



LITHIA MOTORS (LAD)

THESIS OVERVIEW (LONG)



HICKORY LANE

AUGUST 2020

STRICTLY CONFIDENTIAL

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THESIS



(\$ in millions, except per share data)

Market Valuation		Key Metrics	2020E	2021E	2022E	2023E	2024E
Share Price	\$241.23	Revenue	\$12,429	\$13,890	\$15,235	\$16,483	\$17,790
Diluted Shares	23	EV / Revenue	0.5x	0.5x	0.4x	0.4x	0.4x
Equity Value	\$5,548	EBITDA	\$590	\$687	\$760	\$850	\$935
Less: Cash	(120)	EV / EBITDA	11.5x	9.9x	9.0x	8.0x	7.3x
Plus: Debt	1,375	EPS	\$13.30	\$15.78	\$17.96	\$20.64	\$23.17
Enterprise Value	\$6,802	P / E	18.1x	15.3x	13.4x	11.7x	10.4x
		FCF/S	\$13.58	\$16.20	\$18.69	\$21.50	\$24.36
		FCF yield	5.6%	6.7%	7.7%	8.9%	10.1%
		Debt / EBITDA	2.3x	2.0x	1.8x	1.6x	1.5x

BEST-IN-CLASS MANAGEMENT TEAM	<ul style="list-style-type: none"> Third-generation CEO Bryan DeBoer has transformed LAD into one of the leading auto dealers in the U.S. through a differentiated M&A strategy and consistent execution Since taking over as CEO in 5/2012, DeBoer has delivered an 800% return for shareholders (30% CAGR) vs. the auto dealer index at 117% (10% CAGR)
M&A TRACK RECORD	<ul style="list-style-type: none"> Unique methodology of acquiring undermanaged dealership groups and tripling operating profit per dealership Has achieved 25% post-tax IRR on acquisitions through a combination of cost reductions and market share improvement Targeting \$3b-\$5b of annual incremental revenue from M&A over next five years, translating to \$15 in incremental EPS
EMERGING DIGITAL PRESENCE	<ul style="list-style-type: none"> Launched Driveway.com to offer used/new vehicle sales and ancillary business lines online; targeting 200k annual used vehicle unit sales vs. Carvana's 2019 used vehicle sales of 217k units Driveway.com represents \$9b revenue opportunity in expanding addressable market, as shift towards online vehicle and service buying has been pulled forward by COVID
CAPITAL ALLOCATION	<ul style="list-style-type: none"> M&A is primary use of capital (65%), with remainder split between buybacks / dividends (10%), and internal investments / modernization (25%) Targeting incremental \$20b in inorganic revenue, which would require \$900m of additional equity issuance – has a current ATM of \$400m and already announced two acquisitions post Q2'20 earnings
VALUATION	<ul style="list-style-type: none"> Trades at a premium to auto dealer group due to proven M&A track record, 20%+ top line growth, and omni-channel capabilities, but still trades at significant discount to CarMax and digital peers Base price target of \$325 on 16x 2023 P/E = 35% upside Bull price target of \$585 on \$325 base price target + 12x 2023 M&A P/E + 1.0x 2023 Driveway.com EV/sales= 140% upside

BUSINESS DILIGENCE

- I. What does the company do?
 - Operates auto dealerships that sell new and used vehicles, parts & service, and finance & insurance (F&I)
- II. How does it make money?
 - Double digit volume growth and low-single digit ASP growth in vehicles sold
 - Parts & service and F&I account for 60% of gross profit
- III. Moat & competitive position?
 - Decentralized operating model and unique M&A strategy
 - <1% market share in \$2 trillion market
- IV. Customer & supplier relationships?
 - Strong OEM relationships, approvals by OEMs to sell new cars
- V. Key risks to the business?
 - Driveway.com execution, inventory shortages, used vehicle prices, moderating vehicle demand, M&A integration, EV penetration

FINANCIAL DILIGENCE

- I. Where has the company been?
 - 23% revenue CAGR and 33% EPS CAGR over past 10 years
- II. Where is it going?
 - Mid-single digit revenue growth and double digit EPS and FCF/S growth
 - M&A and Driveway.com offer pathway to >30% revenue, EBITDA, and EPS CAGR over next five years
- III. Health of balance sheet?
 - 2.3x leverage with limited near-term maturities
 - >\$1b of cash and available credit
- IV. Free cash flow generation?
 - FCF/S increasing at double digit CAGR
 - Cumulative FCF of >\$600m over the last 3 years vs. today's market cap of \$5.5b
- V. Capital allocation?
 - M&A is primary use of capital
 - Historically achieved post-tax IRR of 25%

MANAGEMENT DILIGENCE

- I. Quantifiable track record?
 - 15 years of LAD C-Suite experience
 - Revenue CAGR of 21%, EPS CAGR of 22% and share price CAGR of 30% as CEO
- II. Equity incentive & comp structure?
 - Equity incentive based on EPS growth
- III. Reputation w/peers & former staff?
 - Strong culture and well-respected management team
 - “Bryan has the respect and admiration of store managers. He understands them.”
- IV. Investor & sell-side perception?
 - Regarded as the best management team in the sector
- V. Board composition & experience?
 - Former Program Lead of Google Automotive Services
 - Two former Big-4 accounting partners
 - Former tech company Vice Chairman

CEO – BRYAN DEBOER



BRYAN DEBOER (53), CEO SINCE 5/2012

Biography

- **LAD**, CEO – 5/2012 – present
- **LAD**, President/COO – 1/2006 – 5/2012
- **LAD**, Senior VP M&A/Operations – 12/1996 – 1/2006
- **LAD**, General Manager Lithia Honda – 1/1992 – 12/1996
- **LAD**, Several roles including finance manager, used vehicle manager, and general sales manager – 1989 – 1991

LAD TRACK RECORD

- Transformed LAD into leading omni-channel auto dealer and has served entire 31-year career at LAD with execution of unique M&A strategy
- Since being named CEO, took EPS from \$3 to \$12, revenues from \$3b to \$13b and share price from \$27 to \$241 (30% CAGR)
- Has positioned LAD to compete with digital peers and capture \$50 in EPS over next five years

INCENTIVE ALIGNMENT / COMP STRUCTURE

- Equity – \$51m + \$11m of unvested stock = **\$62m total equity**
- Equity incentive is primarily based on EPS growth

INDUSTRY REPUTATION

- Well-regarded for ambitious growth strategy and omni-channel investments

INVESTOR & SELL-SIDE PERCEPTION

- Well-regarded LAD veteran that has created massive shareholder value through differentiated M&A strategy of targeting undermanaged dealers with higher cost structure
- Significant share price outperformance vs. auto dealer peer group and CarMax

