



AUTOMOTIVE VENTURES

AUTO INTEL REPORT \ FEBRUARY 2021

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INTRO <<< ***FEB 2021***

***AUTOMOTIVE VENTURES
INTEL REPORT***

WELCOME TO THE



AUTOMOTIVE VENTURES INTEL REPORT

FEBRUARY 2021

In this issue, I share my areas of interest from an investment perspective.

We have three special Op-Ed guest contributors:

1. Mike Rother, who has joined Automotive Ventures to run our consulting business
2. Brodie Cobb and George Karolis from The Presidio Group, who report on why dealership multiples and deal-making is so strong
3. Paul Sims, who discusses the trends in dealership consolidation

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.

I hope you enjoy,

Steve Greenfield

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>>> WHITEPAPERS AVAILABLE



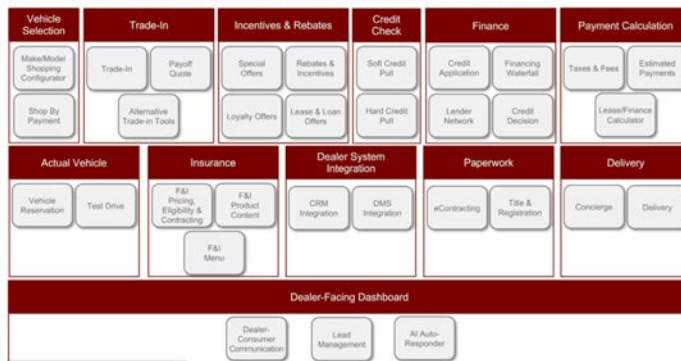
**AUCTION
DISRUPTORS** ↓
FREE TO DOWNLOAD

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	ally, 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, Tradebyte, BACKLIFT, CARS, CARS, CARS	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, TRADEBACK	5%	5%	0%	10%	5%
Simulcast	• Live stream of physical auction • Remote buyers for cars in the lane	Autos, SIMULCAST, SIMULCAST	25%	40%	10%	30%	9%
Physical Auction	• Traditional in-person auction • Car is in the lane	XL, ADESA	30%	55%	10%	30%	30%
Total			100%	100%	100%	100%	100%

**WHOLESALE
AUCTIONS** ↓
FREE TO DOWNLOAD

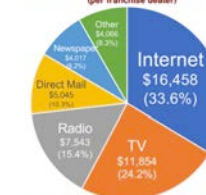
DIGITAL RETAILING: MULTIPLE BUILDING BLOCKS



**DIGITAL
RETAILING** ↓
FREE TO DOWNLOAD

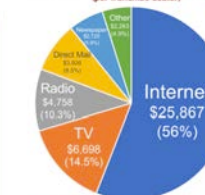
WHERE DO DEALERS SPEND AD DOLLARS?

2016 Dealer Ad Spend by Month (per franchise dealer)



$$\frac{\$48,982 \text{ (Total advertising per month)}}{136 \text{ Units Sold (combined new + used)}} = \$360 \text{ per car sold}$$

2019 Dealer Ad Spend by Month (per franchise dealer)



$$\frac{\$46,191 \text{ (Total advertising per month)}}{160 \text{ Units Sold (combined new + used)}} = \$289 \text{ per car sold}$$

85.5 new units sold per month
+
74.4 used units sold per month
= 160 total units sold per month

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



GREENFIELD'S POINT OF VIEW

»» GREENFIELD'S POINT OF VIEW

I recently had a call with a Family Office that manages over \$1 billion dollars of assets, who wanted my perspective on the future of the automotive industry. Their management style was one of a passive investor, and they were seeking to calibrate their “investment thesis” against my point of view. Needless to say, we had an interesting discussion.

This got me to thinking that I should commit my personal perspective on the future of the automotive industry and formulate a thesis around which areas are likely to benefit investors most.

We would likely come to general agreement that the industry is about to endure a period of dramatic change. It might be harder to agree on sorting out which sectors and specific companies are going to benefit over the coming years.

The auto industry is starting to see more clearly a number of transformative elements on the horizon.

Evolving consumer shopping preferences. Autonomy. Electrification. Connected Cars. Vehicle ownership. The evolution of the advertising ecosystem. Potential SaaS disruptors.

Some of these areas are going to be affected more strongly and more immediately than others. But we'd be wise to keep an eye on all of these evolving trends.

The Physical Dealership Market

In this month's issue of the Intel Report, we hear from Brodie Cobb and George Karolis about what continues to be an exceptionally strong physical dealers “buy/sell” market, fueled by a low interest rate environment, dealers who weathered Covid, and strong stock prices of the public dealer groups.

Paul Sims tells us that we're witnessing a “Buyer:Seller” ratio of 17:2.

Similar to many asset categories, the multiples being paid for physical dealerships are as high as they've ever been. I find myself having a hard time reconciling such a buoyant physical dealership market with the sheer number of uncertainties brewing in the industry.

Transparency: Good for Consumers...

We could all agree that transparency online has been great for consumers, but not so great for dealer profit margins. The NADA Data book clearly shows that dealership “front end” gross margins have been eroding for years, much of which is fueled by the fact that consumers are now better equipped with access to widespread pricing information, including invoice pricing and the ability to quickly and efficiently cross-shop across every vehicle for sale in America.

It seems likely that transparency is coming to other dealer profit centers, such as financing, F&I products, trade-ins and even parts and service. If consumer

»» GREENFIELD'S POINT OF VIEW

transparency on the front-end of the car deal has been any indication, dealers may soon start to experience margin compression across these other dealer profit centers.

Electric Vehicles

Beyond COVID-19, it's fair to say that 2020 was the year of the special purpose acquisition corporation (SPAC), and many electric vehicle manufacturers took the opportunity to go public, including Fisker, Nikola, Canoo, Lordstown Motors, and Hyliion.

Signs indicate that the EV Wave is accelerating include:

- GM recently announced their goal to eliminate gas and diesel vehicles by 2035.
- The Biden Administration announced the transition of the government fleet to 100% EVs.
- Norway's electric car sales hit a new record in 2020, with battery electric vehicles (BEV) making up 54.3%

of all new cars sold, a global record, up from 42.4% in 2019 and from a mere 1% of the overall market a decade ago.

- 2020 seeing numerous electric vehicle (EV) manufacturers take the opportunity to go public, notably via SPACs, creating billions of dollars of new market capitalization.
- With Tesla's market cap at \$750 billion, Elon Musk is now wrestling with Jeff Bezos to claim the mantle of richest person in the world
- Many of the legacy OEMs have indicated they are aggressively increasing their bets on EVs. GM boosted its planned spending on electric and autonomous vehicles by 35 percent to \$27 billion through 2025. Volkswagen committed \$41.5 billion through 2025 just for battery-powered vehicles. Ford is spending \$11.5 billion on EVs and hybrids through 2022. Hyundai and Kia are planning to spend a combined \$43 billion through 2025 on EVs, purpose-built vehicles and other new technology.

So, why should we care?

EVs have many fewer parts to fail and have much longer service intervals than internal combustion engine (ICE) vehicles. The Parts & Service section of a dealers' P&L delivers only 12% of total revenue, but close to 50% of total gross profit. If both Parts and Service start to dry up due to the reliability of EVs, how are dealers going to backfill these profit centers?

Who Owns the Consumer?

We are starting to see evidence of growing tension between the OEM and the dealership, in terms of who owns the consumer relationship.

It was recently announced that for the all-electric Hummer, General Motors will allocate inventory based solely on customer orders and will encourage dealers to stick to standardized pricing. The automaker even asserts the right to limit GMC dealers' interactions with

»» GREENFIELD'S POINT OF VIEW

Hummer buyers.

