

Dealership M&A and valuation overview

Recent noteworthy deals in auto retail M&A

Carvana (NYSE:CVNA) acquires ADESA U.S.

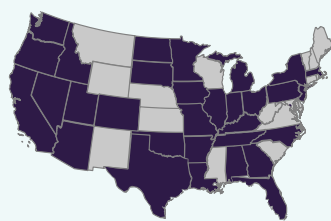


Announced: February 24, 2022
Transaction value: \$2.2 billion

"Together with Carvana's existing operations, ADESA U.S.'s nationwide infrastructure network and robust, highly profitable business will accelerate Carvana's progress toward becoming the largest and most profitable automotive retailer."

– Carvana Founder & CEO Ernie Garcia

ADESA U.S. locations

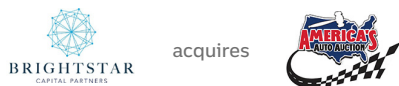


ADESA has 56 auction sites spread across 30+ states

Observations and takeaways

- In 2021, the ADESA U.S. business generated over \$800 million of revenue and over \$100 million of EBITDA.
- ADESA U.S. is the second largest provider of wholesale vehicle auction solutions in the U.S. with 56 sites, which total approximately 6.5 million square feet of buildings on more than 4,000 acres.
- At full utilization, ADESA U.S.'s existing and potential reconditioning operations can contribute approximately 2 million incremental units to Carvana's annual production.
- 78% of the U.S. population lives within 100 miles of either an ADESA U.S. or existing Carvana inspection and reconditioning center.

Brightstar Capital Partners acquires America's Auto Auction and XLerate Group

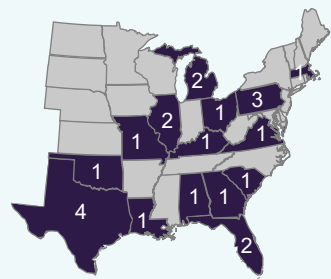


Announced: December 22, 2021

"We're looking forward to growing this combined company in partnership with our new colleagues from AAA. Our cooperative efforts will allow us to truly become a leading player within the vehicle remarketing sector."

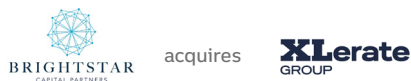
– XLerate CEO Cam Hitchcock

AAA automotive locations



Observations and takeaways

- The acquisition combines America's Auto Auction with Brightstar's previous acquisition, XLerate, to create an auto auction business of scale.
- Since its founding in 2000, AAA has expanded to 23 locations across 15 states and developed a comprehensive and trusted auction process, from vehicle reconditioning, through physical or online auction bidding, financing, and check-out.
- Pro forma for the acquisition, XLerate and AAA will have a total of 39 auction sites across 19 states, as well as growing digital and mobile auction businesses and related financing.

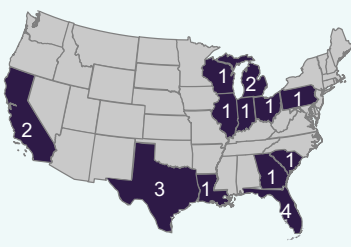


Announced: September 2, 2021

"The automotive remarketing sector is poised for tremendous change due to an increased use of technology, evolving vehicle mix and changing expectations from both buyers and sellers"

– Brightstar Partner Gary Hokkanen

XLerate Group locations



Observations and takeaways

- XLerate operates through fixed and mobile auction sites across 13 states, as well as through digital platforms.
- The acquisition provides Brightstar with a leading full-service used car auction services provider, delivering a critical liquidity function for the used car sales ecosystem.

