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BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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VALUE FOCUS

Auto Dealer Industry

Issue No. 14 | Data as of Year-End 2024

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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FEATURE ARTICLE

Q4 2024 Earnings Calls

Auto Industry Volumes and Per-Unit Profitability Continue to Normalize

Here is what auto retailer executives had to say during the Q4 2024 earnings calls. The major themes from the earnings calls are outlined and discussed below.

Theme 1: New Vehicle Market — Volume Growth and GPU Normalization

Publicly traded auto dealers reported strong volume growth in new vehicle sales. Despite some year-over-year declines in gross profit per unit, sequential stabilization was also a common theme. Ongoing inventory management, particularly new vehicles, has been a recurring theme with continued pressure on OEMs to align production and inventory with market demand, while dealerships focus on inventory optimization, supplier relationships, and balancing supply across vehicle segments.

"Our stores are well positioned to capitalize on a return to historical SAAR levels and we saw significant growth in new unit sales in the fourth quarter. We are now seeing total vehicle GPU stabilize near our long-term expectations. […] Total unit sales increased 1.7% year over year, while total gross vehicle profit of $4,535 was consistent with the prior sequential quarter and was down $444 compared to the same period last year. New vehicle units increased 7.4% year over year, with particular strength in import manufacturers."

– Bryan DeBoer, Lithia Motors, President and CEO

"*Looking at our retail auto business, we delivered 120,530 units during the quarter, up nearly 3%. Our same-store units were flat. New units delivered increased 11%. Average new vehicle transaction price increased 5% to $60,288. Gross profit per new vehicle retailed remained strong at $5,146 and increased sequentially by $74 from the third quarter of 2024 and remain nearly $2,000 higher [than] in 2019.*"

– Roger Penske, Penske Automotive Group, Chairman and CEO

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Q4 2024 Earnings Calls

Auto Industry Volumes and Per-Unit Profitability Continue to Normalize

(cont.)

"New vehicle units sold [were] up 14% on a reported basis and over 8% from same-store. This reflects the resiliency of demand and our operational effectiveness as well as the value received from driving volume from our new dealership acquisitions. While new vehicle GPUs moderated from the prior year, we are pleased with the sequential quarter performance, increasing $55 on a reported basis."

– Daniel McHenry, Group 1 Automotive, Senior Vice President and CFO

"The key highlight of the quarter was the delivery of 12% same-store new unit volume growth. New vehicle sales is the front end of our profit cycle, and volume growth in this area bodes well for the future of our After-Sales and Financial Services business.

– Micheal Manley, AutoNation, Director and CEO

"*You look at our day supply, we're on a 49 day supply in new. Within that, we have some brands that have a 7 day supply and some that have almost a 90 day supply. […] Everyone's focused on 2019 numbers and kind of comparing off of that. I've stated it before, I'll state it again, Asbury is a different company today than in 2019. Our model mix is different. Our brand mix is different, and we're in different markets."*

– David Hult, Asbury Automotive, President and CEO

"On the balance sheet, our 39 days' supply of new vehicle inventory at year end was down 25%, or 13 days, from the third quarter. The new vehicle inventory ended the year below 43,000 units, which was up from 35,000 units a year ago, but down from the 46,000 units at the end of September. The strong new vehicle sales contributed in part to these reductions, but also our operating teams have been more selective in the OEM allocation process."

– Thomas Szlosek, AutoNation, Executive Vice President and CFO

"*[The OEMs] need to do a much better job of managing their day supply across the board. Now, day supplies came down in the fourth quarter because volumes went way up. Let's see what happens in the first two quarters of this year, in particular against the domestics."*

– Jeff Dyke, Sonic Automotive, President

"*New and used inventory remains in good shape. New vehicle inventory is at a 49 days' supply, which includes 41 days in the US and 65 days in the UK. Day supply of new vehicles for premium was 52."*

– Michelle Hulgrave, Penske Automotive Group, Executive Vice President and CFO

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Q4 2024 Earnings Calls

Auto Industry Volumes and Per-Unit Profitability Continue to Normalize

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Theme 2: Parts and Service — Technician Expansion and Strong Profitability

To finish out 2024, parts and service departments across the country were performing at a high level. Most of the public dealers reported record high gross profits and strong year-over-year growth. Sonic Automotive saw a 12% increase in same-store fixed operations gross profit, driven by higher warranty repairs and a focus on technician hiring. Group 1 Automotive saw a 6.5% increase in repair orders, driven by higher-margin warranty and customer pay work, and their focus on technician headcount growth over the past few years. Overall, the theme is that aftermarket services, technician growth, and improved operational efficiencies are driving profitability in the parts and service departments.

"*Our parts and service or fixed operations business remains very strong, with a 12% increase in same-store fixed operations gross profit in the fourth quarter. This strong growth was driven in part by higher levels of warranty repairs combined with the effects of our initiative to increase technician head count by 300 net technicians during 2024. We are very excited to announce that we exceeded this challenging goal, adding 335 net technicians during 2024, which we expect to set the stage for strong fixed operations growth in 2025 as we continue to focus on technician hiring and retention.*"

– David Smith, Sonic Automotive, Chairman and CEO

"After sales performance will be a key driver of growth in 2025. In the quarter, after sales revenues were up 3.4% compared to the prior year, delivering a 55.8% gross profit margin. Warranty work was up this quarter with a 19.9% increase in gross profit year over year. Our ability to manage technician head count and drive operational efficiencies has positioned us well to meet ongoing demand."

– Adam Chamberlain, Lithia Motors, Executive Vice President and COO

"*For the fourth quarter, our margin rate was 48.4%, up 110 basis points from a year ago, reflecting improved parts and labor rates, higher tech efficiency, leverage, and higher value repair work. We continue to develop and promote our technician workforce, which has led year-to-date increases in our master and certified technician head count. And our overall technician head count increased nearly 2% on a same-store basis. So, looking ahead, we expect After-Sales business will grow roughly mid-single digits each year.*"

– Thomas Szlosek, AutoNation, Executive Vice President and CFO

FEATURE ARTICLE

Q4 2024 Earnings Calls

Auto Industry Volumes and Per-Unit Profitability Continue to Normalize

(cont.)

"One half of our gross profit is derived from our service and parts business. As we look to continue growing this important part of our business, we've increased our technician count by 7% during 2024 and our effective labor rate in the US has increased 6%. In the quarter, service and parts revenue increased 13% to $771 million, including 7% on a same store basis with customer pay up 3% or warranty up 24% and collision repair up 4%."

– Roger Penske, Penske Automotive Group, Chairman and CEO

"Aftersales fourth quarter revenues and gross profit outperformed sequentially and year-over-year. The fourth quarter saw a 6.5% increase in the number of repair orders. The only activity decline was our lower margin collision work, which was more than compensated for a higher margin, warranty and customer pay. The average same-store dollars per repair order was up over 7% in the fourth quarter. These gains demonstrate our ability to add after sales capacity on a same-store basis. Our overall same-store, non-technician US head count has declined 10% from 2019. However, our technician head count is up 18% over that same period."

– Daniel McHenry, Group 1 Automotive, Senior Vice President and CFO

"On a same-store basis, gross profit for our fixed operations business was up 11%. And the all-important Customer Pay segment, was up 13%. Looking ahead, we remain confident in a mid-single-digit growth rate for Customer Pay is sustainable."

