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VALUE FOCUS

Auto Dealer Industry

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Mercer Capital is a national business valuation and financial advisory firm. Valuations of auto dealers require special knowledge of the industry, hybrid valuation methods, and understanding of industry terminology. This newsletter provides useful statistical metrics of the auto industry as well as content about the unique industry factors and value drivers of business valuations. We can assist you and your clients in valuation and consulting matters within the auto industry.

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Themes from Q2 2025 Earnings Calls

Theme 1: Tariff Headlines Pulled Forward Customer Demand and Raised Uncertainty

Unsurprisingly, tariffs were a primary discussion point among the publicly traded auto dealerships. Tariff headlines pulled consumer demand into April and May, leaving a choppy cadence in the quarter as consumers sought to make purchases at "pre-tariff pricing.," This supported both volumes and GPUs, which softened through the end of the quarter. AutoNation indicated they were more cautious on M&A due to tariff uncertainty, and Asbury similarly noted its capex spend for both 2025 and 2026 would be dependent on tariff policies, while Group 1 deferred certain capital expenditure projects and has reevaluated some discretionary spending.

Executives emphasized that OEMs are likely to lean on incentive growth, trim-level adjustments, and pricing actions to maintain affordability as tariffs filter through the supply chain. The real test will come as 2026 model year vehicles hit dealer lots, bringing with them the first wave of meaningful OEM price adjustments. Unlike smaller, public auto groups that have less brand diversification, the publics noted that brands more impacted by tariffs will likely lead to stronger performance from their other brands less impacted by tariffs.

"We did note some pull ahead ordering during the quarter as a result of tariffs, as some customers looked to lock in lower prices. […] I think the initial tariff announcement in March certainly drove some activity. We saw activity spike probably into April and, to a lesser extent, in May and June. And obviously, we knew that our inventory that was non-tariff impacted at that point in time became more valuable. So there was no need to be giving those cars away, not knowing what the ultimate tariff impact was going to be. So, throughout the quarter in the US, our grosses were very stable. Certainly, they were the highest in April at $7,250. But then you look over the quarter between May and June, the spread between those other months was no more than $125. […] Some OEMs held off from shipping product as

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Themes from Q2 2025 Earnings Calls

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tariff negotiations took place limiting inventory of some brands. […] We had Audi, Porsche, and Land Rover kind of suspend wholesales for a period of 45 days in the second quarter as they were further looking to understand what the tariff outcome was going to be. That probably impacted our Porsche business the most. If you look at that brand, our EBT was down 9% in the second quarter, whereas year-to-date we're up 1%. And that certainly hurt our mix. But that wholesale from those brands now is flowing again, so it was a short-term impact"

– Richard Shearing, COO – North America, Penske Automotive Group

"Second quarter results benefited from an increase in consumer demand in April and early May, which we expect was the result of customers buying in advance of anticipated tariff-driven price increases. […]We continue to work closely with our manufacturer partners to understand the impact of tariffs on manufacturer production and pricing decisions and the resulting impact tariffs may have on vehicle affordability and consumer demand later this year. To-date, we have not seen a material impact on vehicle pricing as a result of tariffs, but that could change as the model year 2026 vehicles begin to arrive at our dealerships late in the third quarter."

– David Smith, Sonic Automotive, Chairman & CEO

"Expectations remain that new and used vehicle GPUs could elevate a bit as inventories tighten from imposed tariffs. […] We recognize our consumers are under pressure from car prices and other cost which have outpaced wage growth and higher interest, virtually double the rates we saw just a few years back. […] They're just announcing 2026 contenting and some in pricing and some are still waiting to see what happens with the tariffs […] What we believe will happen is you will see OEMs play with trim levels, contenting, repricing price walks between grades, things like that to optimize margins and reduce the impact of the tariffs. […] Standard equipment may become optional in the future in order to keep the base car more competitively priced."

– Daryl Kenningham, Group 1 Automotive, President & CEO

"The 2026 model, when you think about the OEMs going through the transition right now and this has been going on since the end of the first quarter. They've had plenty of time to strategize and make the necessary adjustments that are going to come down the pipeline. But from a production standpoint, it takes time to really adjust the parts and the suppliers. So, I do expect that in the 2026 model, there will be adjustments necessary to adjust for the tariff, but it will take some time when it comes down to the packages and the options that might be available to adjust that accordingly with the suppliers."

– Daniel Clara, Asbury Automotive Group, COO

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Themes from Q2 2025 Earnings Calls

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"Our OEM partners have responded nicely, maintaining affordability and price stability. With a broad product mix, we are well positioned to serve customers across all segments and affordability levels […] When we think about tariffs, we go back to affordability … manufacturers are going to have to respond. We continue to believe that incentives are going to have to grow again. […] As a side note for the quarter, incentives were only up about a 0.5%. They went to 6.5% of the price of a vehicle from 6% in the previous quarter. […] The most important thing is our manufacturers are all competing to sell cars. So it's important to keep that in play. And only about half of the vehicles that we sell on a new car basis are being impacted by tariffs, okay, the rest are not. So when we think about the remaining half, what happens? I believe that manufacturers have already begun to either de-content cars or not charge for other upgrades."

– Bryan DeBoer, Lithia Motors, President & CEO

"I know tariffs continue to be top of mind, and apart from the volume shifting, we saw limited additional impact in our Q2 results from tariffs. MSRP and invoice prices have been stable, and the June CPI report showed continued modest month-over-month declines in new and used vehicle pricing. We do expect the ongoing dialogue between our OEM partners and the US administration to result in clarification, and of course, finalization of the auto tariff structures in the coming periods. Now, this process also includes our OEM partners' full evaluation of the supply chain footprint and planning to optimize tariff efficiency and to establish their forward pricing structures. We believe the objective of maintaining market share, particularly in critical segments, will [balance] equally with a desire to offset any new tariffs. And as I've said previously, we expect that AutoNation to some extent will be cushioned for many new tariffs by a cross-shopping effect whereby demand for non-impacted or lesser impacted brands and models will potentially supplant those for more effective counterparts. […] It's good to see that we're seeing certainty in some tariff deals. That will translate to more transparency in terms of the OEMs' actions and what they're doing. We're still a little bit uncertain in that area, particularly as we go into a model year changeover, and not just on new vehicle price, also on parts prices."

– Mike Manley, CEO, AutoNation

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Themes from Q2 2025 Earnings Calls

(cont.)

Theme 2: A Disciplined Approach to Acquisitions, Prioritizing Current Markets to Achieve Scale

The publics reinforced a disciplined approach to acquisitions—favoring bolt-ons in markets where they already enjoy scale and density. Instead of chasing new geographies, management teams highlighted portfolio optimization and targeted buys that strengthen existing footprints and yield higher returns. Notably, two of the six publics (AutoNation and Sonic) had non-cash write-offs in Q2 from prior acquisitions.

"We continue to actively explore M&A opportunities to add scale and density in our existing markets. […] I think, scale and territory as well. We have a very clear picture of the density we want in marketplaces where we can really subtract the biggest benefit from the processes and the scale that we bring. So we're very, very focused on tuck-ins in those marketplaces to continue to unlock those synergies that I think are much, much more reliable in terms of delivery after M&A."