OEMs increasingly want to influence the websites and digital retailing tools that their dealers can use. And, as vehicles become more “connected”, the OEM will have more opportunity to interact directly with the consumer. Vehicles will increasingly have the ability to “unlock” features and performance via “over the air” updates, which will put strain on whether these updates should be marketed and triggered by the dealer or by the OEM.

From a convenience perspective, as a greater percentage of purchases (and servicing of vehicles) are delivered to the consumer’s driveway, dealers will have fewer opportunities to forge a one-to-one relationship with their customers, and thus fewer opportunities to build trust and loyalty.

Health of the Vendor Universe

If the profitability of the dealer body becomes strained, then what about the ecosystem of advertising and SaaS products that rely on a healthy dealer body?

The barriers to building software have lowered dramatically, and it’s now extremely easy to launch a technology company. As a result, we’re seeing more and more new software companies emerge solving narrower and narrower “pain points” in the industry.

The automotive space has always fostered a healthy amount of innovation. Just walk around the convention floor at NADA each year to get a sense of the sheer volume of technology companies that support dealers and OEMs.

I love to see innovation in the space, but many of these new companies emerging with weaker value propositions may never make it. While the number of automotive technology startups increases, so will their

failure rate.

Increasing Regulation

The Consumer Financial Protection Bureau (CFPB), the watchdog created after the 2008 financial meltdown and largely muzzled in the Trump era, will get new traction under the Biden Administration.

The CFPB is likely to take a tough line against industry giants it finds engaging in abusive practices. While the agency will focus first on enforcing legal protections for distressed renters, student borrowers and others facing growing debt that its previous leadership had been lax about imposing during the pandemic, it may eventually fix its gaze on dealership financing and insurance profit centers.

Where to Make Investment Bets

Given all of the above, which companies and segments of the industry are likely to benefit over the next five

>>> GREENFIELD'S POINT OF VIEW

years? There are two areas in particular that are of interest to me right now, that I'm keeping my eyes on.

Thesis 1: Saving Costs

As mentioned above, I believe that the margin compression that dealers have experienced on the "front end" of the deal will begin to be felt across their other profit centers. As a result, I'm a big fan of companies that are helping to alleviate margin compression by helping dealers spend money more judiciously.

For example, technologies that help dealers run their operations more efficiently (selling or servicing cars with fewer employees) should be well received by dealers.

Business Process Outsourcing (BPO) is the contracting of non-primary business activities and functions to a third-party provider. BPO services include payroll, human resources (HR), accounting and customer/call center

relations. We should see more technology-enabled services that help dealers do more with fewer resources.

Thesis 2: Data

Back in 2008, I helped Manheim open an office in Dubai. Every time I visited the city, I was amazed at the amount of construction going on. At the time, the city was consuming a large percentage of the world's construction cranes and scaffolding. I understand that billionaires were made from those who foresaw the demand and satisfied the inputs necessary to support growth.

Mark Twain said, "When everyone is looking for gold, it's a good time to be in the pick and shovel business."

There's a similar "gold rush" going on right now with online consumer experiences. There are a multitude of various digital retailing experiences dealers can choose

from, but I believe that the data powering these tools is where real wealth can be made.

In October 2020, heavy equipment auction juggernaut Ritchie Brothers acquired a company called Rouse Services for \$250 million that was valued for the data that came from their POS software. Rouse's data allows Ritchie Brothers to understand supply/demand, rental utilization rates and pricing.

I believe that wealth will be created in the data inputs needed to power accurate and comprehensive consumer shopping experiences.

While huge fortunes will be made in electrification (both OEMs and battery or charging technologies that "win"), in connected cars (and the data that can be harvested from them), in autonomy, and with flexible ownership/subscription models, entrepreneurs and investors would be wise to keep an eye on the two areas that I outline above.

»» GREENFIELD'S POINT OF VIEW

In any case, I think we'll see more change in the next 10 years than we've seen in the industry in the past 100.

On to this issue of the Intel Report.

This month, we have three guest contributors.

First off, I'm very excited to welcome Mike Rother to the Automotive Ventures team, as he comes aboard to run AV Strategy, our consulting arm. Mike shares with us his perspective on auto industry needs in the near future.

Second, I'm thrilled to have back both Brodie Cobb and George Karolis from Presidio Group, who will help bring clarity to the strength of the physical dealership buy/sell market.

Finally, I'm very appreciative to have a contribution from Paul Sims, an old industry friend and colleague, who shares with us his perspective on dealership

consolidation.

Please check out my two weekly shows on CBT News: The "Friday Five", where I recap the week's automotive technology M&A deals, and "Founders Focus", where I interview entrepreneurs for an intimate conversation about their journeys and the great companies they've built.

At Automotive Ventures, we are focusing a lot of our efforts on identifying and helping early-stage companies that have great founding teams, are attacking large total addressable markets (TAM), and have a unique, defensible solution and go-to-market approach. We hope to do our part to both strengthen the automotive technology early-stage ecosystem and help to provide entrepreneurs and their companies a better chance of not only surviving but thriving.

We also spend a lot of our time consulting with clients who are either looking to acquire or invest in companies

in the automotive technology space. If you have needs in this area, please don't hesitate to reach out to us.

Thank you for your continued support.

Until next month,



Steve Greenfield

CEO and Founder
Automotive Ventures



AUTOMOTIVE TECHNOLOGY LANDSCAPE

TRAFFIC GENERATION (awareness & direct-response)

Traditional Media

Lee Enterprises, CBS Radio, Entercom, Gannett, Tegna, Hearst, Clear Channel, Cox, Dow Jones, Raycom Media, Gatehouse Media, ABC, Radio, digitalfirst, iHeart, NBC, Cumulus

Digital Advertising

R1 Lick, CarGurus, Edmunds, Google, Google AdWords, Autotrader, Cars.com, OfferUp, Letgo, eBay Motors, TrueCar, Autoweb, Car & Driver, Carzine, Carzine

Advertising Agencies

Sokal, M, Reunion Marketing, C-4 Analytics, GSM, Stream, Herman, Force, Dealer World, Appearance, Strategic Marketing, Moore & Scarry

Advertising Technology

Helix, Appearance, PureCars, Spincar, Lotlink, Zerosum, Epsilon, Speed Shift Media, DealerX, Dealer Teamwork, V12, AutoStar, 3birds, AutoSweet

CONVERSION (converting consumer traffic to sale)

Mystery Shopping

Maritz Research, J.D. Power, PLADOOGLE, Imyst, Intelli Shop, DealerSynergy, Pied Piper

In-Store Training

DealerSynergy, Automotive Dealership Institute, J.D. Power, NADA, Dealer Solutions, CORMOSLEY, NCM, Staker, Kain, David Lewis & Associates, Inc.