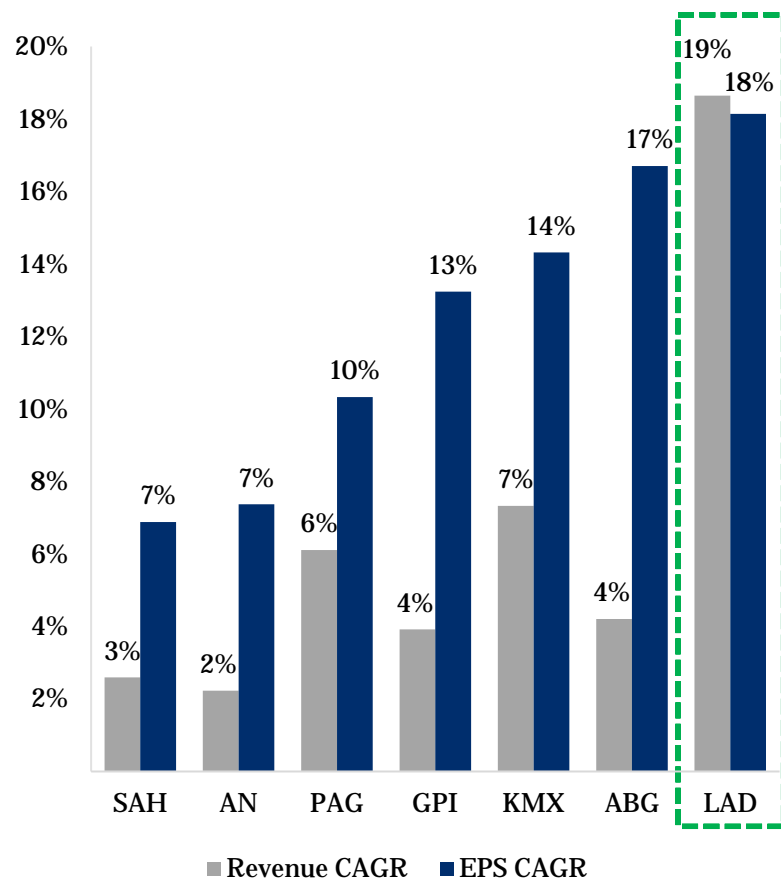
QUOTES

- “Bryan has the respect and admiration of store managers. They understand him and he understands them – their common goals, objectives and strategies.”
- “DeBoer’s skills at scaling up the retail group stem from his long tenure with the company.”

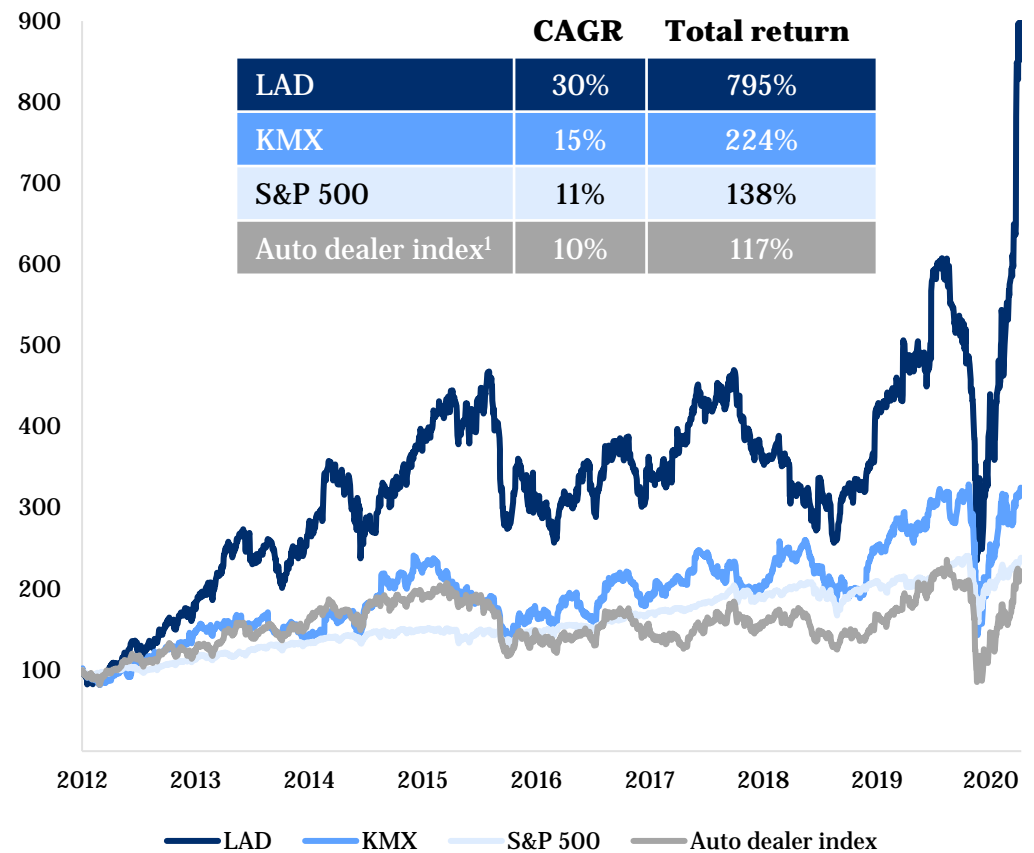
HIGHEST GROWING DEALER WITH BEST TRACK RECORD OF SHAREHOLDER VALUE CREATION



FIVE-YEAR REVENUE/EPS CAGR VS. PEERS (2014-2019)



LAD SHARE PRICE PERFORMANCE VS. AUTO DEALER PEERS AND S&P 500 (5/2012-PRESENT)



¹Auto dealer index: Includes SAH, AN, PAG, GPI and ABG

Share price performance under CEO Bryan DeBoer has reflected superior top-line and bottom-line growth vs. peers

BUSINESS OVERVIEW

- **Description:** Auto dealer that sells new cars (50% of revenue), used cars (36% of revenue), parts & service (10% of revenue), and finance & insurance (4% of revenue)
- **Products & Services:**
 - 55k vehicle inventory and 194 brick & mortar locations
 - Driveway.com – online portal for used and new car sales, parts & service, and F&I
- **Business Model**
 - Acquisitive auto dealer with <1% share in \$2t market and decentralized operating model
 - Vehicle focus - 4-8 years old and >80,000 miles
- **Vehicle type/state breakdown**
 - Import (42%), Domestic (36%), and Luxury (22%)
 - California (25%), New Jersey (17%), Oregon (13%), Texas (9%), New York (8%), Other (29%)

NEW VEHICLES
50% OF REVENUE
20% OF GROSS PROFIT



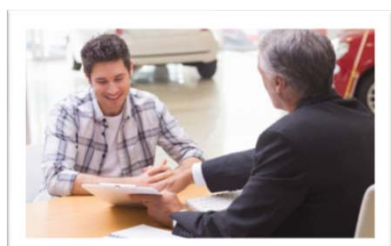
USED VEHICLES
36% OF REVENUE
22% OF GROSS PROFIT



PARTS & SERVICE
10% OF REVENUE
31% OF GROSS PROFIT



FINANCE & INSURANCE
4% OF REVENUE
27% OF GROSS PROFIT



FINANCIALS



(\$ in millions, except for per share data)

Market Valuation	
Share Price	\$241.23
Diluted Shares	23
Equity Value	\$5,548
Less: Cash	(120)
Plus: Debt	1,375
Enterprise Value	\$6,802
52 Week Range	\$55.74 - \$245.63
% of 52-Week High	98.2%
Avg Daily Value Traded (Last 3 months)	\$47.6
as a % of Market Cap	0.9%

Assumptions

- New vehicle units growth of 3% annually
- New vehicle revenue per unit growth of 4% annually
- Used vehicle units growth of 6% annually
- Used vehicle revenue per unit growth of 2% annually
- Parts & service revenue CAGR of 5%
- F&I gross profit per unit CAGR of 6%
- SG&A as a % of gross profit declining from 70% in 2019 to 66% in 2024

