DSMA

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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.

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 vehicle 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.

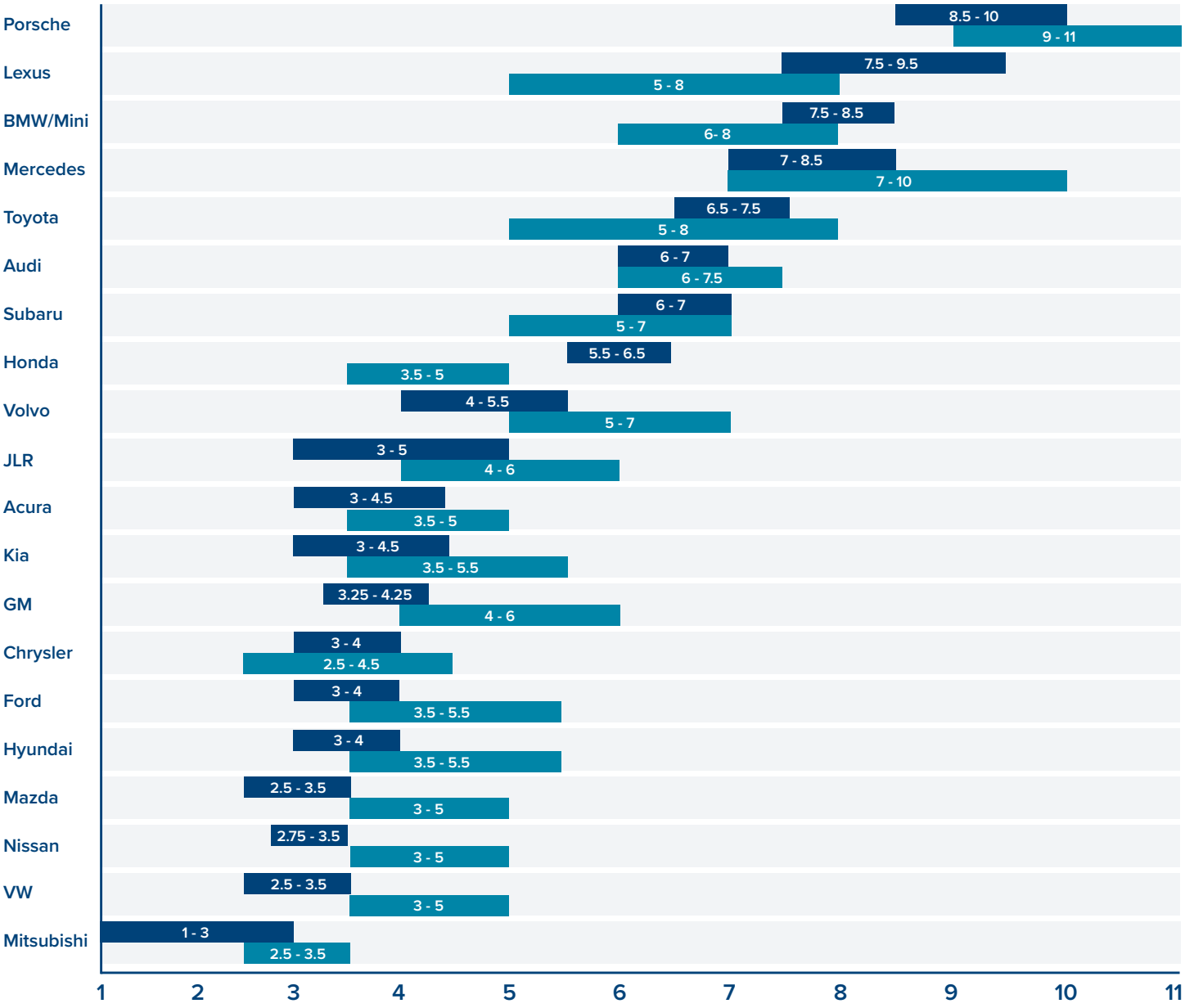
Despite strong dealer profitability and increasing inventory levels, goodwill values continue their decline across the industry through Q3 as interest rates and economic factors weigh down future outlooks. Despite some dealers experiencing continued steady performance through three quarters in 2023,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

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DSMA TRADING AUTOMOTIVE **MULTIPLES**

Goodwill Multiple Ranges

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



Data presented by:

QUOTUS™

M&A: Mine & Analyze

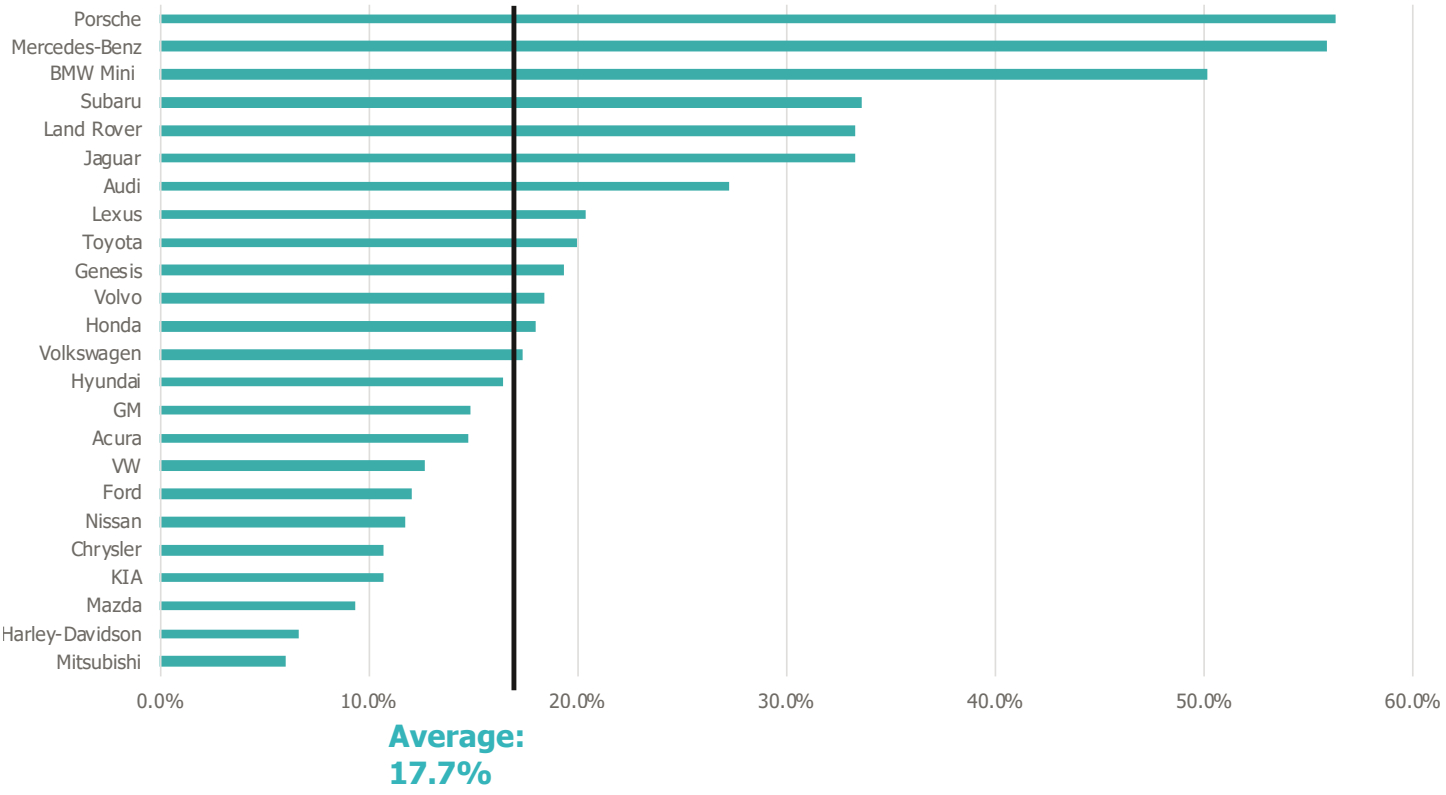
QUOTUS™ is North America's premiere analytics platform, leveraging 1.5 million qualitative and quantitative data points allowing dealers, financial institutions, and OEMs to easily mine and analyze current comparable automotive data. It derives its data from more than 425 closed transactions and more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

