

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended: December 31, 2023  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-14733



Lithia Motors, Inc.

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of incorporation or organization)

93-0572810

(IRS. Employer Identification No.)

150 N. Bartlett Street,

Medford,

Oregon

97501

(Address of principal executive offices)

(Zip Code)

(541) 776-6401

(Registrant's telephone number including area code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock without par value	LAD	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant was approximately \$8,371,919,000 computed by reference to the last sales price (\$304.11) as reported by the New York Stock Exchange for the Registrant's common stock, as of the last business day of the Registrant's most recently completed second fiscal quarter (June 30, 2023). As of February 23, 2024, there were 27,530,936 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant has incorporated into Part III of Form 10-K, by reference, portions of its Proxy Statement for its 2024 Annual Meeting of Shareholders.

**LITHIA MOTORS, INC.**  
**2023 FORM 10-K ANNUAL REPORT**  
**TABLE OF CONTENTS**

Item Number	Item	Page
<b>PART I</b>		
Item 1.	Business	1
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	None
Item 1C.	Cybersecurity	19
Item 2.	Properties	20
Item 3.	Legal Proceedings	20
Item 4.	Mine Safety Disclosures	Not applicable
<b>PART II</b>		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations:	23
	Results of operations	23
	Liquidity and capital resources	37
	Critical accounting estimates	41
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	43
Item 8.	Financial Statements and Supplementary Data	44
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	None
Item 9A.	Controls and Procedures	44
Item 9B.	Other Information	None
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	Not applicable
<b>PART III</b>		
Item 10.	Directors, Executive Officers and Corporate Governance	45
Item 11.	Executive Compensation	45
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45
Item 13.	Certain Relationships and Related Transactions, and Director Independence	45
Item 14.	Principal Accounting Fees and Services	45
<b>PART IV</b>		
Item 15.	Exhibits and Financial Statement Schedules	46
Item 16.	Form 10-K Summary	None
<b>SIGNATURES</b>		49

## PART I

### Item 1. Business

As used in this Annual Report, the terms "Lithia," "Lithia and Driveway," "LAD," "the Company," "we," "us," and "our" refer collectively to Lithia Motors, Inc. and its subsidiaries, unless otherwise required by the context. Our store operations are conducted by our subsidiaries.

#### Forward-Looking Statements

Certain statements in this Annual Report, including in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" constitute forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Generally, you can identify forward-looking statements by terms such as "project," "outlook," "target," "may," "will," "would," "should," "seek," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "potential," "likely," "goal," "strategy," "future," "maintain," and "continue" or the negative of these terms or other comparable terms. Examples of forward-looking statements in this Form 10-K include, among others, statements regarding:

- Future market conditions, including anticipated car and other sales levels and the supply of inventory
- Our business strategy and plans, including our achieving our 2025 Plan and related targets
- The growth, expansion, make-up, and success of our network, including our finding accretive acquisitions and acquiring additional stores
- Annualized revenues from acquired stores
- The growth and performance of our Driveway e-commerce home solution and Driveway Finance Corporation (DFC), their synergies and other impacts on our business and our ability to meet Driveway and DFC-related targets
- The impact of sustainable vehicles and other market and regulatory changes on our business
- Our capital allocations and uses and levels of capital expenditures in the future
- Expected operating results, such as improved store performance, continued improvement of selling, general and administrative expenses (SG&A) as a percentage of gross profit and any projections
- Our anticipated financial condition and liquidity, including from our cash and the future availability of our credit facilities, unfinanced real estate, and other financing sources
- Our continuing to purchase shares under our share repurchase program
- Our compliance with financial and restrictive covenants in our credit facilities and other debt agreements
- Our programs and initiatives for employee recruitment, training, and retention
- Our strategies and targets for customer retention, growth, market position, operations, financial results, and risk management

Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Forward-looking statements are not guarantees of future performance, and our actual results of operations, financial condition and liquidity and development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements in this Annual Report. Therefore, you should not rely on any of these forward-looking statements. The risks and uncertainties that could cause actual results to differ materially from estimated or projected results include, without limitation, the factors as discussed in Part I, Item 1A. Risk Factors, and in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and, from time to time, in our other filings we make with the Securities and Exchange Commission (SEC).

Any forward-looking statement made by us in this Annual Report is based only on information currently available to us and speaks only as of the date on which it is made. Except as required by law, we undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

#### Business Overview

Lithia Motors, Inc. is one of the largest global automotive retailers providing an array of products and services throughout the vehicle ownership lifecycle. Convenient and hassle-free experiences are offered through our comprehensive network of physical locations, e-commerce platforms, captive finance solutions and other synergistic adjacencies. We have delivered consistent profitable growth in a massive and unconsolidated industry. Our highly

diversified and competitively differentiated design provides us the flexibility and scale to pursue our vision to modernize personal transportation solutions wherever, whenever and however consumers desire. As of December 31, 2023, we operated 344 locations representing 47 brands across the United States, United Kingdom, and Canada.

	Year Ended December 31, 2023	
	Total Revenue	Total Gross Profit
United States	90 %	92 %
United Kingdom	6 %	5 %
Canada	4 %	3 %

Lithia and Driveway (LAD) offers a wide array of products and services fulfilling the entire vehicle ownership lifecycle including new and used vehicles, finance and insurance products and automotive repair and maintenance. We strive for diversification in our products, services, brands and geographic locations to reduce dependence on any one manufacturer, reduce susceptibility to changing consumer preferences, manage market risk and maintain profitability. Our diversification, along with our operating structure, provides a resilient and nimble business model.

Founded in 1946 and incorporated in Oregon in 1968, we completed our initial public offering in 1996.

## Business Strategy

We seek to provide customers choice with a seamless, blended online and physical retail experience, broad selection and access to specialized expertise and knowledge. Our comprehensive network enables us to provide convenient touch points for customers and provide services throughout the vehicle life cycle. We seek to increase market share and optimize profitability by focusing on the consumer experience and applying proprietary performance measurement systems to drive high performance. Our Driveway and GreenCars brands compliment our in-store experiences and provide convenient, simple, and transparent platforms that serve as our e-commerce home solutions. Diversifying our business with Driveway Finance Corporation (DFC), our captive auto finance division, allows us to provide financing solutions for customers and diversify our business model with an adjacent product.

Our long-term strategy to create value for our customers, employees and shareholders includes the following elements:

### Driving operational excellence, innovation and diversification

LAD builds magnetic brand loyalty in our 344 stores and with Driveway, our e-commerce home delivery experience, and GreenCars, our electric vehicle learning resource and marketplace. Operational excellence is achieved by focusing the business on convenient and transparent consumer experiences supported by proprietary data science to improve market share, consumer loyalty, and profitability. By promoting an entrepreneurial model with our in-store experiences, we build strong businesses responsive to each of our local markets. Utilizing performance-based action plans, we develop high-performing teams and foster manufacturer relationships.

In response to evolving consumer preferences, we invest in modernization that supports and expands our core business. These digital strategies combine our experienced, knowledgeable workforce with our owned inventory and physical network of stores, enabling us to be agile and adapt to consumer preferences and market specific conditions. Additionally, we systematically explore transformative adjacencies, which are identified to be synergistic and complementary to our existing business such as DFC, our captive auto loan portfolio.

Our investments in modernization are well under way and are taking hold with our teams as they provide digital shopping experiences including finance, contactless test drives and home delivery or curbside pickup for vehicle purchases. Our people and these solutions power our national brands, overlaying our physical footprint in a way that we believe attracts a larger population of digital consumers seeking transparent, empowered, flexible and simple buying and servicing experiences.

Our performance-based culture is geared toward an incentive-based compensation structure for a majority of our personnel. We develop pay plans that are measured based upon various factors such as customer satisfaction, profitability and individual performance metrics. These plans serve to reward team members for creating customer

loyalty, achieving store potential, developing high-performing talent, meeting and exceeding manufacturer requirements and living our core values.

We have centralized many administrative functions to drive efficiencies and streamline store-level operations. The reduction of administrative functions at our stores allows our local managers to focus on customer-facing opportunities to increase revenues and gross profit. Our operations are supported by regional and corporate management, as well as dedicated training and personnel development programs which allow us to share best practices across our network and develop management talent.

#### **Growth through acquisition and network optimization**

Our acquisition growth strategy has been successful both financially and culturally. Our disciplined approach focuses on acquiring new vehicle franchises, which operate in markets ranging from mid-sized regional markets to metropolitan markets. Acquisition of these businesses increases our proximity to consumers throughout North America and the United Kingdom. While we target annual after tax return of more than 15% for our acquisitions, we have averaged over a 25% return by the third year of ownership due to a disciplined approach focusing on accretive, cash flow positive targets at reasonable valuations. In addition to being financially accretive, acquisitions aim to drive network growth that improves our ability to serve customers through vast selection, greater density and access to customers and ability to leverage national branding and advertising.

As we focus on expanding our physical network of stores, one of the criteria we evaluate is a valuation multiple between 3x to 7x of investment in intangibles to estimated annualized adjusted EBITDA, with various factors including location, ability to expand our network and talent considered in determining value. We also target an investment in intangibles as a percentage of annualized revenues in the range of 15% to 30%.

During 2023, we acquired 56 stores and divested eight stores. We invested \$1.1 billion, net of floor plan debt, to acquire these stores and we anticipate these acquisitions to add nearly \$3.8 billion in annualized revenues.

We regularly optimize and balance our network through strategic divestitures to ensure continued high performance. We believe our disciplined approach provides us with attractive acquisition opportunities and expanded coast-to-coast coverage.

#### **Thoughtful capital allocation**

We manage our liquidity and available cash to support our long-term plan focused on growth through acquisitions and investments in our existing business, technology and adjacencies that expand and diversify our business model. Our free cash flow deployment strategy targets an allocation of 65% investment in acquisitions, 25% investment in capital expenditures, innovation, and diversification and 10% in shareholder return in the form of dividends and share repurchases. During 2023, we utilized \$230.2 million for capital expenditures investing in our existing business and paid \$52.8 million in dividends. As of December 31, 2023, we had available liquidity of \$1.7 billion, which was comprised of \$825.0 million in cash and \$870.4 million availability on our credit facilities. In addition, our unfinanced real estate could provide additional liquidity of approximately \$0.4 billion.

#### **Marketing**

Lithia & Driveway's core value, "Earn Customers for Life", drives our marketing strategy to empower consumers throughout the vehicle ownership lifecycle. To place ease and value at our customers' fingertips, we are constantly evolving the retail experience where customers can choose transparent, convenient ways to buy, sell, or service their vehicles wherever, whenever, and however they desire.

Our national, regional, and local brands connect with consumers through advertising tailored to the individual brand and market. Utilizing data and omnichannel communications, we strive to create deeper and richer offerings to build lifelong loyalty throughout the vehicle ownership life cycle.

With a vast selection represented by the largest U.S. new and preowned vehicle inventory for sale online, we employ search engine optimization, search engine marketing, online display, retargeting, social advertising, traditional media, and direct marketing to reach consumers.

Most consumers begin their shopping, buying, or selling activity on our store websites, Driveway, and GreenCars. With the importance of keeping consumer communications relevant, based on where they are in the shopping process or lifecycle of ownership, we have built a proprietary customer lifecycle communication platform. In an

industry where the competition often relies on third parties to manage their customer data, we manage our data internally. This goes beyond automotive needs, allowing us to leverage our customer insights across many revenue streams.

These online channels provide customers with simple, transparent ways to manage their vehicle ownership including search new-and-used inventories, view current pricing, apply incentives and offers, calculate payments for purchase or lease, apply for financing, buy online, sell their vehicle, offering the consumer to schedule service appointments both in store or at home, schedule vehicle pick-up and delivery, and provide us feedback about their experience. In 2023, our unique visitors increased over 30% on a same store basis from 2022.

Driveway, our online experience, puts customers in control of every aspect of their car ownership. They can browse a vast nationwide inventory of new, used, and certified pre-owned vehicles (CPO), then get a vehicle shipped straight to their driveway or pick it up from one of Lithia's 300+ stores. In 2023, approximately 31.5 million unique users visited Driveway.com, a 46% increase from 2022. We believe no-haggle pricing transparency and a 7-day money-back guarantee make Driveway the better way to buy, sell, finance, or trade in a car online.

With the industry transitioning to more sustainable practices and alternative-fuel vehicles, we are excited that GreenCars, our online education resource for sustainable mobility, had approximately 5.9 million unique visitors in 2023 at GreenCars.com, a 58% increase from 2022. GreenCars is a leading source of knowledge designed to promote the acceleration of electric vehicle (EV) adoption by educating the consumer on such topics as (1) fuel-efficient offerings from model comparisons, (2) personalized incentives, and (3) local rebates to charging network. GreenCars even connects consumers with the largest new-and-preowned inventory for when they are ready to purchase their sustainable vehicle.

Total advertising expense, net of manufacturer credits, was \$248.2 million in 2023, \$253.6 million in 2022 and \$162.2 million in 2021. Over 82% of our advertising spent in 2023 was on digital, social, listings, and one-to-one owner communications. In all of our communications, we seek to convey the promise of a positive customer experience, competitive pricing, and wide selection. Our manufacturer partners influence a significant portion of our advertising expense. Certain advertising and marketing expenditures are offset by manufacturer cooperative programs, which require us to submit requests for reimbursement to manufacturers for qualifying advertising expenditures. These advertising credits are not tied to specific vehicles and are earned as qualifying expenses are incurred. These reimbursements are recognized as a reduction of advertising expense. Manufacturer cooperative advertising credits were \$54.2 million in 2023, \$46.3 million in 2022 and \$35.6 million in 2021.

## Franchise Agreements

Each of our stores operates under a separate franchise agreement with the manufacturer of the new vehicle brand it sells.

Typical vehicle franchise agreements specify the locations within a designated market area at which the store may sell vehicles and related products and perform approved services. The designation of the market areas and the allocation of new vehicles among stores are at the discretion of the manufacturer. Franchise agreements do not, however, guarantee exclusivity within a specified territory.

A franchise agreement may impose requirements on the store with respect to:

- facilities and equipment;
- inventories of vehicles and parts;
- minimum working capital;
- training of personnel; and
- performance standards for market share and customer satisfaction.

Each manufacturer closely monitors compliance with these requirements and requires each store to submit monthly financial statements. Franchise agreements also grant a store the right to use and display manufacturers' trademarks, service marks and designs in the manner approved by each manufacturer.

We have determined the useful life of a franchise agreement is indefinite, even though certain franchise agreements are renewed after one to six years. In our experience, agreements are routinely renewed without substantial cost and there are legal remedies to help prevent termination. Certain franchise agreements have no termination date. In addition, state franchise laws protect franchised automotive retailers. Under certain laws, a manufacturer may not

terminate or fail to renew a franchise without good cause or prevent any reasonable changes in the capital structure or financing of a store.

Our typical franchise agreement provides for early termination or non-renewal by the manufacturer upon:

- a change of management or ownership without manufacturer consent;
- insolvency or bankruptcy of the dealer;
- death or incapacity of the dealer/manager;
- conviction of a dealer/manager or owner of certain crimes;
- misrepresentation of certain sales or inventory information to the manufacturer;
- failure to adequately operate the store;
- failure to maintain any license, permit or authorization required for the conduct of business;
- poor market share; or
- low customer satisfaction index scores.

Franchise agreements generally provide for prior written notice before a franchise may be terminated under most circumstances. We also sign master framework agreements with most manufacturers that impose additional requirements. See Item 1A. Risk Factors.

## Competition

The retail automotive business is highly competitive. Currently, there are more than 16,500 new vehicle franchise dealers in the United States, 4,500 in the UK, and 3,400 in Canada. Many of these franchised dealers are independent stores managed by individuals, families or small retail groups. We compete primarily with other automotive retailers, both publicly- and privately-held and other used-only automotive retailers such as CarMax, Carvana, and Cazoo.

Vehicle manufacturers have designated specific marketing and sales areas within which only one dealer of a vehicle brand may operate. In addition, our franchise agreements typically limit our ability to acquire multiple dealerships of a given brand within a particular market area. Certain state franchise laws also restrict us from relocating our dealerships, or establishing new dealerships of a particular brand, within any area that is served by another dealer with the same brand. To the extent that a market has multiple dealers of a particular brand, as certain markets we operate in do, we are subject to significant intra-brand competition.

We are larger and have more financial resources than most private automotive retailers with which we currently compete in the majority of our regional markets. We compete directly with retailers with similar or greater resources in our existing metro and non-metro markets. We also compete based on dealer reputation in the various markets. If we enter other new markets, we may face competitors that have access to greater financial resources or have strong brands. We do not have any cost advantage in purchasing new vehicles from manufacturers. We rely on advertising and merchandising, pricing, our customer guarantees and sales model, our sales expertise, service reputation and the location of our stores to sell new vehicles.

## Regulation

### ***Automotive and Other Laws and Regulations***

We operate in a highly regulated industry. A number of state and federal laws and regulations affect our business. In every state in which we operate, we must obtain various licenses to operate our businesses, including dealer, sales and finance and insurance licenses issued by state regulatory authorities. Numerous laws and regulations govern our business, including those relating to our sales, operations, financing, insurance, advertising and employment practices. These laws and regulations include state franchise laws and regulations, consumer protection laws, privacy laws, escheatment laws, anti-money laundering laws and federal and state wage-hour, anti-discrimination and other employment practices laws.

Our financing activities with customers are subject to numerous federal, state and local laws and regulations. In recent years, there has been an increase in activity related to oversight of consumer lending by the Consumer Financial Protection Bureau (CFPB), which has broad regulatory powers. The CFPB has supervisory authority over large non-bank auto finance companies, including DFC. The CFPB can use this authority to conduct supervisory examinations to ensure compliance with various federal consumer protection laws. The CFPB does not have direct authority over automotive dealers; however, its regulation of larger automotive finance companies and other financial institutions could affect our financing activities. Claims arising out of actual or alleged violations of law may

be asserted against us or our stores by individuals, a class of individuals, or governmental entities. These claims may expose us to significant damages or other penalties, including revocation or suspension of our licenses to conduct store operations and fines.

The vehicles we sell are also subject to rules and regulations of various federal and state regulatory agencies.

### **Environmental, Health, and Safety Laws and Regulations**

Our operations involve the use, handling, storage and contracting for recycling and/or disposal of materials such as motor oil and filters, transmission fluids, antifreeze, refrigerants, paints, thinners, batteries, cleaning products, lubricants, degreasing agents, tires and fuel. Consequently, our business is subject to a complex variety of federal, state and local requirements that regulate the environment and public health and safety.

Most of our stores use above ground storage tanks, and, to a lesser extent, underground storage tanks, primarily for petroleum-based products. Storage tanks are subject to periodic testing, containment, upgrading and removal under the Resource Conservation and Recovery Act and its state law counterparts. Clean-up or other remedial action may be necessary in the event of leaks or other discharges from storage tanks or other sources. In addition, water quality protection programs under the federal Water Pollution Control Act (commonly known as the Clean Water Act), the Safe Drinking Water Act and comparable state and local programs govern certain discharges from our operations. Similarly, certain air emissions from operations, such as auto body painting, may be subject to the federal Clean Air Act and related state and local laws. Health and safety standards promulgated by the Occupational Safety and Health Administration of the United States Department of Labor and related state agencies also apply.

Certain stores may become a party to proceedings under the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, typically in connection with materials that were sent to former recycling, treatment and/or disposal facilities owned and operated by independent businesses. The remediation or clean-up of facilities where the release of a regulated hazardous substance occurred is required under CERCLA and other laws.

We incur certain costs to comply with environmental, health and safety laws and regulations in the ordinary course of our business. We do not anticipate, however, that the costs of compliance will have a material adverse effect on our business, results of operations, cash flows or financial condition, although such outcome is possible given the nature of our operations and the extensive environmental, public health and safety regulatory framework. We may become aware of minor contamination at certain of our facilities, and we conduct investigations and remediation at properties as needed. In certain cases, the current or prior property owner may conduct the investigation and/or remediation or we have been indemnified by either the current or prior property owner for such contamination. We do not currently expect to incur significant costs for remediation. However, we cannot provide assurance that material environmental commitments or contingencies will not arise in the future, or that they do not already exist but are unknown to us.

### **Human Capital**

Inspired by our mission statement, "Growth Powered by People," we prioritize the importance of every Lithia & Driveway associate's professional success, well-being, and safety. Our approach to attracting, retaining, rewarding, and developing the best talent includes defining clear expectations, providing exceptional training, and recognizing employee milestones and metrics. These efforts are integral to building dynamic teams who will "Earn Customers for Life" and drive operational excellence. We foster an entrepreneurial, high-performance, customer-centric culture designed to encourage internal promotions, develop leadership skills, and offer professional growth opportunities.

As of December 31, 2023, our subsidiaries employed approximately 27,446 persons on a full-time equivalent basis in our global network of 344 retail locations. Our total workforce was comprised of approximately 21% female employees and approximately 45% of minorities. Our management consisted of approximately 21% females and approximately 36% minorities in leadership positions. In both 2023 and 2022, approximately 97% of our workforce earned above minimum wage.

Some examples of our key employee-focused programs and initiatives include:

- In 2023, we launched a company-wide Culture Poll to amplify the employee voice. With an 80% participation rate, the survey revealed engagement scores surpassing benchmarks, indicating positive



progress in creating a positive workplace experience. The survey also offered valuable insights, leading to the development of action plans by managers to address opportunities to "Improve Constantly."

- The DART (Develop, Analyze, Research, and Transform) Program started in 2020 to build high-performing leaders who aid in achieving our goal to redefine the automotive industry by providing transportation solutions wherever, whenever, and however consumers desire. The DART Program is designed to give on-the-job exposure to various areas of the organization through rotations while providing supplemental training necessary to grow internal talent into leadership roles. The program identifies data-centric, customer-focused, proactive people who will push stores to be their best for our customers. DART participants learn the ins and outs of performance standards and build relationships cross-functionally to achieve milestones and accelerate their careers.
- Launched in 2016, the AMP (Accelerate My Potential) Program initially targeted general manager readiness. Since 2021, it has evolved to focus on preparing high performers for various leadership roles beyond general manager.
- Introduced in 2015, the Women LEAD (Learn, Explore, Achieve, and Develop) Program offers a platform for women within the organization to connect, learn, and grow together. Featuring events throughout the year, the program facilitates networking, role modeling, and learning opportunities aimed to foster professional development.
- Our learning and development initiatives are dedicated to promoting employee growth through curated content paths, specialized curriculums, and tuition reimbursement programs covering up to 75% of undergraduate or graduate tuition costs. Additional programs provide Master Automotive Service Excellence (ASE) training and certification, along with Original Equipment Manufacturer training for technicians.

As one of the largest global automotive retailers, we are committed to ongoing investments in expanding the roles and skills of our workforce to drive customer excellence and operational performance. As our business continues to evolve, our unwavering focus remains on ensuring that our human capital capabilities, systems, and processes are well-aligned with and in support of our strategic objectives and growth plans.

### Seasonality and Quarterly Fluctuations

In a stable environment, the automotive industry has generally experienced higher volumes of vehicle unit sales in the second and third quarters of each year due to consumer buying trends and the introduction of new vehicle models and, accordingly, we expect our revenues and operating results to generally be higher during these periods. In addition, we generally experience higher volume of luxury vehicles, which have higher average selling prices and gross profit per vehicle, during the fourth quarter. The timing of our acquisition activity, which varies, and ability to integrate stores into our existing cost structure has moderated this seasonality. However, if conditions occur that weaken automotive sales, such as severe weather in the geographic areas in which our dealerships operate, war, high fuel costs, depressed economic conditions including unemployment or weakened consumer confidence or similar adverse conditions, or if our ability to acquire stores changes, our revenues for the year may be disproportionately adversely affected.

