> **"Every dealership or dealership group they buy, they get publicity. And every dealer that's thinking about selling or every dealership broker like our firm ... if they know that Lithia is highly acquisitive, Lithia is going to get the call."**
>
> Alan Haig, president, Haig Partners

LITHIA'S DRIVE

CEO charts buying spree to become nationwide, $50 billion retailer by '25

Jackie Charniga
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In 1978, Oregon car dealer Sid DeBoer loaded his family into a motor home to travel the country for a year on a journey of self-discovery.

Still, his three-store group was never far from his mind: He had his mail forwarded to various campgrounds and called Dick Heimann, his operations chief, from phone booths along the route. At one point, Sid flew back to Oregon and left the family in Florida for a month.

On the road, Sid's middle son, Bryan, often acted as navigator. A Good Sam camping guidebook on his lap, the 12-year-old would map the optimal route and calculate how long the family should stay at each site and landmark.

Now, Bryan DeBoer, 54 and at the helm of the company his dad once ran, is plotting his own cross-country adventure. The CEO has outlined an ambitious road map for Lithia Motors Inc.: He plans to take it into every vehicle sales market — and even into every home, if that's where consumers want to do business — and make it the first truly nationwide retailer, a dominant force in a historically fragmented industry.

Mapping the company's trajectory now is similar to planning the routes and rest stops on the family road trip when he was a boy, DeBoer said.

"Here's our route: We're going to go here, here, here and here," he told *Automotive News* in April. "Maybe that's what got me into [mergers and acquisitions] to some extent."

Lithia, the third-largest dealership group by new-vehicle sales in 2020, rolled out plans last July to quadruple its revenue and more than double its store count by 2025.

Just how audacious and potentially transformative is this five-year plan? Less than a year into it, Lithia has become the second-largest dealership group in the U.S. by annualized vehicle sales with an acquisition last month, the biggest by store count and — perhaps most importantly — the highest-valued group by stock market investors.

DeBoer sees Lithia — through acquisitions, organic growth, digital retail and its own captive finance unit — in 2025 with $50 billion in annual revenue, more than double the size of any U.S. dealership group to date.

And that's just the current leg. Ultimately, DeBoer envisions capturing 5 percent of the $2 trillion automotive retail market. That would make it a $100 billion company, larger not only than any dealership group but also any supplier to date and many automakers. He's even floated the idea of a megamerger with another public group.

The ultimate destination — a dealership within 100 miles of every vehicle shopper in the country and an omnichannel platform to blanket the nation — involves doubling the group's dealership count through acquisitions and increasing digital retailing output.

Bryan DeBoer went from being navigator for his family's cross-country trip in 1978 with dad Sid, far right, at the wheel to driving Lithia's efforts to dominate the U.S. auto industry.

AUTOMOTIVE NEWS ILLUSTRATION

If achieved, Lithia's bold course would have far-reaching implications for U.S. auto dealers by creating intense competition for local dealerships — and likely forcing some out of business. A digital tool that offers haggle-free vehicle sales with the physical network to support free delivery in every U.S. market could spell trouble for single-point stores.

On the road

It's early in the trip, but so far DeBoer is running ahead of schedule.

The plan calls for acquiring dealerships that generate $3 billion to $5 billion in annual revenue each year, and in the 10 months since it was announced, Lithia has added $6.7 billion in revenue.

The biggest piece was Suburban Collection in Michigan. The purchase is one of the largest in auto retail history, adding 34 new-car dealerships, 56 franchises and $2.4 billion in revenue to the public retailer. The deal allowed Lithia to jump ahead of Penske Automotive Group to become the second-largest U.S. dealership group by new-vehicle retail sales and No. 1 in terms of dealership count, with 247 new-car stores, surpassing AutoNation.

Staying on to manage the stores — and Lithia's North Central region, which includes most of the Midwest — is David Fischer Jr., Suburban's CEO. He joins a group of vice presidents who have operational jurisdiction over their dealership groups within Lithia's ownership structure.

The autonomy of his position reflects the public company's larger strategy of decentralized management — which allows the employees closest to their customers to handle operations.

The company rolled out Lithia Partners Group in 2015 to provide autonomy, improve store performance and retain top talent. Today, about one-third of the 250 Lithia store runners are involved.

A huge benefit of Lithia Partners Group involves the freedom given to general managers to seek out potential Lithia acquisitions on their own, in their backyards. DeBoer calls this giving those who make the money the power to spend it.

"Those partners get about twice the amount of stock, and they have full autonomy," DeBoer said. "They can use capital to grow and get a second store or third store or fourth store. The rest of the 150 stores are all aspiring to become that."

