



AUTOMOTIVE VENTURES

AUTO INTEL REPORT \ \ APRIL 2021

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INTRO <<< ***APR 2021***

***AUTOMOTIVE VENTURES
INTEL REPORT***

WELCOME TO THE



AUTOMOTIVE VENTURES INTEL REPORT

APRIL 2021

In this issue, we take a look at global supply chains, and in particular around battery technologies.

It was another busy month for transactions in the auto tech space, and we've added a new section where I do a postmortem on a couple of deals that have significant impact on the industry.

I also do my best to build a case for why I think this will be a record year for auto tech M&A activity.

We have another great guest Op-Ed piece from the team at The Presidio Group, this time outlining how SPACs are fostering innovation in auto tech.

And, of course, we have a new slate of "Companies to Watch" for April.

As always, please send me a note if there's anything I've missed, or if there's any content that I can add in future editions that will be helpful.

Many thanks and have a great month!

Steve Greenfield

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>>> WHITEPAPERS AVAILABLE



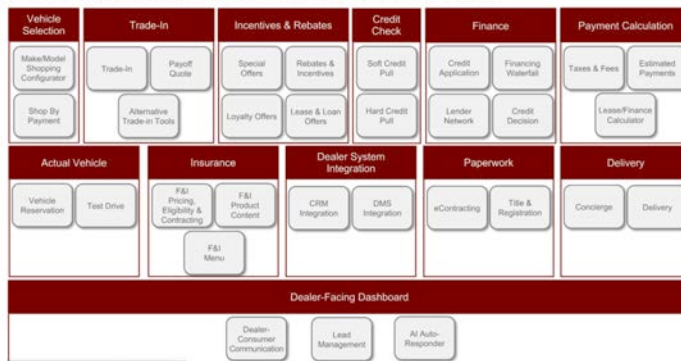
**AUCTION
DISRUPTORS** ↓
FREE TO DOWNLOAD

AUCTION CHANNELS AND MARKET SHARE

Wholesale Channel	Description	Examples	Market Share by Channel				
			Consignor Type				
			OEM Captive Finance	Financial Institution (Repo)	Fleet	Franchise Dealers	Independent Dealers
Upstream Online	• Off-lease cars listed for sale online; closed (OEM dealer) & open options • Car is on dealer's lot	oily OPENLANE	40%	0%	0%	0%	0%
Dealer-to-Dealer/Trade-ins	• Direct-to-dealer, dealer-to-dealer or between dealers & wholesalers • Car location can vary	AccuTrade	0%	0%	80%	20%	55%
Digital Trade Network	• Online or mobile live auction for dealers, primarily franchise • Car is on dealer's lot	ACV BACKLOG, Tradebyte, CARFAX, CARFAX, CARFAX	0%	0%	0%	10%	1%
Online Pre- & Post-Auction Sales	• Online sales with buy now or bid sale before and/or immediately after auction • Car at dealer lot, in-transit, or at auction	OVER.COM, AUSA, AUSA, AUSA	5%	5%	0%	10%	5%
Simulcast	• Live stream of physical auction • Remote buyers for cars in the lane	Autos, Autodata, Autodata	25%	40%	10%	30%	9%
Physical Auction	• Traditional in-person auction • Car is in the lane	Autos, Autodata, Autodata	30%	55%	10%	30%	30%
Total			100%	100%	100%	100%	100%

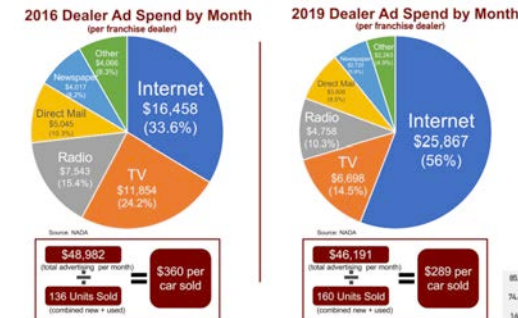
**WHOLESALE
AUCTIONS** ↓
FREE TO DOWNLOAD

DIGITAL RETAILING: MULTIPLE BUILDING BLOCKS



**DIGITAL
RETAILING** ↓
FREE TO DOWNLOAD

WHERE DO DEALERS SPEND AD DOLLARS?



**AUTOMOTIVE
ADVERTISING** ↓
FREE TO DOWNLOAD

AIM GROUP DIGITAL RETAILING REPORT

FREE TO DOWNLOAD

WE LOOK AT:

- How the pandemic accelerated adoption
- Its impact on dealers, OEMs, marketplaces and vendors
- How big it will grow, how fast, and who's doing it now
- The report includes nearly 100 charts and graphics, with:
- Five case studies of auto dealers offering ecommerce
- Profiles of five vendors providing the back-end tools
- A directory of more than 50 vendors globally
- A look at international e-commerce efforts in automotive
- Details about Amazon, the potential "wild card" in car sales

AIMGroup
Business Intelligence for Marketplaces and Classifieds



Digital retailing in automotive sales

October 2020

»» DOWNLOAD



INDUSTRY TRENDS

>>> INDUSTRY TRENDS



COVID-19

President Biden has doubled his pledge to now have 200M receive their vaccination within his first 100 days in office. Consumer confidence is returning to flying, hotels and car rentals.



STIMULUS

The \$1.9 trillion *American Rescue Plan* provides for stimulus payments of up to \$1,400 for eligible individuals. Nearly 15 million paper checks and 5 million debit card will be distributed this time around.



ONLINE RETAILERS

Online automotive retailers are hot. Carvana's market cap is \$45 billion. Cazoo is about to list at an expected \$7 billion valuation. CarMax and Lithia are being rewarded for their online initiatives.



EV MELTDOWN

Some of the high-flying EV manufacturers that have recently gone public are under fire. First it was Nikola, and now it's Lordstown Motors. These stocks will be volatile, as many of these companies are years away from shipping their first vehicle.



NFT WHAT?

First it was Bitcoin and now it's NFTs. Not familiar with the term? You're not alone. Just Google "beeples \$69m". I hope we haven't jumped the shark, folks.



