

VALUE FOCUS

Auto Dealership Industry

Issue No. 16 | Data as of Year-End 2025

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

Themes from Q4 2025 Earnings Calls



Theme 1 – New Vehicle Sales Face Tariff, EV, and Affordability Pressure

New vehicle results remain difficult to interpret due to tariff-related pull-forward demand, the expiration of EV incentives, and ongoing affordability pressure. Several executives noted that while recent comparisons have been distorted, 2026 should be steadier, but still uncertain. From a valuation perspective, pricing discipline, brand mix, and consumer sensitivity to monthly payments are likely to matter more than headline SAAR.

“The industry faced tougher sales comparisons to last year when post-election sales surged driving a Q4 2024 light vehicle SAAR of 16.7 million. Sales were also negatively impacted [earlier in the year] by the strong pull ahead as consumers reacted to the tariff announcements and purchased vehicles prior to the expiration of government incentives for electric related powertrains. We felt these impacts across most brands with the biggest impact on premium luxury.”

– **Michael Manley, CEO of AutoNation**

“We saw a lot of BEVs because of the tax credit going away in the third quarter, that significantly dropped. And we’ll see what happens in this upcoming calendar year, but maybe settle in, in the 5% to 7% range. [...] I am concerned about what is going to happen, how much elasticity can we deal with or can the consumer deal with from a new car perspective. The prices are just getting too high.”

– **Jeff Dyke, President of Sonic Automotive**

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Themes from Q4 2025 Earnings Calls

(cont.)

"New vehicle revenue declined 6.6% on an 8.3% unit decline as industry demand softened and supply normalized. New vehicle GPU was down \$300 over last year. Performance varied by brand with luxury brand revenue down 12.7% year-over-year. Domestic and import brands were also soft, particularly late in the quarter when sales promotions didn't materialize."

– **Bryan DeBoer, President & CEO of Lithia**

"We're forecasting to go slightly backwards in SAAR [in 2026], but SAAR is an overall number that includes fleet and wholesale. And I think it's going to vary by brand. We have a lot of Stellantis stores that were a percentage of our business that were challenging for us in '25. All brands are cyclical, and we believe Stellantis will come back. I don't know that the tariffs have fully settled across all brands. There's still movement on pricing, and it's yet to be known what incentives will look like in the future."

– **David Hult, President & CEO of Asbury Automotive Group**

Theme 2 – Used Vehicles Are Increasingly a Sourcing and Pricing Story

Used vehicle performance is increasingly driven by sourcing strategy, pricing discipline, and inventory mix, rather than broad market headwinds and tailwinds. Executives emphasized a shift away from auction dependence toward trade-ins and direct consumer sourcing, alongside a greater focus on maximizing gross profit per unit rather than chasing volume. At the same time, limited supply, particularly from lease returns, has kept acquisition costs elevated, reinforcing the importance of pricing precision and inventory selection. From a valuation perspective, dealerships that demonstrate superior sourcing capabilities and disciplined pricing strategies are better positioned to sustain margins in a tighter used vehicle environment.

"We continue to stick to our strategy of not chasing volume and maximizing gross profit, [...] limiting the number of acquisitions through the auction and improving the number of cars that we take through the trades or that we purchase directly from our guests. [...] The average cost of our used car being over \$30,000 is definitely something that we're focused to bring down [leading to] faster inventory turns. [...] In the second half of the year, as lease turn-ins start to come in, we have better availability of inventory."

– **Dan Clara, COO of Asbury Automotive Group**

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Themes from Q4 2025 Earnings Calls

(cont.)

“The biggest single [pricing] delta was in our value auto cars, [over 9-year-old cars] that we had a 12% to 13% delta between what the marketplace was selling the cars for. [...] What we’re trying to do is reeducate store leaders to inflate the pricing on those cars and understand that it’s not necessary that the velocity of that car turns within 4 days. It’s okay if it turns in 24 days. Because that scarce car will bring in additional traffic. If our average value auto car is around \$16,000, an extra 12% is an extra \$2,000 a deal. The other soft spot that we have in pricing is what we would call scarcer late-model used cars, [driving 4,000 or 5,000 miles a year instead of 10,000 to 12,000 miles a year] that we’re underpricing those cars by almost 8%.”

– **Bryan DeBoer, CEO of Lithia Motors**

“There has been increased competition really across all sourcing channels. [...] We’ve been able to offset some of that cost pressure through mix changes as well in terms of how we source vehicles. [...] [Trade-ins] are great and an often undervalued channel because it is still the best channel to source excellent used car vehicles.”

– **Michael Manley, CEO of AutoNation**

“Used vehicle sales continue to be constrained by fewer lease returns and affordability. Lease returns bottomed in 2025 and are expected to begin improving in 2026.”

- **Richard Shearing, North American Operations of Penske Automotive Group**

Theme 3 – AI and Technology Investment Are a Priority, but Long-Term Practical Application of AI Remains Unclear

Public dealership groups continue to emphasize investments in AI, digital retail tools, and next-generation DMS as a path to improved efficiency and customer experience. These initiatives are often tied to long-term margin expansion through better labor productivity, lower cost per transaction, and improved data utilization.

However, while executives consistently highlight the potential of AI, most of the actionable implementation discussed today relates to broader technology upgrades rather than discrete AI-driven use cases. As a result, there remains limited clarity on how private dealership owners can directly apply these tools in the near term. It also remains to be seen whether these capabilities will be developed internally by the largest groups or become more widely available through third-party solutions.

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Themes from Q4 2025 Earnings Calls

(cont.)

"There's a massive difference between our current DMS and Tekion, and there's a learning curve there. Our original stores that went on it a year ago are performing better than most of our stores in our company because of the efficiencies and benefits of the software. But when these stores transition, it takes them a few months. [...] I look at '27 as a really efficient, productive year for us in both our production [and] our cost control as well."

– David Hult, President & CEO of Asbury Automotive Group

"We're executing structural improvements across our network, raising productivity through performance management and technology solutions including early investments in AI-powered chatbots and customer service automation, simplifying the tech stack and retiring redundant systems, renegotiating vendor contracts at scale and automating back-office workflows. These efforts are building momentum quarter-by-quarter with benefits from our Pinewood AI investments expected to materialize over time as we scale deployment and realize efficiency gains."

– Tina Miller, SVP & CFO of Lithia Motors

"We're excited to pilot the Pinewood AI DMS in our first North American store soon creating a single modern platform and reducing complexity, accelerating workflows and placing our team members in the same systems as our customers to deliver faster, more seamless customer experiences."

– Bryan DeBoer, President & CEO of Lithia Motors

"We are using AI in customer interface as well as in our back office. [...] We're seeing lower cost per transaction on virtual F&I. And we are using AI in our sales operations with lead management and CRM control. We're using it in parts and service and in marketing and reaching out to customers and using more predictive analytics in that area. [...] we're now owning our own data, managing our own customer data, it's going to allow us to be much more efficient with how we reach customers and what our costs are and we hope in a more productive way than in the past. And offline, I'd be happy to talk to you more specifically about that."

– Daryl Kenningham, President & CEO of Group 1 Automotive

Theme 4 – Fixed Operations Growth Is Now Driven by Demand Capture and Pricing Discipline

While technician shortages were a key constraint in recent years, public dealership groups now indicate that capacity has largely improved. The focus has shifted toward driving customer retention, increasing service traffic, and managing pricing in an increasingly cost-conscious environment. Executives highlighted that a significant portion of customers still

FEATURE ARTICLE

Themes from Q4 2025 Earnings Calls

(cont.)

do not return to franchised dealerships for service, representing a meaningful opportunity to grow market share. At the same time, higher repair costs are beginning to pressure consumer spending, requiring a more disciplined approach to pricing, parts selection, and service offerings. Going forward, fixed operations growth is expected to be driven less by capacity expansion and more by the ability to attract and retain customers while balancing affordability and productivity.