Summary of recent transactions in the auto dealership space					
Announced date	Acquirer	Target	Region	Target stores	Transaction commentary
2/13/22	Jeff Wyler Automotive Group	Superior Automotive Group	Great Lakes	7	Dealerships include Acura, Honda, Kia, and Hyundai franchises. Established in 1924 in Cincinnati, Superior Automotive Group has expanded over the years to serve all of Ohio and Northern Kentucky.
2/9/22	Kaminsky Automotive	Hitchcock Automotive	West	3	Transaction included three high-volume Toyota dealerships in Southern California. Kaminsky Automotive is a family-owned car dealership based in San Diego.
1/28/22	Gee Automotive	Dick's Auto Group	West	3	Dick's Auto Group includes Dick's Hillsboro Chevrolet, Dick's Country CDJR, and Dick's Mackenzie Ford. Gee Automotive now owns and operates 18 dealerships in the Portland area.
1/28/22	PSD Automotive	McDermott Auto Group	New England	2	Acquisition consists of auto dealerships David McDermott Lexus and Dave McDermott Chevrolet in New Haven, Connecticut. PSD Automotive owns 31 dealerships.
1/24/22	SuperStore Auto Group	Delray Auto Group	Southeast	3	The transaction adds Delray Hyundai, Genesis, and Acura to the SuperStore Auto Group's Essential Ford of Stuart (Florida), Henderson Nissan, Planet Nissan, and Infiniti of Las Vegas.
12/29/21	Dobbs Equity Partners	Papa's Dodge	New England	1	Papa's Dodge is a leading new and used automotive dealership in Connecticut and is well positioned to maintain consistent operations with the acquisition.
12/14/21	Penske Automotive Group	Erhard BMW	Great Lakes	1	Erhard BMW is the largest BMW dealership in Michigan and will be the Penske Automotive Group's 48th BMW dealership worldwide.
12/13/21	Ed Morse Automotive Group	Norman Roy and Sellers-Sexton Automotive	Plains, Great Lakes	4	The acquired locations include Red Bud and New Athens, Illinois, as well as one in Saint Robert, Missouri. The deal represents Ed Morse's second expansion into Missouri, providing a new total of 27 dealerships, 51 franchises, and 14 automotive brands.
12/13/21	Team Automotive Group	John Greene CDJR	Southeast	1	Following the acquisition of John Greene CDJR, Team Automotive Group will have six franchised automotive dealerships throughout North Carolina featuring the Chevrolet, Buick, GMC, and Chrysler Dodge Jeep Ram brands.
12/9/21	Automotive Management Services	AutoFair Automotive Group	New England	8	AutoFair owns seven dealerships and one collision center in New Hampshire and Massachusetts. Dealerships include the Ford, Honda, Hyundai, VW, Nissan, and Subaru brands.
12/8/21	Asbury Automotive Group	Stevinson Automotive	Rocky Mountains	8	Stevinson operates eight franchises in the Denver market. The deal adds approximately \$715 million in annual revenues for Asbury Automotive Group.
12/7/21	Morrie's Automotive Group	Barry Merrill Dealerships	Great Lakes	2	The deal adds Ford and Lincoln dealerships and establishes Morrie's first franchises in Michigan.
11/17/21	Lithia Motors	Qvale Automotive Group	Southeast	2	The acquisition included two Audi dealerships located in Coral Springs and Ft. Lauderdale, Florida and will expand the Company's footprint to consumers in the greater Florida markets.

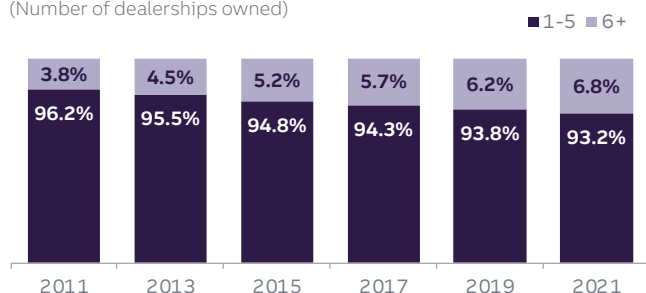
Source: Industry News

Robust M&A activity continues, with potential headwinds to future valuations

M&A activity is at historic highs.

Steady pace of consolidation continues

(Number of dealerships owned)



- 2021 saw a record number of dealership transactions, with 339 closing by year end (123 occurring in the fourth quarter).
- M&A transaction volume increased 68% from 2017 to 2021.
- Anchored by future profitability, blue sky valuations remain strong and create compelling exit opportunities.
- Small dealer groups are weighing a “grow or go” decision as they consider their competitive situation versus dealers of scale and project the need for future capex investment to revamp product and service offerings in the transition to EV.

Downward pressure on blue sky valuations

The threat of hawkish Federal Reserve policies and slowing public retailer M&A activity may advance the decision to monetize dealership assets in the current environment.

