales:	4Q:23	4Q:22	Bps Δ	4Q Actual	4Q BofAe	Bps Δ
New vehicles - retail	7.6%	12.7%	(510)	7.6%	6.4%	119
Used vehicles - retail	-1.0%	-8.5%	754	-1.0%	-4.9%	398
Parts and services	6.7%	6.1%	63	6.7%	8.0%	(128)
Finance and insurance	3.2%	-1.0%	417	3.2%	-3.4%	656
Total automotive retail	4.2%	3.5%	78	4.2%	2.3%	192
Units Sold:	4Q:23	4Q:22	% Δ	4Q Actual	4Q BofAe	% Δ
New vehicles - retail	59,899	50,342	19.0%	59,899	58,883	1.7%
Used vehicles - retail	57,490	57,991	-0.9%	57,490	58,962	-2.5%
Per Unit Data:	4Q:23	4Q:22	\$ Δ	4Q Actual	4Q BofAe	\$ Δ
New Vehicle Revenue per Unit	\$57,364	\$54,900	\$2,464	\$57,364	\$50,533	\$6,831
Used Vehicle Revenue per Unit	\$34,267	\$34,352	(\$85)	\$34,267	\$33,068	\$1,199
New Vehicle Gross Profit per Unit	\$5,531	\$6,468	(\$937)	\$5,531	\$5,041	\$490
Used Vehicle Gross Profit per Unit	\$1,449	\$1,738	(\$289)	\$1,449	\$1,488	(\$39)

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk**Penske Auto Group (PAG)**

Our price objective of \$200 is based on a P/E multiple of roughly 12x on our 2024 estimates, which is about in line with an average dealer through-cycle multiple. We believe this is appropriate in light of the ongoing recovery in the US/NA automotive cycle following the COVID-induced trough in 2020, which should translate into revenue and earnings growth across the dealer vertical over our forecast period.

Downside risks: 1) the loss of Roger Penske's leadership, 2) a swift and/or material

downturn in US sales, 3) slower recovery in Europe sales, 4) higher interest rate environment causes material demand deterioration and/or repossessions 5) unfavorable foreign exchange rates, 6) consumer dissatisfaction with auto retailing, and 7) the potential for franchise law and/or consumer finance law changes.

Upside risks: 1) acquisition activity above current forecasts, 2) continued recovery in US auto sales beyond current estimates, 3) significant improvement in cost leverage beyond our estimates. 4) interest rates decline quicker than expected, stimulating demand in 2H23.

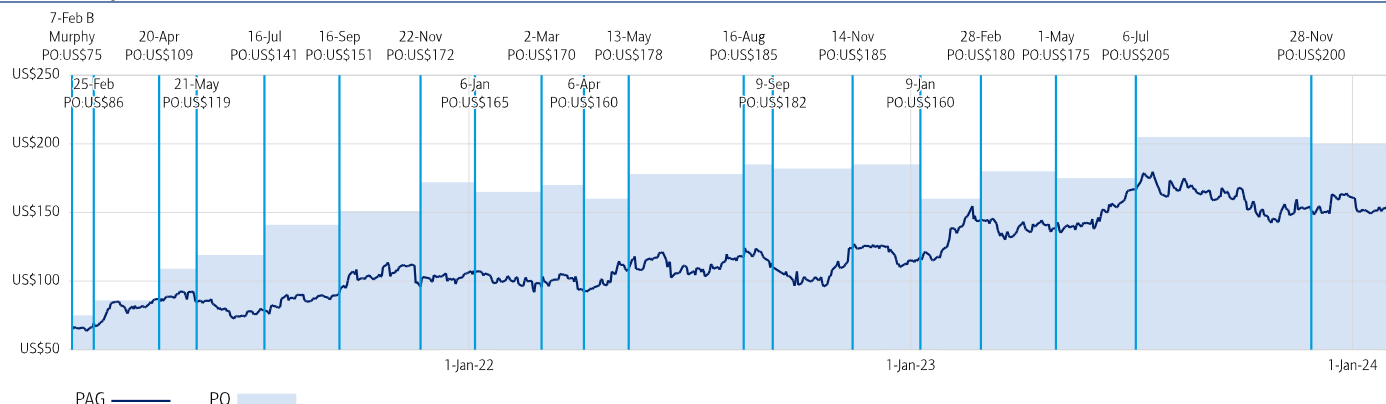
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Penske Auto Group (PAG) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	5	71.43%	Buy	2	40.00%
Hold	0	0.00%	Hold	0	0.00%
Sell	2	28.57%	Sell	1	50.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} 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 stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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