"I think since March of '24, when we started our technician focus, we're now plus 400 technicians from that original date that we started talking about this. [...] There's just too many customers for the industry that don't come back to a new car store to have their vehicle serviced. It's like 50-50. And we think we can attract a lot of customers. We've got the time to sell. We've got the base. We've got the technicians, and we're going to take advantage of that."

– **Jeff Dyke, President of Sonic Automotive**

"We have seen much more attention to the cost and pricing of service and parts. And we know we compete with non-franchise providers of service and parts because our growth really is targeted on improving our penetration in the 3-year-old plus After-Sales market. [...] You obviously have to provide great convenience, great service, but you've got to be very competitive on price. [...] There is no right to that business. We have to conquest it and to do that, it's the combination of price and service. So they're much, much more price sensitive particularly as the vehicle gets a bit older. [...] I think what that means is that hourly rate, obviously needs to be competitive. We do think that there's opportunity for us with different products that we can offer and different ways of communicating with the customer that we can provide more work on a per RO basis. That doesn't necessarily drive up margin per se, but it does help us a lot with regard to the productivity that we have in our business."

– **Michael Manley, CEO of AutoNation**

"In previous quarters, and I think it's the case for our peers, the growth in Parts & Service has been more top heavy on dollars than actual cars coming through the service drive or repair orders [...] the traffic counts were okay and normal for us. And based upon that, we should have been higher on the dollars. We saw less dollars being spent for the consumer. So it wasn't so much the traffic that took a hit as much as it did what the consumers were willing to spend. [...] when we talk about how much we're generating per ticket, combustible engine is over \$550. These numbers keep going up, which is great, but it also puts a limit a little bit on customers. But I was shocked to see the pullback in October and November with the dollars being spent. It rebounded in December and January is starting off, the dollars are pretty good again. So I can't explain what happened in October and November."

– **David Hult, President & CEO of Asbury Automotive Group**

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Themes from Q4 2025 Earnings Calls

(cont.)

“We’re evaluating what we can do from a labor rate perspective, what we can do from a parts pricing perspective, whether it’s offering an alternative part to make that repair, so that the customer has a choice and can decide how they want to spend their money.”

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

Theme 5 – Capital Allocation Remains Disciplined, with Buybacks Competing with M&A

Public dealership groups continue to emphasize disciplined capital allocation, balancing acquisitions, share repurchases, and balance sheet management. While M&A remains a core growth strategy, executives consistently highlighted selectivity, focusing on transactions that add scale and density and meet strict return thresholds. At the same time, several groups repurchased more than 10% of their shares, reflecting both perceived undervaluation and the relative certainty of buybacks compared to acquisition execution risk.

For private dealership owners, this dynamic is notable. Unlike public companies, private operators do not have the option to repurchase shares as a capital allocation lever, which may increase the relative importance of transaction timing. The willingness of public companies to deploy significant capital toward buybacks may also suggest that acquisition pricing expectations remain elevated, as sellers hold out for higher multiples. Additionally, in markets where public companies already have scale, those buyers may be able to justify higher valuations due to expected synergies, which can influence competitive dynamics for private sellers considering a transaction.

“We really want to grow the company through acquisition. We are not going to, however, buy stores that aren’t instantly accretive to us as a company in terms of EPS, and we’re not going to overpay for acquisitions whenever you look at the valuation of our company in terms of where it’s currently sitting. We were very active in terms of buybacks last year, buying back over 10% of the company.”

– Daniel McHenry, SVP & CFO of Group 1 Automotive

“We accelerated repurchases this year, returning 3.8% of our shares in the quarter and 11.4% of our shares in 2025. [...] Going forward, we’ll maintain this balanced capital strategy between buybacks, selective M&A, organic investments and balance sheet strength.”

– Bryan DeBoer, President & CEO of Lithia Motors

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Themes from Q4 2025 Earnings Calls

(cont.)

"We continue to actively explore M&A opportunities to add scale and density to our existing markets. In 2025, we repurchased 10% [of shares outstanding]. [...] We saw a number of opportunities in 2025. I think we were selective. And we ended up with some very high-quality brands in territories where we have density, where we think we can create operating synergies. And I'm confident that 2026, there will be continued opportunities for us in the dealership space. And we'll remain disciplined."

– Thomas Szlosek, EVP & CFO of AutoNation

"We divested 4 stores in the quarter and are on track to divest another 9 stores by the end of the first quarter. These 13 transactions will further accelerate our path to reducing our leverage, giving us additional flexibility to pursue share repurchases. We expect to continue our repurchasing activity in 2026, the pace of which will be dictated by our share price, leverage profile, economic conditions and trade-offs with strategic tuck-in acquisition opportunities."

– David Hult, President & CEO of Asbury Automotive Group

"We will continue to look for strategic areas in markets where we have scale. I don't see any markets that we're going to break into today, unless we buy another big group. [...] We're going to be very selective as we go forward."

– Roger Penske, Chairman & CEO of Penske Automotive Group

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.

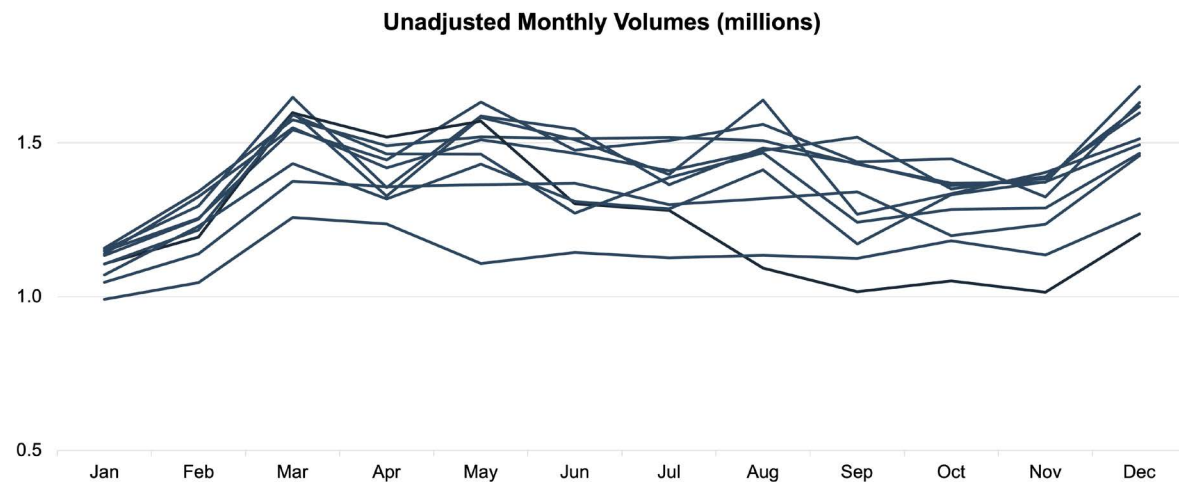
FEATURE ARTICLE

Understanding Seasonality in the Auto Industry

By: Isabelle L. Freireich



Auto retail has always been cyclical. While headlines often focus on the why (e.g. interest rates, inventory levels, or near-term economic uncertainty), seasonality remains one of the most consistent forces shaping monthly auto sales performance. Over the past decade, even amid supply chain disruptions and changing consumer behavior, the industry's calendar-driven rhythm has remained remarkably durable. Graphing the unadjusted data shows the clear trends as seen below.



***2020 is considered an outlying year and is excluded from analysis

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Understanding Seasonality in the Auto Industry

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This cyclicality is normalized through the Seasonally Adjusted Annual Rate (SAAR); while any sort of metric can be seasonally adjusted, people in the auto industry understand SAAR as shorthand for the volume of vehicles (cars and light trucks) sold in the U.S. on an annualized basis. The SAAR normalizes monthly sales to account for predictable fluctuations in demand. Examining seasonal normalization from 2015 through 2025 offers insight into when demand is structurally weak, when it is temporarily elevated, and how those dynamics affect dealer operations throughout the year, as we'll discuss in this article. We recommend auto dealers share this newsletter with new sales staff learning the cadence of sales throughout the year.

