Dave Cantin Group

KAISER ASSOCIATES

2025 MOR

MARKET OUTLOOK REPORT

U.S. RETAIL AUTOMOTIVE

Introduction to the Market Outlook Report (MOR)

The Dave Cantin Group partners with Kaiser Associates to take a 360° look at the trends that matter in the U.S. auto market

Dave Cantin Group

The Dave Cantin Group (DCG) is a leading Automotive M&A advisory company with access to specific informed transactional and market data. Through a partnership with Kaiser Associates, DCG can provide deeper data sets to allow **automotive leaders and influencers to make smarter decisions** in a continuously changing environment.

KAISER ASSOCIATES

BUSINESS NEEDS

- Growth Opportunities
- Go To Market Approach
- Performance & Productivity
- M&A and Corp Dev

CAPABILITIES

- Market Analysis & Structural Attractiveness
- "Voice of the Market"
- Benchmarking & Best Practices

Kaiser Associates is a global growth consulting firm.

We help translate **original insights into strategy** for ambitious organizations around the world.

*Our research team drew from Kaiser's **Industrial Goods, Consumer, Supply Chain,** and **M&A practices**. For further information, please contact:*

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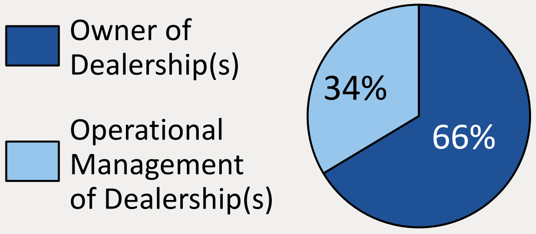
Research Sources and Methodology

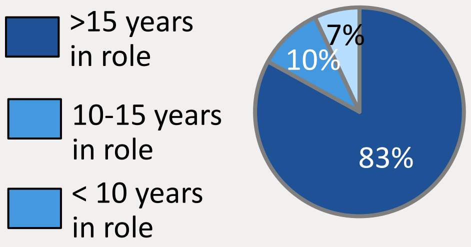
The MOR Report collects proprietary dealer, consumer, and other industry data to get a real-time picture of the health of the industry

U.S. Dealership Owner Survey (December 2024)

Our December 2024 U.S. Dealer Survey "checked in" on U.S. dealership owners / managers who had participated in our summer 2024 survey



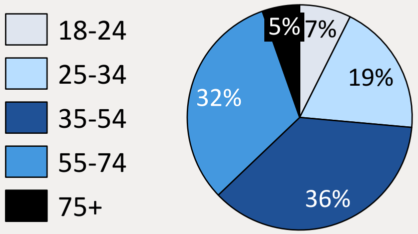
Split by Role



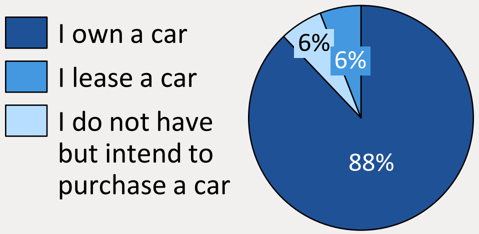
Tenure in Role

U.S. Consumer Survey (December 2024)

Our December 2024 consumer survey heard from > 1,000 consumers who have recently purchased, leased, or intend to purchase a vehicle



Split by Age



Split by Car Ownership

Other Research Sources

Our research is informed by conversations with leading executives from the U.S. automotive industry (dealer owners and principals, attorneys and advisors, OEM and supply chain execs) and we leverage deep research from a number of government and industry sources (including, but not limited to) the U.S. Census American Community Survey, Federal Reserve Economic Data, S&P Global, Cox Automotive, SEC Filings.

If you'd like to participate in a future report, please be in touch with our team – we'd love to hear from you.

The state of U.S. retail automotive at the start of 2025

In 2024, Kaiser Associates and the Dave Cantin Group released our inaugural Market Outlook Report and Mid-Year Update. We knew that **2024 was the start of the "new normal" following the wild COVID ride**. Our hunch was that the U.S. automotive industry had no shortage of data, but finding quality analysis about **"what matters most"** was not easy. Based on the response we got from readers, we were on to something.

As we look to the start of 2025, we're struck by a few things. First, **the new normal is here – **it's not so new anymore. **Dealers have more measured expectations** for revenue and profitability in 2025 (not bad overall, but fewer extremes), but they know where to look for it and are working harder for it. While politics was a great unknown in 2024, the **election results signal definitive support for the industry** for at least the next 2 years leading to positive sentiment across the automotive landscape. However, questions on which direction the new administration will go on key policies **risks the predictability the industry just got back**.

Second, 2025 is shaping up to be a more interesting year for EVs than any year in history – and the year has barely even started. Legacy OEMs are meaningfully adjusting their investments in and strategies for their BEV and Hybrid portfolios; Chinese EV players, hoping to penetrate the U.S., have been dealt a major blow by the Trump election; electric infrastructure and technology keeps improving and so do the barriers to entry in the segment.

Third, **consumers hit the breaking point in 2024** – but it looks like they came out ok. We've hit an equilibrium: dealers are pricing new cars below MSRP, loans are down from their highs – but consumers expect to spend more on their next car than they did in the past.

All of this brings us back to the "new normal": when we look at dealership M&A activity and M&A prospects, we're struck by the **tentative optimism we're seeing in the market**. While deal volume is off from its COVID peak, there is evidence that it is getting ready to *pick back up again*. Maybe that's the real "normal" for this industry: things go up, things go down – and then they repeat!

As always, we hope this update is informative and useful. **-** *The Kaiser Associates Market Outlook Report Research Team*

Key themes for 2025

The consumer is in the driver's seat this year, but manufacturers and dealers have more opportunities than ever to differentiate

The 7 Themes to Watch in '25	What's happening – and what's on the horizon – at the start of the year?	Impact on Dealerships?
Macroeconomic Forces	*Recent improvements in consumer sentiment and rate environment – but could turn quickly if economic fundamentals don't live up to expectations.*	More opportunity
Consumer Preferences	*Wallets are strained, but cars remain a critical necessity: sedans have taken back share from trucks and SUVs, EV adoption continues to grow, Hybrids are hot.*	More challenges
Politics & Regulation	*Two years of support for the automotive industry are likely ahead, but lack of certainty around trade and foreign investment in auto manufacturing could complicate things.*	More opportunity
OEMs	*"Fewer but more expensive cars" strategy is showing limitations; industry consolidation, nationalist pressures and diverging "big bets" will make OEMs unpredictable.*	More challenges
State of EVs	*Hybrid and electric vehicles are undeniably growth drivers for the industry, and we expect the combined segment to steadily gain share, barreling past 20% of new units.*	No change
Dealership Performance	*Muted expectations aren't a bad thing, product mix will be critical, and technology and white-glove services provide opportunities to differentiate and boost margin.*	More opportunity
M&A Trends & Forecast	*M&A expects a banner year: Renewed energy and optimism about the automotive industry; "acquisition as a growth strategy" returns as valuations have come back to earth; "bigger is better" for retail automotive, puts consolidation in focus.*	More opportunity

Macroeconomics

Consumer wallet health appears healthy going into 2025, but macroeconomic facts resulting from early administration policies will soon overtake sentiment

Themes	What's Happening?	DCG's Retail Automotive Takeaways
1 Consumer sentiment is strong – but sentiment will eventually be overtaken by conditions	• ***Consumer wallet health:*** consumers appear ready to spend more, with average expected spend up 8% YoY and a 10 pt increase in willingness to buy a new car. – More consumers expect to pay for their next car in full this year versus last, and those financing expect to put down more cash versus last year. – Consumers are confident in their ability to make payments, despite data that shows rising delinquencies as of Q3 2024.	• **Raw optimistic sentiment was the biggest driver** of consumer intention over the last year but **could shift quickly post-inauguration** as we see which of President Trump's policy ideas become a reality (and to what extent they're implemented). – Dealers need to carefully watch the next 90 days to understand how consumers will behave for the remainder of 2025.
2 Rates are unlikely to move substantially for now; impact on industry is not immediate	• ***Impact of Fed Rates:*** rate cuts have not yet impacted consumer financing attitudes, with more customers expressing hesitation than enthusiasm about car buying in the current rate environment.	• The U.S. is the largest volume country for many manufacturers and **trade issues brought on by tariffs** could pressure U.S. dealers into taking on a greater sales burden to offset global declines.
3 Automotive-specific inflation could be reignited by tariffs and trade	• ***Policies v. Policy Threats***: through mid-January, inflation has continued to abate, but the industry is waiting to see what policies could increase costs on vehicles and parts.	• Consumers purchase based on monthly payment, not gross price and dealers need to see interest rates come down to help reduce those payments. The **Fed's decision-making process got more complicated** as it contends with inflation data and policy decisions that may drive up the cost of goods.

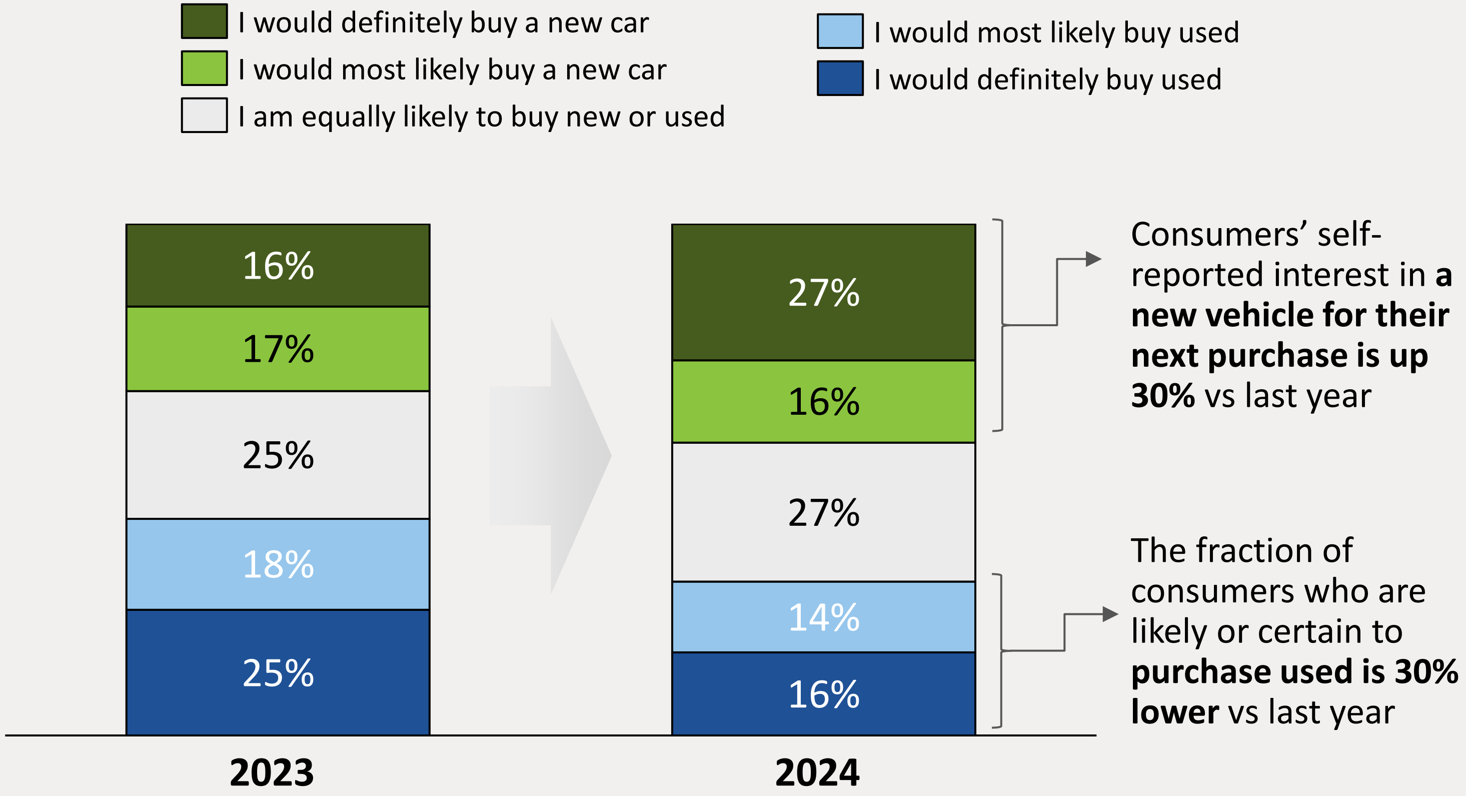
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ
[1] See appendix for Expected Impact Definitions

Consumer Buying Behavior

Consumers expect to spend ~8% more on their next vehicle on average this year vs last year, and interest is swinging back towards new cars

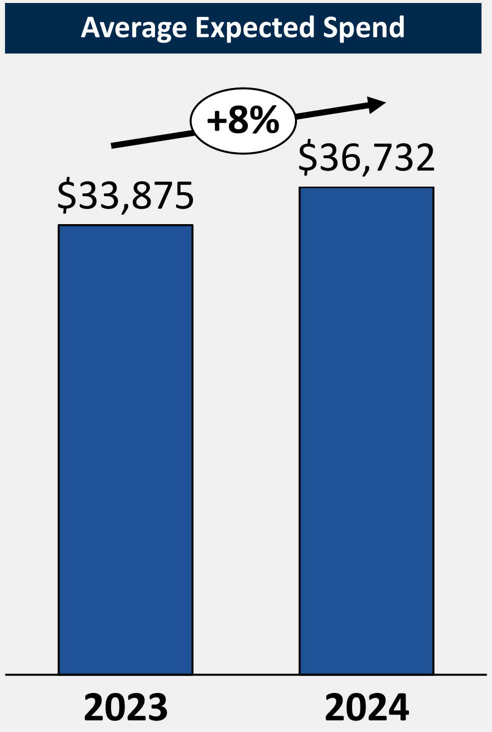
Intent to Purchase New vs Used Car

Q: For your next car purchase, how likely are you to purchase a new or used car?



Expected Spend

Q: How much do you plan to spend on your next vehicle?