Multiples shown are multiples of Earnings Before Tax.
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



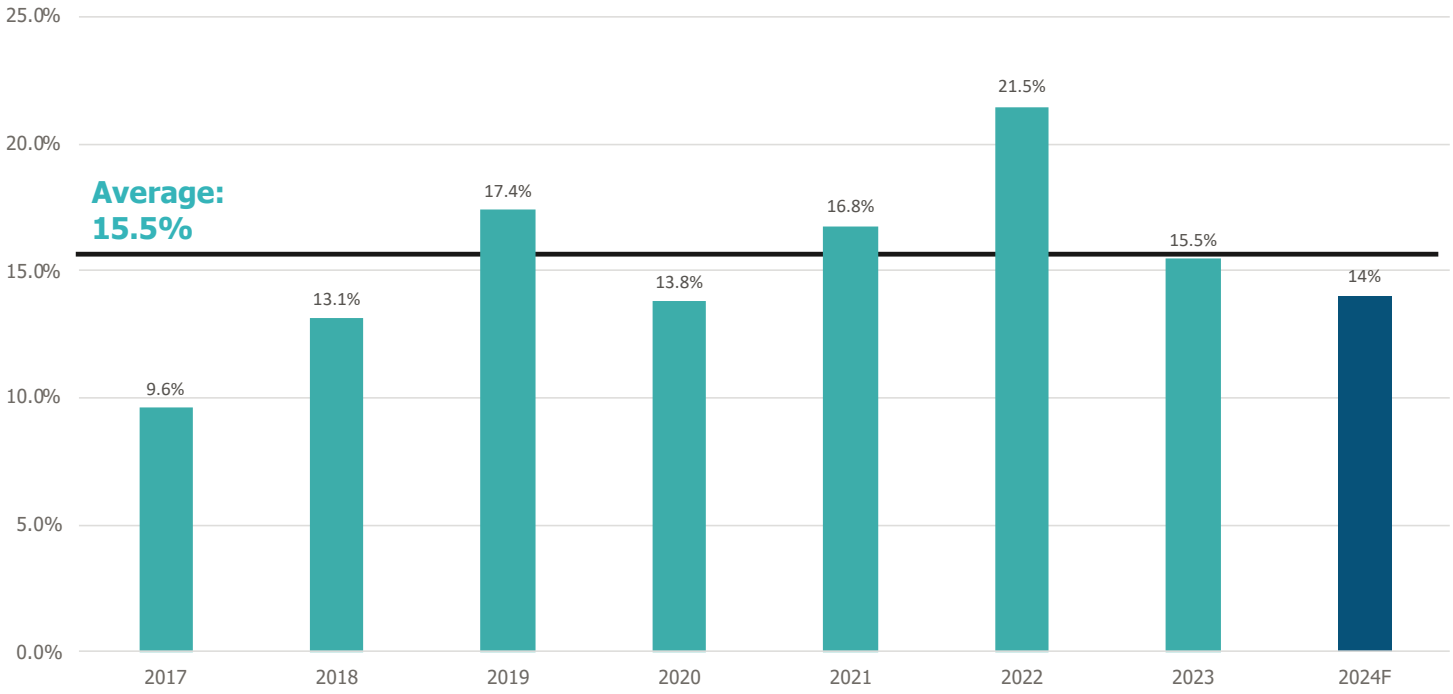
- Euro and luxury brands leading the way as the higher average sales prices per vehicle lead to higher profitability and thus more goodwill generated during a transaction.
- Strong interest in Asian brands as buyers willing to pay relatively more to add them to their portfolios.
- Preference emerging 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 DSMA-facilitated transactions from 2013 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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HOW DEALER SALES IMPACT **MULTIPLES (CONT'D)**

Goodwill as % of Total Sales by Year



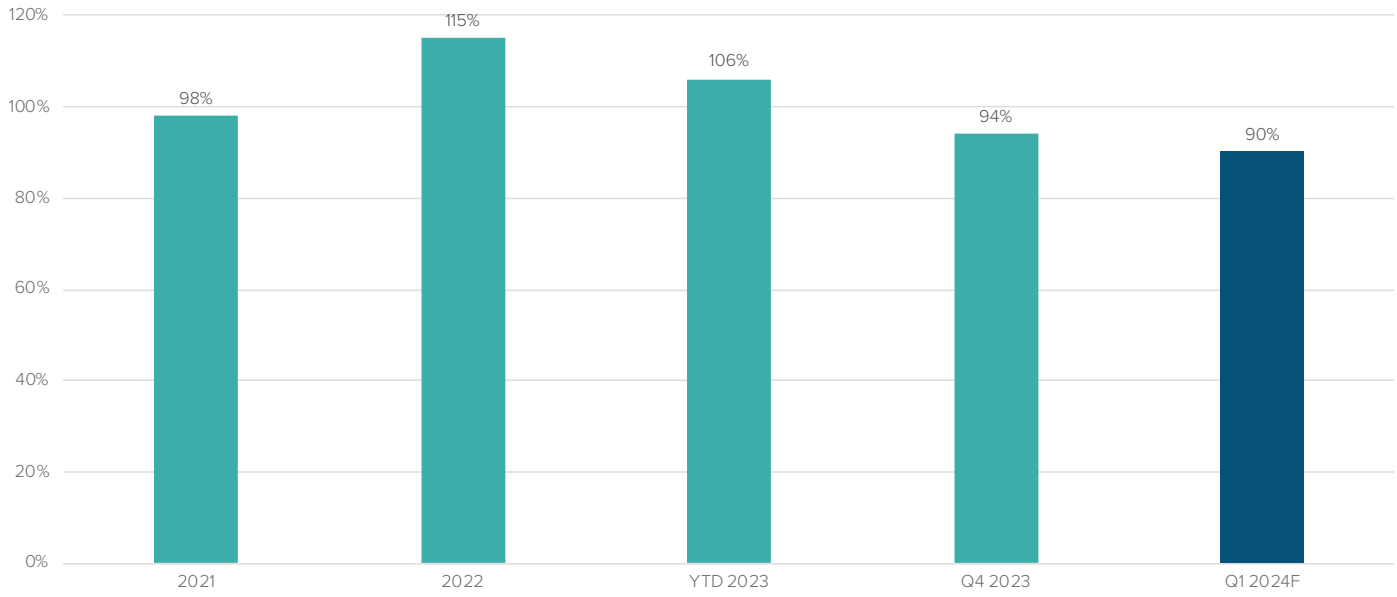
- Historically, goodwill has lagged industry performance and trends between 6 months – 1 year. Therefore, the transaction goodwill prices today are a result of performance from the previous year and that of the most recent available period.
- 2022 was the best full-year on record, eclipsing the next 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 U.S. authority 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

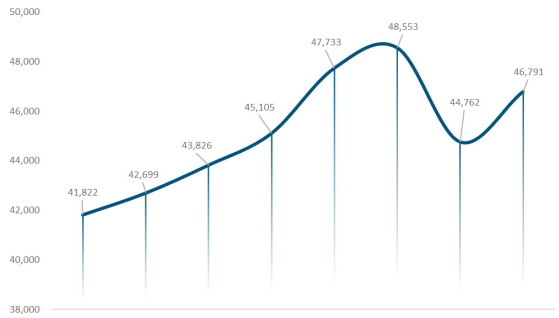
PROSPECTIVE OUTLOOK

Macro factors for the economy still appear mixed but improving overall, with real gdp expected to improve further in Q3. However, Q4 is likely to be the weakest quarter of the year as the U.S. Economy deals with multiple adverse challenges, including the UAW strike, resumption of student loan payments, and a likely federal government shutdown.

