

2025 LGT Controllers Roundtable

Dealer Finance Market Update



Commercial Bank

June 19, 2025

LGT Controller's Roundtable

Agenda

- ▶ BMO Commercial Bank Introduction
- ▶ Tariffs
- ▶ Auto Industry Impacts
- ▶ Banking market, M&A activity and acquisition financing
- ▶ Q&A

A Leading North American Financial Institution



- \$1.4 trillion in total assets
- \$37 billion in annualized revenue
- \$97 billion in market capitalization
- A+ S&P Senior Debt Rating
- More than 53,000 employees worldwide serving over 13 million clients
- 8th largest bank in North America as measured by assets
- Founded in 1817 and celebrating over 200 years of innovation

Canada



- Full-service retail bank with almost 900 Canadian branches serving over 7 million Canadian households
- Leader in business, commercial banking, investment banking and wealth management. Deep industry knowledge across all major sectors
- #1 Market Share for Commercial Dealer Finance with over \$20 billion in commitments (CAD).

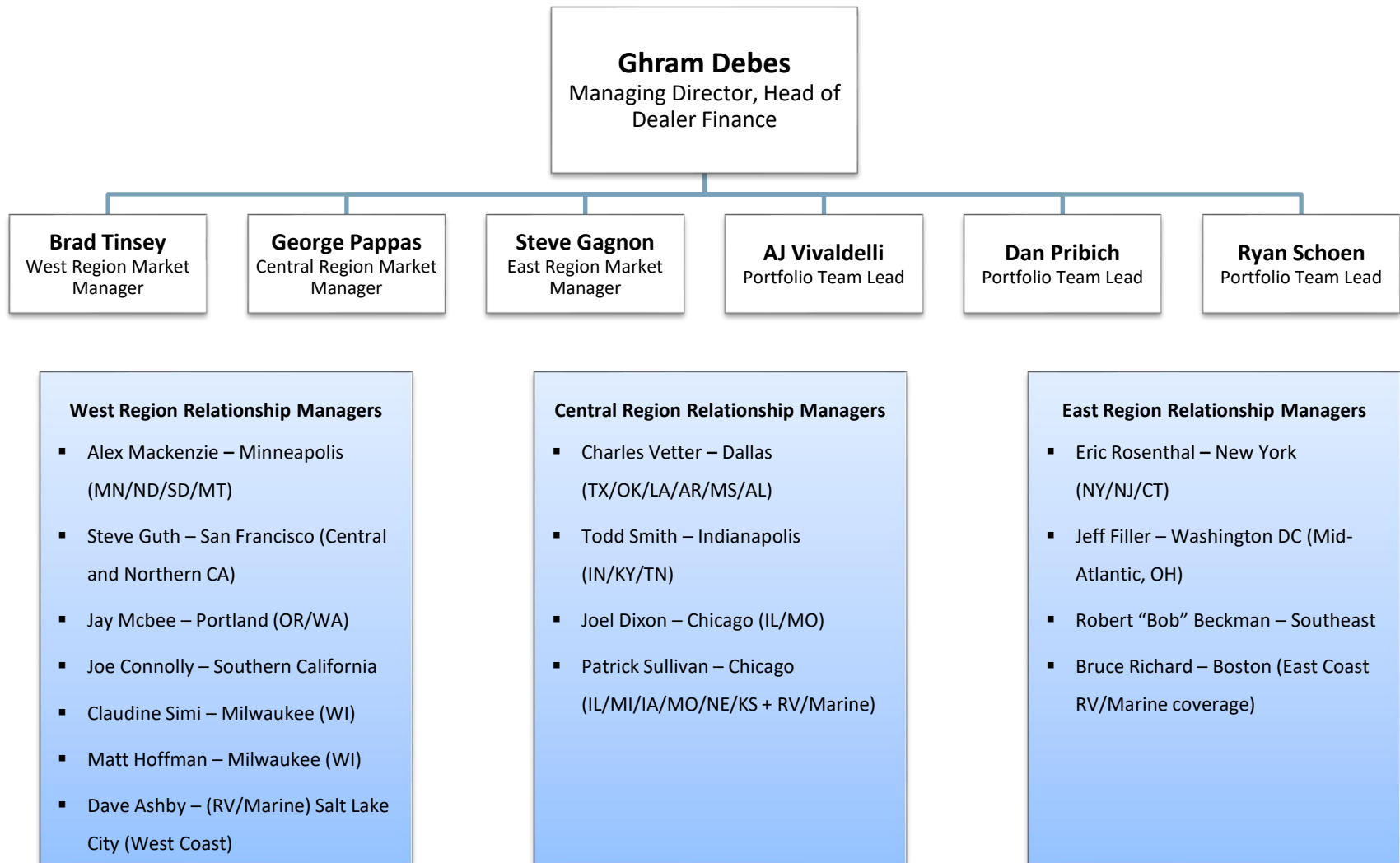
United States



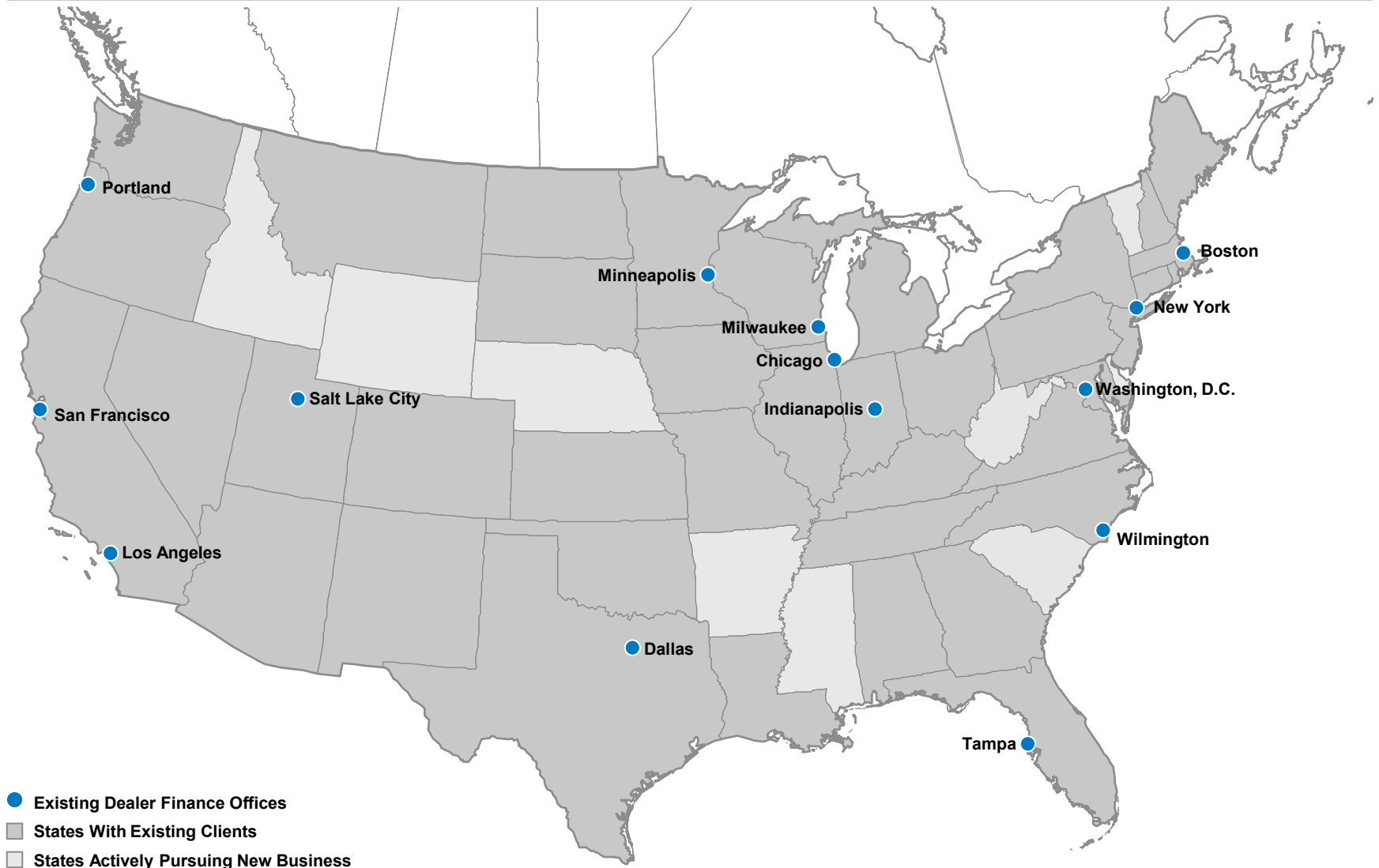
- Nearly 40 years under BMO ownership
- Personal, commercial and wealth services with over 1,000 branches
- Leveraging industry, business, and wealth expertise
- Over US\$10 billion in Dealer Finance loan commitments in the US
- Strong national footprint with offices in 37 states and global span through BMO Capital Markets and the Commercial Bank

The bank that defines great customer experience.

BMO Dealer Finance Leadership Team and Market Coverage



BMO's U.S. Dealer Finance Team – Market Coverage



"Liberation Day"

United States – Reciprocal tariff rate (percent)



Country	Rate
Lesotho	50
Cambodia	49
Laos	48
Madagascar	47
Vietnam	46
Sri Lanka	44
Myanmar	44
