

Lithia Motors Inc (NYSE: LAD)

MicNOVA - Stock Presentation - Feb 2022

Quick Analysis of a Stock

Company/Ticker: **Lithia Motors/LAD** Industry: **Auto & Truck Dealerships/Consumer Cyclical**

Value Line Date/Page: **01/21/22** Sales (\$): **\$22B** In Year: **2021** (Recent Year Completed)

Size (Sales): VS (< \$1B); M (> \$1 - \$10B); **L (> \$10B);**

| # | STANDARD | VALUE LINE DATA | SCORE |
|----|---|-----------------|-------|
| 1 | SALES GROWTH HISTORY: 1 point each for any of the past 10 yrs in which sales increased (max 10 points) | 10/10 | 10 |
| 2 | SALES GROWTH RATE: Doubling of sales in 5 years or less, 10 points; subtract 2 points for each additional year. | 4 | 10 |
| 3 | EPS GROWTH HISTORY: 1 point each for any of the past 10 years in which EPS increased (maximum 10 points) | 10/10 | 10 |
| 4 | EPS GROWTH RATE: Doubling of EPS in 5 years or less, 10 points; subtract 2 points for each additional year. | 2 | 10 |
| 5 | DIVIDEND GROWTH HISTORY: 1 point each for any of the past 5 years in which dividend increased (maximum 5 points) | 5 | 5 |
| 6 | 3-YEAR OPERATING MARGIN (OM) RANGE: 10% OR Less: 5 points 11 – 14%: 8 points 15 - 19%: 12 points 20% or More: 15 points | 4.6% | 5 |
| 7 | 3-YEAR ON EQUITY (ROE) RANGE: 10% OR Less: 5 points 11 – 14%: 8 points 15 - 19%: 12 points 20% or More: 15 points | 17% | 12 |
| 8 | LONG-TERM DEBT AS % OF SHR. EQUITY: 60% or more: 0 point; 30-60%: 3 points; less than 30%: 5 points | 77% | 0 |
| 9 | CURRENT ASSETS-TO-CURRENT LIABILITY RATIO: Less than 1: 0 point; (1 – 2): 3 points; more than 2: 5 points | 1.35 | 3 |
| 10 | FUTURE EPS GROWTH PROJECTIONS: 10% OR Less: 5 points 11 – 14%: 8 points 15 - 19%: 12 points 20% or More: 15 points | 22% | 15 |
| | TOTAL SCORE: 80 – 100: Superior; 60 – 79: Average; less than 60: Below Average | Superior | 80 |

Lithia Motors (LAD) - Quick Analysis using Value Line Data (in 5 mins)

- Consistent growth in Sales & EPS
- Doubled Sales & EPS in <5 years
- Pays Dividend and growth in Dividend
- Low Profit Margin (20% is good)
- Average ROE (20% is good)
- High Long Term Debt
- Mid - Assets-to-Liabilities
- Very good EPS Projection

Overall “SUPERIOR” Quality Company

Business Description

Lithia Motors is a retailer of new and used vehicles and related services. The company offers 33 brands of vehicles at over 200 stores in 22 states and entered Canada in mid-2021 with the purchase of Pfaff Automotive. The company has expanded largely through the acquisition of dealerships in smaller regional markets and via deals in New York and Southern California. Annual revenue in 2020 was \$13.1 billion and we see over \$22 billion possible in 2021. In 2020, new-car sales were about 52% of total revenue. Lithia was founded in 1946, went public in 1996, and is now one of the largest U.S. auto dealerships. It is based in Medford, Oregon.

