Beyond Blue Sky

How Earnings Normalization, Divergence, and Ownership/Governance Structure are Influencing Valuations for Auto Dealership Groups

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Presentation Outline

1. Basics of Valuation and Auto Dealerships
2. Value Drivers in a Single Store / Auto Group Valuation
3. Current Market Conditions and Valuation Implications
4. When Valuations are Necessary

Basics of Valuation and Auto Dealerships

A Dealership Is Multiple Businesses Under One Roof

AUTO DEALERSHIPS

VARIABLE OPERATIONS

- New Vehicles
- Used Vehicles
- Finance & Insurance (F&I)

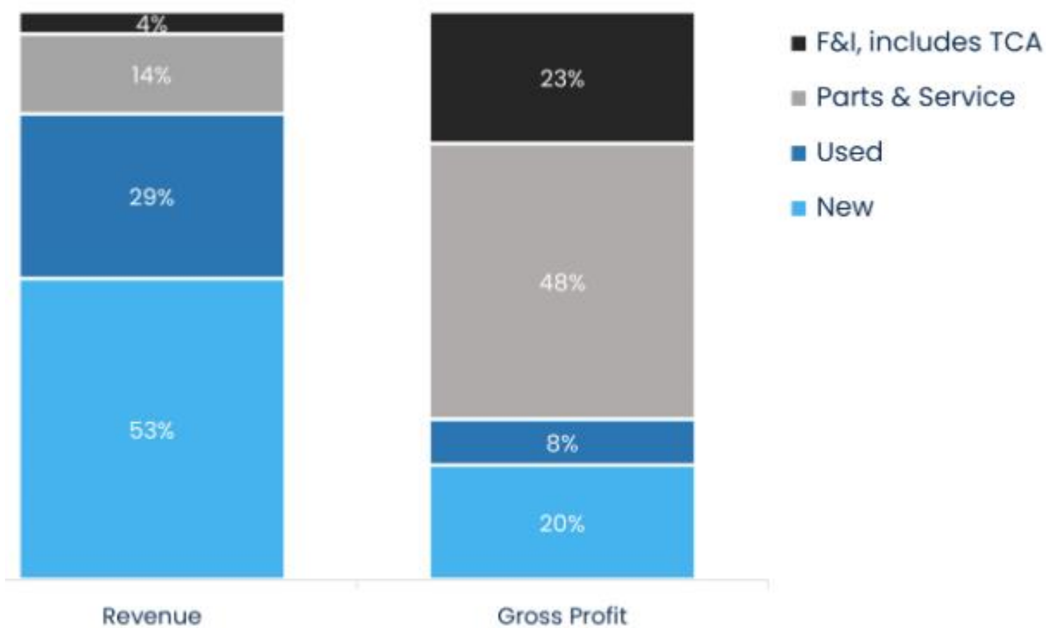
FIXED OPERATIONS

- Service
- Parts
- Body Shop

MERCER CAPITAL

Vehicle Sales Drive Revenue
Fixed Operations and F&I Drive Gross Profit

2025 Contribution to Revenue and Gross Profit



Source: Asbury's 2025 10-K

Gross Margin by Department

New vehicles 6.5%

Used vehicles (retail) 5.3%

Parts & service 58.7%

F&I (net) 93.2%

Parts & Service: 14% of Revenue
48% of Gross Profit

The Franchise Defines What and Where a Dealer Sells

Dealerships are independently owned, but the OEM controls the relationship, operating standards, and approval rights.

Original Equipment Manufacturer (OEM)

Makes the vehicles sold and serviced by dealerships under its s within each dealer's "assigned" or "protected" market.

AoR: Area of Responsibility

The local market for a dealership.

Multi- dealership

Multiple s may share a roof or occupy adjacent or conjoined facilities.

Rooftops / Flags / Stores / Points

Common industry terms for the individual locations from which a dealer operates.

Single-Point Store

A dealership location that carries only one .

Single-Point Market

The store is the only representative of that in its market, often supporting volumes,

Open Point

OEM awards new stores when it believes another location can raise market share. Caused by growth in population or dealer is not Sales Effective.

Sales Effective

New vehicles sold ÷ the volume the OEM believes the market can support.

Planning Potential / Planning Volume

The OEM's estimate of how many new vehicles could be sold in the market.

Dealer Principal + ROFR

A strong operator (Dealer Principal) may receive a right of first refusal on an open point in/near local market.

CSI / SSI Scores

A ROFR is more likely to be granted to a Dealer Principal who is Sales Effective and has strong Customer Satisfaction (CSI / SSI) scores.

Over-dealered market — Too many same- stores create intra- competition and can reduce dealer profitability.

The key intangible asset (franchise rights or "**Blue Sky"**) is the right to represent a in a defined market.

