Desjardins

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PowerBand Solutions Inc.

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Rating	**Buy**
Risk	**Speculative**
12-month target	**C$1.60**

Symbol	PBX, TSX-V
Sector	Diversified Industries
Closing price ($)	C$0.80
Potential return (%)	100.0
52-week range ($)	C$0.30–1.49
Avg daily value traded ($m)	C$0.4
Shares O/S (m)[1]	193.1
Market cap ($m FD)	C$154
Net debt ($m)	C$(2)
EV ($m)	C$152
Year-end	Dec-31

Desjardins estimates

Annual	**2020**	**2021E**	**2022E**	**2023E**
Revenue (C$m)	3.0	24.8	54.2	89.5
EV/revenue (x)	50.7	6.1	2.8	1.7
Gross profit (C$)	1.3	11.3	27.0	48.0

Quarterly	**1Q21**	**2Q21**	**3Q21**	**4Q21E**
Revenue (C$m)	2.9	4.7	9.2	8.0
Gross profit (C$)	1.5	2.4	4.0	3.4

[1] Shares outstanding (FD) 226.5m
Source: Desjardins Capital Markets, Bloomberg, FactSet

Powering through the auto sector with financing and marketplace innovation

The Desjardins Takeaway

PowerBand Solutions (PBX) is a fintech provider which enables consumers, dealerships, lenders and OEMs to buy, sell, trade, finance and lease new and used vehicles primarily in the US market through its Drivrz integrated, cloud-based transaction platform. PBX is in the early innings of product penetration and dealer adoption, and we believe there is tremendous growth runway ahead. With a 100% potential return to our C$1.60 target, we are initiating coverage with a Buy–Speculative rating.

Highlights

We are positive on the PBX story for several reasons. (1) Meaningful value proposition for dealer customers in an untapped used vehicle leasing market; DF products appeal to dealerships while providing greater profit potential; (2) market adoption, greater customer awareness and scalability benefits should drive meaningful near-term growth; (3) considerable market opportunity—at a mere 2% market share, PBX could become a C$2b enterprise value company; (4) benefits from first-mover advantage and several notable barriers to entry; and (5) no inventory or credit risk exposure.

Potential catalysts to watch for. (1) Launch of DL and DX should enhance growth in 2022 and beyond; (2) improving vehicle inventory and dealer adoption should result in a ramp-up in lease originations; and (3) potential uplisting or senior US listing should broaden investor base over time.

What differentiates our report? (1) A deep dive into the intricacies of DF flow lease arrangement and revenue drivers as well as providing examples; (2) blue-sky scenario analysis assuming 1–2% market share; and (3) a one-on-one interview with an early-adopter dealer of the DF product.

Valuation

Our C$1.60 target is based on a combination of 5.0x EV/sales (50%) and 8.0x EV/gross profit (50%) valuation methodology on our 2023 estimates, discounted back to 2022 using a 15% discount rate. To this, we adjust for net debt, NCI and cash receivable from the exercise of in-the-money warrants and options.

Recommendation

We are initiating coverage with a Buy rating and C$1.60 target. Our investment thesis is predicated on: (1) increasing dealer adoption and better inventory situation should result in an acceleration of originations; (2) limited competition in an untapped used leasing market presents a massive growth opportunity; and (3) an asset-light model with zero inventory or credit risk exposure.

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Executive summary

- **PowerBand Solutions Inc. (PBX) is a fintech provider which enables consumers, dealerships, lenders and OEM manufacturers to buy, sell, trade, finance and lease new and used vehicles primarily in the US market through its Drivrz vertically integrated, cloud-based transaction platform.** Three core underlying fintech products support the Drivrz network: Drivrz Financial (a key revenue driver today which originates ~300 leased vehicles per month), DrivrzXchange (unique auction and sales platform) and DrivrzLane (digital retail solutions connecting consumers, dealers and lenders online).
- **Massive US auto and auto financing industries present a tremendous opportunity.** The auto industry represents the largest US retail trade category at US$1.5 trillion, with a CAGR of ~7% over the past decade. In 2020, more than 14.0m new light trucks and automobiles were sold in the US, with another 37.2m used vehicle transactions. Similarly, the US auto financing industry carries US$1.44 trillion in loan balances, with a ~6% CAGR over the past two decades.
- **Meaningful value proposition for dealer customers in an untapped used vehicle leasing market. DF products appeal to dealerships while providing greater profit potential:** (1) substantial dealer profit enhancement; (2) differentiated customer retention benefits vs finance/cash purchases; (3) lower lease payments (vs finance), a key selling point; and (4) platform offers wider customer reach.
- **Market adoption, greater customer awareness and scalability benefits should drive meaningful near-term growth.** Despite posting double-digit month-over-month growth in originations in 2021 with ~1,700 originations to date in 3Q, management expects a significant step-up to 7,000–9,000 DF originations in 2022.
- **Considerable market opportunity.** By our estimate, if DF meets its 7,000–9,000 originations target for 2022, this represents a mere 0.23–0.29% market share. Under a blue-sky scenario, assuming DF achieves 1–2% of used vehicle originations greater than US$40,000 in the US, DF could achieve 30,868–61,735 units a year while generating C$123.5–246.9m in gross profit annually. Using a 6–8x EV/gross profit multiple, we arrive at a potential enterprise value of upwards of C$2b (vs its C$154m market cap today).
- **First-mover advantage and several notable barriers to entry.** (1) DF is currently licensed in 43 states, with a target of 48 states over time; (2) the lending platform is integrated with credit unions through an exclusive AML First broker relationship; (3) Drivrz's LOS is fully integrated with industry-leading credit application submission platforms RouteOne and Dealertrack, utilized by 80–85% of the dealer network; and (4) minority stake in CB Auto Group solidifies distribution channel.
- **Other notable positives.** (1) No inventory or credit risk exposure—a true asset-light model; (2) credit union lenders with preferential tax treatment benefit the DF model; (3) broadening of shareholder base through uplisting and potential senior US listing; and (4) potential takeout candidate.
- **We foresee several key issues worth monitoring:**
  - **Supply shortage may linger through to 2023, potentially impacting originations.** Supply chain issues related to shortages of semiconductor computer chips and delivery problems significantly disrupted the auto sector for the better part of 2021. This has caused ripple effects within the auto market, resulting in record low inventories.
  - **Prioritizing the highest return on capital will be a focus.** While we understand the potential opportunity ahead, we recognize that at least over the near term, DF represents the best growth opportunity for PBX and management should consider prioritizing the DF buildout over other initiatives.
  - **Other.** Raising awareness may require higher advertising and marketing spend, dependency on credit unions poses some funding risks, and there is share dilution from in-the-money warrants and stock options.
- **What differentiates our report?** (1) A deep dive into the intricacies of DF flow lease arrangement and revenue drivers as well as providing examples; (2) blue-sky scenario analysis assuming 1–2% market share; and (3) a one-on-one interview with an early-adopter dealer of the DF product.

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Company overview

PowerBand Solutions Inc. (PBX) is a fintech provider which enables consumers, dealerships, lenders and OEM manufacturers to buy, sell, trade, finance and lease new and used vehicles primarily in the US market through its Drivrz vertically integrated, cloud-based transaction platform. Three core underlying fintech products support the Drivrz network—Drivrz Financial (a key revenue driver today which originates ~300 leased vehicles per month, with a goal of hitting 1,000 vehicles per month over the near term), DrivrzXchange (unique auction and sales platform) and DrivrzLane (digital retail solutions connecting consumers, dealers and lenders online); DrivrzXchange and DrivrzLane are both scheduled to launch in early 2022, helping further boost transactions in the established Drivrz Financial platform. PBX operates within the massive US$1.5 trillion US auto market, with ~55m in annual vehicle sales (~15m new and ~40m used). The company has ~100 employees and is listed on the TSX Venture Exchange, with a market cap of ~C$154m.

Drivrz platform—fintech overview

The Drivrz platform represents an ecosystem of cloud-based applications which operates as a comprehensive online marketplace for vehicle auction, marketing, leasing and financial services, packaged as a software solution for dealers and consumers. Exhibit 1 depicts what management envisions the Drivrz network will expand into over the coming years—a one-stop shop, end-to-end solution for vehicle transactions. The Drivrz platform is segmented into three business lines—Drivrz Financial, DrivrzXchange and DrivrzLane (the latter two are currently under development and in the pilot testing stage). As Drivrz Financial represents the majority of PBX's revenue today and likely over the near term, our report and financial estimates primarily focus on this segment.

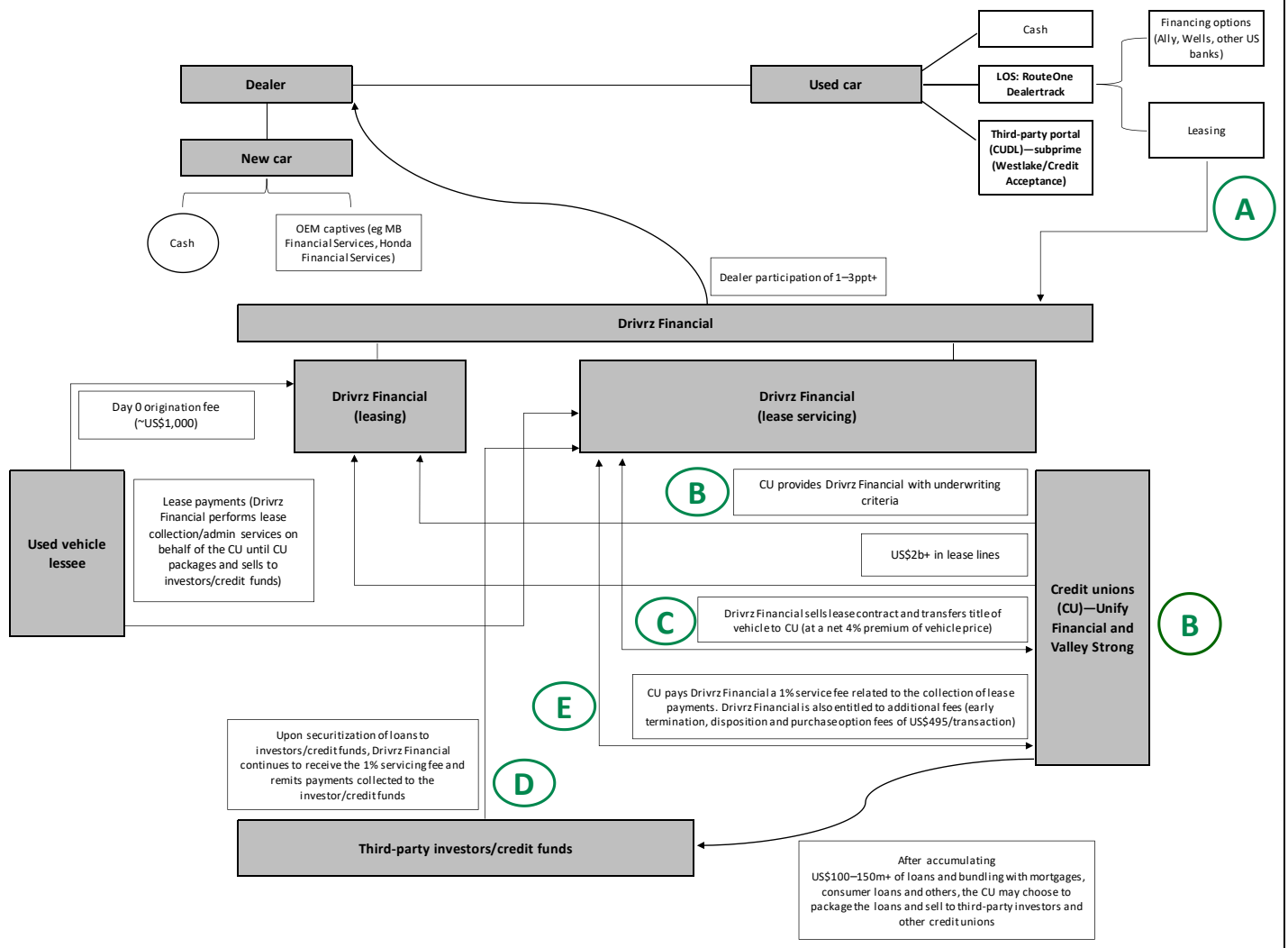
Exhibit 1: The Drivrz ecosystem

Source: Desjardins Capital Markets, company presentation

Drivrz Financial (DF). Launched in 3Q20, DF provides an online platform offering a leasing option for dealers when presenting customers with financing/leasing decisions for used vehicle purchases. The dealer serves as DF's end client. Simply put, the DF business model/technology has broker-like attributes—it connects customers to a leasing product through its exclusive credit union lender relationships and clips various revenue streams along the way. It inherits no credit risk (loan transfers to the credit union the same day the vehicle sale transaction takes place through a flow lease arrangement) and no inventory risk (the vehicle asset stays on the dealer's book prior to sale) while generating a healthy gross profit margin (~50%+). For investors familiar with the Carvana, CarMax or Vroom stories, the DF business model draws parallels to these businesses' finance segment and their attractive finance GPU (gross profit per unit). Currently, DF's dealer relationship count stands at ~1,200, up from 468 in June 2021. Management has an objective of onboarding a total of 2,000

dealers in the coming years—we note that the US market supports 16,000+ franchise dealers and a further 38,000+ independent dealers today. DF's lease origination count in 3Q21 averaged 268 per month, up 288% vs 69 originations completed in December 2020. In December 2021, DF reached a record high of 360 originations. DF has an ambitious target of 3–4 originations per dealer per month, or 6,000–8,000 monthly lease originations, assuming it achieves a 2,000-dealer count; this suggests a tremendous growth opportunity over the next few years. In the flow chart below, we detail the role DF plays in the vehicle purchase process and the specifics around a flow lease transaction.

Exhibit 2: PBX business model flow chart



Source: Desjardins Capital Markets

A. Customers purchase vehicle at a dealership. Franchise dealers sell both new and used vehicles (eg Mercedes-Benz or Honda, etc) while independent dealers offer used vehicle inventory only but are not tied to any specific OEM manufacturer. For a new vehicle, the customer could choose to pay in cash, finance the purchase or lease it for a period of 3–4 years typically. The latter two options are predominantly done through the OEM's own financial arm (eg Mercedes-Benz Financial Services or Honda Financial Services). For used vehicles purchased through a franchise dealer or an independent dealer, cash or finance are the two common options today. However, DF has now provided a third option to dealers, which is used car leasing for customers who qualify under DF's underwriting criteria as stipulated by its credit union financiers. To provide some context, historically the average vehicle purchase price has hovered around US$55,000–60,000, with the top two selling OEM brands

being Mercedes-Benz and BMW, suggesting higher-end vehicles being sold. The average customer's FICO score is ~700.