Store performance scorecards allow Lithia to keep a close eye on operations without

About Bryan DeBoer

Age: 54
Title: CEO, Lithia Motors, since 2012
2020 compensation: $8.25 million
2019 compensation: $7.31 million
Previous roles:
- 2006-12: COO and president
- 1996-2006: Senior vice president, M&A/operations
- 1992-96: General manager of Lithia Honda in Medford, Ore.

Education: Graduated from Southern Oregon State College (now Southern Oregon University) with a Bachelor of Science in general business administration and management in 1988 stepping foot in most of the dealerships.

Stores are measured by consumer loyalty, market share, profitability vs. potential, development of leaders and support on network development. As long as those numbers are where they should be, the executive team can focus on growth.

"We just want to make sure that you grow your market share, you grow the loyalty of your customers, and ultimately, that yields profitability," DeBoer said. "We're not as caught up in how you do it."

Attractive partner

Lithia's management strategy is appealing to sellers — especially those who may not want to exit the industry or see their staff be pushed out.

"They don't have a bus full of people waiting to go to work and replace folks in stores," said George Karolis, president of dealership buy-sell advisory firm Presidio Group, based in San Francisco and Atlanta. "When they buy dealerships, they make that decision based on the culture and quality of people, not just where the dealership is, what it is and the opportunity for profit."

Presidio represented Fischer and his father, David Fischer Sr., who was the majority owner, in the Suburban deal as well as two other sellers in the past year in deals with Lithia.

Amid strong retail demand and record dealer profits, it's undoubtedly a seller's market — making it a challenge to grow efficiently through acquisitions.

At the same time, many retailers face daunting expenses to develop digital retailing capabilities and prepare to sell more electric vehicles.

"Small stores and groups that haven't made the digital investments ... that's accelerating consolidation," said Rick Nelson, an equity analyst who covers auto retailers at Stephens in Chicago.

Lithia, which has invested more than $100 million in its omnichannel platform, Driveway, offers itself as a solution.

"That's a real rally call," DeBoer said. "We would say: Join forces with Lithia Motors and Driveway — we can grow together."

Would-be sellers certainly know that Lithia is a ready and willing buyer, said buy-sell adviser Alan Haig.

That has been true ever since DeBoer pulled off the acquisition of large and highly regarded DCH Auto Group in 2014.

"Every dealership or dealership group they buy, they get publicity," Haig said. "And every dealer that's thinking about selling or every dealership broker like our firm ... if they know that Lithia is highly acquisitive, Lithia is going to get the call."

Speed limits

One factor that may have kept other retailers from covering the entire country are the limitations brands impose through framework agreements, in part to ensure competition among dealers of the same brand.

Lithia has diversified its brand portfolio significantly since the Great Recession. Its heavy reliance on General Motors and Chrysler brands nearly sank the retailer as those automakers ran out of money and restructured in bankruptcies orchestrated by the federal government under President Barack Obama in 2009.

While each brand may have limits, cross-brand ownership isn't constrained. It arguably strengthens a retailer by hedging its exposure across the broader new-vehicle market and giving it a richer and more diverse dataset.

"Growing your presence across different brands, the framework agreements don't come in the way of that," said Rajat Gupta, an analyst with J.P. Morgan. "Lithia has already demonstrated in the past their ability to acquire stores that weren't well run and make them run better. Automakers want stores to be well run and generate a strong return."

After acquisitions, though, brands may require a divestiture to preserve intrabrand competition among different owners. That would be a likely condition if DeBoer could dramatically accelerate his growth plan by merging with another public dealership group.

Sonic Automotive Inc., Asbury Automotive Group Inc. and Group 1 Automotive Inc. have high dealership density in markets where Lithia intends to expand.

Sonic President Jeff Dyke and AutoNation CEO Mike Jackson shot down the idea during investor calls in February. But Asbury CEO David Hult and Group 1 CFO Daniel McHenry said they couldn't rule it out. Both stressed the challenges presented by automaker framework agreements while acknowledging that any serious offer would demand consideration by the board.

"I guess anything in the world is possible," said Hult, "but it's hard to imagine right now that that could work out."

DeBoer remains optimistic.

"We do not intend to be hostile; we intend to be collaborative. We put it out there as almost an olive branch," DeBoer said. "And we believe our manufacturer partners are at some level acceptant of public consolidation." AN

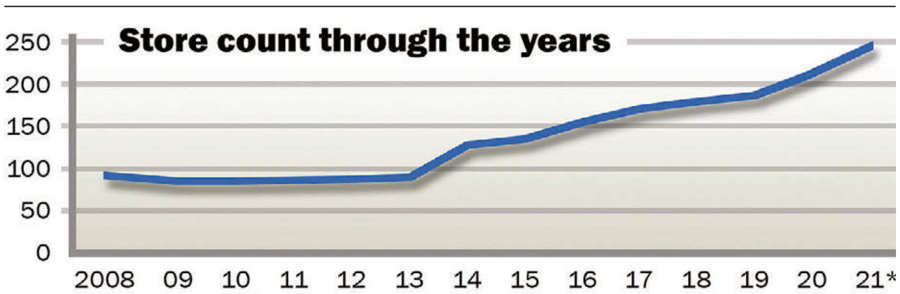
Melissa Burden and David Muller contributed to this report.