January–February: Early-Year Weakness

January and February are consistently the weakest months in the auto sales calendar. Unadjusted sales volumes during this period are typically well below other months, requiring meaningful upward normalization. Over the past decade, the magnitude of these upward adjustments has gradually moderated. Early year SAAR revisions were most pronounced in the 2015–2017 period, while the 2021–2023 timeframe exhibited comparatively smaller upward adjustments, suggesting that although early year weakness remains structural, its severity has become less extreme than it was in the mid 2010s.

Several factors contribute to this early-year slowdown. Consumers often enter the year with **strained** household balance sheets following holiday spending, while winter weather limits showroom traffic across much of the country. Promotional activity also tends to be subdued after aggressive year-end incentive programs have already pulled demand forward into December. Compounding these pressures, credit card utilization and tighter auto credit conditions are more common in the first quarter, reinforcing the need for seasonal normalization.

For many dealers, this period places greater emphasis on expense control, fixed operations performance, and disciplined inventory management rather than volume-driven growth.

March–April: Spring Recovery Takes Hold

March and April mark a clear transition out of winter and into the spring selling season. SAAR data over the last ten years shows that positive adjustments during these months have narrowed over time. Adjustments were wider and more volatile prior to 2018, while the post 2020 period reflects a smoother and more consistent spring recovery relative to earlier years. While some seasonal normalization remains necessary, its magnitude declines as demand fundamentals begin to improve.

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Understanding Seasonality in the Auto Industry

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Tax refund season plays a central role in this recovery. As refunds are issued, consumers gain additional liquidity that supports down payments and financing flexibility. In 2025, the **average federal tax refund** exceeded \$3,000 per filer, representing a meaningful seasonal injection of discretionary cash that historically coincides with rising showroom traffic and improving sales volumes. Improving weather conditions further support consumer engagement during this period.

By April, sales levels are often closer to underlying demand trends, making early spring an important checkpoint for evaluating the trajectory of the year.

May–June: A More Balanced Demand Environment

Late spring and early summer are among the most balanced periods in the auto sales calendar. Across the 2015–2025 period, SAAR adjustments during May and June have remained consistently small. Even during disruption heavy years such as 2020 and 2021, adjustments in these months stayed relatively contained, reinforcing this portion of the calendar as a stable baseline for evaluating underlying demand. Seasonal normalization during May and June is typically modest, reflecting demand that is generally aligned with annual expectations. Historically, the light vehicle total is adjusted downwards, with all periods in the last 10 years reflecting downward adjustments, except for June 2025.

Households often plan vehicle purchases ahead of summer travel and lifestyle needs, while Memorial Day promotions provide incremental activity without materially distorting demand. Labor market conditions during this period also tend **to be stable**, with steady employment levels and wage growth helping to anchor consumer spending.

Because sales during these months require relatively little adjustment, they often provide one of the clearest views of underlying market strength. Dealers frequently use this period to **assess inventory** positioning and operational efficiency heading into the second half of the year.

July–August: Strong Volumes, Greater Variability

July and August are traditionally strong sales months, though they introduce greater variability than the spring. Over the last decade, downward adjustments during these months have become slightly less extreme. The sharpest mid summer downward revisions occurred between 2016 and 2019, while post 2021 adjustments have been narrower, reflecting a gradual dampening of promotional volatility. As sales volumes rise, seasonal normalization increasingly moves in the opposite direction, reflecting demand that exceeds longer-term averages.

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Understanding Seasonality in the Auto Industry

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Summer promotions, elevated driving activity, and 4th of July incentives contribute to **higher** transaction volumes. Seasonal peaks in vehicle miles traveled and gasoline demand further support vehicle usage, increasing the perceived value of replacement or additional vehicle purchases. Anticipation of upcoming model-year transitions can also accelerate buying decisions.

While demand remains healthy, this period often rewards dealers who balance volume opportunities with margin discipline as promotional intensity increases.

September–October: Event-Driven Demand and Normalization

September is one of the most promotionally concentrated months of the year, anchored by Labor Day sales events and model-year closeouts. SAAR data indicates that while September continues to require sizable downward normalization, the magnitude of these adjustments has become more consistent over time. Prior to 2019, Labor Day related adjustments varied widely year to year, whereas the 2020–2024 period shows a tighter and more predictable range. Unadjusted sales volumes during this period frequently spike, requiring significant downward normalization to maintain comparability.

Manufacturers typically **increase** incentive spending around Labor Day as they work through aging inventory and transition to new model-year vehicles. This activity pulls demand forward and can temporarily inflate sales results. October generally follows with more normalized performance as promotional urgency subsides and buying patterns stabilize.

For dealers, these months often highlight the importance of inventory aging strategies and a clear understanding of incentive-driven demand versus sustainable sales levels.

November–December: Year-End Strength and Pull-Forward Demand

November and December consistently represent the strongest combined sales period of the year. Over the last ten years, SAAR adjustments during these months have remained persistently negative, though their magnitude has gradually compressed. The most extreme year end downward adjustments were concentrated in the 2015–2017 period,

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Understanding Seasonality in the Auto Industry

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while post 2021 adjustments have been materially less severe, reflecting a more even distribution of year end demand compared to earlier in the decade. Seasonal normalization is most pronounced during these months, reflecting volumes that materially exceed annual averages.

Holiday promotions, year-end incentives, fleet purchasing cycles, and calendar-driven buying behavior all contribute to elevated demand. December, in particular, benefits from pull-forward activity as consumers and businesses complete purchases before year-end. This concentration of income and purchasing activity is reinforced by **bonus payouts** and tax-related considerations.

While critical to annual results, year-end strength often sets the stage for more subdued conditions in the following January, reinforcing the cyclical nature of the calendar.

Conclusion

Seasonality has not faded from the auto industry. From 2015 through 2025, sales patterns have followed a consistent calendar-driven rhythm, reflected in both unadjusted volumes and the degree of seasonal normalization applied throughout the year.

For dealers and dealer groups, seasonality itself is not the risk. The greater risk lies in misinterpreting short-term fluctuations or mistaking event-driven demand for structural change. Dealers who align inventory, staffing, and capital planning with these long-term patterns are better positioned to manage volatility, protect profitability, and make informed strategic decisions across the full automotive cycle.

YEAR-END 2025 DATA

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

The U.S. auto industry ended 2025 with modest sequential improvement, as the SAAR increased to 16.0 million units in December, up from 15.7 million units in November. Despite this late-year momentum, December marked the third consecutive month of year-over-year declines, with volumes down approximately 5% compared to December 2024.

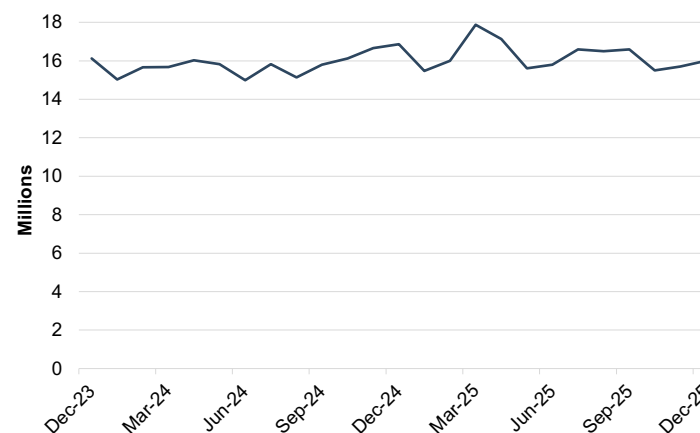
The fourth-quarter slowdown reflects several converging dynamics that shaped demand throughout the year. Tariff-related price increases on 2026 model-year vehicles began to weigh on affordability, particularly for price-sensitive consumers already facing elevated financing costs. At the same time, the expiration of EV tax credits in September 2025 created a pronounced pull-forward in demand earlier in the year. This dynamic drove an all-time high BEV market share in September, followed by a sharp retrenchment through the remainder of the fourth quarter as incentives rolled off and demand normalized.

