Automotive Industry

4Q23 late game update: mixed year-end opens road for another fast lap

Price Objective Change

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Equity
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Autos/Car Manufacturers

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Mixed 4Q23 is a launching platform for 2024

As we approach the end of this earnings season, we update estimates for the latest reporters. So far 4Q23 has showed mixed results across the coverage with beats and misses largely equally balanced. Commentary, however, was mostly positive: OEMs and Dealers have confidence that demand will remain healthy while suppliers should expand margins. In general, we believe the macro backdrop underpinning suppliers' outlooks, especially volume assumptions, has been way too conservative and would expect upside through the course of 2024.

Dealers: New vehicle demand solid, but Used volatile

Four of the six public dealers have now reported 4Q23 earnings with some common threads across the group. New vehicle GPUs and pricing were relatively resilient and came in better than we thought. Used vehicle performance has softened in both the US and UK due to constrained vehicle supply and normalizing depreciation, but the UK market has underperformed relative to the US. P&S growth has slowed as dealers face tough comps; AN outperformed in this segment while ABG lagged. SG&A costs rose across the dealers but were largely in line with estimates. Management for the dealers provided positive commentary on new vehicle demand for 2024 but also recognized that supply will normalize further in 2024 & some potential headwinds from mix degradation.

Suppliers: '24 margins expand, EV risk to LT targets

The latest batch of reporting suppliers delivered lighter results. We note that the quarter was still negatively impacted by the UAW strike. Expectations for 2024 call for margin expansion largely driven by operational improvements and stable volumes. We think that assumptions on global production volumes (flat to down 2.5%) are too conservative. This may provide upside through the year. Negative commentary on electrification continues to flow as suppliers consider lower EV volumes along with delayed program launches. However, companies still expect long term targets to remain intact. On a relative basis, ADNT and LEA are shielded from the EV stall as most of their business is powertrain agnostic. Instead, BWA, MGA, and APTV have greater relative risk if electrification does not materialize, which appears more than reflected in the stocks.

2024 another robust year at F, but EV turnaround in 2026

F delivered another strong quarter despite UAW strike headwinds, supported by the strength of its Pro business. Ford's outlook points to a robust 2024 in terms of profitability ($10bn-$12bn of EBIT) although, similar to GM, some pricing headwinds are likely to surface (2%-2.5%). Electrification was a key theme of the call given that the Model e segment is expected to remain deeply unprofitable (-$5bn to -$5.5bn) in 2024 and EV demand weakness appears to be a growing risk. Furthermore, Ford expects Model e profitability to not turnaround until Gen 2 EV products come online in ~2026. Nonetheless, management is not overly concerned as Ford's product portfolio is flexible and can deliver powertrains that best fit with customer demands (ICE, EV, hybrids).

Update POs for 4Q:23 reporting to-date

We are updating POs with MGA now at $70 (was $77; in CAD moved to $95 from $105.49), LEA at $210 (was $220) BWA at $50 (was $52), ABG at $340 (was $350), PAG at $175 (was $200) and AN at $220 (was $255), reflecting our latest estimates.

Exhibit 1: Ratings and Old/New POs

PO changes for stocks in auto coverage that have reported 4Q:23 earnings

	Rating	Old PO	New PO
OEMs			
F	B-1-7	$21	$21
Suppliers			
ADNT	C-1-9	$50	$50
BWA	B-1-7	$52	$50
LEA	B-1-7	$220	$210
MGA	B-1-7	$77	$70
Dealers			
ABG	B-1-9	$350	$340
AN	B-1-9	$255	$220
PAG	B-1-7	$200	$175

Source: BofA Global Research estimates
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Acronyms:

EV: Electric vehicle

OEM: Original equipment manufacturers

P&S: Parts & service

PHEV: Plug-in Hybrid

UAW: United Auto Workers

GPU: Gross profit per unit

Tickers: OEMs: ABG (Asbury), ADNT (Adient), AN (AutoNation), BWA (BorgWarner), F (Ford), LEA (Lear), MGA (Magna), PAG (Penske)

Refer to important disclosures on page 13 to 16. Analyst Certification on page 12. Price Objective Basis/Risk on page 9. **12659289**

Timestamp: 14 February 2024 05:00AM EST

Quick take on 4Q:23 results to-date

As we enter the fourth week of earnings, we are updating estimates for the companies that have reported 4Q:23 results last week.

Exhibit 2: 4Q:23 earnings results summary
In the table below, we show company results for 4Q:23 vs. our estimates and consensus

Ticker	Earnings Date	Actual 4Q23	BofAe 4Q23	Consensus 4Q23	% Beat (Miss) vs Consensus	Actual 4Q22	YoY % Δ
ABG	2/8/2024	7.12	7.64	7.99	-10.8%	9.12	-21.9%
ADNT	2/7/2024	0.31	0.46	0.49	-36.4%	0.34	-8.9%
AN	2/13/2024	5.02	4.85	4.93	1.9%	6.37	-21.2%
BWA	2/8/2024	0.89	0.98	0.94	-4.6%	0.82	8.6%
F	2/6/2024	0.27	0.11	0.13	104.3%	0.51	-46.9%
LEA	2/6/2024	3.03	3.02	3.13	-3.2%	2.81	7.6%
MGA	2/9/2024	1.33	1.50	1.47	-9.0%	0.91	46.4%
PAG	2/7/2024	3.45	3.70	3.66	-5.8%	4.21	-18.1%

Source: Company filings, Bloomberg, BofA Global Research estimates

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Quick comments on results

Below we outline the key message of 4Q24 earnings for the companies that have already reported results and released 2024 outlook.

