US Retail Automotive
2024 Market Outlook Report

KAISER ASSOCIATES

Dave Cantin Group

Introduction to the Market Outlook Report: The Dave Cantin Group partnered with Kaiser Associates to take a 360° look at the trends that matter in the US auto market today

Dave Cantin Group

The Dave Cantin Group has a front-row seat to the US retail auto industry and saw a need for **better data** that would help leaders make **smarter decisions** in today's rapidly-changing environment.

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BUSINESS NEEDS

- **Growth Opportunities**
- **Go To Market Approach**
- **Performance & Productivity**
- **M&A and Corp Dev**

CAPABILITIES

- **Market Analysis & Structural Attractiveness**
- **"Voice of the Market"**
- **Benchmarking & Best Practices**

Kaiser Associates is a global growth consulting firm.

We help translate **original insights into strategy** for ambitious organizations around the world.

*Our research team drew from Kaiser's **Industrial Goods, Consumer, Supply Chain,** and **M&A practices**. For further information, please contact:*

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Research Sources and Methodology

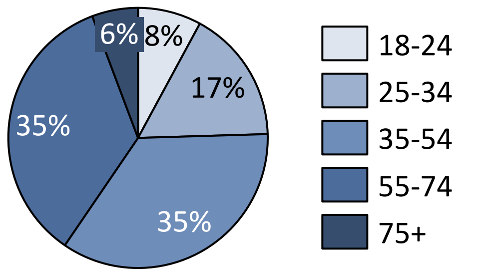
In-Depth Interviews with Auto Industry Leaders

Kaiser is grateful for the insights from leaders in the US auto industry including:

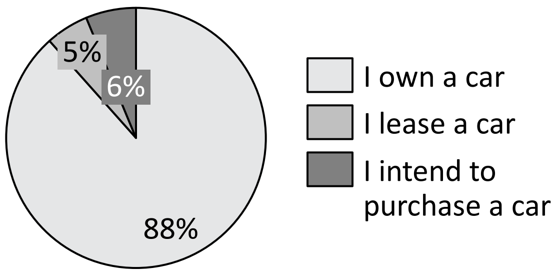
- **Brian Maas**, *President, California New Car Dealers Association*
- **Jim Appleton**, *President, NJCAR*
- **Stephen Dietrich**, *Partner, Holland & Knight LLP*
- **Michael LaMotta,** *CEO, Dealer Owned Warranty Company*
- **Tim Batchelor,** *Open Road Capital*
- **Kevin Tynan,** *Sr Automotive Analyst, Bloomberg Intelligence*
- **Joe Serra,** *Chairman, Serra Automotive*
- **Randy Hoffman,** *COO, Ed Morse Automotive Group*
- **Michael Brown,** *Empire Automotive Group*
- **Brett Hopkins,** *CEO, Ken Garff Automotive Group*
- *And many more*

US Consumer Survey *(January 2024)*

Respondents by Age
(n=1,069)



Respondents by Car Ownership
(n=1,069)



Other Sources

We also leveraged deep research from a number of government and industry sources (including, but not limited to):

- *US Census American Community Survey*
- *Federal Reserve Economic Data*
- *S&P Global*
- *Cox Automotive*
- *SEC Filings from Public Dealership Groups*

The state of US retail automotive at the start of 2024

The US automotive industry has had an **exceptional last few years**. More than one executive (OEM, supplier, or dealership) publicly describes the results since COVID as **"better than we deserved"**. Indeed, over the past 3+ years it seems like everyone won – everyone, that is, *except the consumer* (who has paid higher prices for fewer choices, longer lead times and more competition to get a vehicle at all).

But while the dynamics of the last few years were triggered by COVID shocks, the **forces that are reshaping the industry have been building for years (or even decades)**. Manufacturers have transformed how they operate since the bankruptcies of 2009 with ripple effects throughout the rest of the industry. The EV revolution kicked off with Tesla's Roadster release in 2008. And consumers have embraced a world where car ownership is paired with ubiquitous ridesharing since Uber's 2011 launch. 2020-2023 was unprecedented, but it did not come out of nowhere.

On balance, the industry is entering 2024 **expecting a "new normal"** that won't look quite as attractive as it did in 2023, but better than it did (for manufacturers and dealerships) in 2019. The CEO of a leading private dealership put it this way: *"At the start of 2023, we said we'd be happy with 80% of our 2022 results. We're saying it again this year –* ***and this time we mean it."***

For our 2024 Market Outlook Report, Kaiser Associates attempted to capture the state of the industry at the start of the year (from the perspective of manufacturers, dealerships, and yes, even consumers) and found **seven themes** that were top of mind. Some of these are forces likely to impact performance directly this year; others are issues that will be more important further in the future – but whose implications are already guiding leaders' strategy choices in 2024.

This report collects actionable data, market feedback, and informed opinions from industry players at the start of 2024. We hope it's informative and useful.

The 7 major themes influencing US retail automotive at the start of 2024

External Forces

1. ***Macroeconomics: Soft Landing, Harder Choices:*** The economic climate in the US is healthier than predicted going into 2024 – but a positive macro climate increases the complexity facing the industry
2. ***Politics and Regulation: Unusually Important in 2024:*** The political and regulatory landscape is more important than usual in 2024 (though behind the noise the impact may be muted)

Industry Forces

3. ***OEMs and Supply Chain: In the Driver Seat:*** OEMs will continue to exercise high levels of influence in the value chain even as market and supply chain conditions return closer to normalcy in 2024
4. ***Consumer Trends: Societal Shifts Solidifying:*** Consumer preferences and patterns are *slowly* reshaping this industry – despite regulators and OEMs' attempts to "change the slope of the curve"
5. ***Dealership Trends: Back to the Grind:*** Dealerships should expect to work harder to maintain profitability in 2024 as "average performance" looks more like it did pre-COVID
6. ***EVs: Extremely Volatile:*** The US EV market will become increasingly volatile this year due to slowing demand, shifting OEM investment outlook, and the pending entrance of Chinese OEMs beyond 2024
7. ***M&A Trends & Forecast: Continued Opportunity:*** Dealers have multiple reasons to be optimistic in 2024 and Kaiser expects an active M&A climate this year

Macroeconomics: Soft Landing, Harder Choices

The economic climate in the US is healthier than predicted going into 2024 – but a positive macro climate increases the complexity facing the industry

1 US economy showing strong resilience

- **Economists increasingly expect the US economy to avoid a recession in 2024**
  - Consumer sentiment has improved across Americans of all ages, incomes, education levels, political affiliations, and regions of the country, rising to the highest levels since July 2021[1]
  - The US labor market added ~2.7mn jobs in 2023, with average unemployment at 3.6% (the lowest since 1969)[2]; average hourly earnings growth in 2023 was 4.3%, the third-highest total since 2008
  - Durable consumer spending in 2023 and strong labor market conditions point to many car and light truck-dependent industries recovering well, providing optimistic projections for 2024
- **Kaiser Q1 consumer survey illustrates consumer willingness to spend (including on upcoming vehicle purchases)**

Expected Impact		
Consumer	Dealers	OEMs
POSITIVE	POSITIVE	POSITIVE

2 Tamed inflation to drive interest rate cuts, with mixed ramifications

- **Federal Reserve policymakers think the US is on track for its 2% inflation goal and rate cuts may start mid-year**
- **Kaiser expects purchase financing volume to pick up for consumers; on the other hand, as dealers obtain more favorable floor plan financing, questions about inventory turnover become more prominent**
  - *"Sure, floorplan financing gets more affordable – but that means you have more inventory…and you have to start spending on advertising again!"* – CHAIRMAN, SERRA AUTOMOTIVE

Consumer	Dealers	OEMs
POSITIVE	MIXED	POSITIVE

3 Possible disruptions from geopolitical tensions

- **US-China tensions and Middle East conflicts could disrupt trade flows and manufacturing operations, leading to similar parts shortages and inventory imbalances seen in the immediate post-pandemic years**
  - Red Sea shipping lane closures have already interrupted Tesla and Volvo's production operations
- **Geopolitical conflicts could drive a U-turn on consumer sentiment and lower some OEMs' willingness to make strategic investments**

Consumer	Dealers	OEMs
NEGATIVE	MIXED	NEGATIVE

4 Dealer M&A market is set for activity

- **Dealer M&A activity was fueled by record profits and dealers applying industry expertise to their balance sheet**
  - With significant dealer consolidation taking place in recent years, major public dealers have turned to acquiring assets in tangential areas (e.g., motorcycles, RVs) to diversify their portfolios and bypass OEM restrictions
- **Sustained profitability throughout 2023 was a key driver of dealers accumulating large cash reserves, positioning them to increase their M&A activities in 2024**
  - If interest rates fall and asset prices respond, dealers will have attractive investment and divestiture opportunities

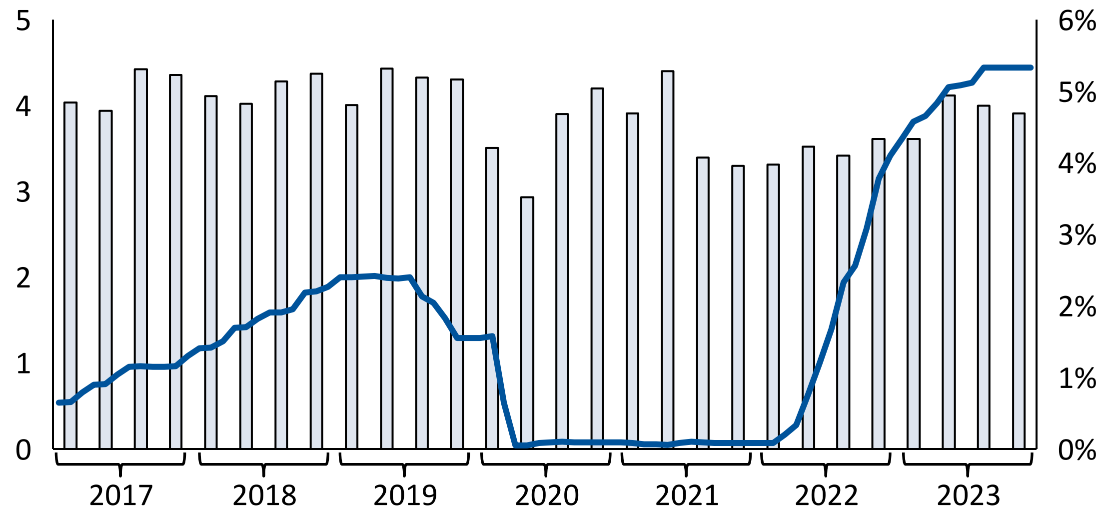
Consumer	Dealers	OEMs
MIXED	POSITIVE	N/A

Source: Kaiser Primary and Secondary Research & Analysis
[1] University of Michigan Survey of Consumers
[2] Bureau of Labor Statistics
[3] See appendix for Expected Impact Definitions

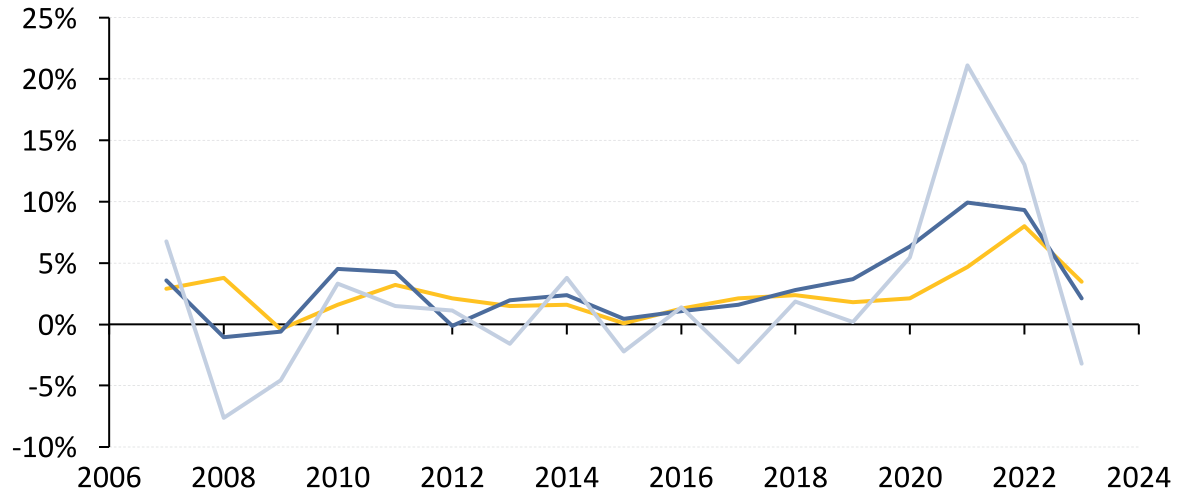
Expected Impact[3]			
POSITIVE	MIXED	NEGATIVE	N/A

Vehicle sales volume is impacted more by macroeconomic conditions than interest rates; Kaiser is optimistic on sales projections as recessionary concerns ease

Quarterly US New Light Vehicle Sales (mn)[1] **Federal Funds Rate[2]**



Inflation Rates & Car Price Growth Rates, 2007-2023



Commentary

- **Historically, macroeconomic trends have outweighed the impact of interest rates on consumer purchasing decisions;** sales volume has rebounded from COVID-induced lows in the face of rising interest rates
  - Interest rates had a similarly marginal impact on sales in the years leading up to COVID with **annual volume remaining steady at ~17mn vehicles per year despite rates more than doubling** from ~1% in 2017 to ~2.4% in 2019
  - However, **falling rates can still spur demand**; the two non-recession years since 2008 with falling Federal Funds Rates (2011 and 2013) saw **YoY increases in sales**
- **New car price growth rates and CPI have historically tracked closely** with one another – with CPI finally outpacing new car price growth rates in 2023
  - Used car price growth rates have been more volatile, **leading growth rates to peak in 2021 due to COVID-related supply chain issues** constraining used vehicle supply
  - Declining inflation and fixing supply chain issues has led to more moderate vehicle prices, but there are **no indications that prices will return to pre-pandemic levels**

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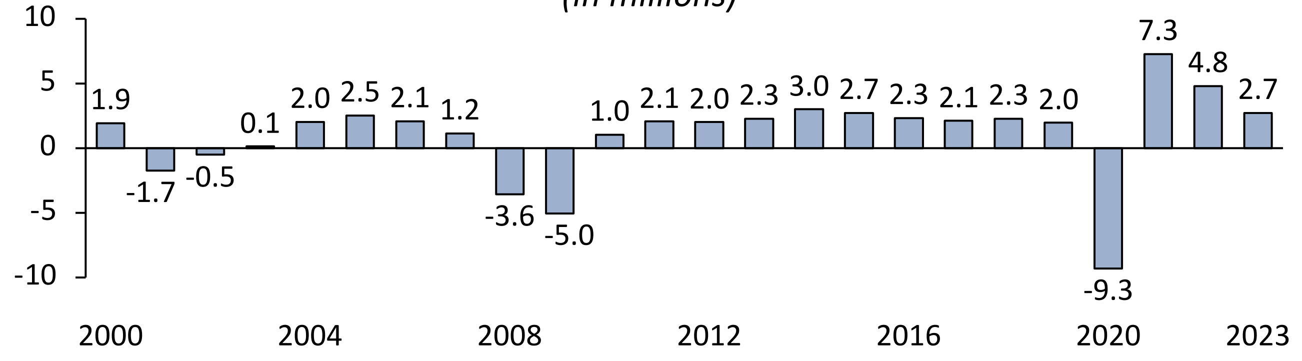
Source: Kaiser Primary and Secondary Research & Analysis
[1] MarkLines Automotive Industry Portal
[2] Federal Reserve Economic Data (FRED)

Macroeconomic and industry vertical-specific circumstances suggest that OEMs, dealers, and consumers alike may be well-positioned for success moving into 2024

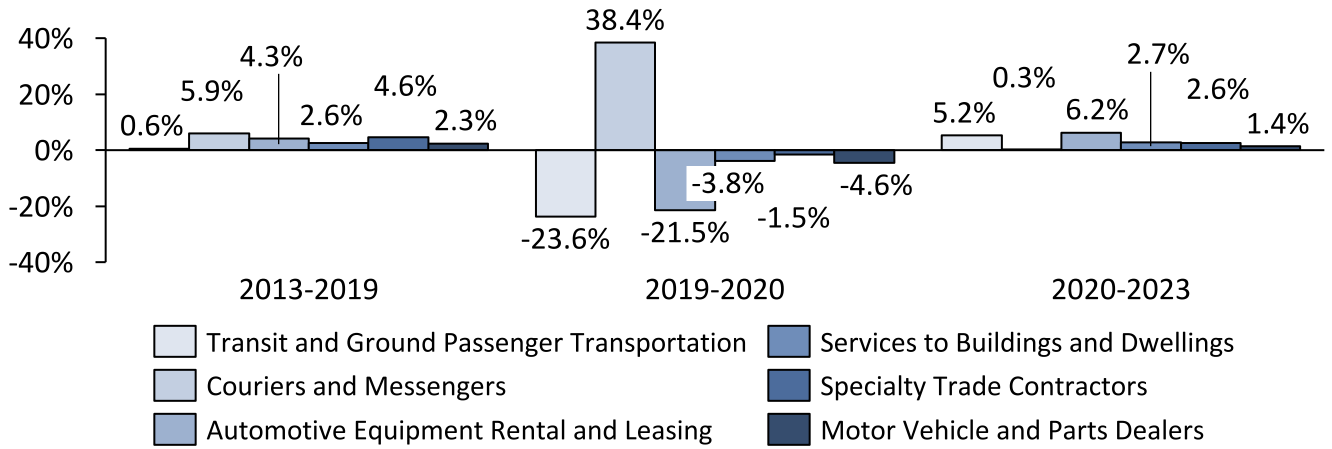
US Job Market Conditions

Jobs Added per Year (Non-Farm Payrolls), 2000-2023[1]

(in millions)



Industry Vertical Employment CAGR, 2013-2023[1,2]



Commentary

- **The US economy defied forecasts for 2023 that called for recessionary conditions, and showed strong performances across multiple metrics**
  - Economic outlooks projected stagnant economic activity, rising unemployment, and only slightly lower inflation amidst high interest rates
  - In reality, the US saw GDP and investment growth, low unemployment figures, steady wage growth, and consistently decelerating inflation, contributing to strong consumer sentiment to end the year
- **Employment figures in key industry verticals[3] for retail automotive sales indicate OEMs and dealers may be poised for strong demand**
  - Industries dependent on light vehicles have mostly recovered from COVID-induced employment dips, excluding Couriers and Messengers who saw increasing employment during the COVID period
  - Dealer employment has also rebounded, increasing to meet heightened consumer demand for vehicles in the immediate post-pandemic years

Source: Kaiser Primary and Secondary Research & Analysis

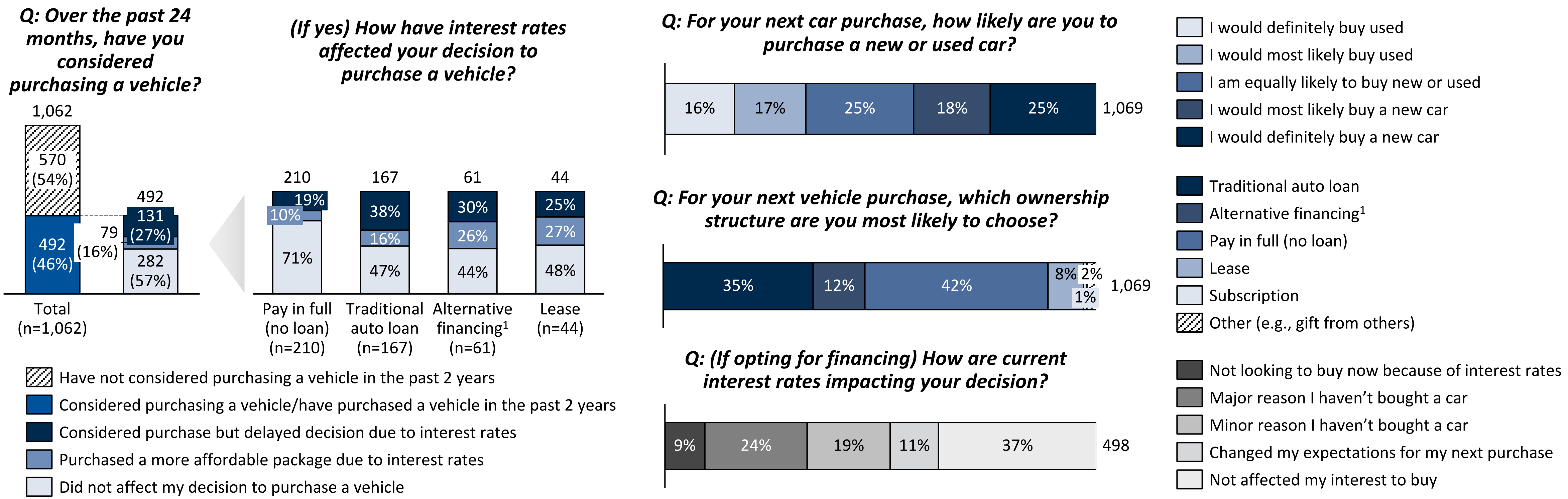
[1] Bureau of Labor Statistics, 2024

[2] CAGR percentages are based on seasonally adjusted figures

[3] See appendix for additional key industry details

A meaningful segment (~25% of consumers) have delayed auto purchases due to higher rates over the past two years; rate reductions may unlock additional demand in 2024

Consumer Perspectives on Interest Rates



Commentary

- **68% of respondents shared they are likely to buy a new car, with 27% of potential vehicle buyers delaying their decision** in the past two years due to rising interest rates
  - Another 16% noted higher interest rates drove them to cheaper purchases; the impact of interest rates is especially pertinent to vehicle buyers looking to finance their purchase (>30%)
- Going forward, anticipated **rate drops in mid-to-late 2024 are likely to unlock pent up demand, resulting in greater vehicle sales**, especially for buyers who wish to purchase through traditional or alternative auto financing models

Source: Kaiser Associates Q1 2024 Consumer Survey

[1] Peer-to-peer loan, manufacturing financing, etc.

