DSMA

REAL PEOPLE.
REAL DEAL.



# DSMA AUTOMOTIVE INTELLIGENCE REPORT

## Quarterly Update Q3 2023

# INDUSTRY **OVERVIEW**

**The industry continues to rebound from the supply chain disruptions. However, the UAW strike and affordability issues present headwinds into Q4**

Q3 continued the 2023 theme of strong sales growth driven by increased vehicle production and continued consumer demand. While year to-date (YTD) light-vehicle sales volume increased 14% compared to the same period in 2022, it decreased quarter-over-quarter (QoQ). Headwinds from affordability issues and the UAW strike could continue to pose additional challenges in the market and slow Q4 growth.

Limited inventory levels are no longer the top factor hindering dealer growth – high interest rates, the economy, and market conditions are now considered the top three constraining factors.

Affordability continues to challenge consumers due to elevated interest rates and credit availability.

**Strong performance from General Motors as they claim the top performance spot in Q3**

GM led the market with a robust year-over-year (YoY) gain of over 14%.

The luxury sports car segment has stood out, increasing more than 45% compared to last year.

At the provincial level, Quebec led the Canadian market with an approximate 22% sales increase compared to Q3 2022.

**Goodwill multiples decline industry-wide amid elevated rates in Q3 2023**

The average per-brand Blue Sky multiples have **decreased 10 – 15%** compared to the same period in 2022.

Elevated interest rates are causing an increase in the auto loan delinquency rate as consumers continue to raise affordability concerns. Many now believe new vehicles prices to be unaffordable.

Higher borrowing costs have also reduced the purchasing power of would-be dealership buyers leading to increased challenges and uncertainty in M&A activity. However, buyers are still willing to pay for the right opportunity.

**OUTLOOK**

Pent-up demand will keep new-vehicle market elevated, while used vehicle demands will likely continue to decline.

Inflationary and interest rate challenges continue to affect both consumers and dealers through rising vehicle and financing costs along with higher fixed and compensation costs, respectively. Small- and medium-sized M&A buyers are also facing rate-related challenges as transaction financing continues to pose acquisition challenges.

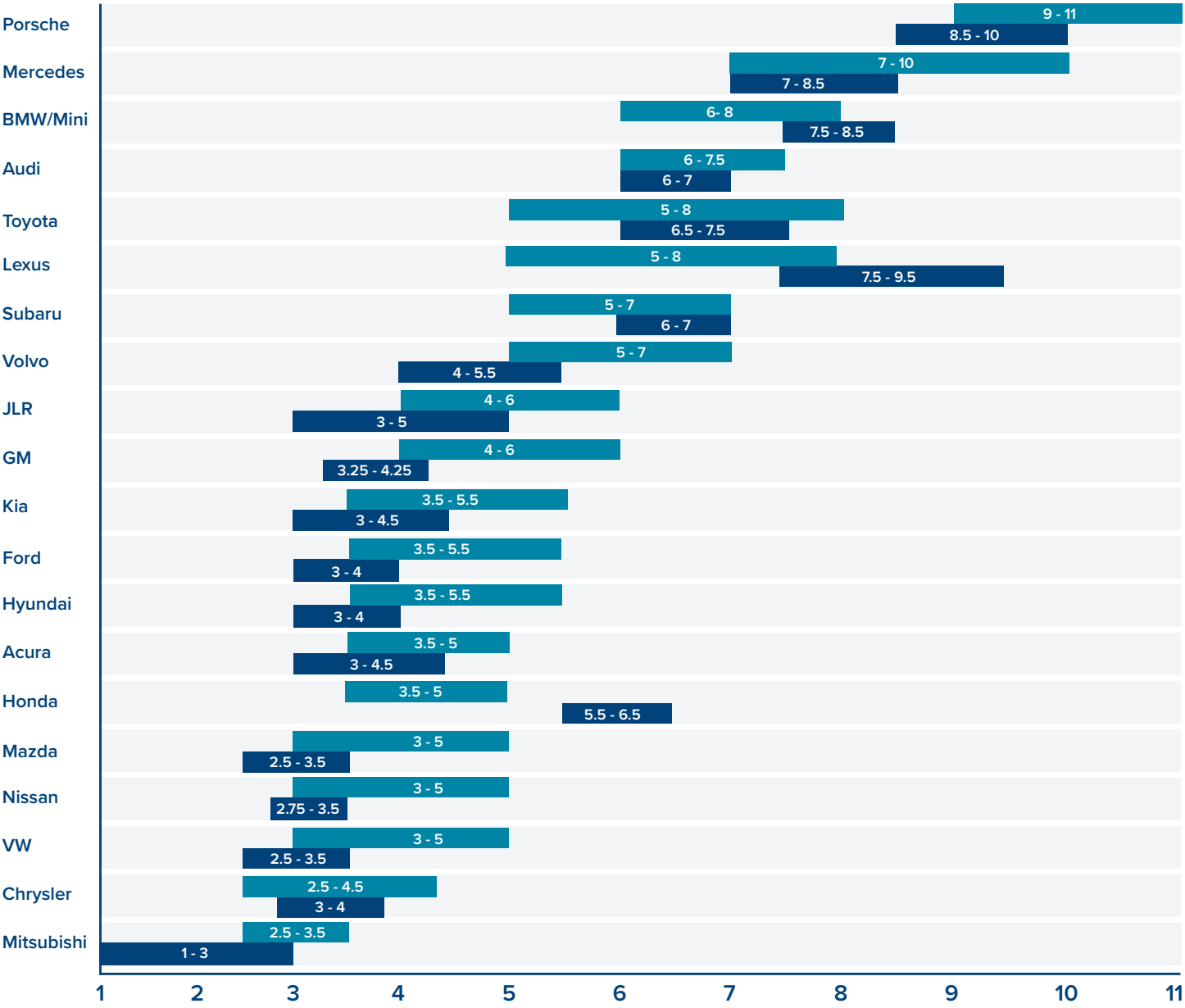
Despite strong dealer profitability and increasing inventory levels, goodwill values continue their decline across the industry through Q3 as interest rates and economic factors weigh down future outlooks. Despite some dealers experiencing continued steady performance through three quarters in 2023, profitability appears to have peaked in 2022.

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# DSMA TRADING AUTOMOTIVE **MULTIPLES**

## Goodwill Multiple Ranges

CAN Multiple | USA Multiple Blue bars represent the current minimum and maximum goodwill ranges per OEM.




Data presented by:

QUOTUS™
M&A: Mine & Analyze

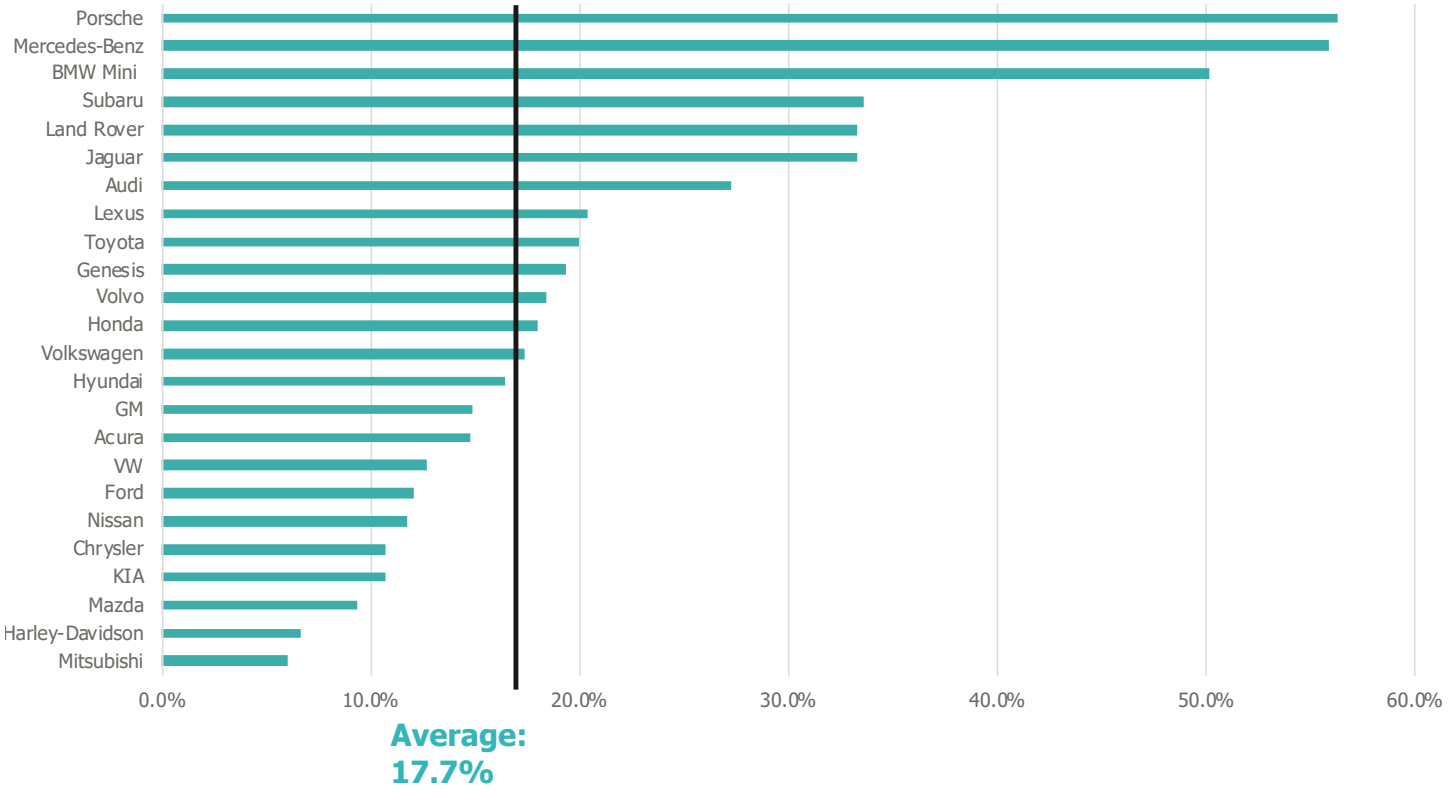
**QUOTUS**™ is North America's premiere analytics platform, leveraging 1.5 million qualitative and quantitative data points allowing dealers, financial institutions, and OEMs to easily mine and analyze current comparable automotive data. It derives its data from more than 425 closed transactions and more than 1,700 valuations.

