

## Asbury Auto

# Small slip in 4Q, but likely to gain traction in 2024+ – 4Q first take

Reiterate Rating: BUY | PO: 350.00 USD | Price: 210.74 USD

## 4Q:23 results miss SG&A, P&S, Used

ABG reported 4Q:23 adjusted EPS from continuing ops of \$7.12, below our estimate of \$7.64 and the Bloomberg consensus of \$7.67. On an operating basis, the miss was driven by SG&A slippage, weaker same-store Parts & Service growth, and softer used vehicle performance. The SG&A miss appears to be due to distraction from the Koons deal, but SG&A performance continues to be the leader among the Dealers. New grosses faded by not as much as feared, continuing the trend of more resilient GPUs across the Dealers. The US auto market also continues to recover with total industry unit sales up 7% YoY in 4Q to 3.8mm or 15.5mm on a SAAR basis. Capital allocation remains a positive as ABG repurchased 1.3mm shares for \$258mm in 2023, equating to a ~7% share count reduction since end-2022. The Koons acquisition (\$3bn revenue) also closed in the quarter and focus will be on integration and deleveraging for 2024. Reiterate Buy.

## Total same-store sales beat despite soft P&S performance

Total same-store sales increased 2% YoY in 4Q:23 (BofAe +1.1%), driven primarily by stronger new vehicle sales and better than feared F&I, partially offset by weaker than expected results in Used vehicles and Parts & Service. New vehicle same-store sales increased 10% YoY and came in above our estimate (BofAe +5.0%) driven by a 7% YoY increase in unit sales and 3% growth in the average selling price. Same-store Used vehicle retail sales declined -12% YoY, which was weaker than our estimate for a -3.5% decline due to a -10% YoY decline in unit sales and a -2% decline in average selling price. Same-store F&I sales were down -12% YoY, much better than our forecast (BofAe -21.1%). Parts & Service same-store sales growth slowed significantly in the quarter and was flattish YoY, below our estimate of +5.0%. Ongoing integration activities continue to present near-term headwinds to P&S operations, but are also opportunities.

## New GPUs remain resilient while Used come in weaker

Total gross margin of 17.7% was just below our 17.9% estimate driven primarily by weaker used vehicle performance. New gross margin of 8.3% was down -245bps YoY, but still above our 8.0% estimate. Used retail gross margin of 5.4% was below our 6.2% forecast, and down 70bps YoY. P&S gross margin of 55.6% was above our estimate (BofAe 55.0%), including TCA consolidation. Performance on a per unit basis was relatively solid as total New GPU decreased -\$1,107 YoY to \$4,282 (BofAe \$4,025). Total Used retail GPU declined \$233 YoY to \$1,699 (BofAe \$1,899). Total F&I per unit decreased \$277 YoY to \$2,304. This culminates in key ABG metric front end yield (New + Used + F&I GPU), down \$838 YoY to \$5,461.

## SG&A performance slips slightly but still best in class

Adj. SG&A as % of gross profit of 61.0% came in worse than our est. of 59.1% and increased by 425bps YoY. This is the first time in many quarters that SG&A performance has slipped significantly, which may be a function of hyper focus on executing the Koons deal. Despite this, ABG continues to lead the dealers in cost execution. In our view, at least some of the cost removed over the last few years was more structural in nature and in fact, ABG closed out 2023 with SG&A as a % of gross of 58.5%, ~1,000bps+ below the 2010-2019 average of ~71%.

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Timestamp: 08 February 2024 08:29AM EST