– Mike Manley, CEO, AutoNation

"I think Ferrari was kind of a special one when you think about that brand, we're their largest dealer in the world, and we had the ability to have the house dealership next door [which] was key. But as we look at these, we want to be sure that we can cut things in where we have scale, look at markets, and we're going to be prudent as our peers have been."

– Roger Penske, Chairman and CEO, Penske Automotive Group

"We acquired three dealerships in the quarter, further strengthening our partnership with Mercedes-Benz, Lexus and Acura. These dealerships expand existing footprints in Austin, Texas and Fort Myers, Florida, adding more scale on these proven markets consistent with our cluster strategy. […] We will continue to be acquisitive, but we are also being very disciplined in valuing acquisitions, engaging only in deals that we feel provide long-term value for Group 1 shareholders. […] I think, in the next few years, there will be larger ones [like the Asbury acquisition of Herb Chambers]. […] And up to right now, the year has been fairly quiet because of the [tariff] uncertainty, it feels like in the last couple of weeks there's a little more activity."

– Daryl Kenningham, President & CEO, Group 1 Automotive

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Themes from Q2 2025 Earnings Calls

(cont.)

"With a disciplined approach, we continue to target high quality assets in the U.S. that strengthen our network, especially in the Southeast and South Central, where population growth and operational profits are the highest. We aim to acquire at 15% to 30% of revenue or 3 to 6 times normalized EBITDA, with a 15% minimum after-tax hurdle rate. Our track record reflects a 95% success rate of above target returns. […]But again, we don't flex on pricing. We act when there's opportunities that make a good ROI sense. […] So, this is a pretty easy roll-up strategy and we believe the market will come back to us as profits begin to normalize, which they've done nicely. […] We don't have blips in terms of how we buy and how we operate because we didn't pay based off COVID level earnings. We don't have write-offs as two of our peers just had."

– Bryan DeBoer, President & CEO, Lithia Motors

"Based upon the franchise laws in the different states and the economics in California, we just see there's better investments and better returns in other states. […]Size and scale matter to us to a certain degree. Buying a store in a smaller state that has $30 million or $40 million in revenue per rooftop is just something that doesn't interest us. We try and look at 10-year economic outlook, so markets that we're in, what the franchise laws are and all that kind of stuff. And we think that's what helps our portfolio keep the SG&A as tight as it is. We're not hyper-focused on growth as a top line revenue growth, but really being strategic about the capital allocation, where we're buying stores, what our returns are for our shareholders and making sure that we're doing it thoughtfully and building for the future."

– David Hult, President & CEO of Asbury Automotive Group

"It goes back to what I talked about in terms of market and densification in the market. We know an AN USA [AutoNation's used only retail locations] is additive once we've got a certain amount of density, and we know that if we have AN USA, that's a long way away from any supporting businesses, it's a very, very tough business. So what we've done now, many years ago we had this big growth forecast, which I talked about in the past, and we've moderated that, you're going to see additional openings of AN USA businesses this year. It's going to be much, much more deliberate. And you will see from where they are opening that it fits into that pattern that I talked about."

– Thomas A. Szlosek, AutoNation, CFO & EVP

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Themes from Q2 2025 Earnings Calls

(cont.)

Theme 3: Fixed Operations Performed Well as Variable Operations Remain Volatile

Service and parts delivered record revenue and gross profit. Warranty work was a clear tailwind, customer pay remained solid, and margins widened with better technician utilization, pricing, and mix, pushing fixed absorption higher. As front-end gross profit per unit normalizes, aftersales increased its share of total gross profit and provided a more stable earnings base. The publics have seen improvements due to their previous investments in hiring more technicians which were in short supply in recent years, and executives noted there is room to take more market share in aftersales.

"Our same-store parts and service gross profit was up 7% in the quarter. We generated a gross profit margin of 59.2%, and our fixed absorption rate was over 100%, an important benchmark for the strength of the business. Customer-pay gross profit was up 7% with warranty gross profit higher by 16% or 9% on a combined basis. We continue to be bullish on the long-term trajectory of our parts and service business. We believe the continually aging carpark and the increasing complexity of modern vehicles mean our stores are well-positioned to capture future service growth. The average age of a passenger car on the road is 14.5 years old and the average truck is nearly 12 years old. Additionally, recent and upcoming models have more technology and innovative powertrains, which should create opportunity for our service departments for years to come. […] We feel comfortable with the mid-single digits that we have been discussing as we move into the second half of the year. And we have the throughput in the stores. Obviously, the bay utilization, we have opportunity to grow that as well. So, we feel comfortable with that measurement and continue to have and push forward as we go into the second half."

– Daniel Clara, Asbury Automotive Group, Chief Operating Officer

"Aftersales represents nearly one-half of our gross profit. The business continued its revenue and margin momentum, and gross profit was once again a record for AutoNation. Revenues were up 12% year-over-year on a same-store basis, with increases in customer pay, it was up 10%, warranty up 25%, internal work up 14%, and wholesale up 8%, all offsetting a 6% decline in collision revenue as that industry has struggled to offset a declining proportion of repair to replace insurance decisioning. Aftersales gross profit increased by 13% on a same-store basis from a year ago. The increase was driven by a 7% increase in the volume and content of repair orders, and a 5% increase in the gross profit per repair order. For the second quarter, our reported aftersales gross margin rate was 49%, up 100 basis points on a total store basis from a year ago, reflecting improved parts and labor rates, higher tech efficiency, scaled benefits and

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Themes from Q2 2025 Earnings Calls

(cont.)

higher value orders. We continue to develop and promote our technician workforce. As Mike mentioned, the quarter-end technician head count was up 3% from a year ago on a same-store basis, and our technician efficiency continues to improve. We expect our aftersales business will grow roughly mid single-digits each year. […] As we've said in the past, we have plenty of physical capacity and we're continuing to drive the technician workforce up as well."

– Thomas A. Szlosek, AutoNation, EVP & CFO

"*In the quarter, our aftersales gross profit was up 14.3%, customer pay revenue was up 13.6% and warranty up 31.9%. While we certainly benefited from an easier comp versus the June 2024 CDK event, our aftersales business was strong throughout the quarter. And we continue to believe that the potential of the aftersales business warrants additional investment[…] We're also evaluating our collision footprint and repurposing capacity as that segment of the industry continues to decline. […]What we are focused on is trying to drive more car count, especially since we have 8% more technicians to be able to accommodate it. […] A key to growth in the next three years in aftersales is us reaching deeper into the owner base in terms of people who have owned their cars longer. And we have to be able to increase our share of that market, so call it four-plus years of ownership and we need to be able to reach into that market deeper, penetrate it deeper, increase our penetration there, increase our spend there. We're looking at our make sure our labor rates are attractive to that customer segment. […] Generally at Group 1 how we how we look at it, a technician, they're worth about $15,000 in gross profit per month average across our brands, some brands it's more, some brands it's less. But when we can put a technician in a stall and have them work for a month, that's another $15,000 in gross profit. And that's how we kind of look at our cost. We look at the cost of not having a technician rather than the cost of what it costs to acquire a technician."*

– Daryl Kenningham, President & CEO, Group 1 Automotive

"*Aftersales was once again a key earnings driver. Same-store aftersales gross profit grew 8.5% year over year helped by solid momentum in both customer pay and warranty work. Warranty remains a standout, with gross profit up 21.9% on elevated OEM service activity and higher technician productivity. Aftersales [contributes] more than 60% of our company's net income. […] A lot of [aftersales outperformance is] being driven by customer pay and some by warranty. I would say that there's slight impacts from tariffs, but most manufacturers have controlled their pricing on parts as well. Now, going forward, there may be implications there, but we didn't see impact from tariffs at any scale."*

– Bryan DeBoer, Lithia Motors, President & CEO

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Themes from Q2 2025 Earnings Calls

(cont.)

