

The Presidio Group’s dealership valuation expertise and insights on the latest trends in mergers and acquisitions are informed, in part, by our work with many of the country’s biggest and most influential dealership groups. These relationships give us an insider’s view of how experienced and sophisticated operators value deals in the real world. Our analysis includes:

[Overall Market Update](#) | [Brand Watch](#) | [Presidio Valuation Index](#) | [Presidio’s Valuation Matrix Spotlight](#)

Overall Market Update

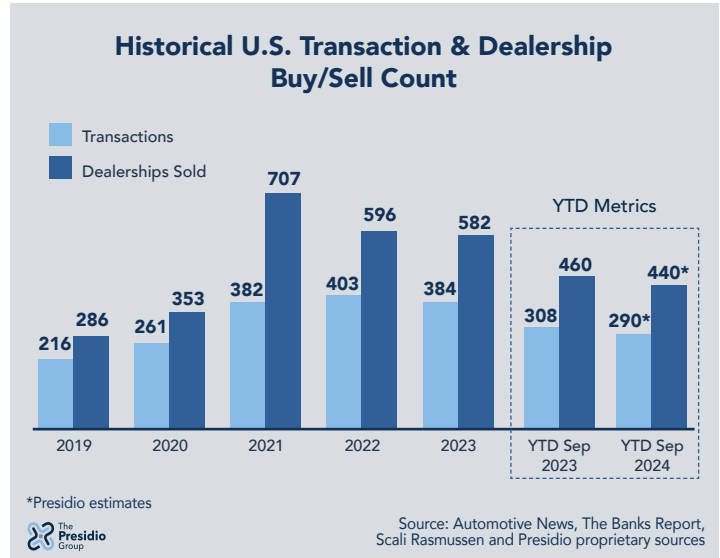
As 2024 begins to draw to a close, we see some distinct changes happening in the buy-sell market. The transaction environment is still strong with plenty of interested buyers and sellers, but the activity level is a bit choppy. Several factors have contributed to this, including the normalization of earnings, inflationary pressure and the uncertainty of the presidential election. Many dealers we speak with have been sitting on the sidelines until after the election. They now tell us they feel positive about the outcome and enthused about dealmaking.

Deal pace, while slightly off from year-ago levels, continues to be generally robust. Through September, Presidio estimated there were about 290 U.S. transactions involving 440 dealerships.

After evaluating deal data from the last three years, including the timing patterns of when transactions closed, Presidio estimates that full-year 2024 could produce as many as 380 transactions involving around 570 dealerships. That would put 2024 just behind transaction totals for the previous three years. While the number of dealerships changing hands would only slightly lag 2022 and 2023, it would be well behind the blockbuster year of 2021 when several megadeals pushed the number of stores sold to 707.

It’s still very much a seller’s market for dealerships representing desirable brands and in desirable locations. Brand and geography matter more than ever now, and demand for dealerships representing certain challenged brands has waned.

Another key for sellers to ensure successful transactions? Being rationale about pricing. While we have seen the bid-ask spread start to narrow, which is encouraging, we have seen some potential deals where transactions didn’t get to the finish line because of unrealistic expectations by sellers. Given the choppy environment and this sometimes-unrealistic expectation on pricing, we’ve observed a lower success rate on deals Presidio has not been involved in,