RETENTION (retain as service/repeat customer)

Customer Retention Tools

TeamVelocity, DataClover, OXtime, iPrecheck, Spireon, Experian, Helix, Affinity, AutoLoop, DealerSocket, elead, DealerWing, Outsell, automotiveMastermind, AutoAlert, 3birds

SOFTWARE

Social / Reputation Management

Social Dealer, Reputation, DealerRate, SureCritic, ActivEngage, MXS, Digital Air Strike

Dealer Websites

CDK Global, DealerSocket, Dealer.com, DealerOn, FusionZone, Jazel, DealerInpire

Merchandising Support

Experian, UnityWorks, TruImages, Kcrite, BlackWidow, MAX Digital

Dealer Management System (DMS)

Reynolds & Reynolds, ADVENT, QUORUM, Autosoft, Dealertrack, DealerBuilt, PBS Adam, TEKION

Customer Relationship Management (CRM)

DriveCentric, DealerSuite, Momentum, 360, Plagic, DealerSocket, elead, DealerPeak, DealerMine, Affinity, VinSolutions, Dominion, ProMax, Venzza

Key Systems

Key Control Systems, Key-Box, KeyTrak, Matrix, Keyper Systems

Vehicle Acquisition / Auctions

ACV, Manheim, Accu-Trade, 700Credit, TradeRev, Block, DealerLink, Drivably, CARMAX, CARMAX AUCTIONS, BACKLOT CASE, CARWAVE, otolane, VETX, V.N

F&I Technology

StoneIsle, Dignifi, P-E-N, F&I EXPRESS, VisionMenu, DARWIN, DealerScience, RouteOne, Dealertrack, LEND SOLUTIONS

Digital Retailing

Auto Navigator, WebBuy, Gubagoo, Prodigy, DealerSocket, CARLATO, DEP, PAL EXPRESS, Darwin, clearlane, FRANKINSTEIN, Gubagoo, TABRAIL, model, ROADSTER, AutoFi, trd Payments, MAXIMTRAK, fastlane, MOTOINSIGHT, Gubagoo, DRIVE IT NOW, DEALER TEAMWORK, PODIUM

Inventory Management

Lotzy, DealerLink, MAX Digital, DealerVault, eBizAutos, VAuto, Auto, HomeNet, driably, Inventory, CHROMACARS, Kcite, dealercue

Process Improvement

PowerDealer, nextup, A2Z, SYNC, DealerDocx, Lotzy, Strategic Source, oxio, WerrCloud, frogdata, DEALEROPS, REVERSE, accessa, CDC, Credit Bureau Connection, STROLID, TRAWER, esuresale

Phone Call Management

CallRevu360, CallSource, Marchex, CarCode, CallDrip, Who's Calling, PHONE NINTAS

P2P Rentals

RVshare, Rthys, Outdoorsy, TURO, getaround

Remote Service

REPAIR SMITH, SIMPLETIRE, Spark Charge, spiffy

Floor Planning

AFS, Westlake, BANK OF AMERICA, CarBucks, NEXTGEAR, CHASE, AFS, AFS AUTO CREDIT, CITY AUTO FINANCE, Auction Credit

Vehicle Appraisal

Accu-Trade, eAuto Appraise, autohub, KBB.COM, TRADEPENDING, Black Book

Vehicle Subscription

fair SIXT+, Hertz, mySIXT, Subscribe, CARE BY VOLVO, DRIVEAWAY, ACCESS, FreshCar, LMP SUBSCRIPTIONS

Vehicle History

VinAudit, DMVdesk, CARFAX, NHTS, VINEX, VINEX

Registration & Titling

ATC, Dealertrack, DLRdmy, REVIVER, FIVE64, TitleTec, REVIVER

Vehicle Insurance

Click-Ins, MONK RAIN, UVEYE, COVERHOUND, RAIN

Vehicle Imaging

BLACKWIDOW, Click-Ins, MONK RAIN, UVEYE

Accessories

Reynolds & Reynolds, INSTONIA, VELOCITY TECH SOLUTIONS, ADD THE SOCKS, INTERACTIVE GARAGE, ICON MEDIA

Vehicle Management

RECON, Velocity, LoJack, Quickride, TRUE SPOT, Spireon, AR RAPIDRECON, MDL

Vehicle Transportation

DRIVER, ACERTUS, SBD, SuperDispatch, CONVOY, REDCAP, SocialAuto, TRANSPORT, BIZCAR, DOPPLER

2020 TRANSACTIONS

>>> JANUARY 2021 TRANSACTIONS

CRESTA Investment by PORSCHE VENTURES	Details Intelligence for customer conversations, messaging and voice.	FREEWIRE \$50m Series C RIVER STONE	Details Battery-integrated electric vehicle chargers.	UV EYE Strategic Investment HYUNDAI	Details Vehicle inspection of anomaly detection.	CameraMatics €4.0m Financing	Details IoT company enables better management of fleet and driver risk.	BlueDriver Acquisition asTech	Details Provides comprehensive vehicle health and valuation.	Driven Brands IPO	Details Meineke, Merlin, CARSTAR, MAACO brands.
VERUSEN Series A Investment by BMW i Ventures	Details AI-driven inventory optimization for the supply chain.	SILA NANOTECHNOLOGIES \$590m Series F BMW GROUP DAIMLER	Details Packs more energy into a battery cell at a lower cost.	RIVIAN \$2.65b Financing T.RowePrice	Details EV startup raised \$2.65 billion in new round of financing.	R3E \$3b-\$4b SPAC	Details Autonomous flat and modular electric platform.	Lucid \$15b SPAC CHURCHILL CAPITAL IV	Details EV maker Lucid to go public through Michael Klein's SPAC.	kyte. \$9.0m Investment DN Capital	Details Brings rental cars to consumers' homes.
Faraday Future \$3.4b SPAC PROPERTY SOLUTIONS ACQUISITION CORP.	Details EV maker will finally go public after burning through \$2b.	carlotz SPAC Acamar Partners	Details Vehicle consignment platform goes public.	FUSE AUTOTECH Financing PICO / partners	Details SaaS business platform to drive in-store sales efficiency.	TACTILE MOBILITY Investment By nexteer	Details Provides smart and autonomous vehicle data.	BAYiQ Acquisition by AutoVitals	Details Marketing to independent tire and automotive repair industry.	DICKINSON FLEET SERVICES Acquisition COX AUTOMOTIVE	Details Mobile maintenance for medium and heavy-duty trucks.
autozen \$4.2m funding	Details C2B marketplace for consumers to sell their vehicles.	EVgo FAST CHARGING \$2.6b SPAC CLIMATE REAL IMPACT SOLUTIONS	Details Largest U.S. public EV fast charging network.	CRUISE \$2.0b Investment Microsoft	Details Self-driving car startup gets cloud and edge computing capabilities.	loop \$3.25m Seed freestyle.vc	Details Fair and secure automotive insurance.	oxbotica \$47m Series B bp ventures	Details Global leader in autonomous vehicle software.	FYUSION Acquisition COX AUTOMOTIVE	Details Computer vision in immersive vehicle imaging.
SocialAuto TRANSPORT \$1.5m Seed Round Overline	Details Gig economy platform that helps efficiently move vehicles.	MotoRefi \$10m Financing MODERNE VENTURES	Details Allows consumers to easily refinance their car loans.	PROTERRA \$1.6b SPAC ARCLIGHT CLEAN TRANSITION	Details Electric transit buses and electric charging systems.	AUTO 1 GROUP \$1.2b IPO	Details Connects buyers and sellers of cars throughout Europe.	KEEPS Investment by SSM PARTNERS	Details Service and parts analytics and pricing optimization.	AEVA \$200m Financing	Details Laser-sensor startup focused on Autonomy.

>>> 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 & 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	 €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	 StoneEagleF&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

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

**PACE OF AUTO INDUSTRY CHANGE
DICTATING CONSULTING NEEDS FOR
2021 AND BEYOND**

MIKE ROTHER

»»» GUEST OP-ED • MIKE ROTHER

By Mike Rother
Managing Partner, AVStrategy

Since I joined Automotive Ventures as Managing Partner of AVStrategy, I've received a number of questions regarding recent changes we've seen in the auto industry, and the best strategies owners, entrepreneurs and investors should implement to ensure success in the future.

I've spoken with Private Equity and Venture Capital Funds looking to identify and assess new targets with the strongest potential for growth and return, as well as prospects that are well suited to complement and diversify their portfolios as the automotive landscape evolves.

Strategic investors and buyers with capital have an urgency to transform or energize their existing business models. They need trusted advice to act and execute in the correct way – whether assessing the overall

landscape and key players, making the right partnership decisions, or identifying exactly what they should buy and why.