Falkland Islands	41
Syria	41
Mauritius	40
Iraq	39
Guyana	38
Bangladesh	37
Serbia	37
Botswana	37
Liechtenstein	37
Thailand	36
Bosnia and Herzegovina	35
China	34

North Macedonia	33
Taiwan	32
Indonesia	32
Fiji	32
Angola	32
Switzerland	31
Moldova	31
Libya	31
South Africa	30
Algeria	30
Nauru	30
Pakistan	29
Tunisia	28
Kazakhstan	27
India	26
South Korea	25
Malaysia	24
Brunei	24
Japan	24

Vanuatu	22
Namibia	21
Côte d'Ivoire	21
Jordan	20
European Union	20
Nicaragua	18
Zimbabwe	18
Philippines	17
Malawi	17
Israel	17
Zambia	17
Mozambique	16
Norway	15
Venezuela	15
Nigeria	14
Chad	13
Equatorial Guinea	13
DRC ¹	11
Cameroon	11

¹ Democratic Republic of the Congo

Automobile Tariff Overview



- April 3: Flat 25% tariff on all imported units
- Vehicles manufactured in North America are exempt provided they are United States-Mexico-Canada Agreement (USMCA) compliant
 - Applies to approximately 75% of the vehicles produced in North America
- May 3: Auto parts are tariffed 25% unless USMCA compliant
 - As of June 4th, the tariff on steel and aluminum was increased from 25% to 50%

Auto Tariff Uncertainty

1. Supply Chain Disruptions

- At the start of May, the number of new light-duty vehicles on the ground and in transit to dealer lots was down 4.1% year over year to 2.62 million vehicles.

2. Used Car Market (Franchised and Independent Dealers)

- Tariffs may create an opportunity for used car operators as prices for new vehicles rise. Kerrigan Advisors estimates a 2.2% increase on wholesale values this year.

3. Automaker Responses

- Ford announced employee pricing for everyone, extended through July 6th.
- Honda moving production of the Civic Hybrid and CR-V from Japan and Canada to the US.
- Subaru started raising prices adding between \$750-\$2,055 to vehicles.