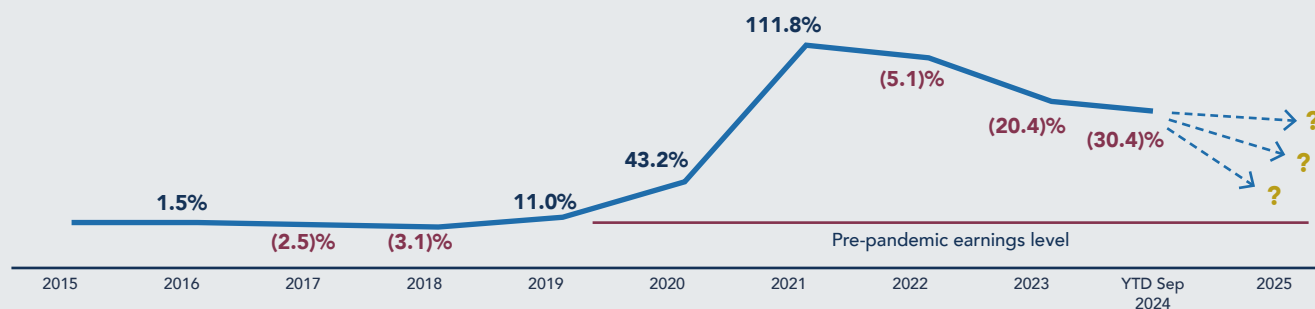
despite a high volume of dealerships on the market.

On the bright side, however, we expect the bid-ask spread between buyers and sellers to shrink further and come closer to parity over the next three to six months. With the election now decided, we could see more positive trends around deal closings in the near future.

Digging deeper into this year’s transaction data, private dealers acquired 96% of all U.S. dealerships sold during 2024’s first nine months, a higher rate than the 92 percent seen in the first half and back in line with what was typical the previous two years.

Publicly traded dealership groups acquired 26 U.S. dealerships in 10 transactions through September, slightly behind the pace of 31 stores for the same period in 2023. Lithia Motors Inc. led in U.S. acquisitions with 14 stores, followed by Group 1 Automotive Inc. with nine. The publics collectively divested 26 U.S. stores during the same period, slightly ahead of last year’s pace of 21 stores. Among those divestitures, Presidio advised Group 1 on the sale of six dealerships in Texas and Asbury on the sale of one dealership in Delaware.

Average Year-Over-Year Change in Dealership Net Pretax Profit



Source: Presidio-NCM Average Dealership Performance Benchmark

The public collectively spent \$3.1 billion on acquisitions during the first three quarters of 2024. That included some large purchases overseas by Lithia, Group 1 and Penske Automotive Group Inc.

The typical U.S. franchised dealership recorded a 30.4% decline in net pretax profit through the first nine months of 2024, according to the Presidio-NCM Average Dealership Performance Benchmark. That was slightly better than the 33.4% drop posted for the first half, demonstrating that industry profit moderation from pandemic-era highs is leveling off. This stabilization is another factor that should set the stage for increased deal activity.

Brand Watch

Each quarter, the Presidio team shares our view on certain automaker brands operating in the U.S. We evaluate brand-level valuation parameters for potential changes twice a year, after the second and fourth quarters. In the interim quarters, we share notable developments that we are tracking. Our aim is to inform readers about factors that affect both brand health and the valuation of dealerships representing those brands. While we are not adjusting valuation guidelines this quarter, we share the following about brands we are watching closely:

- **Toyota** continues to gain momentum with buyers. It is often the first brand on acquisitive dealers' target list. An East Coast dealer recently told us he would buy a Toyota dealership anywhere in the U.S. Given this demand, Toyota's valuation premium remains solid and could increase.
- **Hyundai and Genesis**, brands with steady increases in performance and dealership value since the pandemic, now face some challenges resulting from their aggressive facility requirements and the heavier-handed approach they've taken with dealer partners particularly around buy-sells. The dynamic threatens Hyundai store values as the pool of buyers desiring the brand could shrink.
- **Stellantis** dealers are expressing a slight uptick in positivity around incentives after meeting with automaker executives a few weeks ago. But as one dealer put it, Stellantis only gave drowning dealers a straw to breathe through. Current inventory levels and vehicle mix remain out of balance, and meaningful product updates are still years away.
- **BMW's** inventory levels and sales volume are being monitored closely for their progress against other luxury brands. We also keep an eye on how brands are navigating through electric vehicle supply-demand imbalance. From a valuation stance, brands in this segment continue to chase steady performer Lexus, the top-ranking luxury player in the Presidio Dealer Direction Survey.
- **Subaru's** sales trajectory continues to outpace the industry, but the metric that bears watching is discounting off MSRP, which has increased more for Subaru than any other high-volume Asian brand. Even so, Subaru's inventory balance favors vehicle pricing and margin strength, and the brand is still highly desired among buyers.