Adient: Adient F1Q24 came in below our estimates primarily on higher taxes and an adjustment to noncontrolling interest that is not expected to reoccur. On an operating basis, results were consistent with our forecast. We note that North America margins were robust given the overhang of the UAW strike. This gives us confidence in the margin trajectory. Outside a minor tweak to FY2024 sales to reflect FX movements, the outlook was unchanged. Similar to what APTV and LEA called out, ADNT sees some pressures from labor inflation, which is expected to be offset by productivity actions. On a longer-term perspective, management continues to see the ~8% EBITDA margin as achievable in 2025-2026 although some lower margin contracts that negatively affect profitability are likely to remain active for longer than previously thought.

Asbury: ABG printed a slight miss in 4Q, the second consecutive miss after 23 straight quarters of beats. Results were relatively solid, but missed due to SG&A slippage, slower same-store Parts & Service growth and softer used vehicle performance. Parts & Service growth was hampered in the quarter as a result of software integration activities across a large number of ABG stores, a near-term headwind that is expected to abate after 1Q24. These initiatives along with the announced migration to Tekkion for its Dealer Management System are opportunities for ABG to drive higher efficiency over the long-term. Used vehicle performance was soft for ABG and has been weak across the dealers due to a constrained sourcing environment and more normalized depreciation. New GPUs faded, but came in better than feared, another theme across all dealers that have reported so far.

AutoNation: AN was the first dealer so far to report results that beat expectations. The beat was driven by more resilient New vehicle GPUs than feared (common theme across dealers), stronger same-store Parts & Service growth and gross margin (AN much better than the group) and help from a lower tax rate. AN continued to allocate the majority of its free cash flow to share buybacks and reduced the share count by 13% in 2023. Cost execution was largely in line with our estimate even as AN continues to make investments to drive better efficiency and growth over the long-term. Common threads from the quarter were a weaker used vehicle market and management commentary that new vehicle demand remains robust. Management also expects a normalization of vehicle supply and demand dynamics in 2024, which should result in a similar glidepath down for New GPUs as what happened in 4Q:23.

BorgWarner: BorgWarner results were below estimates, primarily due to lighter revenue. The 2024 outlook was also lighter than our estimates since the company, similar to other suppliers, expects global production volumes in 2024 to be flat to down, which we believe is too conservative. The messaging on electrification remained largely unchanged from 3Q23, but the lowered EV outlook paired with the lighter results in the quarter and soft total company outlook weighed negatively on the stock. Important to note that as BWA released 2024 eProduct sales, investors will try to bridge 2025 eProduct sales target to 2024's, which admittedly is challenging to reconcile.

Ford: Ford delivered a robust quarter despite the headwinds from the UAW strike, which caused the YoY decline in profits. Management expects momentum to continue in 2024, which was reflected in the company outlook that includes EBIT in the range of $10bn-$12bn. The light vehicle market is expected to remain strong although some pricing pressure should trickle through the P&L. This is expected to be offset by cost saving actions of $2bn, which include lower freight costs and design reductions that affect labor and material input costs. Management dedicated ample time to comment on electrification. In 2024, Ford Model e is projected to remain deeply unprofitable, in the range of $(5.5)bn-$(5)bn EBIT, due to continued investments (40% of capex is directed towards EV investments) and pricing pressures in the EV market. Management sees a gradual improvement in profitability, but the real turnaround is likely to come with Gen 2 EVs (2026+), which are targeted to be profitable within one year of launch and have a path to mid/high single digit margin over the product life cycle. Ford also stressed the importance of hybrids in the overall company strategy, which help to capture a wider range of customers and more importantly are almost as profitable as ICE vehicles. We note that like GM's comments, Ford pointed to the fact that alternative powertrains are key to keep ICE profits steady and not to incur regulatory penalties. Lastly, management shed some light on the profitability of the service business (~50%) and Blue software (70%), which is remarkable and expected to be a material profit contributor in the future.

Lear: LEA delivered a lighter than expected 4Q, but the company executed well and reported solid backlog conversion. 2024 outlook provided was reasonable, but we think the underlying volume assumptions are too conservative. In fact, within the current outlook, YoY operating result growth is expected to be driven by backlog conversion rather than incremental production volumes. Although LEA continues to see labor (similar to other suppliers) and FX as headwinds ($90m and $70m respectively), productivity gains, performance improvement, and customer recoveries should partially work as an offset. What we find interesting is that management itself stated that "*there is room for volume increase on existing platforms*" although it is not encompassed in the current outlook. We think that the EV noise reduces the visibility of production schedules, which in LEA's case pushes management only to account for the confirmed delayed programs and exclude potential stronger volume from those ICE platforms that stay on for longer.

