Automotive Industry
2Q:16 Total Recall

Earnings Review

Bank of America Merrill Lynch

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United States
Autos/Car Manufacturers

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2Q16 results better than the stock reactions would indicate

2Q16 US auto industry results were, on average, somewhat better than expected with some noteworthy outliers (e.g. Ford). However the immediate stock reactions to earnings results were negative, which illustrates the pervasive investor skepticism that the US cycle is already at or nearing a peak. We recently revised down our forecasts for US light vehicle sales, and now expect 17.7mm units sold in 2016, 17.9mm in 2017 and a peak of 18.0mm in 2018. These estimates indicate a slowing growth pace for the next couple of years before the next cyclical downturn.

Detroit divergence – automakers' 2Q results are mixed

While GM and FCA posted strong 2Q results, driven by strength in North America and EMEA, Ford's results in NA and EMEA were a bit lighter than expected. In fact, many of the "good guys" in GM's results were "bad guys" in Ford's, such as NA pricing and financing income that were positives for GM but negatives for Ford. It should be noted that we had re-racked our ratings among the three following 1Q, with a downgrade of F (vs. maintaining Buy of GM) on relative valuation, as well as seasonal timing, as GM has noted its earnings should accelerate through year-end, while Ford's will likely fade as it follows a more normal seasonal pattern and 2H:16 is weighed down by the SuperDuty launch. We also downgraded FCAU from Neutral to Underperform, as it still remains behind on a number of key metrics, most notably free cash flow and balance sheet strength, making it a relatively risker investment at this point in the US cycle.

Suppliers beat across the board in 2Q

Suppliers continued to post strong results in 2Q16, with seven out of eight of the suppliers in our coverage beating consensus expectations. Execution remained a key theme in 2Q, as a number of suppliers drove impressive margins in the quarter, and an easing of FX comps helped. Many suppliers reiterated or increased their 2016 financial outlooks, which suggests the companies had realistically set expectations for revenue/earnings growth, and may preclude them from downward revisions as some did in 2015. We continue to expect well-positioned suppliers to grow faster than the market and execute, which will continue to generate significant earnings and cash flow over the next few years, ultimately driving shareholder value.

Dealers continue buying back stock as sales slip

The public auto dealers posted 2Q results that generally came in above low expectations. Although top-line results were generally light and reflected a tepid retail sales environment, vehicle gross profit per unit stabilized, which was encouraging. Several dealers also repurchased large numbers of their own shares, supporting EPS growth. This illustrates to us that management is confident in the long-term value of the auto dealer business model.

Table 1: Ratings & price objectives

Buy	Rating	Current Price	Current PO
ABG	C-1-9	$57.53	$68
AN	C-1-9	$49.99	$66
DLPH	C-1-7	$66.26	$80
GM	C-1-7	$30.80	$43
GPI	C-1-7	$61.49	$85
KAR	C-1-7	$40.81	$55
KMX	C-1-9	$58.85	$70
MGA	C-1-7	$39.92	$54
PAG	C-1-7	$40.00	$51
RACE	C-1-9	$46.88	$60
SAH	C-1-7	$17.35	$24
Neutral			
AXL	C-2-9	$17.69	$20
BWA	C-2-7	$33.26	$39
CPRT	B-2-9	$51.00	$52
F	C-2-7	$12.19	$14
LAD	C-2-7	$84.23	$85
LEA	C-2-7	$113.76	$145
MPG	C-2-7	$15.72	$20
Underperform			
CPS	C-3-9	$90.48	$95
CRMT	C-3-9	$34.78	$23
FCAU	C-3-9	$6.75	$8
GNTX	C-3-7	$17.70	$11
GPC	A-3-7	$101.70	$92
TSLA	C-3-9	$230.03	$155

Source: BofA Merrill Lynch Global Research

Refer to important disclosures on page 21 to 23. Analyst Certification on page 19. Price Objective Basis/Risk on page 14.

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2Q16 quick take on overall results

Auto industry financial results were solid relative to expectations, with all companies in our coverage universe coming in above or in-line with expectations at worst. The table below summarizes 2Q16 EPS results vs. our estimates and consensus.

Table 2: Earnings results summary

	Earnings Date	Actual 2Q16*	BofAMLe 2Q16	Consensus 2Q16	% Beat (Miss) vs Consensus	Actual 2Q15	YoY % Δ
OEMs							
F	7/28/2016	0.52	0.55	0.60	-13%	0.53	-2%
GM	7/21/2016	0.45	0.37	0.43	5%	1.29	-65%
FCAU	7/27/2016	1.26	0.95	0.99	27%	0.24	425%
RACE	8/2/2016	0.55	0.47	0.44	25%	n/a	nm
TSLA	8/3/2016	(1.06)	(0.52)	(0.34)	nm	(0.48)	nm
Suppliers							
AXL	7/29/2016	0.89	0.75	0.81	10%	0.75	19%
BWA	7/28/2016	0.84	0.80	0.82	2%	0.75	12%
CPS	7/28/2016	2.85	2.25	2.35	21%	2.22	28%
DLPH	8/3/2016	1.59	1.55	1.56	2%	1.34	19%
GNTX	7/22/2016	0.30	0.29	0.29	3%	0.26	15%
LEA	7/28/2016	3.66	3.00	3.32	10%	2.82	30%
MGA	8/5/2016	1.41	1.30	1.34	5%	1.19	18%
MPG	8/4/2016	0.49	0.50	0.58	-16%	0.42	17%
Dealers							
ABG	7/26/2016	1.65	1.65	1.65	0%	1.52	9%
AN	7/29/2016	1.08	1.10	1.04	4%	1.00	8%
GPI	7/28/2016	2.16	2.20	2.07	4%	1.98	9%
LAD	7/28/2016	1.96	2.00	1.93	2%	1.86	5%
PAG	7/28/2016	1.11	1.05	1.09	2%	1.04	7%
SAH	7/26/2016	0.50	0.52	0.50	0%	0.46	9%
Distribution							
GPC	7/19/2016	1.28	1.28	1.29	-1%	1.28	0%
KAR	8/2/2016	0.55	0.55	0.56	-2%	0.51	8%

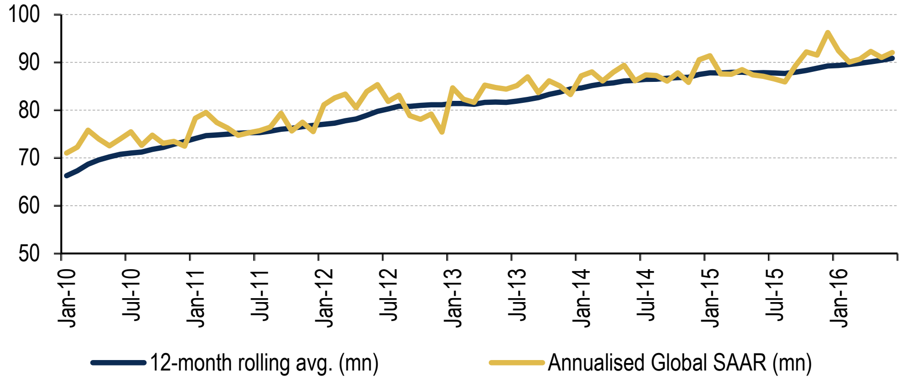
Source: Company filings, Bloomberg, BofA Merrill Lynch Global Research

* FCAU & RACE EPS in EUR

Global Auto Industry Snapshot

Chart 1: Global autos sales SAAR based on tracked sales (light vehicles)

Our global SAAR index has been gradually rising since May '10 to reach an all-time high of 96.3mm in Dec '15 after averaging about 88mm units for much of 2015. In June 2016, the global SAAR increased by +1.1% to 92.0mm units.



Source: BofA Merrill Lynch Global Research

Table 3: IHS/CSM forecasts for 3Q:16 global LV production by region

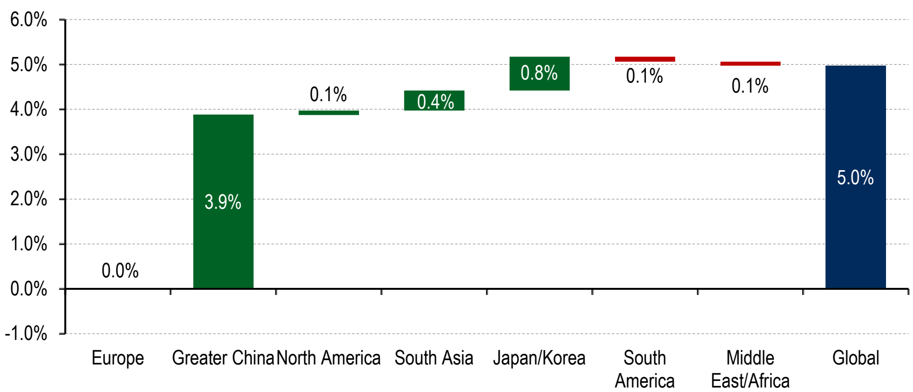
IHS/CSM forecasts 3Q16 global product to growth 5.0% YoY, as of the latest forecast in July. Production growth in 2015 fluctuated, with YoY gains in 1Q/3Q, offset by declines in 2Q/4Q, although product has grown steadily so far this year.

	3:Q15	IHS 3Q:16 Forecast	
	Actual	Jun-16	Jul-16
Europe	**4,806,515**	**4,879,880**	**4,804,244**
YoY % Change		*1.5%*	*0.0%*
Greater China	**4,910,756**	**5,683,545**	**5,708,271**
YoY % Change		*15.7%*	*16.2%*
Japan/Korea	**3,155,937**	**3,180,906**	**3,176,417**
YoY % Change		*0.8%*	*0.6%*
Middle East/Africa	**485,964**	**572,247**	**577,719**
YoY % Change		*17.8%*	*18.9%*
North America	**4,367,699**	**4,555,448**	**4,522,410**
YoY % Change		*4.3%*	*3.5%*
South America	**771,654**	**743,105**	**749,038**
YoY % Change		*-3.7%*	*-2.9%*
South Asia	**2,035,705**	**2,053,163**	**2,017,344**
YoY % Change		*0.9%*	*-0.9%*
Global	**20,534,230**	**21,668,294**	**21,555,443**
YoY % Change		*5.5%*	*5.0%*

Source: IHS/CSM

Chart 2: IHS/CSM forecast for 2Q:16 contribution to global LV production growth by region

The majority of global LV production growth in 3Q16 is expected to come from China, Japan/Korea and South Asia, with small growth in North America, offset slightly by declines in South America and MidEast/Africa.

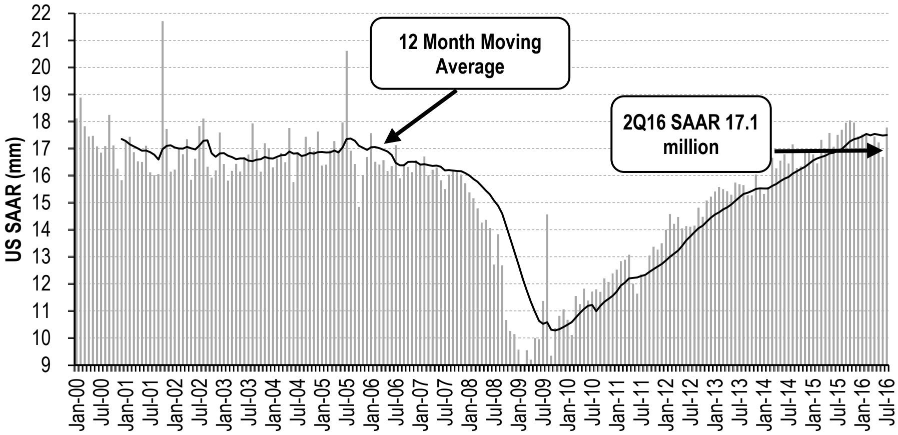


Source: IHS/CSM

US Auto Industry Snapshot

Chart 3: US seasonally adjusted annualized rate (SAAR)

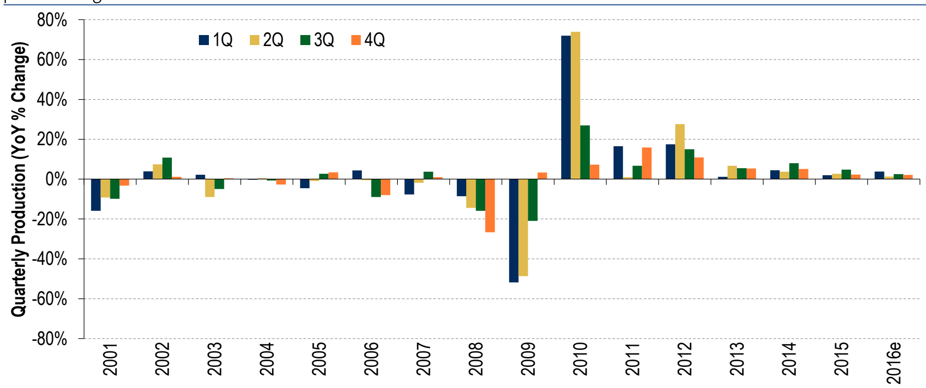
New US light vehicle sales were about flat YoY in 2Q16 for a SAAR of 17.1mm, which was down from 17.3mm in 1Q16 and 17.4mm full-year sales in 2015, due to a particularly weak June SAAR of 16.7mm.