"Same-store service and parts revenue increased 7% and related gross profit increased 9%. Same-store gross margin increased 90 basis points. Customer pay gross was up 6% and warranty was up 24%. We have approximately 6,000 service bays and 5,800 technicians, and our technician count is up 2% from June of last year. While our service and parts revenue and gross profit is at a record level, we continue to focus on driving higher utilization of our bays and increasing fixed cost absorption. […]I think there's enough customer demand that even if these recalls in the warranty as a percent of our total repair orders goes down, when you look at the car park being 12 to 13 years of age, average mileage being close to 70,000 miles, we're going to continue to see the benefit in the fixed ops department. And then I think with some of the initiatives that we've undertaken relative to shop load, operating hours, shift schedules, those are all paying benefits as well. […] I think it's going to take a while for that car park to adjust. You look at the vehicles we're selling today or servicing today, they're almost 6.25 years of age on average and that's up from 5.6 in 2019. And with the SAAR continuing to struggle to find a new high watermark, I think, I see fixed operations remaining strong."

– Richard Shearing, Penske Automotive Group, COO – North American Operations

"Our fixed operations gross profit and F&I gross profit set all-time quarterly records, up 12% and 15% year over year. […] These high-margin lines continue to increase their share of our total gross profit pool, approaching 75% in the quarter. Same-store warranty gross profit was up 34%, and customer-pay gross profit grew 9%."

– David Smith, Sonic Automotive, Chairman & CEO

Conclusion

At Mercer Capital, we follow the auto industry closely to stay current with marketplace trends. These give insight into the market for a private dealership, which informs our valuation engagements. To understand how the above themes may or may not impact your business, contact a professional at Mercer Capital to discuss your needs in confidence.

FEATURE ARTICLE

2025 Auto Industry Tariff Update

Where Do We Stand and What Does That Mean for My Dealership?

The United States automotive industry has been navigating an increasingly uncertain landscape since the 2024 presidential election. Given how deeply globalized the industry is, automotive manufacturing often involves complex supply chains where parts and materials may cross borders multiple times before a vehicle reaches the end consumer.

Both Mexico and Canada play critical roles in the production, supply, and final assembly of vehicles that are sold domestically. This level of regional integration means that changes in international trade policy, particularly those affecting North American trade partners, can have a pronounced effect on operations, pricing, and availability. A shift in tariffs or trade terms can raise costs, delay production, or even temporarily halt vehicle flow to dealerships.

Since taking office, the current administration announced a series of tariffs that introduced uncertainty for both manufacturers and dealers. Below is a timeline of key developments from Washington, D.C., that are especially relevant to the automotive industry.

Timeline of Key Announcements

- **February 1, 2025 –** President Trump announced a wide range of tariffs on imports from Canada, Mexico, and China.
- **March 26, 2025 –** New auto-related tariffs were unveiled, including duties on completed automobiles and a separate tariff on auto parts.
- **April 2, 2025 –** In a speech labeled "Liberation Day," the President introduced a universal import duty and elevated "reciprocal" tariffs on trading partners.

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2025 Auto Industry Tariff Update

Where Do We Stand and What Does That Mean for My Dealership?

(cont.)

- **April 8, 2025 –** A final increase in the Chinese tariff package took effect, bringing the cumulative tariff rate to 145% via a new "reciprocal" layer on top of earlier hikes.
- **April 15, 2025 –** The President suggested that the administration may consider temporary relief for the auto industry from certain tariffs. While no specific timeline or policy framework was detailed, many in the sector are closely watching for changes related to the 25% tariffs on U.S. parts produced abroad and duties on assembled vehicles.

What Does This Mean for My Auto Dealership?

Lower Sales Volume and Profitability

If the newly imposed tariffs remain in effect, dealerships across the United States could face near-term headwinds. The 25% tariffs on imported vehicles and parts are expected to push sticker prices up, making new cars, trucks, and SUVs less accessible for many consumers. Without a meaningful offset, this increase in vehicle costs could lead to lower sales volumes and reduced profitability for many dealers.

Some manufacturers have already announced plans to temporarily absorb a portion of these increased costs. For example, Mazda **stated** it will take on approximately $100 million in tariff-related expenses during April 2025 rather than raising vehicle prices or passing new import fees to buyers. However, such accommodations are generally limited in duration. Most automakers will likely need to adjust pricing structures over time to reflect the realities of higher costs.

Auto dealers nationwide have already seen what some analysts describe as a "pre-tariff stampede," where consumers rushed to make purchases ahead of anticipated price hikes. While this surge temporarily boosted sales to close out March, much of that demand has likely already been pulled forward, raising the possibility of a near-term slowdown as pricing pressures materialize across dealer lots.

Impacted Dealership Valuations

Beyond immediate pricing and sales concerns, trade policy also has implications for dealership valuations. While recent editions of the ***Haig Report***® and ***The Blue Sky Report*** have not explicitly tied changes in observed blue sky multiples to trade policy, it is reasonable to extrapolate a relationship between them.

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2025 Auto Industry Tariff Update

Where Do We Stand and What Does That Mean for My Dealership?

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Blue sky multiples are influenced by growth expectations and operational risk, two areas sensitive to shifts in trade and economic policy. A brand's exposure to international manufacturing or imported parts can materially affect its dealership valuation under new trade conditions. Dealerships associated with domestic brands such as Buick-GMC or Chevrolet, which have seen recent multiple increases tied to sales momentum and refreshed product offerings, may be perceived as relatively lower risk in this new environment. Meanwhile, stores tied to brands with complex global footprints, such as Volvo, could see pressure on valuations if profitability becomes harder to maintain.

How are Publicly Traded Dealers and Manufacturers Reacting?

Publicly traded auto dealers have not been exempt from the significant contraction in market value seen across the entire stock market since the tariff announcements (down about 8.0% year-to-date upon the writing of this blog). Stock prices of the six publicly traded auto retail groups have also fallen by a median of approximately 8% year-to-date, with most of the decline coming after the announcement of tariffs in February and March. In fact, the median increase in the public dealer's stock price was outpacing the S&P 500 before April 2, when the Liberation Day tariffs were announced.

On the other side of the supply chain, executives from several OEMs have spoken out and clarified their position on how they view the tariffs. Here are a couple of examples from Ford and GM:

> *"What we're seeing is a lot of cost, a lot of chaos. […] If you look at the tariffs, let's be real honest, long term, a 25% tariff across the Mexico and Canadian border will blow a hole in the U.S. industry that we have never seen."*
>
> –Jim Farley, CEO of Ford Motor Company, February 12, 2025
>
> *"If they become permanent, then there's a whole bunch of different things that you have to think about in terms of, where do you allocate plants, and do you move plants, etc. […] Those are questions that just don't have an answer today, because I can tell you, as much as the market is pricing in a big impact of tariffs and lost profitability, think about a world where, on top of that, we're spending billions of capital, and then it ends."*
>
> –Paul Jacobson, CFO of General Motors, February 19, 2025

While these domestic players are indicating the trouble with tariffs, for import brands, these concerns are magnified.