### Available Information

We make available free of charge, on our website at [www.lithiainvestorrelations.com](http://www.lithiainvestorrelations.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are filed electronically with the SEC. The information found on our website is not part of this Annual Report on Form 10-K. You may also obtain copies of these reports by contacting Investor Relations at 877-331-3084.

## Item 1A. Risk Factors

You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business operations.

### Risks Related to Our Business

***The automotive retail industry is sensitive to changing economic conditions and various other factors. Our business and results of operations are substantially dependent on new vehicle sales levels in the United***

***States and in our particular geographic markets and the level of gross profit margins that we can achieve on our sales of new vehicles, all of which are very difficult to predict.***

Our business is heavily dependent on consumer demand and preferences. A downturn in overall levels of consumer spending may materially and adversely affect our revenues and gross profit margins. Retail vehicle sales are cyclical and historically have experienced periodic downturns characterized by weak demand. These cycles are often dependent on general economic conditions and consumer confidence, as well as the level of discretionary personal income and credit availability. Additionally, other economic factors, such as rising and sustained periods of high crude oil and fuel prices, may impact consumer demand and preferences. As we operate internationally, including across the U.S., Canada, and the U.K., changes in and the severity of economic conditions may vary by market. Economic conditions may be anemic for an extended period of time, or deteriorate in the future. This would have a material adverse effect on our retail business, particularly sales of new and used vehicles.

The economies of the United States, Canada and the United Kingdom have recently experienced heightened inflationary pressures, impacting the costs of labor, fuel and other costs. Additionally, recent increases in interest rates have impacted new and used vehicle sales and vehicle affordability due to the direct relationship between interest rates and monthly loan payments, a critical factor for many vehicle buyers, and the impact interest rates have on customers' borrowing capacity and disposable income. Consumer demand may be further adversely impacted if interest rates continue to increase or are sustained at current levels. In an inflationary environment, depending on automotive industry and other economic conditions, we may be unable to raise prices to keep up with the rate of inflation, which would reduce our profit margins. A period of sustained inflationary and interest rate pressures could impact our profitability.

Approximately 15.6 million, 13.9 million, and 15.1 million new vehicles were sold in the United States in 2023, 2022, and 2021, respectively. Certain industry analysts have predicted that new vehicle sales will be approximately 15.7 million for 2024. If new vehicle production exceeds the rate at which new vehicles are sold, our gross profit per vehicle could be adversely affected by this excess and any resulting changes in manufacturer incentive and marketing programs. See the risk factor "If manufacturers or distributors discontinue or change sales incentives, warranties and other promotional programs, our business, results of operations, financial condition and cash flows may be materially adversely affected" below. Economic conditions and the other factors described above may also materially adversely impact our sales of used vehicles, parts and repair and maintenance services, and automotive finance and insurance products.

***Natural disasters, adverse weather conditions, and public health emergencies can disrupt our business***

Our dealerships are in states and regions in the United States, Canada, and the U.K. in which actual or threatened natural disasters and severe weather events (such as hurricanes, earthquakes, fires, floods, landslides, wind and/or hail storms) or other extraordinary events have in the past, and may in the future, disrupt our dealership operations and impair the value of our dealership property. A disruption in our operations may adversely impact our business, results of operations, financial condition and cash flows. In addition to business interruption, the automotive retailing business is subject to substantial risk of property loss due to the significant concentration of property at dealership locations. The exposure on any single claim under our property and casualty insurance, medical insurance and workers' compensation insurance varies based upon type of coverage. Our maximum exposure on any single claim is \$5.5 million, subject to certain aggregate limit thresholds. Under our self-insurance programs, we retain various levels of aggregate loss limits, per claim deductibles and claims-handling expenses. Costs in excess of these retained risks may be insured under various contracts with third-party insurance carriers. As of December 31, 2023, we had total reserve amounts associated with these programs of \$77.1 million.

The occurrence of regional epidemics or a global pandemic such as COVID-19 may adversely impact our business, results of operations, financial condition and cash flows. The extent to which global pandemics impact our business going forward will depend on factors such as the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on economic activity, including the possibility of recession or financial market instability.

The automotive manufacturing supply chain spans the globe. As such, supply chain disruptions resulting from natural disasters, adverse weather events, or public health emergencies may affect the flow of inventory or parts to us or our manufacturing partners. Such disruptions could have a material adverse effect on our business, financial condition, results of operations, or cash flows.

***Increasing competition among automotive retailers reduces our profit margins on vehicle sales and related businesses. Further, the use of the Internet in the car purchasing process could materially adversely affect us.***

Vehicle retailing is a highly competitive business. Our competitors include publicly and privately-owned dealerships. Many of our competitors sell the same or similar makes of new and used vehicles that we offer in our markets at competitive prices. We do not have any cost advantage in purchasing new vehicles from manufacturers due to the volume of purchases or otherwise.

Our finance and insurance business and other related businesses, which have higher margins than sales of new and used vehicles, are subject to strong competition from various financial institutions and others.

The Internet has become a significant part of the sales process in our industry. Customers are using the Internet to compare pricing for vehicles and related finance and insurance services, which may further reduce margins for new and used vehicles and profits for related finance and insurance services. If Internet new vehicle sales are allowed to be conducted without the involvement of franchised dealers, our business could be materially adversely affected. In addition, other franchise groups have aligned themselves with services offered on the Internet or are investing heavily in the development of their own Internet capabilities, which could materially adversely affect our business, results of operations, financial condition and cash flows.

Our franchise agreements do not grant us the exclusive right to sell a manufacturer's product within a given geographic area. Our revenues or profitability could be materially adversely affected if any of our manufacturers award franchises to others in the same markets where we operate or if existing franchised dealers increase their market share in our markets.

In addition, we may face increasingly significant competition as we strive to gain market share through acquisitions or otherwise. Our operating margins may decline over time as we expand into markets where we do not have a leading position.

***Changes to the automotive industry and consumer views on car ownership could materially adversely affect our business, results of operations, financial condition and cash flows.***

The automotive industry is predicted to experience rapid change in the years to come, including advances in electric vehicle production, driverless technology, co-ownership and subscription business models. Certain manufacturers and governments have declared commitments to various electric vehicle and zero emissions goals, such as the state of California's executive order to require all new cars and passenger trucks sold in the state to be zero-emission vehicles by 2035. In addition, the U.K. government has proposed a ban on the sale of gasoline engines in new cars and new vans that would take effect as early as 2030 and a ban on the sale of gasoline hybrid engines in new cars and new vans as early as 2035. The overall impact of these options on the automotive industry is uncertain, and may include costly compliance challenges and lower levels of new vehicle sales or sales through channels that do not include us.

Manufacturers continue to invest in increasing production and quality of electric vehicles, including Battery-Electric Vehicles (BEVs), Hybrid Electric Vehicles, and Plug-in Hybrid Electric Vehicles. BEVs generally require less maintenance than traditional cars and trucks. The effects of BEVs on the automotive industry are uncertain and may include reduced parts and service revenues, as well as changes in the level of sales of certain Finance and Insurance (F&I) products such as extended warranty and lifetime lube, oil and filter contracts.

Technological advances are also facilitating the development of driverless vehicles. The eventual timing of availability of driverless vehicles is uncertain due to regulatory requirements, technological hurdles, and uncertain consumer acceptance of these technologies. The effect of driverless vehicles on the automotive industry is uncertain and could include changes in the level of new and used vehicle sales, the price of new vehicles, and the role of franchised dealers, any of which could materially and adversely affect our business.

***We compete in a dynamic industry, and we may invest significant resources to pursue strategies and develop new offerings that do not prove effective.***

The vehicle retailing industry is experiencing significant changes as the expectations and behaviors of customers are shifting, and e-commerce and digital technology have become a more significant part of the sales process. We have made and may continue to make significant investments to drive the development of and support of e-commerce and digital technology capabilities, including the launch of Driveway, our e-commerce home solution, and DFC, our in-house consumer financing business. Changes or additions to our offerings may not attract or engage our customers or prove sufficiently profitable, and may reduce confidence in our brands, expose us to increased market or legal risks, subject us to new laws and regulations, or otherwise harm our business.

Customers may prefer other channels for vehicle sales and related finance and insurance services, because they may offer different or superior platforms, or because customers find those platforms easier to use, faster, or more cost effective than our services. We may not successfully anticipate or keep pace with industry changes, and we have and may continue to invest considerable financial resources, personnel, or other resources to pursue strategies that do not ultimately prove effective. A failure to capture the anticipated benefits of such investments could harm our results of operations and financial condition.

***A decline of affordable and available vehicle financing may adversely affect our vehicle sales.***

A significant portion of buyers finance their vehicle purchases. The primary finance sources our customers use in connection with the purchase of a new or used vehicle are manufacturer captive finance companies, DFC, and sub-prime lenders. These consumer vehicle financing sources rely to a certain extent on financing markets and sources to provide the capital necessary to support their financing programs. In addition, these financing sources, including DFC, will occasionally change their loan underwriting criteria to alter the risk profile of their loan portfolio. In the event that the cost to customers to finance vehicles becomes more expensive, due to increases in interest rates by the financing sources or their sources of capital, lenders tighten their credit standards, or available vehicle financing declines, consumers may be unable or less willing to purchase vehicles, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***Adverse conditions affecting one or more key manufacturers may negatively affect our business, results of operations, financial condition and cash flows.***

We depend on our manufacturers to provide a supply of vehicles which supports expected sales levels. Any event that adversely affects a manufacturer's ability to timely deliver new vehicles may adversely affect us by reducing our supply of popular new vehicles, leading to lower sales in our stores during those periods than would otherwise occur. For example, the shortage of chip supply and labor disruptions in 2021 and 2022 caused a significant constraint in the supply of new cars resulting in reduced volumes and increased gross profit margins on retail vehicle sales. As new vehicle availability continues to improve, volumes may improve; however, gross profit margins may be impacted. We depend on our manufacturers to deliver high-quality, defect-free vehicles. If a manufacturer experiences quality issues, our sales and financial performance may be adversely impacted. In addition, the discontinuance of a particular brand that is profitable to us could negatively impact our revenues and profitability.

Vehicle manufacturers would be adversely affected by economic downturns or recessions, adverse fluctuations in currency exchange rates, significant declines in the sales of their new vehicles, increases in interest rates, declines in their credit ratings, port closures, labor strikes or similar disruptions (including within their major suppliers), supply shortages or rising raw material costs, rising employee benefit costs, adverse publicity that may reduce consumer demand for their products, product defects, vehicle recall campaigns, litigation, poor product mix or unappealing vehicle design, or other adverse events. These and other risks could materially adversely affect any manufacturer and limit its ability to profitably design, market, produce or distribute new vehicles, which, in turn, could materially adversely affect our business, results of operations, financial condition and cash flows.

We are subject to a concentration of risk in the event of financial distress, including potential reorganization or bankruptcy, of a major vehicle manufacturer. We purchase substantially all of our new vehicles from various manufacturers or distributors at the prevailing prices available to all franchised dealers. Our sales volume could be materially adversely impacted by a manufacturer's or distributor's inability to supply our stores with an adequate supply of vehicles.

In the event of a manufacturer or distributor bankruptcy, we could be held liable for damages related to product liability claims, intellectual property suits or other legal actions. These legal actions are typically directed towards the vehicle manufacturer and it is customary for manufacturers to indemnify us from exposure related to any judgments associated with the claims. However, if damages could not be collected from the manufacturer or distributor, we could be named in lawsuits and judgments could be levied against us.

Many new manufacturers are entering the automotive industry. New companies have raised capital to produce fully electric vehicles or to license battery technology to existing manufacturers. Tesla and Rivian have demonstrated the ability to successfully introduce electric vehicles to the marketplace. Foreign manufacturers from China and India are producing significant volumes of new vehicles and are entering the United States and selecting partners to distribute their products. Because the automotive market in the United States is mature and the overall level of new vehicle sales may not increase in the coming years, the success of new competitors will likely be at the expense of other, established brands. This could have a material adverse impact on our success in the future.

Federal regulations around fuel economy standards and "greenhouse gas" emissions have continued to increase. New requirements may adversely affect any manufacturer's ability to profitably design, market, produce and distribute vehicles that comply with such regulations. We could be adversely impacted in our ability to market and sell these vehicles at affordable prices and in our ability to finance these inventories. These regulations could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***If manufacturers or distributors discontinue or change sales incentives, warranties and other promotional programs, our business, results of operations, financial condition and cash flows may be materially adversely affected.***

We depend upon the manufacturers and distributors for sales incentives, warranties and other programs that are intended to promote new vehicle sales or supplement dealer income. Manufacturers and distributors routinely make changes to their incentive programs. Key incentive programs include:

- customer rebates;
- dealer incentives on new vehicles;
- special financing rates on certified, pre-owned cars; and
- below-market financing on new vehicles and special leasing terms.

Our financial condition could be materially adversely impacted by a discontinuation or change in our manufacturers' or distributors' incentive programs. In addition, certain manufacturers use criteria such as a dealership's manufacturer-determined customer satisfaction index (CSI score), facility image compliance, employee training, digital marketing and parts purchase programs as factors governing participation in incentive programs. To the extent we do not meet minimum score requirements, we may be precluded from receiving certain incentives, which could materially adversely affect our business, results of operations, financial condition and cash flows.

Franchised automotive retailers perform factory authorized service work and sell original replacement parts on vehicles covered by warranties issued by the automotive manufacturer. For the year ended December 31, 2023, approximately 21% of our service, body and parts revenue was for work covered by manufacturer warranties or manufacturer-sponsored maintenance services. To the extent a manufacturer reduces the labor rates or markup of replacement parts for such warranty work, our service, body and parts sales volume could be adversely affected.

***The ability of our stores to make new vehicle sales depends in large part upon the franchise agreements with manufacturers and, therefore, any disruption or change in our relationships could impact our business.***

We depend on the manufacturers to provide us with a desirable mix of new vehicles. The most popular vehicles usually produce the highest profit margins and are frequently in short supply. If we cannot obtain sufficient quantities of the most popular models, our profitability may be adversely affected. Sales of less desirable models may reduce our profit margins.

Each of our stores operates pursuant to a franchise agreement with each of the respective manufacturers for which it serves as franchisee. Each of our stores may obtain new vehicles from manufacturers, service vehicles, sell new vehicles, and display vehicle manufacturers' brand only to the extent permitted under these agreements. As a result

of the terms of our franchise agreements, manufacturers exert significant control over the day-to-day operations at our stores. Such agreements contain provisions for termination or non-renewal for a variety of causes, including service retention, facility compliance, customer satisfaction and sales and financial performance. From time to time, certain of our stores have failed to comply with certain provisions of their franchise agreements, and we cannot ensure that our stores will be able to comply with these provisions in the future.

Our franchise agreements expire at various times, and there can be no assurances that we will be able to renew these agreements on a timely basis or on acceptable terms or at all. Actions taken by a manufacturer to exploit its bargaining position in negotiating the terms of renewals of franchise agreements or otherwise could also have a material adverse effect on our revenues and profitability. If a manufacturer terminates or fails to renew one or more of our significant franchise agreements or a large number of our franchise agreements, such action could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our franchise agreements also specify that, except in certain situations, we cannot operate a franchise by another manufacturer in the same building as the manufacturer's franchised store. This may require us to build new facilities at a significant cost. Moreover, our manufacturers generally require that the store meet defined image standards. These commitments could require us to make significant capital expenditures.

Our franchise agreements do not give us the exclusive right to a given geographic area. Manufacturers may be able to establish new franchises or relocate existing franchises, subject to applicable state franchise laws. The establishment of or relocation of franchises in our markets could have a material adverse effect on the business, financial condition and results of operations of our stores in the market in which the action is taken.

***Our indebtedness and lease obligations could materially adversely affect our financial health, limit our ability to finance future acquisitions and capital expenditures and prevent us from fulfilling our financial obligations. Much of our debt is secured by a substantial portion of our assets. Much of our debt has a variable interest rate component that may significantly increase our interest costs in a rising rate environment.***

Our indebtedness and lease obligations could have important consequences to us, including the following:

- limitations on our ability to make acquisitions;
- impaired ability to obtain additional financing for acquisitions, capital expenditures, working capital or general corporate purposes;
- reduced funds available for our operations and other purposes, as a larger portion of our cash flow from operations would be dedicated to the payment of principal and interest on our indebtedness; and
- exposure to the risk of increasing interest rates as certain borrowings are, and will continue to be, at variable rates of interest.

In addition, our loan agreements and our senior note indentures contain covenants that limit our discretion with respect to business matters, including incurring additional debt, granting additional security interests in our assets, acquisition activity, disposing of assets and other business matters. Other covenants are financial in nature, including current ratio, fixed charge coverage and leverage ratio calculations. A breach of any of these covenants could result in a default under the applicable agreement. In addition, a default under one agreement could result in a default and acceleration of our repayment obligations under the other agreements under the cross-default provisions in such other agreements.

We have granted a security interest in a substantial portion of our assets to certain of our lenders and other secured parties, including those under our \$4.6 billion syndicated credit facility and \$1.1 billion CAD Canadian syndicated credit facility. If we default on our obligations under those agreements, the secured parties may be able to foreclose upon their security interests and otherwise be entitled to obtain or control those assets.

Certain debt agreements contain subjective acceleration clauses based on a lender deeming itself insecure or if a "material adverse change" in our business has occurred. If these clauses are implicated, and the lender declares that an event of default has occurred, the outstanding indebtedness would likely be immediately due and owing.

If these events were to occur, we may not be able to pay our debts or borrow sufficient funds to refinance them. Even if new financing were available, it may not be on terms acceptable to us. As a result of this risk, we could be

forced to take actions that we otherwise would not take, or not take actions that we otherwise might take, in order to comply with these agreements.

In addition, the lenders' obligations to make loans or other credit accommodations under certain credit agreements is subject to the satisfaction of certain conditions precedent including, for example, the satisfaction of financial covenants and conditions and that our representations and warranties in the agreement are true and correct in all material respects as of the date of the proposed credit extension. If any of the conditions precedent are not satisfied, we may not be able to request new loans or other credit accommodations under those credit facilities, which could have a material adverse impact on our business, results of operations, financial condition and cash flows.

Additionally, at various times in the future, we will need to refinance portions of our debt. At the time we must refinance, the market for new debt, or our financial condition or asset valuations, might not be favorable. It is possible that financing to replace or renew our debt may be unfavorable, which would adversely affect our financial condition and results of operations. In certain cases, we may turn to equity or other alternative financing.

Our floor plan notes payable, credit facilities and a portion of our real estate debt are subject to variable interest rates. As of December 31, 2023, 63% of our total debt was variable rate. In the event interest rates increase, our borrowing costs may increase substantially. Additionally, fixed rate debt that matures may be renewed at interest rates significantly higher than current levels. As a result, this could have a material adverse impact on our business, results of operations, financial condition and cash flows. We may use interest rate derivatives to hedge a portion of our variable rate debt, when appropriate, based upon market conditions. See Note 11 – Derivative Financial Instruments, related to current hedge activity.

***We may not be able to satisfy our debt obligations upon the occurrence of a change in control under our debt instruments.***

Upon the occurrence of a change in control as defined in our credit agreement, the agent under the credit agreement will have the right to declare all outstanding obligations immediately due and payable and to terminate the availability of future advances to us. Upon the occurrence of a change in control, as defined in the indentures governing our senior notes, the holders of our senior notes will have the right to require us to purchase all or any part of such holders' notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any. There can be no assurance that we would have sufficient resources available to satisfy all of our obligations under the credit agreement in the event of a change in control or fundamental change. In the event we were unable to satisfy these obligations, it could have a material adverse impact on our business and our common stock holders. A "change in control" as defined in our credit agreement includes, among other events, the acquisition by any person, or two or more persons acting in concert, in either case other than Lithia Holdings Company, L.L.C., Sid DeBoer or Bryan DeBoer, of beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Securities Exchange Act of 1934) of 35% or more of the outstanding shares of our voting stock on a fully diluted basis.

***We may experience greater credit losses in DFC's portfolio of auto loan and lease receivables than anticipated.***

Customers who finance a vehicle purchase or lease a vehicle through a DFC auto loan or lease may be unable to repay the loans based on the original terms and that the fair value of the vehicles used as collateral against the loans may not be sufficient to ensure full repayment. Credit and residual value losses are an inherent risk of our auto loan and lease portfolio and could result in a material adverse effect on our results of operations.

We estimate an allowance for loan losses based on a variety of assumptions about DFC's portfolio of auto loan receivables and lease receivables. Although management prepares an estimate it believes appropriate based on available information, this allowance may not be a sufficient reserve for loan and lease losses. For example, sudden economic changes such as an economic downturn or a change in consumer spending may result in additional losses incurred that we did not estimate in our original allowance. Losses in excess of our allowance for losses could have a material adverse effect on our business and results of operations.

***The growth and success of our DFC business is dependent upon obtaining sufficient capital to grow our auto loan portfolio.***

Changes in the availability or cost of financing to support our auto loan portfolio under DFC could adversely affect our results of operations. Our auto loan portfolio is funded through a combination of free cash flows from operations and securitized funding, including asset-backed securitization. Changes in the condition of the asset backed securitization market may result in increased costs to access funds in the market or require us to explore new financing options to fund new auto loans. In the event that there is no alternative financing available, we may be forced to pause our auto loan financing business for a period of time. The impact of reducing or pausing our auto loan financing business could result in a material adverse effect on our results of operations.

***Risks associated with our international operations may negatively affect our business, results of operations and financial condition.***

We operate dealerships in the United States, Canada, and the U.K. While our operations outside of the United States currently represent a small portion of our revenue, we anticipate that our international operations will expand. We face regulatory, operational, political and economic risks and uncertainties with respect to our international operations that may be different from those in the United States. These risks may include, but are not limited to, the following:

- fluctuations in foreign currency translations within our financial statements driven by exchange rate volatility;
- inability to obtain or preserve franchise rights in the foreign countries in which we operate;
- changes in distribution models in the foreign countries in which we operate;
- compliance with changing laws and regulations;
- compliance with United States Foreign Corrupt Practices Act and other anti-corruption laws;
- wage inflation;
- treatment of revenue from international sources and changes to tax rules, including being subject to foreign tax laws;
- difficulties in managing foreign operations and dealing with different customs, practices and local regulations with which we are less familiar;
- large uncertainties, timing delays and expenses associated with tariffs, labor matters, import or export licenses and other trade barriers; and
- changes in a country's economic or political conditions, including inflation, recession and interest rate fluctuations, and exposure to regional or global public health issues, pandemics, or epidemics, such as the outbreak of the COVID-19 pandemic.

## **Technology and Cybersecurity Risks**

***Changes to the retail delivery model and increased e-commerce and omni-channel competition could adversely affect our business, results of operations, financial condition and cash flows.***

The automotive industry is beginning to experience change and disruption in the retail delivery model, including growing competition in the used vehicle market from companies with a primarily online e-commerce business model. Competition in this market includes companies such as CarMax, Carvana, and Cazoo. In addition, larger traditional automotive retailers are transforming their models to support omni-channel retail experiences, providing consumers with vehicle purchasing experiences outside of the traditional brick and mortar automotive dealership model.

We continue to develop our own internal technology solutions to further expand the reach of the networks of service and delivery points in our geographic markets. We may face increased competition for market share with these other delivery models and omni-channel retailers over time which could materially and adversely affect our results of operations. There can be no assurance that our initiatives will be successful or that the amount we invest in these initiatives will result in our maintaining market share and continued or improved financial performance.

***Breaches in our data security systems or in systems used by our vendor partners, including cyber-attacks or unauthorized data distribution by employees or affiliated vendors, or disruptions to access and connectivity of our information systems could impact our operations or result in the loss or misuse of customers' proprietary information.***



Our information technology systems are important to operating our business efficiently. We employ information technology systems, including websites, that allow for the secure handling and processing of customers' proprietary information. The failure of our information technology systems, and those of our partner software and technology vendors, to perform as we anticipate could disrupt our business and could expose us to a risk of loss or misuse of this information, litigation and potential liability.