	Projected						CAGR (19-'24)
	2019A	2020E	2021E	2022E	2023E	2024E	
Income Statement Data							
New vehicles	6,799	6,305	7,318	8,181	8,934	9,709	7.4%
Used vehicles	3,828	4,169	4,415	4,725	5,056	5,411	7.2%
Parts & service	1,325	1,274	1,407	1,498	1,581	1,668	4.7%
Finance & insurance	519	553	623	703	785	875	11.0%
Fleet & other	201	127	127	127	127	127	(8.7%)
Revenues	\$12,673	\$12,429	\$13,890	\$15,235	\$16,483	\$17,790	7.0%
<i>y / y growth</i>		(2%)	12%	10%	8%	8%	
New vehicles	386	376	422	463	496	531	6.6%
Used vehicles	371	414	441	477	516	557	8.5%
Parts & service	668	659	725	783	845	913	6.5%
Finance & insurance	519	553	623	703	785	875	11.0%
Other	10	9	9	9	9	9	(3.3%)
Gross profit	\$1,954	\$2,010	\$2,220	\$2,434	\$2,650	\$2,885	8.1%
SG&A	1,371	1,378	1,490	1,631	1,756	1,904	
EBIT	\$500	\$545	\$639	\$710	\$799	\$883	12.0%
<i>Margin</i>	4%	4%	5%	5%	5%	5%	
<i>y / y growth</i>		9%	17%	11%	13%	10%	
EBITDA	\$510	\$590	\$687	\$760	\$850	\$935	12.9%
<i>y / y growth</i>		16%	16%	11%	12%	10%	
Net Income	\$275	\$318	\$388	\$439	\$501	\$559	15.3%
<i>y / y growth</i>		16%	22%	13%	14%	12%	
Diluted Shares	23	24	25	24	24	24	
Diluted EPS	\$11.75	\$13.30	\$15.78	\$17.96	\$20.64	\$23.17	14.6%
<i>y / y growth</i>		13%	19%	14%	15%	12%	
Free Cash Flow							
Cash from operations	500	533	581	664	728	809	
CapEx	(125)	(144)	(153)	(168)	(181)	(196)	
Proceeds from vehicle floorplan payable - non-trade	(55)	(14)	20	10	25	25	
Borrowings on floor plan notes payable - non trade	(80)	(50)	(50)	(50)	(50)	(50)	
Free Cash Flow	\$240	\$325	\$398	\$456	\$522	\$588	19.6%
<i>y / y growth</i>		35%	23%	15%	14%	13%	
FCF/S	\$10.25	\$13.58	\$16.20	\$18.69	\$21.50	\$24.36	18.9%
<i>y / y growth</i>		33%	19%	15%	15%	13%	
Valuation Multiples							
EV / EBITDA	13.3x	11.5x	9.9x	9.0x	8.0x	7.3x	
P / E	20.5x	18.1x	15.3x	13.4x	11.7x	10.4x	
FCF Yield	4.2%	5.6%	6.7%	7.7%	8.9%	10.1%	
Credit Metrics							
Debt	1,470	1,375	1,375	1,375	1,375	1,375	
Cash	84	623	1,034	1,448	1,924	2,462	
Debt / EBITDA	2.9x	2.3x	2.0x	1.8x	1.6x	1.5x	
EBITDA / Interest	8.4x	9.0x	11.5x	12.7x	14.2x	15.6x	

SUM-OF-THE-PARTS

(\$ in millions, expect per share data)

Lithia Motors (standalone)	2023E EPS	Target P/E	Implied Share Price
Assumptions			
Vehicle sales increase at 7% CAGR			
Gross profit CAGR of 8% driven by F&I CAGR of 11%, Parts & Service CAGR of 6% and Used Vehicles CAGR of 9%			
SG&A as a percentage of gross profit decreases from 70% in FY19 to 66% in 2023			
Lithia Motors (standalone)	\$20.64	15.8x	\$325.13
Network expansion (M&A)	2023E EPS	Target P/E	Implied Share Price
Assumptions			
Plans to raise \$900m of equity to support \$20b incremental revenue opportunity (\$3b-\$5b per year in acquired revenue)			
Recently submitted a filing to raise up to \$400m of equity; average of ~\$1.4b of annual acquired revenue from M&A since 2014			
Recently announced two deals to acquire >\$700m of incremental revenue			
LAD typically pays ~0.3x EV/sales multiple for acquisitions and has averaged 2-2.5x adjusted leverage			
M&A Contribution	\$10.08	12.0x	\$121.00
Driveway.com	2023E revenue	Target EV/Sales	Implied Enterprise Value
Assumptions			
Used vehicle units growing to 80k units in 2023 - LAD targeting 200k annual used vehicle units by year 5			
Used vehicle business represents ~50% of revenue opportunity for Driveway.com			
New vehicle units growing to 30k annual units in 2023 - LAD targeting 65k new vehicle units by year 5			
F&I gross profit per unit ~\$500 lower than base business F&I gross profit per unit due to additional advertising costs			
Targeting SG&A as a percentage of gross profit of <60% down the road due to lower personnel costs			
Driveway.com Used Vehicle business	\$1,772	1.7x	\$3,012
Driveway.com Remain Co. (New Vehicles, F&I, Parts & Service)	\$1,835	0.4x	\$734
Total Driveway.com Enterprise Value	\$3,606	1.0x	\$3,745
Diluted Shares			27
Driveway.com Implied Share Price			\$137.77
Total Implied Share Price			\$583.90
Share Price			\$241.23
% Upside			142%

COMPARABLE COMPANIES

(\$ in millions, except for per share data)

Company	Ticker	Current Share Price	Equity Value	Ent. Value	EV/ EBITDA				P / E			
					2020E	2021E	2022E	2023E	2020E	2021E	2022E	2023E
Brick & mortar auto dealers												
Asbury Automotive Group Inc	ABG	\$103.91	\$2,004	\$2,625	7.4x	6.2x	5.9x		10.2x	8.5x	7.2x	
AutoNation Inc	AN	\$53.19	\$4,639	\$6,472	6.4x	5.7x			10.6x	9.3x	6.4x	
Group 1 Automotive Inc	GPI	\$90.86	\$1,659	\$3,001	7.4x	6.7x	6.7x		8.1x	7.1x		
Penske Automotive Group Inc	PAG	\$45.82	\$3,681	\$5,677	8.4x	6.7x			11.3x	8.4x	8.4x	
Sonic Automotive Inc	SAH	\$41.42	\$1,765	\$2,399	11.6x	5.4x			13.1x	10.3x	8.6x	
Mean					8.2x	6.1x	6.3x		10.7x	8.7x	7.6x	
Lithia Motors Inc	LAD	\$241.23	\$5,548	\$6,802	11.5x	9.9x	9.0x	8.0x	18.1x	15.3x	13.4x	11.7x
Digital auto dealers												
CarMax Inc	KMX	\$100.65	\$16,414	\$17,459	12.0x	17.2x	12.0x	10.6x	18.9x	31.8x	19.2x	16.2x
Vroom Inc	VRM	\$67.51	\$7,995	\$7,498	NM	NM	NM		NM	NM	NM	
Carvana Co	CVNA	\$222.99	\$35,568	\$36,035	NM	NM	NM	NM	NM	NM	NM	NM
Mean					12.0x	17.2x	12.0x	10.6x	18.9x	31.8x	19.2x	16.2x
Lithia Motors Inc	LAD	\$241.23	\$5,548	\$6,802	11.5x	9.9x	9.0x	8.0x	18.1x	15.3x	13.4x	11.7x