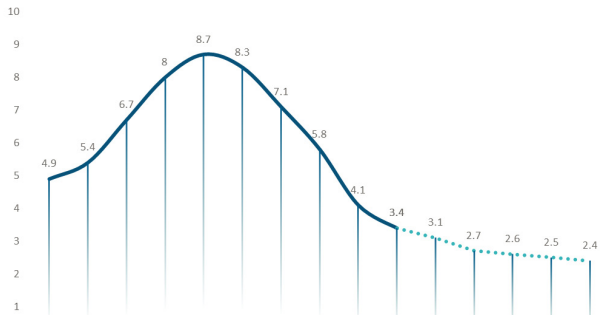
Inflation made a comeback in August as consumer prices rose sharply due primarily to higher energy prices. The CPI rose by 0.6% and was 3.7% higher YoY, well above the fed's 2% target. The gasoline index was the largest inflation contributor, accounting for over half of the increase.

Despite declining incomes and savings, consumer YoY comparisons remained positive. Real disposable income was 3.7% higher than a year ago, a sign that income growth has outpaced price inflation in the last 12 months.

Total Per Capita Disposable Income (USD)

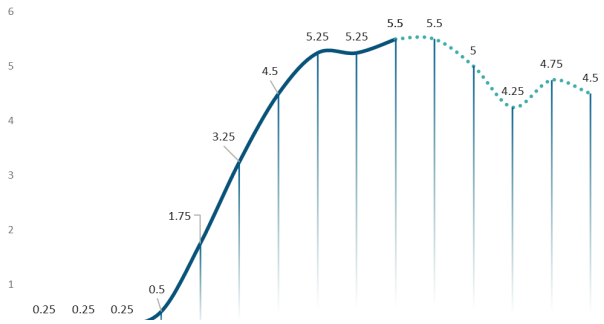


Inflation Rate by Quarter (%)

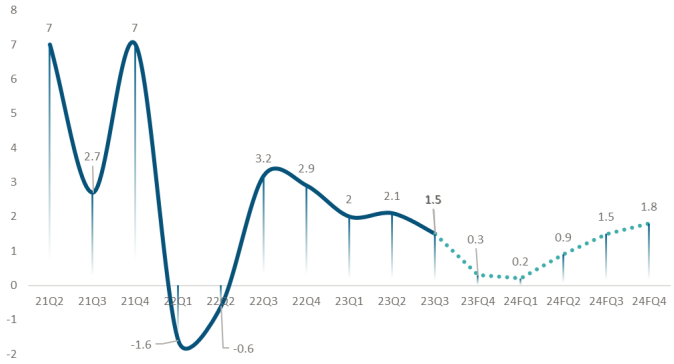


Sources: FCC Economics, Bloomberg, IBISWorld, Bank of America, AutoTrader.ca

U.S. Effective Federal Funds Rate (%)



GDP Growth Rate By Quarter (%)



Interest rates moving higher in August and September have pushed auto loan rates to levels not seen in 23 years. Rates have moved higher despite the Fed taking a pause on further increases in rate policy. Consumer rates are being driven higher by the bond markets' reactions to substantial sales of U.S. Treasuries stemming from deficit spending, along with the continued Quantitative Easing (QE) by the Fed.

DEALERS' PERSPECTIVE

U.S. consumer sentiment on vehicle affordability is near an all-time low. Average auto loan payments are now 20 - 40% higher than in 2019. Combined price increases coupled with elevated interest rates and tightening credit has led to affordability challenges across new and used markets.



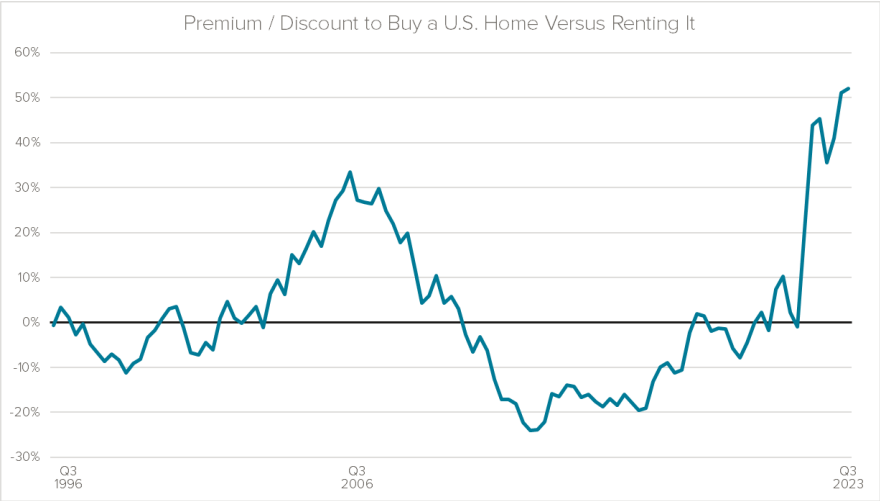
TYLER OSBORNE
Economist

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.

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'There's Never Been a Worse Time to Buy Instead of Rent'
How housing affordability impacts the retail automotive sector."



DEALERS' PERSPECTIVE

Economic Conditions: A significant rise in housing costs can strain consumer finances, resulting in reduced disposable income and tighter household budgets. As a result, consumers become more price-sensitive and cautious about their overall expenses, including major purchases like vehicles. This could also shift consumer priorities as more budget is allocated to housing-related expenses over other major purchases.

Financial Flexibility: When consumers need to allocate a significant portion of their income to housing-related expenses, there may be less financial flexibility to take on additional debt, such as auto loans.

Consumer Confidence: Overall state of the housing market can influence consumer confidence. When housing costs rise, some consumers may perceive it as a sign of economic pressure, leading to reduced consumer confidence. Lower confidence levels can, in turn, impact major purchasing decisions, including purchasing a vehicle.

Note: Housing costs and market dynamics can often vary significantly by region, with more pronounced effects occurring in major metropolitan areas, where consumers may face greater financial pressure. In contrast, regions with more affordable housing may see less significant impacts in the retail automotive sector.