Source: Wards AutoInfoBank, BofA Merrill Lynch Global Research

Chart 4: NA light vehicle quarterly production YoY % change

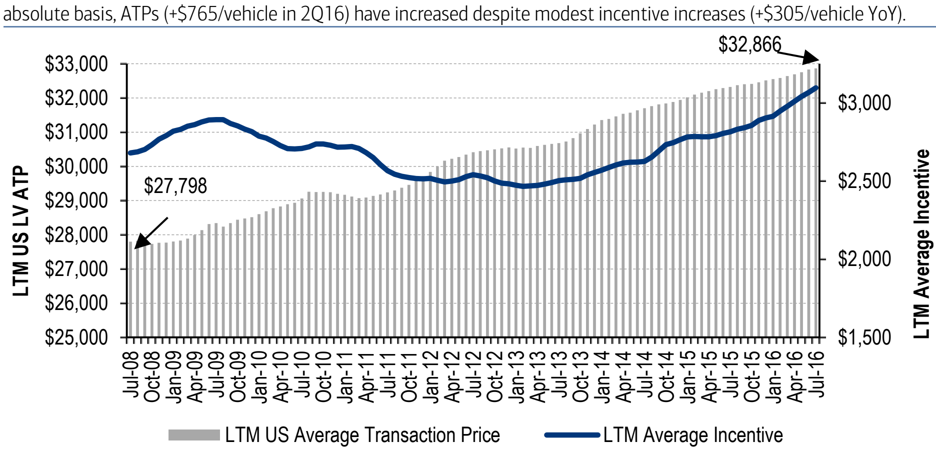
NA production in 2Q16 was up 1.3% YoY, off of a +2.7% comparison from 2Q15. For full-year 2016, we are expecting production growth to remain solid +2.4% YoY.



Source: Wards AutoInfoBank, BofA Merrill Lynch Global Research estimates

Chart 5: US light vehicle average incentives and average transaction prices

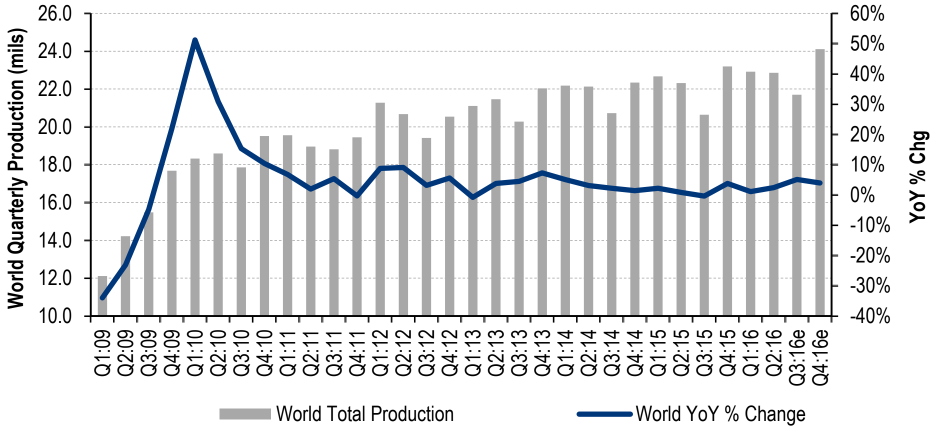
Average US industry transaction prices rose 2.4% YoY in 2Q16, while average incentives increased 10.9% YoY. On an absolute basis, ATPs (+$765/vehicle in 2Q16) have increased despite modest incentive increases (+$305/vehicle YoY).



Source: TrueCar, AutoData

Chart 6: Global quarterly light vehicle production & YoY % change

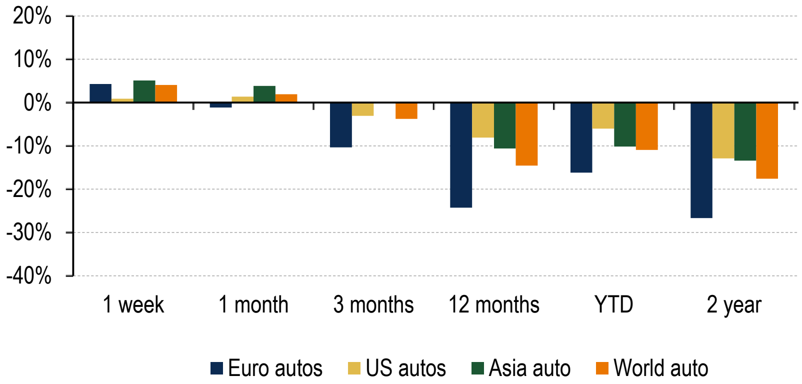
Global production is estimated to have picked up in 2Q16, to 2.4% YoY, versus 1.7% YoY production growth in 2015. Improvement in Europe and China are combined with steady North America production are offsetting weakness in South America and other international regions.



Source: JD Power - LMC

Chart 7: Global autos stock performance (US, EU, Asia, and World auto price indices)

Global auto stocks are all down year-to-date, but US auto stocks have outperformed their counterparts. Although concern over cycle timing in NA and slowing growth in China has weighed on sentiment, we still believe there are many attractive investment opportunities across the US auto sector through 2016.



Source: DataStream

Earnings revisions post 2Q reporting

Following the quarter's results, we recently made a number of earnings estimate revisions for the companies in our coverage universe as they reported, which are summarized in Table 4 on pages 6-12. However, it should be noted that these revisions already occurred during earnings reports.

Table 4: Estimate revision & 2Q:16 results summary

			Pre-2Q:16 BofAMLe			Current BofAMLe			Consensus			
	Price	Ratings	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	Comments
Automakers												
F	$12.19	C-2-7	2.05	2.15	2.25	1.90	2.05	2.10	1.92	1.89	1.87	Ford reported 2Q16 EPS from cont. ops of $0.52, below our $0.55 estimate and the Bloomberg consensus of $0.60. On an operating basis, Europe was much stronger than expected, while other regions including North America, were all slightly below our forecasts. Specifically, Europe posted pretax profit of $467mm, which was well above our $176mm forecast, driven by positive favorable mix, as well as continued cost reductions, which combined resulted in a record 2Q pretax margin of 5.8% (BofAMLe 2.5%). North America pretax profit of $2.7bn was just below our estimate (BofAMLe $2.8bn), as higher incentives and Takata airbag recall costs weighed on results that were otherwise solid. APAC posted a small loss of $(8)mm, which was below our estimate of $113mm due to higher costs associated with future growth. Ford Credit was also just below our estimate with pretax profit of $385mm (BofAMLe $467mm), pressured somewhat by lower used car pricing at auction and slightly higher credit losses. South America posted pretax loss of $(265)mm, which was in line with our forecast of $(270)mm. Ford largely reiterated its 2016 outlook with some caveats. The highlights include pretax results equal to or greater than 2015 and Auto op cash flow strong, but below 2015's $7.3bn level. However, Ford highlighted a number of risks that it will work to mitigate including: the Super Duty launch in 3Q, higher raw material cost, forex headwinds, Brexit uncertainty, non-repeat of favorable items in 1H:16, weaker auction values, and macro uncertainty It should be noted that, after fairly atypical earnings cadences in 2014 and 2015, 2016 results are expected to follow a more normal seasonal pattern, which, based on the 2H results, still implies FY2016 EPS in the $2.00 range +/-. Following Ford's lighter than expected results in 2Q, and risks highlighted in regard to the company's 2016 outlook, we lowered our 2016 EPS estimate from $2.05 to $1.90, 2017e from $2.15 to $2.05, and 2018e from $2.25 to $2.10, as well as our price objective from $15 to $14.
GM	$30.80	C-1-7	5.55	6.05	6.20	5.70	6.15	6.25	5.86	5.81	5.52	GM reported 2Q16 operating EPS of $1.86, above our $1.45 estimate and the Bloomberg consensus of $1.52. It should be noted a lower than modeled tax rate (~24%) added slightly to EPS and may remain in the near-term due to R&D tax credits. However, total adjusted EBIT $3.9bn was still a large material beat (BofAMLe $3.1bn). On an operating basis, North America was much stronger than expected, while other regions were largely in line to slightly better than our forecasts. Specifically, GMNA EBIT of $3.6bn (BofAMLe $3.0bn) on a record 12.1% EBIT margin driven by positive volume and favorable price. Europe printed $137mm versus our $(52)mm estimate, supported by volume, product launches, price and a continued focus on cost. International ops EBIT of $169mm (BofAMLe $310mm) was just below our estimate while GMSA EBIT loss of $(121)mm (BofAMLe -$160mm) was slightly better. GM Financial EBIT of $266mm was just ahead of our $248mm forecast. GM generated $3.2bn of auto free cash flow in 2Q16, which was solid, although not too surprising given typical seasonality. GM raised its 2016 financial outlook, specifically increasing its EPS range from $5.25-$5.75 to $5.50-$6.00 while the outlook for free cash flow remains ~$6bn. This implies a EPS in 2H:16 in the $2.38-$2.88 range, which is down from $3.12 in 1H:16 and can be partially explained by an incremental Brexit hit of $400mm. GM has been fairly slow on its share repurchase program YTD, which partially reflects the company managing around cash flow seasonality, but also opting (instead) to pre-fund its pension (discretionary contributions of $2.0bn YTD). And while we view this tradeoff as a positive de-risking mechanism, we expect GM will start to ramp its buyback pace in 2H, particularly as the company is committed to completing its $5bn authorization by year-end ($1.2bn remaining). As a result of the 2Q beat and the increased 2016 financial outlook, we raised our 2016 EPS estimate from $5.55 to $5.70, 2017e from $6.05 to $6.15, and 2018e from $6.20 to $6.25, as well as out price objective from $42 to $43.
FCAU	$6.75	C-3-9	1.40	1.85	2.35	1.55	1.90	2.40	1.41	1.73	1.97	FCA reported 2Q16 total company adjusted EBIT of €1.63bn, which was above our estimate of €1.58bn and the Bloomberg consensus of €1.61bn. FCA also reported 2Q16 adjusted diluted earnings per share of €0.45, which was above our €0.37 estimate and the Bloomberg consensus of €0.43. On an operating basis, the upside relative to our estimate was driven by better-than-expected performance in North America and EMEA, while other segments were largely in line (Table 1). Specifically, NAFTA EBIT of €1.37bn was above our €1.35bn estimate, driven by favorable mix/price and cost performance, which resulted in a solid 7.9% margin (BofAMLe 7.7%). EMEA was also ahead of expectations, posting EBIT of €143mm (BofAMLe €113mm). LATAM EBIT of €0mm (BofAMLe €0mm) was in line, as was APAC, with €42mm of EBIT versus our €38mm forecast. Maserati EBIT of €36mm (BofAMLe €31mm) was a slight beat and the Components business was lighter than expected (EBIT of €111mm vs. BofAMLe of €130mm). FCA raised its 2016 outlook, initially provided at 4Q15 reporting in February, which is now more in line with our estimates. Highlights include: FY16 revenue of greater than €112bn (prior, €110bn+), EBIT of greater than €5.5bn (prior €5.0bn+, and net income of greater than €2.0bn (prior €1.9bn+). The company also continues to forecast net industrial debt of below €5.0bn, which, at this point, still appears somewhat optimistic given a lack of free cash flow. Post 2Q, we raised our 2016 EPS estimate from €1.40 to €1.55, 2017e from €1.85 to €1.90, and 2018e from €2.35 to €2.40. However, we maintained our price objective of $8 and our Underperform rating, as the company is still behind GM and Ford from a fundamental position, particularly regarding cash flow and balance sheet status.