IN THE NEWS

>> IN THE NEWS

Biden doubles vaccine goal to 200m in first 100 days

Mar 25, 2021

FT
FINANCIAL
TIMES

S&P, Dow Close at new Highs After Soaring Over 1%

Mar 27, 2021

Nasdaq

ACV Auctions Prices IPO Above Range at \$25 a Share

Mar 23, 2021

yahoo!
finance

Global SPAC deal volumes this year surpass total for 2020

Mar 9, 2021

REUTERS

Booming Electric-Vehicle Demand Supercharges Lithium Prices

Mar 10, 2021

THE WALL STREET JOURNAL.

Hertz Stock Nosedives as Bankruptcy-Exit Plan Threatens to Wipe Out Holders

Mar 3, 2021

THE WALL STREET JOURNAL.

Dealer profits surge 48% to record in a 'unique' 2020

Mar 1, 2021

Automotive News

International Business of CDK Global Becomes Keyloop

Mar 1, 2021

CISION
PRWeb

Manheim index shatters record fueled by February price jump

Mar 5, 2021

Auto Remarketing

RumbleOn and RideNow Announce Definitive Agreement to Combine Companies

Mar 15, 2021

businesswire
A BERKSHIRE HATHAWAY COMPANY

Upstart to Acquire Prodigy Software, a Leading Automotive Retail Software Provider

Mar 17 2021

yahoo!
finance

Lithia CEO says company could lead industry consolidation

Mar 11, 2021

Automotive News

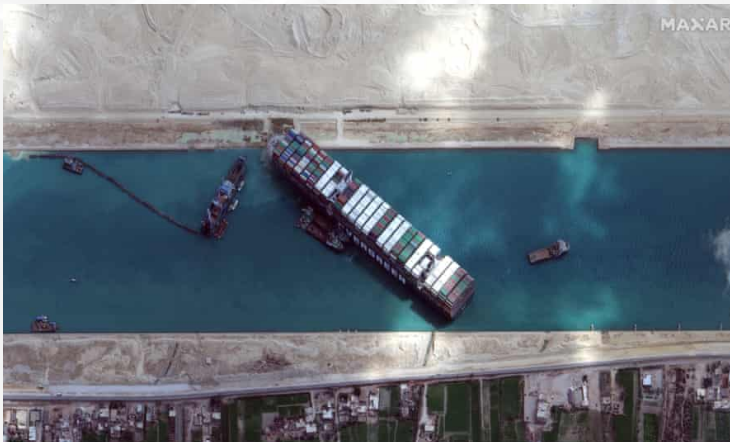


GREENFIELD'S POINT OF VIEW

>>> GREENFIELD'S POINT OF VIEW

The Fragility of Our Supply Chain

This past week, a 1,300-foot, 220,000-ton container ship called the Ever Given caught the attention of the world and underscored the fragility of our global supply chain.



Photograph: Maxar Technologies/AP

For all that aviation and telecommunications have transformed global commerce over the past century, control of the straits through which the world's shipping passes is more important now than it's ever been. For

example, about two thirds of the world's international crude oil trade and 80% of petroleum products move by sea.

I was in high school during the heyday of Dell Computer's stratospheric rise and experienced firsthand the way the company cleverly combined online configuration/buying with the implementation of their Just in Time (JIT) supply chain. It felt like I was living through an era of compression of Moore's' Law, and distinctly remember feeling that the CPU and hard drives were always 6 months away from not being able to support the latest computer games. Dell (along with Intel and Microsoft) took the term "planned obsolescence" to a whole new level.

Years later, in operations classes in business school, we studied both Dell and Walmart's supply chains with awe; how they effectively squeezed efficiencies out of their suppliers. There were dozens of successful business books, consulting firms and HBR cases



Fig. 2. Dell's supply chain model

THE IMPACT OF E-COMMERCE IN SUPPLY CHAIN MANAGEMENT AT DELL INC
A. Harsono (2014)

launched around "Just In Time" (JIT) delivery (and for those Trello users and/or Product Managers in the audience, the word for "Just in time" in Japanese is "Kanban").

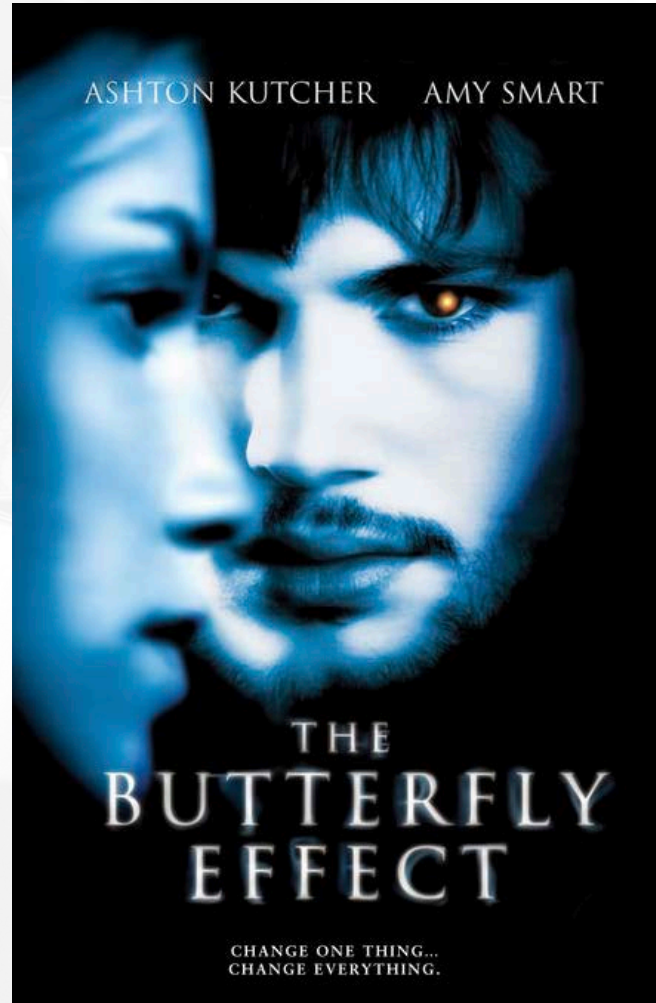
Fast forward to current, and we are feeling the effects of businesses' embrace of every-tightening supply chains.