Auto Dealers Speak a Different Language

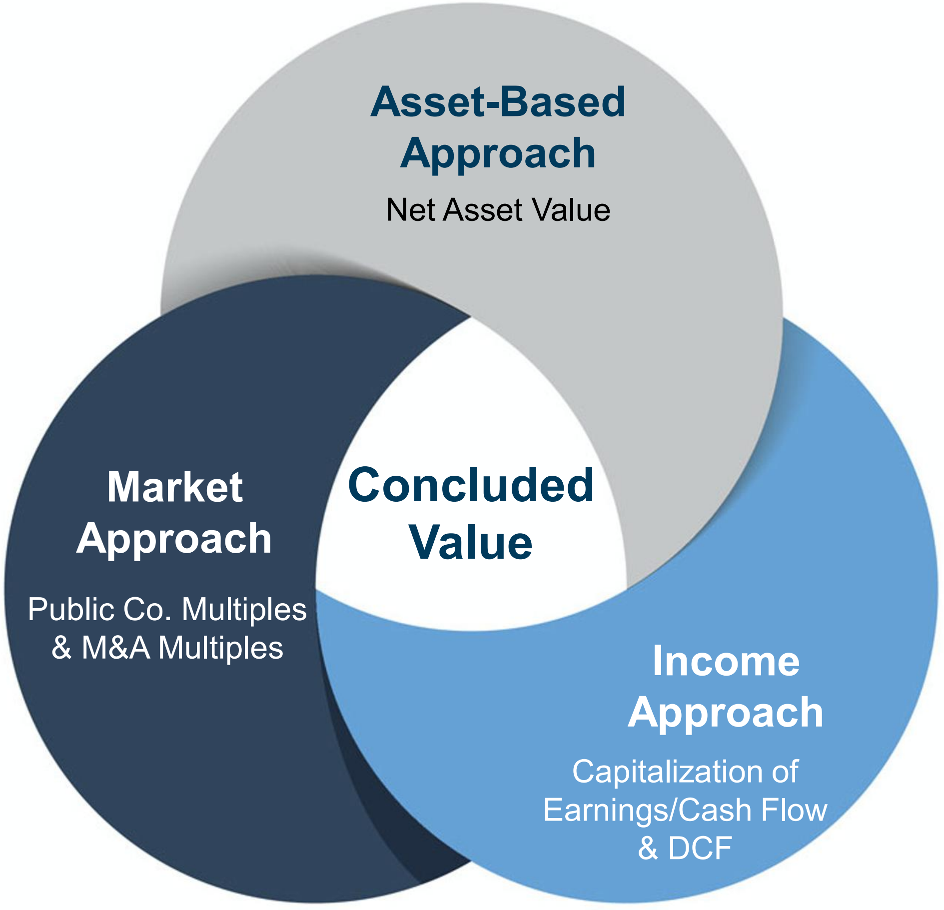
- SAAR
- Floor Plan (Floor Plan Assistance)
- Days Supply
- GPU / PVR
- Front-End & Back-End Gross
- Stair-Step Incentives
- Absorption
- F&I Penetration/Attachment
- Chargebacks
- Packs
- Reinsurance
- New-to-Used Ratio
- Customer Pay

- Effective Labor Rates
- Autonomous Vehicle (AV)
- Electric Vehicle (EV)
- Internal Combustion Engine (ICE)
- Agency Model / Direct to Consumer
- Wholesale / Fleet
- Image Program/Requirements
- Working Capital Guide
- Manufacturer Approval

*Definitions in the Appendix

Traditional Valuation Framework

1. Consider valuation methods under each of the three basic valuation approaches
2. Synthesize these indications of value into a final concluded value
3. Methods employed and emphasis placed on the various methods depend on the industry and nuances of the subject company



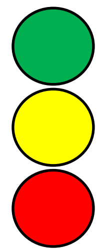
Applicability to Auto Dealerships

Asset Approach

- Net Asset Value

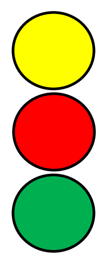
Income Approach

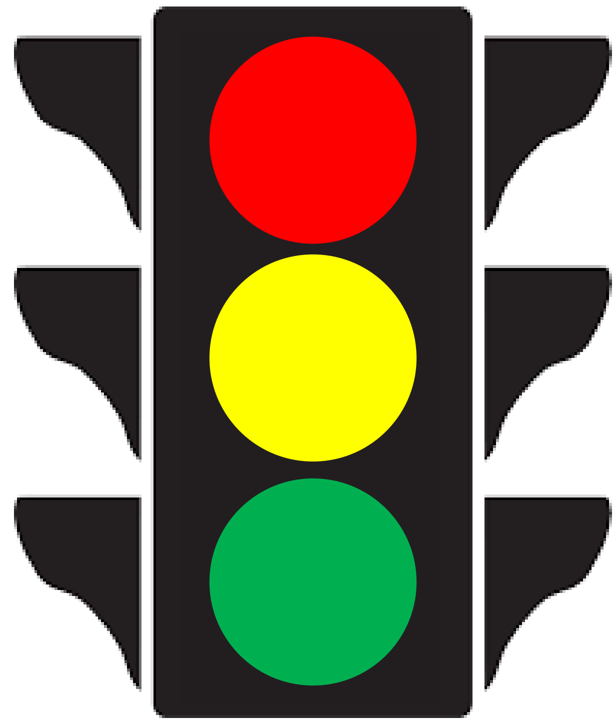
- Capitalization of Earnings
- Capitalization of Cash Flow
- Discounted Cash Flow



