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SPECIAL REPORT

December 18, 2025

The Year Ahead- 2026:
Auto Dealership Economic Opportunities and M & A Activity for the Year Ahead

Table of Contents & Topic Abstracts

Joining us are Alan Haig, President, and John Murphy, CFA, Managing Director of Haig Partners, a leading buy-sell advisory firm in automotive retail. Known for deep market expertise and industry relationships, the firm helps dealership owners sell, buy, raise capital, and maximize value, advising hundreds of successful transactions worldwide integrity.

The takeaways from today's workshop are.

1. Macro Is Better Than Feared
2. Path to Higher Profit Potential
3. Q3 2025 Dealership Performance Update
4. M&A Update

During the COVID-era supply chain disruptions (2021-2022), vehicle sales hit a low, while the number of vehicles on U.S. roads dropped for only the second time in history, setting the stage for a multi-year recovery. Demand remains strong, though pricing is high, potentially limiting growth. Pent-up demand could total around 10 million units by 2026, but automaker supply management may restrict realization. Dealer inventories are nearing normalized levels, yet supply remains tight. With production discipline and low-capacity utilization, prices stay elevated. Factors like interest rates, inflation, and potential regulatory changes may influence the industry's future.

Investors often misjudge dealership profits. Fixed operations drive returns, while dealers capture limited early service share, creating major growth opportunities through stronger OEM partnerships, service retention, parts, used vehicles, and long-term fixed-operations expansion.

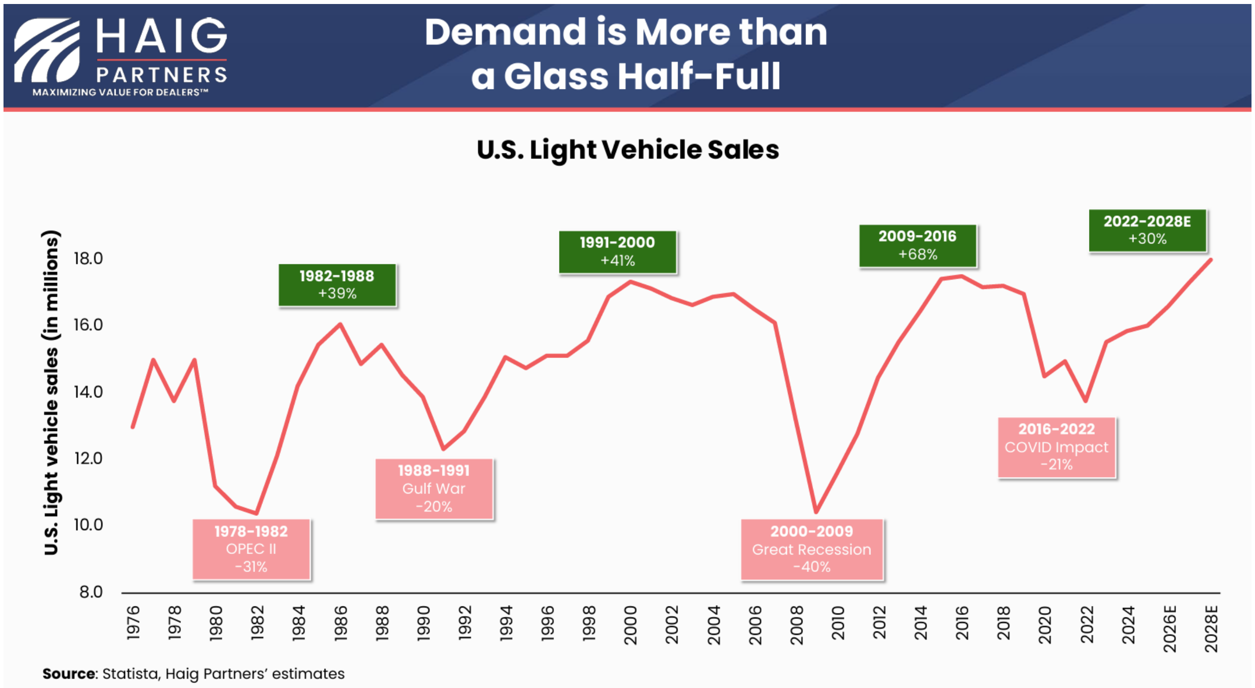
New-vehicle gross profits remain about 50% above pre-pandemic levels due to disciplined production and inventory, though results vary by brand. Used-vehicle margins, however, have fallen below pre-pandemic levels as competition for limited supply and higher reconditioning costs compress profits. F&I profits have generally risen with vehicle prices but dipped modestly in 2024 due to affordability fatigue. Parts and Service continue to outperform, driven by longer vehicle ownership and record recall activity. Overall dealership profitability has stabilized at roughly double pre-pandemic levels, with fixed operations representing the largest underappreciated growth opportunity.

Dealership valuations and M&A trends in 2025 were shaped by regulatory uncertainty, tariffs, and widening brand performance gaps. CARB rollbacks boosted buyer confidence and blue-sky values, while tariffs slowed deal timelines without reducing valuations. Overall M&A activity declined about 25%, largely due to delayed—not canceled—transactions, positioning 2026 for a rebound. Blue-sky values remain roughly double pre-pandemic levels, supported by strong profits and accumulated dealer capital. Valuations now vary widely by franchise, with Lexus, Toyota, Kia, Mazda, BMW, and Cadillac outperforming, while Infiniti, Porsche, Nissan, and Stellantis face challenges or potential turnarounds. Looking ahead, blue-sky values are expected to remain stable in 2026, with selective brand-level upside and downside.

2026 may be volatile, with early support from rates and tax policy, weaker late demand, but strong long-term valuation upside.

MACRO IS BETTER THAN FEARED

This slide is a simple illustration of U.S. auto sales and the extreme volatility we've seen across cycles.



During the COVID-era supply chain disruptions of 2021 and 2022, vehicle sales fell to cycle lows, creating a clear trough.

At the same time, the total number of vehicles on U.S. roads declined for only the second time in history, an outcome that has historically been followed by a strong, multi-year recovery in demand. This supports a relatively constructive outlook for U.S. vehicle demand.

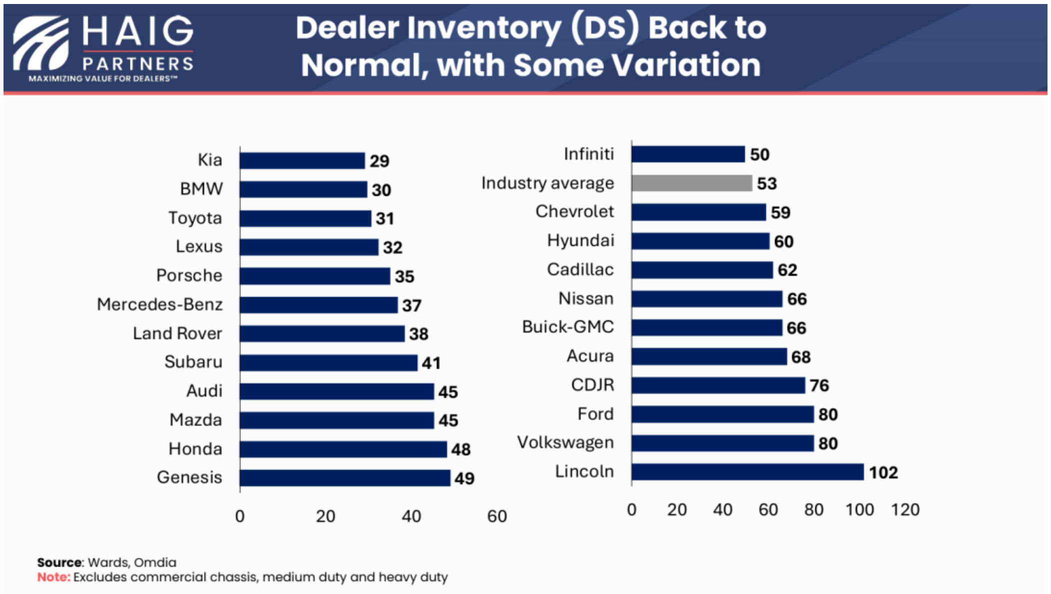
However, pricing remains exceptionally strong, which could limit both the duration and upside of the current cycle.

Looking ahead to 2026, pent-up demand appears significant, potentially totaling around 10 million units.

That said, automakers' continued discipline in managing supply may restrict how much of that demand is ultimately realized.

Consumer confidence also remains near historic lows, comparable to levels seen during the Great Financial Crisis.

When combined with ongoing affordability challenges, this will play a critical role in determining where overall vehicle volumes settle. While demand fundamentals appear solid, supply conditions merit close attention.



The first layer to consider is dealer inventory, which currently stands at roughly 2.75 million units, or about a 53-day supply, close to what we would view as normalized levels.

This represents a significant improvement from the trough in 2021 and 2022, when inventory fell to roughly 1 million units.

That said, supply remains somewhat tight compared to pre-pandemic norms. In 2019 and earlier, dealer inventory was closer to 3.8 million units.

There is also important variation beneath the surface.

Take Toyota as an example. Over the past few years, the company operated with exceptionally lean inventories, often below a 20-day supply. Over the last year, however, inventories have begun to normalize. While this is not inherently problematic, the pace of change is worth monitoring. Key models such as the RAV4 and Corolla are driving much of the shift, with vehicles that once sold almost immediately now aging for a month or slightly longer.

On its own, this is not an issue, but it does represent a meaningful change from conditions six to twelve months ago.

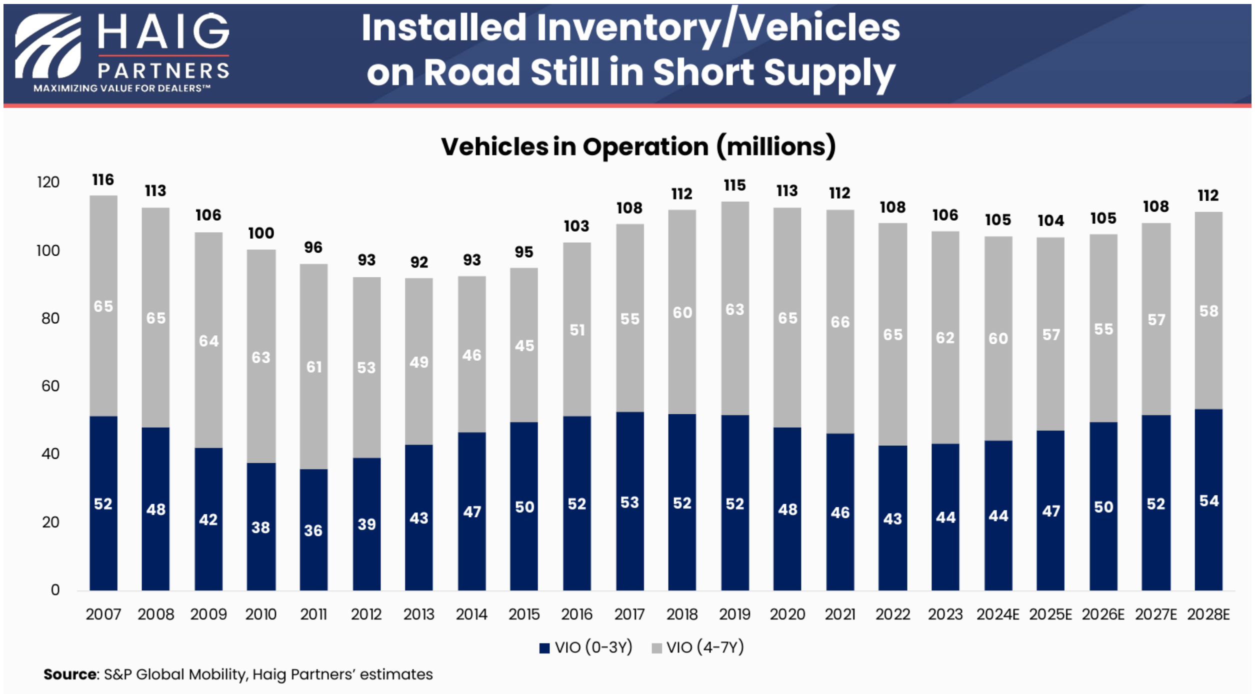
Ford presents a different dynamic.