SAAR generally remained relatively stable within a 15.5–16.5 million unit range throughout 2025, consistent with the stability observed in 2024. However, March and April were significantly higher as the concern of higher tariffs pulled demand forward into these months with SAAR reaching a high of 17.9 million in March 2025, the highest level since April 2021.

However, the relative stability masks underlying softness in demand, particularly in the back half of the year. On a full-year basis, total vehicle sales reached approximately 16.3 million units in 2025, up 2.5% from 15.9 million in 2024, which itself was up 2.3% from 15.5 million in 2023.

While the industry has largely recovered from the supply-constrained environment of 2021–2022, it has yet to return to the 17 million unit threshold that defined the pre-pandemic period. This suggests that structural constraints, most notably affordability, elevated interest rates, and shifting consumer preferences are limiting further expansion as supply constraints have generally subsided. Looking ahead to 2026, the key question will be whether demand continues to increase at 2-3%, stabilizes at current levels or starts to soften as pricing pressure persists and incentive activity increases. The industry's ability to balance pricing discipline with volume recovery will be a critical determinant of performance.

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



YEAR-END 2025 DATA

Inventory Analysis

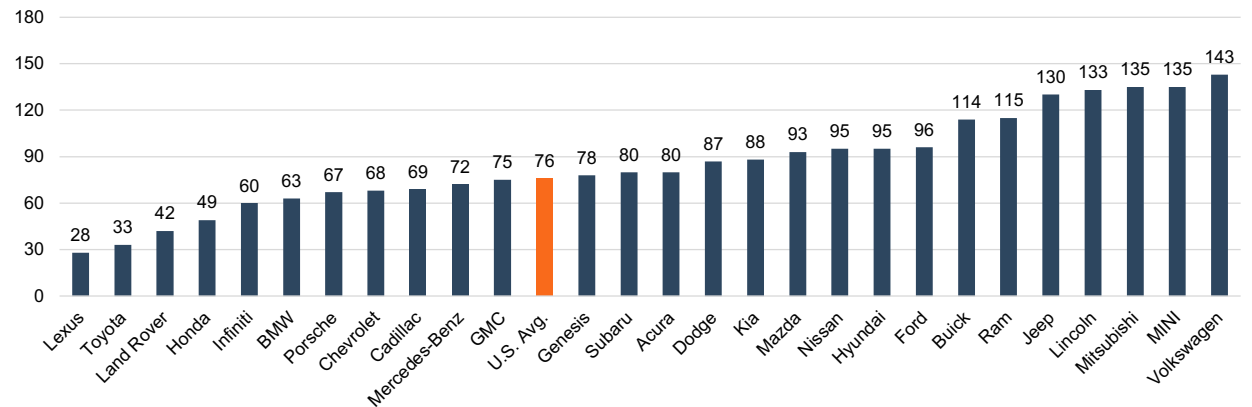
Days' Supply

Brand-level days' supply data from Cox Automotive provides a granular view of OEM inventory strategies, illustrating that the spectrum of days' supply is increasingly brand specific, with Lexus and Toyota dominating the low end of the spectrum, and brands like Volkswagen, MINI, and Mitsubishi struggling to move closer to the national average. Brand divergence and pricing pressure continue to be the key challenges facing OEMs. Days' supply is increasingly brand dependent, with Lexus, Toyota, Land Rover, and Honda reporting days' supply under 50, representing brand strength, disciplined production, and sustained pricing power.

Affordability has been a key issue in the market for a while, and a lack of affordable options may be contributing to inventory accumulating as the wrong mix of vehicles builds up on dealers' lots. However, Cox Automotive notes that while there are ten brands that have an average list price under \$40,000, Honda is the only one of these ten with days' supply below the national average. Cox suggests this trend may indicate that price-sensitive customers are leaving the new vehicle market altogether. In other words, it's not as simple as days' supply accumulating on pricier vehicles.

Compared to vehicles with prices under \$40,000, which tend to remain on lots longer, luxury vehicles above the \$75,000 price point average approximately 63 days' supply. Affluent buyers appear to be less sensitive to price and remain in premium segments, while mainstream customers either move into higher segments or defer participation in the new vehicle market. They do this either by trading down to used vehicles or holding onto their current vehicles longer. While affordability pressure mounts, automakers also face challenges with passing the tariff burden absorbed in 2025 along to consumers in 2026. Although prices will likely rise, automakers hold out some optimism for the USMCA Trade Agreement set to be up for renegotiation in July 2026.

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



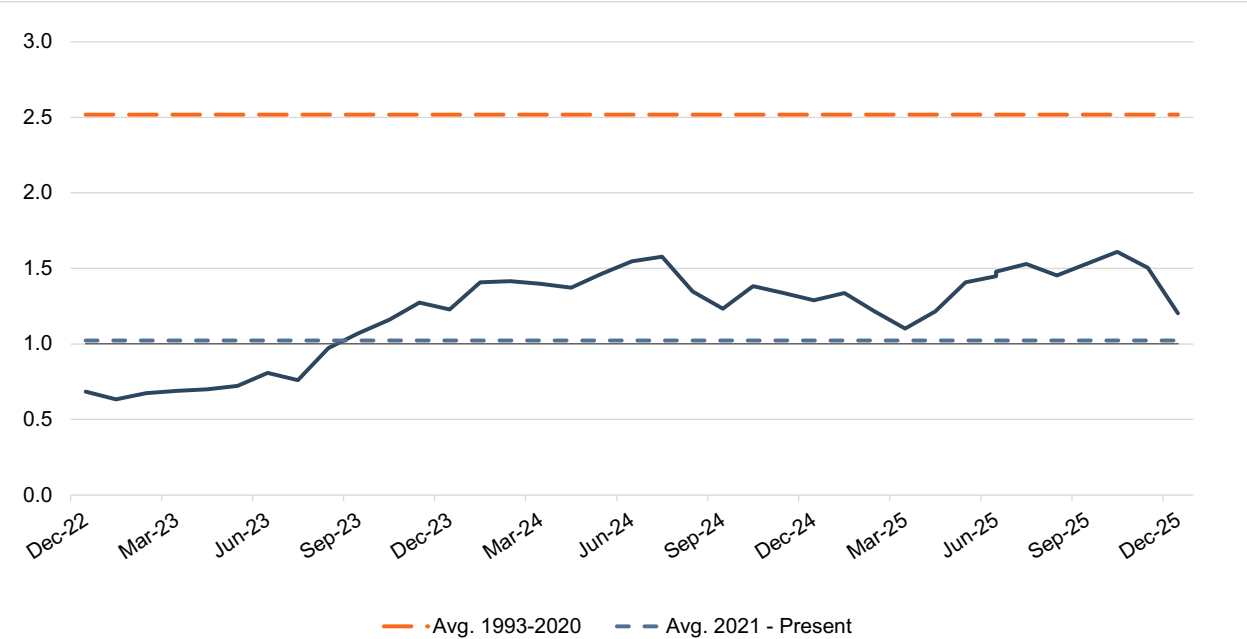
YEAR-END 2025 DATA

Inventory Analysis

Inventory/Sales Ratio

From a macro perspective, the industry's inventory-to-sales ratio remained above 1.0x throughout 2025, averaging 1.38x, down modestly from 1.40x in 2024. Mathematically, 1.0x roughly equates to 30 days' supply as dealers sell through their inventory on the lot at the end of the prior month. From 1993 when the data begins until the pandemic, the lowest monthly inventory/sales ratio was 1.40x in October 2001. The inventory-to-sales ratio began trending lower in early 2021 and was below 1.0x every month from June 2021 to August 2023. Since then, the ratio has not dipped below 1.0x and appears to have stabilized, allowing for some monthly variability. Current levels are much higher and healthier than in the recent supply-constrained period. However, it is still very low when looking back 30 years, demonstrating how much leaner inventory balances have become. This reflects a more competitive landscape in which dealers must actively manage pricing, incentives, and inventory mix to maintain sales velocity.