I've heard from entrepreneurs with great products and visions who need advice to analyze both competitors and potential partners, evaluate segmentation and marketplaces, plan the right go-to-market strategies, make deeper industry connections and have an experienced thought-partner with whom to bounce and challenge ideas.

Industry clients have varied widely, with differing goals and objectives, representing the diversity and complexity of our industry. However, a universal theme is that everyone is curious about the main drivers in the auto industry so they can stay on top of trends to make smart business decisions.

From my perspective, here are the main themes that we'll see in 2021:

One: The hyper-acceleration of e-commerce (The 'Convenience Economy' is here to stay)

Shelter-in-place orders issued during the pandemic fast-forwarded digital adoption in virtually every U.S. household. Our world changed almost overnight, from remote officing and distance learning to a dramatic spike in online shopping and at-home delivery services. Automotive e-commerce has evolved from lifeline to lifestyle, accelerating a multi-year journey into a matter of months. The Convenience Economy is our new economy.

What's more, the automotive technology space is crowded. There's a lot of noise and, like the years behind us, we will see a lot of disruption, challengers and new approaches driving acquisitions, partnerships and growth. But, different than prior years, only the strongest products, consumer experiences, and business models will survive and thrive - there will be less room for weaker players, as the expectations of

»» GUEST OP-ED • MIKE ROTHER

dealers, dealer groups and OEMs increase.

My advice for the entrepreneurs in the space? Be clear on which sections of the consumer journey you solve (i.e. know your core strengths), invest in your strategic development process (a great product alone will not get you there), and focus (and report) on the performance and value you deliver.

Two: The 'digital shift' to enterprise

Digital tools and technologies have been used to automate standalone components or steps of a dealership's business. They may have integrated back to a main system, but rarely have they been built for flexibility -- or thought of as enterprise capabilities that fit within a dealer's technology portfolio. This often leaves dealers working too hard to fit the solution within their specific businesses, with little support or knowledge about how all of their solutions work together on an enterprise level.

We're in the midst of a shift. We now have dealers, dealer groups and OEMs all making decisions on what are the right "certified" or chosen solutions to deliver the best and most effortless e-commerce experience. Dealers, in particular, are looking very closely at how their digital tools integrate with their people – both internally and externally – to run healthier, more profitable businesses. This shift accelerated through the pandemic, where successful dealers and groups used technology to (1) connect their employees (2) connect their departments and local retailers (3) streamline their operations and processes and, most importantly, (4) connect with their customers. Dealers are far more productive per employee as a result, having been forced to learn and adopt new technologies, and will not turn back to prior operating models but instead continue to seek opportunities to remove costs and new ways to deploy people and technology.

What our industry has long needed are solutions that bring a dealership's digital tools together into an easy-

to-use suite – one that's tied to personalized, in-depth performance insights to help dealers make smart decisions about customer engagement and operations. Solutions should work well across the enterprise and the technology landscape they operate within.

My advice is to assess your enterprise landscape and capabilities. Be clear on what you have and what you need to service your customers at scale, and be sure to offer the flexibility and the enterprise-grade solution that our industry expects today.

Three: The need for a cautious capital allocation approach

Right now, there's plenty of capital out there – 'dry powder' looking to find a home and be ignited. That's great news! What's challenging is the uncertainty of our current market. For those of us who have worked through volatilities in the auto industry over the past 20 years, these times are familiar.

>>> GUEST OP-ED • MIKE ROTHER

There are a couple of things that concern me most.

For starters, we're living with a false sense of optimism in the wake of COVID. Lack of supply, increased demand bolstered from inorganic stimulus, higher prices, lower discounts, and excellent margins led to our highest quarters of profit. Pressure will return, and when it does, smart businesses that have used this unprecedented time to evolve their operating models and structures will thrive, while others will have some very tough decisions to make.

What's more, it's easier to build software and launch a technology company in the automotive space today. The barriers to entry are much lower than before. At the same time, the larger players and tech giants are making bigger moves. And while we love innovation (and even disruption), many new companies that are emerging bring challenged value propositions or will have difficulty defending or differentiating. Some have a great idea but are not ready for the scale needed to support an enterprise solution of a dealer group or

OEM. These challenges bring opportunities to learn and grow, but they also come with a greater chance of failure.

If you're looking to acquire or invest in this space, proceed with caution. Do your homework. Lean on the knowledge of industry veterans who can make recommendations based on actual experience and insights. For those of us who have been there and done that, we've made our mistakes, we've learned our lessons, and we know what it takes to grow and succeed. You'll avoid a lot of headaches and likely save a whole lot of time and money in the process.

We know this, firsthand.

I hope these insights are helpful and a useful challenge. Please feel free to contact me anytime, and I look forward to catching up to discuss the industry with you.



Mike Rother

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Rother is a 20-year automotive industry veteran serving in various leadership roles throughout his career for well-known organizations such as Kelley Blue Book, HomeNet Automotive, and NextGear Capital. Most recently, he was the Senior Vice President and General Manager of Dealer.com

» ***GUEST OP-ED***

DEMAND DRIVES THE CURRENT BUY SELL MARKET

BRODIE COBB & GEORGE KAROLIS

»» GUEST OP-ED • BRODIE COBB & GEORGE KAROLIS

The strong buy sell market is demand driven. Due to the strength of the market and the low cost of capital, there are more buyers, and they are more willing to meet seller's price expectations. That is encouraging dealership owners to sell now.

The six publicly listed new vehicle dealership groups are a barometer for the entire buy sell market. Right now, stock is in demand as an investment. Price to earnings (PE) ratios are high compared to last year. For the publics, that translates into a lower cost of equity capital. They are all therefore looking to acquire and can pay a higher price for an acquisition without diluting their value.

For example, a publicly traded group with a PE ratio of 12X buys a dealership today with earnings of \$10 million. All else equal, the acquirer's stock value should increase by \$120 million (12X \$10 million). A year ago, when this acquirer's PE ratio was 10X, the same transaction would have only increased its stock value by \$100 million (10X \$10 million). As a result, the acquirer

has the ability to pay up to \$20 million more for the same target dealership and still create value for its shareholders through the acquisition.

Therefore, a high stock price and related low cost of equity capital creates higher acquisition pricing and induces dealership owners to sell in this higher priced environment. And while they account for less than seven percent of all new vehicle sales in the U.S., the publics are in essence the "market makers" because in order to compete private investors must be willing to pay the same or higher prices for acquisitions.

To be sure, there are underlying factors encouraging dealership owners to sell. The motivating factors we see are: Succession issues, opportunistic timing, portfolio management, investment aversion, partnership difference, and existential fears including events such as the COVID-induced shutdown and unease over the political climate. (Political climate was the number one factor franchised dealers saw holding back business in the Cox Automotive Dealership Sentiment Index for the

fourth quarter of 2020. Limited inventory was number two. COVID-19 was number three.).

In some family-owned dealership groups, the next generation is either unwilling or unqualified to take over the business. Opportunistic sellers are those who simply see now as a good time to sell. Portfolio management strategies include being more geographically concentrated or focusing on luxury brands. Investment adverse sellers see the need on the horizon for significant capital investments they are reluctant to make, such as constructing new facilities or investing in more digital sales and service technology. Partnership differences such as one or more partners wanting to sell or unhappiness with a manufacturer relationship are behind some sell decisions.

But none of these has created a flood of franchises going to market. Instead, dealership owners are selling because they can get more for their business than they could in 2019.