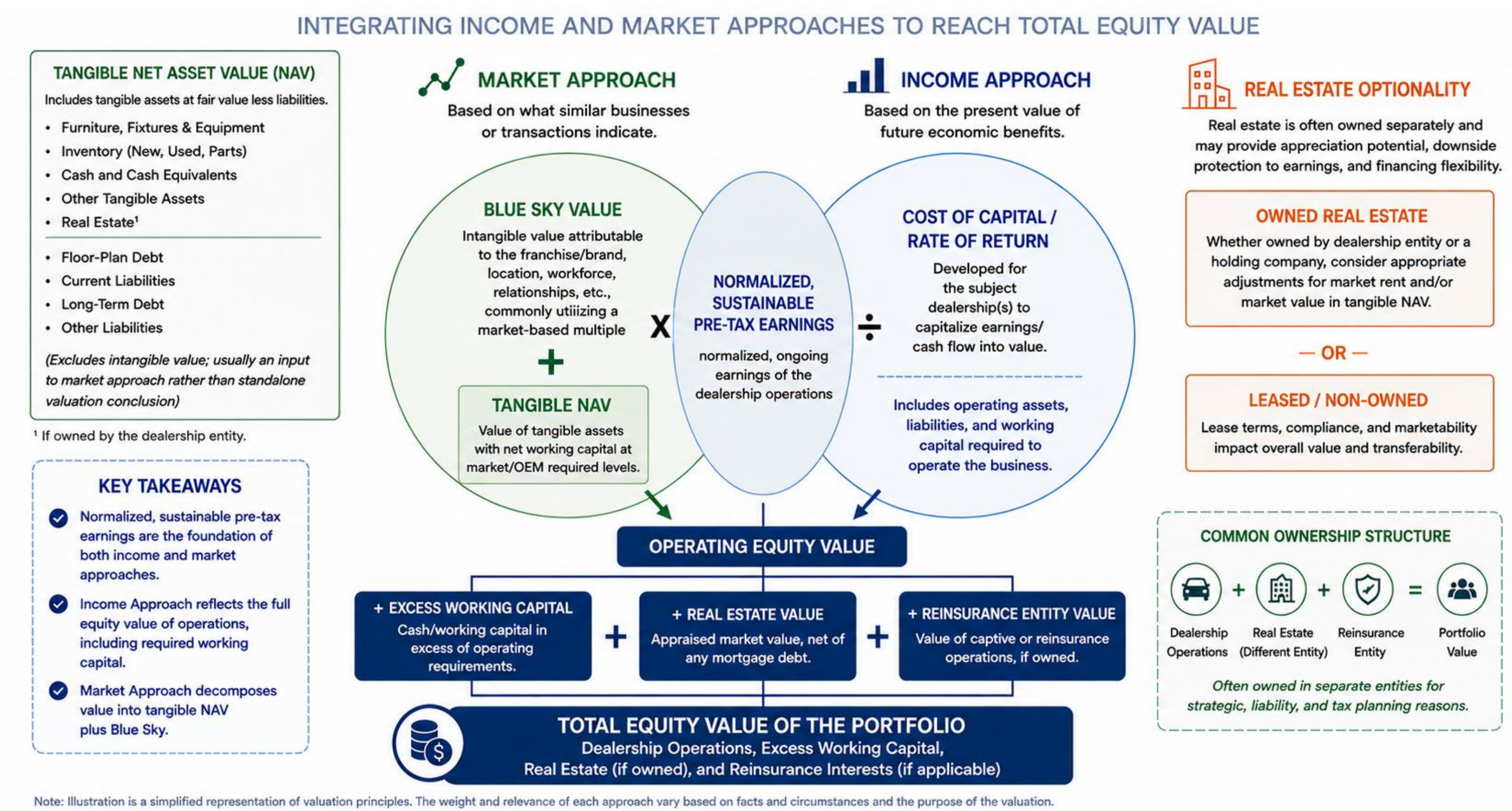
Market Approach

- Internal Transactions
- Guideline Public Company
- Guideline Transactions





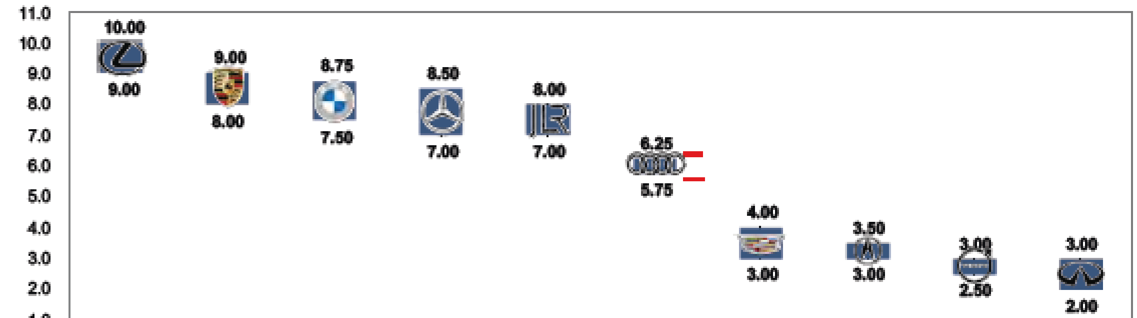
Valuing an Auto Dealership Portfolio



Value Drivers in a Single Store / Auto Group Valuation

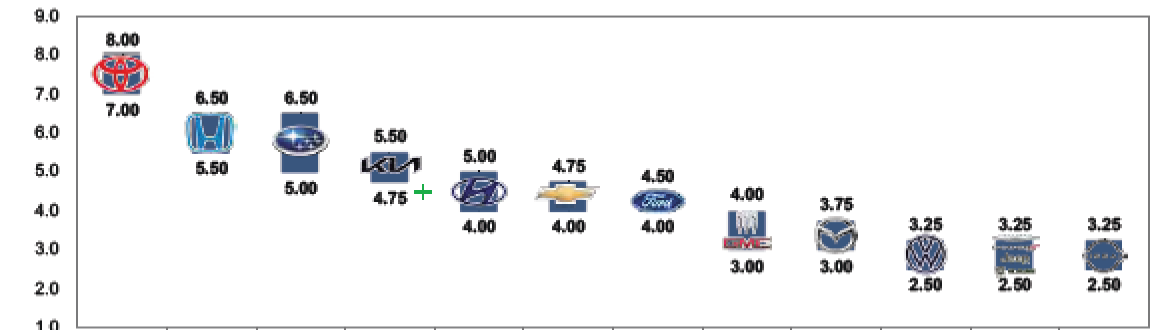
Which (s) Am I Valuing?