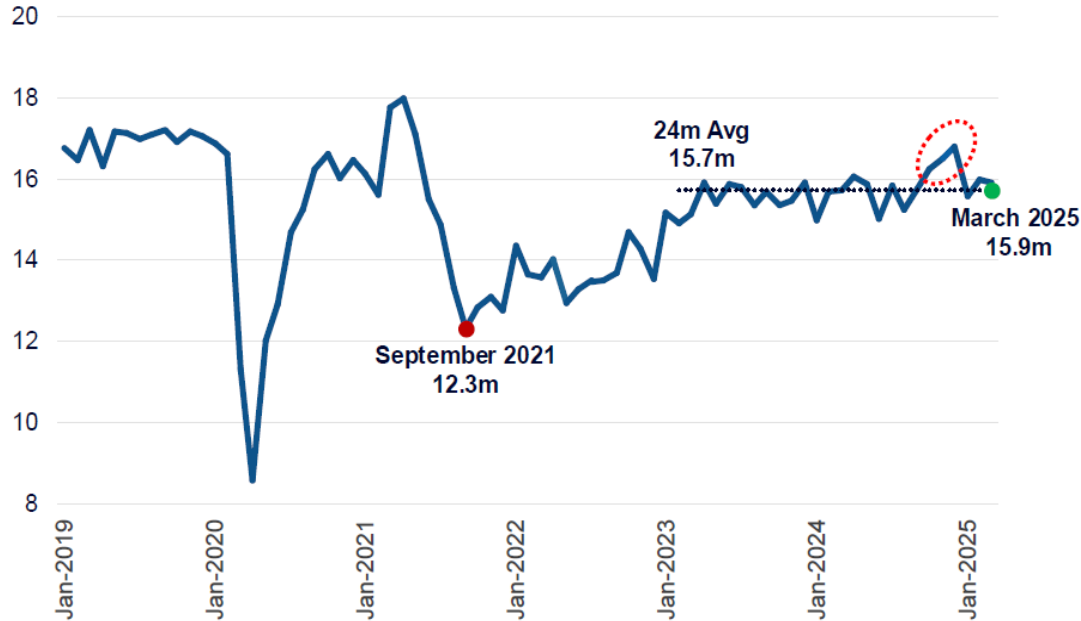
Auto Industry Impacts

- ▶ New and Used Vehicle Market Performance
- ▶ Pricing Trends
- ▶ Vehicle Days' Supply
- ▶ EV Market Updates



2025 New Vehicle Sales

Monthly Light Vehicle Sales SAAR (millions)



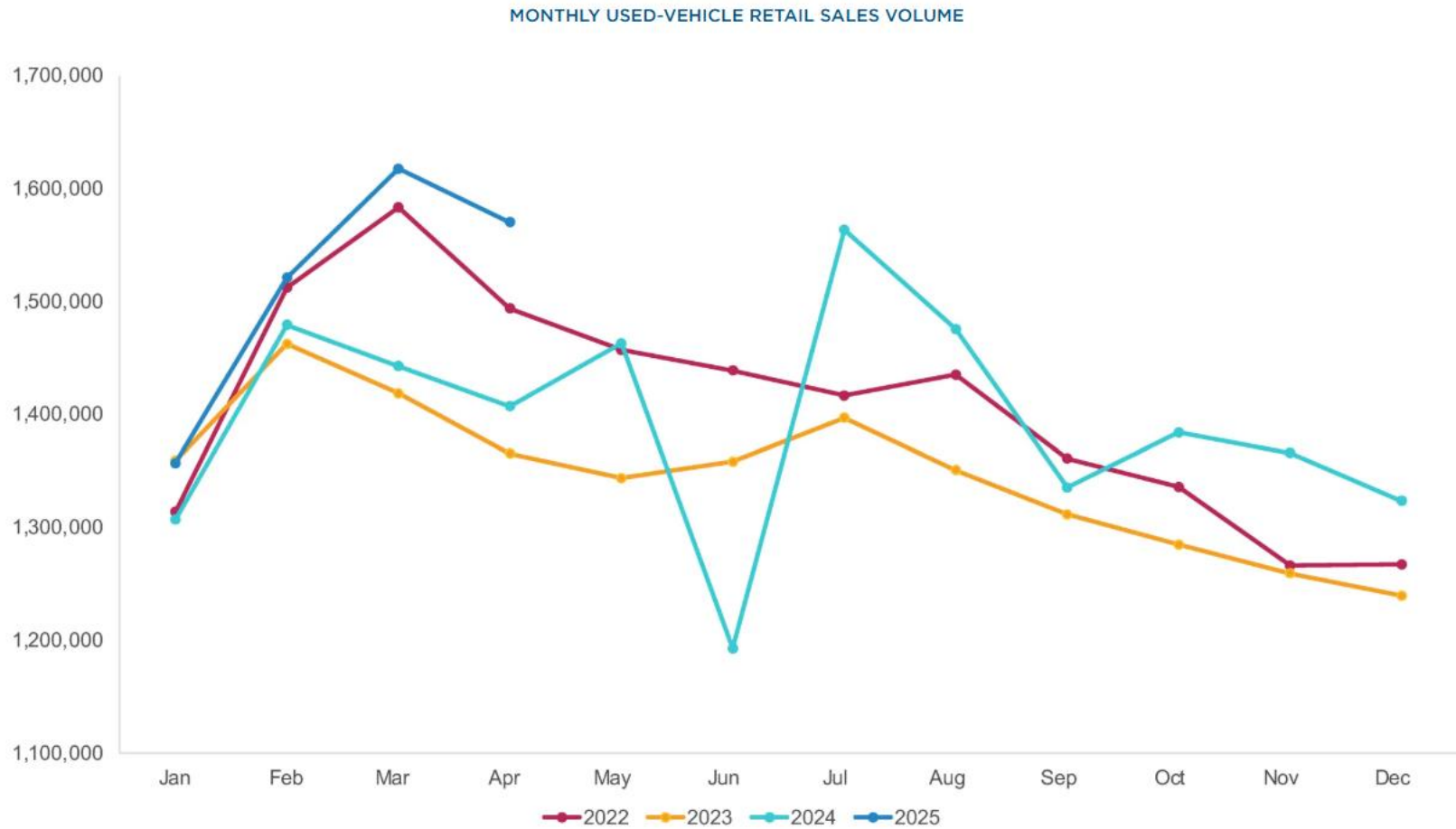
- Q1 2024 SAAR: 15.5 million
- Q4 2024 SAAR: 16.5 million
- Q1 2025 SAAR: 15.8 million

The seasonally adjusted annualized rate of sales hit 17.3 million in April.

The new vehicle SAAR was 15.6 million as of May.