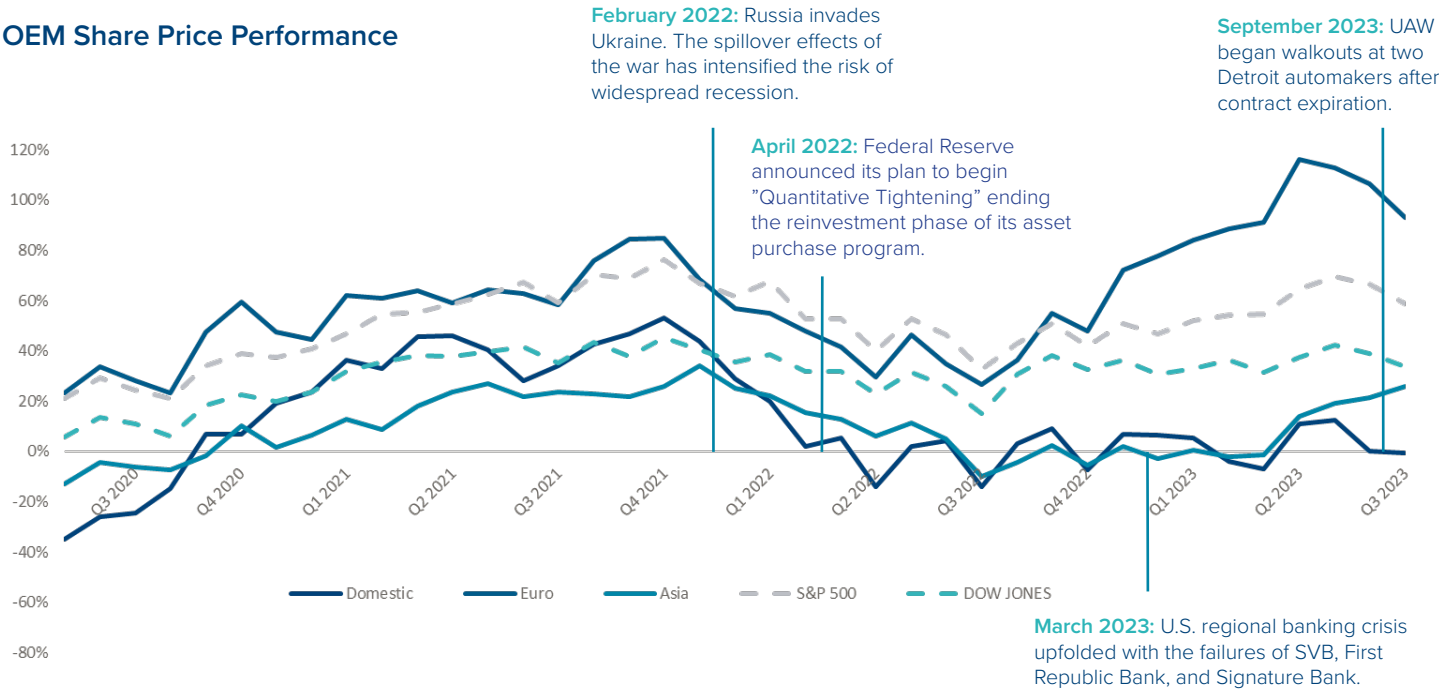
- The **growing gap between the cost of buying a home and renting one reflects a significant change in housing market** dynamics. Before the 2008 housing crash, the premium for buying over renting peaked at 33% in the second quarter of 2006. This period was marked by a housing bubble, where soaring home prices and easy access to credit made buying more expensive than renting. The premium now sits at 52%, exceeding the pre-crisis levels.
- The shift from a period when it was 12% cheaper to buy a home than to rent during the 2010s to the current situation where **buying is significantly more expensive** is influenced by various factors. After the global financial crisis, rock-bottom interest rates and a surplus of housing supply made buying more affordable. However, recent surges in home prices, partly due to the increased demand for domestic space during pandemic lockdowns, have reversed this trend, making it **increasingly challenging for first-time buyers to enter the market.**
- The **oversupply of rental properties and weaker tenant demand** impacting landlords can be linked to broader economic conditions and changes in the rental market. During the pandemic, many people who were planning to move already did so, resulting in reduced demand for rental properties. Additionally, the surge in apartment construction may have contributed to the oversupply of rental units. These market dynamics highlight the cyclical nature of the housing market and how shifts in economic conditions and consumer behavior can affect the demand for rental properties and, consequently, the returns for institutional investors

Source: The Wall Street Journal, 22 October 2023

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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 favor.
- While persistent consumer demand remains, economic effects continued to shift consumer focus through Q3, while increased 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

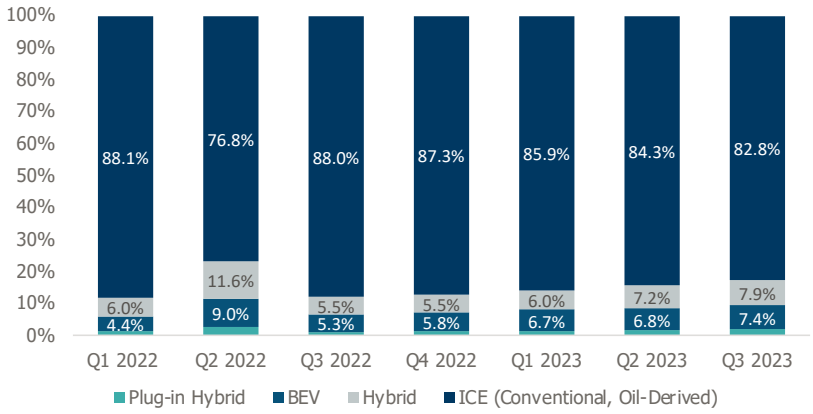
- *"There continues to be mixed economic signals. But despite concerns of affordability, consumer demand for vehicles remains relatively healthy. And during the quarter, partly because of improved new vehicle supply and stable used vehicle inventory, we saw double digit year-over-year growth in new vehicle 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

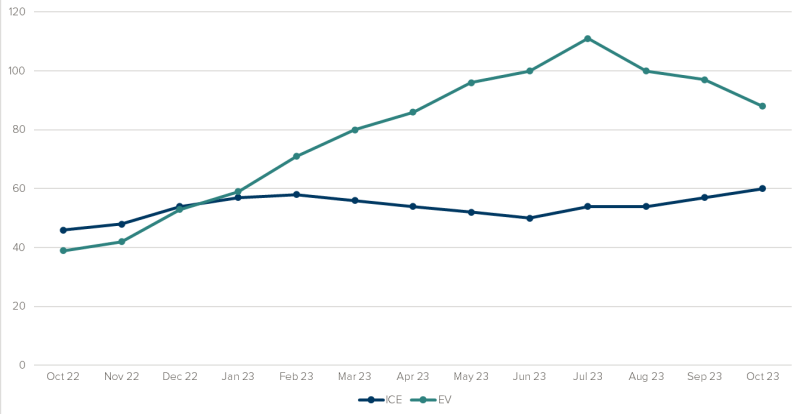
EV MARKET **UPDATE**

Registrations By Fuel Type

Short-term adoption challenges as volumes continue to ramp-up



EV vs. ICE: Days' Supply of Inventory



- Despite persistent challenges, U.S. zero-emission vehicle (ZEV) sales continue to grow, with **more than 700,000 new ZEV sales** recorded during the quarter. Total unit sales for the year surpass **1,800,000 units.**
- The market share of **battery electric vehicles (BEVs)** increased to 7.4% of new vehicle registrations, with **volume increasing by 62%** on a YoY basis. Total **ZEV volume increased by 68%** YoY. In comparison, total vehicle sales during the same period was 17%.
- While U.S. sales continue to grow, BEV shift facing challenges, including continued market-penetration and production delays by automakers like General Motors and Ford, with some slow-selling EVs accumulating on dealership lots.
- Sluggish demand for BEVs attributed to range anxiety and high costs, as average consumers are reluctant to pay a premium for an EV with limited range. Pricing, incentives, and consumer preferences will continue to influence the industry going forward.
- While short-term fluctuations present, long-term trends indicate continued growth in BEV adoption. Automakers reassessing launch timelines due to inventory concerns, but transition expected to continue. However, exponential growth may level off in the coming periods

KEY DEVELOPMENT

Consensus from legacy OEMs with recently announced views on BEV profitability: "BEV profitability is, at worst, just around the corner, facilitated by increased investment and economies of scale". GM believes they will become profitable by 2025, thanks to its Ultium platform and flexible battery architecture. BMW declares that their BEVs are already as profitable as their ICE models as future profit increases to follow better battery technology, while Mercedes-Benz proved more cautious, emphasizing that their BEV models would remain more expensive as they look to adjust fixed costs and resource allocation in production to bring prices down.