- **Blue sky reduction** — A 0.25% increase in interest rates requires a reduction in blue sky value of ~\$1 million. (holding cash-on-cash return constant at 15%)
- **Cash-on-cash returns** — A 0.25% increase in interest rates reduces the year 1 cash-on-cash return by ~0.3%. (holding blue sky value constant at \$75 million)

Rising interest rates may impact dealer valuations¹

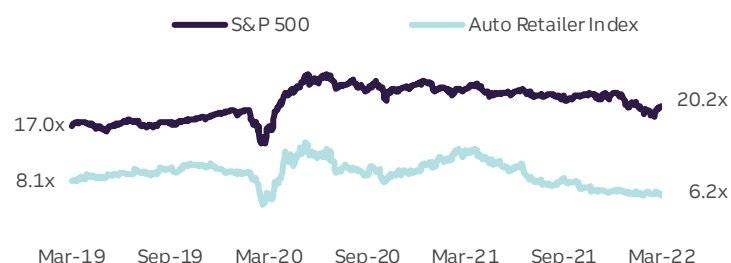
Hypothetical transaction

- Dealership EBITDA - \$15 million
- Purchase price - \$115 million (\$65 million debt + \$50 million equity)
- Blue sky value - \$75 million
- Real estate, assets, fees - \$40 million

Potential change in blue sky valuation & year 1 returns

Change in interest rate	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%
Blue sky reduction	\$0.00	(\$0.90)	(\$2.00)	(\$3.00)	(\$3.90)	(\$4.80)	(\$5.80)
Cash-on-cash returns	15.00%	14.70%	14.40%	14.10%	13.80%	13.50%	13.20%

3-year forward price-to-earnings ratio²



- Publicly traded automotive retailers are valued primarily by earnings per share, organic and acquisitive growth strategies, and technological/digital innovation.
- Relatively depressed P/E ratios may eliminate the accretive nature of premium-priced dealership acquisitions.
- While debt financing costs remain near historical lows, a rising interest rate environment presents a headwind to capital-intensive acquisitions.
- Reduced competition for dealership assets may have a spill-over effect, negatively impacting blue sky multiples.

Source: Industry News, Company Filings, Capital IQ

¹Y1 cash on cash return defined as EBITDA generated in Y1, less total debt P&I payments, divided by total equity invested

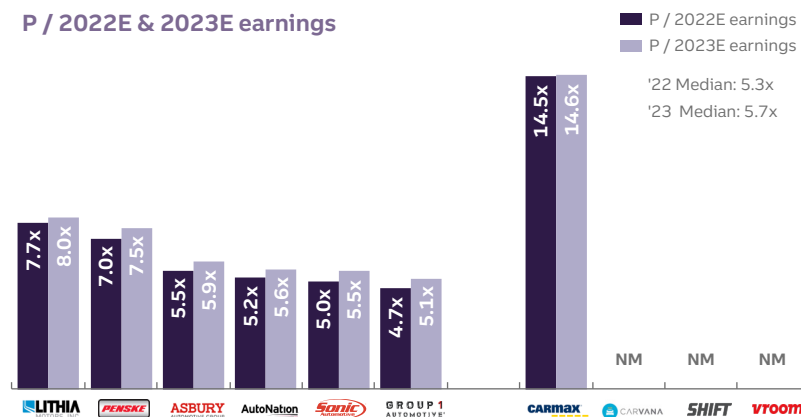
² Price-weighted Auto Retailer Index includes AN, ABG, GPI, LAD, PAG and SAH; Market data as of 3/29/2022.

Public dealership valuation and performance

Market commentary

- Equity buyers are looking through “peak last twelve months (LTM) earnings” and valuing equity using 2023+ earnings estimates.
 - Valuation multiples have contracted in recent months as investors weigh sustainability of recent earnings.
 - Automotive retailers are generating a significant amount of free cash flow, which has buoyed franchised retailer stock price performance relative to independent retailers.
- Recent M&A has continued to act as a strong driver of earnings growth, with the market rewarding well-executed consolidation strategies by Lithia and Asbury.
 - Acquisition strategies are likely to become more opportunistic, with emphasis on strategic consideration or near-term synergies.
 - Capital allocations may shift toward share buybacks, shareholder dividends, and omni-channel investments.
- Valuations of independent retailers Carvana, Shift, and Vroom have eroded recently, with investors placing emphasis on assets that are cash flow positive amidst the current inflationary environment.