COX AUTOMOTIVE

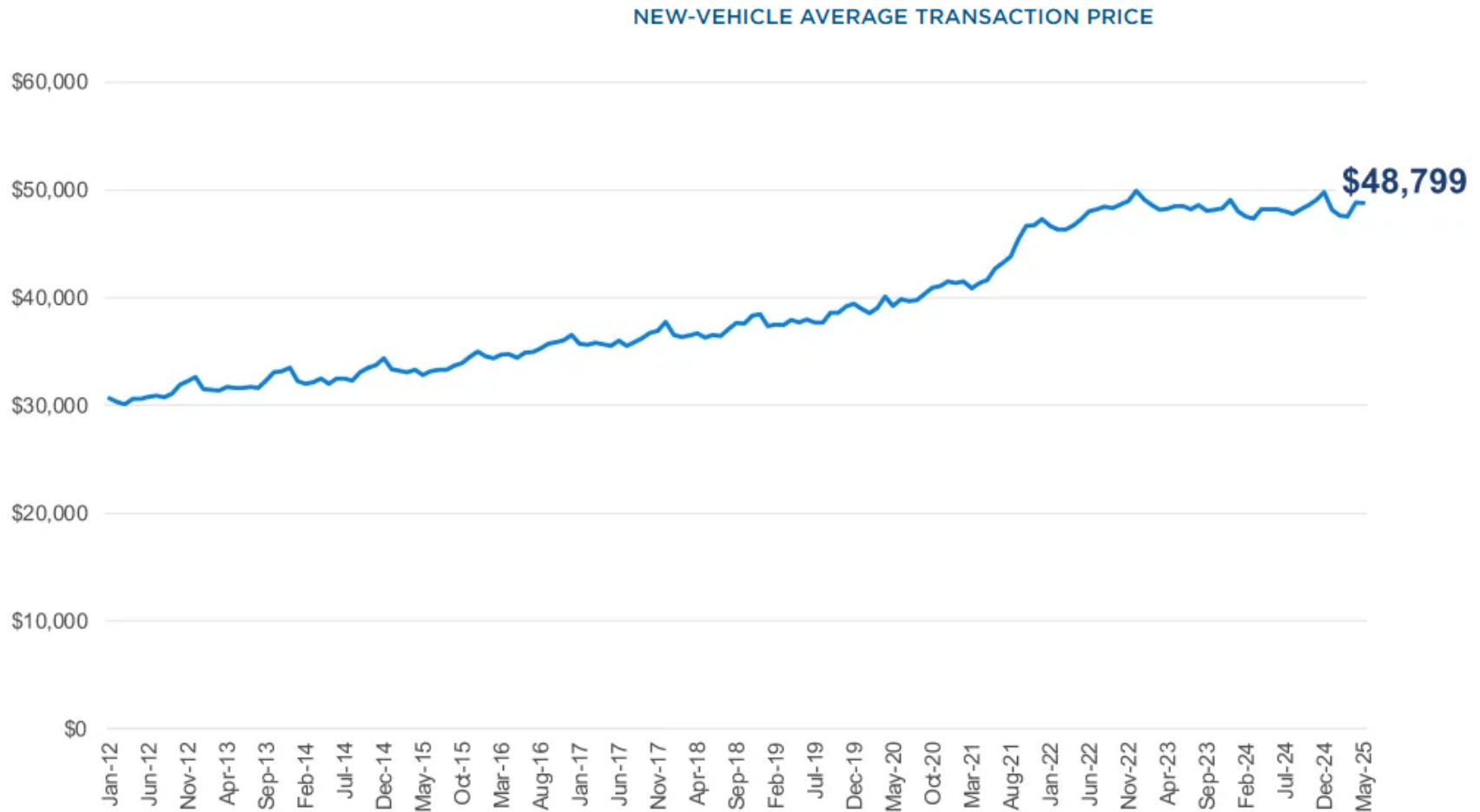
Used Vehicles Sales



Auto Industry Overview – Q1 2025 – OEM Sales

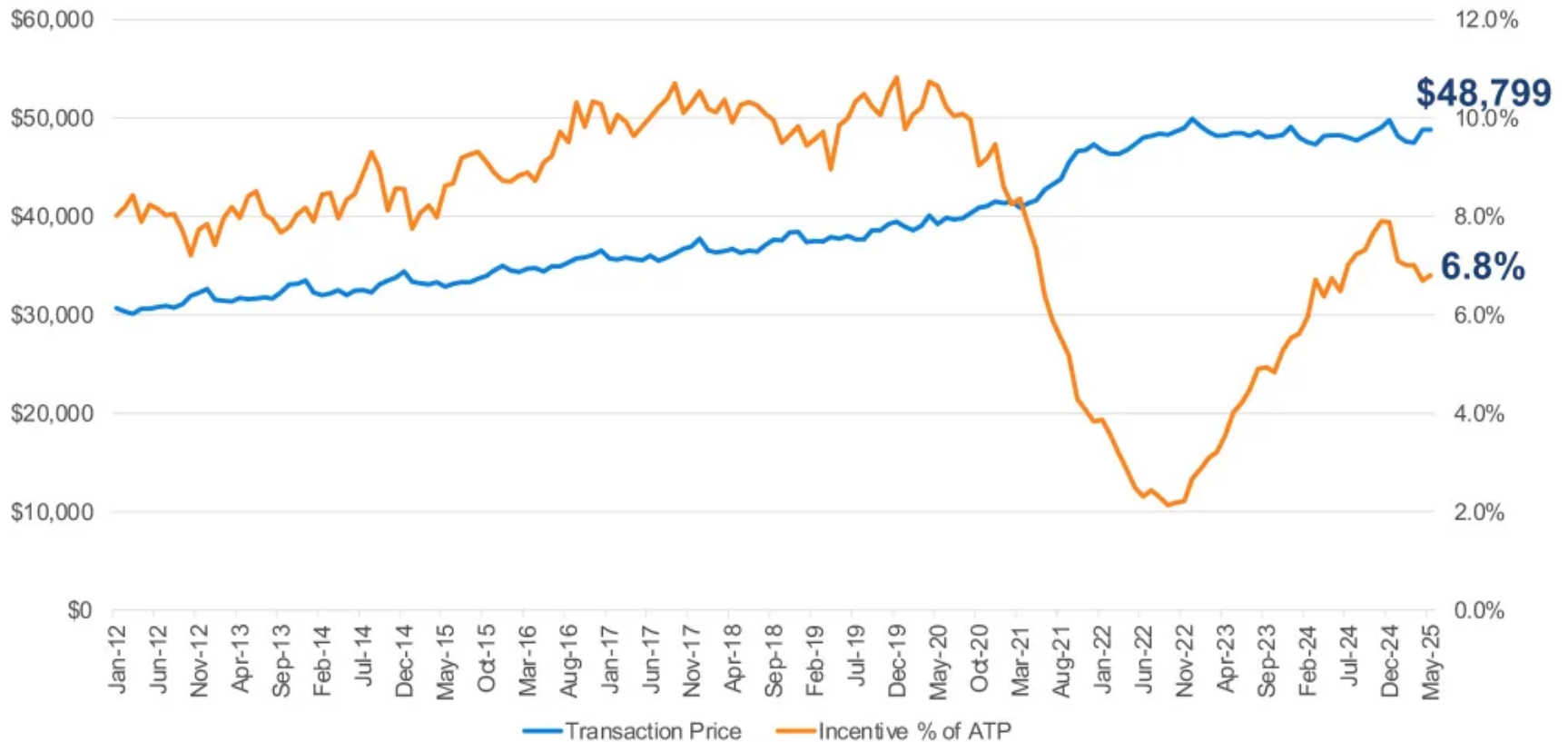
OEM	Q1 2024	Q4 2024	Q1 2025	Y/Y Change	Q/Q Change	Share CY2024	Share YTD2025	Diff.
GM	590,055	751,086	656,450	11.3%	-12.6%	16.8%	17.3%	0.5%
Toyota	563,530	601,321	541,248	-4.0%	-10.0%	14.5%	14.3%	-0.2%
Ford	504,815	527,385	483,063	-4.3%	-8.4%	12.9%	12.7%	-0.2%
Hyundai	379,203	461,691	396,735	4.6%	-14.1%	10.7%	10.5%	-0.2%
Honda	333,824	367,362	327,001	-2.0%	-11.0%	8.9%	8.6%	-0.3%
Nissan-Mitsu	281,138	249,609	280,267	-0.3%	12.3%	6.5%	7.4%	0.9%
Stellantis	332,541	320,743	279,752	-15.9%	-12.8%	8.1%	7.4%	-0.8%
VW	144,529	185,611	153,268	6.0%	-17.4%	4.2%	4.0%	-0.1%
Subaru	152,996	174,113	153,209	0.1%	-12.0%	4.2%	4.0%	-0.1%
Tesla	140,187	162,388	138,867	-0.9%	-14.5%	4.0%	3.7%	-0.3%
Mazda	100,103	110,930	107,862	7.8%	-2.8%	2.6%	2.8%	0.2%
Daimler	82,623	98,084	99,746	20.7%	1.7%	2.3%	2.6%	0.3%
BMW	90,844	126,250	90,513	-0.4%	-28.3%	2.5%	2.4%	-0.1%
Others	75,778	89,583	87,079	14.9%	-2.8%	1.9%	2.3%	0.4%
NATION	3,772,166	4,226,156	3,795,061	0.6%	-10.2%	100.0%	100.0%	0.0%