Table 4: Estimate revision & 2Q:16 results summary

	Price	Ratings	Pre-2Q:16 BofAMLe 2016E	Pre-2Q:16 BofAMLe 2017E	Pre-2Q:16 BofAMLe 2018E	Current BofAMLe 2016E	Current BofAMLe 2017E	Current BofAMLe 2018E	Consensus 2016E	Consensus 2017E	Consensus 2018E	Comments
RACE	$46.88	C-1-9	1.95	2.30	2.60	1.95	2.30	2.60	1.85	2.07	2.18	RACE reported its 2Q16 adjusted results that were much better than our forecasts and particularly encouraging given ongoing market volatility. Adjusted 2Q16 EPS of €0.55, was ahead of our estimate of €0.47 and the Bloomberg consensus of €0.44. The beat was driven by a combination of higher volume, the benefits of the new 488 & F12tdf, and increased personalization. Ferrari's 2Q16 revenue of €811mm came in above our forecast of €767mm, driven by better performance in all segments with Cars & Spare Parts revenue of €589mm (vs. BofAMLe of €572mm), Engine revenue of €71mm (vs. BofAMLe €57mm), and Sponsorship revenue of €117mm (vs. BofAMLe €111mm). Execution was solid, resulting in adjusted EBIT of €156mm, above our forecast of €135mm, and adjusted EBITDA of €217mm, also ahead of our forecast of €192mm. Ferrari reaffirmed its 2016 outlook, which may still be somewhat conservative, in light of the solid 1H results. Specifically, the company expects 2016 worldwide shipments of greater than 8,000 units (up from prior 7,900), net revenue of greater than or equal to €3.0bn, and adjusted EBITDA of greater than or equal to €800mm. The company also expects FY2016 net industrial debt of €730mm or better, which is relatively consistent with our estimates. Based on management commentary during the conference call, it appears that company will may exceed these targets, but is not incorporating it into its guidance as of yet, which could provide upside to Street estimates throughout the course of the year. We did not raise our EPS estimates or price objective post-2Q.
TSLA	$230.03	C-3-9	1.11	1.88	3.02	0.25	2.00	3.05	(0.53)	1.86	6.31	TSLA reported 2Q EPS of $(1.06), below our estimate of $(0.52) and consensus of $(0.58). Adjusted gross margin of 21.6% was light (BofAMLe 21.9%). TSLA reported free cash flow of break-even in 2Q. However, this includes Model 3 deposits (~$373mm) that are a pull-forward of cash that may not ultimately be booked (deposits are refundable) and materially lower than typical run-rate of capex (~$270mm lower). Adjusting for these items indicates a cash burn in 2Q in the range of $(373)mm to $(643)mm. TSLA's 2H16 delivery outlook of 50k units still appears aggressive, in our view, and indicates >70% sequential and YoY growth for 2H deliveries. TSLA's quarterly deliveries have come in below expectations, which the company has attributed to "extreme production ramps" and an increasing number of units in transit. Therefore we remain cautious on TSLA's ability to meet its full year delivery and production targets. TSLA also reiterated its longer-term outlook of delivering 500k vehicles in 2018, which implies more than a doubling of volume every year from a base of just over 50k units delivered in 2015. We view this outlook as very aggressive given the company's history of production delays and the slow pace of EV adoption in the US. Post 2Q, we updated our 2016 EPS estimate from $1.11 to $0.25. 2017e from $1.88 to $2.00 and $2018e frp, $3.02 to $3.05. These estimates do not yet include nay impact from the proposed merger with SolarCity, as the deal has not yet closed. We maintained our price objective of $155.
Suppliers												
AXL	$17.69	C-2-9	2.95	3.25	3.15	3.15	3.35	3.25	3.14	3.18	2.81	AXL reported 2Q16 operating EPS of $0.89, well above our estimate of $0.75 and the Bloomberg consensus of $0.81. On an operating basis, revenue of $1.03bn came in ahead of our $991mm forecast, but it was significantly better-than-expected execution that largely drove the beat versus our estimate. Specifically, gross margin of 18.7% (BofAMLe 16.5%) was impressive, although SG&A as a % of sales of 7.8% (BofAMLe 7.1%) was higher than expected. This drove adjusted EBITDA of $164.8mm, which was ahead of our $147.6mm estimate, and a record EBITDA margin of 16.1%, well above our 14.9% estimate and up 144bps YoY. AXL slightly updated its 2016 financial outlook, which is unsurprising in light of the strong 1H performance. Specifically, the company raised its EBITDA margin outlook to 15.0%-15.5% (prior 14.5%-15.0%), but maintained its revenue outlook of $4.0bn, which now implies FY16 EBITDA of $600mm-$620mm. AXL also raised its 2016 free cash flow outlook to a range of $140mm-$160mm (prior $120mm-$140mm). AXL ended 2Q16 with cash and equivalents of $388mm, and gross debt of $1.4bn, for a net debt position of roughly $1.0bn and net debt/EBITDA of about 1.7x. Notably, AXL repurchased 100k shares in 2Q for a total of $1.5mm, after announcing a $100mm share repurchase authorization at 1Q reporting. In our view, AXL's capital allocation strategy appears balanced, with the focus remaining on organic growth and further de-levering of its balance sheet, as well as strategic M&A, and now opportunistic buybacks. Post 1Q, we raised our 2016 EPS estimate from $2.95 to $3.15, 2017e from $3.25 to $3.35, and 2018e from $3.15 to $3.25, but maintained our price objective of $20.
BWA	$33.26	C-2-7	3.20	3.60	3.85	3.25	3.65	3.90	3.25	3.56	3.86	BWA reported 2Q16 operating EPS of $0.84, above our estimate of $0.80 and the Bloomberg consensus of $0.82. On an operating basis, the beat versus our forecasts was driven by better-than-expected execution, as revenue was a little bit light versus our forecasts. Specifically, revenue of $2.33bn was just below our $2.35bn forecast, increasing 14.6% YoY (+3.5% YoY ex. Remy and FX). Notwithstanding, gross margin at 21.3% was well above our 19.7% estimate, and combined with slightly higher SG&A as a % of sales at 8.7% (BofAMLe 8.3%), drove a consolidated EBIT margin of 12.8%, above our 12.0% forecast. BWA raised the lower end of the range of its previous 2016 financial outlook, including revenue growth to 13.7%-17.5% inclusive of acquired revenue from Remy, (prior 13.2%-17.5%) and organic revenue growth to 3.0%-5.5% (prior 2.5%-5.5%). BWA also expects a 2016 operating margin of "above 12%" and "above 13% ex. Remy" (both unchanged), and EPS of $3.16-$3.32 (prior $3.11-$3.32), which compares to our estimate and consensus of $3.25. BWA also provided a 3Q16 financial outlook, including revenue growth of 13.0%-20.8% and EPS of $0.74-$0.81. We believe there may be potential for upside to BWA's full-year outlook, as NA volumes remain solid and the positive mix shift toward trucks continues. Overall, 2Q was encouraging, especially in light of continued macro volatility, and we expect that recent acquisitions (i.e. Remy) and a continued focus on execution will offset macro headwinds in 2016 and beyond.

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			Pre-2Q:16 BofAMLe			Current BofAMLe			Consensus			
	Price	Ratings	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	Comments
CPS	$90.48	C-3-9	9.00	9.50	10.25	10.00	10.50	11.00	10.02	10.68	12.19	CPS reported 2Q16 adjusted operating EPS of $2.85, well above our estimate of $2.25 and the Bloomberg consensus of $2.35. On an operating basis, the beat versus our estimate was driven by better-than-expected revenue of $879.3mm (BofAMLe $859.6mm), as well as solid execution. Specifically, gross margin of 19.6% was well above our 17.9% forecast, and combined with slightly higher SG&A as a % of sales at 10.5% (BofAMLe 9.7%), drove an operating margin of 8.6%, which was above our 7.7% forecast, and up 125bps YoY. In aggregate, this drove 2Q adjusted EBITDA of $108.5mm (BofAMLe $99.5mm) and margin of 12.3%, which was above our 11.6% forecast. CPS segment performance was largely led by North America, posting revenue growth of 1.6% YoY (BofAMLe +1.5%) and unadjusted segment margin of 13.1%, above our 12.4% forecast. AsiaPac was lighter than expectations, with revenue growth of 3.9% YoY (BofAMLe +15%) and segment margin of 0.4% (BofAMLe +2.0%). Europe was a little bit better than expected, posting revenue growth of 4.4% YoY (BofAMLe +5.5%) and a segment margin of 0.2% (BofAMLe -1.0%), while South America posted a small loss. CPS raised its FY16 financial outlook, including: FY16 revenue to $3.4bn-$3.43bn (prior $3.35bn-$3.4bn) and adjusted EBITDA margin to 12.0%-12.5% (prior 11.3%-11.8%). This implies FY2016 adjusted EBITDA of about $408mm-$429mm (prior $379mm-$401mm). Following CPS' strong 1Q performance we raised our 2016 EPS estimate from $9.00 to $10.00, 2017e from $9.50 to $10.50, and 2018e from $10.25 to $11.00, as well as our price objective from $85 to $95, although we maintained our Underperform rating.
DLPH	$66.26	C-1-7	6.00	7.20	8.00	5.95	6.70	7.30	6.01	6.72	7.60	DLPH reported 2Q16 adjusted cont. ops. EPS of $1.59, ahead of our estimate of $1.55 and the Bloomberg consensus of $1.56. It should be noted that GAAP EPS of $0.94 included a large amount of one-time items ($0.65/sh), most notably $154mm of restructuring charges. On an operating basis, the beat in the quarter versus BofAMLe was driven by slightly better-than-expected revenue of $4.21bn, up 9% YoY, and just ahead of our estimate of $4.16bn. We would note that, excluding the impact of FX and acquisitions/divestitures, total revenue increased 7% YoY, which was relatively encouraging, as it indicates DLPH's top-line growth may be starting to pick up, which many investors have been anticipating. Execution was also good in the quarter, and resulted in an operating margin of 13.7%, just above our forecast of 13.6%, and up 8bps YoY, which was solid given ongoing macro volatility (i.e. ramp/rehiring in China footprint, Brexit, etc.) and FX headwinds. We believe DLPH's strong product portfolio, cost structure and global footprint will continue to drive even better results. DLPH lowered metrics of its 2016 outlook, including revenue to $16.25bn-$16.45bn (prior $16.6bn-$17.0bn), operating income to $2.15bn-$$2.2bn (prior $2.2bn-$2.3bn), and op margin to 13.2%-13.4% (prior 13.3%-13.6%). However, DLPH revised its 2016 EPS outlook to $5.95-$6.05 (prior $5.80-$6.10), likely reflecting higher share repurchases, which is a $0.05/sh increase at the midpoint from the prior range. DLPH also now expects free cash flow of $1.1bn-$1.15bn (prior $1.2bn), which is net of $750mm-$800mm in capex (prior $800mm). DLPH also initiated a 3Q16 outlook, including revenue of $3.925bn-$4bn, op income of $505mm-$525mm, op margin of 12.9%-13.1%, and EPS of $1.38-$1.44, which is below our estimate of $1.45 and consensus of $1.49. After the quarter, we lowered our 2016 EPS estimate from $6.00 to $5.95, 2017e from $7.30 to $6.70, and 2018e from $8.00 to $7.30. We also lowered our PO from $87 to $80.
GNTX	$17.70	C-3-7	1.15	1.20	1.25	1.20	1.25	1.27	1.20	1.31	1.46	GNTX reported 2Q16 cont. ops. EPS of $0.30, just ahead of our $0.29 estimate and the Bloomberg consensus of $0.29. The beat versus our estimate was driven by better-than-expected shipment growth (+13% YoY), particularly for its interior mirrors, which drove solid operating leverage across the business. Specifically, total revenue of $424mm (BofAMLe $411mm) was above our forecast, as was gross margin of 39.4% (BofAMLe 38.7%). Combined with lower R&D as a % of sales at 5.4% (BofAMLe 5.7%) and in line SG&A as a % of sales at 3.5%, this drove an operating margin of 30.4%, above our 29.4% forecast. Auto revenue of $414mm (BofAMLe $401m) was above our forecast; however, revenue per unit (RPU) declined by 1.3% YoY to $44.72 (BofAMLe $44.65). And while GNTX has, in the past, attributed RPU degradation to outsized growth in exterior mirror shipments, which are priced lower than corporate average, interior mirror shipment growth in 2Q outstripped exterior, which (in addition to incremental content) should have had a positive impact on RPU. GNTX increased the lower end of its 2016 financial outlook, the net result of which implies FY16 EPS in the $1.19-$1.23 range (prior $1.14-$1.23). Highlights include: 2016 revenue of $1.68bn-$1.72bn (prior $1.64bn-$1.72bn), gross margin of 39.0%-39.5% (prior 38.5%-39.5%) and operating expenses (E, R&D, SG&A) of $150mm-$158mm (prior $152mm-$160mm). Although 2Q was a relatively good quarter, we continue to believe GNTX faces longer-term structural headwinds, namely the potential displacement of mirrors by rear camera displays. Post 2Q, we slightly raised our 2016 EPS estimate from $1.15 to $1.20, 2017e from $1.20 to $1.25, and 2018e from $1.25 to $1.27, but maintained our price objective of $11 and Underperform rating.