Aspects of our operations are subject to privacy, data use and data security regulations, which impact the way we use and handle data. We collect, process, share, disclose, transfer, and otherwise use personal information about identifiable individuals including, but not limited to, our customers, employees, partners, and vendors, and so are subject to US and international laws and regulations, regarding data privacy and security such as the California Consumer Privacy Act and the UK General Data Protection Regulation. These laws impose comprehensive data privacy compliance obligations in relation to our processing of personal data, including providing privacy rights to the individuals whose data we process and introducing requirements to maintain policies, processes, and procedures regarding our data handling practices. Additionally, our expansion into Canada and the United Kingdom subjects us to additional privacy and security regulations which also impact the way we handle and secure data across borders.

We collect, process, and retain personally identifiable information regarding customers, associates and vendors in the normal course of our business. Our internal and third-party systems have been and may in the future be subject to cyber-attacks, viruses, malicious software, ransomware, break-ins, theft, computer hacking, phishing, exploitation of system vulnerabilities or misconfigurations, employee error, or malfeasance or other security breaches or loss of service. We invest in commercially reasonable security technology to protect our data and business processes against many of these risks. We also purchase insurance to mitigate the potential financial impact of many of these risks. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, could be vulnerable to security breaches, computer viruses, lost or misplaced data, programming errors, human errors, acts of vandalism, or other events. Any security breach or event resulting in the misappropriation, loss, or other unauthorized disclosure of confidential information, or degradation of services provided by critical business systems, whether by us directly or our third-party service providers, could adversely affect our business operations, sales, reputation with current and potential customers, associates or vendors, as well as other operational and financial impacts derived from investigations, litigation, imposition of penalties or other means.

## Regulatory Risks

***Our dealerships and our new vehicle sales model may not be protected if state dealer laws are repealed or weakened, a manufacturer becomes bankrupt or there is a shift to other sales models***

State and provincial dealer laws generally provide that a manufacturer may not terminate or refuse to renew a franchise agreement unless it has first provided the dealer with written notice setting forth good cause and stating the grounds for termination or non-renewal. Certain United States state dealer laws allow dealers to file protests or petitions or attempt to comply with the manufacturer's criteria within the notice period to avoid the termination or non-renewal. If dealer laws are repealed in the states where we operate, manufacturers may be able to terminate our franchises without providing advance notice, an opportunity to cure or a showing of good cause. In Canada, although laws differ by province, provincial law generally provides that both a manufacturer and dealer each has a common law and statutory duty of good faith and fair dealing in performance and enforcement of any franchise agreement. Disputes are generally handled through the National Automobile Dealer Arbitration Program (NADAP). If a manufacturer wished to terminate a franchise, there is no guaranty that we would win such a dispute. Without the protection of state and provincial dealer laws, it may also be more difficult to renew our franchise agreements upon expiration or on terms acceptable to us.

As evidenced by the bankruptcy proceedings of both Chrysler and GM in 2009, state dealer laws do not afford continued protection from manufacturer terminations or non-renewal of franchise agreements. No assurances can be given that a manufacturer will not seek protection under bankruptcy laws, or that, in this event, they will not seek to terminate franchise rights held by us.

In addition, state dealer laws restrict the ability of vehicle manufacturers to directly enter the retail market. Manufacturer lobbying efforts and lawsuits may lead to the repeal or revision of these laws. For example, Tesla has

received a favorable ruling in certain states allowing direct to consumer sales and service. In addition, many states have recently passed or are introducing legislation to permit direct to consumer auto sales in certain circumstances, allowing additional electric vehicle manufacturers such as Rivian to enter the market. If manufacturers obtain the ability to directly retail vehicles in our markets, such competition could negatively impact our sales and have a material adverse effect on our business, results of operations, financial condition and cash flows.

Further, changes by manufacturers to their distribution models may impact our operations in the U.K. Certain manufacturers are moving to an agency model in other countries, whereby the consumer places an order directly with the manufacturer and names a preferred delivery dealer. The agency model is being used by manufacturers such as Volkswagen in Germany for all EVs and Mercedes-Benz in the U.K. and other European regions. Under an agency model, our dealerships receive a fee for facilitating the sale by the manufacturer of a new vehicle but do not hold the vehicle in inventory. The agency model will reduce reported revenues (as only the fee we receive, and not the price of the vehicle, will be reported as revenue), reduce SG&A expenses, and reduce floorplan interest expense, although the other impacts to our results of operations remain uncertain. If the agency model or another new model is implemented in the U.K. or other countries and regions in which we operate for the sale of electric or other vehicles, it could negatively affect our revenues, results of operations and financial condition.

***Our U.K. dealerships are subject to different regulatory frameworks than our U.S. and Canada operations, and changes to these regulatory frameworks could negatively affect our results of operations.***

The majority of our dealerships in the U.K. operate under franchise agreements with vehicle manufacturers, however, unlike in the United States, the U.K. generally does not have automotive dealership franchise laws and, as a result, our U.K. dealerships operate without these types of specific protections that exist in the United States. In addition, our U.K. dealerships are also subject to U.K. antitrust regulations prohibiting certain restrictions on the sale of new vehicles and spare parts and on the provision of repairs and maintenance. For instance, authorized dealers are generally able to, subject to manufacturer facility requirements, relocate or add additional facilities throughout the European Union, offer multiple brands in the same facility, allow the operation of service facilities independent of new car sales facilities and ease restrictions on cross supplies (including on transfers of dealerships) between existing authorized dealers within the European Union. However, under the EU Motor Vehicle Block Exemption Regulation, which was retained in U.K. law following U.K.'s exit from the European Union on January 31, 2020, certain restrictions on dealerships are permissible in franchise agreements provided certain conditions are met. In October 2022, the Competition and Markets Authority of the U.K. published recommendations to introduce an updated U.K. equivalent broadly similar to the EU Motor Vehicle Block Exemption Regulations, however, changes to these protections or rules could negatively affect our revenues, results of operations and financial condition.

***Import product restrictions, currency valuations, and foreign trade risks may impair our ability to sell foreign vehicles or parts profitably.***

A significant portion of the vehicles we sell are manufactured outside of the geographic regions in which we operate, and all of the vehicles we sell include parts manufactured outside of the geographic regions in which we operate. As a result, our operations are subject to customary risks of importing merchandise, including currency fluctuation, import duties, exchange rates, trade restrictions, work stoppages, transportation costs, natural or man-made disasters, and general political and socioeconomic conditions in other countries. The United States or the countries from which our products are imported, may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariffs, which may affect our operations and our ability to purchase imported vehicles and/or parts at reasonable prices. Changes in United States trade policies, including the United States-Mexico-Canada Agreement or policies intended to penalize foreign manufacturing or imports, and policies of foreign countries in reaction to those changes, could increase the prices we pay for some of the new vehicles and parts we sell. Any changes that increase the costs of vehicles and parts generally, to the extent passed on to customers, could negatively affect customer demand and our revenues and profitability. If not passed on to our customers, any cost increases will adversely affect our profitability. Any cost increase that disproportionately applies to manufacturers that sell to us could adversely affect our business compared to other vehicle retailers.

***Our operations are subject to extensive governmental laws and regulations. If we are found to be in violation of or subject to liabilities under any of these laws, or if new laws or regulations are enacted that adversely affect our operations, our business, operating results, and prospects could suffer.***

We are subject to federal, state and local laws and regulations in the geographic regions in which we operate, such as those relating to franchising, motor vehicle sales, retail installment sales, leasing, finance and insurance, marketing, licensing, consumer protection, consumer privacy, escheatment, anti-money laundering, environmental, vehicle emissions and fuel economy, and health and safety. In addition, with respect to employment practices, we are subject to various laws and regulations, including complex federal, state and local wage and hour and anti-discrimination laws. New laws and regulations are enacted on an ongoing basis. With the number of stores we operate, the number of personnel we employ and the large volume of transactions we handle, it is possible that technical mistakes will be made. These regulations affect our profitability and require ongoing training. Current practices in stores may become prohibited. We are responsible for ensuring that continued compliance with laws is maintained. If there are unauthorized activities, the state and federal authorities have the power to impose civil penalties and sanctions, suspend or withdraw dealer licenses or take other actions. These actions could materially impair our activities or our ability to acquire new stores in those states where violations occurred. Further, private causes of action on behalf of individuals or a class of individuals could result in significant damages or injunctive relief.

We may be involved in legal proceedings arising from the conduct of our business, including litigation with customers, employee-related lawsuits, class actions, purported class actions and actions brought by or on behalf of governmental authorities. Claims arising out of actual or alleged violations of law may be asserted against us or any of our dealers by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. Such actions may expose us to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil fines and penalties and damage our reputation and sales.

Our financing activities are subject to federal truth-in-lending, consumer leasing and equal credit opportunity laws and regulations, as well as state and local motor vehicle finance laws, installment finance laws, insurance laws, usury laws and other installment sales laws and regulations. Some states regulate finance, documentation and administrative fees that may be charged in connection with vehicle sales. In recent years, private plaintiffs and state attorneys general in the United States have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale and leasing of motor vehicles. These activities have led many lenders to limit the amounts that may be charged to customers as fee income for these activities. If these or similar activities were to significantly restrict our ability to generate revenue from arranging financing for our customers, we could be adversely affected.

If we or any of our employees at any individual dealership violate or are alleged to violate laws and regulations applicable to them or protecting consumers generally, we could be subject to individual claims or consumer class actions, administrative, civil or criminal investigations or actions and adverse publicity. Such actions could expose us to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including suspension or revocation of our licenses and franchises to conduct dealership operations.

Environmental laws and regulations govern, among other things, discharges into the air and water; storage of petroleum substances and chemicals, the handling and disposal of wastes and remediation of contamination arising from spills and releases. In addition, we may also have liability in connection with materials that were sent to third-party recycling, treatment and/or disposal facilities under federal and state statutes. These federal and state statutes impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Similar to many of our competitors, we have incurred and expect to continue to incur capital and operating expenditures and other costs in complying with such federal and state statutes. In addition, we may be subject to broad liabilities arising out of contamination at our currently and formerly owned or operated facilities, at locations to which hazardous substances were transported from such facilities, and at such locations related to entities formerly affiliated with us. Although for some such potential liabilities we believe we are entitled to indemnification from other entities, we cannot assure you that such entities will view their obligations as we do or will be able or willing to satisfy them. Failure to comply with applicable laws and regulations, or significant additional expenditures required to maintain compliance therewith, may have a material adverse effect on our business, results of operations, financial condition, cash flows and prospects.

## Structural and Organizational Risks

***Our ability to increase revenues and profitability through acquisitions depends on our ability to acquire and successfully integrate new vehicle franchises.***

The vehicle industry in the United States, Canada, and the United Kingdom is considered a mature industry in which minimal growth is expected in unit sales of new vehicles. Accordingly, a principal component of our growth strategy is to make dealership acquisitions in our existing markets and in new geographic markets. Restrictions by our manufacturers and limitations on our access to capital resources may directly or indirectly limit our ability to acquire additional dealerships. In addition, increased competition for acquisitions, including from other national, regional and local dealership groups, and other strategic and financial buyers, some of which may have greater financial resources than us, could result in fewer acquisition opportunities for us and higher acquisition prices in the future.

We are required to obtain consent from the applicable manufacturer prior to the acquisition of a franchised store, which typically takes 60 to 90 days. In determining whether to approve an acquisition, a manufacturer considers factors including the number of such manufacturers' stores currently owned, ownership of stores in contiguous markets, performance of existing stores, frequency of acquisitions, and our financial condition. In the past, manufacturers have not consented to our purchase of franchised stores and we cannot assure you that manufacturers will approve future acquisitions timely, if at all, which could significantly impair the execution of our acquisition strategy.

We make a substantial capital investment when we acquire dealerships. We finance acquisitions activity with cash flows from our operations, borrowings under our credit arrangements, proceeds from our offering of senior notes, proceeds from mortgage financing and the issuance of shares of common stock. The size of our acquisition activity in recent years magnifies risks associated with debt service obligations. These risks include potential lower earnings per share, our inability to pay dividends and potential negative impacts to the debt covenants we negotiated under our credit agreement. In addition, issuances of equity securities could result in dilution to existing shareholders.

We face other risks commonly encountered with growth through acquisitions. These risks include, without limitation:

- failing to identify suitable acquisition candidates and negotiate acceptable terms;
- failing to assimilate the operations and personnel of acquired dealerships;
- straining our existing systems, procedures, structures and personnel, including by disrupting our ongoing business and diverting our management resources;
- failing to achieve expected performance levels;
- incurring significantly higher capital expenditures and operating expenses, including incurring additional facility renovation costs or other expenses required by the manufacturer;
- entering new, unfamiliar markets;
- encountering undiscovered liabilities and operational difficulties at acquired dealerships;
- failing to maintain uniform standards, controls and policies;
- impairing relationships with employees, manufacturers and customers; and
- overvaluing entities to be acquired.

Our failure to address these risks or other problems encountered in connection with our acquisitions could cause us to fail to realize the anticipated benefits of these acquisitions, cause us to incur unanticipated liabilities and otherwise harm our business. Any of these risks, if realized, could materially and adversely affect our business, financial condition and results of operations.

***The loss of key personnel or the failure to attract additional qualified management personnel could adversely affect our operations and growth.***

Our success depends to a significant degree on the efforts and abilities of our senior management. Further, we have identified Bryan B. DeBoer in most of our store franchise agreements as the individual who controls the franchises and upon whose financial resources and management expertise the manufacturers may rely when awarding or approving the transfer of any franchise. If we lose these key personnel, our business may suffer.

In addition, as we expand into new markets and develop our digital e-commerce solutions, we will need to hire additional managers, engineers, data scientists and other employees. The market for qualified employees in the

automotive and technology-related industries is highly competitive and may subject us to increased labor costs during periods of low unemployment. The loss of the services of key employees or the inability to attract additional qualified personnel could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, the lack of qualified managers or other employees employed by potential acquisition candidates may limit our ability to consummate future acquisitions.

## Risks Related to Investing in Our Common Stock

***Oregon law and our Restated Articles of Incorporation may impede or discourage a takeover, which could impair the market price of our common stock.***

We are an Oregon corporation, and certain provisions of Oregon law and our Restated Articles of Incorporation may have anti-takeover effects. These provisions could delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in his or her best interest. These provisions may also affect attempts that might result in a premium over the market price for the shares held by shareholders and may make removal of the incumbent management and directors more difficult, which, under certain circumstances, could reduce the market price of our common stock.

***Our issuance of preferred stock could adversely affect holders of common stock.***

Our Board of Directors is authorized to issue a series of preferred stock without any action on the part of our holders of common stock. Our Board of Directors also has the power, without shareholder approval, to set the terms of any such series of preferred stock that may be issued, including voting powers, preferences over our common stock with respect to dividends or if we voluntarily or involuntarily dissolve or distribute our assets, and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the price of our common stock could be adversely affected.

## Item 1C. Cybersecurity

### **Assessing, identifying, and managing material risks from cybersecurity threats**

We are committed to maintaining robust cybersecurity practices to safeguard our information assets and ensure the confidentiality, integrity, and availability of our operations. We employ a comprehensive approach to assess, identify, and manage material risks arising from cybersecurity threats. The identification and oversight of material cybersecurity risks is included in continuous Enterprise Risk Management (ERM) Committee and Board of Directors meetings and reporting.

We complete regular cybersecurity assessments to identify potential vulnerabilities and threats, analyzing our infrastructure, systems, and data. Assessments are conducted both internally and by third parties and consider internal and external factors, technological changes, regulatory requirements, and emerging cyber threats. Our cybersecurity program adheres to widely recognized standards for managing cybersecurity risk, including the National Institute of Standards and Technology Cybersecurity Framework, Center for Internet Security Controls and UK Cyber Essentials.

We use advanced threat detection tools and technologies to identify potential cybersecurity risks. This includes continuous monitoring, intrusion detection systems, and anomaly detection mechanisms, to promptly identify any unusual activities or security breaches. Threat intelligence sharing with industry partners helps ensure we stay informed about the latest cybersecurity threats.

We assess cybersecurity risks for their potential impact on our operations, data, and reputation. Risks are prioritized based on their severity and likelihood of occurrence before implementing appropriate controls, safeguards, and mitigation measures to address and manage these risks effectively.

We have developed a well-defined and frequently updated information security incident response plan that outlines procedures to be followed in the event of a cybersecurity incident. The plan is periodically drilled with incident response team members and includes robust processes for identification, categorization, escalation and reporting of incidents. Employees are regularly trained on key cybersecurity subjects to ensure awareness.

While no company can or will be completely immune from cybersecurity threats, especially as they relate to vendors and government agencies that we rely on, we know of no cybersecurity incident that has or is likely to materially affect us, our business strategy, or our results of operations, or financial condition.

#### **Board of Directors Cybersecurity Oversight**

Our Board of Directors oversees our cybersecurity and data protection strategy and appoints a director to lead the Board's efforts. Our Board is briefed on our cybersecurity posture, current and future risks and potential incidents or vulnerabilities on a quarterly basis. Board members and executives participate in engagements on cybersecurity, such as simulated cyber incident response and crisis management exercises. Our Board also regularly receives and reviews third-party cybersecurity assessments, which include assessments of our cyber maturity and cyber risk.

#### **Management's Assessment and Response to Material Risks from Cybersecurity Threats**

Our information security team and its leadership have primary responsibility for assessing and managing cybersecurity risks, within the scope of the overall ERM Committee. Such individuals collectively have over 80 years of prior work experience in various roles involving managing information security, developing cybersecurity strategy, and implementing effective information and cybersecurity programs. Cybersecurity threats are reported to management through robust and documented incident reporting processes. Our ERM Committee is comprised of Information Security, Legal, Treasury and other key executive stakeholders. The committee meets on a quarterly basis or as necessary to assess and respond to enterprise risks, including cybersecurity. The ERM Committee reports updates to the Board of Directors when appropriate and at least on an annual basis.

## **Item 2. Properties**

Our stores and other facilities consist primarily of vehicle showrooms, display lots, service facilities, collision repair and paint shops, supply facilities, vehicle storage lots, parking lots and offices across the U.S., Canada, and the U.K. in the locations shown in the maps under the Overview section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe our facilities are currently adequate for our needs and are in good repair. Some of our facilities do not currently meet manufacturer image or size requirements and we are actively working to find a mutually acceptable outcome in terms of timing and overall cost. We own our corporate headquarters in Medford, Oregon, and numerous other properties used in our operations. Certain of our owned properties are mortgaged or secured as part of commitments on our various real estate credit facilities. As of December 31, 2023, we had outstanding mortgage debt of \$624.4 million, and \$295.8 million outstanding on our real estate credit facilities. We also lease certain properties, providing future flexibility to relocate our retail stores as demographics, economics, traffic patterns or sales methods change. Most leases provide us the option to renew the lease for one or more lease extension periods. We also hold certain vacant facilities and undeveloped land for future expansion.

## **Item 3. Legal Proceedings**

We are party to numerous legal proceedings arising in the normal course of our business. Although we do not anticipate that the resolution of legal proceedings arising in the normal course of business will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the New York Stock Exchange under the symbol LAD. The number of shareholders of record and approximate number of beneficial holders of common stock as of February 23, 2024 was 428 and 90,497, respectively.

#### Repurchases of Equity Securities

We made the following repurchases of our common stock during the fourth quarter of 2023:

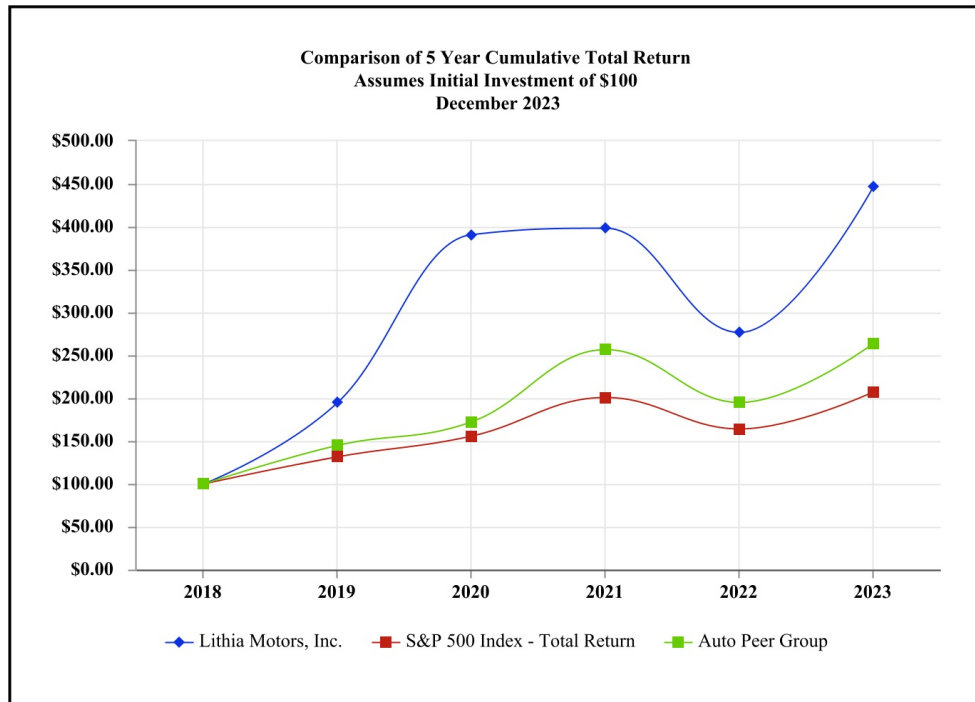
For the full calendar month of	Total number of shares purchased <sup>(1)</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plan <sup>(2)</sup>	Maximum dollar value of shares that may yet be purchased under publicly announced plan (in thousands)
October	142,729	\$ 240.81	142,729	\$ 466,996
November	66	242.21	—	466,996
December	—	—	—	466,996
Total	142,795	240.81	142,729	

<sup>(1)</sup> 66 shares repurchased in the fourth quarter of 2023 were related to tax withholding on the vesting of RSUs.

<sup>(2)</sup> On November 1, 2022, our Board of Directors approved an additional \$450 million repurchase authorization of our common stock. This authorization was in addition to the amount previously authorized by the Board for repurchase. There is no expiration date for this share repurchase authorization.

**Stock Performance Graph**

The stock performance graph and table that follow compare the cumulative total stockholder return on Lithia Motors, Inc.'s common stock with the cumulative total return of the Standard & Poor's 500 Stock Index (S&P 500 Index), and an auto peer group index composed of Penske Automotive Group, AutoNation, Sonic Automotive, Group 1 Automotive, Asbury Automotive Group, and CarMax for the five years ended December 31, 2023. The peer group indexes utilize the same methods of presentation and assumptions for the total return calculation as does Lithia Motors and the S&P 500 Index. All companies in the peer group indexes are weighted in accordance with their market capitalizations.<sup>(1)</sup>



Company/Index	Base Period	Indexed Returns for the Year Ended				
	2018	2019	2020	2021	2022	2023
Lithia Motors, Inc.	\$100.00	\$ 194.56	\$ 390.67	\$ 397.87	\$ 275.97	\$ 447.15
S&P 500 Index - Total Return	100.00	131.49	155.68	200.37	164.08	207.21
Auto Peer Group	100.00	144.28	172.07	255.85	194.26	263.40

<sup>(1)</sup> The graph and table assume that \$100 was invested on the last day of trading for the calendar year ended December 31, 2018 in Lithia Motors, Inc's common stock, the S&P 500 Index, and peer group indexes, and that all dividends were reinvested.