New Vehicle Transaction Prices



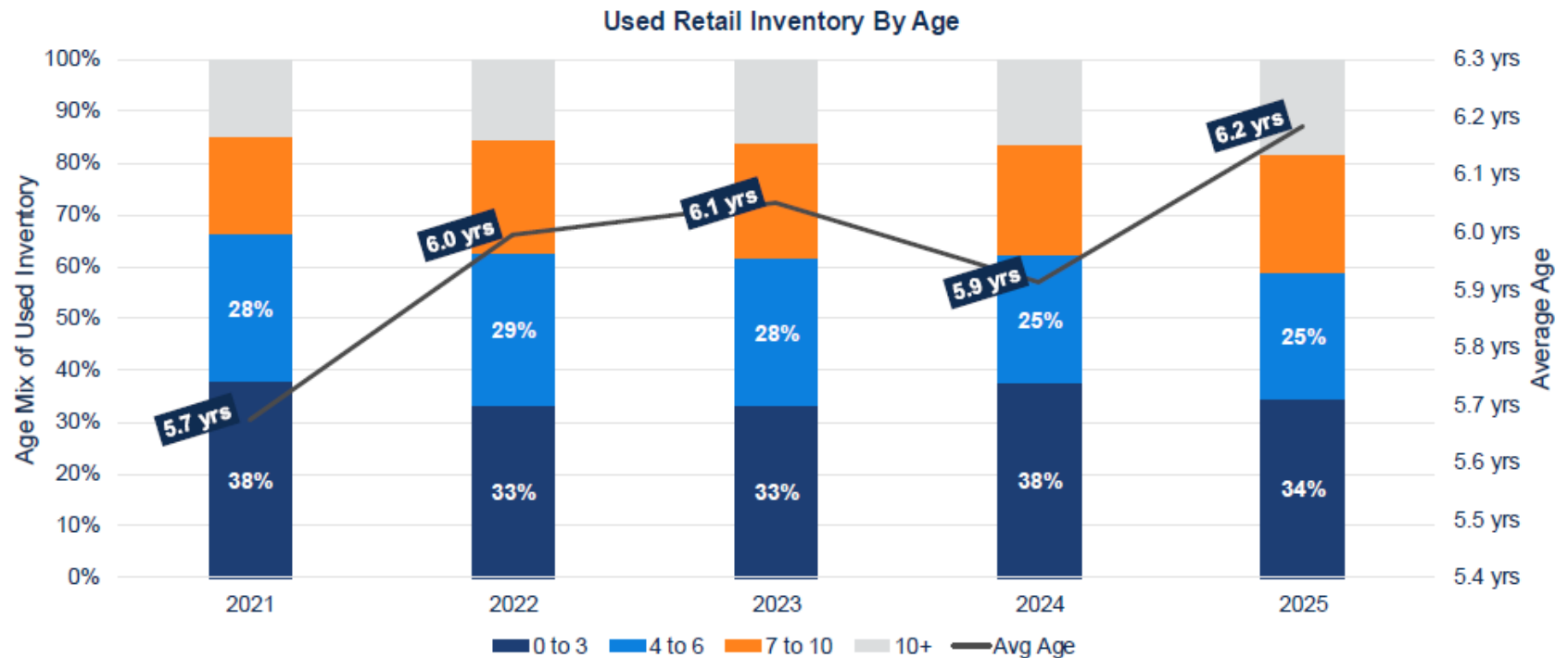
Incentives

INDUSTRY AVERAGE TRANSACTION PRICE VERSUS INDUSTRY AVERAGE INCENTIVE SPEND AS % OF ATP

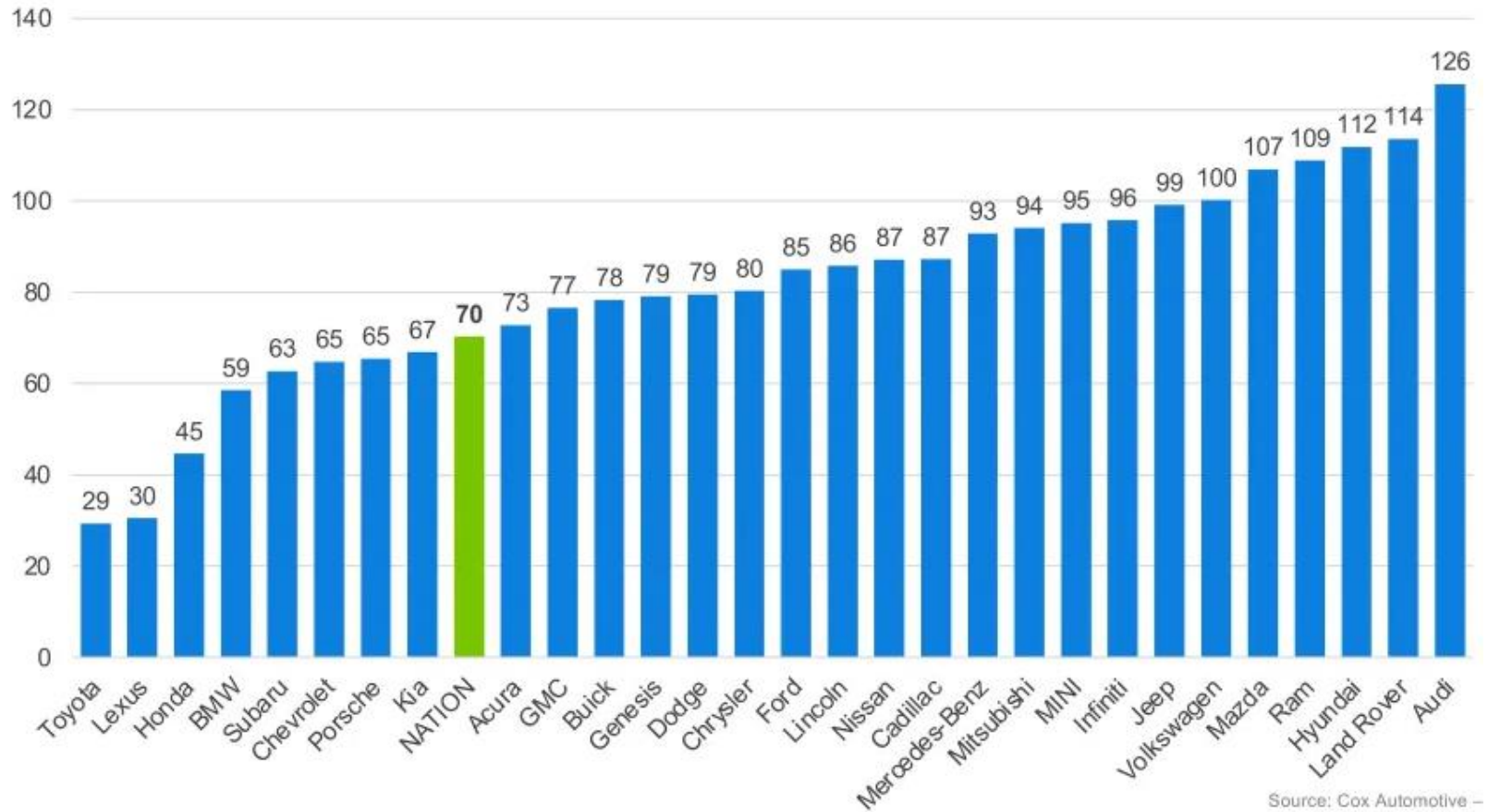


Used Vehicle Average Age Increasing

The average age of retail inventory is the highest on record as 3YO mix declines 4 points vs 2024