Inventory/Sales Ratio



Source: Wards Intelligence

YEAR-END 2025 DATA

Blue Sky Multiples

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 in 2025 reflect a market that has moved beyond broad-based normalization into a phase of increasing selectivity and brand-level differentiation. In 2024, dealership profitability began to normalize from peak post-pandemic levels, with rising inventories, increased competition, and moderating GPUs contributing to margin pressure across the industry. Moving into 2025, these trends have continued, with affordability constraints and rising operating costs further impacting dealership earnings.

Blue sky multiples are increasingly influenced by brand-specific factors, including inventory discipline, pricing power, product strategy, and OEM-dealer alignment. The normalization of gross profits on vehicle sales, combined with continued strength in fixed operations, has shifted investor focus toward the durability of earnings rather than peak-cycle performance.

This evolving dynamic has led to a widening gap between top-performing and underperforming brands. Dealerships representing brands with strong demand, disciplined production, and clear strategic direction continue to command premium multiples, while those facing operational or strategic challenges are experiencing increased pressure on valuations.

Investors are also increasingly focused on recent dealership performance as the rising tide that lifted all boats is subsiding. Current conditions are driving a more fragmented valuation landscape, which can be seen not only in the dispersion in multiples by brand but in widening ranges. Haig's multiple range now exceeds 1.0x for three non-luxury import brands (Toyota, Kia, and Hyundai).

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

YEAR-END 2025 DATA

Blue Sky Multiples

Luxury Blue Sky Multiples

Luxury brands generally maintained stable blue sky multiples in 2025, though dispersion within the segment continues to widen as investor focus shifts toward execution and long-term positioning. Certain luxury brands continue to face pressure related to product cadence, profitability, and electrification strategies. Similar to trends observed in 2024, investor caution remains elevated for brands with less consistent top-line performance or uncertainty surrounding EV adoption. While these brands may still generate interest in desirable markets, multiples are increasingly reflecting a more careful outlook on future earnings potential.

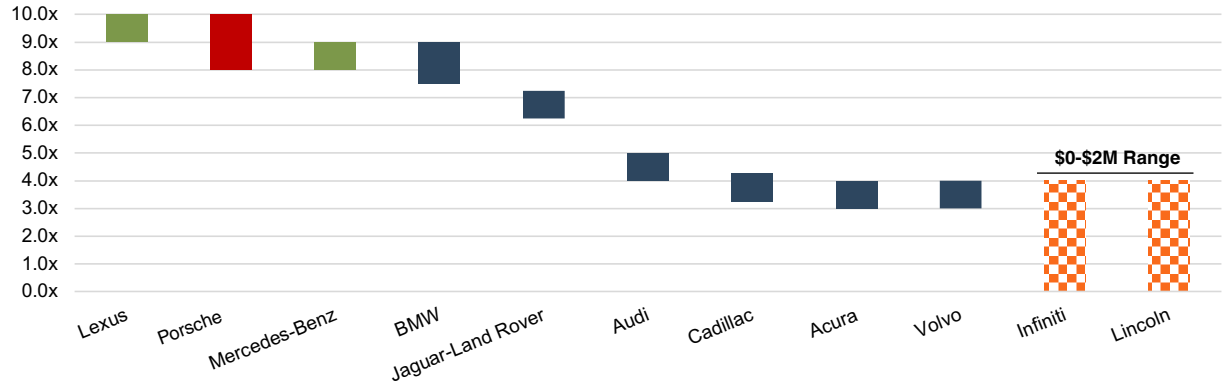
High-performing brands such as Porsche and Lexus continue to command premium valuations, supported by strong demand, disciplined inventory management, and consistent profitability. In Q3 2025, Haig Partners downgraded Porsche and upgraded Lexus, taking over the top spot. Lexus, in particular, remains attractive to investors due to its balance of operational stability and brand strength. Kerrigan Advisors also upgraded Lexus and has them in the top spot.

Kerrigan Advisors downgraded Audi after another down year but maintains a more favorable view than Haig Partners who has downgraded the brand three times in the past six quarters from an average multiple of 6.75x to 4.5x. The firms' perspectives on Audi dealerships are the most divergent of all brands, which demonstrates both its recent struggles and the potential resiliency of luxury brands.

At the lower end of the luxury segment, brands that have struggled with profitability or product relevance continue to see more limited valuation support. In these cases, buyers are placing greater emphasis on turnaround potential and market-specific dynamics rather than brand alone.

* Green indicates an increase in the multiple from the previous quarter
 * Red indicates a decrease in the multiple from the previous quarter

Luxury Blue Sky Multiples Range



Source: Haig Partners

YEAR-END 2025 DATA

Blue Sky Multiples

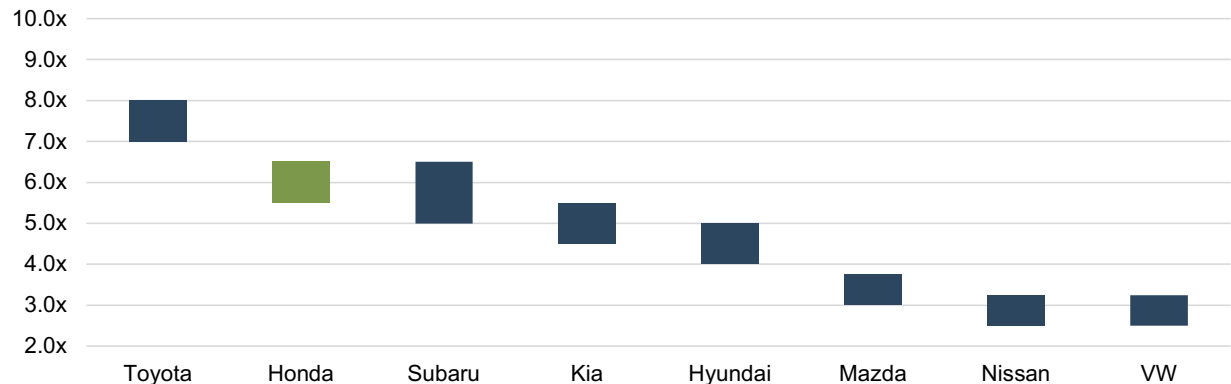
Mid-Line Blue Sky Multiples History

Among mid-line import brands, blue sky multiples in 2025 continue to reflect a clear separation between top-tier performers and the broader competitive set. As market conditions have become more competitive and affordability pressures have increased, investors are placing greater emphasis on consistency of performance and long-term brand positioning. While tariffs attracted headlines in 2025, Haig Partners upgraded three mid-line import brands in Q2 2025 and made no further adjustments in the back half of the year.

Toyota remains the standout within the segment, continuing to command strong multiples supported by sustained demand, disciplined inventory management, and a measured approach to electrification. The brand's ability to maintain strong gross profit per unit (GPU) performance, even as the broader market normalizes, reinforces its position as a preferred investment among dealership buyers. However, some investors remain cautious that Toyota's elevated performance may moderate over time, contributing to a wider valuation range. Haig Partners similarly estimates wider valuation ranges for Kia and Hyundai, emphasizing the importance of dealership-specific factors.