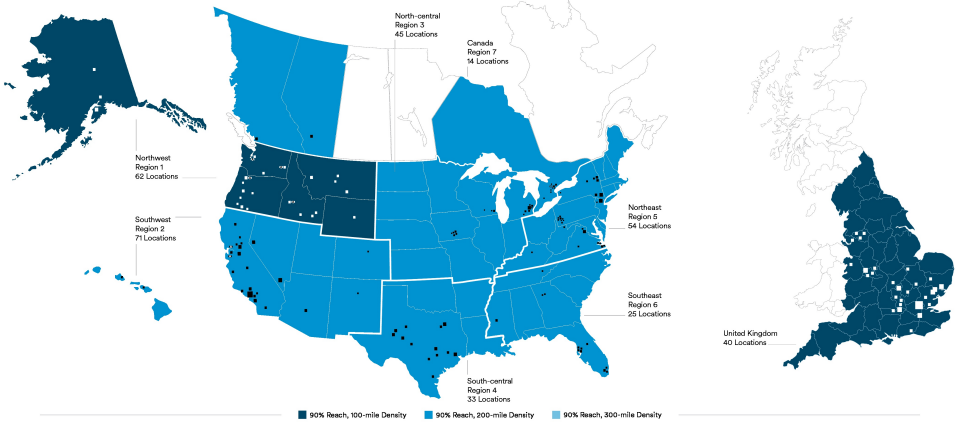


# Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

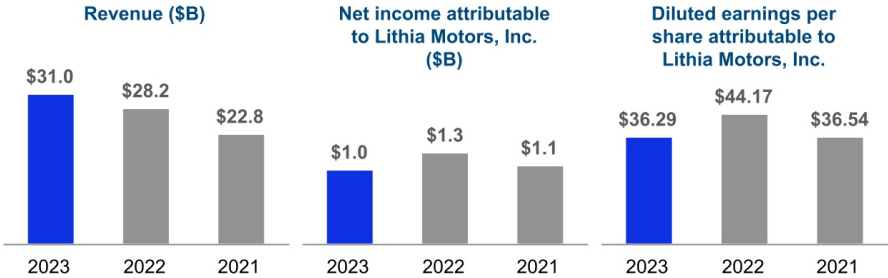
You should read the following discussion in conjunction with Item 1. Business, Item 1A. Risk Factors, and our Consolidated Financial Statements and Notes thereto.

## Overview

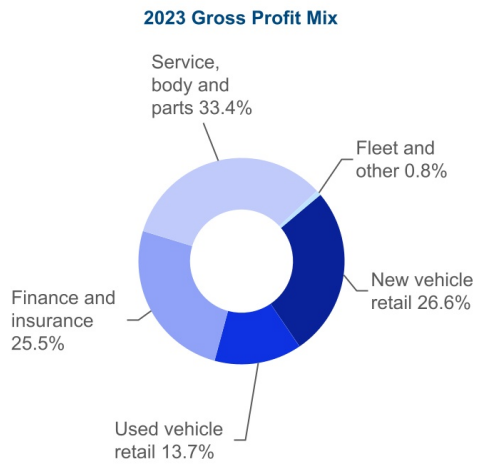
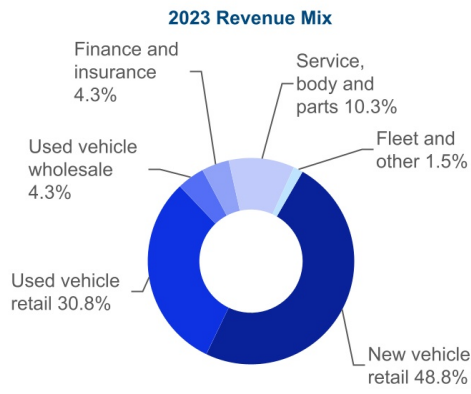
We are a global automotive retailer ranked #145 on the Fortune 500 in 2023. As of February 23, 2024, we offered 47 brands of new vehicles and all brands of used vehicles in 344 stores in the United States, Canada, and the United Kingdom and online at nearly 360 websites. We offer a wide range of products and services including new and used vehicles, finance and insurance products and vehicle repair and maintenance.



## Financial Performance



We experienced growth of revenue and gross profit in all major business lines in 2023 compared to 2022, primarily driven by increases in volume related to acquisitions, complimented by organic growth in new vehicles, and service, body and parts sales. On a same store basis, new and used vehicle retail gross profits experienced declines primarily driven by decreases in gross profit per unit as margins normalize to pre-pandemic levels. Net income decline was primarily driven by this margin normalization, increased interest expense, and increased SG&A as a percentage of gross profit.



**Liquidity**

As of December 31, 2023, we had available liquidity of \$1.7 billion, which was comprised of \$0.8 billion in cash and \$0.9 billion availability on our credit facilities and unfloored new vehicle inventory. In addition, our unfinanced real estate could provide additional liquidity of approximately \$0.4 billion. For further discussion of our liquidity, please refer to "Liquidity and Capital Resources" below.

**Segments**

We operate in two reportable segments: Vehicle Operations and Financing Operations. Our Vehicle Operations segment consists of all aspects of our auto merchandising and service operations, excluding financing provided by our Financing Operations segment. Our Financing Operations segment provides financing to customers buying and leasing retail vehicles from our Vehicle Operations segment.

## Vehicle Operations

(\$ in millions, except per vehicle data)	Year Ended December 31,							
			2023 vs. 2022				2022 vs. 2021	
	2023	2022	Change	%	2021	Change	%	
<b>Revenues</b>								
New vehicle retail	\$ 15,154.2	\$ 12,894.5	\$ 2,259.7	17.5 %	\$ 11,197.7	\$ 1,696.8	15.2 %	
Used vehicle retail	9,570.2	9,425.0	145.2	1.5	7,255.3	2,169.7	29.9	
Finance and insurance	1,337.0	1,285.4	51.6	4.0	1,051.3	234.1	22.3	
Service, body and parts	3,197.1	2,738.8	458.3	16.7	2,110.9	627.9	29.7	
Total revenues	31,042.3	28,187.8	2,854.5	10.1	22,831.7	5,356.1	23.5	
<b>Gross profit</b>								
New vehicle retail	\$ 1,394.1	\$ 1,579.7	\$ (185.6)	(11.7)%	\$ 1,218.5	\$ 361.2	29.6 %	
Used vehicle retail	721.4	825.4	(104.0)	(12.6)	826.7	(1.3)	(0.2)	
Finance and insurance	1,337.0	1,285.4	51.6	4.0	1,051.3	234.1	22.3	
Service, body and parts	1,751.4	1,463.1	288.3	19.7	1,110.5	352.6	31.8	
Total gross profit	5,228.9	5,152.4	76.5	1.5	4,259.0	893.4	21.0	
<b>Gross profit margins</b>								
New vehicle retail	9.2 %	12.3 %	-310 bp		10.9 %	140 bp		
Used vehicle retail	7.5	8.8	-130 bp		11.4	-260 bp		
Finance and insurance	100.0	100.0	—bp		100.0	—bp		
Service, body and parts	54.8	53.4	140 bp		52.6	80 bp		
Total gross profit margin	16.8	18.3	-150 bp		18.7	-40 bp		
<b>Retail units sold</b>								
New vehicle retail	314,116	271,596	42,520	15.7 %	260,738	10,858	4.2 %	
Used vehicle retail	325,764	311,764	14,000	4.5	275,495	36,269	13.2	
<b>Average selling price per retail unit</b>								
New vehicle retail	\$ 48,244	\$ 47,477	\$ 767	1.6 %	\$ 42,946	\$ 4,531	10.6 %	
Used vehicle retail	29,378	30,231	(853)	(2.8)	26,336	3,895	14.8	
<b>Average gross profit per retail unit</b>								
New vehicle retail	\$ 4,438	\$ 5,816	\$ (1,378)	(23.7)%	\$ 4,673	\$ 1,143	24.5 %	
Used vehicle retail	2,215	2,648	(433)	(16.4)	3,001	(353)	(11.8)	
Finance and insurance	2,090	2,203	(113)	(5.1)	1,960	243	12.4	
Total vehicle <sup>(1)</sup>	5,367	6,300	(933)	(14.8)	5,855	445	7.6	

<sup>(1)</sup> Includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

### Same Store Operating Data

We believe that same store comparisons are an important indicator of our financial performance. Same store measures demonstrate our ability to grow operations in our existing locations. Therefore, we have integrated same store measures into the discussion below.

Same store measures reflect results for stores that were operating in each comparison period, and only include the months when operations occurred in both periods. For example, a store acquired in November 2022 would be included in same store operating data beginning in December 2023, after its first complete comparable month of operations. The fourth quarter operating results for the same store comparisons would include results for that store in only the period of December for both comparable periods.

Year Ended December 31,

(\$ in millions, except per vehicle data)	2023 vs. 2022				2022 vs. 2021			
	2023	2022	Change	%	2022	2021	Change	%
<b>Revenues</b>								
New vehicle retail	\$ 13,197.3	\$ 12,562.0	\$ 635.3	5.1 %	\$ 10,009.9	\$ 10,607.9	\$ (598.0)	(5.6)%
Used vehicle retail	8,173.4	9,182.3	(1,008.9)	(11.0)	7,779.6	6,896.3	883.3	12.8
Finance and insurance	1,205.0	1,253.9	(48.9)	(3.9)	1,016.5	999.1	17.4	1.7
Service, body and parts	2,803.1	2,657.4	145.7	5.5	2,207.8	2,009.0	198.8	9.9
Total revenues	26,708.4	27,454.4	(746.0)	(2.7)	22,378.3	21,673.0	705.3	3.3
<b>Gross profit</b>								
New vehicle retail	\$ 1,205.3	\$ 1,541.9	\$ (336.6)	(21.8)%	\$ 1,221.7	\$ 1,163.6	\$ 58.1	5.0 %
Used vehicle retail	614.1	801.1	(187.0)	(23.3)	663.7	784.2	(120.5)	(15.4)
Finance and insurance	1,205.0	1,253.9	(48.9)	(3.9)	1,016.5	999.1	17.4	1.7
Service, body and parts	1,533.5	1,424.0	109.5	7.7	1,193.4	1,058.0	135.4	12.8
Total gross profit	4,554.2	5,018.8	(464.6)	(9.3)	4,082.0	4,055.6	26.4	0.7
<b>Gross profit margins</b>								
New vehicle retail	9.1 %	12.3 %	-320 bp		12.2 %	11.0 %	120 bp	
Used vehicle retail	7.5	8.7	-120 bp		8.5	11.4	-290 bp	
Finance and insurance	100.0	100.0	—bp		100.0	100.0	—bp	
Service, body and parts	54.7	53.6	110 bp		54.1	52.7	140 bp	
Total gross profit margin	17.1	18.3	-120 bp		18.2	18.7	-50 bp	
<b>Retail units sold</b>								
New vehicle retail	272,780	264,510	8,270	3.1 %	208,185	246,186	(38,001)	(15.4)%
Used vehicle retail	285,708	303,037	(17,329)	(5.7)	257,968	259,978	(2,010)	(0.8)
<b>Average selling price per retail unit</b>								
New vehicle retail	\$ 48,381	\$ 47,492	\$ 889	1.9 %	\$ 48,082	\$ 43,089	\$ 4,993	11.6 %
Used vehicle retail	28,607	30,301	(1,694)	(5.6)	30,157	26,527	3,630	13.7
<b>Average gross profit per retail unit</b>								
New vehicle retail	\$ 4,419	\$ 5,829	\$ (1,410)	(24.2)%	\$ 5,868	\$ 4,726	\$ 1,142	24.2 %
Used vehicle retail	2,149	2,643	(494)	(18.7)	2,573	3,017	(444)	(14.7)
Finance and insurance	2,158	2,209	(51)	(2.3)	2,181	1,974	207	10.5
Total vehicle <sup>(1)</sup>	5,383	6,312	(929)	(14.7)	6,175	5,907	268	4.5

<sup>(1)</sup> Includes the sales and gross profit related to new, used retail, used wholesale and finance and insurance and unit sales for new and used retail

**New Vehicles**

Under our business strategy, we believe that our new vehicle sales create incremental profit opportunities through certain manufacturer incentive programs, providing used vehicle inventory through trade-ins, arranging of third-party financing, vehicle service and insurance contracts, future resale of used vehicles acquired through trade-in and parts and service work.



**2023 vs. 2022**

New vehicle revenue grew 17.5%, resulting from a 15.7% increase in unit sales due to our accelerated growth through strategic acquisitions, complemented by a 1.6% increase in average selling prices. Same store new vehicle revenue was primarily impacted by a 3.1% increase in unit sales, supplemented by an increase in average selling prices of 1.9%. Market demand continued to increase in 2023 off a depressed base last year.

New vehicle gross profit declined 11.7%, primarily due to a 23.7% decrease in average gross profit per unit, partially offset by a 15.7% increase in unit sales driven by acquisitions. On a same store basis, gross profit per new vehicle decreased 24.2%, continuing to normalize to pre-pandemic levels.

**2022 vs. 2021**

New vehicle revenues and gross profit grew 15.2% and 29.6%, respectively. These improvements resulted from our accelerated growth through acquisitions.

The decrease in same store new vehicle revenues was driven by a decrease in unit volume of 15.4%, partially offset by an increase in average selling prices of 11.6%. Same store gross profit per new vehicle increased 24.2%, driven by demand from prior year shortages of available new vehicles for sale, resulting from certain component shortages in the manufacturers' supply chains.

**Used Vehicles**

Our used vehicle operations provide an opportunity to generate sales to customers unable or unwilling to purchase a new vehicle, sell brands other than the store's new vehicle franchise(s), access additional used vehicle inventory through trade-ins and increase sales from finance and insurance products and parts and service.

Used vehicle retail sales are a strategic focus for organic growth. We offer three categories of used vehicles: manufacturer certified pre-owned (CPO) vehicles; core vehicles, which are late-model vehicles with lower mileage; and value autos, which are vehicles with over 80,000 miles. We have established a company-wide target of achieving a per store average of 100 used retail units per month. Strategies to achieve this target include reducing wholesale sales and selling the full spectrum of used units, from late model CPO vehicles to vehicles over ten years old. During 2023, our stores sold an average of 82 used vehicles per store per month. This compares to 91 used vehicles per store per month in 2022 and 92 in 2021. Used vehicle operations are generally an opportunity area for recently acquired and opened locations. As we acquired 56 and 32 locations in 2023 and 2022, respectively, this decrease in 2023 was due to the volume of stores recently acquired still being integrated into our existing operational strategies as well as the result of supply constraints of new vehicles during the pandemic period impacting late model availability today.



#### 2023 vs. 2022

Used vehicle revenues increased 1.5%, due to increased volume from acquisitions, offset by decreased volume at our seasoned stores. On a same store basis, used vehicle revenues decreased 11.0%, due to a 5.7% decrease in unit volume and a 5.6% decrease in average selling price per retail unit. The same store revenue decrease in 2023 was driven by a decrease in our core vehicles of 14.9% and decreases in value auto and CPO vehicle categories of 12.4% and 0.7%, respectively. The decrease in our core vehicle category includes a 10.3% decrease in volume and a 5.1% decrease in average selling price per vehicle.

Used vehicle gross profits decreased 12.6%, due to a 16.4% decrease in average gross profit per unit. On a same store basis, used vehicle gross profit decreased 23.3%, led by a decrease in our CPO vehicles of 35.0% with additional declines in our core and value auto vehicle categories of 20.4% and 11.6%, respectively. The decrease in our CPO vehicle category was driven by a decrease in gross profit per unit of 38.2% to \$2,321, offset by an increase in unit volume of 5.2%. Gross profit per unit in our core vehicle category, which accounted for 58.2% of our used vehicle unit sales, decreased 11.3% to \$1,992. The decrease in same store gross profit in our value auto category was driven by a 8.9% decrease in gross profit per unit to \$2,433.

#### 2022 vs. 2021

Used vehicle revenues increased 29.9%, due to a combination of increased volume from acquisitions and organic growth in all categories of used vehicle sales at our seasoned stores. Excluding the impact of acquisitions, on a same store basis, used vehicle revenues increased 12.8%, due to a 13.7% increase in average selling price per retail unit, partially offset by a 0.8% decrease in unit volume.

Used vehicle gross profits decreased 0.2%, due to an 11.8% decrease in average gross profit per unit, mostly offset by a 13.2% increase in units sold. On a same store basis, used vehicle gross profit decreased 15.4%, led by a decrease in average gross profit per unit of 14.7%.

#### Third-Party Finance and Insurance

We believe that arranging timely vehicle financing is an important part of providing personal transportation solutions, and we attempt to arrange financing for every vehicle we sell. We also offer related products such as extended warranties, insurance contracts and vehicle and theft protection. Third-party extended warranty and insurance contracts yield higher profit margins than vehicle sales and contribute significantly to our profitability.

#### 2023 vs. 2022

Finance and insurance revenue increased 4.0%, primarily due to increased volume related to acquisitions. On a same store basis, finance and insurance revenue decreased 3.9%, to \$2,158 per unit. This decrease was driven by lower finance reserve paid per unit from third-party lenders as a result of the higher interest rate environment. We also experienced a partial decrease in the volume of third-party financing as a result of increased penetration rates associated with our Financing Operations and the growth of our captive auto loan and lease portfolio businesses.

#### 2022 vs. 2021

Finance and insurance revenue increased 22.3%, primarily due to increased volume related to acquisitions, combined with expanded product offerings and increasing penetration rates. On a same store basis, finance and insurance revenue increased 1.7%, to \$2,181 per unit.

### **Service, Body and Parts**

We provide service, body and parts for the new vehicle brands sold by our stores, as well as service and repairs for most other makes and models. Our parts and service operations are an integral part of our customer retention and the largest contributor to our overall profitability. Earnings from service, body and parts have historically been more resilient during economic downturns, when owners have tended to repair their existing vehicles rather than buy new vehicles. With more late-model units in operation, continued increase of vehicles in operation, and a plateauing new vehicle market, we believe the increased number of units in operation will continue to benefit our service, body and parts revenue in the coming years as more late-model vehicles age, necessitating repairs and maintenance. We focus on retaining customers by offering competitively-priced routine maintenance and through our marketing efforts.

### **2023 vs. 2022**

Our service, body and parts revenue grew in all areas, primarily due to our strategic acquisition growth. On a same store basis, service, body and parts revenue increased 5.5%, primarily driven by an increase in customer pay of 5.2%. Performance in body shop also saw an increase of 8.0%. Same store service, body and parts gross profit increased 7.7%. Our gross margins continue to increase as our mix has shifted towards customer pay, which has higher margins than other service work.

### **2022 vs. 2021**

Service, body and parts revenue grew in all areas, primarily due to acquisition growth. On a same store basis, service, body and parts revenue and gross profit increased 9.9% and 12.8%, respectively.

## **Financing Operations**

In the United States, Financing Operations is a captive lender, originating loans only from stores and Driveway. In Canada, Financing Operations originates loans and leases from both our Canadian stores and third-party dealerships. Our stores do not exclusively finance vehicles through Financing Operations, rather originations are earned on a competitive basis with other lenders.

Financing Operations provides an opportunity to capture additional profits, cash flows, and sales while managing our reliance on third-party finance sources. Management regularly analyzes Financing Operations' results by assessing profitability, the performance of the finance receivables, including trends in credit losses and delinquencies, and expenses directly related to Financing Operations. This information is used to assess Financing Operations performance and make operating decisions, including resource allocation.

Our proprietary credit model performs a return on investment (ROI) calculation for each application, ensuring that the return obtained is appropriately balanced with the consumer's credit risk. On a fully discounted basis, we target earnings at least three times the net finance income earned from third party lenders (finance reserve less commissions paid) over the life of the loan. Actual return of the loans may differ based on the changing risk profile of originations, economic conditions, and rates of recovery for charged off vehicles. Actions taken during 2022 to adjust ROI targets in the context of the uncertain macroeconomic environment, along with the acquisition of dealerships whose brands attract relatively more credit-worthy consumers, resulted in loans and leases originated subsequently having higher weighted average credit scores and lower weighted average contract rate and front-end loan-to-values (FE LTV) than prior periods.

We typically use securitizations, warehouse facilities, and internal capital to fund loans and leases originated by our Financing Operations. Financing Operations income reflects the interest, fee, and lease income generated by the portfolio of auto loan and lease receivables less the interest expense associated with the debt utilized to fund the lending, including internal capital, a provision for estimated loan and lease losses, depreciation on vehicles leased via operating leases and directly-related expenses.

Total interest margin reflects the spread between interest, fee, and lease charges to consumers and our funding costs. Changes in the interest margin on new originations affect Financing Operations income over time. Increases or decreases in interest rates, which affect Financing Operations' funding costs, or other competitive pressures on consumer rates, could result in compression or expansion in the interest margin on new originations. Changes in the provision for loan and lease losses as a percentage of ending managed receivables reflect the effect of changes in loss experience, economic factors, and asset-specific risks on our outlook for net losses expected to occur over the remaining contractual life of the loans and leases receivable.

Financing Operations income does not include any allocation of corporate overhead costs. Although Financing Operations benefits from certain overhead expenditures, we have not allocated corporate overhead costs to Financing Operations to avoid making subjective allocation decisions. Examples of corporate overhead costs not allocated to Financing Operations include general corporate and data processing expenses.

See Note 18 – Segments for additional information on Financing Operations income and Note 5 – Finance Receivables for information on auto loans receivable, including credit quality.

### Selected Financing Operations Financial Information

(\$ in millions)	Year Ended December 31,					
	2023	% <sup>(1)</sup>	2022	% <sup>(1)</sup>	2021	% <sup>(1)</sup>
<b>Interest margin:</b>						
Interest, fee, and lease income	\$ 268.5	9.6	\$ 134.1	8.7	\$ 45.9	9.2
Interest expense	(170.5)	(6.1)	(52.2)	(3.4)	(4.8)	(1.0)
Total interest margin	\$ 98.0	3.5	\$ 81.9	5.3	\$ 41.1	8.2
Provision for loan and lease losses	\$ (98.8)	(3.5)	\$ (44.4)	(2.9)	\$ (9.4)	(1.9)
Financing operations (loss) income	\$ (45.9)	(1.6)	\$ (4.0)	(0.3)	\$ 11.0	2.2
Total average managed finance receivables	\$ 2,802.8		\$ 1,542.6		\$ 501.5	

<sup>(1)</sup> Percent of total average managed finance receivables.

### Portfolio Information<sup>(1)</sup>

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
<b>Loan origination information</b>			
Net loans originated	\$ 2,118.5	\$ 1,933.9	\$ 703.7
Vehicle units financed	70,154	59,604	21,357
Total penetration rate <sup>(2)</sup>	11.0 %	10.2 %	4.0 %
Weighted average contract rate	9.6 %	7.7 %	8.4 %
Weighted average credit score <sup>(3)</sup>	732	718	674
Weighted average FELTV <sup>(4)</sup>	95.5 %	99.4 %	104.9 %
Weighted average term (in months)	73	73	73
<b>Loan performance information</b>			
Total ending managed receivables	\$ 3,177.6	\$ 2,109.4	\$ 724.9
Total average managed receivables	\$ 2,643.5	\$ 1,417.2	\$ 449.8
Allowance for loan losses	\$ 102.2	\$ 65.1	\$ 22.5
Allowance for loan losses as a percentage of ending managed receivables	3.2 %	3.1 %	3.1 %
Net credit losses on managed receivables	62.0	42.9	7.8
Net credit losses as a percentage of total average managed receivables	2.3 %	3.0 %	1.7 %
Past due accounts as a percentage of ending managed receivables <sup>(5)</sup>	4.6 %	5.4 %	4.9 %
Average recovery rate <sup>(6)</sup>	49.8 %	59.3 %	74.9 %

<sup>(1)</sup> Excludes Canadian portfolio

<sup>(2)</sup> Units financed as a percentage of total new and used vehicle retail units sold.

<sup>(3)</sup> The credit scores represent FICO scores and reflect only receivables with obligors that have a FICO score at the time of application. For receivables with co-borrowers, the FICO score is the primary borrower's. FICO scores are not a significant factor in our proprietary credit model, which relies on information from credit bureaus and other application information as discussed in Note 5 – Finance Receivables.