B. Credit unions play a critical role in underwriting. DF has an exclusive distribution agreement with two credit unions (Unify Financial and Valley Strong), which have agreed to provide US$2b in vehicle financing line plus an additional US$2b financing facility specifically for EV vehicles. In the US, credit unions are not-for-profit organizations, with preferential tax exemption status allowing them to pay no federal corporate or state business taxes. As a result, their return thresholds are lower than for traditional banks. For DF, the credit unions stipulate the underwriting criteria they are willing to accept, including:

- Customer FICO score of 550+
- No commercial loans (ie cannot lease to a company, must be an individual)
- Vehicle age—current plus four model years at time of lease inception
- Vehicle mileage of less than 115,000 miles at the end of lease term

C. Completion of dealer lease transaction and immediate sale to credit unions. Once the customer and dealer finalize the terms of the lease, the vehicle and the lease contract are then transferred from the dealer to DF in exchange for monetary consideration. On the same day, that same vehicle and lease contract are sold to the credit union while DF recognizes a gain on lease origination. This represents the largest revenue source for DF in this transaction; we will go through the mechanics later in this report. It is important to note that given the flow lease nature, DF does not hold the vehicle inventory risk or the underlying credit risk of the lessee.

D. Credit unions securitize loan portfolio. For a period of a few months, the credit unions accumulate auto loan balances on their books and could choose to package them in the securitization market to private credit funds or third-party investors. The securitization could take the form of auto leases only or could be packaged with other credit union loan products such as mortgages, credit cards, etc.

E. Fee-based revenue from servicing the loan portfolio. DF charges a 1% fee on the outstanding loan balance (currently at US$155m) for ongoing payment collection, follow-up on late payments and delinquencies, etc. This fee will grow as originations ramp up.

Unpacking Drivrz Financial revenue streams

We describe the four sources of revenue that drive DF's top line below. Exhibit 3 provides the characteristics of each, including timing of revenue earned, variable vs fixed, the party making the payment, as well as two examples of a vehicle purchase for US$60,000 and US$90,000.

- **Gain on sale and origination** (variable). This represents the largest component of DF's revenue source and one that is somewhat complex and not well-understood by investors. Indirectly, this reflects the net interest rate spread between the lease rate and the cost of funds for the duration of the contract. The most straightforward way to explain this is through a bond pricing arrangement. Lease rates are dynamic, based on the customer FICO score and the prevailing rate environment, which are stipulated by the credit union lenders. The lease rates offered to customers reflect a net ~4% premium from the credit union's standpoint—the credit union will pay a bond-equivalent of 104 face value for the lease contract arranged by DF and its dealer network. This premium above par already considers the 1–3ppt related to dealer participation. Regardless of the interest rate environment, the credit union pays this fixed premium above par since customers' lease rates adjust to movements in the prevailing market interest rates.
- **Lease origination/customer acquisition fee** (predominantly fixed). Fees related to connecting a customer to a lessor are baked into the purchase agreement. For most vehicles DF underwrites,

this fee amounts to US$1,000 per vehicle. However, for high-end transactions (US$200,000+), this fee could be as much as US$2,000 per vehicle.

- **Servicing fee** (variable). 1% on the total cumulative average loan balance outstanding. This is either paid by the credit union or private credit/third-party fund post securitization for collection and servicing payments. This servicing fee should trend higher over time as the total loan book grows.
- **Fees associated with end of lease/other fees** (fixed/one-time). When a customer terminates a lease early, DF charges a one-time US$495 early termination fee. Otherwise, upon lease maturity, the customer pays a US$495 end-of-term fee for disposition or purchase of the vehicle at its residual value. These deferred fees are not recognized until the lease terminates. Other fees include late-payment fees (US$25) and other one-time administrative fees borne by the customer.
- **Deal-sourcing** (variable/paid by DF to broker). As an offset to the above, DF pays a 1% broker/dealer sourcing fee to ALM First (broker/adviser which helps credit unions establish risk parameters). Other aggregator fees are paid to brokers that help source dealer relationships in regions where DF currently has minimal market penetration.

Exhibit 3: Sources of PBX's revenue

Revenue	Timing	Variable/fixed	Who pays	US$60,000 vehicle	US$90,000 vehicle
Lease origination/ customer acquisition fee[1]	Upfront/day 0	Predominantly fixed	Customer	US$1,000	US$1,000
Gain on sale/ origination	Upfront/day 0	Variable (based on loan amount)	Credit union	Earns a net ~4% gain on sale of lease origination (or US$2,400) before incurred expenses	Earns a net ~4% gain on sale of lease origination (or US$3,600) before incurred expenses
Servicing fee	Ongoing	Variable (based on loan book)	Credit union/private fund	Based on 1% cumulative lease originated	Based on 1% cumulative lease originated
End of lease/ other fees	One-time/end of term or termination	Fixed (per vehicle)	Customer	Early termination US$495, end of term US$495, late fees US$25	Early termination US$495, end of term US$495, late fees US$25
Less: Dealer sourcing fee	Upfront/day 0	Variable (based on loan amount)	DF to broker	~1% of loan amount (US$600)	~1% of loan amount (US$900)
Gross profit				**~US$3,300 + servicing fee**	**~US$4,200 + servicing fee**

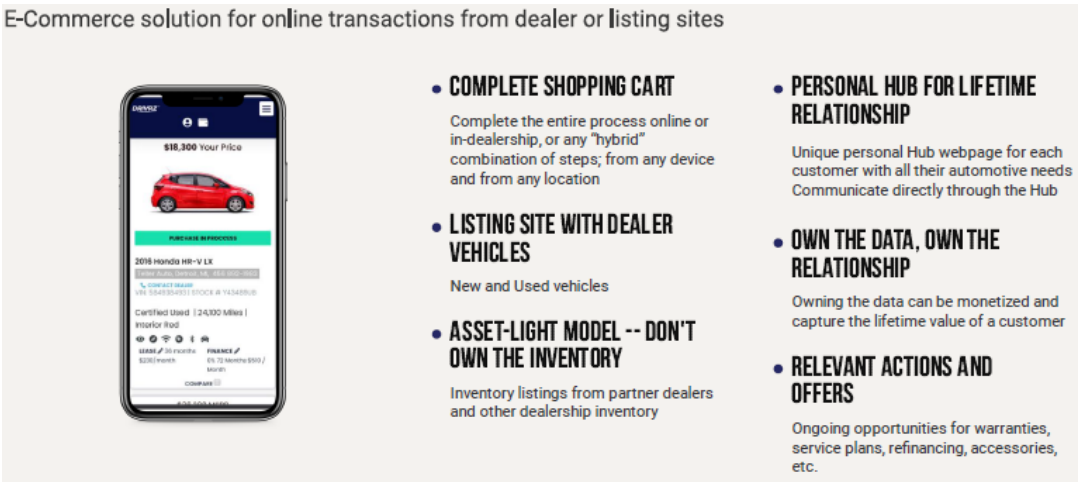
[1] For higher-end vehicles, the customer acquisition fee (origination fee) could be upwards of US$2,000
Source: Desjardins Capital Markets

DrivrzLane (DL). Slated to officially launch sometime in 1Q22, DL offers an e-commerce listing solution with a full suite of online shopping functionality. The platform lists ~4.5m used and new vehicles held by dealers across the US. DL provides the technology solution for dealers but does not take on any inventory risk (unlike traditional brick-and-mortar and online dealers that need to finance dealership inventory through floorplan financing). Management has noted that DL's products are gaining adoption ahead of its official launch in 1Q22, with signed agreements from 29 dealers (representing 105 rooftops). DL developed an iPad-based selling platform, IntellaCar, which helped enhance the in-dealership customer experience. Augmenting this is the addition of IntellaCar Garage, which helps bridge the online to in-store experience for customers. This new offering allows a consumer to save/manage their selected vehicles online and provides the tools necessary to find information about the make and model of the selected vehicles.

Closing out this platform is the upcoming launch of a complete end-to-end e-commerce/digital retailing solution, with user-friendly payment options allowing consumers to shop and/or buy dealer vehicles either at home or in-store. The new payment function is expected to calculate accurate lease/loan payments on every vehicle (both new/used). Management anticipates that DL will provide PBX with a more stable revenue stream through a SaaS platform which is expected to generate

significant growth in 2022. With the 29 dealers currently signed, management expects recurring revenue contribution of US$30,000 per month, which is a combination of licensing fees (US$999–1,995 per month) and transaction fees. Management is targeting its dealer count to grow to 300 over the near to medium term; as more dealers get onboarded to the DL platform and with increased cross-selling capabilities, revenue sources could grow to the US$50–100m range based on 3,000–4,000 dealers (vs ~US$0.5m annualized revenue run rate today). In early December, PBX further expanded its DL platform through an MOU with FinMkt (a New York–based fintech company focused on affordable financing) to offer DrivrzCash to dealers on its platform. DrivrzCash is a third-party purchasing service offered to consumers who utilize products and services offered by dealers such as warranties, repairs, parts and after-market accessories. The platform enables consumers to obtain financing approval upfront without the need for a credit report—the convenience of obtaining approvals upfront allows customers to protect, maintain and enhance their vehicle purchase. DrivrzCash is expected to generate incremental revenue and could represent a ~C$10m opportunity in annual revenue for every 300 onboarded dealers, with a 90% gross margin. Exhibit 4 below illustrates the digital application and lists a few highlights.

Exhibit 4: DL platform



Source: Company presentation

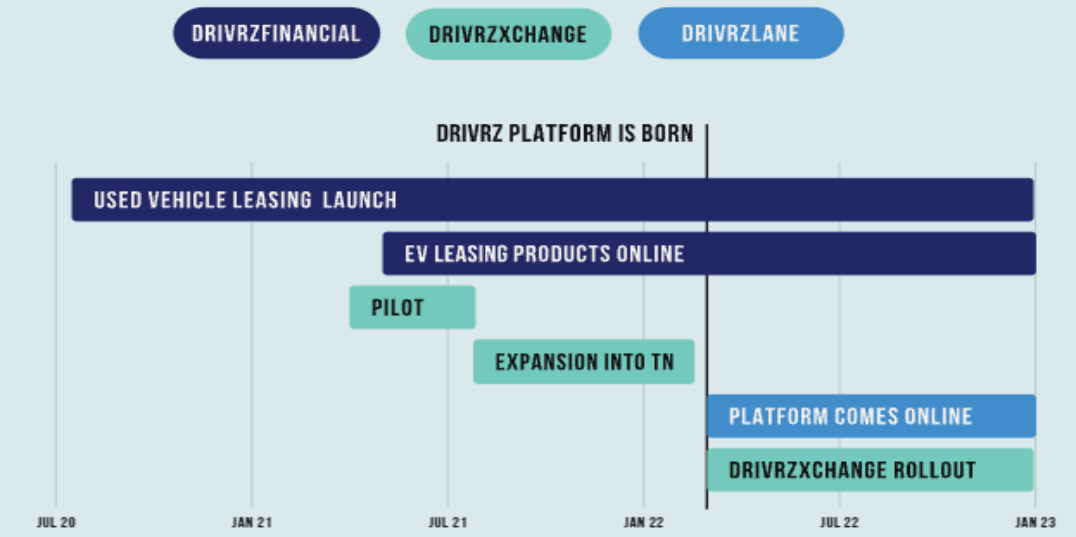
DrivrzXchange (DX)—50% ownership. Currently in pilot-phase testing in northwest Arkansas and Nashville and expanding into four additional major markets in 1Q22 with a full rollout later in 2022, DX serves as a unique auction platform which taps into the retail, wholesale and massive consumer-to-consumer marketplace (where 50% of used vehicle transactions take place). Its technology encompasses a multi-sided marketplace incorporating various buyers and sellers to facilitate a seamless and frictionless vehicle transaction using advanced technologies and third-party applications. DX eliminates fragmentation and the necessity of having different marketplaces for different audiences. Furthermore, DX vertically integrates with both DL and DF, which enhances its value proposition. In May 2021, DX reached an agreement with ACERTUS, a North America–based automotive logistics and services company, to facilitate the pick-up and delivery of vehicles bought and sold on the platform. Under the agreement, ACERTUS will secure the possession of vehicles acquired or sold on DX and transport them anywhere within the US. The same service will also be available to dealers that use the Drivrz platform. The pilot testing has been largely successful, with management able to identify user friction points and implementing changes to the platform to improve the user experience and increase user adoption. Management expects a US rollout beginning in 1Q22. Revenue generation is largely fixed on a per-transaction basis and pegged at US$350 per transaction.

Exhibit 5: DX platform

Source: Company presentation

Launch milestones for key platforms. To summarize, following the launch of DF in mid-2020, management has been working on the testing and launch of several other platforms that are expected to drive future revenue and gross profit growth (see Exhibit 6). In particular, PBX began the piloting of the DX platform early in 2021 and the testing has so far been largely successful. With positive user feedback, management expects a full rollout in 1Q22. Concurrent with the launch of DX, PBX is also planning to officially launch DL in 1Q22.