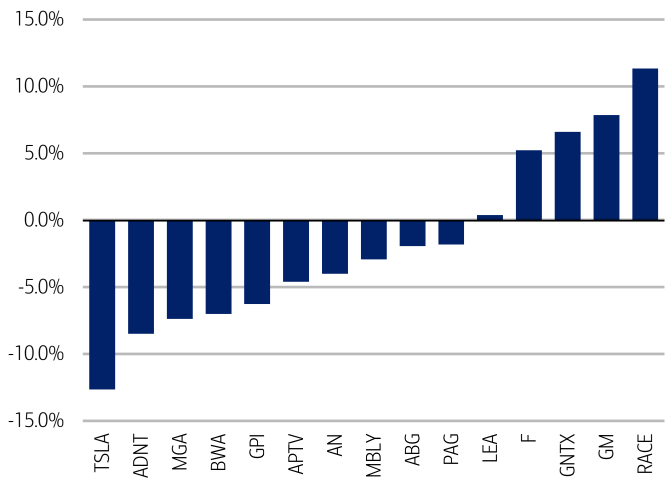
Magna: Magna delivered a lighter 4Q23 than expected due to higher cost and the effects of the UAW strike ($275m headwind). Management expected outlook for 2024 is lighter than forecast, primarily driven by flat growth of global production volumes. However, Magna sees growth over market, which is projected to positively contribute to margin growth (~20% incremental). Operational improvements are forecast to continue but launch costs and costs associated with new programs work as a partial offset. This should translate into EBIT margin target of 5.4%-6.0% in 2024. Two items of interest are Complete Vehicles and Seating Systems: management sees Complete Vehicle revenue to decline due to a program changeover; Seating Systems margin is not expected to recover to 5%-6% range until 2026-2027 when new accretive programs will be launched. On the longer-term business trajectory, which includes growth from secular themes such as electrification and ADAS, Magna reported that 2027 business targets remain intact although the ramp is going to be slower in the immediate term (2024).

Penske: PAG missed in 4Q, largely due to a slower truck market relative to our more optimistic estimates, which hit both commercial truck dealers and PAG's equity investment in Penske Transportation Solutions. Results for the Automotive Retail business on the other hand were generally solid across the board. New vehicle GPUs remained relatively strong and came in better than expected while used performance lagged a bit. Similar to GPI, weakness in the UK used vehicle market dragged on results and is expected to be a headwind through 1Q24. P&S growth and SG&A execution came in a bit lighter than expected, but performance was still solid given tough comps. PAG continues its capital allocation efforts with the closing of the Rybrook acquisition ($1bn in revenue), buybacks driving a 5% share count reduction in 2023 and a 50%+ increase in the dividend. Management's outlook on new vehicle demand in the US remains constructive.

Stock Performance

On earnings days, there have been meaningful underperformance and outperformance. RACE, GM, GNTX, and F strongly outperformed the index on strong outlooks while stocks exposed to electrification and autonomous driving (TSLA, MGA, BWA, MBLY) suffered meaningful declines given less positive perspective on secular trends.

Exhibit 3: Stock performance on the earnings day
Stocks performance on the earnings day registered large swings in both directions, ex-MBLY whose stock was already pricing in a disappoint outlook



Source: Bloomberg

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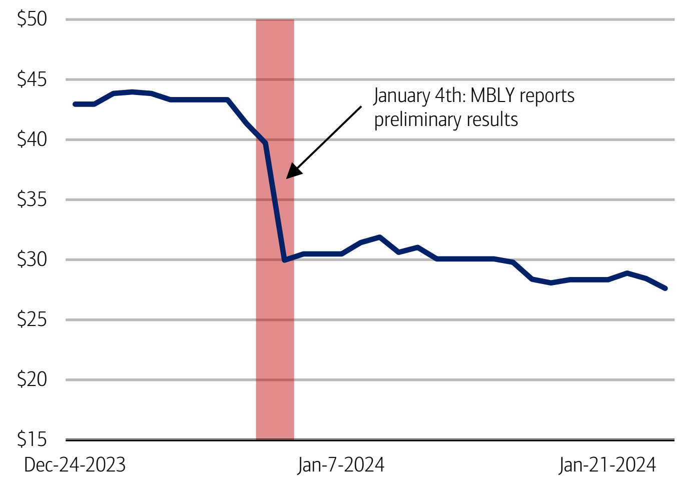
Exhibit 4: MBLY stock performance
MBLY reported disappointed preliminary results in early January, which triggered a steep stock price decline (-25% on the day of the announcement)



Source: Bloomberg, BofA Global Research

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2024 Outlooks good, but conservative

Taking a broader view that includes companies outside our coverage, we note that auto companies expect their topline to grow at 6% average (ex-MBLY). From our back on the envelop calculations, the auto industry expects average operating margin expansion of ~60bps (ex-MBLY).

Exhibit 5: 2024 outlooks reported over the last week of companies under coverage
Below we outline the outlook companies reported in the last week

Outlook	ADNT	BWA	F	LEA	MGA
Revenue FY24	$15.4bn-$15.5bn	$14.4bn-$14.9bn	na	$24.0bn-$24.6bn	$43.8bn-$45.4bn
Revenue FY23	$15.4bn	$14.2bn	na	$23.4bn	$42.8bn
Implied growth	*1%*	*5%*	*na*	*3%-5%*	*2%-6%*
Operating Income '24	$985m**	$1,325m-$1,430m	$10bn-$12bn	$1,155m-$1,305m	$2,365m-$2,725m*
Operating Income '23	$938m**	$1,358m	$10.4bn	$1,120m	$2,238m
Implied growth	*5%*	*(2)%-5%*	*(4)%-15%*	*3%-17%*	*6%-22%*
Operating margin '24	6.4%**	9.2%-9.6%	na	4.8%-5.3%*	5.4%-6.0%
Operating margin '23	6.1%**	9.6%	na	4.8%	5.2%
Implied expansion	*30bps*	*(40)bps-0bps*	*na*	*0bps-50bps*	*20bps-80bps*
EPS '24	na	$3.65-$4.00	na	$12.75-$14.67*	$5.58-$6.28*
EPS '23	na	$3.75	na	$12.02	$5.49
Implied growth	*na*	*(3)%-6%*	*na*	*6%-22%*	*2%-14%*