About Lithia

- Based in Medford, Ore. Founded in 1946 in Ashland, Ore (70 yrs operating history)
- Employees: 14,538 (2020)
- IPO in 1996, \$11/share (Today Closing: \$298.76)
- Dividend paying stock \$0.35 for Q1 of 2021
- Driveway, a national digital brand launched in fall 2020 enables customers to buy new and used vehicles online or in person via no haggling, home delivery anywhere in the U.S., and a seven-day 400-mile moneyback guarantee
- Used-vehicle (value autos), boosting margins. \$5,000-\$10,000 range.
- The company seeks \$2,000 profit on each vehicle regardless of make or age, so value vehicles can have very high margins
- Narrow Moat: Nationwide, many Lithia brand stores have no competitors within 100 miles, giving Lithia pricing power
- First International Acquisition: Pfaff Automotive in Canada

LITHIA & DRIVEWAY

The pragmatic disruptor, with a proven multifaceted success strategy, uniquely and competitively leading the modernization of personal transportation by providing consumers solutions wherever, whenever, and however they desire.

NYSE: LAD



- Diverse synergistic portfolio of businesses
- Complete ownership lifecycle attachment
- 100% participation in \$2 trillion market



- #231 in 2021
- #12 10-year revenue growth, 20% CAGR*
- #3 10-year Total Shareholder Return, 37% CAGR*
- #2 10-year EPS Growth, 43% CAGR*