FEATURE ARTICLE

2025 Auto Industry Tariff Update

Where Do We Stand and What Does That Mean for My Dealership?

(cont.)

Final Thoughts

While it's hard to predict how U.S. economic policy will change over the coming weeks or months, our team is closely following how these trends will affect auto dealers. Because of the wide-ranging nature of the tariffs, their effects will be felt across public, private, national, and international auto manufacturers and dealers. More than ever, it's important to stay up to date with changes in economic policy and understand what drives the value of your auto dealership. Stay tuned for future posts and resources from our team as updates unfold.

About Mercer Capital

Mercer Capital provides business valuation and financial advisory services, and our auto team helps dealers, their partners, and family members understand the value of their business. Contact a member of the Mercer Capital auto dealer team today to learn more about the value of your dealership.

Light Weight Vehicle Sales: Autos and Light Trucks (SAAR)

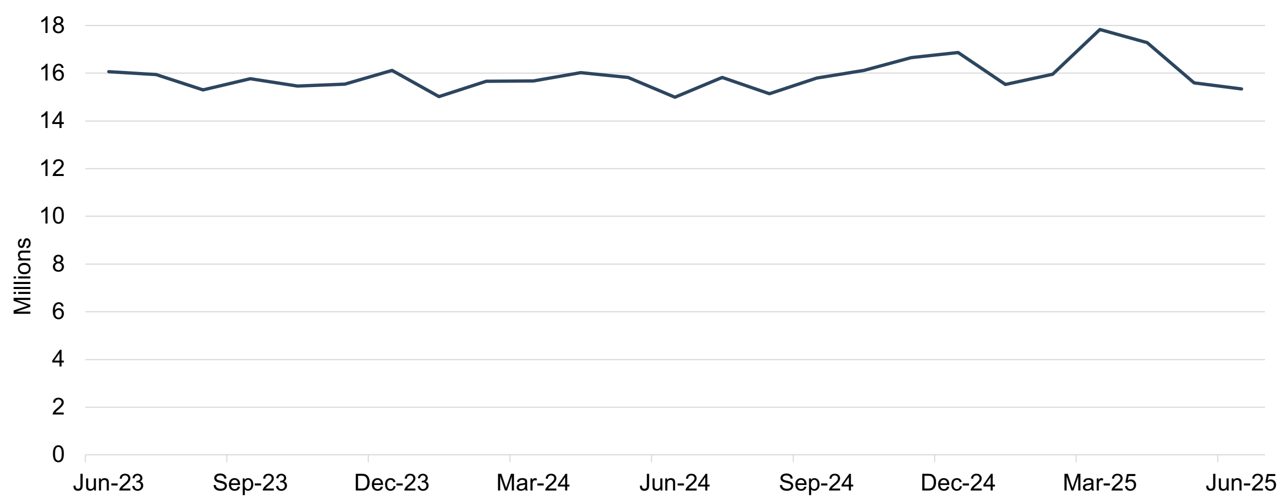
As of Mid-Year 2025

A Seasonally Adjusted Annual Rate (SAAR) is defined as a rate adjustment used for economic or business data, such as sales or employment figures that attempt to remove seasonal variations in the data. In the automotive space, it is understood to mean the number of light weight vehicles sales (autos and light trucks) sold in a given month, adjusted for seasonal factors and scaled up to a year's worth of sales based on that month.

The June 2025 SAAR came in at 15.3 million units, down 1.7% from May 2025 but up 2.3% from this time last year in June 2024. When looking at the year-over-year comparison, it is important to consider that June 2024 sales were impacted by the CDK DMS outage. As such, the year-over-year change in the SAAR presents the June 2025 performance in a better light than it would be without the impact of the 2024 CDK event.

The decline in the June 2025 SAAR continues the trend of softer sales after the pull-ahead effect seen in March and April, as consumers likely aimed to beat any tariff-related increases. We anticipate that the auto industry may continue to experience a slower sales pace and tighter margins as the industry navigates the tariff environment. While tariffs have been extended, significant uncertainty remains about the ultimate resolution and how each individual manufacturer will respond. Affordability has also been an issue for consumers, as persistently higher interest rates and increasingly longer loan terms have likely caused many consumers to hold off on big purchases in the short term.

Light Weight Vehicle Sales: Autos and Light Trucks, Seasonally Adjusted Annual Rate



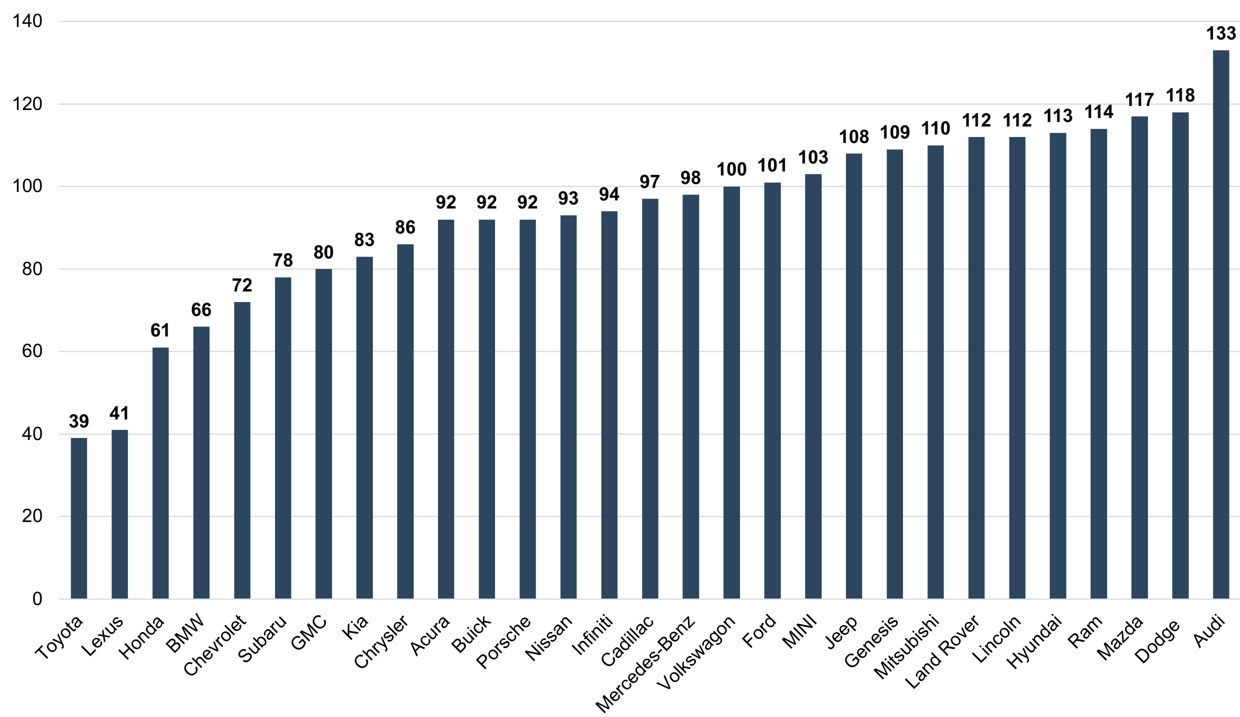
Inventory Analysis

Days' Supply

As the market remains in flux and tariffs loom in the background, how each OEM manages inventory is becoming a key differentiator. For dealers and investors, evaluating franchise value in the current environment requires a closer examination of how well a brand is supporting operational health. The chart below presents brand-level days' supply data for June 2025 (per Cox Automotive).