Source: Company filings, BofA Global Research
*Implied, **EBITDA

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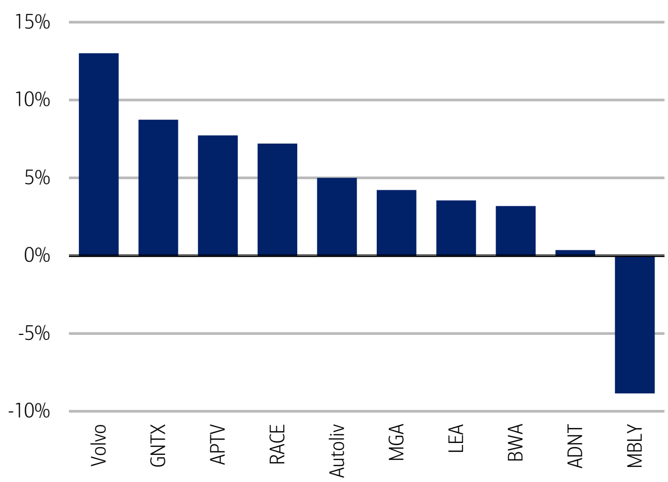
Exhibit 6: FY24e revenue growth (m/p) for selected companies
Ex-MBLY, the industry expects moderate revenue growth for FY24 (~+6%)



Source: Company filings, BofA Research

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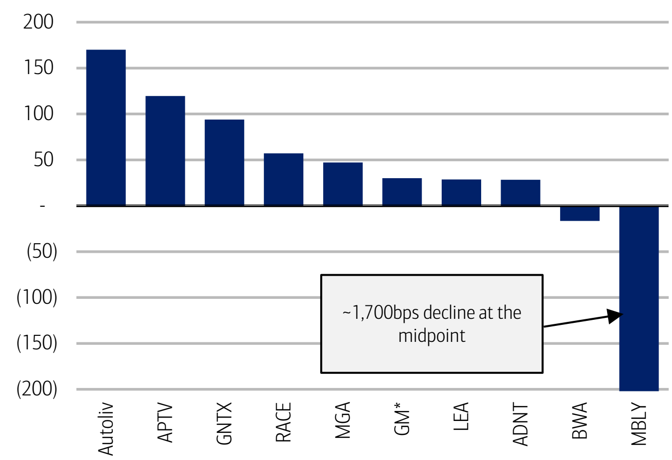
Exhibit 7: FY24e op. margin change (m/p) for selected companies
Ex-MBLY, companies expect margins expansion, with suppliers leading



Source: Company filings, BofA Research
Note: MBLY operating margin in FY24 is expected to contract ~1,700bps at the midpoint
*North America

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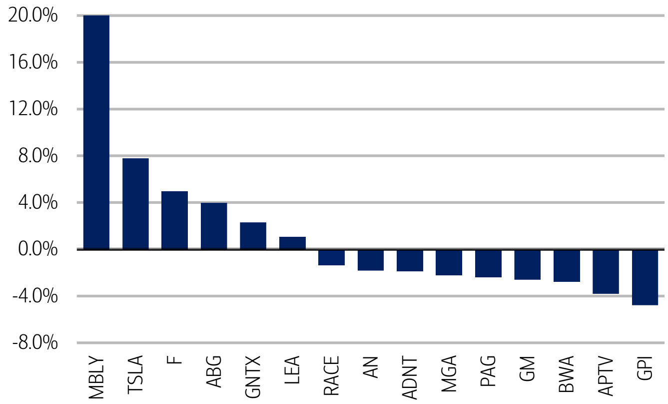
4Q23 earnings key metrics

Exhibit 8: 4Q23 Revenue: Quarter over Quarter change

On a QoQ basis, MBLY had the largest revenue growth across the reporters driven. TSLA benefitted from volume growth.



Source: Company filings, BofA Global Research

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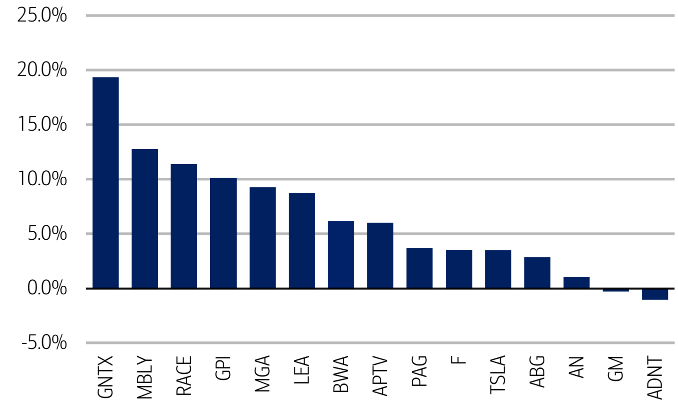
Exhibit 9: 4Q23 Revenue: Year over Year change

On a YoY basis, GNTX had the strongest revenue growth, followed by MBLY and RACE. F and GM were negatively affected by the UAW strike.