Exhibit 6: Key milestones

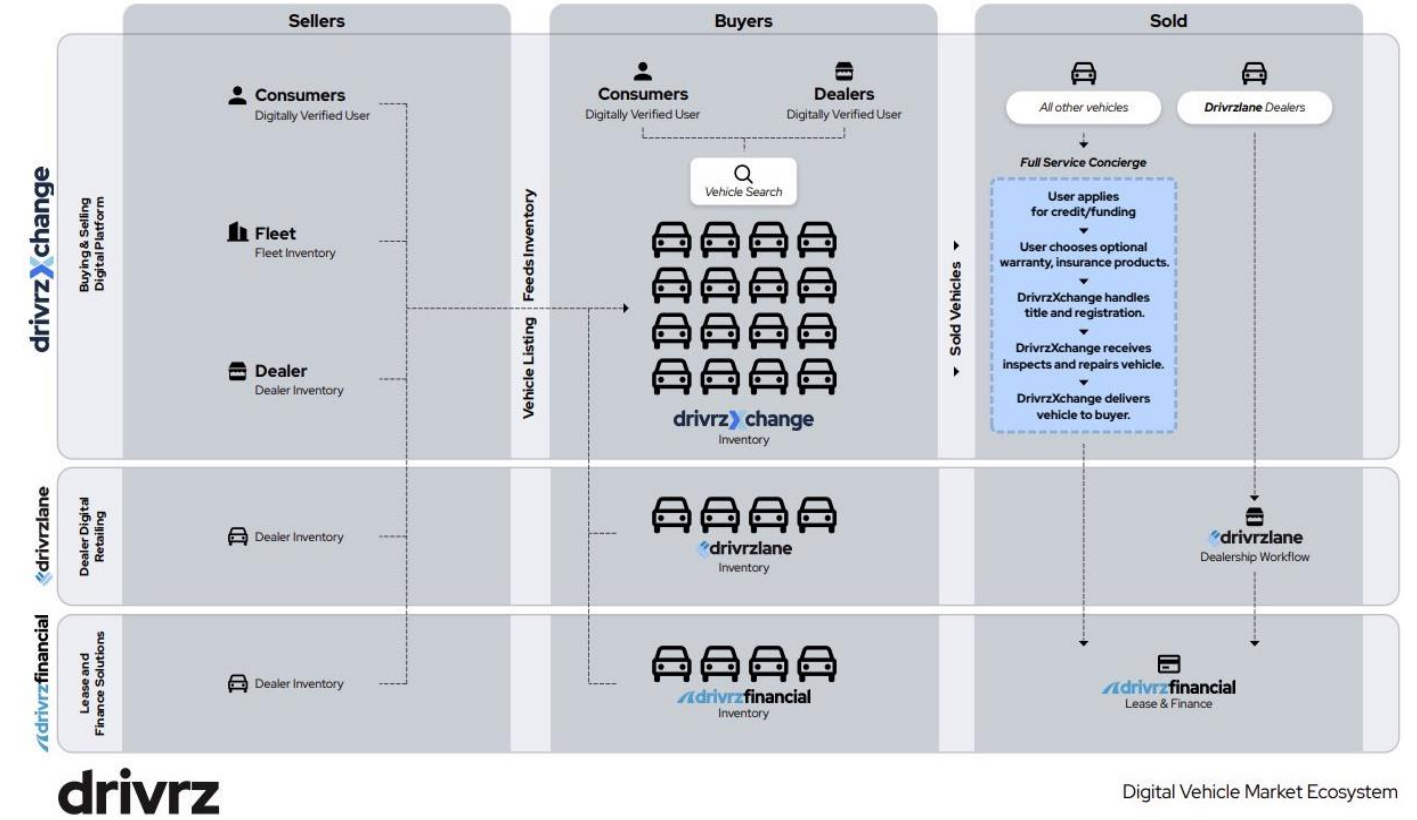


Source: Company presentation

How do all three platforms fit in once integrated? Ultimately, PBX looks to deliver an end-to-end ecosystem of products/services which caters to all participants within the automotive market, including dealers, customers and lenders. With DF, PBX can onboard dealers to leverage DF's exclusive relationships with credit unions and offer dealers a viable and lucrative used vehicle leasing option. With DX, PBX enters the largely untapped peer-to-peer market (P2P represents ~50% of US used vehicle transactions) and provides a unique multi-sided marketplace which enable buyers and sellers to facilitate a transaction in a seamless and frictionless way. Lastly, DL allows dealers to list their vehicles for sale online and thereby reach a larger target consumer audience outside of their local region while modernizing the dealers' own digital experience. At the end of the day, we see DL and DX driving increased traffic within the Drivrz marketplace (while gaining added revenue streams),

helping to boost transaction volume to DF where it earns US$3,000+ gross profit per deal. Exhibit 7 below shows a flow diagram of the three platforms and how each interacts with the other.

Exhibit 7: Integration of the three platforms



Source: Company presentation

3Q earnings recap and 4Q preliminary sales results

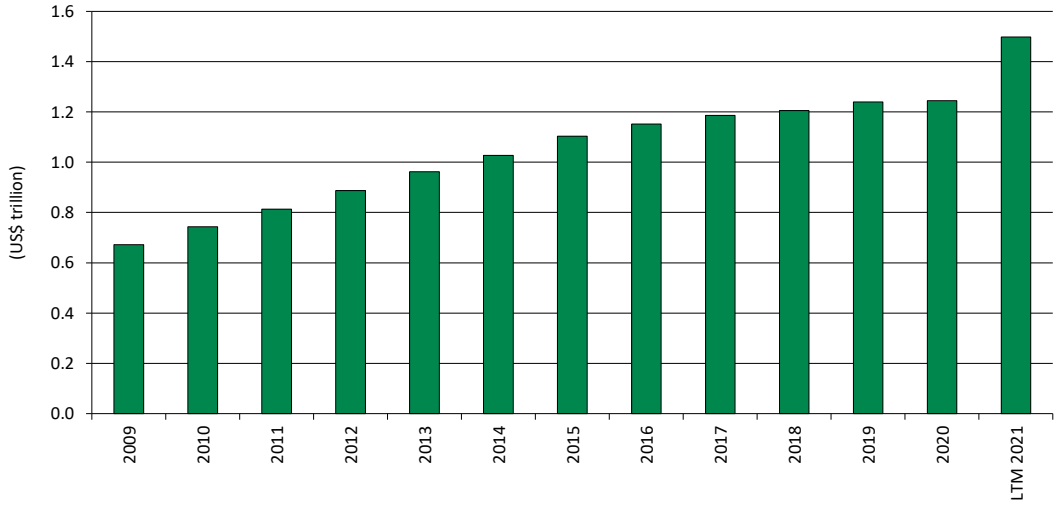
PBX reported strong 3Q21 results with revenue of C$9.2m, up 95% qoq, and gross profit of C$4.0m for a gross profit margin of 43%. The DF platform generated 804 lease originations in the quarter (~268 on average per month). Results were impacted by the ongoing inventory supply shortage, which had a negative impact on August originations. However, results benefited from increased dealer participation (more dealer application submissions) and adoption of the Drivrz lease origination proprietary software. Management is confident that the supply situation has bottomed, with a return to normalcy likely beginning in 2022, and is targeting profitability by 1Q22. Given the macro backdrop, PBX's 3Q results were strong and while depressed inventory levels delayed economies-of-scale benefits from corporate overhead functions, PBX expects margin expansion in the coming quarters. DF is ahead of plan on its dealer onboarding initiatives and expects material contribution to originations from its recently signed enterprise customers (those with 100+ locations). The company continued to focus on the development of its two other platforms—DX and DL—which are expected to come online in 1Q22 and become a growing part of revenue over the course of the year.

In early January, PBX reported preliminary 4Q21 revenue of C$8m (down from C$9.2m in 3Q) and 2021 revenue of C$25m (up materially from C$3m in 2020). While originations were soft at the beginning of 4Q due to record low inventory levels and competitive intensity in the automotive industry, December originations totalled 360 and represented a record month for DF. Management remains confident that it can achieve its revenue target of C$70–90m for 2022. DF also announced the signing of a contract with a US publicly traded retailer to offer used car leasing, which we view as a positive.

US auto industry at a glance

The auto industry represents the largest retail trade category in the US at 22%. According to the US Census Bureau, over the last 12 months, US motor vehicle and parts dealers generated sales of US$1.5 trillion (up from US$1.25 trillion in 2020). The industry has grown at a CAGR of ~7% over the past decade (see Exhibit 8). In 2020, more than 14.0m new light trucks and automobiles were sold in the US, with another 37.2m used light vehicles exchanging hands. At the end of 2020, there were 286.9m registered vehicles in the US.

Exhibit 8: US automotive market

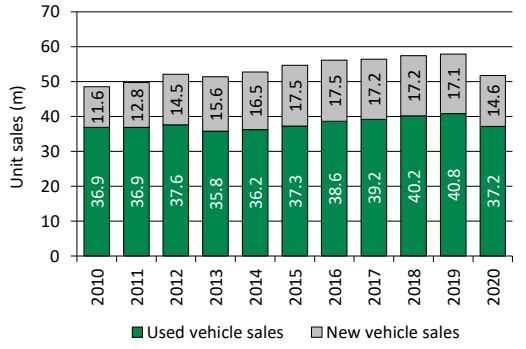


LTM 2021 reflects October 2020 to September 2021
Source: Desjardins Capital Markets, US Census Bureau

Digging through the segments, the US$841b used vehicle market is highly fragmented and the successful launch of several online/omnichannel players suggests the industry is ripe for digital disruption. In the points below, we discuss some of the key attributes of the industry, recent events affecting various firms and the potential outlook:

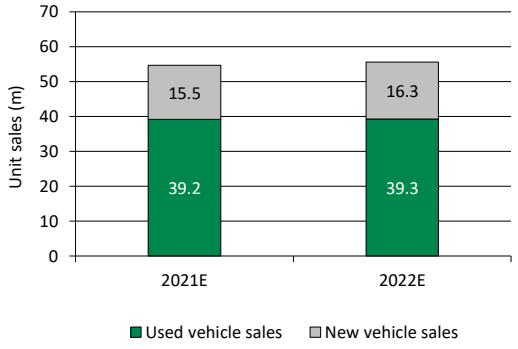
1. **Used vehicle volume dwarfs new auto sales.** The used auto market accounts for ~US$841b in annual sales volume (according to the 2019 Edmunds Outlook Report, the US$841b figure is a function of 41m units sold at an average selling price of ~US$20,600). The used vehicle market is expected to maintain a steady pace of ~40m units over the next two years, according to Cox Automotive forecasts (see Exhibit 10). While ~45–50% of used vehicle sales are between private parties—eg neighbours, family members and private deals through third-party publisher sites such as Kijiji, craigslist and Auto Trader—the remainder reflects retail sales closed at dealerships, and independent and franchise locations. For perspective, used vehicle transaction volumes are more than double new vehicles sales.

Exhibit 9: Used vehicle market is 2–3x the size of the new vehicle market



Source: Desjardins Capital Markets, Cox Automotive, Edmunds.com

Exhibit 10: US auto industry outlook



Source: Desjardins Capital Markets, Cox Automotive 3Q Report

2. **Highly fragmented market.** A network of independent dealerships and franchise dealers supports the used auto market. According to the National Automobile Dealers Association (NADA), there are ~16,000+ franchise dealers and ~38,000+ independent dealers in the US. Independent dealers serve the used vehicle market in rural and urban communities, typically with smaller operations (usually with no vehicle servicing department) with the exception of new online retailers such as Carvana, Shift Technologies and Vroom, and used vehicle superstores such as CarMax and EchoPark. More than 50% of retail used vehicle sales and nearly 70% of wholesale auction purchases are transacted through independent dealers. Note that independent dealers typically carry vehicles 4–9 years old while franchise dealers tend to offer newer used vehicles that are less than four years old. The peer-to-peer sales channel represents a key focus area, particularly for DX, where customers can access the marketplace platform to transact with other private buyers or dealers and enjoy similar access to lending and security previously available solely to dealers. The market is highly fragmented; for example, CarMax, one of the largest retailers, sold ~752,000 units in 2020 or less than 2% of the total ~51.8m retail units sold in the year. In Exhibit 11 below, we show the market share of selected publicly traded dealer companies in the new and used retail vehicle market.

Exhibit 11: Market is highly fragmented—new and used retail units in 2020 (of selected publicly traded dealers)

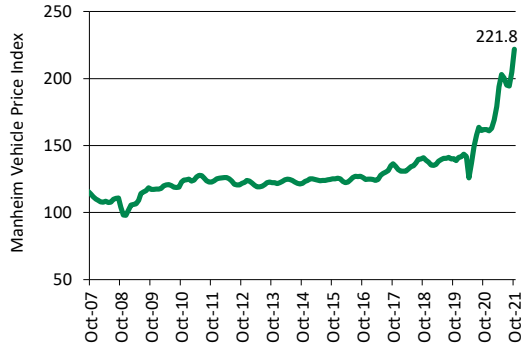
Company	Units produced (000)	Market share (%)
CarMax	751.9	1.5
Carvana	244.1	0.5
AutoNation	490.8	0.9
Penske	411.9	0.8
Lithia	354.4	0.7
Sonic	252.3	0.5
Group 1	280.3	0.5
Asbury	175.7	0.3
Vroom	34.5	0.1
Shift Technologies	9.5	<0.1
Total 2020 retail unit sales (Cox Automotive)	**51,800**	**100**

Source: Desjardins Capital Markets, annual company reports, Cox Automotive

3. **Vehicle prices have surged over the past 18 months.** A global chip shortage, supply chain issues and general robust demand post the reopening of the US economy have caused recent prices to spike. Dealers are faced with record low inventories—the current inventory sits at ~1m new vehicles vs a pre-pandemic norm of ~3m, according to Cox Automotive. The lack of new vehicle supply has pushed prospective new vehicle buyers into the used vehicle market, causing a run-up

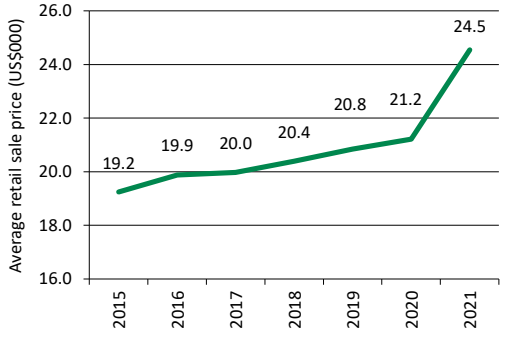
in prices. The Manheim Vehicle Price Index, a commonly referenced industry metric for used vehicle prices, has been on a general uptrend since 2007 but has accelerated significantly in the last 18 months (see Exhibit 12). Data from NADA supports this trend, with the used vehicle price for 1H21 averaging US$24,500, up 16% vs 1H20. According to Cox Automotive, the elevated pricing environment will likely persist until the back half of 2022 (or perhaps early 2023) amid strong buyer demand and continued supply shortages.