»» GREENFIELD'S POINT OF VIEW

Believe it or not, it was ten years ago that the Japanese earthquake and resulting tsunami devastated the northeast coast of Japan with the most powerful natural disaster in Japan's modern history. Compounding Japan's predicament was the destruction of several nuclear reactors in the region which supplied electricity to the region. A large area was temporarily evacuated, making rapid reopening of affected industries impossible.

The effects of the earthquake were felt far and wide for those of us in the automotive industry, and I remember meeting with Honda stores that were literally not going to receive new vehicles for 6 months or more. It reminds me a bit of "Chaos Theory" (AKA "The Butterfly Effect") that suggests that the flap of a butterfly's wings might ultimately cause a tornado halfway around the world. We just got to experience it in real time.

Last year, smack dab in the middle of a global pandemic, used car prices skyrocketed due to a lack of supply, wholesale auction closures, and a shortage of new



vehicles due to both factory closures and supply-chain issues. All this while consumer demand for vehicles somehow remained strong.

This year we're once again experiencing a skyrocketing of used car prices, which isn't expected to return to normal until at least the fall. Auction prices have taken off. Dealers face new car shortages due to a global dearth of microchips. Consumer demand is being stimulated by the US Government sending checks directly into consumer bank accounts and the target of having 200 million people vaccinated by the end of April. To add insult to injury, increased vacation and business travel has rental car companies scrambling to react to a shortage of cars, which means we won't be seeing the supply of rentals entering the auction channel this year; a supply of inventory that dealers (and wholesale auctions) count on.

I believe that our general embrace of tight supply chains will have an even greater impact on the automotive industry in the future. Circling back to the Ever Given,

>>> GREENFIELD'S POINT OF VIEW

keep in mind that the flow of goods by sea accounts for 70% of total international trade, and that Chinese companies hold stakes of close to 65% in the world's busiest ports.

Battery Technologies

For the record, I have nothing against China. In fact, I've traveled the country extensively, have spent months there at a time, and love the people, the countryside, the culture, and the food.

But, if you haven't been paying attention, China has been buying up the world's supply of battery inputs in an effort to control the supply chain. According to data released from Benchmark Mineral Intelligence, Chinese chemical companies accounted for 80% of the world's total output of raw materials for advanced batteries.

Just as a quick primer, there are a few key inputs into batteries:

Rare Earth Elements

Rare earths are a group of elements on the periodic table with similar properties and are used in a wide range of consumer products, from iPhones to electric car motors, as well as military jet engines, satellites and lasers.

China is the world's largest producer of rare earths. While accounting for roughly 30 percent of the world's total reserves, the country produces about 85 percent of the world's rare earth oxides and approximately 90 percent of rare earth metals, alloys, and permanent magnets. Having control of these elements puts China at a powerful position.

Nickel-Cobalt-Manganese Cathodes

Nickel-cobalt-manganese cathode chemistries currently dominate global lithium-ion electric vehicle battery production.

Cobalt is widely used in electric vehicles as well as computer and consumer electronics. The Democratic Republic of Congo (DRC) happens to be the source of more than two-thirds of global production of cobalt, and eight of the 14 largest cobalt mines in the DRC are Chinese-owned and account for almost half of the country's output. China's influence dominates cobalt processing with Chinese companies controlling about 80% of the cobalt refining industry, where it is turned into commercial-grade cobalt metal.

While China only mines 6% of the globe's manganese, it is this chemical refining step in the supply chain where China has the significant advantage, with 93% of production.

Graphite

In addition to rare earths, the manufacturing of lithium-ion batteries depends on some key materials like graphite, the material used in pencil tips. China

»» GREENFIELD'S POINT OF VIEW

produces more than 60% of the world's graphite. Which means that Beijing has a lot of influence on global pricing of the commodity.

World lithium reserves

China is among the five top countries with the most lithium resources, but it has been buying stakes in mining operations in Australia and South America where most of the world's lithium reserves are found.

China's Tianqi Lithium now owns 51% of the world's largest lithium reserve, Australia's Greenbushes lithium mine. In 2018, the same company also paid about \$4 billion to become the second-largest shareholder in Sociedad Química y Minera (SQM), the largest lithium producer in Chile.

Another Chinese company, Ganfeng Lithium, now has a long-term agreement to underwrite all lithium raw materials produced by Australia's Mount Marion mine,

the world's second-biggest, high-grade lithium reserve.

Wrapping Up

While I'm no expert in geopolitics, I do believe that electric vehicles are destined to become a larger percentage of all car sales, and that there will be a general movement away from internal combustion engines (ICE).

I will be fascinated to see how the tension between world superpowers plays out as it relates to battery inputs. At the very least, the Ever Given has helped to remind us of the side effects of running very tight supply chains that leave very little margin for error.

Thank you for your continued support.

Until next month,



Steve Greenfield

CEO and Founder
Automotive Ventures





KEY TRANSACTION OVERVIEW

>>> DEAL DETAILS: ACV AUCTIONS

OVERVIEW OF TRANSACTION

- ACV Auctions got a bullish start to its life as a public company, opening 28% above the IPO price.
- ACV's market cap is now \$5.3 billion, compared to KAR Global (parent of ADESA) at \$2.0 billion.
- ACV's marketplace for auctioning used cars was used by more than 16,000 dealerships last year, selling 391k units.

• SIGNIFICANCE TO INDUSTRY

- Investors are receptive to ACV's plans to bring used-car wholesaling further into the digital age.
- The company plans to use the IPO proceeds to grow its virtual marketplace for dealers to buy used vehicles without sending people to a live auction.
- Will give access to a "war chest" to make strategic acquisitions.
- Incumbents Manheim and ADESA will need to accelerate their digital strategies to fend off a well capitalized ACV.