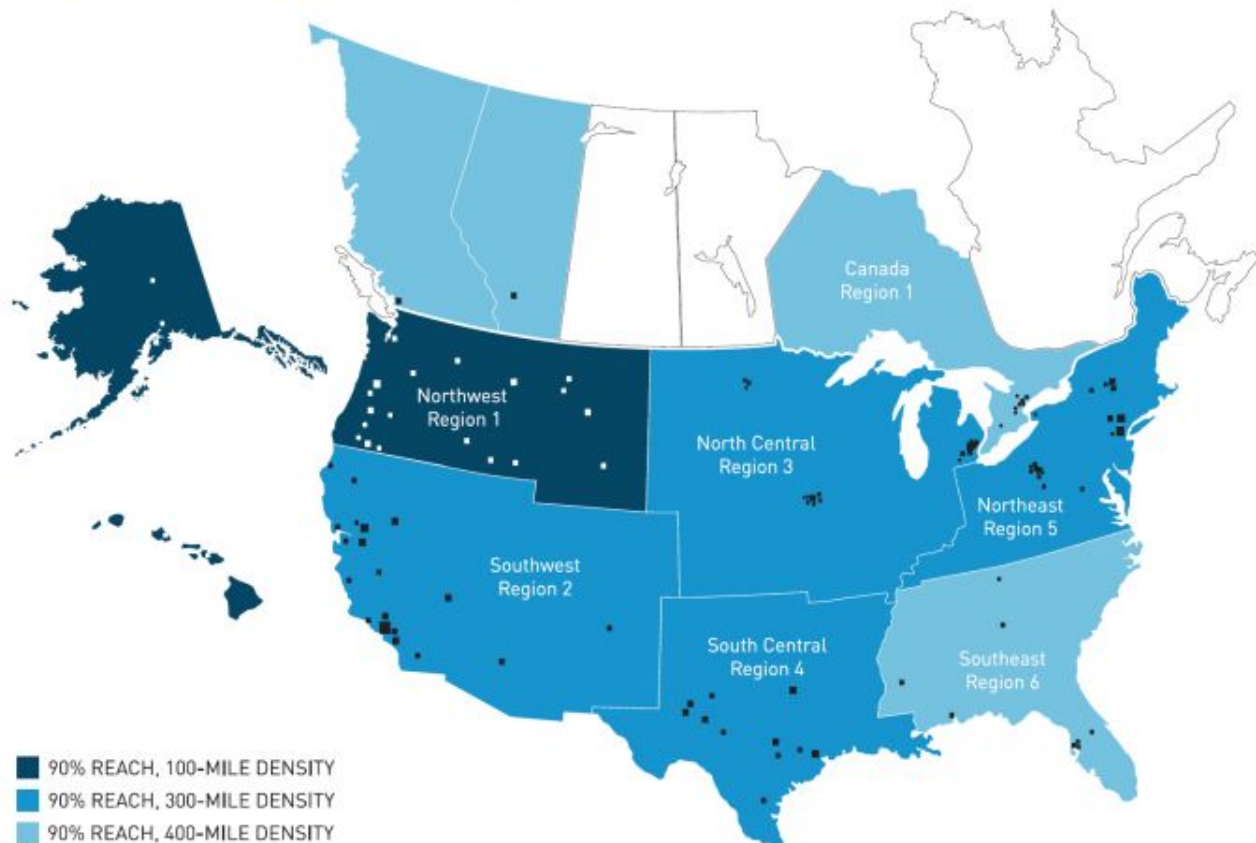


- 100% national coverage
- Proven expansion execution
- Highly profitable with significant cash flows

* 10-year CAGRs and TSR through December 31, 2020.

REGIONAL REACH & DENSITY MAP

Currently reaching 90% of consumers within 225 miles



KEY STRATEGIC HIGHLIGHTS

2025 Plan: \$50 Billion in Revenues & \$50 EPS



Largest Retail Industry
in Early Innings of
Consolidation and
Modernization



Omni-channel Approach
Combination of E-commerce
Home Solutions and Expansive
Physical Network with
Adjacencies



Data and Innovation
Creates Unique Opportunities to
Capitalize on Innovation of New
Products and Services



Customer-Centric
Business Model with Solutions
Throughout the Consumer
Lifecycle



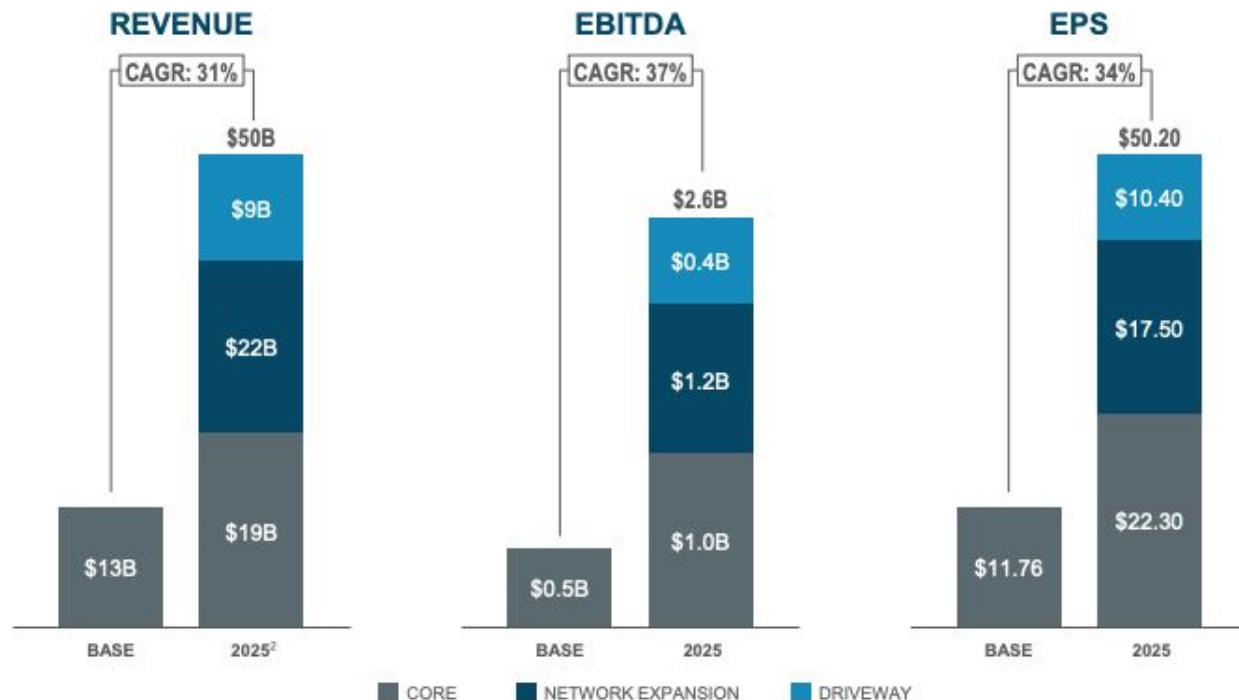
Proven M&A Track Record
of Valuation Creation Driving
Continued Scale