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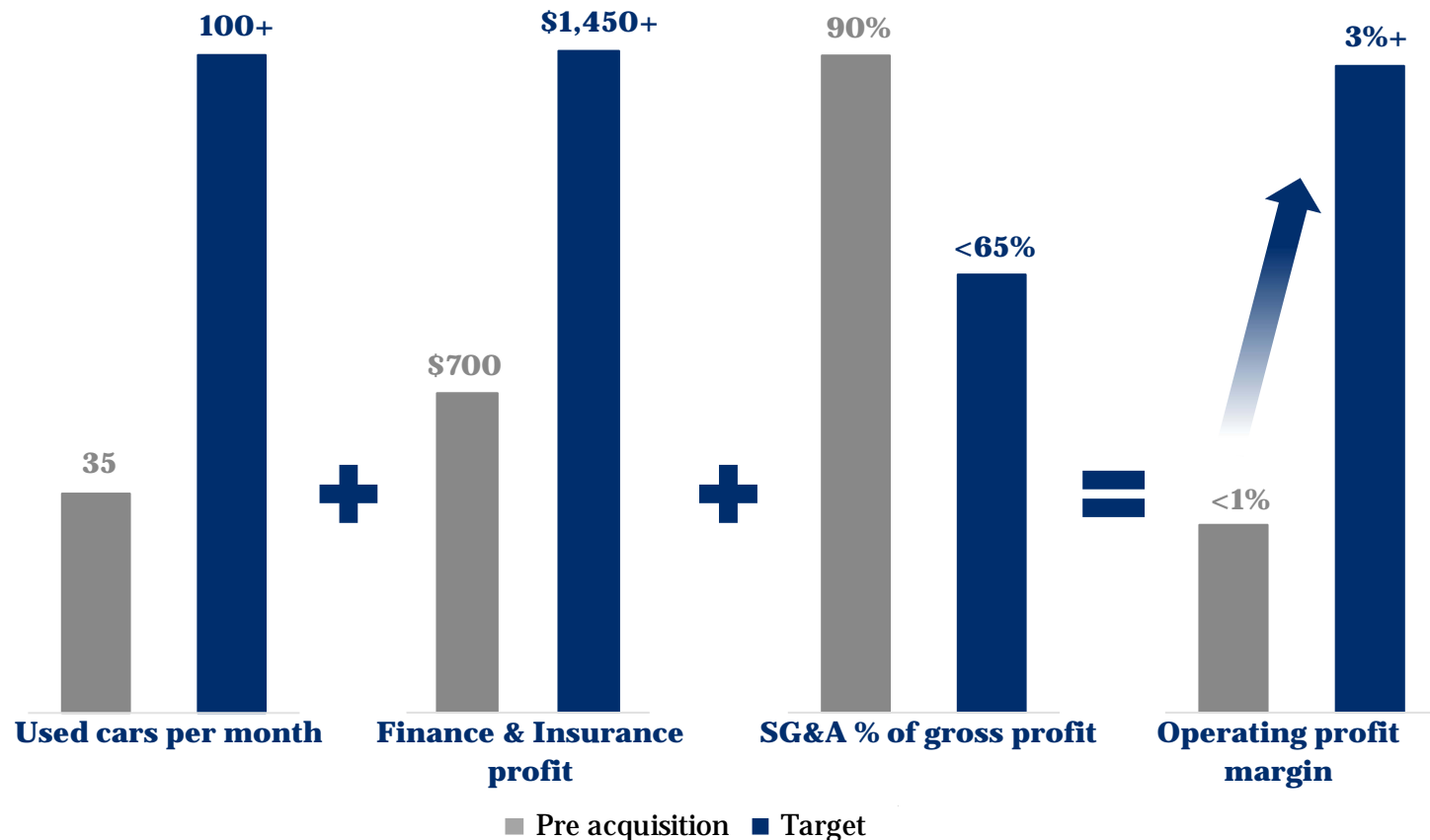
Company	Ticker	Current Share Price	Equity Value	Ent. Value	EBITDA				EPS			
					2020E	2021E	2022E	2023E	2020E	2021E	2022E	2023E
Brick & mortar auto dealers												
Asbury Automotive Group Inc	ABG	\$103.91	\$2,004	\$2,625	\$353	\$422	\$445		\$10.16	\$12.22	\$14.46	
AutoNation Inc	AN	\$53.19	\$4,639	\$6,472	\$1,010	\$1,133			\$5.00	\$5.71	\$8.26	
Group 1 Automotive Inc	GPI	\$90.86	\$1,659	\$3,001	\$407	\$446	\$446		\$11.25	\$12.82		
Penske Automotive Group Inc	PAG	\$45.82	\$3,681	\$5,677	\$679	\$852			\$4.06	\$5.48	\$5.48	
Sonic Automotive Inc	SAH	\$41.42	\$1,765	\$2,399	\$207	\$443			\$3.17	\$4.01	\$4.82	
Lithia Motors Inc	LAD	\$241.23	\$5,548	\$6,802	\$590	\$687	\$760	\$850	\$13.30	\$15.78	\$17.96	\$20.64
Digital auto dealers												
CarMax Inc	KMX	\$100.65	\$16,414	\$17,459	\$1,454	\$1,014	\$1,460	\$1,649	\$5.33	\$3.16	\$5.23	\$6.22
Vroom Inc	VRM	\$67.51	\$7,995	\$7,498	(\$169)	(\$94)	\$1		(\$1.66)	(\$0.90)	(\$0.23)	
Carvana Co	CVNA	\$222.99	\$35,568	\$36,035	(\$325)	(\$99)	\$105	\$579	(\$2.98)	(\$1.82)	(\$0.84)	\$0.30

DIFFERENTIATED M&A MODEL ENABLES FASTER AND MORE PROFITABLE GROWTH THAN PEERS



- Unique M&A strategy involving undermanaged and higher-cost dealerships
- Significant cost synergies achieved through time-tested integration model
- Decentralized operating model enables fast integration
- Targets dealerships that peers shy away from given “fixer-uppers”
- As part of five-year plan, LAD is targeting larger acquisitions
- 10-year avg. post-tax IRR of 25% on M&A transactions