While overall Ford inventory remains elevated, F-Series inventory is tightening due to production disruptions following the fire at the Novelis plant.

As a result, we expect F-Series inventory to end the year at approximately 160,000 units, compared to a more typical year-end level of around 230,000 units.

The key takeaway is that overall dealer inventory continues to move closer to normal after an unprecedented period of shortages. While conditions vary by manufacturer and model, inventory levels are not excessive and remain largely under control.

On the next slide, we shift to a more structural view of U.S. supply.



Traditionally, we look at the total number of vehicles on the road. For today's discussion, however, we're narrowing the focus to vehicles in operation (VIOs) that are zero to seven years old, broken out into two segments: zero to three years and four to seven years.

This perspective closely mirrors what many of you are experiencing on the ground when it comes to sourcing inventory.

At the peak in 2019 and 2020, there were approximately 115 million vehicles in the zero-to-seven-year category.

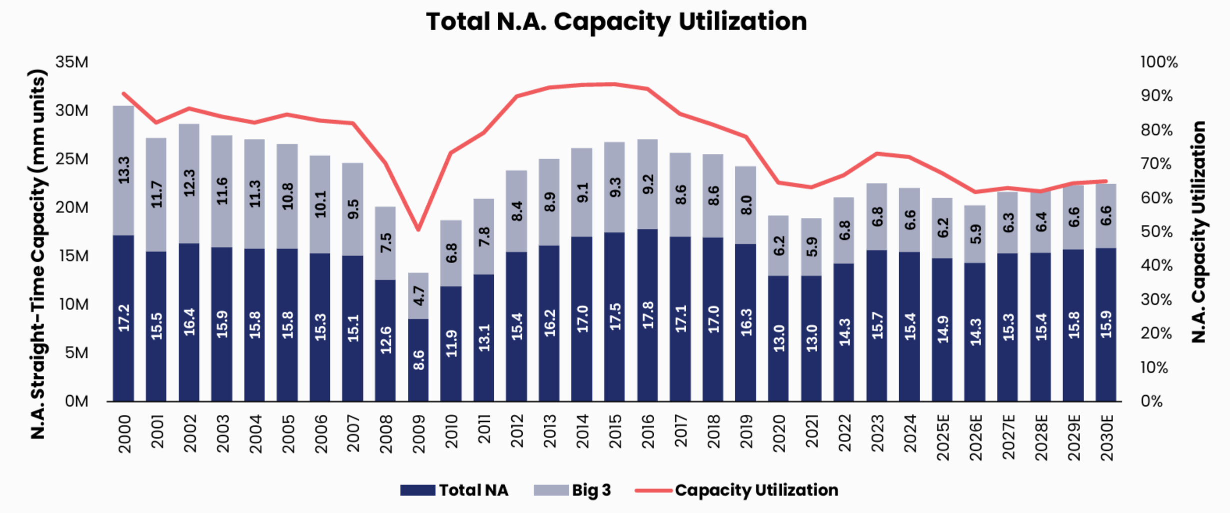
However, supply-chain disruptions during and after COVID significantly reduced new vehicle sales, leading to a meaningful decline in this population. This year, we estimate the total at about 104 million units, with only modest growth expected over the next several years.

As a result, the shortage in the install base, the total number of relatively new vehicles currently in operation or owned by consumers in the U.S., is likely to persist at least through next year, depending on how well demand recovers.

This suggests that used-vehicle supply will remain structurally tight for some time.

To further complicate matters, North American production capacity introduces an additional structural supply dynamic that's worth examining.

Capacity Underutilization Indicates Relative Discipline



Source: S&P Global Mobility

Historically, the break-even point for an auto plant has been closer to 80% capacity utilization, and levels below that would typically signal significant financial stress for automakers.

However, capacity utilization across manufacturing plants is currently running at around 70%, which limits how quickly supply can respond as demand improves.

What's different today is the extraordinary level of discipline being shown across the industry.

Manufacturers have learned that by operating at lower production levels, and more closely matching supply to demand, they can sustain higher pricing and achieve stronger profitability. This marks a meaningful departure from prior industry cycles.

To put this in context, from the early 2000s through 2009 the industry included major players, most notably GM, with highly leveraged balance sheets, heavy pension and retiree obligations, and substantial fixed UAW-related costs.

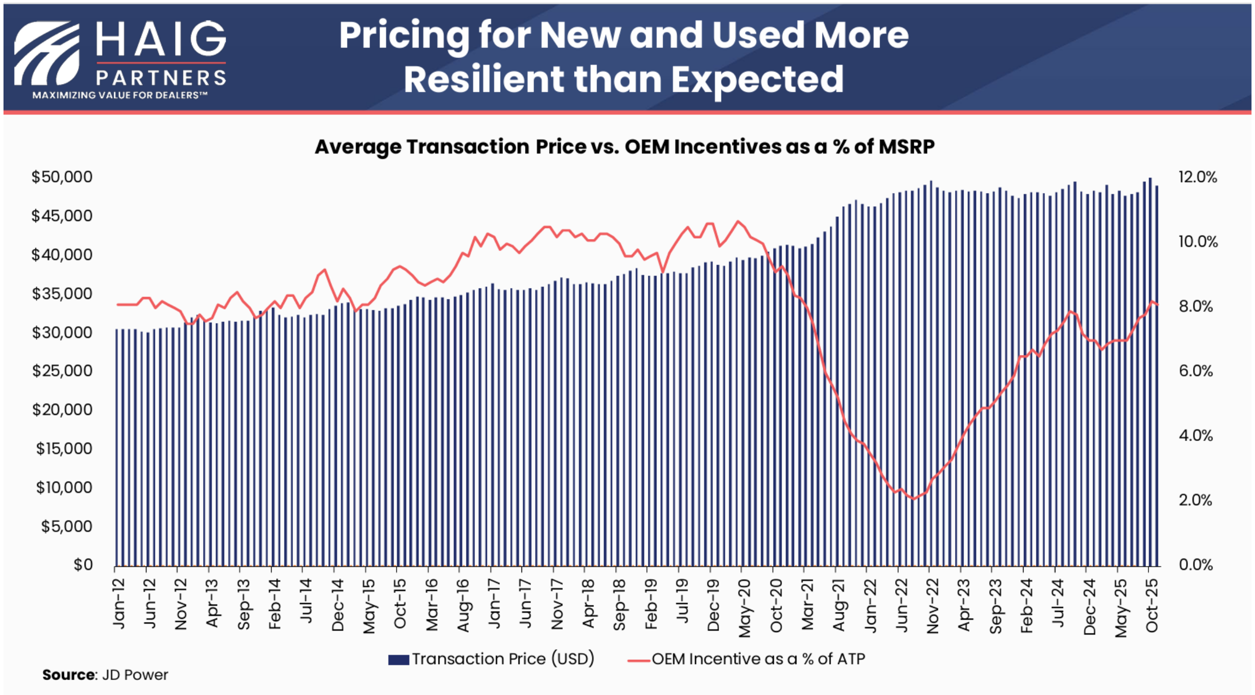
In that environment, aggressive price cutting, while ultimately destructive, was not an entirely irrational response to the underlying cost structure.

Fast forward to today, no major automaker is nearly as out of balance in terms of leverage or fixed costs.

As a result, we're seeing a sustained commitment to production discipline.

Even as inventories begin to edge higher, they remain well below the excess levels that defined the troubled periods of 2001 and 2009.

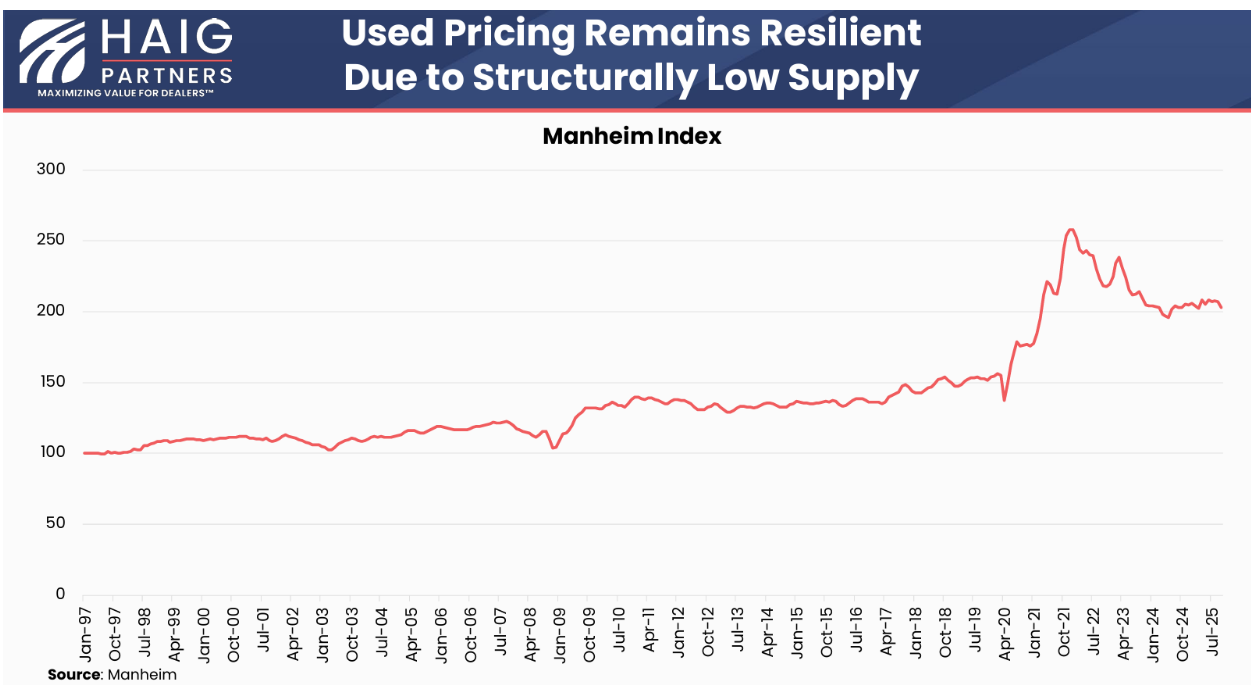
As you'll see on the next slide, average transaction prices remain near all-time highs and are holding up remarkably well.



While incentive activity has increased modestly, pricing remains elevated because the underlying supply-and-demand balance continues to support strong pricing power.