- **Mazda's** third-quarter sales rose 15%, more than any other brand selling more than 100,000 units in the quarter. We've been noting Mazda as a sleeper brand, and evidence for that continues. More dealership buyers are putting Mazda on their target lists.

The Presidio Valuation Index

When valuing a dealership, it's all about expected normalized future earnings, which typically influence 80 percent of the equation for most mainstream brands. Presidio considers this when determining both blue-sky earnings multiples and our brand revenue multipliers, which are based on earnings as a percentage of dealership revenue. Multiples have not changed much the past two decades, while dealership earnings have grown and changed dramatically. Predicting sustainable earnings is the more volatile part of the calculation, particularly in the current era where dealership profitability is erratic and seeking its new normal.

Average dealership profitability dropped about 20 percent in 2023 and was down more than 30 percent through the first nine months of this year, though 2024's rate of decline appears to be leveling off. Sustainability of earnings varies significantly by brand and often geography. We estimate that net profit as a percentage of sales ranges across brand segments as follows:

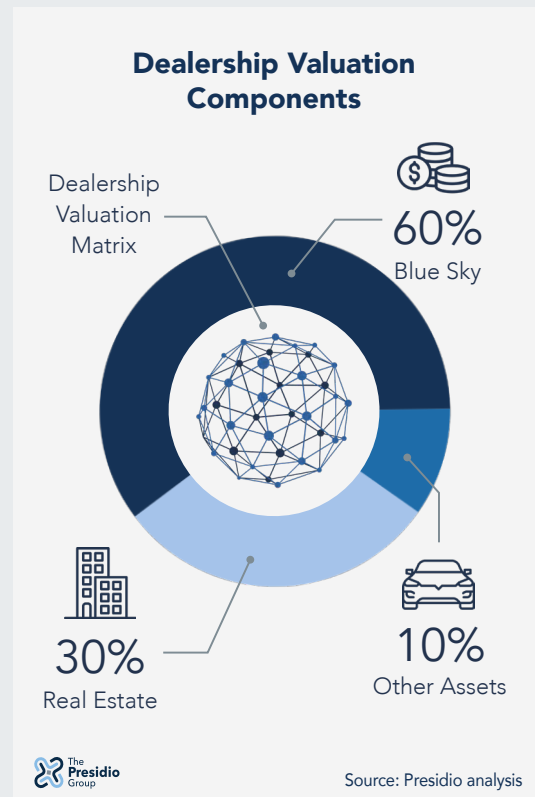
Luxury brands: 4-7% | Top-tier import brands: 3-5% | Domestic/Other value brands: 1-3%

Revenue multipliers help eliminate volatility associated with changes in dealership earnings and can be seen on the Presidio Valuation Index page that follows. Revenue multipliers remain a great barometer for estimating initial dealership valuation as they help neutralize earnings volatility and associated unknowns.

Dealership Valuation Overview and Methodology

The Presidio team believes every dealership is unique and that the industrywide standard of applying a blue-sky multiple to earnings to determine value is inadequate. Solely focusing on blue sky ignores about 40 percent of the total investment represented by real estate and other assets. The symbiotic relationship among these components correlates to a dealership's total cash flow and, ultimately, return on investment.