08 February 2024

### Equity

**John Murphy, CFA**  
Research Analyst  
BofAS  
+1 646 855 2025  
johnj.murphy@bofa.com

**John P. Babcock**  
Research Analyst  
BofAS  
+1 646 743 0046  
john.p.babcock@bofa.com

**Federico Merendi**  
Research Analyst  
BofAS  
+1 646 556 2798  
federico.merendi@bofa.com

**William Healey**  
Research Analyst  
BofAS  
+1 646 855 5747  
william.healey2@bofa.com

### Stock Data

Price	210.74 USD
Price Objective	350.00 USD
Date Established	28-Nov-2023
Investment Opinion	B-1-9
52-Week Range	178.40 USD - 256.39 USD
Mkt Val (mn) / Shares Out (mn)	4,362 USD / 20.7
Free Float	99.4%
Average Daily Value (mn)	29.16 USD
BofA Ticker / Exchange	ABG / NYS
Bloomberg / Reuters	ABG US / ABG.N
ROE (2023E)	22.3%
Net Dbt to Eqty (Dec-2022A)	105.6%
ESGMeter™	Medium

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### Glossary

ABG = Asbury  
GPU = Gross profit per unit  
F&I = Finance & Insurance  
FIPVR = Finance & Insurance per vehicle retailed  
P&S = Parts & Service  
SAAR = Seasonally adjusted annual rate

**Exhibit 1: Quarterly results YoY and versus BofAe**

ABG reported 4Q:23 adjusted EPS of \$7.12 versus BofAe of \$7.64

	YoY Change			Variance		
Revenue:	4Q:23	4Q:22	% Δ	4Q Actual	4Q BofAe	% Δ
New vehicles - retail	2,058,500	1,846,300	11.5%	2,058,500	1,893,521	8.7%
Used vehicles - retail	965,800	1,089,300	-11.3%	965,800	1,007,621	-4.2%
Parts and services	513,400	516,100	-0.5%	513,400	530,380	-3.2%
Finance and insurance	171,200	190,600	-10.2%	171,200	146,604	16.8%
Used Wholesale	102,900	63,700	61.5%	102,900	64,210	60.3%
TCA Adjustment	26,800	27,600	-2.9%	26,800	26,043	2.9%
<b>Total Revenue</b>	<b>3,838,600</b>	<b>3,733,600</b>	<b>2.8%</b>	<b>3,838,600</b>	<b>3,668,379</b>	<b>4.6%</b>
COGS	3,138,800	2,968,000	5.8%	3,138,800	2,988,967	5.0%
<b>Gross Profit</b>	<b>699,800</b>	<b>765,600</b>	<b>-8.6%</b>	<b>699,800</b>	<b>679,412</b>	<b>3.0%</b>
SG&A	410,500	418,800	-2.0%	410,500	386,402	6.2%
D&A	17,200	15,400	11.7%	17,200	17,500	-1.7%
<b>Operating Profit</b>	<b>272,100</b>	<b>331,400</b>	<b>-17.9%</b>	<b>272,100</b>	<b>275,510</b>	<b>-1.2%</b>
Floorplan interest expense	(8,200)	(2,400)	241.7%	(8,200)	(1,500)	446.7%
Other interest expense	(40,800)	(38,500)	6.0%	(40,800)	(40,500)	0.7%
Total other expense	(49,000)	(39,500)	24.1%	(49,000)	(42,000)	16.7%
<b>Pre-tax Income</b>	<b>196,300</b>	<b>264,300</b>	<b>-25.7%</b>	<b>196,300</b>	<b>207,466</b>	<b>-5.4%</b>
Income tax expense	50,000	62,400	-19.9%	50,000	51,867	-3.6%
<b>Net Inc. from Cont. Ops.</b>	<b>146,300</b>	<b>201,900</b>	<b>-27.5%</b>	<b>146,300</b>	<b>155,600</b>	<b>-6.0%</b>
<b>EPS from Cont. Ops.</b>	<b>7.12</b>	<b>9.12</b>	<b>-21.9%</b>	<b>7.12</b>	<b>7.64</b>	<b>-6.8%</b>
Diluted share count	20,540	22,130	-7.2%	20,540	20,356	0.9%
<b>Gross Margin Detail:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>Bps Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>Bps Δ</b>
New Vehicle	8.3%	10.7%	(245)	8.3%	8.0%	30
Used Vehicle - retail	5.4%	6.1%	(69)	5.4%	6.2%	(73)
Used Vehicle - total	5.1%	5.9%	(80)	5.1%	5.9%	(87)
Parts & Service	55.6%	55.8%	(25)	55.6%	55.0%	57
Finance & Insurance	95.1%	96.5%	(139)	95.1%	100.0%	(491)
Total Gross Margin	17.7%	19.9%	(226)	17.7%	17.9%	(28)
SG&A % of Gross	61.0%	56.7%	425	61.0%	59.1%	186
<b>Same-Store Sales:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>Bps Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>Bps Δ</b>
New vehicles - retail	9.6%	3.3%	626	9.6%	5.0%	458
Used vehicles - retail	-11.8%	-4.6%	(719)	-11.8%	-3.5%	(833)
Parts and services	0.2%	12.0%	(1,186)	0.2%	5.0%	(482)
Finance and insurance	-12.2%	8.9%	(2,118)	-12.2%	-21.1%	885
Total Same-Store Sales Growth	1.8%	1.4%	37	1.8%	1.1%	73
<b>Units Sold:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>% Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>% Δ</b>
New vehicles - retail	39,897	36,811	8.4%	39,897	37,633	6.0%
Used vehicles - retail	30,778	34,436	-10.6%	30,778	32,635	-5.7%
<b>Per Unit Data:</b>	<b>4Q:23</b>	<b>4Q:22</b>	<b>\$ Δ</b>	<b>4Q Actual</b>	<b>4Q BofAe</b>	<b>\$ Δ</b>
New Vehicle Revenue per Unit	\$51,595	\$50,156	\$1,439	\$51,595	\$50,315	\$1,280
Used Vehicle Revenue per Unit	\$31,380	\$31,633	(\$253)	\$31,380	\$30,875	\$504
New Vehicle Gross Profit per Unit	\$4,281	\$5,390	(\$1,109)	\$4,281	\$4,025	\$256
Used Vehicle Gross Profit per Unit	\$1,699	\$1,931	(\$232)	\$1,699	\$1,899	(\$200)