<sup>(4)</sup> Front-end loan-to-value represents the ratio of the amount financed to the total collateral value, which is measured as the vehicle selling price plus applicable taxes, title and fees.

<sup>(5)</sup> Past due is defined as loans that have been on the books greater than or equal to 3 months and are 30 or more days delinquent

<sup>(6)</sup> The average recovery rate represents the average percentage of the outstanding principal balance we receive when a vehicle is repossessed and liquidated, generally at wholesale auctions.

Financing operations loss increased from 2022 to 2023 primarily due to spread compression, decreasing net interest margin from 5.3% in 2022 to 3.5% in 2023. In response to the rapid increase in funding costs in the first half of the year, we have focused on improving net interest margin by passing along higher contract rates to consumers



while maintaining credit quality, resulting in a stabilization and improvement in the metric in recent quarters. The growth in the portfolio also negatively impacted results due to the upfront recognition of loan and lease loss provisions on new loans outpacing the release of such provisions on more seasoned loans and leases.

The increase in net credit losses was driven by the growth in the portfolio, as net credit losses as a percentage of total averaged managed receivables, along with delinquencies, decreased compared to the prior year, driven by increased credit quality.

The decline in the average recovery rate was driven by used vehicle price depreciation outpacing the amortization of the principal balance on loan principal balances, due to the relatively limited seasoning of the portfolio.

## Operating Expenses

### Selling, General, and Administrative (SG&A)

SG&A includes salaries and related personnel expenses, advertising (net of manufacturer cooperative advertising credits), rent, facility costs, and other general corporate expenses.

(\$ in millions)	Year Ended December 31,							
			2023 vs. 2022				2022 vs. 2021	
	2023	2022	Change	%	2021	Change	%	
Personnel	\$ 2,163.1	\$ 2,086.3	\$ 76.8	3.7 %	\$ 1,737.9	\$ 348.4	20.0 %	
Advertising	248.2	253.6	(5.4)	(2.1)	162.2	91.4	56.4	
Rent	89.3	72.6	16.7	23.0	54.0	18.6	34.4	
Facility costs	183.9	150.3	33.6	22.4	116.8	33.5	28.7	
Gain on sale of assets	(34.1)	(66.0)	31.9	NM	(2.3)	(63.7)	NM	
Other	644.4	547.3	97.1	17.7	412.2	135.1	32.8	
<b>Total SG&amp;A</b>	<b>\$ 3,294.8</b>	<b>\$ 3,044.1</b>	<b>\$ 250.7</b>	<b>8.2 %</b>	<b>\$ 2,480.8</b>	<b>\$ 563.3</b>	<b>22.7 %</b>	

NM - Not meaningful

As a % of gross profit	Year Ended December 31,							
			2023 vs. 2022				2022 vs. 2021	
	2023	2022	Change		2021	Change		
Personnel	41.4 %	40.5 %		90 bps	40.8 %		(30) bps	
Advertising	4.7	4.9		(20)	3.8		110	
Rent	1.7	1.4		30	1.3		10	
Facility costs	3.5	2.9		60	2.7		20	
Gain on sale of assets	(0.7)	(1.3)		60	(0.1)		(120)	
Other	12.4	10.7		170	9.7		100	
<b>Total SG&amp;A</b>	<b>63.0 %</b>	<b>59.1 %</b>		<b>390 bps</b>	<b>58.1 %</b>		<b>100 bps</b>	

### 2023 vs. 2022

SG&A increased 8.2%, or \$250.7 million, primarily due to increased personnel and other costs resulting from our growth through acquisitions. Other expenses in 2023 included acquisition expenses of \$27.2 million and \$5.4 million of storm related insurance charges. We also recognized a gain on the sale of stores of \$31.2 million.

On a same store basis and excluding non-core charges, adjusted SG&A as a percentage of gross profit increased across all categories to 62.3% from 59.8% in the prior year.

### 2022 vs. 2021

SG&A increased 22.7%, or \$563.3 million, primarily due to increased personnel costs which resulted from our growth through acquisitions. Other expenses in 2022 included acquisition expenses of \$15.0 million and \$4.9 million of storm related insurance charges.

On a same store basis and excluding non-core charges, adjusted SG&A as a percentage of gross profit increased across all categories to 61.5% from 57.5% in the prior year.

SG&A adjusted for non-core charges was as follows:

(\$ in millions)	Year Ended December 31,							
	2023	2022	2023 vs. 2022		2021	2022 vs. 2021		
			Change	%		Change	%	
Personnel	\$ 2,163.1	\$ 2,086.3	\$ 76.8	3.7 %	\$ 1,737.9	\$ 348.4	20.0 %	
Advertising	248.2	253.6	(5.4)	(2.1)	162.2	91.4	56.4	
Rent	89.3	72.6	16.7	23.0	54.0	18.6	34.4	
Facility costs	183.9	150.3	33.6	22.4	116.8	33.5	28.7	
Adjusted gain on sale of assets <sup>(1)</sup>	(2.9)	0.0	(2.9)	NM	(2.3)	2.3	NM	
Adjusted other <sup>(1)</sup>	597.5	527.4	70.1	13.3	386.2	141.2	36.6	
Total adjusted SG&A <sup>(1)</sup>	\$ 3,279.1	\$ 3,090.2	\$ 188.9	6.1 %	\$ 2,454.8	\$ 635.4	25.9 %	

NM - Not meaningful

As a % of gross profit	Year Ended December 31,							
	2023	2022	2023 vs. 2022		2021	2022 vs. 2021		
			Change	%		Change	%	
Personnel	41.4 %	40.5 %	90 bps		40.8 %	(30) bps		
Advertising	4.7	4.9	(20)		3.8	110		
Rent	1.7	1.4	30		1.3	10		
Facility costs	3.5	2.9	60		2.7	20		
Adjusted gain on sale of assets <sup>(1)</sup>	(0.1)	—	(10)		(0.1)	10		
Adjusted other <sup>(1)</sup>	11.5	10.3	120		9.0	130		
Total adjusted SG&A <sup>(1)</sup>	62.7 %	60.0 %	270 bps		57.5 %	250 bps		

<sup>(1)</sup> See "Non-GAAP Reconciliations" for more details.

### Floor Plan Interest Expense and Floor Plan Assistance

We have floor plan agreements with both manufacturer-affiliated finance companies and as part of our syndicated credit facilities for certain new vehicles and vehicles that are designated for use as service loaners. The interest rates on these floor plan notes payable commitments vary by lender and are variable rates.

#### 2023 vs. 2022

Floor plan interest expense increased \$112.1 million, primarily due to higher interest rates, increases in new vehicle inventory levels from acquisitions as well as existing locations recovering from prior year inventory shortages. Floor plan interest expense increased 51.3% related to acquisition volume and 49.2% for existing locations.

#### 2022 vs. 2021

Floor plan interest expense increased \$16.5 million, primarily due to increases in new vehicle inventory levels at existing locations and growth through acquisitions.

Floor plan assistance is provided by manufacturers to support store financing of new vehicle inventory. Under accounting standards, floor plan assistance is recorded as a component of new vehicle gross profit when the specific vehicle is sold. However, because manufacturers provide this assistance to offset inventory carrying costs, we believe a comparison of floor plan interest expense to floor plan assistance is a useful measure of the efficiency of our new vehicle sales relative to stocking levels.

The following tables detail the carrying costs for new vehicles and include new vehicle floor plan interest net of floor plan assistance earned:

(\$ in millions)	Year Ended December 31,							
	2023	2022	2023 vs. 2022		2021	2022 vs. 2021		
			Change	%		Change	%	
Floor plan interest expense (new vehicles)	\$ 150.9	\$ 38.8	\$ 112.1	288.9 %	\$ 22.3	\$ 16.5	74.0 %	
Floor plan assistance (included as an offset to cost of sales)	(159.2)	(130.6)	(28.6)	21.9	(120.1)	(10.5)	8.7	
Net new vehicle carrying costs (benefit)	\$ (8.3)	\$ (91.8)	\$ 83.5	(91.0)%	\$ (97.8)	\$ 6.0	(6.1)	

## Depreciation and Amortization

Depreciation and amortization is comprised of depreciation expense related to buildings, significant remodels or improvements, furniture, tools, equipment and signage and amortization related to non-compete agreements.

(\$ in millions)	Year Ended December 31,							
			2023 vs. 2022				2022 vs. 2021	
	2023	2022	Change	%	2021	Change	%	
Depreciation and amortization	\$ 195.8	\$ 163.2	\$ 32.6	20.0 %	\$ 124.8	\$ 38.4	30.8 %	

Acquisition activity contributed to the increases in depreciation and amortization in 2023 compared to 2022 and in 2022 compared to 2021. We acquired approximately \$260.5 million and \$236.9 million of depreciable property as part of our 2023 and 2022 acquisitions, respectively. Capital expenditures totaled \$230.2 million and \$303.1 million, respectively, in 2023 and 2022. These investments increase the amount of depreciable assets. See the discussion under "Liquidity and Capital Resources" for additional information.

## Operating Income

Operating income as a percentage of revenue, or operating margin, was as follows:

	Year Ended December 31,			
	2023	2022	2021	
Operating margin	5.5 %	6.9 %	7.3 %	
Operating margin adjusted for non-core charges <sup>(1)</sup>	5.5	6.7	7.4	

<sup>(1)</sup> See "Non-GAAP Reconciliations" for additional information

### 2023 vs. 2022

Our operating margin decreased 140 basis points compared to the prior year, driven by a decline in gross profit per new and used unit sold. Adjusting for non-core charges, including acquisition expenses, one-time contract buyouts, and storm related insurance charges, offset by a net disposal gain on sale of stores, our operating margin decreased 120 basis points.

### 2022 vs. 2021

Our operating margin decreased 40 basis points compared to the prior year, driven by an increase in SG&A as a percentage of gross profit. Adjusting for non-core charges, including storm insurance charges and acquisition expenses, offset by a net disposal gain on sale of stores, our operating margin decreased 70 basis points.

## Non-Operating Expenses

### Asset Impairments

Asset impairments recorded as a component of operations consist of the following:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Franchise value	\$ —	\$ —	\$ 1.9
Goodwill	—	—	—
Total asset impairments	\$ —	\$ —	\$ 1.9

Goodwill and franchise value are tested for impairment annually as of October 1 or more frequently when events or changes in circumstances indicate that impairment may have occurred. We elected to perform qualitative franchise value and goodwill impairment tests as of October 1 each year. These non-cash impairment charges are included in the "Corporate and Other" category of our segment information.

No impairment charges were recorded in 2023 or 2022.

During the third quarter of 2021, there was an indication of a triggering event at a certain reporting unit. We tested the goodwill and franchise value for this location. As a result, we identified it was more likely than not the fair values were less than the carrying amounts, and we recorded a non-cash impairment charge of \$1.9 million, which was equal to the difference between the fair value and the carrying value for franchise value. This location was subsequently sold in the fourth quarter of 2021.

See Note 1 – Summary of Significant Accounting Policies, Note 4 – Property and Equipment, Note 6 – Goodwill and Franchise Value, and Note 14 – Fair Value Measurements of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Annual Report.

#### Other Interest Expense

Other interest expense includes interest on debt incurred related to acquisitions, real estate mortgages, our used and service loaner vehicle inventory financing commitments, our revolving lines of credit, and issued senior notes.

(\$ in millions)	Year Ended December 31,											
	2023		2022		2023 vs. 2022		2021		2022 vs. 2021			
					Change	%			Change	%		
Mortgage interest	\$	35.8	\$	25.9	\$	9.9	38.2 %	\$	24.9	\$	1.0	4.0 %
Other interest		168.0		105.8		62.2	58.8		80.5		25.3	31.4
Capitalized interest		(2.6)		(2.6)		—	—		(2.0)		(0.6)	30.0
Total other interest expense	\$	201.2	\$	129.1	\$	72.1	55.8 %	\$	103.4	\$	25.7	24.9 %

#### 2023 vs. 2022

The increase in other interest expense was due to higher interest rates and increased borrowings on our credit facilities. See also Note 9 – Credit Facilities and Long-Term Debt of Notes to Consolidated Financial Statements for additional information.

#### 2022 vs. 2021

The increase in other interest expense was due to higher interest rates on our credit facilities and the full year impact of our \$800 million in aggregate principal amount of 3.875% senior notes due 2029 issued in May 2021.

#### Other Income (Expense), Net

Other income (expense), net primarily includes other income associated with investment income and other non-recurring transactions.

(\$ in millions)	Year Ended December 31,											
	2023		2022		2022 vs. 2021		2021		2021 vs. 2020			
					Change	%			Change	%		
Other income (expense), net	\$	22.0	\$	(43.2)	\$	65.2	NM	\$	(52.0)	\$	8.8	NM

#### 2023 vs. 2022

The improvement in other income (expense), net was primarily due to a \$1.7 million investment loss related to equity investments compared to a \$39.2 million loss in the prior year. Other notable items included a \$5.1 million unrealized gain on foreign currency translations, \$4.7 million of interest income from foreign currency deposit accounts, and \$2.6 million net pension benefit recognized in 2023.

#### 2022 vs. 2021

The improvement in other income (expense), net was primarily due to a \$39.2 million investment loss related to equity investments compared to a \$66.4 million loss in the prior year. We also recognized a \$16.8 million unrealized loss on foreign currency translations in 2022.

#### Income Tax Provision

Our effective income tax rate was as follows:

	Year Ended December 31,		
	2023	2022	2021
Effective income tax rate	25.7 %	27.1 %	28.4 %
Effective income tax rate excluding non-core items <sup>(1)</sup>	25.6	26.4	26.8

<sup>(1)</sup> See "Non-GAAP Reconciliations" for more details

Our effective income tax rate was 25.7% for 2023 compared to 27.1% for 2022. Our effective income tax rate was positively affected by a reduction in the current and deferred state tax rate, due to changing state mix, as well as a reduction in valuation allowance. Our 2023 effective income tax rate was negatively affected by non-deductible acquisition costs recorded during the period.

Adjusting for non-deductible acquisition costs and valuation allowance activity recorded during 2023, our effective income tax rate excluding non-core items is 25.6%, a decrease of 90 basis points compared to the effective income tax rate excluding non-core items for 2022.

Our effective income tax rate in 2022 was negatively affected by a valuation allowance established for certain deferred tax assets not expected to be realized. The increase in tax rate was offset by share-based awards vesting in the current period and a reduction in the current and deferred state tax rate due to legislative updates and changing state mix.

#### **Global Implementation of Pillar Two**

We are subject to corporation tax on profits in the United States, Canada, and the UK. The Organization for Economic Co-operation and Development (OECD) and the G20 Inclusive Framework on Base Erosion and Profit Shifting has developed the Pillar Two global minimum tax regime. The Pillar Two rules provide a coordinated system to ensure that multinational enterprises with revenues above €750 million pay a minimum effective tax rate of 15% on the income arising in each of the jurisdictions in which they operate.

On June 20, 2023, the UK's Finance (No. 2) Bill 2023 was enacted, which represents the UK's introduction of a Pillar Two regime, effective for annual reporting periods beginning on or after December 31, 2023. On August 4, 2023, Canada released draft legislation to implement the primary taxing rule in Pillar Two for fiscal periods beginning on or after December 31, 2023.

We analyzed the expected tax impact of the Pillar Two regime based on available guidance and expect these rules to have an immaterial impact on our overall effective tax rate.

#### **Non-GAAP Reconciliations**

Non-GAAP measures do not have definitions under GAAP and may be defined differently by and not comparable to similarly titled measures used by other companies. As a result, we review any non-GAAP financial measures in connection with a review of the most directly comparable measures calculated in accordance with GAAP. We caution you not to place undue reliance on such non-GAAP measures, but also to consider them with the most directly comparable GAAP measures. We believe each of the non-GAAP financial measures below improves the transparency of our disclosures, provides a meaningful presentation of our results from the core business operations because they exclude items not related to our ongoing core business operations and other non-cash items, and improves the period-to-period comparability of our results from the core business operations. We use these measures in conjunction with GAAP financial measures to assess our business, including our compliance with covenants in our credit facilities and in communications with our Board of Directors concerning financial performance. These measures should not be considered an alternative to GAAP measures.

The following tables reconcile certain reported non-GAAP measures to the most comparable GAAP measure from our Consolidated Statements of Operations:

Year Ended December 31, 2023

(\$ in millions, except per share amounts)	As reported	Net disposal gain on sale of stores	Investment loss	Insurance reserves	Acquisition expenses	Contract buyouts	Adjusted
Selling, general and administrative	\$ 3,294.8	\$ 31.2	\$ —	\$ (5.4)	\$ (27.2)	\$ (14.3)	\$ 3,279.1
Operating income (loss)	1,692.4	(31.2)	—	5.4	27.2	14.3	1,708.1
Other income, net	22.0	—	1.7	—	—	—	23.7
Income (loss) before income taxes	\$ 1,362.3	\$ (31.2)	\$ 1.7	\$ 5.4	\$ 27.2	\$ 14.3	\$ 1,379.7
Income tax (provision) benefit	(350.6)	8.2	(4.0)	(1.4)	(1.0)	(3.8)	(352.6)
Net income (loss)	1,011.7	(23.0)	(2.3)	4.0	26.2	10.5	1,027.1
Net income attributable to non-controlling interest	(6.5)	—	—	—	—	—	(6.5)
Net income attributable to redeemable non-controlling interest	(4.4)	—	—	—	—	—	(4.4)
Net income (loss) attributable to Lithia Motors, Inc.	\$ 1,000.8	\$ (23.0)	\$ (2.3)	\$ 4.0	\$ 26.2	\$ 10.5	\$ 1,016.2
Diluted earnings (loss) per share attributable to Lithia Motors, Inc.	\$ 36.29	\$ (0.83)	\$ (0.08)	\$ 0.15	\$ 0.95	\$ 0.38	\$ 36.86
Diluted share count	27.6						

Year Ended December 31, 2022

(\$ in millions, except per share amounts)	As reported	Net disposal gain on sale of stores	Investment loss	Insurance reserves	Acquisition expenses	Adjusted
Selling, general and administrative	3,044.1	66.0	—	(4.9)	(15.0)	3,090.2
Operating income (loss)	1,941.1	(66.0)	—	4.9	15.0	1,895.0
Other (expense) income, net	(43.2)	—	39.2	—	—	(4.0)
Income (loss) before income taxes	\$ 1,730.0	\$ (66.0)	\$ 39.2	\$ 4.9	\$ 15.0	\$ 1,723.1
Income tax (provision) benefit	(468.4)	19.1	—	(1.3)	(4.0)	(454.6)
Net income (loss)	1,261.6	(46.9)	39.2	3.6	11.0	1,268.5
Net income attributable to non-controlling interest	(4.8)	—	—	—	—	(4.8)
Net income attributable to redeemable non-controlling interest	(5.8)	—	—	—	—	(5.8)
Net income (loss) attributable to Lithia Motors, Inc.	\$ 1,251.0	\$ (46.9)	\$ 39.2	\$ 3.6	\$ 11.0	\$ 1,257.9
Diluted earnings (loss) per share attributable to Lithia Motors, Inc.	\$ 44.17	\$ (1.65)	\$ 1.38	\$ 0.13	\$ 0.39	\$ 44.42
Diluted share count	28.3					

Year Ended December 31, 2021

(\$ in millions, except per share amounts)	As reported	Asset impairment	Investment loss	Insurance reserves	Acquisition expenses	Loss on redemption of senior notes	Adjusted
Asset impairment	\$ 1.9	\$ (1.9)	\$ —	\$ —	\$ —	\$ —	\$ —
Selling, general and administrative	2,480.8	—	—	(5.8)	(20.2)	—	2,454.8
Operating income	1,662.5	1.9	—	5.8	20.2	—	1,690.4
Other (expense) income, net	(52.0)	—	66.4	—	—	10.3	24.7
Income before income taxes	\$ 1,484.8	\$ 1.9	\$ 66.4	\$ 5.8	\$ 20.2	\$ 10.3	\$ 1,589.4
Income tax (provision) benefit	(422.1)	(0.5)	6.6	(1.6)	(5.1)	(2.7)	(425.4)
Net income	\$ 1,062.7	\$ 1.4	\$ 73.0	\$ 4.2	\$ 15.1	\$ 7.6	\$ 1,164.0
Net income attributable to non-controlling interest	(1.7)	—	—	—	—	—	(1.7)
Net income attributable to redeemable non-controlling interest	(0.9)	—	—	—	—	—	(0.9)
Net income attributable to Lithia Motors, Inc.	\$ 1,060.1	\$ 1.4	\$ 73.0	\$ 4.2	\$ 15.1	\$ 7.6	\$ 1,161.4
Diluted earnings per share attributable to Lithia Motors, Inc.	\$ 36.54	\$ 0.05	\$ 2.52	\$ 0.14	\$ 0.52	\$ 0.26	\$ 40.03
Diluted share count	29.0						

## Liquidity and Capital Resources

We manage our liquidity and capital resources in the context of our overall business strategy, continually forecasting and managing our cash, working capital balances and capital structure to meet the short-term and long-term obligations of our business while maintaining liquidity and financial flexibility. Our free cash flow deployment strategy targets an allocation of 65% investment in acquisitions, 25% investment in capital expenditures, innovation, and diversification and 10% in shareholder return in the form of dividends and share repurchases.

We believe we have sufficient sources of funding to meet our business requirements for the next 12 months and in the longer term. Cash flows from operations and borrowings under our credit facilities are our main sources for liquidity. In addition to the above sources of liquidity, potential sources to fund our business strategy include financing of real estate and proceeds from debt or equity offerings. We evaluate all of these options and may select one or more of them depending on overall capital needs and the availability and cost of capital, although no assurances can be provided that these capital sources will be available in sufficient amounts or with terms acceptable to us.

### Available Sources

Below is a summary of our immediately available funds:

(\$ in millions)	As of December 31,		Change	% Change
	2023	2022		
Cash	\$ 825.0	\$ 168.1	\$ 656.9	390.8 %
Available credit on the credit facilities	870.4	1,415.6	(545.2)	(38.5) %
Total current available funds	\$ 1,695.4	\$ 1,583.7	\$ 111.7	7.1 %

Information about our cash flows, by category, is presented in our Consolidated Statements of Cash Flows. The following table summarizes our cash flows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Net cash (used in) provided by operating activities	\$ (472.4)	\$ (610.1)	\$ 1,797.2
Net cash used in investing activities	(1,270.3)	(1,329.8)	(2,890.4)
Net cash provided by financing activities	2,409.8	2,035.9	1,106.7

### Operating Activities

Cash used in operating activities decreased \$137.7 million in 2023 compared to 2022, primarily as a result of maturation of our financing receivables portfolio and an increase in manufacturer floor plan financing related to recovering new vehicle inventory levels, partially offset by reduced net income and an increase in trade receivables.

Borrowings from and repayments to our syndicated credit facilities related to our new vehicle inventory floor plan financing are presented as financing activities. To better understand the impact of changes in inventory, other assets, and the associated financing, we also consider our adjusted net cash provided by operating activities to include borrowings or repayments associated with our new vehicle floor plan commitment and exclude the impact of our financing receivables activity.