Presidio has created an index that includes three pillars of valuation — blue-sky earnings multiples, a multiplier based on a percentage of dealership revenue and a return on investment calculation — and uses other key factors such as a brand's network size to help stakeholders triangulate an estimated value of a dealership. Presidio will evaluate each brand's status with regard to the three pillars twice a year and then revise multiples or other factors as needed. While we believe our approach can help triangulate value, it's important to note that our guide is still simply a guide. Anyone looking to sell or buy dealerships should consider using experts to conduct a deeper evaluation to determine value. For more information on Presidio's valuation methodology, go here: <https://thepresidiogroup.com/valuationmethodology>



The Presidio Valuation Index

The Presidio Valuation Index uses three pillars of valuation developed by our team to help estimate dealership value according to brand. There are no changes in the brand-level valuation guidelines this quarter. Presidio evaluates and adjusts those twice a year, after the second and fourth quarters. As year-end approaches, the overall deal environment has gotten choppy, but a seller's market persists for dealerships representing desirable brands as long as pricing expectations are rational.

Presidio Valuation Pillars →		Blue Sky as % of Revenue Range	Blue-Sky Multiple Range	Average Estimated ROI	Number of Dealerships	Number of New Vehicles Sold/Dealership
	Porsche	55% - 70%	9.0 - 10.0	<10%	198	381
	Lexus	50% - 65%	9.0 - 10.0	↑	244	1,312
	BMW	45% - 55%	7.75 - 9.0		349	1,035
	Toyota	40% - 50%	7.5 - 9.0		1,237	1,558
	Mercedes	43% - 53%	7.25 - 8.75		384	916
	Land Rover	33% - 42%	6.0 - 7.5		202	323
	Honda	26% - 40%	6.0 - 7.25		1,070	1,088
	Subaru	30% - 35%	6.25 - 7.25		640	989
	Audi	30% - 40%	6.0 - 7.0		305	750
	Kia	15% - 25%	4.5 - 5.5		788	997
	Hyundai	15% - 25%	4.0 - 5.0		15%	841
	Chevrolet	14% - 20%	3.75 - 4.75	↓	2,898	586
	Ford	14% - 20%	3.75 - 4.75		2,902	648
	Volvo	13% - 18%	3.5 - 4.5		282	457
	Cadillac	12% - 17%	3.25 - 4.25		567	260
	Mazda	12% - 17%	3.25 - 4.25		542	669
	Buick-GMC	10% - 15%	3.25 - 4.25		1,671	337
	Acura	10% - 15%	3.0 - 4.0		272	536
	Volkswagen	10% - 15%	3.0 - 4.0		640	514
	CDJR	4% - 10%	2.5 - 3.5		2,406	666
	Nissan	4% - 10%	2.5 - 3.5		1,079	773
	Infiniti	4% - 10%	2.25 - 3.25	20%	201	319

1) Dealership count represents Chrysler outlets 2) Dealership count represents GMC outlets

Source: Presidio proprietary data/analysis, Automotive News Dealer Census

A quarterly deep-dive into one of the factors driving dealership value

Presidio's Valuation Matrix Spotlight

Dealer-OEM Relations

An OEM's policies, product situation and approach to buy-sells are key influencers of dealership value

Dealer-automaker relations — in areas ranging from a brand's support programs and product competitiveness to its approach on approving buy-sell transactions — impact the valuation of a dealership in a myriad of ways. It is important for both buyers and sellers of dealerships to understand these dynamics and how to appropriately navigate automaker-related issues during a buy-sell process.

