

Lithia Motors A

LAD delivers in-line quarter and reiterates plans for aggressive growth – 4Q first take

Maintain Rating: BUY | PO: 440.00 USD | Price: 298.33 USD

4Q results in-line, helped by non-operating items

LAD reported 4Q:23 adj. EPS from cont. ops of \$8.24, which was in line with our estimate of \$8.25 and the Bloomberg consensus of \$8.23. FX was a \$0.21/share tailwind in the Q. Operating results were slightly lighter than expected driven by weaker top-line and higher SG&A as a % of gross profit, total gross margin was in-line. Below the line items including higher other income and a lower tax rate helped bring net income and EPS in line with expectations. New grosses faded, and were slightly worse than expected, but still relatively solid. 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. Generally, LAD has been able to keep a handle on SG&A costs, which despite the slight deleveraging in the quarter, remains lower than in the past (SG&A as a percentage of gross profit was 65.2% vs ~69% average from 2011-2019). We maintain our Buy rating.

2025 plan for acquisitions on pace

During the quarter LAD reiterated its 2025 plan to reach \$50bn in annual revenue. Recall Lithia targets its 2025 acquired revenue to \$25bn. In 2023, LAD continued to execute on its acquisition strategy adding a total of 56 locations to its portfolio, expected to generate a combined \$3.8bn of revenue (annualized). This brings LAD's acquired revenue to \$17.7bn since announcing its 2025 plan. In addition, LAD closed the Pendragon acquisition (\$4.5bn in revenue) in February 2024 bringing the total to \$22.2bn.

New, F&I same-store sales strong, Used and P&S softer

Total same-store sales decreased 2% YoY in 4Q:23 slightly below our expectation for flat, driven primarily by softer Used and P&S growth, while New and F&I were better. New vehicle sales increased 10.1% YoY, above BofAe of +5.0%. This was a combination of pricing up 0.4% YoY and new units volume up 9.6% YoY. Used vehicle retail same-store sales decreased -10.8% YoY, worse than BofAe at -7.4% YoY. This was driven by a 4.8% YoY decline in average vehicle price and unit sales down 6.3% YoY. Same-store Finance & Insurance (F&I) sales increased 1.5% YoY, much better than our estimate of -6.1% YoY. Parts & Service (P&S) growth slowed in the quarter, with same-store sales up 2.7% YoY, below our estimate of +5.0%.

New GPUs slightly worse while used more resilient

Total gross margin of 16.4% was in line with our 16.4% estimate. New vehicle gross margin of 7.9% was down 320bps YoY, below our 8.3% estimate. Used retail gross margin of 6.8% was below our 7.0% forecast and down 50bps YoY. P&S gross margin of 55.0% was above BofAe of 54.5%. Performance on a per unit basis was relatively solid as total New GPU was down \$1,445 YoY to \$3,899 (BofAe \$3,975). Total Used retail GPU declined \$172 YoY to \$1,965 (BofAe \$1,900). Total F&I per unit (FIPVR) decreased \$58 YoY to \$2,084 (BofAe \$1,987). Driveway Finance Corporation (DFC) losses in 4Q were \$2mm vs. BofAe of \$7.5mm. This brings full year 2023 DFC losses to \$46mm, slightly better than LAD's prior expectations for FY23 losses of \$50mm-\$55mm.

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Stock Data

Price	298.33 USD
Price Objective	440.00 USD
Date Established	28-Nov-2023
Investment Opinion	C-1-7
52-Week Range	203.65 USD - 331.96 USD
Mkt Val (mn) / Shares Out (mn)	8,233 USD / 27.6
Free Float	97.9%
Average Daily Value (mn)	53.74 USD
BofA Ticker / Exchange	LAD / NYS
Bloomberg / Reuters	LAD US / LAD.N
ROE (2023E)	16.7%
Net Dbt to Eqty (Dec-2022A)	101.5%
ESGMeter™	Medium

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LAD = Lithia

F&I = Finance & Insurance

P&S = Parts & Service

FIPVR = Finance & Insurance per vehicle
retailed

GPU = Gross profit per unit

SSS = Same-store sales

Cost execution slips slightly but opportunities to improve

Adjusted SG&A as a % of gross profit of 65.2% deteriorated 230bps YoY and came in worse than our estimate of 63.5%. Despite the miss, this result is still ~400bps below the 2011-2019 average, indicating at least some of the cost removed over the last few years was more structural in nature. There may be opportunity for LAD to improve this, as it improves the operations of acquired stores and becomes more efficient over time.