Chart 55 | Kerrigan Advisors' First Quarter 2026 Blue Sky Multiples & Analysis: Luxury



	Lexus	Porsche	BMW	Mercedes	Jaguar Land Rover	Audi	Cadillac	Acura	Volvo	Infiniti
High	10.00	9.00	8.75	8.50	8.00	6.25	4.00	3.50	3.00	3.00
Average	9.50	8.50	8.13	7.75	7.50	6.00	3.50	3.25	2.75	2.50
Low	9.00	8.00	7.50	7.00	7.00	5.75	3.00	3.00	2.50	2.00

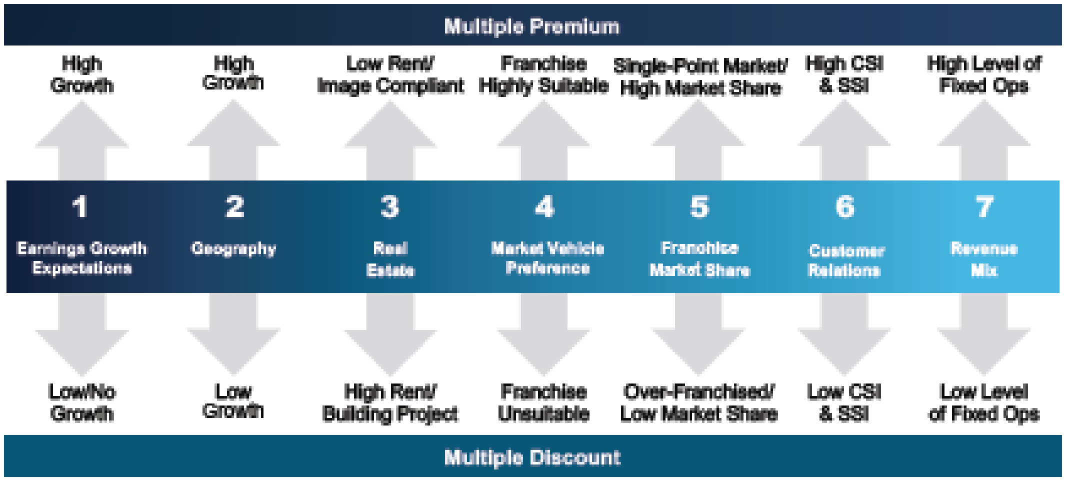
Chart 54 | Kerrigan Advisors' First Quarter 2026 Blue Sky Multiples & Analysis: Non-Luxury



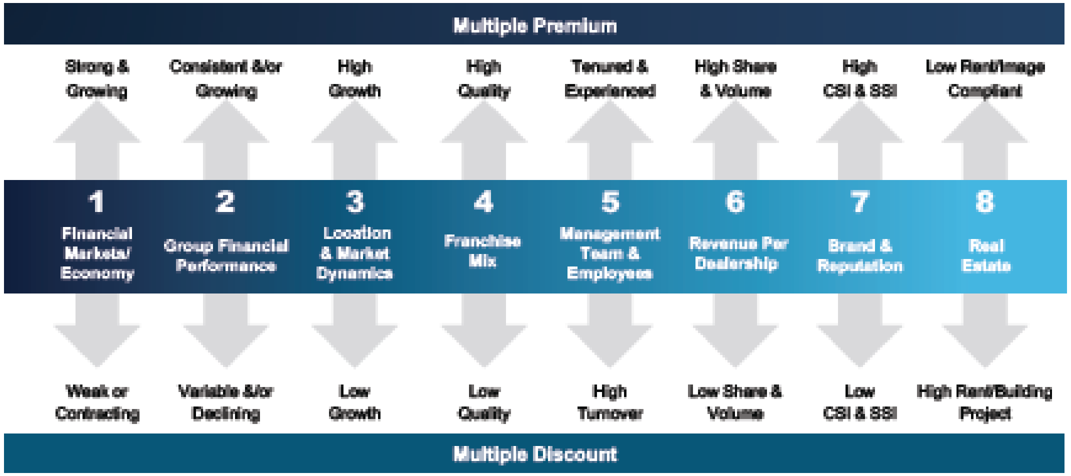
	Toyota	Honda	Subaru	Kia	Hyundai	Chevrolet	Ford	Buick GMC	Mazda	VW	CDJR	Nissan
High	8.00	6.50	6.50	5.50	5.00	4.75	4.50	4.00	3.75	3.25	3.25	3.25
Average	7.50	6.00	5.75	5.13	4.50	4.38	4.25	3.50	3.38	2.88	2.88	2.88
Low	7.00	5.50	5.00	4.75	4.00	4.00	4.00	3.00	3.00	2.50	2.50	2.50

Where Does My Store / Group Rank in the Range?

Haig Partners and Kerrigan Advisors consider six and seven factors; five are substantially similar and are discussed in the following slides.