Raises \$414m in IPO
Values company at \$4.8 billion



Jefferies

JPMorganChase 

>>> DEAL DETAILS: PRODIGY SOFTWARE

OVERVIEW OF TRANSACTION

- Upstart to acquire Prodigy Software, one of many “Digital Retailing” software tools in the automotive space.
- The total consideration was \$100m: 15% in cash; 85% in stock
- According to PitchBook, Prodigy had raised \$22.5m at a recent post-money valuation of \$40.5m

SIGNIFICANCE TO INDUSTRY

- Upstart is not one of the “usual suspect” strategic acquirers in the auto tech space.
- Upstart is a publicly-traded consumer-facing FinTech company, that aims to enable their consumers to refinance their car loans.
- With the acquisition of Prodigy, Upstart said it will accelerate its efforts to offer AI-enabled auto financing through thousands of dealers nationwide where the majority of financing is originated.
- This transaction provides a healthy comp for other automotive software entrepreneurs, and more specifically Digital Retail providers.



Sold to:



\$100 million total consideration
(\$15 million in cash; \$85 million in stock)



AUTO TECH LANDSCAPE

Customer Retention Tools

- TeamVelocity
- iPrecheck
- Spireon
- DataClover
- xtime
- Dominion
- Experian Automotive
- Affinitiv
- AutoLoop
- DealerSocket
- elead
- DealerWing
- automotiveMastermind
- AutoAlert
- 3birds
- Outsell

[illegible]



2021 TRANSACTIONS

>>> MARCH 2021 TRANSACTIONS

 <p>\$2m Funding</p> <p>LGN is backed by JLR, Trucks Venture Capital, and Luminous Ventures</p>	 <p>filed for a U.S. initial public stock offering</p> <p>Developing self-driving trucks with Navistar Inc.</p>	 <p>Raised \$414m</p> <p>IPO implies a market value for the company of about \$3.9 billion.</p>	 <p>Acquisition by Upstart</p> <p>Cloud-based automotive retail software.</p>	 <p>\$9.9 Series A</p> <p>Participation from Social Leverage, Amplify.LA, Pipeline Capital, & FJ Labs.</p>	 <p>Acquisition by AKG</p> <p>Replacement OEM and aftermarket keyless entry remotes & keys.</p>
 <p>\$500m Funding</p> <p>Other investors include Daimler AG, Temasek, YunFeng Capital, and Tencent.</p>	 <p>\$8.8m Series A</p> <p>Participation from more than 50 individual and institutional investors.</p>	 <p>\$15m Series A</p> <p>To date, Ravin has raised approximately \$25 million.</p>	 <p>Acquisition by CRUISE</p> <p>Aspire to launch full-fledged commercial robot taxi services.</p>	 <p>Acquisition by Spireon</p> <p>Bolsters position as leading provider of aftermarket telematics.</p>	 <p>\$4.2m Seed Round</p> <p>Their REV-1 robot is designed to operate in bike lanes and roads.</p>
 <p>\$500m Funding</p> <p>Other investors include Daimler AG, Temasek, YunFeng Capital, and Tencent.</p>	 <p>\$8.8m Series A</p> <p>Participation from more than 50 individual and institutional investors.</p>	 <p>\$15m Series A</p> <p>To date, Ravin has raised approximately \$25 million.</p>	 <p>\$A48m injection of capital</p> <p>Bringing its first car to market at the end of this year.</p>	 <p>Combining With</p> <p>Forms the first omni-channel customer experience in powersports.</p>	 <p>\$10m Series A</p> <p>Dealer-based platform turns websites into an online store.</p>
 <p>closing to go public</p> <p>Valued at \$2b through a reverse merger with a blank-check company.</p>	 <p>Acquisition by northvolt</p> <p>Could significantly boost the range of electric-vehicle batteries.</p>	 <p>\$107m Series C</p> <p>The company valuation is between \$400 million and \$500 million.</p>	 <p>Seeking \$75m in financing</p> <p>Also exploring the potential for a public listing through a SPAC.</p>	 <p>\$10m Seed Round</p> <p>Shown 200% growth within the first year of inception.</p>	 <p>Acquisition By easypark</p> <p>EasyPark currently operates in over 2,200 cities across 20 countries.</p>
 <p>\$150m Series C</p> <p>Zego has now raised more than \$200 million since launching in 2016.</p>	 <p>Acquisition By VIA</p> <p>The deal is the third recent acquisition for Via.</p>	 <p>Raised \$5m</p> <p>Brings total investment raised to more than \$6 million.</p>	 <p>Acquisition by Snap-on</p> <p>Paid HGCC \$200 million in cash for Dealer-FX.</p>	 <p>\$10m Equity Investment</p> <p>Will use investment to establish an advanced AV testing facility.</p>	 <p>Sold By Hertz</p> <p>Sold for \$891 million, getting closer to leaving bankruptcy.</p>
 <p>\$31m Series B</p> <p>Used for deployment and development of ingenious" imaging system</p>	 <p>Raised \$2.5m</p> <p>On-demand repair app for electric vehicle charging stations.</p>	 <p>\$10.5m Series A</p> <p>Developing a network of drop zones, for long-haul trucks.</p>	 <p>Raised \$60m in financing</p> <p>Financing led by Caanan Partners and Upper90.</p>	 <p>\$7b SPAC</p> <p>Sold itself to hedge-fund founder Dan Och's blank-check company</p>	 <p>Acquisition By asTech</p> <p>asTech is a portfolio company of Kinderhook Industries, LLC.</p>