Table 4: Estimate revision & 2Q:16 results summary

	Price	Ratings	Pre-2Q:16 BofAMLe 2016E	2017E	2018E	Current BofAMLe 2016E	2017E	2018E	Consensus 2016E	2017E	2018E	Comments
LEA	$113.76	C-2-7	12.25	13.50	14.50	13.00	14.25	14.75	13.22	14.11	14.35	LEA reported 2Q16 continuing operations EPS of $3.66, well above our estimate of $3.00 and the Bloomberg consensus of $3.32. Revenue increased 1.9% YoY to $4.72bn, which was slightly below $4.83bn forecast. Impressive execution drove the operating beat versus our estimate. Specifically, a stellar gross margin of 11.9% was well above our 10.6% forecast, and up132bps YoY, likely benefitting from a favorable mix and solid operating performance in the quarter, while SG&A as a % of sales was a little higher than expected at 3.2% (BofAMLe 3.1%). Combined, this drove an operating margin of 8.4%, well above our 7.3% estimate, and up 115bps YoY. LEA increased its 2016 financial outlook, including revenue of $18.5bn-$18.8bn (prior $18.5bn- $19.0bn), core operating earnings of $1.45bn-$1.5bn (prior $1.4bn-$1.45bn), and net income of $935mm-$975mm (prior $900mm-$940mm). This outlook implies EPS in the ~$12.70-$13.25 range, including steady share repurchases ($12.00-$12.55 ex. share repurchases). LEA also expects FCF of about $900mm (prior $850mm). During the quarter, LEA repurchased 2.3mm shares (~3% of shares outstanding) the recently expanded authorization. Notably, since the inception of its buyback program in 2011, LEA has repurchased $2.8bn of common stock (~37% of shares outstanding) and returned over $365mm to shareholders through dividends. Post 2Q, we raised our 2016 EPS estimate from $12.25 to $13.00, 2017e from $13.50 to $14.25, and 2018e from $14.50 to $14.75, but maintained our price objective of $145 and Neutral rating.
MGA	$39.92	C-1-7	5.00	5.90	6.90	5.00	5.90	6.90	5.11	5.77	6.77	MGA reported 2Q16 adjusted EPS from cont. ops. of $1.41, above our $1.30 estimate and the Bloomberg consensus of $1.34. On an operating basis, the results were driven by better-than-expected revenue of $9.4bn (BofAMLe $8.9bn), up 16.1% YoY, which benefited from the Getrag acquisition. Execution was also good, which was encouraging, given ongoing operational issues at certain North American plants. Adjusted EBIT of $789mm was above our $721mm expectation, and drove an EBIT margin of 8.4%, ahead of our 8.1% forecast. MGA's EBIT benefitted from a gross margin of 14.8%, which was ahead of our 14.5% forecast and slightly better SG&A as a % of sales of 4.4% (BofAMLe 4.5%). MGA updated its 2016 financial outlook, including full-year total production sales of $30.6bn-$31.9bn (prior $30.7bn-$32.0bn) and complete vehicle assembly sales of $2.0bn-$2.3bn (prior $1.9bn-$2.2bn), resulting in 2016 aggregate sales of $35.5bn-$37.2bn (prior $35.5bn-$37.2bn). Other highlights of MGA's outlook include: 2016 operating margin of about 8% (previously in the "high 7% range",), interest expense of approximately $90mm (prior $90mm), and a tax rate of 26% (prior 25%-26%,). Assuming share repurchases, this implies an EPS range of roughly $5.15-$5.40 (prior $4.85-$5.40). We would note that MGA's outlook is based on 2016 expected NA production of 18.0mm and EU production of 21.4mm units, both of which are relatively in line with our forecasts. Following the quarter we raised our EPS estimates for 2016 from $5.00 to $5.20, 2017e from $5.90 to $6.05 and 2018e from $6.90 to $7.05. We also raised our price objective from $53 to $54.
MPG	$15.72	C-2-7	1.75	2.10	2.30	1.75	2.10	2.30	1.80	1.99	2.24	MPG reported 2Q16 adjusted EBITDA of $135.2mm, which was below our $137.9mm estimate and the Bloomberg consensus of $142.4mm. MPG's 2Q adjusted EPS of $0.49 was also just below our estimate of $0.50 and consensus of $0.58. We believe investors should focus on adjusted EBITDA rather than adjusted EPS for MPG, as it reflects the excess D&A associated with purchase accounting. On an operating basis, revenue of $728.4mm was just ahead of our $727.3mm forecast. Gross margin of 17.9% was just ahead of our 17.8% forecast, but higher adjusted SG&A as a % of sales, at 8.5% (BofAMLe 7.0%), resulted in an operating margin of 9.3% (BofAMLe 10.8%) and drove the miss. Adjusted EBITDA margin of 18.6% was below our 19.0% forecast. MPG reaffirmed its 2016 outlook, including: revenue of $2.75bn-$2.95bn, adjusted EBITDA of $500mm-$540mm, which implies an EBITDA margin in the 16.9%-19.6% range. MPG also expects capex of $190mm-$210mm to support its 2016-2019 new business backlog. MPG raised its free cash flow outlook to $145mm from its previous outlook of $125mm. After the quarter, we maintained our EPS estimates and our price objective of $20.
Dealers												
ABG	$57.53	C-1-9	6.10	6.85	7.30	6.05	6.80	7.25	6.08	6.62	6.81	Asbury reported 2Q:16 EPS from continuing operations of $1.65, in line with our estimate and consensus of $1.65. ABG's new vehicle sales declined by 1.4% YoY on a same-store basis (BofAMLe +0.5%), on 4% lower same-store unit sales. Used vehicle retail revenue declined 4.1% YoY on a same-store basis (BofAMLe +0.0%), on 5% lower unit sales YoY. Finance & insurance fell by 1.7% on a same-store basis due to the lower unit volumes, although F&I per unit improved $42 YoY, to $1,436. Although parts & service same-store sales grew 6.4%, the growth missed our bullish forecast of +7.5%. ABG's total gross margin of 16.4% was above our 16.2% forecast, with all segments posting in-line or better margins than expected. New vehicle gross margin of 5.3% was above our estimate (BofAML 5.1%) and fell by just 17bps YoY from 5.5% in 2Q:15 (down just $3/vehicle YoY to $1,844). Total used gross margin of 7.3% was above our 7.0% forecast and was up by 63bps YoY (+$138/vehicle YoY to $1,774). P&S gross margin was in line with our forecast and was down 149bps YoY to 62.0% (BofAMLe 62.0%). On a same-store basis, front-end gross profit per unit retailed improved by about 3% YoY ($104/vehicle), to $3,245. ABG's SG&A as a % of gross profit reached 68.1%, in line with our 68.1% estimate, and up from 67.0% in 2Q:15. ABG repurchased $60mm of common stock in 2Q16, offsetting the top-line weakness. Post 2Q, we lowered our 2016 EPS estimate from $6.10 to $6.05, 2017e from $3.85 to $6.80, and 2018e from $7.30 to $7.25, as well as our price objective from $70 to $68, but we maintained our Buy rating.

Table 4: Estimate revision & 2Q:16 results summary

	Price	Ratings	Pre-2Q:16 BofAMLe 2016E	Pre-2Q:16 BofAMLe 2017E	Pre-2Q:16 BofAMLe 2018E	Current BofAMLe 2016E	Current BofAMLe 2017E	Current BofAMLe 2018E	Consensus 2016E	Consensus 2017E	Consensus 2018E	Comments
AN	$49.99	C-1-9	4.60	5.60	6.05	4.35	5.25	5.70	4.25	4.68	4.82	AutoNation reported 2Q:16 EPS from continuing operations of $1.08, just below our estimate of $1.10 but above Bloomberg consensus of $1.05. We would note that a lower share count contributed $0.03 of EPS upside versus our estimate. New vehicle retail sales fell by 1.7% YoY on a same-store basis, slightly better than our estimate of -2.0%, on 4.5% lower unit sales. New vehicle gross profit also continued to come under pressure, declining by $43/unit YoY on a same-store basis to $1,923. Used vehicle same-store revenue declined by 1.4% YoY (BofAMLe +2.0%), on a 6.0% decline in retail used unit sales. Used vehicle gross profit per unit also declined YoY, by $150/unit to $1,548. AN continues to be hindered by two near-term issues: 1) the stop-sale of vehicles associated with the Takata airbag recall, and 2) AutoNation's policy of not retailing any vehicles with an open recall. Parts & Service revenue grew by 2.2% YoY on a same-store basis, and P&S gross margin was about flat YoY. However, Finance & Insurance same-store sales missed our estimate, declining by 1.0% YoY, despite improvement in F&I per vehicle to $1,602 from $1,536 in 2Q15. While the recent compression of vehicle gross margins is a point of concern for investors, we believe that dealers are effectively managing the other segments of the business to at least partially offset pressure on the front end. Post 2Q, we lowered our 2016 EPS estimate from $4.70 to $4.65, 2017e from $5.60 to $5.25, and 2018e from $6.05 to $5.70, as well as our price objective from $70 to $66, but maintained our Buy rating.
GPI	$61.49	C-1-7	7.90	8.70	9.50	7.70	8.50	9.30	7.50	8.09	8.29	Group 1 reported adjusted 2Q:16 EPS from continuing operations of $2.16, just below our estimate of $2.20, but above the Bloomberg consensus of $2.09. GPI's UK operations grew by 51.8%, largely driven by acquisition revenue, while US sales fell by 3.5% YoY and Brazil fell by 18.0% YoY. New vehicle retail sales declined by 5.2% on a same-store basis and fell short of our estimate of -1.0% YoY growth, although new vehicle gross profit per unit (GPU) improved by $185 YoY. Used vehicle sales fell 1.2% on a same-store basis, coming in well below our estimate of +3.9%, and Used GPU remained flat YoY. The improvement in GPU after recent quarters of YoY declines is encouraging and demonstrates that management's focus on GPU is starting to make headway. Parts & Service was a bright spot in the quarter, growing by 3.3% YoY on a same-store basis. P&S gross margin of 53.8% was better than expected and helped drive GPI's total company gross margin to 14.7% in 2Q (BofAMLe 14.3%). Finance & Insurance revenue fell 1.0% YoY, below our estimate (BofAMLe +1.0%), but F&I per vehicle retailed improved by $23 YoY, to $1,404. While the new vehicle sales cycle seems to garner the most investor attention for the public auto dealer groups' quarterly results, the more defensive profit streams (P&S) are significantly larger contributors to earnings growth. In 2Q, adjusted SG&A as a % of gross profit was 75.3%, worse than our forecast of 71.7% and up 391bps from 71.4% in 2Q:15. Post 2Q, we lowered our 2016 EPS estimate from $7.90 to $7.70, 2017e from $8.70 to $8.50, and 2018e from $9.50 to $9.30, as well as our price objective from $87 to $85, but maintained our Buy rating.
LAD	$84.23	C-2-7	7.65	8.30	8.70	7.60	8.30	8.70	7.63	8.25	8.74	Lithia reported adjusted 2Q:16 EPS from continuing operations of $1.96, above the company's outlook of $1.86-$1.90 and consensus of $1.93 but just below our estimate of $2.00. Overall 2Q:16 same-store revenue was better than our forecast, coming in at +3.8% YoY (BofAMLe +2.8%). Same-store new vehicle retail sales improved by 2.3% YoY while used vehicle retail revenue improved 10.2% YoY, above our estimate (BofAMLe +5.0%). Finance & Insurance same-store sales grew 8.8%, above our forecast (BofAMLe +7.5%), with F&I per vehicle growing 4.9% YoY ($60/vehicle) to $1,273/unit. Parts & Service continued its strong growth trend, improving 7.4% YoY, above our estimate (BofAMLe +6.5%). New gross margin of 6.0% was above our forecast (BofAMLe +5.9%) and gross profit per unit improved 2.0% YoY on a same-store basis. However, used retail gross margin of 12.1% was below our forecast (BofAMLe +12.5%) and GPU declined 4.4% YoY on a same-store basis. P&S gross margin of 48.7% was slightly below our forecast (BofAMLe +49.0%). LAD's total front-end gross profit per unit retailed improved 1.3% YoY on a same-store basis. Lithia updated its outlook for 2016 EPS to a range of $7.50-$7.65 (prior $7.30-$7.50). LAD's outlook assumes total new vehicle sales growth of 3.5% (prior +4.5%), with new vehicle gross margin of 5.9%-6.1% (prior 5.8%-6.0%). For used vehicle sales, LAD expects total sales growth of 9.5% and gross margin of 11.9%-12.1% (prior 11.8-12.0%) in 2016. LAD also expects P&S to grow 7.5% and average a gross margin of 48.8%-49.0% in 2016. F&I is expected to be $1,270-$1,290/vehicle in 2016. Post 2Q, we largely maintained our forward estimates and PO of $85.
PAG	$40.00	C-1-7	3.80	4.35	4.65	3.80	4.60	4.90	3.89	4.20	4.28	Penske Auto Group reported 2Q16 EPS from continuing operations of $1.11, above our estimate of $1.05 and consensus of $1.09. 2Q:16 same-store revenue growth for new and used vehicles fell below our estimates, partially hindered by foreign exchange. PAG's new vehicle retail same-store sales fell by 0.4% YoY, below our estimate of +1.0%. Used vehicle retail improved by 0.2%, but also missed our forecast of 4.0%. Gross profit per unit (GPU) improved by $100/unit YoY for new vehicles and fell by $85/unit YoY for used vehicles, which was relatively encouraging, given recent quarters of significant declines in GPU. Parts & Service same-store sales growth of 3.4% was below our estimate of +5.0%, while Finance & Insurance growth of 1.6% was also below our estimate of 4.0. Despite somewhat tepid gross profit growth, SG&A as a % of gross profit of 75.5% was about in line with our estimate of 75.4% and down 8bps from the 75.6% in 2Q15. We believe that PAG's cost-control efforts are finally flowing to the bottom line and will improve in coming quarters, which should present an opportunity for further earnings leverage, as the company continues to grow gross profit. At 2Q reporting, PAG also announced that it increased its stake in Penske Truck Leasing (PTL), which it estimates will be accretive to earnings by about $0.25 annually. As a result, we raised our 2017 EPS estimate from $4.35 to $4.60 and 2018e from $4.65 to $4.90, as well as our price objective from $48 to $51.