Blue Sky Multiple Factors			
	Kerrigan Advisors		**Haig Partners**
1	Earnings Growth Expectations	≈	Financial Performance
2	Market Representation	≈	Competition
3	Buyer Demand	≈	Geographical Market
4	Real Estate	≈	Real Estate
5	Market Vehicle Preference	≈	Brand Fit in Market
6	Customer Relations		
7	Revenue Mix		
			6 Taxes



Earnings Growth / Financial Performance

Volume Analysis	For the Fiscal Years Ended December 31				
New Vehicles	**2025**	**2024**	**2023**	**2022**	**2021**
New Cars Retailed	16	43	81	108	83
Fleet Cars	0	0	4	1	1
New Trucks Retailed	400	419	474	523	492
Fleet Trucks	222	460	499	366	139
Total New Vehicles	638	922	1,058	998	715
New Vehicles Retailed	416	462	555	631	575
New Vehicle Retail Gross Profit	$1,181,036	$1,097,423	$1,603,299	$1,917,263	$1,821,769
GPU	*$2,839*	*$2,375*	*$2,889*	*$3,038*	*$3,168*
Used Vehicles					
Used Cars Retailed	56	67	84	114	198
Wholesale Cars	53	41	57	91	95
Used Trucks Retailed	292	282	312	338	393
Wholesale Trucks	159	177	166	207	258
Total Used Vehicles	560	567	619	750	944
Used Vehicles Retailed	348	349	396	452	591
Used Vehicle Retail Gross Profit	$1,334,586	$1,133,696	$1,044,785	$1,314,065	$1,875,760
GPU	*$3,835*	*$3,248*	*$2,638*	*$2,907*	*$3,174*
% Car	*10.4%*	*10.1%*	*13.5%*	*18.0%*	*22.7%*
% Truck	*89.6%*	*89.9%*	*86.5%*	*82.0%*	*77.3%*
% Retail	*63.8%*	*54.5%*	*56.7%*	*62.0%*	*70.3%*
% Fleet	*18.5%*	*30.9%*	*30.0%*	*21.0%*	*8.4%*
% Wholesale	*17.7%*	*14.6%*	*13.3%*	*17.0%*	*21.3%*

Market Representation / Competition

Intra- Competition

When there are too many dealerships carrying the same vehicles in the same market, the market is “over-dealered”, and buyers find these stores less desirable. They also want to avoid an “open point” cutting their demand in half.

Inter- Competition

Dealerships tend to be clustered on “auto row”, so consumers can test drive vehicles that are similar in a reasonably short amount of time (Kia Telluride vs. Hyundai Palisade vs. Mazda CX-90).

Online Retailers

Companies like Carvana are a new source of competition for auto dealerships, though they can’t sell or service new vehicles.

Buyer Demand / Geographical Market

Growing, affluent, dense markets typically support higher planning potential, stronger fixed-operations opportunities, and broader buyer interest. Smaller or lower-density markets are not “bad” markets, but the valuation case often depends more heavily on local market share, operator quality, and sustainable earnings.

More Attractive Market Characteristics

Examples near Mercer Capital offices

Frisco, TX

DFW growth suburb | Dallas office market

Population
237k

2020–latest growth
+18.2%

Median household income
$150k

Density
2,921 / sq. mi.

Rapid growth and high income support an attractive retail auto market.

Franklin, TN

Nashville suburb | Nashville office market

Population
89k

2020–latest growth
+6.7%

Median household income
$120k

Density
1,952 / sq. mi.

Affluent suburban demand and regional growth support both sales and service.

Contrast Market

Smaller / lower-density / lifestyle market

Heber Springs, AR

Annual meeting location | Recreation-oriented local market

Population
7.3k

2020–latest growth
+5.1%

Median household income
$51k

Density
766 / sq. mi.

Smaller scale and lower density narrow the buyer case, though recreation and destination appeal may matter locally.

Buyer Preference Spectrum

Growth + Density + Affluence →

← **Smaller / Lower-Density**

Real Estate

The strongest buyer story combines property control with a modern, visible, high-traffic location. Buyers want to control the site, maintain the facility, and capture traffic. If the facility hasn't been updated in a long time, extra upfront investment may be required by the OEM to match current factory ing requirements.

Tired Facility + Limited Site Control

Third-Party Lease
Less control and potential renewal risk.

Low-Traffic / Dated Site
Weak visibility, deferred maintenance, poor first impression.

Controlled Real Estate + Destination Quality

Owned or Related-Party Lease
Greater control, alignment, and transaction flexibility.

Beautiful, High-Traffic Location
Strong access, visibility, image compliance, and curb appeal.

Fit in Market / Market Vehicle Preference

A dealership is more attractive when its core vehicles match local lifestyles, terrain, work needs, and customer preferences, not simply because the is strong nationally. The right franchise in the wrong vehicle market can limit demand, margins, and buyer interest.

Ford F-150 in Texas

Utility Matches Demand
Towing, payload, work, ranch, and recreation use cases.

Broad Buyer Familiarity
Pickup culture supports traffic, inventory turns, and resale appeal.

Smart Fortwo in Rural Alaska

Limited Practical Utility
Minimal cargo room and low clearance constrain everyday use.

Conditions Favor Capability
Long distances and severe winter travel favor larger vehicles.

Other Factors

Kerrigan’s Additional Factors

Customer Relations

Dealerships with strong Customer Satisfaction Index (CSI) ratings are likely to be viewed as having more durable earnings. Conversely, scores way below peers may indicate turnaround potential to a prospective buyer.

Revenue Mix

Fixed operations are seen as more durable earnings than variable operations. Dealerships with a larger share of gross profit generated from fixed operations tend to go for higher multiples. Conversely, if a new vehicle dealership is highly dependent on its used vehicle department, the blue sky value (primarily associated with new vehicles) may be lower.

Management / Employees

A deep bench of tenured management talent that will stay with the dealership is desirable for buyers. Conversely, a store/group highly dependent on its retiring dealer principal is likely less valuable. Unlike other industries, the OEM gets to approve the dealer principal, which influences succession planning. Dealerships also require competent staff, though the role of salespeople has diminished post-COVID. There has been a shortage of quality technicians which may limit fixed ops growth.