The lone change in blue sky multiples for mid-line import brands in the second half of 2025 came from Kerrigan Advisors raising the bottom end of Honda's multiple, edging it just ahead of Subaru who were each previously at 5.0x – 6.50x. Honda and Subaru also continue to perform well relative to peers, benefiting from strong customer loyalty, balanced product portfolios, and effective inventory management. These brands have demonstrated resilience in a more normalized environment, supporting stable valuation ranges.

Import Blue Sky Multiples Range



Source: Kerrigan Advisors

YEAR-END 2025 DATA

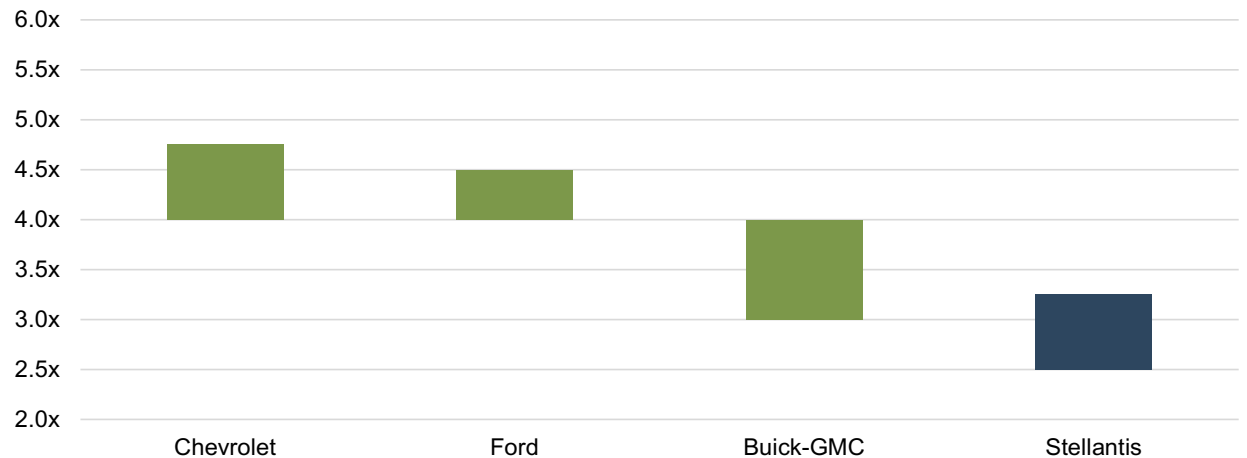
Blue Sky Multiples

Domestic Blue Sky Multiples

The domestic segment in 2025 continues to reflect a combination of cyclical opportunity and ongoing structural challenges. Certain domestic brands have benefited from continued strength in trucks and SUVs, as well as solid performance in fixed operations, which has supported profitability and, in some cases, modest improvements in valuation multiples. These segments remain critical drivers of earnings for domestic dealerships and continue to attract investor interest where performance is strong. Concerns over tariffs for import competition have also been a positive lift.

Stellantis, in particular, continues to represent a more complex investment narrative. While prior-year challenges including leadership changes and sales declines created downward pressure on valuations, there remains cautious optimism among some investors that operational improvements and upcoming product launches could support a longer-term recovery. As a result, certain buyers may view the brand as a potential opportunity at a lower entry point, albeit with elevated risk. While Haig Partners held all domestic brands constant in the second half of 2025, Kerrigan Advisors upgraded Chevy, Ford, and Buick-GMC but not Stellantis.

Domestic Blue Sky Multiples Range



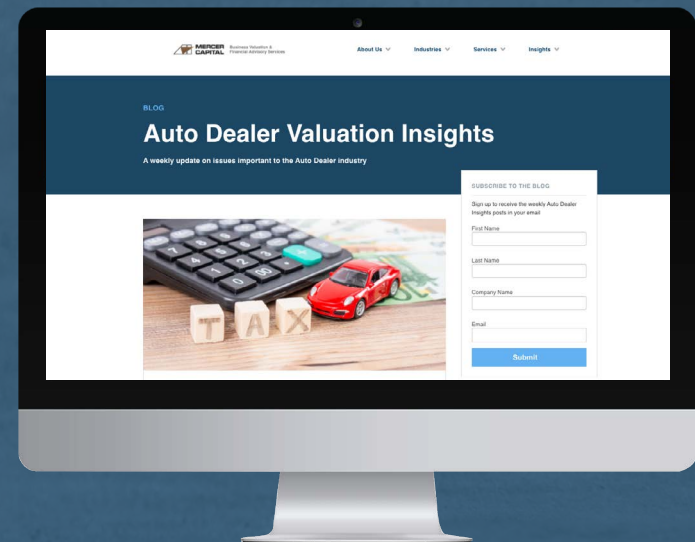
Source: Kerrigan

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YEAR-END 2025 DATA

Guideline Public Company Analysis

Market Capitalization and Dealership Count

Public auto dealers in 2025 exhibited more measured performance relative to prior years, reflecting a combination of slower revenue growth, margin compression, and broader macroeconomic headwinds. While every group besides Penske reported revenue growth in 2025, performance was more divergent. AutoNation paced the group with an 11.8% increase in market cap in 2025 while Group 1 and Lithia saw declines of 11.2% and 15.4%, respectively. While Group 1 reported the strongest year-over-year increase in revenue, its earnings declined 31.6% which drove the stock price decline.

Asbury's acquisition of the Herb Chambers group was the most notable change in 2025, acquiring 33 stores for a 17.1% increase from its dealership count at mid-year 2025. Group 1, and Penske didn't have any net change in dealership locations in 2025 and Sonic also had no changes in the second half of 2025. After years of growth, Lithia's acquisition pace has also slowed, with a net decline in stores in 2025.

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	\$4,521	-3.6%	-5.0%	\$17,999	4.3%	4.7%
AutoNation, Inc.	AN	7,531	0.6%	11.8%	27,631	0.6%	3.2%
Group 1 Automotive, Inc.	GPI	4,865	-12.1%	-11.2%	22,571	2.7%	13.2%
Lithia Motors, Inc.	LAD	8,059	-8.4%	-15.4%	37,635	1.3%	4.0%
Penske Automotive Group, Inc.	PAG	10,425	-8.3%	2.4%	31,809	-1.6%	-0.2%
Sonic Automotive, Inc.	SAH	2,114	-22.1%	-2.4%	15,154	3.1%	6.5%
Average		\$6,252	-9.0%	-3.3%	\$25,466	1.7%	5.3%
Median		\$6,198	-8.3%	-3.7%	\$25,101	2.0%	4.4%

Presented in \$000,000s except dealership counts

Public Auto Dealers	Dealership Count	6 Mo. Change in Dealerships	12 Mo. Change in Dealerships
Asbury Automotive Group, Inc.	171	17.1%	12.5%
AutoNation, Inc.	245	0.4%	0.8%
Group 1 Automotive, Inc.	145	0.0%	0.0%
Lithia Motors, Inc.	458	2.2%	-0.4%
Penske Automotive Group, Inc.	148	0.0%	0.0%
Sonic Automotive, Inc.	111	0.0%	2.8%
Average	213	3.3%	2.6%
Median	160	0.2%	0.4%

YEAR-END 2025 DATA

Guideline Public Company Analysis

Blue Sky

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

In 2025, public market valuations suggest that investors continue to assign value to dealership earnings despite ongoing normalization. While earnings have moderated from peak levels, valuation multiples indicate confidence in the sustainability of earnings in a more balanced operating environment. For the group, the average forward blue sky multiple of 6.6x which reasonably reconciles with private market indications from Haig and Kerrigan.