Multiples shown are of Earnings Before Tax (EBT).
Coloured bars represent the current minimum and maximum goodwill ranges. Dark blue represents U.S. Multiples. Light blue represents Canadian Multiples.
All DSMA valuation and goodwill data is based on normalized financial data to ensure comparisons are valid from brand-to-brand.

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# HOW DEALER SALES IMPACT **MULTIPLES**

### Average Goodwill as % of Total Sales by Brand



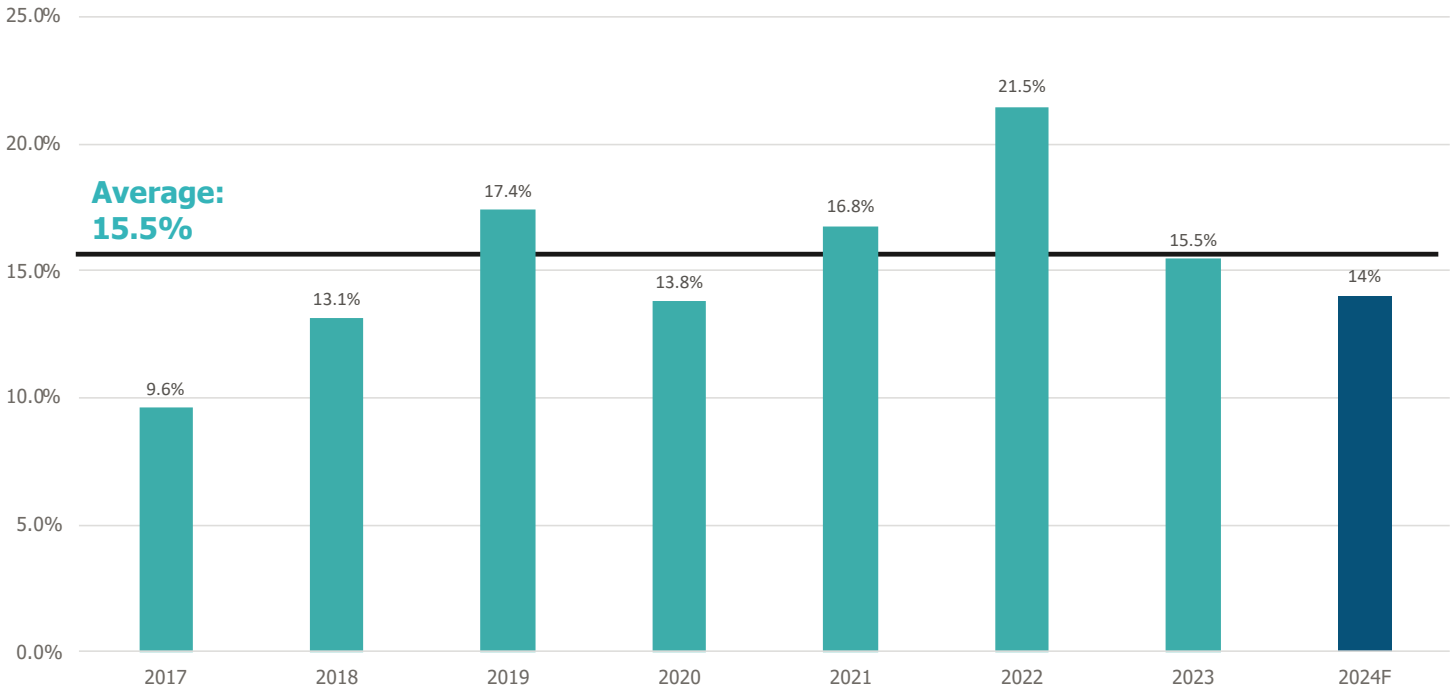

- Euro and luxury brands leading the way as the higher average sales prices per vehicle lead to higher profitability and thus more goodwill generated during a transaction.
- Strong interest in Asian brands as buyers willing to pay relatively more to add them to their portfolios.
- Preference emerging for buyers between the domestic brands as GM tops Ford and Chrysler (Stellantis). This suggests buyers are placing a greater value on each brand's strategy going forward.
- It remains to be seen as to how the rollout and strategies of EVs will affect buyer preference and if the same trends will continue going forward.

Mean sold goodwill values from all Canadian DSMA facilitated transactions from 2017 to 2023.
All DSMA valuation and goodwill data is based on normalized financials to ensure comparisons are valid from brand-to-brand.

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# HOW DEALER SALES IMPACT **MULTIPLES (CONT'D)**

### Goodwill as % of Total Sales by Year



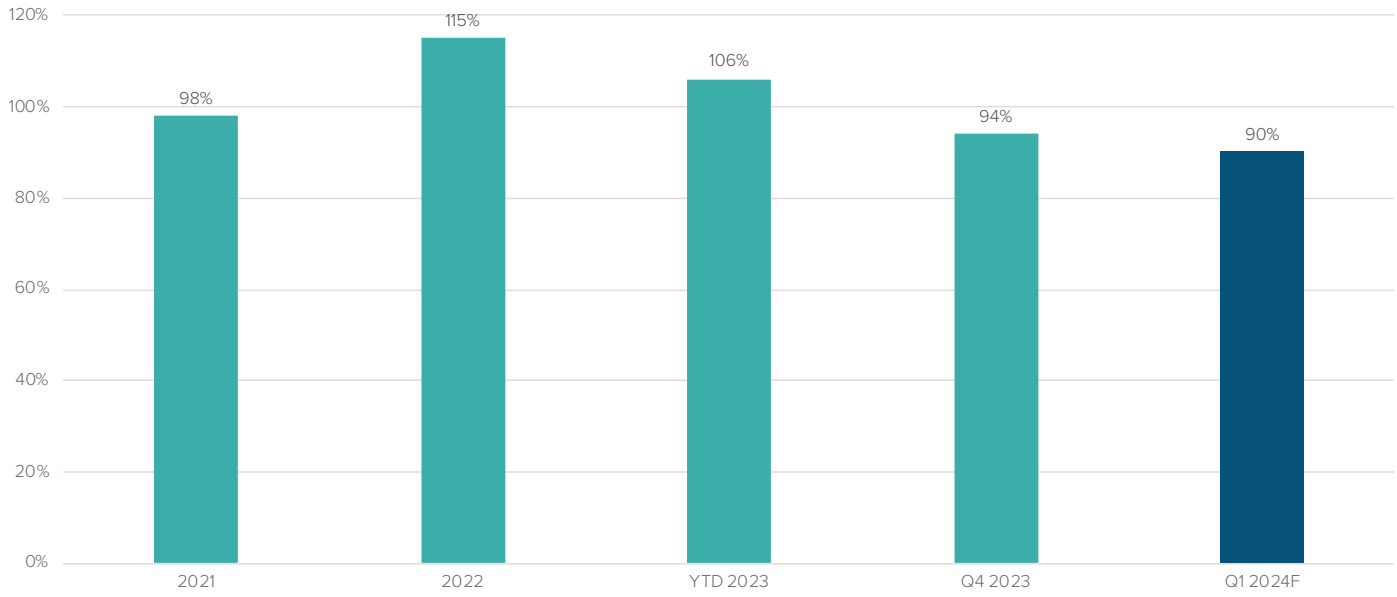

- Historically, goodwill has lagged industry performance and trends between 6 months – 1 year. Therefore, the transaction goodwill prices today are a result of performance from the previous year and that of the most recent available period.
- 2022 was the best full-year on record, eclipsing the next highest year of 2019 by approximately 4%.
- 2023 is projected to end near the historical 15% average, down 6% from the 2022 peak. This can be attributed to several factors, including; global and domestic economic slowdowns, YoY earnings drops from COVID peaks, and transaction financing challenges.
- The largest speedbump facing current buy/sell transactions is the persistent elevated interest rate from the Bank of Canada (BoC) which has made financing harder to secure for both consumers and prospective dealership buyers. This has led to decreased sold goodwill values through Q3 2023 and could continue as a challenge in the coming periods.