Politics and Regulation: Unusually Important in 2024

The political and regulatory landscape is more important than usual in 2024, though beyond the noise dealers will not see much negative impact in the near-term

1 The impact of the CARS Rule will be felt unevenly across states

- **The FTC CARS Rule may add compliance burden on some dealers, particularly those in states with lower existing regulation, but is unlikely to have a significant effect on their way of doing business or on consumer experience**
  - Some dealers worry about negative impact from new compliance (e.g., PII deletion, additional paperwork to ensure compliance), though others believe the Rule may benefit them at the expense of "sketchy" or fraudulent competitors
  - All states already have some regulations designed to protect consumers against false advertising and "bait-and-switch" tactics, but dealers in select states may need to carefully review current advertising and recordkeeping practices, and increase employee training to ensure compliance with the FTC Rule
- **The Rule will be enforced through fines for violations primarily following consumer complaints of misconduct**

Expected Impact		
Consumer	Dealers	OEMs
POSITIVE	MIXED	N/A

2 CARS Act is more political theater than actionable legislation for '24

- **The CARS Act (HB 4468) was introduced to block the EPA's proposed emission rules, but faces an unlikely future in the near-term given Biden's promise to veto it**
  - 15 of 16 automakers who submitted comments support EPA's EV targets, while most dealers oppose the EPA proposal
- **Despite the political noise around the CARS Act, near-term effects should be mostly limited to OEMs, particularly in the 16 states with existing targets for EV adoption**

Consumer	Dealers	OEMs
MIXED	MIXED	NEGATIVE

3 Landscape around EV direct sales will continue to evolve at a state level

- **While 46 US states broadly restrict the direct sale of ICE vehicles, 27 states make exceptions for at least Tesla to sell EVs via a DTC model**
- **Illinois recently expanded direct sales to include Rivian and Lucid via a 2023 ruling; pending legislation in New York and South Carolina could challenge current direct sales restrictions on EV manufacturers**
  - Such rulings apply exclusively to EV-only OEMS, showing continued resistance in allowing manufacturers to directly compete with franchise dealers

Consumer	Dealers	OEMs
POSITIVE	NEGATIVE	POSITIVE

4 Outcome of 2024 election will be most pronounced on EV incentives

- **A Democratic win likely signals continued enforcement of EV rebates and support for EPA emission reduction goals (e.g., vetoing the CARS Act), while a Republican win would likely shift the balance away from EV focus, incentivizing OEMs to increase ICE vehicle production**
  - On the other hand, Chinese EVs face bipartisan resistance; both parties support a 27.5% tariff on imports
- **Regardless of administration, federal-level consumer protections (e.g., FTC CARS Rule) and direct sale restrictions are unlikely to change in the near-term**

Consumer	Dealers	OEMs
MIXED	MIXED	MIXED

Source: Kaiser Primary and Secondary Research & Analysis
[1] See appendix for Expected Impact Definitions

Expected Impact[1]			
POSITIVE	MIXED	NEGATIVE	N/A

The FTC CARS Rule introduces several new requirements on dealers that may add to time and paperwork, but will not significantly change how they do business

Background

- The 2023 Combatting Auto Retail Scams (CARS) Rule is **fighting "bait-and-switch" and "hidden junk fees"** that the FTC claims are impacting the industry
  - This regulatory attention highlights the challenges consumers have faced when buying cars over the last few years, though the degree to which consumers are facing these specific issues when buying cars is hard to determine
- The Rule **aims to minimize practices that negatively impact consumers** through **new requirements for recordkeeping, disclosure, and advertising**
  - Most notably, dealers will be required to clearly state the full price of cars, disclose that extra warranties are not required, clearly disclose impacts of monthly payments on total cost of a vehicle, and maintain records of all such communications for a minimum of 24 months
- The CARS Rule will mostly be **enforced through investigations after consumer complaints of misconduct**; enforcement is expected to be **particularly strict on recordkeeping and financial transparency clauses**, which are considered more "tangible" and easier to enforce than other standards

Implications

- While **Consumers** should **benefit from the FTC CARS Rule**, the actual **impact on car buying will likely be minimal** for the majority of consumers
  - For knowledgeable consumers, the most notable impacts will likely be psychological, as some consumers may overestimate the rate of fraud committed by dealers
- **OEMs** will not see any significant impact from the ruling
- **Dealers** are **most directly impacted by the FTC CARS Rule**, though the **impact on actual business practices will likely be minimal** for most owners
  - Dealers are likely to be most negatively impacted by the administrative tasks tied to deleting PII from all vehicles, retraining staff on requirements, and filling out and retaining paperwork to ensure compliance with Rule
  - Dealers interviewed by Kaiser are not worried about improper enforcement or major business changes; many note new rules are already baked into their ethical practices
  - Some dealers even see potential benefits of eliminating competition from "sketchy" or openly fraudulent competitors, provided enforcement is effective

*"If you're doing things above the board and treating people right, **then there's not a real concern**. The only concern we **have is the documentation and extra time**"*

– CHAIRMAN, SERRA AUTOMOTIVE

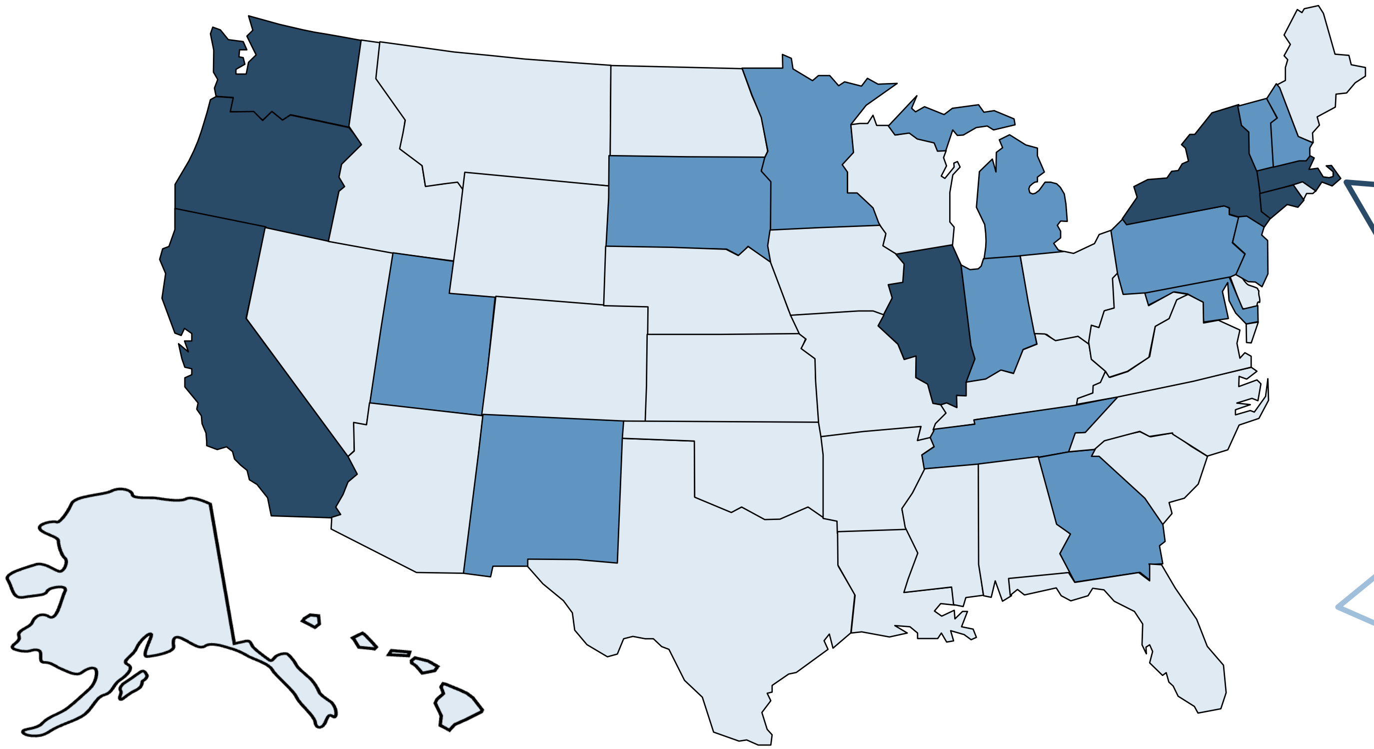
*"[The rule] is **not a threat to us**. We've never relied on questionable fees, and never will. **This rule just codifies what we've made a priority internally forever**"*

– OWNER, MAJOR AUTO GROUP

Source: Kaiser Primary and Secondary Research & Analysis

20 states (including population giants CA & NY) already have state-level consumer protection laws that are comparably stringent compared to the FTC CARS Rule

Status of Similar Regulatory Requirements by State, 2024



Lower Existing Requirements
Moderate Existing Requirements
Higher Existing Requirements

- **Nearly all states** have existing regulations interpreted to **protect consumers against false advertising** or "**bait-and-switch" tactics** in vehicle sales
- States with the **highest regulatory complexity** already have laws more stringent than new FTC mandates – so **dealers in those 7 states will see minimal impact**. An additional 13 states will likely see minimal incremental burden.
  - — E.g., CA outlines specific text that must be included in GAP coverage stating that add-ons are optional
  - — *"The reality is that, in a state like New Jersey, probably* ***99% of what the CARS Rule*** *addresses is already prohibited by state laws"* – PRESIDENT, NJCAR

- **Some dealers in the 30 states with lower regulatory complexity** for auto dealers (e.g., Florida) may be **moderately burdened by new requirements** on disclosure and advertising
  - — For example, some dealers may need to review current advertising to ensure no prohibited terms are included
  - — Training will likely be required to inform salespeople of new requirements for consumer interactions
- **Recordkeeping practices should be reviewed** to ensure compliance; however**, most states already require** records be maintained for at least 2 years[1]

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Source: Kaiser Primary and Secondary Research & Analysis

[1]Based on review of all states' record-keeping requirements for vehicle dealers

The CARS Act is a major topic of political conversation in the industry, but is unlikely to have real implications for dealers or consumers in 2024

Background

- HB 4468, the Choice in Automobile Retail Sales (CARS) Act was **introduced in response to the EPA's April 2023 proposal** for stricter emission rules
  - The EPA's standard aims for greater EV adoption phased in from 2027-2032, ultimately seeking for 67% of new car purchases to be EVs by 2032
  - Critics of the EPA's proposal (and supporters of the CARS Act) believe this to be a de facto mandate on EV adoption
- As of January 2024, the **CARS Act has passed the House**; the future in the Senate is uncertain and **President Biden has vowed to veto HB 4468** should it pass[1]
  - Independent analysts give the bill a ~20% chance of passing; however, even if the Act fails, similar policy could resurface under a new administration
  - Republican candidates have largely refrained from commenting on the Act by name, but statements critical of EV mandates lend credibility to support behind HB 4468

Reactions

- **Environmental groups**, **EV-only automakers**, and **Democratic lawmakers** have rallied in **support** of **the 2023 EPA proposal**
  - Lucid, Rivian, and Tesla all submitted public comments supporting the EPA's strictest emissions standards
- **Other OEMs largely supported some version of the EPA's proposal** due to heavy investment in EV production over the last few years
  - Excluding EV-only brands, 15 of 16 automakers who submitted public comments support some version of EV targets aligned with the EPA's proposed standards for 2032
  - Mazda opposes the EPA proposal
- On the other hand, the **NADA**, most **independent dealers**, **energy companies**, and **trucking firms** support the CARS Act and oppose **the EPA's proposed standards**
  - Dealer critiques largely stem from the lack of consumer interest in EV adoption over the last few years, leading to oversupply

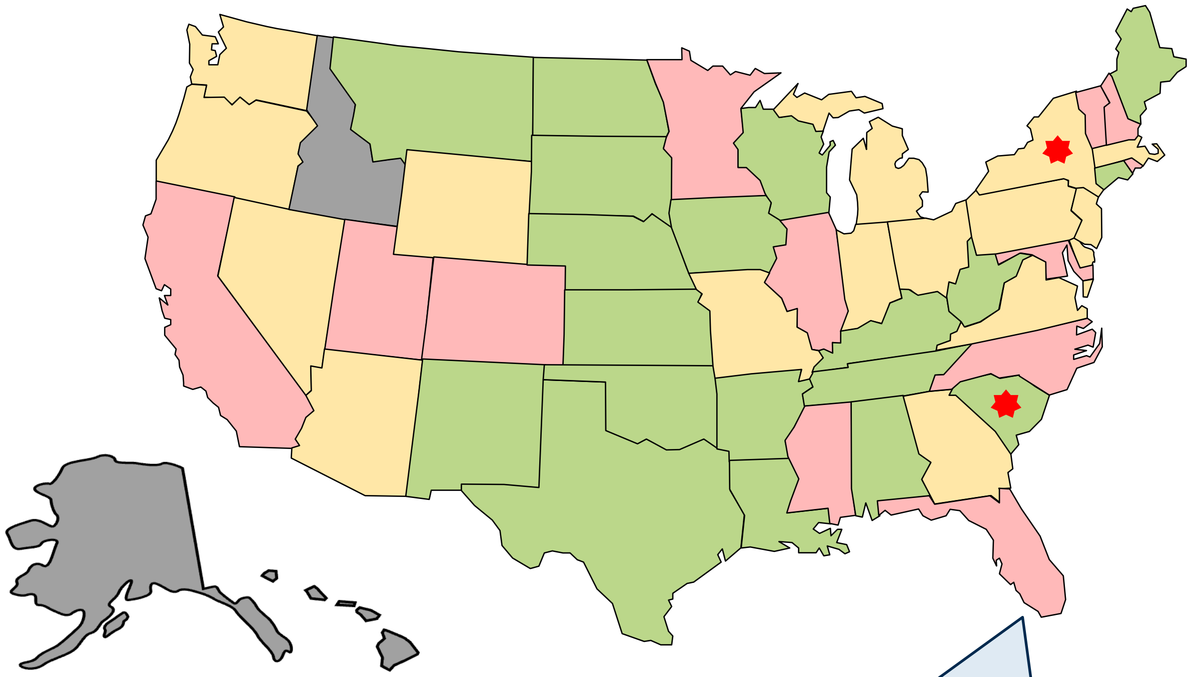
Implications

- **Despite the noise** around the CARS Act from automakers and lawmakers, the **near-term effects of the Act are likely to be minimal**
  - **Dealers** interviewed by Kaiser believe the impacts of the CARS Act or EPA standards will be minimal, if mentioned at all
  - **OEMs** may see less reason to invest in EVs should the Act pass, but many have already reduced year-to-year investments
  - **Consumers** say they purchase EVs due to environmental concern, performance, ownership cost, and driving experience more frequently than they cite regulation
- **16 states** have EV standards **equal to or stricter than those proposed** by the EPA; impact in these states will likely be **even less notable**
  - Additionally, DE and PA have LEV standards
- Long-term, EV adoption standards will likely be **more impacted by how consumers shop**
  - Dealers' concerns over EV mandates may lessen should consumer adoption grow

Source: Kaiser Primary and Secondary Research & Analysis
[1]Politico, 2023

States universally ban manufacturers from competing with franchised dealers, though 26 states currently allow at least one EV-only manufacturer to sell direct-to-consumer

State of Direct Sale Restrictions, 2024



- EV Direct Sales NOT Restricted
- Direct Sales Banned; Tesla Exception
- Direct Sales Banned for All Manufacturers
- No Clear Regulation on Direct Sales
- State with Pending Legislation

Florida HB 637 *(passed June 2023) exemplifies the increasingly common type of legislation which* ***claims to ban direct sales,*** *but* ***explicitly makes exceptions for brands that have never sold through a dealer*** *(e.g., Lucid, Rivian, and Tesla)*

Background

- 46 US states **explicitly ban direct sales of ICE vehicles**, though **27 of these states make exceptions for EV-only manufacturers**
  - 17 states have regulations which effectively only allow Tesla to sell directly to customers, while 10 states allow any EV-only manufacturer without an existing franchised dealer presence in the state to do so
  - New Hampshire is the only state that allows the direct sale of ICE vehicles in addition to EVs, so long as manufacturers do not compete with franchised dealers of the same make

Where to Watch

- **Illinois recently allowed expanded direct sales** with a judicial ruling in January 2023 to allow direct sales for Rivian, Lucid, and Tesla; the ruling came as a result of a **failed lawsuit from dealers**
  - Legislation in other states allowing direct sales are mostly the result of two national pushes from Tesla in 2009 and 2017
- New York and South Carolina currently have **pending legislation which could challenge direct sales restrictions**
  - S. 1763 in New York would allow direct sales for manufacturers without dealers in the state; current New York law only allows EV OEMs with operations prior to 2014 to sell directly (effectively restricted to Tesla)[1]
  - SC Congressman Mike Burns introduced SB 379 in 2021 to allow Tesla and other EV-only manufacturers to sell direct; the bill stalled in 2022, but is likely to resurface due to bipartisan support in the state
  - Neither bill would allow OEMs to directly compete with dealers

Source: Kaiser Primary and Secondary Research & Analysis

[1]The New York State Senate, 2023

The 2024 election will have the greatest long-term impact on EV incentives and EPA's mandates; the CARS Rule, direct sales, and China EV regulation will likely be unaffected

2024 PRESIDENTIAL ELECTION

Level of impact

EV Incentives	• The Biden administration will **continue to enforce the EV rebates provided through the IRA** to increase adoption and reduce emissions to combat climate change	• Republican candidates, namely Trump, have **criticized EV subsidies** and **may push legislation to modify rebates** if they win the election — **OEMs** may shift production priorities based on expected rebate structure — Impact to **Dealers** and **Consumers** in **2024** will be **minimal**, but may be more significant in the long-term if EV subsidies are eliminated
CARS Act & EPA Mandate	• Biden **vows to veto the CARS Act** and **supports EPA goals to significantly increase EV adoption** by 2032 — **Dealers** in states without their own stronger mandates for adoption may see greater pressure to sell EVs — **OEMs** will likely continue current level of investment in EVs, but may scale back depending on the rate of consumer adoption	• Republican candidates have **not commented on the CARS Act specifically**, but are **broadly skeptical of EPA mandates** for EV adoption — **Dealers** may see less pressure to sell EVs, unless **Consumer demand** separately pushes the sector, particularly in some states — **OEMs** may decrease investment in EVs over time, though many states have their own mandates encouraging production
FTC CARS Rule	• Aligning with the Biden administration's goal of protecting consumers from "junk fees", Biden will **support enforcement** of the FTC CARS Rule if re-elected, resulting in greater **regulatory scrutiny** for **Dealers**	• Republican candidates are generally skeptical of increased federal regulatory oversight, but **the FTC CARS Rule is unlikely to be impacted**, and **scrutiny of Dealers** will **remain constant**
EV Direct Sales	• Likely **minimal change** to direct sales model for EVs, which is **generally decided at the state level**	• Haley has **criticized EV direct sales at the state level**, but would be **unlikely to enact any federal legislation opposing the practice**
China EV Regulation	• Biden **supports a 27.5% tariff** on Chinese imports and opposes broad entrance of Chinese EVs into the US market	• Trump **supports a 27.5% tariff** on Chinese imports and opposes broad entrance of Chinese EVs into the US market; may take an even stronger stance **opposing Chinese OEM entry into the US car market**

Source: Kaiser Primary and Secondary Research & Analysis

OEMs and Supply Chain: In the Driver Seat

OEMs will continue to exercise high levels of influence in the value chain even as market and supply chain conditions return closer to normalcy in 2024

1 Production and inventory levels gradually stabilizing

- **New vehicle supply is expected to normalize as OEMs ramp up annual vehicle production to pre-pandemic levels, but used vehicle supply may remain relatively low due to supply chain issues from recent years**
- **OEMs will continue to favor producing larger, more expensive, technologically advanced vehicles**
  - Consumers prefer larger vehicles such as SUVs and Pickup Trucks, and are reluctant to give up certain quality-of-life features, helping OEMs sell more expensive vehicles with higher margins

Expected Impact

Consumer	Dealers	OEMs
POSITIVE	MIXED	MIXED

2 OEMs are re-evaluating their production plans

- **OEMs are scaling back EV production plans and investments due to slowing EV adoption in the US, re-allocating more focus on Hybrid and Battery Electric vehicles (BEVs)**
  - They still plan to leverage subsidies and incentives to offset EV production losses while setting a foundation for long-term EV production
- **OEMs are prioritizing cost optimization through product mix simplification and continuous improvements in their supply chains as consumers demand increasingly complex BEV and ICE vehicles**