– David Hult, Asbury Automotive, President and CEO

Theme 3: Policy Uncertainty in the United States Surrounding Tariffs and EVs

There was much discussion of macro issues affecting the automotive industry, particularly tariffs and EVs, after an election cycle. Lithia Motors points to their strategic advantage of maintaining higher inventory levels, potentially cushioning them from the impact of any upcoming tariffs. On the policy side, Group 1 Automotive and Asbury Automotive acknowledge the uncertainty brought about by shifts in the US administration's stance on issues like EV subsidies and taxes. However, Group 1 emphasizes the importance of staying agile and focused on execution to thrive under any set of conditions and Asbury remains optimistic about the pro-business environment that is expected from the new administration.

FEATURE ARTICLE

Q4 2024 Earnings Calls

Auto Industry Volumes and Per-Unit Profitability Continue to Normalize

(cont.)

While electric vehicle sales have seen volume growth, OEMs are balancing production capacities and addressing uncertainties about ongoing government incentives with the new administration. Several companies noted that while sales for EVs and hybrids have surged, they remain cautious about long-term demand. They also mention the substantial discounts applied to EVs, indicating that while sales have increased, OEMs may need to adjust pricing strategies to align with market realities.

"If we're looking at other macro issues, I think tariffs is probably one of the larger things, you know, and I'd probably never thought I'd be sitting here saying, I'm glad I have an extra 20 days of inventory over most of the industry. […] The tariffs, for us, we have about 36% to 38% of our vehicles […] could be impacted by tariffs. And being that we've got a 50-plus day supply, we should be sitting quite nicely to be able to work through any negotiations that are happening between the two countries or three countries or four countries or whatever it ends up being at."

– Bryan DeBoer, Lithia Motors, President and CEO

"There's obviously potential for tariffs to impact your volume, to impact your margin. If I look back at 2019 and what happened during that period of time, what we saw was the tariff impact come through in wholesale prices, and ultimately through into retail prices. But after a period of time, they began to be mitigated either through actions from the manufacturers in terms of their ability to drive cost efficiency elsewhere or just to maintain volumes in the marketplace."

– Thomas Szlosek, AutoNation, Executive Vice President and CFO

"But as we sit here today, we think we're entering a more stable market. I mean, with the new administration, it's a little bit more pro-business. With the shift from EVs coming back to ICE, we see these are all benefits."

– David Hult, Asbury Automotive, President and CEO

"*I think the OEMs are all over this topic, frankly. They must have had multiple, multiple meetings in terms of their product capacity and what they're going to do to balance, because I think everybody is clear that the next four years are going to be different to their anticipation should the different outlook happen. And they are already pivoting in terms of their products, in terms of their powertrains, in terms of how they think the market will play out. So, yes, there was an element of clearing the decks and urgency around Q4 in BEVs and hybrids. But remember, we have seen hybrid – we have seen BEVs kind of settle in at 6% to 8% of the marketplace. Hybrids had a very strong year last year, as people recognized the benefits of both combustion and battery power."*

– Micheal Manley, AutoNation, Director and CEO

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Q4 2024 Earnings Calls

Auto Industry Volumes and Per-Unit Profitability Continue to Normalize

(cont.)

"By powertrain, hybrid vehicles unit sales were up approximately 50% from the fourth quarter a year ago and represented nearly 20% of our unit sales and 10% of our ending inventory. […] OEM actions with incentives and uncertainty regarding the longevity of government incentives for BEV likely contributed to stronger BEV sales from traditional OEMs during the quarter."

– Thomas Szlosek, AutoNation, Executive Vice President and CFO

"Although we've done a great job working with our OEMs to manage Bev Inventory to be more closely aligned with customer demand, the majority of Bev units still require significant discounting. In Q4, the average discount on a Bev from MSRP was nearly $6,900 per unit."

– Rich Shearing, Penske Automotive Group, COO

"And don't forget, the manufacturers are heavily incentivized in EVs right now. So you probably have a little false positive in terms of the amount of volume that we're doing in the country right now."

– Jeff Dyke, Sonic Automotive, President

"Lastly, a few thoughts on the evolving US landscape. There's a great deal of conjecture at the moment about Washington and the impact that new administration's policies will have on retailers and OEMs. While we don't know the outcome of the impact on changes in things like EV subsidies, taxes, tariffs or interest rates, we feel the best way to capitalize is to ensure that Group 1 stays nimble and focused on execution. We have to be ready to compete on whatever playing field exists, with whatever set of variables we're presented."

– Daryl Kenningham, Group 1 Automotive, President and 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

Hybrid Vehicles and the Goldilocks Principle

EVs Get the Headlines While Consumers Are Getting Hybrids

For the past few years, electric vehicles (EVs) have been a **huge talking point**. While there has been plenty of consumer interest in EVs, there has been even more skepticism centered largely around range anxiety and upfront cost. If internal combustion engine (ICE) vehicles are porridge that is too cold, and EVs are perhaps too hot, hybrids, at least for now, appear to be "just right."

In this article, we touch on recent developments with electric vehicles and how they are leading to a surge in demand for hybrids.

Market Share

The market has changed a lot over the past ten years. Back in mid-2014, when oil prices were over $100/bbl, light-duty vehicles were 95%+ ICE. Fast forward to March 2024 and hybrid, electric, and plug-in hybrids now compose 18% of the total market, with hybrids just edging out EVs. As seen in the following graphic from the EIA, electric vehicles have particularly surged in the past few years despite a decline in 2024.

Of note, BEVs are popular in the luxury vehicle segment, accounting for approximately 33% of luxury sales over the past twelve months. Clearly, Tesla plays a role in this, but the dichotomy between luxury and mass-market consumer preferences is worth noting. Perhaps consumers with more disposable income can afford to take a chance on a new powertrain in their next vehicle purchase, while consumers with a tighter budget continue to stick to the status quo — whether it be due to upfront costs or reliability concerns.

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Hybrid Vehicles and the Goldilocks Principle

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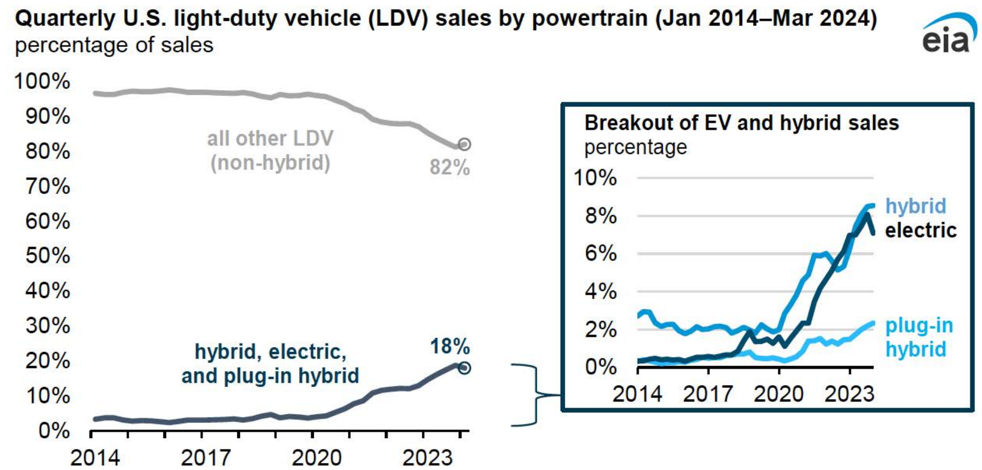


Electric vehicles were less than 2% of the market pre-pandemic, who we'll call the "early adopters." Since then, the EV market has exploded as costs have declined (due to a combination of subsidies, improved technology, and competition), and EVs are gaining traction in the marketplace. While this recent growth in the market segment is promising, hurdles must be cleared before widespread adoption is possible.