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Lithia	Stock Price	P/E ratio	Acquisition target earnings (theoretical)	Stock value increase
Stock price @ 1/28/21	\$319.72	21.26	\$10,000,000	\$212,600,000
Stock price @ 1/31/20	\$142.75	12.57	\$10,000,000	\$125,700,000
Additional equity capital				\$86,900,000

**Data sources: Yahoo Finance and Macrotrends*

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Dealerships' resiliency also plays an important role. In March of 2020 many were forced to shut their showrooms. They responded by accelerating their online retail capabilities including moving much of the purchase process online and, in the service department, adding innovative features such as touchless delivery. Dealers found they could sell nearly as many vehicles with fewer people, and their costs were lower. That meant record profits for many dealerships. After hitting an all-time low in the second quarter of 2020, franchised dealership profits hit an all-time high in the third quarter and continued to grow in the fourth quarter. That makes them an attractive investment, especially in the low-interest rate environment we are in now.

About The Authors

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. This year has been one of our most active to date. We have sold 37 dealerships in transactions of more than \$2 billion.

The need to invest ever-larger amounts in a digital customer experience does weigh on some dealers, and we expect it to be a driver in decisions to sell going forward. For others – those with the necessary resources – this will represent an opportunity to grow.



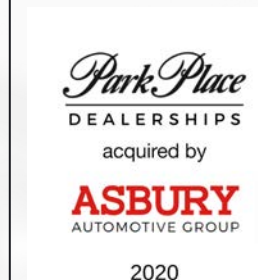
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The Presidio Group provides M&A advisory services through its wholly owned investment bank, Presidio Merchant Partners LLC, Member FINRA and SIPC.

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

ON DEALERSHIP CONSOLIDATION

PAUL SIMS

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There are many changes happening in the North American retail car market. The obvious ones are covered ad nauseam in the general press and the automotive conversations – connectivity, autonomous, subscription, and electrification. However, there are several trends impacting dealers and consumers more immediately and these are:

One: Margin pressure

Certainly, the one that dealers have been lamenting for years are the declining front-end margins which has been happening for almost 20 years. This has been caused by the price transparency and inventory ubiquity brought on by free listings gave consumers the ability to see all the inventory in the market versus just a select few vehicles dealers could afford to put in newspaper ads. Of course, market pricing and the resulting frequent price decreases has increased this even while driving higher velocity sales to more than compensate.

Two: Wholesale/Retail Blurring

Another is the blurring of the lines between wholesale and retail as traditional vehicles sold through wholesale channels (like fleet) are shifting to be sold directly to consumers. And companies that traditionally served only wholesale or retail begin serving both with just two recent examples being Carvana launching CarvanaACCESS and CarGurus' acquiring CarOffer.

Three: Increased Consumer Expectations

Of course, increased consumer expectations in the buying experience because of online purchasing in every other aspect of consumer's lives has driven consumers to demand the conveniences of shopping at anytime and from anywhere to transparent pricing to a fast and easy buying experience.

Four: Omni-Channel Retailing.

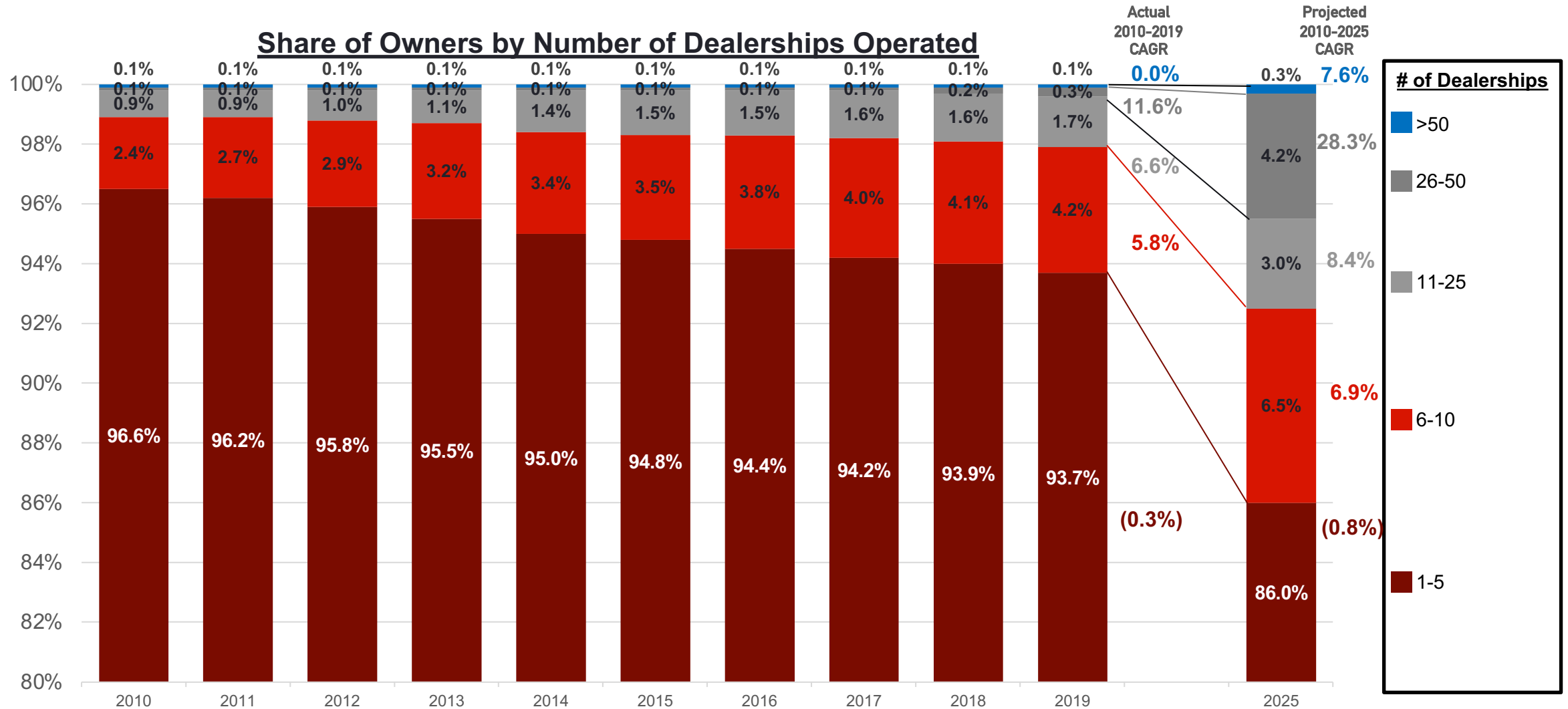
This one is obvious and is driven by #3. Obviously, the ability to transact from anywhere with any device or in person is becoming the norm and buyers want that flexibility and retailers are providing it and those that don't risk being replaced by those that will.

Dealership Consolidation

One of the changes in the industry that isn't discussed as much is dealership consolidation. Certainly, most independent dealerships are single point locations, but increasingly independent dealership groups are being created. However, among franchise dealerships this consolidation is particularly acute, and growing. Let's look at data on franchise dealerships as a barometer for the US market as a whole. Dealership consolidation is

"More than half of auto and tech executives surveyed around the world expect the number of dealerships to decline 30 to 50 percent by 2025."
- KPMG

>>> DEALERSHIP CONSOLIDATION



Source: NADA 2019 Report, Agile Inc. Analysis

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being accelerated by the changes just discussed but also by several others.

According to NADA, for the past decade (2010-2019) the ownership concentration increased significantly. Share of locations grew rapidly among three of the four largest dealership group categories while it remained flat among the very largest (>50 dealerships) and shrank among the smallest (1-5 dealerships.) The 2nd largest group of the dealership groups (26-50 dealerships) grew nearly 12% annually while groups of 11-25 dealerships grew 7% each year. During this same period the share of the very largest (50+) remained flat and the smallest actually shrank 0.3% annually.