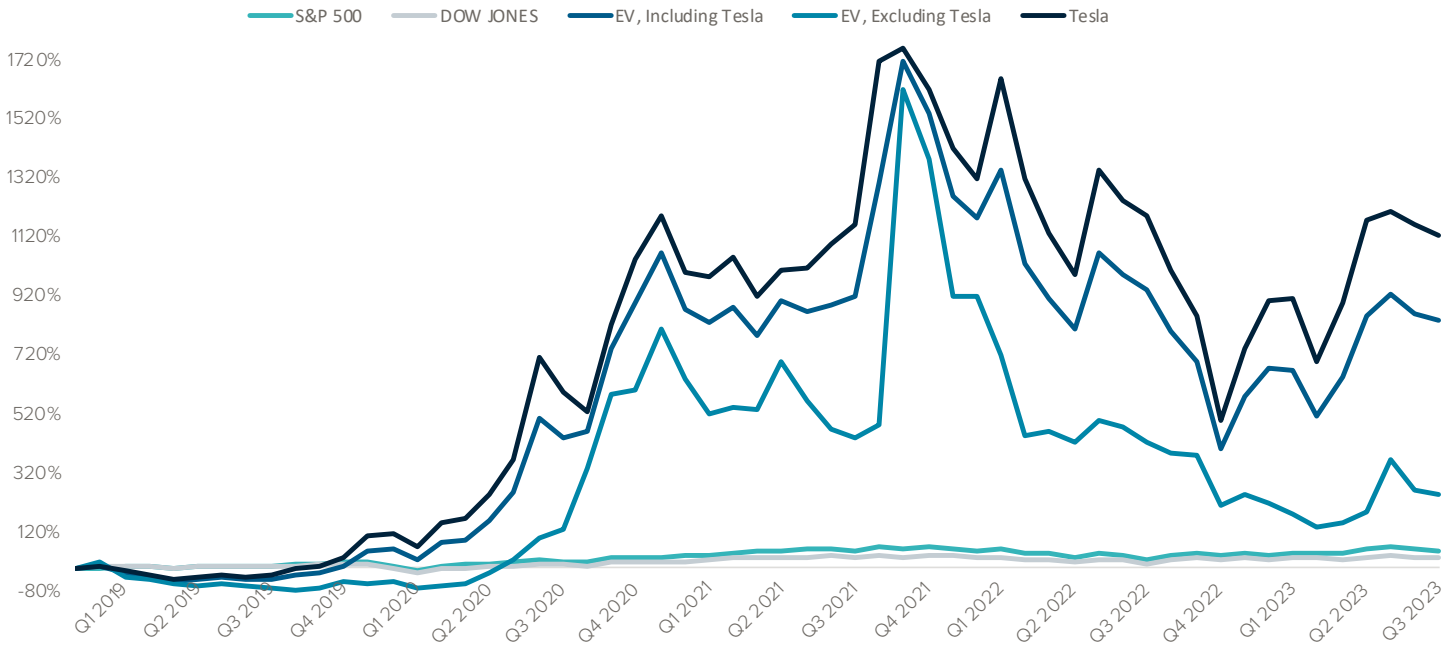
Sources: PwC Strategy; Federal Reserve Economic Data (FRED); Cox Automotive; Reuters, 17 May 2023 & 4 September 2023; DW, 2 September 2023; Automotive News, 31 October 2023

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EV MARKET **UPDATE**

EV Share Price Performance

Tale of two circumstances



EV prices remain elevated.

HIGHLIGHTS

- Including Tesla, EV share price performance experience 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.

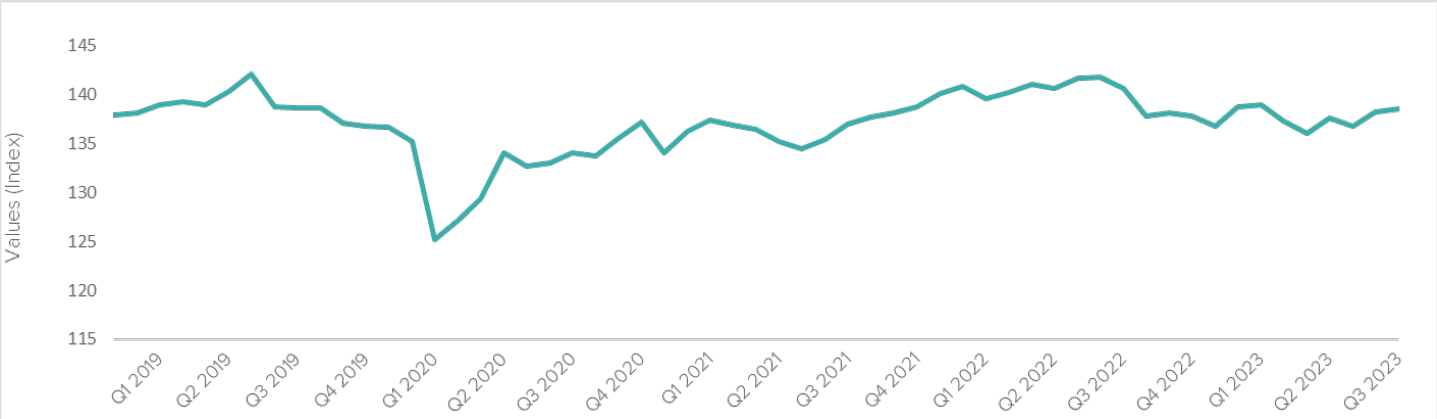
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TRUCKING MARKET **UPDATE**

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.

U.S. Freight Transportation Services Index
Index 2000 = 100, Monthly, Seasonally Adjusted



Sources: Uber Freight, U.S. Bureau of Transportation Statistics

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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.