Haig’s Additional Factors

Taxes

Because blue sky multiples are pre-tax multiples, buyers may place a higher multiple on dealerships in states with lower income taxes as they result in higher after-tax cash flows.

After-Tax Blue Sky Multiple			
Blue Sky Value	Low Tax	High Tax	Difference
Pre-Tax Earnings	$18,000,000	$18,000,000	
Implied Blue Sky Multiple	$3,000,000	$3,000,000	
Blended Corporate Tax Rate	6.0x	6.0x	
Net Income	21%	28.5%	
Earnings Yield	$2,370,000	$2,145,000	$225,000
	13.2%	11.9%	1.25%

	Sales CSI		Service CSI	
Period	Dealership	Peers	Service CSI	Peers
Q2 2026	96.9	95.6	94.6	92.5
Q1 2026	85.2	79.5	72.6	73.5
Q4 2025	84.6	80.2	72.8	72.6
Q3 2025	94.5	97.1	94.0	94.0

Revenue Mix	Dealership	Peers
New Vehicle Department	30.0%	33.7%
Used Vehicle Department	20.0%	21.3%
Fixed Operations	50.0%	45.0%
Total Gross Profit	100.0%	100.0%

Current Market Conditions and Valuation Implications

Post-COVID Earnings Environment

What Happened and Why
Supply-chain constraints, particularly for microchips, combined with strong demand to push new and used vehicle prices higher.
Expanded GPU/PVR more than offset lower volumes, producing record earnings and margins.
As inventories have improved, GPUs continue to decline but remain above pre-COVID levels.

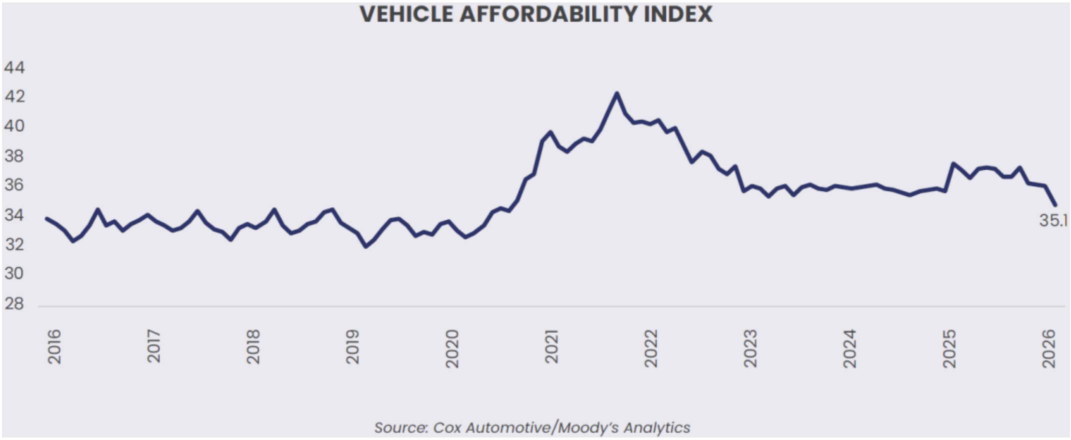
Pre-COVID	2012–2019
Pre-Tax Margins	2%–3%
Fixed Operations Contribution to Gross Profit	45%–55%
New Vehicle Front-End GPU/PVR	$1,700–$2,200

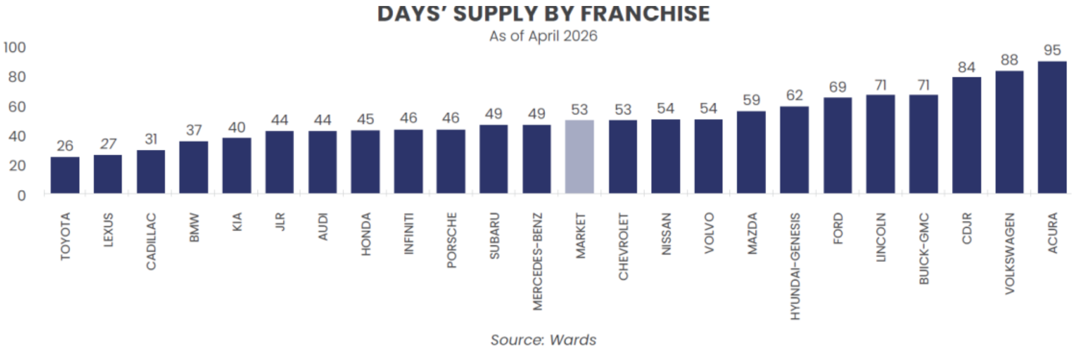
Post-COVID & Supply Chain Constraints	~2021–2023
Pre-Tax Margins	4.5%–7%
Fixed Operations Contribution to Gross Profit	35%–45%
New Vehicle Front-End GPU/PVR	$3,500–$5,000

Post-COVID Normalization ~2024–Current
Performance continues to trend toward pre-COVID levels but generally remains higher.
Above-MSRP pricing was unlikely to be repeatable as OEMs can eventually recapture their value contribution.
Dealers must balance higher volumes (which support fixed operations and OEM relations) with dealer-level profitability.

Supply and Demand in the Auto Dealership Industry

- Affordability is a large constraint on demand in the industry. Interest rates remain relatively high and even though inflation has moderated, prices are still materially higher than pre-COVID.
- OEMs want to maximize sales, which leads to overproduction; some s have nearly 100 days' supply, leading to discounting and creating significant headwinds for retailers (franchisees).
- Longer-term: Hybrids are gaining share, but EV demand is declining without subsidies. Dealers want to be aligned with OEMs who have the right product at the right time.