Consumer	Dealers	OEMs
MIXED	MIXED	POSITIVE

3 Profitability expected to decline from record-highs

- **OEMs anticipate profitability to decline from record-high levels during the immediate post-pandemic years as supply chain issues are resolved, inventory levels improve, and economic circumstances both increase costs and reduce demand**
  - Record-high new vehicle prices peaked in early-2023 due by inflation and low vehicle supply, but are likely to continue decreasing as vehicle supply improves and macroeconomic circumstances reduce demand

Consumer	Dealers	OEMs
POSITIVE	MIXED	MIXED

4 Post-pandemic supply chain shifts continue

- **OEMs have already made several changes to their supply chain operations following pandemic-related disruptions, pursuing nearshoring to improve supply chain resiliency and agility**
  - IRA incentives to boost domestic EV production play a significant role in recent changes, but can also benefit ICE vehicle production
- **Sustainability remains a key priority, driving more environmentally friendly sourcing and production practices**

Consumer	Dealers	OEMs
POSITIVE	POSITIVE	MIXED

Source: Kaiser Primary and Secondary Research & Analysis
[1] See appendix for Expected Impact Definitions

Expected Impact[1]

POSITIVE	MIXED	NEGATIVE	N/A

OEMs expect 2024 to return closer to pre-pandemic conditions, but are adjusting production focuses based on adapting consumer preferences and cost considerations

OEM Considerations – Vehicle Production

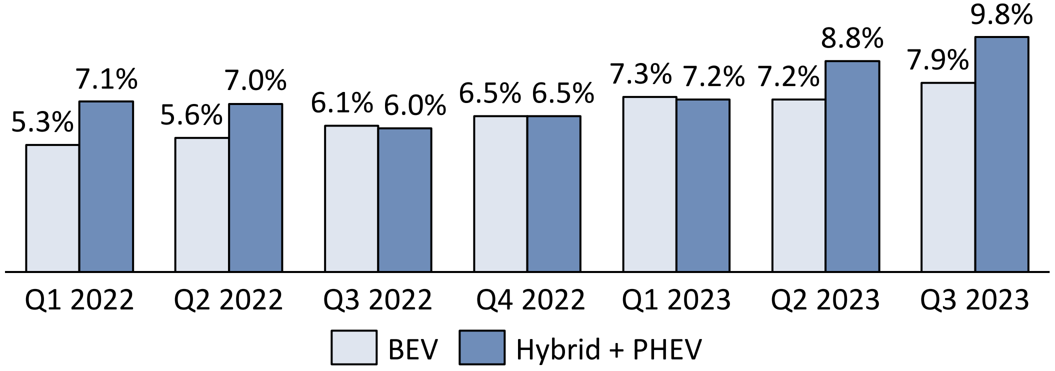
1. **OEMs project annual vehicle production to return to pre-pandemic levels globally due to improved supply chains, leading to better new vehicle inventory levels**
   - Used vehicle supply will remain relatively constrained due to supply chain issues from recent years and fewer consumers leasing vehicles, but is gradually improving
   - The supply of the (more desirable) used car segment that are 1-4 years old is relatively small due to new vehicle inventory level issues since 2020

2. **Legacy OEMs expect most of their production in the near-term to be a mix of ICE and Hybrid vehicles, with less emphasis placed upon EVs than in recent years**
   - Multiple OEMs have scaled back EV production targets amidst slowing EV adoption (4% CAGR) relative to hybrid adoption (~17% CAGR) in 2023
   - Recent heavy OEM investment in EV and battery production capacity has aimed to take advantage of subsidies to partially offset costly EV production losses and set a foundation for long-term adoption

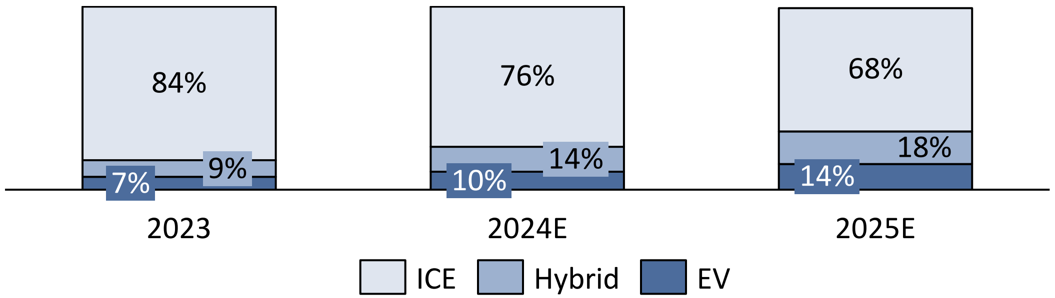
3. **OEMs are moving towards larger, more expensive vehicles equipped with technologically advanced features due to customer demands and higher margins**
   - Pickup Trucks and SUVs are the best-selling segments with higher inventory turns and margins
   - New vehicle sales priced <$25K have dropped since 2017 and now account for <5% of all sales, while those >$60K have increased and are ~25% of all sales[1]

4. **Vehicle complexity will be streamlined to benefit multiple members of the value chain, especially as EVs coexist with ICE platforms**
   - Reducing component complexities and product mix while re-using vehicle platforms can help OEMs save costs on R&D, inventory, and quality control while boosting efficiency and scale benefits with suppliers
   - Simplifying the purchasing decision-making process enhances the customer experience

US Market Share per Vehicle Type[1]



US Vehicle Powertrain Sales Mix[1]



*"**Customers generally prefer larger vehicles** and **OEMs like to push luxury vehicles because they have higher margins**. Plus, when you add things like autonomy, ADAS, or adaptive cruise control, **customers do not want to give up those advanced features** and you can bump up the prices even more"*

– FORMER DIRECTOR, OEM

Source: Kaiser Primary and Secondary Research & Analysis
[1] Cox Automotive, 2023

OEMs are navigating a shifting market environment amidst changes in sales channels, fiscal headwinds, and industry competition

OEM Considerations – Strategic Planning

Topic Area	*Impact*	*Commentary*	*Quote(s)*
Future Profitability	**HIGHER**	• **OEMs expect profitability to continue declining** from record-levels in recent years – **Average new vehicle prices have consistently increased over the last decade**, peaking in early-2023 due to supply chain issues affecting production and distribution – **Inventory levels will improve in 2024 as supply chain issues ease and put downward pressure on vehicle prices**, though demand may be tempered by high interest rates, inflation, and lingering recessionary concerns – **Rising raw materials costs, high wages and skilled labor shortages, and investments in new technologies and production capacity** may also impact margins • Some OEMs are **exploring new revenue streams through subscription models, car feature subscriptions, or services** such as fleet management software and vehicle data collection	*"We've definitely **gotten back to inventory levels faster** than most of us were expecting."* – CHAIRMAN, MAJOR DEALER GROUP *"Manufacturers are realizing that price increases are close to maxed out – the idea of **subscription- or services revenue has a more concrete appeal** now that there are not the obvious price/volume levers to pull to grow revenue."* – ATTORNEY, M&A ADVISOR
Selling Model	**MEDIUM**	• **OEMs are mixed on adopting direct-to-consumer selling models in the US**, with legacy OEMs like Ford and Hyundai implementing it, and upstart OEMs like Tesla, Lucid, and Rivian adopting it while Fisker has abandoned it – While **attractive for cost-cutting and brand control**, **pivoting to direct sales models would require OEMs to invest heavily** in online infrastructure, logistics, and customer service networks, posing new challenges and increased cost • Consumers express **some interest in the DTC model, but share concerns** on where to go for vehicle servicing and parts if dealership networks are unavailable	*"**Big OEMS like Ford, GM, and Stellantis want to focus on their specialties of customer research, vehicle design, manufacturing, and marketing**, leaving the dealers to handle the sales process and service aspect"* – FORMER DIRECTOR, OEM *"Many OEMs have tried to get the best of both worlds: **getting as close to an agency model as possible without taking on the true risk that dealers do**. As conditions get a bit tougher for dealers this year, **we'll probably see that soften a bit**"* – PRESIDENT, NJCAR
Competitive Dynamics	**LOWER**	• **The competitive landscape and dealer-OEM relationships will only continue to evolve** as upstart OEMs mature and legacy OEMs continue adapting to consumer preferences • **Chinese OEMs are in the early stages of attempting to enter the US market**, but face barriers from steep tariffs and political dynamics preventing entry – Some OEMs are producing and selling vehicles in Mexico as a strategic entry point into the North American market, paving the way for IRA qualification and potential US market entry	*"Chinese OEMs are close to meeting regulatory requirements for things like safety, so **lower-priced Chinese cars may soon enter the US market** just like Japanese and Korean cars did"* – VICE PRESIDENT, SUPPLIER *"I've seen the **OEM-dealer relationship change a lot** after 42 years in the business: not necessarily good or bad, it's just the most different"* – CHAIRMAN, SERRA AUTOMOTIVE

Source: Kaiser Primary and Secondary Research & Analysis

Relative Level of Impact: *Higher* / *Medium* / *Lower*

OEMs continue to bolster supply chain resiliency following pandemic-induced issues while accommodating new consumer preferences and upcoming regulations

OEM Considerations – Supply Chain

Topic Area	*Impact*	*Commentary*	*Quote(s)*
US Production Capacity	**MEDIUM**	• **Most OEMs have announced plans to increase investment in their US production capacity,** albeit at somewhat reduced levels from initial plans due to slowing EV adoption – Doing so may lower lead times and transportation costs while improving quality control and supply chain agility, but **it may come with higher labor costs and more strict regulations around safety and environmental impact, increasing compliance costs** – OEMs are increasingly **interested in adopting more automation to enhance productivity and safety while offsetting higher raw material and labor costs** with new UAW contracts, particularly when robots are easier to install in new facilities vs. retrofitting existing factories	*"Decreased volume demands, and higher labor and raw material costs have changed how pricing works between OEMs and suppliers.* ***OEMs have found different ways to ensure they stay profitable****, using more automation or having suppliers produce parts as modules so assembly requires fewer labor hours"* – VICE PRESIDENT, SUPPLIER
Supply Chain Structure	**MEDIUM**	• Supply chains have largely recovered from the pandemic and **OEMs have placed a greater emphasis on nearshoring** to improve supply chain operations, often at a higher cost – Locating suppliers closer to local production plants helps to lower **logistics costs while improving agility** and responsiveness to changes – OEMs are doing **less single-country sourcing to avoid overreliance and improve supply chain resiliency** amidst uncertain global trade policies and potential protectionism • While conditions have improved since 2021, **chip supply may be an issue** in future years – **Automotive OEMs may not face issues in 2024 as allocations are strong** and they have stockpiled chips amidst less chip demand from other industries[1] – Issues may come up after 2024 if non-automotive chip demand rebounds	*"****COVID led to a lot of supply chain changes*** *– many OEMs were locked in to 6, 7, or 8 year contracts with suppliers that were upended by* ***big cost increases and shortages****. Some of those led to higher prices for new vehicles, which we're starting to see stabilize some now"* – FORMER DIRECTOR, OEM
Sustainability	**LOWER**	• **OEMs are gradually implementing more sustainability in their supply chain operations**, using **alternative materials** and **adopting closed-loop processes** to save costs and lower environmental impact – **Diversifying and using more sustainable materials** helps OEMs reduce their reliance on scarce resources like rare earth metals or high demand materials like steel or copper – Closed-loop processes allows OEMs to **re-use materials and old vehicles** which would otherwise be wasted	*"OEMs have been very focused on building and selling cars,* ***some haven't looked hard at circular manufacturing to re-use or recycle materials*** *until more recently. Doing this properly will need* ***big mindset shifts around vehicle design and manufacturing processes*** *so ongoing operations aren't disrupted"* – VICE PRESIDENT, WHOLESALE BANKING

Source: Kaiser Primary and Secondary Research & Analysis
[1] S&P Global

Relative Level of Impact: Higher / Medium / Lower

Consumer Trends: Societal Shifts Solidifying

Consumer preferences and patterns are *slowly* reshaping this industry – despite regulators and OEMs' attempts to "change the slope of the curve"

1 Commuting declines since COVID mostly offset by higher non-work mileage

- **While commuting miles have decreased since 2019, overall miles driven in 2023 are close to 2019 levels, as consumers have substituted commute times for time spent driving for errands**
  - Full teleworking has regressed from 19% to 13% from 2021-2023, but is unlikely to return to pre-pandemic levels; at the end of 2023, ~80% of consumers reported commuting to work via car vs. 85% pre-pandemic
- **Consumers spend ~10% less time in their car on average than in 2019, as long commutes have been traded for more frequent shorter trips**

Expected Impact		
Consumer	Dealers	OEMs
POSITIVE	POSITIVE	POSITIVE

2 Ridesharing is unlikely to replace vehicle ownership

- **Ridesharing services should continue to see steady growth in 2024 – younger consumers increasingly consider rideshare both as passengers and as an occasional source of income**
  - Over 35% of consumers aged 35 or below express interest in offering rideshare services in the next year; however, this interest may not translate to action as states increasingly regulate drivers through age restrictions (e.g., must be at least 25 to drive in California)
- **Even with increasing ridership, consumers do not anticipate replacing their ownership of cars with rides – instead, they tend to supplement driven miles with passenger miles**

Consumer	Dealers	OEMs
POSITIVE	POSITIVE	POSITIVE

3 Preference for light trucks and SUVs continues to increase…

- **Truck preference continues to grow (even with a high baseline) as 53% of consumers are most likely to choose an SUV or Truck for their next vehicle, compared to 46% who currently drive an SUV or Truck; in contrast, only 26% are likely to choose a sedan**
  - This aligns with a broader trend of OEMs moving away from Sedan and Coupe models and consumers prioritizing safety and versatility
- **Despite this shift, reliability and affordability remain the top two factors buyers consider**

Consumer	Dealers	OEMs
MIXED	POSITIVE	POSITIVE

4 …but enthusiasm for EVs may be stalling

- **Only 13% of respondents expect to adopt EVs for their next vehicle purchase vs. 56% who select ICE vehicles as their first choice**
  - However, 30% expect to buy a Hybrid vehicle, showing some enthusiasm for lower-emission vehicles remains
- **Regional trends persist: Urban areas see the bulk of EV adoption, and West Coast and Northeast states see higher consumer interest in adopting EVs; Southeast (excl. FL) and Midwest states see the lowest interest**

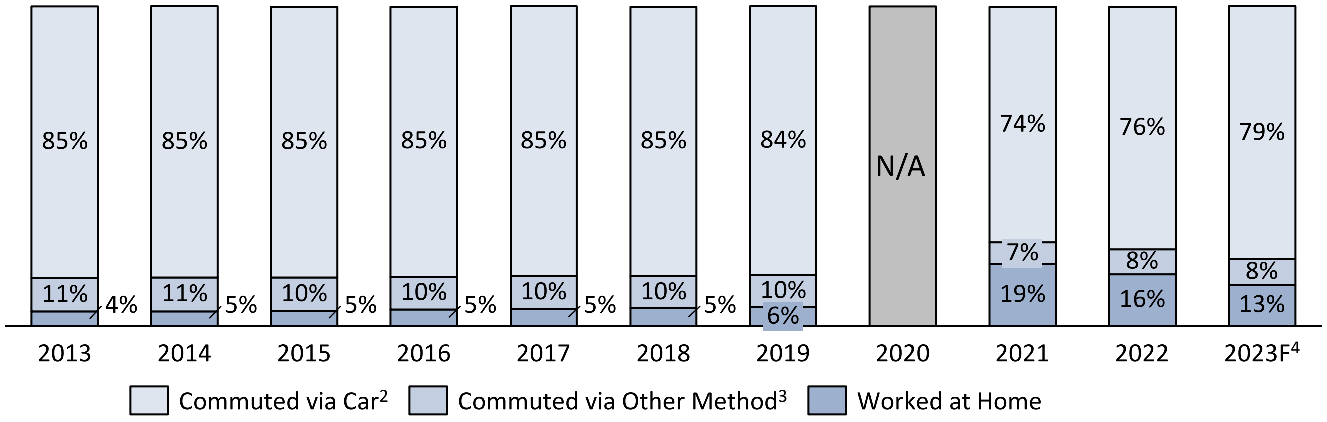
Consumer	Dealers	OEMs
MIXED	POSITIVE	MIXED

Source: Kaiser Primary and Secondary Research & Analysis
[1] See appendix for Expected Impact Definitions

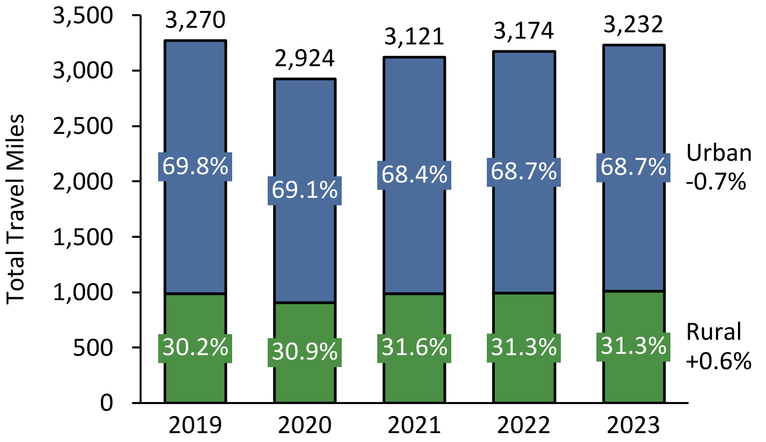
Expected Impact[1]			
POSITIVE	MIXED	NEGATIVE	N/A

US driven miles are nearly back to pre-pandemic levels as errands make up the gap from reduced commuting amid hybrid work schedules

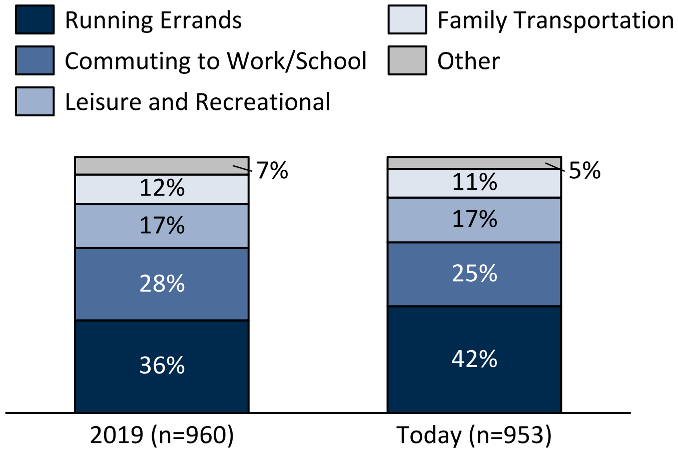
US Commuting by Method, 2013-2023[1]



US Total Travel in Vehicle Miles (bn), 2019-2023[5]



Share of Primary Vehicle Usage[6]



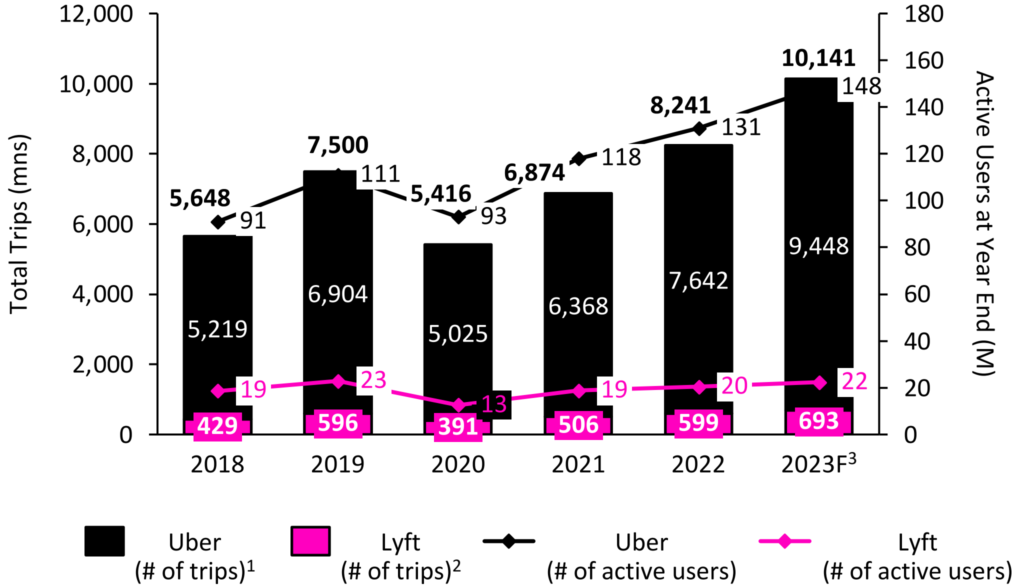
Commentary

- **Remote working spurred a notable decrease in car commuting that appears to be part of a longer-term adoption of working from home**
  - Work from home had been steadily growing in popularity since at least 2013, but 2020 saw teleworking rates spike
  - Teleworking's prevalence has since regressed somewhat, but remains more than twice as common as it was in 2019
- **Even while car commuting has become less prevalent, overall travel in vehicle miles has nearly returned to 2019 levels due to higher mileage from non-work tasks**
  - Vehicle utilization for commuting continues to stay below pre-COVID levels, with an average of 25% of driving time spent commuting (vs. 28% pre-pandemic)
  - However, this reduction in commuting mileage has largely been replaced by an increase in the share of time spent running errands
  - Rural travel, which is highly dependent on personal vehicle ownership, comprises a slightly larger share in 2023 than prior to the pandemic due to emigration from urban centers
- **Consumers report an average of ~46 minutes driving per day (vs. 51 minutes in 2019)[6], indicating that even as mileage has returned to pre-COVID levels, some drivers aim to spend less time per day in the car**