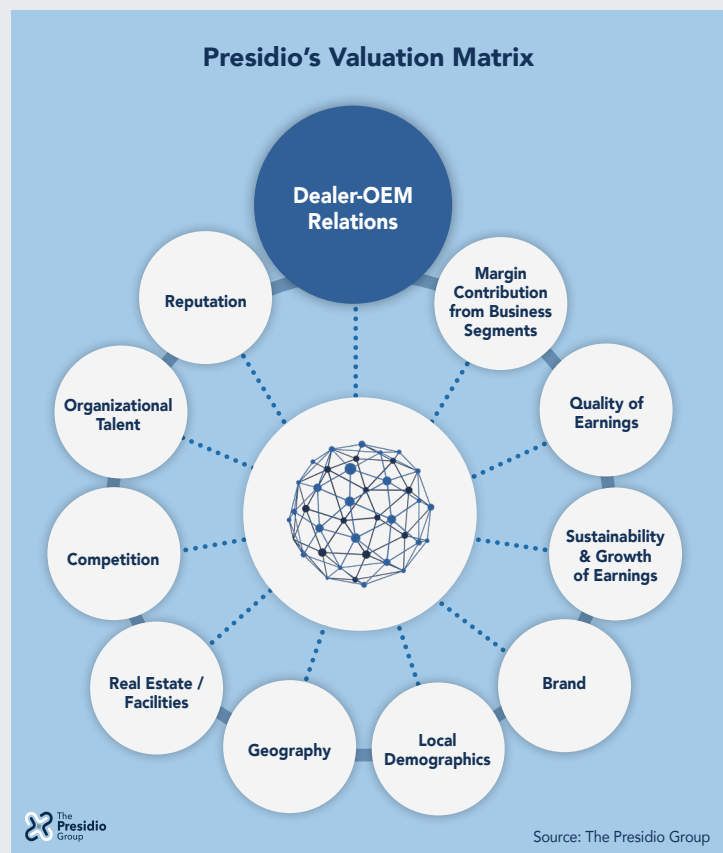
The Presidio team's experience handling hundreds of transactions has given us deep insight into how these factory relation issues play out in the real world and how specific brands approach these matters and thus influence dealership values and transaction execution success. We group these factors involving automaker partners into four main areas:



Overall tone on transaction approval and use of right of first refusal clauses (ROFRs): Essentially, is an OEM friendly or adversarial to buy-sell deals? Does it follow state franchise laws? How actively does it leverage ROFRs? When brands consistently follow state laws and are open to all qualified buyers, the dealerships in their networks can be worth more.

Several automakers over the last decade-plus have increased their attempts to exercise ROFRs for reasons ranging from increasing the number of minority owners to concentrating ownership of network dealerships into fewer hands. When OEMs become known for leveraging these clauses, it can lead to more buyers removing those brands from their shopping lists and potentially hurt dealership values by way of fewer or lower-priced offers from the outset.

This potential throttling of the proceeds an owner can get from selling his or her business has led dealer associations in several states to lobby for prohibitions of the practice. About a dozen states now largely block the use of right of first refusal, including some highly desired states such



as Florida, Texas, South Carolina and North Carolina. While these prohibitions can help, we have heard from dealers that certain automakers sometimes flout these laws and turn down qualified buyers and try to redirect deals to purchasers of their choosing.

Many automakers actively use ROFR clauses to influence their dealer networks.

Mercedes Benz, for example, appears to prefer fewer owners and more scale for existing dealers, but its ROFR efforts have perhaps had more bark than bite. Presidio's experience on several deals involving Mercedes demonstrates that it provides more flexibility on deal approvals than is commonly perceived.

On the other hand, a different brand recently seems to be focused on reducing its overall owner count by creating larger territories, each controlled by a single dealer. In one recent example, in a state where ROFRs are generally prohibited, the brand turned down a buyer already in its network in an attempt to steer the deal to a preferred buyer, according to a source with direct knowledge of the situation. Actions like this from any brand can negatively impact dealership values.



Dealer support programs: This encompasses everything from back-end support via items like floorplan assistance or advertising co-op funds to front-end support like incentives. These factors affect profitability and earnings and ultimately the valuation of dealerships.

The impact, however, varies greatly and often comes down to overall strength of the brand. Even when an automaker changes a support program to the detriment of dealers, it may not translate to lower dealership valuation if the brand is popular with consumers, has generally good dealer relations and has an appropriately sized dealer network.

A good example of this is Honda, which early this year reduced dealer margins on new vehicles. While dealers weren't happy, that margin concern ultimately has been offset in the buy-sell market by the brand's generally positive history with its retailers and consumers.