Exhibit 12: Used vehicle prices up significantly



Source: Desjardins Capital Markets, Cox Automotive

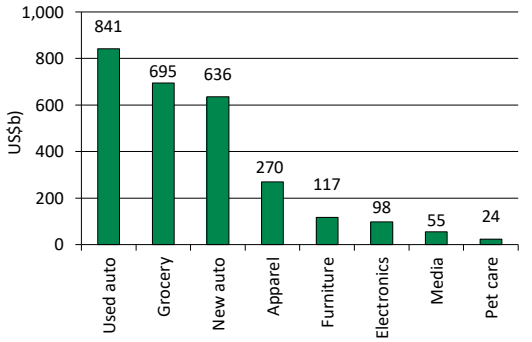
Exhibit 13: Average used sale prices have increased



Source: Desjardins Capital Markets, NADA 2021 Report

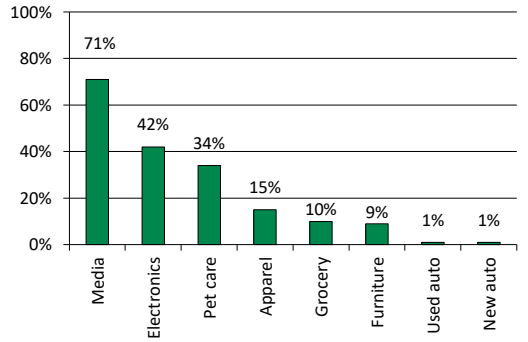
4. **Used auto market ripe for digital disruption.** Although US used vehicle sales exceed sales in several other retail industries such as grocers (US$695b market) and apparel (US$270b), the 1% e-commerce penetration rate trails that of many other retail sectors by a wide margin (see Exhibit 15). This creates opportunities for online auto retail participants to capture market share as consumers' preferences shift, particularly over the past 18 months during the pandemic, leading to a transition away from traditional brick-and-mortar stores to a bricks-and-clicks model or even a pure-play online platform. This also forces brick-and-mortar dealers to adapt by offering a differentiated digital customer experience, which plays well into DL's e-commerce listing solution. According to a recent dealer survey conducted by Cox Automotive, customers have expressed a greater desire to complete the buying process online to remove the burden of multiple dealer visits. According to the survey, 74% of franchise dealers say more customers have used digital retailing since the pandemic, 64% of dealers want to do more online shopping vs the last time they purchased a vehicle and 76% of shoppers are now open to the idea of buying a vehicle completely online.

Exhibit 15: Auto is one of the largest consumer industries



Source: Desjardins Capital Markets, company presentations

Exhibit 16: Auto has the lowest e-commerce penetration

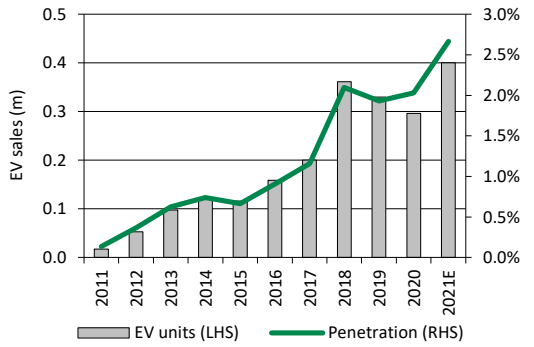


Source: Desjardins Capital Markets, company presentations

5. **Growing EV adoption.** With growing government policy support, advancements in battery technology and quicker driver adoption (including continued buildout of charging stations), EV sales have surged over the last several years. In 2020, EV sales represented ~2% of total new vehicle sales, up significantly from 0.1% in 2011 (see Exhibit 17). Range anxiety has abated considerably in recent years—the range of EVs is now more or less equivalent to that of ICE vehicles and investment into more charging stations is expected nationally throughout the US. Furthermore, consumers now have a variety of choices for EVs (some prominent OEMs have announced strategic commitments to EVs—eg GM announced a plan to invest US$2b into six domestic plants dedicated to EV manufacturing). Government policies have also benefited the push for EVs. In the US, President Joe Biden has proposed a US$174b initiative for EV and charging stations, including US$100b in consumer rebates, as part of his goal to have EV sales represent 50% of total sales by 2030. Supporting government policy, US automakers such as GM, Ford and Chrysler have also announced their intent to have 40–50% of new vehicle sales be EVs by 2030.

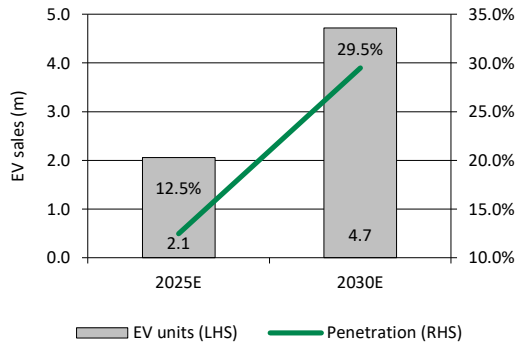
Growth should accelerate over the next decade as barriers to adoption are rapidly removed, and automakers' commitment to expanding their EV line-up and favourable policies aimed at decarbonization take hold. As a result, EV penetration is expected to rise significantly—according to industry sources, EV sales are expected to represent 12.5% of total vehicle sales by 2025 (representing ~2.1m EV vehicles), accelerating to ~29.5% by 2030 (representing ~4.7m EV vehicles).

Exhibit 17: Historical EV penetration



Source: Desjardins Capital Markets, Cox Automotive, evadoption.com

Exhibit 18: EV penetration forecast



Source: Desjardins Capital Markets, evadoption.com

Evolving competitive landscape

The online automotive retail competitive landscape continues to evolve with the entry of online-only used vehicle retailers such as Carvana, Shift Technologies and Vroom, while traditional brick-and-mortar operators are ramping up their omnichannel strategy through various e-commerce initiatives. Recent industry transactions (CDK Global's acquisition of Roadster, and Reynolds and Reynolds' purchase of Gubagoo) support the growing interest in building out omnichannel capabilities. Enhanced digital retail capabilities combined with broader dealer network adoption should accelerate the ongoing shift toward digital across the used retail market. In Exhibits 19 and 20 below, we break down the industry by comparing players within the online-only channel and omnichannel (brick-and-mortar dealers with an e-commerce offering). While none of the competitors analyzed below offers used car leasing in any meaningful capacity, we would not be surprised to see an incumbent move toward this offering as customers' needs modernize and adoption increases. This is evidenced by the signing of a US public company to offer DF used leasing products on its platform in 4Q21.

As explained earlier, we can draw parallels between the DF model and the lucrative finance segments of the companies we outline below. Where DF completely differs is: (1) it does not take on inventory or credit risk; and (2) since DF does not directly sell used vehicles, other independent or franchise dealers do not view it as a competitor or a threat, and are thus more willing to partner with it.

Exhibit 19: Predominantly online-only retailers

	Carvana	Vroom	Shift Technologies	CarMax	CarLotz
Ticker	**CVNA**	**VRM**	**SFT**	**KMX**	**LOTZ**
Market cap (US$m)	33,777	1,348	252	19,365	257
Description	E-commerce platform for buying/selling used vehicles	E-commerce platform for buying/selling used vehicles	E-commerce platform for used vehicle retailing and sale of value-add products; vehicles are primarily sold online	Has the largest network of used car sales outlets in the US and sells by far the most used vehicles each year	Omnichannel remarketing platform which enables consignment-to-retail sales
FY20 units sold, retail new and used (000)	244.1	34.5	9.5	751.9	6.2
Geographic presence	308 markets, covering ~81% of the US population; no retail store locations but has 28 vending machines for pick-up	Nationwide operations with 29 third-party vehicle reconditioning centres	8 regional hubs across the US; used as reconditioning facilities and retail showrooms/fulfilment	National US retailer with 225 stores	20 hubs nationwide used as showrooms and consignment centres
Vehicle sourcing strategy	Direct from customers via trade-ins/sales as well as from leasing/finance companies and rental agencies and auctions	Majority directly from customers, with the remainder from auctions and commercial channels (dealers/rental agencies)	Majority directly from customers using the Shift platform; auctions and trade-ins are also used	Majority acquired from customers through in-store and online appraisal processes, as well as auctions	Majority through corporate partners (banks/rental agencies, OEMs, financiers), consignment from consumers and auctions
Digital offering	Platform offers customers a 360° view of the vehicle, home delivery and vending machines with full digital financing capability	Platform offers full 360° view of the vehicle with full digital financing capability	End-to-end vehicle purchase option with full digital financing availability	360° view of vehicle; vehicle history linking, hotspots highlighting reconditioning work, credit applications and live chat assistance	Online marketplace platform allows for the sale of used vehicles
Financing?	Captive	Captive following UACC acquisition	Third-party	Captive/third-party	Third-party
Risk profile (balance sheet and credit risk)					
Inventory (US$m)	2,285	599.5	88.9	4,105.5	58.1
Current inventory (vehicles)	~56,000	16,997	3,000+	37,000+	2,594
Finance receivables (US$m)	368.0	NA	NA	14,656.2	8.3

Source: Desjardins Capital Markets, 10-K filings, 10-Q filings, investor presentations, company transcripts

Exhibit 20: Omnichannel operators

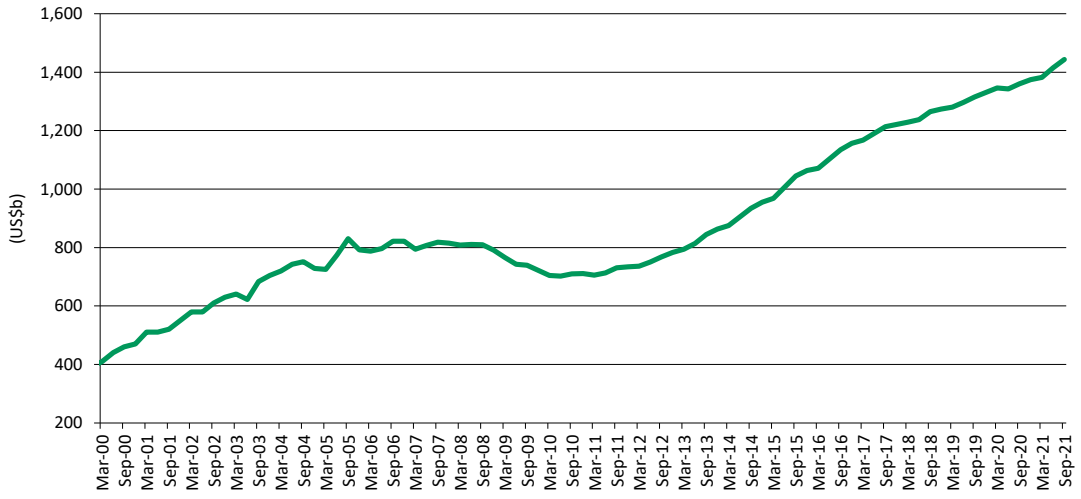
	Asbury	AutoNation	Penske	Sonic	Group 1	Lithia
Ticker	**ABG**	**AN**	**PAG**	**SAH**	**GPI**	**LAD**
Market cap (US$m)	4,103	7,443	8,426	2,069	3,586	9,073
Description	Traditional brick-and-mortar automotive company offering a full spectrum of services from sales (new and used), financing and maintenance	One of the largest traditional brick-and-mortar automotive retailers in the US	Operates dealerships primarily in the US, the UK, Canada, Germany and Italy, and is the largest retailer of commercial trucks in North America	One of the largest auto retailers in the US, with two operating segments—franchise dealerships and EchoPark automotive (online)	Texas-based US auto dealership with international presence in the UK and Brazil	Full-spectrum retailer of new and used vehicles
FY20 units sold, retail new and used (000)	175.7	490.8	411.9	252.3	280.3	354.4
Retail presence	91 locations, 112 franchises within nine states	Over 300 locations coast-to-coast	326 locations worldwide, 304 franchise dealerships (144 in the US), 22 CarShop centres, 32 collision centres	122 locations across 16 states. EchoPark utilizes 33 retail hubs for storage and reconditioning, and delivery	117 dealerships across 15 states with a focus in Texas, 188 worldwide	National coverage with 277 stores
Financing?	Third-party—as part of its F&I offering, ABG arranges financing for vehicle purchases through its third-party network	Third-party—as part of its F&I offering, AN arranges financing for vehicle purchases through its third-party network	Third-party—following a sale to a customer, PAG sells installment sale contracts to various financial institutions on a non-recourse basis	Third party—as part of its F&I offering, SAH arranges financing for vehicle purchases through its lender network	Third party—as part of its F&I offering, GPI arranges financing for vehicle purchases through its lender network	Third party—as part of its F&I offering, LAD arranges financing for vehicle purchases through its lender network
Digital offering	Omnichannel platform with the launch of Clicklane, providing an end-to-end vehicle purchase experience with financing optionality	AutoNation Express—omnichannel offering which provides an end-to-end vehicle purchase experience, including financing applications	CarShop digital platform developed in partnership with Couto enables 100% online end-to-end auto retailing, including financing	EchoPark Automotive omnichannel offering, with a focus on used vehicles (1–4 years old) and enables customers to buy vehicles fully online	AcceleRide (2019) enables customers to purchase/sell a vehicle fully online, with a selection of new and used vehicles, and provides online financing through a network of lenders	Driveway platform enables consumers to buy, sell, finance and book vehicle services fully online, with a selection of ~26,000 new and used vehicles

Source: Desjardins Capital Markets, 10-K filings, 10-Q filings, investor presentations, company transcripts

Auto financing snapshot

Having insight into the US auto financing industry is an integral part of understanding the PBX story, as the majority of its revenue today is derived from the DF segment. To size it up, of the US$15.24 trillion in US household debt as at September 2021, auto loans represent the third largest category at US$1.44 trillion (behind mortgages/HELOCs at US$10.99 trillion and slightly lower than student loans at US$1.58 trillion). Auto loan balances have grown at a ~6% CAGR over the past two decades as shown in Exhibit 21.

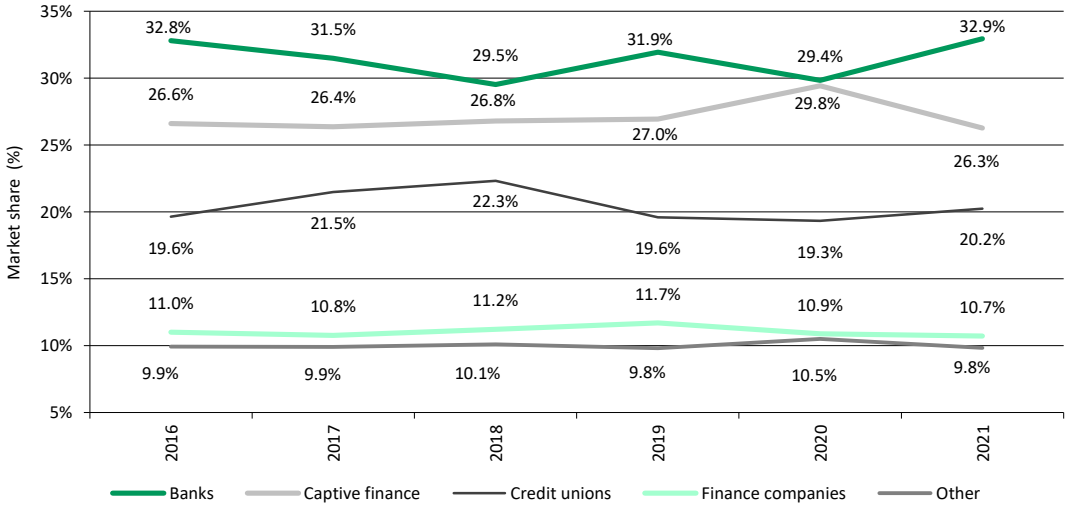
Exhibit 21: US outstanding auto loans have grown significantly over the last two decades



Source: Desjardins Capital Markets, New York Federal Reserve

As shown in Exhibit 22, banks and captive finance companies (affiliates of OEM auto manufacturers) control ~60% of the auto finance market over the last five years, with banks accounting for ~33% and captives ~26% as at 3Q21. Third in market share are credit unions and we note that DF originates its loans through two credit unions, Unify Financial and Valley Strong. Pure-play finance companies and others such as Buy Here Pay Here (BHPH) dealerships round out the balance of the market with a combined market share of slightly over 20%. In Exhibit 23, we list several players in each segment for reference.