Source: Company filings, BofA Global Research

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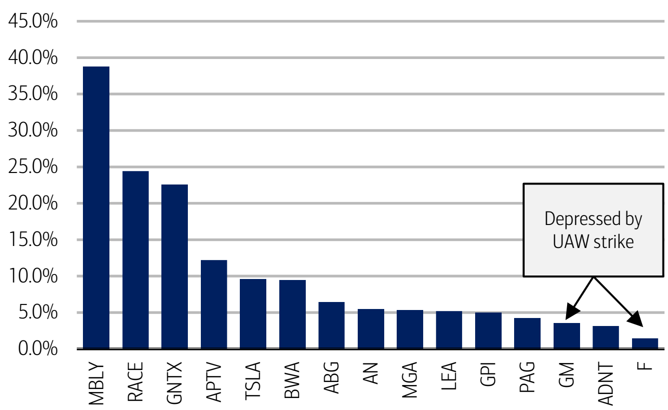
Exhibit 10: 4Q23 Adjusted operating margin

MBLY remains the company with the highest margin in our coverage. However, given company outlook margins will resemble traditional suppliers'.



Source: Company filings, BofA Global Research

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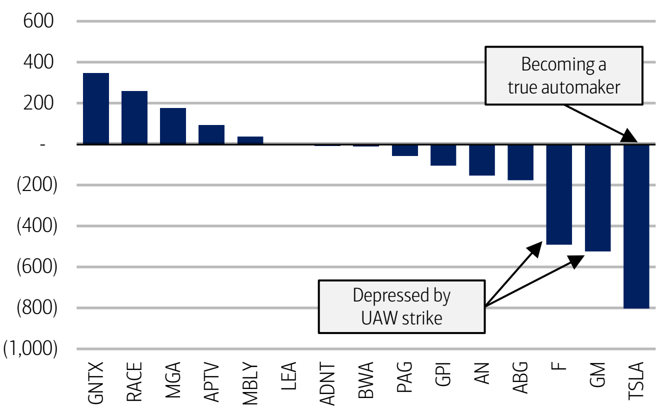
Exhibit 11: Adjusted operating income margin change YoY

On a YoY basis, GNTX and RACE register the largest improvement of margins. TSLA suffered from price cuts; F and GM were affected by the UAW strike.



Source: Company filings, BofA Global Research

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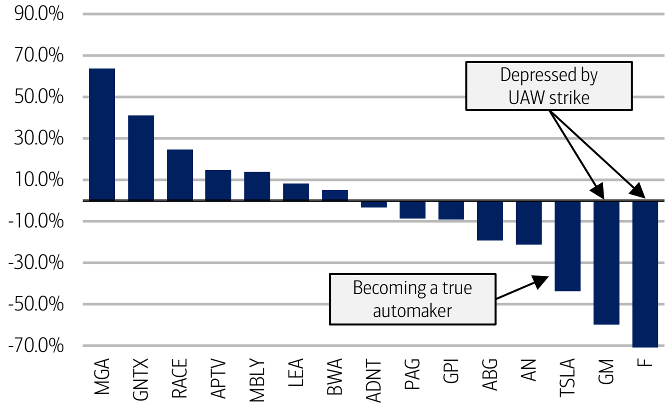
Exhibit 12: Adjusted operating income YoY change

On a YoY basis, MGA and GNTX registered the largest growth of adjusted operating income driven by operational improvements. TSLA decline reflected the effect of price cuts while GM and F suffered from the strike.



Source: Company filings, BofA Global Research

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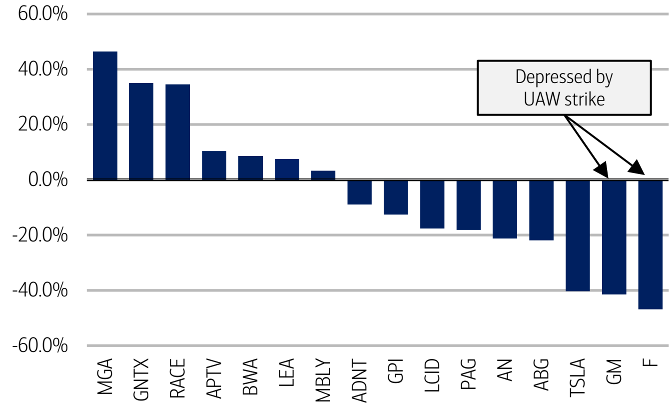
Exhibit 13: Adjusted EPS YoY change

Adjusted EPS YoY change largely reflected the operating results during the quarter. We note that dealers and GM's EPS growth benefitted from share buybacks while TSLA's was negatively affected by share compensation.