To better understand the impact of these items, adjusted net cash provided by operating activities, a non-GAAP measure, is presented below:

(\$ in millions)	Year Ended December 31,				
	2023	2022	2023 vs. 2022		2022 vs. 2021
			Change	2021	Change
Net cash (used in) provided by operating activities – as reported	\$ (472.4)	(610.1)	\$ 137.7	\$ 1,797.2	\$ (2,407.3)
Add (less): Net borrowings (repayments) on floor plan notes payable: non-trade	878.7	737.9	140.8	(685.3)	1,423.2
Less: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	(109.2)	(116.5)	7.3	(355.5)	239.0
Adjust: Financing receivables activity	1,045.5	1,363.0	(317.5)	640.8	722.2
Net cash provided by operating activities – adjusted	<u>\$ 1,342.6</u>	<u>\$ 1,374.3</u>	<u>\$ (31.7)</u>	<u>\$ 1,397.2</u>	<u>\$ (22.9)</u>

Inventories are one of the most significant component of our cash flow from operations. As of December 31, 2023, our new vehicle days' supply was 65 days, or 18 days higher than our days' supply as of December 31, 2022. Our days' supply of used vehicles was 64 days, which was six days higher than our days' supply as of December 31, 2022. We calculate days' supply of inventory based on current inventory levels, including in-transit vehicles, and a 30-day historical cost of sales level. We have continued to focus on managing our unit mix and maintaining an appropriate level of new and used vehicle inventory.

### Investing Activities

Net cash used in investing activities totaled \$1.3 billion and \$1.3 billion, respectively, for 2023 and 2022. Cash flows from investing activities relate primarily to capital expenditures, acquisition and divestiture activity and sales of property and equipment. Our surplus of cash as of December 31, 2023, has been made available to fund upcoming acquisition activity.

Below are highlights of significant activity related to our cash flows from investing activities:

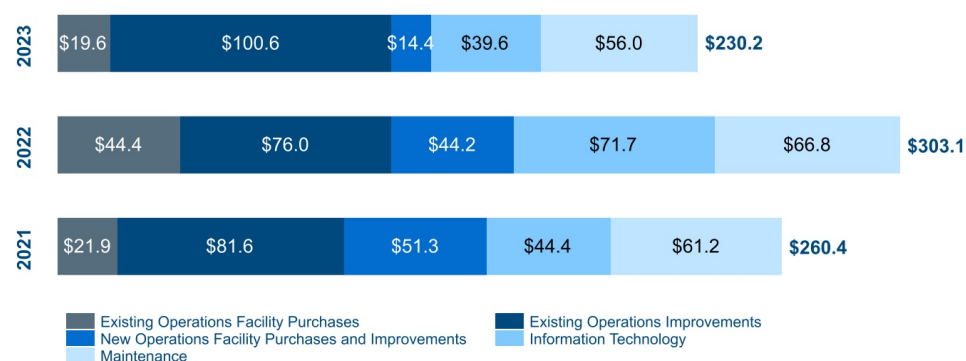
(\$ in millions)	Year Ended December 31,				
	2023	2022	2023 vs. 2022		2022 vs. 2021
			Change	2021	Change
Capital expenditures	\$ (230.2)	\$ (303.1)	\$ 72.9	\$ (260.4)	\$ (42.7)
Cash paid for acquisitions, net of cash acquired	(1,185.1)	(1,243.6)	58.5	(2,699.3)	1,455.7
Proceeds from sales of stores	142.9	212.1	(69.2)	76.3	135.8



## Capital Expenditures

Below is a summary of our capital expenditure activities:

### Annual Capital Expenditures



Many manufacturers provide assistance in the form of additional incentives or assistance if facilities meet manufacturer image standards and requirements. We expect that certain facility upgrades and remodels will generate additional manufacturer incentive payments. Also, tax laws allowing accelerated deductions for capital expenditures reduce the overall investment needed and encourage accelerated project timelines.

We expect to use a portion of our future capital expenditures to upgrade facilities that we recently acquired. This additional capital investment is contemplated in our initial evaluation of the investment return metrics applied to each acquisition and is usually associated with manufacturer image standards and requirements.

If we undertake a significant capital commitment in the future, we expect to pay for the commitment out of existing cash balances, construction financing and borrowings on our credit facilities. Upon completion of the projects, we believe we would have the ability to secure long-term financing and general borrowings from third party lenders for 70% to 90% of the amounts expended, although no assurances can be provided that these financings will be available to us in sufficient amounts or on terms acceptable to us.

## Acquisitions

Growth through acquisitions is a key component of our long-term strategy that enables us to increase our network of locations, support maintaining a diverse franchise and geographic mix and improve our ability to serve customers through wider selection and improved proximity. Our disciplined approach focuses on acquiring new vehicle franchises that are accretive and cash flow positive at reasonable valuations.

We are able to subsequently floor new vehicle inventory acquired as part of an acquisition; however, the cash generated by these transactions are recorded as borrowings on floor plan notes payable, non-trade. Adjusted net cash paid for acquisitions, a non-GAAP measure, as well as certain other acquisition-related information is presented below:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Number of stores acquired	56	31	77
Number of stores opened	—	1	1
Cash paid for acquisitions, net of cash acquired	\$ (1,185.1)	\$ (1,243.6)	\$ (2,699.3)
Add: Borrowings on floor plan notes payable: non-trade associated with acquired new vehicle inventory	109.2	116.5	355.5
Cash paid for acquisitions, net of cash acquired – adjusted	\$ (1,075.9)	\$ (1,127.1)	\$ (2,343.8)

We evaluate potential capital investments primarily based on targeted rates of return on assets and return on our net equity investment.

### Financing Activities

Adjusted net cash provided by financing activities, a non-GAAP measure, which is adjusted for borrowings and repayments on floor plan facilities: non-trade and borrowings and repayments associated with our Financing Operations segment was as follows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Cash provided by financing activities, as reported	\$ 2,409.8	2,035.9	\$ 1,106.7
Add (less): Net (borrowings) repayments on floor plan notes payable: non-trade	(878.7)	(737.9)	685.3
Less: Net borrowings on non-recourse notes payable	(1,283.4)	(104.6)	(317.6)
Cash provided by financing activities, as adjusted	\$ 247.7	\$ 1,193.4	\$ 1,474.4

Below are highlights of significant activity related to our cash flows from financing activities, excluding borrowings and repayments on floor plan notes payable: non-trade and non-recourse notes payable, which are discussed above:

(\$ in millions)	Year Ended December 31,					
	2023		2022		2021	
			Change		Change	
Net borrowings on lines of credit	\$ 324.3	\$ 2,023.8	\$ (1,699.5)	\$ 325.4	\$ 1,698.4	\$ 1,698.4
Principal payments on long-term debt and finance lease liabilities, other	(10.6)	(171.7)	161.1	(486.5)	314.8	314.8
Proceeds from the issuance of long-term debt	79.8	113.3	(33.5)	817.4	(704.1)	(704.1)
Proceeds from the issuance of common stock	29.7	36.1	(6.4)	1,136.2	(1,100.1)	(1,100.1)
Payment of debt issuance costs	(16.7)	(11.8)	(4.9)	(14.7)	2.9	2.9
Repurchases of common stock	(48.9)	(688.3)	639.4	(230.7)	(457.6)	(457.6)
Dividends paid	(52.8)	(45.2)	(7.6)	(38.8)	(6.4)	(6.4)

### Borrowing and Repayment Activity

During 2023, we raised net proceeds of \$79.8 million through the issuance of debt, and had net borrowings of \$0.3 billion on our lines of credit. These funds were primarily used for acquisitions, share repurchases and capital expenditures.

Our debt to total capital ratio, excluding floor plan notes payable, was 47.1% at December 31, 2023 compared to 49.5% at December 31, 2022.

### Equity Transactions

During 2023, we repurchased over 142,700 shares at a weighted average price of \$240.81 under our current share repurchase authorization, with approximately \$467.0 million remaining.

During 2023, we paid dividends on our common stock as follows:

Dividend paid:	Dividend amount per share	Total amount of dividend (in millions)
March 2023	\$ 0.42	\$ 11.5
May 2023	0.50	13.8
August 2023	0.50	13.8
November 2023	0.50	13.7

We evaluate performance and make a recommendation to the Board of Directors on dividend payments on a quarterly basis.

## Summary of Outstanding Balances on Credit Facilities and Long-Term Debt

Below is a summary of our outstanding balances on credit facilities and long-term debt:

(\$ in millions)	Outstanding as of December 31, 2023	Remaining Available as of December 31, 2023
Floor plan notes payable: non-trade	\$ 2,288.5	\$ — <sup>(1)</sup>
Floor plan notes payable	1,347.0	—
Used and service loaner vehicle inventory financing commitments	902.8	25.5 <sup>(2)</sup>
Revolving lines of credit	1,620.7	829.6 <sup>(2),(3)</sup>
Warehouse facilities	587.0	15.4 <sup>(2)</sup>
Non-recourse notes payable	1,705.6	—
4.625% Senior notes due 2027	400.0	—
4.375% Senior notes due 2031	550.0	—
3.875% Senior notes due 2029	800.0	—
Real estate mortgages, finance lease obligations, and other debt	730.7	—
Unamortized debt issuance costs	(31.8)	— <sup>(4)</sup>
Total debt	<u>\$ 10,900.5</u>	<u>\$ 870.4</u>

<sup>(1)</sup> As of December 31, 2023, we had a \$2.1 billion new vehicle floor plan commitment as part of our USB credit facility, and a \$500 million CAD wholesale floorplan commitment as part of our BNS credit facility.

<sup>(2)</sup> The amounts available on the credit facilities are limited based on borrowing base calculations and fluctuates monthly.

<sup>(3)</sup> Available credit is based on the borrowing base amount effective as of November 30, 2023. This amount is reduced by \$37.0 million for outstanding letters of credit.

<sup>(4)</sup> Debt issuance costs are presented on the balance sheet as a reduction from the carrying amount of the related debt liability. See Note 9 – Credit Facilities and Long-Term Debt of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report.

## Contractual Obligations

Our cash requirements greater than twelve months from contractual obligations and commitments include:

### Debt Obligations and Interest Payments

Refer to Note 9 – Credit Facilities and Long-Term Debt of the notes to the consolidated financial statements for further information of our obligations and the timing of expected payments.

### Contract Obligations

Refer to Note 8 – Commitments and Contingencies of the notes to the consolidated financial statements for further information of our obligations and the timing of expected payments.

### Operating and Finance Leases

Refer to Note 8 – Commitments and Contingencies of the notes to the consolidated financial statements for further information of our obligations and the timing of expected payments.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenues and expenses at the date of the financial statements. Certain accounting policies require us to make difficult and subjective judgments on matters that are inherently uncertain. The following accounting policies involve critical accounting estimates because they are particularly dependent on assumptions made by management. While we have made our best estimates based on facts and circumstances available to us at the time, different estimates could have been used in the current period. Changes in the accounting estimates we used are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations.

Our most critical accounting estimates include those related to goodwill and franchise value, and acquisitions. We also have other key accounting policies for valuation of finance receivables and expense accruals. However, these policies either do not meet the definition of critical accounting estimates described above or the policies are not currently material items in our financial statements. We review our estimates, judgments and assumptions periodically and reflect the effects of revisions in the period that they are deemed to be necessary. We believe that these estimates are reasonable. However, actual results could differ materially from these estimates.

### **Goodwill and Franchise Value**

We are required to test our goodwill and franchise value for impairment at least annually on October 1, or more frequently if conditions indicate that an impairment may have occurred. Our reporting units for goodwill impairment testing are North America Vehicle Operations, United Kingdom Vehicle Operations, and US and Canada Financing Operations. We have the option to qualitatively or quantitatively assess goodwill for impairment and, in 2023, we evaluated our goodwill using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying amount, we would further evaluate for potential impairment.

As of December 31, 2023, we had \$1.9 billion of goodwill on our balance sheet associated with our reporting units. The annual goodwill impairment analysis resulted in no indications of impairment in 2023, 2022 or 2021.

We have determined the appropriate unit of accounting for testing franchise rights for impairment is on an individual store basis. We have the option to qualitatively or quantitatively assess indefinite-lived intangible assets for impairment. In 2023, we evaluated our indefinite-lived intangible assets using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the individual store's franchise value exceeds the carrying amount, the franchise value is not impaired, and the second step is not necessary. If the qualitative assessment determines it is more likely than not that the fair value is less than the carrying amount, then a quantitative valuation of our franchise value is performed. An impairment charge is recorded to the extent the fair value is less than the carrying value.

As of December 31, 2023, we had \$2.4 billion of franchise value on our balance sheet associated with 303 locations. No individual location accounted for more than 2.8% of our total franchise value as of December 31, 2023. The annual franchise value impairment analysis, which we perform as of October 1 each year, resulted in no indications of impairment in 2023, 2022, or 2021. During the third quarter of 2021, there were indications of impairment at a certain location. We tested the franchise value for this location, which resulted in an impairment charge of \$1.9 million.

We are subject to financial statement risk to the extent that our goodwill or franchise rights become impaired due to decreases in the fair value. A future decline in performance, decreases in projected growth rates or margin assumptions or changes in discount rates could result in a potential impairment, which could have a material adverse impact on our financial position and results of operations. Furthermore, if a manufacturer becomes insolvent, we may be required to record a partial or total impairment on the franchise value and/or goodwill related to that manufacturer. No individual manufacturer accounted for more than 2.1% of our total franchise value and goodwill as of December 31, 2023.

See Note 1 – Summary of Significant Accounting Policies and Note 6 – Goodwill and Franchise Value of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Annual Report.

### **Acquisitions**

We account for acquisitions using the purchase method of accounting which requires recognition of assets acquired and liabilities assumed at fair value as of the date of the acquisition. Determination of the estimated fair value assigned to each asset acquired or liability assumed can materially impact the net income in subsequent periods through depreciation and amortization and potential impairment charges.

The most significant items we generally acquire in a transaction are inventory, long-lived assets, intangible franchise rights and goodwill. The fair value of acquired inventory is based on manufacturer invoice cost and market data. We estimate the fair value of property and equipment based on a market valuation approach. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. We apply an income approach for the fair value of intangible franchise rights which discounts the projected future net cash flow using an appropriate discount rate that reflects the risks associated with such projected future cash flow.

See Note 1 – Summary of Significant Accounting Policies and Note 16 – Acquisitions of Notes to Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Financial Data of this Annual Report.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks relating to market fluctuations in interest rates, foreign currency exchange rates, and equity values. We do not acquire our market risk sensitive instruments for trading purposes.

### **Variable Rate Debt**

Our credit facilities, other floor plan notes payable, and certain real estate mortgages are structured as variable rate debt. The interest rates on our variable rate debt are tied to either the one-day Secured Overnight Financing Rate (SOFR), one-month Canadian Dollar Offered Rate (CDOR), or the prime rate. These debt obligations, therefore, expose us to variability in interest payments due to changes in these rates. Certain floor plan debt is based on open-ended lines of credit tied to each individual store from the various manufacturer finance companies.

Our variable-rate floor plan notes payable, variable rate mortgage notes payable and other credit line borrowings subject us to market risk exposure. As of December 31, 2023, we had \$6.9 billion outstanding under such agreements at a weighted average interest rate of 6.8% per annum. A 10% increase in interest rates, or 68.1 basis points, would increase annual interest expense by approximately \$34.8 million, net of tax, based on amounts outstanding as of December 31, 2023.

As of December 31, 2022, we had \$5.0 billion outstanding under such agreements at a weighted average interest rate of 4.1% per annum. A 10% increase in interest rates, or 40.8 basis points, would increase annual interest expense by approximately \$15.1 million, net of tax, based on amounts outstanding as of December 31, 2022.

### **Fixed Rate Debt**

The fair value of our long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair value of fixed interest rate debt will increase as interest rates fall because we would expect to be able to refinance for a lower rate. Conversely, the fair value of fixed interest rate debt will decrease as interest rates rise. The interest rate changes affect the fair value but do not impact earnings or cash flows.

As of December 31, 2023, we had \$4.1 billion of long-term fixed interest rate debt outstanding and recorded on the balance sheet, with maturity dates between January 1, 2024 and December 31, 2050. Based on discounted cash flows using current interest rates for comparable debt, we have determined that the fair value of this long-term fixed interest rate debt was approximately \$3.9 billion as of December 31, 2023.

As of December 31, 2022, we had \$2.7 billion of long-term fixed interest rate debt outstanding and recorded on the balance sheet, with maturity dates between May 28, 2023 and December 31, 2050. Based on discounted cash flows using then current interest rates for comparable debt, we determined that the fair value of this long-term fixed interest rate debt was approximately \$2.3 billion as of December 31, 2022.

### **Foreign Currency Exchange Risk**

We have foreign currency risks related to our foreign subsidiaries' operating activities denominated in currencies other than the U.S. dollar, including the Canadian dollar and the British pound sterling. Our exposure to fluctuating exchange rates relates to the effects of translating financial statements of those subsidiaries into our reporting currency, which we do not hedge against based on our investment strategy in these foreign operations. A 10% devaluation in average exchange rates would have resulted in a \$303.1 million and \$105.7 million decrease to our revenues for the years ended December 31, 2023, and 2022, respectively.

### **Risk Management Policies**

We assess interest rate cash flow risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our policy is to manage this risk through monitoring our mix of fixed rate and variable rate debt. We currently utilize bank debt, mortgage financing, high-yield debt and internally generated cash flows for growth and investment. We monitor our credit ratings and evaluate the benefit and cost of various debt types to manage, and minimize as best as possible, our interest cost.

We maintain risk management controls to monitor interest rate cash flow attributable to both our outstanding and forecasted debt obligations, as well as our offsetting hedge positions. The risk management controls include assessing the impact to future cash flows of changes in interest rates.

## Item 8. Financial Statements and Supplementary Financial Data

The financial statements and notes thereto required by this item begin on page F-1 as listed in Item 15. Exhibits and Financial Statement Schedules of Part IV of this document.

## Item 9A. Controls and Procedures

### ***Evaluation of Disclosure Controls and Procedures***

Our management evaluated, with the participation and under the supervision of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

### ***Changes in Internal Control Over Financial Reporting***

There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

### ***Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2023. In making this assessment, we used the criteria set forth in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal controls over financial reporting during the year of the acquisition while integrating the acquired operations. Management's evaluation of internal control over financial reporting excludes the operations of the 56 stores acquired in 2023, which represented 11% of consolidated total assets as of December 31, 2023 and 8% of consolidated revenues for the year ended December 31, 2023.

Based on our assessment, our management concluded that, as of December 31, 2023, our internal control over financial reporting was effective.

KPMG LLP, our Independent Registered Public Accounting Firm, has issued an attestation report on our internal control over financial reporting as of December 31, 2023, which is included in Item 8. Financial Statements and Supplementary Financial Data of this Form 10-K.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item will be included in our Proxy Statement for our 2024 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2023, is incorporated herein by reference.

### Item 11. Executive Compensation

Information required by this item will be included in our Proxy Statement for our 2024 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2023, is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

#### Equity Compensation Plan Information

The following table summarizes equity securities authorized for issuance as of December 31, 2023.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (2)
Equity compensation plans approved by shareholders	529,676	\$ — (1)	1,746,423
Equity compensation plans not approved by shareholders	—	—	—
<b>Total</b>	<b>529,676</b>	<b>\$ —</b>	<b>1,746,423</b>

(1) There is no exercise price associated with our restricted stock units.

(2) Includes 718,731 shares available pursuant to our 2013 Amended and Restated Stock Incentive Plan and 1,027,692 shares available pursuant to our Employee Stock Purchase Plan.

The additional information required by this item will be included in our Proxy Statement for our 2024 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2023, is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item will be included in our Proxy Statement for our 2024 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2023, is incorporated herein by reference.

### Item 14. Principal Accounting Fees and Services

Our independent registered public accounting firm is KPMG LLP, Portland, OR, Auditor Firm ID: 185.

Information required by this item will be included in our Proxy Statement for our 2024 Annual Meeting of Shareholders and, upon filing with the SEC within 120 days of December 31, 2023, is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### Financial Statements and Schedules

The Consolidated Financial Statements, together with the reports thereon of KPMG LLP, Independent Registered Public Accounting Firm, are included on the pages indicated below:

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2023 and 2022	F-5
Consolidated Statements of Operations for the years ended December 31, 2023, 2022 and 2021	F-6
Consolidated Statements of Comprehensive Income for the years ended December 31, 2023, 2022 and 2021	F-7
Consolidated Statements of Equity and Redeemable Non-controlling Interest for the years ended December 31, 2023, 2022 and 2021	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2023, 2022 and 2021	F-9
Notes to Consolidated Financial Statements	F-11

There are no schedules required to be filed herewith.

#### Exhibit Index

The following exhibits are filed herewith. An asterisk (\*) beside the exhibit number indicates the exhibits containing a management contract, compensatory plan or arrangement.

Exhibit Number	Exhibit Description	Form	Incorporated by Reference			Filed or Furnished Herewith
			File Number	Exhibit	Filing Date	
<a href="#">3.1</a>	Restated Articles of Incorporation of Lithia Motors, Inc.	10-Q	001-14733	3.1	07/28/21	
<a href="#">3.2</a>	Second Amended and Restated Bylaws of Lithia Motors, Inc.	8-K	001-14733	3.2	04/25/19	
<a href="#">4.1</a>	Indenture, dated as of December 9, 2019, among Lithia Motors, Inc., the Guarantors and the Trustee	8-K	001-14733	4.1	12/13/19	
<a href="#">4.1.1</a>	Form of 4.625% Senior Notes due 2027	8-K	001-14733	4.1	12/13/19	
<a href="#">4.2</a>	Indenture, dated as of October 9, 2020, among Lithia Motors, Inc., the Guarantors and the Trustee	8-K	001-14733	4.1	10/09/20	
<a href="#">4.2.1</a>	Form of 4.375% Senior Notes due 2031	8-K	001-14733	4.1	10/09/20	
<a href="#">4.3</a>	Indenture, dated as of May 27, 2021, among Lithia Motors, Inc., the Guarantors and the Trustee	8-K	001-14733	4.1	05/27/21	
<a href="#">4.3.1</a>	Form of 3.875% senior notes due 2029	8-K	001-14733	4.1	05/27/21	
<a href="#">4.7</a>	Description of the Registrant's Securities under Section 12 of the Exchange Act of 1934	10-K	001-14733	4.7	02/18/22	
<a href="#">10.1*</a>	Amended and Restated 2009 Employee Stock Purchase Plan					X
<a href="#">10.2*</a>	Lithia Motors, Inc. 2013 Amended and Restated Stock Incentive Plan	8-K	001-14733	10.1	05/02/13	
<a href="#">10.2.1*</a>	RSU Deferral Plan	10-K	001-14733	10.3.1	02/24/12	
<a href="#">10.2.2*</a>	Amendment to RSU Deferral Plan	10-K	001-14733	10.2.2	03/02/15	
<a href="#">10.2.3*</a>	Restricted Stock Unit (RSU) Deferral Election Form	10-K	001-14733	10.2.3	03/02/15	
<a href="#">10.3*</a>	Form of Restricted Stock Unit Agreement (2020 Performance- and Time-Vesting) (for Senior Executives)	10-K	001-14733	10.3.3	02/21/20	
<a href="#">10.3.1*</a>	Form of Restricted Stock Unit Agreement (2021 Performance- and Time-Vesting) (for Senior Executives)	10-K	001-14733	10.3.3	02/19/21	
<a href="#">10.3.2*</a>	Form of Restricted Stock Unit Agreement (2022 Performance- and Time-Vesting) (for Senior Executives)	10-K	001-14733	10.3.3	02/18/22	
<a href="#">10.3.3*</a>	Form of Restricted Stock Unit Agreement (Performance-Vesting) for awards beginning in 2023	10-K	001-14733	10.3.3	02/24/23	
<a href="#">10.3.4*</a>	Form of Restricted Stock Unit Agreement (Time-Vesting) for awards beginning in 2023	10-K	001-14733	10.3.4	02/24/23	
<a href="#">10.3.5*</a>	Form of Restricted Stock Unit Agreement (Time-Vesting) for awards beginning in 2023 (for Directors)	10-Q	001-14733	10.2	04/28/23	
<a href="#">10.4</a>	Lithia Motors, Inc. Short-Term Incentive Plan	8-K	001-14733	10.1	12/22/20	
<a href="#">10.5*</a>	Form of Outside Director Nonqualified Deferred Compensation Agreement	10-K	001-14733	10.20	03/08/06	