By contrast, Stellantis has slashed back-end support and put untenable margin pressure on its dealers by pushing too much inventory into the market with insufficient incentives. Dealership values for outlets representing Stellantis brands have suffered.

Ford is a more in-between example. While it has lowered support in some areas and has its own inventory mix challenges, Ford has backed off its electric vehicle mandates and promised more reimbursement for the EV investment dealers have made. That recent relief has helped offset some buyer apprehension about Ford stores, but it remains a fluid situation that can impact buy-sell dynamics.



Overall product portfolio and inventory availability and allocation: Stale product and inventory levels and vehicle mix mismatched to consumer demand can lead to both short- and long-term value challenges.

Audi is an example on the short-term side. The brand's stale lineup and EV imbalance has pressured sales and overall dealership profitability. But that is expected to reverse course over the next couple of years as several new models come to market. A well-regarded mainstream luxury brand like Audi can weather this kind of storm and come out stronger in the end.

Infiniti, however, has a longer-term challenge with both its product strength and a lack of high-volume demand. That, combined with certain unpopular dealer policies, has crimped buyer interest in Infiniti stores and subsequently valuations.

On the inventory side, the aforementioned Stellantis has put its dealers in a tough spot with too much inventory overall and not enough vehicles priced affordably for its likely customers.

Respondents to Presidio’s dealer survey called out several automakers for overloading dealerships with inventory. “Manufacturers need to stop producing so many vehicles and control the unreasonable spike in prices,” one respondent wrote.

Even strong brands with high valuations can be affected by portfolio and allocation issues. Porsche, while highly desired by dealers and investors, has one of the industry’s more difficult allocation systems. With the lower volume of a typical Porsche dealership and the brand’s turn-and-earn system, it can be hard and take a long time for a store to build up to more allocation.



Facility requirements and image programs: This often-thorny issue can manifest itself in buy-sell situations in multiple ways. First, some brands, like Genesis, tie facility requirements to incentive programs, financially impacting dealers who haven’t upgraded with lower overall profitability and potentially lower valuations when they decide to sell. The lack of an image-compliant facility hurts blue-sky value as potential buyers factor an expected spend on a renovation or new facility into what they are willing to pay. Some may reduce blue sky by a portion of those costs, sometimes by as much as 50 percent of the project expense.

Secondly, some automakers view the buy-sell process as their best opportunity to compel a facility upgrade, tying approval of a deal to the buyer agreeing to make that investment. While some states’ franchise laws protect against this, larger groups governed by framework agreements with the manufacturer or dealers wanting to expand generally forgo exercising those protections. It’s also not unheard of for an automaker to ignore such laws and stall on approving a transaction while pushing the buyer into a promised investment.

While image upgrades generally dilute return and don’t help a dealership sell more vehicles, they are a cost of doing business, and dealers understand that. But brands with unrealistic programs, expensive requirements and a more adversarial approach to extracting said upgrades affect the buy-sell process more negatively as buyers will factor such difficulties into the values they offer.

Bottom line: The relationship between dealers and automakers ultimately is a critical factor in the overall buy-sell process. OEMs can exert significant influence, often in ways that can undermine dealer autonomy and erode transaction values. Respondents to the most recent Presidio Dealer Direction Survey made clear how important the relationship is to them as they consider acquisitions. “Only the right franchise partners,” one dealer wrote — before naming off a handful of automakers not in that group.

Join our buyer network

Presidio prides itself on running a successful and confidential process for clients. Our white glove approach narrows the 8,000-plus dealers in the U.S. down to a curated list of qualified buyers to ensure execution on transactions we take to market. If you are a buyer, join our buyer network today. If we understand your growth strategy, we can put the right deals in front of your team to help you achieve your strategic growth goals.

Scan here to enter your buyer preferences or schedule a call with our dealership team.



 The Presidio Group