Source: Company filings, BofA Global Research

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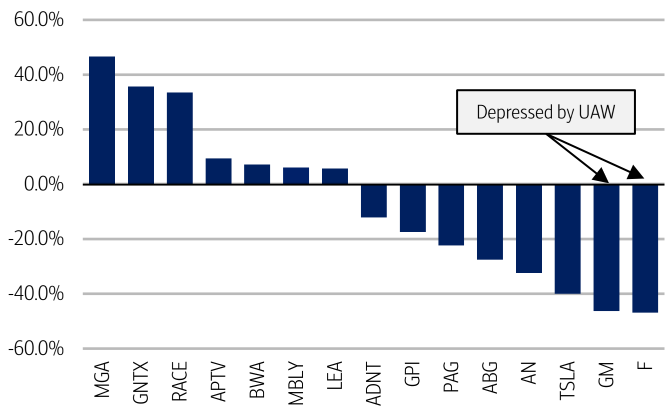
Exhibit 14: YoY Adjusted Net Income change

On a YoY basis, MGA, GNTX and RACE saw the strongest net income growth.



Source: Company filings, BofA Global Research

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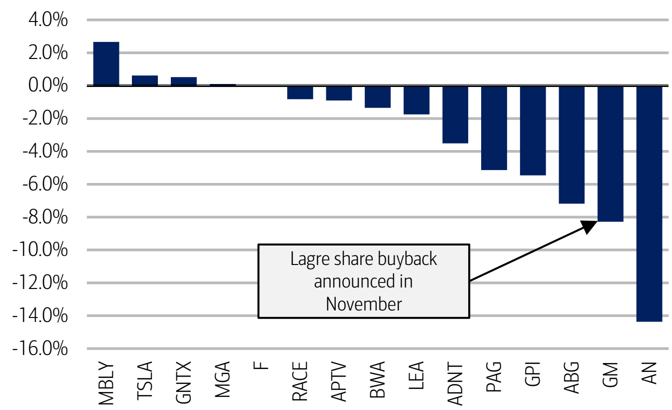
Exhibit 15: YoY change in Diluted Shares Outstanding

Strong FCF generation allowed GM and dealers to buy back shares.



Source: Company filings, BofA Global Research

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Adjusting estimates and POs

We are making estimate and price objective (PO) revisions for the companies in our coverage universe that have reported earnings (Ford directly after reported its results,). A summary of the changes is included in and below.

Exhibit 16: BofA new estimates for 2024, 2025, 2026

In the table below, we show our updated estimates for the companies in our coverage that have reported 4Q:23 earnings over the last week

EPS	2024			2025			2026		
Ticker	Old	New	Change	Old	New	Change	Old	New	Change
ABG	31.95	30.75	-3.8%	32.75	31.30	-4.4%	36.35	32.30	-11.1%
ADNT	3.07	2.85	-7.2%	4.80	5.10	6.3%	5.55	6.30	13.5%
AN	23.15	20.00	-13.6%	23.40	21.30	-9.0%	23.90	22.65	-5.2%
BWA	4.30	4.10	-4.7%	4.85	4.60	-5.2%	5.55	5.10	-8.1%
F	1.95	2.05	5.1%	2.25	2.30	2.2%	2.65	2.70	1.9%
LEA	16.00	15.50	-3.1%	20.85	21.30	2.2%	25.10	27.50	9.6%
MGA	7.10	6.30	-11.3%	9.25	8.10	-12.4%	11.10	9.90	-10.8%
PAG	16.35	14.50	-11.3%	17.35	15.30	-11.8%	18.65	16.45	-11.8%

Source: BofA Global Research

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Exhibit 17: Price Objective changes

In the table below, we show how our price objectives are changing post-reporting

Ticker	Rating		Updated PO	Prior PO	% Change	Valuation Metric*
OEMs						
ABG	B-1-9	Buy	$340	$350	-2.9%	11x P/E on 2024
AN	B-1-9	Buy	$220	$255	-13.7%	11x P/E on 2024
BWA	B-1-7	Buy	$50	$52	-3.8%	7x EV/EBITDA on 2024
LEA	B-1-7	Buy	$210	$220	-4.5%	7x EV/EBITDA on 2024
MGA	B-1-7	Buy	$70	$77	-9.1%	6x EV/EBITDA on 2024
PAG	B-1-7	Buy	$175	$200	-12.5%	12x P/E on 2024

Source: Bloomberg, BofA Global Research estimates

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ADNT: Despite notable operational challenges since its spin-off in 2016, Adient has cleared a key hurdle in resetting its capital structure and is demonstrating progress on its turnaround and restructuring efforts, despite COVID disruptions slowed down the process in 2020-2022. We expect more turnaround progress ahead and, despite being conservative on the cycle timing, we see an opportunity for seating suppliers to gain. Therefore, we rate the stock Buy.

ABG: We believe the US automotive industry is in the early innings of a multi-year cyclical recovery after three years of recessionary levels (2020-2022), which should bode well for the Dealers and Asbury in terms of same-store sales, revenue, and earnings over our forecast period. Despite fears the Dealers are currently over-earning, we believe excess profits/cash is being allocated towards accretive business initiatives that should yield earnings upside over time. Therefore, we rate the stock Buy.

AN: We believe the US automotive industry is in the early innings of a multi-year cyclical recovery after three years of recessionary levels (2020-2022), which should bode well for the Dealers and AutoNation in terms of same-store sales, revenue, and earnings over our forecast period. Despite fears the Dealers are currently over-earning, we believe excess profits/cash is being allocated towards accretive business initiatives that should yield earnings upside. Therefore, we rate the stock Buy.

BWA: BWA is a well-positioned supplier with a portfolio of next-generation powertrain products. BWA management delivered solid execution on its Core to Future transition, investing in future powertrain technology, and executing on strategic M&A. Although skepticism on the transition to an electrical future remains, the recovering global production and abating operational challenges are likely to more than offset the skepticism. Therefore, we rate BWA at Buy.