Mean sold goodwill values from all DSMA facilitated transactions from 2017 to 2023
All DSMA valuation and goodwill data is based on normalized financial data to ensure comparisons are valid from brand-to-brand.

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# SOLD VS ASKING **GOODWILL**

### Sold Goodwill as % of Asking Goodwill




- In recent periods, sold goodwill values for DSMA-facilitated transactions have met, or exceed, the seller's asking goodwill values.
- However, current trends suggest a de-coupling of sold to asking goodwill values due to several factors:

1. Sustained elevated **interest rates** are eroding buyer's purchasing power as borrowing becomes more expensive. As a result, banks are tightening lending as they look to mitigate their risk factors. In addition, higher rates have an additional knock-on effect for current dealers as borrowing costs increase for vehicle consumers, leading to potential lower sales figures, and thus, lower goodwill values in future periods.
2. **Decreasing earnings trends:** as dealers continue to track and report post-COVID earnings, many dealerships are not able to maintain the performance levels seen during the 2021 and 2022 peak for a variety of challenges.
3. **OEM strategy:** Current uncertainty over direction of certain OEMs going forward, specifically on market-disrupting topics like EVs, product lines, and DTC sales models.

Sellers who are hoping to benefit from the earnings bumps in 2021 & 2022 are increasingly finding that the market has shifted and that they may need to adjust goodwill expectations.

Conversion of sold goodwill values as a percentage of asking value for DSMA-facilitated transactions from 2021 to forecast Q1 2024.
All DSMA valuation and goodwill data is based on normalized financial data to ensure comparisons are valid from brand-to-brand.

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# MACROECONOMIC INDICATORS

## PROSPECTIVE OUTLOOK

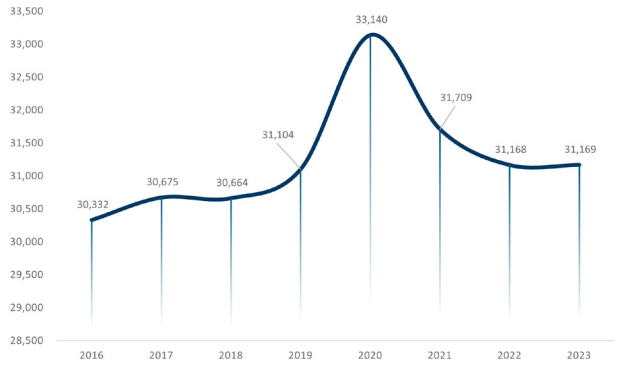
Overall, economic activity slowed through mid-2023 as businesses and households continued to adjust to higher borrowing costs.

GDP growth contracted in Q2 and into Q3 after a surprisingly strong Q1 as consumers tightened their wallets amid ongoing inflation and increasing interest payments.

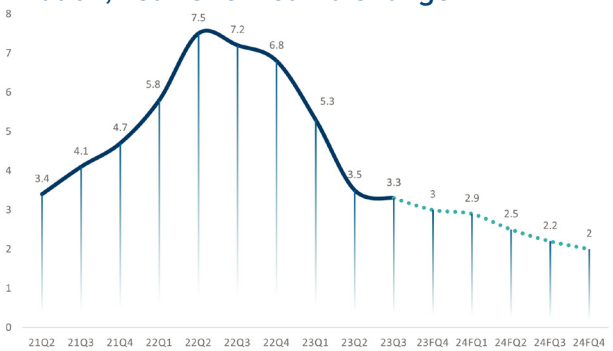
On September 6, the BoC held the overnight interest rate flat at 5%, with analysts expecting the overnight rate to remain steady through the rest of 2023, and into early 2024.

Although headline inflation is expected to continue easing, higher mortgage interest costs and rental prices have put upward pressure on the headline rate. Bloomberg estimates headline inflation should return within the bounds of the BoC's target range for inflation of 1.0 to 3.0% in early 2024.

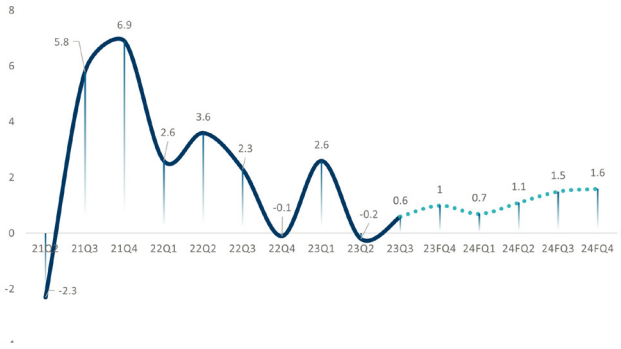
### Total Per Capita Disposable Income ($)



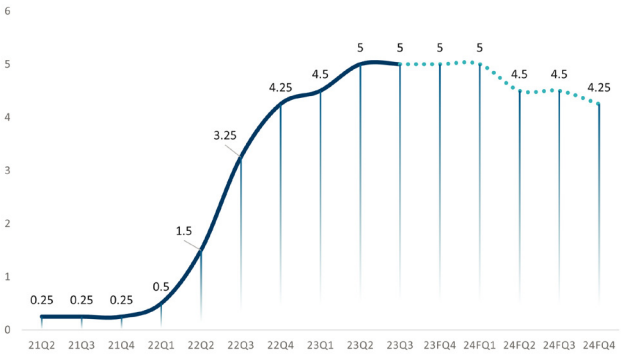

### Inflation, Year-Over-Year % Change




### Canadian Quarter-Over-Quarter GDP % Change




### BoC Overnight Target Rate (%, End of Period)




## DEALERS' PERSPECTIVE

Economic uncertainty will continue to place pressure on the automotive market. Persistent inflation coupled with the fast and large interest rate increases experienced over the past several periods have exasperated affordability concerns. Vehicle affordability issues stemming from elevated interest rates and decreased credit availability will be the greatest challenge facing



**TYLER OSBORNE**
Economist

Tyler has completed both a Bachelor's of Economics from the University of Waterloo, where he specialized in finance, as well as a master's degree in economics from McMaster University.

Tyler brings his deep background in economics and finance, professional track record of innovation and strategic thinking, along with his rooted passion for the automotive industry to DSMA's team and to your company's valuation needs.

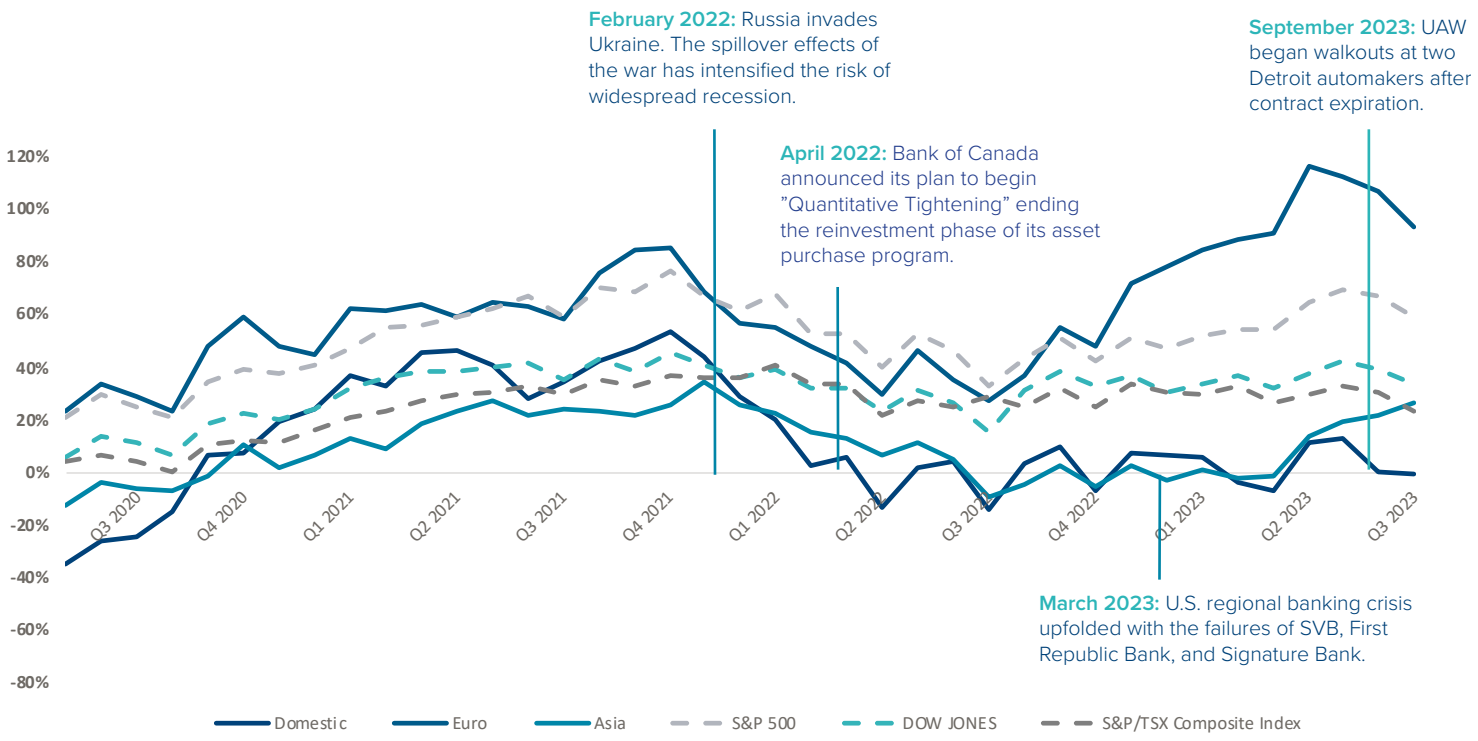
**Challenges in consumer spending, business investment, and market uncertainty.**