Toyota (39 days) and Lexus (41 days) continue to stand out for their disciplined approach to inventory management. These low days' supply levels reflect faster retail turnover and tighter alignment between shipments and consumer demand. In contrast, brands like Audi (133 days), Dodge (118), Mazda (117), and Ram (114) are sitting on much higher levels of inventory. Whether due to sluggish demand, aggressive production targets, or weak incentives, these elevated days' supply figures can be a drag on dealership performance.

Days' Supply for U.S. Light Vehicles - June 2025

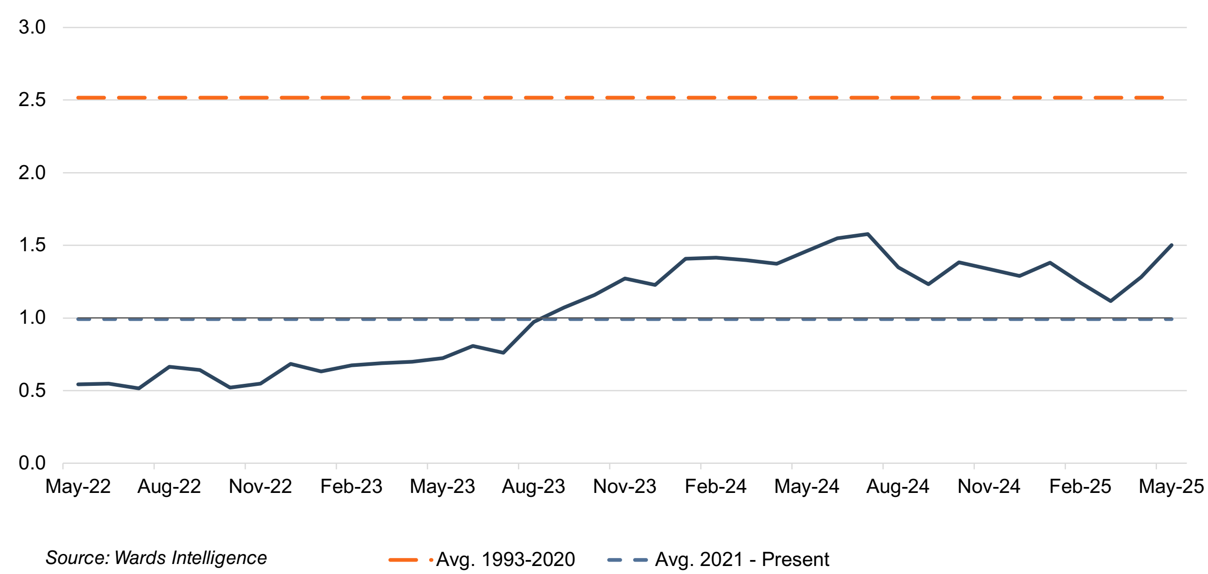


Inventory Analysis

The industry's inventory-to-sales ratio increased to 1.54x in June 2025 from 1.50x in the prior month, which is the highest ratio reported since July 2024. In the coming months, we anticipate the ratio will stay above 1.0x as sales may slow nationwide with higher-priced inventory reaching the market and softness in consumer spending. These conditions vary greatly by brand, which we will discuss in more detail subsequently. The chart below illustrates the industry's inventory-to-sales ratio over the last three years.

Inventory/Sales Ratio

Inventory/Sales Ratio



Source: Wards Intelligence

Blue Sky Multiples

As of Mid-Year 2025

Haig Partners and Kerrigan Advisors publish blue sky multiples quarterly which are calculated as a multiple of adjusted pre-tax profits. The ranges are an expression of what buyers in a competitive situation will pay for the goodwill of dealerships. Dealerships that are underperforming or in desirable markets will have high multiples while those that are over-performing, are in less desirable markets, or have significant real estate issues will have lower multiples. In some cases, only a franchise value range is reported, indicating underperforming brands that potentially have negative earnings for which a pre-tax multiple would be non-meaningful. The single most influential variable for the value of an auto dealership is the brand, which is why the automotive retail investment banks quote multiples by brand.

Blue sky multiples vary over time for a variety of factors. Macroeconomic conditions such as interest rates and inflation tend to cause similar changes across all brands. However, how an OEM responds to various industry-specific issues tends to lead to winners and losers, which is reflected in shifting multiples. Some examples include the COVID-19 pandemic, supply chain disruption post-COVID, the transition and subsequent reversal on electric vehicles, and now tariffs. OEM decisions can have positive or negative downstream effects on its dealers, which ultimately influences a buyer's interest in acquiring a dealership in that brand.

With the tariff announcements on "Liberation Day" happening just at the end of Q1, neither Haig nor Kerrigan made updates in Q1 due to the significant uncertainty of how tariffs would affect auto dealerships. By the end of Q2, frameworks were being discussed, and expectations began to take shape. This was one of the most active quarters in recent memory where there were both upgrades and downgrades. In the table on the right, we show the range of multiples quoted by Haig and Kerrigan for Q2 2025 and we discuss recent trends in the subsequent pages.

	Haig Partners		Kerrigan Advisors	
Blue Sky Multiples	Low	High	Low	High
Lexus	8.0x	10.0x	8.5x	10.0x
Porshe	9.0x	10.0x	8.0x	9.0x
BMW	7.5x	9.0x	7.25x	8.75x
Mercedes-Benz	7.25x	8.75x	7.0x	8.50x
Toyota	6.75x	8.5x	7.0x	8.0x
Jaguar-Land Rover	6.25x	7.25x	7.0x	8.0x
Honda	6.0x	7.0x	5.0x	6.5x
Subaru	5.5x	6.5x	5.0x	6.5x
Audi	4.0x	5.0x	6.0x	7.0x
Kia	4.5x	6.0x	4.5x	5.5x
Hyundai	3.75x	5.25x	4.0x	5.0x
Chevrolet	3.75x	4.75x	3.5x	4.5x
Ford	3.5x	4.5x	3.5x	4.0x
Mazda	3.75x	4.75x	3.0x	3.75x
Buick-GMC	3.5x	4.5x	3.0x	3.5x
Cadillac	3.25x	4.25x	3.0x	3.5x
Acura	3.0x	4.0x	3.0x	3.5x
Nissan	3.0x	4.0x	2.50x	3.25x
VW	3.0x	4.0x	2.50x	3.25x
Stellantis	3.0x	4.0x	2.50x	3.25x
Volvo	3.0x	4.0x	2.5x	3.0x
Infiniti	na	na	2.0x	3.0x