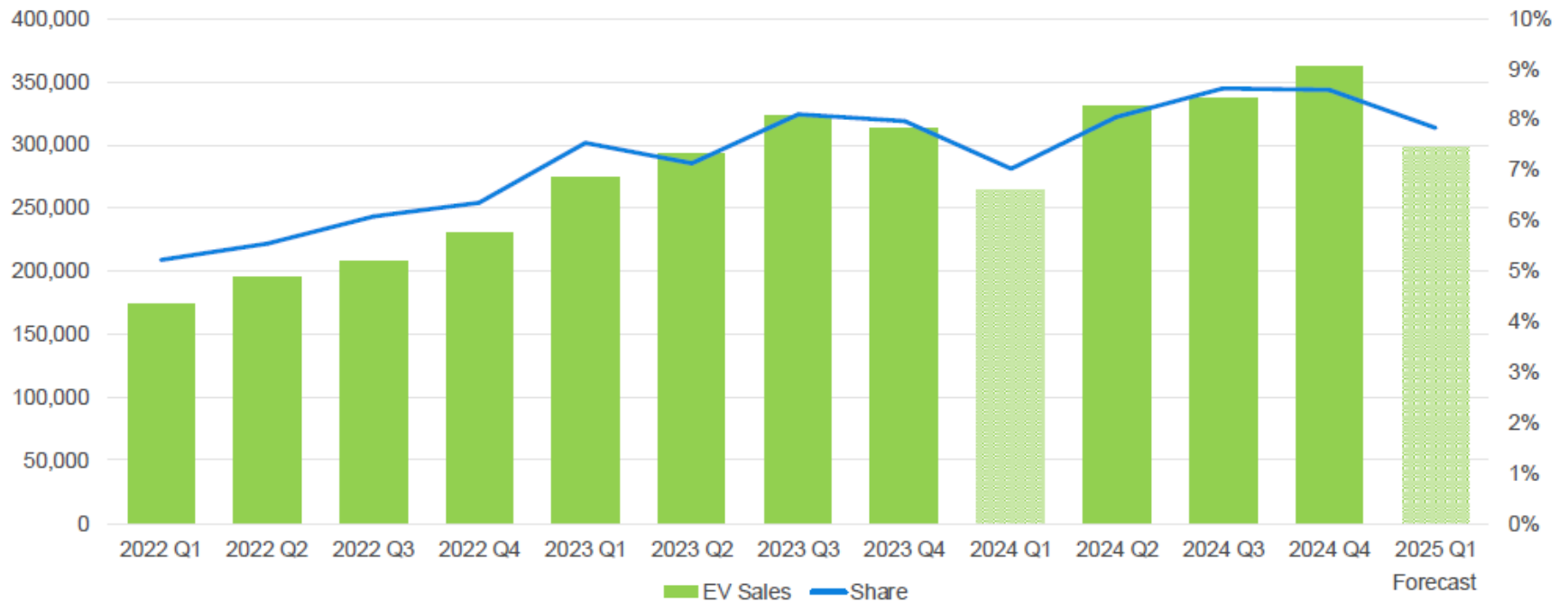


May Days' Supply of Inventory



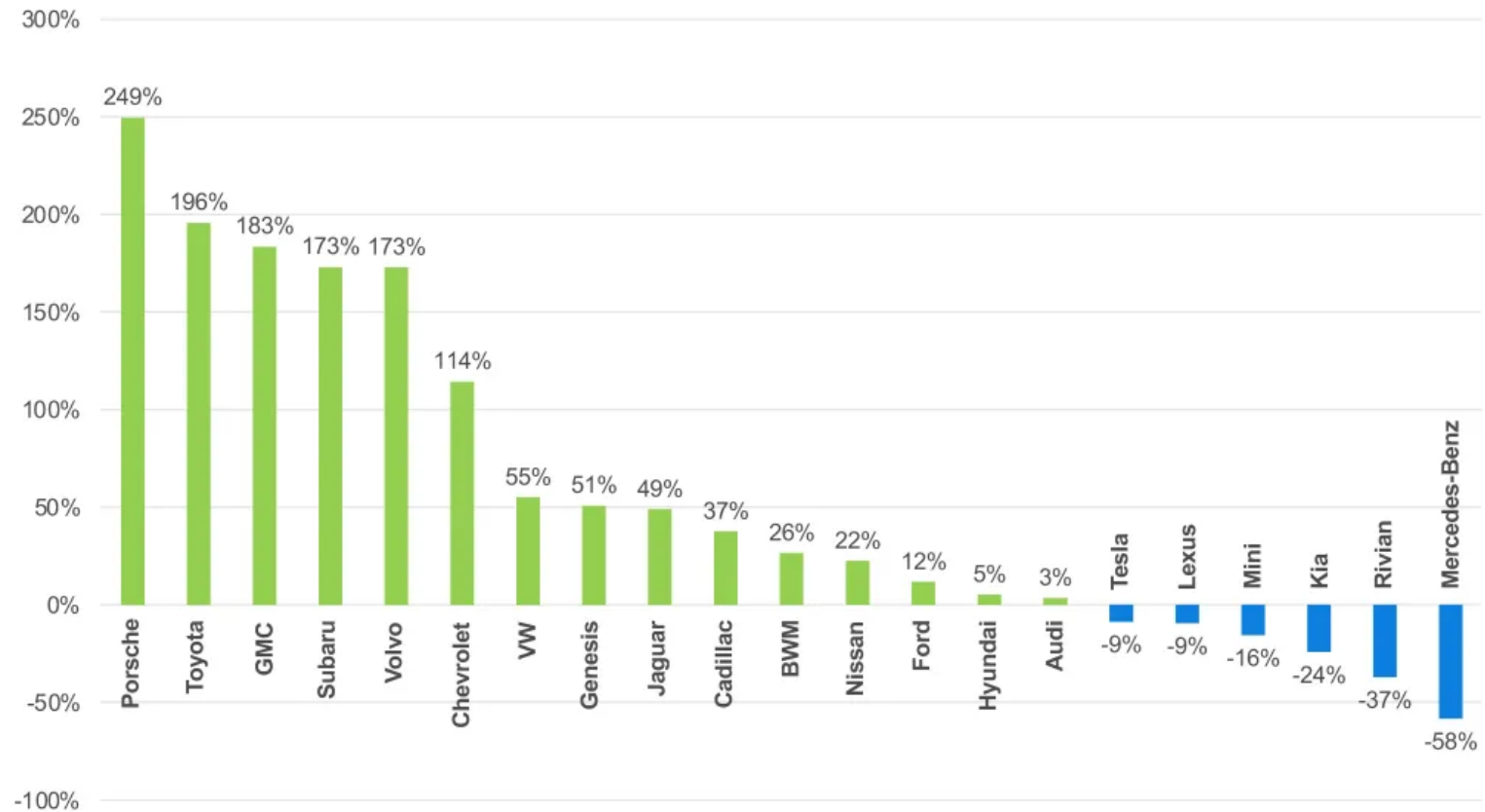
Automaker with days' supply at least twice the industry average: Jaguar

Q1 2025 EV Sales Estimate



Despite an 18% decline from Q4, EV sales are estimated to increase 12% YoY.