Why Hybrids?

Hybrids have been around for over 25 years, so it is notable to see such a significant increase in market share over the past few years. The benefits of hybrids compared to ICE vehicles have not materially changed, nor are hybrids as subsidized as electric vehicles — though some are qualifying for EV subsidies. We believe the reason for the increase in demand for hybrids is two-fold:

1. More models are being offered in hybrid form; it's no longer just the Prius.
2. The national conversation has moved in favor of more fuel-efficient options, but many consumers remain reticent to make the full switch to EVs. Hybrids may help the transition.

FEATURE ARTICLE

Hybrid Vehicles and the Goldilocks Principle

EVs Get the Headlines While Consumers Are Getting Hybrids

(cont.)

Since their opening act 25 years ago, hybrids have been viewed as boring with a lower performance and a higher upfront cost, while uncertainty surrounds the ultimate long-term cost of ownership. This perception may no longer hold true. For their part, the OEMs are offering models with numerous powertrain options. However, the cost difference between ICE and hybrids has narrowed, and perception has improved. The cost difference between ICE and EV is significantly higher, making the hybrid premium more palatable to consumers. In some cases, hybrids can even be **cheaper** than ICE vehicles.

Are Hybrids Going to Replace EVs?

While hybrids are certainly having a moment in the sun, there are reasons to believe both ICE vehicles and EVs could capture a larger market share in the future. Hybrids are more fuel efficient, but there are more opportunities for something to go wrong operating parallel drivetrains. There are reasonable arguments for and against the maintenance and repair expectations of both ICE and EV, and hybrids must grapple with both. We find it far more likely that a two-car household of the future would probably have an ICE vehicle for longer distances and an EV for shorter distances rather than two hybrids (my household being an anecdotal contrarian).

Other Developments — OEM Investment and the Election

To put it mildly, the push for EVs is not exactly bipartisan. With significant uncertainty surrounding which party will occupy the White House for the next four years, OEMs may be hedging their bets by pushing more toward hybrids. This means advancing fuel efficiency goals while recognizing demand could be significantly different if EVs are not receiving subsidies with a Republican White House. The Biden administration has talked about relaxing/extending EV market share targets, which would extend beyond 2028. Given that neither of the Democrat or Republican nominees would be eligible for a third term, future policy is even murkier.

While many OEMs announced significant investments in building out their EV production, more recent headlines include scrapping or at least delaying projects as EV inventories build up on dealer lots faster than their ICE counterparts. Large investments in EV factories can be cost-prohibitive, particularly given uncertainty about demand. This uncertainty supports hybrids in the interim, which may allow for quicker pivoting wherever the political winds blow. However, it is important to note that retrofitting for hybrid production, then later pivoting to full-bore EV production, may increase the total investment on the part of OEMs.

FEATURE ARTICLE

Hybrid Vehicles and the Goldilocks Principle

EVs Get the Headlines While Consumers Are Getting Hybrids

(cont.)

Conclusion

The recent speed bump in EV adoption is a reminder to OEMs that supply getting ahead of demand is a dangerous game. Despite proclamations about carbon neutrality and all-electric target dates, OEMs will continue to meet consumers where they are. Right now, that is more hybrid than it has ever been. But that does not necessarily mean that hybrids will continue to ride the coattails of EVs.

At Mercer Capital, we perform valuations of auto dealerships for owners and advisors all around the country for a variety of purposes. Additionally, we follow the auto industry closely to stay current with market trends. These give us insight into the private dealership market, informing our valuation engagements. For an indication of what your dealership might be worth, contact a professional at Mercer Capital to discuss your valuation needs in confidence.

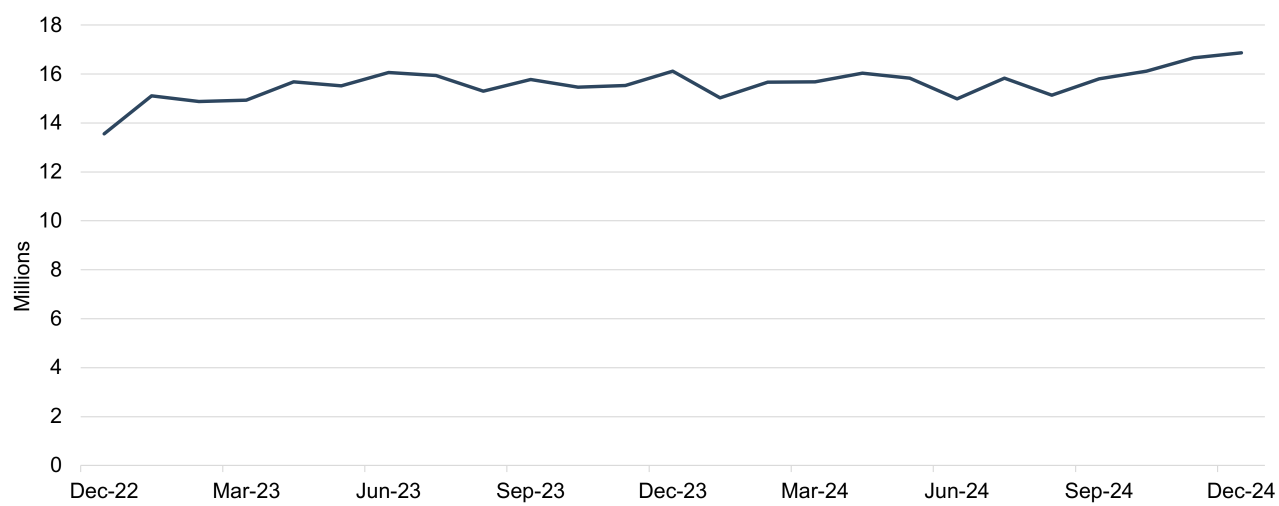
Light Weight Vehicle Sales: Autos and Light Trucks (SAAR)

As of Year-End 2024

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.

SAAR registered at 16.9 million units in December 2024, up 4.7% from 16.1 million units last December. The December SAAR marks a strong finish to 2024, outpacing the last three Decembers and hitting the highest monthly SAAR since May 2021 (17.0 million units). Moving into 2025, industry inventories continue to expand, and transaction prices remain strong as the industry has experienced strong recovery and growth since the COVID-19 pandemic era. While lower inventories enabled higher per unit profitability, balanced inventories are expected to foster a more stable operating environment.