P / 2022E & 2023E earnings



EV / 2022E & 2023E EBITDA

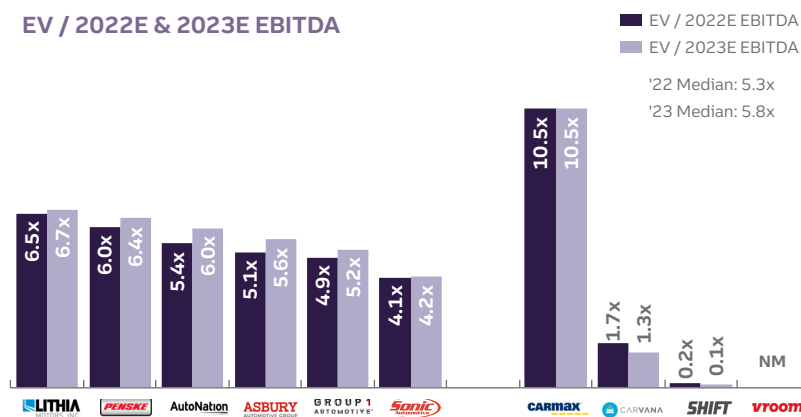


Chart represents multiple of revenue for CVNA, SFT and VRM

1-year stock price performance



Truist Blue Sky Index
























Blue Sky multiples are trending higher

Truist estimates for brand valuation include a mix of precedent transactions, Truist Blue Sky Index Survey results, and industry observations.

The table below represents our estimate of the multiple of earnings before interest, taxes, depreciation, and amortization (EBITDA) that a motivated buyer participating in a competitive sales process would pay to acquire the goodwill or “blue sky” portion of a franchised dealership. Public and private transaction data supplemented with a survey of Truist’s dealership clients informs the valuation ranges. The multiples reflect the estimated standalone value of a brand and are not inclusive of a dealer group “consolidation premium”, which typically adds an incremental 0.5x – 1.0x to the implied blue sky value of the group.

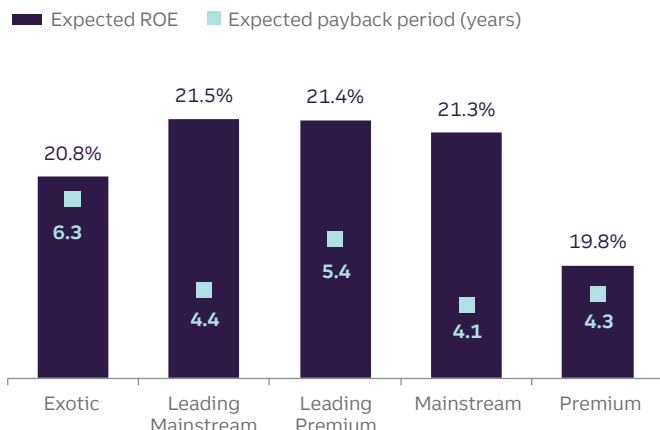
Blue sky multiples and valuations have generally drifted higher since late 2020, primarily a result of sustained dealership profitability and upward revisions to future cash flows, a high level of M&A activity driving competition for dealership assets, and access to capital at near historically low interest rates. Leading Premium and Leading Mainstream brands have all held or increased their valuation multiples as their higher sales volume, profitability, and attractive product lineup have led buyers to expect a higher rate of return on investment.

We expect blue sky multiples to remain steady for the next twelve months, but are monitoring the potential impact on franchised dealerships from a rising rate environment, increased OEM supply, and the proposed shift to EV products & services.

Brand	Change 2020 - 2021	% Change	TBI multiple of EBITDA	
			0.0x	10.0x
Leading Premium		0.5x	6%	8.0x 9.5x
		—	—	7.3x 8.8x
		0.3x	4%	6.5x 8.0x
		0.8x	14%	5.5x 7.0x
Premium		0.5x	7%	7.5x 9.0x
		0.3x	4%	6.0x 7.5x
		—	—	4.0x 5.5x
		0.4x	11%	3.3x 4.5x
		0.5x	18%	2.5x 4.0x
		(0.3x)	(7%)	2.5x 4.0x
		(0.6x)	(17%)	2.5x 3.5x
Leading Mainstream		0.5x	8%	5.8x 7.3x
		—	—	5.0x 6.5x
		—	—	3.5x 5.0x
		0.3x	6%	3.5x 5.0x
Mainstream		0.8x	15%	5.0x 6.5x
		0.5x	12%	4.0x 5.5x
		(0.1x)	(3%)	3.5x 5.0x
		—	—	3.5x 5.0x
		0.5x	13%	3.5x 5.0x
		—	—	3.5x 5.0x
		0.7x	23%	3.3x 4.8x
		0.3x	8%	2.8x 4.3x