Implied Blue Sky Multiples	Asbury	AutoNation	Group 1	Lithia	Penske	Sonic	Average
Stock Price	\$232.53	\$206.48	\$393.30	\$332.33	\$158.29	\$61.86	
less: Tang. Book Value per Share	\$25.33	\$2.76	\$29.34	(\$57.41)	(\$29.84)	(\$5.72)	
Implied Blue Sky per Share	\$257.86	\$209.24	\$422.64	\$274.92	\$128.45	\$56.14	
LTM Pre-Tax Income per Share	\$33.82	\$23.22	\$34.93	\$43.38	\$19.04	\$4.98	
2025 Blue Sky Multiple	7.6x	9.0x	12.1x	6.3x	6.7x	11.3x	8.8x
Fwd Pre-Tax Income per Share	\$37.40	\$27.90	\$59.20	\$49.02	\$18.39	\$9.81	
2025 Blue Sky Multiple	6.9x	7.5x	7.1x	5.6x	7.0x	5.7x	6.6x
3-Year Avg. Pre-Tax Income per Share	\$33.81	\$25.75	\$48.46	\$43.87	\$20.18	\$7.07	
3-Year Average Blue Sky Multiple	7.6x	8.1x	8.7x	6.3x	6.4x	7.9x	7.5x

LTM multiples generally exceed forward multiples as earnings per share is expected to increase. That is particularly true for Group 1 and Sonic who are expected to rebound from low levels in 2025. Penske is the only group forecast to report lower earnings per share in 2026 than 2025.

Investors appear to be applying a higher risk discount for Lithia's acquisition-heavy growth strategy and broader operating model. Lithia has historically pursued aggressive consolidation, which can create scale benefits but also raises concerns around integration risk, execution complexity, leverage, and the quality or durability of acquired earnings. In addition, if investors view Lithia's earnings as more dependent on continued M&A, normalization of elevated vehicle margins, or improvements in underperforming stores, they may be less willing to pay a premium multiple for those earnings. By contrast, groups receiving higher implied multiples may be perceived as having steadier earnings quality, stronger brand or geographic mix, better near-term margin visibility, or a more conservative capital allocation profile.

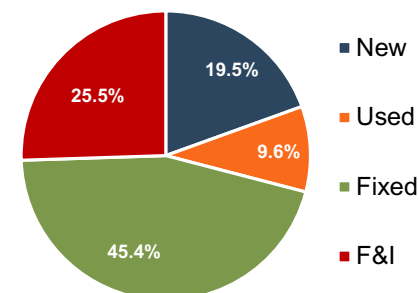
YEAR-END 2025 DATA

Guideline Public Company Analysis

Gross Profit by Segment

In 2025, gross profit from fixed operations on a same-store basis increased 8.0% for the publics with a tight range of growth from a low of 6.7% from Penske to a high of 9.4% from Lithia. Fixed operations contributed 45.4% of gross profit, up from 43.4% in 2024 and 39.1% in 2023. Contribution from fixed operations in 2025 was in line with pre-COVID levels. This contribution largely replaced new vehicle departments, whose average contribution declined from 21.6% in 2024 to 19.5% in 2025. All of the public auto dealerships saw their gross profit from new vehicle departments decline on a same-store basis, ranging from a 2.9% decline for Asbury to a 14.5% decline for AutoNation.

Average Gross Profit by Segment at YE 2025



Performance from used vehicle departments varied by dealership with three seeing increases in 2025 and three seeing declines. The average increase was 1.3%, below average increase for total gross profit of 3.1%, causing a minor decline in contribution to overall gross profit of 9.6%, the lowest of the four segments. Used continues to trail new, though this cannot be viewed in perfect isolation as F&I is not consistently broken out between new and used. Elevated transaction prices and interest rates, and payment terms have increased the value of financing and insurance products, supporting strong performance in this segment which contributes about 25.5% of total gross profit.

Public Auto Dealers	Contribution to Gross				Growth in Department Gross				
	New	Used	Fixed	F&I	New	Used	Fixed	F&I	Total
Asbury Automotive Group	20.2%	8.4%	47.9%	23.4%	-2.9%	5.6%	9.0%	0.9%	4.2%
AutoNation	13.5%	9.4%	47.6%	29.5%	-14.5%	4.6%	7.0%	6.9%	3.2%
Group 1 Automotive	19.5%	9.0%	43.4%	28.1%	-5.3%	-0.7%	8.5%	6.2%	4.0%
Lithia Motors	20.4%	12.8%	41.0%	25.8%	-9.6%	-1.1%	9.4%	3.1%	2.0%
Penske Automotive Group	25.9%	10.5%	44.6%	19.1%	-5.8%	0.4%	6.7%	-2.9%	0.7%
Sonic Automotive	17.5%	7.2%	48.2%	27.2%	-7.4%	-1.0%	7.5%	8.7%	4.2%
Average	19.5%	9.6%	45.4%	25.5%	-7.6%	1.3%	8.0%	3.8%	3.1%

Unless otherwise noted, data represents same-store performance.

YEAR-END 2025 DATA

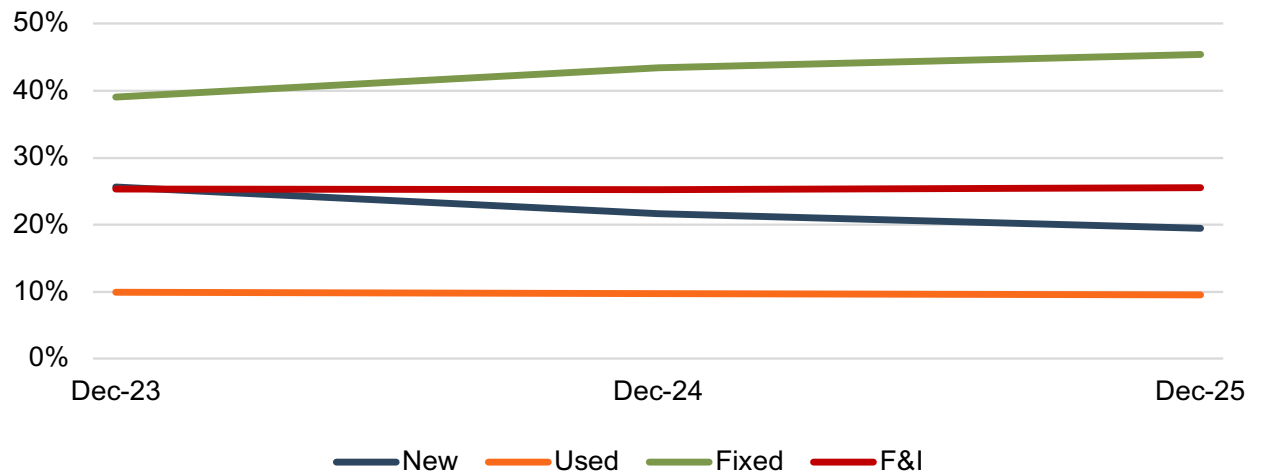
Guideline Public Company Analysis

Gross Profit by Segment Over Time

The composition of dealership gross profit in 2025 continues to reflect the increasing importance of fixed operations and finance and insurance (F&I) as primary drivers of profitability. Parts and service departments remain the largest contributor to total gross profit, benefiting from stable, recurring revenue streams and structurally higher margins compared to vehicle sales. The continued growth in this segment underscores its importance as a foundational component of dealership earnings, particularly in periods of margin normalization on vehicle sales.

As seen in the chart below, used vehicle departments have consistently contributed just under 10% of gross profit in each of the past three years with F&I contributing another 25%. The decline in contribution from new vehicles from 25.6% in 2023 to 19.5% in 2025 has been replaced by fixed operations, which increased from 39.1% to 45.4% of total gross profit.

Gross Profit by Segment



Unless otherwise noted, data represents same-store performance.

YEAR-END 2025 DATA

Sales Satisfaction Index

Every year, J.D. Power releases the Sales Satisfaction Index (“SSI”) Study, which measures satisfaction with the sales experience among new-vehicle buyers and rejecters (defined as those who shop a dealership but ultimately purchase elsewhere).