Exhibit 22: Year-over-year market share gains of auto financing companies



Source: Desjardins Capital Markets, Experian State of the Automotive Finance Market Q3 2021

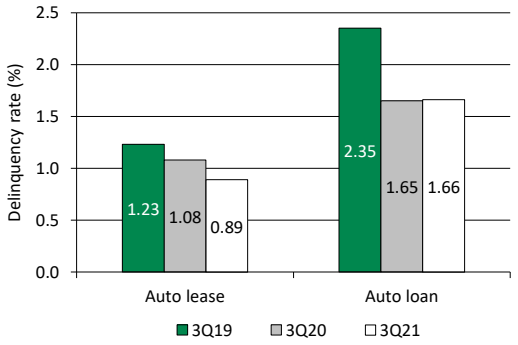
Exhibit 23: US auto finance landscape

Credit unions	Captives	Banks	Finance
Navy Federal Credit Union	Honda Financial Services	Ally Financial	Credit Acceptance
AmFirst	Toyota Financial Services	Capital One	Exeter Finance
Security Service Federal Credit Union	GM Financial	Chase	Westlake Financial
Alaska USA Federal Credit Union	Mercedes-Benz Financial Services	Wells Fargo	Global Lending Services
Golden1 Credit Union	BMW Financial Services	Santander Consumer USA	American Credit Acceptance
Valley Strong Credit Union	Ford Motor Credit Company	Bank of America	
UNIFY Financial Credit Union		TD Auto Finance	
Pentagon Federal Credit Union		USAA	
		US Bank	

Note: The above is not an exhaustive list but rather a selection of companies that operate in the specified market
Source: Desjardins Capital Markets

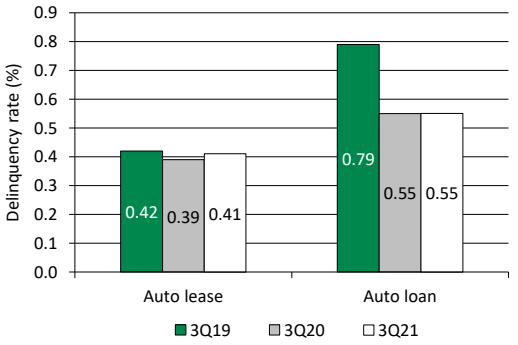
Overall delinquency rates for auto loans remain low at 3Q21. Only 0.55% of outstanding loan balances are delinquent past 60 days, consistent with a year ago and down from 0.79% pre-pandemic. We see similar trends for 30-day delinquencies.

Exhibit 24: 30-day delinquency



Source: Desjardins Capital Markets, Experian State of the Automotive Finance Market Q3 2021

Exhibit 25: 60-day delinquency



Source: Desjardins Capital Markets, Experian State of the Automotive Finance Market Q3 2021

What we like

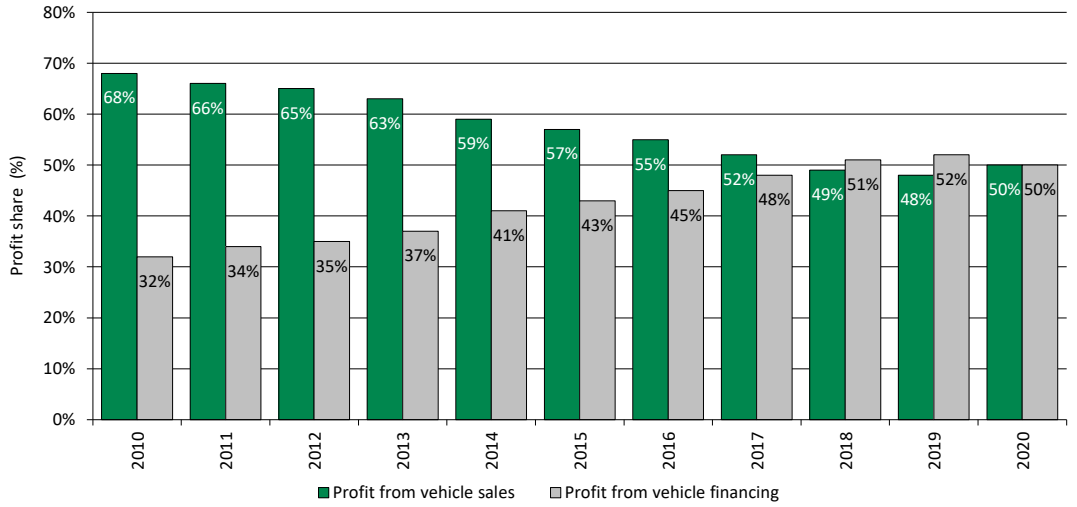
Meaningful value proposition for dealer customer in an untapped used vehicle leasing market

DF products appeal to dealerships, and what they offer generates greater profit and provides a unique value proposition vs competing finance and insurance (F&I) products. Below, we outline several of these benefits:

1. **Substantial dealer profit enhancement.** Dealers under the Drivrz platform are able to secure a greater per-unit profit when compared with other financing alternatives. For example, on a traditional used vehicle term loan financing with an A-lender, the unit participation is ~1ppt (US$250–500 profit on a US$50,000 loan). In contrast, with the DF platform, dealers could earn as much as ~3–4ppt (US$1,500–2,000) on the same US$50,000 loan—a dealer interview (see Appendix C) revealed this as a key attribute in originating more vehicles through the DF used leasing option. There are several reasons driving this, including generally higher interest rates or money factor for leasing vs financing, and lower cost of funding from credit unions (which benefit from US tax exemptions). Often, dealers are given a higher allowance advance (for lease vs traditional financing) to sell higher-margin F&I and ancillary products. More education at the

dealer level (F&I manager to be exact) on the profitability driver should result in greater application volume, which should lead to growth in originations over time. It is worth noting that F&I profit share relative to total dealer profit has seen a meaningful shift over the past decade, growing from roughly one-third to 50%+ in the last few years (see Exhibit 26). Dealers have put greater effort into expanding F&I product offerings—the DF and DL line-up plays well into this trend.

Exhibit 26: Dealer profit share from vehicle sales and financing of vehicles in the US automotive market

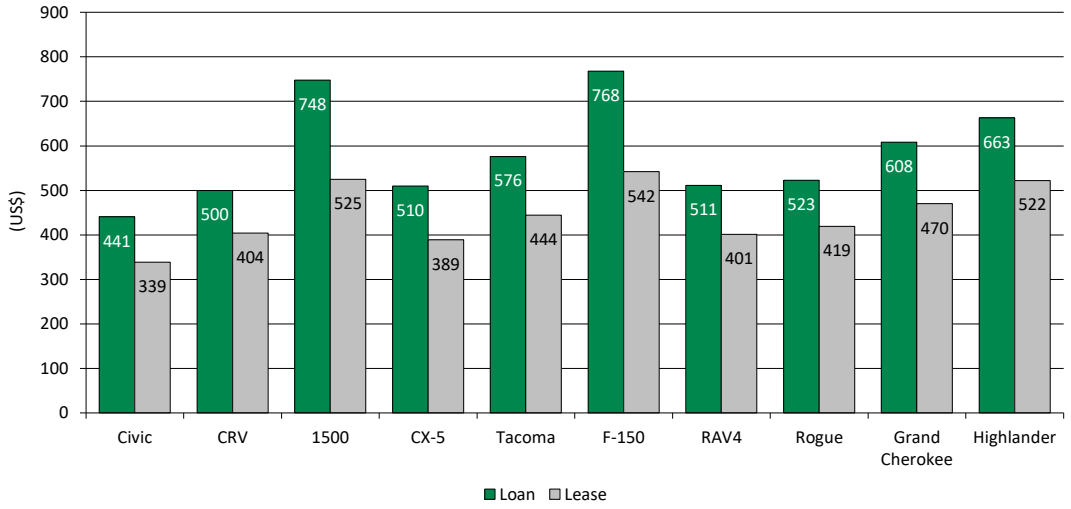


Source: Desjardins Capital Markets, Outside Financial Auto Dealer Profit Watch

2. **Differentiated customer retention benefit vs finance or cash purchases.** When a customer purchases or finances a vehicle, the dealer has a much lower chance to resell that customer their next vehicle than if the vehicle were leased in the first place, despite brand loyalty. For leases, the customer must return the vehicle upon lease maturity (with the option to buy out at the residual value), at which point the dealer has the opportunity to make offers on the next vehicle purchase. This also helps to reduce the dealers' client acquisition costs (CAC), further benefiting the bottom line. As an added bonus, upon the return of the leased vehicle at the end of the term, the repossessed vehicle could be put up for sale again, allowing for another transaction.

3. **Lower lease payments (vs finance) a key selling point.** For cost-conscious customers focused on matching income cash flows vs outlays, lease options present an attractive way to finance a vehicle due to its lower monthly lease payments. With all lease arrangements, payments consider the adjusted capital cost (purchase price less trade-ins/other adjustments less residual value), the prevailing money factor (akin to interest rate) and lease duration. The removal of the residual value (the projected vehicle value at lease maturity, based on the Kelley Blue Book industry standard) decreases the monthly payments, making it more attractive vs financing the vehicle. As a result, (1) the dealer can upsell a more expensive vehicle to the consumer given a certain budget; and (2) high-margin creditor insurance or warranty products could be added on to the purchase. We would also mention that higher vehicle prices generally translate into a larger gap between lease and finance; hence, the DF transaction value tends to be well above the average for used vehicle sales. In the exhibit below, we compare payments for selected new vehicles (there are currently minimal data points for used lease vs finance payments)—on average, lease payments are 23% lower.

Exhibit 27: Average monthly payment on top leased models



Source: Desjardins Capital Markets, Experian State of the Automotive Finance Market Q3 2021

4. **Platform offers a wider customer reach.** For used car sales, traditional dealers have historically been limited to cash or loan-financed options. The leasing alternative provides another avenue to close a sale. The DF underwriting platform has seven credit tiers that consider customers with a credit score as low as 550 FICO (<600 are considered sub-prime), unlike banks and captive lenders which target predominantly near-prime, prime and super-prime buyers. This increases dealers' closing rates and helps with customers' financing eligibility. We also believe that given DF's point-of-sale (POS) software is already well-entrenched within RouteOne's and Dealertrack's established platforms, this facilitates user setup and reduces dealer onboarding time.

Well past proof-of-concept phase—market adoption, greater customer awareness and scalability benefits should drive meaningful near-term growth

Despite the pandemic and chip shortages, the DF platform has grown significantly in 2021, posting double-digit month-over-month growth (yes month-over-month, not year-over-year) in both dealer onboarding and lease originations. Put simply, dealers have accepted DF's leasing product for used vehicle sales. As of December 2021, the platform has onboarded more than 1,200 dealers, up from 50 at the beginning of the year. Management pointed to accelerating application count, reinforcing the success of the product. While application count is not equivalent to new originations, it is indicative of future demand when the environment normalizes with higher inventory levels—management has noted a steady 14–15% application conversion rate. Dealers under the platform originate 3–4 leases per month on average, with some of the more established dealerships originating ~10–15. Currently, ~60% of the dealers on the platform originate 4+ leases monthly and dealers are able to integrate the platform within 24 hours of signing a contract. In 3Q21 to date, origination count totalled ~1,700, with management forecasting that this would balloon to 7,000–9,000 in 2022. Recent signing of large enterprise accounts (those with 100+ locations) should support growth over the coming 12 months.

Considerable market opportunity

While PBX has had success onboarding dealers, increasing application count and closing origination transactions in 2021, the company has barely scratched the surface in the massive US$1.5 trillion auto market. Putting this in perspective, the US auto market today consists of 56,000+ dealers, with DF having 1,200 dealer relationships, reflecting only a ~2% market share. Second, Cox Automotive forecasts 2022 used retail volume of 22.1m units, and assuming 27% of vehicles potentially being leased (current penetration for new vehicles), we arrive at a market size of ~6.1m vehicles. Furthermore, if we haircut this by ~50% to remove transactions with a low purchase price or ones

that do not meet DF's underwriting criteria, we are left with a potential market size of 3.1m vehicles. If DF achieves its 7,000–9,000 originations target for 2022, this represents a mere 0.23–0.29% market share. Needless to say, the opportunity is tremendous.

Below, we provide a blue-sky scenario analysis assuming DF achieves 1%, 1.5% and 2% of used vehicle originations greater than US$40,000 in the US. Under these assumptions, DF could originate 30,868–61,735 units a year and generate C$123.5–246.9m in gross profit annually. Using a 6–8x EV/gross profit multiple, we arrive at a potential enterprise value of upwards of C$2b (vs its C$154m market cap today).