Sources: FCC Economics, Statistics Canada, Bloomberg, IBISWorld

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# OEM REVIEW

## OEM Share Price Performance




## EARNINGS HIGHLIGHTS

- Euro OEM share performance experienced a 23% QoQ correction but are still in pole position among OEM peer groups.
- Domestic OEM share performance experienced an 11% QoQ correction as all the gains made in the first half of the year have been lost. In addition, the group has lost all COVID-related share performance gains since the Q1 2022 peak.
- Q3 saw continued strong performance for Asian OEMs as they continue to record strong quarterly performance. Up over 12% QoQ and  over 35% YoY.

## DEALERS' PERSPECTIVE

- Overall trend points to a clear difference in domestic / import performance and sentiment. Despite lower average vehicle supplies for import OEMs, market sentiment is currently in their favour.
- While persistent consumer demand remains, the effects of BoC's Quantitative Tightening measures are continuing to shift consumer focus as increasing rates continue to reduce spending appetite and ability. Headwinds from affordability issue and the UAW strike are likely to pose additional challenges in the market and could slow Q4 growth.

Source: Yahoo Finance. Share prices are as listed on the NYSE or OTC Markets, where applicable.
Domestic OEM peers include Ford Motor Company, General Motors, and Stellantis (FCA).
Euro OEM peers include Ferrari, BMW, Volkswagen Group, and Mercedes-Benz Group.
Asia OEM peers include Honda, Toyota, Mazda, Nissan, and Subaru.
Share price performance is the percentage change of the peer group share price from the chosen base period of January 1, 2019. For month-end dates that fall on a weekend or holiday, the closing share price for the next market trading day was used.

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# PUBLIC DEALERSHIP GROUPS **REVIEW**

## Q3 2023 Earnings Calls of Publicly Traded Auto Dealers

### THEME 1: NEW VEHICLE GPU WEAKENED



- *"Revenue and gross profit for new and used vehicles were both down year-over-year, mostly reflecting the volume decline and the mix of sales by pricing tier."* **- Tom Szlosek, CFO, AutoNation**
- *"GPUs for the new vehicles have come down approximately $100 per month or down 19% from the end of 2022."* **- Bryan DeBoer, Present and CEO, Lithia Motors**
- *"New vehicle gross profit per unit declined sequentially to $4,678 per unit on a same-store basis, in line with our projection to exit 2023 in the low to mid $4,000 range. This steady decline in new vehicle GPUs should continue into 2024, but we continue to believe that the normal level of new vehicle GPU will remain structurally higher than pre-pandemic levels in the $2,000 range."* **- David Bruton Smith, CEO and Chairman, Sonic Automotive**

### THEME 2: PRICING CHALLENGES IMPACTED THE USED MARKET

- *"Same store used vehicle revenues were down 8% with unit volumes decreasing 2%. GPUs of Used vehicles, including F&I, were $3,940, down 14% from last year. We expect GPUs to fluctuate as supply normalizes, interest rates settle. Used car price declines are driven by the availability of later model vehicles and the reduction in several years of new vehicle supply declines."* **- Chris Holzshu, Executive Vice President and COO, Lithia Motors**
- *"While used retail prices remain elevated, contributing to affordability concerns amid the high interest rate environment, the downward trends we are seeing in used vehicles and used vehicle wholesale pricing are positive for our business and for the fourth quarter and beyond."* **- David Bruton Smith, CEO and Chairman, Sonic Automotive**

### THEME 3: OVERALL POSITIVE MARKET VIEW

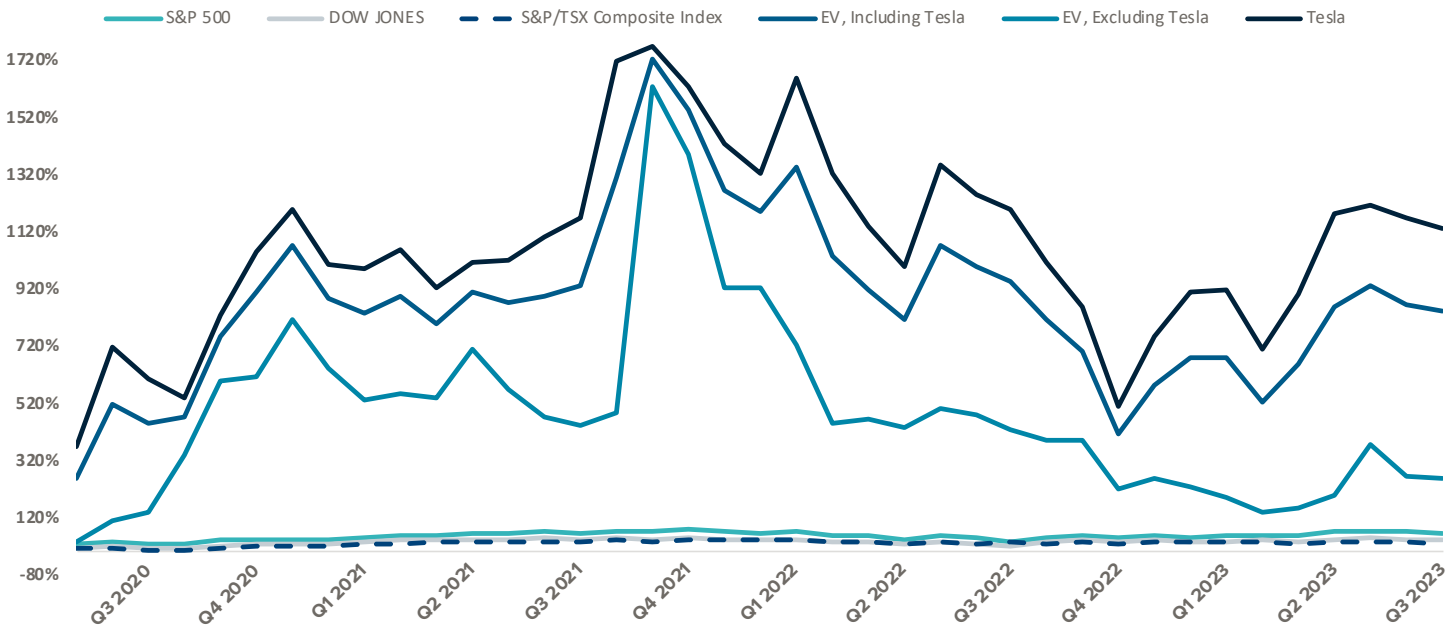
- *"There continues to be mixed economic signals. But despite concerns of affordability, consumer demand for vehicles remains relatively healthy. And during the quarter, partly because of improved new vehicle supply and stable used vehicle inventory, we saw double digit year-over-year growth in new vehicle sales and strong sequential growth in used vehicle volume. This is the first time in eight consecutive quarters that we've seen growth in combined new and used vehicle volumes for AutoNation."* **- Mike Manley, CEO, AutoNation**
- *"Overall, consumer demand remains strong for both vehicle sales and service despite the high interest rate environment and opportunities in OEM production. We believe we are at the late stages of a full production recovery that caused over 10 million units of product that vanished from the North American pipeline because of COVID-19 supply constraints."* **- Chris Holzshu, Executive Vice President and COO, Lithia Motors**

Sources: Yahoo Finance

# EV MARKET **UPDATE**

## EV Share Price Performance

Tale of two circumstances




**EV prices remain elevated.**

## HIGHLIGHTS

- Including Tesla, EV share price performance experienced a 13% correction in Q3 but remains elevated when compared to the overall market. Excluding Tesla, EV OEMs fared significantly better, experiencing 60% QoQ growth.
- Share price performance for non-Tesla EVs being driven by increased vehicle deliveries over the quarter as the automotive industry continues to rebound from persistent inventory shortfalls.
- Tesla's Q3 adjusted profit fell 37% YoY due to eroding operating margin and increased costs. It appears the Q1 and Q2 prices cuts did not significantly aid in increasing sales.