Exhibit 1: Quarterly results YoY and versus BofAe

LAD reported 4Q:23 EPS of \$8.24 versus BofAe of \$8.25

	YoY Change			Variance		
	4Q:23	4Q:22	% Δ	4Q Actual	4Q BofAe	% Δ
Revenue (\$000s)						
New vehicles - retail	3,974,800	3,275,100	21.4%	3,974,800	3,916,328	1.5%
Total used vehicle	2,510,400	2,521,800	-0.5%	2,510,400	2,608,993	-3.8%
Parts and services	818,300	716,200	14.3%	818,300	875,970	-6.6%
Finance and insurance	331,500	308,400	7.5%	331,500	327,161	1.3%
Fleet & Other	39,400	125,000	-68.5%	39,400	143,200	-72.5%
Total Revenue	7,674,400	6,946,500	10.5%	7,674,400	7,871,652	-2.5%
COGS	6,413,600	5,737,300	11.8%	6,413,600	6,581,778	-2.6%
Gross Profit	1,260,800	1,209,200	4.3%	1,260,800	1,289,874	-2.3%
SG&A	821,700	759,900	8.1%	821,700	818,683	0.4%
D&A	49,400	48,200	2.5%	49,400	51,500	-4.1%
Finance operations income	(2,100)	(7,700)	na	(2,100)	(7,500)	-72.0%
Operating Profit	387,600	393,400	-1.5%	387,600	412,191	-6.0%
Floorplan interest expense	48,300	19,300	150.3%	48,300	42,500	13.6%
Other interest expense & income, net	59,700	38,300	55.9%	59,700	60,000	-0.5%
Other income (expense), net	17,100	400	4175.0%	17,100	-	#DIV/0!
Income before income taxes	296,700	336,200	-11.7%	296,700	309,691	-4.2%
Provision for income taxes	66,700	85,200	-21.7%	66,700	82,068	-18.7%
Net Inc. from Cont. Ops.	227,300	248,800	-8.6%	227,300	227,623	-0.1%
EPS from Cont. Ops	8.24	9.05	-9.0%	8.24	8.25	-0.1%
Diluted share count	27,600	27,500	0.4%	27,600	27,607	0.0%
Gross Margin Detail:	4Q:23	4Q:22	bps Δ	4Q Actual	4Q BofAe	bps Δ
New Vehicles - Retail	7.9%	11.1%	-321bps	7.9%	8.3%	-34bps
Used Vehicles - Retail	6.8%	7.3%	-48bps	6.8%	7.0%	-20bps
Parts & Service	55.0%	53.9%	109bps	55.0%	54.5%	53bps
Total Gross Margin	16.4%	17.4%	-98bps	16.4%	16.4%	4bps
SG&A as % of Gross Profit	65.2%	62.8%	233bps	65.2%	63.5%	170bps
Same-Store Sales:	4Q:23	4Q:22	bps Δ	4Q Actual	4Q BofAe	bps Δ
New Vehicles - Retail	10.1%	-0.9%	1094bps	10.1%	5.0%	508bps
Used Vehicles - Retail	-10.8%	2.0%	-1284bps	-10.8%	-7.4%	-346bps
Parts & Service	2.7%	8.5%	-576bps	2.7%	5.0%	-230bps
Finance & Insurance	1.5%	-3.4%	492bps	1.5%	-6.1%	761bps
Total Same-Store Sales Growth	-2.0%	0.8%	-282bps	-2.0%	-0.1%	-185bps
Units Sold:	4Q:23	4Q:22	% Δ	4Q Actual	4Q BofAe	% Δ
New Vehicles - Retail	80,596	68,159	18.2%	80,596	81,253	-0.8%
Used Vehicles - Retail	78,424	75,834	3.4%	78,424	83,413	-6.0%
Per Unit Data:	4Q:23	4Q:22	\$ Δ	4Q Actual	4Q BofAe	\$ Δ
New Vehicle Revenue per Unit	\$49,318	\$48,051	\$1,267	\$49,318	\$48,199	\$1,118
Used Vehicle Revenue per Unit	\$29,224	\$29,492	(\$268)	\$29,224	\$27,952	\$1,272
New Vehicle Gross Profit per Unit	\$3,900	\$5,343	(\$1,444)	\$3,900	\$3,976	(\$77)
Used Vehicle Gross Profit per Unit	\$1,965	\$2,138	(\$173)	\$1,965	\$1,900	\$65
FIPVR	\$2,085	\$2,142	(\$57)	\$2,085	\$1,987	\$98