Exhibit 28: Market share scenario analysis

	DF market share scenario (%)			
	1.0	**1.5**	**2.0**	**Notes**
2022 used retail volume (m)	**22.1**	**22.1**	**22.1**	**Per Cox Automotive estimate**
% of vehicles priced above US$40,000	51	51	51	To account for target market for DF
Assumed % of leased vehicles over time	27	27	27	Avg of new vehicles leased in last three years
Potential addressable market (m units)	3.1	3.1	3.1	
Total DF vehicle originations	30,868	46,301	61,735	Potential DF lease originations per year
Gross profit per unit (US$)	3,200	3,200	3,200	Reflects DF historical gross profit per vehicle
Total gross profit (US$m)	98.8	148.2	197.6	
Total gross profit (C$m) @ C$1.25/US$1	**123.5**	**185.2**	**246.9**	
EV assuming 6x gross profit multiple (C$m)	**740.8**	**1,111.2**	**1,481.6**	
EV assuming 7x gross profit multiple (C$m)	**864.3**	**1,296.4**	**1,728.6**	
EV assuming 8x gross profit multiple (C$m)	**987.8**	**1,481.6**	**1,975.5**	

Source: Desjardins Capital Markets, Cox Automotive, Experian

First-mover advantage and notable barriers to entry

The used leasing option has not yet been widely adopted across dealers in the US and DF's solution has penetrated only 1,200 dealers (~2% of the market). Today, used vehicles are primarily cash purchased or loan financed. To us, DF benefits from a first-mover advantage, and a speedy buildout of the platform may prevent other participants from entering the space. DF benefits from several barriers to entry, including:

1. **A head start—licensed in 43 states currently.** Each state has its own set of governing laws and regulations, making for a lengthy bureaucratic and legal approval process for anyone starting from scratch. DF has broad coverage with indirect leasing (through dealer network) licensing statutes in 43 states with a target of all 48 states over time. Management has the know-how and experience in navigating the various state rules and regulations that most competitors would find time-consuming and costly to match.

2. **The lending platform is integrated with credit unions through an exclusive AML First broker relationship.** DF has an exclusive agreement with AML First (a leading broker representing a family of credit unions) giving it the right of first refusal, thereby preventing any competitors from being able to partner with credit union relationships associated with AML. In exchange, AML receives a small fee (based on volume) for this arrangement, which also keeps it incentivized to further the partnership.

3. **DF's LOS is fully integrated with industry-leading credit application submission platforms RouteOne and Dealertrack.** These online portals which are used by dealers connect to more than 1,500 lending institutions. RouteOne is an ecosystem connecting dealers (18,000+) and lenders (1,500+), and provides a comprehensive suite of finance/insurance tools as well as digital retailing. These platforms are akin to an Android or iOS operating system, whereby being part of the ecosystem allows for platform connectivity and monetization. Since DF is already integrated into

two of the leading CRM solutions (utilized by ~80–85% of the dealer network), the platform can be switched on easily (within 24 hours) by a dealer. The partnership with RouteOne and Dealertrack positions DF well to be a leader in the US used vehicle leasing market.

4. **Minority stake in CB Auto Group solidifies distribution channel.** In late 2020, PBX announced the acquisition of a minority stake in CB Auto Group. CB Auto provides union members and their families access to the Union Auto Program, which offers car-buying services, free benefits, fair pricing and protective products in the purchase or lease of a new or used vehicle. CB Auto has access to more than 33m union members and their families in its customer base. Based on NADA data, union members transact on 3.4m+ vehicle purchases annually. As at 3Q21, PBX owns a 7.5% stake in CB Auto.

No inventory or credit risk exposure—a true asset-light model

One of the most attractive attributes of the PBX business model (DF, DX and DL) is its lack of exposure to inventory and credit risk. Unlike dealer operators (AutoNation, Carvana, etc), PBX does not take on any vehicle inventory and does not bear any depreciation risk as a result. And unlike lenders, PBX has no credit or interest rate risk exposure either as these risks are transferred to the credit unions upon the flow lease arrangement or passed on to third-party investors in subsequent securitization transactions. In addition, as PBX does not carry inventory, there is no need for any floorplan financing or to pay for associated financing costs (unlike dealers). DL has a SaaS recurring revenue model which leverages inventory held by dealer partners, while DX's marketplace solution clips a transaction fee for using its auctioning platform. None of these two segments brings additional inventory or credit risk either. PBX's model has truly asset-light attributes.

Credit union lenders with preferential tax treatment benefit DF model

DF has US$2b in secured lease lines with credit unions Unify Financial and Valley Strong that can be renewed. Credit unions are not-for-profit organizations with no shareholders chasing after profit. Thus, they are able to return earnings to members through better rates, lower fees and improved services. In the US, Section 122 of the Federal Credit Union Act provides credit unions exemption rules from all taxes (federal corporate or state business taxes) except for local real property and personal property taxes. Unlike banks, captives and other lenders, this offers credit unions significant tax arbitrage, as their after-tax cost of funds will likely have a competitive edge over peers. Hence, DF could bring lower rates to customers (or allow them to purchase additional F&I products) and/or give higher dealer participation rates.

DF positioned to benefit from increasing EV adoption in the US

In early 2021, DF announced its approval to access US$2b in lease lines dedicated to the Drivrz EV leasing initiatives; these lines can be expanded based on demand. The access to these lease lines positions DF to become a premier EV leasing option provider in North America. PBX recently partnered with Allianz Insurance to offer automotive specialty insurance and related products to dealers and drivers, with a focus on EVs, passenger cars, light commercial vehicles, trucks and motorbikes. For context, global EV sales are expected to grow significantly over the next five years, offering enormous opportunities in insurance, leasing and the trading in or auctioning of used vehicles including used EVs. In June, PBX announced that Premier Automotive Group (21 dealerships grossing US$1b in sales) will lead its EV leasing pilot under DF, where it hopes to fill a void in EV leasing options today.

E Automotive IPO points to valuation gap

E Automotive (EINC, TSX, not rated) went public in early November at C$23 per share (at the higher end of its C$19–23 IPO price range) and currently trades at C$17.33 per share. EINC provides online vehicle buying, selling and management experience for automotive dealers and consumers. It has a digital platform which provides automotive dealerships with access to an online wholesale auction marketplace where they can purchase or sell vehicles to other dealers, as well as access innovative software solutions to support dealers' digital retailing and inventory management. One can draw parallels to the marketplace PBX plans to launch in the coming quarters. The majority of PBX's revenue and gross profit today is derived from its DF leasing arm. Similarities between EINC and PBX include:

1. **High revenue growth profile.** EINC reported 3Q21 revenue of US$19.8m, up 108% yoy, while PBX generated 3Q21 revenue of C$9.2m, up 1,501% yoy.
2. **Attractive margins.** EINC's gross margin was 45.1% for 3Q21, comparable with PBX's 43.4%.
3. **Large addressable market.** Both companies are building out their presence in the US, which is a highly fragmented market. EINC highlighted the US$1.5 trillion North American auto market, with a 7% CAGR between 2009 and 2019. Both operate in the used vehicle ecosystem, which has proven to be resilient compared with the new vehicle market.

On valuation, EINC's IPO price of C$23 suggests an EV/revenue multiple (1H21 annualized) of 11.2x or 22.7x EV/gross profit. However, since the IPO, its share price has levelled off and is now at C$17.33.

Broadening of shareholder base through uplisting and potential senior US listing

We believe PBX management has ambitions to uplist to the TSX from the TSX Venture Exchange when trading and filing requirements are met. In addition, registering for a senior US exchange listing appears to be a logical next step as essentially all of PBX's revenue is derived from the US, where the majority of its employees are based. Uplisting to the TSX and a senior US listing should attract a larger investor base as well, which could lead to a higher valuation.

Potential takeout candidate

Given PBX's unique product offerings, zero exposure to inventory/credit risk and robust gross profit margins with DL and DX optionality in building out an auto marketplace, we believe its business model could appeal to lenders, strategic players within the auto industry (eg Cox Enterprises/ Cox Automotive, J.B. Hunt Transport, whose director Bryant Hunt co-owns DX through D2D Auto Auction) or even private equity players. To us, PBX is in the early innings of its growth journey and as used vehicle leasing becomes more mainstream, the company could become a prime takeout candidate. Below, we list several auto-related transactions over the past 18 months.

Exhibit 29: M&A/partnerships

Date	Acquirer	Target	Type	Description
Oct-21	Vroom	UACC	Acquisition	Vroom acquired United Auto Credit Corporation, a nationwide non-prime automotive financing company catering to independent used vehicle retailers, for US$300m in cash. UACC serves >7,300 independent auto dealers and offers application processing, underwriting, securitization and servicing capabilities.
Oct-21	Group 1	Dealer groups	Acquisition	Group 1 announced the acquisition of two dealerships in the Dallas-Fort Worth area (revenue of US$150m); this follows the earlier acquisition of Prime Automotive Group.
Oct-21	Asbury	Park Place Dealerships	Acquisition	Asbury announced the acquisition of Larry H. Miller Dealerships and its related service contract business for US$3.2b; this added 54 new dealer locations to Asbury as well as seven used vehicle dealers.
Sep-21	Clarion Capital Partners	OpenRoad Lending	PE investment	OpenRoad Lending is an online D2C auto finance company focused primarily on auto refinancing across 44 states.
Aug-21	Carvana	Root	Partnership	Carvana partnered with Root, an insurtech company, to develop an integrated auto insurance solution for Carvana's online car buying platform. As part of the partnership, Carvana invested US$126m.
Jul-21	Penske	Cox Automotive	Partnership	Penske and Cox Automotive have jointly developed and launched a fully automated platform for used vehicle retailing—CarShop—using Esntial Commerce, Cox's AI technology.
Jul-21	J.D. Power	Superior Integrated Solutions	Acquisition	Superior Integrated Solutions/Darwin Automotive is a provider of automotive F&I software used by automotive dealerships; >7,700 dealers use its technology.
Jul-21	Asbury	Salty Dot	Partnership	Strategic partnership with Salty to expand the capabilities of Clicklane (technology ecosystem which enables a car buying and selling experience) by offering insurance quotes through Salty's carrier network.
Jun-21	CarNow	-	Capital raise	CarNow, an independent digital retailer working with >4,700 dealers, raised US$30m in June 2021.
Jun-21	CDK Global	Roadster	Acquisition	Roadster is a digital sales tool which works within the dealer network to help facilitate the buying process. CDK paid ~US360m.
Jun-21	Reynolds	Gubagoo	Acquisition	Gubagoo is a retail technology platform which specializes in conversational and digital retail tools; it works with >6,500 dealerships across the US and its products include live chat tools for dealer websites.
Apr-21	CarMax	Edmunds	Minority acquisition	Acquired the remaining stake in Edmunds (online car shopper guidance platform) for a representative EV of US$404m (including the US$50m initial investment in January 2020); generated 2020 revenue of US$140m.
Jan-21	CarGurus	CarOffer	Acquisition	CarGurus completed the acquisition of a 51% stake in CarOffer, a wholesale trading platform.
Jun-20	Carvana	Manheim	Partnership	Carvana entered into a partnership with Manheim Auctions to launch CarvanaAccess, an online vehicle wholesale purchasing platform for independent and franchise dealers.
Jun-20	Open Lending		SPAC transaction	Open Lending offers loan analytics, risk-based pricing, risk modelling and default insurance, ensuring profitable auto loan portfolios for financial institutions throughout the US.

Source: Desjardins Capital Markets, company reports

What we are concerned about

Supply shortage may linger through to 2023, although the worst is likely behind us

Supply chain issues related to shortages of semiconductor computer chips and delivery problems significantly disrupted the auto sector for the better part of 2021. This has caused ripple effects within the auto market, resulting in record low inventories. These issues are expected to remain as production normalizes over the coming two years. To put this into perspective, new vehicle inventory in the US totalled ~1m units in September 2021 according to Cox Automotive, well below the 3–4m norm pre-pandemic. We also looked at the inventory-to-sales ratio (data pulled from the US Census Bureau), which peaked at the onset of the pandemic at 3.9x before rapidly declining to 0.7x currently, indicating a material demand-supply imbalance.

Exhibit 30: Supply chain constraints have affected the inventory-to-sales ratio

Source: Desjardins Capital Markets, US Census Bureau

Management teams across the industry have commented on recent inventory issues—the chip shortage is likely to continue near-term before normalizing in 2022 or even 2023 (see 3Q21 management comments from auto peers below). How does this impact DF? Early on in 2021, DF originations grew at a double-digit rate month-over-month as onboarded dealers increased. Originations peaked at 313 in August and dropped to 230 in September. While there are month-over-month variations, the slowdown has been attributed to both a lack of inventory and elevated used car pricing. With regard to the tight inventory, simply put, dealers can't sell (or originate loans) if there are no cars to sell—this is evidenced by the empty car dealership lots throughout the US. The latter needs a bit of clarification. As we highlighted earlier, leasing options tend to be cheaper than financing and that's because the buyer does not pay for the residual value within the lease payments. However, as vehicle prices rise, the residual value typically does not change; therefore, the adjusted capital cost (ie the amount being paid off during the lease) increases. As a result, the spread between lease vs finance payments diminishes. Needless to say, if the inventory crisis is extended (perhaps due to semiconductor plant shutdowns), the current low supply and elevated pricing environment could persist, putting pressure on the company in relation to achieving its 7,000–9,000 originations target. That said, while originations activity remained soft in October and the first half of November, management saw meaningful improvements in the back half of November and into December. Talking to a dealer partner in Miami (one of the early adopters of DF), they believe the worst is behind us but that the recovery will vary by OEM and we will likely not see a return to normalized levels until 2023.

Exhibit 31: Recent commentary from industry executives on the operating environment

Company	Management comments
AutoNation	Production has been unpredictable—the chip and component shortage remains a serious disruption to the production of new vehicles. Management expects that production will begin to return to a trendline that is more recognizable in 1H22 but will likely not show up in inventory yet. For reference, AN's day supply decreased to 10 days in 3Q from 14 days in 2Q, suggesting a worsening situation.
Carvana	The Omicron variant is bringing new pressure to the global supply chain; the abatement of COVID-19 or new processes could be a prerequisite for OEMs to get production volumes up materially.
Vroom	Management continues to navigate through the current supply-constrained environment and noted that it is experiencing transitory events that are affecting its supply chain, although it expects the effect to be temporary. Management continues to optimize its mix of inventory sources, with 81% sourced from consumers directly.
Shift Technologies	In its 2Q conference call, management stated that the shortage of cars at the wholesale level would start to normalize in the latter part of 2021 and into 2022. However, recently comments suggest that competition for cars remains high; that said, management indicated that the company's inventory levels are well-positioned heading into 4Q.
CarMax	Management expects to see some relief in the latter part of 2022. As more chips become available, in turn more new cars will become available, which should have a trickle-down impact on used vehicle prices as well.
CarLotz	Citing continued uncertainty within the supply chain, no guidance was provided. Although it was not able to predict when things will get back to normal, management has seen anecdotal evidence that it believes is encouraging.