Exhibit Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
<a href="#">10.6*</a>	Amended and Restated Split-Dollar Agreement	10-K	001-14733	10.17	02/22/13	
<a href="#">10.7*</a>	Form of Indemnity Agreement for each Named Executive Officer	8-K	001-14733	10.1	05/29/09	
<a href="#">10.8*</a>	Form of Indemnity Agreement for each non-management Director	8-K	001-14733	10.2	05/29/09	
<a href="#">10.9*</a>	Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan	10-Q	001-14733	10.1	04/29/16	
<a href="#">10.9.1*</a>	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award for Sidney DeBoer	10-K	001-14733	10.22.1	03/07/11	
<a href="#">10.9.2*</a>	Form of Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan – Notice of Discretionary Contribution Award	10-K	001-14733	10.22.2	03/07/11	
<a href="#">10.9.3*</a>	Amendment to Executive Management Non-Qualified Deferred Compensation and Long-Term Incentive Plan (Executive Management Non-Qualified Deferred Compensation and Supplemental Executive Retirement Plan)	10-K	001-14733	10.10.3	02/25/19	
<a href="#">10.10*</a>	Transition Agreement dated September 14, 2015 between Lithia Motors, Inc. and Sidney B. DeBoer	8-K	001-14733	10.1	09/17/15	
<a href="#">10.10.1*</a>	Amendment to Transition Agreement dated January 22, 2019 between Lithia Motors, Inc. and Sidney B. DeBoer	8-K	001-14733	10.1	01/25/19	
<a href="#">10.11*</a>	Director Service Agreement effective January 1, 2016 between Lithia Motors, Inc. and Sidney B. DeBoer	8-K	001-14733	10.2	09/17/15	
<a href="#">10.12†</a>	Form of Employment and Change in Control Agreement dated February 4, 2016 between Lithia Motors, Inc. and Bryan DeBoer	8-K	001-14733	10.1	02/05/16	
<a href="#">10.13</a>	Fourth Amended and Restated Loan Agreement, dated April 29, 2021, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association.	8-K	001-14733	10.1	05/04/21	
<a href="#">10.13.1</a>	First Amendment to Fourth Amended and Restated Loan Agreement, dated February 7, 2022, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association.	10-K	001-14733	10.13.1	02/24/23	
<a href="#">10.13.2†</a>	Second Amendment to Fourth Amended and Restated Loan Agreement, dated June 2, 2022, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association.	8-K	001-14733	10.1	06/08/22	
<a href="#">10.13.3†</a>	Third Amendment to Fourth Amended and Restated Loan Agreement, dated November 21, 2022, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association.	10-K	001-14733	10.13.3	02/24/23	
<a href="#">10.13.4†</a>	Fourth Amendment to Fourth Amended and Restated Loan Agreement, dated February 9, 2023, among Lithia Motors, Inc., the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, the lenders party thereto from time to time, and U.S. Bank National Association.	8-K	001-14733	10.1	02/15/23	
<a href="#">10.14</a>	Amended and Restated Loan Agreement, dated December 31, 2020, among SCFC Business Services LLC, Driveway Finance Corporation, the lenders party thereto from time to time, and JPMorgan Chase Bank, N.A.	8-K	001-14733	10.1	06/09/21	
<a href="#">10.14.1</a>	Amendment No. 1 to Amended and Restated Loan Agreement, dated June 4, 2021, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	8-K	001-14733	10.2	06/09/21	
<a href="#">10.14.2</a>	Amendment No. 2 to Amended and Restated Loan Agreement, dated September 14, 2021, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.1	10/27/22	
<a href="#">10.14.3</a>	Amendment No. 3 to Amended and Restated Loan Agreement, dated November 10, 2021, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.2	10/27/22	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed or Furnished Herewith
		Form	File Number	Exhibit	Filing Date	
<a href="#">10.14.4</a>	Amendment No. 4 to Amended and Restated Loan Agreement, dated February 8, 2022, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.3	10/27/22	
<a href="#">10.14.5</a>	Amendment No. 5 to Amended and Restated Loan Agreement, dated June 23, 2022, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.4	10/27/22	
<a href="#">10.14.6</a>	Amendment No. 6 to Amended and Restated Loan Agreement, dated July 29, 2022, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.5	10/27/22	
<a href="#">10.14.7</a>	Amendment No. 7 to Amended and Restated Loan Agreement, dated September 26, 2022, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.6	10/27/22	
<a href="#">10.14.8</a>	Amendment No. 8 to Amended and Restated Loan Agreement, dated November 17, 2022, among SCFC Business Services LLC, Chariot Funding LLC and JPMorgan Chase Bank, N.A.	10-K	001-14733	10.14.8	02/24/23	
<a href="#">10.14.9</a>	Omibus Amendment #1 to Amended and Restated Loan Agreement, dated July 20, 2023, among SCFC Business Services LLC, Driveway Finance Corporation, the lenders from time to time parties hereto, the agents from time to time parties hereto, and JPMorgan Chase Bank, N.A.	10-Q	001-14733	10.1	10/27/23	
<a href="#">10.15</a> <sup>†</sup>	Credit Agreement, dated June 3, 2022, among Lithia Master LP Company, LP, the subsidiaries of Lithia Motors, Inc. listed on the signature pages of the agreement or that thereafter become borrowers thereunder, Lithia Master GP Company, Inc. and the other general partners of the Borrowers, the lenders party thereto from time to time, and The Bank of Nova Scotia.	8-K	001-14733	10.2	06/08/22	
<a href="#">10.16</a>	Loan Agreement, dated November 1, 2022, among DFC Business Services, LLC, Driveway Finance Corporation, the lenders party thereto from time to time, the agents from time to time party thereto, and Mzuho Bank, Ltd.	8-K	001-14733	10.1	11/04/22	
<a href="#">10.16.1</a>	Omibus Amendment #1 to Loan Agreement, dated July 20, 2023, among DFC Business Services, LLC, Driveway Finance Corporation, the lenders party thereto from time to time, the agents from time to time party thereto, and Mzuho Bank, Ltd.	10-Q	001-14733	10.2	10/27/23	
<a href="#">21</a>	Subsidiaries of Lithia Motors, Inc.					X
<a href="#">23</a>	Consent of KPMG LLP, Independent Registered Public Accounting Firm					X
<a href="#">31.1</a>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.					X
<a href="#">31.2</a>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.					X
<a href="#">32.1</a>	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.					X
<a href="#">32.2</a>	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.					X
<a href="#">97</a> *	Lithia Motors, Inc. Clawback Policy					X
101	Inline XBRL Document Set for the consolidated financial statements and accompanying notes to consolidated financial statements					X
104	Cover page formatted as Inline XBRL and contained in Exhibit 101.					X

<sup>†</sup> Substantially similar agreements exist between Lithia Motors, Inc. and each of Michael Cavanaugh, Adam Chamberlain, John Criddle, Tom Dobry, Diana du Preez, Gary Glandon, Scott Hillier, George Hines, Christopher S. Holzshu, Edward Impert, Charles Lietz, Tina Miller, Thomas Naso, Bryan Osterhout, Ross Sherman, and David Stork. The "Cash Change in Control Benefits" under the agreements with Michael Cavanaugh, John Criddle, Diana du Preez, Gary Glandon, Edward Impert, and Ross Sherman provide for 12 months of base salary rather than 24 months.

<sup>††</sup> Certain confidential and immaterial terms redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 23, 2024

LITHIA MOTORS, INC.  
Registrant

By: /s/ Bryan B. DeBoer  
Bryan B. DeBoer  
Chief Executive Officer, President, Director, and Principal Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 23, 2024:

/s/ Bryan B. DeBoer  
Bryan B. DeBoer  
Chief Executive Officer, President, Director, and Principal Executive Officer

/s/ Tina Miller  
Tina Miller  
Chief Financial Officer, Senior Vice President, and Principal Accounting Officer

/s/ Sidney B. DeBoer  
Sidney B. DeBoer  
Chairman of the Board and Director

/s/ Susan O. Cain  
Susan O. Cain  
Director

/s/ James E. Lentz  
James E. Lentz  
Director

/s/ Stacy Loretz-Congdon  
Stacy Loretz-Congdon  
Director

/s/ Shauna McIntyre  
Shauna McIntyre  
Director

/s/ Louis P. Miramontes  
Louis P. Miramontes  
Director

/s/ Kenneth E. Roberts  
Kenneth E. Roberts  
Director

/s/ David J. Robino  
David J. Robino  
Director

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Lithia Motors, Inc.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Lithia Motors, Inc. and subsidiaries (the Company) as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income, equity and redeemable non-controlling interest, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 23, 2024 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Assessment of the Company's impairment tests over franchise value intangible assets*

As disclosed in Note 1 and Note 6 to the consolidated financial statements, the Company had indefinite-lived franchise value intangible assets with a book value of \$2,402 million as of December 31, 2023. The Company tested its franchise value intangible assets for impairment using a qualitative assessment performed at each individual store level as of October 1, 2023. The Company determined that no impairment existed in 2023.

We identified the assessment of the Company's qualitative impairment test over franchise value intangible assets for stores whose current operating results indicate a higher risk of potential impairment as a critical audit matter. The tests included the qualitative evaluation of factors such as future profitability for stores with



recent losses as well as for stores with declining gross margin, and comparable dealership divestitures, which required especially subjective auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's franchise value impairment assessment process, including controls related to the identification and development of relevant qualitative factors. We evaluated future profitability assumptions by comparing key financial metrics across stores with similar demographics, including historical dealership level profitability, and evaluated differences for potential indicators of impairments. We evaluated the Company's intent and ability to carry out a particular course of action by evaluating the Company's history of carrying out its stated intentions. Additionally, we evaluated information about recent comparable dealership divestitures to identify potential indicators of impairment.

/s/ KPMG LLP

We have served as the Company's auditor since 1993.

Portland, Oregon  
February 23, 2024



## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Lithia Motors, Inc.:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Lithia Motors, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income, equity and redeemable non-controlling interest, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively, the consolidated financial statements), and our report dated February 23, 2024 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired fifty-six stores during 2023, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, all of these acquired stores' internal control over financial reporting. The total assets of these fifty-six stores represented approximately 11% of consolidated total assets as of December 31, 2023 and approximately 8% of consolidated revenues for the year ended December 31, 2023. Our audit of internal control over financial reporting of the Company also excluded an evaluation of internal control over financial reporting of these fifty-six stores.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Portland, Oregon  
February 23, 2024



## CONSOLIDATED BALANCE SHEETS

(\$ in millions)	December 31,	
	2023	2022
<b>Assets</b>		
Current assets:		
Cash and restricted cash	\$ 941.4	\$ 246.7
Accounts receivable, net of allowance for doubtful accounts of \$7.1 and \$3.1	1,123.1	813.1
Inventories, net	4,753.9	3,409.4
Other current assets	136.8	161.7
<b>Total current assets</b>	<b>6,955.2</b>	<b>4,630.9</b>
Property and equipment, net of accumulated depreciation of \$646.7 and \$526.8	3,981.4	3,574.6
Operating lease right-of-use assets	478.8	381.9
Finance receivables, net of allowance for estimated losses of \$106.4 and \$69.3	3,242.3	2,187.6
Goodwill	1,930.6	1,460.7
Franchise value	2,402.2	1,856.2
Other non-current assets	642.0	914.7
<b>Total assets</b>	<b>\$ 19,632.5</b>	<b>\$ 15,006.6</b>
<b>Liabilities and equity</b>		
Current liabilities:		
Floor plan notes payable	\$ 1,347.0	\$ 627.2
Floor plan notes payable: non-trade	2,288.5	1,489.4
Current maturities of long-term debt	75.7	20.5
Current maturities of non-recourse notes payable	33.9	—
Trade payables	288.0	258.4
Accrued liabilities	899.1	782.7
<b>Total current liabilities</b>	<b>4,932.2</b>	<b>3,178.2</b>
Long-term debt, less current maturities	5,483.7	5,088.3
Non-recourse notes payable, less current maturities	1,671.7	422.2
Deferred revenue	264.1	226.7
Deferred income taxes	349.3	286.3
Non-current operating lease liabilities	427.9	346.6
Other long-term liabilities	220.7	207.2
<b>Total liabilities</b>	<b>13,349.6</b>	<b>9,755.5</b>
Redeemable non-controlling interest	44.0	40.7
Equity:		
Preferred stock - no par value; authorized 15.0 shares; none outstanding	—	—
Common stock - no par value; authorized 125.0 shares; issued and outstanding 27.4 and 27.3	1,100.6	1,082.1
Additional paid-in capital	79.9	76.8
Accumulated other comprehensive income (loss)	20.1	(18.0)
Retained earnings	5,013.3	4,065.3
<b>Total stockholders' equity - Lithia Mbtors, Inc.</b>	<b>6,213.9</b>	<b>5,206.2</b>
Non-controlling interest	25.0	4.2
<b>Total equity</b>	<b>6,238.9</b>	<b>5,210.4</b>
<b>Total liabilities, redeemable non-controlling interest and equity</b>	<b>\$ 19,632.5</b>	<b>\$ 15,006.6</b>

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF OPERATIONS

(\$ in millions, except per share amounts)	Year Ended December 31,		
	2023	2022	2021
<b>Revenues:</b>			
New vehicle retail	\$ 15,154.2	\$ 12,894.5	\$ 11,197.7
Used vehicle retail	9,570.2	9,425.0	7,255.3
Used vehicle w wholesale	1,325.3	1,425.2	957.1
Finance and insurance	1,337.0	1,285.4	1,051.3
Service, body and parts	3,197.1	2,738.8	2,110.9
Fleet and other	458.5	418.9	259.4
Total revenues	31,042.3	28,187.8	22,831.7
<b>Cost of sales:</b>			
New vehicle retail	13,760.1	11,314.8	9,979.2
Used vehicle retail	8,848.8	8,599.6	6,428.6
Used vehicle w wholesale	1,343.7	1,440.6	913.7
Service, body and parts	1,445.7	1,275.8	1,000.4
Fleet and other	415.1	404.6	250.8
Total cost of sales	25,813.4	23,035.4	18,572.7
Gross profit	5,228.9	5,152.4	4,259.0
Financing operations (loss) income	(45.9)	(4.0)	11.0
Asset impairments	—	—	1.9
Selling, general and administrative	3,294.8	3,044.1	2,480.8
Depreciation and amortization	195.8	163.2	124.8
Operating income	1,692.4	1,941.1	1,662.5
Floor plan interest expense	(150.9)	(38.8)	(22.3)
Other interest expense	(201.2)	(129.1)	(103.4)
Other income (expense), net	22.0	(43.2)	(52.0)
Income before income taxes	1,362.3	1,730.0	1,484.8
Income tax provision	(350.6)	(468.4)	(422.1)
Net income	1,011.7	1,261.6	1,062.7
Net income attributable to non-controlling interests	(6.5)	(4.8)	(1.7)
Net income attributable to redeemable non-controlling interest	(4.4)	(5.8)	(0.9)
Net income attributable to Lithia Motors, Inc.	\$ 1,000.8	\$ 1,251.0	\$ 1,060.1
Basic earnings per share attributable to Lithia Motors, Inc.	\$ 36.36	\$ 44.38	\$ 36.81
Shares used in basic per share calculations	27.5	28.2	28.8
Diluted earnings per share attributable to Lithia Motors, Inc.	\$ 36.29	\$ 44.17	\$ 36.54
Shares used in diluted per share calculations	27.6	28.3	29.0
Cash dividends paid per share	\$ 1.92	\$ 1.61	\$ 1.36

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Net income	\$ 1,011.7	\$ 1,261.6	\$ 1,062.7
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	56.5	(16.8)	(1.1)
Pension plan net loss arising during the period, net of tax provision of \$10.8, \$0.0 and \$0.0	(18.4)	—	—
Gain on cash flow hedges, net of tax provision of \$0.0, \$0.7 and \$1.6	—	1.8	4.4
Total other comprehensive income (loss), net of tax	38.1	(15.0)	3.3
Comprehensive income	1,049.8	1,246.6	1,066.0
Comprehensive income attributable to non-controlling interest	(6.5)	(4.8)	(1.7)
Comprehensive income attributable to redeemable non-controlling interest	(4.4)	(5.8)	(0.9)
Comprehensive income attributable to Lithia Motors, Inc.	\$ 1,038.9	\$ 1,236.0	\$ 1,063.4

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF EQUITY AND REDEEMABLE NON-CONTROLLING INTEREST

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
<b>Total equity, beginning balances</b>	\$ 5,210.4	\$ 4,629.2	\$ 2,661.5
<b>Common stock, beginning balances</b>	1,082.1	1,711.6	788.2
Share-based compensation	37.7	22.6	17.8
Issuance of stock in connection with employee stock purchase plans	29.7	36.1	25.9
Repurchase of common stock	(48.9)	(688.3)	(230.7)
Equity issuances, net of issuance costs	—	—	1,110.4
<b>Common stock, ending balances</b>	1,100.6	1,082.1	1,711.6
<b>Additional paid-in capital, beginning balances</b>	76.8	58.3	41.4
Share-based compensation	3.1	18.5	16.9
<b>Additional paid-in capital, ending balances</b>	79.9	76.8	58.3
<b>Accumulated other comprehensive loss, beginning balances</b>	(18.0)	(3.0)	(6.3)
Foreign currency translation adjustment	56.5	(16.8)	(1.1)
Pension plan net loss arising during the period, net of tax provision of \$10.8, \$0.0 and \$0.0	(18.4)	—	—
Gain on cash flow hedges, net of tax provision of \$0.0, \$0.7 and \$1.6	—	1.8	4.4
<b>Accumulated other comprehensive income (loss), ending balances</b>	20.1	(18.0)	(3.0)
<b>Retained earnings, beginning balances</b>	4,065.3	2,859.5	1,838.2
Net income attributable to Lithia Motors, Inc.	1,000.8	1,251.0	1,060.1
Dividends paid	(52.8)	(45.2)	(38.8)
<b>Retained earnings, ending balances</b>	5,013.3	4,065.3	2,859.5
<b>Non-controlling interest, beginning balances</b>	4.2	2.8	—
Net contributions (distributions) of non-controlling interest	14.3	(3.4)	1.1
Net income attributable to non-controlling interest	6.5	4.8	1.7
<b>Non-controlling interest, ending balances</b>	25.0	4.2	2.8
<b>Total equity, ending balances</b>	\$ 6,238.9	\$ 5,210.4	\$ 4,629.2
<b>Redeemable non-controlling interest, beginning balances</b>	\$ 40.7	\$ 34.0	\$ —
Net (distributions) contributions of redeemable non-controlling interest	(1.1)	0.8	33.1
Net income attributable to redeemable non-controlling interest	4.4	5.8	0.9
<b>Redeemable non-controlling interest, ending balances</b>	\$ 44.0	\$ 40.7	\$ 34.0

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
<b>Cash flows from operating activities:</b>			
Net income	\$ 1,011.7	\$ 1,261.6	\$ 1,062.7
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Asset impairments	—	—	1.9
Depreciation and amortization	204.1	172.7	127.3
Share-based compensation	40.8	41.1	34.7
Loss on redemption of senior notes	—	—	10.3
Gain on disposal of other assets	(3.8)	(0.1)	(2.5)
Net disposal gain on sale of stores	(31.2)	(66.0)	—
Investment loss	—	39.2	66.4
Deferred income taxes	58.7	95.2	43.1
Amortization of operating lease right-of-use assets	60.5	55.4	39.0
(Increase) decrease (net of acquisitions and dispositions):			
Trade receivables, net	(228.6)	(131.6)	(147.1)
Inventories	(863.5)	(923.0)	674.6
Finance receivables, net	(1,045.5)	(1,363.0)	(640.8)
Other assets	(59.2)	(138.3)	61.0
Increase (decrease) (net of acquisitions and dispositions):			
Floor plan notes payable	363.7	273.3	116.1
Trade payables	(19.9)	25.3	78.4
Accrued liabilities	21.2	(2.3)	233.0
Other long-term liabilities and deferred revenue	18.6	50.4	39.1
<b>Net cash (used in) provided by operating activities</b>	<b>(472.4)</b>	<b>(610.1)</b>	<b>1,797.2</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(230.2)	(303.1)	(260.4)
Proceeds from sales of assets	13.2	16.6	3.3
Cash paid for other investments	(11.1)	(11.8)	(10.3)
Cash paid for acquisitions, net of cash acquired	(1,185.1)	(1,243.6)	(2,699.3)
Proceeds from sales of stores	142.9	212.1	76.3
<b>Net cash used in investing activities</b>	<b>(1,270.3)</b>	<b>(1,329.8)</b>	<b>(2,890.4)</b>
<b>Cash flows from financing activities:</b>			
Borrowings (repayments) on floor plan notes payable: non-trade, net	878.7	737.9	(685.3)
Borrowings on lines of credit	12,738.1	12,160.8	2,830.6
Repayments on lines of credit	(12,413.8)	(10,137.0)	(2,505.2)
Principal payments on long-term debt and finance lease liabilities, scheduled	(35.2)	(51.2)	(32.5)
Principal payments on long-term debt and finance lease liabilities, other	(10.6)	(171.7)	(486.5)
Proceeds from issuance of long-term debt	79.8	113.3	817.4
Principal payments on non-recourse notes payable	(589.5)	(193.5)	(26.8)
Proceeds from issuance of non-recourse notes payable	1,872.9	298.1	344.4
Payment of debt issuance costs	(16.7)	(11.8)	(14.7)
Proceeds from issuance of common stock	29.7	36.1	1,136.2
Repurchase of common stock	(48.9)	(688.3)	(230.7)
Dividends paid	(52.8)	(45.2)	(38.8)
Payments of contingent consideration related to acquisitions	(14.0)	(7.2)	(1.4)
Other financing activities	(7.9)	(4.4)	—
<b>Net cash provided by financing activities</b>	<b>2,409.8</b>	<b>2,035.9</b>	<b>1,106.7</b>
<b>Effect of exchange rate changes on cash and restricted cash</b>	<b>33.4</b>	<b>(3.0)</b>	<b>2.5</b>
<b>Increase in cash and restricted cash</b>	<b>700.5</b>	<b>93.0</b>	<b>16.0</b>
<b>Cash and restricted cash at beginning of year</b>	<b>271.5</b>	<b>178.5</b>	<b>162.5</b>
<b>Cash and restricted cash at end of year</b>	<b>\$ 972.0</b>	<b>\$ 271.5</b>	<b>\$ 178.5</b>

See accompanying notes to consolidated financial statements.

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
<b>Reconciliation of cash and restricted cash to the consolidated balance sheets</b>			
Cash	\$ 825.0	\$ 168.1	\$ 153.0
Restricted cash from collections on auto loans receivable	116.4	78.6	21.8
Cash and restricted cash	941.4	246.7	174.8
Restricted cash on deposit in reserve accounts, included in other non-current assets	30.6	24.8	3.7
<b>Total cash and restricted cash reported in the Consolidated Statements of Cash Flows</b>	<b>\$ 972.0</b>	<b>\$ 271.5</b>	<b>\$ 178.5</b>
<b>Supplemental cash flow information:</b>			
Cash paid during the period for interest	\$ 514.3	\$ 209.9	\$ 130.1
Cash paid during the period for income taxes, net	222.1	449.3	369.1
Floor plan debt paid in connection with store disposals	27.4	29.5	8.7
<b>Non-cash activities:</b>			
Debt issued in connection with acquisitions	\$ —	\$ —	\$ 355.6
Contingent consideration in connection with acquisitions	7.3	22.4	0.9
Debt assumed in connection with acquisitions	401.6	0.7	4.0
Acquisition of finance leases in connection with acquisitions	45.0	78.2	—
Non-controlling interest recognized in connection with acquisitions	21.1	—	33.1
Right-of-use assets obtained in exchange for lease liabilities	150.0	44.7	171.8

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Business

We are a global automotive retailer, offering a wide selection of vehicles across global carmakers and providing a full suite of financing, leasing, repair, and maintenance options. In 2023, we were ranked 145 on the Fortune 500. As of December 31, 2023, we operated 344 locations representing 47 brands in the United States, Canada, and the United Kingdom. We offer vehicles through our comprehensive network of locations, e-commerce platforms, and captive finance division. Our "Growth Powered by People" strategy drives us to innovate and continuously improve the customer experience, providing consumer optionality to interact wherever, whenever, and however they desire.