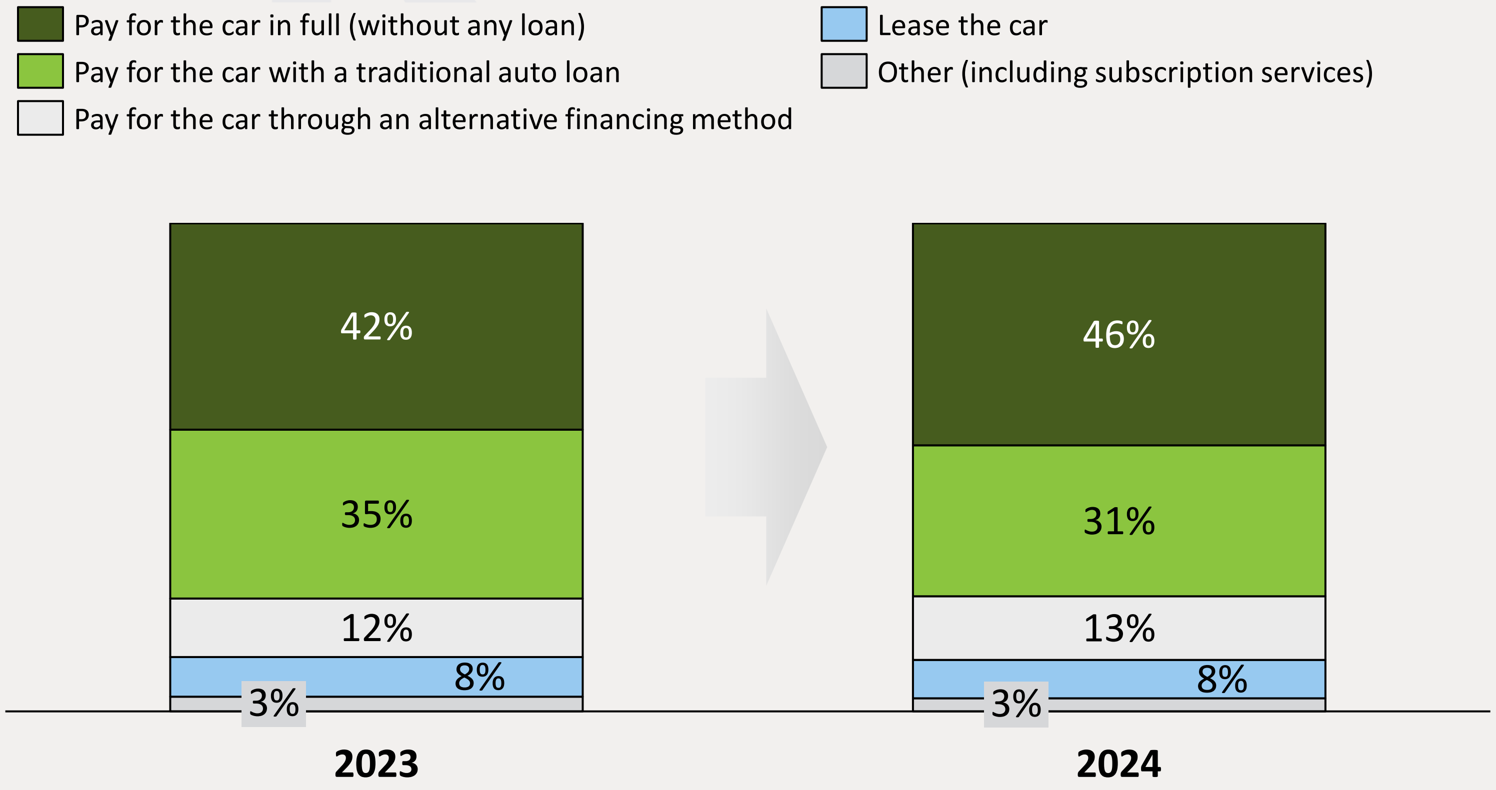
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Buy Outright vs Finance

After years of high rates, consumers are slightly more likely to buy outright – and if they do finance, most intend to put more down

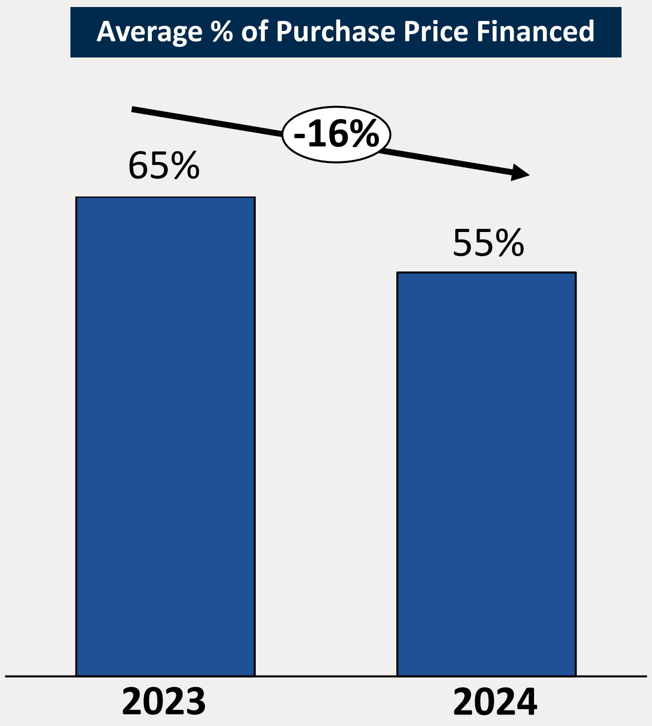
Consumer Financing Plans

Q: When acquiring your next vehicle, which ownership structure are you most likely to choose?



By necessity or choice, potential purchasers are **4 pts more likely to expect that they will buy outright** in 2024 vs 2023 …

Q: What portion of your next car purchase do you expect to pay in cash vs. finance?



… and if they do intend to finance, they expect to finance **16% less than in 2023**

Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Financing Confidence

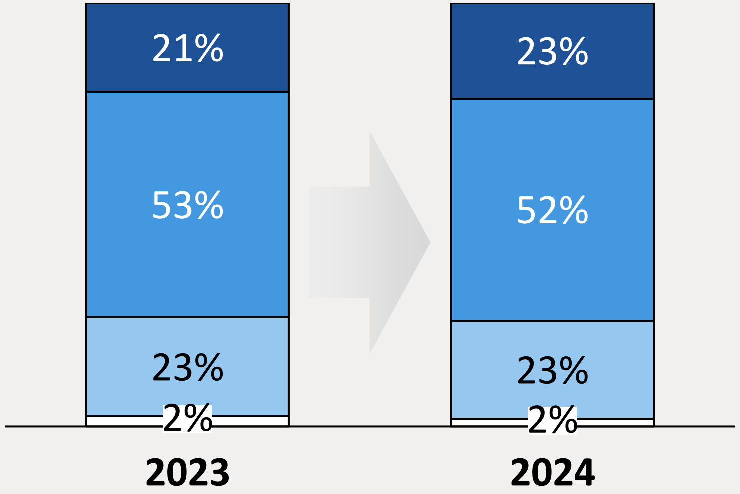
For consumers who *do* require financing, there is greater concern about eligibility vs last year; this is a leading reason to defer vehicle purchases

Consumers Who Intend to Buy

Financing Confidence

Q: When considering your next car purchase, are you concerned with your ability to secure financing?

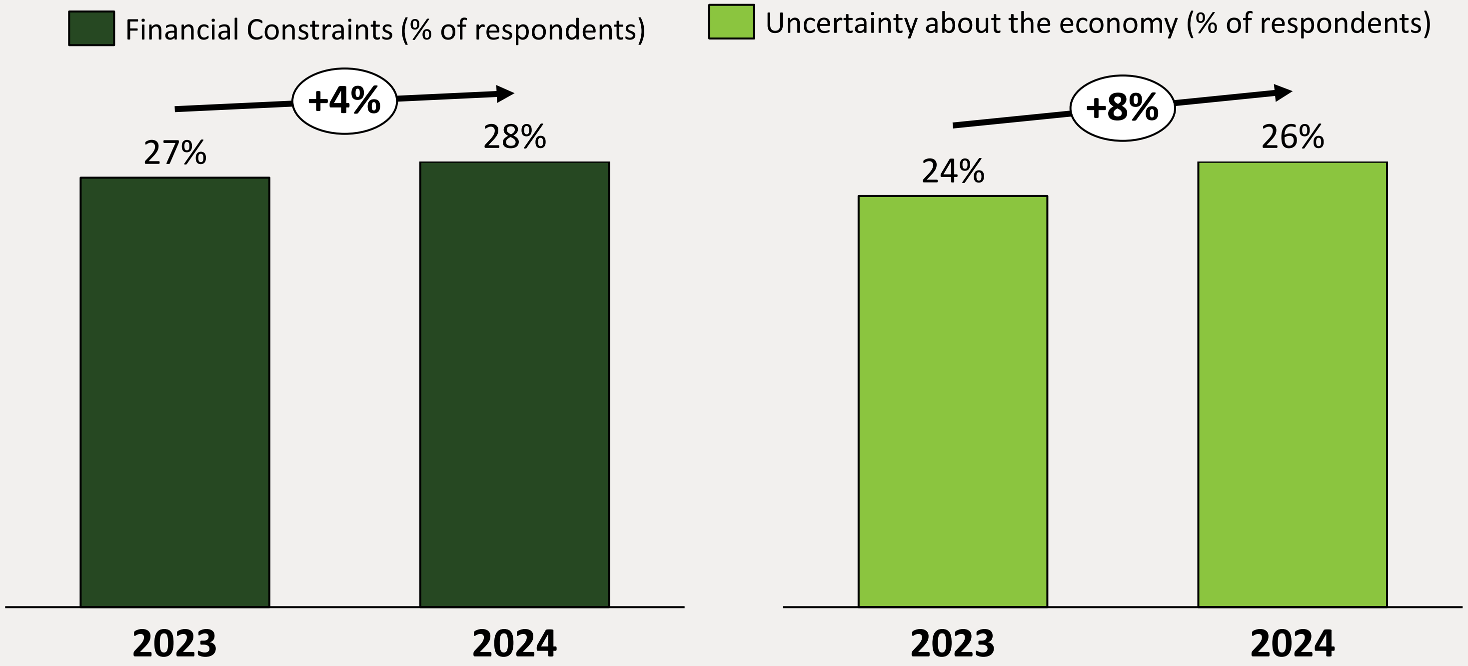
- Yes, I am concerned with my ability to secure financing
- No, I am not concerned with my ability to secure financing
- I do not require financing for my next vehicle purchase
- Prefer not to say



Consumers Who Have Chosen NOT to Buy

Reasons to Defer Vehicle Purchase

Q: Which of the following factors contributed to your decision not to purchase a vehicle in the past 18 – 24 months?



Increased concerns qualifying for auto loans aligns with loan rejection data: New York Fed reports a 0.4pt increase in auto loan rejection rates to 11.4%, highest level since 2013

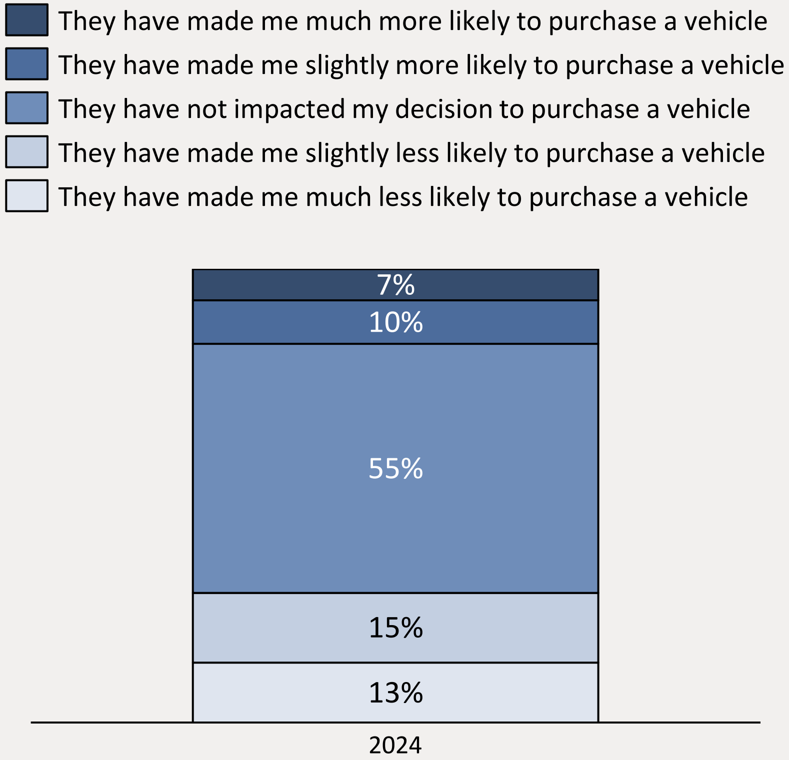
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Interest Rate Impact

Consumers are still slow to respond to The Fed's interest rate cuts, with a roughly equal share delaying vehicle purchase due to interest rates vs. 2023

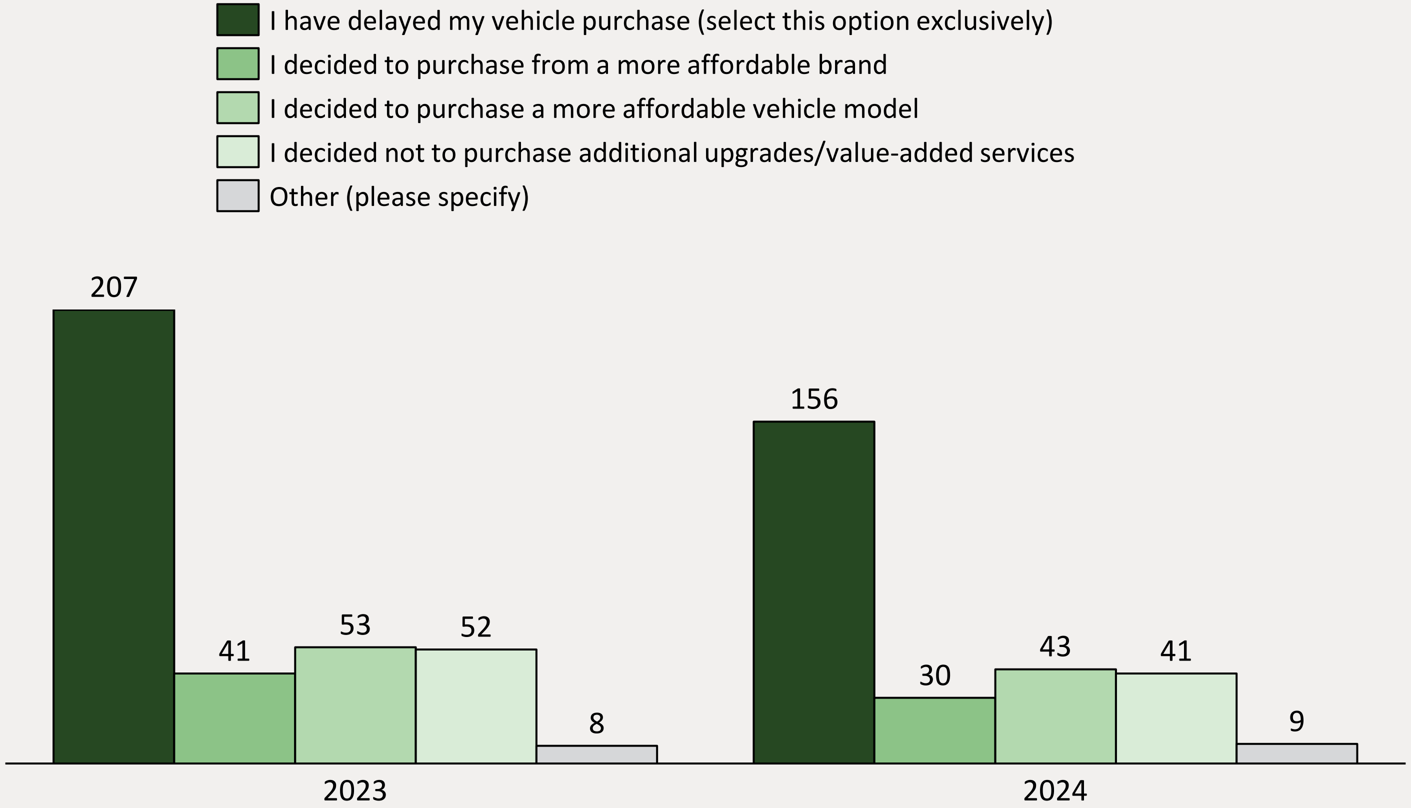
Impact on Buying Decision

Q: How have interest rate fluctuations over the last 12 months influenced your decision about whether to purchase a vehicle?



Deferral of Purchase

Q: How did changing interest rates influence your car-buying decision-making process? Please select all factors that apply.



However, **consumers who finance auto purchases typically make purchase decisions based on monthly payment rather than total cost,** meaning that elevated interest rates are likely to deter customers from higher-priced vehicles, and toward lower-priced vehicles even if monthly prices remain the same

Source: Kaiser Associates Q1 2025 Dealership Survey

Auto loan payment confidence

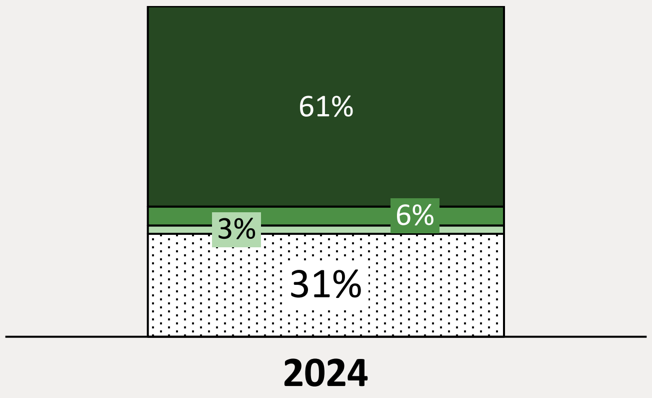
While most consumers are confident about their ability to manage auto loans, high cost of living is the greatest threat to making payments on time

Auto Payment Confidence

All Consumers

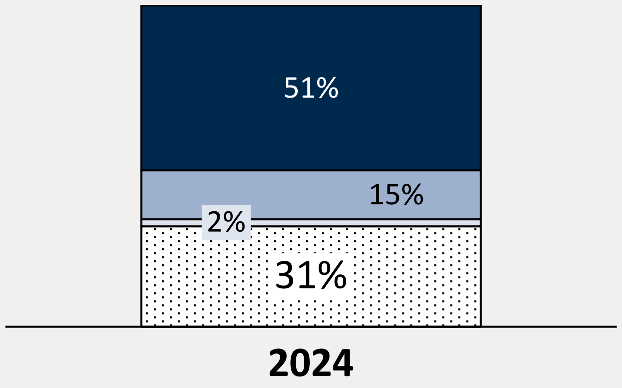
Q: How would you describe your auto loan (or lease) payment history over the past 6 months?