Blue Sky Multiples

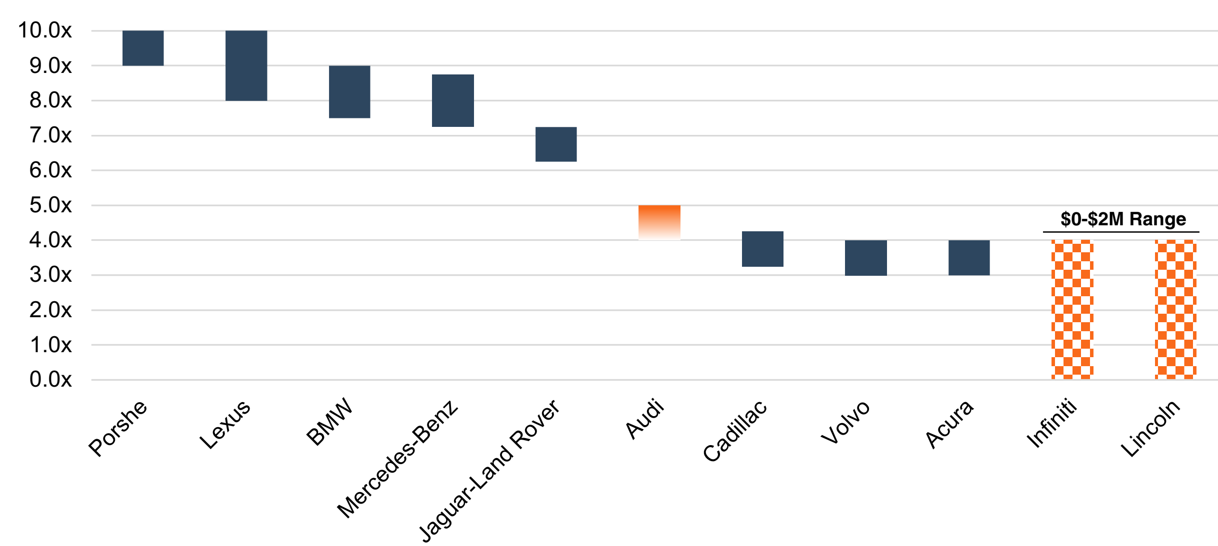
As of Mid-Year 2025

Luxury Blue Sky Multiples

There continues to be little change at the top as Lexus leads the pack. While Haig has a lower range for Lexus than Kerrigan, Porsche comes in a close second when averaging the two advisors' ranges as Porsche is reconfiguring its EV strategy. Audi experienced the largest drop in the premium luxury category. Haig downgraded Audi in three of the past four quarters from a range of 6.25x-7.25x a year ago now to 4-5x. Kerrigan also downgraded Audi this quarter but has held its multiple in the 6-7x range. Kerrigan downgraded both VW and Audi as Volkswagen Corporate has seen significant decreases in market share in China and is heavily exposed to tariffs in the U.S. Combined with an oversupply of inventory (Audi currently has the highest days supply of any brand), no U.S. manufacturing presence, and EV issues, Audi is falling fast.

The graph below details Haig's lone downgrade of Audi, which Kerrigan also downgraded though Kerrigan also downgraded Volvo.

Luxury Blue Sky Multiples Range



Source: Haig Partners

** Orange indicates a decrease in the multiple from the previous quarter*

Blue Sky Multiples

As of Mid-Year 2025

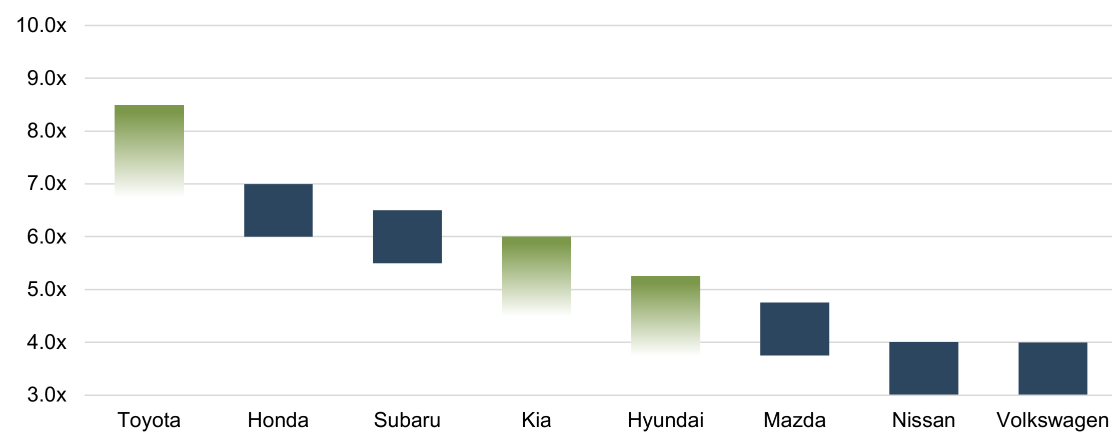
Mid-Line Blue Sky Multiples History

Haig edged up Toyota's bottom end multiple, which marks their fifth upgrade since every brand rebounded in Q3 2020. Toyota has pulled away from Honda and Subaru and trails only four luxury brands due to its low days' supply and focus on hybrids rather than EVs. In May 2025, Congress struck down California's EPA waivers that called for higher emissions standards. Toyota's dealerships have benefitted over the past few years as other OEMs set lofty targets which are now being scaled back. While these mandates got ahead of consumer demand, there could be cause for concern for Toyota dealers over the medium to longer term if the trajectory of EVs continues upwards (albeit slower than previously targeted) and Toyota does not introduce a successful EV option.

This continuous rising has not been reserved just for Toyota. Kia and Hyundai were both upgraded in Q2 2025 and have seen five and three upgrades, respectively, over the same post-COVID period. The only other brand with three upgrades in that time is Mazda. Kia has been praised for its management team who has struck the right balance of style, features, pricing, and powertrain options. Haig also noted its increasing domestic manufacturing presence in its upgrade of the high-end of its range. Hyundai's upgrade was actually a reversal of its downgrade in Q4 2024 which was tied to the OEM challenging buy-sells and favoring certain dealers. The reversal was not due to a change in stance on this issue but rather outperformance driven by its EV models.

The graph below shows Haig's three upgrades while Kerrigan decreased the top end of VW's multiple.