Even with some normalization underway, the market has not shifted meaningfully away from the current pricing environment.

Similar supply-driven dynamics are also supporting elevated prices in the used-vehicle market.

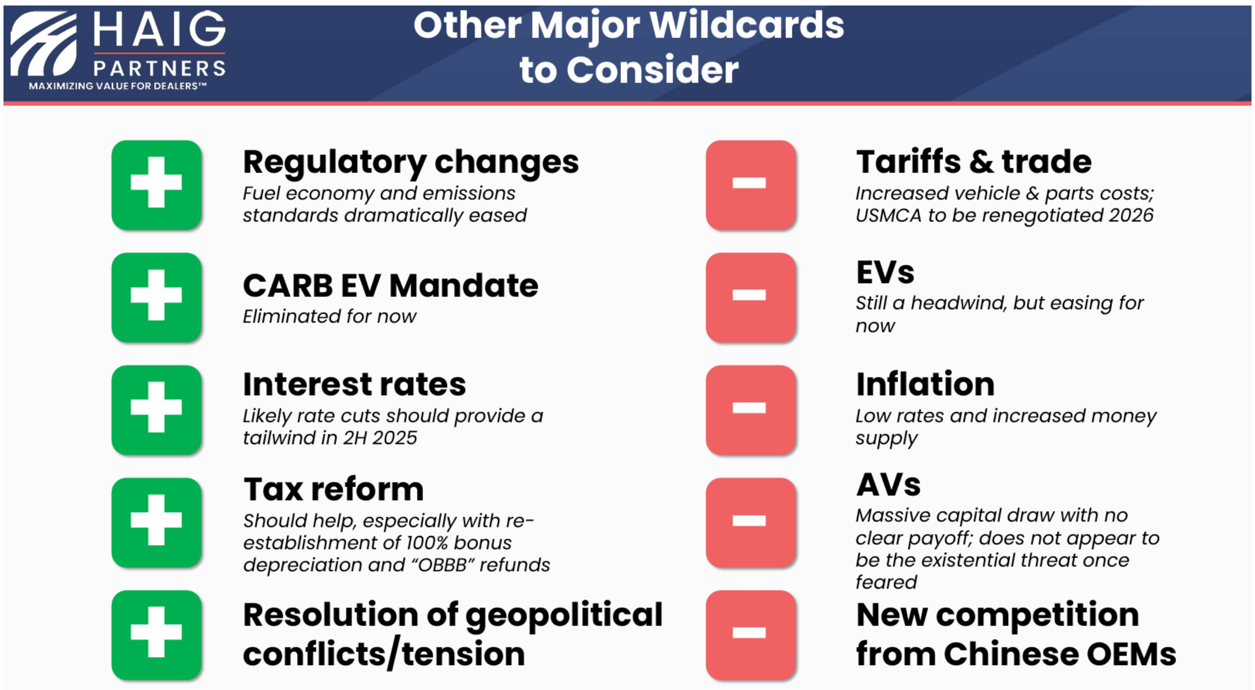


The lack of growth in the zero- to seven-year-old vehicle fleet, combined with continued increases in miles driven, is providing strong upward pressure on used-vehicle prices, and this dynamic is expected to persist well into next year.

As a result, dealers are facing not only ongoing challenges in sourcing used vehicles, but also elevated pricing at both the wholesale and retail levels.

Stepping back and looking across demand, supply, and pricing, we remain relatively constructive on the overall industry outlook.

On the next slide, we outline several key wild cards that could influence the industry as we move forward.



Regulatory changes

The CARB EV mandate is largely behind us, which is a relief in many respects. However, the significant surge in EV volumes, particularly in Q3 2025, will create distorted year-over-year comparisons, most notably in Q3 2026.

Another EV-related factor to watch is the "boomerang" effect.

Many of these vehicles are expected to return to the market over the next 18 to 48 months, and when they do, residual values are likely to come under meaningful pressure.

Interest rates

Interest rates are expected to ease somewhat over time. However, because auto loans are relatively short in duration, changes in rates are not transformational. For example, a 100-basis-point reduction typically translates to only $30 to $35 per month in payment relief.

That said, lower rates could still serve as a modest tailwind as we move through 2026.

Tax reform

This represents another potential positive, particularly early next year, as consumers receive refunds tied to retroactive tax cuts going back to the start of 2025.

Geopolitics

The resolution of ongoing conflicts would clearly be a bonus. While outcomes remain uncertain, even modest improvements could help ease consumer anxiety and support overall confidence.

Tariffs and trade policy

On the risk side, tariffs will continue to put upward pressure on both parts and vehicle pricing, particularly as new models are launched.

Automakers appear to be spreading these incremental costs broadly across regions and product lines to spread the “pain,” rather than implementing highly visible, headline price increases.

It’s also worth noting that the USMCA, which is critically important to the U.S. auto industry, is scheduled for renegotiation in July. Depending on how those negotiations unfold, this could introduce additional volatility in 2026.

EVs

Investment write-downs are another important factor, with significant changes occurring at the OEM level.

For example, Ford took a $2 billion charge roughly 18 months ago, followed more recently by a $20 billion write-down, primarily related to large EV programs such as the F-150 Lightning.

Similar charges are likely across the industry.

While these are often described as accounting adjustments, it’s important to remember that they reflect real cash investments that, to date, have not generated meaningful returns.

Inflation

Supply versus demand is another issue that deserves practical consideration.

When the money supply increases while the supply of goods, such as vehicles, remains relatively constrained, prices tend to rise.

While there is ongoing debate around interest rates and broader economic drivers, the reality is that money supply growth is re-accelerating.

This dynamic points to continued upward pressure on prices, particularly for durable goods like automobiles.

Given the persistence of supply constraints and a growing pool of dollars, it’s difficult to envision a scenario in which pricing declines meaningfully unless automakers were to dramatically shift production toward lower-priced, entry-level vehicles, a move that appears unlikely.

Autonomous vehicles

There is significant attention on developments at Waymo and Tesla, but for now, we view vehicle autonomy as a longer-dated story. Over time, greater autonomy could actually drive higher miles traveled, which would benefit fixed operations as vehicles experience increased wear.

As long as vehicles continue to be sold through the franchise dealer system, autonomy has the potential to be a net positive for dealers.

Chinese

There is a potential risk from new competition posed by Chinese OEMs.

While they are currently blocked from entering the U.S. market, this remains an eventual consideration, and potentially even an opportunity if franchise arrangements become available.

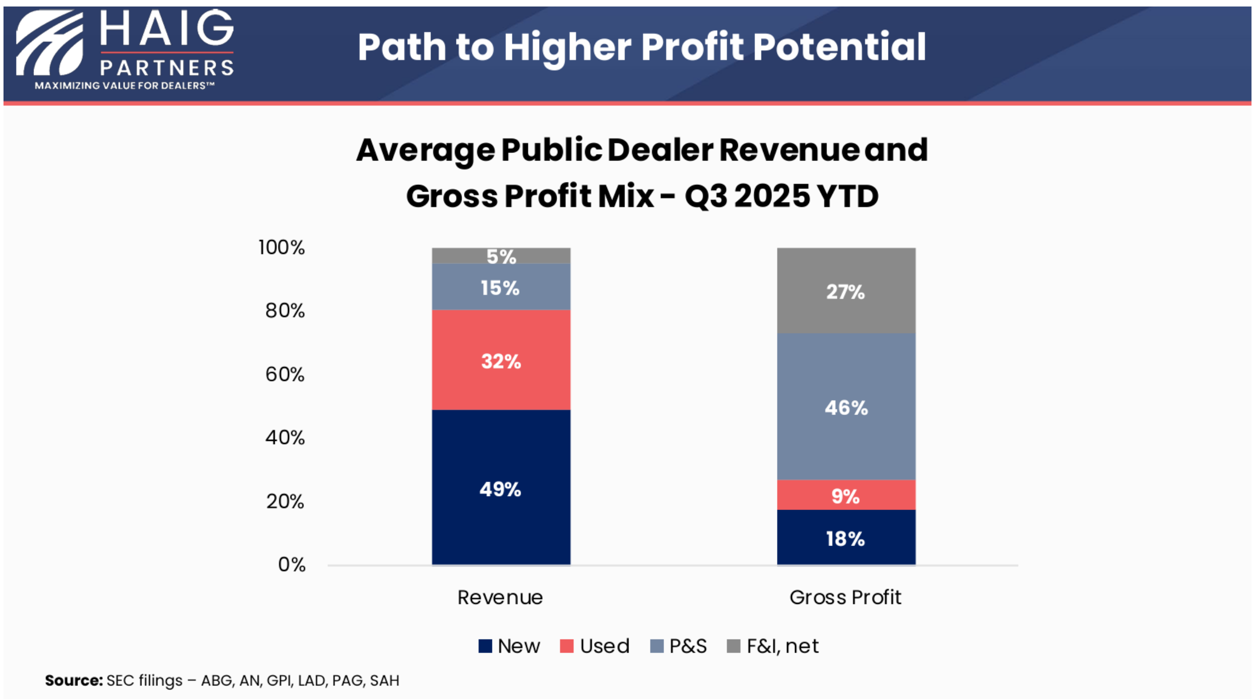
From a broader economic standpoint, however, this dynamic presents challenges that will need to be addressed.

In the near term, the direct impact on the U.S. market is limited. That said, on a second-derivative basis, it's an important trend to monitor closely.

Global competitive pressures are weighing on automakers' profitability abroad, which could lead them to rely even more heavily on the U.S. market as a primary source of profits going forward.

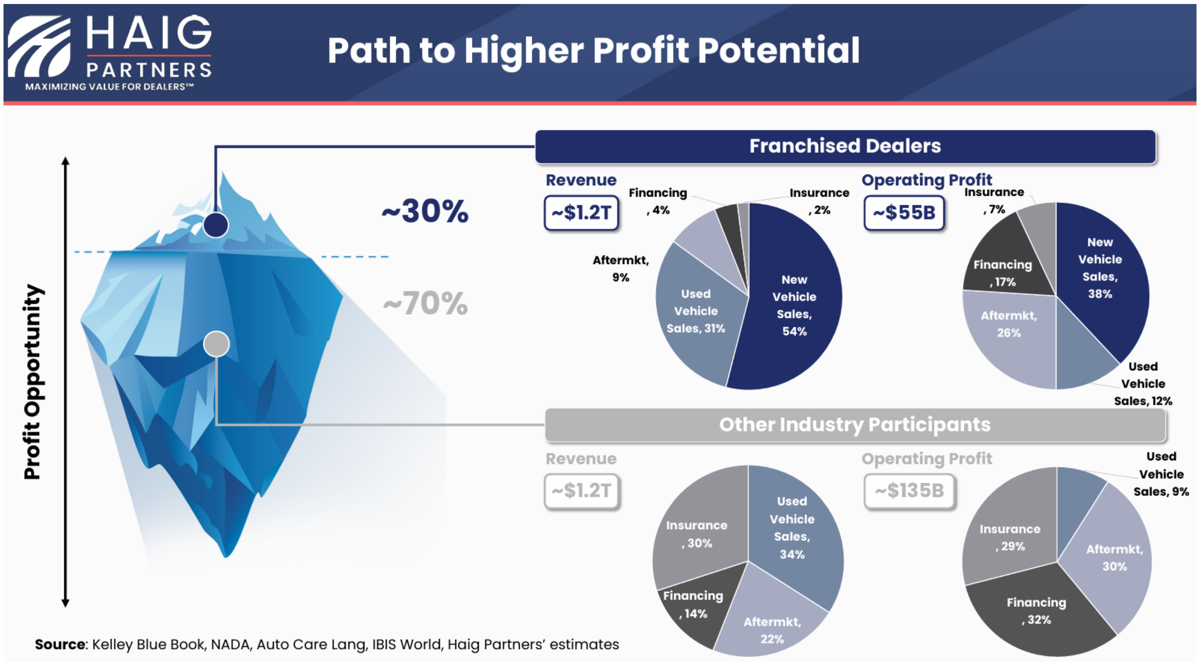
PATH TO HIGHER PROFIT POTENTIAL

This is a slide I've used with institutional investors for many years to illustrate why automotive retail represents such a strong business model.