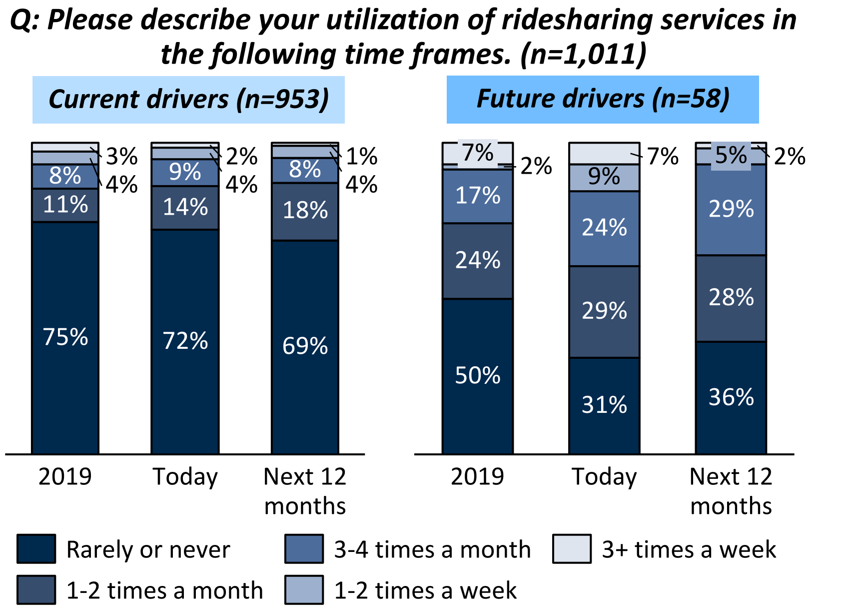
Source: Kaiser Primary and Secondary Research & Analysis
[1] US Census
[2] Includes driving alone and carpooling
[3] Includes public transport, walking, bicycling, and taxi
[4] Forbes data used for share working at home
[5] Federal Highway Authority
[6] Kaiser Associates Survey, 2024

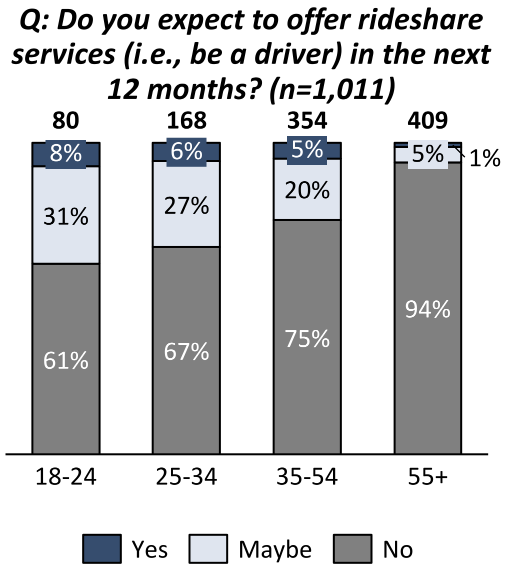
Growth in ridesharing services is likely to stabilize as user adoption is largely reserved for supplementary transportation, and for younger drivers, a secondary source of income

Uber and Lyft Usage Statistics, 2018-2023



Trends in Ridesharing





Commentary

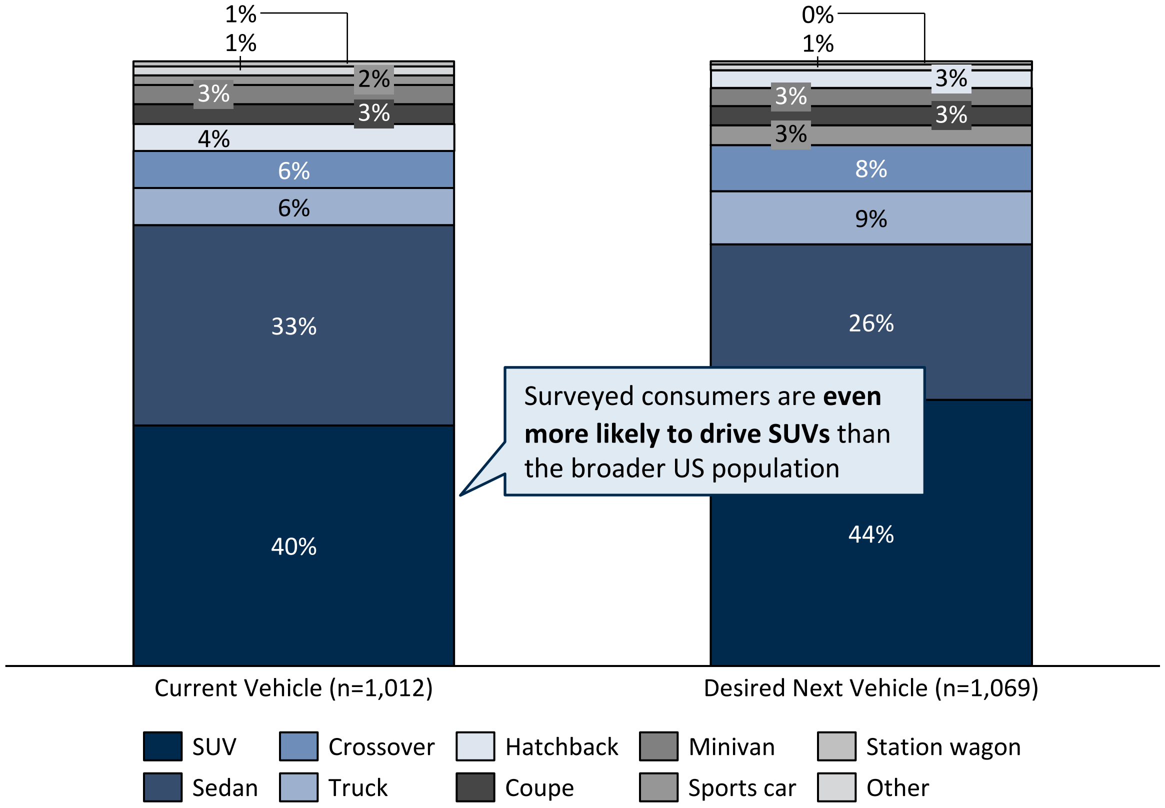
- **Despite a COVID-induced lull in demand in 2020, ridership and usership have shown strong overall growth (21% CAGR in total trips from 2021-23, 12% CAGR in active users from 2021-23), and is expected to grow steadily in the coming year as indicated by current driver preferences**
- **While consumers are open to adopting rideshare, it is not viewed as a suitable replacement to vehicle ownership; future drivers actually plan to reduce ridesharing usage upon vehicle purchase**
  - The increasing interest of younger drivers in providing rideshare services may be curbed by industry and state-level barriers such as minimum age requirements; for example, ridesharing drivers must be at least 25 to drive for Uber in California
- **Growth in ridesharing will be margin accretive to dealers, replacing lower-margin fleet sales (e.g., to taxi companies) with higher-margin sales to individual rideshare drivers**

Source: Kaiser Associates Q1 2024 Consumer Survey
[1] Annual filings, includes non-rideshare segments such as Uber Eats
[2] Annual filings, includes non-rideshare segments such as scooter and bike share
[3] FY23 Q4 results are projected based on available FY23 data

Consumer intent to buy more SUVs aligns with a broader OEM shift away from Sedans, and likely portends higher revenue and margins for dealerships

Consumer Vehicle Body Style Preferences

Q: What is the body style of your primary vehicle? / For your next car purchase, which vehicle body style are you most likely to choose?



Commentary

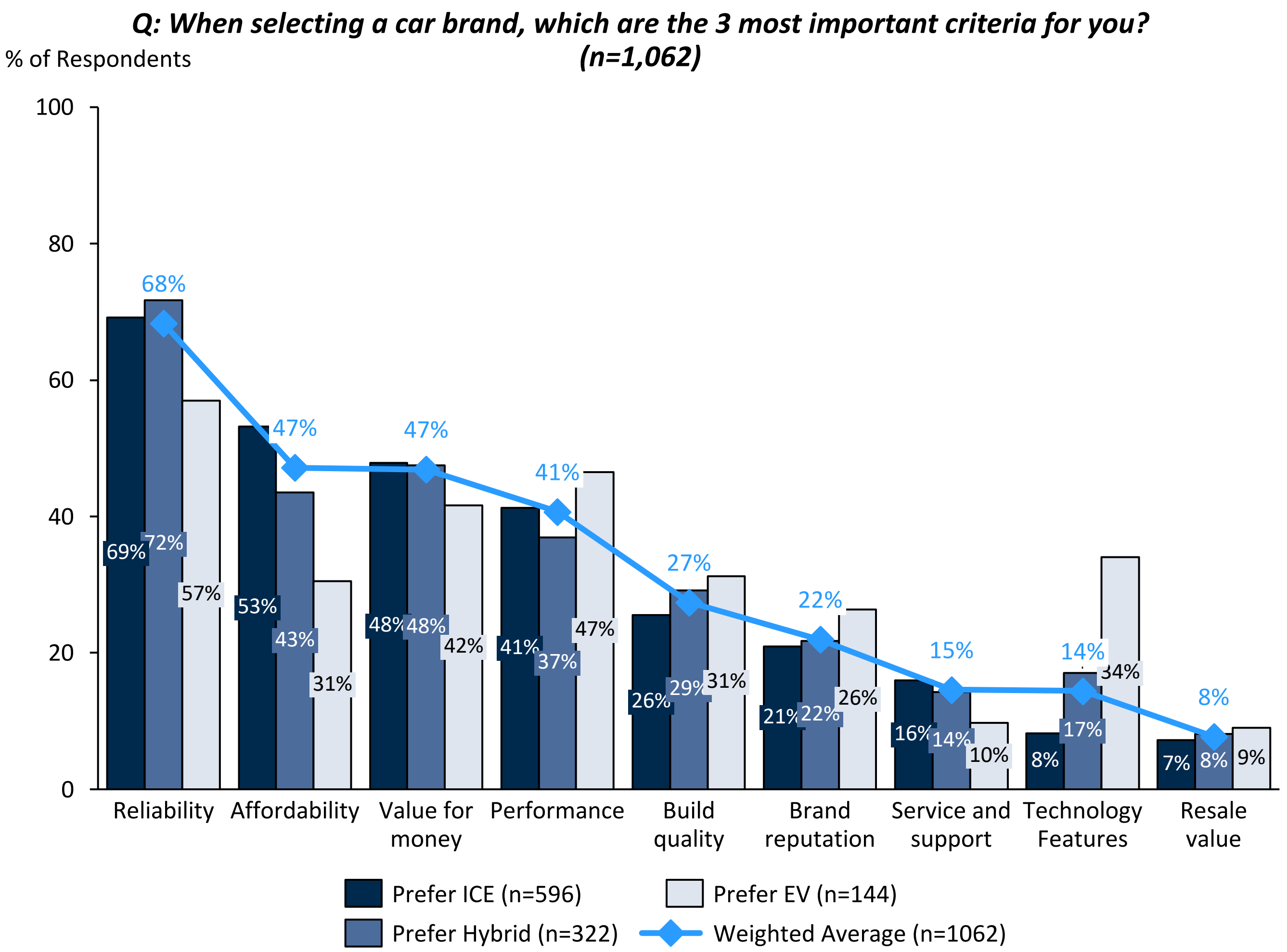
- **Stated consumer preferences align with a broader trend in the industry where new vehicle purchases increasingly lean toward SUVs and Pickup Trucks**
  - In 2022, **only ~21% of new purchases were Sedans or Coupes** while ~55% were SUVs, compared to the ~35% Sedan / 36% SUV split of cars currently on the road[1]
- **Consumers may be moving toward SUVs because of reliability, versatility, and safety, despite higher price tags**
  - This shift may also align with brand preference: some of the brands consumers are most likely to buy are primarily known for SUVs
- **OEMs are also driving the shift: numerous brands have phased out Sedans entirely in the US, and others have discontinued their midsize models**
  - E.g., Nissan retired the Maxima, Toyota retired the Avalon in 2023, Volkswagen retired the Passat in 2022, and Ford announced a re-focus on SUVs in 2020
- **For dealerships, increased SUV sales will mean higher revenues (due to higher average MSRP), higher profits (due to higher margins on SUVs), and possibly higher financing income as consumers take out loans to afford higher MSRPs**

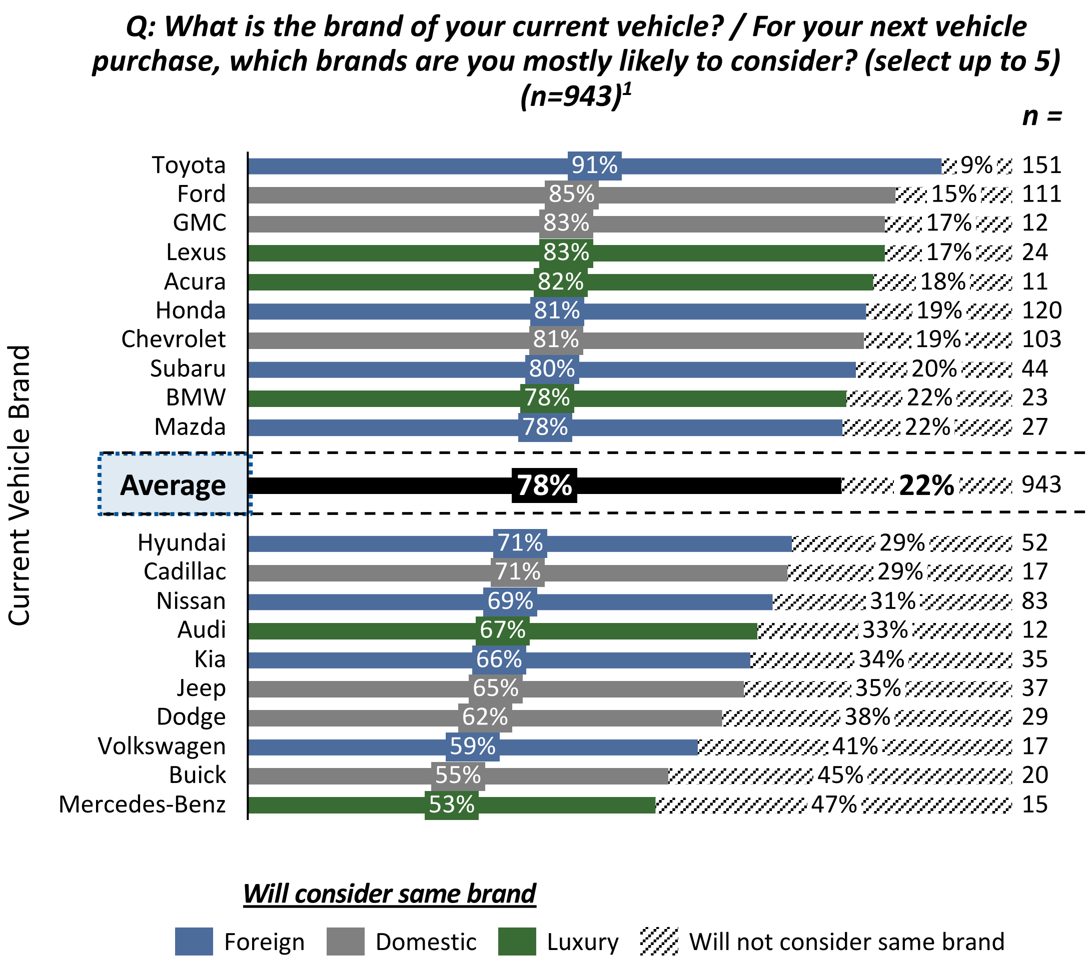
Source: Kaiser Associates Q1 2024 Consumer Survey

[1] Alliance for Automotive Innovation, 2023; 2022 is most recent year with full data

Consumers prioritize reliability and value when selecting a car brand; future brand considerations suggest consumers are generally satisfied with OEMs today

Consumer Brand Loyalty Deep Dive





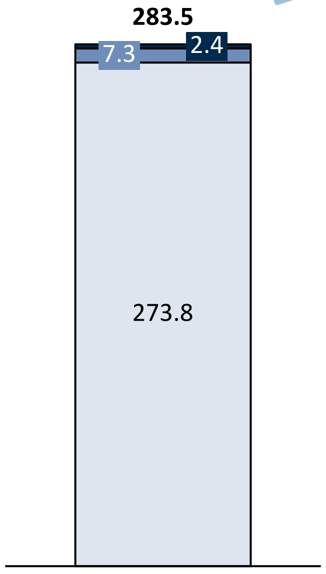
Source: Kaiser Associates Q1 2024 Consumer Survey

[1] Only showing brands with more than 10 respondents (incl. average)

Research indicates consumer interest in Hybrids is outpacing interest in EVs; West Coast and Northeast states continue to drive adoption whereas Southeast states trail

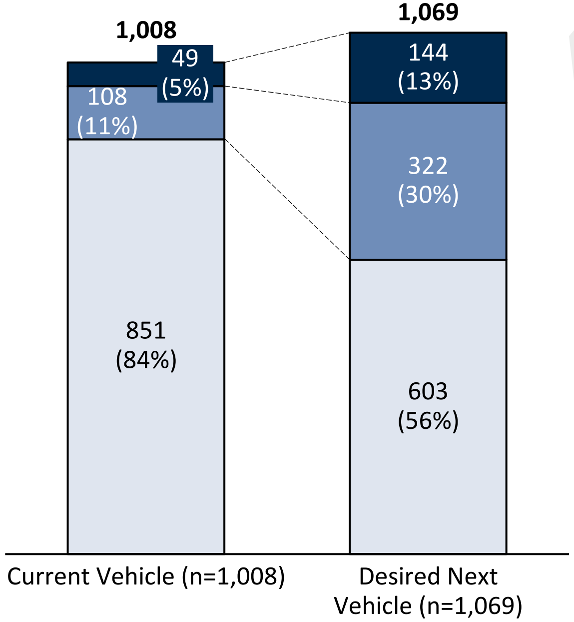
US Light-Duty Vehicle Registration (mn), 2022

*2023 Q3 sales data shows **17.7% of new vehicle sales are EVs and HEVs,** and is forecasted to **grow to 24% (10% EV, 14% HEV) in 2024**[1,2]*



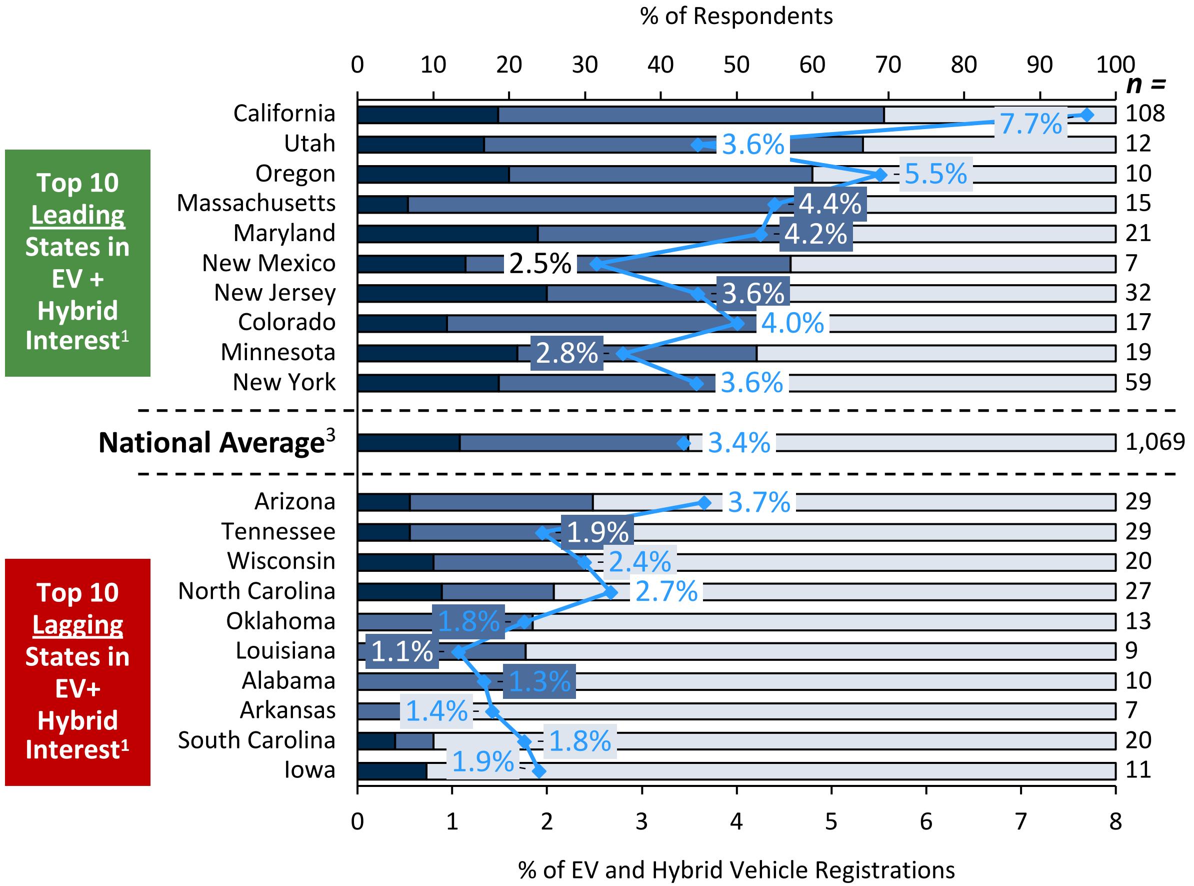
Consumer Vehicle Type Preference

Q: What is the type of your primary vehicle? / For your next vehicle purchase, which is your most preferred type?