>>> 2020 TRANSACTIONS

 acquired by Adevinta	 acquired by J.D. POWER	 \$300m Financing	 \$3.0b Financing	 \$14m Financing	 \$20m Financing	 \$827m SPAC Acamar Partners	 acquired by KAR GLOBAL	 \$23m Financing	 \$1.45b sale to EP FRANCIS & TAYLOR PARTNERS	 \$260m sale to DealerSocket
 Invests in Circular	 acquired by J.D. POWER	 acquired by HEARST AUTOS	 \$25m Financing	 \$100m Financing	 Public Offering (SPAC)	 Acquisition CATTERTON	 Public Offering (SPAC)	 service simplified. acquired by Protective	 \$44.0b sale to S&P Global	 \$45m Series C FORTROSS VENTURES
 \$2.5b Financing	 Financing	 \$50m Financing	 acquired by MAG McCONKEY AUCTION GROUP	 acquired by CarGurus	 \$1.5m Financing	 \$724.4m IPO	 acquired by NATIONAL AUTO CARE	 \$150m Financing Advent International GLOBAL PRIVATE EQUITY	 \$875m sale to ATHENE	 POWERING OUT-OF-STATE TITLE & REGISTRATION Investment PCF polarispartners
 acquired by ASBURY AUTOMOTIVE GROUP	 Public Offering (SPAC)	 Public Offering (SPAC)	 Acquired by MAG McCONKEY AUCTION GROUP	 acquired by CAZOO	 \$311m Financing	 \$100m+ Financing KKR Tritium	 acquired by NATIONAL AUTO CARE	 \$55m Financing Durable CAPITAL PARTNERS	 \$1.3b SPAC C & CO INSU II	 \$5m Seed Round VOLVO NEXTGEAR VENTURES
 \$50m Financing GM SAIC	 Public Offering (SPAC)	 Public Offering (SPAC)	 Offers 13.3m Class A stock	 Taken Private by Tencent 腾讯	 \$7.0m Financing	 \$1.33b SPAC RMG	 acquired by auto experience	 \$140m Financing	 \$7m Financing FM CAPITAL	 \$823m SPAC GigCapital
 IPO	 Trust the Asset. Trust the Transaction.™ €231m Acquisition Wolters Kluwer	 \$7m Financing	 Offers 5.0m Class A stock	 \$1.375m Financing	 \$20m Financing	 acquired by LMP AUTOMOTIVE	 Financing PORSCHE VENTURES	 acquired by Reynolds & Reynolds	 \$7m Financing OurCrowd	 \$5m Financing THE ENGINE Built by MIT
 \$2.1b SPAC INTERPRIVATE	 \$267m Financing ONTARIO TEACHERS' PENSION PLAN	 \$6.2m Financing	 \$15m Series A HONDA	 Public via SPAC	 Acquired by CUNA MUTUAL GROUP	 acquired by Uber	 \$1b+ SPAC FORUM MERGER III CORPORATION	 \$25m Financing WITTINGTON VENTURES	 \$6m Financing	 \$45m Financing
 AUTO GROUP \$5m Financing POWERBAND SOLUTIONS	 \$24.5m Acquisition KINGSWAY FINANCIAL	 \$50m Financing T.RowePrice INVEST WITH CONFIDENCE	 StoneEagle F&I Majority Investment BV Battery Ventures	 \$20m Financing Kayne Anderson Capital Advisors, L.P.	 \$13m Financing OX	 €20 million Series A	 \$5.4b+ SPAC CIG MERGES CORP	 \$275m Acquisition CarGurus	 \$15m Series A INSIGHT PARTNERS	 \$3.5m Financing Wireframe VENTURES
 \$120m Acquisition vroom	 \$5.0m Financing redfortcapital	 \$23m Financing VENTURES	 \$1.9b SPAC COLDHABE	 \$20.5m Series A CAFFEINATED CAPITAL	 \$1.0b+ SPAC	 \$350m Financing VectoIQ	 \$700k Financing avis budget group	 Investment JMI EQUITY	 Plug into your future \$1.4b SPAC TPG FROM REVENUE FINANCE	 \$8m CAD Seed Round Threshold



2021: RECORD YEAR FOR M&A

STEVE GREENFIELD

»» RECORD YEAR FOR M&A THIS YEAR?

It's feeling a lot like 2010 all over again, and I'm betting we're going to see a lot of M&A activity this year as a result.

It was February 13th, 2010, and my first day on the job at AutoTrader.com after spending a decade at sister company Manheim. I remember it vividly, as my first day just happened to be the weekend of NADA (held in Orlando that year).

Cox had decided that they were going to sell off a 25% stake of AutoTrader.com to private equity and were already deep in that process. As it turned out, the successful suitor was Providence Equity Partners, who coughed up \$640 million (and who, by the way, netted a 3.0x return -- not bad for a 3-year hold time).

My role at ATC was to oversee business development. Little did I know that we were in for quite a year of M&A, and as it turned out we had a chance that year to acquire vAuto, Kelley Blue Book and HomeNet within a

span of 9 months.

Why was sell-side activity so busy during that particular year?



If you remember back to 2010, there was a lot of fear in the business press that the "Bush Tax Cuts" were going to be repealed. Bush's Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) reduced the long-term

»» RECORD YEAR FOR M&A THIS YEAR?

capital gains rate to 15% from 20%. The law no longer treated capital gains as regular income but instead as long-term capital gains. Most of the tax cuts were scheduled to expire December 31st, 2010.

As it turned out, the fears were overblown. In fact, the reduced capital gains lasted until January 1, 2013, when the Bush Tax Cuts expired. (On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012, which reinstated many of the tax cuts, effective retroactively to January 1st).

Having said that, the fear in 2010 was palpable (and sensationalized in the press), and caused a flurry of sale activity that year, as entrepreneurs attempted to lock in their gains at a lower rate. And Cox (and by extension, me at AutoTrader.com) were the beneficiaries.

Fast forward to current day, and things are feeling pretty familiar. From all indications, a significant tax increase is coming to us sometime soon.

President Biden is planning the first major federal tax

hike since 1993 to help pay for the long-term economic program designed as a follow-up to his pandemic-relief bill -- a package of measures that could include an increase in both the corporate tax rate and the individual rate for high earners.

While tax measures would not likely take effect until 2022, the amount of uncertainty is surely top of mind for entrepreneurs who are on the fence about whether they should sell now or hold.

The combination of stock markets reaching new highs, company valuations in the stratosphere, a tremendous amount of available capital in VC and PE funds, and the amount of change ahead in the automotive space, means that the threat of higher capital gains taxes will translate into vigorous company sale activity over the remainder of this year.

Game on.

What's Fueling M&A Activity?

1

Stock
markets
reaching
new highs

2

Company
valuations
at all-time
highs

3

Trillions of
dollars in
PE and VC
funds

4

Threat of
higher
capital
gains taxes

>> ***GUEST OP-ED***

THE PRESIDIO CORNER THE SPAC EFFECT ON AUTOMOTIVE RETAIL

»» THE PRESIDIO CORNER

SPACs are bringing enormous capital to innovate and disrupt the automotive retail world

COVID has accelerated the move to digitalize the auto retail industry, but another factor is fostering innovation in the automotive industry – the rise of the SPAC. The number of automotive-related startups raising capital through a Special Purpose Acquisition Company, or SPAC, has exploded. The impact on the auto retail sector will be profound.