Source: Company filings, BofA Global Research estimates

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## Price objective basis & risk

### Asbury Auto (ABG)

Our price objective of \$350 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.

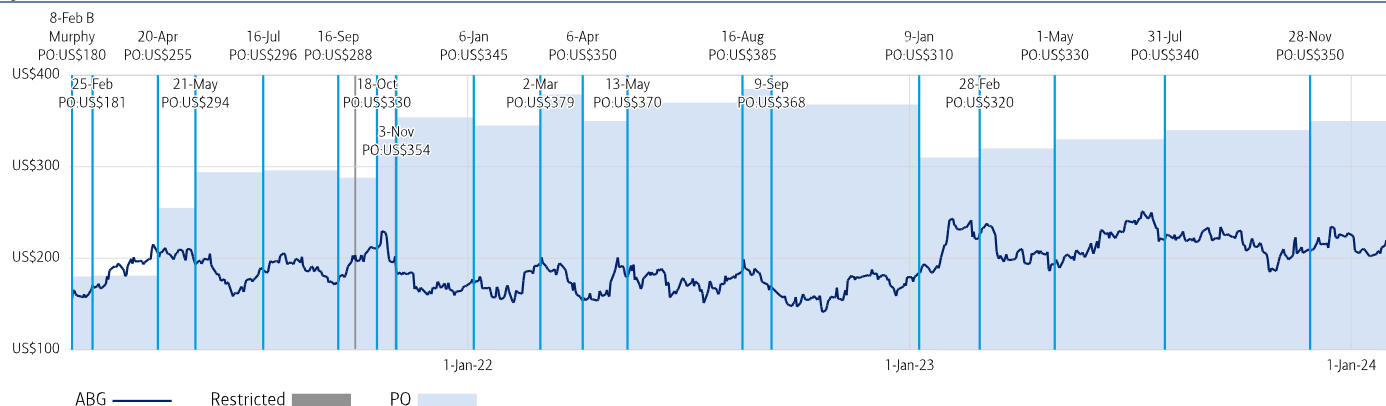
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	5	71.43%	Buy	2	40.00%
Hold	0	0.00%	Hold	0	0.00%
Sell	2	28.57%	Sell	1	50.00%

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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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