Table 4: Estimate revision & 2Q:16 results summary

			Pre-2Q:16 BofAMLe			Current BofAMLe			Consensus			
	Price	Ratings	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	Comments
SAH	$17.35	C-1-7	2.15	2.40	2.60	2.10	2.35	2.55	2.10	2.31	2.41	SAH reported 2Q16 EPS from continuing operations of $0.50, below our estimate of $0.52, but in line with consensus of $0.50. 2Q:16 same-store sales growth was weaker than our forecasts for all vehicle segments, particularly Used. SAH's new vehicle retail sales improved just 0.3% YoY on a same-store basis, below our estimate of +0.5%. Total used vehicle revenue declined 4.2% YoY on a same-store basis (BofAMLe +1.6%). Parts & service same-store sales growth of +3.0% YoY was also lighter than expected (BofAMLe +6.0%), as was finance & insurance growth of +2.9%, (BofAMLe +5.0%). SAH's total gross margin of 14.8% was just below our forecast of 15.0%, with weaker used vehicle and P&S gross margin offset by favorable gross profit mix toward high-margin P&S and F&I. New vehicle gross margin of 5.1% was above our expectation (BofAMLe 4.9%) and improved 11bps YoY, from 5.0% in 2Q:15. It should be noted that gross profit $ per unit improved 5.0% YoY on a same-store basis ($93/unit) to $1,950, which was encouraging. Used retail gross margin of 5.9% was below our estimate of 6.2% and GPU declined 6.0% YoY ($81/unit) to $1,262. P&S had 130bps of gross-margin contraction YoY, reaching 47.9%. Sonic narrowed its 2016 EPS outlook toward the lower end of its previous range and now expects 2016 EPS of $2.07-$2.12 (previously $2.07-$2.17). This range includes net losses from EchoPark, which has contributed $0.09 of EPS headwind in 1H:16. Sonic also provided explicit quarterly estimates for 3Q ($0.52-$0.54) and 4Q ($0.66-$0.69). Following the weaker-than-expected quarter, we lowered our 2016 EPS estimate from $2.15 to $2.10, 2017e from $2.40 to $2.35, and 2018e from $2.60 to $2.55, as well as out price objective from $25 to $24.
Distribution												
GPC	$101.70	A-3-7	4.70	5.10	5.65	4.70	5.10	5.65	4.73	5.11	5.39	GPC reported 2Q16 EPS of $1.28, in line with our estimate of $1.28 and just below Bloomberg consensus of $1.29. Revenue declined 1.0% YoY and was below than our estimate due to worse declines in the Automotive and Electrical/Electronics segments than expected, offset by somewhat better Office Products results. Gross margin for the overall company was about in line, with higher Auto and Industrial offset by lower Office and Electrical margins. A lower tax rate than expected contributed $0.02 in EPS versus our estimates. Foreign exchange continued to pressure results as expected, causing a 1% revenue headwind. Auto segment revenue declined 0.7% YoY to $2.09bn (BofAMLe $2.14bn), including a 1.5% negative currency impact and 1% decline in underlying sales, which offset a 2% benefit from acquisitions. Auto op. profit of $204mm (BofAMLe $203mm) was right in line as op. margin declined slightly YoY to 9.7%. Industrial segment revenue fell 1.7% YoY to $1.17bn (BofAMLe $1.16bn) and op. profit of $88mm (BofAMLe $86mm) generated an op margin of 7.6%, about flat YoY. Core sales in the Industrial group were down 3% due to challenging global economic conditions. Office Products revenue improved 0.8% YoY to $482mm (BofAMLe $454mm), with op. profit of $33mm (BofAMLe $33mm). GPC's Electrical Group revenues declined 5.2% YoY to $185mm (BofAMLe $198mm), with op. profit of $16mm coming in below our $19mm estimate. GPC updated its 2016 financial outlook, which still appears about in line with our estimates and consensus. GPC expects 2016 total revenue to be up about 1-2% YoY, and 2016 EPS of $4.70-$4.75 (previous outlook $4.70-$4.80). Post 2Q, we maintained our forward estimates and price objective of $92.
KAR	$40.81	C-1-7	2.10	2.50	2.75	2.10	2.50	2.75	2.11	2.38	2.48	KAR Auction Services reported 2Q16 operating adjusted net income per share of $0.55, in line with our estimate of $0.55 and just below Bloomberg consensus of $0.56. Adjusted EBITDA of $197mm came in above our estimate of $192mm and consensus of $193m. It should be noted that the weaker Canadian dollar negatively impacted revenue by $4.3mm, adj. EBITDA by $1.8mm, and adj. EPS by $0.01. KAR Auction Services reported 2Q16 operating adjusted net income per share of $0.55, in line with our estimate of $0.55 and just below Bloomberg consensus of $0.56. Adjusted EBITDA of $197mm came in above our estimate of $192mm and consensus of $193m. It should be noted that the weaker Canadian dollar negatively impacted revenue by $4.3mm, adj. EBITDA by $1.8mm, and adj. EPS by $0.01. Post-2Q we maintained our EPS estimates and our price objective of $55.

Source: Company filings, Bloomberg, BofA Merrill Lynch Global Research estimates
* FCAU & RACE EPS in EUR

Exhibit 1: Valuation Summary

Ticker	Company Name	Rating	Price Objective	Upside/ downside	Basis
F	Ford Motor Co	C-2-7	$14.00	14.8%	7x our 2017 EPS, at the lower end of the historical range given later stages of US cycle; implies ~2.5x EV/EBITDA
GM	General Motors	C-1-7	$43.00	39.6%	7x our 2017 EPS, at the lower end of the historical range given later stages of US cycle; implies ~3.5x EV/EBITDA
FCAU	Fiat Chrysler Automobiles N.V.	C-3-9	$8.00	18.5%	4x our 2017 EPS; implies ~1.5x EV/EBITDA, a discount to the valuation multiples we use for Ford and GM
RACE	Ferrari	C-1-9	$60.00	28.0%	3.5x 2017 EV/Sales, roughly in-line with luxury comps; implies ~15x EV/EBITDA & ~34x P/E
TSLA	Tesla Motors	C-3-9	$155.00	-32.6%	Average of 2017 EV/Sales and EV/EBITDA of comparable tech companies
AXL	American Axle & Manufacturing Holdings Inc.	C-2-9	$20.00	13.1%	6x our 2017 EPS, at the lower end of the historical range given later states of US cycle; implies ~4x EV/EBITDA
BWA	BorgWarner Inc.	C-2-7	$39.00	17.3%	11x our 2017 EPS, lower than the historical range given a maturing growth profile; implies ~6.5x EV/EBITDA
CPS	Cooper Standard Holdings	C-3-9	$95.00	5.0%	9x our 2017 EPS; implies ~4.5x EV/EBITDA, a discount to the valuation multiples we use for CPS' peer group
DLPH	Delphi Automotive PLC	C-1-7	$80.00	20.7%	12x our 2017 EPS, a premium to supplier average given above-average growth prospects; implies ~8x EV/EBITDA
GNTX	Gentex Corp	C-3-7	$11.00	-37.9%	9x our 2017 EPS, lower than the company's historical range given below-average growth prospects
LEA	Lear Corp.	C-2-7	$145.00	27.5%	11x our 2017 EPS, slight premium to the supplier average given track record of execution; implies ~6x EV/EBITDA
MGA	Magna International Inc.	C-1-7	$54.00	35.3%	9x our 2017 EPS, at the lower end of the historical range given later stages of US cycle; implies ~5.5x EV/EBITDA
MPG	Metaldyne Performance Group	C-2-7	$20.00	27.2%	9x our 2017 EPS, consistent with the current trading range of MPG's peer group; implies ~5x EV/EBITDA
ABG	Asbury Automotive Group, Inc.	C-1-9	$68.00	18.2%	10x our 2017 EPS, at the lower end of the company's historical range given later stages of US cycle
AN	AutoNation, Inc.	C-1-9	$66.00	32.0%	12.5x our 2017 EPS, a slight premium to the dealer average given greater liquidity & size
GPI	Group 1 Automotive Inc	C-1-7	$85.00	38.2%	10x our 2017 EPS, a discount to the historical dealer range given later stages of US cycle
LAD	Lithia Motors Inc -CL A	C-2-7	$85.00	0.9%	10x our 2017 EPS, at the lower end of the company's historical range given later stages of US cycle
PAG	Penske Automotive Group	C-1-7	$51.00	27.5%	11x our 2017 EPS, a discount to the historical dealer range given later stages of US cycle
SAH	Sonic Automotive Inc	C-1-7	$24.00	38.3%	10x our 2017 EPS, a discount to the historical dealer range given later stages of US cycle
CRMT	America's Car-Mart, Inc.	C-3-9	$23.00	-33.9%	~10x our FY2018 EPS, at the lower end of the company's historical range given challenged business dynamics
KMX	CarMax, Inc.	C-1-9	$70.00	18.9%	~20x our FY2018 EPS, a slight discount to the middle of the company's historical range
CPRT	Copart, Inc.	B-2-9	$52.00	2.0%	22x our FY2017 EPS; implies an EV/EBITDA of 12x
GPC	Genuine Parts Co	A-3-7	$92.00	-9.5%	18x our 2017 EPS, around the historical average; implies 10.5x EV/EBITDA
KAR	KAR Auction Services, Inc.	C-1-7	$55.00	34.8%	11x adj. EV/EBITDA on our 2017 estimates, due to purchase accounting treatment

		P/E									
Ticker	Company Name	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
F	Ford Motor Co	nm	8.8x	6.5x	7.9x	8.3x	11.6x	7.3x	6.4x	5.9x	5.8x
GM	General Motors	nm	11.9x	5.2x	8.9x	12.9x	11.5x	6.8x	5.4x	5.0x	4.9x
FCAU	Fiat Chrysler Automobiles N.V.	nm	nm	12.0x	16.5x	nm	10.6x	7.6x	3.8x	3.1x	2.5x
RACE	Ferrari	nm	nm	nm	nm	nm	nm	27.9x	21.2x	18.0x	15.9x
TSLA	Tesla Motors	nm	nm	nm	nm	nm	nm	nm	920.1x	115.0x	75.4x
	OEM Average ex. RACE & TSLA	nm	10.3x	7.9x	11.1x	10.6x	11.2x	7.2x	5.2x	4.7x	4.4x
AXL	American Axle & Manufacturing Holdings Inc.	nm	8.2x	4.7x	9.3x	11.8x	9.8x	6.6x	5.6x	5.3x	5.4x
BWA	BorgWarner Inc.	nm	23.8x	14.5x	14.3x	19.3x	16.9x	14.2x	10.2x	9.1x	8.5x
CPS	Cooper Standard Holdings	nm	nm	8.8x	9.2x	21.9x	12.0x	8.5x	9.0x	8.6x	8.2x
DLPH	Delphi Automotive PLC	nm	nm	8.1x	10.0x	13.7x	14.7x	16.5x	11.1x	9.9x	9.1x
GNTX	Gentex Corp	38.6x	30.2x	26.0x	15.7x	21.4x	19.0x	15.0x	14.8x	14.2x	13.9x
LEA	Lear Corp.	nm	11.2x	7.5x	8.5x	13.7x	12.0x	11.3x	8.8x	8.0x	7.7x
MGA	Magna International Inc.	nm	11.9x	7.4x	9.3x	11.8x	12.0x	9.0x	7.7x	6.6x	5.7x
MPG	Metaldyne Performance Group	nm	nm	nm	nm	nm	8.6x	9.1x	9.0x	7.5x	6.8x
	Supplier Average	nm	13.8x	8.4x	10.3x	14.1x	12.3x	11.1x	8.7x	7.7x	7.2x
ABG	Asbury Automotive Group, Inc.	13.6x	13.1x	12.2x	12.1x	15.2x	17.4x	12.1x	9.5x	8.5x	7.9x
AN	AutoNation, Inc.	16.7x	18.1x	19.0x	15.6x	16.7x	17.3x	15.0x	11.5x	9.5x	8.8x
GPI	Group 1 Automotive Inc	15.8x	16.2x	14.3x	13.7x	14.3x	15.3x	11.0x	8.0x	7.2x	6.6x
LAD	Lithia Motors Inc -CL A	14.9x	15.5x	11.2x	12.6x	17.4x	17.0x	15.2x	11.1x	10.1x	9.7x
PAG	Penske Automotive Group	17.4x	13.0x	10.7x	13.4x	17.1x	15.2x	11.5x	10.5x	8.7x	8.2x
SAH	Sonic Automotive Inc	12.8x	13.4x	10.4x	12.1x	12.1x	14.2x	11.6x	8.3x	7.4x	6.8x
CRMT	America's Car-Mart, Inc.	11.6x	10.5x	12.1x	12.1x	15.2x	16.4x	20.1x	15.1x	10.4x	9.3x
KMX	CarMax, Inc.	19.1x	19.3x	17.0x	20.1x	21.8x	25.0x	17.6x	17.8x	16.8x	15.1x
	Dealer Average	15.2x	14.9x	13.0x	13.3x	15.5x	16.1x	12.7x	9.8x	8.6x	8.0x
CPRT	Copart, Inc.	21.6x	21.0x	22.0x	20.6x	25.3x	24.7x	23.2x	24.3x	21.7x	19.6x
GPC	Genuine Parts Co	15.2x	17.1x	17.1x	15.7x	19.9x	23.1x	18.6x	21.6x	19.9x	18.0x
KAR	KAR Auction Services, Inc.	nm	29.4x	11.5x	18.9x	24.6x	19.1x	20.1x	19.4x	16.3x	14.8x
	Distribution Average	18.4x	22.5x	16.9x	18.4x	23.3x	22.3x	20.6x	21.8x	19.3x	17.5x