There is a common misconception among investors that new-vehicle sales dominate dealership profitability. As you all know, that's not the case.

Fixed operations drive the majority of profits, and this dynamic is critically important—both for investors evaluating the space and for dealers making long-term strategic decisions.



Today, approximately $1.2 trillion in annual revenue across the automotive value chain is captured at the dealership level, generating roughly $55 to $60 billion in profit.

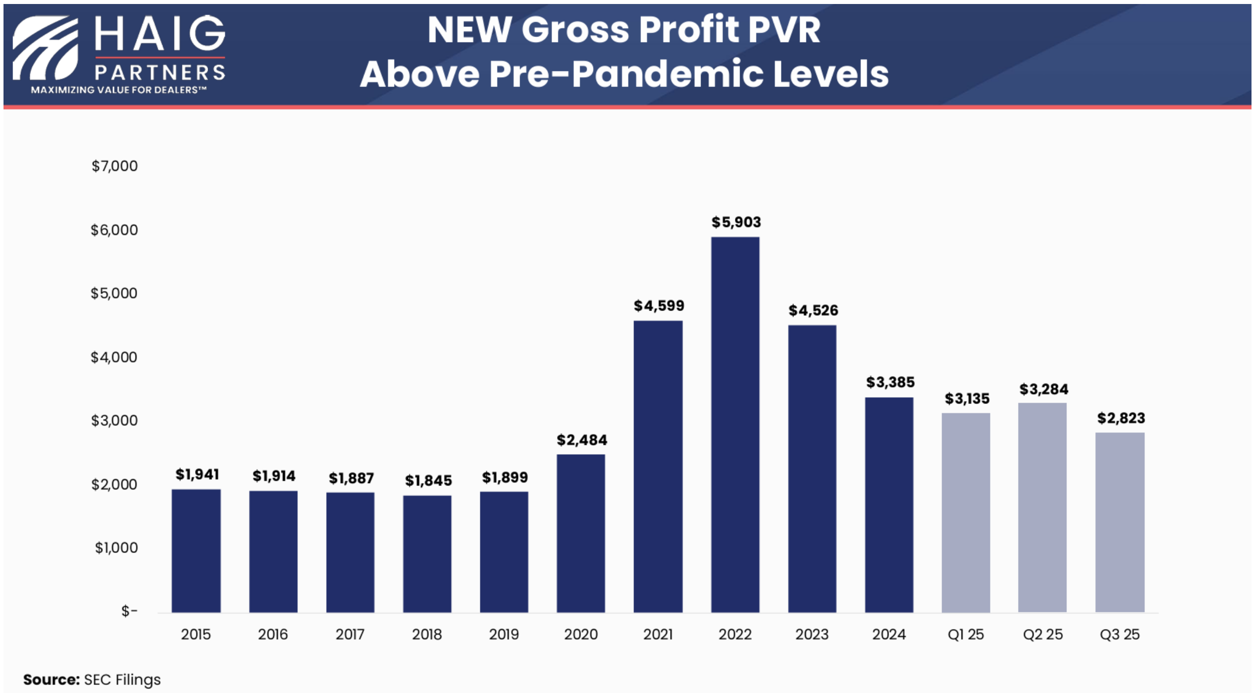
Beyond that, another $1.2 trillion is captured each year across the rest of the value chain and the broader aftermarket, producing approximately $135 billion in operating profit.

Dealerships have a significant opportunity to capture a larger share of this non-dealership $1.2 trillion. In reality, most dealers capture less than 40% of retail service work during the first three years of a vehicle's life.

This gap represents a substantial opportunity, not only to improve service retention, but also to drive incremental used-vehicle sales, parts revenue, and long-term fixed-operations growth.

A strong partnership between automakers and an effective dealer network creates enormous value for both sides materially increasing profitability while improving outcomes across the entire automotive value chain.

Q3 2025 DEALERSHIP PERFORMANCE UPDATE



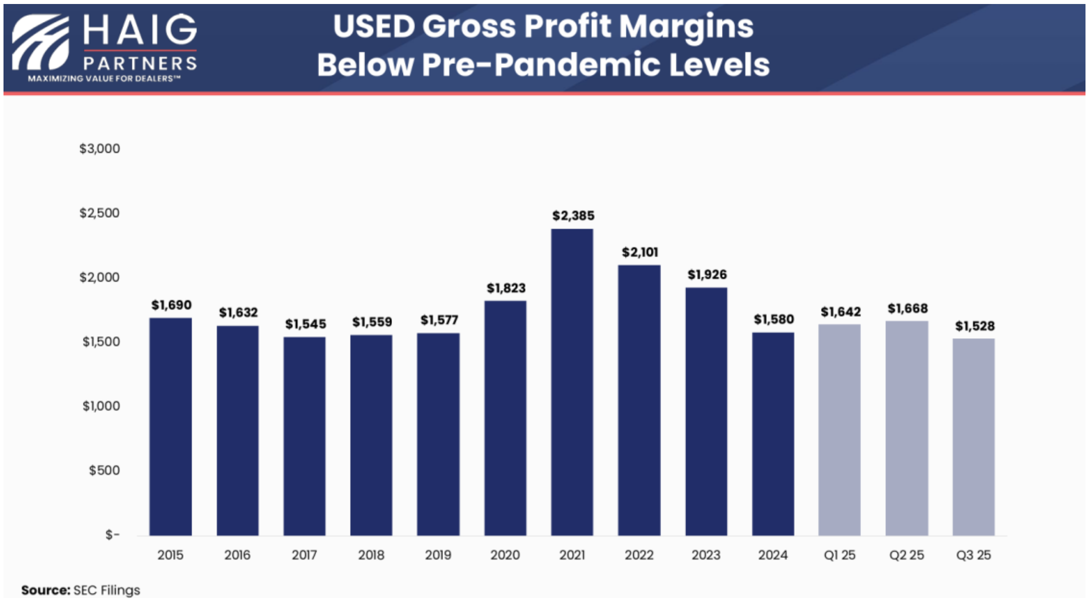
New-vehicle gross profits remain elevated. While they are no longer at the peak levels seen during the pandemic, they are still roughly 50% higher than pre-pandemic levels.

This strength is largely the result of continued manufacturing and inventory discipline. Many dealers are still experiencing solid new-vehicle profitability, particularly among brands that continue to maintain tight supply.

Of course, results vary by franchise. If you're operating an Infiniti store, you may not be seeing the same level of performance.

If you're running a Toyota dealership, you're likely seeing margins well above these levels.

That said, even on an inflation-adjusted basis, new-vehicle margins remain meaningfully elevated compared to historical norms.

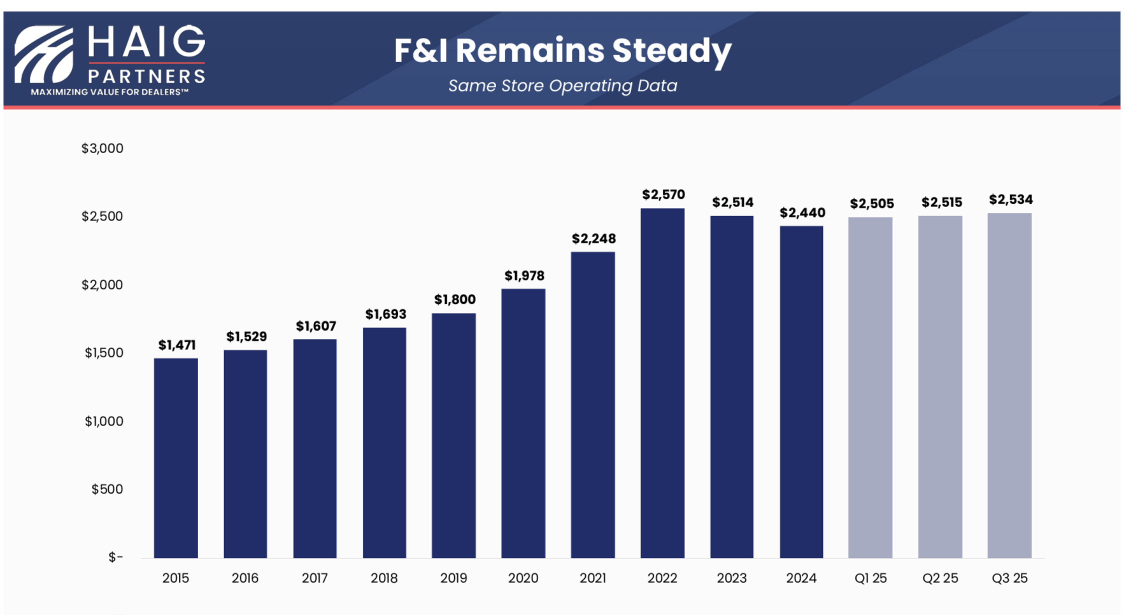


In the used-vehicle market, one of the more surprising developments is that dealers are earning less gross profit per vehicle today than they were before the pandemic, and that's on a nominal basis.

When adjusted for inflation, the picture becomes even more challenging.

This dynamic reflects the intense competition for used inventory in today's market caused by limited new-vehicle supply.

By the time a vehicle is acquired, reconditioned, and ready for sale, the costs have risen significantly and facing consumer affordability pushback, dealers are finding it increasingly difficult to achieve the same gross margins that they once enjoyed.



F&I profitability tends to track vehicle values, and with both new and used vehicle prices rising significantly, F&I profits have increased accordingly.

Simply put, vehicles cost more to purchase, which leads to larger financing amounts. They also cost more to insure, resulting in higher insurance-related revenue.

As a result, we expect F&I performance to generally track inflation over time.

That said, there was a modest dip in 2024, likely reflecting growing affordability fatigue among consumers. Some buyers are reaching a point where they are less willing to add additional products.

Looking ahead, if interest rates begin to ease, that should provide some relief and allow consumers to allocate more of their monthly payment toward F&I products, helping to support dealership profitability.

On the parts and service side, auto dealers have experienced an exceptional run. Many consumers have taken the view that if they can't or don't want to buy a new vehicle, they need to keep their existing vehicles on the road longer.

That has driven continued spending on tires, brakes, and other wear-and-tear items.

At the same time, increasing vehicle complexity has led to a significant rise in recall activity.

Automakers are pushing advanced technologies and systems into vehicles, and in many cases, unintended quality or safety issues emerge over time. As a result, recall volumes today are meaningfully higher than historical norms.