This concentration is going to continue for several reasons.

Omni-Channel retailing

I mentioned this was a massive change impacting the industry and it is a compounding factor for dealership

consolidation. The investment needed to make a car-buying experience omni-channel dealership is multi-faceted and large. Obviously, there are technology investments needed to offer a truly omni-channel experience. But there are also many process considerations and talent considerations to truly changing the consumer experience at a dealership. Take, for example the ability to do vehicle deliveries to a buyer's home or work. This requires trucks, training, and new processes. The variety of changes needed require significant investment and time, both of which are more feasible with the scale of larger groups. CarMax, spent over \$300M over the past several years to change their dealerships to provide omni-channel buying for consumers. Erin Kerrigan of Kerrigan Advisors "expects more single-point dealership owners will decide now is the time to sell vs. re-engineer their business to be competitive online."

Technology

The technology needed to efficiently run a dealership

today and compete has been increasing for years - DMS, CRM, service scheduling software, vehicle appraisal tools, call tracking and the list goes on and on. All of these help the dealership but require investments that are easier to spread across multiple stores.

More Sophisticated Marketing

The cost to reach consumers and get their attention is more challenging than ever – social media advertising, video advertising, 3rd party marketplaces, etc. – and more costly. Today, dealers are competing with more national and online—only players all trying to reach consumers in their buying processes.

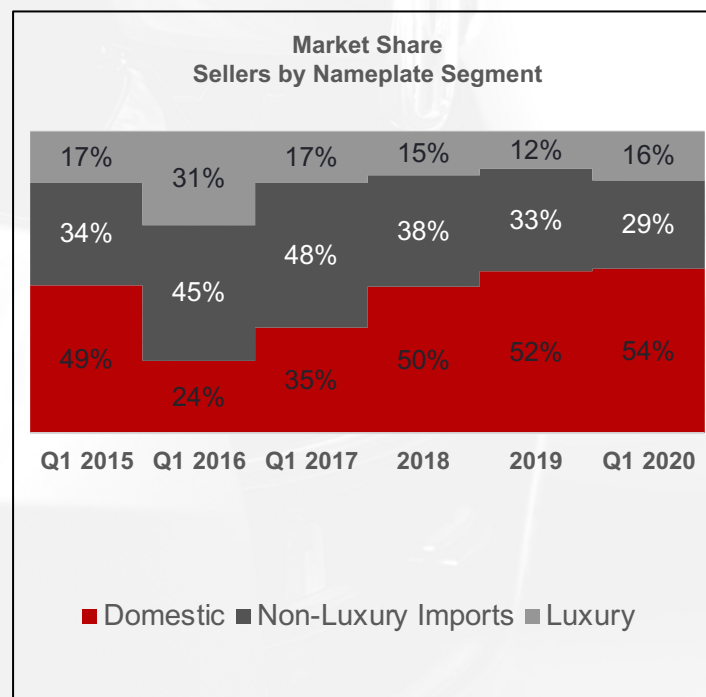
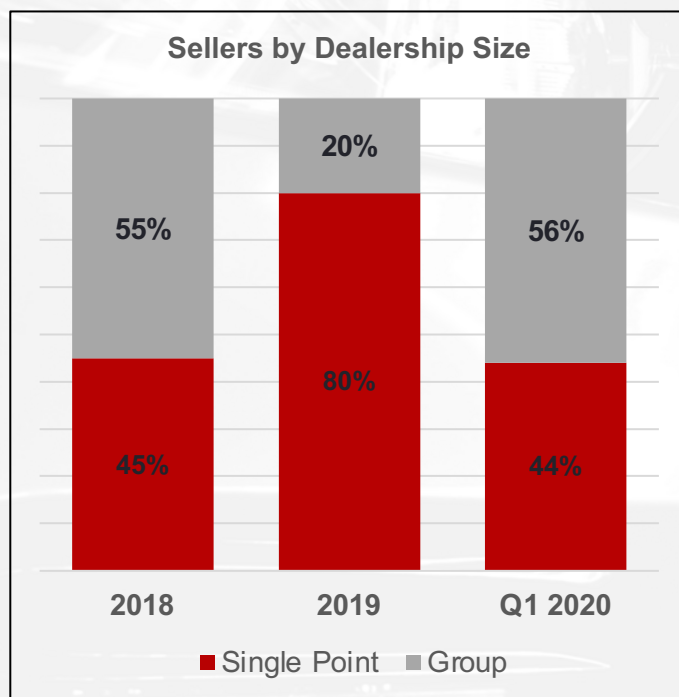
Efficient Wholesale Buying Solutions

Provides economies of scale – larger groups can afford teams focused on leveraging multiple online marketplaces (Backlot, ACV, OVE) to physical auction simulcast sales to dealers' online bidlot sales. These

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We saw 200 deals in 2019...we are seeing is more and more single-point dealers...are choosing now to sell because they do feel that they need to be part of a bigger organization...a great deal of regional consolidation, which is very much the trend.

- Erin Kerrigan, Kerrigan Advisors (dealership buy-sell firm)



Source: Haig Group, Kerrigan Associates, Banks Report, Agile Inc. analysis

Groups can efficiently do this with analytics tools and cross platform shopping tools.

Changing Workforce Demographics

As more younger workers are less interested in working on commission and more interested in work-life balance, there are more challenges to finding, training, and staffing a traditional dealership and more momentum towards changes to the traditional pricing model. Dealing with these changes are easier to do at scale than with a single location or a small number of locations.

Changing Ownership Demographics

There's a generational shift happening as more owners are retiring and many don't have family members ready to take over the business, so they are selling. In talking with the top buy-sell firms the profile of dealers selling now are typically over 60 years old and no children

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involved in the business.

Abundant Private Equity

PE is a massive driver as the number of potential suitors for a dealership is plentiful. This drives up prices of deals and the number of deals. One top buy-sell advisor recently said, “We’re seeing Buyer: Seller ratio of 17:2.” Think about what that kind of demand to supply imbalance does.

Based on these, I project all of the largest groups will accelerate their growth significantly and by 2025 the smallest group will have shrunk from 93.7% share to 86%. That change may not sound like much, but that’s over 1,200 dealerships. The top dealership buy-sell firms’ data correlates to my macro analysis showing the 20+ store groups are doing the most buying. The largest winner will be among the second largest group – the 26-50 group – whose accelerated growth will achieve a 4% overall share from 2019’s 0.3% share. This growth will

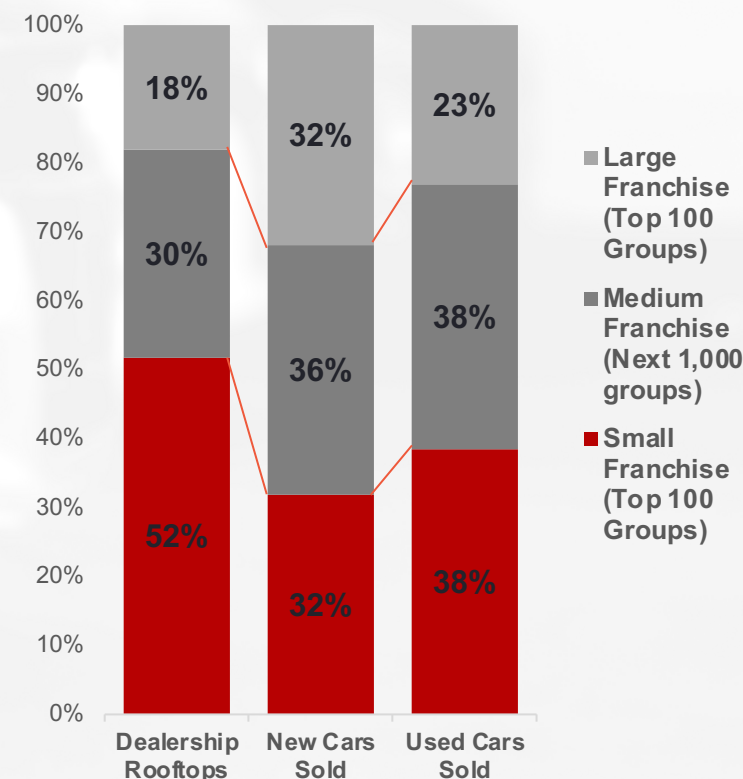
occur through overall annual growth rate of 28% across the 2010-2025 period. This increased concentration of dealership ownership also is reflected in car sales as larger dealerships sell a much larger share of both new and used sold in the market.