Import Blue Sky Multiples Range



Source: Haig Partners

** Green indicates an increase in the multiple from the previous quarter*

Blue Sky Multiples

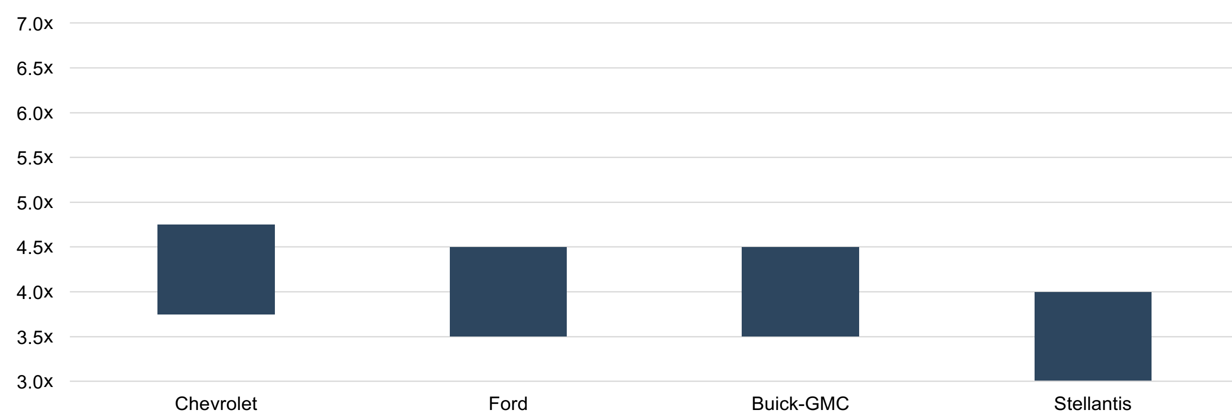
As of Mid-Year 2025

Domestic Blue Sky Multiples

While they still have a global supply chain, domestic dealers figure to be the most insulated from tariff-related issues. Kerrigan noted Ford's reliance on high-tariffed import parts from Canada and Mexico, though it still upgraded the brand due to improved relations with its dealers and growing market share. High sales growth and insulation from tariffs also led to an increase in Buick/GMC's multiple for Kerrigan. Stellantis remains at the bottom of the domestics for both Haig and Kerrigan with Chevy just a tick above Ford. Haig has Ford on a level playing field with Buick/GMC, while Kerrigan gives the edge to Ford.

The graph below shows Haig's unchanged multiples remain near the bottom of its range while Kerrigan raised the bottom end multiple of Ford and Buick/GMC.

Domestic Blue Sky Multiples Range



Source: Haig Partners

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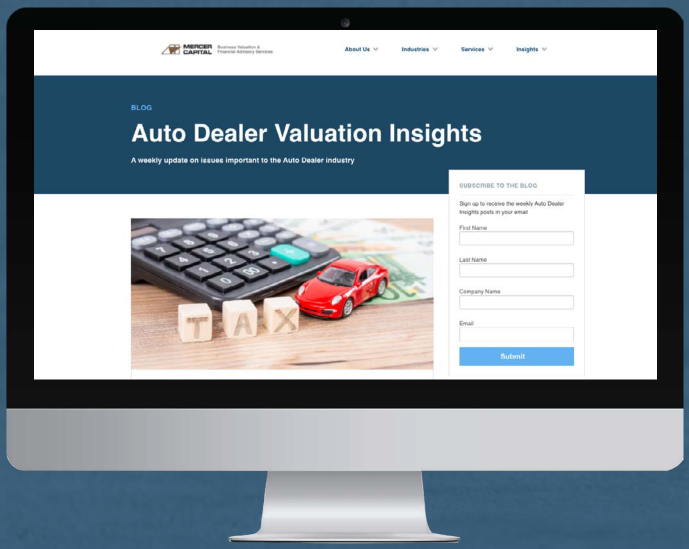


Guideline Public Company Analysis

As of Mid-Year 2025

Market Capitalization and Dealership Count

Public auto dealers have seen significant gains in market capitalization through mid-year 2025, with a median increase of 6.2% over the past six months and 21.9% over the past twelve months. AutoNation, Sonic, and Penske each posted growth exceeding 10% during the first half of the year, while Asbury (-1.5%) and Lithia (-7.5%) experienced modest pullbacks. Despite these declines, all six public dealers remain meaningfully higher compared to their mid-year 2024 levels (though Asbury was only up 2%), reflecting improved investor sentiment and stronger stock performance across the public auto dealers.

Public Auto Dealers	Ticker	Market Capitalization	6 Mo. Change in Market Cap	12 Mo. Change in Market Cap	LTM Revenue	6 Mo. Change in Revenue	12 Mo. Change in Revenue
Asbury Automotive Group, Inc.	ABG	$4,689	-1.5%	2.0%	$17,263	4.6%	8.4%
AutoNation, Inc.	AN	7,489	12.0%	16.7%	27,464	4.3%	3.1%
Group 1 Automotive, Inc.	GPI	5,535	1.6%	40.9%	21,976	16.5%	19.7%
Lithia Motors, Inc.	LAD	8,794	-7.5%	27.1%	37,156	7.1%	10.1%
Penske Automotive Group, Inc.	PAG	11,368	10.9%	14.1%	30,578	1.9%	2.4%
Sonic Automotive, Inc.	SAH	2,715	25.4%	47.0%	14,696	5.6%	4.5%
Average		**$6,765**	**6.8%**	**24.6%**	**$24,855**	**6.7%**	**8.0%**
Median		**$6,512**	**6.2%**	**21.9%**	**$24,720**	**5.1%**	**6.4%**

Revenue growth has also been broadly positive. On an LTM basis, revenue in the group rose by a median of 5.1% over the last six months, with each of the six dealers reporting increases. Group 1 was the clear outlier, growing 16.5% over the past six months and 19.7% over the last twelve months. This outsized growth was driven by its acquisition activity in the second half of 2024.

Dealership counts were largely flat over the first half of 2025, reflecting a shift away from the pruning of underperforming stores that characterized much of 2024. Asbury and Lithia divested a handful of locations during the first half of the year, but the overall impact was minimal. Over the last twelve months, Group 1 stood out by expanding its footprint by 27.7% through acquisitions while Sonic was the only other dealer with net dealership growth. The stabilization of dealership counts in 2025 suggests that much of the portfolio optimization across the group has already occurred, leaving current footprints better aligned with each company's long-term strategic plans.

Public Auto Dealers	Dealership Count	6 Mo. Change in Dealerships	12 Mo. Change in Dealerships
Asbury Automotive Group, Inc.	146	-3.9%	-5.8%
AutoNation, Inc.	244	0.4%	-2.8%
Group 1 Automotive, Inc.	258	-0.4%	27.7%
Lithia Motors, Inc.	448	-2.4%	-4.7%
Penske Automotive Group, Inc.	353	0.0%	-7.1%
Sonic Automotive, Inc.	111	2.8%	3.7%
Average	**260**	**-0.6%**	**1.8%**
Median	**251**	**-0.2%**	**-3.7%**

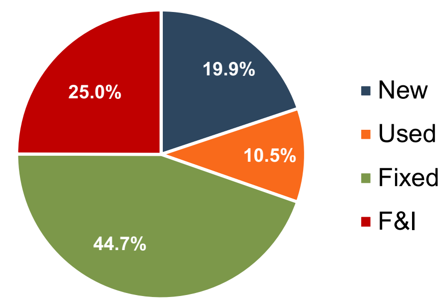
Guideline Public Company Analysis

As of Mid-Year 2025

Gross Profit by Segment

Parts and service departments remain the largest contributor to gross profit for the six publicly traded dealers, increasing their average share of gross profit to 44.7% on a same-store basis in the first half of 2025. Asbury and Sonic each have over 47% of their gross profit from fixed operations, while Lithia Motors trails the group at 40.1%. All six publicly traded auto dealership retailers grew service and parts gross profit in 1H 25 on a same store basis, ranging from 3.5% (Asbury) to 10.0% (Group 1) with an average of 8.1%.