- I have made all payments on time
- I have missed 1 payment
- I have missed 2 or more payments
- Not applicable (I do not have a car loan)



Q: Do you feel confident in your ability to continue making your car loan payments over the next 6 months?

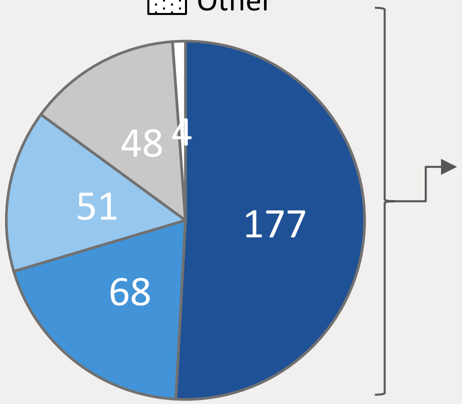
- Very confident
- Somewhat confident
- Not confident
- Not applicable (I do not have a car loan)



Consumers with Auto Loans

Q: What are the main factors contributing to any difficulty making your car loan payments? (select all that apply)

- Higher cost of living (e.g., groceries, utilities, etc.)
- Unexpected expenses (medical bill, repairs, etc)
- Reduced income and/or job loss
- Higher Interest Rates
- Other



Cost of living is a bigger concern than interest rates when it comes to making payments on time – **wage growth is going to be more important than lower rates** for the health of borrowers

Consumer confidence in auto loan payment history is at odds with delinquency data: auto loan delinquencies were up 17.4% in Q3 2024 versus a year earlier (to 4.6% of outstanding loans), but analysts are expecting late payments to plateau. In other words, consumer confidence is more likely a *leading indicator*

Source: Kaiser Associates Q1 2025 Dealership Survey, LendingTree
Note: totals may not add to 100% due to rounding

Consumer preferences

While consumer trends happen in years, not quarters, the start of 2024 saw a very public win for consumer support of individual car culture in the U.S.

Themes	What's Happening?	DCG's Retail Automotive Takeaways
1 Affordability and reliability are key	• ***Affordability***: while consumers stated purchasing priorities remain the same, increased interest in sedans (at the expense of SUVs and trucks) exemplifies the desire for cheaper options as vehicle prices rise.	• **We've reached peak truck,** as consumers finally push back and demand more vehicle options, particularly sedans, that are more affordable leaving some dealers struggling with their product mix.
2 Korean OEMs are continuing to capture consumer interest	• ***Brand preferences and body styles:*** interest in Korean OEMs (Hyundai, Kia) continues to grow, largely at the expense of Domestic brands Ford & Chevrolet – and **sedans are more popular this year than last.**	• **Manufacturers who have *listened* to consumers are better positioned in 2025** with an inventory mix that offers more options including: lower-cost, sedans, hybrid, less "loaded" vehicles.
3 BEV adoption is stabilizing; Hybrids still show growth	• ***Consumer EV adoption continues to stabilize:*** HEVs are becoming more popular as primary vehicle, but interest in BEVs has remained mostly stable versus last year.	• **Korean manufacturers** have figured out the perfect combination of product design, technology, price, and quality pushing them up among that most desired brands in the industry.
4 Consumers are having fun imagining the future again	• ***Autonomy (and other tech)***: after a few years "under the radar," consumers appear more interested in someday purchasing autonomous vehicles (but not any time soon!) while vehicle tech becomes a purchase driver again.	• **Tech is back and in demand:** technology is back in vogue as long as it serves a purpose - dealers can once again drive demand based on cool, new technology.

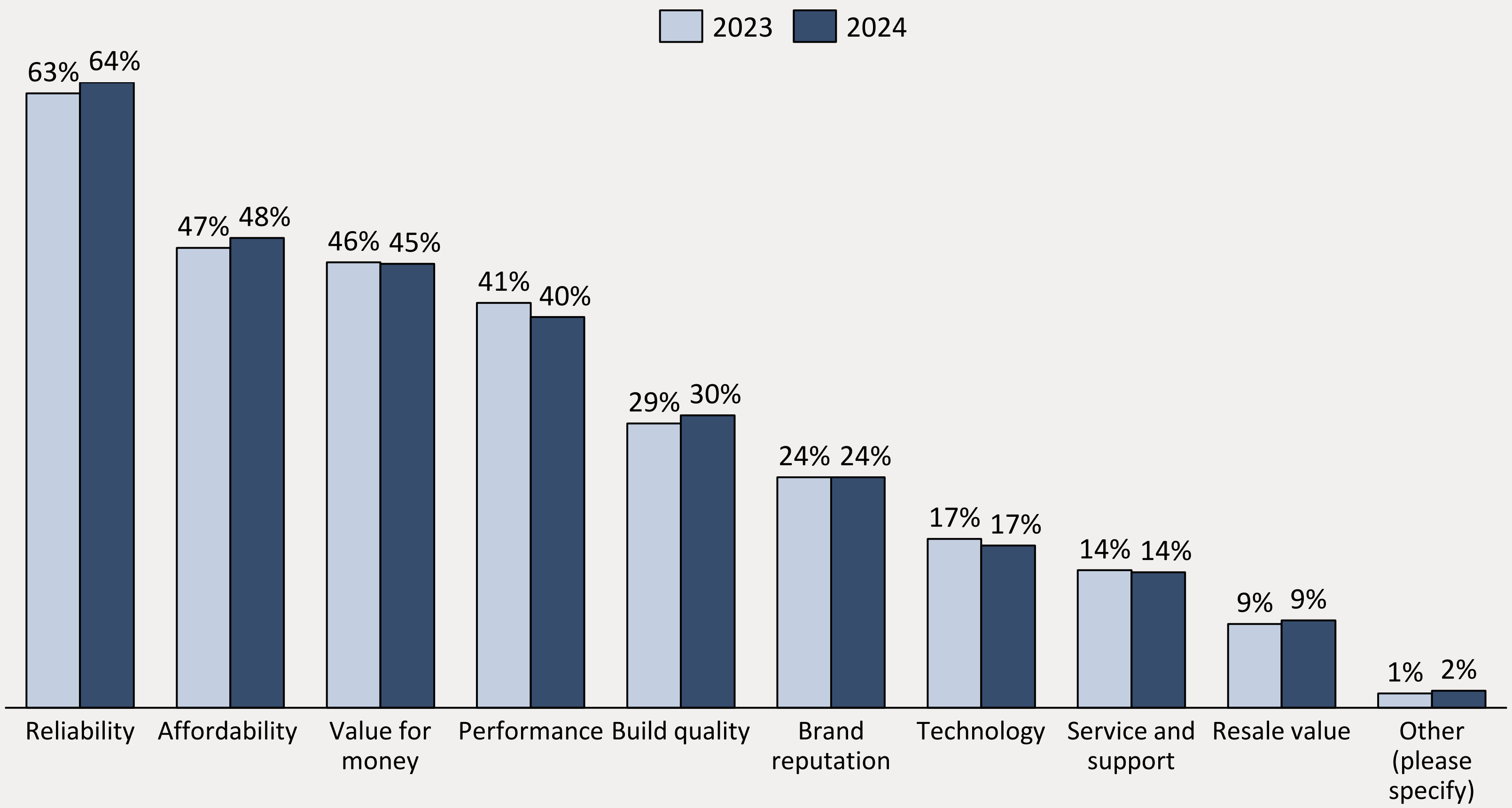
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ

Importance of affordability

Despite macroeconomic changes, affordability and value for the money have remained equally important to consumers; reliability has stayed most important

Key Purchasing Criteria

Q: When selecting a car brand, which are the top 3 most important criteria for you? (Percent of respondents selecting in top 3)



- **Reliability** remains the only factor cited by over half of consumers as a top 3 KPC.
- Slight increase in **affordability** as a criteria, which aligns with the decisions consumers are making on **body style** and **brand.**

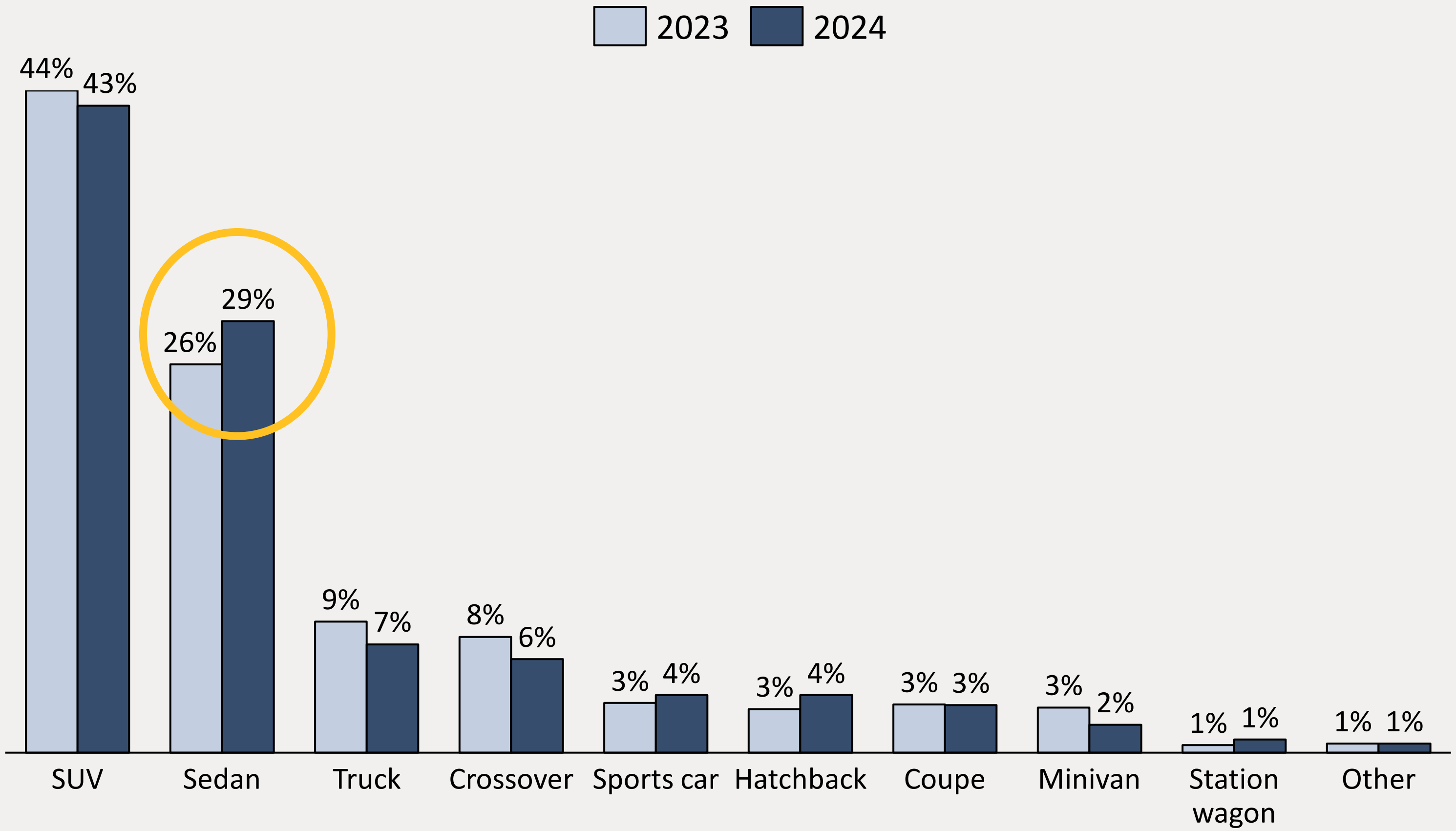
Source: Kaiser Associates Q1 2025 Dealership Survey

Consumers have hit “peak truck”

Consumers appear more open to sedans this year, possibly due to concerns over rising vehicle prices

Body Style Preferences

Q: When considering your next car purchase, which vehicle body style are you most likely to choose? Please select only one.



- Bucking the **longer-term trend toward SUVs and trucks**, consumers expressed **3-point greater interest in sedans** this year vs. last.
  - Consumers expect to spend **8% more on vehicles this year** and may be turning to sedans as a cost-saving measure.
  - **Financial constraints** and **concerns about the economy** are also driving delay of vehicle purchasing.
- However, **SUVs remained the most popular body style**, while interest in **trucks and crossovers decreased.**

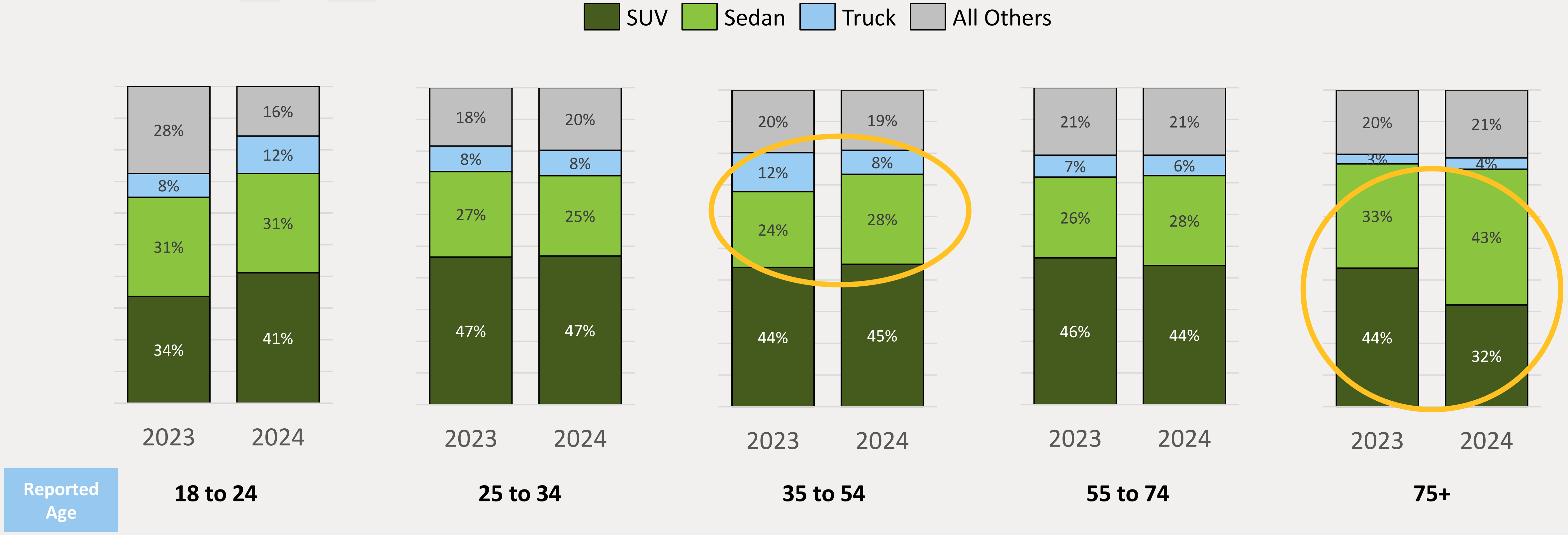
Source: Kaiser Associates Q1 2025 Dealership Survey

Emerging consumer cohorts are driving the shift from trucks

Shift away from trucks among core middle-aged consumer base (35 – 54), and older (75+) consumers may be moving back to sedans

Body Style Preferences (by age)

Q: When considering your next car purchase, which vehicle body style are you most likely to choose? Please select only one.