In fact, we are currently at all-time highs in recalls, with Ford leading the way.

While recalls are not ideal from a customer satisfaction perspective, they do create sustained demand for service work, a dynamic that is likely to persist for some time.

From an M&A and valuation standpoint, underwriting a dealership's future performance is often most straightforward in the new-vehicle department.

We can assess sales effectiveness, evaluate opportunities to improve unit volume, and consider potential changes in inventory allocation. For example, in a Toyota buy-sell where a store is underperforming, the manufacturer will often provide additional inventory to the incoming operator, making performance improvements relatively predictable.

Used-vehicle performance can also be modeled with reasonable confidence based on turn rates and sourcing strategies.

Where things become far less obvious is in fixed operations with many dealers underestimating their true fixed-ops opportunity.

With roughly 70% of the profit potential lying below the surface, dealers are increasingly focused on key questions such as:

- How old of a vehicle can we service effectively?
- How do we retain customers longer?
- How do we capture a greater share of a customer's lifetime service spend?

Because fixed operations are the most profitable part of the dealership, every incremental customer retained has a disproportionate impact on the bottom line.

When we combine performance across new vehicles, used vehicles, F&I, and fixed operations, we arrive at overall dealership profitability.

Based on publicly reported data from six public auto retailers, average profits per dealership were approximately $2 million per store prior to the pandemic.

During the height of the pandemic, profits nearly tripled, leading many retailers to expect a return to pre-pandemic levels once conditions normalized.

However, that has not occurred, and the industry now appears to be settling at a level of profitability roughly double its pre-pandemic baseline.

There is some noise in the data. For example, the CDK outage negatively impacted results for many dealers last year, and some of that performance may be catching up now.

Conversely, last year did not include tariff-related pressures, whereas this year does.

Even so, many dealers are finding that they are actually making more money in 2025 than they did in 2024, something we would not have predicted at the start of the year.

At that time, we expected profits to decline from the $4 million range and settle closer to the low-$3 million level.

This slide provides a quarterly snapshot of dealership profitability.

You can see how profits surged in 2021, then declined to roughly $1 million per quarter, before rebounding this year with a 13% increase.

While most people in auto retail tend to be optimists, even with President Trump emphasizing that the economy is performing extremely well, informal polling suggests that most respondents expect results to be about the same or slightly lower heading into 2026.

With that, let’s transition to the M&A update.

M&A UPDATE

HAIG PARTNERS
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Key Trends in M&A

1. **Killing CARB Boosted Blue Sky**
2. **Tariffs Slowed M&A, But Values Remain Strong Since Demand Remains Strong**
3. **Many Franchises Have Dropped In Value, Some Have Gone Up**
4. **Values Unlikely to Change in 2026**

The trends we're seeing today are a bit different than what we've experienced in the past.

CARB

Heading into 2025, we were genuinely concerned about dealership performance and blue-sky values in the 14 states that had adopted CARB regulations. Those policies were set to restrict—and eventually eliminate internal combustion engine sales within those states.

However, as many of us came to realize, electric pickup trucks are not yet a practical replacement, and pickups remain a critical segment of the U.S. automotive market.

When the CARB mandates were rolled back, dealership values in those states increased.

That outcome was both meaningful and positive for the industry.

Tariffs

As tariff discussions escalated, several transactions stalled as buyers paused to assess the risk. We heard many variations of, *"I'm still interested in growing and acquiring this store, but I need to see where tariffs ultimately land—whether that's 0%, 15%, or something much higher."*

As a result, deal timelines began to stretch and that dynamic is still with us today.

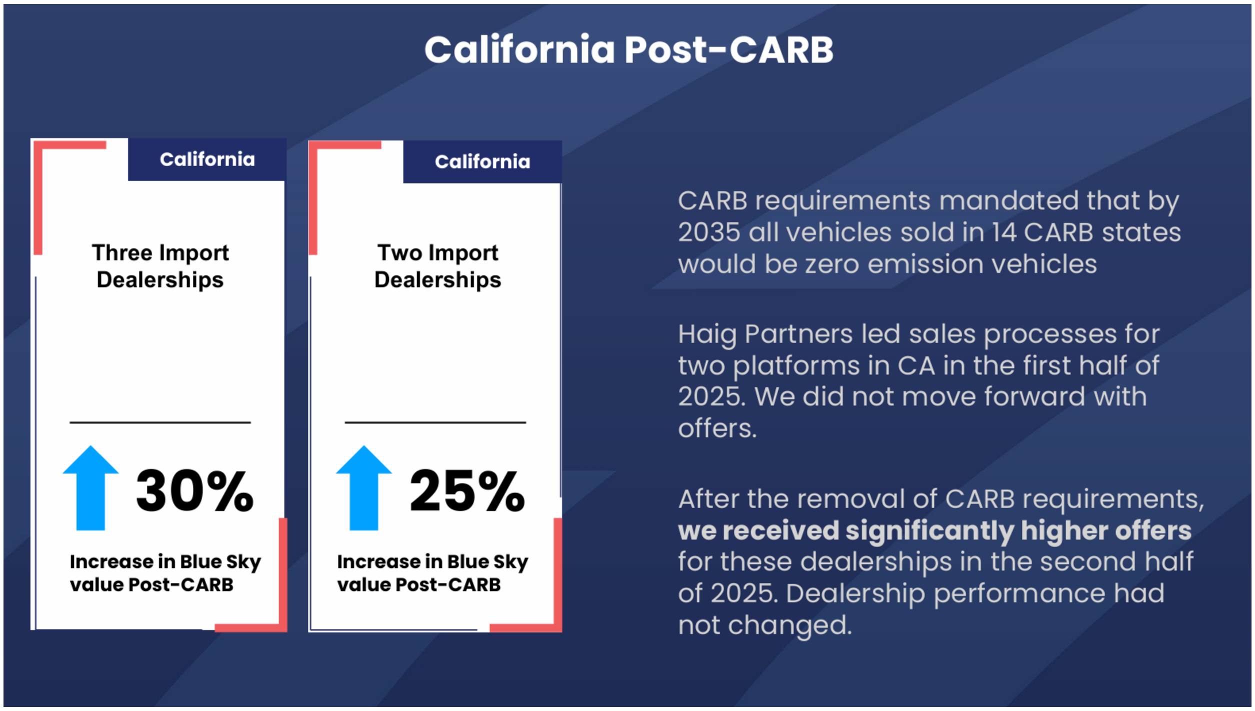
What we did not see, however, was any meaningful erosion in values and despite longer timelines, blue-sky values held firm.

Franchise Value

A third trend we're seeing is a wide divergence in brand performance over the past 12 to 18 months, which has translated directly into a much broader spread in blue-sky valuations by franchise.

2026

Looking ahead, we don't expect a major shift in blue sky values next year.



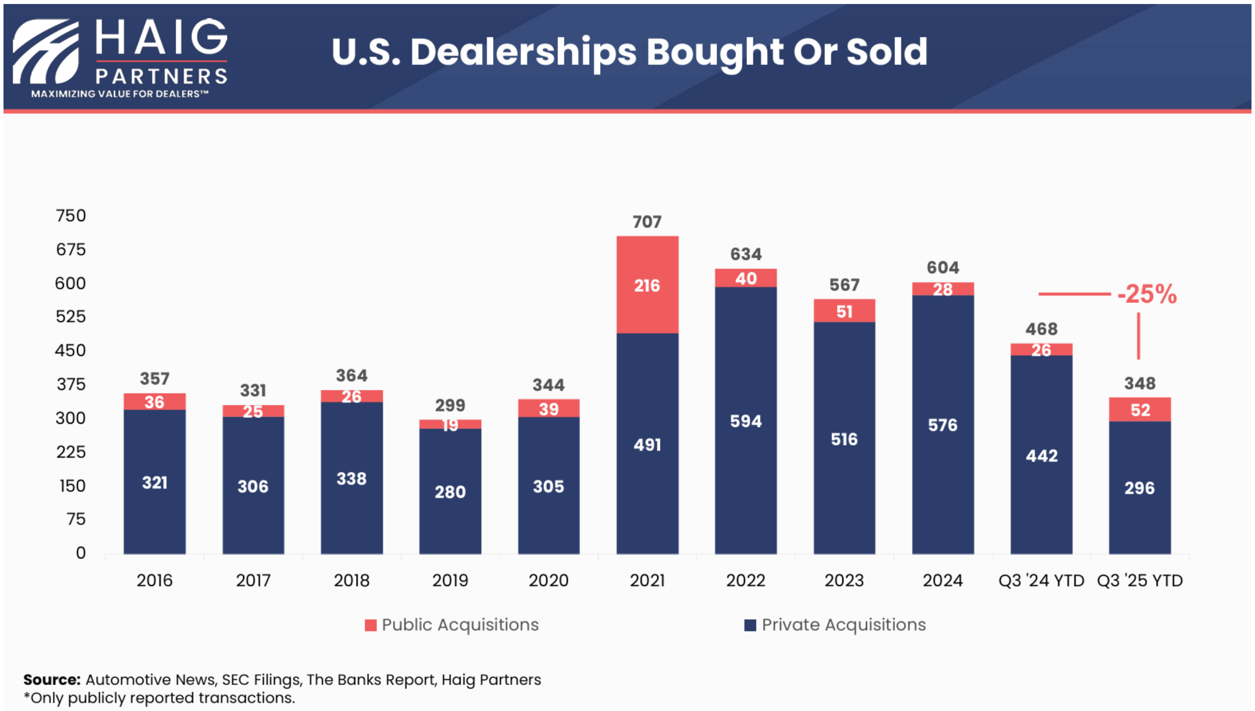
Returning to the CARB issue, earlier this year we were retained to sell two dealership groups in California. Both groups were taken to market around the same time in the first half of the year, and the initial offers we received were underwhelming, with buyers clearly bidding cautiously.

Rather than accept mediocre offers, we advised our clients to pause, as we believed greater clarity around CARB was imminent. Our view was that if the CARB mandates were rolled back, dealership values in those markets would increase, and that's exactly what happened.

Once CARB was eliminated, the underlying financial performance of the stores had not changed materially, but buyer demand had.

In one case, the offer we ultimately accepted was 30% higher than the best offer received in the first half of 2025. In the other transaction, we achieved an offer 25% higher than the prior high bid after remarketing.

These are just two examples among many, but they provide tangible evidence of how dramatically buyer demand, and dealership valuations, can shift with and without CARB in place.



As mentioned earlier, uncertainty, whether related to tariffs, tax policy, or even the presidential election, tends to slow M&A activity.