When Valuations Are Necessary

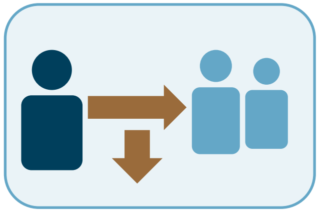
When and Why Is a Valuation Needed?

Valuation Triggers: Four Basic Quadrants

(Generally) Not Regulatory Driven	**Litigation** • Buy/Sell Disputes • Family Law • Contract Disputes • Business Torts • Tax Disputes • Dissenting Shareholder Disputes • ESOP/ERISA Disputes • Bankruptcy • Economic Damages	**Transactional** • Sale of Business (Pricing / Negotiations) • Buy-Sell Agreements • Stock Exchange / Public Co. / IPO • Installment Sale • ESOPs • Fairness Opinions • Incentive / Corporate Planning
Regulatory Driven	**GAAP / Financial Reporting** • ASC 805 - Allocation of Purchase Price • ASC 350 & 360 Impairment • ASC 718 – Equity-Based Compensation • ASC 820 - Portfolio Valuation	**Tax** • Estate & Gift Taxes • Charitable Gifting • 409(a) Transactions • IRC 367(d) "Toll Charge" • Transfer Pricing • IRC 197 – Allocation of Purchase Price • Corporate Reorganizations & Basis Step-Ups • IRC 280G "Golden Parachute"

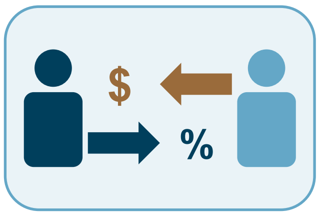
Common Valuation Triggers for Auto Dealerships

How Mercer Capital Most Frequently Gets Involved



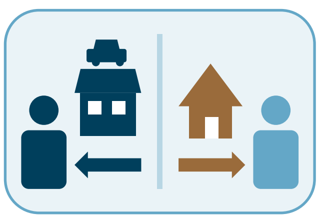
Estate and Succession Planning

A dealer is looking to transfer minority interests to the next generation. Opportunities for different transfers of dealership & real estate.



Partner Buyouts / Disputes

When a GM owns 10% and gets terminated, we value their interest. Often devolves into litigation when corporate documents use a “formula clause”.



Marital Dissolution

When dividing the marital estate, we value the dealer’s ownership interest.

Evaluating Offers from Acquirers

We help dealers evaluate offers they may receive from prospective buyers.

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David Harkins is a Vice President with Mercer Capital. David has been involved with hundreds of valuation and litigation support engagements in a diverse range of industries on local, national, and international levels. He provides valuation analyses for commercial litigation, gift and estate tax planning, family law, transactions (M&A), fairness and solvency opinions, and employee stock ownership plans (ESOPs), among other valuation-related service needs of privately held businesses.

As the leader of the firm's Auto Dealership Industry team, David publishes research on valuation issues in the newsletter *Value Focus: Auto Dealership Industry*. He also contributes regularly to Mercer Capital's *Auto Dealer Valuation Insights Blog*.

As a member of Mercer Capital's Litigation Group, he serves as both a consulting expert and expert witness for complex financial matters related to valuation, lost profits, shareholder disputes, damages, business litigation, commercial litigation, marital dissolution, and other matters requiring financial, valuation, and/or forensic accounting expertise.

David is also a recipient of the 2024 AICPA FVS Standing Ovation award, which recognizes young CPAs and finance professionals in forensic accounting or business valuation who exhibit exemplary professional achievement. David has served as a volunteer expert at trial prep courses put on by the ABA and NFLTI and is currently an adjunct professor at Lipscomb University.

Appendix: Lingo to Know

Blue Sky = Intangible Value (equity value minus NAV) also known as franchise rights

SAAR = Seasonally Adjusted Annual Rate (monthly rate of annual light vehicle volume sales in the U.S.)

Floor Plan = Debt used to finance vehicles shown on a car lot

Days Supply = Inventory / Monthly Sales (higher Days' Supply leads to higher carrying costs and less negotiating power with consumers)

AV = Autonomous vehicles

EV = Electric vehicles

ICE = Internal combustion engines (traditional powertrain)

Agency Model / Direct to Consumer = Sales model in which the OEM controls vehicle pricing and customer contracting, with the dealer acting primarily as an agent or delivery and service location

Image Program/Requirements = OEM-mandated facility, signage, ing, and design standards that may require dealership capital expenditures

Working Capital Guide = OEM formula or required amount of working capital considered necessary to operate the dealership

Manufacturer Approval = OEM consent required for a buyer, successor, ownership transfer, or change in dealership control

Appendix: Lingo to Know (Continued)

GPU/PVR = Gross per Unit or Per Vehicle Retailed (primary indication of profitability trends)

Front-End & Back-End Gross = Front-End Gross is profit on the vehicle sale itself; Back-End Gross is profit from F&I products and financing

Stair-Step Incentives = OEM incentives that increase when a dealer reaches specified sales-volume or performance targets

Fixed/Service Absorption = Percentage of dealership overhead covered by fixed operations gross profit

F&I Penetration/Attachment = Percentage of vehicle sales that include financing, service contracts, GAP coverage, or other products

Chargebacks = Reversal of previously earned F&I income when a customer cancels a product, refinances, or pays off a loan early

Packs = Internal amounts deducted from vehicle gross profit before calculating salesperson or manager commissions

Reinsurance = Dealer-owned or dealer-participating entity that assumes a portion of the risk and profit associated with F&I products such as service contracts, providing another avenue for dealers to capture more of the value they bring to automotive transactions