ICE (Internal Combustion Engine) | Hybrid | EV

Q: For your next vehicle purchase, which type of vehicle would you prefer?



Prefer EVs | Prefer Hybrid | Prefer ICE | % of EVs + Hybrids Registered in State

Dave Cantin Group | KAISER ASSOCIATES

Source: Kaiser Associates Q1 2024 Consumer Survey
[1] US Department of Energy Alternative Fuels Data Center, 2023
[2] US Energy Information Administration, 2023
[3] Excludes states with 5 or less respondents: AK, DC, HI, ID, KS, ME, MT, ND, NH, RI, SD, VT, WV, WY)

Dealership Trends: Back to the Grind

Dealerships should expect sustained profitability from new car sales / parts and service departments; consumer direct & online platforms do not pose a serious threat in 2024

1 Higher dealership margins offsetting declining volume

- **New and used vehicle sales and gross profit declined between 2019-2023, but average revenue per unit increased considerably in both categories over the same period, driving an overall increase in revenue**
- **Public dealership margins remain significantly above pre-pandemic levels going into 2024, indicating a sustained change in operating model where dealers can make more money even with fewer vehicles sold**
  - Growth can be attributed largely to new vehicles sales becoming considerably more profitable in every year since 2019

Expected Impact

Consumer	Dealers	OEMs
NEGATIVE	POSITIVE	POSITIVE

2 Parts and service likely to become the "golden egg"

- **Parts and service has been the largest "chunk" of dealership profit every year since 2015, having grown at 11% CAGR since 2019 despite stability in gross margins at 51%**
  - Dealerships that continue to stand out for parts and service are likely to differentiate from the pack in 2024
- **New vehicle sales are an increasing portion of profit compared to pre-pandemic, driven by consumers accepting higher prices**

Consumer	Dealers	OEMs
NEGATIVE	POSITIVE	POSITIVE

3 Consumers are actively exploring deals at multiple dealerships

- **Consumers care most about price and transparency when evaluating dealers**
  - Other key factors include vehicle selection, service department availability, convenience, and financing options
  - Over 60% of consumers evaluate at least two dealers before making a buying decision, highlighting the importance of providing a positive experience to consumers to stand out among a crowded dealer landscape
- **Over 80% of consumers bought their last car in-store through either a franchise or independent dealer, though younger consumers are more likely to consider online methods**
  - Even among EV buyers who are more likely to buy directly from OEMs (e.g., through Tesla's website), over half of consumers bought in-store at a dealer

Consumer	Dealers	OEMs
MIXED	MIXED	POSITIVE

4 Dealers have to make a bet on the best path forward in 2024

- **Finance & insurance may re-take its leading role alongside parts and service in generating profits**
  - New vehicle sales overtook finance & insurance post-pandemic, but margins are likely to shrink as supply normalizes
  - Gross profits from used car sales may persist in the near-term due to supply chain issues that severely constrained new car inventory levels in recent years
- **Low advertising spend post-pandemic years and an evolving market has left dealers grappling with decisions on how to effectively allocate their marketing budgets moving forward**
- **Recent exits from the direct-to-consumer market by startups Vroom and Shift show the significant operational and logistical challenges to running businesses that compete with the traditional dealer model**

Consumer	Dealers	OEMs
MIXED	MIXED	MIXED

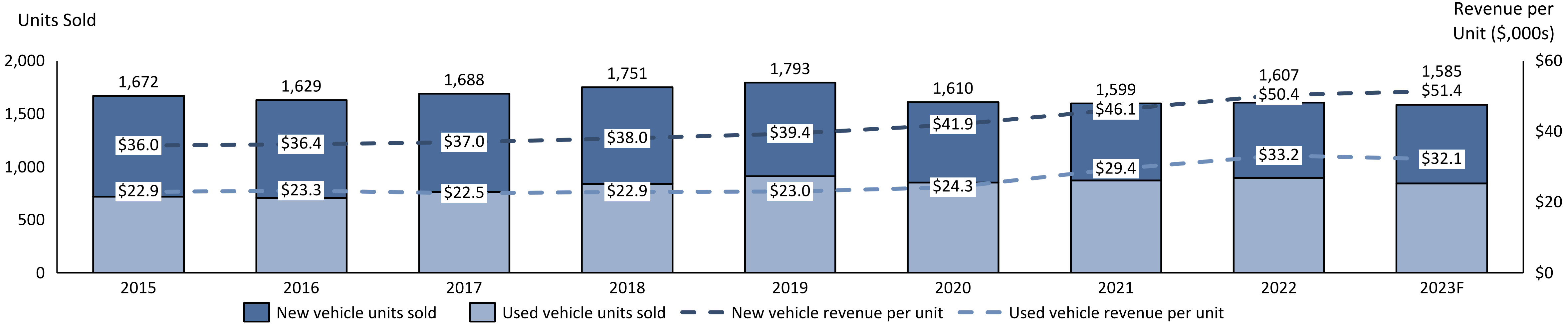
Source: Kaiser Primary and Secondary Research & Analysis
[1] See appendix for Expected Impact Definitions

Expected Impact[1]

POSITIVE	MIXED	NEGATIVE	N/A

New and used vehicle unit sales have fallen 16% and 8% respectively from 2019-23, but outsized price increases have offset volume decreases to drive overall revenue growth

Publicly Traded Dealership Units Sold per Dealership and Revenue per Unit ($,000s), 2015-2023[1]



Commentary

New

- New vehicle sales volume in units has contracted by 4.2% annually since 2019 while revenue per unit has grown at 6.9%, reflecting a **shifting prioritization towards higher revenue and margin sales** as OEMs have moved away from value-priced offerings
  - Dealership **gross profit per new vehicle unit** has increased at a **23.1% CAGR**, from $2,121 in 2019 to $4,876 in 2023
  - Price-taking behavior in new car sales has continued in 2023; revenue per unit has grown 2.1% year-over-year while unit sales growth of 4.7% indicates **acceptance of a new-normal price level among consumers** – and the potential for dealers to lean on financing products to sell increasingly expensive units

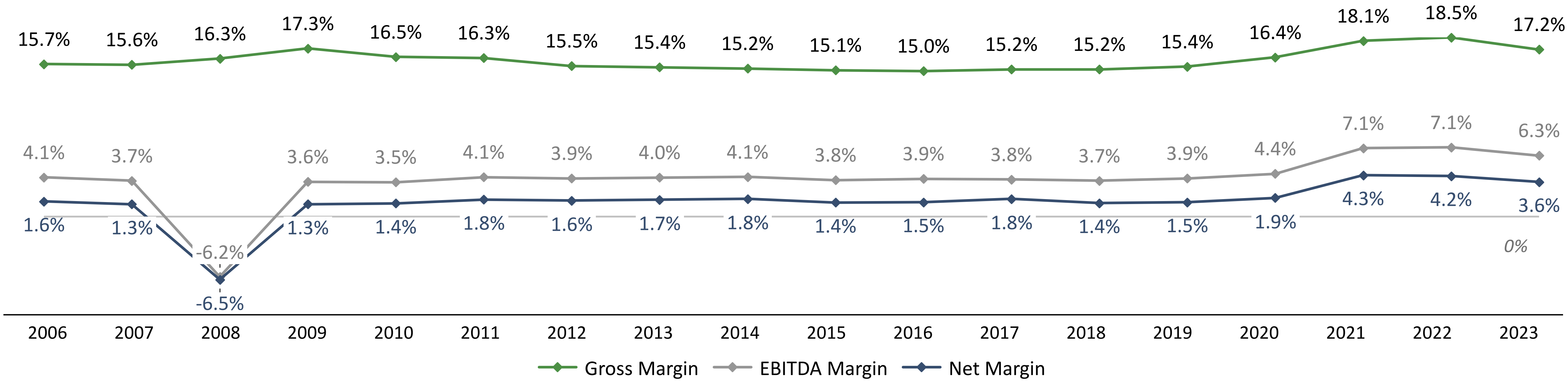
Used

- Despite year-over-year contractions in both revenue per unit and units sold from 2022-23, **used revenue in 2023 remains 69% higher than 2019**
- Contrary to the new car market, **revenue growth** for used vehicles has **outpaced growth in profitability** (14.1% CAGR vs. 5.0% CAGR)
  - Gross profits per unit have contracted more severely for used vehicles as **supply and demand imbalances** that enabled unprecedented used vehicle profitability **have leveled off**; gross margins in the used vehicle segment in 2023 are on track to be **18.9% lower than the 2015-19** average (5.4% in 2023 vs. 6.7% in 2015-19)

Source: Kaiser Primary and Secondary Research & Analysis
[1] *SEC Filings*

Public dealership margins have historically exhibited minimal volatility; sustained margin increase going into 2024 is reflective of a changing operational model

Publicly Traded Dealership Margins, 2006-2023[1]



Commentary

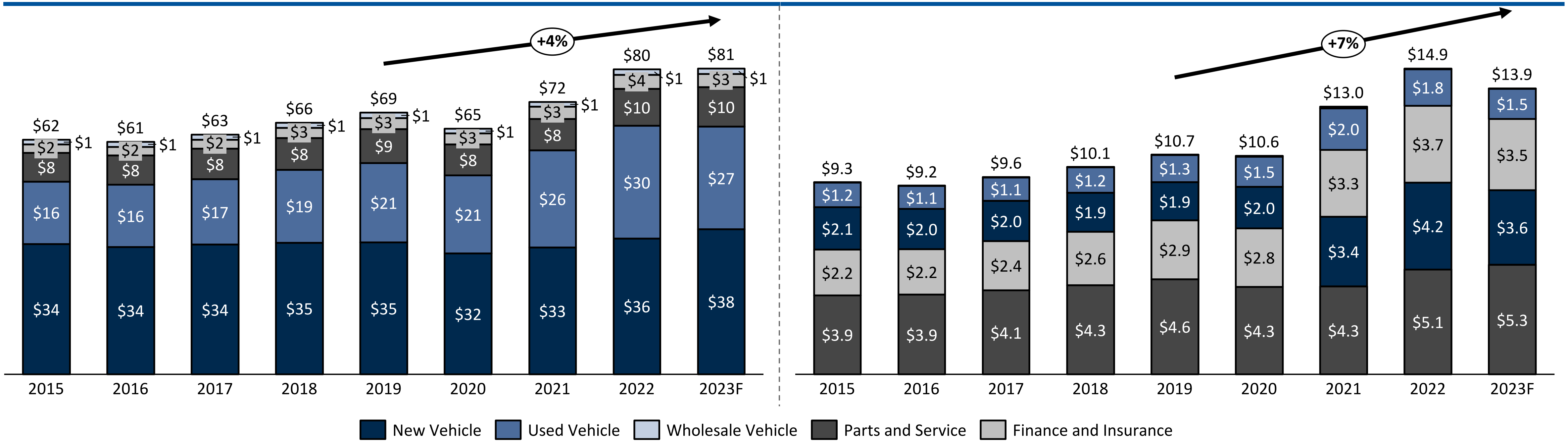
- Excluding 2008, historical **Gross, EBITDA, and Net Margins remained generally consistent** year-to-year at roughly 16%, 4%, and 1.5%, respectively
- COVID resulted in **high margins each year since 2020**; after peaking in 2021-22, **margins in 2023 remained above** pre-pandemic levels, but a **return to normal is expected**
  - *"When we had zero advertisement cost, low rates on flooring, and strong margins in '21 and '22, that's a formula where anyone can be good.* ***I think we all performed better than we deserved and we looked better than we really are****. We're back to the business I grew up in and we will have to work harder as we get back closer to pre-COVID margins, but* ***the good news is that this is still a good business****"* – CHAIRMAN, SERRA AUTOMOTIVE
  - *"Given the stress that's now being felt out there by the dealers, one of the things that we would expect to see is a* ***much more intensive look on the inside****, whether that's redoing their credit agreements, looking at their employment situation, tightening up operations…more conscientious dealers will spend a bit more time on that"* – ATTORNEY, M&A ADVISOR
- Profit margin growth is primarily attributable to **new vehicle sales becoming more profitable** (5.4% gross margin in 2019 vs. 9.5% in 2023)
  - Concurrently, **price increases on new and used vehicles have increased uptake of F&I products**, resulting in growing topline revenues for dealers at little to no cost

Source: Kaiser Primary and Secondary Research & Analysis
[1] SEC Filings

Although parts and service remain the main driver of dealer profit, evolving gross margins are increasing the impact of new vehicle sales on profitability

Publicly Traded Dealership Revenue per Location, ($mn), 2015-2023[1]

Publicly Traded Dealership Gross Profit per Location, ($mn), 2015-2023[1]



Commentary

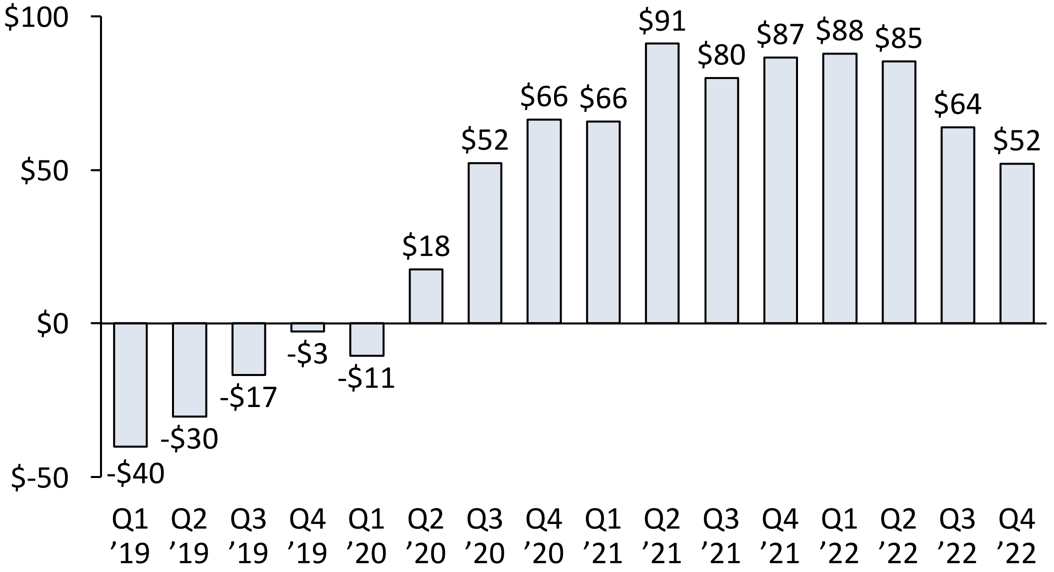
- **Parts and service** remains a **key driver of dealership revenues and profits**; gross profits have grown at ~11% CAGR from 2019-23 despite stability in gross margins of ~51%
  – New and used unit sales have grown at only 3.1% CAGR, indicating that **increased earnings are a result of consumers accepting higher prices**, not a larger install base
- Finance and Insurance (F&I), historically a significant contributor to gross profits, has been **outpaced by new vehicle sales** in recent years – but this may be about to change
  – **Normalization in new vehicle gross profit per unit**, on track to fall 18.1% from 2022-23, will be a key area to watch as **further reductions in unit-level profitability** would return **F&I to its former position of relevance** within gross profit structures
  – *"As dealers were making record profits, they focused less on* ***sustainable profit drivers they can control****. I think in 2024 conditions will be a bit tougher, and dealers will be more interested in dealer-owned warranty and dealer-owned financing."* – CEO, DEALER OWNED WARRANTY COMPANY

Source: Kaiser Primary and Secondary Research & Analysis
[1] SEC Filings

Despite a positive outlook for 2024, managing floorplan financing and inventory management is going to be "back in vogue" as rates & inventory find an equilibrium

Public Dealership Floorplan Revenue, 2019-2022[1]

(6 major publicly held dealership groups, in $mn)



"High interest rates will have a lasting impact: there's only so much revenue and paying more interest on floorplan will impact profitability. ***It took a while for rates to get up this high, and it may take a while to come back down.****"*

– ATTORNEY, M&A ADVISOR

Dealership Financing Considerations

1 Floorplan revenue has declined as a profit center – the next equilibrium of rates and supply remains to be seen

- Floorplan revenue grew in the immediate post-pandemic years driven by the combo of low borrowing costs for inventory and high profits due to low supply, elevated vehicle prices, and OEM floorplan assistance
- Increasing vehicle supply is pressuring price in the short-term, but rates remain high: dealers should expect floorplan revenue to shrink until the new balance of (lower?) rates and inventory is achieved

2 Inventory management is *more critical* right now – even as economic projections for 2024 are positive

- Even with strong consumer sentiment and likely rate cuts ahead, the "new normal" of high prices on used and new vehicles is likely to drive excess inventory on dealer lots in the short-term
- Lean inventory strategies (e.g., OEM order allocations, transfers to other dealer locations, etc.) should be "back in vogue" to manage escalating floorplan costs

3 Banks have re-considered commercial portfolios in recent years; dealers should be prepared for underwriting shifts

- Some banks have cut back or exited the floorplan lending business entirely (Capital One, Fifth Third Bank, Citizens Financial) to reduce risk and prioritize other areas with higher ROI
- Dealers should proactively track credit tightening and underwriting trends & be prepared if they need to secure a new lender or liquidate inventory for financial security

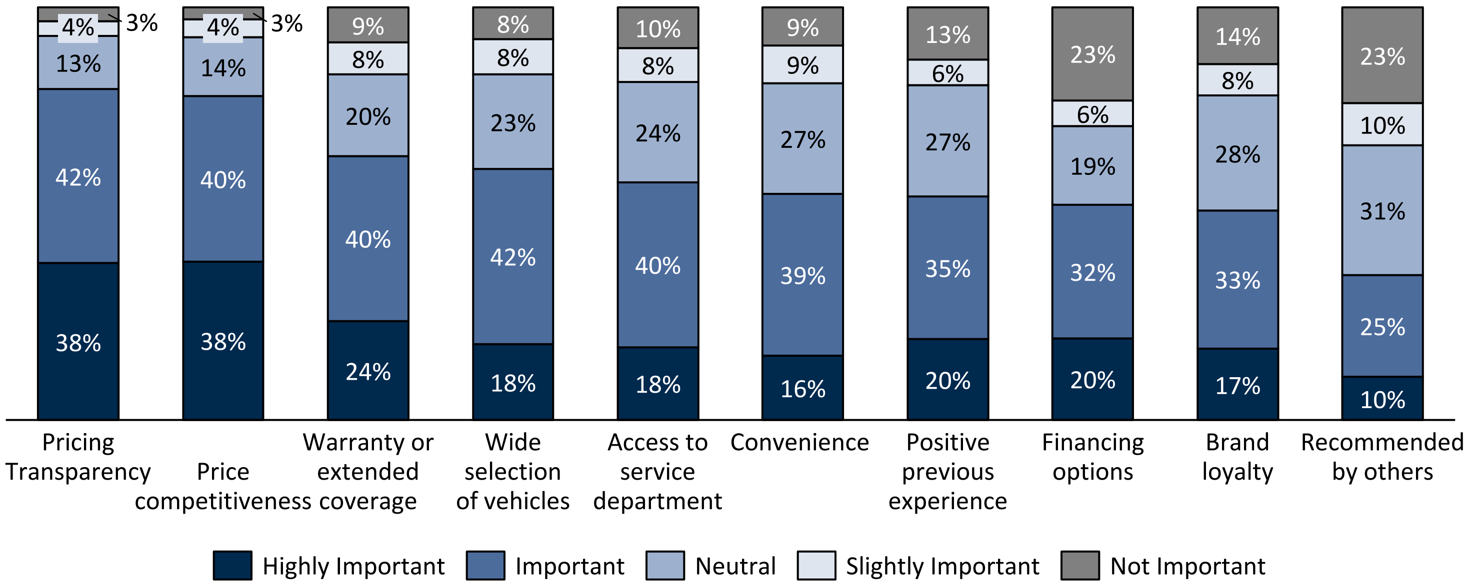
Source: Kaiser Primary and Secondary Research & Analysis

[1] Automotive News, 2023

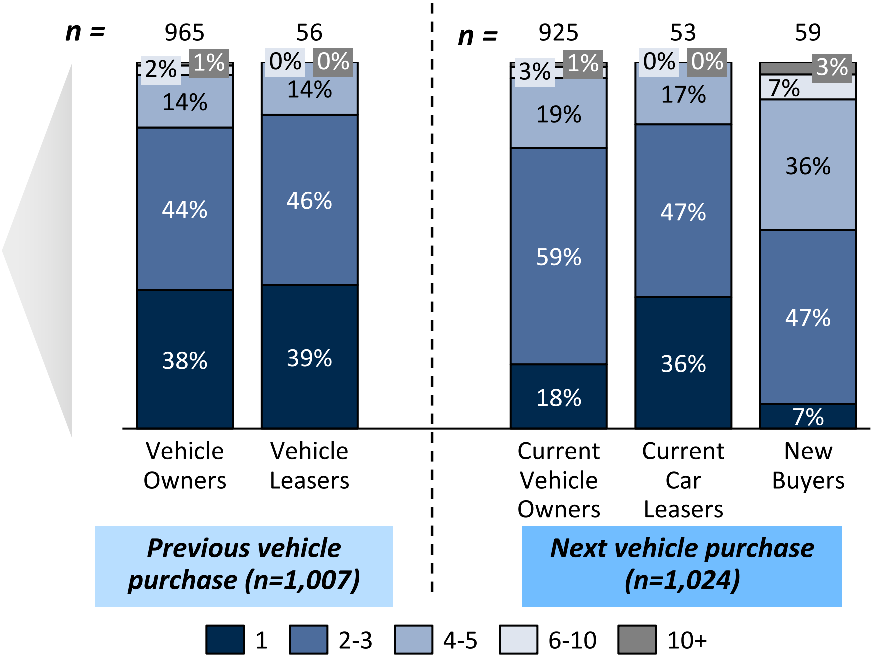
Buyers remain committed to comparing dealer options: in 2024, we expect proactive dealers will get aggressive about demonstrating value compared to competitors

Consumer Vehicle Purchasing Dealership Selection Preferences

Q: For your previous vehicle purchase, how important were each of the following factors in your selection of dealership or platform? (n=1,007)



Q: How many dealerships or online platforms did you visit/do you expect to visit for your next vehicle purchase?