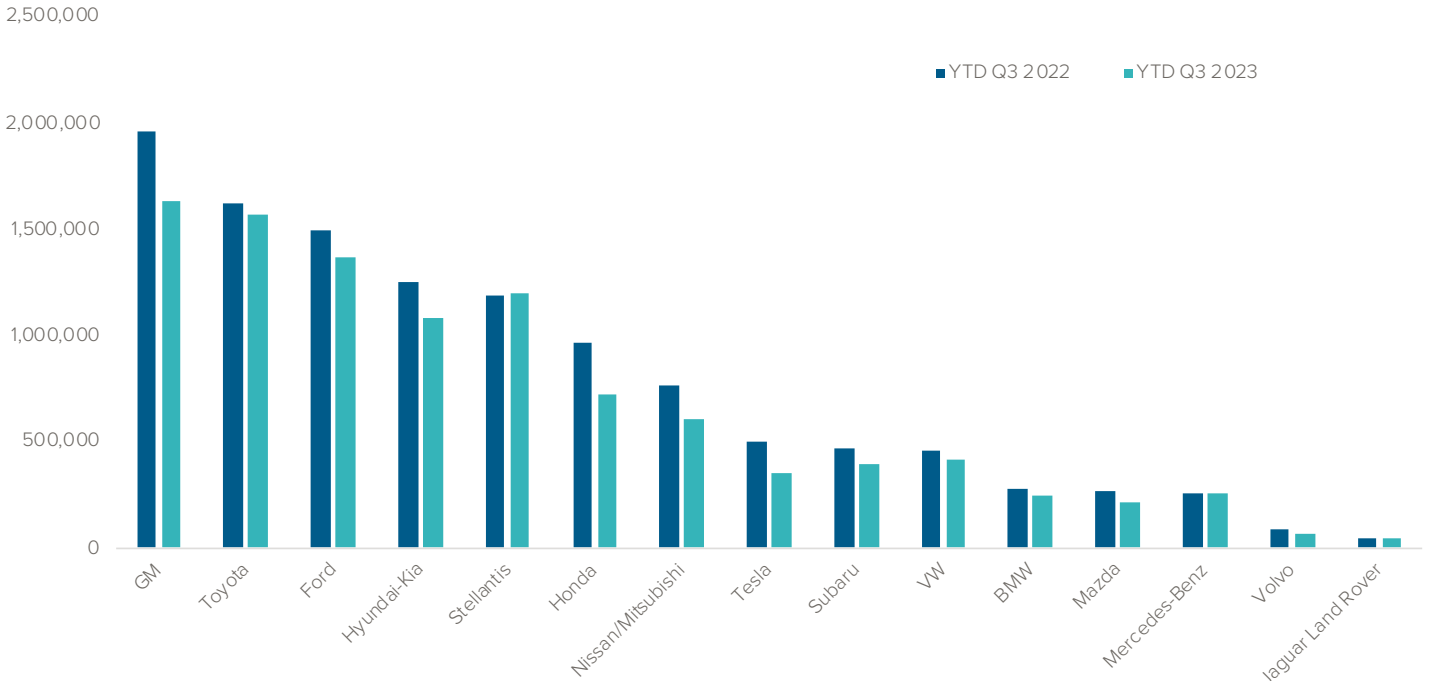
Sources: VMC Press Release

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CONSUMPTION BY **DEALER**

Light Vehicle Sales By Brand

Market comeback continues; major automakers post strong Q3 sales gains



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.
- A combination of soaring vehicle prices, higher borrowing costs and the surging cost of living is making it harder for some consumers to keep up with their car payments. Average new and used vehicle payments have increased 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

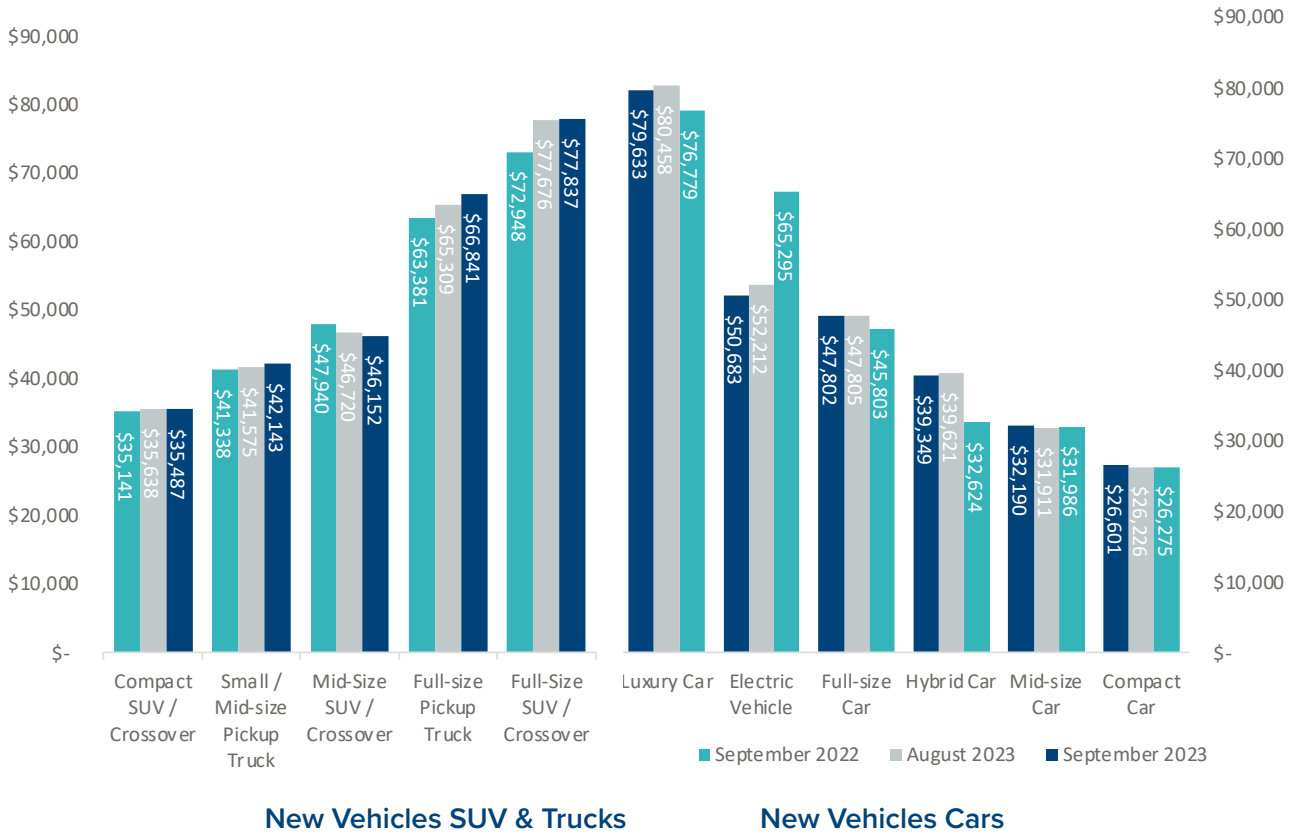
The industry continues to rebound from the pandemic and microchip shortage. However, UAW strike and affordability issue leave headwinds into Q4.

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

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AVERAGE TRANSACTION **PRICES**

New-vehicle transaction prices decline further in September, led by price cuts at Tesla



- During Q3 2023, higher inventory levels and increased incentives have continued to put downward pressure on pricing.
- The **average transaction price (ATP) of a new vehicle in September was $47,899,** a 0.7% decline from last year. ATPs are **down 3.4% from the begging of 2023** as incentives continue to increase.
- Tesla's price cuts during the first two quarters have moved the market on pricing, pushing electric vehicle prices down by more than 22% YoY.

OUTLOOK

With auto loan rates at record highs and inventory levels continuing to grow, new-vehicle prices will likely continue to ease as dealers and automakers feel the increased price pressure. Thus far, through three quarters of 2023, the impact of the UAW strike has been negligible as current inventory levels are healthy enough to prevent any significant impact on consumer prices. However, if the disruption continues, the impacts could cascade and increase prices due to tightening supply.

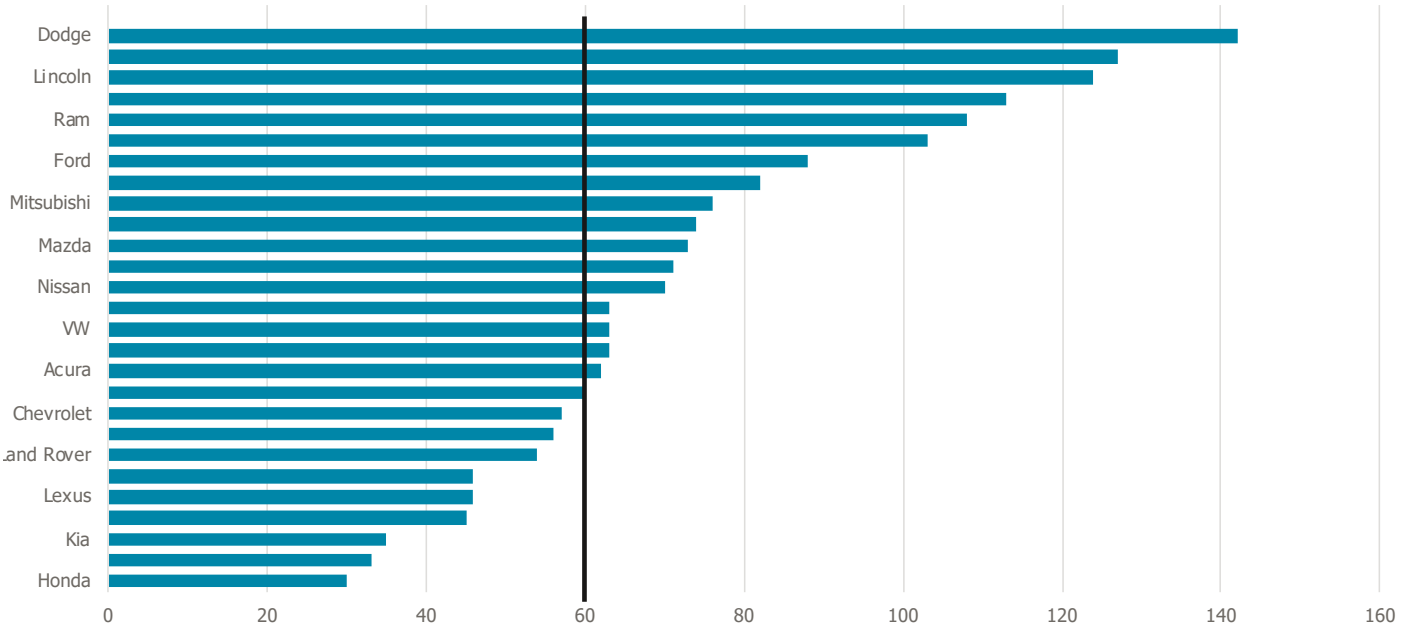
Source: Cox Automotive

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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