Wholesale = Used vehicle sales to other dealers or at auction

Fleet = New vehicles sold in bulk to businesses, governments, or rental companies

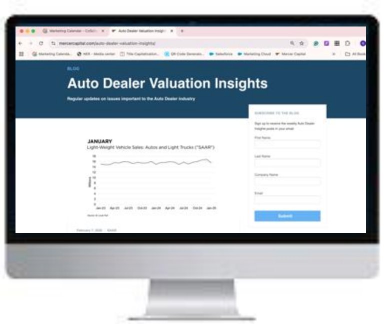
New-to-Used Ratio = Number of new vehicles retailed compared with used vehicles retailed. Utilized to compare to peer sales volumes

Customer Pay = Service and repair revenue paid directly by the customer rather than by the OEM under warranty

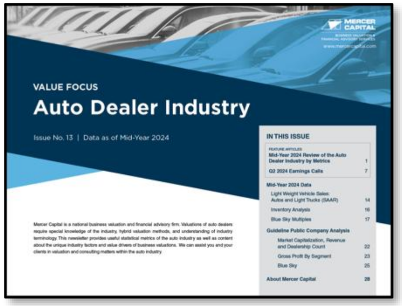
Effective Labor Rate = Customer labor revenue divided by billed labor hours, reflecting the average realized hourly rate

Resources

Mercer Capital's auto dealership group publishes research related to the industry in three primary mediums:

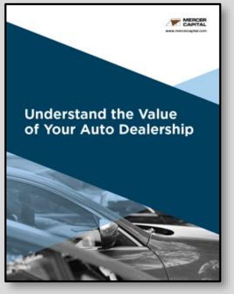


Auto Dealership Valuation Insights
(biweekly blog)



Value Focus:
Auto Dealership Industry
*(*semiannual newsletter*)*

Auto Dealership Industry Scorecard
(monthly infographic)



We also have a whitepaper

Understand the Value of Your Auto Dealership

Two Types of Experts

Industry

- Long-time analysts and observers who regularly follow the auto dealership industry
- Understand industry concepts and terminology (SAAR, Blue Sky, etc.)
- Write/speak about industry trends
- Transaction experience
- Provide advisory services to industry participants
- See the market as typical buyers and sellers of interests in auto dealerships

Valuation

- Experienced business appraisers
- Have appropriate training and professional designations
- Understands valuation standards and concepts
- Sees the market as hypothetical buyers and sellers do
- Regularly values minority interests
- Have experience in ESOP valuation
- Advises on buy-sell agreements
- Defends work in litigated matters
- Handles recurring tax and/or valuation work for other clients

You Need Both

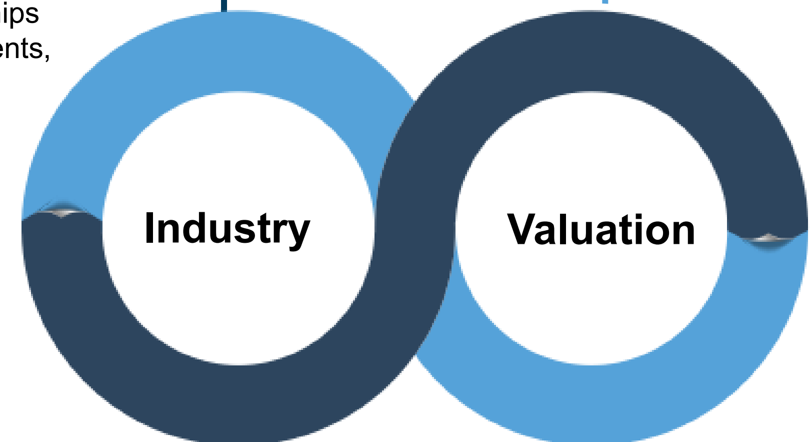
We Are Industry Specialists

We are a valuation firm that is organized according to industry specialization

We primarily value auto dealerships for purposes of buy-sell agreements, dispute resolution, and estate planning

We regularly publish research pertaining to the auto industry

We attend and speak at conferences and industry events



We Are Valuation Specialists

We provide valuations for gift and estate tax planning, buy-sell agreements, ESOPs, litigation support, transaction advisory, and financial reporting

Since our founding in 1982, Mercer Capital has provided expert valuation opinions to over 15,000 clients throughout the U.S. and on six continents

We are active in leadership roles throughout the valuation profession

Representative Experience

Ultra High-Line

Buy-Sell Dispute

Provided valuation services pursuant to a Buy-Sell Agreement

Location: Southeast

Domestic / Import

Litigation Support Services

Provided valuations and expert testimony of multiple rooftops in a family law matter

Location: Northeast

Independent

Estate Planning & Buy-Sell Agreement

Provided valuation services for estate planning purposes and subsequent consulting on Buy-Sell Agreements

Location: Southeast

Domestic

Corporate Planning

Provided valuation and consulting services pursuant to a corporate restructuring

Location: Southeast

Luxury / Import / Domestic

Litigation Support Services

Provided valuations of dealerships in an estate tax litigation matter leading to a favorable settlement for client

Location: Southeast

Independent

ESOP Installation

Provided valuation of used-vehicle operator for corporate planning purposes pursuant to a contemplated ESOP Installation

Location: AK

Luxury / Import

Litigation Support Services

Provided valuations of multiple dealerships in marital dissolution that led to favorable settlement for client

Location: Southeast

Domestic

Buy-Sell Dispute

Provided valuation services pursuant to a Buy-Sell Agreement

Location: West Coast

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