Growth, Scale, and Profitability
Operational Excellence, Significant
Competitive Advantages, and
Considerable Barriers to Entry

2025 PLAN: \$50 BILLION IN REVENUES & \$50 EPS

Building upon our strengths



TTM ACHIEVEMENTS

Generated adjusted EBITDA of **\$1.5 billion** and EPS of **\$31.41¹**

Acquired **48%** of targeted **\$20 billion** in revenues; expected to contribute **\$385 million** in annualized EBITDA

Driveway offerings nationwide including new vehicles, used vehicles and service

Driveway Finance portfolio grows to **\$530 million**

Note: Base year represents FY 2019

¹ TTM adjusted EBITDA and EPS as of September 30, 2021

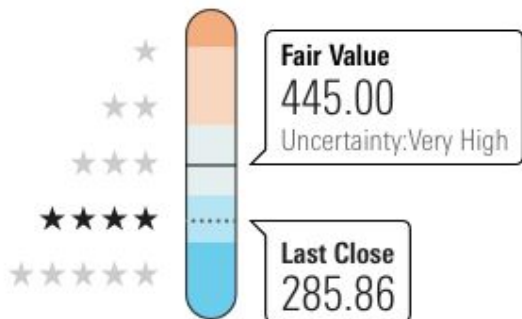
² Year 5 network development revenues represent \$20 billion in acquired revenues and organic growth post-acquisition

MorningStar, ValueLine, CFRA & Manifest

Valuation Jan 04, 2022

Currency in USD

LAD is at a 36% Discount.



1-Star Price
> 778.75

5-Star Price
< 222.50

Economic Moat
Narrow
Trend: Stable

Capital Allocation
Standard

| | |
|-------------------------------------|-----|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 35 |
| Price Growth Persistence | 75 |
| Earnings Predictability | 65 |

Stock Report | **February 05, 2022** | NYSE Symbol: **LAD** |

Lithia Motors, Inc.

Recommendation BUY ★ ★ ★ ★ ★

Price
USD 21

| Company | Ticker | Sector Industry | Quality | PAR |
|---------------|--------|--|---------|------|
| Lithia Motors | LAD | Discretionary Auto & Truck Dealerships | 76 | 9.8% |

MorningStar: Bulls Vs Bears



Bulls Say



Lithia's growth runway looks very long to us; acquisitions are opening up new areas of the U.S., and international expansion just started in 2021 by entering Canada.



Manufacturers grant a limited number of franchise rights in a given geography, providing dealers with some protection against would-be competitors.



Lithia's rural niche makes it the Walmart of auto dealers.



Bears Say



Lithia could need additional capital to fund expansion. In addition, it will face increased competition for acquisitions now that it will operate in large cities and with Berkshire Hathaway seeking auto dealer acquisitions.



The \$50 billion revenue and \$50 EPS five-year targets announced in July 2020 are hyperaggressive but not impossible, in our view, and bring acquisition and execution risk.