So, what does this mean for your business? It depends on where you play in the industry. The key thing to consider is the consolidation is occurring and at a rapidly growing rate, so keep that in mind with all of your strategic decisions.

...predicted the number of U.S. dealerships at 16,500 in 2025 across 6,500 owners.

NADA

Franchise Dealership & Volume Concentration



Note: Top 100 groups avg. 35 stores/group 31K new sales/yr/group
Source: NADA, Agile Inc.

>>> ABOUT THE AUTHOR • PAUL SIMS

Paul Sims is a seasoned executive, serial entrepreneur, and board member with 20+ years of experience creating, scaling, and selling companies. Most recently, one of the world's largest private equity firms hired him to turn around a \$200M P&L and build a new digital automotive channel to prepare The Warranty Group, the world's largest auto warranty company, for its subsequent sale to Assurant (NYSE: AIZ.).

Paul's experience is especially deep in marketplaces and digital disruption, having built several in automotive as well as other industries. Paul started in automotive in 1998 as an early executive at AutoTrader.com. He later co-founded two disruptive auto marketplaces. He co-founded OVE.com, a digital auction marketplace which merged with Manheim where he ran digital products for the \$100M portfolio through 50% annual growth. Paul also co-founded DealerMatch, the largest dealer to dealer marketplace, bought out by Cox Automotive.

Outside of automotive, Paul was COO of a tech start-

up sold to WisdomTree (NASDAQ: WETF) and also has operating or investment experience in Insurtech, Fintech and HR-tech businesses. He has advised investors, hedge funds, consulting firms, and PE owned companies in the technology, automotive and insurance industries. Paul has served for as a non-executive director and advisory board member of several companies.

After selling his first company in college, he was a consultant with The Boston Consulting Group and is the holder of several pending patents. He earned an MBA from Harvard Business School and a bachelor's in economics from BYU.



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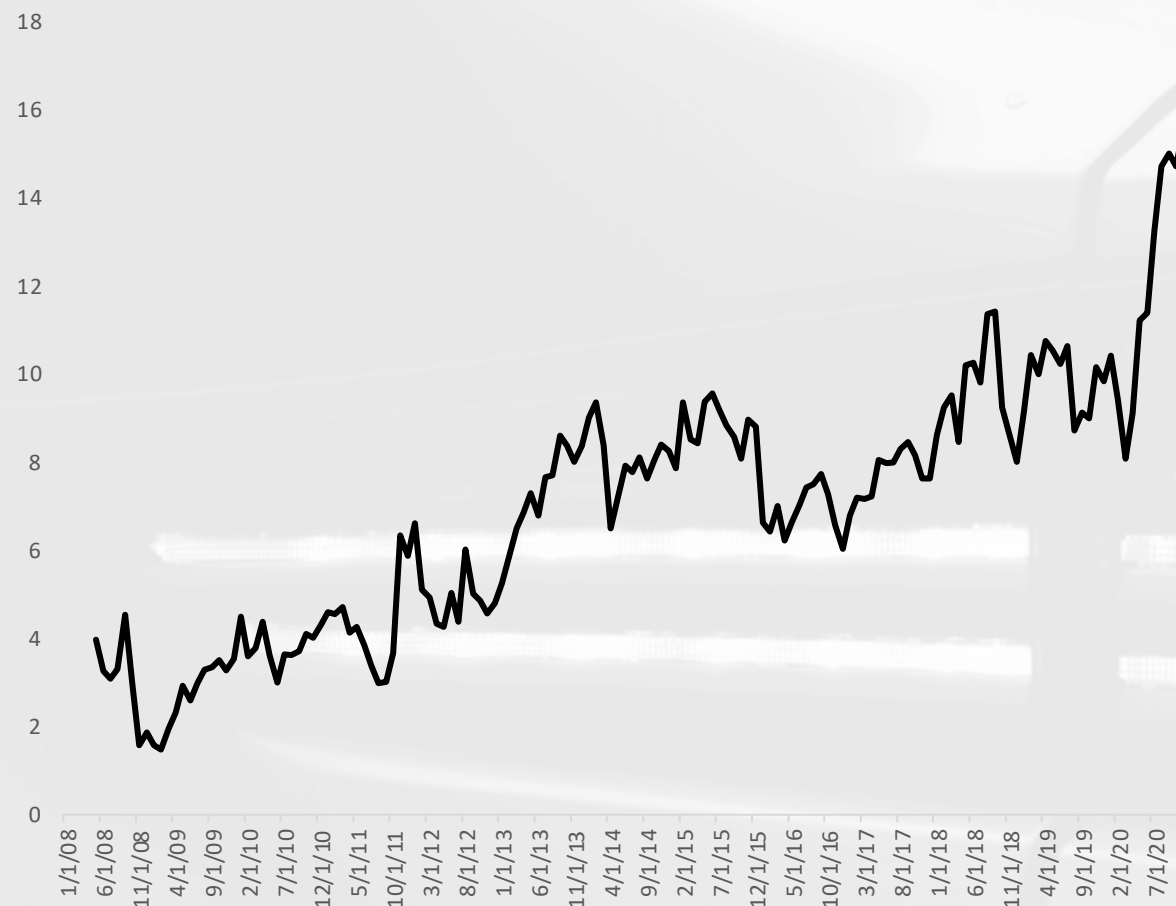
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COMPANY VALUATIONS