HISTORICAL SYNERGIES/OPERATIONAL IMPROVEMENT M&A TRACK RECORD

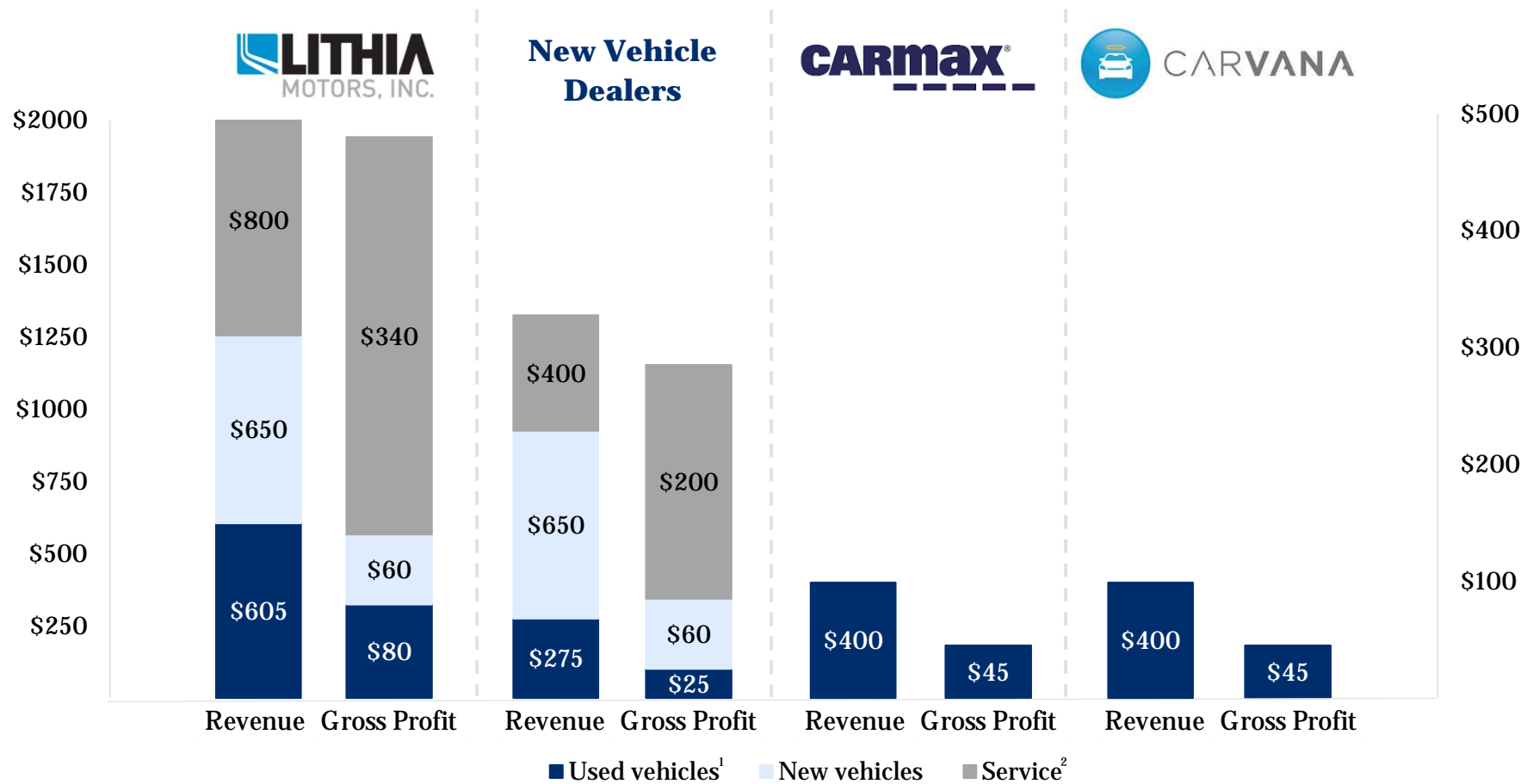


M&A pipeline of >2,500 dealerships enables repeatable shareholder value creation

EXPANDING ADDRESSABLE MARKET DRIVEN BY CONTINUED OMNI-CHANNEL INVESTMENTS



(\$ in billions)



¹Used vehicles: Assumes New Vehicle Dealers target 0-5 year old used vehicles. CarMax and Carvana target 0-10 year old vehicles.
²Service: Assumes New Vehicle Dealers addressable market limited by utilization of only OEM parts and represents 50% of the market.

<1% market share in fragmented \$2t market, with significant pathway for share gains

WITH PATHWAY TO \$50 IN EARNINGS POWER OVER NEXT FIVE YEARS WITH M&A/DIGITAL ADDITIONS



DRIVEWAY.COM

- Progressive introduction over the next three quarters
- Scale to six regions over 3 years

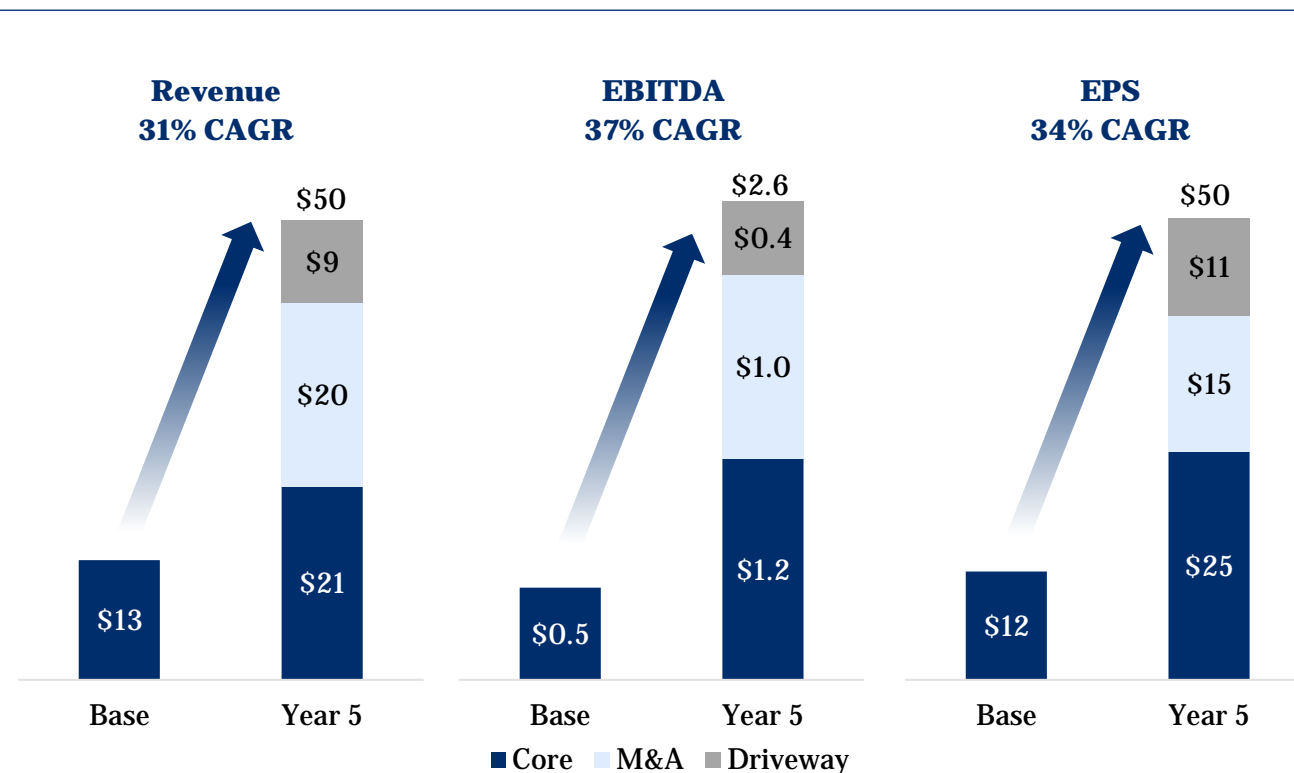
NETWORK EXPANSION

- Annual acquisitions of \$3b-\$5b in revenues (\$20b total over 5 years)
- Investment of up to 30% of revenues (\$900m of equity + debt)
- LAD recently filed to raise up to \$400m of equity

