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Value Investor INSIGHT

The Leading Authority on Value Investing

Eyes on the Road

Car dealers have lived a charmed life post-Covid, but the conventional wisdom for them today is that it's time to buckle up as the road ahead gets rocky. One investor explains why he thinks that's creating opportunity in Asbury Automotive.

There are many classic value investing situations, but one clearly is when a company's shares appear inordinately weighed down by short-term macroeconomic or cyclical concerns that crowd out much better longer-term prospects. Patient investors look to capitalize on the arbitrage between the current stock price and the expected value when the near-term impacts fade.

That sums up well the opportunity Black Bear Value Partners' Adam Schwartz sees today in auto dealer Asbury Automotive. At a recent price of $209, its shares are off nearly 20% from their July highs and currently trade at 5x trailing earnings. The post-Covid glory days for dealers – where tight supply of new cars juiced both used-car sales and new-car margins, facilitated in both cases by rock-bottom interest rates – appear to be over, with the near-term outlook clouded further by recession fears. "I understand the next 12 months may not look as good as the last 12 months," says Schwartz. "One, I think that's more than priced into the stock. Two, why should I care if looking three to five years out the business is likely to be significantly better?"

Asbury is a top-ten auto retailer in the U.S., with 138 dealerships in 14 states. Like most such retailers, the significant majority of its revenues come from new and used car sales, while close to two-thirds of its gross profit comes from parts and servicing and the sale of related finance and insurance products. It has built out its omnichannel sales capability through its Clicklane online platform, through which most of its customers handle at least a portion of their car-buying process.

The company's future is bright for a number of reasons, says Schwartz. He expects the increasing technological sophistication of cars and light trucks to benefit national chains over private dealerships – still accounting for 85% of all U.S. vehicle retailers – which have less capital to invest in necessary upgrades to service operations. Bigger dealers' online platforms should provide additional competitive advantage, allowing them to offer broader and deeper inventory while also letting them cut back on in-store per-

INVESTMENT SNAPSHOT

Asbury Automotive
(NYSE: ABG)

Business: Vehicle sale, financing and repair through U.S. dealerships; also operates the Clicklane vehicle purchasing platform.

Share Information (@11/29/23):

Price	**209.29**
52-Week Range	157.47 – 256.39
Dividend Yield	0.0%
Market Cap	$4.31 billion

Financials (TTM)

Revenue	$14.70 billion
Operating Profit Margin	7.2%
Net Profit Margin	6.1%

Valuation Metrics
(@11/29/23):

	ABG	S&P 500
P/E (TTM)	5.0	20.4
Forward P/E (Est.)	6.4	20.4

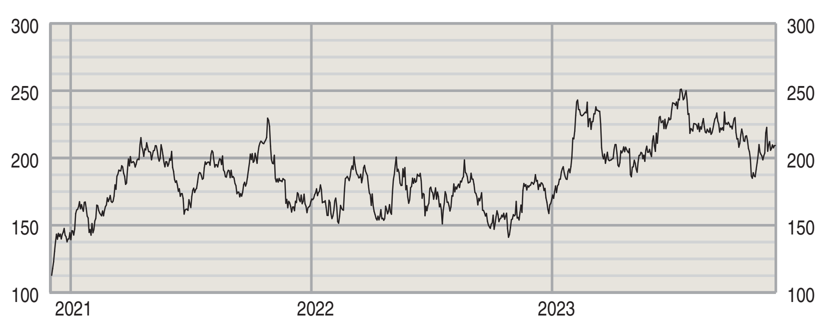
Largest Institutional Owners
(@9/30/23 or latest filing):

Company	% Owned
BlackRock	15.5%
Vanguard Group	11.2%
Abrams Capital	10.2%

Short Interest (as of 11/15/23):

Shares Short/Float	9.4%

ABG PRICE HISTORY



THE BOTTOM LINE

While its short-term outlook might be challenged, Adam Schwartz sees many long-term positives for the company's structurally improving business. Assuming a 10x multiple on his base-case estimate of normalized free cash flow, the stock would trade at $350.

Sources: Company reports, other publicly available information sonnel. In such an environment, value-accretive acquisition opportunities should remain plentiful. As a recent example, he believes Asbury's September purchase of Jim Koons Automotive, the 9th-largest private dealer in the U.S., raises the company's normalized level of free cash flow by $5 per share, to a range of $30 to $40.

The $35 midpoint in his estimated normalized per share free cash flow range assumes 3-4% annual revenue growth over the next few years, new and used-car margins reverting to historical norms, upside from the Koons acquisition, synergies from more broadly administering finance and insurance operations, and headcount cost savings as more business is done online. At what he would consider a fair 10x multiple – in line with historical levels – on his base-case free cash flow the shares would trade at around $350. VII

BLACK BEAR
VALUE PARTNERS

Fund Strategy

Black Bear Value Fund, LP is an opportunistic, concentrated, and fundamental value investment partnership. Our partnership operates with low fees and high levels of alignment between the Investment Manager and the Limited Partners. We actively seek undervalued and concentrated investments in the stock and bond markets that can be purchased at discounts to their intrinsic value/recovery value.

Portfolio Manager

The Fund is managed by Adam Schwartz who has 20 years of buy-side investment experience across a variety of themes including equities, structured products, corporate credit, and capital structure arbitrage. Prior to founding the Investment Manager, Adam served as a Director and senior member of the investment team at Fir Tree Partners, a $13BB peak-AUM multi-strategy investment manager (2007-2015). Adam received his BS and MS with a concentration in Accounting from Washington University in St. Louis in 2001/2002.