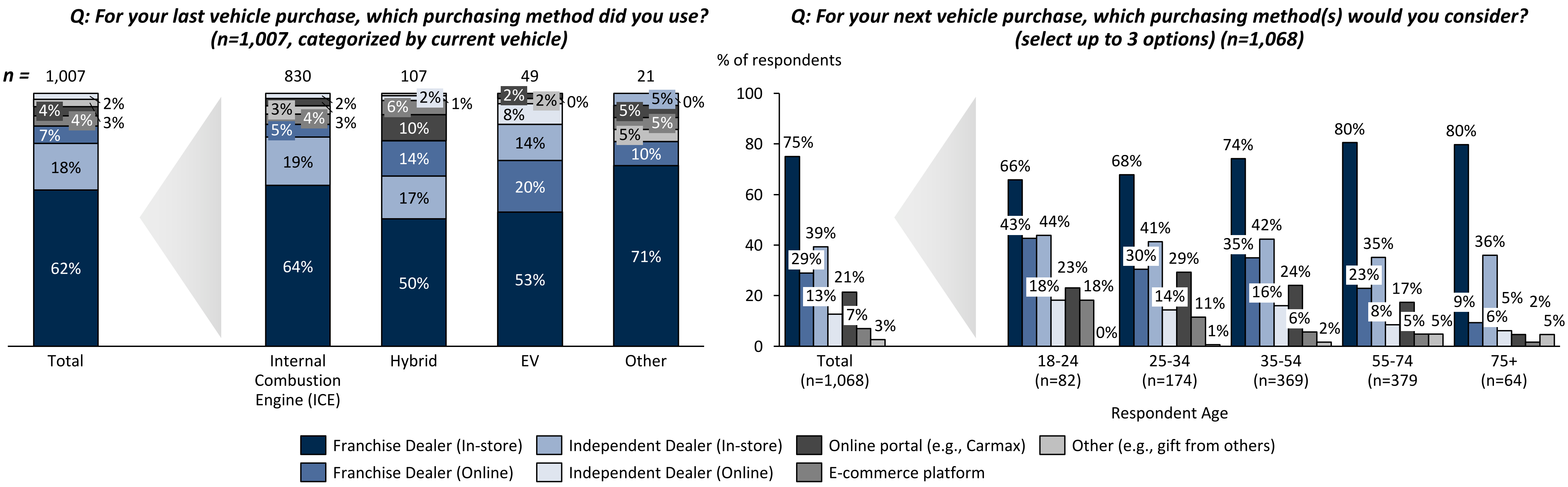
Commentary

- Consumers placing a high level of emphasis on price transparency and price competitiveness (>80% of respondents see as important or highly important) is driving a **majority of all types of vehicle purchasers to consider more than a single dealer** in their next vehicle purchase
- This likely indicates **opportunities for dealerships to differentiate through an array of common secondary selection criteria** such as warranty levels, variety of vehicles, servicing, convenience, and previous purchasing experience

Source: Kaiser Associates Q1 2024 Consumer Survey

In-person franchise dealers remain the primary vehicle acquisition method in the US, even for BEV and Hybrid vehicles buyers

Consumer Vehicle Purchasing Channel Preferences



Commentary

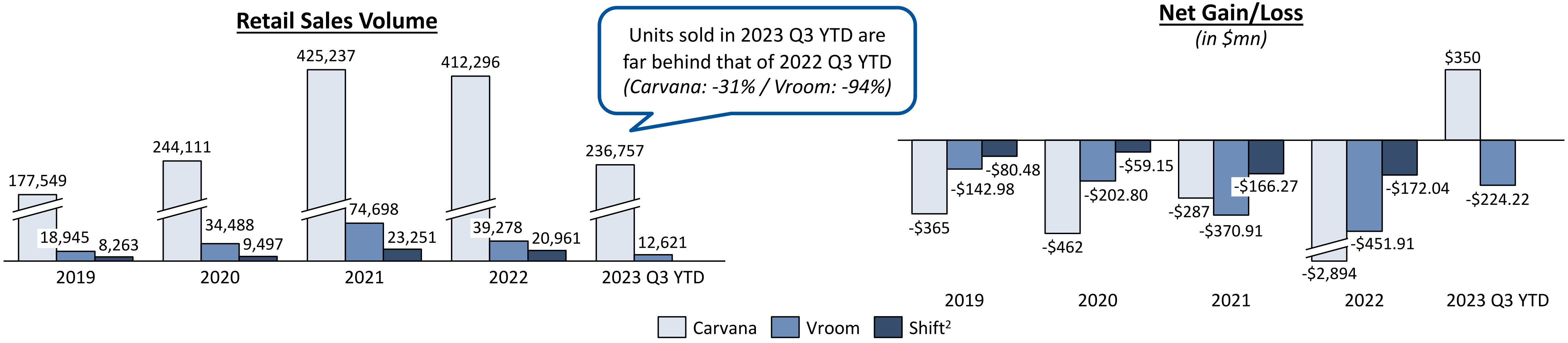
- Hybrid and EV buyers are more likely to utilize online channels than consumers of ICE vehicles; however, even among EV buyers, use of online portals or e-commerce platforms is low, and **consumers are most likely to turn back to in-store channels for their final purchase…**
- …but a generational shift in purchasing channel selection is also visible, as **younger vehicle purchasers are much more likely to consider online channels than older ones**

Dave Cantin Group KAISER ASSOCIATES

Source: Kaiser Associates Q1 2024 Consumer Survey

Recent setbacks for once high-flying innovators demonstrate the operational and logistical challenges of running direct-to-consumer (DTC) models successfully…

Direct-to-Consumer Online Automotive Dealer Trends[1]



Commentary

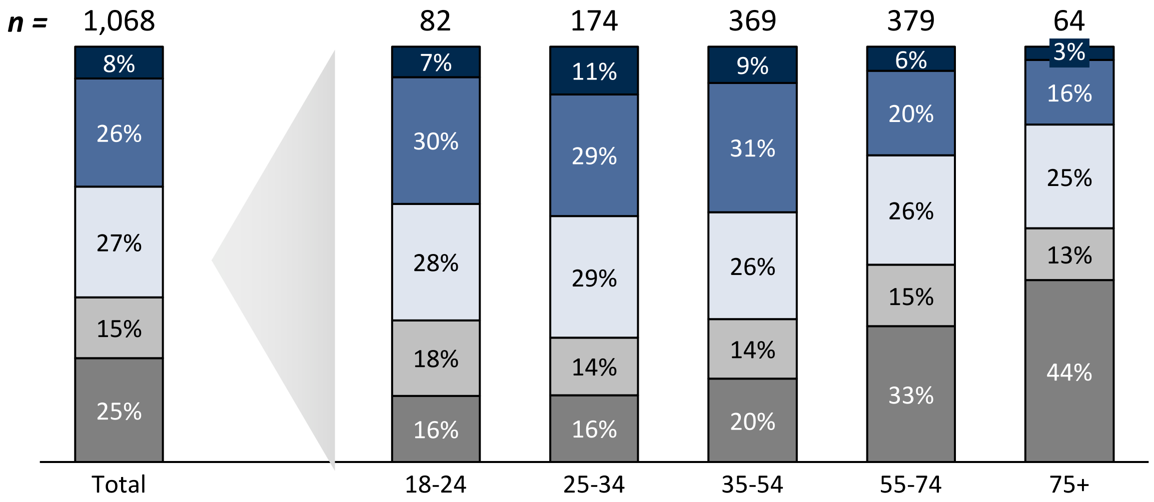
- Online car marketplaces have **struggled with the operational and logistical requirements when operating the DTC model**, incurring high costs
  - **Last mile operations** for picking up new inventory and delivering sold vehicles are **costly and require significant manpower** to manage customer interactions
  - **Title processing and registration requirements are complex**, requiring more time and specialists to handle properly while maintaining compliance across different states
  - **Shift attempted to pivot to a dealership model in June 2023, but was unable to sustain enough success** to secure additional funding and reach profitability
- **Consumer preferences for physical dealerships coincide with inflation, rising interest rates, economic uncertainty, and growing used car supply** to contribute to the challenges DTC online car marketplaces have faced in recent years
- **Vroom and Shift's exits from the market** may not have a large impact on dealerships' profitability, but **could impact used car values** in the short-term
  - As these businesses liquidate their assets, **used car supply on the market will increase and negatively impact used car values**

Source: Kaiser Primary and Secondary Research & Analysis
[1] SEC Filings
[2] Shift filed for Chapter 11 bankruptcy on October 9, 2023 – no 2023 Q3 data available

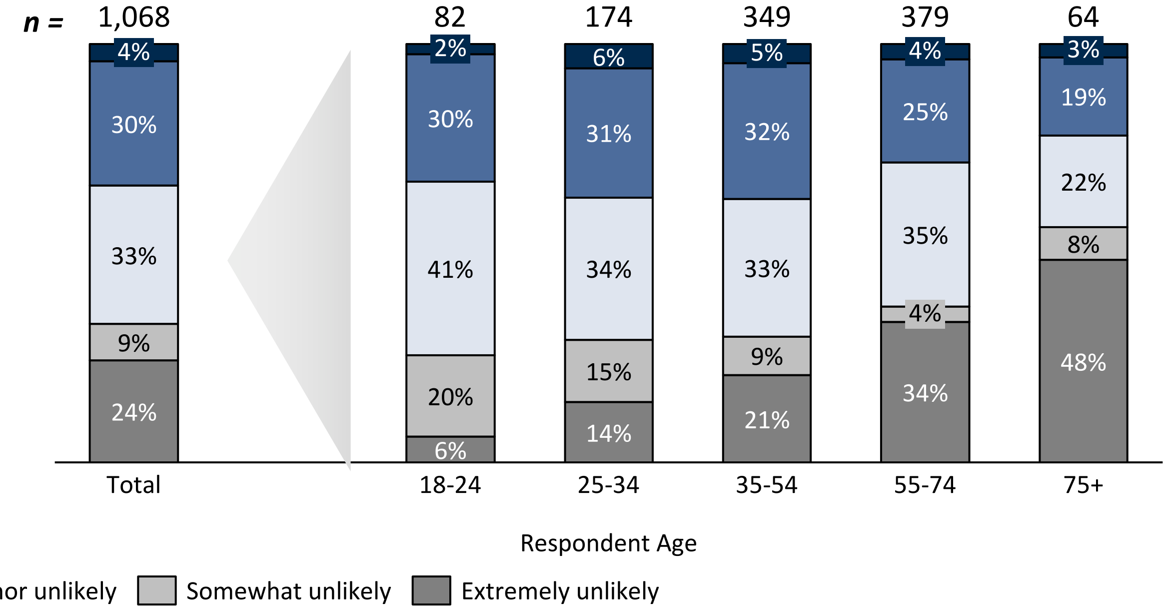
…and consumers show limited appetite for the DTC model (though younger buyers aging into the market are more open-minded)

Consumer Feedback for New Vehicle Purchasing Models

Q: (In reference to Hyundai and Amazon's strategic partnership) How likely would you purchase a car through an e-commerce platform, if your preferred automotive manufacturers also offered this method?



Q: (In reference to Ford's Model e dealership model) How likely would you purchase a car from your preferred automotive manufacturers if they introduced an e dealership model (i.e., fixed price minimums and maximums)?



Commentary

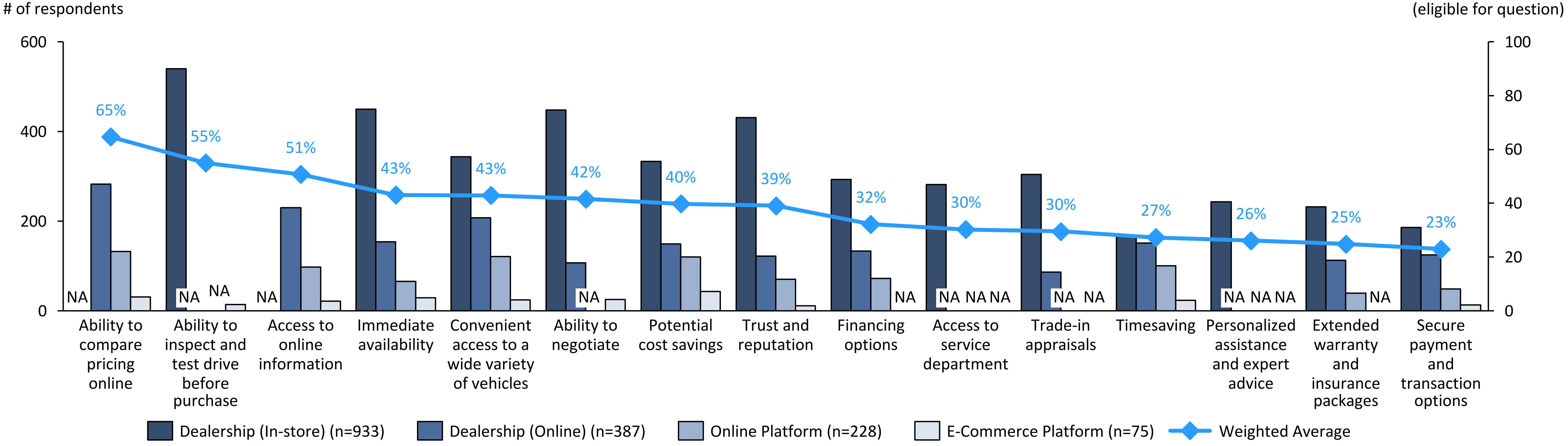
- **Younger and working populations** (i.e., those under 55 years old) reflect a **stronger inclination to consider innovative car purchasing methods**, likely due to greater generational embrace of e-commerce
- Older generations, which are likely more **accustomed to traditional pricing negotiations with car dealerships**, are more reluctant to accept new purchasing methods

Source: Kaiser Associates Q1 2024 Consumer Survey

In a perfect world, consumers want to compare prices online & test drive in person: the omnichannel (online and offline) purchase journey is here to stay

Consumer Dealership Preferences

Q: Which of the following factors appeal to you most about purchasing a car from these channels? (select all that apply)



Commentary

- While consumers highly appreciate the **pricing and vehicle information available through online channels,** in-store dealerships stand out through their ability to offer **in-person vehicle inspections and test drives** to consumers
  - Dealers who provide a strong online presence in addition to their physical footprint (e.g., easy to browse listings online) are best positioned to compete in 2024
- Immediate availability, wide vehicle selection, and personalized trusted assistance **provide dealers with opportunities to differentiate** from peers

Source: Kaiser Associates Q1 2024 Consumer Survey

EVs: Extremely Volatile

The US EV market will become increasingly volatile due to slowing demand, varying OEM investment outlook, and possible entrance of Chinese OEMs beyond 2024

1 EV demand stagnates despite subsidies

- **Environmental concern and government incentives continue to play a big role in sustaining current EV demand, although market interest seems to have slowed over the past 5 years**
  - Consumers express concerns about charging infrastructure and comparatively high EV prices, even with subsidies
  - Many factors driving demand (e.g., pricing, performance) hold true across both EVs and ICE vehicles
- **Currently offered tax credits under the Inflation Reduction Act (IRA) add up to $7,500, applicable for all electric vehicles with key components sourced and manufactured in North America**

Expected Impact

Consumer	Dealers	OEMs
MIXED	MIXED	POSITIVE

2 OEMs reflect varying attitudes in EV production strategy

- **The majority of US OEMs are looking to slow down investment in EV production in light of worries about a possible demand slowdown and changes in macroeconomic conditions**
  - Ford and GM have both scaled down their EV production strategies, whereas recent EV-only market entrants (e.g., Lucid, Rivian, Fisker, VinFast) have missed planned production and delivery targets
- **Conversely, European and Asian OEMs are adding battery and EV production capabilities in the US, hoping to use IRA tax credits to further penetrate the US EV market**

Consumer	Dealers	OEMs
MIXED	MIXED	MIXED

3 Chinese OEM entrance not likely until 2025

- **Multiple Chinese OEMs (i.e., BYD, SAIC-MG, Chery) have already announced intentions to add manufacturing capabilities in Mexico to meet North American manufacturing and assembly requirements as stated by the IRA, and bypass import tariffs of 27.5%**
- **Chinese OEMs are not likely to enter the US through partnerships with Western counterparts as current joint ventures are largely reserved for market entry into China**

Consumer	Dealers	OEMs
MIXED	POSITIVE	POSITIVE

4 EV pricing has potential to become increasingly competitive

- **Pricing continues to act as a primary inhibitor to adoption behind stagnating EV demand growth, indicating potential for a price war to stimulate greater EV adoption in the market**
  - The majority of EV buyers indicate a willingness to pay over $40K for an EV, but that still lags the average US EV price (~$53K)
- **Chinese OEMs are likely to be highly price competitive upon entry into the US (as seen from recent price war in Europe), although lower average vehicle prices in the US than in Europe are likely to partially moat the extent of a possible industry-wide price drop**

Consumer	Dealers	OEMs
POSITIVE	NEGATIVE	NEGATIVE

Source: Kaiser Primary and Secondary Research & Analysis

[1] See appendix for Expected Impact Definitions

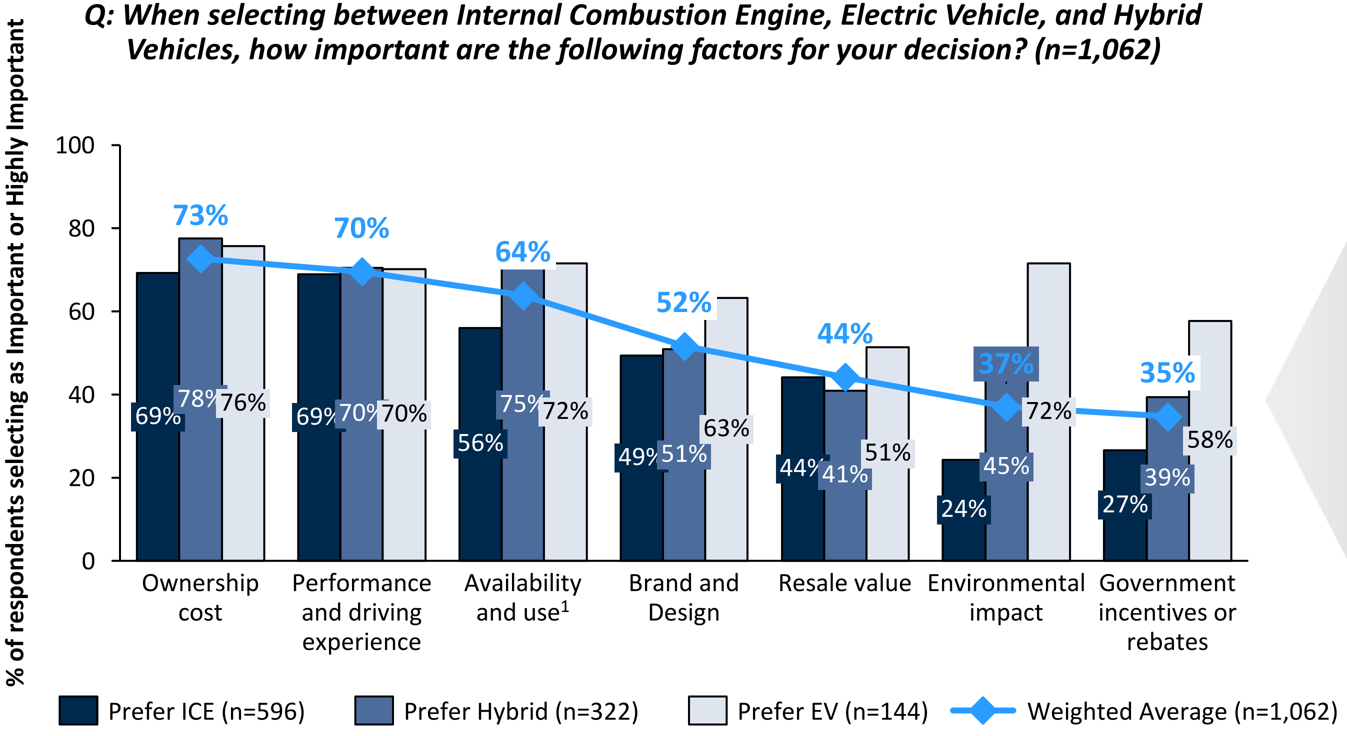
Expected Impact[1]