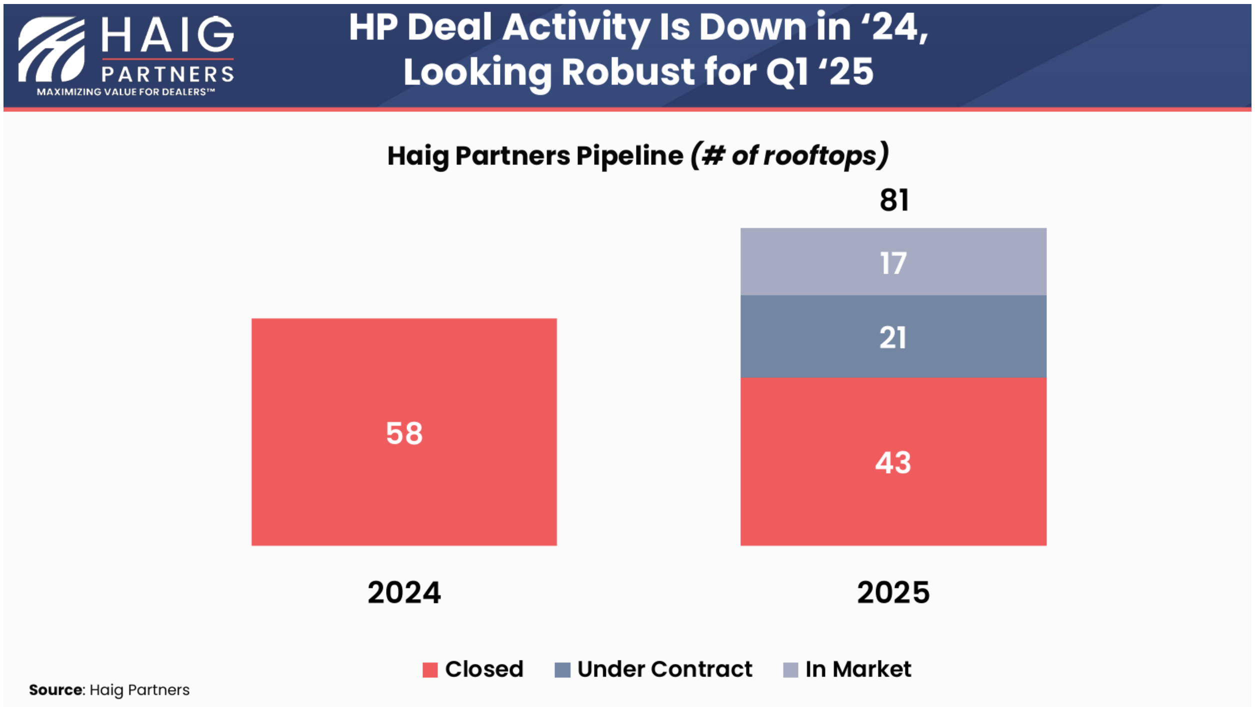
When business owners lack clarity around future tax rates or the broader economic outlook, it becomes much harder to decide to sell.

For example, in the fourth quarter of last year, during the presidential election cycle, many potential sellers paused and adopted a wait-and-see approach. That hesitation reduced the number of dealerships coming to market.

As tariff concerns then emerged, even transactions already underway began to take longer to close. Buyers increased their due diligence efforts and were slower to move forward until there was more clarity, particularly for brands like Audi, which have little to no U.S.-based production and therefore greater exposure to trade policy risk.

As a result, overall M&A activity has declined.

This chart tracks the number of rooftops acquired by both private and public buyers. Given the current level of uncertainty, activity is down approximately 25% year over year through the first three quarters compared with the same period in 2024.



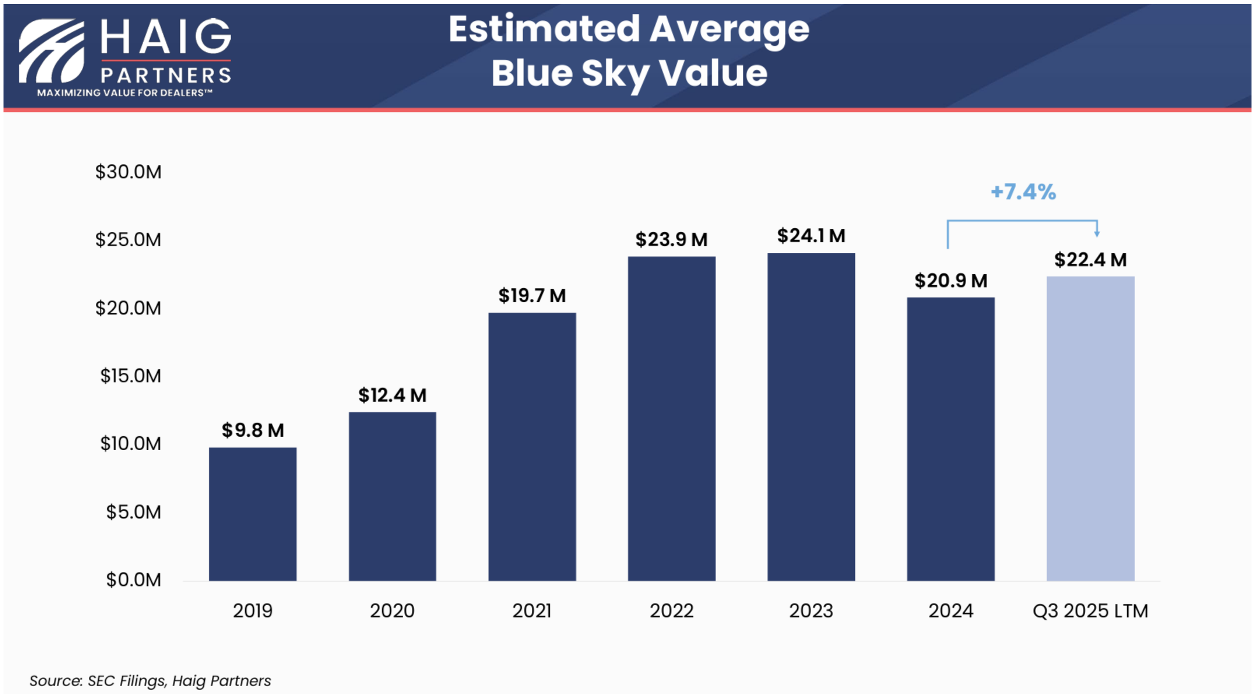
The next slide highlights our internal pipeline activity.

In 2024, we sold 58 dealerships, but this year, that number declined to 43, representing a decrease of roughly 25%, which is in line with the broader market.

It's important to note, however, that several transactions originally expected to close in 2025 have simply been delayed and are now scheduled to close in the first quarter of 2026. In other words, many deals have lagged rather than disappeared.

Overall, we continue to see significant M&A activity across the U.S. and in conversations with leading consolidators, many report that inbound acquisition opportunities increased in the second half of the year compared to the first.

As sellers grow more comfortable with the economic environment, and gain confidence that tariffs are unlikely to materially impair dealership values, we believe the stage is set for a very robust M&A market in 2026.



Turning to blue-sky values, if you look back to 2019 (the left side of the slide), our estimates, based on public-company earnings multiples, place the average blue-sky value at roughly $10 million per rooftop.

From there, blue-sky values more than doubled as dealership profits more than tripled during the pandemic period.

The reason values did not triple is that most buyers recognized that those peak earnings were not fully sustainable as pandemic-related effects faded.

Even so, values remained at approximately twice pre-pandemic levels, and they even ticked up slightly in Q3 2025, as profits saw a modest increase.

Another important driver of higher blue-sky values has been the accumulation of capital among dealers. Historically, dealers owning one or two stores might earn $1 to $2 million per store, which, after taxes and personal expenses, left limited capital available for reinvestment.

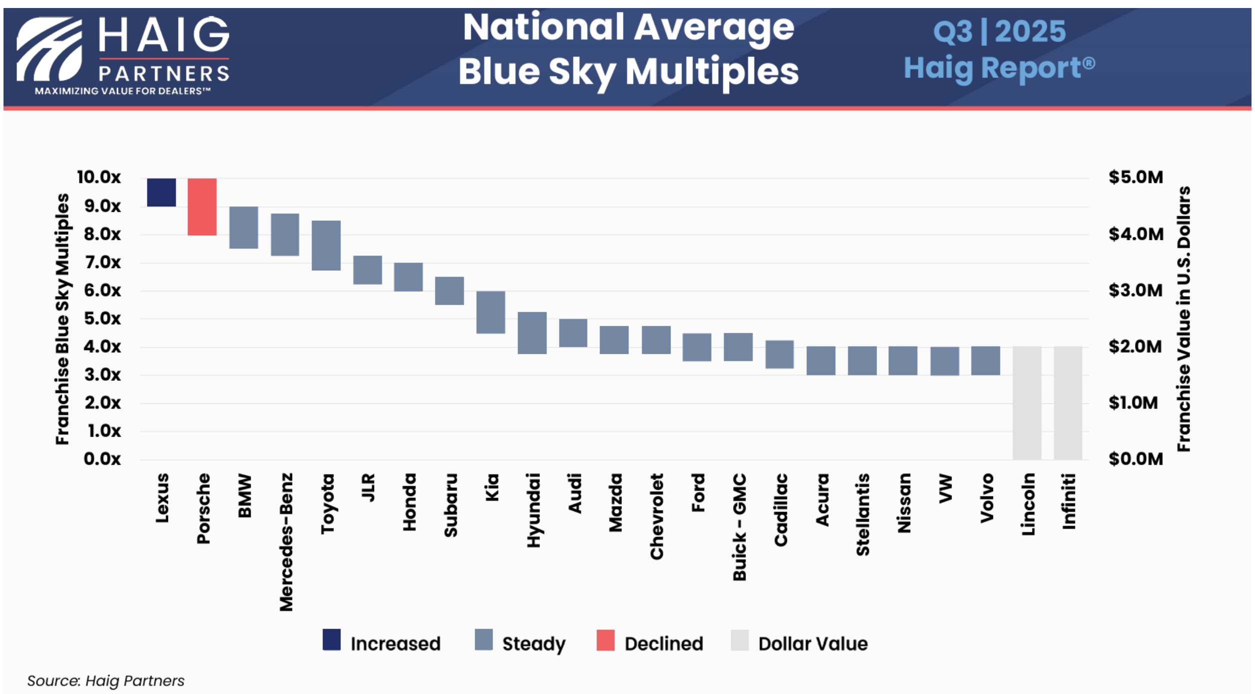
That dynamic changed when profits doubled or tripled, while personal spending generally did not and as a result, dealers across the country have built substantial cash reserves.

When it comes time to deploy that capital, they naturally gravitate toward the asset class they know best and can directly control, namely, acquiring additional dealerships.

Adding rooftops often makes both economic and strategic sense, enhancing scale, market density, and brand alignment.

Because of this, we have not seen any meaningful retrenchment in blue-sky values so far in 2025, and demand for the right franchises in the right markets remains strong.

Not surprisingly, as profits go up, blue sky generally follows suit.



While much of this discussion has focused on average blue-sky values, it's important to recognize that valuations vary significantly by franchise.

Earlier this year, we increased our multiple for Lexus, reflecting the brand's exceptional performance.

Lexus has benefited from a strong product lineup, a well-balanced mix of powertrains, and favorable competitive dynamics as some peers stumbled.

Mercedes, for example, pushed aggressively into EVs, a strategy that has not performed particularly well for either the brand or its dealers.

By contrast, Lexus took a more measured approach, leaning into hybrids that customers actually want and are willing to pay for. As a result, Lexus dealerships have enjoyed tight inventories, an affluent and motivated customer base, and a relatively calm and predictable sales environment.

At the other end of the spectrum, the contrast is stark.

Infiniti has faced challenges from an aging product lineup, limited leasing support, and a diminished brand presence, which are reflected in its lower valuation multiples.

You'll also notice that we lowered our multiple slightly for Porsche.