5-year plan

Lithia Motors plans to grow to $50 billion in annual revenue and earnings per share of $50 by 2025. Here's how it plans to nearly quadruple in size.

- High single-digit revenue growth from base of $13 billion in annual core operations
- Acquisitions that add $3 billion to $5 billion in annualized revenue each year
- Expansion of Driveway e-commerce platform nationally, adding $9 billion in revenue

Source: Company reports



*As of April 29 Source: Automotive News Research & Data Center

Acquisition timeline

Lithia has acquired dealerships expected to generate about $6.7 billion in annualized revenue since unveiling its 5-year plan in July 2020. Lithia postponed acquisitions in the 1st half of last year because of uncertainty surrounding the pandemic. Announced deals and projected revenues:

July 7, 2020: Smolich Chrysler-Jeep-Dodge-Ram and Nissan dealerships in Bend, Ore.; $100 million

July 14: DCH Subaru in Thousand Oaks, Calif.; $60 million

July 29: BMW of San Francisco; $210 million

Aug. 4: John Eagle Honda of Dallas, Honda Cars of Rockwall, Howdy Honda of Austin and John Eagle Sport City Toyota in Dallas, all in Texas; $500 million

Sept. 1: Remaining 6 John Eagle stores in Houston; $600 million

Sept. 22: Jim Cogdill Chrysler-Dodge-Jeep-Ram in Knoxville, Tenn.; $90 million

Oct. 6: Latham Ford in the Albany, N.Y., area; $55 million

Nov. 10: 9 dealerships from Keyes Automotive Group in Florida; $1.4 billion

Nov. 17: Sterling Luxury Group in Loudoun County, Va.; $210 million

Dec. 1: Ramsey Subaru and Ramsey Mazda in Urbandale, Iowa; $100 million

Feb. 9, 2021: 2 stores in Florida from Fields Auto Group; $240 million

March 2: 5 Florida dealerships from Fink Auto Group; $430 million

March 30: Avondale Nissan in Phoenix; $75 million

April 13: Suburban Collection, of Troy, Mich., with 34 dealerships; $2.4 billion

April 27: Planet Honda in Union, N.J.; $230 million

Driveway: The lot you can visit in slippers

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While the biggest chunk of Lithia Motors Inc.'s growth strategy is its acquisition ambitions, a strong second is the rapid expansion of its digital platform, Driveway.

By the time Lithia's five-year plan has played out, CEO Bryan DeBoer projects that Driveway will generate $9 billion in revenue — roughly three-quarters as much as the whole company did in 2019 and 2020 each.

In the drive to build a truly nationwide retail network, the ability to efficiently sell — and buy — vehicles online relieves the need to have a store in every town while also addressing a crucial pain point for consumers who do not enjoy or appreciate traditional auto sales practices. The profits from the online sales, DeBoer said, help fund physical acquisitions.

"The two strategies have to work together," he said. "Without the infrastructure, Driveway doesn't work, and without Driveway, we wouldn't have had the capital to drive shareholder value."

Baierl's Brad Pavlik, left, and Brendan Brown, right, with Emanuel Levenderis and Rana Mahfood-Levenderis, the first to sell their car online from home via Driveway's precursor.

DeBoer aims to have a dealership within 100 miles of every U.S. consumer. Combined with Driveway, Lithia would then be able serve the entire country and not have to buy more stores to keep growing.

Driveway's foundation was paved with a series of strategic actions in 2017 and 2018.

In tech-forward Pittsburgh — home to Argo AI and other automated-driving experiments — Lithia acquired Baierl Auto Group in 2017 and added eight Day Automotive dealerships in early 2018.

Then Lithia hired George Hines, a digital commerce executive and former consultant, as its first chief of innovation and technology.

Investors, DeBoer said, fretted at the idea of spending $15 million to develop an online retail and finance platform and asked why the company didn't use the cash to buy more stores instead. But it was clear to him that a large number of consumers wanted to do business online — any time, any place — and the opportunity was immense.

"We probably spent five or six times that [initial $15 million]. We're probably pushing $75 [million] to $100 million. But we think about investment — that's a small amount compared to being able to achieve the 50-50 plan," he said, using his shorthand for the twin goals of $50 billion in revenue and $50 in earnings per share.

Later in 2018, Lithia invested $54 million in online used-car retailer Shift Technologies. The plan was to learn as

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