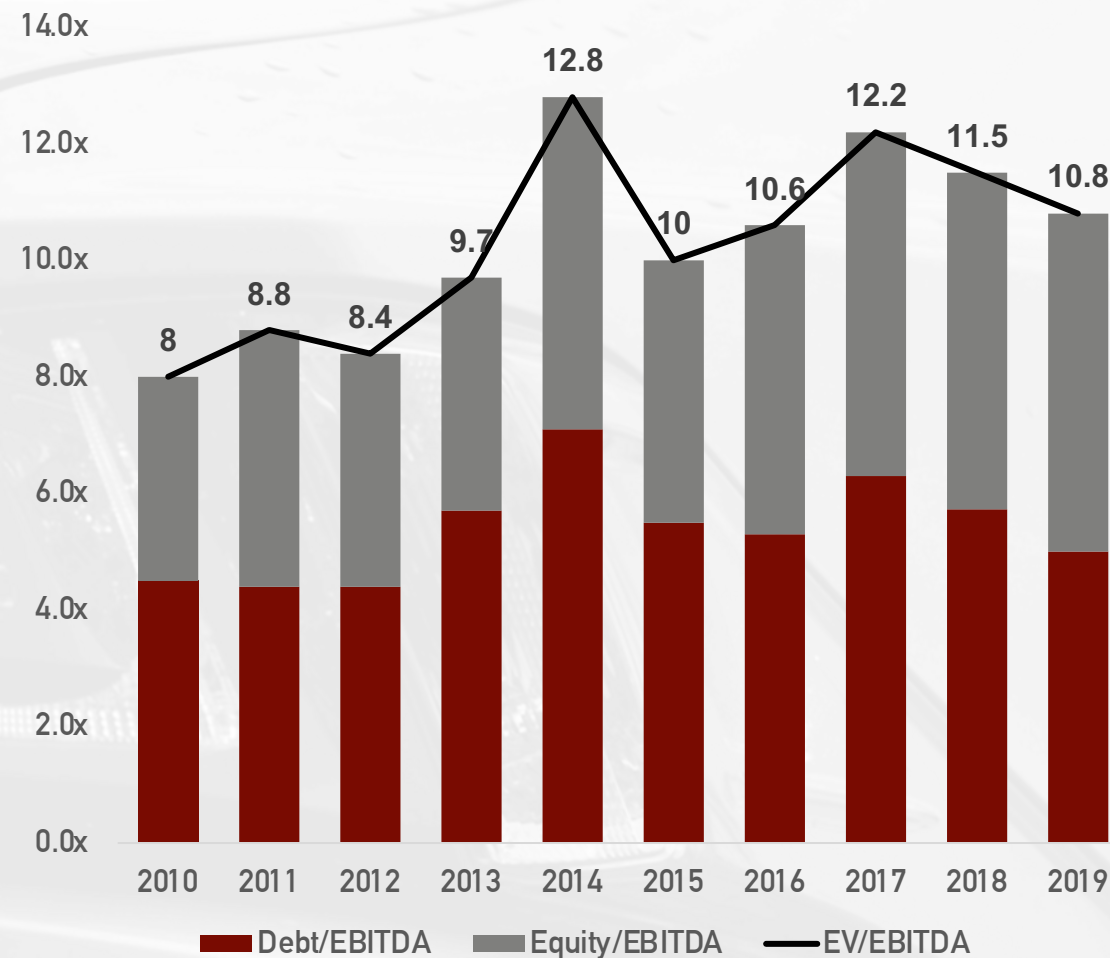
PUBLIC MARKET SAAS AND PE BUYOUT MULTIPLES

Median Public SaaS Company EV/Revenue Multiple



Source: The SaaS Capital Index

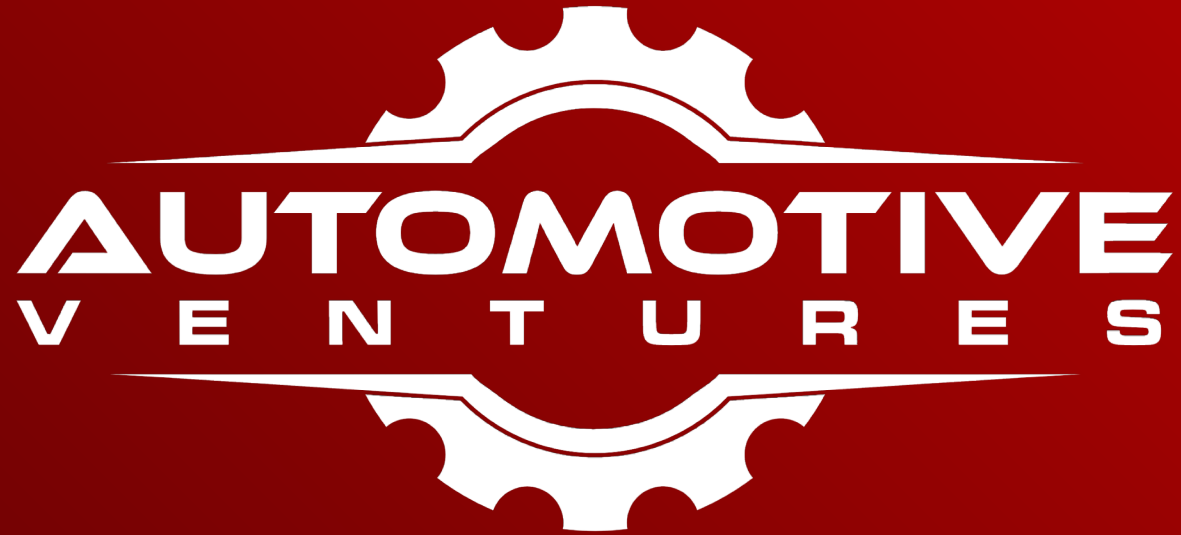
Median PE Buyout EV/EBITDA multiples



Source: PitchBook

AUTOMOTIVE PUBLIC COMPANY DATA

Company	Ticker	Stock Price	Market Cap (\$ M)	Net Debt (\$ M)	Enterprise Value	Enterprise Val to Revenue	Enterprise Val to EBITDA
AUTOMOTIVE MARKETPLACES							
AutoWeb Inc.	AUTO	2.98	39.64	5.52	43.12	0.54	(11.56)
CarGurus Inc.	CARG	29.25	3,243.44	(102.01)	3,070.98	6.32	33.67
Cars.com LLC	CARS	11.61	748.82	672.89	1,310.62	2.65	10.84
RumbleON Inc.	RMBL	36.79	84.42	88.68	134.48	0.28	(3.95)
TrueCar Inc.	TRUE	4.48	465.3	(138.53)	324.54	1.19	23.01
carsales.com Ltd	CAR	19.62	3,694.09	303.28	4,030.49	13.33	27.59
Auto Trader Group plc	AUTO	5.64	7,459.86	350.61	7,547.38	19.06	28.45
AUTOMOTIVE SAAS							
CDK Global Inc.	CDK	49.90	5,999.09	2,521.2	8,411.89	4.31	13.19
PowerBand Solutions Inc.	PBX	0.45	47.39	6.14	53.57	41.98	(6.2)
ONLINE DEALERSHIPS							
Carvana Co.	CVNA	261.19	46,243.19	1,454.76	20,466.53	4.38	(75.65)
Vroom Inc.	VRM	36.83	4,937.56	(43.96)	4,040.46	3.25	(25.42)
TRADITIONAL DEALERSHIPS							
AutoNation Inc.	AN	71.28	6,177.22	5,983.9	10,529.72	0.54	9.56
CarMax Inc.	KMX	117.78	18,590.12	15,875.34	33,854.08	1.73	20.61
Group 1 Automotive Inc.	GPI	137.62	2,319.74	3,314.2	4,993.04	0.48	8.97
Lithia Motors Inc.	LAD	318.68	8,425.27	3,717.2	12,077.87	1.01	15.7
Penske Automotive Group Inc.	PAG	59.84	4,648.06	8,730.9	11,815.66	0.59	10.97
Sonic Automotive Inc.	SAH	40.93	1,642.84	2,602.24	3,730.35	0.4	8.41
AUTO MANUFACTURERS							
Fiat Chrysler Automobiles N.V.	FCAU	15.23	26,421.81	(3,017.39)	26,171.85	0.22	2.55
Ferrari N.V.	RACE	172.25	38,460.82	1,834.9	40,295.51	10.3	36.87
Ford Motor Company	F	10.53	41,150.34	13,443.3	170,242.34	1.32	27.63
General Motors Company	GM	50.68	72,027.03	840.95	163,072.03	1.44	14.92
Honda Motor Co. Ltd.	HMC	26.48	44,790.58	45,921.3	94,510.89	0.77	8.66
Nikola Corporation	NKLA	23.09	8,834.15	(80.93)	7,931.45	-	(31.08)
Nissan Motor Co. Ltd.	NSANY	10.35	19,227.2	59,082.51	78,127.67	1.04	65.74
Tesla Inc.	TSLA	793.53	714,462.59	842.9	716,563.59	28.22	178.79
Toyota Motor Corporation	TM	140.52	191,071.44	88,800.95	340,593.01	1.41	11.05



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