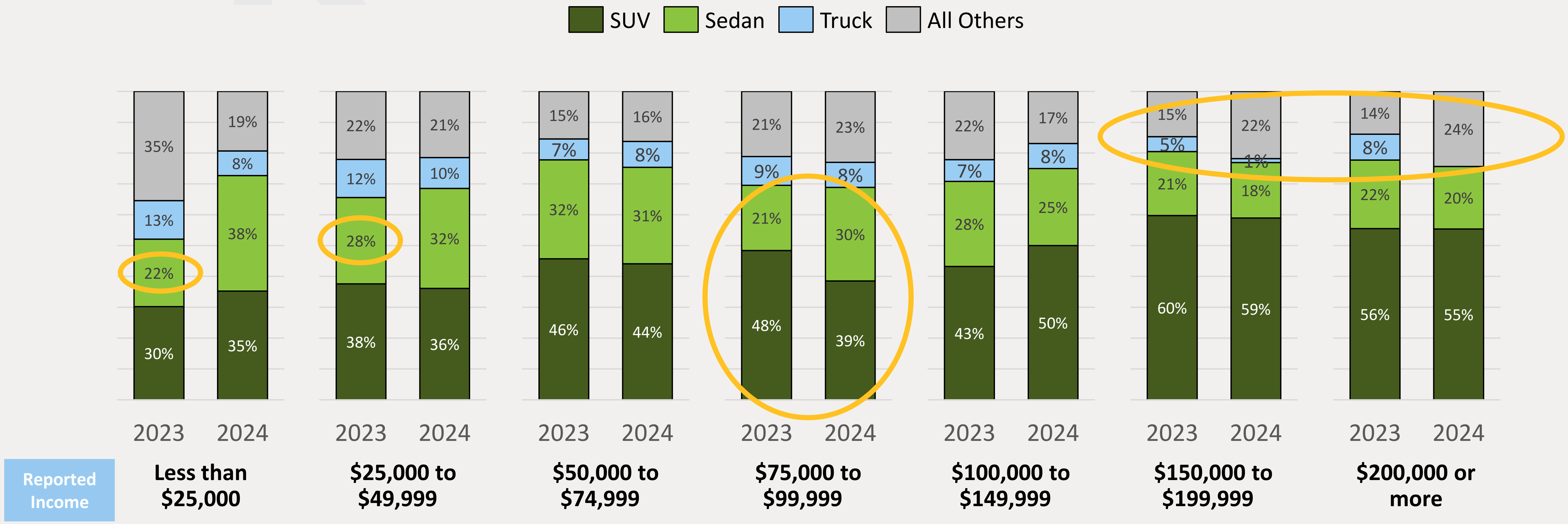
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Affordability is a driver

The decline of truck interest appears to span incomes, while spending tightens among buyers with income $75k-$100k appears to be driving a shift from SUV to sedan

Body Style Preferences (by income)

Q: When considering your next car purchase, which vehicle body style are you most likely to choose? Please select only one.



Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

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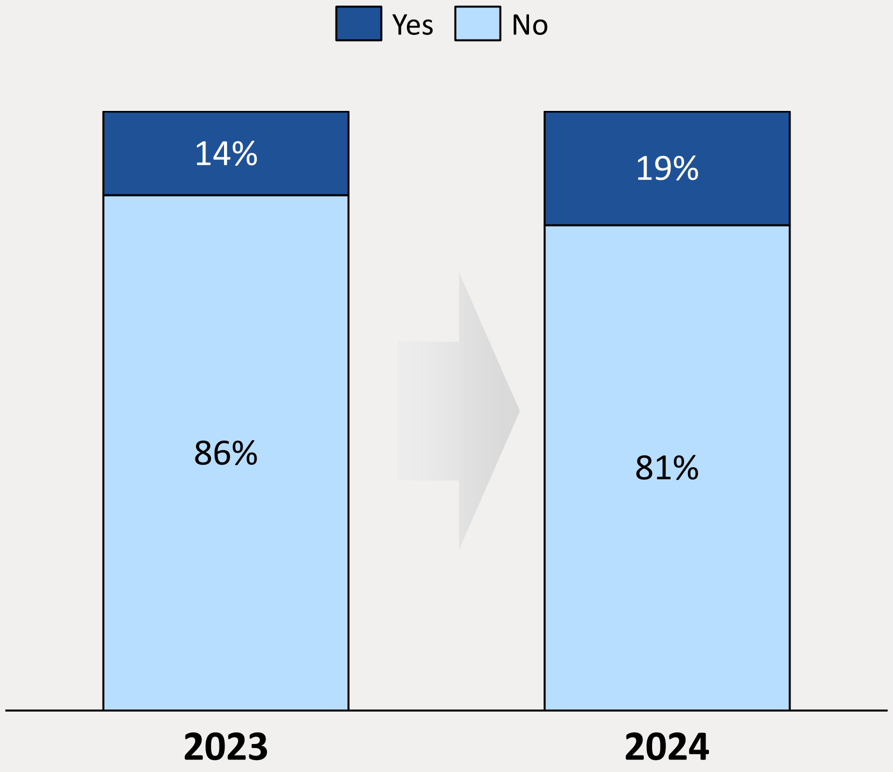
The “Waymo Effect”?

Consumers are (finally) experiencing autonomous rides at scale – at least on the streets of San Francisco – and consumer interest in autonomous vehicles is picking up again

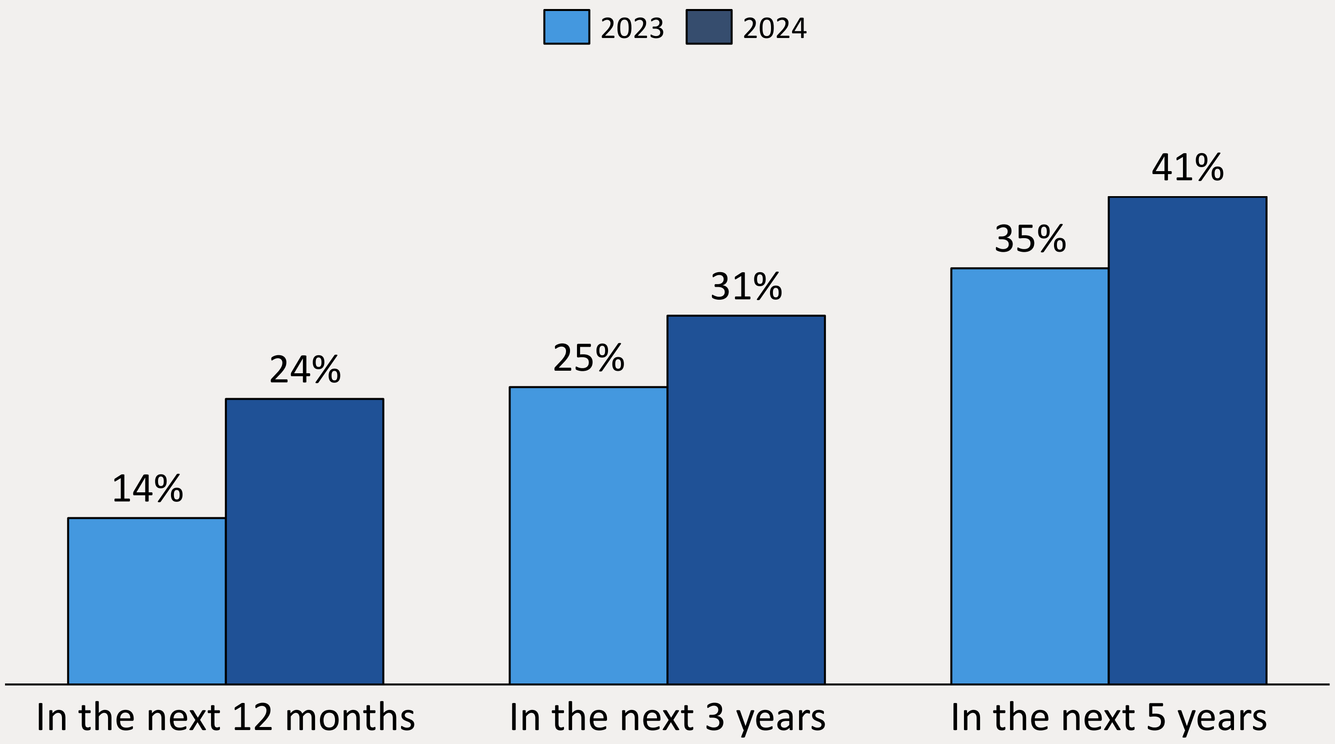
Current Interest

Q: Are you interested in purchasing a fully autonomous (fully self-driving) car today?



Future Interest

Q: Would you consider purchasing a fully autonomous car in the following timeframes? (% definitely or likely considering)



Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Politics and Regulation

Changing administrations creates uncertainty for the auto industry, with more support for dealers offset by the risk of trade wars and global protectionism

Themes	What's Happening?	DCG's Retail Automotive Takeaways
1 **Predictable Election Outcomes: EV Incentives, EPA mandates, China**	• ***The "definitive" U.S. election*** outcome adds some certainty - for now. • On its face, President Trump's mandate shows clear signs for policy shifts on EV (mandates and credits to drop), continuity on China policy (barriers to Chinese imports will increase) …	• **2024 was the year of normalization, creating critical predictability for dealers. Now in 2025, "predictability is out the window"** and dealers who stay on top of what's happening with policies and can move quickly and be nimble will find success.

2 **Unpredictable Outcomes: tariff impact on OEMs, policy impacts on consumer sentiment**	• ***… but the gap between Trump's campaign rhetoric and policy reality*** may not be as positive for the industry as it appears at first glance.
	  • EV interest has grown among *both* parties; disrupting the current pace of adoption will penalize dealers who have followed consumer interest in the segment.
	  • Across-the-board tariffs (especially Mexico and Canada) would dramatically increase costs, *even for domestic players*. Dealers may be stuck trying to pass costs onto strained consumers.
		• **2025 is a year for all dealers to take cues from the public retail automotive companies** on how they're forecasting impacts, and taking actions, based on policy.
		• **Trump administration policies** "cut both ways": trade and tariffs could bring costs up and threaten supply chains, while other policies could help dealers, OEMs and the broader economy.

3 **International Politics: national support for OEMs and industry**	• ***International politics*** is becoming increasingly important in 2025; China, Germany, Korea (and others) are looking at Japan and U.S. policy.	• **Nationalism and protectionism** worldwide will spur more government support of their domestic manufacturers – the big question is whether the U.S. government can match that support at home.

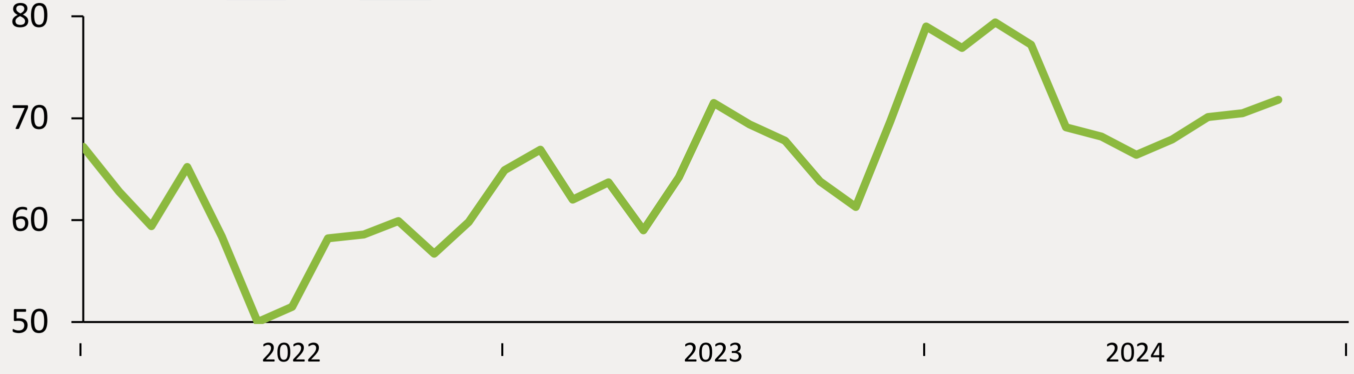
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ

Political Impact on Consumer Sentiment

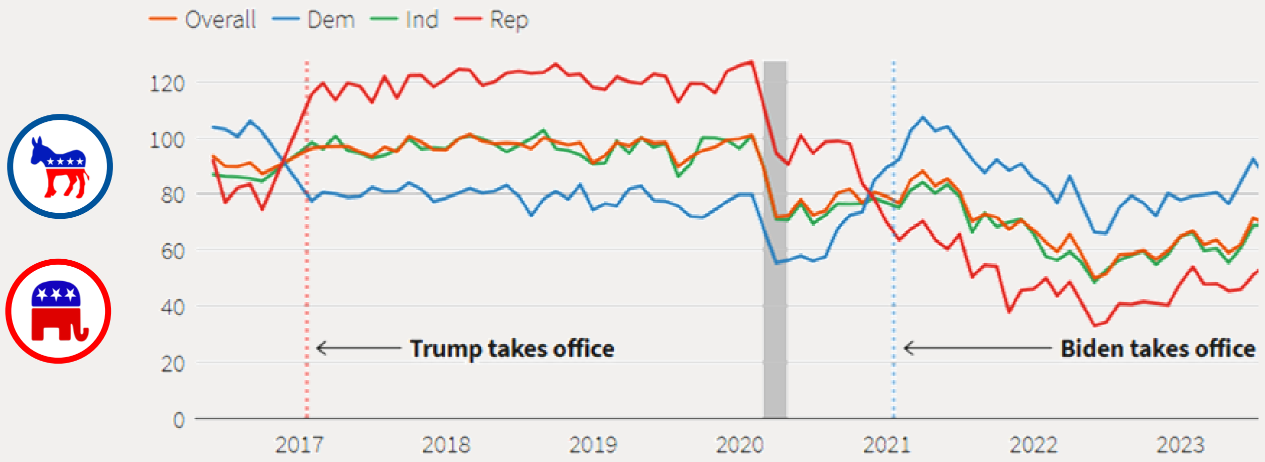
Post-election euphoria tends to "settle" within months of inauguration – President Trump's first 100 days will be crucial to watch

Consumer Sentiment

U.S. Consumer Sentiment, 2022 – 2024



U.S. Consumer Sentiment by Party Affiliation, 2017 – 2023[1]



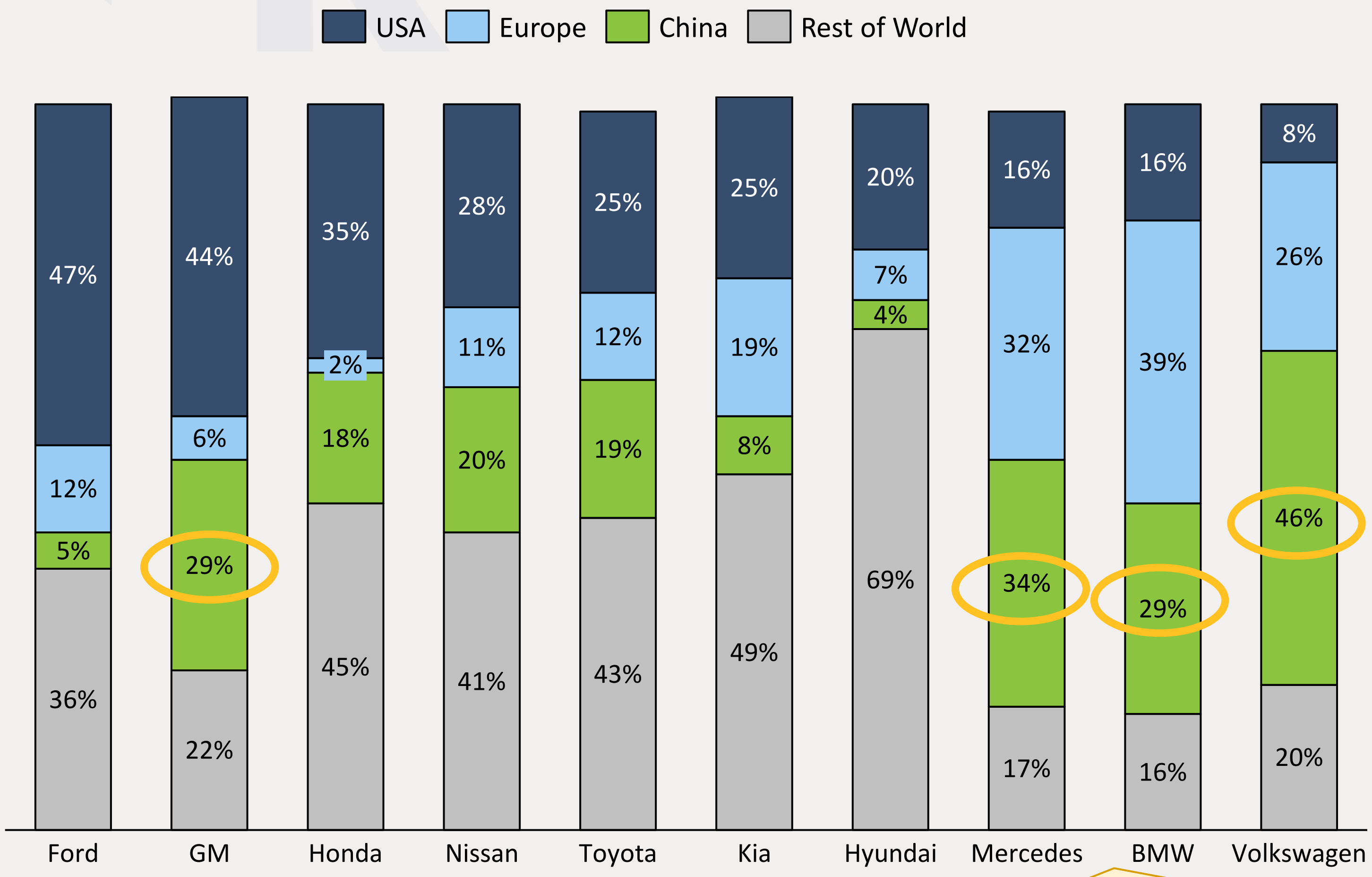
- **Consumer sentiment** is a reliable proxy for perception of affordability – and has improved over the past 2 years; overall consumer sentiment remains well below pre-COVID levels.
- **Political affiliation plays an outsized role** in sentiment: when presidential elections flip party, Democrat and Republican sentiment moves dramatically (in opposite directions).
- **"Reality sets in" after inauguration:** while Republican euphoria kept up under Trump 1.0, Democrats' sentiment fell within months of the inauguration. **Under Trump 2.0, policy <u>decisions</u> (not promises) over the first 100 days will be critical to watch.**

[1]*Source: University of Michigan Consumer Sentiment Survey*

International Politics

Foreign governments are showing increased willingness to invest in their respective domestic automakers; U.S. OEMs will have to react

OEM Sales by Region



Foreign Government Support

- **China** provides **substantial support to BYD** through direct investment, tax incentives, and R&D funding, totaling over $45bn in industrial spend per year.
- In **Vietnam, VinFast** has received substantial investments to build up financial reserves and accelerate growth.
- **Germany's government** has considered ways to support **Volkswagen** over the past year to avoid plant closures or job cuts.
- **Japan's government** has invested in **EV battery production** and **supported the potential merger of Honda and Nissan.**
- **U.S.** government has shown **hesitancy to financially support domestic automakers**, given past controversies.