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



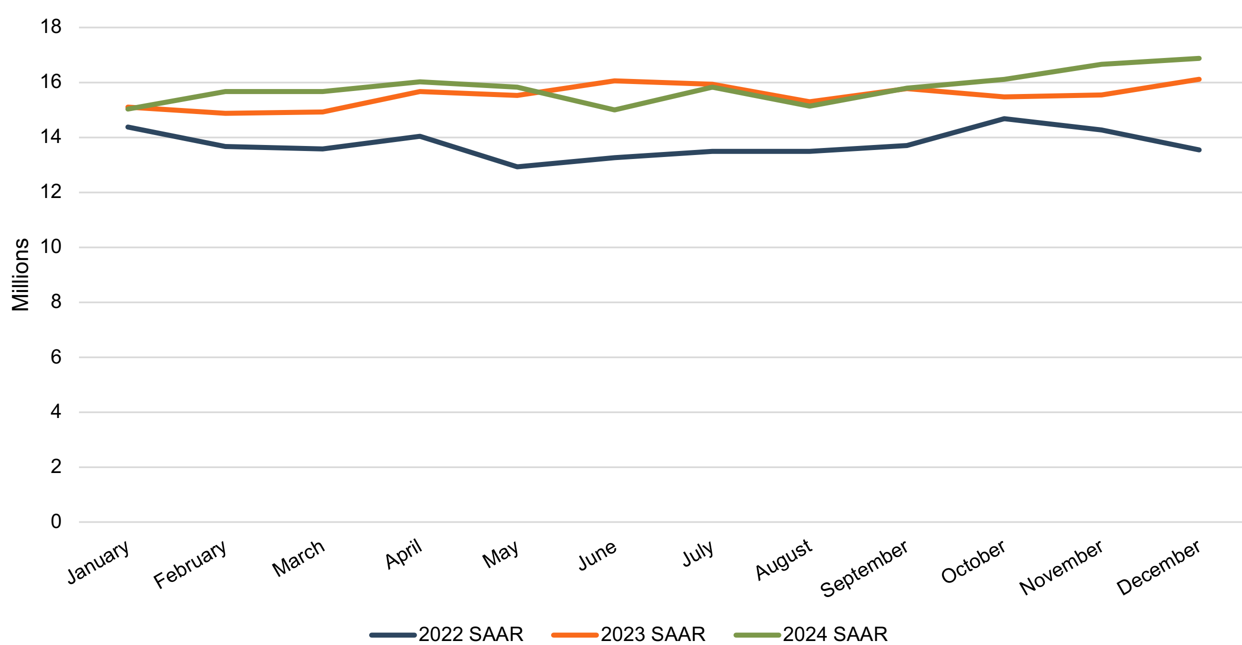
Light Weight Vehicle Sales: Autos and Light Trucks (SAAR)

As of Year-End 2024

(cont.)

As seen in the chart below, the SAAR ranged between 15-17 million each month throughout 2024, which is comparable to the relative stability seen in 2023 and markedly higher than the SAAR each month during 2022. Shifting from a monthly rate of sales to a total sales perspective, total sales for 2024 finished the year at 15.8 million units, which compares to 15.5 million units in 2023 and 13.8 million units in 2022. The industry has not reached the 17 million threshold since achieving it each year leading into the pandemic.

Light Weight Vehicle Sales: Autos and Light Trucks, Seasonally Adjusted Annual Rate (2022-2024)



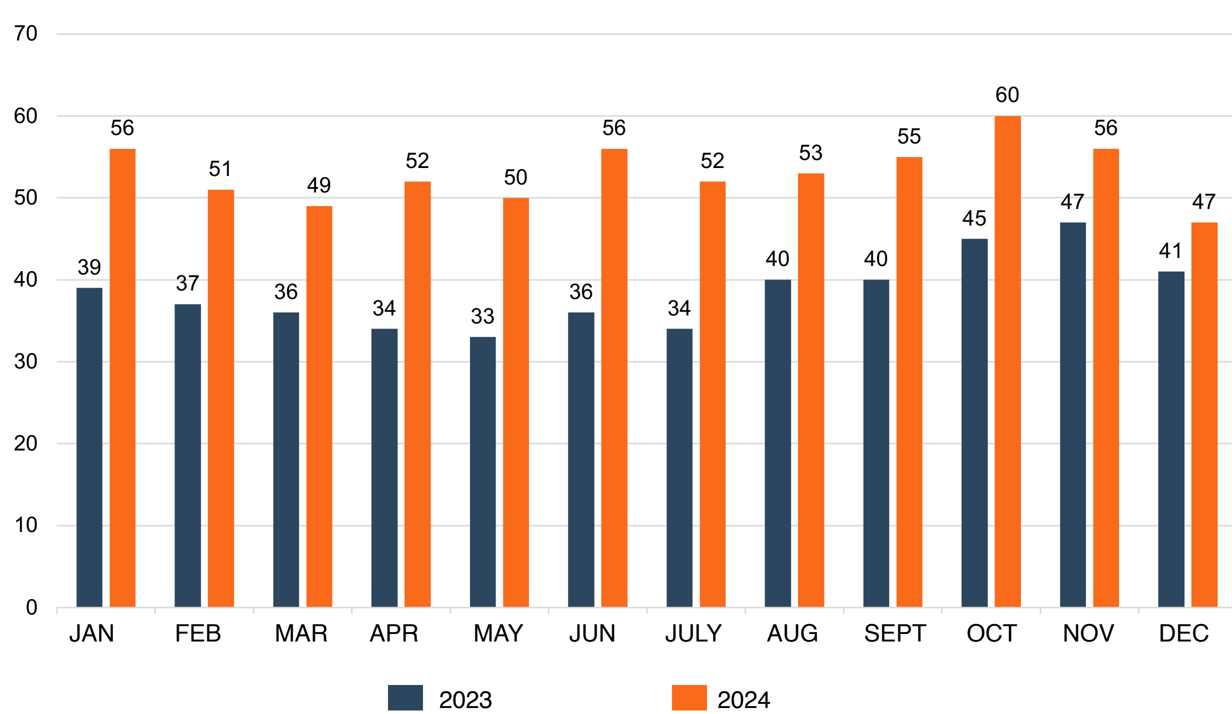
Inventory Analysis

Days' Supply

Days' Supply, which has generally increased over the past year, is a good way to view the relationship between auto sales and inventory balances. In December 2024, Days' Supply fell to 47 days from 56 days in November 2024. Despite this short-term contraction, industry-wide Days' Supply has experienced significant growth in the past two years. In 2022, there were only about 25-35 days' worth of unit sales on dealer lots throughout the year. In late 2023, that number was closer to 50 days. Now, in 2024, Days' Supply ranged from 49 to 63 days.

Depending on the stage of the cycle, pre-pandemic levels generally stuck between 60-90 days. In 2024, Days' Supply ticked up from 2023 levels but remained below the pre-pandemic range. Recent levels could be indicative of OEMs shifting their approach to reducing inventory buildup on dealers' lots. The prevailing industry-wide inventory strategies implemented by OEMs will become more apparent as we move through 2025. The chart below gives a closer look at Days' Supply for U.S. Light Vehicles over the past two years (per **Wards Intelligence**).