F: Our Buy rating on Ford is predicated on our expectation for a micro earnings inflection at the company, driven by the confluence of a favorable product cycle in the all-important US/NA market and benefits from its Global Redesign restructuring, in addition to the ongoing macro recovery underway in the global automotive cycle. Together, these dynamics should help to fund the Ford+ plan and Ford's Core to Future transition, which should start to get more credit among the investment community.

LEA: Lear is viewed as one of the best operators among Seating suppliers, evidenced by its track record of growth above market, as well as margins above average and healthy cash flow. Additionally, we view Lear as a well-positioned supplier, due to its leverage to industry mega-trends of electrification and connectivity through its E-Systems segment. Operational excellence combined with expectations of increasing capital distributions to shareholders and future volume recovery drive our Buy rating.

MGA: We view Magna as one of the highest-quality suppliers, and believe its solid proprietary technology and long-standing customer relationships will allow it to grow through consolidation and takeover business over time. We also believe Magna's expertise of the complete vehicle provides it with a unique competitive advantage amid the ongoing industry evolution. With volume recovery finally materializing and supply chain disruptions almost resolved, we rate the stock Buy.

PAG: We believe the US automotive industry is in the early innings of a multi-year cyclical recovery after three years of recessionary levels (2020-2022), which should bode well for the Dealers and Penske in terms of same-store sales, revenue, and earnings over our forecast period. Despite fears the Dealers are currently over-earning, we believe excess profits/cash is being allocated towards accretive business initiatives that should yield earnings upside over time. Therefore, we rate the stock Buy.

Exhibit 18: Stocks mentioned

Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ADNT	ADNT US	Adient Plc	US$ 33.16	C-1-9
ABG	ABG US	Asbury Auto	US$ 218.35	B-1-9
AN	AN US	AutoNation, Inc.	US$ 147.82	B-1-9
BWA	BWA US	BorgWarner	US$ 31.05	B-1-7
F	F US	Ford Motor	US$ 12.68	B-1-7
LEA	LEA US	Lear Corp.	US$ 132.98	B-1-7
MGA	MGA US	Magna Intl	US$ 53.88	B-1-7
YMG	MG CN	Magna Intl	C$ 73.13	B-1-7
PAG	PAG US	Penske Auto Group	US$ 150.35	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Adient Plc (ADNT)

Our price objective of $50 for ADNT is based on an EV/EBITDA multiple of roughly 6.0x on our FY2024 estimates, slightly above the historical average of roughly 5.5x as the company successfully completed debt refinancing and secured its capital structure, and continues to improve in performance with its turnaround efforts.

Downside risks: 1) inability to win sufficient and profitable new business, expand the backlog, and reaccelerate top line growth, 2) inability to complete restructuring programs or cost rationalization initiatives, 3) decline in new vehicle production, 4) inability to consistently execute financially, 5) raw material cost inflation, 6) inability to handle OEM price downs, 7) failure to maintain a lean cost structure, 8) new program/platform launch risk.

Upside risks: 1) ADNT successfully wins back business, expands its backlog and reaccelerates its top line growth, 2) better than expected operating leverage from continued growth in global auto production, 3) significant progress made on restructuring programs and cost rationalization actions, 4) material market share gains in China market, 5) wind-down of non-recurring items boosts ongoing cash flow power.

Asbury Auto (ABG)
Our price objective of $340 is based on a P/E multiple of roughly 11x 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) a swift and/or material downturn in US sales, 2) market share losses by the brands to which ABG is overexposed, 3) higher interest rate environment causes material demand deterioration and/or repossessions, 4) consumer dissatisfaction with auto retailing, and 5) the potential for franchise law and/or consumer finance law changes.

Upside risks: 1) US/North America cycle recovers and plateaus at a high level of sales, continues growing, or even declines less than expected, 2) ABG is able to gain back and/or maintain some gross profit per unit in its new and used vehicles businesses, 3) used vehicle focus dries demand, top line and earnings growth beyond the peak in new vehicle sales, and 4) interest rates decline quicker than expected, stimulating demand in 2H23.

AutoNation, Inc. (AN)
Our price objective of $220 is based on a P/E multiple of roughly 11x 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) a swift and/or material downturn in US sales, 2) poorer-than-expected cost performance and margin compression, 3) a stoppage in share repurchase activity or material sell-off by key shareholders, 4) higher interest rate environment causes material demand deterioration and/or repossessions 5) consumer dissatisfaction with auto retailing, and 6) the potential for franchise law and/or consumer finance law changes.

Upside risks: 1) US/NA cycle recovers and plateaus at a high level of sales, continues growing, or even declines less than expected, 2) AN is able to gain or even just maintain gross profit per unit in its new and used vehicles businesses, 3) standalone used vehicle stores capture some demand and drives top line and earnings growth beyond the peak in new vehicle sales, and 4) interest rates decline quicker than expected, stimulating demand in 2H23.

BorgWarner (BWA)
Our price objective of $50 is based on an EV/EBITDA multiple of roughly 7.0x on our 2024 estimates, which we believe reflects the higher growth trajectory on which the company positioned itself after the spin-off of the Fuel Systems and Aftermarket segments in July 2023.