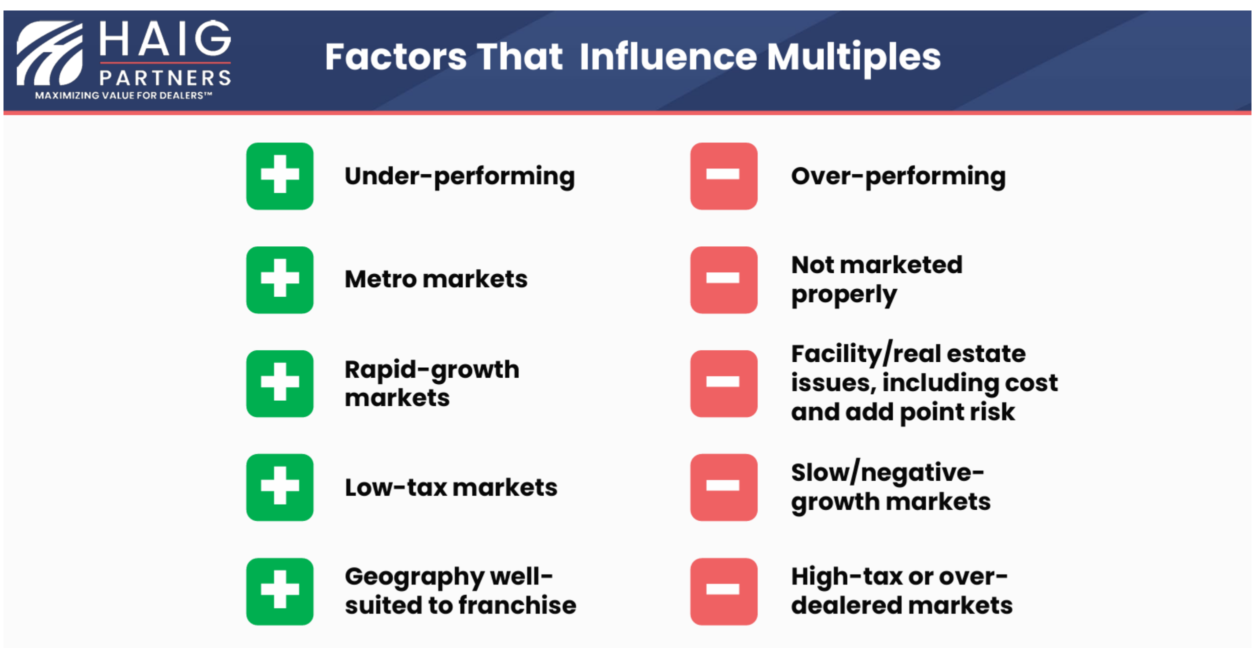
Porsche is part of the Volkswagen Group, which also pursued an aggressive EV strategy and that approach led to decisions such as plans to discontinue ICE models like Boxster, Cayman, and, at one point, Macan.

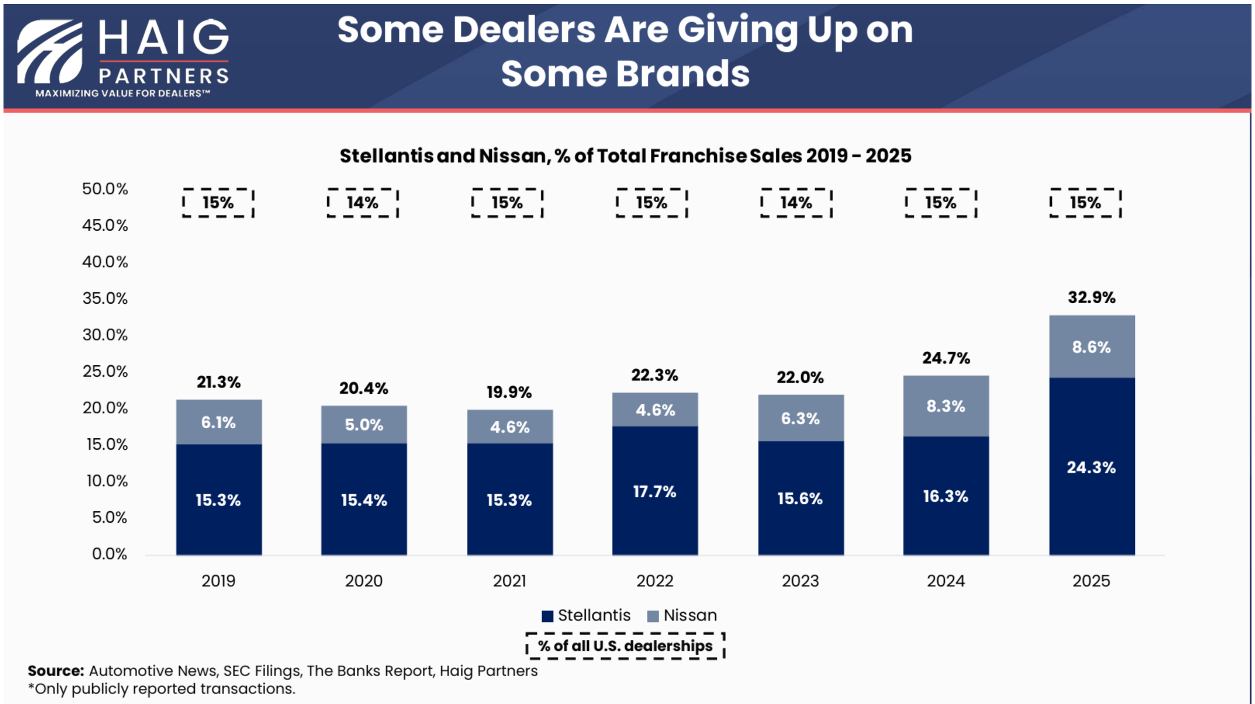
Some of those decisions have since been reversed and several EV product launches have also been delayed or potentially canceled.

Compounding these issues, many Porsche dealers have recently made, or are being asked to make, significant facility investments and as a result, we expect a temporary lull in Porsche dealership performance.

This serves as a reminder that no brand is immune.

Aggressive EV strategies have destroyed substantial value at the OEM level, and those impacts can flow through to dealers as well. Ford's recent $20 billion EV-related write-down, on top of several billion dollars previously, highlights the magnitude of these missteps.





Earlier, someone asked about Stellantis, so we took a closer look at M&A activity for both Stellantis and Nissan dealerships, historically and more recently.

Lately, we've been receiving calls from operators with six or eight stores asking questions like, *"Is anyone doing anything with their Stellantis or Nissan stores? I'm losing money—should I hold on, or should I sell?"*

Our general guidance has been that these stores can be difficult to sell at attractive values. In many cases, however, particularly for Stellantis, we believe a turnaround is coming, so if an owner can afford to hold on, patience may be rewarded.

One dealer we know who owns both Nissan and Stellantis stores recently shared an interesting observation.

At a Stellantis meeting, the company showcased physical prototypes of upcoming products that he could see and touch.

By contrast, at a Nissan presentation, most of the products were digital renderings. He noted that Nissan's development cycle is roughly 42 months, meaning many of those vehicles are still several years away.

We're also seeing Stellantis responding aggressively to pricing, with lease offers becoming far more competitive, suggesting that the company has recognized that pricing overshot the market and is now taking steps to regain competitiveness.

The reason we ran this analysis is that Stellantis and Nissan dealerships consistently change hands at higher rates than their market share would suggest.

In 2019, these two brands represented roughly 15% of total franchises, yet accounted for about 21% of dealership transactions, indicating above-average turnover.

Fast forward to 2025, and that trend has become even more pronounced. So far this year, approximately one-third of all dealership transactions have involved Stellantis or Nissan stores, even though they still represent only about 15% of total rooftops.

That's nearly double their proportional share, and not in a positive way.

This suggests that some dealers are not choosing to wait out losses, which creates opportunity. for newer dealers to acquire a major franchise at a relatively low entry point.

That leads nicely to a question from Kyle: *"We're a small family business with three to four rooftops. What's a reasonable strategy to be competitive in future acquisitions?"*

The first step is to develop a clear acquisition strategy, often referred to as a buy box. Start by answering three key questions:

- Which brands are you targeting? You can't target everything. Focus on brands you know, perform well with, or believe are structurally stronger than what you own today.
- Where do you want to grow? Be specific about geography.
- How much are you willing to invest? Have a realistic capital range in mind.

If you can clearly articulate those three points, you can reach out to advisors like John or me, so when an opportunity comes up that fits your criteria, we'll know to call you.

Once your strategy is defined, the universe of potential targets shrinks dramatically.

Out of roughly 17,000 dealerships nationwide, you may find that only 10, 20, or 30 truly fit your criteria so when one of those becomes available, you'll know it's worth acting quickly.

You can also take a proactive approach by reaching out directly to owners whose stores align with your strategy. A defined plan allows you to say, *"I'm interested in your dealership because it fits our long-term goals."* That level of clarity is what makes buyers competitive in today's M&A environment.

While some brands are experiencing higher turnover as owners choose to exit, it's equally important to highlight that several brands are performing extremely well.

One useful way to assess brand performance is by examining the percentage change in new-vehicle sales per franchise location over the past six years. This metric helps illustrate how brand strategy and dealer-network rationalization have directly impacted dealer profitability.

Starting on the far left, Cadillac stands out.

This doesn't mean total Cadillac sales have grown faster than every other brand but the result of General Motors buying out a significant number of Cadillac dealers, leaving fewer rooftops to compete against.

It should come as no surprise that sales per location have increased dramatically.

For buyers who may have overlooked Cadillac in the past, this represents a meaningful opportunity.

Another strong performer is Mazda.

Mazda intentionally reduced its dealer network, particularly smaller stores, to improve profitability for the remaining dealers. That strategy has enabled better facilities, stronger staffing, and an improved customer experience. As a result, Mazda has become something of a sleeper brand in the buy-sell market.

BMW remains highly attractive, though opportunities are limited by the relatively small number of franchises and the high multiples they command.

Kia is another brand we've been actively recommending to buyers.

Product quality and innovation are strong, pricing remains extremely competitive, and Kia offers a broad lineup of new vehicles priced under $35,000.

Just as importantly, Kia has done an excellent job managing production to align with market demand. During the pandemic, Kia outperformed many Japanese competitors and gained market share, and today it continues to grow without building excessive inventory.

To put that into perspective, we are currently marketing a dealership group that includes both a Honda and a Kia store. In this case, the offer for the Kia store is actually higher than the offer for the comparable Honda store, speaking volumes about how far the Kia brand has come.

Alan noted that Hyundai was unintentionally left off the slide, but that their performance is similar to that of Kia.

At the other end of the spectrum, Stellantis has not yet fully climbed out of the hole it created for itself.

That said, dealer sentiment is improving.

Leadership has changed, aggressive pricing strategies that hurt key nameplates have been reversed, and there is a renewed focus on competitive pricing and products customers actually want.

Most Stellantis buyers still care about performance, design, and capability, not EVs, and the company appears to have finally recognized that reality.