Days' Supply for U.S. Light Vehicles

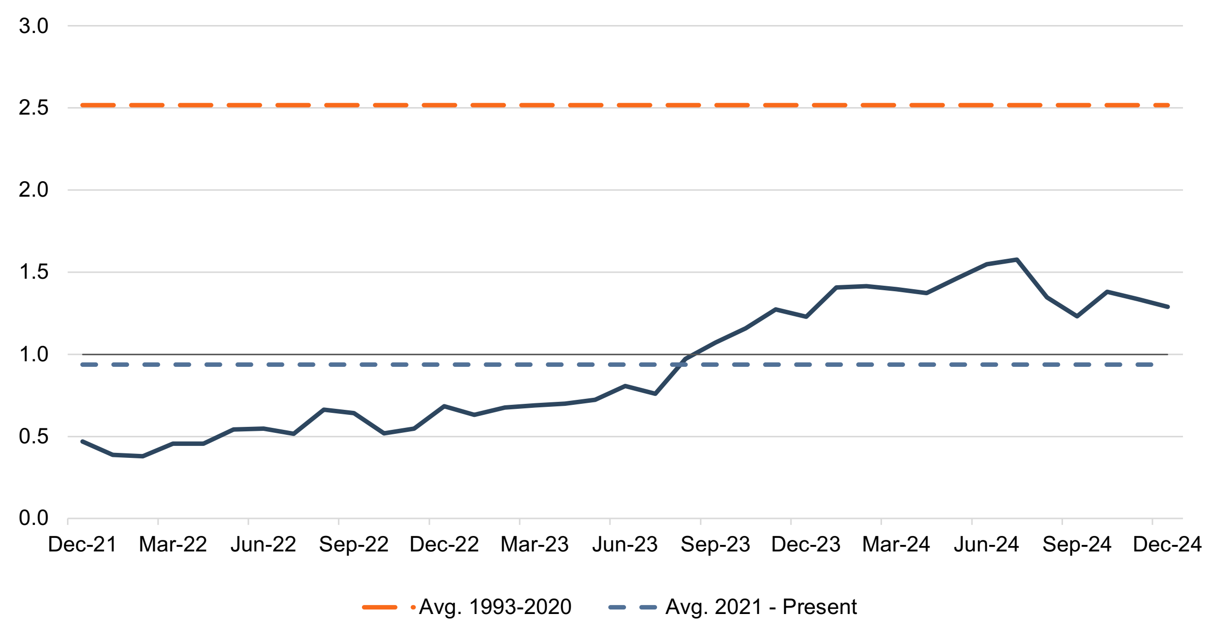


Inventory Analysis

Inventory/Sales Ratio

Throughout 2024, the industry's inventory-to-sales ratio has remained above the 1.0x threshold. For perspective, an inventory-to-sales ratio greater than 1.0x indicates that the seasonally adjusted inventory level at the end of the month was greater than reported sales. While the December 2024 ratio of 1.29x fell below the 2024 average of 1.40x, the broader picture shows how the nationwide inventory level has rebounded since the COVID-19 era. The chart below illustrates the industry's inventory-to-sales ratio over the last three years.

Inventory/Sales Ratio



Source: Wards Intelligence

Blue Sky Multiples

As of Year-End 2024

Blue Sky multiples come from the Haig Report and 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.

In 2024, auto dealerships continued to adjust to a more normalized market following the post-COVID and chip shortage boom years. While dealerships are still seeing higher profitability than pre-pandemic levels, profits have declined across the country on an aggregate basis. Gross profits on new vehicles continue to normalize, and rising operating expenses are putting pressure on dealerships that made it through years running leaner. By the second half of 2024, vehicle supply improved, leading to higher dealer inventories and increased competition. This, combined with rising incentives, resulted in a slight decline in average transaction prices as consumers have also been squeezed on affordability.

Dealerships also faced external pressures, such as the potential for import tariffs and rising fixed costs, which continued to challenge profit margins. Despite these obstacles, the market remained strong, with some brands performing better than others. Key differentiating factors include inventory levels, powertrain strategies, and vehicle affordability.

These broader market conditions have had a significant impact on Blue Sky multiples across all brands. As profitability pressures rise and market dynamics shift, multiples reflect the varying outlooks for different automakers. The normalization of gross profits and increased competition are contributing to widening valuation gaps, leading to more cautious investor sentiment. While some brands with stronger operational performance and customer loyalty have seen their multiples hold steady or improve, others facing ongoing challenges have experienced declines in their valuations. These trends are explored further in the upcoming sections, where we break down the Blue Sky multiples for luxury, mid-line, and domestic brands.

Blue Sky Multiples

As of Year-End 2024

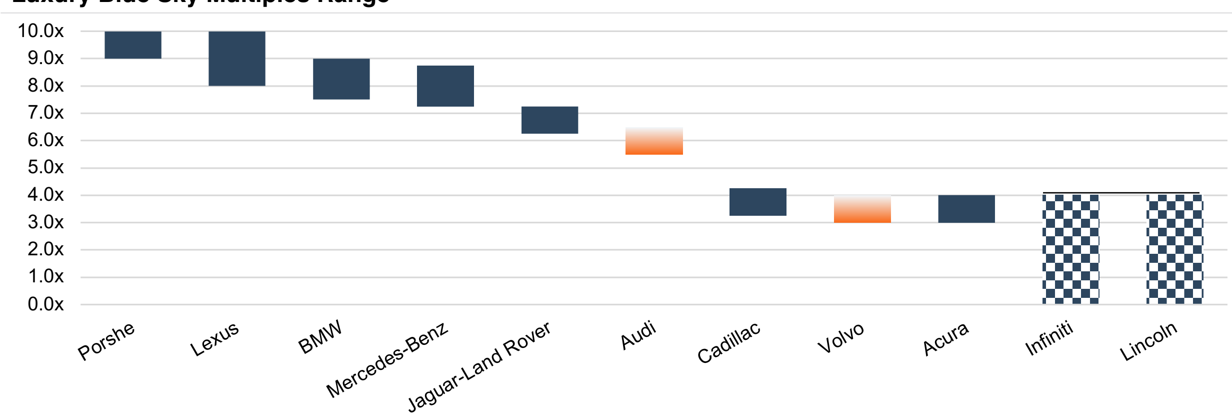
Luxury Blue Sky Multiples

Luxury brands largely maintained stable Blue Sky multiples, with a few notable changes: Audi experienced two consecutive reductions in 2024 — down 0.25x in Q3 and another 0.5x in Q4 — reflecting increased concerns over its lackluster topline performance and market positioning in the latter half of the year. Mercedes-Benz, which was adjusted downward in Q4 2023, held steady at its reduced level, maintaining the same 1.5x range in Blue Sky multiples, which is in line with BMW but remains above the 1.0x range seen for most brands. Porsche continues to command the highest multiples, with a 1.0x spread between low and high values. Similarly, Lexus maintains the widest valuation range at 8-10x, reflecting the importance of local market demand and operational performance. While the brand has seen a significant increase in demand from investors, simply having the Lexus branding isn't enough to command a double digit multiple.

At the lower end of luxury Blue Sky multiples, Volvo's recommended range was reduced in Q4 by 0.75x due to muted profitability and uncertainty related to an "all-in" approach to electric vehicles. Lincoln recently lost its recommended multiple range and now shares the $0–$2M valuation tier with Infiniti, signaling diminished franchise value in the face of struggles for both brands. Specifically, Haig cited an urgent need for new models at Lincoln dealerships since only around 15% of Infiniti dealerships were profitable during 2024.

The broader trends continue to reflect investor caution around brands facing EV-related challenges and OEM-driven restrictions on dealership sales. Manufacturers preferring established franchisees for store acquisitions create added complexity for new investors, which may result in valuation discounts akin to the marketability discount seen in minority interest valuations.