CORE

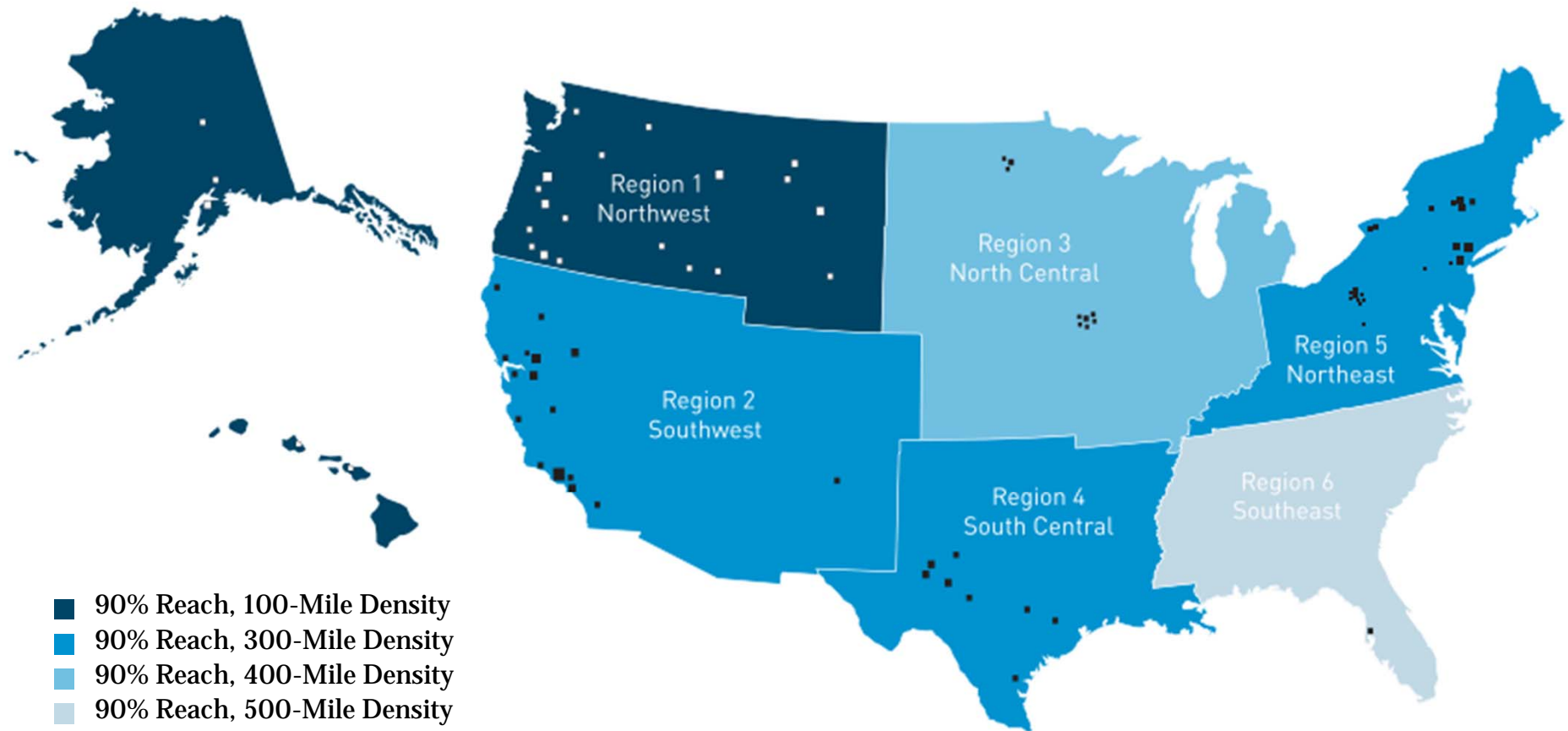
- Annual average revenue growth of ~10%
- SG&A as a % of gross profit targeted to improve from 70% to 65%

FIVE-YEAR GROWTH PLAN TO EXPAND OMNI-CHANNEL LEADERSHIP



Driveway + M&A contributions imply a share price of >\$500 over the next few years

WITH SIGNIFICANT ROOM FOR GROWTH IN THE FAST GROWING SOUTHEAST AND SOUTHWEST REGIONS

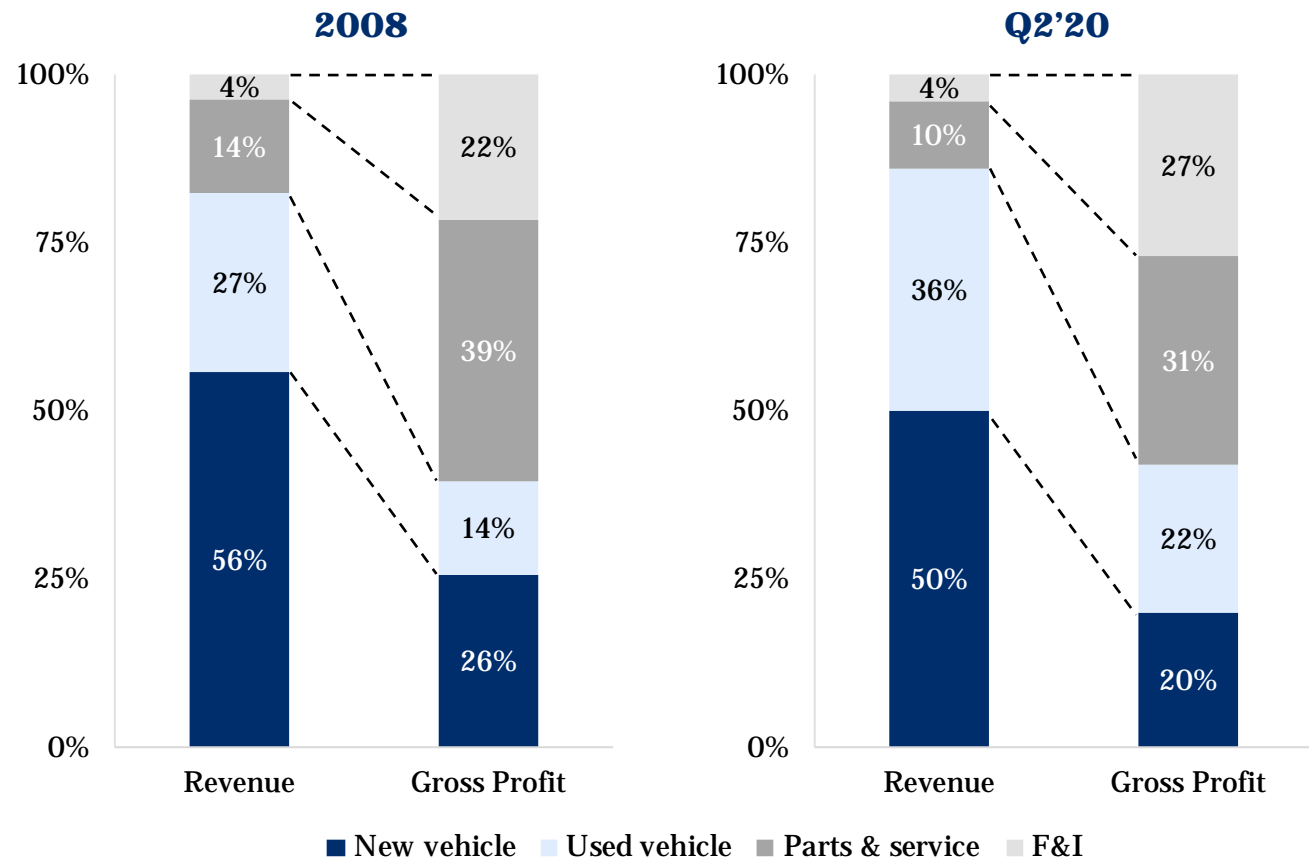


COUNTER-CYCLICAL GROSS PROFIT MIX IS UNDERAPPRECIATED BY INVESTORS



- Vehicle sales have shifted towards higher-margin used vehicles
- Parts & service remains 50%+ gross margin business
- Parts & service is benefitting from increased vehicle complexity and aging fleet
- F&I has become a larger driver of gross profit