## DEALERS' PERSPECTIVE

- As the EV market is still in its infancy, large performance gains would not be unexpected as shareholders anticipate a large amount of upside potential from new, in-demand technology.
- With full transition to ZEVs in the coming decade, traditional OEM market share could be threatened by presence of additional brands who continue to scale up production and are embracing a DTC sales model.

Source: Yahoo Finance. Share prices are as listed on the NYSE or OTC Markets, where applicable.
EV peers include Tesla, VMC, Nio, Lion, and Rivian. Note that Lion and Rivian were not a publicly traded companies until October 8, 2020, and November 10, 2021, respectively. Share price performance is the percentage change of the peer group share price from the chosen base period of January 1, 2019. For month-end dates that fall on a weekend or holiday, the closing share price for the next market trading day was used.

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# TRUCKING AND TRANSPORTATION MARKET **UPDATE**

## TRUCK ORDERS:

- **Supply and demand indices:** the gap between truckload demand and supply is closing, indicating a potential market tightening. Truckload demand increased by 0.5% in August, mainly driven by higher wholesale sales and robust consumer spending. Demand was 0.2% higher YoY for the second month in a row. On the other hand, supply declined by 0.4%, driven by lower employment in the long-distance truckload sector.
- **Spot rates** (including fuel) rose slightly in September but was not enough to offset for the increase in diesel prices. Therefore, weakness in linehaul spot rates, which exclude a hypothetical fuel surcharge, persisted through September as diesel prices continued to rise. Dry van spot rates averaged about $1.68/mi in September, only 1 cent per mile higher than August's average.
- **Freight demand** indicators were missed in Q3 due a significant decrease in new home sales and housing starts, and an increase in imports and wholesale activities.
- **Freight supply:** the overall trucking industry added 8.8k jobs in September, while the long-distance truckload sector experienced a continued decline in employment for the 3rd month in a row with the first negative YoY growth since March 2021.
- **Outlook:** Demand is decreasing on the transportation side as the economic slowdown is creating a bumpy road for the industry. If transport companies continue to struggle through the rest of 2023 and into 2024, look for heavy truck demand to decrease as well.

## FREIGHT OPERATIONS UPDATE:

- **Canadian General Freight Index (CGFI)** indicates that the total freight costs (base rates + fuel surcharges) of ground transportation for Canadian shippers continue to decline, down by 0.78% between July and August 2023.
- **Base Rates decreased by 0.15%**.
- **Fuel made up 25.25% of base rates** in July 2023. Last year in August, the Average Fuel Surcharge was 31.59%.
- While Cross Border LTL costs rose during the period, all other segments (Domestic LTL, Domestic Truckload, and Cross Border Truckload) decreased YoY, with total freight costs for all segments remaining below the same period last year.



Sources: Uber Freight, Canadian General Freight Index, VMC Press Release

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# TRUCKING MARKET **UPDATE**




## KEY DEVELOPMENT

Vicinity Motor Corp. (VMC), a North American commercial electric vehicle supplier, has signed a dealer network development services agreement with Dealer Solutions Mergers and Acquisitions (DSMA) to enhance North American market penetration for its Class 3 VMC 1200 all-electric trucks. DSMA will help Vicinity secure high-value dealer partnerships that maximize its ability to deliver VMC 1200 trucks to market while ensuring customer satisfaction. VMC franchises have started to become available to buyers.

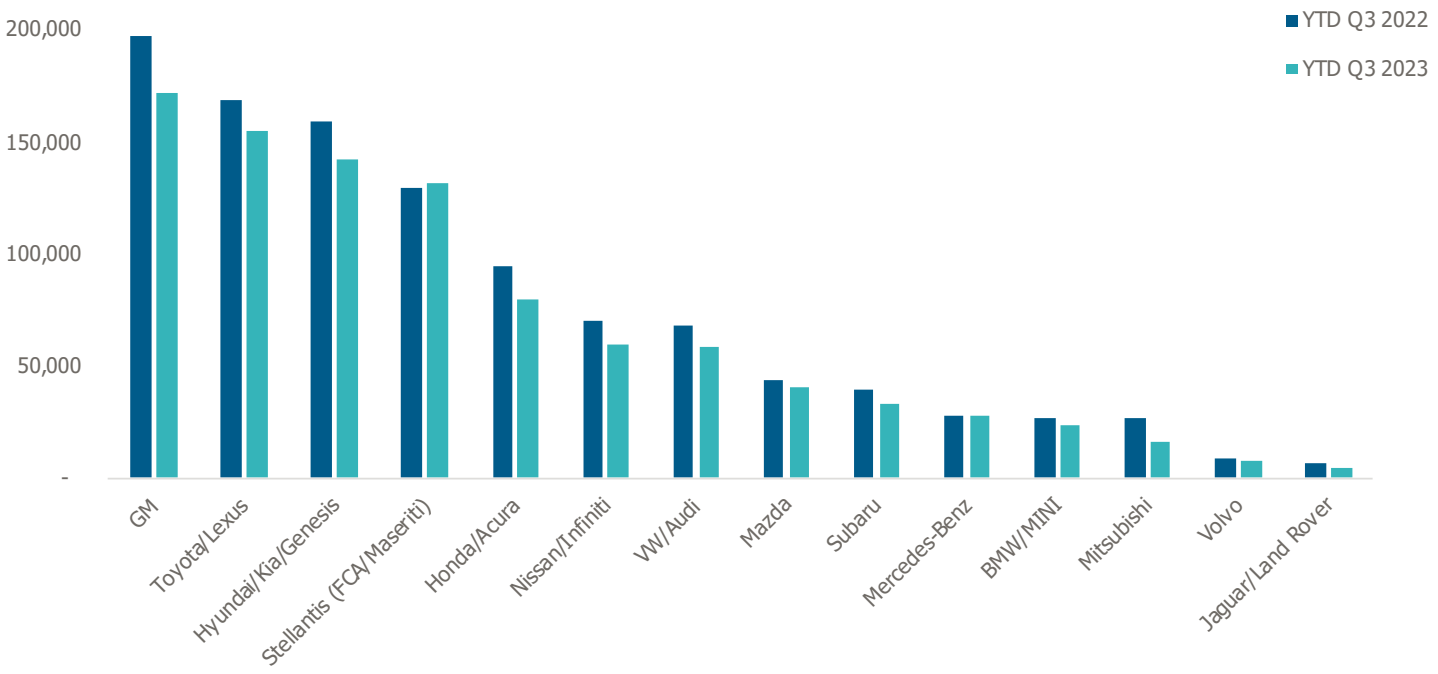
- Production now underway at the Company's U.S. Manufacturing Campus in Ferndale, Washington.
- Entered strategic partnerships with Lafarge Canada, Canada's largest supplier of sustainable building materials, to electrify their truck fleet.
- DSMA has facilitated Letter of Intents (LOIs) with 5 dealers for territories in Canada; Quebec (1), Ontario (3) and Alberta (1), in addition to the first dealer currently operating in Vancouver. 8 distributors are expected to be appointed by end of 2023.

Sources: Uber Freight, Canadian General Freight Index, VMC Press Release

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# CONSUMPTION BY **DEALER**

## Light Vehicle Sales By Brand




## HIGHLIGHTS

- The 2023 theme of strong sales growth, enabled by increased vehicle production and pent-up demand continued through September. The monthly sales increase marked the best YoY increase seen so far in 2023. The monthly SAAR came in at 1.77 million, the highest since January. The YTD market at the end of Q3 is now up 10.1% overall.
- **General Motors** led the market with YTD unit sales of over 197k, a robust gain of 14.76% from last year; **Mitsubishi** saw significant success with sales rising so far in 2023 by 67.9%. The luxury sports car segment has stood out for the year increasing 45.5% compared to the previous year.
- At the provincial level, **Quebec** led the market with an estimated 22% sales increase compared to Q3 2022.
- A combination of soaring vehicle prices, higher borrowing costs and the surging cost of living is making it harder for some Canadians to keep up with their car payments. Average new and used vehicle payments have increased between 23 - 39% since 2019. As such, auto loan **delinquency rates** are now above pre-pandemic levels and are estimated to increase through the rest of 2023.