		Adjusted EV / EBITDA									
Ticker	Company Name	2009	2010	2011	2012	2013	2014	2015	2016e	2017e	2018e
F	Ford Motor Co	7.6x	5.2x	3.4x	4.1x	8.8x	4.5x	2.8x	2.3x	1.8x	1.4x
GM	General Motors	nm	4.9x	2.4x	3.3x	4.0x	4.5x	3.6x	2.7x	2.3x	2.1x
FCAU	Fiat Chrysler Automobiles N.V.	nm	nm	2.8x	2.4x	2.8x	2.4x	2.1x	1.6x	1.4x	1.0x
RACE	Ferrari	nm	nm	nm	nm	nm	nm	12.1x	10.4x	9.1x	8.7x
TSLA	Tesla Motors	nm	8.0x	nm	nm	93.2x	115.0x	193.9x	62.9x	43.9x	33.4x
	OEM Average ex. RACE & TSLA	7.6x	5.0x	2.9x	3.3x	5.2x	3.8x	2.8x	2.2x	1.8x	1.5x
AXL	American Axle & Manufacturing Holdings Inc.	33.4x	6.9x	6.4x	8.0x	8.2x	6.6x	5.6x	4.7x	4.4x	3.9x
BWA	BorgWarner Inc.	14.3x	12.4x	8.5x	7.8x	10.1x	8.8x	8.1x	5.7x	5.3x	5.0x
CPS	Cooper Standard Holdings	nm	nm	2.4x	3.1x	4.4x	5.0x	5.0x	4.7x	4.6x	3.8x
DLPH	Delphi Automotive PLC	nm	nm	4.9x	6.8x	8.7x	10.0x	11.6x	7.6x	6.5x	5.6x
GNTX	Gentex Corp	15.7x	16.2x	14.1x	7.8x	12.8x	10.6x	8.1x	7.6x	7.0x	6.5x
LEA	Lear Corp.	13.3x	5.2x	3.4x	4.0x	6.4x	6.5x	6.3x	4.8x	4.5x	3.8x
MGA	Magna International Inc.	8.5x	5.5x	3.5x	4.4x	5.7x	6.7x	5.0x	4.8x	4.2x	3.8x
MPG	Metaldyne Performance Group	nm	nm	nm	nm	nm	5.7x	5.5x	4.7x	4.4x	4.0x
	Supplier Average	17.4x	7.5x	5.3x	6.2x	7.8x	7.4x	7.0x	5.4x	4.9x	4.4x
ABG	Asbury Automotive Group, Inc.	7.7x	9.0x	6.4x	7.9x	9.3x	10.7x	8.8x	7.3x	6.2x	5.8x
AN	AutoNation, Inc.	9.4x	10.7x	11.4x	10.1x	10.0x	10.6x	9.5x	7.8x	6.3x	5.9x
GPI	Group 1 Automotive Inc	9.0x	9.4x	8.6x	8.5x	9.0x	10.0x	8.3x	6.7x	5.7x	5.3x
LAD	Lithia Motors Inc -CL A	8.2x	9.1x	7.5x	8.0x	10.3x	11.3x	9.4x	7.0x	6.2x	5.7x
PAG	Penske Automotive Group	11.6x	9.5x	8.7x	9.8x	11.7x	11.1x	8.7x	8.1x	6.9x	6.1x
SAH	Sonic Automotive Inc	6.0x	7.1x	6.1x	7.1x	7.4x	8.0x	6.9x	5.8x	5.0x	4.8x
CRMT	America's Car-Mart, Inc.	7.5x	6.9x	8.3x	8.6x	10.3x	10.9x	12.8x	10.4x	7.7x	7.0x
KMX	CarMax, Inc.	10.4x	10.5x	8.8x	10.3x	11.1x	13.9x	10.2x	9.8x	9.2x	8.4x
	Dealer Average	8.7x	9.2x	8.1x	8.6x	9.6x	10.3x	8.6x	7.1x	6.0x	5.6x
CPRT	Copart, Inc.	10.7x	10.2x	12.5x	12.0x	14.2x	13.5x	12.9x	13.8x	12.1x	11.0x
GPC	Genuine Parts Co	8.2x	9.2x	9.6x	9.0x	11.6x	13.2x	10.5x	12.2x	11.3x	10.3x
KAR	KAR Auction Services, Inc.	nm	7.6x	6.8x	8.6x	9.3x	10.3x	10.9x	9.6x	8.4x	7.6x
	Distribution Average	9.4x	9.0x	9.6x	9.9x	11.7x	12.4x	11.4x	11.9x	10.6x	9.7x

Source: Company data, Bloomberg, BofA Merrill Lynch Global Research estimates

Exhibit 2: Valuation Summary

		Closing Price									
Ticker	**Company Name**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
F	Ford Motor Co	$10.00	$16.79	$10.76	$12.95	$15.43	$15.50	$14.09	$12.19	$12.19	$12.19
GM	General Motors	nm	$36.86	$20.27	$28.83	$40.87	$34.91	$34.01	$30.80	$30.80	$30.80
FCAU	Fiat Chrysler Automobiles N.V.	nm	nm	nm	nm	nm	$7.61	$9.19	$6.75	$6.75	$6.75
RACE	Ferrari	nm	nm	nm	nm	nm	nm	$48.00	$46.88	$46.88	$46.88
TSLA	Tesla Motors	nm	$26.63	$28.56	$33.87	$150.43	$222.41	$240.01	$230.03	$230.03	$230.03
AXL	American Axle & Manufacturing Holdings Inc.	$8.02	$12.86	$9.89	$11.20	$20.45	$22.59	$18.94	$17.69	$17.69	$17.69
BWA	BorgWarner Inc.	$16.61	$36.18	$31.87	$35.81	$55.91	$54.95	$43.23	$33.26	$33.26	$33.26
CPS	Cooper Standard Holdings	nm	$45.00	$34.50	$38.00	$49.11	$57.88	$77.59	$90.48	$90.48	$90.48
DLPH	Delphi Automotive PLC	nm	nm	$21.54	$38.25	$60.13	$72.72	$85.73	$66.26	$66.26	$66.26
GNTX	Gentex Corp	$8.87	$14.78	$14.80	$9.43	$16.49	$18.07	$16.01	$17.70	$17.70	$17.70
LEA	Lear Corp.	$33.82	$49.36	$39.80	$46.84	$80.97	$98.08	$122.83	$113.76	$113.76	$113.76
MGA	Magna International Inc.	$12.65	$26.00	$16.66	$25.01	$41.03	$54.35	$40.56	$39.92	$39.92	$39.92
MPG	Metaldyne Performance Group	nm	nm	nm	nm	nm	$17.36	$18.34	$15.72	$15.72	$15.72
ABG	Asbury Automotive Group, Inc.	$11.53	$18.48	$21.56	$32.03	$53.74	$75.92	$67.44	$57.53	$57.53	$57.53
AN	AutoNation, Inc.	$19.15	$28.20	$36.87	$39.70	$49.69	$60.41	$59.66	$49.99	$49.99	$49.99
GPI	Group 1 Automotive Inc	$28.35	$41.76	$51.80	$61.99	$71.02	$89.62	$75.70	$61.49	$61.49	$61.49
LAD	Lithia Motors Inc -CL A	$8.22	$14.29	$21.86	$37.42	$69.42	$86.69	$106.67	$84.23	$84.23	$84.23
PAG	Penske Automotive Group	$15.18	$17.42	$19.25	$30.09	$47.16	$49.07	$42.34	$40.00	$40.00	$40.00
SAH	Sonic Automotive Inc	$10.39	$13.24	$14.81	$20.89	$24.48	$27.04	$22.76	$17.35	$17.35	$17.35
CRMT	America's Car-Mart, Inc.	$26.33	$27.08	$39.18	$40.52	$42.23	$53.38	$26.69	$34.78	$34.78	$34.78
KMX	CarMax, Inc.	$24.25	$31.88	$30.48	$37.54	$47.02	$66.58	$53.97	$58.85	$58.85	$58.85
CPRT	Copart, Inc.	$18.16	$18.68	$23.95	$29.50	$36.65	$36.49	$38.01	$51.00	$51.00	$51.00
GPC	Genuine Parts Co	$37.96	$51.34	$61.20	$63.58	$83.19	$106.57	$85.89	$101.70	$101.70	$101.70
KAR	KAR Auction Services, Inc.	nm	$13.80	$13.50	$20.24	$29.55	$34.65	$37.03	$40.81	$40.81	$40.81

		EPS									
Ticker	**Company Name**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
F	Ford Motor Co	$0.01	$1.91	$1.65	$1.63	$1.86	$1.34	$1.93	$1.90	$2.05	$2.10
GM	General Motors	nm	$3.11	$3.90	$3.23	$3.16	$3.03	$5.02	$5.70	$6.15	$6.25
FCAU	Fiat Chrysler Automobiles N.V.	nm	nm	€ 0.29	€ 0.23	(€ 0.08)	€ 0.60	€ 1.12	€ 1.55	€ 1.90	€ 2.40
RACE	Ferrari	nm	nm	nm	nm	nm	€ 1.38	€ 1.52	€ 1.95	€ 2.30	€ 2.60
TSLA	Tesla Motors	nm	($2.53)	($2.21)	($3.21)	$0.78	$0.15	($2.30)	$0.25	$2.00	$3.05
AXL	American Axle & Manufacturing Holdings Inc.	($2.09)	$1.57	$2.11	$1.21	$1.73	$2.31	$2.88	$3.15	$3.35	$3.25
BWA	BorgWarner Inc.	$0.20	$1.52	$2.20	$2.50	$2.89	$3.25	$3.04	$3.25	$3.65	$3.90
CPS	Cooper Standard Holdings	nm	nm	$3.93	$4.14	$2.24	$4.81	$9.16	$10.00	$10.50	$11.00
DLPH	Delphi Automotive PLC	nm	nm	$2.66	$3.84	$4.40	$4.94	$5.21	$5.95	$6.70	$7.30
GNTX	Gentex Corp	$0.23	$0.49	$0.57	$0.60	$0.77	$0.95	$1.07	$1.20	$1.25	$1.27
LEA	Lear Corp.	($1.38)	$4.41	$5.34	$5.49	$5.89	$8.15	$10.85	$13.00	$14.25	$14.75
MGA	Magna International Inc.	($0.39)	$2.19	$2.26	$2.68	$3.49	$4.54	$4.49	$5.20	$6.05	$7.05
MPG	Metaldyne Performance Group	nm	nm	nm	nm	nm	$2.03	$2.02	$1.75	$2.10	$2.30
ABG	Asbury Automotive Group, Inc.	$0.85	$1.41	$1.77	$2.64	$3.53	$4.37	$5.57	$6.05	$6.80	$7.25
AN	AutoNation, Inc.	$1.15	$1.56	$1.94	$2.54	$2.98	$3.49	$3.98	$4.35	$5.25	$5.70
GPI	Group 1 Automotive Inc	$1.79	$2.58	$3.62	$4.53	$4.96	$5.87	$6.87	$7.70	$8.50	$9.30
LAD	Lithia Motors Inc -CL A	$0.55	$0.92	$1.95	$2.96	$3.99	$5.11	$7.02	$7.60	$8.30	$8.70
PAG	Penske Automotive Group	$0.87	$1.34	$1.80	$2.25	$2.75	$3.23	$3.67	$3.80	$4.60	$4.90
SAH	Sonic Automotive Inc	$0.81	$0.99	$1.43	$1.72	$2.03	$1.90	$1.97	$2.10	$2.35	$2.55
CRMT	America's Car-Mart, Inc.	$2.27	$2.58	$3.24	$3.36	$2.77	$3.25	$1.33	$2.30	$3.35	$3.75
KMX	CarMax, Inc.	$1.27	$1.65	$1.79	$1.87	$2.16	$2.66	$3.06	$3.30	$3.50	$3.90
CPRT	Copart, Inc.	$0.84	$0.89	$1.09	$1.43	$1.45	$1.48	$1.64	$2.10	$2.35	$2.60
GPC	Genuine Parts Co	$2.50	$3.00	$3.58	$4.05	$4.18	$4.61	$4.63	$4.70	$5.10	$5.65
KAR	KAR Auction Services, Inc.	$0.19	$0.47	$1.17	$1.07	$1.20	$1.81	$1.84	$2.10	$2.50	$2.75