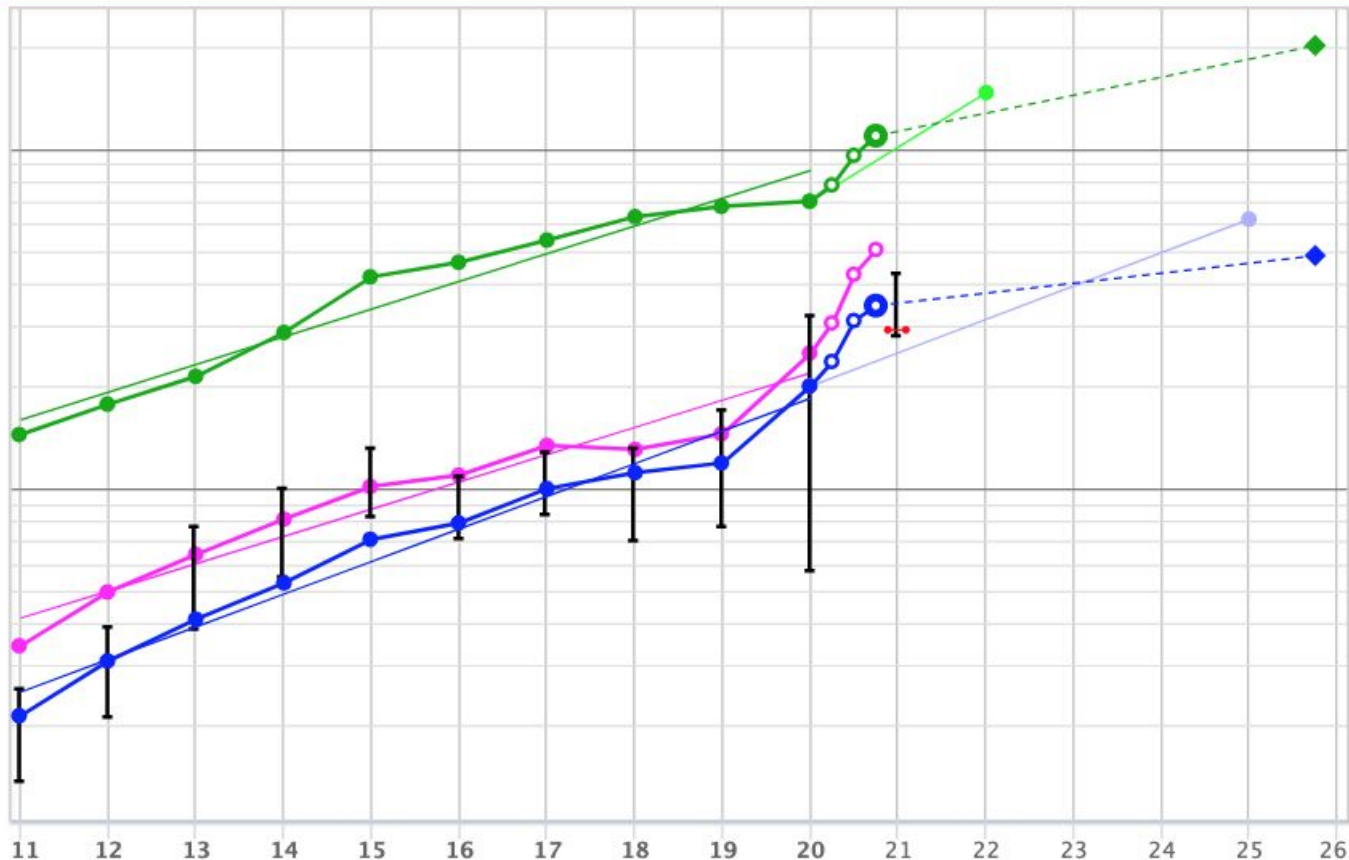


If gas prices ever get severely high, Lithia could suffer because its rural customers favor pickups and SUVs.

SSG - Historical Growth

Company: Lithia Motors (LAD) Study Name: LAD 1/17/22 NEW

Quick Navigation



Projection Starting Point

Annual Quarter Trend

Recent Quarterly Figures

FY2021 QuarterEnding (09/21)

| | Sales | EPS |
|-------------------|-------|-------|
| Latest Quarter | 6,170 | 10.11 |
| Year Ago Quarter | 3,620 | 6.86 |
| Percentage Change | 70.4% | 47.4% |

Analyst Consensus Estimates

| | |
|-------------------------|-------|
| Sales 2 Year Estimate: | 44.5% |
| EPS Long Term Estimate: | 25.4% |

Legend

- Sales
- Pre-Tax Profit
- Prices Hi/Lo
- EPS
- Book Value/Share
- Free Cash Flow/Share
- Dividend
- Total Debt
- Net Income
- Shares Outstanding
- o Sales Detailed Estimates
- o EPS Detailed Estimates