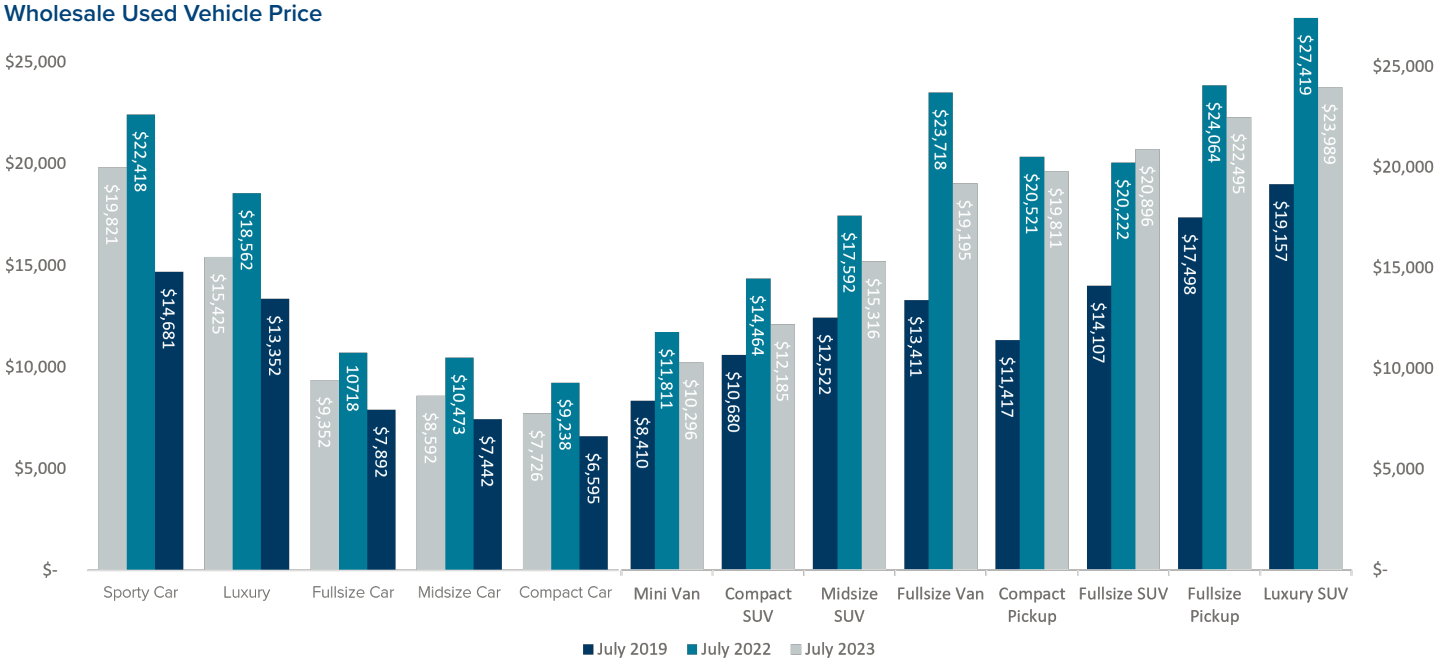
Used vehicle inventories have surpassed 2020 and 2021 lows and have nearly recovered to 2019 levels. The increase can be attributed to the continued new vehicle availability and sales, with more trade-ins being received by dealerships as a result.

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.

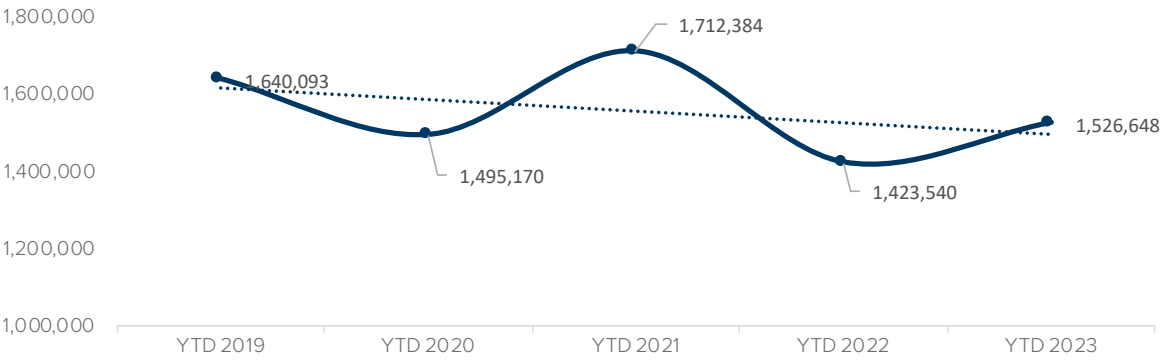
Retail used vehicle sales continue to be soft and are down on a YoY basis. However, CPO sales are a bright spot as consumers seek more affordable alternatives to new vehicles, although the uptick is in part due to recent expansion of some manufacturers' programs to include a wider range of age and mileage.

Wholesale Used Vehicle Price



Retail Market Trends

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



Source: Cox Automotive, Mitchell
* YTD August and September data not available at time of this report

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Q3 MAJOR **NEWS**

August 2023: Struggle is real to find good used cars to

- Pandemic-driven slowdown and changes in leasing market are expected to "significantly impact" used-vehicle supply through mid-decade, with the number of lease maturities from 2023 to 2025 expected to be 2.5 million fewer than from 2020 to 2022.
- Speed at which vehicles return to market has also changed used vehicle landscape as some consumers have chosen to hold on to their cars longer.
- Dealers who can acquire vehicles from multiple channels or build their own acquisition operations are not facing inventory shortages; tapping into private-party sales can be an effective strategy.
- Dealerships that solely rely on auctions may struggle due to a lack of clean vehicles and high prices, making it crucial to diversify their sourcing channels to ease inventory challenges. Additionally, dealers are adapting to a macroeconomic environment characterized by wholesale pricing volatility and higher interest rates.

August 2023: Lack of public dealership megadeals in 2022 left room for private buyer transactions to dominate

- In 2022, the dealership buy-sell market in the auto retail industry saw a shift from large acquisitions to smaller deals, with private dealers and groups becoming the most active buyers, often purchasing just one or two dealerships at a time.
- The number of buy-sell transactions in 2022 exceeded those in 2021, with 403 transactions involving 596 dealerships changing hands, representing a 5.5% increase in the number of transactions. However, the number of dealerships sold decreased by 16% compared to 2021.
- Public dealership groups acquired fewer U.S. dealerships in 2022, down 82% from 2021. Private buyers filled the gap, accounting for most transactions, and many focused on expanding within their core geographies.