Buyer satisfaction is based on six measures (in order of importance): delivery process, dealer personnel, “working out the deal,” paperwork completion, dealership facility, and dealership website. Rejecter satisfaction is based on five factors: salesperson, price, facility, inventory variety, and negotiation. Scoring is based on a 1,000-point scale.

Key findings from the 2025 SSI study are below:

- **Nearly one-fourth of buyers want a follow-up on their vehicle’s features but it never comes:** While most buyers want to learn about all of their vehicle’s features upon delivery, nearly one-fourth (22%) indicate they would like a follow-up explanation of vehicle features and controls from the dealership a few weeks later, either through a phone call, dealership visit or online video/tutorials. However, more than half (53%) of these buyers never receive any such follow-up, presenting a key opportunity for dealers to improve the vehicle delivery process and boost future service retention and loyalty.
- **Justifying trade-in values drives higher satisfaction:** Trade-in transactions have been steadily increasing since the decline in lease volume that began several years ago. Among buyers who traded in a vehicle, 28% say their trade-in value was less than expected. However, when the dealer provides a clear explanation justifying the trade-in value, customer satisfaction is notably higher, even among those buyers who say the trade-in value didn’t meet their expectations. In such instances, overall satisfaction with the deal-making process averages a score of 800 when justification was provided but plummets to 672 when it wasn’t, highlighting the importance of transparency in the trade-in process.
- **Import brand buyers are more likely to say tariffs accelerated their purchase plans:** Buyers of brands from Japan and Europe more likely advanced their vehicle purchase in response to tariffs. Overall, among customers who say tariffs impacted their purchase, 87% in both the premium and mass market segments say they bought their vehicle sooner than intended. Furthermore, nearly 15% of buyers in both segments say they spent more than originally intended for their new vehicle. Of note, the survey occurred in July through September 2025 discussing purchases made in March 2025 through May 2025, during the height of tariff uncertainty.

YEAR-END 2025 DATA

Sales Satisfaction Index

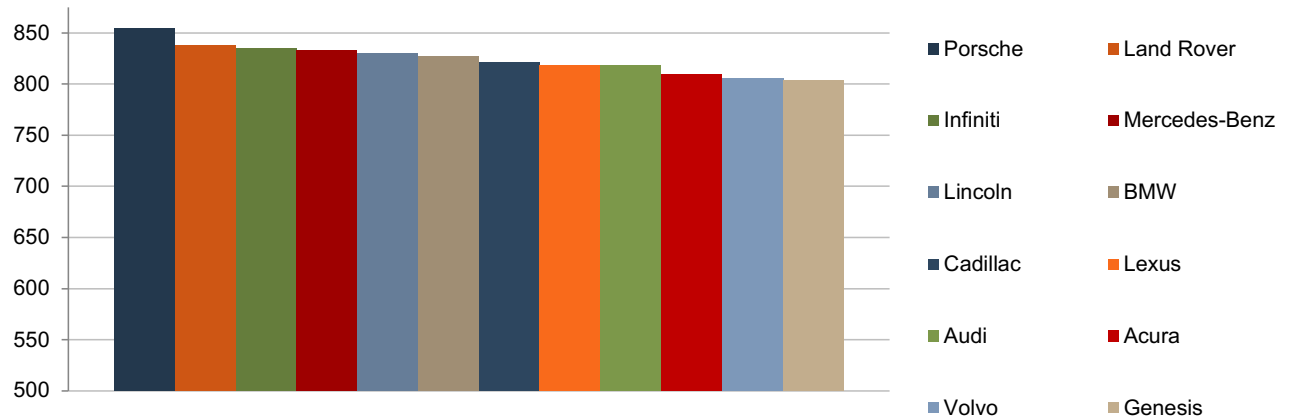
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Porsche continues its reign at the top, posting an SSI of 855, which is the highest ranking in recent history for both luxury or mass market. Porsche has seen its SSI score rise steadily from 825 in 2020 when it ranked in a three-way tie for 4th. Porsche's wins are broad-based, winning in both car and SUV segments, each for the third consecutive year.

Land Rover vaulted past Infiniti to reach the second spot with a score of 838. Mercedes-Benz was the highest riser, climbing seven spots with a 21 point improvement to 833. Acura fell the furthest, dropping 15 points down to 810 resulting in a fall in the rankings from 4th to 10th. Unlike the prior year, Jaguar and Alfa Romeo were not ranked in 2025, possibly due to an insufficient sample size.

While Lexus has improved its SSI score in each of the past two years, it still trails 2020 satisfaction levels. While Lexus dealerships command the highest blue sky multiples, they only rank 8th in SSI. Inventory availability likely plays a role in each, as this supports dealership profitability, but likely limits SSI scores. While everyone would like to be ranked #1, dealers may be satisfied with this tradeoff, particularly given recent increases in SSI scores despite the middle-of-the-pack ranking.

Sales Satisfaction Index (SSI) – Luxury



Source: JD Power

YEAR-END 2025 DATA

Sales Satisfaction Index

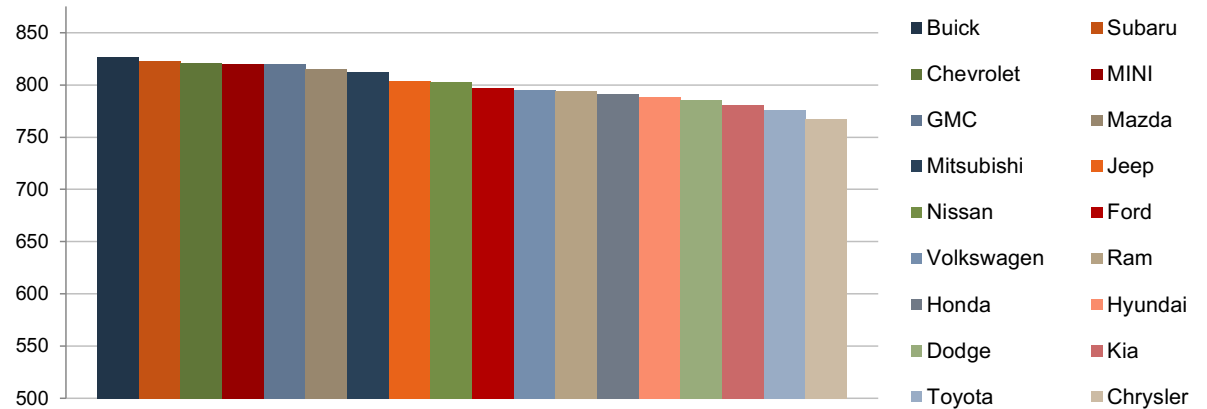
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Buick took over the top spot in 2025 by maintaining its 827 SSI score while Mini dropped from 829 to 820 and from first to fourth in the rankings. Buick also had the highest ranked mass market SUV for the second year in a row. Mitsubishi, Chevrolet and Mazda all saw strong climbs in the rankings in 2025. Mitsubishi rebounded to the 812 SSI score achieved in 2023 after a decline to 776 in 2024. Chevrolet climbed to third increasing its SSI score 9 points to 821 led by its highest-ranked mass market truck segment. Mazda eclipsed the 800 mark for the first time in recent history led by its highest-ranked mass market car segment.

Like Lexus, Toyota's SSI scores belie its blue sky multiple ranges, ranking 17th out of 18 brands. With SSI scores consistently below 800, it will be interesting to see if Toyota can maintain its pristine multiples while underperforming its peers on sales satisfaction.

Dodge fell to its lowest SSI score in five years dropping out of the top ten of mass market brands. Dodge's SSI dropped the most of Stellantis' brands, and none of them saw improvement. Unlike Toyota and Lexus, SSI scores seem to be positively correlated with low blue sky multiples for Stellantis.

Sales Satisfaction Index (SSI) – Mass Market



Source: JD Power



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