Source: Company transcripts

Prioritizing the highest return on capital will be a near-term focus

While we understand the potential opportunity with creating the DL marketplace and DX auction platform, not to mention revenue synergies associated with cross-selling DF products through these channels, we recognize that at least over the near term, DF represents the best growth opportunity for PBX. Management should therefore consider building out the DF platform quickly, growing dealer adoption and gaining market share. Refer to our market share analysis in Exhibit 11. Once it generates higher FCF, PBX could easily invest more heavily in scaling up the DL and DX platforms. We believe investors will benefit from this sequencing as it reduces the need for sizeable equity capital in the future. That said, given piloting efforts have begun for both DL and DX, this suggests most of the initial R&D spend has been incurred. We will monitor the prioritizing of capital looking out.

Raising awareness is important but may require higher advertising and marketing spend

Penetration of DF products has so far largely been through management's existing relationships, attendance at trade shows, word-of-mouth marketing and other referrals. The buildout of both DL (29 dealers) and DX (just-launched pilot project in Dallas) is nascent, with considerable growth potential. In our view, the scaling up of DX and to a lesser extent DL and DF requires added retail customer awareness in order to gain meaningful traction, especially in the peer-to-peer market segment (which accounts for 50% of the used market sales). Competitors such as Carvana and Vroom, etc, compete in this space for both customers and inventory. These players source a large portion of their inventories through vehicle trade-ins and devote substantial resources to marketing and advertising spend to drive brand awareness and web traffic. Competitors in the space have spent many millions of dollars on advertising and marketing over the past few years (see Exhibit 32 for trends). For PBX, we believe the success of DX (and Drivrz as a platform) will at least be partially tied to increased advertising spend over time, the magnitude of which is tough to gauge.

Exhibit 32: Competitor ad spend trends

(US$m)	FY19	FY20	Year-to-date to Sep-21
CarLotz	1.0	6.4	13.7
CarMax[1]	191.3	217.5	143.8
Carvana	204.0	286.4	345.0
Shift Technologies	7.0	23.3	37.1
Vroom	49.9	62.4	88.3

[1] February year-end
Source: Company filings

Dependency on credit unions poses some funding risks

As discussed above, Unify Financial and Valley Strong, two credit unions, provide lease lines for DF leasing products through a flow lease arrangement. While the availability of credit is a non-issue at the moment, we prefer to see DF expand its funding source to provide optionality in times of credit stress or change in appetite from credit unions. For a broad array of potential reasons (risk of credit unions losing their tax-exempt status, concentration of auto loans, change in risk appetite), credit unions may curtail lease line exposure, which would cause funding problems for DF. Having multiple funding options would reduce this risk. In addition, there are several eligibility requirements related to being a member of a credit union; therefore, DF may be restricted in terms of who it can underwrite (ie limits potential addressable market).

Threat of new entrants, although the US market can accommodate multiple players

While DF benefits from its first-mover advantage, with time we foresee potential risk that new entrants or existing lenders could offer a competitive product. According to the dealer referenced in Appendix C, it took 6–9 months to become familiar with the product, obtain training and gain comfort with the DF response team; therefore, DF does have a favourable head start. In addition, even with new entrants, the massive US$1.5 trillion auto market can easily accommodate multiple participants, in our view. Case in point, Carvana, a US$33b market cap used vehicle e-commerce platform, has only ~1% of the US market share.

Share dilution from in-the-money warrants and stock options

Over the coming years, we expect a steady dose of warrants and options being exercised that will dilute shares outstanding. At 3Q21, PBX had 19.0m share purchase warrants outstanding with a weighted average exercise price of C$0.46 as well as 14.3m stock options with a weighted average exercise price of C$0.27, both well below PBX's current trading price. Combined, these represent 17% of the current 193.1m shares outstanding. A portion of the firm's stock options relates to its share-based compensation, which is currently running at a C$1.3m expense per year. We note that management backs out share-based compensation in its adjusted EBITDA calculation. Management highlighted that incorporating share-based compensation helps to retain talent as many of its employees prefer the potential stock upside. Over time, we hope PBX will contemplate a program to contain share dilution.

Exhibit 33: Warrants outstanding

Date	Exercise price (C$)	#
20-Jan-22	0.15	575.0
6-Mar-22	0.30	2,500.0
10-Feb-23	0.49	14,125.9
8-Jul-23	0.68	1,083.2
16-Jul-24	0.30	750.0
Total	**0.46[1]**	**19,034.1**
Shares O/S		**193,094.2**
% of shares O/S		**9.9**

[1] Weighted average
Source: Desjardins Capital Markets, company reports

Exhibit 34: Options outstanding

Date	Exercise price (C$)	#
2023	0.30	852.3
2024	0.10	3,762.5
2025	0.16–0.26	7,515.0
2026	0.29–0.79	2,150.0
Total	**0.27[1]**	**14,279.8**
Shares O/S		**193,094.2**
% of shares O/S		**7.4**

[1] Weighted average
Source: Desjardins Capital Markets, company reports

Financial outlook

Below, we present our financial outlook and estimates for 4Q21, 2021, 2022 and 2023. A few points worth highlighting:

1. We forecast 6,475 lease originations for 2022, at the low end of management's 7,000–9,000 target, to be conservative. We are modelling 10,704 originations in 2023.
2. We expect elevated vehicle prices and thus higher adjusted capital cost to linger into 4Q21 and 1H22 before levelling out to ~US$66,000, although this is still above DF's historical average of US$55,000–60,000.
3. Our 2022 revenue forecast of C$54.2m is below management's forecast of C$70–90m as we have limited visibility on the rollout of DX and DL, which account for 10–20% of management's estimates. If it is successful, we believe there is significant upside to our estimates for 2022 and 2023.
4. By mid-2022, we anticipate PBX should break even on adjusted EBITDA and turn meaningfully EBITDA-positive by 2023.
5. On funding requirements, our cash flow modelling suggests a potential C$7.5m funding gap in 1H22. Management has telegraphed that it will be funded through non-dilutive sources and we assume this to be in the form of debt at a 9% interest rate, which should remove any going concern overhang.
6. We have not modelled further dilution from warrants and options (tough to predict).

Exhibit 35: PBX financial outlook and estimates

Year-end Dec-31 (C$000)	1Q21	2Q21	3Q21	4Q21E	1Q22E	2Q22E	3Q22E	4Q22E	2021E	2022E	2023E
Revenue	2,889.8	4,714.4	9,235.0	7,957.4	9,161.0	11,805.9	14,699.2	18,558.3	24,796.6	54,224.2	89,533.6
Gross profit	1,553.5	2,357.9	4,009.1	3,412.7	4,146.3	5,708.5	7,543.7	9,592.9	11,333.3	26,991.4	48,045.3
Net income (loss)	-2,748.3	-1,855.1	-2,275.1	-2,491.1	-2,378.5	-1,630.3	-714.4	381.5	-9,369.6	-4,341.7	2,857.6
Adjusted EBITDA	-2,134.5	-1,119.8	-869.0	-2,066.2	-2,249.4	-1,112.9	254.6	1,785.6	-6,189.4	-1,322.1	9,790.6
Lease originations (#)	345	554	804	750	1,070	1,407	1,761	2,237	2,453	6,475	10,704
Adjusted cap cost (US$)	54,584	63,777	78,000	76,000	68,667	68,000	68,000	68,000	70,530	68,107	66,000
Lease book (EOP) (US$000)	29,885	62,908	120,010	168,399	230,085	309,767	408,198	532,351	168,399	532,351	1,046,549
Cash	3,261.0	2,336.0	9,236.8	5,057.3	1,063.9	5,368.7	3,889.4	3,555.9	5,057.3	3,555.9	4,402.4
Debt	4,326.8	10,813.5	7,132.2	6,382.2	5,632.2	12,382.2	12,382.2	12,382.2	6,382.2	12,382.2	12,382.2
Net debt/(cash)	1,065.8	8,477.5	-2,104.6	1,324.9	4,568.3	7,013.5	8,492.8	8,826.3	1,324.9	8,826.3	7,979.8
Share O/S (EOP) (000)	162,319.0	168,700.7	193,094.2	193,094.2	193,094.2	193,094.2	193,094.2	193,094.2	193,094.2	193,094.2	193,094.2
Warrants O/S (EOP) (000)	23,840.3	21,221.3	19,109.1	19,109.1	19,109.1	19,109.1	19,109.1	19,109.1	19,109.1	19,109.1	19,109.1
Options O/S (EOP) (000)	15,827.5	14,464.8	14,279.8	14,279.8	14,279.8	14,279.8	14,279.8	14,279.8	14,279.8	14,279.8	14,279.8

Source: Desjardins Capital Markets, company reports

Overview of management's 2022 outlook and a summary of our recent fireside chat with management. In December, management released its 2022 outlook, calling for total revenue in the range of C$70–90m on total originations of 7,000–9,000. Of its total earnings, 80–90% are expected to be driven by the DF platform, while the newer DX and DL platforms are expected to contribute the remainder. Management expects revenue growth to be significant in 2022, driven by a combination of onboarding more dealers and driving higher originations per dealer. Expansion of its product offering and cross-selling initiatives from its three platforms should further enhance originations growth. The onboarding of enterprise customers, which typically carries a longer implementation, should yield meaningful growth potential. Industry-wide inventory levels continue to be a challenge; however, management remains cautiously optimistic and is seeing activity pick up. Gross profit

margin should remain consistent in the 50–60% range, with higher margin contributions expected from DL and DX.

With DX, management expects meaningful contribution in the form of transaction fees, which are set at a fixed US$350 per transaction. The DX platform is expected to launch in Texas with a target of 400 transactions, prior to expanding to other major markets. With DL, management is currently generating ~US$0.5m in annual revenue and has noted that cross-selling efforts are bearing fruit with DL customers working with DF to obtain leasing options—existing dealers have generated 20–30 originations thus far and this is expected to grow over time. Management previously announced the onboarding of 29 dealers onto its platform and is targeting growth to 300 dealers in 2022. For context, the 29 dealers onboarded are expected to generate ~US$30,000 in monthly recurring revenue—dealers under the DL platform pay ~US$995–1,995 per month in subscription fees, with a 65% gross margin. Significant opportunity exists—if DL onboards 3,000–4,000 dealers, it could generate US$50–100m in top-line growth.

From a corporate standpoint, management targets C$4m in capex, most of which is expected in 1Q22. Management is also expecting to keep its SG&A costs low, utilizing existing dealer relationships to market offerings and leveraging the use of industry associations as referrals. The company has financial flexibility to fund ongoing operating expenses and is currently in discussions with a lender to secure a line of credit or other form of non-dilutive debt financing to cover ongoing capex for: (1) Orca, the fully integrated loan operating system, which will offer financing products in addition to leasing; (2) DX; and (3) DL. Exhibit 36 outlines management's 2022 outlook.

Exhibit 36: 2022 management outlook vs our estimate

	Low	High	Desjardins
Revenue (C$m)	70.0	90.0	54.2
Drivrz Financial (%)	90.0	80.0	~95.0
Originations	7,000	9,000	6,475
EBITDA margin (%)	20.0	25.0	-2.4

Source: Desjardins Capital Markets, company reports

Valuation and justification for target price

To derive our 12-month target price of C$1.60, we use a combination of EV/sales (50%) and EV/gross profit (50%) on our 2023 estimates and discount it back to 2022 using a 15% discount rate. We believe we are quite conservative with our estimates; if management achieves even the low end of 2022 guidance, there is meaningful upside to our target price. We applied a 5.0x multiple to our 2023 revenue forecast and an 8.0x multiple to our 2023 gross profit estimate to arrive at our enterprise value. To this, we adjust for net debt, NCI and cash receivable from the exercise of in-the-money warrants and options to calculate the equity value. For comps, we look at omnichannel and online-focused dealers, as well as selected marketplace and digital auto solutions providers. We note that EV/sales may not be comparable vs auto dealers as PBX's top line does not account for the vehicle price but just the gain on originations and other transaction fees. Our 5.0x EV/sales and 8.0x EV/gross profit multiples are below multiples for marketplace and digital auto solutions comps given peers are significantly larger, more developed, have better trading liquidity and likely lower perceived risk. However, growth at PBX should outpace that at these firms due to easier year-over-year comps and robust dealer onboarding providing some near-term visibility.

Exhibit 37: Valuation and target price

Based on EV/sales	(C$m)	Based on EV/gross profit	(C$m)
2023E sales	**89.5**	**2023E gross profit (C$m)**	**48.0**
Multiple (x)	5.0	Multiple (x)	8.0
Enterprise value	**447.7**	**Enterprise value**	**384.4**
Debt	12.4	Debt	12.4
Cash	4.4	Cash	4.4
Cash from warrants	8.8	Cash from warrants	8.8
Cash from options	3.8	Cash from options	3.8
NCI	0.9	NCI	0.9
Equity value	**451.3**	**Equity value**	**388.0**
Shares O/S (m)	193.1	Shares O/S (m)	193.1
Warrants (m)	19.1	Warrants (m)	19.1
Options (m)	14.3	Options (m)	14.3
Fully diluted shares O/S (m)	**226.5**	**Fully diluted shares O/S (m)**	**226.5**
2023E target price (C$/share)	1.99	2023E target price (C$/share)	1.71
Discount applied (%)	15	Discount applied (%)	15
2022E target price (C$/share)	**1.73**	**2022E target price (C$/share)**	**1.49**
2022E target price 50/50 weighted (C$/share)	1.61		
Rounded (C$/share)	**1.60**		
Current price (C$/share)	0.80		
Expected total return (%)	**100.0**		