		Adjusted EV / Sales									
Ticker	**Company Name**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
F	Ford Motor Co	43.7%	61.1%	33.3%	39.7%	38.8%	40.3%	35.1%	25.5%	22.4%	17.6%
GM	General Motors	nm	45.4%	18.5%	51.4%	36.4%	33.5%	35.6%	28.4%	27.5%	26.0%
FCAU	Fiat Chrysler Automobiles N.V.	nm	nm	46.8%	35.2%	37.9%	31.7%	27.9%	24.6%	21.9%	18.0%
RACE	Ferrari	nm	nm	nm	nm	nm	nm	306.0%	278.5%	258.5%	236.6%
TSLA	Tesla Motors	nm	nm	nm	nm	827.6%	914.2%	629.7%	408.2%	358.8%	266.1%
	OEM Average ex. RACE & TSLA	43.7%	53.3%	32.9%	42.1%	37.7%	35.2%	32.9%	26.2%	23.9%	20.5%
AXL	American Axle & Manufacturing Holdings Inc.	138.9%	111.3%	101.3%	101.8%	112.4%	100.6%	83.1%	75.2%	64.2%	57.8%
BWA	BorgWarner Inc.	118.5%	183.8%	132.9%	129.6%	177.7%	158.0%	146.4%	100.3%	91.9%	85.6%
CPS	Cooper Standard Holdings	nm	nm	27.6%	31.8%	41.2%	47.7%	54.7%	58.7%	52.9%	45.7%
DLPH	Delphi Automotive PLC	nm	nm	64.5%	92.1%	123.7%	155.4%	188.5%	135.3%	119.3%	105.6%
GNTX	Gentex Corp	383.7%	455.2%	376.2%	205.9%	402.5%	368.6%	286.1%	274.0%	248.7%	226.6%
LEA	Lear Corp.	47.5%	38.3%	24.6%	27.9%	43.6%	49.6%	57.5%	47.8%	42.1%	35.9%
MGA	Magna International Inc.	26.7%	44.5%	25.1%	35.6%	51.5%	68.5%	51.9%	51.4%	45.7%	39.8%
MPG	Metaldyne Performance Group	nm	nm	nm	nm	nm	98.7%	100.9%	96.9%	86.3%	77.3%
	Supplier Average	82.9%	94.5%	69.7%	77.4%	101.8%	105.1%	104.7%	84.5%	74.9%	67.0%
ABG	Asbury Automotive Group, Inc.	24.4%	29.2%	27.8%	31.6%	41.6%	50.8%	41.5%	33.7%	31.3%	30.5%
AN	AutoNation, Inc.	40.6%	46.0%	50.5%	44.8%	45.1%	48.3%	43.6%	35.3%	32.1%	28.8%
GPI	Group 1 Automotive Inc	24.5%	26.3%	28.2%	27.6%	28.6%	33.8%	28.8%	23.5%	22.0%	21.1%
LAD	Lithia Motors Inc -CL A	24.4%	31.2%	32.2%	37.1%	51.1%	53.8%	43.6%	32.2%	30.4%	28.6%
PAG	Penske Automotive Group	24.4%	22.9%	23.2%	27.6%	36.0%	33.4%	26.1%	23.4%	21.1%	19.7%
SAH	Sonic Automotive Inc	18.6%	20.4%	20.1%	22.6%	23.1%	23.8%	20.5%	17.2%	16.5%	16.1%
CRMT	America's Car-Mart, Inc.	113.2%	101.7%	122.9%	117.2%	113.5%	123.8%	66.8%	72.9%	72.9%	72.9%
KMX	CarMax, Inc.	73.9%	84.3%	69.3%	78.1%	82.5%	105.9%	80.2%	74.5%	74.5%	74.5%
	Dealer Average	26.2%	29.3%	30.3%	31.9%	37.6%	40.6%	34.0%	27.6%	25.6%	24.1%
CPRT	Copart, Inc.	391.8%	376.2%	461.1%	452.4%	485.6%	424.0%	452.4%	512.4%	464.9%	434.2%
GPC	Genuine Parts Co	61.9%	72.4%	77.3%	77.2%	96.0%	111.3%	88.4%	100.9%	96.5%	91.7%
KAR	KAR Auction Services, Inc.	nm	199.0%	193.5%	229.8%	262.2%	274.8%	264.1%	237.4%	214.1%	196.0%
	Distribution Average	161.8%	169.5%	191.2%	199.2%	230.6%	211.7%	208.4%	220.2%	201.3%	240.6%

Source: Company data, Bloomberg, BofA Merrill Lynch Global Research estimates

Price objective basis & risk

American Axle (AXL)

Our $20 price objective for AXL is based on a 2017e P/E multiple of approximately 6x, which is consistent with an EV/EBITDA of around 4x. This is at the lower end of the company's historical range, which we believe is warranted given the US, AXL's major market, is now in the later innings of its cyclical recovery. Downside risks to our price objective are: 1) a slowdown in large truck volume growth, particularly at key customers, 2) failure to diversify its customer base, geographic, and product exposure, 3) expansion into new segments could significantly reduce operating margins, 4) sharp rise in raw material costs, 5) loss of business at key customers, and 6) disruption at AXL's suppliers.

America's Car-Mart, Inc. (CRMT)

Our price objective of $23 is based on a P/E of approximately 10x on our forward one-year EPS estimate, a slight discount to the average of CRMT's historical P/E range. Our PO is an EV/EBITDA of approximately 6x, which is consistent with the current trading range of CRMT's peer group. We believe that these multiples are appropriate given a moderate store growth pace for the foreseeable future.

Upside risks to our PO are: 1) faster than expected economic recovery for low-income consumers, 2) reduced competitive pressure from independent used and new vehicle dealers, 3) acceleration of the company's store growth strategy, 4) easing of limits on the interest rates CRMT can charge on installment contracts by the states in which it operates, 5) upward pressure from a covering of the material short interest on the stock. Downside risks to our PO are: 1) Stalled economic improvement, 2) low interest rates into perpetuity, keeping competitive pressure from dealers and lenders high, 3) deceleration of store growth, 4) inability to cover fixed costs and achieve operating leverage, 5) increasing scrutiny by state legislators and/or the CFPB.

Asbury Auto (ABG)

Our price objective of $68 is based on around 10x our 2017 EPS estimate, at the lower end of the company's historical range. We believe a slight discount is appropriate given that the US, which is ABG's sole market, is now in the later innings of its cyclical recovery, although the P&S business for the dealers should continue to grow over the next few years. Downside risks to our price objective are: 1) A slower recovery in new vehicle sales than expected, 2) market share losses by the Japanese brands, to which ABG is overexposed, 3) the possibility of materially higher interest rates, 4) consumer dissatisfaction with auto retailing, and 5) the potential for franchise law and/or consumer finance law changes.

AutoNation, Inc. (AN)

We are basing our $66 price objective on a P/E of 12.5x our 2017 EPS estimate, a slight premium to the dealer group due to its size and liquidity, but at the lower end of the company's historical range. We believe this is appropriate given that the US, which is AN's sole market, is now in the later innings of its cyclical recovery, although the P&S business should continue to grow over the next few years. Downside risks to our price objective are:1) slower recovery in the US auto market, 2) poorer-than-expected cost performance and margin compression, 3) a stoppage in share repurchase activity or material sell-off by key shareholders, 4) the possibility of materially higher interest rates, 5) consumer dissatisfaction with auto retailing, and 6) the potential for franchise law and/or consumer finance law changes.

BorgWarner (BWA)

Our $39 price objective is based on a 2017e P/E multiple of about 11x, which is consistent with an EV/EBITDA multiple of around 6.5x. We believe a multiple at the lower end of the company's historical range is warranted given a maturing growth profile, at the same time that the US is now in the later innings of its cyclical recovery.

However, BWA possesses what we believe to be all three tenets of a successful supplier, namely, proprietary technology, a solid balance sheet, and customer diversification. Downside risks to our price objective are: 1) relaxed fuel-efficiency regulations, 2) increased competition in the turbo industry, 3) a decline or flatline in US/global automotive volumes, and 4) a sharp and sustained increase in raw material costs.

CarMax, Inc. (KMX)

Our price objective of $70 is based on about 20x our FY2018 EPS estimate. This is a slight discount to the mid-point of KMX's historical range, which we believe reflects current investor sentiment towards KMX and auto stocks in general, given the US is now in the later innings of a cyclical recovery. However, we expect that the continued growth in the 0-5 year vehicle fleet, as well as a focus on new store openings, will likely drive KMX earnings higher through our forecast period and beyond. Risks to our price objective are: 1) extreme fluctuations in used vehicle pricing, 2) an extensive trend of customers opting for entry-level new vehicles rather than late-model used, 3) deterioration in credit availability and decline in the ABS market.

Cooper Standard Holdings (CPS)

Our $95 PO is based on a 2017e P/E multiple of roughly 9x and EV/EBITDA of about 4.5x, both of which are a discount to the multiples we use to value comparable suppliers. In our view, CPS shares warrant a discount to its peer group, as the company is farther behind in its restructuring efforts, has a less compelling product portfolio and a lower margin/returns profile, and is more reliant on continued strength in the US auto cycle to complete its turnaround and position itself to weather the next downturn in the cycle.

Downside risks: 1) Inability to successfully complete restructuring plan. 2) Decline in new vehicle production. 3) Inability to further diversify the business. 4) Inability to consistent execute financially. 4) Raw material cost inflation. 5) Trend towards OEM insourcing. 6) Auto supply industry is highly competitive. 7) Inability to handle OEM price downs. 8) Failure to maintain a lean cost structure. 9) New program/platform launch risk. 10) Rapid change in technology. 11) Overhang on stock from three largest shareholders' stakes.

Upside risks: 1) Better than expected operating leverage from continued strength in US auto sales. 2) Continued execution on its restructuring plan and footprint optimization. 3) Significant progress on its global expansion plan. 4) Positioning of products as value-add to OEMs as a result of material science innovations. 5) Strategic M&A to consolidate sealing/hosing space and bolster long-term positioning.

Delphi Automotive (DLPH)

Our $80 price objective for Delphi shares is based on a 2017e P/E multiple of roughly 12x and is also supported by an EV/EBITDA multiple of about 8x. The multiples that we use to value DLPH shares are at the higher end of the supplier range due to the company's above-average revenue and earnings growth trajectory. Given that Delphi has changed significantly since it was last a public company, we believe historical DLPH trading ranges are less useful. Downside risks to our PO are: 1) sustained volatility in international markets, and in particular softness in Europe, 2) a decline or flatline in US/global automotive volumes, 3) a sharp and sustained rise in raw material costs, 4) loss of key customers or suppliers, 5) inability to win new business, 6) competitive pricing pressure, 7) regulatory changes and antitrust investigations, 8) natural disasters driving supply chain disruptions.

Ferrari (RACE)

Our $60 PO is based on a 2017e EV/Sales multiple of around 3.5x, which is in line with a number of luxury goods manufacturers that we classify as RACE's peer group. While there is truly no direct comparable company to Ferrari, we think a multiple at least in line with select luxury goods companies is warranted, as a deserved premium for a long history of demand outstripping supply is offset, in part, by a discount for the inherent capital intensity of Ferrari's business vs. its peer group. Downside risks to our PO: 1) devaluation of the brand due to overproduction or licensing expansion, 2) a decline in the wealth/size of the HNWI community, 3) degradation in perceived vehicle quality or performance, 4) impairment of its Formula 1 reputation or perceived racing pedigree, 5) F-1 losses persist or accelerate, 6) deterioration in adjacent businesses, 7) intensifying competition in the luxury vehicle market, 8) dependence on certain large volume suppliers, 9) significant rise in raw material costs, 10) significant voting power and control attributable to Piero Ferrari & Exor S.p.A, and 11) future stock sales from spin-off of remaining FCA stake in January 2016. Upside risks to our PO: 1) modest volume expansion, 2) an upward bias on pricing, 3) growth in adjacent businesses, 4) gradual brand and licensing extension, 5) moderation or rationalization of F-1 losses, 6) execution & cost efficiency realization, and 7) management commitment to preserving the exclusive luxury culture.

Fiat Chrysler Automobiles N.V. (FCAU)

Our $8 PO is based on an EV/EBITDAP multiple of about 2x and P/E of about 4x on our 2017 estimates, which is a discount to peers Ford and GM. In our view, FCA warrants a valuation discount to Ford and GM, as the company is still several years behind its domestic peers on a number of key aspects, such as product, platform rationalization, and balance sheet status. There is also a a large burden of proof that lies ahead for FCA to determine if near-term restructuring, rationalization, and growth will be sufficient to transform the company into a viable long-term player.

Downside risks to our price objective: 1) Slowdown/reversal of the recovery in the US auto industry. 2) International regions remain volatile and do not support FCA's growth plans. 3) New product launches fail to achieve targeted growth and market share gains. 4) Deterioration in mix from trucks to cars. 5) Competitive pricing pressures. 6) FCA is unable to material de-lever its balance sheet before the downturn. 7) Stress in capital markets makes borrowing more expensive. 8) Key members of management leave.

Upside risks: 1) Continued strength in US auto cycle. 2) Growth in China remains robust, which FCA is able to leverage with product launches. 3) Global product launches are successful in achieving targeted growth and market share gains. 4) Mix and pricing remain favorable. 5) FCA is able to materially de-lever its balance sheet before the downturn.

Ford Motor (F)

Our $14 PO is based on a 2017e P/E of 7x, at the lower end of the company's historical range heading into a cyclical peak, which we believe is warranted as the US is now in the later innings of its cyclical recovery. Downside risks to our PO: 1) slower-than-anticipated recovery in the US market, 2) a sharp and sustained rise in input costs, 3) disruption in the supply base, 4) significant increase in gas prices, 5) new vehicle pricing deteriorates, 6) market share losses pressure results, 7) unwillingness of dealers to shoulder inventory risk, 8) suppliers gain significant pricing power, 9) stress in capital markets makes borrowing more expensive, 10) key members of management leave Ford, 11) dealership network is impaired and unable to sell F vehicles.