September 2023: New-Vehicle Market Shrugs Off High Loan Rates, UAW Strike, Closes Q3 on a Strong Note

- New-vehicle sales in the U.S. during Q3 2023 exceeded expectations, with strong results from automakers like General Motors, Toyota, Hyundai Motor Group, and Nissan contributing to a more than 15% increase in sales volume compared to Q3 2022.
- Most automakers saw double-digit percentage gains in sales over the previous year, with Honda and Nissan posting impressive growth of nearly 53% and over 40%, respectively. Stellantis was an outlier with a slight decline in sales.
- Hyundai Motor Group is projected to surpass Stellantis in overall sales volumes in 2023, moving into the fourth position behind Ford Motor Company, Toyota, and General Motors. The recovery in new-vehicle inventory, higher incentives, and increased fleet sales have driven the market's growth.

September 2023: Canadian autoworkers union reaches tentative labor deal with Ford, averting strike

- The union representing Canadian autoworkers at Ford has reached a tentative deal with the automaker, avoiding a strike and keeping over 5,000 union members on the job.
- Details of the deal are not yet available, but it's positive news for Ford, which is already dealing with a strike by the United Auto Workers union in the US and the potential expansion of the strike.
- The Canadian labor negotiations shared common issues with the US strike, including improved wages, benefits, and job security guarantees as automakers transition to electric vehicles (EVs), which require less labor.

Source: Cox Automotive, CNN

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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

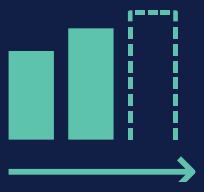
171
Days on Average to Close

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DSMA-FACILITATED **CLOSED TRANSACTIONS**

ACQUIRED

Starting as a purchase of one Georgia Toyota dealership in 2000, the TKO Group has expanded into nine dealerships, finance, and warranty companies, serving drivers across Georgia and North Carolina.

ACQUIRED

The Sorg Auto Group has been serving the Warsaw and surrounding areas for 58 years. The group is a well-run, well-established business that consists of three dealerships and six brands, offering a full line-up of Nissan, Chevrolet, Chrysler, Dodge, Jeep, and Ram vehicles.

ACQUIRED

Rex Perry Auto Group in Nacogdoches and Lufkin, Texas, has expanded into four dealerships – Rex Perry Autoplex, Perry Hyundai, Mike Perry Chevrolet, and Hyundai of Lufkin – serving east Texas.

With a mission to be the automotive home of drivers in the San Augustine, Texas area, Mike Perry Chevrolet provides a vast selection of new and used vehicles.

Bob Kashani & Vladimir Rajcic

ACQUIRED

Bob Kashani and Vladimir Rajcic have acquired Rocket Town Honda.

RocketTown Honda is a Honda dealership based in Lompoc, CA serving Lompoc, Santa Maria and Santa Barbara County.

Mike Terry & Tony Thomas

ACQUIRED

Cannon Ford and Cannon Nissan are located in Blytheville, AR

WHAT OUR CUSTOMERS SAY ABOUT US

"DSMA Mergers & Acquisition represented the sale of our dealership with professionalism and held the highest level of confidentiality during the transaction. Jennifer Rafael, Vice President of DSMA, brought a strategic buyer, TKO Group, and made the process seamless. The hardest part of a sale is the unknown, and the team at DSMA provided a clear path to execute with excellence. Thank you everyone at DSMA and Jennifer Rafael for making this a great experience."

Toby Sorg, Previous owner of Sorg Nissan

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DSMA-FACILITATED **CLOSED TRANSACTIONS**

ACQUIRED

Ed Morse Automotive Group, founded in 1946, consists of 44 locations that house 63 automotive franchises, 13 motorcycle franchises, and 12 other businesses including 25 domestic and import brands, a Clarion Inn hotel, a NAPA Auto Parts retail store, and a 240,000 square foot Parts Center.

Krieger Auto Group, serving customers since 1956, nowadays is comprised of Krieger Chevrolet Buick GMC, Krieger Ford Lincoln, Krieger Chrysler Dodge Jeep Ram and Krieger NAPA Auto Parts, all located in Muscatine, as well as Krieger's Chevrolet Buick GMC in Dewitt, IA.

William Attrachi

ACQUIRED

and

Gallery Ford Pekin is a Ford dealership based in Pekin, IL.

Velde Cadillac Buick GMC & Velde Ford are based in Pekin, IL, serving the greater Peoria market. The dealerships have been operating as two independent and separate businesses and the buyers have acquired two profitable standalone operations.

ACQUIRED

Family owned and operated since 1997, Victory Automotive Group has over 40 location in 10 states representing 14 automobile brands.

Tim Castellaw Automotive is comprised of three exceptional dealerships, Toyota, Ford and Chrysler Dodge Jeep RAM, located in Dyersburg, Tennessee which is situated in the northeastern of part of the state.

WHAT OUR CUSTOMERS SAY ABOUT US

"After 45 years in the automotive business and 34 years as an owner of Velde Cadillac Buick GMC, I decided it was time to retire the business and let the legacy continue. When we met with DSMA and Jennifer Rafael, I knew we would be in good hands. Jennifer Rafael understood our request and provided the M & A knowledge during the process and demonstrated professionalism and confidentiality. Selling a dealership can be pretty daunting with some potential bumps along the way, but the level of guidance, support and compassion from Jennifer & DMSA was greatly appreciated and extremely effective during this emotional journey. I would highly recommend DSMA & Jennifer Rafael if you are thinking of buying or selling your biggest assets."

Rory Griggs, Former Owner of Velde Cadillac Buick GMC

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DSMA-FACILITATED **CLOSED TRANSACTIONS**

Fowler HOLDING COMPANY

ACQUIRED

PEAK KIA NORTH

As a family owned and operated business for three generations since 1973, Fowler Automotive has grown to include 8 dealerships and 2 auto detail shops across Oklahoma City, Norman and Tulsa, Oklahoma as well as Broomfield & Longmont, Colorado.

Peak Kia North is a family-owned business that has been serving the Windsor, Greeley, Fort Collins, and Loveland areas since 2009, in Weld County, the fastest growing county in Colorado.

CASTLE Automotive Group

ACQUIRED

Pugi Auto Group

Castle Automotive Group is a leading automotive dealership group in the Midwest region, a Top 150 Dealer Group in the U.S. The acquisition takes the Group's dealership count to 18 rooftops and 26 new car franchises across Illinois and Northwestern Indiana.

Pugi Auto Group owns 18 locations representing Domestic, Asian, and German brands, consisted of Hyundai, Genesis, Mazda, and VW dealerships, across the Greater Chicago Area.

GERALD

ACQUIRED

KIA HAWKINSON KIA Matteson Auto Mall

HAWKINSON NISSAN Matteson Auto Mall

The Gerald Auto Group is a premier Illinois Ford, Honda, Hyundai, Kia, Nissan, Subaru and Toyota dealer.

Hawkinson Kia and Hawkinson Nissan are Kia and Hawkinson dealerships based in Matteson, IL.

WHAT OUR CUSTOMERS SAY ABOUT US

"When we began our discussion with Jennifer Rafael, Vice President of DSMA, we were impressed with her level of professionalism and attention to detail. DSMA has a defined valuation process that provided us with the critical information which allowed our family to make an informed decision to sell our businesses.

DSMA held the highest level of confidentiality during the transaction and was available every step of the way. The team at DSMA provided a clear path to the execution of our sale. We want to thank DSMA for their commitment to excellence and making this a delightful experience. If you are considering selling or buying a dealership, we highly recommend Jennifer Rafael and the DSMA team."

Bob & Jim Hawkinson, Former Owner of Hawkinson Kia and Hawkinson Nissan

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