## OUTLOOK

The industry continues to rebound from the pandemic and microchip shortage. However, UAW strike and affordability issue leave headwinds into Q4.

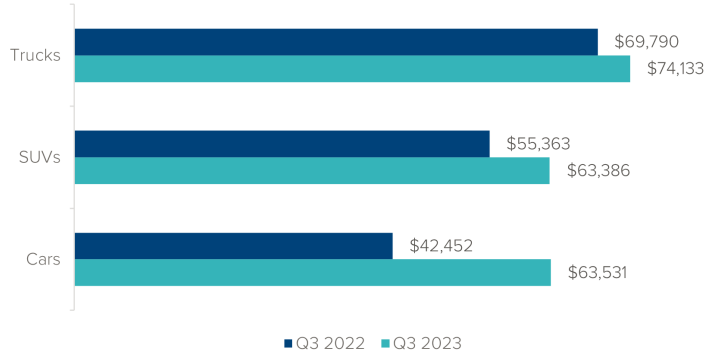
Sources: Automotive News Canada, Kerrigan Advisors, DesRosiers Automotive
Note: As of Q2 2023, Ford no longer publishes its quarterly data.

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# AVERAGE PRICE BY **BODY TYPE**

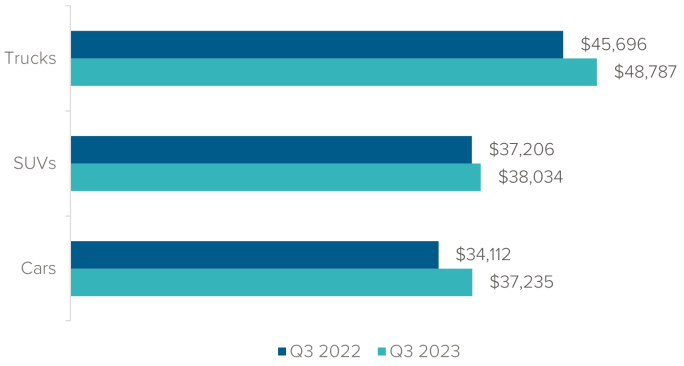
## New Vehicles

- **New vehicle** prices have continued to surge as they reach an all-time high of **$67.8k** in Q3, representing a significant 19.4% YoY increase.
- Cars, as opposed to trucks and SUVs, had the largest YoY price increases. There is higher demand for more affordable and fuel-efficient vehicles; manufacturers are producing fewer compact cars due to shifting market trends over the past decade. In addition, there are also more EVs in the compact car segment, which tend to be more expensive than their ICE counterparts.
- In Q3 2023, all types of new vehicle inventories showed strong double-digit increases compared to the same period last year. However, it's important to note that despite these improvements, inventory levels have not yet returned to pre-COVID levels, hence the record high new vehicle prices.
- As of the end of September, the ongoing negotiations between the Detroit Big Three (GM, Ford, and Stellantis) and the unions, both in Canada and the U.S, have not had any significant impact on new car availability.




## Used Vehicles

- **Used vehicle prices experienced another month-over-month (MoM) decline**, driven by the increase in inventory levels as well as a slight decrease in demand. In September 2023, the **average price of a used vehicle decreased** by 0.5% MoM (increased by 4.3% YoY) **to $39.1k.**
- An interesting trend emerged during the quarter, with "cash" payments seeing an uptick as consumers seek more cost-effective alternatives. Consumers are also utilizing Line of Credit (LOC) or Home Equity Line of Credit (HELOC) to help manage the elevated costs associated with vehicle prices and interest rates.




### OUTLOOK

New vehicle prices are still rising, albeit at a relatively slower pace. Rising inventory levels still trying to catch up with pent-up demand.

Affordability for used vehicles has been stable, while new cars are becoming more expensive. Recent studies show consumers believe price increases have made new-vehicle ownership unrealistic.

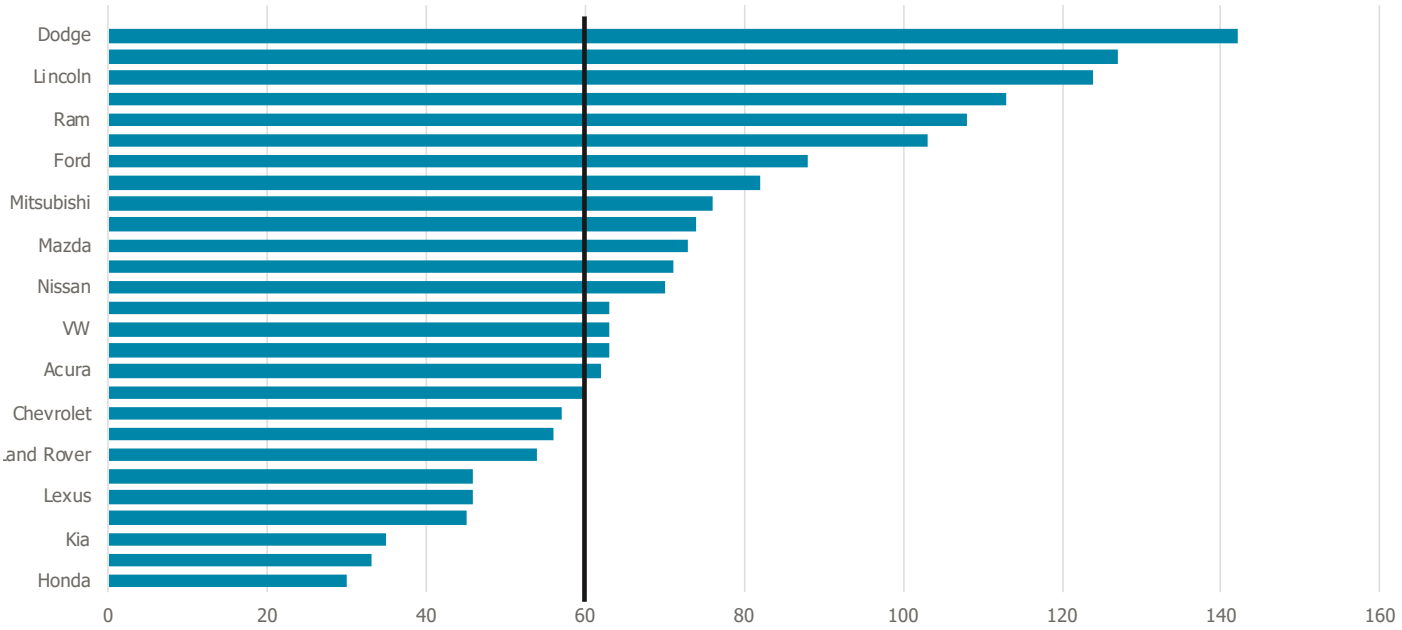
Source: AutoTrader.ca, Cox Automotive Consumer Market Update

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# NEW VEHICLE SUPPLY **MAJOR BRANDS**

**New-Vehicle Inventory Days-on-Hand, End September 2023**

New-vehicle inventory rises despite UAW strike




## Highlights

GM, Chevrolet, and Cadillac have the lowest inventory levels among the automakers impacted by UAW strikes in Detroit, making them the most vulnerable to continued action. Chevrolet, at 57 days' supply, and Cadillac, at 46, have supply levels below the industry average, with some CDJR dealers reporting as much as 4 – 5 months of inventory on their lots, with Stellantis looking to continue increasing their inventory levels. Higher incentives are likely for these brands as sales are not keeping up with the growing stock.

Honda, Toyota, Kia, Subaru, and Hyundai have the lowest inventory supply among non-luxury brands, at 30 days. For luxury brands, Lexus, Mercedes-Benz, and Acura have the tightest supply of inventory.

As of September 2023, the total U.S. **supply of available, unsold, new vehicles stood at 2.21 million units**, the highest level since early spring 2021. However, inventory remains 35% lower than pre-pandemic 2019.

**Overall inventory levels remain relatively stable.** Days' supply stood at 60 at the start of October, which was **14 days higher than the same time a year ago.** Supply has been inching toward a 60-day average level, which is considered normal and ideal across the industry.

As supply side factors improve, pre-strike North American light vehicle production had been forecasted to reach 15.4 million units in 2023, an 8.4% increase from 2022 levels.

### LOOKING FORWARD

Inventory levels remain relatively stable, and, with the exception of some GM models, Detroit automakers have ample inventory for now to keep them operating through the coming months before materially seeing substantial impact in sales and pricing from the UAW strike. Some brands have inventory buildup, so production disruptions will take time to feed through the distribution network.