REVENUE AND GROSS PROFIT MIX BY SEGMENT (2008 VS. Q2'20)



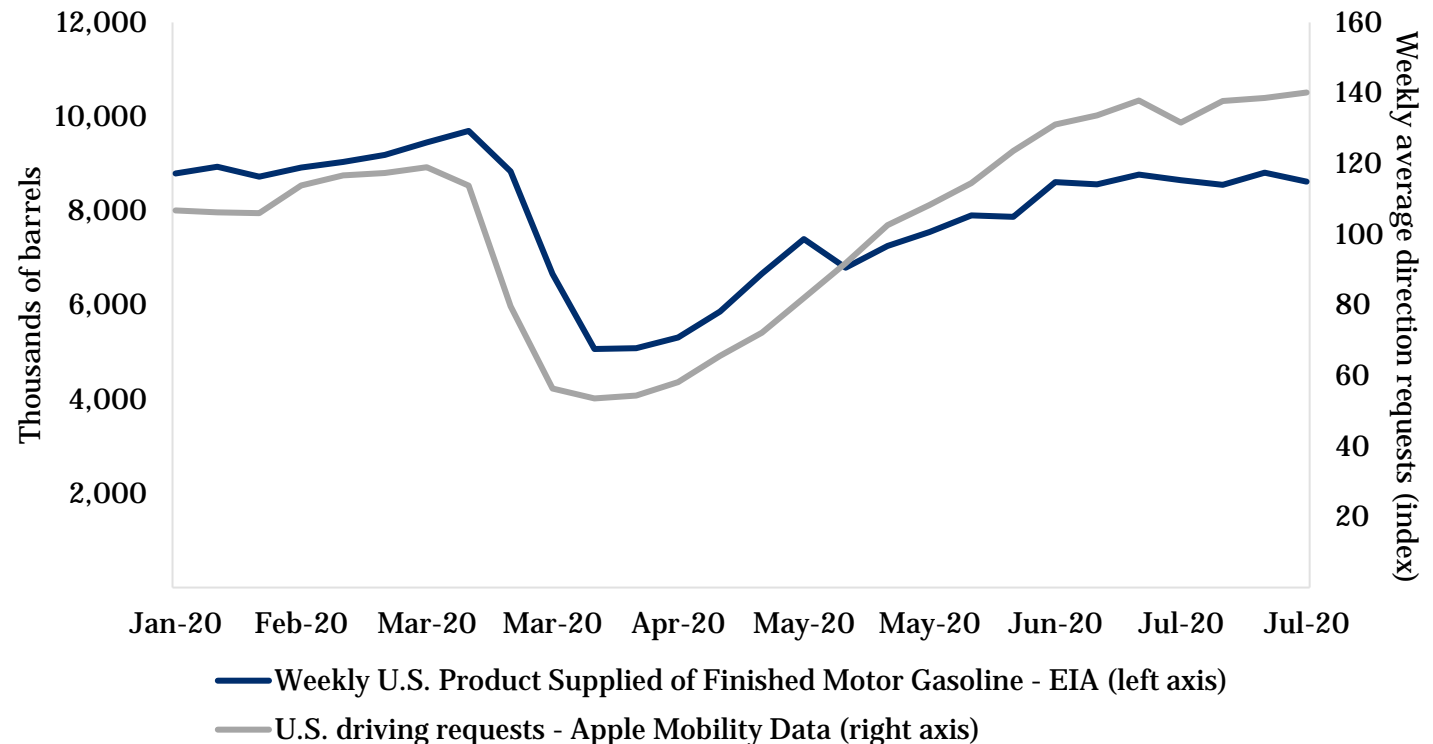
LAD generates ~60% of gross profit from parts & service and F&I businesses

SECULAR AND STRUCTURAL CHANGES DRIVING A SHARP RECOVERY IN U.S. MILES DRIVEN



- Apple Mobility data is a proxy for leisure miles driven
- U.S. driving routing requests now exceed pre-COVID levels
- Gasoline supplied data is strong proxy for overall miles driven
- Gasoline supplied remains ~10% off pre-COVID levels
- Public transit reluctance, de-urbanization, and leisure car travel supporting miles driven

APPLE MOBILITY DATA (U.S. DRIVING REQUESTS) VS. GASOLINE SUPPLIED



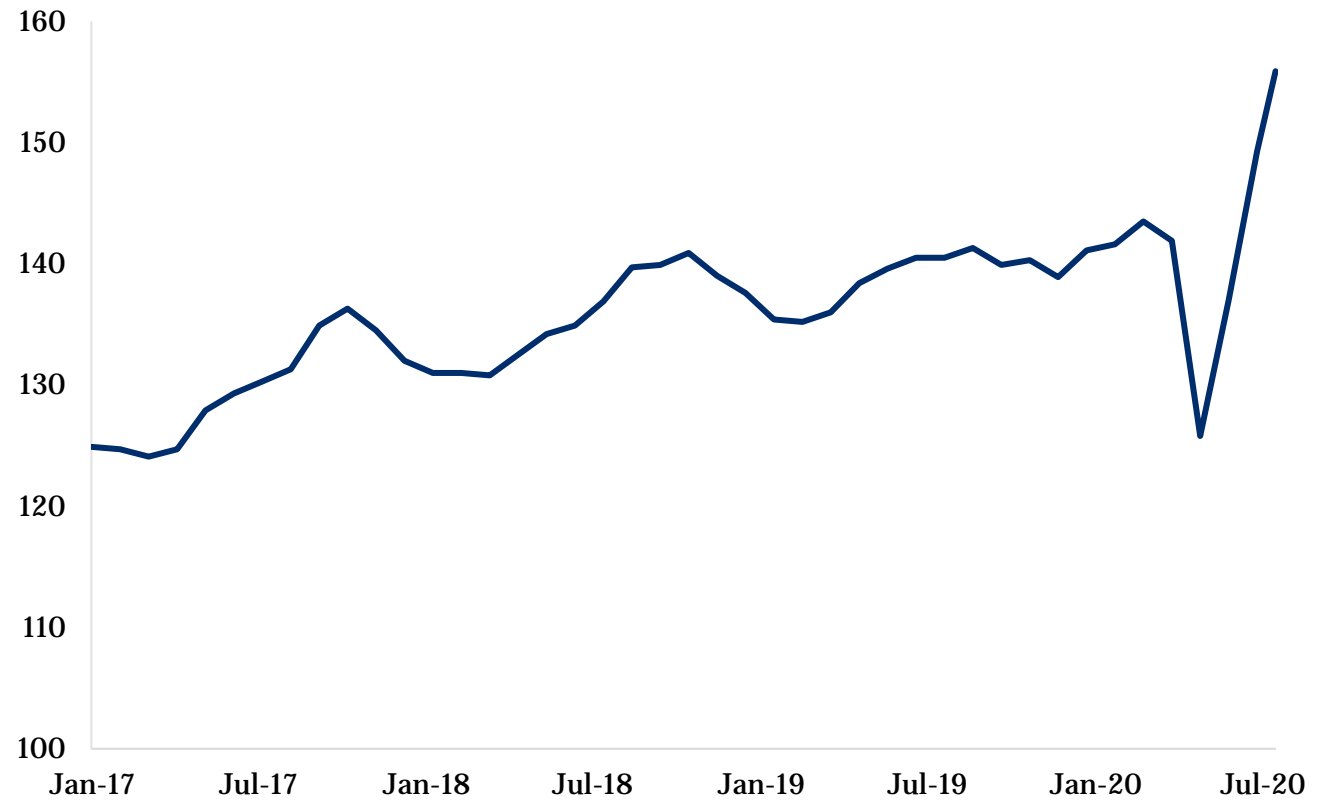
Proxy data points for miles driven support an inflection in parts & service in H2'20