OEMs with substantial exposure to China are facing an increasingly challenging market: where will they focus instead – and at whose expense?

Source: Dealer annual reports

OEMs and Supply Chain

Consolidation is going to be a major force in 2025 as OEMs confront the limits of the "fewer but more expensive" strategy of the post-COVID era

Themes	What's Happening?	DCG's Retail Automotive Takeaways
1 **"Fewer but more expensive" strategy is showing limitations**	***"Fewer but more expensive" strategy showing limitations:*** new vehicle days supply up 30%+ vs a year ago, as OEMs slowly increase production. Dealers are incentivizing new purchases in response to consumer wallet pressure. The "fewer but more expensive cars" strategy for most OEMs is proving hard to sustain (*and this is a driver of rising consolidation interest).*	**OEMs are no longer a monolith:** OEMs are defining their own unique strategic advantages and differentiating from one another more than ever. For dealers, it's critical to understand the long-term approach and bets their business partners are making.
2 **Major consolidation and partnerships are happening – and more are coming**	***Consolidation suddenly on the horizon:*** Honda/Nissan announcement foreshadows more to come. The government-backed merger ups the pressure on other governments to help their automakers find competitive advantages in 2025.	**More OEM partnerships will emerge** as competition heats up and political lines are drawn. Watch carefully as regional OEMs team up or manufacturers who are aligned on a strategic business direction team up for competitive advantage.
3 **OEM <-> Dealer relationships are going to evolve more in 2025**	***Network Control***: dealers are reporting that OEMs are exerting more control (leveraging ROFR more strategically to decide whether to allow new dealers into systems); the direct-to-consumer model will continue to challenge the status quo dealer model.	**OEMS are flexing network control** over the make up of their dealer body and what they're asking those dealers to do. Alignment is everything in 2025.
4 **Supply Chain challenges are firmly behind us**		**Practical technology will drive differentiation,** not all manufacturers are ready to deliver what customers want at a price they can afford.

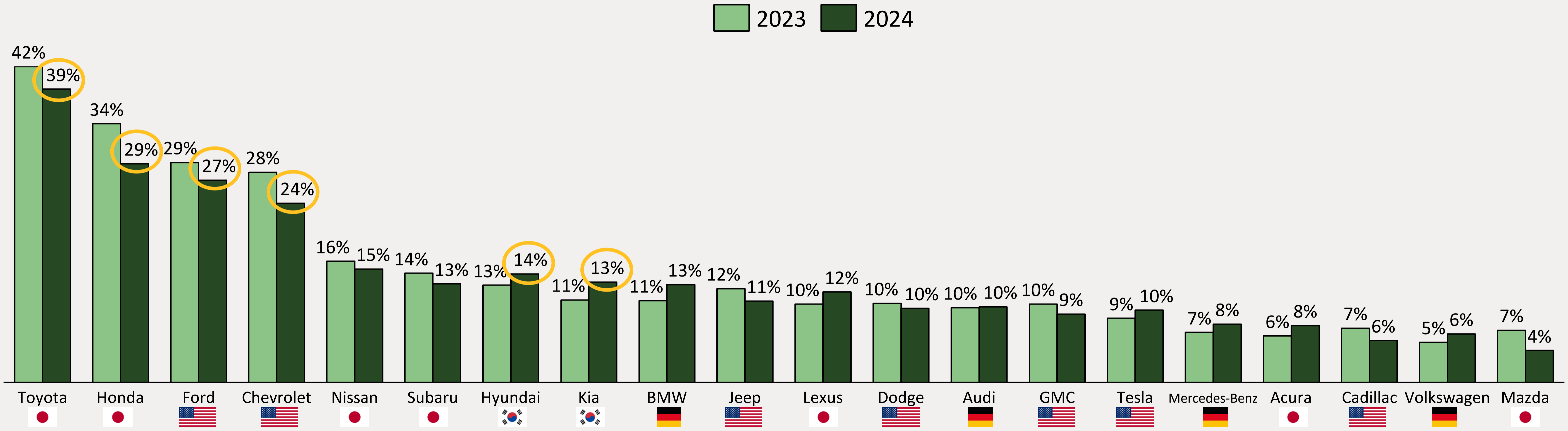
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ

View on OEMs

Respondents in this year's survey expressed increased interest in Korean auto-makers (Hyundai, Kia) while decreasing interest in the top Japanese and Domestic OEMs

OEM Preferences

Q: When considering your next car purchase, which brand(s) are you most likely to consider? (Select up to 5 options)



- Interest in both **Japanese** and **Domestic** automakers appeared to decline this year, while consumers expressed **greater interest in purchasing from Korean automakers.**
- Despite **rising car prices,** top **luxury brands** (e.g., BMW, Mercedes-Benz, Acura) saw **small increases in consumer interest.**

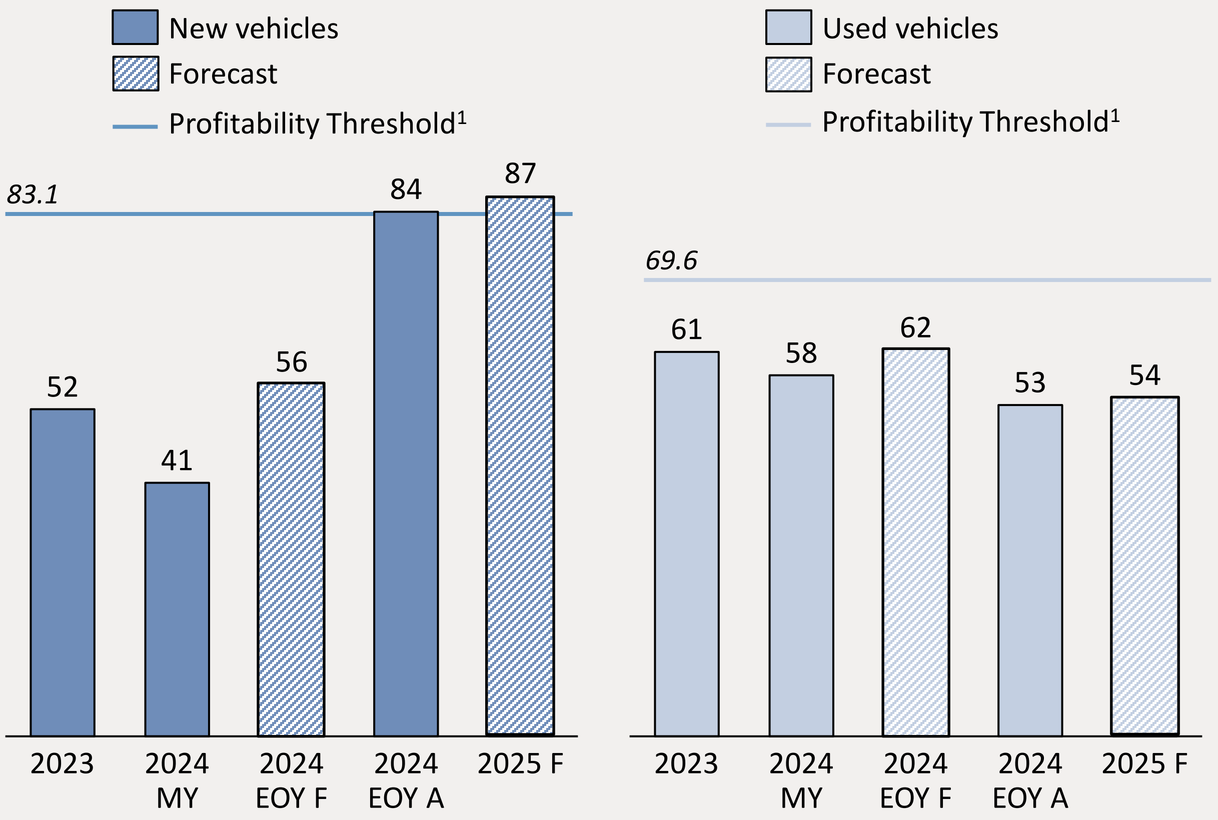
Source: Kaiser Associates Q1 2025 Dealership Survey

Days Supply & Profitability

Dealers have "gotten into a groove" for the used segment; new cars are more challenging for inventory and profitability

New & Used Vehicle Days Supply

Q: What is your average days supply for the following at your dealership today? What do you expect the days supply at your dealership to be in ~6 months?



- **Days supply for new vehicles increased substantially** from ~50-60 days in 2023 and mid-2024 to ~80 days by the end of 2024, and the trend is not expected to abate in 2025.
  - The slim margin to the profitability threshold of 83.1 days results in **67% of dealers fearing profitability in the new vehicle segment will be lower in 2025 relative to 2024**, continuing a trend of difficulties from 2024 relative to 2023.
- **Used vehicle days supply has been fairly consistent** across the past 2 years, hovering around 60 days and comfortably below the profitability threshold of 69.6 days.
  - Accordingly, **50% of dealers project profitability from the used vehicle segment to be improved in 2025 relative to 2024.**

[1] *What level of days supply for the following would your dealership(s) need to comfortably maintain profitability?*

EV Trends

EV is here to stay, and the EV/Hybrid segment becomes a growth driver

Themes	What's Happening?	DCG's Retail Automotive Takeaways
1 Tesla faces growing competition	• ***Tesla*** continues to play the long game as autonomous driving picks up steam again; but competition is fiercer, something that is good for the industry.	• **Tesla will be fine:** yes, they are facing challenges from a lack of innovation in their product mix combined with increased competition, but this is a result of success from other manufacturers which is good for the U.S. dealer body.
2 Chinese OEMs are less likely to enter	• ***Chinese OEMs' U.S. dreams are now just dreams***: with the election outcome, Chinese OEMs are unlikely to see any additional progress on entering the U.S.	• **Hybrid and EV together** represent a legitimate growth opportunity in the industry right now – and many dealers are now more willing than ever to sell them as they understand that EV/Hybrid UIOs are great for fixed operations.
3 Growth in interest spans political groups	• ***Hybrid interest remains largely unaffected by BEV struggles, and BEV demand is looking stable too.***	• **Dealers are realizing** EVs are great for fixed ops; there are sticky needs just like oil changes, less capable third-party service competitors, expensive parts, and lots of manufacturer money to fix recalls and warranty covered repairs.
4 HEV continues to show strength	• ***Based on voting patterns:*** while Harris voters express greater overall interest in EVs, likelihood to purchase has increased relatively evenly across both parties in the past 12 months (10% for Harris voters compared to 9% for Trump voters).	• **Election outcomes** won't change EV adoption in many places for the long-term … improving infrastructure, better battery technology, more affordable vehicles will continue to drive growth.

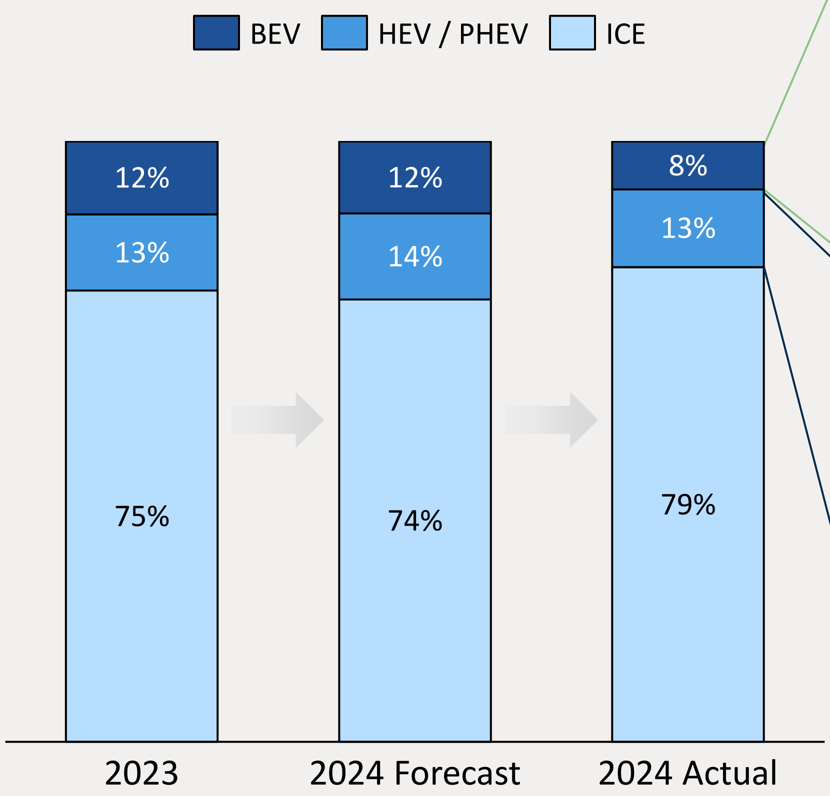
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ

EV Whiplash

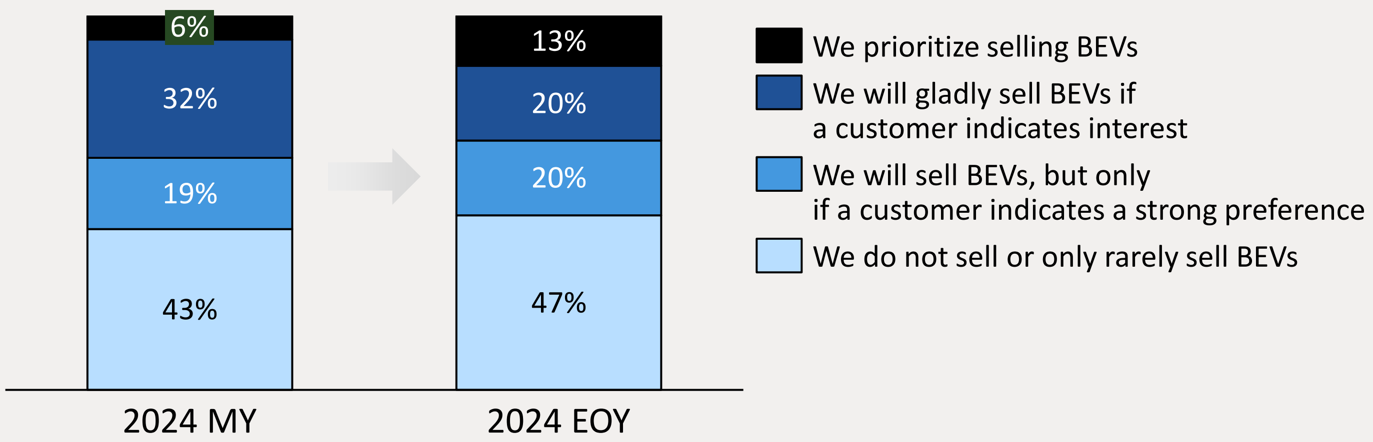
While some dealers have increased their focus on HEVs, ICE engines make up a larger share of 2024 sales than dealers predicted they would 6 months ago