Truist "State of the Market" Survey results

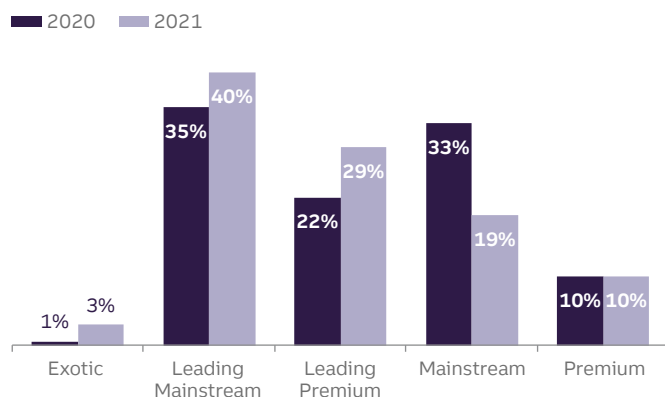
Expected returns are higher across all categories.



- Expected returns have increased for all categories since late 2020, potentially reflecting an expectation of increased dealership profitability.
- Leading Premium & Leading Mainstream brands top expectations for buyer's return on investment in the first year of operations.

Leading Premium and Leading Mainstream brands continue to be the most desirable.

"Shopping List" brand category trends 2020 -> 2021

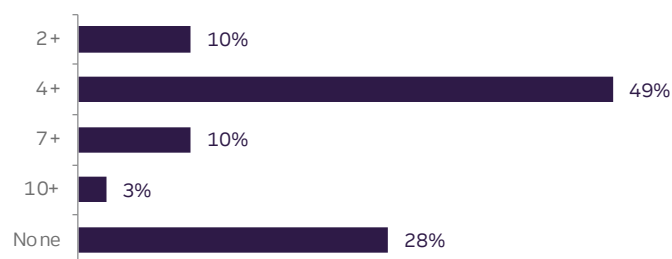


- The top 5 brands on the "Shopping List" were unchanged from 2020's survey.
- Profitability and strategic fit were the primary drivers for inclusion.
- Leading high-volume mainstream and premium brands were the most desirable

"Shopping List" top 5 brands

1. Toyota
2. Lexus
3. Mercedes-Benz
4. BMW
5. Honda

Number of stores dealers say are needed to receive a consolidation premium.