Downside risks: 1) relaxed fuel-efficiency regulations, 2) increased competition in the turbocharger industry, 3) a longer than expected decline or flatline in US/global automotive volumes, 4) a continued rise in raw material costs, 5) slower electric vehicle adoption.

Upside risks: 1) strength in global auto production volumes, particularly in North America, 2) faster adoption of electric and hybrid vehicles, 3) BWA regains lost investor confidence through continued execution and performance.

Ford Motor (F)

Our price objective of $21 is based on an EV/EBITDAP multiple (EV/EBITDA adjusted for pension) of roughly 4x on our 2024 estimates. This valuation methodology reflects a multiple within Ford's historical range (3-6x). We believe a multiple at this level is warranted considering the timing of the cycle and as the company is on the verge of executing something analogous to our Core to Future transition framework, by which it will strengthen its core business pillars to fund its future business.

Downside risks: 1) a more swift and/or material downturn in US auto sales, 2) a sharp and sustained rise in input costs, 3) disruption in the supply base, 4) significant increase in gas prices, 5) new vehicle pricing deteriorates, 6) market share losses pressure results, 7) unwillingness of dealers to shoulder inventory risk, 8) suppliers gain significant pricing power, 9) stress in capital markets makes borrowing more expensive, 10) Incremental execution risk as management ramps up.

Upside risks: 1) continued strength in US auto cycle, 2) growth in China remains robust, which Ford is able to leverage with product launches, 3) mix and pricing remain favorable, 4) capital allocation is directed towards shareholder returns (special dividend, etc.).

Lear Corp. (LEA)

Our $210 price objective on LEA shares is based on an EV/EBITDA multiple of roughly 7.0x on our 2024 estimates. This multiple is a slight premium to the company's historical average since we believe adjustment to a lower volume environment and the company's vertical integration will bolster already strong cash flow that is being returned to shareholders through dividends and growing share buybacks.

Downside risks: 1) a slower or further decline in US/global automotive volume growth, 2) disruption from the re-emergence in the Seating market of LEA's largest competitor (ADNT), 3) increased pricing pressure from OEM customers, 4) loss of business at key customers, 5) fierce competition in the automotive supply base, 6) a new rise in raw material costs, 7) execution risk of restructuring, operations, and acquisitions.

Upside risks: 1) faster recovery than expected in global auto production volumes, 2) continued execution and progress on margin expansion, 3) shareholder-friendly actions including accretive M&A and share repurchases support earnings and the stock.

Magna Intl (MGA / YMG)

Our $70 price objective on MGA US (CAD95 for MG CN) is based on an EV/EBITDA multiple of roughly 6x on our 2024 estimates, above the historical average of roughly 5.0x, which we believe reflects MGA's superior long-term positioning, and expertise of the complete vehicle/components that provides the company with a competitive advantage amid the ongoing industry evolution and technological advancement (Big Bang).

Downside risks: 1) a flatline or decline in the US SAAR and NA production volumes for longer than expected, 2) inability to deliver on projected growth targets in emerging markets, 3) stress at key customers, most notably the Detroit Three.

Upside risks: 1) strength in global auto production volumes, particularly in North America, 2) expansion into China market, 3) continued execution and progress on restructuring programs and margin expansion, 4) shareholder-friendly actions including accretive M&A and share repurchases support earnings and the stock.

Penske Auto Group (PAG)
Our price objective of $175 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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US - Automotives Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adient Plc	ADNT	ADNT US	John Murphy, CFA
	Aptiv PLC	APTV	APTV US	John Murphy, CFA
	Asbury Auto	ABG	ABG US	John Murphy, CFA
	AutoNation, Inc.	AN	AN US	John Murphy, CFA
	BorgWarner	BWA	BWA US	John Murphy, CFA
	Ferrari	RACE	RACE US	John Murphy, CFA
	Ferrari NV	XJHKF	RACE IM	John Murphy, CFA
	Ford Motor	F	F US	John Murphy, CFA
	General Motors Company	GM	GM US	John Murphy, CFA
	Group 1 Auto	GPI	GPI US	John Murphy, CFA
	Lear Corp.	LEA	LEA US	John Murphy, CFA
	Lithia Motors A	LAD	LAD US	John Murphy, CFA
	Magna Intl	MGA	MGA US	John Murphy, CFA
	Magna Intl	YMG	MG CN	John Murphy, CFA
	Penske Auto Group	PAG	PAG US	John Murphy, CFA
	Rivian Automotive	RIVN	RIVN US	John Murphy, CFA
	Visteon	VC	VC US	John P. Babcock
NEUTRAL				
	Gentex	GNTX	GNTX US	John Murphy, CFA
	Lucid Group	LCID	LCID US	John Murphy, CFA
	Luminar Technologies	LAZR	LAZR US	John P. Babcock
	Tesla Motors	TSLA	TSLA US	John Murphy, CFA
UNDERPERFORM				
	American Axle	AXL	AXL US	John Murphy, CFA
	America's Car-Mart, Inc.	CRMT	CRMT US	John Murphy, CFA
	CarMax, Inc.	KMX	KMX US	John Murphy, CFA
	Mobileye	MBLY	MBLY US	John Murphy, CFA
	OPENLANE	KAR	KAR US	John Murphy, CFA
	Sonic Automotive	SAH	SAH US	John Murphy, CFA
RVW				
	Fisker	FSR	FSR US	John P. Babcock

Disclosures

Important Disclosures

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

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

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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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