Sales Share by Vehicle Type

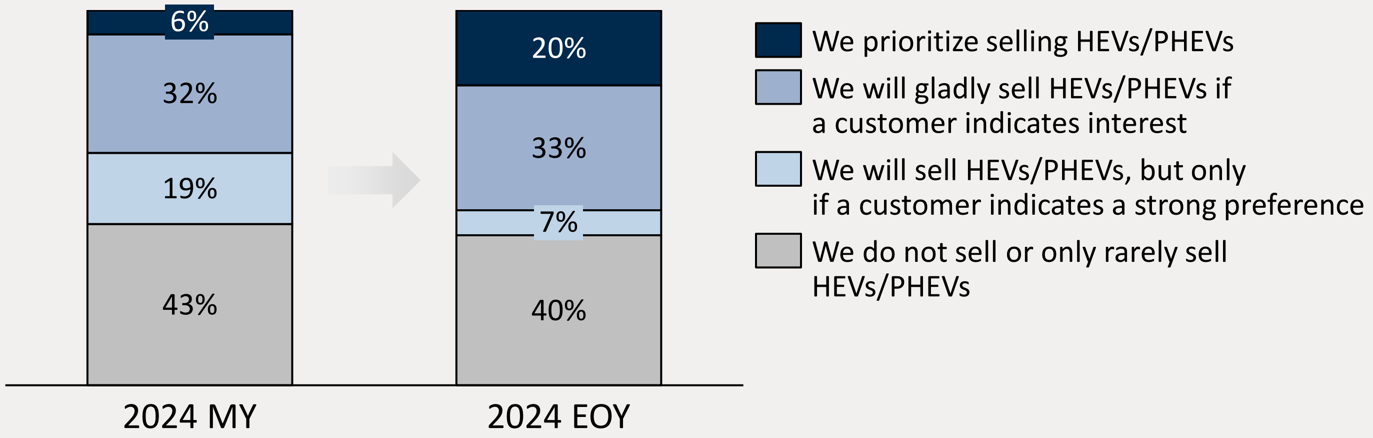
Q: In [year] what percentage of your dealership(s) new vehicle sales do you estimate will have each of the following engine types?



Q: How would you describe the sale of BEVs as they relate to your dealership business?



Q: How would you describe the sale of HEVs/PHEVs as they relate to your dealership business?



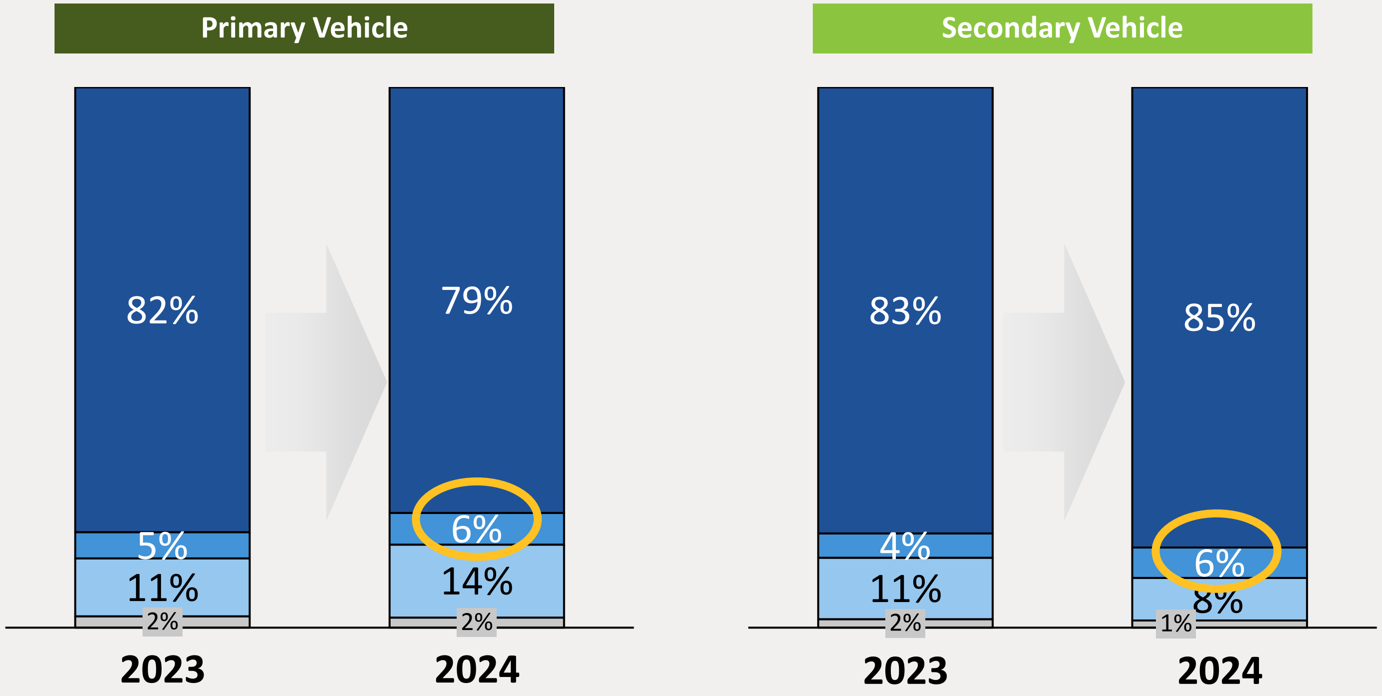
EV Trends

While hybrids continue to grow as a share of primary vehicles, BEVs are holding steady at ~6% of units

EV Ownership

Q: Is your primary vehicle currently Electric, Hybrid, or Internal Combustion (gas) powered? If you have a secondary vehicle, is it Electric, Hybrid, or Internal Combustion powered?

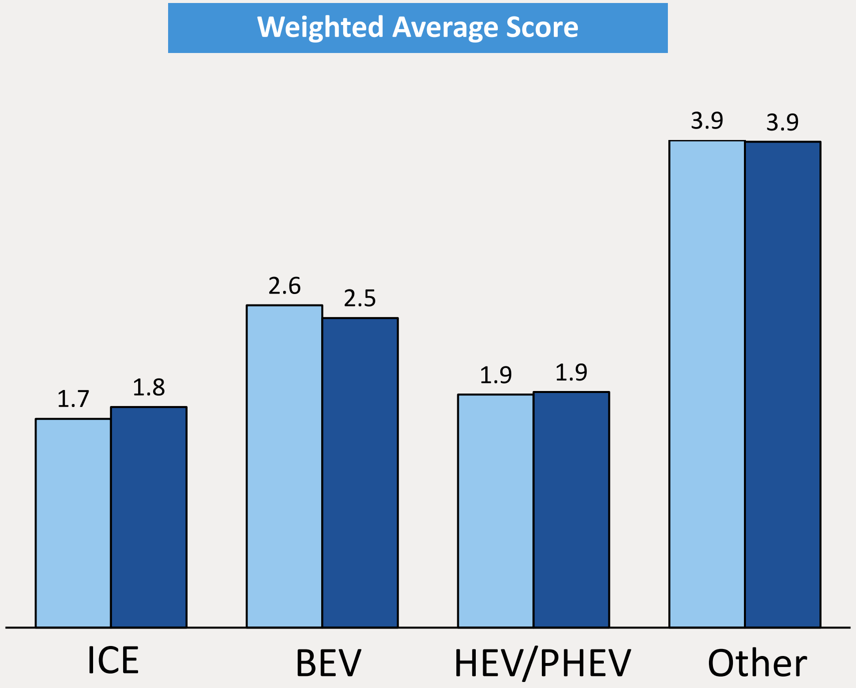
Internal Combustion Engine
Electric Vehicle
Other (please specify)
Hybrid



EV Interest

Q: Considering your next car purchase, please rank each of the following vehicle types in order of your level of interest (1 – 4 scale where 1 is first choice)

2023
2024



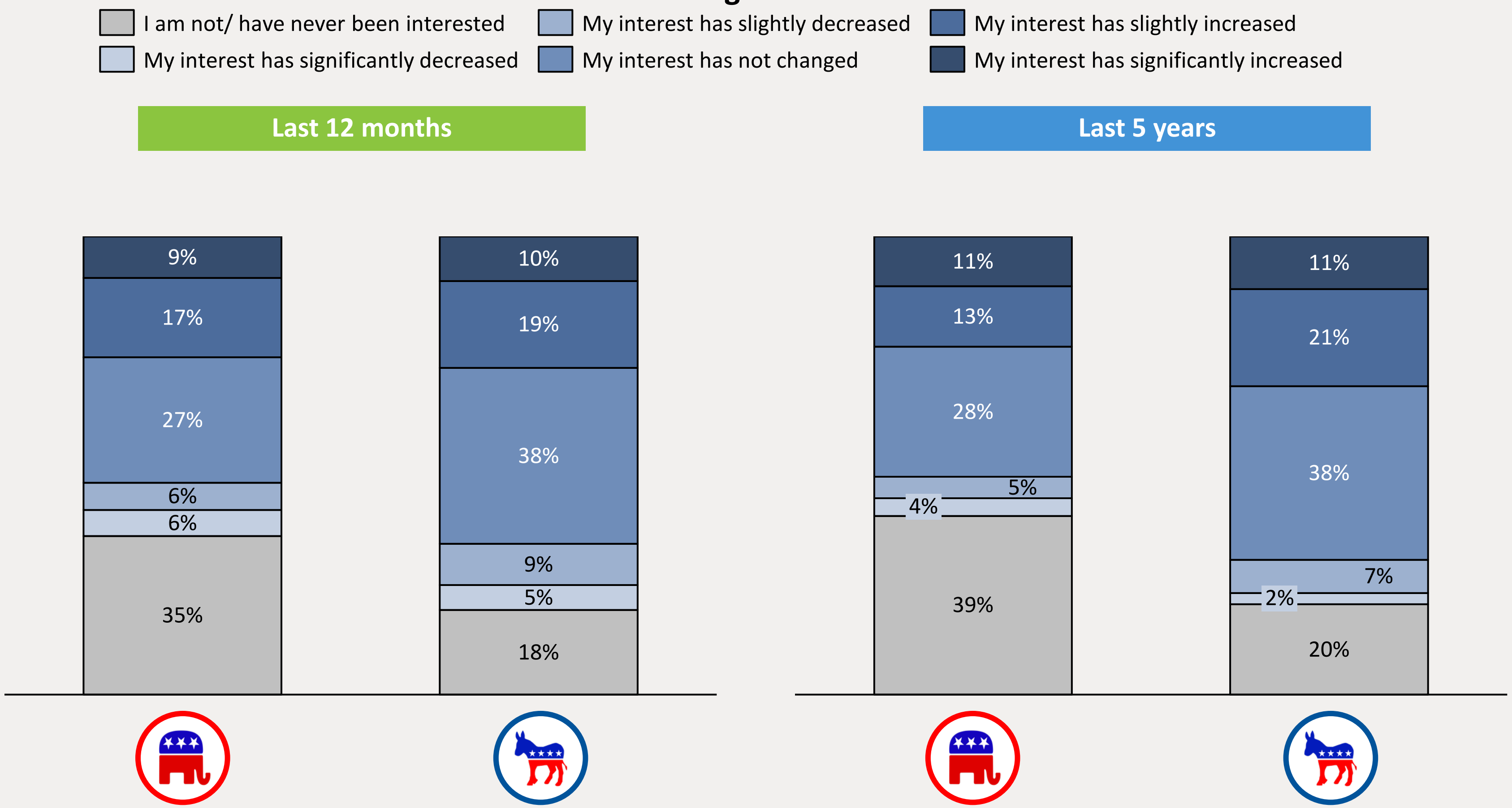
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Interest by Party

Both Harris and Trump voters see relatively steady change in EV interest over the past year and five years – despite the cliches, EV interest is decreasingly a political statement

Change in EV Interest by Party

Q: How would you describe whether your interest in purchasing an electric vehicle has changed over the following timeframes?



- Harris voters are more interested in buying EVs at a base line level but **interest from voters in both parties has increased relatively evenly.**
- Over the past year, **only 3% point** difference in increased interest.
- **EVs seem to be trending** across affordability, practicality, and performance lines, **not as a divisive political issue.**

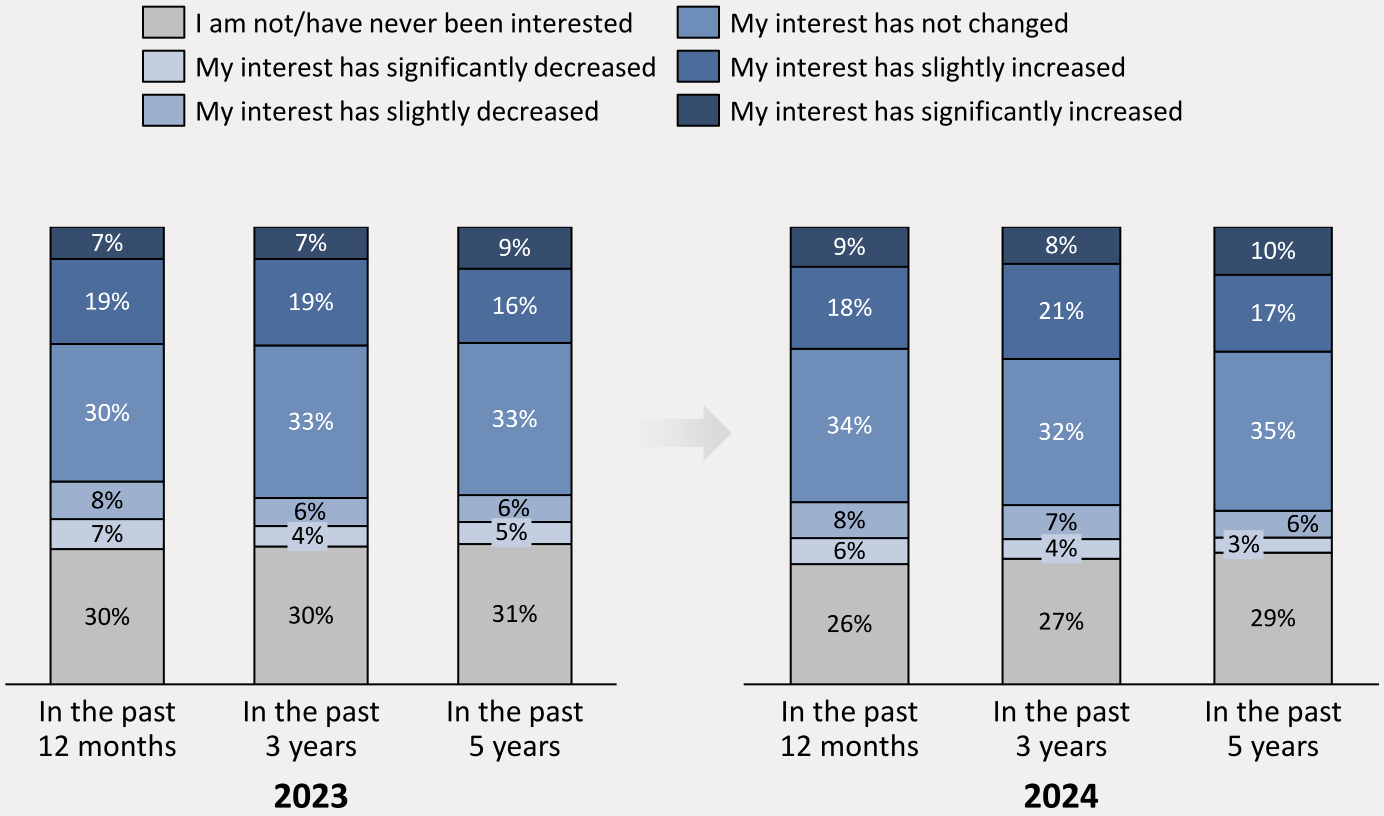
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Change in EV Interest

Consumer interest in EVs continues to trend slightly up, with 27% of surveyed customers reporting an increase in interest over the past 12 months

Change in EV Interest

Q: How would you describe whether your interest in purchasing an electric vehicle has changed over the following timeframes?