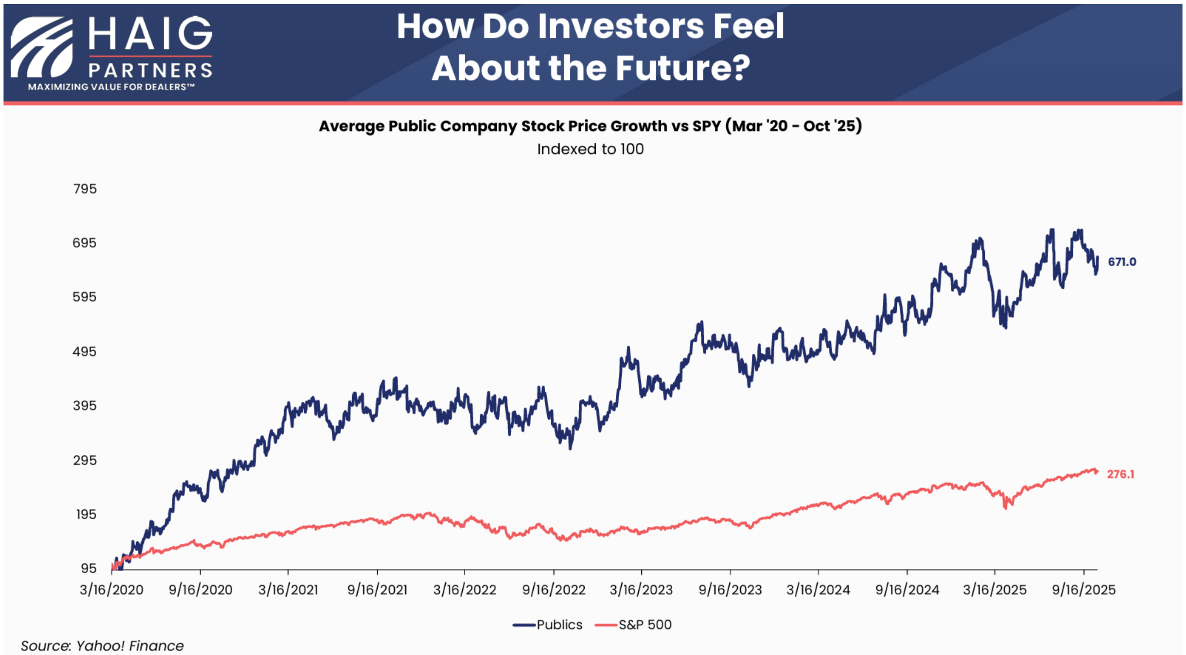
As a result, we are increasingly optimistic that a meaningful turnaround is underway for Stellantis dealers.

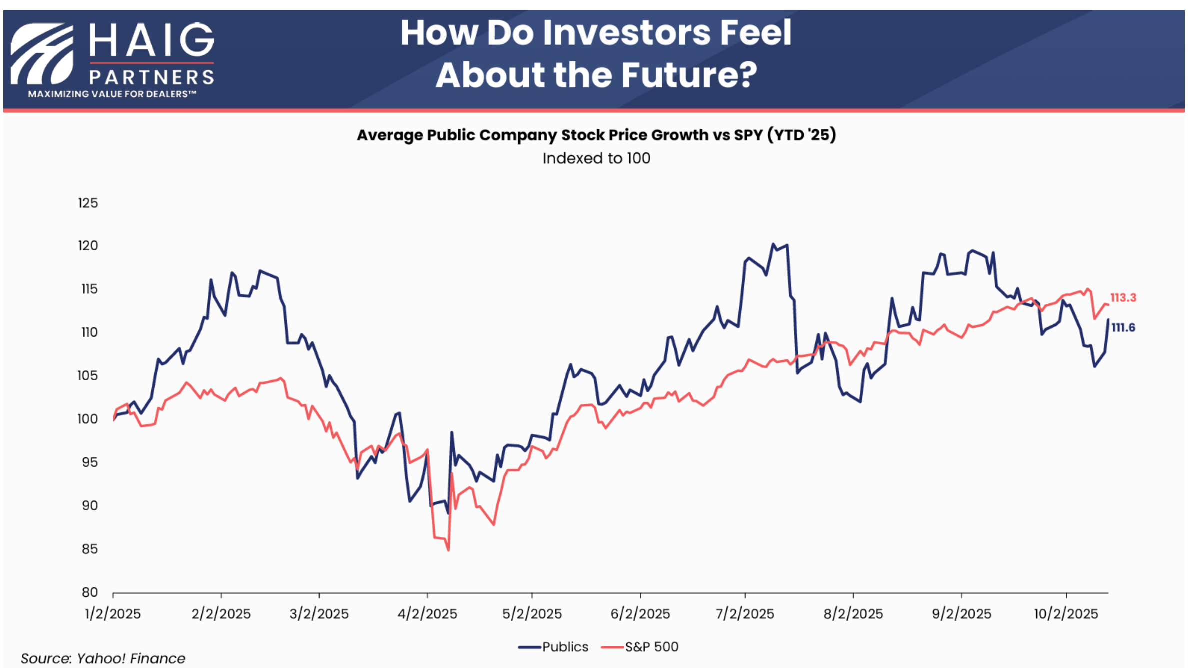
When asked about AI as a potential disruptor, Alan noted that some buyers are using AI tools to help identify which franchises they may want to acquire. However, he has not yet seen AI materially impact dealership operating performance.

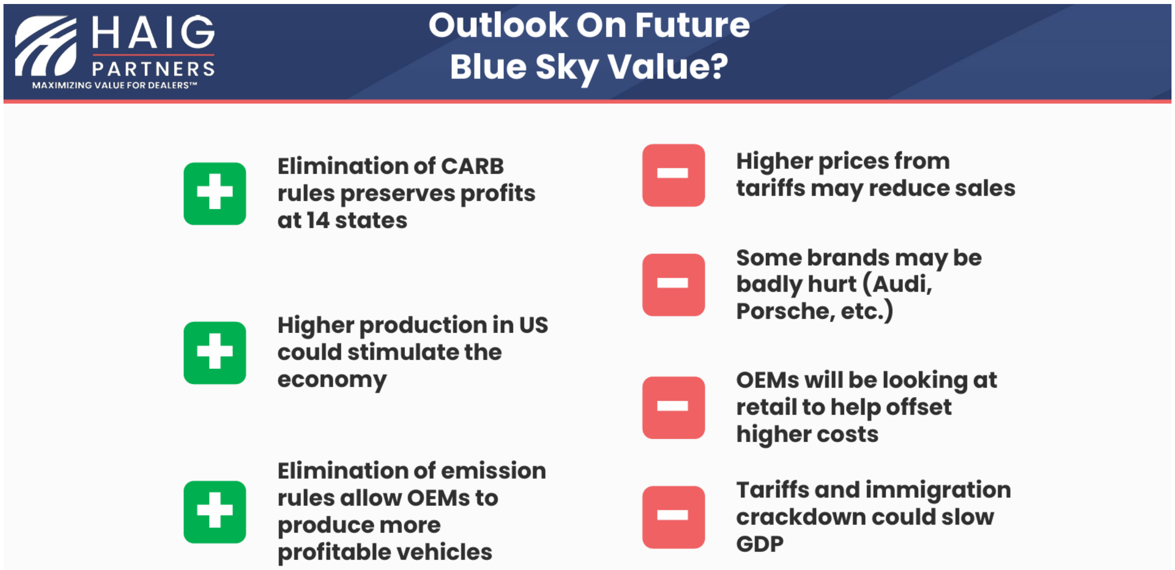
AI is likely to be used more extensively by manufacturers to improve product design, reduce production costs, and enhance marketing efficiency by allowing dollars to be spent more effectively.

When asked whether these dynamics apply to Canada, the observation was that they largely do.

Stepping back and considering all of these trends, the key question becomes: what do they mean for future blue-sky values?







There are both positives and negatives at play, and in our view, many of these factors are likely to offset one another.

Over the past five years, auto retail has outperformed the broader economy.

Year to date, from January through today, auto retail performance has been roughly in line with the overall market. From an investor perspective, that suggests there is neither excessive optimism nor pessimism toward the sector relative to the broader economy.

We pay close attention to this dynamic not because it dictates our outlook, but because it helps us understand how investors are thinking about the future.

Our view is that blue-sky values are unlikely to spike in 2026 unless the economy accelerates meaningfully.

If we see stronger income growth, higher employment, and increased consumer spending power, dealership profits could rise further.

However, if tariffs, inflation, affordability pressures, supply-demand challenges, and other risks persist, the most likely outcome is that blue-sky values in 2026 look much like they do today.

Some brands may soften modestly. Porsche, for example, could be slightly lower in 2026 than in 2025. Others, such as Kia and Mazda, could be somewhat stronger, while Toyota continues to stand out as a top performer.

One brand we did not emphasize earlier, but believe could see meaningful improvement, is Mercedes-Benz.

The brand has a new management team in place that is reversing several prior strategies and refocusing on competitive pricing, traditional ICE powertrains, hybrids, and vehicles customers actually want.

Adam Chamberlain and his team also have strong support from Germany in the form of marketing dollars and incentives, with a stated goal of increasing U.S. sales from roughly 300,000 units to 400,000 units, a 33% increase over the next few years.

If that plan is successfully implemented, Mercedes could see one of the largest performance improvements among luxury brands in 2026.

CONCLUSION

Looking ahead, 2026 is likely to be a volatile year. The early part of the year could start strong, supported by tax rebates, potential interest-rate cuts, and uncertainty around USMCA negotiations. If those issues are resolved constructively, they could help boost confidence in the second half of the year.

However, as we move deeper into 2026, product introductions are expected to be relatively light due to EV program cancellations.

There is also limited new technology coming to market that would strongly motivate buyers. As a result, the second half of the year could prove more challenging, with increased volatility.

Longer term, perhaps not in 2026, but over time, we see the potential for additional pools of capital to enter the automotive retail space and support higher valuation multiples.

Private equity firms, family offices, and institutional investors continue to show growing interest in auto retail due to the durable economics of the business. While these investors still require experienced operating partners, the capital is clearly there.

Structurally, the industry increasingly resembles a limited-league model, similar to professional sports. There is a fixed number of dealerships, and profitability continues to grow over time, particularly as dealers focus more on fixed operations, used vehicles, and capturing a greater share of lifetime customer value.

While short-term fluctuations are inevitable, the long-term trajectory remains compelling. With a limited supply of rooftops and increasing capital seeking entry, we believe valuation multiples have the potential to drift higher over the next three to five years, even if they remain relatively stable in the near term.

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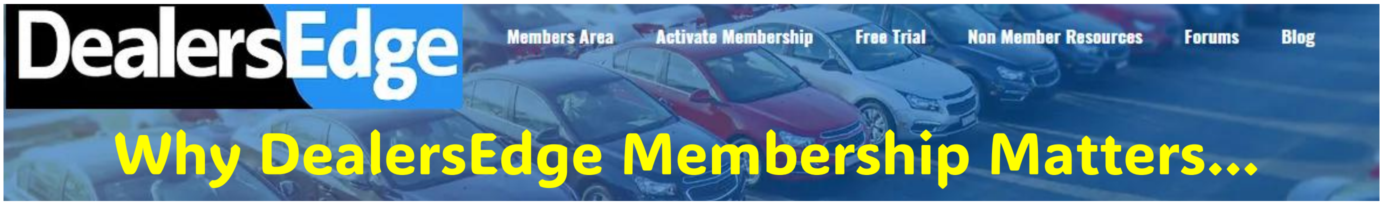

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