EV Sales Volume Change By Brand: Q1 2025 vs Q1 2024



Banking Market Update

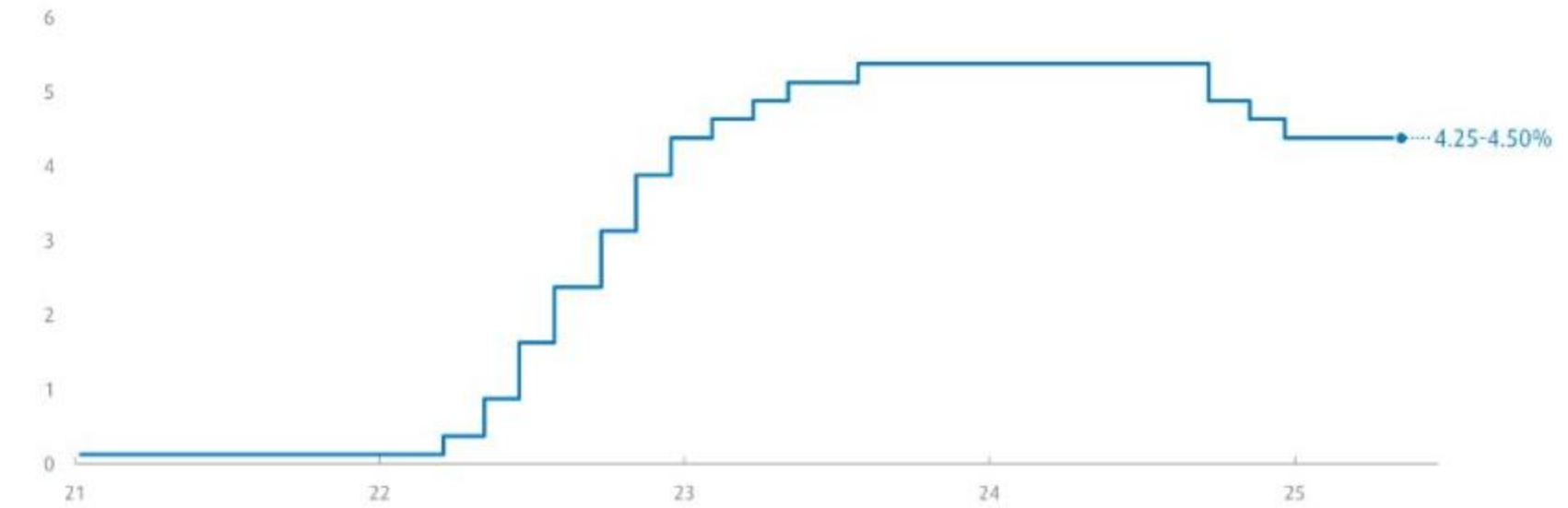


- ▶ Banking Market
- ▶ M&A Activity
- ▶ Acquisition Financing

Fed Pauses

United States (% : as of May 7, 2025)

Fed funds rate¹



Government policy uncertainty + Sticky inflation

¹ Midpoint of target range

Consumer Confidence

United States (2000 = 100)

Consumer confidence



Growth Slowing

United States (% chng)

Real GDP



Growth negatives:

- Tariffs and trade wars
- Government job cuts
- Eroding confidence
- Mounting uncertainty

Growth positives:

- Fed rate cuts
- Legacy of stimulative industrial policies
- Healthy household balance sheets
- Expiring 2017 tax cuts extended

Banking Market Trends

1. Interest Rates

- The Fed held interest rates steady following the end of its meeting on May 7th. The average rate on a 5-year new car loan was 7.1% in April and 10.9% for used cars.

2. Tightening Credit Standards

- Banks may be more cautious due to economic uncertainty.

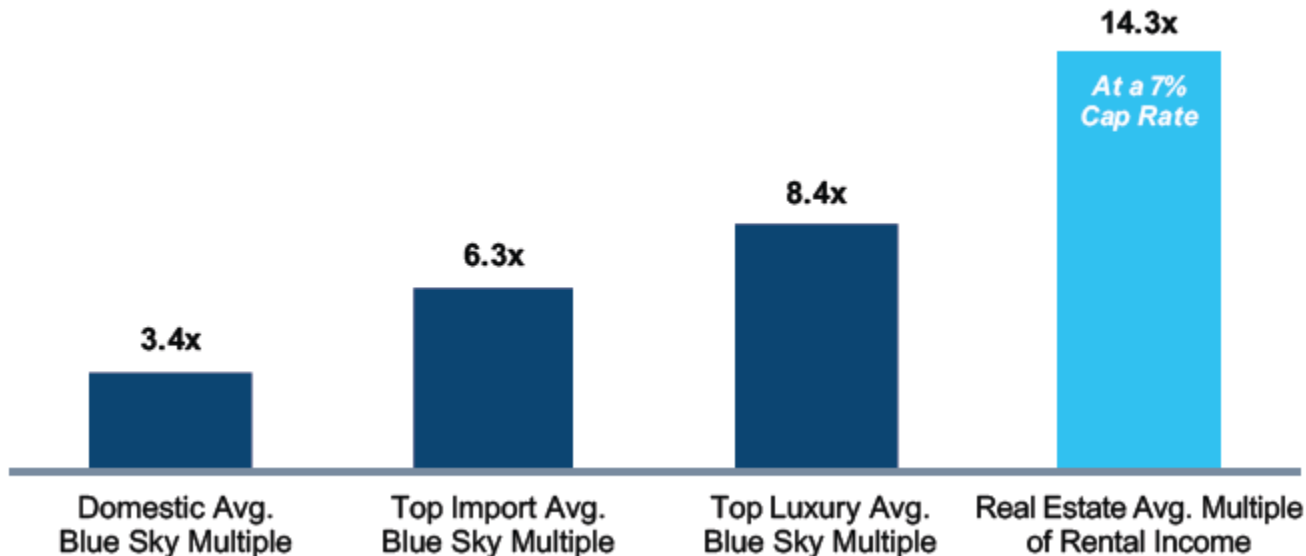
3. BMO Dealer Finance

- BMO remains active in the dealer finance market and has a strong pipeline of financing requests (especially acquisition financing).

M&A Activity

- The buy/sell market achieved a new record in 2024, growing 10% over 2023 with 438 completed transactions.
- The industry saw an increase in the number of dealers with 11 or more stores and a decline in those with 5 or fewer dealerships.
- The most sought-after franchises in auto retail include BMW, Lexus, Toyota, Honda, Mercedes-Benz, and Subaru. There has been an increased desire for Mazda and Kia in more recent years as well.

Average Multiples Blue Sky (by Segment) and Real Estate



Challenges Securing Acquisition Financing

Lender Capital Constraints

Credit availability has tightened due to higher bank capital requirements.

- Is your lender open for new acquisition financing requests?
- Some lenders have diminished appetite to participate in loan syndications they do not agent.
- Loan pricing, size, and credit profile are the key factors that determine capital availability.

Underwriting Challenges

- Using "normalized EBITDA": most dealerships performance is falling from Covid-era peaks. How best to normalize cash flow for underwriting purposes?
- Interest rates: higher interest rates increase debt service requirements.
- Falling goodwill values: goodwill values and multiples peaked in June 2022. Some lenders may want more cushion in loan / goodwill ratios.
- During times when vehicle supply is increasing, there is more discounting, and dealers' front-end margins start to normalize. As this trend accelerates, dealer profitability will continue to normalize.

Editorial Thoughts

- Dealerships are resilient and have diverse profit centers (vehicle sales, service, and F&I)
- With a few exceptions, most dealerships are still more profitable today than they were before Covid in 2019.
- The macro environment may present challenges to dealerships, which will set stronger dealer operators apart from their peers.
- Many dealerships retained Covid-era profits and are well capitalized.
- The best auto lenders seek to understand industry risks and look for ways to help clients manage through them.



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