Luxury Blue Sky Multiples Range



Source: Haig Partners ** Orange indicates a decrease in the multiple from the previous quarter*

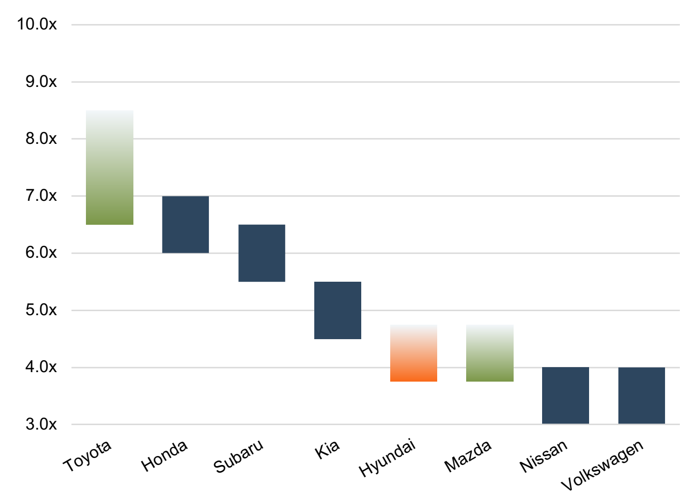
Blue Sky Multiples

As of Year-End 2024

Import Blue Sky Multiples

Among import brands, Toyota continues to stand out with sustained upward momentum. The top end of Toyota's multiple range increased once again in Q4 2024, reinforcing its position as the leader among midline imports. This movement reflects Toyota's strong financial performance, continued customer loyalty, and its measured EV strategy that has resonated well with consumers. Toyota has also maintained GPUs above the competition due to high levels of demand compared to tight nationwide inventory, similar to market conditions during 2021 and 2022. The brand's durability and consistent performance have positioned it close to Mercedes-Benz in terms of blue sky valuation multiples. However, the range widened in Q4 2024 as the low end of the multiple range also decreased. It joins Lexus as having a wider valuation range than other OEMs, due in part to concerns that the good times that haven't yet stopped for Toyota may eventually come to an end.

Import Blue Sky Multiples Range



Source: Haig Partners
** Orange indicates a decrease in the multiple from the previous quarter*
** Green indicates an increase in the multiple from the previous quarter*

Mazda also experienced upward movement in its Blue Sky multiple range, signaling improved investor confidence in the brand. Mazda's strategic alignment with Toyota on electric vehicle R&D, among other technology-sharing initiatives, reflects Mazda's improved product lineup and operational efficiency. Mazda has seen the largest growth in per unit volumes over the past 5 years; in that time it's multiple range has risen from 2-3x to 3.75x-4.75x.

Conversely, Hyundai's multiple range declined by 0.25x in Q4 2024. This adjustment was tied to concerns about Hyundai dealers' strained relationship with the OEM which has weighed on investor sentiment. Buy-sell issues are also a concern for Hyundai, including the rejection of several buyers in favor of Hyundai-favored replacement buyers at high rates across the country.

The remaining import brands — Honda, Subaru, Kia, Nissan, and Volkswagen — maintained stable multiple ranges. Despite their stability, their relative positioning continues to reflect investor preferences, with Honda and Subaru commanding stronger multiples. This can be attributed to both manufacturers' favorable inventory management and fiercely loyal customer base. While the multiple ranges didn't move up or down for Nissan and Volkswagen, both brands continue to lag behind the pack.

Blue Sky Multiples

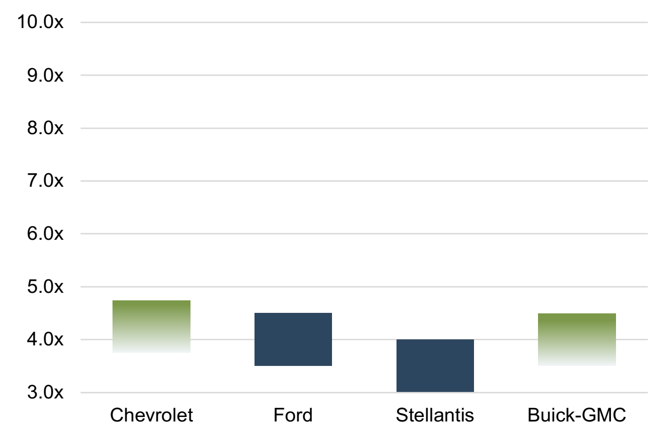
As of Year-End 2024

Domestic Blue Sky Multiples

The domestic segment experienced notable changes in Q4 2024, with Chevrolet and Buick both increasing their Blue Sky multiple ranges. Chevrolet's upward movement was largely driven by strong demand for its large SUVs and the continued success of the Colorado truck. Meanwhile, Buick's improvement reflects its strength in full-size trucks and robust performance in fixed operations, which have bolstered profitability and investor confidence.

Stellantis faced significant challenges in 2024, including a leadership change and a sharp sales decline. However, dealers are cautiously optimistic, believing the company has hit bottom and is poised for recovery. Price adjustments and better production discipline have helped reduce inventory, and upcoming model releases, like the Charger and Jeep Cherokee, are expected to bolster the lineup. While concerns about leadership remain, this may be an opportune time for dealers to consider investing in a Stellantis franchise, given the potential for long-term recovery at a lower price point.

Domestic Blue Sky Multiples Range



Source: Haig Partners

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

Guideline Public Company Analysis

As of Year-End 2024

Market Capitalization and Dealership Count

Public auto dealers experienced mixed performance in 2024, with their market capitalizations growing at a median rate of 5.3% across the group. The group's revenue growth is notably lower than the 25.8% median increase observed in 2023. There are several reasons why stock price performance might have been weaker in 2024 compared to 2023, including but not limited to weaker market sentiment, slower earnings growth, a challenging interest rate environment, and margin pressure. Despite these headwinds, Group 1 Automotive and Lithia Motors outperformed their peers with significant stock price increases, driven by aggressive acquisition strategies and strong revenue growth.

Public Auto Dealers	Ticker	Market Capitalization	6 Mo. Change in Market Cap	12 Mo. Change in Market Cap
Asbury Automotive Group, Inc.	ABG	$4,760	3.6%	2.8%
AutoNation, Inc.	AN	6,734	4.9%	5.4%
Group 1 Automotive, Inc.	GPI	5,479	39.5%	34.1%
Lithia Motors, Inc.	LAD	9,521	37.6%	5.1%
Penske Automotive Group, Inc.	PAG	10,178	2.1%	-5.6%
Sonic Automotive, Inc.	SAH	2,166	17.3%	13.7%
Average		**$6,473**	**17.5%**	**9.3%**
Median		**$6,106**	**11.1%**	**5.3%**

Group 1 and Lithia Motors stood out with impressive revenue growth of 11.5% and 16.6%, respectively, significantly surpassing the median growth of 7.3%. Their aggressive acquisition strategies played a key role in these gains. Lithia expanded through multiple acquisitions, including the purchase of Pendragon in the UK, as well as additional dealerships in North Florida and the North Central region. Meanwhile, Group 1 made strategic acquisitions in the UK, most notably acquiring 54 dealership locations from Inchcape Retail, adding an estimated $2.7 billion in annual revenue.