“Change was already coming to the industry,” says Keith Style, Managing Director of The Presidio Group, “and now there is a massive amount of capital in the system that is going to foster and accelerate that change. SPACs are a quick and efficient means to access that capital.”

A SPAC, sometimes called a “blank-check company,” is a shell company set up by investors to raise capital through an IPO. That capital, and additional funding such as a private investment in a public equity or PIPE, is

earmarked for acquiring another company within a set time frame, usually two years. If an acquisition doesn’t occur within those two years, investors get their money back. Often, SPACs are focused on a specific industry or sector.

As of mid-February of 2021, 133 SPACs had gone public in the U.S. raising some \$40 billion, according to Market Insider. In 2020, 248 SPACs went public raising \$83 billion.

Automotive retailers need to be aware of the growing number of startups raising capital via SPACs, says Style, because online automotive retailers are gaining market share. “If there is a more convenient way for customers to enter the market through digital means, then there could be a disruption to the retail channel and how it operates,” he says.

In the automotive sector, startups in the electric and autonomous vehicle segments including vehicle

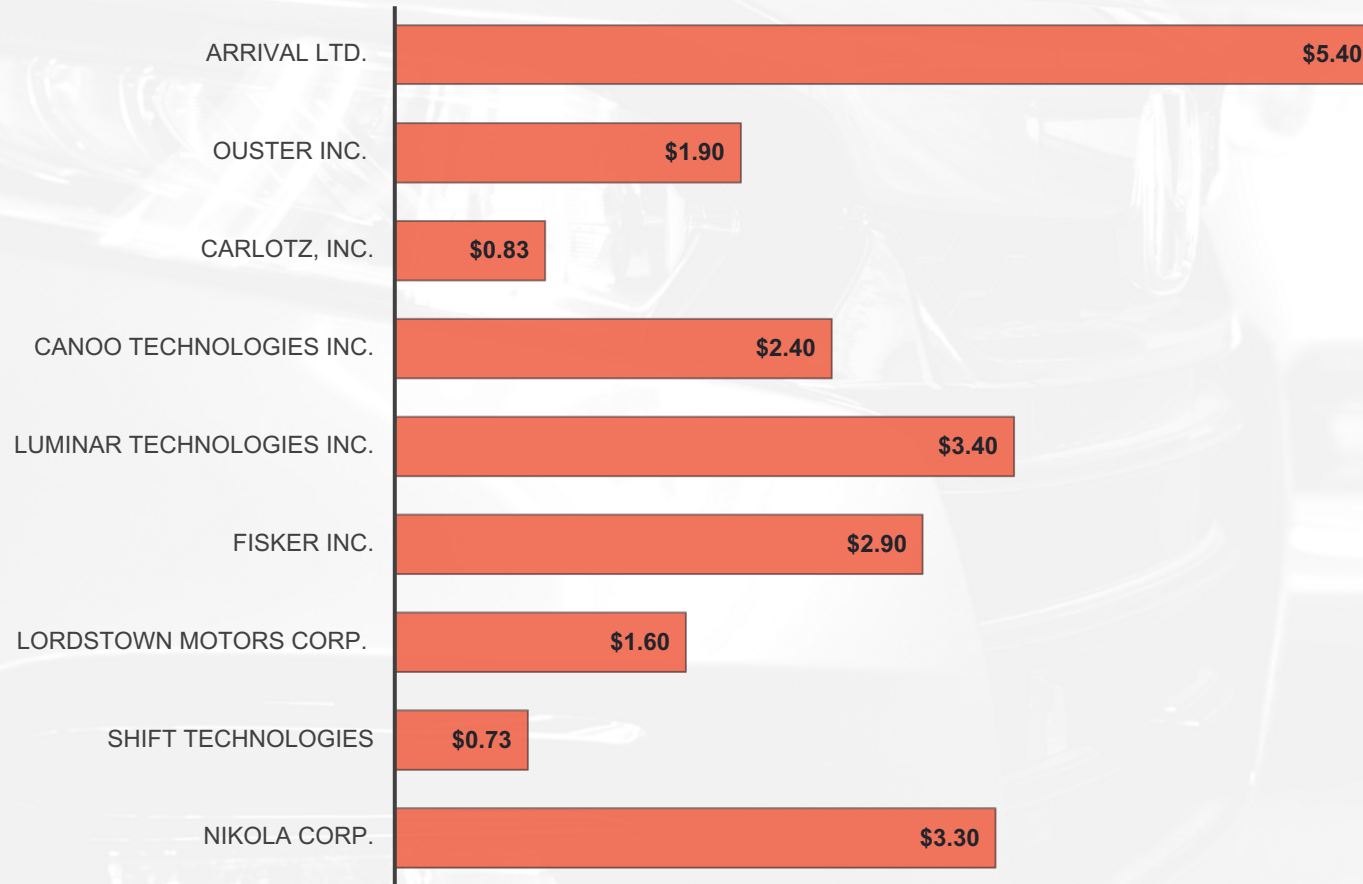
manufacturers and companies with enabling technology have led the way in listing through a SPAC. But the field is expanding, with several flying taxi startups, a data monetization startup, and an aftermarket performance parts maker looking to raise money by “SPACing.”

The vastness of the automotive industry, especially now that new kinds of vehicles and new ways of selling them are emerging, explains the industry’s attractiveness to SPACs. A crucial factor is the forward-looking TAM, or Total Addressable Market, usually 3-5 years out for many of these startups and early-stage companies. The global automotive industry is worth about \$5 trillion, with over 90 million new light vehicle units sold annually, according to Guidehouse Insights.

“It is the world’s largest industry going through its greatest rate of change ever. This creates a tremendous wealth creation opportunity,” says Brodie Cobb, CEO of The Presidio Group.

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Automotive-related SPACs since June 2020 (\$ billions)



Of course, most of the startups are aimed at only a segment of the total market, but the numbers are still big. That accounts for the mind-boggling pre-listing valuations for some of the automotive-related firms that have gone public via a SPAC in the last year. For example, nine auto-related companies have closed SPAC transactions totally \$20 billion since June of 2020, as the chart to the left demonstrates.