POSITIVE	MIXED	NEGATIVE	N/A

Government incentives and environmental concerns continue to play a major role in EV purchasing, although market interest has shown little growth in the last 5 years

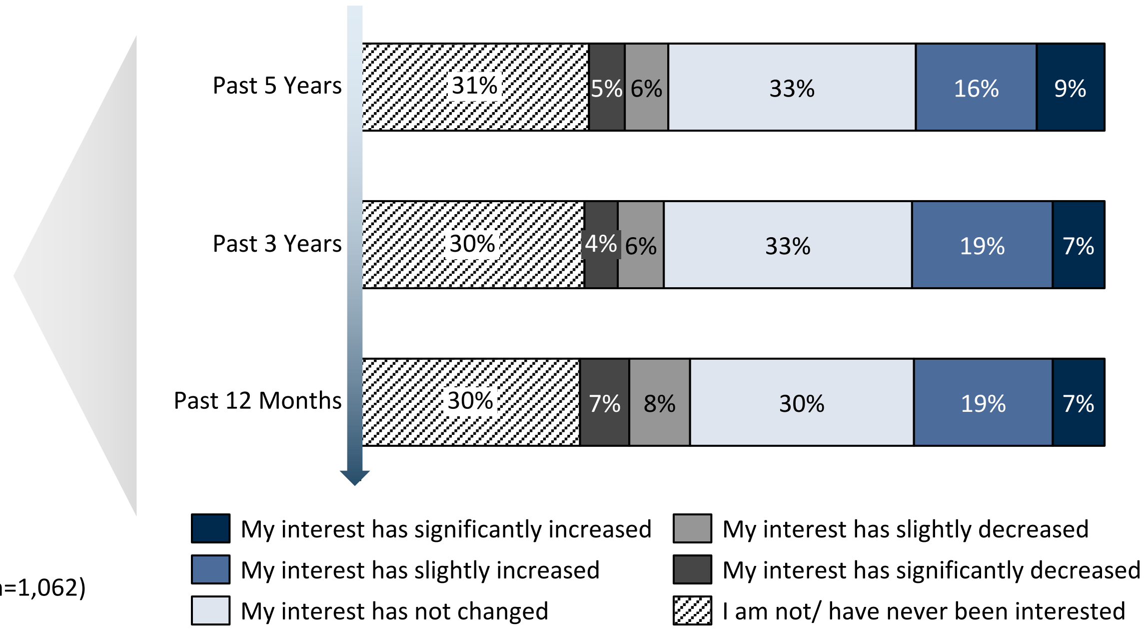
Consumer Vehicle Selection Criteria

Q: When selecting between Internal Combustion Engine, Electric Vehicle, and Hybrid Vehicles, how important are the following factors for your decision? (n=1,062)



Consumer Interest in EVs

Q: How has your interest in Electric Vehicles changed compared to the following timeframes? (n=1,062)



Commentary

- **Selection criteria is notably similar across drivetrain types** with **consumers generally prioritizing ownership cost and driving experience**, though **environmental impact and government incentives are also major drivers of EV adoption**, likely explaining some variation in state-level purchases
- **Brand and design is likewise most often quoted by EV-interested consumers**; this may be driven by consumers specifically interested in Tesla

Source: Kaiser Associates Q1 2024 Consumer Survey
[1] For example, availability of charging stations

While domestic OEMs may have a less optimistic outlook for EVs, the introduction of the Inflation Reduction Act (IRA) is driving international OEM investment into the US

OEM Perspectives on the Inflation Reduction Act

1. **Despite a strong 40% year-on-year EV sales volume growth in Q4 2023[1], US-based OEMs are exhibiting increased caution around furthering EV investments**
   - Ford and GM are scaling back on EV production, whereas Stellantis is expressing caution around increasing investment
   - Recent US market EV entrants missed 2023 delivery targets (e.g., Lucid: 6K deliveries vs. 8K target / VinFast: 34.8K deliveries vs. 40K target globally / Rivian: 50K deliveries vs. 54K target)[2]
2. **Conversely, international OEMs continue to commit to increasing US and North American investment, likely driven by global positive EV market outlook and desire to meet eligibility for tax credits under the Inflation Reduction Act**
   - OEMs announcing plans to boost US production include BMW, Mercedes, Honda, Toyota, Nissan, Volvo, Hyundai; investment is largely focused on boosting battery manufacturing and assembling capabilities
   - Tesla has also announced it is shifting 50% of its production capabilities from China to Mexico to qualify for IRA subsidies
3. **Increasingly localized EV production in the US may help ease supply chain challenges and cost inflation effects**
   - While the situation continues to evolve, no major OEMs besides Tesla and Volvo thus far have declared production disruptions in their European plants from Red Sea shipping disruptions

Inflation Reduction Act – Electric Vehicle Tax Credits (Consumer)[3]	
Maximum Credits	**$7,500** ($3,750 for critical minerals + $3,750 for battery components)
Base Model MSRP Cap	**$80,000** (Trucks, SUVs, and Vans) **$55,000** (Cars, Sedans, and Wagons)

	Battery Component	Critical Minerals
Manufacturing & Assembly Requirements	• Minimum 50% of the value of battery's components manufactured/assembled in North America from 2023 • Requirement increasing by 10% per year until 100% in 2029	• Minimum 40% of minerals extracted, processed, or recycled in the US/a US free trade agreement partner from 2023 • Increasing by 10% per year until 2027, and at least 80% onwards
	• Zero components manufactured by a foreign entity of concern (FEOC) from 2024	• Zero components extracted, processed, or recycled by a FEOC from 2025

Source: Kaiser Primary and Secondary Research & Analysis
[1] Cox Automotive, 2024
[2] Barron's, Automotive News, InsideEVs
[3] Internal Revenue Service

US OEMs share a cautious outlook for further investment into EV production – worries of demand slowdown and regulatory changes are influencing investment focus

US OEMs – Domestic Investment Outlook

OEM	OEM Origin	US Investment Outlook	Commentary
Ford	US	Decreasing	• Reducing planned electric SKUs, as well as slowing down a total of $12bn of investment in EV manufacturing with partners • Reduced scale of EV battery plant being built in Marshall, Michigan by ~43% due to slow EV adoption in the US and rising labor costs
gm	US	Decreasing	• Announced plans to narrow electric mix and slowing down launch of several EV models to cut costs • Also announced plans to delay re-tooling of its large factory in Orion Township, Michigan
STELLANTIS	US	Neutral	• Announced cautious investment approach in EV production in light of upcoming US and European elections in 2024
TESLA	US	Neutral	• No apparent change in investment attitude • 50% of production based in China will be transferred to Mexico to qualify for IRA tax credit criteria
RIVIAN	US	Neutral	• No announced change in strategy; plans to deliver 85K units of its R1S SUV in 2024 and start producing its low-cost R2 series in 2026 • Signed agreement with state of Georgia allowing it to build a new EV factory, in addition to its first $5bn EV factory outside Atlanta
FISKER	US	Neutral	• Leaving the direct sales model in the US in 2024, citing poor sales and high costs – no effect on total investment into EV production • Consumers had to travel far to see their two US showrooms, which were expensive to maintain, alongside unsold inventory costs
LUCID	US	Neutral	• No announced change in strategy

Notably, Lucid, Rivian, and Fisker have all seen ***major drops in valuation*** *since 2021, with stock prices fluctuating from peaks of $55 to $3 (Lucid), $130 to $16 (Rivian), and $19 to <$1 (Fisker)*

Fisker's shift away from direct sales shows smaller players may have ***more trouble than established players to maintain the model*** *largely due to* ***high costs from showrooms and unsold inventory***

US Investment Outlook

Decreasing ■ ■ ■ *Increasing*

Source: Kaiser Primary and Secondary Research & Analysis

European and Asian OEMs continue to focus on battery and EV production capabilities in the US as the introduction of IRA tax credits has influenced their behavior

International OEMs – US Investment Outlook

OEM	OEM Origin	US Investment Outlook	Commentary
TOYOTA	Asia Pacific	Increasing	• Announced $8bn additional investment into the US, including a North Carolina battery plant that is due to start operations in 2025 • However, Toyota has announced a strategic shift to focusing on PHEVs rather than BEVs
HONDA	Asia Pacific	Increasing	• Announced $4.4bn investment in an Ohio-based EV plant, plus $700mn investment to re-tool current US sites for EV production • However, Honda has cancelled plans to build EVs with General Motors
HYUNDAI	Asia Pacific	Increasing	• Announced $5.5bn investment in US EV and battery production facilities in Georgia, which is expected to start production in 2025
NISSAN	Asia Pacific	Increasing	• Announced additional $250mn investment toward its US manufacturing plants
Mercedes-Benz	Europe	Increasing	• Looking to expand its Alabama plant to produce the all-electric GLC from 2026 (no investment amount disclosed)
BMW	Europe	Increasing	• Announced plans to add $1.7bn in the US, including $1bn for EV production at its Spartanburg, SC plant and $700mn for a new battery-assembly facility in Woodruff, SC
VOLVO	Europe	Increasing	• Increasing US production; Polestar factory in South Carolina to commence production in 2024
VW	Europe	Increasing	• Announced plans in 2022 to add $7.1bn investment in North America for the next 5 years • Audi brand also expects to expand EV and battery production in the US, but is considering using broader VW manufacturing sites
VINFAST	Asia Pacific	Decreasing	• Despite being a new market entrant, VinFast already laid off 80 employees in North America in early-2023 and failed to meet anticipated 2023 global delivery targets (targeted at least 40K units, delivered 34.8K units)[1]

Source: Kaiser Primary and Secondary Research & Analysis
[1] Barron's

US Investment Outlook

Decreasing *Increasing*

Chinese EV OEM entrance is unlikely until 2025, but considered viable with Mexico production operations; partnerships with Western OEMs remain limited for now

State of Chinese EV OEM Entry

1 Chinese EV OEM market entry into the US is not likely before 2025

- Lynk & Co is the exception likely due to its **less Sino-centric reputation** (through Geely's European connection with Volvo and Polestar) and its subscription-based sales model

2 Potential Chinese entrants are looking to manufacture EVs in Mexico to bypass high import tariffs (currently 27.5%) and gain access to consumer IRA tax credits

- Vehicles with battery components manufactured or assembled in Mexico will be eligible for **$3,750** (of a total $7,500) of Clean Vehicle Tax Credits offered under the **Inflation Reduction Act (IRA)**
- As manufacturers (i.e., BYD, SAIC, and Chery) look to invest in Mexican manufacturing plants, **mass market entry by Chinese OEMs could happen as early as the next ~2 years**

3 Western OEMs largely do not view Chinese peers as important strategic partners for future EV development, although some have invested in smaller Chinese brands

- Outside of Audi, who is partnering with SAIC Motor to acquire next-generation EV platform technology due to development setbacks at parent VW Group, **other OEMs largely reserve joint ventures (JVs) with Chinese OEMs for mainland Chinese sales and production** (e.g., Ford-Changan Automobile, SAIC-GM-Wuling)
  - **Stellantis has acquired a 20% stake in Leapmotor** to help expand its presence in China, in addition to Stellantis' **existing joint venture with Dongfeng Motor**
  - **Volkswagen has acquired a 4.99% stake in emerging Chinese EV manufacturer Xpeng**, forming a strategic partnership to sell VW-branded vehicles in the Chinese market
- Japanese OEMs have shown a **stronger willingness to partner closely** with Chinese OEMs
  - **BYD and Toyota are partnering** to launch an EV sports car in 2026, and the **Renault-Nissan-Mitsubishi alliance has also delegated powertrain production to Geely**

Chinese EV OEMs – Plans for North American Expansion

OEM (Marque)	Plans for US Entrance	Plans for Mexico Manufacturing
GEELY / LYNK & CO	✓ *Plans to sell an all-electric car model in 2024*	×
NIO	✓ *Expressed interest in 2025 entry, but reportedly delaying due to IRA*	×
BYD	×	✓ *Reportedly considering a factory investment (Dec. 2023)[1]*
SAIC / MG	×	✓ *Plans for a $1.5-2bn factory, timeline not announced*
CHERY / JETOUR	×	✓ *Plans for a $3bn factory (building to start before 2025)*
Great Wall	×	× *Launched in Sep. 2023 (not locally manufactured)*
Li Auto	×	×
广汽集团 GAC GROUP	×	×
XPENG	×	×

Key

Announced Plans to Enter	✓
Announced Interest to Enter	✓
No announced plans to enter	×

Source: Kaiser Primary and Secondary Research & Analysis
[1] Financial Times

Dave Cantin Group
KAISER ASSOCIATES

Chinese OEMs win on price (and are all but certain to shake up EV price points upon entry in the US) – and this matters because…

Chinese OEM Entrance – Pricing Implications

1. **China's dominance of critical material deposits and processing** (e.g., >60% of graphite, nearly 90% of rare earths) is likely to provide Chinese OEMs with a **supply chain cost advantage**, despite discontinuance of state subsidies since 2022
   - Emerging entrants (e.g., NIO) expect to **compete on price-quality given its premium vehicle-based proposition,** despite tariffs and ineligibility for tax credits
2. Data shows a **15-30% differential** between European (~€40-45k) and Chinese-branded EVs (~€30-35k) of comparable build quality[2] due to import tariffs, leading Western OEMs to reduce prices (e.g., Tesla announcing a ~10% drop to counter Chinese archrival BYD in December 2023)
   - While **lower average US vehicle prices (~1/3 cheaper than Europe)** and **higher tariffs (27.5% in the US vs. only 10% in Europe)** are likely to mitigate the severity of a potential price war, Chinese OEMs may consider further lowering margins to gain market traction

Electric Vehicle Price Comparison (Illustrative Examples, Base Model Pricing)

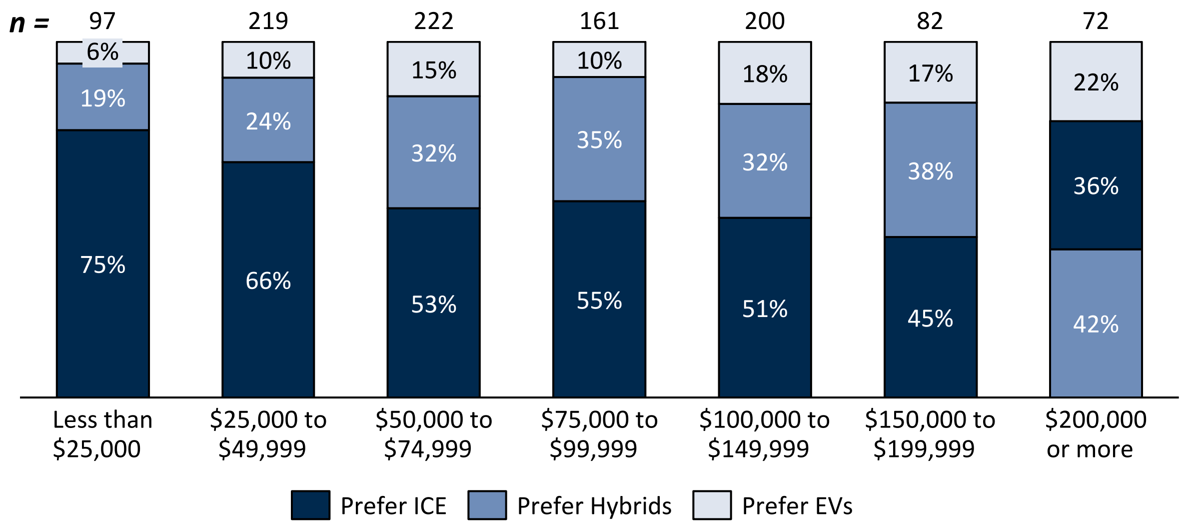
OEM Origin	US			Europe			Japan/Korea		China	
Marque	Tesla	Ford	Chevrolet	VW	Citroën	BMW	Nissan	Hyundai	BYD	MG
EV Model	*Model 3*	*Mustang Mach-E*	*Bolt EV*	*ID.4*	*E-C4*	*i4*	*Leaf*	*IONIQ 5*	*Dolphin*	*MG-4*
Europe MSRP[1,2]	*€42,990/ USD$46,860*	*€62,900/ USD$68,560*	*[Not sold]*	*€46,335/ USD$50,505*	*€31,995/ USD$34,875*	*€56,500/ USD$61,585*	*€33,400/ USD$36,400*	*€43,900/ USD$47,850*	*€35,990/ USD$39,100*	*€29,990/ USD$32,700*
US MSRP[3] / China MSRP[4]	*$38,130*	*$41,045*	*$19,995*	*$32,790*	*[Not sold]*	*$53,595*	*$29,135*	*$42,785*	China MSRP[4]: *RMB126,800/ USD$17,600*	China MSRP[4]: *RMB$115,800 /USD$16,000*

Source: Kaiser Primary and Secondary Research & Analysis
[1] GreenGear (Germany); Based on retail prices (incl. retail tax) in Dec. 2023
[2] EUR/USD Exchange Rate of 1.09
[3] InsideEVs; Retail prices in Jun. 2023
[4] RMB Offshore/USD Exchange Rate of 0.14

…pricing continues to be major lever for EV demand in the US, with evidence that lower prices may be the key to unlock incremental demand

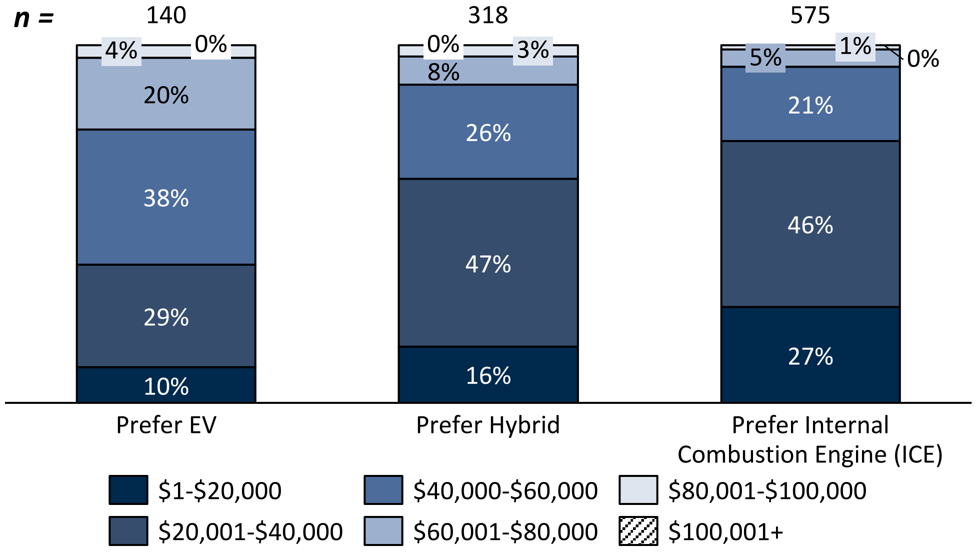
Consumer Vehicle Purchasing Preference (by Income)

Q: Considering your next car purchase, which is your most preferred type of vehicle? (n=1,053)



Consumer Vehicle Purchase Willingness to Pay

Q: How much do you expect to pay for your next vehicle purchase? (n=1,032)



Commentary

- Survey data reflects a **strong positive correlation between consumers in Electric and Hybrid vehicles and higher personal income**, also likely resulting in a **higher willingness to pay (WTP)** for these consumers' next vehicle purchase
- Given average US EV prices of ~$53,000 today[1], this also reflects a **considerable EV-buying population that can be unlocked through a price drop**, solidifying a potential business case from an international OEM to reduce prices while still allowing dealers to make money on service
  - *"It was a myth perpetrated by Elon that EVs don't need much service, the world has figured out that that's not true by now.* ***Dealers are starting to realize that they are going to provide most or all of that service*** *given the unique requirements for EVs"* – PRESIDENT, NJCAR
  - *"Right now, we are cautiously optimistic that EVs drive less frequent repairs even if the severity is on par with ICE…* ***a big unknown is whether Tesla service data will be representative of non-Tesla EVs****. To date, nearly all the EV volume has been Tesla and this might be skewing our sense of warranty/repair requirements"* – CEO, DOWC

Source: Kaiser Associates Q1 2024 Consumer Survey
[1] InsideEVs, Jul. 2023 prices

M&A Trends and Forecast: Continued Opportunity

Dealers have multiple reasons to be optimistic in 2024 and Kaiser expects an active M&A climate for dealerships

1 M&A activity to remain elevated vs pre-COVID levels

- **Going into 2024, M&A transaction volume remains notably elevated compared to pre-COVID levels, albeit below the peak of 707 transactions experienced in 2021**
  - YTD transactions through Q3 2023 represent an 88% increase relative to 2020 vs. only a 12% decrease relative to 2022
  - Kaiser's 2023 forecast of 513 rooftops transacted would represent the highest share of US install base (16,839 rooftops) of all non-COVID years on record
- **Transactions by major groups (e.g., Morgan Automotive Group) indicate a healthy appetite for M&A by private groups, even early in the year**