Average Gross Profit by Segment at MY 2025



New vehicle departments continue to outperform used, on average nearly double the contribution despite new vehicle gross profit declining for all six publics while used departments grew on average 2.8%. AutoNation saw a 6.7% decline in new vehicle gross profit, dropping its total contribution to gross to 14.4%, well below the peer average of 19.9% in 1H 2025. Offsetting this decline, AutoNation saw a 12.0% increase in used vehicle department gross profit, well outpacing the next highest growing used department of Group 1 at 4.7%. Lithia continues to pace its peers with its used vehicle department contributing 13.9% to gross profit compared to a peer average of 10.5%.

F&I performance was mixed with half the publics growing near or above 10% in 1H 25 while Asbury and Penske saw declines. F&I continues to contribute approximately 25% of total gross profit, with Penske dragging down the group at 18.6%.

Public Auto Dealers	New	Used	Fixed	F&I	New	Used	Fixed	F&I	Total
Asbury Automotive Group	20.5%	9.0%	47.2%	23.2%	-4.7%	0.5%	3.5%	-3.9%	-0.3%
AutoNation	14.4%	10.0%	46.9%	28.7%	-6.7%	12.0%	8.4%	9.4%	6.5%
Group 1 Automotive	20.3%	10.4%	42.7%	26.5%	-0.2%	4.7%	10.0%	9.8%	7.2%
Lithia Motors	20.1%	13.9%	40.1%	25.8%	-7.8%	2.1%	9.7%	3.8%	3.2%
Penske Automotive Group	25.7%	12.1%	43.6%	18.6%	-1.4%	1.7%	7.5%	-1.4%	2.7%
Sonic Automotive	18.0%	7.6%	47.5%	26.9%	-4.9%	-4.1%	9.5%	11.7%	6.0%
Average	**19.9%**	**10.5%**	**44.7%**	**25.0%**	**-4.3%**	**2.8%**	**8.1%**	**4.9%**	**4.2%**

Unless otherwise noted, data represents 1H 2025 same-store performance.

Guideline Public Company Analysis

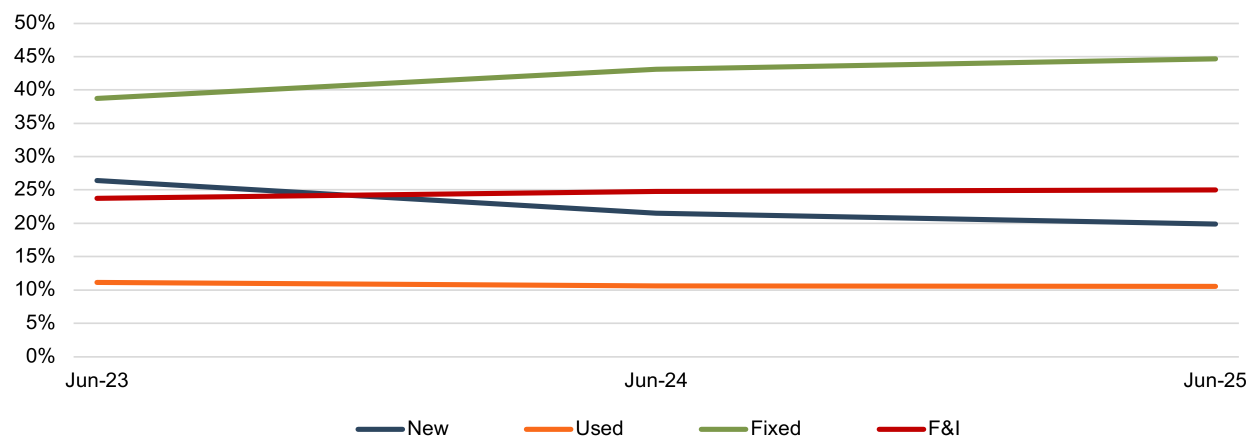
As of Mid-Year 2025

Gross Profit by Segment Over Time

As variable operations continue to normalize industry-wide, fixed operations become increasingly important. In the first half of 2025, parts and service departments contributed 44.7% of average total gross profit, up from 43.1% in 1H 24 and 38.7% in 1H 23. While fixed operations gross profit grew an average of 8.1% in 1H 25 over the prior year period, the increased contribution to total gross profit is also related to the decline in new vehicle gross profit. New vehicle department gross profit declined for the whole group in 1H 25. New vehicle departments contributed on average 19.9% of total gross profit in 1H 25, down from 26.4% in 1H 23. While used vehicle departments have followed a similar trajectory, the drop off has been less significant, from 11.1% to 10.5% over that two-year time period.

Finance & Insurance continues to be an important profit center, despite affordability remaining an issue for consumers. F&I products help bridge the affordability gap, raising contribution to gross profit from 23.8% in 1H 23 to 25.0% in 1H25.

Gross Profit by Segment



Unless otherwise noted, data represents 1H 2025 same-store performance.

Guideline Public Company Analysis

As of Mid-Year 2025

Blue Sky

While the public auto dealers are too diversified to analyze Blue Sky multiples at the brand level, implied Blue Sky multiples are still illustrative of how public market investors are valuing auto dealership groups.

Implied Blue Sky Multiples	Asbury	AutoNation	Group 1	Lithia	Penske	Sonic	Average
Stock Price	$238.54	$198.65	$436.71	$337.82	$171.81	$79.93	
less: Tang. Book Value per Share	$0.74	($5.07)	$11.72	($67.89)	($32.60)	($5.87)	
Implied Blue Sky per Share	$239.28	$193.58	$448.43	$269.93	$139.21	$74.06	
LTM Pre-Tax Income per Share	$36.42	$21.17	$48.03	$45.38	$19.25	$13.00	$30.5
LTM Q2 2025 Blue Sky Multiple	6.6x	9.1x	9.3x	5.9x	7.2x	5.7x	7.3x
Fwd Pre-Tax Income per Share	$34.94	$24.49	$54.43	$44.53	$18.64	$8.52	$30.9
Fwd Q2 2025 Blue Sky Multiple	6.8x	7.9x	8.2x	6.1x	7.5x	8.7x	7.5x
3-Year Avg. Pre-Tax Income per Share	$39.89	$25.80	$54.58	$47.00	$20.33	$7.44	$32.5
3-Year Average Blue Sky Multiple	6.0x	7.5x	8.2x	5.7x	6.8x	10.0x	7.4x

As of mid-year 2025, the average last twelve months ("LTM") blue sky multiple for the six publicly traded auto dealers was 7.3x. Sonic reported the highest multiple, but after adjusting for non-cash impairment charges related to prior pricey acquisitions, the market values its LTM earnings the least of the group at 5.7x. Group 1 has the highest multiples of the peer group though this is skewed by a recent large acquisition which has yet to be fully reflected in its LTM earnings.

The average forward multiple is higher than the LTM multiple, implying further earnings normalization as the numerator is unchanged but the denominator decreases. Of note, analysts are pricing in earnings growth for only AutoNation and Group 1.

In recent periods, the difference between LTM, forward, and 3-year average multiples has been greater. The clustering of these multiples suggests earnings may be reaching normalization after record profits earned predominantly within the new vehicle segment. This is supported by the general trend in each of these multiples, which have steadily increased as investors are willing to pay more for earnings that are expected to be more repeatable.

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