Source: Cox Automotive

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# USED VEHICLE MARKET **UPDATE**

## Highlights

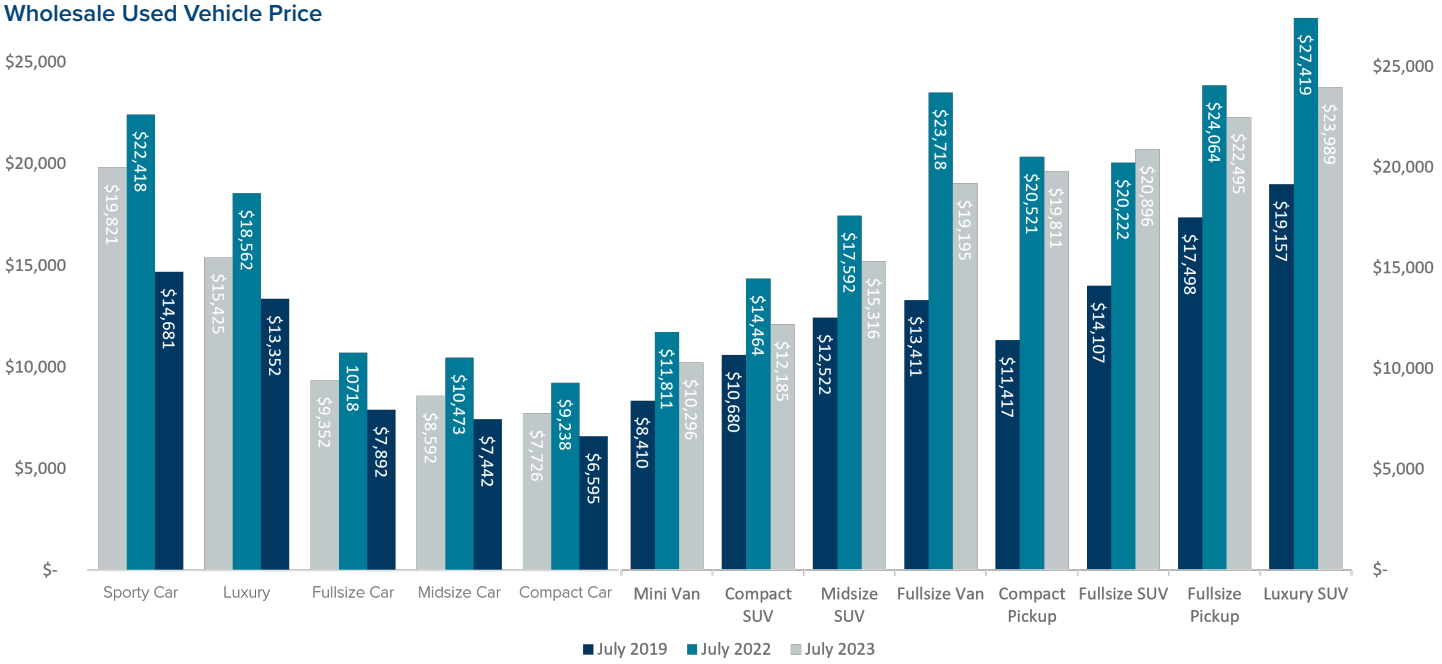
Used vehicle inventories have surpassed 2020 and 2021 lows and have nearly recovered to 2019 levels. The increase can be attributed to the continued new vehicle availability and sales, with more trade-ins being received by dealerships as a result.

Total U.S. supply of unsold, used vehicles on dealer lots, both franchised and independents, stood at 2.26 million units, an 8% decline YoY, and is still considered to be limited. Inventory has remained between 2.2 - 2.3 million units for the past quarter.

**Used vehicle days' supply stood at 47 days at the end of September,** remaining constant since spring 2023. Honda, Mazda, and Toyota were the non-luxury brands with the lowest inventory of used vehicles through September.

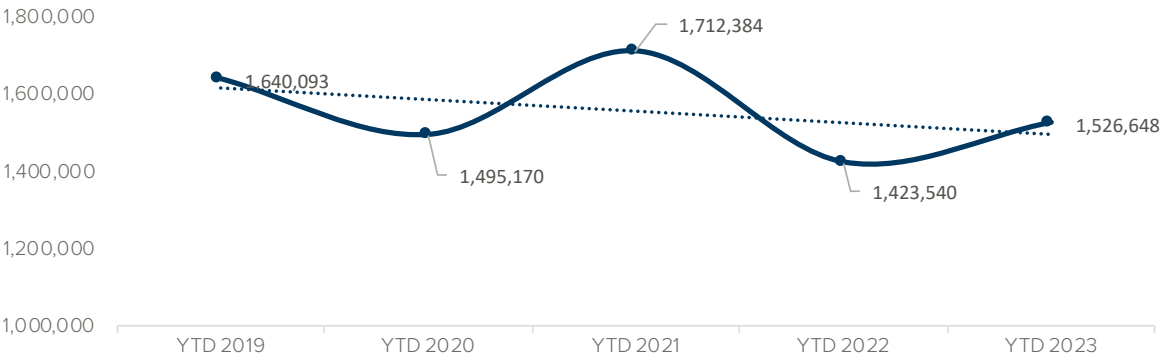
Retail used vehicle sales continue to be soft and are down on a YoY basis. However, CPO sales are a bright spot as consumers seek more affordable alternatives to new vehicles, although the uptick is in part due to recent expansion of some manufacturers' programs to include a wider range of age and mileage.

### Wholesale Used Vehicle Price




## Retail Market Trends

Certified Pre-Owned (CPO) Sales at Year-to-Day (YTD) July 2023*




Source: Cox Automotive, Mitchell
Note: August 2023 data is not available at the release time of the report.

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# Q3 MAJOR **NEWS**

### July 2023: It's a 'disease': Dealers are being shipped vehicles they don't need

- New-vehicle inventory challenges persist despite COVID-19 receding, as dealers face issues with the right inventory and inconsistent product availability from automakers.
- Customers are showing resistance to the vehicles provided by automakers, particularly regarding trim levels that may not align with their preferences.
- While logistical problems like a rail car shortage in Ontario and a strike at the Port of Vancouver have emerged, demand and sales for new vehicles continue to rise, with an estimated 12.6% increase in June compared to the previous year and 7.5% growth in the first six months of 2023. However, finance challenges due to higher interest rates and rising carrying costs are affecting dealers.
- Dealers should be aware of market-specific sales trends ensuring the correct inventory is allocated and stocked for the consumer preferences in their PMAs.

### August 2023: Service contracts get an overhaul for the EV era

- The shift to electric vehicles (EVs) is impacting not only how automakers build cars and how dealers service them but also finance and insurance products, even for internal-combustion vehicles (ICE).
- Longer ownership of vehicles, including EVs, is expected due to higher costs and difficulties in finding new vehicles. This trend has led to the rise of new extended-service-contract and prepaid-maintenance packages that cover batteries and charging systems for EVs.
- Maintenance packages for EVs are essential to capture lost revenue due to less frequent maintenance needs. They also contribute to maintaining the residual values of EVs, making it crucial to offer suitable finance and insurance products for cars that are expected to last a decade or more without significant repairs.

### September 2023: Unifor reaches tentative agreement with Ford

- Unifor has reached a tentative agreement with Ford Motor Company covering more than 5,600 members at Canadian facilities, including the Oakville Assembly Plant and other locations in Ontario and Alberta.
- The previous collective agreement expired just before midnight on September 18, and the new tentative agreement addresses members' concerns for this round of collective bargaining.
- Unifor believes that this agreement will provide a foundation for future negotiations benefiting autoworkers in Canada and follows negotiations that began in August with a focus on establishing a pattern agreement for Unifor's 18,000 Detroit Three members.

### September 2023: Dealership reviews are surging — and they mean something to consumers

- Consumer review volume has increased by 11% year-over-year, according to a report by Reputation, a reputation experience management company.
- 84% of respondents consider reviews important when choosing a dealership, and 74% require a minimum of four stars for consideration.
- The study highlights that 93% of Gen Z consumers rely on reviews to make car buying decisions, emphasizing the importance of customer feedback for building trust and increasing sales in the automotive industry.

Source: Automotive News, Forbes, Canadian Auto Dealer

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# PUBLIC M&A MARKET **SNAPSHOT**

**AutoNation** acquired the Aston Martin Summit dealership in New Jersey during Q3. AutoNation acquired five dealerships in California in June and opened its 16th AutoNation USA used-vehicle-only store in Colorado Springs, Colo., continuing its expansion of the brand.

**Group 1 Automotive** did not make any acquisitions in Q3, but it disposed of multiple dealerships and terminated one franchise during the quarter. The company also consummated a pending acquisition of a Subaru dealership in New Hampshire, which is expected to generate $65 million in annual revenue. It plans to use the proceeds from the dispositions to invest in more acquisitions or in share repurchases. The company's strategy has been to dispose of smaller-revenue stores while adding dealerships in already profitable markets for the company.