Source: Company filings, BofA Global Research estimates

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Price objective basis & risk

Lithia Motors A (LAD)

Our price objective of \$440 is based on a P/E multiple of roughly 11x on our 2024 estimates, which is a slight premium to an average dealer through-cycle multiple. We



believe this is appropriate in light of the company's track record of strong earnings and recent strong execution of M&A growth actions.

Downside risks: 1) a swift and/or material downturn in US sales, 2) slower improvement in operating leverage than forecast, 3) substantial market share loss by domestic brands, to which LAD is exposed, 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) acquisition activity above current forecasts, 2) continued recovery in US auto sales beyond current estimates, 2) LAD is able to gain back/maintain some gross profit per unit in its new and used vehicles businesses, and 3) interest rates decline quicker than expected, stimulating demand in 2H23.

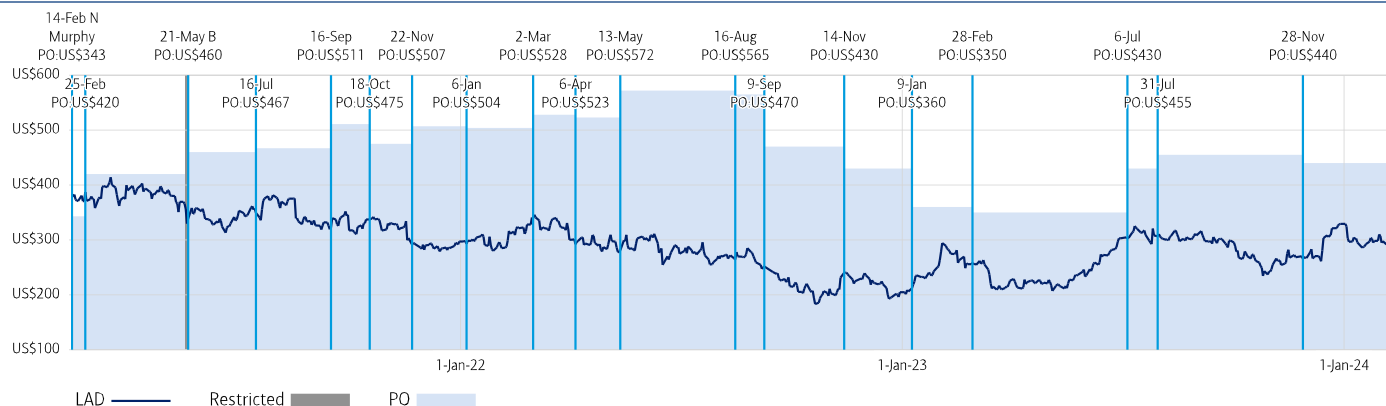
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Lithia Motors A (LAD) Price Chart



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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%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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

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