- Every year Kaiser has surveyed consumers, we have found that the **share of consumers with "no interest" in EVs has shrunk.**
- While unit sales of BEVs no longer show consistent growth, the **durability of BEV (and HEV) demand is indisputable.**
- More and more, the EV category looks like a **mature technology: the mainstream consumer considers it as one viable option among many**, and consumer circumstance/job to be done is more likely to drive EV purchase **than an ideological commitment to the technology.**

Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Dealership Performance Trends

Dealers' cautious optimism at the middle of 2024 was not fully rewarded, but current conditions point to "business as usual," not "crisis mode"

Themes	What's Happening?	DCG's Retail Automotive Takeaways
1 As expected, the easy money is over …	• ***Revenue and profitability outlook:*** profitability continues its long-term normalization as consumer price sensitivity begins to restrict price-taking relative to MSRP by dealers, resulting in softer new vehicle segments – although price points remain elevated, and dealers continue to project modest revenue growth largely due to fixed ops and F&I growth.	• **Dealer performance for new vehicle sales** will increasingly be at the mercy of OEMs: brands without models meeting consumer demands (lower-priced, sedans, etc.) and proper inventory, finance and incentive strategies will have trouble.
2 … as sales prices are increasingly discounts of MSRPs and days supply extends …	• ***Inventory***: new vehicle days supply has sharply increased at the end of 2024, and is expected to remain elevated through 2025, underlining difficulties experienced by dealers in getting cars off the lots.	• **Technology** will differentiate top dealers from "the rest of the pack": those that incorporate robotics and AI can save time and money, and will drive greater M&A as mom and pops struggle to compete.
3 … while P&S is holding up better than F&I	• ***Relative importance of F&I, P&S vs 6 months ago:*** in light of decreasing profitability from new (and used) vehicle segments, P&S and F&I continue to drive dealer profitability. – P&S has been a reliable pillar for dealers to lean on: the service bay is maintenance, not repairs. Value-added upsells and capturing incremental dollars during routine visits is key.	• **This is the year white-glove service** goes mainstream: mobile service and other touches can differentiate dealers and create brand new revenue streams. Dealers can only squeeze so much more profit out of fixed ops.
4 On the engine front, focus has shifted back to ICE and away from electric alternatives	• ***Back to traditional engines:*** disjointed adoption of EVs across the industry has dealers turning back to ICE, in turn providing a potential boost to the P&S segment.	• While **used cars are back as a profit generator,** and could see an even bigger lift if inflation or policies keep new vehicles prices elevated.

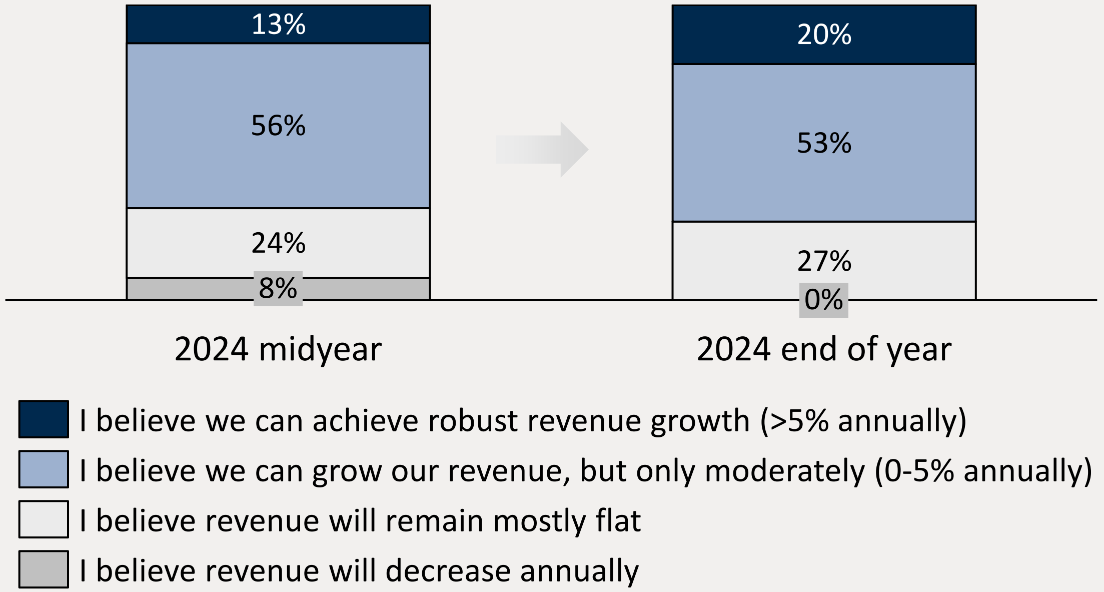
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ
[1] See appendix for Expected Impact Definitions

Top and Bottom-Line Forecasts

Dealers anticipate marginal gains to sales revenue in the near future, but are feeling the squeeze of tightening profit margins

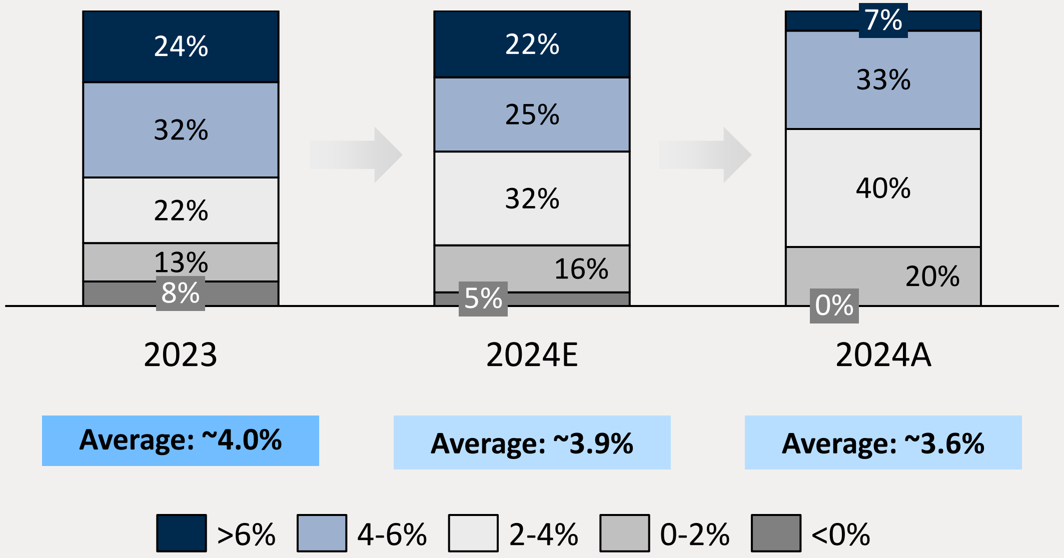
Revenue Outlook

Q: Which of the following statements best describes your outlook towards revenue growth for your dealership(s) over the next 2 years?



Profitability Results

Q: What was the pre-tax profit margin of your dealership(s) in [year]? What do you expect the pre-tax profit margin it to be in [year]?



- Revenue growth expectations remain largely unchanged, with **most dealers still forecasting moderate (~0-5%) annual growth** over the next 2 years.
- Profitability results highlight a less advantageous environment for dealers, as **average pre-tax margins for 2024 come in both below 2023 levels and 2024's mid-year expectations** – continuing the industry's downward trend since COVID-era heights.
  - **Sagging profitability stems largely from the new vehicle segment**, where >65% of dealers project 2024's year-over-year decrease in margins to carry on in 2025.

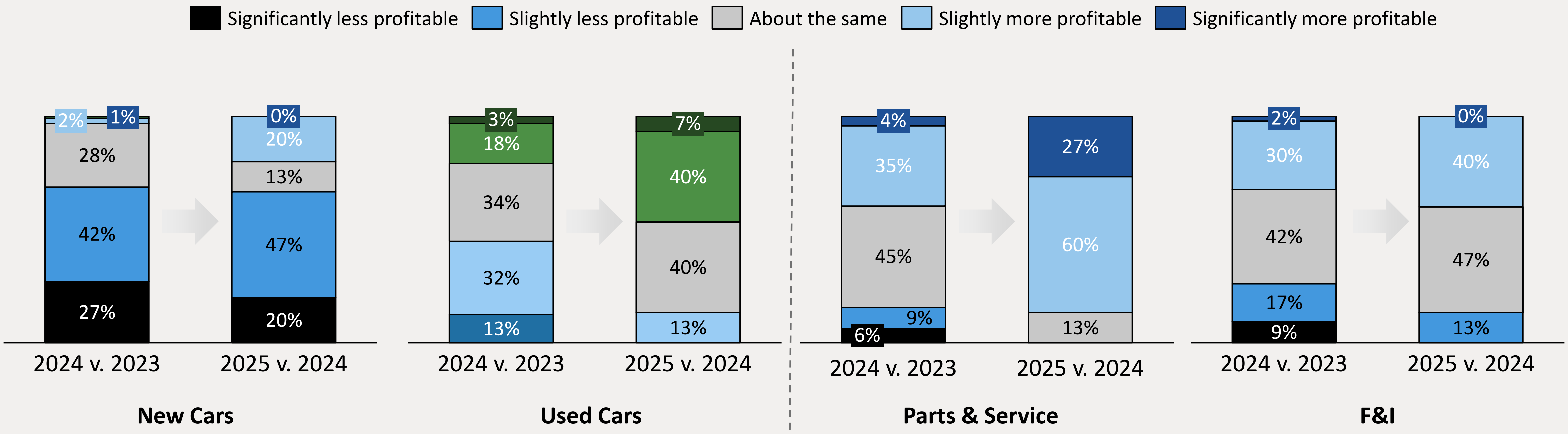
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Segment Profitability

Dealers expect parts & service to drive most profitability gains next year, while new vehicle sales are expected to face decreasing profitability

Expected year-over-year profitability

Q: Without any strategic changes, how do you anticipate the profitability of each of the following segments will compare to last year



Dealers expect **strain on profit from new cars** as average selling price over MSRP drops, but many expect **used cars** to become more profitable in 2025

F&I is expected to **remain a stable or slightly increasing** source of profit for dealers, while many expect **parts and service** to become **much more profitable** in 2025

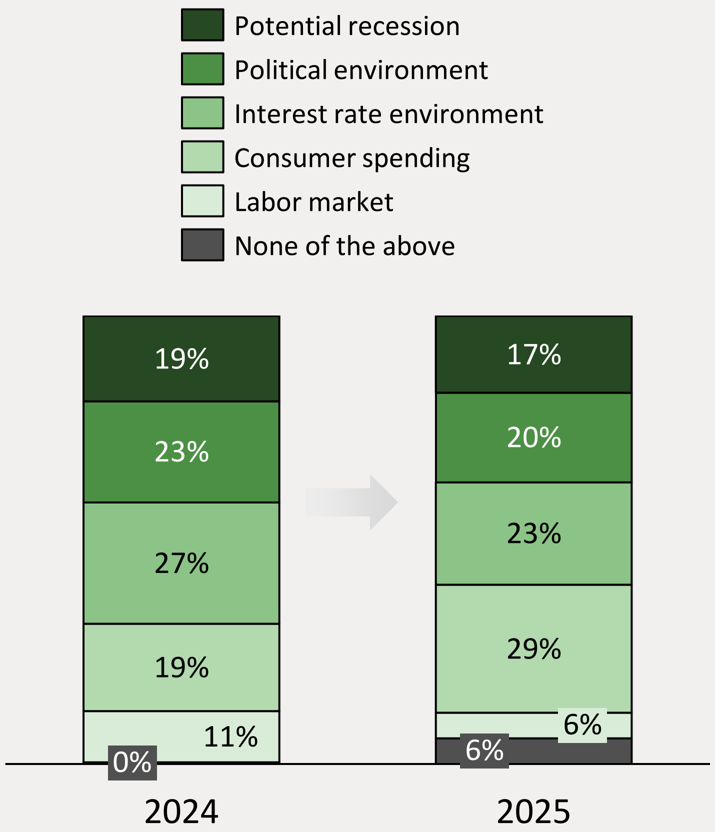
Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

Macroeconomic Risk

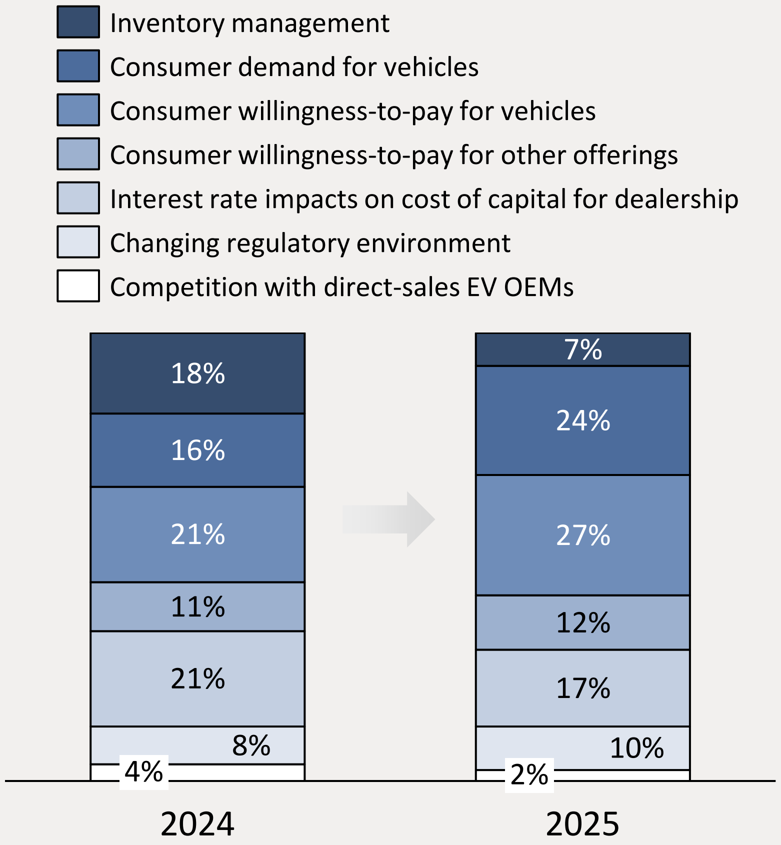
Political concerns of 2024 have given way to consumer demand-related skepticism, while interest rates remain a consistent but slightly decreasing worry

Drivers of Profitability

Q: Which <u>macroeconomic factors</u> (if any) do you believe will pose a significant challenge to your dealership profitability in [year]?



Q: Which <u>dealership-specific factors</u> (if any) do you believe will pose a significant challenge to your dealership profitability in [year]?