Public Auto Dealers	Ticker	LTM Revenue	6 Mo. Change in Revenue	12 Mo. Change in Revenue	Dealership Count	6 Mo. Change in Dealerships	12 Mo. Change in Dealerships
Asbury Automotive Group, Inc.	ABG	$17,189	7.9%	16.1%	152	-1.9%	-3.8%
AutoNation, Inc.	AN	26,765	0.5%	-0.7%	243	-3.2%	-3.6%
Group 1 Automotive, Inc.	GPI	19,934	8.6%	11.5%	259	28.2%	30.2%
Lithia Motors, Inc.	LAD	36,188	7.2%	16.6%	459	-2.3%	33.4%
Penske Automotive Group, Inc.	PAG	30,455	2.0%	3.1%	353	-7.1%	5.1%
Sonic Automotive, Inc.	SAH	14,224	1.1%	-1.0%	108	0.9%	0.0%
Average		**$24,126**	**4.6%**	**7.6%**	**262**	**2.4%**	**10.2%**
Median		**$23,350**	**4.6%**	**7.3%**	**251**	**-2.1%**	**2.5%**

Guideline Public Company Analysis

As of Year-End 2024

Market Capitalization and Dealership Count (cont.)

The change in dealership count across the group also reflects different growth strategies. While Lithia and Group 1 expanded aggressively, increasing their dealership footprints by 33.4% and 30.2%, respectively, other dealers such as Penske and AutoNation reduced their store counts, focusing instead on operational efficiency and margin improvement. Taking a different angle to explain market capitalization performance, Sonic Automotive's stock price rebounded from last year despite a negligible amount of acquisition activity. This can be explained by favorable performance across all three of Sonic's existing business lines: new vehicles, used vehicles, and powersports.

Overall, the performance of public auto dealers in 2024 was defined by a strategic divergence. Companies prioritizing acquisitions, such as Lithia and Group 1, saw strong revenue and dealership growth, while those focusing on operational efficiencies had more tempered results. As the industry continues to evolve, capital allocation decisions will remain critical in shaping future performance.

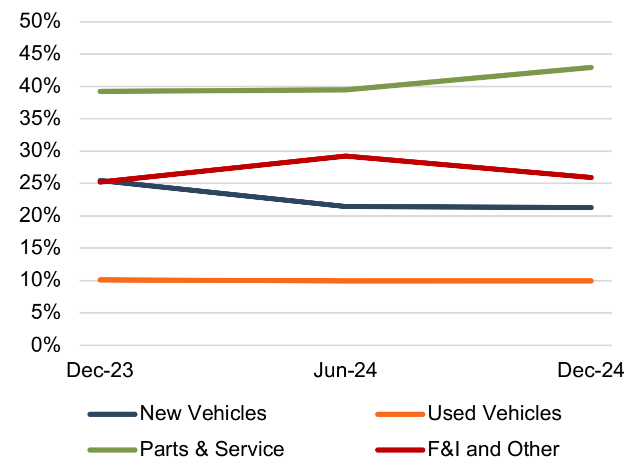
Guideline Public Company Analysis

As of Year-End 2024

Gross Profit by Segment

As has historically been the case, parts and service departments have made the largest contribution to gross profit for the six publicly traded dealers. However, in 2024 these departments saw a further improvement in their contribution to the total, rising from 39.2% of total gross profit at year-end 2023 to 42.9% at year-end 2024. This growth highlights the continued strength of fixed operations across the industry, which typically outpace selling operations. Gross margins for fixed operations will always remain more favorable than those from vehicle sales.

Average Gross Profit by Segment



Source: SEC Filings

Gross profit from finance and insurance (F&I) departments remained stable as a percentage of total gross profit over the past few years. However, higher prevailing interest rates in 2024 became a tailwind for these departments. As a result, the contribution of F&I to total gross profit surpassed that of new vehicle sales in 2024. Higher interest rates increased the desirability of financing and insurance products, supporting F&I growth. Additionally, longer loan terms have become more prevalent to keep monthly payments affordable, further boosting F&I revenues.

Data as of Year-End 2024

Public Auto Dealers	New Vehicles	Used Vehicles	Parts & Service	F&I and Other	Total
Asbury Automotive Group, Inc.	21.7%	8.3%	45.8%	24.1%	100.0%
AutoNation, Inc.	16.2%	9.2%	46.2%	28.5%	100.0%
Group 1 Automotive, Inc.	22.2%	10.1%	42.2%	25.6%	100.0%
Lithia Motors, Inc.	22.4%	13.2%	38.6%	25.8%	100.0%
Penske Automotive Group, Inc.	27.4%	10.9%	42.3%	19.4%	100.0%
Sonic Automotive, Inc.	17.8%	7.8%	42.2%	32.2%	100.0%
Average	**21.3%**	**9.9%**	**42.9%**	**25.9%**	**100.0%**

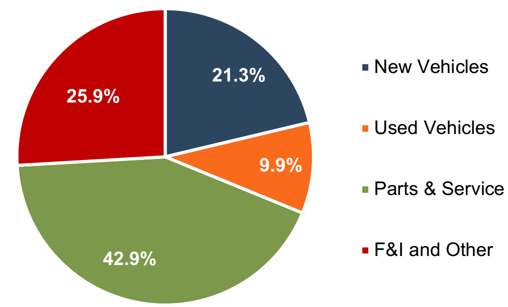
Guideline Public Company Analysis

As of Year-End 2024

Gross Profit by Segment (cont.)

After almost two years of elevated transaction prices and GPUs, gross margins for both new and used vehicle sales have moved closer to pre-pandemic levels over the last two years. While revenue for these departments is expected to remain above pre-pandemic levels and show some stickiness at higher selling prices going forward, the elevated selling spread and profitability from these operations that was observed during 2021 and 2022 is not expected to return unless another major change in market conditions prevails in 2025.

Average Gross Profit by Segment at YE 2024



Source: SEC Filings

Guideline Public Company Analysis

As of Year-End 2024

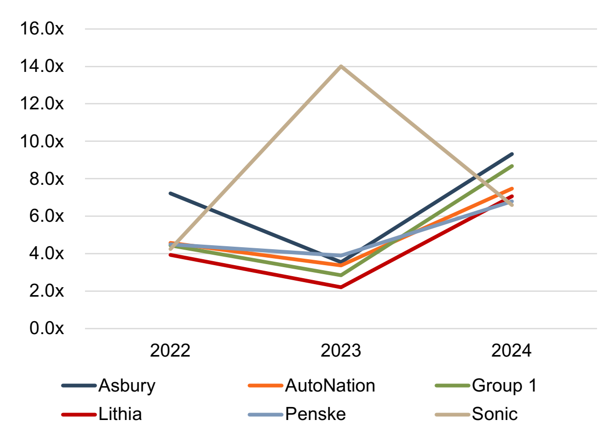
Blue Sky

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	$243.03	$169.84	$421.48	$357.43	$152.44	$63.35	
less: Tang. Book Value per Share	$23.20	($2.52)	$2.44	($75.37)	($27.36)	($8.02)	
Implied Blue Sky per Share	$266.23	$167.32	$423.92	$282.06	$125.08	$55.33	
LTM Pre-Tax Income per Share	$28.59	$22.39	$48.81	$39.93	$18.42	$8.39	
2024 Blue Sky Multiple	9.31x	7.47x	8.69x	7.06x	6.79x	6.60x	7.65x
FWD Pre-Tax Income per Share	$35.19	$23.55	$52.93	$45.67	$18.22	$8.06	
2024 Blue Sky Multiple	7.57x	7.10x	8.01x	6.18x	6.87x	6.87x	7.10x
3-Year Avg. Pre-Tax Income per Share	$42.05	$28.21	$56.18	$49.42	$21.36	$6.05	
3-Year Average Blue Sky Multiple	6.33x	5.93x	7.55x	5.71x	5.86x	9.14x	6.75x

The average LTM Blue Sky multiple for the public auto dealers (7.7x) is materially up from the 6.0x seen at year-end 2023 and the 3.2x seen at year-end 2022 (excluding Sonic). This trend reflects the broader shifts in industry conditions and earnings expectations over the past three years.