SSG - Management

Fundamental Company Data

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Growth(%) | Forecast (%) | 5 yr Est |
|------------------------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|-----------|--------------|----------|
| Historical Sales (\$M) | 2,699 | 3,316 | 4,006 | 5,390 | 7,864 | 8,678 | 10,087 | 11,821 | 12,673 | 13,124 | 20.7% | 13 | 37,704 |
| Historical EPS (\$) | 2.09 | 3.03 | 4.02 | 5.14 | 6.91 | 7.72 | 9.75 | 10.86 | 11.60 | 19.53 | 24.8% | 7 | 47.25 |
| Pre-Tax Profit (\$M) | 89 | 128 | 166 | 210 | 263 | 284 | 347 | 338 | 375 | 649 | 20.3% | | |

Evaluate Management

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 5 Yr Avg | Trend |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------|-------|
| % Pre-Tax Profit on Sales | 3.3% | 3.9% | 4.1% | 3.9% | 3.3% | 3.3% | 3.4% | 2.9% | 3.0% | 4.9% | 3.5% | UP |
| % Return on Equity | 15.6% | 18.2% | 20.5% | 21.6% | 23.0% | 22.4% | 23.6% | 20.7% | 19.8% | 30.5% | 23.4% | UP |
| % Debt To Capital | 63.2% | 67.2% | 64.4% | 73.0% | 70.3% | 72.4% | 73.3% | 74.2% | 72.0% | 61.1% | 70.6% | DOWN |

| | 5 yr. | 220.9 | 88.5 |
|---|-----------------------------------|-------|---------|
| 2 | © VALUE LINE PUB. LLC | | 24-26 |
| 5 | Revenues per sh | | 1250.00 |
| 0 | "Cash Flow" per sh | | 52.05 |
| 0 | Earnings per sh ^A | | 45.85 |
| 2 | Div'ds Decl'd per sh ^B | | 1.80 |

| | 27150 | 7.5% | 40000 | 8.0% |
|--|-------------------|------|-------|------|
| | Revenues (\$mill) | | | |
| | Operating Margin | | | |

SSG - P/E

▶ 3. PRICE EARNINGS HISTORY as an indicator of the future

CLOSING PRICE (02/04/22): 285.86

HIGH THIS YEAR: 417.98

LOW THIS YEAR: 274.03

| | A | B | C | D | E | F | G | H |
|---|-------|-------------|--------------|--|------------|-------------|--------------|--------------|
| Year | Price | | Earnings | Price Earnings Ratio | | Dividend | % Payout | % High Yield |
| | High | Low | Per Share | High A / C | Low B / C | Per Share | F / C * 100 | F / B * 100 |
| 2016 | 105.4 | 68.7 | 7.72 | 13.7 | 8.9 | 0.95 | 12.3% | 1.4% |
| 2017 | 123.5 | 80.9 | 9.75 | 12.7 | 8.3 | 1.06 | 10.9% | 1.3% |
| 2018 | 128.0 | 67.9 | 10.86 | 11.8 | 6.3 | 1.14 | 10.5% | 1.7% |
| 2019 | 165.3 | 74.9 | 11.60 | 14.2 | 6.5 | 1.19 | 10.3% | 1.6% |
| 2020 | 310.6 | 55.7 | 19.53 | 15.9 | 2.9 | 1.22 | 6.2% | 2.2% |
| AVERAGE | | 69.6 | | 13.7 | 6.6 | | 10.0% | |
| CURRENT/TTM | | | 33.69 | | | 1.40 | 4.2% | |
| AVERAGE PRICE EARNINGS RATIO: 10.1 | | | | CURRENT PRICE EARNINGS RATIO: 8.5 | | | | |

Show / Hide Price/Earnings Chart

Compare Peers

SSG - Risk and Reward

Potential Gain vs Loss



4. EVALUATING RISK and REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS

Avg. High P/E: 13.0 X Estimate High Earnings / Share: 47.25 = Forecasted High Price: **614.3**

B. LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E: 6.3 X Estimate Low Earnings/Share 33.69 = Forecasted Low Price: **212.2**

(b) Avg. Low Price of Last 5 Years: **69.6**

(c) Recent Market Low Price: **55.7**

2019 Low Stock Price: **74.9**

52 Week Low Stock Price: **274.0**

2020 Low Stock Price: **55.7**

(d) Price Dividend Will Support: $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{1.40}{2.2\%} = 64.0$

Selected Forecasted Low Price: **212.3**

C. ZONING using 25%-50%-25% (click to toggle)

Forecasted High Price: **614.3** Minus Forecast Low Price: **212.3** = **402.0** Range. **25%** of Range: **100.5**

Buy Zone: **212.3** to **312.8**

Hold Zone: **312.8** to **513.8**

Sell Zone: **513.8** to **614.3**

Closing Stock Price of **285.86** is in the **BUY** Zone.

[Show / Hide Gain vs Loss Chart](#)

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{Forecasted High Price} - \text{Closing Price}}{\text{Closing Price} - \text{Forecasted Low Price}} = \frac{(614.3 - 285.86)}{(285.86 - 212.3)} = \frac{328.42}{73.56} = 4.5 \text{ To } 1$

E. PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{Forecasted High Price}}{\text{Closing Price}} = \frac{614.3}{285.86} = (2.1489 \times 100) = (214.89 - 100) = 114.9\% \text{ Appreciation}$

Evaluating Risk At A Glance

Zone: **BUY**

Forecasted High Price: **614.3**

Forecasted Low Price: **212.3**

Closing Price (02/04/22): **285.86**

Upside Downside Ratio: **4.5 To 1**

Potential Price Appreciation: **114.9%**

SSG - Five Year Potential

▶ 5. FIVE-YEAR POTENTIAL

A. CURRENT YIELD

$$\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{1.40}{285.86} = 0.0049 = 0.5\%$$

B. AVERAGE YIELD - USING FORECAST HIGH P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast High P/E}} = \frac{10}{13.0} = 0.8\%$$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast Average P/E}} = \frac{10}{9.65} = 1.0\%$$

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

| | |
|-------------------------------|-------|
| Annualized Price Appreciation | 16.5% |
| Average Yield | 0.8% |
| Annualized Rate of Return | 17.3% |

COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

| | |
|-------------------------------|-------|
| Annualized Price Appreciation | 9.8% |
| Average Yield | 1.0% |
| Annualized Rate of Return | 10.8% |

SSG Results Summary

| | |
|--|-----------------|
| Zone: | BUY |
| Upside Downside Ratio: | 4.5 To 1 |
| Total Return (High P/E): | 17.3% |
| Projected Return (Avg P/E): | 10.8% |
| Buy price to satisfy US/DS of 3 to 1 and 15% total return: | 312.8 |
| Buy Below price based on zoning selection: | 312.8 |
| Closing Price (02/04/22): | 285.86 |

TickerTalk December 2021

- CarMax (KMX)
- Lithia Motors (LAD)
- Ashbury Automotive Gr (ABG)
- AutoNation (AN)
- America's Car-Mart (CRMT)