**Lithia** completed two acquisitions in the U.S. during Q3. In addition, it announced an impending purchase of Pendragon U.K. Motors, the Pendragon Fleet Management business, or PVM, along with a strategic partnership with Pinewood Technologies, expanding Lithia's footprint further into fleet management and the United Kingdom.

**Penske,** in Q3, acquired BMW and Porsche dealerships in Wilmington, North Carolina. Combined, the dealerships are expected to generate about $140 million in annual revenue. Together with Sweden's Hedin Mobility Group, Penske's September was spent competing with rivals Lithia and AutoNation to purchase U.K. auto retailer Pendragon. However, on October 4, Penske announced it did not intend to make an offer due to valuation.

### LOOKING FORWARD

M&A deal volume has been overall modest in Q3 2023.

The macroeconomic conditions and tight financing markets have created a deal environment where financing has become more difficult and expensive, with processes taking longer amid increased uncertainty, more challenging business cases, and the need for a greater level of due diligence. Large groups are leveraging their borrowing power to secure acquisitions as small- to medium-sized groups face difficulty securing financing to fund acquisition-based growth.

To ensure a "smooth" deal, sellers should anticipate a greater level of scrutiny from buyers and their funding sources, and they will need to be "deal ready", which can be time-consuming. Buyers will need to be prepared to not just rely on traditional funding sources, but to find more creative methods to secure capital; including vendor takebacks, earnout structures, and government programs.

To account for COVID-related discrepancies, M&A firms are now shifting their methodology to account for the past five years' historical results.

Sources: Yahoo Finance, Automotive News

# WHY CONSIDER A **VALUATION?**

### 1. BUYING OR SELLING A BUSINESS:

One of the most common reasons to perform a business valuation. Both buyers and sellers want to have an accurate understanding of the assets in question, which can help with negotiations and ensure that a fair price is being paid.

### 2. ESTATE PLANNING:

Knowing the true value of your business can help ensure that the proper amount of assets are distributed to heirs, and can help minimize potential tax liabilities.

### 3. BENCHMARK YOUR GREATEST ASSET:

Most investors regularly asses the value of their stock portfolio, so why wouldn't a business owner do the same with their most valuable asset?

### 4. UNDERSTAND WHAT YOU CAN DO BETTER:

When performing a valuation, industry experts will perform an extensive assessment your operations to understand what you are doing well and where you could improve, allowing you to maximize your exit strategy.

### 5. PLAN FOR GROWTH:

Knowing the value of your business will help you make better business decisions, especially when looking towards future investments and expansions.

### 6. MANAGE RISK:

Planning for a rainy day can help save a lot of money. Think of it as an insurance policy that gives you piece-of-mind when unexpected pitfalls occur.



## DSMA'S EXPERTISE

**50**
Industry Experts

**1000+**
Years of Combined Experience

**6**
Dedicated CPAs / CFA

**1700+**
Dealership Valuations

**425+**
Successful Transactions

**75**
Successful Transactions in 2022

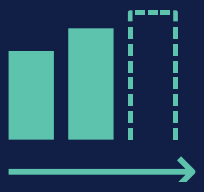
**171**
Days on Average to Close


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# DSMA-FACILITATED **CLOSED TRANSACTIONS**

Trotman AUTO GROUP

**ACQUIRED**

VIP Mazda

Recognized as one of the most innovative dealer groups in Canada, Trotman Auto Group, also known as "TAG", is an industry-leading, diversified dealer group representing 12 major OEM brands through 11 dealerships located across British Columbia.

VIP Mazda is located in Abbotsford, BC, and provides a wide selection of new and pre-owned vehicles to the Fraser Valley.

**Doug Kego**

**ACQUIRED**

Volkswagen LACHUTE

Operating in Lachute, QC, Volkswagen Lachute provides top-quality service and a wide selection of new and pre-owned vehicles.

JEAN DUMAS MULTICONCESSIONNAIRE

**ACQUIRED**

**Laflèche**

Ford

Jean Dumas Multiconcessionnaire has 14 locations across Quebec, offering new vehicles from Ford, Honda, Kia, Mitsubishi and Hyundai brands, and a wide range of used vehicles from a multitude of automotive manufacturers.

Laflèche Ford is a full service Ford dealership located in Baie-Comeau, QC.

## WHAT OUR CUSTOMERS SAY ABOUT US

*"Hi Farid,*

*I wanted to take a moment to thank you, DSMA and your team's professionalism throughout our purchase of VIP Mazda.*

*Closed on Wednesday and, as per every deal, had some road bumps along the way to the finish line which was all in normal course. I want to highlight Rick Kingdon and appreciate his thorough commitment, experience and expertise in representing both parties to a successful closing.*

*I'm very grateful for the relationship we've established with your team and look forward to much more ahead!"*

**Mike Trotman, new owner of VIP Mazda**

*"Thank you to the entire DSMA team who accompanied us through the process of selling our Volkswagen Lachute dealership. A team of professionals who ensured that the transaction was carried out according to the rules!"*

**Jean Lanctôt CPA, CA, former owner of VW Lachute**

*"When I first met Manon, we immediately shared the same values. When I consulted Manon about the sale of my business, despite the fact that she was also about to retire, I felt she was involved in my sales process.*

*Thank you Manon and the entire DSMA team."*

**Nathalie Hins, former owner of Laflèche Ford**


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# DSMA-FACILITATED **CLOSED TRANSACTIONS**

**Pierre Deraspe**

**ACQUIRED**

LeDé Sports Îles de la Madeleine

Founded in 1986, Ledé Sports has grown to become a leading Honda car dealership on the Magdalen Islands, QC. The first Honda dealership in Canada to offer all ranges of Honda products, LeDé Sports has continued to gain momentum in serving all the Magdalen Islands with new and used Honda cars, ATVs and motorcycles, power equipment, engines and marine engines.

**Jeff Garon and Kris Rams**

**ACQUIRED**

ROBINSON
CHRYSLER • DODGE • JEEP • RAM

Robinson Chrysler is a Chrysler Dodge Jeep Ram dealership serving customers in the Fergus, ON area.

ARORA AUTO GROUP

**ACQUIRED**

mazda | AIRPORT MAZDA OF TORONTO

Airport Mazda of Toronto is a Mazda dealership serving customers across the GTA (Greater Toronto Area).

craftsman collision

**ACQUIRED**

**North Star Body Shop**

Craftsman Collision, founded in 1977 in BC, has grown to become the largest family-owned body shop chain in Canada with over 40 locations.

Northstar Auto Body & Glass is a full-service auto body and glass repair shop located in Cranbrook, BC.

## WHAT OUR CUSTOMERS SAY ABOUT US

*"We are thrilled to have acquired Fergus Chrysler, a great business in a wonderful and growing community. It was a pleasure to work with Rob Mackenzie and his team at DSMA. The process was smooth, well managed, organized and supported from start to finish. We would definitely recommend Rob and his team at DSMA to others looking to grow their business with the help of great experts that we got to experience. Sincere thanks to Rob, Wendy, Darren, the Seller Sam and all the rest of the team involved in the transaction."*

**Jeff Garon & Kris Rams**

# OUR TEAM



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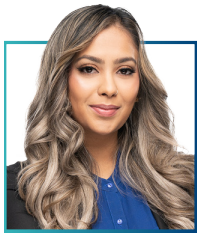
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DSMA specializes in expediting entry and exit strategies for automotive, truck, marine and heavy equipment retail dealerships. We focus on each clients' unique circumstances and use our proven expertise and enormous experience to help them achieve their disposal or acquisition goals. Our process has helped hundreds of dealerships and generated billions of dollars for our clients.

# THE DSMA DIFFERENCE

## INTELLIGENCE. PROCESS. VALUE.

**INTELLIGENCE** delivers the highest accuracy in dealership valuations and market insights, ensuring you maximize the return on your investment.

Customized **PROCESSES** confidentially present you and your business to the best potential candidates, ensuring you get the fastest transaction time possible.

In-house full-circle services present real **VALUE** for money, saving you thousands in legal and accounting fees, expediting your transaction, and ensuring you have the highest chance of success, first-time.

## DSMA minimizes stress and maximizes value.

**1700+**
DEALER
**VALUATIONS**

**425+**
BUY/SELL
**TRANSACTIONS**

# DSMA FORMULA FOR SUCCESS

## EXPERTISE

**Expertise** is what **Experience** has taught us. We know how to uncover or create opportunities and how to maximize them. We also know how to find or foresee challenges and how to minimize them.

## + EXPERIENCE

**Experience** is our starting platform. Every associate has either owned a dealership or worked at a senior level within the automotive industry.

We know what you need to know because we have been there ourselves.

## + EXCELLENCE

**Excellence** is the goal we strive to deliver to every client, from start to finish and every step along the way.

DSMA
REAL PEOPLE.
REAL DEAL.


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