Source: Desjardins Capital Markets

Comparable companies

Exhibit 38: Comparable companies

	Ticker	Price Jan-6 (US$)	Mkt cap (US$m)	EV[1] (US$m)	EV/EBITDA (x) 2022E	EV/EBITDA (x) 2023E	EV/revenue (x) 2022E	EV/revenue (x) 2023E	EV/gross profit (x) 2022E	EV/gross profit (x) 2023E
PowerBand Solutions Inc. (C$)	**PBX-CA**	**0.80**	**154**	**152**	**NM**	**15.6**	**2.8**	**1.7**	**5.6**	**3.2**
Marketplaces										
DoorDash Inc.	DASH-US	138.24	47,422	43,262	NM	51.0	7.2	5.8	13.3	10.6
CoStar Group Inc.	CSGP-US	73.68	29,097	26,323	34.3	26.7	11.9	10.2	14.6	12.6
Etsy Inc.	ETSY-US	196.92	24,966	26,418	33.8	27.5	9.6	8.1	13.2	11.0
Chegg Inc.	CHGG-US	30.36	4,400	4,324	15.7	13.2	5.2	4.5	7.7	6.5
Fiverr International Ltd.	FVRR-US	103.94	3,799	3,742	NM	52.2	10.1	7.9	12.0	9.2
Average					**28.0**	**34.1**	**8.8**	**7.3**	**12.2**	**10.0**
Digital auto solutions										
Copart Inc.	CPRT-US	140.07	33,223	32,333	21.7	20.1	9.9	9.3	20.1	18.7
Auto Trader Group Plc (GBP)	AUTO-LON	7.15	6,772	6,763	20.5	18.9	14.9	13.8	NA	NA
Carsales.Com Ltd (A$)	CAR-ASX	24.19	6,836	7,194	26.0	23.1	15.0	13.7	27.3	24.5
E Automotive Inc. (C$)	EINC-CA	17.33	793	775	NM[2]	NM[2]	6.3	4.5	12.8	8.9
ACV Auctions Inc.	ACVA-US	18.07	2,811	2,210	NM[2]	NM[2]	5.0	3.7	10.9	7.3
Average					**22.7**	**20.7**	**10.2**	**9.0**	**17.8**	**14.9**
Predominantly online-only retailers										
CarMax Inc	KMX-US	119.63	19,365	35,889	18.8	18.4	1.1	1.1	10.2	9.9
Carvana Co.	CVNA-US	195.48	33,777	36,904	194.9	56.9	2.2	1.7	14.4	10.8
Vroom Inc.	VRM-US	9.85	1,348	562	NM[2]	NM[2]	0.1	0.1	1.6	1.0
Shift Technologies Inc.	SFT-US	3.10	252	156	NM[2]	NM[2]	0.1	0.1	1.7	0.9
CarLotz Inc.	LOTZ-US	2.26	257	97	NM[2]	NM[2]	0.2	0.1	3.3	1.5
Average					**106.8**	**37.7**	**0.8**	**0.6**	**6.2**	**4.8**
Omnichannel retailers										
Penske Automotive Group Inc.	PAG-US	107.62	8,426	9,756	6.3	7.1	0.4	0.3	2.2	2.3
AutoNation Inc.	AN-US	113.57	7,443	10,051	5.2	6.1	0.4	0.4	2.0	2.1
Lithia Motors Inc.	LAD-US	299.64	9,073	11,761	6.4	7.0	0.4	0.4	2.4	2.3
Group 1 Automotive Inc.	GPI-US	198.13	3,586	4,623	4.7	5.1	0.3	0.3	1.7	1.7
Sonic Automotive Inc.	SAH-US	50.15	2,069	2,540	3.5	3.7	0.2	0.1	1.1	1.0
Asbury Automotive Group Inc	ABG-US	177.35	4,103	5,144	4.9	5.0	0.3	0.3	1.9	1.8
Average					**5.2**	**5.7**	**0.3**	**0.3**	**1.9**	**1.9**

[1] Enterprise value calculation excludes floorplan financing; [2] EV/EBITDA is NM given negative EBITDA estimates
Source: Desjardins Capital Markets, FactSet

Investment risks

- **Liquidity risk.** The risk that the company will not have sufficient cash resources to meet its financial obligations as they come due.
- **Credit risk.** The company's credit risk is primarily attributable to accounts receivable from customers that utilize its Drivrz platform service offering.
- **Currency risk.** PBX operates primarily in the US and transacts in US dollars; there is a risk that the company's cash flows and financial instruments will fluctuate because of a change in foreign exchange rates.
- **Changes to the price of new and used vehicles.**
- **The business is subject to risks related to the larger automotive ecosystem, including consumer demand, global supply chain challenges and other macroeconomic issues.**

Gary Ho, CPA, CA
Vaikunthan A, CPA,CA, Associate

Appendix A: Senior management team

- **Kelly Jennings, President, CEO and director.** Mr Jennings has more than 27 years of automotive dealership ownership and management experience. Previously, he worked for the World Trade Centre in Toronto, the Toronto Harbourfront Commission and Revenue Canada.
- **Jon Lamb, CEO, DF.** Mr Lamb has more than 17 years of experience in disruptive technologies, business strategies and corporate capitalization. Prior to being appointed the CEO of DF, Mr Lamb founded and served as president and CEO of organizations across multiple verticals, including the automotive and technology sectors. He is also an active board member and adviser for multiple ad tech and fintech organizations.
- **Sean Severin, CTO.** Mr Severin has more than 18 years of experience in IT, having worked for companies focused on enterprise financial solutions, consumer and commercial credit integration. His experience spans technology, product development, customer relations and management operations.
- **Bruce Polkes, DL Business Unit Leader.** Mr Polkes brings 30 years of experience in the automotive retail sector, of which 20 years was spent working with dealers and OEMs such as Toyota, Lexus, Honda and Acura to develop and leverage technology to drive dealership sales and increase customer engagement. Mr Polkes was the founder and CEO of IntellaCar, which PBX acquired in 2020.
- **Jamie Chown, CPO.** Mr Chown has more than 20 years of automotive retail experience from various management positions in both sales and service. Since 2009, he has been responsible for PBX's product development and innovation.
- **Craig Vaughn, President, DF.** Mr Vaughn has extensive domestic and international experience in developing professional relationships with numerous public and private dealership, insurance, finance and warranty groups.
- **Shibu Abraham, CFO.** Mr Abraham has 25+ years of accounting and financial management experience at various private and publicly traded companies listed on stock exchanges in both Canada and the US. He received his CA designation from the Institute of Chartered Accountants of Ontario and CPA from the American Institute of Certified Public Accountants, and holds an ACA from the Institute of Chartered Accountants of India.
- **Scott Schondau, CFO, DF.** Mr Schondau brings more than 22 years of experience in finance, having served as managing director and in similar management roles at Alex Brown (a division of Raymond James), Deutsche Bank, Guggenheim Partners, JPMorgan Chase, Bear Stearns and Principal Financial Securities.

Appendix B: ESG considerations

Materiality issue	Management process, controls and measurement	Momentum
Environmental		
• **Environmental footprint of hardware.** Risk that the company uses inefficient energy sources to power its infrastructure assets and risk of business disruptions.	• The PBX suite of software utilizes Microsoft Azure and AWS component infrastructure. This strategy provides the ability to scale performance and availability based on system load and, conversely, allows test and non-critical environments to be scaled down or brought completely offline during times when they are not needed. As PBX continues to align and vertically integrate its technologies, the approach to data management and redundancy in data collection is regularly reviewed. By continuing to align the approach to data across DF, DX and DL, the company will naturally evolve to having a more efficient data management footprint, reducing redundant data storage and in turn creating more meaningful opportunities to sustainably manage the data collected. • **Metric** – **Total amount of energy consumed:** NA.	• **Neutral.**
Social		
• **Employee diversity and inclusion.** Risk that the company does not appropriately support diversity within the organization.	• Employee diversity is important to the company and PBX aims to increase diversity across all levels of the organization. • **Metric** – **Percentage of gender and racial group representation:** Across the three verticals, PBX has 10 employees in a director role and above who are women, representing 12%. 32% of all other employees are women.	• **Neutral.**
• **Customer and data privacy.** Risk that the company does not take adequate measures to protect customer data.	• **Customer privacy.** The company is subject to various privacy and information security laws and takes reasonable measures to ensure compliance with all requirements. It requires the explicit consent/authorization of the customer (loan applications include consent authorization questions) anytime customer data is shared with a third party. • **Metric** – **Number of account holders whose information is used for secondary purposes (ie marketing, cross-selling, analytics, etc):** Data is collected largely for identification purposes and the same data is utilized for determining credit worthiness and pre-approvals. Typically, no data is shared with external parties without the explicit written consent of the customer. – **Total amount of monetary losses because of legal proceedings related to customer privacy:** No material losses were noted.	• **Neutral.**
Governance		
• **Competitive behaviour.** Risk that the company's intellectual property and technology is not protected legally.	• Neither PBX nor its affiliates holds any patents or IP related to its technology platform. PBX relies on the complexity of its offering as well as its established network partnerships to serve as a competitive advantage. Furthermore, PBX benefits from its long tenure in the business and the considerable time, effort and resources that would have to be invested for any competitor to offer a similar product/service. • **Metric** – **Amount of monetary losses incurred during the reporting period as a result of legal proceedings associated with anti-competitive behaviour:** None.	• **Neutral.**

Materiality issue	Management process, controls and measurement	Momentum
• **Selling practices.** Risk that the company engages in unfair lending practices.	• **Selling practices.** PBX is integrated within RouteOne and Dealertrack and offers dealers a financing option for used car leasing. PBX, through its partnership with credit unions, approves customers based on underwriting criteria set by the credit union, which it has a fiduciary responsibility to adhere to. PBX has a multi-faceted approach to offering its solutions to the market—direct outside sales force, digital marketing and advertising, radio ads, affiliate marketing and internal sales. • **Metric** – **Average rate of loan approval (for every 100 customers, how many are approved and provided a loan)?** 5–7%.	• **Positive.**
• **Systemic risk management.**	• PBX software teams utilize industry-leading third-party solutions for ongoing security best practices. Security is fostered as a cultural standard within PBX's technology groups and spans code-time/IDE, compile-time, DevOps practices and plugins, static analysis, dynamic analysis, penetration and vulnerability scanning along with detailed reporting for compliance or regulatory goals. The company recently onboarded a CISO to the team to oversee operational security standards across the organization. • **Metric** – **Total number of data breaches:** None. – **Percentage of data breaches in which personally identifiable information was subject to a breach:** None. – **Number of performance issues in software and IT services provided to customers (eg glitches, etc experienced by dealers?):** None.	• **Positive.**

Appendix C: Key highlights from dealer interview

We had the opportunity to hold a virtual interview with a dealer based in Miami, Florida (part of a larger group of 17 dealers).

Can you speak to your experience of Drivrz thus far? The experience since onboarding 6–7 months ago has been positive. We have been generating 5–15 originations per month via the Drivrz platform and have generated multiple originations in December across Honda, Mazda and some luxury vehicles. The pace of originations is tracking well, particularly as sales staff are becoming increasingly comfortable and familiar with the platform. Furthermore, having Drivrz reps present daily during the onboarding phase has been supportive. We were able to successfully onboard the platform at our luxury dealership within 90 days (since the team here is more familiar with used leasing) vs traditional dealerships, which typically takes 6–8 months. Since the platform is largely not used by competitors (to our knowledge) nor are customers fully aware of this option, we are able to leverage this in our advertising as a competitive advantage to help direct more traffic to our locations. Given we can get up to 6ppt in participation rates, there is an increased incentive to pivot all used sales to leasing (though some limitations apply—certain vehicle classes may not qualify).

What makes Drivrz appealing to you and how does it fare vs others in the marketplace? For starters, the Drivrz platform portal is very simple and easy to use. It effectively simplifies and presents the used leasing payment options. There is a need for used leasing and not a lot of products in the market fill the gap, and the ones that attempt to do so are incredibly difficult to use. Take for example a new car lease—the calculation of the payment is straightforward: you take the MSRP less the residual value. Contrast that to used car leasing—the calculation is quite different and the starting point may not be the same for everyone given the variability in money factors as well as the participation rate. The Drivrz platform takes all this into consideration and streamlines the whole process, making for an effective tool for a better user experience. Furthermore, under this platform, we were able to obtain approvals or responses within an hour vs upwards of a day under traditional methods. While no automatic approval system is present, this could enhance the user experience of Drivrz.

If, say, a competitor approaches you with a similar product, will you make the switch? There are a couple of things to consider. For starters, this is a relationships business—we work with 50 lenders but do the majority of deals with only 10. This is no different when it comes to leasing since it is relationships-driven and is a function of how quickly we can get a response from a lender, the ease of application submission, how fast funding can be approved, profit expectations, differences in the programs offered, support levels, the serviceability of the contract, etc, that would have to be considered. At the end of the day, the focus is on the end consumer not being burned out from this experience. We would not move to a competitor unless the product can compete well with Drivrz to make it attractive—and given our longstanding relationship with Drivrz, we are comfortable. Someone can't just come and knock on the door, there has to be an agreement, indemnification for the dealer, etc.

Can you perhaps walk us through a used lease transaction and how it works through the Drivrz platform? The processes are different at dealers and vary based on car type (luxury vs standard). If it is a luxury car, the process is different vs say for a Honda or a Mazda. The salesperson would have a lot more experience in the leasing space and be more knowledgeable. They would start to prequalify the customer based on income, down payment, etc, and work with the customer to generate a plan that works. They will then provide a manual option for purchase or leasing—a lot of consumers don't want to purchase because of tax implications; also, prior to this year, vehicles were a depreciating asset and, lastly, customers want to write off the payments on taxes. On the dealer side, the effort is made to push the customer toward a lease option because it is more profitable and there is customer retention (most customers trade in within 18–24 months, particularly on the luxury side). The dealer would expect to retain the consumer as the lease comes due and customers revisit the store to lease another vehicle.

How are inventory levels and when do you see normalization? Depends on the manufacturer—for instance, luxury vehicle inventory could extend out to 2023 given production problems. Manufacturers like Honda and Toyota are global and those are also going to normalize by 2023 given the global demand. However, companies like Mazda and some of the Korean brands are a little nimbler, in that these manufacturers can reallocate supply to the US (which is their main market). For the Mazda locations, they are expecting inventory replenishment in 1Q22. Net, the worst is behind us but we expect 2022 to be similar to 2021 in terms of activity, dealer profit and vehicle pricing.

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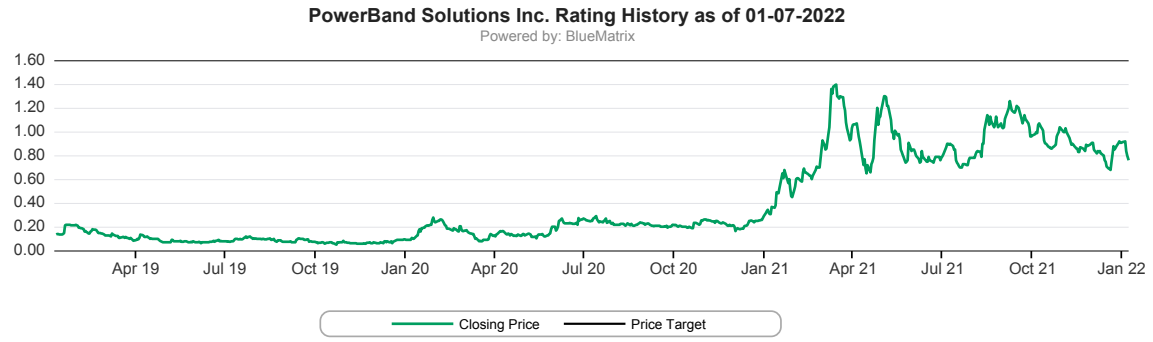

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