Expected Impact		
Consumer	Dealers	OEMs
N/A	POSITIVE	N/A

2 Dealership profitability remains elevated above pre-pandemic levels

- **Cash on hand has historically served as a leading indicator of acquisition activity as dealerships re-invest excess capital to grow operations, and profitability remained well above pre-pandemic averages in 2023**
  - 2023 average cash on hand ($106mn) and acquisition spending ($472mn) for publicly traded dealerships sit at nearly three times 2019 levels of $35mn and $175mn, respectively
- **Groups continue to view acquisitions of more rooftops as one of the highest-ROI uses of excess cash on hand**

Consumer	Dealers	OEMs
N/A	POSITIVE	N/A

3 Diversification into adjacent vehicle types is picking up

- **Many of the largest dealership groups in the US, including AutoNation, Lithia, and Penske, have looked to expand beyond automobiles into adjacent industries in recent years**
  - Mobile repair solutions (AutoNation, 2023), recreational vehicles (Lithia, 2022), and heavy trucks (Penske, 2023) are a few examples
- **Groups investing in adjacent segments typically have higher store counts selling key brands (e.g., Toyota, Ford) and look to adjacent segments to avoid OEM restrictions**

Consumer	Dealers	OEMs
N/A	POSITIVE	MIXED

4 Franchise valuation multiples should remain stable

- **Brand valuation multiples have remained relatively stable over the last 10 years, with the biggest variations experienced by Japanese and Korean import brands…**
  - E.g., in 2023, Honda and Toyota saw a 0.25% increase in average multiple paid while domestics saw a 0.06% decrease
- **…but market participants recognize that below-average performance will stop commanding above-average multiples in 2024**
  - *"You're going to see sellers try to make money off the multiples they saw for the past few years (and they'll be disappointed)"* – OWNER, EMPIRE AUTO GROUP

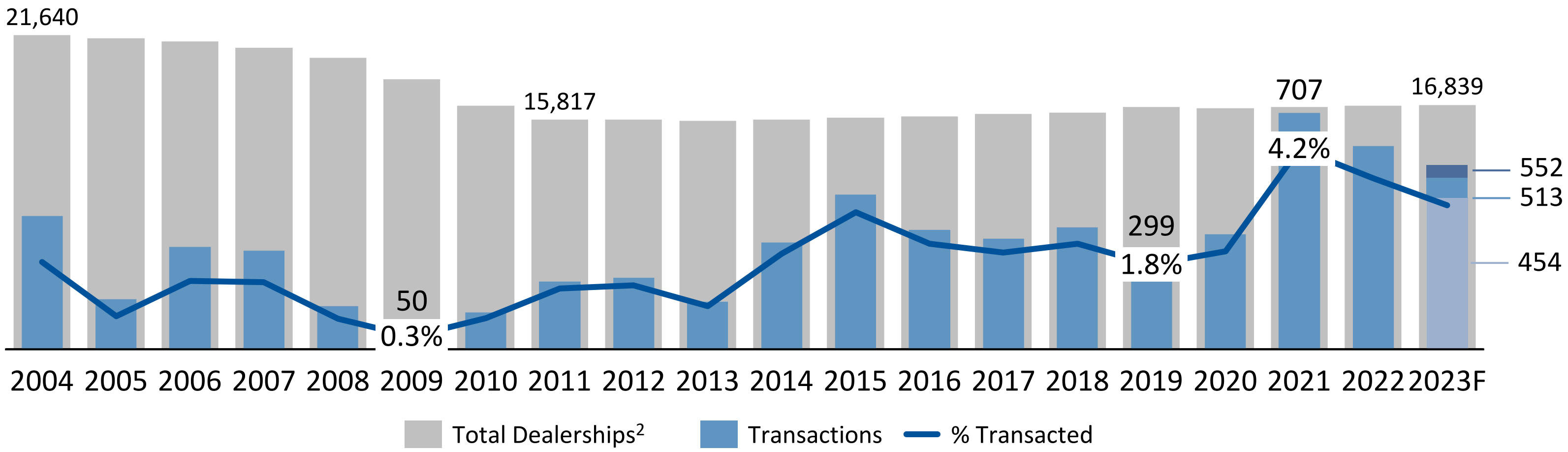
Consumer	Dealers	OEMs
N/A	MIXED	MIXED

Source: Kaiser Primary and Secondary Research & Analysis
[1] See appendix for Expected Impact Definitions

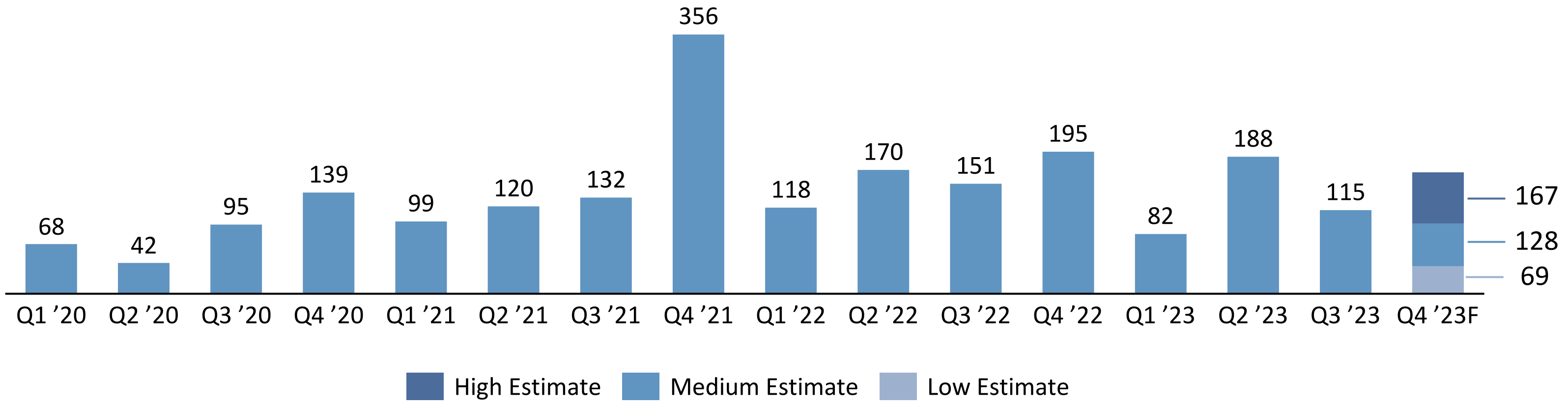
Expected Impact[1]			
POSITIVE	MIXED	NEGATIVE	N/A

Early transaction activity indicates 2024, like 2023, will see M&A activity above historic averages, albeit below the peak of transactions experienced in 2021 and 2022

US Dealership Transactions, 2004-2023[1]



Quarterly US Dealership Transactions, 2020-2023[1]



Commentary

- Kaiser's scenario forecasts range between **year-end transaction counts of ~450 and ~550**
  - The base case forecast of 513 rooftops acquired would represent a 19% decrease in transaction count from 2022, but a **41% increase** over the average transaction count in the 5 years preceding COVID
  - YTD transactions in Q3 2023 represent an **88% increase relative to 2020** and only a 12% decrease relative to 2022
  - *"I think the M&A market will* ***continue to be strong*** *…earnings are still 30-40% higher than '19 so there is value, it's just a matter of digesting 2023 data and pricing it right"* – ATTORNEY, M&A ADVISOR
- As a share of the US install base of dealerships, **2023 activity** (once finalized) is poised to remain **at a higher level than all non-COVID years**

Morgan Automotive Group **acquired 9 dealerships and 2 collision centers from South Motors** and **Vista Motors** in **January 2024**

- South Motors and Vista Motors are among the **highest volume and most profitable dealerships in the US** (sold ~19K vehicles in 2023, with $1bn+ in revenue)
- Morgan's (privately owned, among the top dealership groups in the US) **acquisition may signal stable or even growing private buyer activity in 2024**

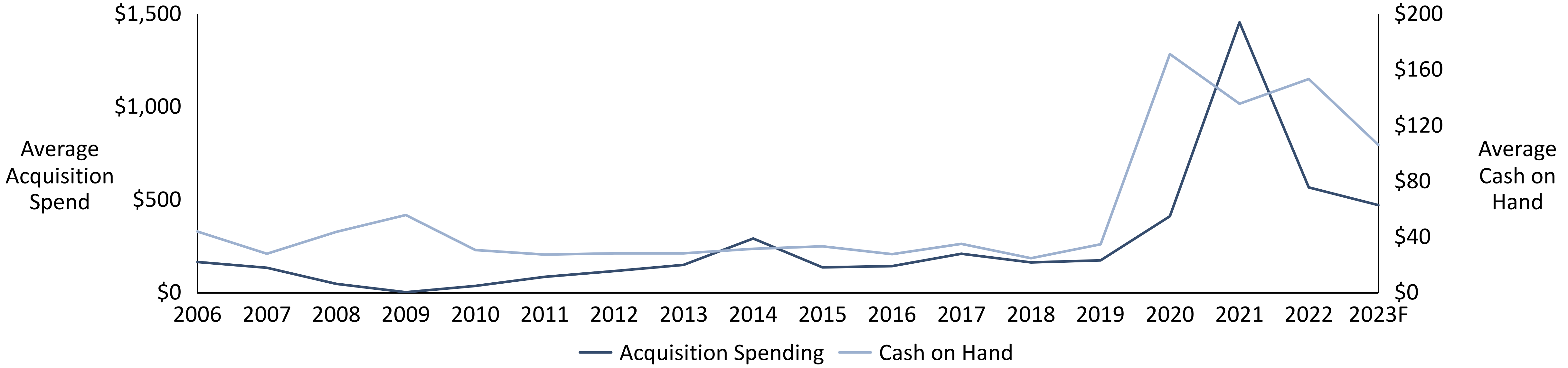
Source: Kaiser Primary and Secondary Research & Analysis

[1] *Haig Report*

[2] *NADA, 2024*

Resilience in dealership profitability has equipped dealership groups with cash on hand to fund expansion of group footprints

Publicly Traded Dealership Cash on Hand and Acquisition Spending ($mn), 2006-2023[1]



Commentary

- **Sustained profitability at the end of 2023** suggests dealers are holding **strong cash balances entering 2024**, albeit at potentially lower levels than in 2020-2022, but dealers will need to be wary of overextending themselves as the industry normalizes
  - Average cash balances of ~$106mn are expected for publicly traded groups at the close of 2023, vs. $153mn in 2022 and $35mn in 2019
  - *"We saw at the tail end of last year that **lenders are being more inquisitive** to make sure that **the projected operational numbers will actually support the credit that's being underwritten** and that dealers can make their loan payments and meet their financial covenants"* – ATTORNEY, M&A ADVISOR
- **Above-average cash balances** have historically been a **leading indicator of acquisition activity** as owners look to automotive dealerships as their highest ROI investment option
  - Provided the new normal model of higher margin, lower volume operations holds strong in 2024, acquisitive behavior by dealership owners is likely to continue
  - *"When you look at investment options, **you're going to make a lot more investing your money in a dealership** than anywhere else"* – FINANCIAL ANALYST, M&A ADVISOR

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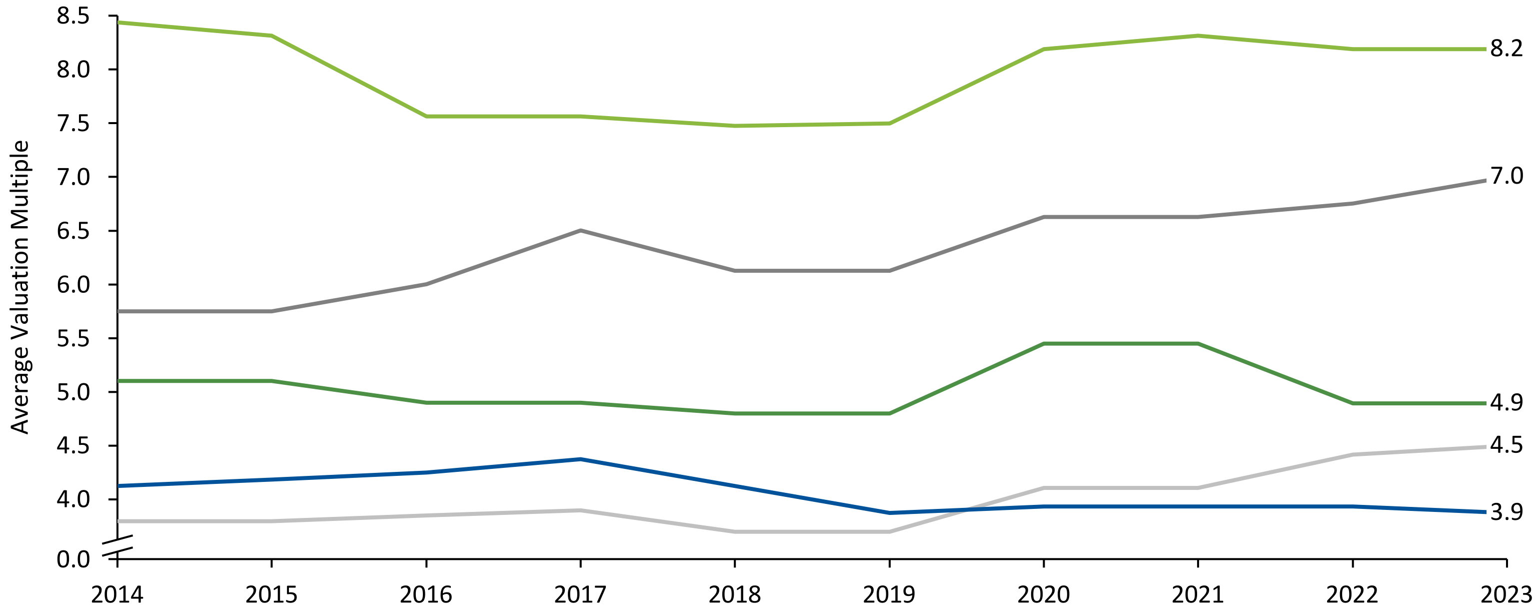
Source: Kaiser Primary and Secondary Research & Analysis
[1] SEC Filings

Import brand valuations have increased over the past decade despite little correlation in consumer interest, while luxury and domestic brand valuations have remained flat

Auto Franchise Blue Sky Value by Segment, 2014-2023[1]



Segment[2]	Current Share[3]		Future Share[3]
German Luxury	5.2%	↗	9.0%
Honda / Toyota	27.1%	↘	23.4%
Other Luxury	6.8%	↗	11.2%
Import (excl. Honda / Toyota)	27.1%	↘	21.5%
Domestic	33.8%	→	34.8%

Commentary

- Although valuation of **mid-range import brands**, including Honda and Toyota, has **trended upwards in recent years**, consumers report **lower levels of interest** in purchasing imports for their next vehicle
- In contrast, **luxury and domestic brands**, which have seen **flat or declining brand valuations**, are each expected to be **increasingly considered** by consumers for future purchases, spelling **potential upticks in unit sales**
- Long-run impact of consumer demand on brand profitability, and in turn blue sky values, are contingent on the **ability of consumers to afford their preferred brands**, as a subset of prospective luxury consumers may **instead turn to less expensive import brands** at the time of purchase

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Source: Kaiser Primary and Secondary Research & Analysis
[1] Haig Report
[2] See appendix for categorization of brands
[3] Kaiser Associates Q1 2024 Consumer Survey

A subset of groups continue to make bets in adjacent industries: powersports, heavy trucks and RVs offer diversification to groups with saturated key brand coverage

Dealership Group	Total US Stores	Top 3 Brands Represented *(# of locations selling)*			Adjacent Acquisitions
ASBURY AUTOMOTIVE GROUP	169	20	Chrysler / Jeep / RAM / Dodge 17	15	N/A
AutoNation	327	38	HONDA 29	28	RepairSmith (2023) – *Mobile Repair Solutions* CIG Financial (2022) – *Financial Services*
GROUP 1 AUTOMOTIVE®	184	17	17	12	N/A
LITHIA MOTORS, INC.	314	Chrysler / Jeep / RAM / Dodge 40	HONDA 32	27	Airstream Adventures (2022) – *Recreational Vehicles* Pfaff Harley-Davidson (2021) – *Motorcycles*
PENSKE Automotive	214	18	15	14	Transolutions Truck Centres (2023) – *Heavy Trucks/Buses* Team Truck Centres (2022) – *Heavy Trucks* McCoy Freightliner (2021) – *Heavy Trucks*
Sonic Automotive®	117	16	HONDA 13	MINI 10	Black Hills Harley-Davidson (2023) – *Motorcycles* Mancuso Powersports (2022) – *Motorcycles* Horny Toad Harley-Davidson (2022) – *Motorcycles*

Lithia's acquisition of Airstream Adventures in 2022 represents a **first step into a tangential industry.** Among RV brands, Airstream dealerships are operated most similarly to the automotive industry as Airstream's brand legacy drives more stringent OEM requirements.

*"We continue to believe our **diversified business model** provides earnings growth opportunities in our EchoPark and **powersports segments**"*
- DAVID SMITH, CEO, SONIC AUTOMOTIVE

Source: Kaiser Primary and Secondary Research & Analysis

What's next? For dealers considering how to plan for the year, we recommend you ask yourself…

External Forces

1. ***Macroeconomics: Soft Landing, Harder Choices:*** Lower rates will be good for consumer demand, but rates won't come down immediately – are you ready for another year of higher financing costs?
2. ***Politics and Regulation: Unusually Important in 2024:*** Are you ready for CARS Rule compliance burdens? Does this vary across your locations?

Industry Forces

3. ***OEMs and Supply Chain: In the Driver Seat:*** As supply picks up, are you ready to reallocate budget to advertising? Are you comfortable with your current allocations?
4. ***Consumer Trends: Societal Shifts Solidifying:*** Consumers are adjusting to a world of more expensive cars – but are you positioned to prove that you offer *value* compared to your peers?
5. ***Dealership Trends: Back to the Grind:*** Are you "taking a look in the mirror" to ensure your inventory management, floorplan financing, and operational capabilities are ready for a more competitive world?
6. ***EVs: Extremely Volatile:*** It's certain than 2024 will see cooling BEV demand – but have you "made your bet" as to what will happen in 2025 and beyond?
7. ***M&A Trends & Forecast: Continued Opportunity:*** 2024 will probably be an active year – but if you've thought about making moves, is this time to do it?

Appendix

“Expected Impact” Definitions

Rating	Consumer	Dealers	OEMs
POSITIVE	• Improved macroeconomic conditions • Lower vehicle prices • Higher inventory levels • More dealer and/or OEM options • Stronger dealer service offerings • Stronger regulatory protections	• Higher vehicle prices • Consumer preferences for high margin vehicles • Increased M&A activity • Higher revenue from high margin service and parts, financing, etc.	• Higher vehicle prices • Lower production costs • Improved supply chains • Consumer preferences for high margin vehicles
MIXED	• Impact unknown… • …or a combination of NEGATIVE and POSTIVE impacts expected	• Impact unknown… • …or a combination of NEGATIVE and POSTIVE impacts expected	• Impact unknown… • …or a combination of NEGATIVE and POSTIVE impacts expected
NEGATIVE	• Higher vehicle prices • Fewer dealer and/or OEM options • Lower inventory levels • Weaker dealer service offerings • Supply chain disruptions • Weaker regulatory protections	• Lower vehicle margins and/or prices • Disruptions from geopolitical tensions • Increased competition • Shifting consumer preferences away from high margin vehicles • Increased time spent on administrative or other non-revenue-generating tasks • Supply chain disruption	• Lower vehicle margins and/or prices • Disruptions from geopolitical tensions • Increased competition • Shifting consumer preferences away from high margin vehicles • Increased regulation compliance costs • Supply chain disruptions
N/A	• Consumers not impacted (at least in the near-term)	• Dealers not impacted (at least in the near-term)	• OEMs not impacted (at least in the near-term)

NAICS Code Industry Verticals

NAICS Code	Industry Vertical	Selected Industry Detail		
238	Specialty Trade Contractors	• Residential specialty trade contractors	• Nonresidential specialty trade contractors • Building finishing contractors	• Other specialty trade contractors
441	Motor Vehicle and Parts Dealers	• Automobile dealers • Other motor vehicle dealers	• Automotive parts, accessories, and tire retailers	
485	Transit and Ground Passenger Transportation	• Taxi, limousine, and ridesharing services	• School and employee bus transportation • Urban transit systems and interurban, rural, and charter bus transportation	• Other transit and ground passenger transportation
492	Couriers and Messengers	• Couriers and express delivery services	• Local messengers and delivery and private postal services	
5321	Automotive Equipment Rental and Leasing	• Passenger car rental and leasing	• Truck, utility trailer, and recreational vehicle (RV) rental and leasing	
5617	Services to Buildings and Dwellings	• Exterminating and pest control services • Janitorial services	• Landscaping services • Carpet and upholstery cleaning services	• Other services to buildings and dwellings

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Brand Categorizations

Category	Brands		
Domestic	• Buick • Dodge • Jeep • Ram	• Chevrolet • Ford • Lincoln • Rivian	• Chrysler • GMC • Lucid • Tesla
Honda / Toyota	• Honda	• Toyota	
Import (excl. Honda / Toyota)	• Alfa Romeo • Kia • Mitsubishi • VinFast	• Fiat • Mazda • Nissan • Volkswagen	• Hyundai • MINI • Subaru
German Luxury	• Audi • Porsche	• BMW	• Mercedes-Benz
Other Luxury	• Acura • Infiniti • Lexus • Volvo	• Cadillac • Jaguar • Maserati	• Genesis • Land Rover • Polestar