LTM Blue Sky Multiple



Source: Cap IQ

During 2022, dealership earnings and gross profit per unit (GPUs) were both at all-time highs, driven by supply constraints and strong consumer demand. However, the stock market did not fully credit these peak earnings as sustainable, resulting in a lower 3.2x multiple despite record profitability. By 2023, as GPUs began to moderate and the industry showed signs of normalization, investor confidence in long-term earnings stability improved. This led to a rise in the average multiple to 6.0x in 2023, reflecting more balanced expectations for future profitability. Now, at year-end 2024, the 7.7x average multiple marks another significant increase, driven by further normalization in the industry. With GPUs stabilizing, the market is assigning greater confidence in the earnings power of these publicly traded auto dealers, resulting in higher valuations.

Guideline Public Company Analysis

As of Year-End 2024

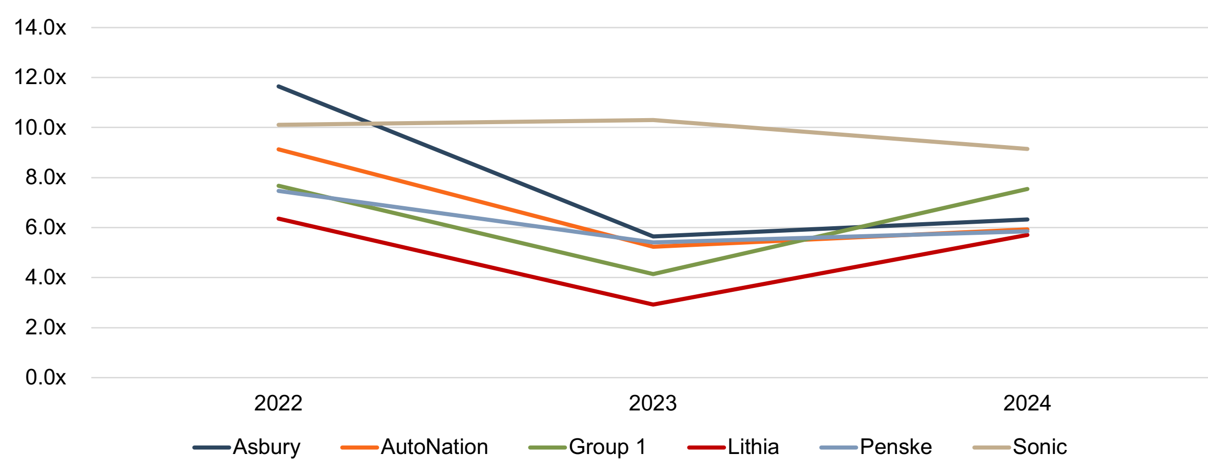
Blue Sky (cont.)

Unlike the LTM multiple, which is based on the most recent earnings, the three-year average multiple smooths out volatility by incorporating a longer look-back period, with three periods of earnings. This approach provides a more stable measure of valuation trends, as it considers multiple years of performance rather than being overly influenced by short-term volatility.

The average Blue Sky multiple for the public auto dealers using a three-year average of earnings per share has steadily increased over the past three years, reflecting broader industry trends. At year-end 2022, the three-year average Blue Sky multiple was 5.6x, which rose to 5.8x at year-end 2023 and 6.8x at year-end 2024.

In this case, the three-year average multiple (6.8x) is lower than the LTM multiple (7.7x) because five of the six publicly traded auto dealers (excluding Sonic) have a higher three-year average earnings than their LTM earnings. This dynamic reflects the trajectory of the entire industry, as recent earnings have moderated from prior highs. The upward trend in Blue Sky multiples is evident both on an LTM or 3-year average basis. Investors are willing to pay more for current earnings than they were for earnings in 2022. As such, stock prices are not declining alongside earnings.

3-Year Average Blue Sky Multiple



Source: Cap IQ

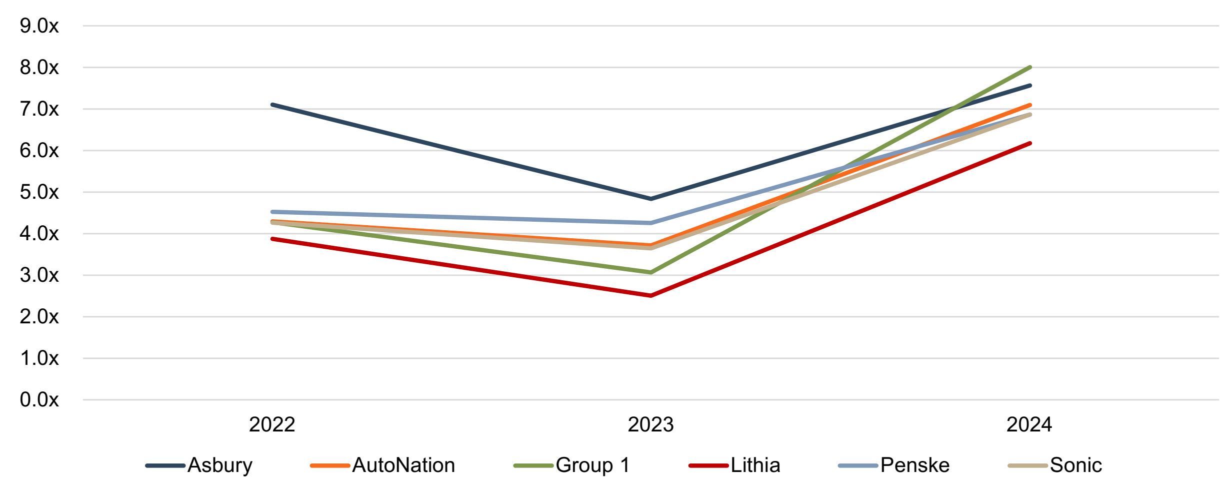
Guideline Public Company Analysis

As of Year-End 2024

Blue Sky (cont.)

Forward Blue Sky multiples that are based on analysts' forward-looking earnings estimates, have steadily increased over the past three years, mirroring the broader valuation trends seen in both LTM and three-year average multiples. Unlike LTM and historical averages of earnings, forward multiples incorporate expected future cash flows directly into the valuation multiple. The recent increase in forward multiples of the public dealers suggests growing confidence in the industry's ability to sustain earnings levels in a more normalized environment.

Fwd Blue Sky Multiple



Source: Cap IQ

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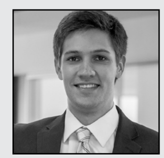
Contact Us

Nicholas J. Heinz, ASA
901.685.2120
heinzn@mercercapital.com

David W. R. Harkins, CFA, ABV
615.345.0272
harkinsd@mercercapital.com



Harrison Holt, ABV
615.345-6881
holth@mercercapital.com

Kate Mabry
615.288.0031
mabryk@mercercapital.com

Mercer Capital

www.mercercapital.com

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