SPACs aren't new. Similar shell companies have been around for decades. The term SPAC became popular in the 1990's. But the term blank-check company, with the implication of it being merely a capital-raising vehicle, is increasingly not applicable to today's SPACs. Choosing a SPAC with expertise in a specific field can bring the same benefits as the more traditional venture capital route, including seasoned management and technological and marketing expertise. Indeed, some venture capital firms have set up their own SPACs.

"A good SPAC partner brings not only capital but also

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industry experience and relationships,” says Style.

The ability to list via a SPAC has brought down barriers for automotive startups, says Gary Silberg, Global Head of Automotive at KPMG LLP. It’s a very positive trend, he says.

“You need a lot of capital to innovate so this will absolutely spark that,” says Silberg. “It drives competition. It’s great for innovation.”

The Presidio Group is working with firms in the automotive retail services sector with technologies that enable dealerships to offer key portions of a seamless end-to-end online retail experience.

We also work with dealerships and dealership groups to find the right buyer, raise capital, and make acquisitions. In 2020, we sold 37 dealership franchises for more than \$2 billion. We have already closed on nine dealership franchises in 2021 and expect the year to significantly outpace 2020.



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The Presidio Group provides M&A advisory services through its wholly owned investment bank, Presidio Merchant Partners LLC, Member FINRA and SIPC.



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InstallerNet provides fully managed installation ecosystem solutions serving the Automotive, Residential and Business verticals. They have a nationwide network of trained and certified professionals to the end-user customers. Their automotive tech solutions support both DIY and DIFM consumers through their Fit Guides, Tech Guides and OBD Locators.



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DealerX is the premium provider of marketing, data and analytics for the automotive vertical, serving thousands of dealers across all brands, regional ad groups and OEMs. DealerX has helped automotive retailers save tens of millions of dollars by avoiding fraud and eliminating wasteful ad-spends, while dramatically reducing "cost-per-sale". Dealer customers sell more vehicles at a lower cost-per-sale.



www.tapclassifieds.com/

TapClassifieds is a technology company that provides marketing and advertising solutions to dealerships to be the best at their car-selling game. Their platform advertises dealerships inventory on a variety of digital platforms, including Craigslist, Facebook, Facebook Marketplace, Offerup, and letgo.

>>> 2020 COMPANIES TO WATCH



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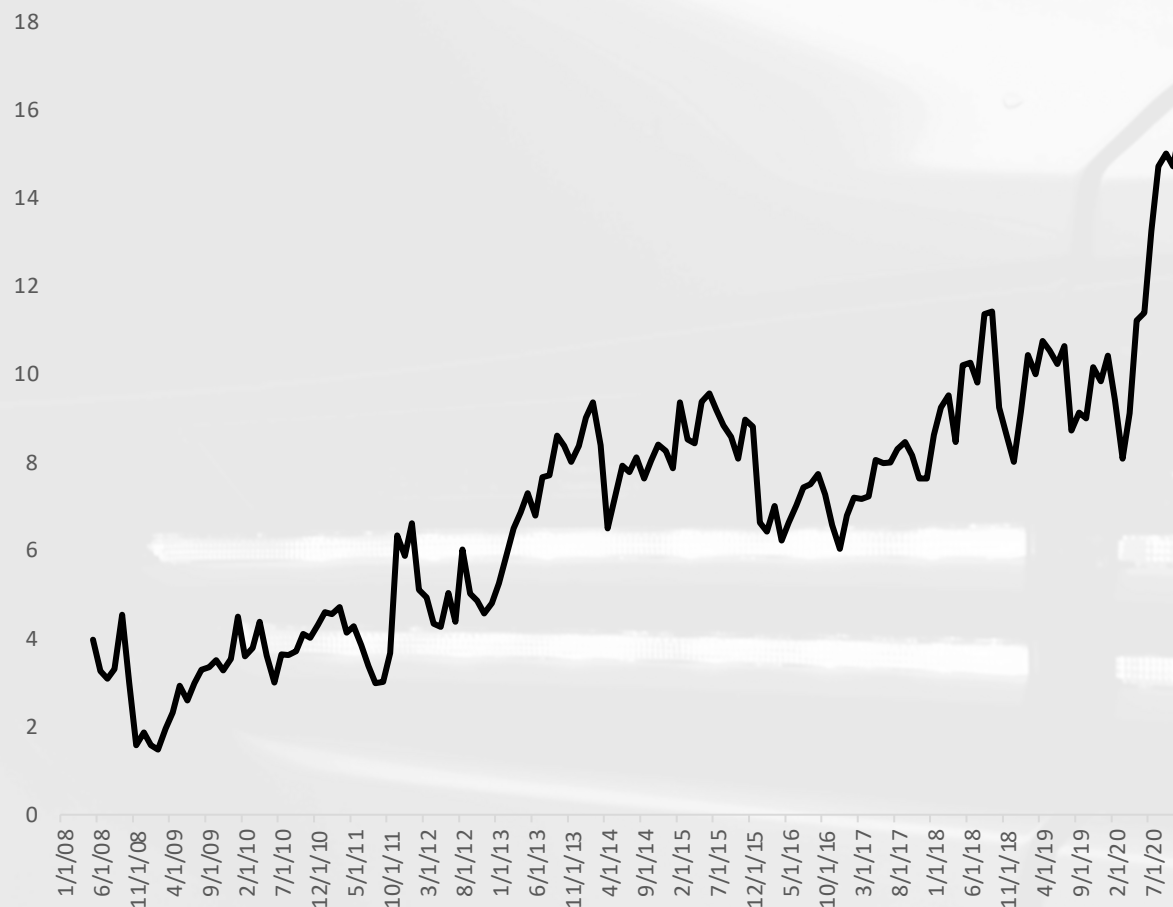
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COMPANY VALUATIONS