- **Consumer demand for vehicles** and **willingness-to-spend are both top of mind for dealers** facing longer inventory holding times and more selective buyers heading into 2025.
  - **Days supply of new vehicles has crept up** from 40.6 days in mid-2024 to 79.6 at the end of 2024 – with dealers expecting a continued difficult road in 2025 (82.3 projected days supply); despite this, **dealers do not forecast inventory management to hamper profitability in 2025.**
  - **65% of dealers report their average new vehicle selling for below its MSRP** in 2024, compared to just 39% of dealers reporting the same in 2023.
- Dealers report **increased comfort following 2024's presidential and congressional elections** as fewer believe the political environment will challenge dealership profitability.
  - The **Trump administration is unlikely to maintain the Biden administration's push for EV adoption**, in turn increasing the relevance of ICE vehicles and parts & service departments at dealerships.
  - Such a sentiment from dealers also likely echoes **overarching popular support for Trump's handling of the economy**, as 55% of voters trust Trump to make good decisions about economic policy (compared to 45% feeling the same way for Harris).[1]

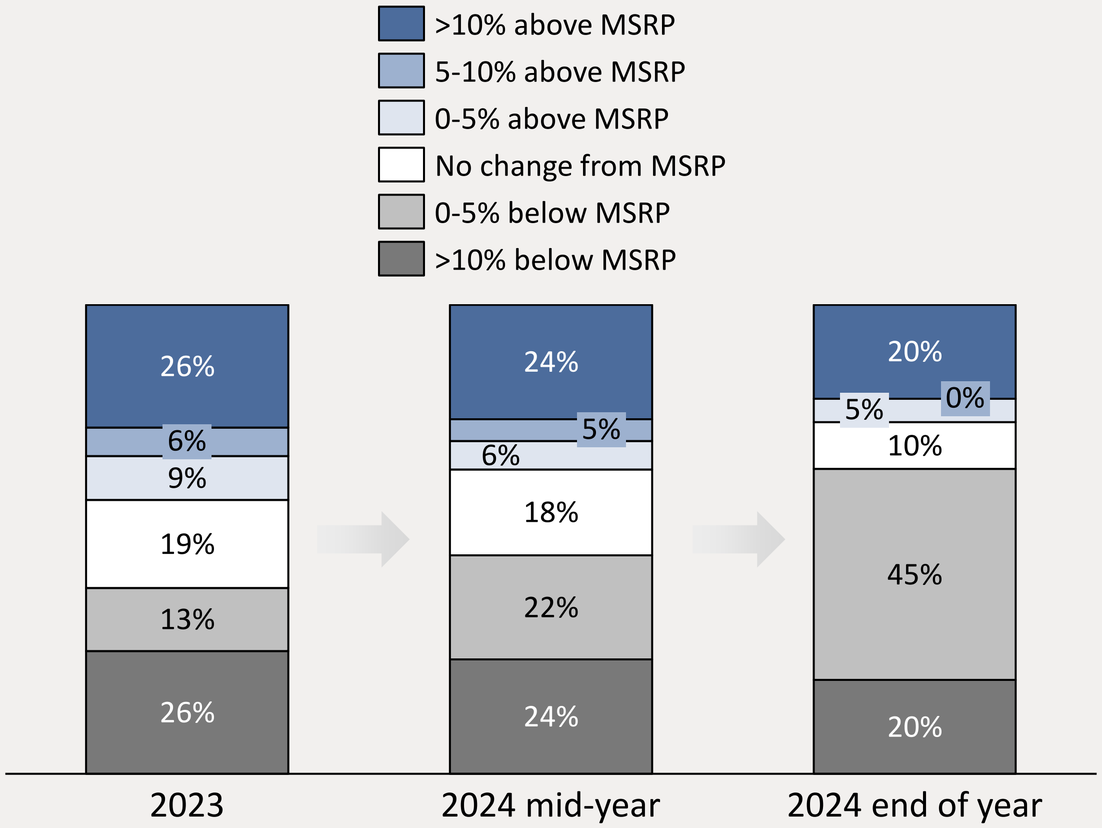
Source: Kaiser Associates Q1 2025 Dealership Survey
[1] Pew Research Center, Sept. 2024
Note: totals may not add to 100% due to rounding

Price Sensitivity

Relative to a year ago, new vehicle pricing relative to MSRP has come down meaningfully as consumers hit the breaking point

Vehicle selling prices

Q: Including incentives, how much is your average new vehicle selling for relative to MSRP in [year]?



- Decreasing new vehicle sales prices (relative to MSRP) point to a **weaker consumer spending environment** that dealers must navigate entering 2025.
  - Cost-conscious consumers feeling the squeeze of inflation across their budgets are **increasingly willing to negotiate with multiple dealerships** to secure a preferential price, in contrast to the relative free spending attitude seen in years past.
    - **68% of consumers report shopping at 2 or more dealerships** in 2024, up from 62% in 2023 – and **84% report they plan on shopping at least 2 dealerships** for their next vehicle purchase.
- With a more difficult new vehicle sales backdrop, dealers looking to maintain revenue growth may increasingly turn to **lower-margin used vehicles or attempt to increase F&I attach rates.**
  - **Steadiness in the F&I segment** is noted by dealers, ~85% of whom expect its profitability to remain the same or grow in 2025.

Source: Kaiser Associates Q1 2025 Dealership Survey
Note: totals may not add to 100% due to rounding

M&A Trends and Forecast

M&A activity slowed in the second half of 2024, but is poised for acceleration throughout 2025

	Themes	What's Happening?	DCG's Retail Automotive Takeaways
1	With "houses in order," larger dealers look to acquisitions for growth	• ***2025 will see significant dollars moving off the sidelines:*** in 2024, the larger groups focused on finding their new normal and driving profitability; in 2025 those groups are aggressively looking to grow via acquisition. 2025 still expected to have more dealerships trade hands than in 2024.	• In 2024 we predicted that dealers would either figure out the new normal or struggle for profitability. **In 2025, those who didn't figure it out are going to contend with dramatically de-valued assets**.
2	… and while buyers are willing to purchase for the right price, they are being selectively patient	• ***Valuations have moderated but buyers will pay big for great assets:*** dealers voice a desire to revert to an M&A-driven mindset with buyers and sellers are more aligned now on value than at any time since Covid.	• Buyers are aggressively pursuing M&A in 2025 but **are being very strategic about what they're looking to buy – and are willing to pay for what they want**. More deals than even in 2025 will be done by dealers targeting acquisitions that are "not for sale.".
3	Bigger is really becoming better …	• ***The bigger is better tipping point is behind us*** and in 2025 we'll see acceleration in acquisitions by larger groups looking to create synergy and achieve geographic scale that can take advantage of things like technology that smaller groups can't employ.	• **More dealers this year will sell great assets**, as part of a strategic slimming of their platform, not because they're getting out of the business or because the assets are not performing.
4	… but sometimes smaller is better too.	• ***Some larger private groups are scaling down to compete***, also driving M&A activity. We'll see a trend of strategic divestitures as private companies tighten their holdings and their footprint to compete more effectively and drive more profit where they can operate the best.	• 2025 will be the busiest year in retail M&A history **so every dealer needs a strategy**.

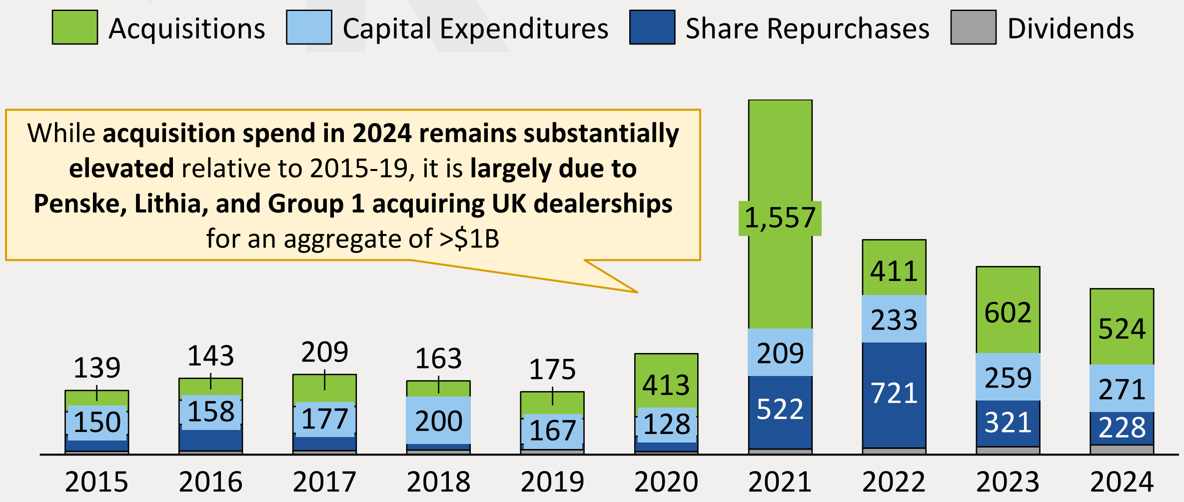
Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ

[1] See appendix for Expected Impact Definitions

M&A Outlook

As valuations and deal activity near pre-COVID norms, deflated seller valuations offer an opportunity for measured optimism for increased deal volume in 2025

Avg. Publicly Traded Capital Allocation by Category, ($mn), 2015-2024

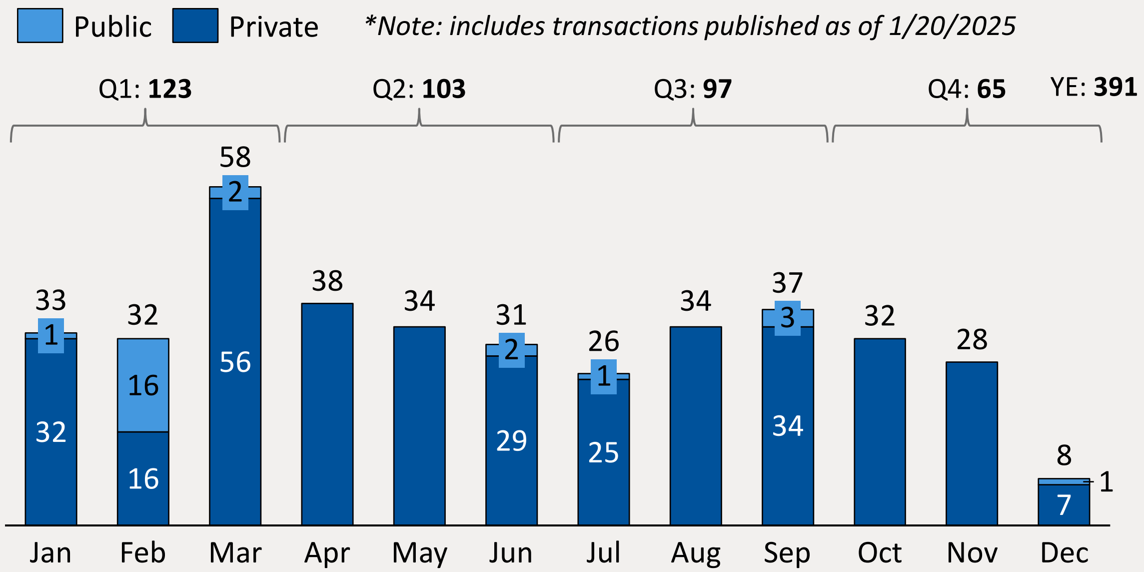


AutoNation	*"We see **moderation in seller expectations** for franchise store valuation, and **look forward to putting more capital to work on acquisitions**"*	
LITHIA	*"The M&A market today, we believe, is **starting to loosen up**. But what we're seeing is that it may take a few more quarters…**a lot of things sold for exorbitant prices**"*	
GROUP 1 AUTOMOTIVE	*"**Quality acquisitions are still more expensive** and I think that prices will continue to compress. We're going to **remain balanced in terms of capital allocation**"*	
PENSKE	*"[For potential acquisitions] we look at **what's the future opportunity from the standpoint of profitability** and **do we have synergies in the market**?"*	
ASBURY AUTOMOTIVE GROUP	*"The cash we generate, **we can deploy towards the net leverage and look for [M&A] opportunities as they come**"*	
Sonic Automotive	*"We continue to maintain a **conservative balance sheet approach**, with the ability to deploy capital strategically as the market evolves"*	

M&A Sentiment

Bearish — *Bullish*

2024 Rooftops Acquired to Date*



- The surge in dealership M&A activity from 2021 to 2023 **may have cooled off, but 2024 still showed elevated transaction volumes compared to pre-COVID norms** (~300-350 stores per year).
  - Deal volume was relatively consistent in Q2-Q4, while Q1 2024 was particularly strong.
- In contrast to previous years, **several public dealership groups appear to have turned their focus to consolidation** of locations instead of expansion.
  - Neither AutoNation nor Asbury Automotive purchased any stores in the U.S., while only Lithia Motors had a net increase of greater than 10 U.S. locations.

Source: Kaiser Primary and Secondary Research & Analysis; DCG Data insights / JIQ, SEC Filings, Auto News Buy/Sell Data

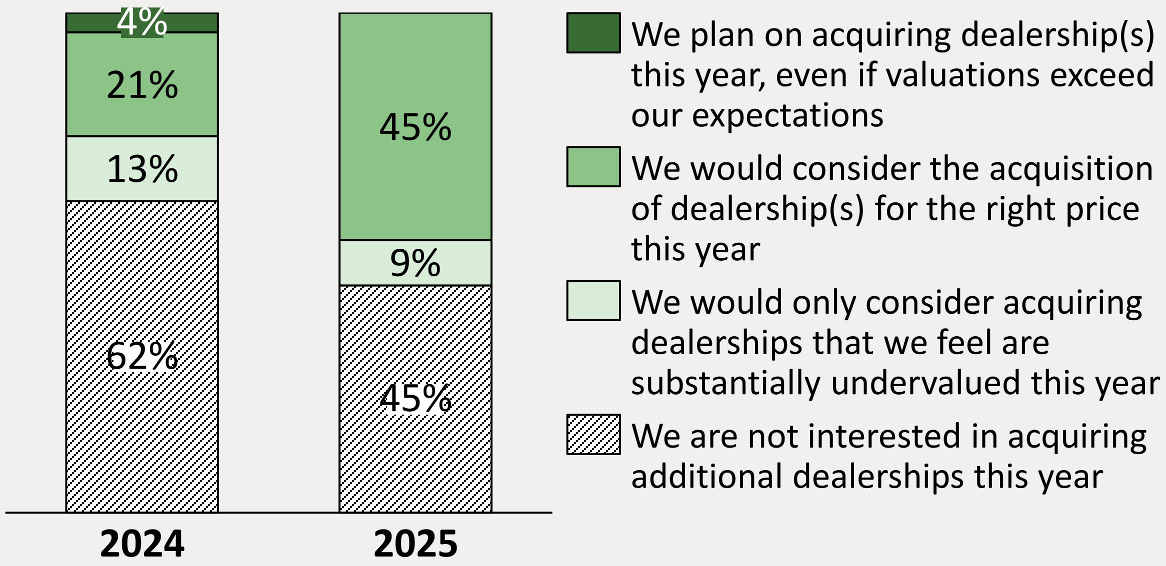
M&A Appetite

While dealers voice increased openness to both buying and selling stores in 2025, seller demands of receiving substantially above-market valuations may remain a sticking point

Dealership Sentiment

Acquiring

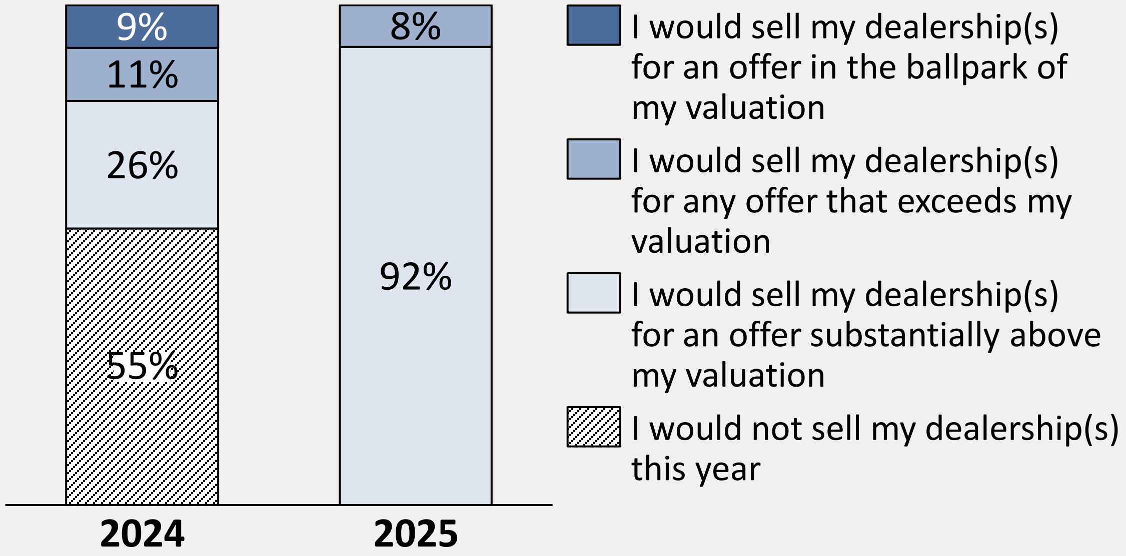
Q: Which of the following statements best describes your / your dealership's attitude towards acquiring dealership(s) in [year]?[1]



Appetite for acquisition has seen an uptick, with **~2x as many dealers willing to acquire for the right price in 2025**

Selling

Q: Which of the following statements best describes your attitude towards selling your dealership(s) in [year]?



More dealers are open-minded about selling their dealerships, but **high valuation remains critical**

Source: Kaiser Associates Q1 2025 Dealership Survey
[1]Openness to buying / selling for 2024 assessed at midyear
Note: totals may not add to 100% due to rounding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Group
KAISER
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