General Motors Company (GM)

Our $43 PO is based on a 2017e P/E of 7x, at the lower end of the company's historical range heading into a cyclical peak, which we believe is warranted as the US is now in the later innings of its cyclical recovery. Risks are: 1) A slower-than-expected global economic recovery, 2) Soft consumer confidence, 3) Another wave of stress in the supply base, 4) New management team, 5) Rising raw material costs, 6) Competitive pricing pressures 7) Additional recall charges.

Gentex (GNTX)

Our $11 price objective on GNTX shares is based on a 2017e P/E multiple of roughly 9x, below the company's historical range. We believe this multiple are more appropriate than GNTX's 25x long-run average P/E given increasing RCD competition and the potential displacement of the rear-view mirror in lieu of camera based systems. Upside risks to our price objective are: 1) new program wins that drive higher-than-expected shipment growth, 2) a successful launch of new technology that allows the company to avoid losing market share, 3) stronger-than-expected positive operating leverage, and 4) any regaining of pricing power with the automakers. Downside risks are: 1) a slowdown in global auto shipments, 2) softer-than-expected operating leverage, 3) a significant rise in raw materials costs, and 4) increased competition from other suppliers 5) risk of management pursuing large and potentially dilutive M&A.

Genuine Parts (GPC)

Our $92 price objective for GPC shares is based on a 2017e PE multiple of approximately 18x and is supported by EV/EBITDA multiple of roughly 10.5x, which are both around the average of the stock's historical trading range. The company's auto division continues to be a bright spot and is the company's largest business segment, although FX headwinds and a challenging macro environment for the company's Industrial and Electrical segments could partially offset in the near term. Downside risks to our price objective are: 1) general economic weakness, 2) acquisition integration, 3) sustained declines in US miles driven and or the vehicle fleet, 4) highly competitive end markets could result in pricing pressure, 5) inability to maintain key suppliers and customers. Upside risks are: 1) stronger than anticipated US GDP growth, 2) acquisitions are more accretive than forecast, 3) stronger than expected industry pricing trends, 4) larger than expected market share gains.

Group 1 Auto (GPI)

Our price objective of $85 is based on around 10x our 2017 EPS estimate, at the lower end of the company's historical range. We believe a slight discount is appropriate given that the US, which is GPI's largest market, is now in the later innings of its cyclical recovery, although the P&S business for the dealers should continue to grow over the next few years. Downside risks to our price objective: 1) slower than expected recovery in the US, UK and/or Brazil, 2) the loss of key management figures, 3) the possibility that GPI is unable to achieve the operating leverage we forecast, 4) the possibility of materially higher interest rates, 5) consumer dissatisfaction with auto retailing, and 6) the potential for franchise law and/or consumer finance law changes.

KAR Auction Services (KAR)

Our price objective of $55 is based on an adjusted EV/EBITDA multiple of roughly 11x of our 2017e. An 11x EV/EBITDA multiple would be at the higher end of KAR's recent, historical trading range, which we believe is warranted given improving whole car business mix and continued execution at IAA and AFC. KAR's longer-term, historical average EV/EBITDA multiple range is somewhat illustrative, but not directly applicable because of significant changes in the company since it was last public. Downside risks: 1) Failure to maintain relationships with key vehicle suppliers, 2) Failure to successfully integrate acquisitions, 3) Failure to maintain key managers. Upside risks: 1) Execution of a large, transformational acquisition, 2) development of relationships with new suppliers and customers, 3) greater than expected return of shareholder value.

Lear Corp. (LEA)

Our $145 price objective on LEA shares is based on a 2017e P/E multiple of roughly 10x, consistent with an EV/EBITDA of about 5.5x, both of which are just slightly above the supplier average. We believe a multiple slightly above the supplier average is warranted, for now, given the company's proven track record of execution and solid growth prospects. Prior to Lear's bankruptcy, the stock historically traded in the range of about 4x-7x EV/EBITDA, but we believe a multiple higher than the historical average of

5.5x is warranted given the company's significant restructuring actions, balance sheet strengthening, continued execution. Downside risks are: 1) a slowdown or decline in US/global automotive volume growth, 2) increased pricing pressure from OEM customers, 3) loss of business at key customers, 4) fierce competition in the automotive supply base, 5) a significant and sustained rise in raw material costs, and 6) execution risk of restructuring, operations, and acquisitions.

Lithia Motors A (LAD)

Our price objective of $85 is based on approximately 10x our 2017E EPS estimate, at the lower end of the company's historical range. We believe this discount is appropriate given that the US, which is LAD's sole market, is now in the later innings of its cyclical recovery, although the P&S business for the dealers should continue to grow over the next few years. However, LAD has recently been trading significantly above its dealer peers, leaving relatively less upside to our price objective than other auto dealer stocks. Downside risks to our price objective: 1) slower than expected recovery in US auto sales, 2) slower improvement in operating leverage than we are forecasting, 3) substantial market share loss by domestic brands, to which LAD is exposed, 4) the possibility of materially higher interest rates, 5) consumer dissatisfaction with auto retailing, and 6) the potential for franchise law and/or consumer finance law changes. Upside risks: 1) acquisition activity above our current forecasts, 2) continued recovery in US auto sales beyond our estimates, 3) outsized improvement in rural markets where LAD is overexposed relative to peers, 4) significant improvement in cost leverage beyond our estimates.

Magna Intl (MGA)

Our $54 price objective on MGA shares is based on a 2017e P/E multiple of roughly 9x, consistent with an EV/EBITDA of about 5.5x. These are at the lower end of the company's historical ranges, which we believe is warranted given North America, MGA's major market, is now in the later innings of its cyclical recovery. However, MGA has a sound market position and solid growth prospects, which will likely allow the company to continue to grow earnings over the next few years. Downside risks to our price objective are: 1) a flatline or decline in the US SAAR and NA production volumes 2) continued softness in Europe or an inability to deliver on projected growth targets in emerging markets, 3) stress at key customers, most notably the Detroit Three.

Metaldyne Performance Group (MPG)

Our $20 price objective for MPG is based on a 2017e P/E multiple of approximately 9x, which is consistent with an EV/EBITDA of around 5x. These are about in line with the supplier average, which we believe is warranted given North America, MPG's major market, is now in the later innings of its cyclical recovery. Downside risks to our price objective are: 1) a decline or flatline in US/global LV and CV volumes, 2) a less-than-favorable outcome at the KBI facility, 3) a sharp and sustained rise in raw material costs, 4) loss of key customers or suppliers, 5) competitive pricing pressure, 6) a high cash tax rate, and 7) inability to win new business.

Penske Auto Group (PAG)

Our price objective of $51 is based on around 11x our 2017 EPS estimate, a slight premium to the dealer average one-year forward P/E. We believe a slight premium to the dealer average is appropriate, as PAG's exposure to international regions and the luxury segment could be a mitigating factor for the company when the US eventually enters a downturn. Notwithstanding, the US, one of PAG's main markets, is currently in the later innings of its cyclical recovery, which may be a headwind to sentiment, although the P&S business for the dealers should continue to grow. Downside risks to our price objective: 1) the loss of Roger Penske's leadership, 2) slower sales recovery in the US or Europe than estimated, 3) the possibility of materially higher interest rates and/or unfavorable foreign exchange rates 4) consumer dissatisfaction with auto retailing, and 5) the potential for franchise law and/or consumer finance law changes.

Sonic Automotive (SAH)
Our price objective of $24 is based on around 10x our 2017 EPS estimate, a slight discount to the historical dealer range. We believe a slight discount is appropriate given that the US, which is SAH's sole market, is currently in the later innings of its cyclical recovery, although the P&S business for the dealers should continue to grow. Downside risks to our price objective: 1) a slower than expected recovery in US new vehicle sales, 2) the possibility of materially higher interest rates, 3) consumer dissatisfaction with auto retailing, and 4) the potential for franchise law and/or consumer finance law changes. Upside risks are: 1) prolonged upside in the US cycle beyond our forecasts, 2) sustained suppressed interest rates, 3) material accretive M&A activity, 4) market share gains as a result of successful initiatives.

Tesla Motors (TSLA)
Our $155 PO is based on an average of 2017e EV/Sales and EV/EBITDA for a set of comparable tech companies, reflecting potential optionality in ancillary markets such as stationary storage. We have focused on 2017, as we believe it should represent a more normalized earnings and cash flow year for Tesla, given the expected launch of the Model X in 2015 and Model 3 in 2017. Downside risks to our PO are 1) Inability to substantially lower operating costs and generate free cash flow, 2) slower-than-anticipated ramp in electric vehicle demand, 3) setbacks or slower than expected advances in battery technology, 4) fierce competition from well-established OEMs, 5) a sharp and sustained rise in raw material costs, 6) an inability to execute efficiently with higher volume, 7) a reduction or end to Federal and State incentives for electric vehicles, 8) low gasoline prices, 9) loss of key management, 10) a decline in luxury vehicle demand, 11) Material weakness in the internal control over financial reporting has been cited. Upside risks to our PO are 1) better-than-expected execution and cost containment, 2) a sharp and sustained rise in gasoline prices, 3) a breakthrough in advanced battery technology, 4) increase in Federal or State incentives, 5) short covering by the substantial % of short interest in TSLA shares.

Analyst Certification

We, John Murphy, CFA and Elizabeth L Suzuki, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

BofA Merrill Lynch is currently acting as a financial advisor to SolarCity Corp in connection with its proposed sale of the company to Tesla Motors Inc, which was announced on August 1, 2016. The proposed transaction is subject to approval by shareholders of SolarCity Corp and Tesla Motors Inc. This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding or revocation of a proxy.

US - Automotives Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Asbury Auto	ABG	ABG US	John Murphy, CFA
	AutoNation, Inc.	AN	AN US	John Murphy, CFA
	CarMax, Inc.	KMX	KMX US	John Murphy, CFA
	Delphi Automotive	DLPH	DLPH US	John Murphy, CFA
	Ferrari	RACE	RACE US	John Murphy, CFA
	General Motors Company	GM	GM US	John Murphy, CFA
	Group 1 Auto	GPI	GPI US	John Murphy, CFA
	KAR Auction Services	KAR	KAR US	Elizabeth L Suzuki
	Magna Intl	MGA	MGA US	John Murphy, CFA
	Penske Auto Group	PAG	PAG US	John Murphy, CFA
	Sonic Automotive	SAH	SAH US	John Murphy, CFA
NEUTRAL				
	American Axle	AXL	AXL US	John Murphy, CFA
	BorgWarner	BWA	BWA US	John Murphy, CFA
	Copart, Inc.	CPRT	CPRT US	Elizabeth L Suzuki
	Ford Motor	F	F US	John Murphy, CFA
	Lear Corp.	LEA	LEA US	John Murphy, CFA
	Lithia Motors A	LAD	LAD US	John Murphy, CFA
	Metaldyne Performance Group	MPG	MPG US	John Murphy, CFA
UNDERPERFORM				
	America's Car-Mart, Inc.	CRMT	CRMT US	Elizabeth L Suzuki
	Cooper Standard Holdings	CPS	CPS US	John Murphy, CFA
	Fiat Chrysler Automobiles N.V.	FCAU	FCAU US	John Murphy, CFA
	Gentex	GNTX	GNTX US	John Murphy, CFA
	Genuine Parts	GPC	GPC US	Elizabeth L Suzuki
	Tesla Motors	TSLA	TSLA US	John Murphy, CFA

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Autos Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	35	47.30%	Buy	26	74.29%
Hold	20	27.03%	Hold	16	80.00%
Sell	19	25.68%	Sell	13	68.42%

Equity Investment Rating Distribution: Distributors Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	6	54.55%	Buy	6	100.00%
Hold	4	36.36%	Hold	3	75.00%
Sell	1	9.09%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	49.41%	Buy	1178	75.51%
Hold	729	23.09%	Hold	552	75.72%
Sell	868	27.49%	Sell	547	63.02%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

***INCOME RATINGS*, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend.** *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch report referencing the stock.

Price charts for the securities referenced in this research report are available at http://pricecharts.baml.com, or call 1-800-MERRILL to have them mailed.

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MLPF&S or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: American Axle, Asbury Auto Grp, AutoNation Inc, BorgWarner, CarMax, Cooper Standard, Delphi, Ferrari, General Motors Co, Group 1 Automoti, Magna Intl, Penske Auto Group, Tesla Motors.

The issuer is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: American Axle, Asbury Auto Grp, AutoNation Inc, BorgWarner, CarMax, Cooper Standard, Delphi, Ferrari, Fiat Chrysler Auto, Ford Motor, General Motors Co, Genuine Parts, Group 1 Automoti, KAR Auction Svcs, Lear Corp., Magna Intl, Metaldyne, Penske Auto Group, Sonic Automotive, Tesla Motors.

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MLPF&S or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: American Axle, Asbury Auto Grp, AutoNation Inc, BorgWarner, CarMax, Cooper Standard, Delphi, Ferrari, Fiat Chrysler Auto, Ford Motor, General Motors Co, Genuine Parts, Group 1 Automoti, KAR Auction Svcs, Lear Corp., Magna Intl, Metaldyne, Penske Auto Group, Tesla Motors.

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