Auto Dealer Industry 12/2/2021 :: 12/2/2021



| | CarMax KMX Compare Large Auto & Truck Dealers.. Count: 6 | Lithia Motors LAD Compare Large Auto & Truck Dealers.. Count: 9 | Ashbury Automotive Gr ABG Compare Medium Auto & Truck Dealers.. Count: 7 | AutoNation AN Compare Large Auto & Truck Dealers.. Count: 5 | America's Car-Mart CRMT Compare Small Auto & Truck Dealers.. Count: 8 | Industry averages: Auto & Truck Dealerships |
|--|--|---|--|---|---|---|
| ▶ Growth Comparisons | | | | | | |
| Hist. Sales Growth Rate - 10 YR (%) | 7.9% | 20.7% | 5.8% | 4.4% | 8.3% | 7.3% |
| Hist. Sales Growth Rate - 5 YR (%) | 5.4% | 11.1% | 2.9% | -1.2% | 11.5% | 3.5% |
| Estimated Sales Growth Rate (%) | 9.0% | 12.0% | 8.0% | 4.4% | 8.0% | |
| Hist. Earnings/Share Growth Rate - 10 YR (%) | 13.3% | 24.8% | 23.8% | 9.2% | 17.5% | 13.0% |
| Hist. Earnings/Share Growth Rate - 5 YR (%) | 11.0% | 22.5% | 16.4% | 1.8% | 49.1% | 10.6% |
| Estimated Earnings Per Share Growth Rate (%) | 12.0% | 12.0% | 15.0% | 12.0% | 9.5% | |
| ▶ Management Comparisons | | | | | | |
| % Pretax Profit on Sales (Last 5 Year Average) | 5.9% | 3.5% | 3.7% | 2.9% | 8.8% | 3.5% |
| % Earned on Equity (Last 5 Year Average) | 20.9% | 23.4% | 39.3% | 15.5% | 16.9% | 17.4% |
| % Debt to Capital (Last 5 Year Average) | 79.9% | 70.6% | 77.1% | 69.1% | 40.1% | 41.7% |
| ▶ Valuation Comparisons | | | | | | |
| Present Price | 141.25 | 281.89 | 160.82 | 122.67 | 97.48 | |
| Present Price / Estimated Total EPS | 2.8 | 1.2 | 0.8 | 1.2 | 0.9 | |
| Average P/E | 16.6 | 10.6 | 8.4 | 10.6 | 10.5 | 16.4 |
| Current P/E | 20.1 | 8.4 | 6.5 | 8.4 | 6.1 | 11.3 |
| Present Price Indicator | Hold | Buy | Buy | Buy | Buy | |
| Upside/Downside Ratio | 1.7 to 1 | 11.9 to 1 | 9.5 to 1 | 15.0 to 1 | 10.0 to 1 | |
| ▶ Potential Return Comparisons | | | | | | |
| Present Yield | 0.00% | 0.43% | 0.00% | 0.00% | 0.00% | 0.8% |
| Avg. Percent Payout | 0.00% | 5.00% | 0.00% | 0.00% | 0.00% | 9.5% |
| Compound Annual Return - Forecast High P/E | 11.9% | 24.5% | 27.0% | 23.4% | 23.1% | |
| ▶ Other Comparisons | | | | | | |
| Sector | Consumer Cyclical | Consumer Cyclical | Consumer Cyclical | Consumer Cyclical | Consumer Cyclical | |
| Industry | Auto & Truck Dealerships | Auto & Truck Dealerships | Auto & Truck Dealerships | Auto & Truck Dealerships | Auto & Truck Dealerships | |
| Total Sales Last FY | 18,950.1 (Large) | 13,124.3 (Large) | 7,131.8 (Medium) | 20,390.0 (Large) | 918.6 (Small) | |
| Price Date | Nov 30, 2021 | Dec 01, 2021 | Dec 01, 2021 | Dec 01, 2021 | Dec 01, 2021 | |
| Last Reported Quarter | Aug 31, 2021 | Sep 30, 2021 | Sep 30, 2021 | Sep 30, 2021 | Oct 31, 2021 | |
| Judgment Date | Dec 01, 2021 | Dec 02, 2021 | Dec 02, 2021 | Dec 02, 2021 | Dec 02, 2021 | |
| ADR | N | N | N | N | N | |

In Summary

- LAD is a Quality, Growth Stock
- Used Car Demand, Online Buying Experience in COVID/Pandemic times
- Current Price of \$285.86 is a BUY with US/DS of 4.5 to 1 based on my SSG.
- Industry Study may be required and compared with peers.
- Will this growth sustain post-COVID/Pandemic?