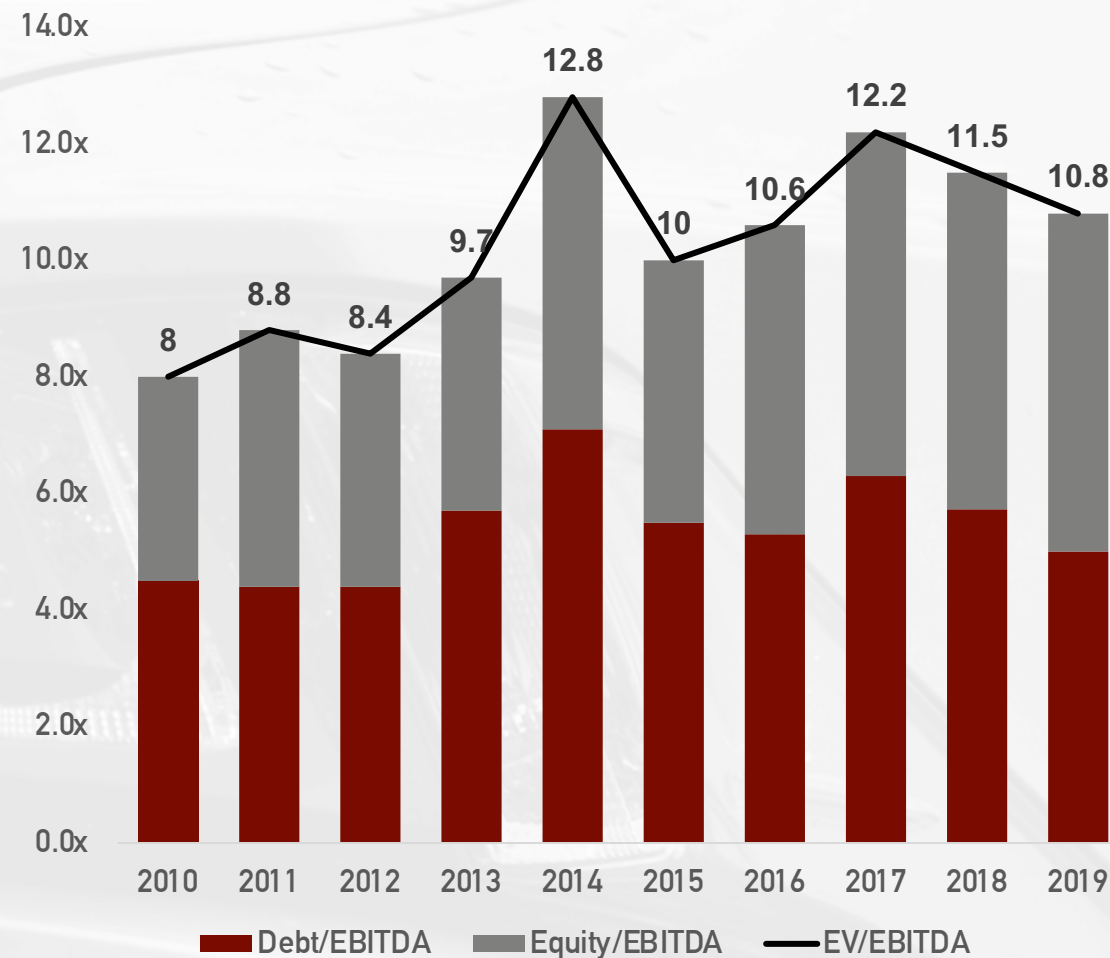
»» PUBLIC MARKET SAAS AND PE BUYOUT MULTIPLES

Median Public SaaS Company EV/Revenue Multiple



Source: The SaaS Capital Index

Median PE Buyout EV/EBITDA multiples



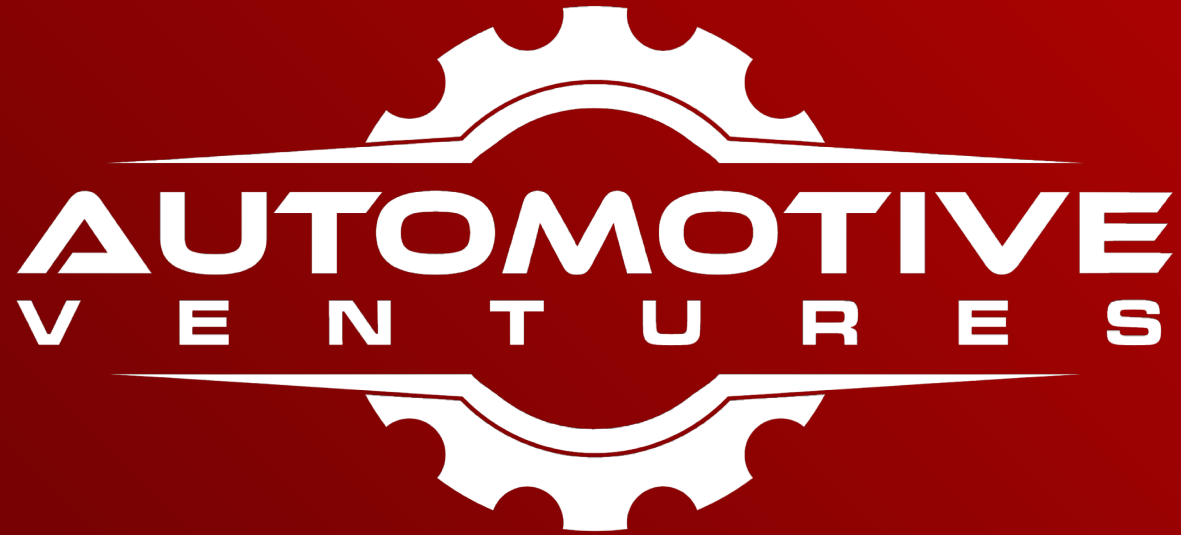
Source: PitchBook

>>> AUTOMOTIVE TECHNOLOGY TRANSACTION MULTIPLES

Business Model	Revenue Multiple
Pure SaaS	10.0x+
Tech-Enabled Services	3.0x-5.0x
Pure Services	1.0x-2.0x

Multiples higher for companies that have:

1. Predictable, recurring revenue
2. Low churn
3. High gross margins
4. High growth rates
5. High annual revenue growth
6. Strong upsell opportunities



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