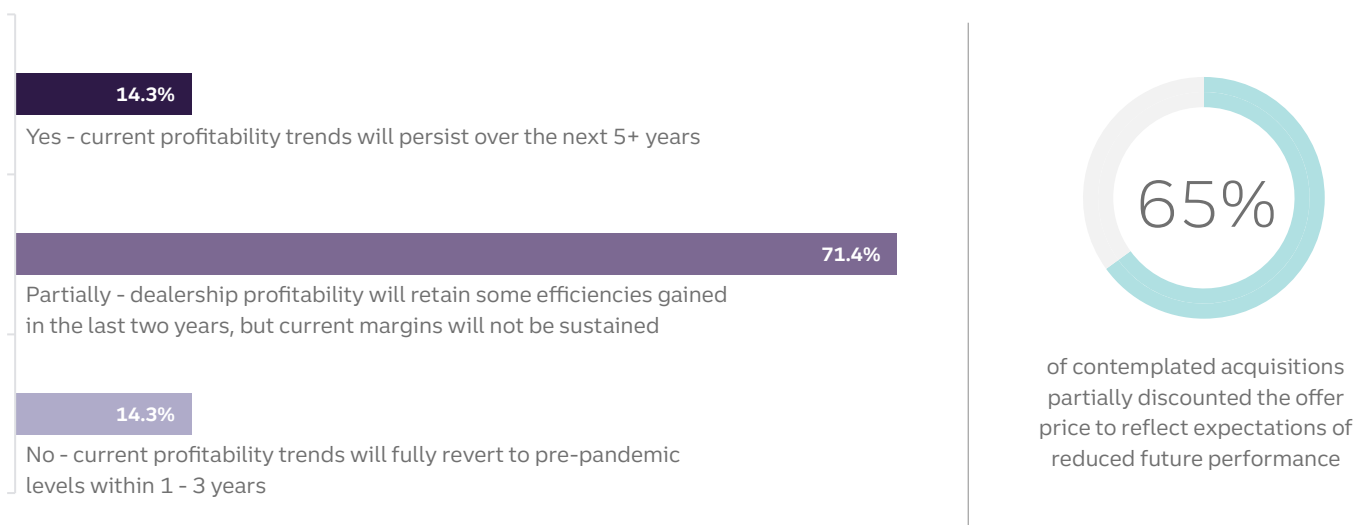


- The consolidation premium assigned ranged from 0.2x – 1.4x and averaged 1.0x.
- 72% of respondents believe a consolidation premium should be applied to dealer groups, (up from 55% in 2020)

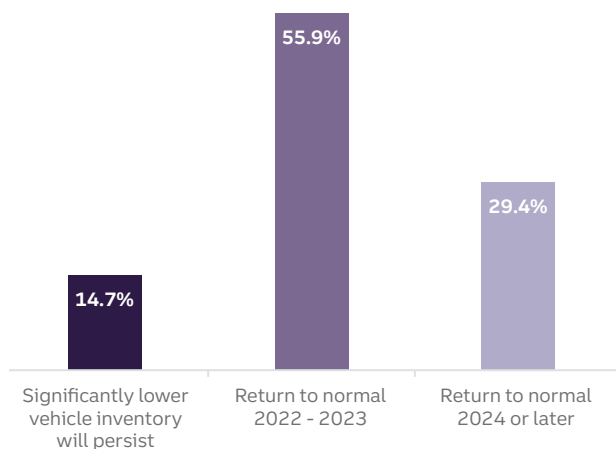
Truist "State of the Market" Survey results: current trends

Many dealers have reported strong margins and increased profitability in 2020 and 2021, with supply chain effects on dealer pricing playing a big part. Going forward, most dealers believe that overall profitability will retain some of the efficiencies gained during the last two years.

Dealers expect future profitability to exceed historical levels, even if lower than today.



The majority of dealers expect inventory shortages to be resolved by 2024.



- Only 15% of dealers expect reduced inventory levels to persist long-term, with the majority expecting to return to pre-pandemic supply by 2023.
- Dealerships are operating leaner, with 57% of dealers reporting reduced headcount as a result of the pandemic.
- Dealers are embracing a relatively rapid shift in consumer demand for EVs and expect 16.5% of new vehicle sales to be EV in 2025, growing to 33.4% by 2030.

Truist Securities automotive capabilities

Sell-side advisory

- Exclusive sell-side advisory role
- Evaluation of potential or existing unsolicited offers
- Negotiation of terms and conditions
- Manage an organized and competitive marketing process in either a targeted or broad auction format depending on client concerns and objectives
- Broad access to financial sponsor/family office investors interested in automotive retail







Buy-side advisory

- Advisory role for buyer when evaluating an identified and actionable acquisition
- Valuation analysis to support the acquisition
- Negotiation of deal structure and key terms
- Coordinated effort with financing team to evaluate optimal pro forma capital structure

Financial advisory/capital raising

- Advisory services to determine best strategic alternative
- Private capital raising initiations to support growth or selling minority holders
- Recapitalizations to facilitate management buyouts or succession planning
- Leading equity platform provides a breadth of experience to advise on any equity offering

Select recent automotive transactions

Project Spider Franchised Car Dealership Sell-Side M&A Advisor <i>In-Market</i>	Project Huskies Franchise Dealer Group Strategic Advisor <i>In-Market</i>	\$700,000,000 AutoNation Active Joint Bookrunner 10-Year Senior Notes <i>February 2022</i>	 Sale to  Sell-Side M&A Advisor <i>December 2021</i>	\$150,000,000  Passive Bookrunner Conv. Note Offering <i>May 2021</i>	\$800,000,000  Senior Co-Manager Senior Notes <i>May 2021</i>	 Sale to  Sell-Side M&A Advisor <i>March 2021</i>
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Securities

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