RECOVERY IN USED VEHICLE PRICES AND VOLUMES DRIVING EARNINGS UPSIDE



- Used vehicle prices continue to hit record levels
- ~500 bps higher than new vehicle margins
- Strength supports roll-out of Driveway.com
- Volumes have remained strong for LAD in July
- Dealership channel checks point to continued elevated demand
- Manheim used vehicle value index has grown at 7% CAGR since 1/2017

MANHEIM USED VEHICLE VALUE INDEX (1/2017-7/2020)



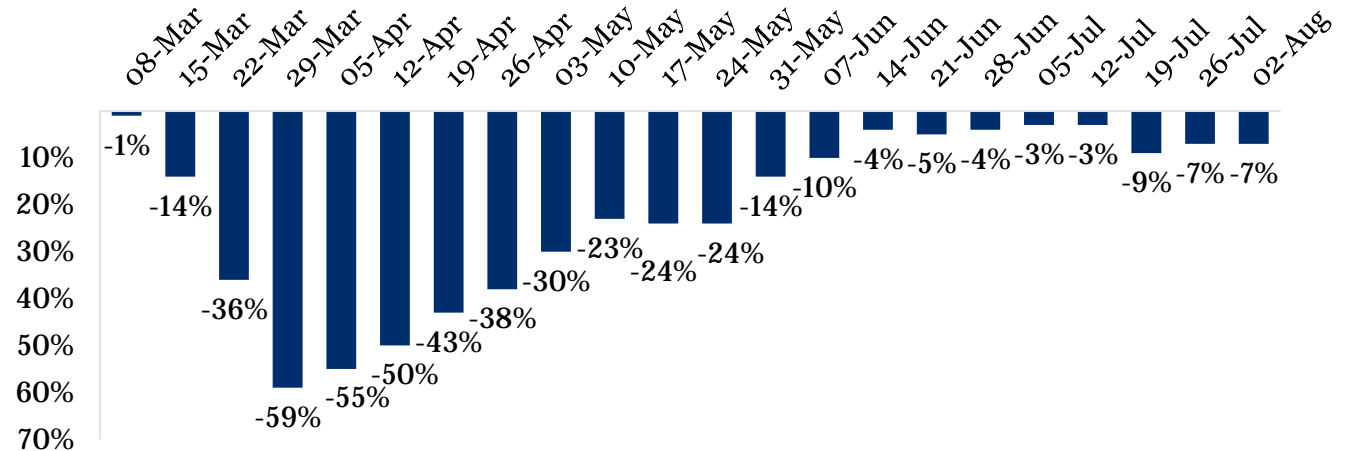
Manheim used vehicle value index now up 12% in 2020 and 26% off April bottom

NEW VEHICLE SALES CONTINUE TO IMPROVE SEQUENTIALLY AS OEM PRODUCTION RETURNS

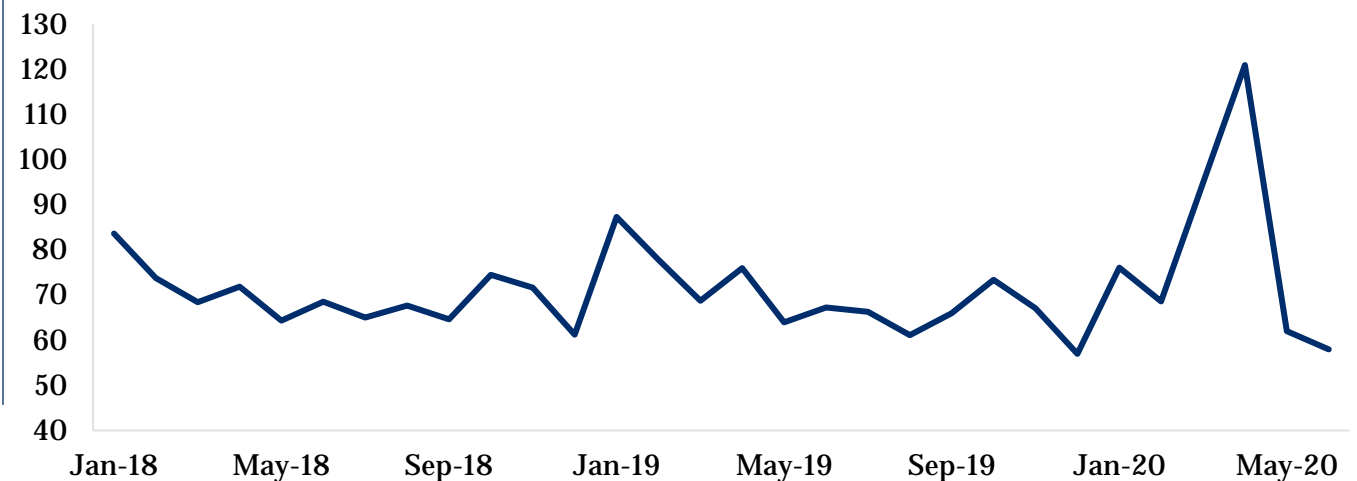


- New vehicle sales have recovered quickly off the March bottom
- Production restarts and stimulus have supported increased car buying
- Inventory days supply spiked significantly in March with the decline in new vehicle sales
- Inventory has fallen as vehicle sales have recovered and is tight based on historical levels
- OEMs pointing to production increases in H2'20 to restock dealer inventories
- Low inventory levels indicative of surge in dealer new vehicle sales

J.D. POWER AUTO RETAIL SALES VS. PRE-COVID FORECAST



AUTOMOTIVE INDUSTRY INVENTORY DAYS SUPPLY (2018-PRESENT)



RISKS & MITIGANTS

	RISKS	MITIGANTS
DRIVEWAY.COM EXECUTION	<ul style="list-style-type: none"> • Driveway.com is a greenfield project and involves significant logistics and execution risk 	<ul style="list-style-type: none"> • LAD has made significant investments in omni-channel capabilities and has existing brick & mortar network to support digital build-out
INVENTORY SHORTAGES	<ul style="list-style-type: none"> • OEM production halts earlier in 2020 and subsequent rebound in new vehicle sales has led to inventory tightness 	<ul style="list-style-type: none"> • OEM production is back on track and accelerating to re-stock dealer inventories
USED VEHICLE PRICES	<ul style="list-style-type: none"> • Used vehicle prices are projected to decline in H2'20 driven by de-fleeting, increased availability of new vehicles, and economic conditions 	<ul style="list-style-type: none"> • Used vehicle demand has remained elevated and used vehicle sales have historically been countercyclical • Surveys show that consumers are resistant to using public transit and air travel, supporting vehicle demand
M&A INTEGRATION	<ul style="list-style-type: none"> • With \$20b revenue target over next five years, LAD will target larger dealers with more complex integration 	<ul style="list-style-type: none"> • Proven track record of integrating “fixer-uppers” positions company well for larger-scale M&A
ELECTRIC VEHICLE PENETRATION	<ul style="list-style-type: none"> • Direct to consumer EV distribution model threatens traditional dealer model • Parts & service requirements on electric vehicles could be lower over time 	<ul style="list-style-type: none"> • EVs are still a small percentage of overall vehicles produced and are driven by government incentives • EVs are more complex and more difficult for DIY repair

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