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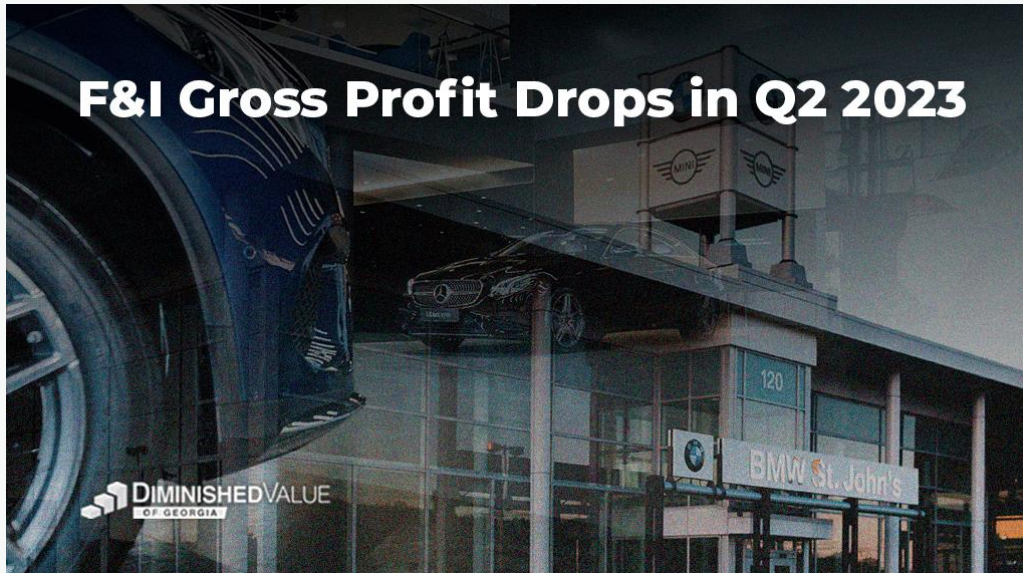
US Dealer Groups Encounter F&I Gross Profit Drops in Q2 2023



By Tony Rached

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In the world of franchise car dealership groups, the second quarter brought forth a diverse range of results when it came to the same-store Finance and Insurance (F&I) gross profit per vehicle. As we delve into the Q2 financial reports, it becomes clear that four out of the six major publicly traded franchised auto dealership collectives experienced a year-over-year drop in this important metric. Among these, two of the groups highlighted the impact of rising interest rates as a challenge, while others thrived by excelling in the sales of F&I products.

Average F&I Gross Profit per Vehicle Retailed

	Q2 2023	Q2 2022	Change
AutoNation	\$2,824	\$2,723	+ 3.7%
Sonic Automotive	\$2,522	\$2,422	+ 4.1%

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Group 1 Automotive (U.S.)	\$2,379	\$2,480	- 4.1%
Asbury Automotive Group	\$2,369	\$2,411	- 1.7%
Lithia Motors	\$2,154	\$2,206	- 2.4%
Penske Automotive Group	\$1,834	\$1,918	- 4.4%

Success Stories Amidst Adversity

Amidst the array of Q2 challenges, AutoNation Inc. and Sonic Automotive Inc. emerged as shining examples of success, reporting significant accomplishments in their F&I product sales. Nevertheless, the overarching trend suggests that F&I gross profit may continue to face pressures owing to factors like consumer affordability concerns and the resurgence of leasing.

During his review of the second-quarter financials for prominent industry players such as Lithia Motors Inc., Penske Automotive Group Inc., AutoNation, Group 1 Automotive Inc., Asbury Automotive Group Inc., and Sonic, Jefferies analyst expressed their anticipation of challenges in the Finance and Insurance (F&I) sector. As a result, F&I content is expected to decrease in the future.

The Influence of Consumer Affordability and Leasing Dynamics

Consumer affordability concerns are wielding their impact, with the inclusion of F&I product coverage and its accompanying costs becoming less commonplace in vehicle deals. Similarly, lessees are displaying reduced inclination towards purchasing F&I coverage for their short-term new models. This trend, however, has been somewhat mitigated by the decline in leasing, which has shifted from constituting 30 percent of retail sales in the pre-pandemic landscape of 2019 to less than 20 percent in 2022, as reported by Cox Automotive.

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While vehicle prices and interest rates aren't expected to see significant decreases in the near future, leasing is slowly making a comeback as automakers reinstate incentives that had been curtailed during the inventory shortages. Experian's second-quarter data shows leasing's market share reaching 21 percent of the new-vehicle market, marking an improvement from the 20 percent in the second quarter of 2022 but still lagging behind the 28 percent recorded in the same period of 2021.

Future Outlook

Notwithstanding these challenges, analysts remain cautiously optimistic about the prospects of F&I gross profit, with expectations that it will likely remain above pre-COVID levels. Elevated vehicle costs have impacted the attachment of F&I products, yet they have simultaneously boosted revenue from the "F" side of F&I—the commissions received by dealers for facilitating indirect auto loans between financial institutions and consumers.

Furthermore, dealers have honed their skills in selling F&I products, and this expertise is poised to leave a lasting imprint on gross profits. The advent of online F&I sales has injected a permanent boost into the equation. Platforms like Asbury's Clicklane and Group 1's AcceleRide have played pivotal roles in this transformation.

As a display of its success, Clicklane showed high performance during the second quarter producing \$2,408 in F&I gross profit per vehicle for Asbury - a remarkable 11 percent surge compared to the prior year. While AcceleRide kept up its performance attaining \$2,616 in F&I gross profit per online sale - exceeding Group 1's nationwide and same-store F&I results by over \$200.

Overall, the Q2 landscape for F&I gross profit presents a complex interplay of challenges and opportunities for the dealership industry. As it adapts to the ever-shifting market conditions, innovation and a steadfast customer-centric approach are poised to continue shaping the future of F&I profitability.