#### Basis of Presentation

The accompanying Consolidated Financial Statements reflect the results of operations, the financial position and the cash flows for Lithia Motors, Inc. and its directly and indirectly wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

#### Cash and Restricted Cash

Cash is defined as cash on hand and cash in bank accounts without restrictions. Restricted cash consisted of collections of principal, interest and fee payments on auto loans receivable that are restricted for repayment on borrowings on our securitization facilities before being unrestricted.

#### Accounts Receivable

Accounts receivable classifications include the following:

- Contracts in transit are receivables from various lenders for the financing of vehicles that we have arranged on behalf of the customer and are typically received within five to 10 days of selling a vehicle.
- Trade receivables are comprised of amounts due from customers, lenders for the commissions earned on financing and others for commissions earned on service contracts and insurance products.
- Vehicle receivables represent receivables for the portion of the vehicle sales price paid directly by the customer.
- Manufacturer receivables represent amounts due from manufacturers, including holdbacks, rebates, incentives and warranty claims.

Receivables are recorded at invoice and do not bear interest until they are 60 days past due. The historical losses related to these balances are immaterial. The long-term portion of accounts receivable was included as a component of other non-current assets in the Consolidated Balance Sheets. See Note 2 – Accounts Receivable.

#### Finance Receivables

Finance receivables consist of auto loan and lease contracts originated through our Financing Operations, which are secured by the vehicles we sell. Interest income on finance receivables is recognized based on the contractual terms of each loan and is accrued until repayment, reaching non-accrual status, charge-off, or repossession. Direct costs associated with loan originations are capitalized and expensed as an offset to interest income when recognized on the loans.

More than 98% of the portfolio is aged less than 60 days past due with less than 2% on non-accrual status. As of December 31, 2023, the allowance for credit losses related to auto loan and lease receivables was \$106.4 million and was included in finance receivables, net. In accordance with Topic 326, the allowance for loan losses is estimated based on our historical write-off experience, current conditions and reasonable and supportable forecasts as well as the value of any underlying assets securing these loans and is reviewed monthly. Consideration is given to recent delinquency trends and recovery rates. Account balances are charged against the allowance upon the earlier of reaching 120 days past due status, the repossession of the vehicle, or the determination that the account is uncollectible. See Note 5 – Finance Receivables.

## Inventories

Inventories are valued at the lower of net realizable value or cost, using the specific identification method for new and used vehicles, and the lower of cost (first-in, first-out) or market method for parts. The cost of new and used vehicle inventories includes the cost of any equipment added, reconditioning and transportation.

Manufacturers reimburse us for holdbacks, floor plan interest assistance and advertising assistance, which are reflected as a reduction in the carrying value of each vehicle purchased. We recognize advertising assistance, floor plan interest assistance, holdbacks, cash incentives and other rebates received from manufacturers that are tied to specific vehicles as a reduction to cost of sales as the related vehicles are sold.

Parts purchase discounts that we receive from the manufacturer are reflected as a reduction in the carrying value of the parts purchased from the manufacturer and are recognized as a reduction to cost of goods sold as the related inventory is sold. See Note 3 – Inventories and Floor Plan Notes Payable.

## Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives on the straight-line basis. Leasehold improvements made at the inception of the lease or during the term of the lease are amortized on a straight-line basis over the shorter of the life of the improvement or the remaining term of the lease.

The range of estimated useful lives is as follows:

Buildings and improvements	5 to 40 years
Service equipment	5 to 15 years
Furniture, office equipment, signs and fixtures	3 to 10 years

The cost for maintenance, repairs and minor renewals is expensed as incurred, while significant remodels and betterments are capitalized. In addition, interest on borrowings for major capital projects, significant remodels, and betterments is capitalized. Capitalized interest becomes a part of the cost of the depreciable asset and is depreciated according to the estimated useful lives as previously stated. For the years ended December 31, 2023, 2022 and 2021, we recorded capitalized interest of \$2.6 million, \$2.6 million and \$2.0 million, respectively.

When an asset is retired, or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income from operations.

Leased property meeting certain criteria are recorded as finance leases. We have finance leases for certain locations, expiring at various dates through August 31, 2037. Our finance lease right-of-use assets are included in property and equipment on our Consolidated Balance Sheets. Amortization of finance lease right-of-use assets is computed on a straight-line basis over the term of the lease, unless the lease transfers title or it contains a bargain purchase option, in which case, it is amortized over the asset's useful life and is included in depreciation expense. Finance lease liabilities are recorded as the lesser of the estimated fair market value of the leased property or the net present value of the aggregated future minimum payments and are included in current maturities of long-term debt and long-term debt on our Consolidated Balance Sheets. Interest associated with these obligations is included in other interest expense in the Consolidated Statements of Operations. See Note 8 – Commitments and Contingencies.

Long-lived assets held and used by us are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We consider several factors when evaluating whether there are indications of potential impairment related to our long-lived assets, including store profitability, overall macroeconomic factors and the impact of our strategic management decisions. If recoverability testing is performed, we evaluate assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows associated with the asset, including its disposition. If such assets are considered to be impaired, the amount by which the carrying amount of the assets exceeds the fair value of the assets is recognized as a charge to income from operations. See Note 4 – Property and Equipment.

## Goodwill

Goodwill represents the excess purchase price over the fair value of net assets acquired which is not allocable to separately identifiable intangible assets. Other identifiable intangible assets, such as franchise rights, are separately

recognized if the intangible asset is obtained through contractual or other legal right or if the intangible asset can be sold, transferred, licensed or exchanged.

Goodwill is not amortized but tested for impairment at least annually, and more frequently if events or circumstances indicate the carrying amount of the reporting unit more likely than not exceeds fair value. We have the option to qualitatively or quantitatively assess goodwill for impairment. We test our goodwill for impairment on October 1 of each year. In 2023, we evaluated our goodwill using a qualitative assessment process. If the qualitative factors determine that it is more likely than not that the fair value of the reporting unit exceeds the carrying amount, goodwill is not impaired. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying amount, we would further evaluate for potential impairment. We have determined the appropriate unit of accounting for testing goodwill for impairment is at our reporting unit levels: North America Vehicle Operations, United Kingdom Vehicle Operations, and US and Canada Financing Operations. See Note 6 – Goodwill and Franchise Value and Note 14 – Fair Value Measurements.

## Franchise Value

We enter into agreements (franchise agreements) with our manufacturers. Franchise value represents a right received under franchise agreements with manufacturers and is identified on an individual store basis.

We evaluated the useful lives of our franchise agreements based on the following factors:

- certain of our franchise agreements continue indefinitely by their terms;
- certain of our franchise agreements have limited terms, but are routinely renewed without substantial cost to us;
- other than franchise terminations related to the unprecedented reorganizations of Chrysler and General Motors, and allowed by bankruptcy law, we are not aware of manufacturers terminating franchise agreements against the wishes of the franchise owners in the ordinary course of business. A manufacturer may pressure a franchise owner to sell a franchise when the owner is in breach of the franchise agreement over an extended period of time;
- state dealership franchise laws typically limit the rights of the manufacturer to terminate or not renew a franchise;
- we are not aware of any legislation or other factors that would materially change the retail automotive franchise system; and
- as evidenced by our acquisition and disposition history, there is an active market for most automotive dealership franchises within the United States. We attribute value to the franchise agreements acquired with the dealerships we purchase based on the understanding and industry practice that the franchise agreements will be renewed indefinitely by the manufacturer.

Accordingly, we have determined that our franchise agreements will continue to contribute to our cash flows indefinitely and, therefore, have indefinite lives.

As an indefinite-lived intangible asset, franchise value is tested for impairment at least annually, and more frequently if events or circumstances indicate the carrying value may exceed fair value. The impairment test for indefinite-lived intangible assets requires the comparison of estimated fair value to carrying value. An impairment charge is recorded to the extent the fair value is less than the carrying value. We have the option to qualitatively or quantitatively assess indefinite-lived intangible assets for impairment. We evaluated our indefinite-lived intangible assets using a qualitative assessment process. We have determined the appropriate unit of accounting for testing franchise value for impairment is each individual store.

We test our franchise value for impairment on October 1 of each year. In 2023, we evaluated our franchise value using a qualitative assessment process. If the qualitative factors discussed above determine that it is more likely than not that the fair value of the individual store's franchise value exceeds the carrying amount, the franchise value is not impaired and the second step is not necessary. If the qualitative assessment determines it is more likely than not the fair value is less than the carrying value, then a quantitative valuation of our franchise value is performed and an impairment would be recorded. See Note 6 – Goodwill and Franchise Value and Note 14 – Fair Value Measurements.

## Variable Interest Entities and Securitization Transactions

We maintain a revolving funding program composed of warehouse facilities that we use to fund auto loans receivable originated by our Financing Operations.



We use term securitizations to provide long-term funding for most of the auto loans receivable initially funded through the warehouse facilities. In these transactions, a pool of auto loans receivable is sold to a bankruptcy-remote, special purpose entity that, in turn, transfers the receivables to a special purpose securitization trust. The securitization trust issues asset-backed securities, secured or otherwise supported by the transferred receivables, and the proceeds from the sale of the asset-backed securities are used to finance the securitized receivables.

The securitization trusts established in connection with asset-backed securitization transactions are variable interest entities (VIEs). We are required to evaluate term securitization trusts for consolidation. In our capacity as servicer, we have the power to direct the activities of the trusts that most significantly impact the economic performance of the trusts. In addition, we have the obligation to absorb losses (subject to limitations) and the rights to receive any returns of the trusts, which could be significant. Accordingly, we are the primary beneficiary of the trusts and are required to consolidate them.

We recognize these term securitizations as secured borrowings, which result in recording the auto loans receivable and the related non-recourse notes payable on our consolidated balance sheets.

These receivables can only be used as collateral to settle obligations of the related non-recourse funding vehicles. The non-recourse funding vehicles and investors have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. We have not provided financial or other support to the non-recourse funding vehicles that was not previously contractually required, and there are no additional arrangements, guarantees or other commitments that could require us to provide financial support to the non-recourse funding vehicles.

See Note 2 – Accounts Receivable, Note 5 – Finance Receivables, and Note 9 – Credit Facilities and Long-Term Debt for additional information on auto loans receivable and non-recourse notes payable.

### Restricted Cash on Deposit in Reserve Accounts

The restricted cash on deposit in reserve accounts is for the benefit of holders of non-recourse notes payable, and these funds are not expected to be available to the company or its creditors. In the event that the cash generated by the related receivables in a given period was insufficient to pay the interest, principal and other required payments, the balances on deposit in the reserve accounts would be used to pay those amounts. Restricted cash on deposit in reserve accounts is invested in money market securities.

### Advertising

We expense production and other costs of advertising as incurred as a component of selling, general and administrative expense. Additionally, manufacturer cooperative advertising credits for qualifying, specifically-identified advertising expenditures are recognized as a reduction of advertising expense. Advertising expense and manufacturer cooperative advertising credits were as follows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Advertising expense, gross	\$ 302.4	\$ 299.9	\$ 197.8
Manufacturer cooperative advertising credits	(54.2)	(46.3)	(35.6)
Advertising expense, net	\$ 248.2	\$ 253.6	\$ 162.2

### Contract Origination Costs

Contract origination commissions paid to our employees directly related to the sale of our self-insured lifetime lube, oil and filter service contracts and auto loan receivable originations are deferred and charged to expense in proportion to the associated revenue to be recognized.

### Legal Costs

We are a party to numerous legal proceedings arising in the normal course of business. We accrue for certain legal costs, including attorney fees and potential settlement claims related to various legal proceedings that are estimable and probable. See Note 8 – Commitments and Contingencies.

## Share-Based Compensation

Compensation costs associated with equity instruments exchanged for employee and director services are measured at the grant date, based on the fair value of the award. If there is a performance-based element to the award, the expense is recognized based on the estimated attainment level, estimated time to achieve the attainment level and/or the vesting period. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The fair value of non-vested share-based awards is based on the closing price of our common stock on the date of grant. We account for forfeitures of share-based awards as they occur. See Note 13 – Share-based Compensation Plans.

## Income and Other Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, their respective tax bases, operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

When there are situations with uncertainty as to the timing of the deduction, the amount of the deduction, or the validity of the deduction, we adjust our financial statements to reflect only those tax positions that are more-likely-than-not to be sustained. Positions that meet this criterion are measured using the largest benefit that is more than 50% likely to be realized. Interest and penalties are recorded as income tax provision in the period incurred or accrued when related to an uncertain tax position. See Note 15 – Income Taxes.

We account for all taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction (i.e., sales, use, value-added) on a net (excluded from revenues) basis.

## Concentration of Risk and Uncertainties

We purchase substantially all of our new vehicles and inventory from various manufacturers at the prevailing prices charged by auto manufacturers to all franchised dealers. Our overall sales could be impacted by the auto manufacturers' inability or unwillingness to supply dealerships with an adequate supply of popular models.

We depend on our manufacturers to provide a supply of vehicles which supports expected sales levels. In the event that manufacturers are unable to supply the needed level of vehicles, our financial performance may be adversely impacted.

We depend on our manufacturers to deliver high-quality, defect-free vehicles. In the event that manufacturers experience future quality issues, our financial performance may be adversely impacted.

We are subject to a concentration of risk in the event of financial distress, including potential reorganization or bankruptcy, of a major vehicle manufacturer. Our sales volume could be materially adversely impacted by the manufacturers' or distributors' inability to supply the stores with an adequate supply of vehicles. We also receive incentives and rebates from our manufacturers, including cash allowances, financing programs, discounts, holdbacks and other incentives. These incentives are recorded as accounts receivable in our Consolidated Balance Sheets until payment is received. Our financial condition could be materially adversely impacted by the manufacturers' or distributors' inability to continue to offer these incentives and rebates at substantially similar terms, or to pay our outstanding receivables.

We enter into franchise agreements with the manufacturers. The franchise agreements generally limit the location of the dealership and provide the auto manufacturer approval rights over changes in dealership management and ownership. The auto manufacturers are also entitled to terminate the franchise agreement if the dealership is in material breach of the terms. Our ability to expand operations depends, in part, on obtaining consents of the manufacturers for the acquisition of additional dealerships. See also "Goodwill" and "Franchise Value" above.

We have a variety of syndicated credit facilities with several of the included financial institutions also providing vehicle financing for certain new vehicles, vehicles that are designated for use as service loaners and mortgage financing. These credit facilities are the primary source of floor plan financing for our new vehicle inventory and also

provides used vehicle financing and a revolving line of credit. The terms of the facilities extends through various dates through April 2026. At maturity, our financial condition could be materially adversely impacted if lenders are unable to provide credit that has typically been extended to us or with terms unacceptable to us. Our financial condition could be materially adversely impacted if these providers incur losses in the future or undergo funding limitations. See Note 9 – Credit Facilities and Long-Term Debt.

We anticipate continued organic growth and growth through acquisitions. This growth will require additional credit which may be unavailable or with terms unacceptable to us. If these events were to occur, we may not be able to borrow sufficient funds to facilitate our growth.

### Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and related notes to financial statements. Changes in such estimates may affect amounts reported in future periods.

Estimates are used in the calculation of certain reserves maintained for charge-backs on estimated cancellations of service contracts; life, accident and disability insurance policies; finance fees from customer financing contracts and uncollectible accounts receivable.

Estimates are also used in our allowance for loan and lease losses, which represents the net credit losses expected over the remaining contractual life of our finance receivables. Because net loss performance can vary substantially over time, estimating net losses requires assumptions about matters that are uncertain. The allowance for loan and lease losses is determined using a net loss timing curve, primarily based on the composition of the portfolio of managed receivables and historical gross loss and recovery trends. Determining the appropriateness of the allowance for loan and lease losses requires management to exercise judgement about matters that are inherently uncertain, including the timing and distribution of net losses that could materially affect the allowance or loan and lease losses and, therefore, net earnings.

We also use estimates in the calculation of various expenses, accruals and reserves, including anticipated losses related to workers' compensation insurance; anticipated losses related to self-insurance components of our property and casualty and medical insurance; self-insured lifetime lube, oil and filter service contracts; discretionary employee bonuses, the Transition Agreement with Sidney B. DeBoer, our Chairman of the Board; warranties provided on certain products and services; legal reserves and share-based compensation. We also make certain estimates regarding the assessment of the recoverability of long-lived assets, indefinite-lived intangible assets and deferred tax assets.

We offer a limited warranty on the sale of most retail used vehicles. This warranty is based on mileage and time. We also offer a mileage and time based warranty on parts used in our service repair work and on tire purchases. The cost that may be incurred for these warranties is estimated at the time the related revenue is recorded. A reserve for these warranty liabilities is estimated based on current sales levels, warranty experience rates and estimated costs per claim. The annual activity for reserve increases and claims is immaterial.

### Fair Value of Assets Acquired and Liabilities Assumed

We estimate the fair value of the assets acquired and liabilities assumed in a business combination using various assumptions. The most significant assumptions used relate to determining the fair value of property and equipment and intangible franchise rights.

We estimate the fair value of property and equipment based on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value.

We estimate the fair value of our franchise rights primarily using the Multi-Period Excess Earnings (MPEE) model. The forecasted cash flows used in the MPEE model contain inherent uncertainties, including significant estimates

and assumptions related to growth rates, margins, general operating expenses, and cost of capital. We use primarily internally-developed forecasts and business plans to estimate the future cash flows that each franchise will generate. We have determined that only certain cash flows of the store are directly attributable to the franchise rights. We estimate the appropriate interest rate to discount future cash flows to their present value equivalent taking into consideration factors such as a risk-free rate, a peer group average beta, an equity risk premium and a small stock risk premium. Additionally, we also may use a market approach to determine the fair value of our franchise rights. These market data points include our acquisition and divestiture experience and third-party broker estimates.

## Revenue Recognition

The following describes our major product lines, which represent the disaggregation of our revenues to transactions that are similar in nature, amount, timing, uncertainties and economic factors.

### New Retail Vehicle and Used Retail Vehicle Sales

Revenue from the retail sale of a vehicle is recognized at a point in time, as all performance obligations are satisfied when a contract is signed by the customer, financing has been arranged or collectibility is probable and the control of the vehicle is transferred to the customer. The transaction price for a retail vehicle sale is specified in the contract with the customer and includes all cash and non-cash consideration. In a retail vehicle sale, customers often trade in their current vehicle. The trade-in is measured at its stand-alone selling price in the contract, utilizing various third-party pricing sources. There are no other non-cash forms of consideration related to retail sales. All vehicle rebates are applied to the vehicle purchase price at the time of the sale and are therefore incorporated into the price of the contract at the time of the exchange. We do not allow the return of new or used vehicles, except where mandated by state law.

### Service, Body and Parts Sales

Revenue from service, body and parts sales is recognized upon the transfer of control of the parts or service to the customer. We allow for customer returns on sales of our parts inventory up to 30 days after the sale. Most parts returns generally occur within one to two weeks from the time of sale and are not significant.

We are the obligor on our lifetime oil contracts. Revenue is allocated to these performance obligations and is recognized over time as services are provided to the customer. The amount of revenue recognized is calculated, net of cancellations, using an input method, which most closely depicts performance of the contracts. Our contract liability balances were \$317.0 million and \$284.3 million as of December 31, 2023, and December 31, 2022, respectively; and we recognized \$55.2 million and \$44.6 million of revenue in the years ended December 31, 2023, and December 31, 2022, respectively, related to our opening contract liability balances. Our contract liability balance is included in accrued liabilities and deferred revenue.

### Finance and Insurance Sales

Revenue from finance and insurance sales is recognized, net of estimated charge-backs, at the time of the sale of the related vehicle. As a part of the vehicle sale, we seek to arrange financing for customers and sell a variety of add-ons, such as extended warranty service contracts. These products are inherently attached to the governing vehicle and performance of the obligation cannot be performed without the underlying sale of the vehicle. We act as an agent in the sale of these contracts as the pricing is set by the third-party provider, and our commission is preset. A portion of the transaction price related to sales of finance and insurance contracts is considered variable consideration and is estimated and recognized upon the sale of the contract under the standard. Our contract asset balance was \$11.8 million and \$12.5 million as of December 31, 2023, and December 31, 2022, respectively; and is included in trade receivables and other non-current assets.

## Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (FASB) issued an accounting standards update (ASU) 2023-07 related to improvements to reportable segment disclosures. The amendments in this update require additional disclosure of significant expenses related to our reportable segments, additional segment disclosures on an interim basis, and qualitative disclosures regarding the decision making process for segment resources. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. We plan to adopt this pronouncement and make the necessary updates to our segment disclosures for the year ended December 31, 2024, and aside from these disclosure changes, we do not expect the amendments to have a material effect on our financial statements.

In December 2023, the FASB issued ASU 2023-09 related to improvements to income tax disclosures. The amendments in this update require enhanced jurisdictional and other disaggregated disclosures for the effective tax rate reconciliation and income taxes paid. The amendments in this update are effective for fiscal years beginning after December 15, 2024. We plan to adopt this pronouncement and make the necessary updates to our disclosures for the year ended December 31, 2025, and aside from these disclosure changes, we do not expect the amendments to have a material effect on our financial statements.

## NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

(\$ in millions)	December 31,	
	2023	2022
Contracts in transit	\$ 559.7	\$ 432.5
Trade receivables	153.3	122.6
Vehicle receivables	191.4	105.4
Manufacturer receivables	216.5	151.9
Other receivables, current	9.3	3.8
	1,130.2	816.2
Less: Allowance for doubtful accounts	(7.1)	(3.1)
Total accounts receivable, net	\$ 1,123.1	\$ 813.1

The long-term components of accounts receivable and allowance for doubtful accounts were included as a component of other non-current assets in the Consolidated Balance Sheets.

## NOTE 3. INVENTORIES AND FLOOR PLAN NOTES PAYABLE

The components of inventories consisted of the following:

(\$ in millions)	December 31,	
	2023	2022
New vehicles	\$ 2,886.3	\$ 1,679.8
Used vehicles	1,637.5	1,529.3
Parts and accessories	230.1	200.3
Total inventories	\$ 4,753.9	\$ 3,409.4

The new vehicle inventory cost is generally reduced by manufacturer holdbacks and incentives, while the related floor plan notes payable are reflective of the gross cost of the vehicle.

(\$ in millions)	December 31,	
	2023	2022
Floor plan notes payable: non-trade	\$ 2,288.5	\$ 1,489.4
Floor plan notes payable	1,347.0	627.2
Total floor plan debt	\$ 3,635.5	\$ 2,116.6

### Floor Plan Notes Payable

We have floor plan agreements with manufacturer-affiliated finance companies for certain new vehicles and vehicles that are designated for use as service loaners. The interest rates on these floor plan notes payable commitments vary by manufacturer and are variable rates, ranging from 5.77% to 14.25% as of December 31, 2023. Borrowings from and repayments to manufacturer-affiliated finance companies are classified as operating activities in the Consolidated Statements of Cash Flows.

### Floor Plan Notes Payable: Non-Trade

See credit facilities discussion in Note 9 – Credit Facilities and Long-Term Debt for more information on our floor plan commitments.

## NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(\$ in millions)	December 31,	
	2023	2022
Land	\$ 1,282.0	\$ 1,149.9
Building and improvements	2,274.2	2,027.8
Service equipment	222.2	185.8
Furniture, office equipment, signs and fixtures	742.5	650.3
	4,520.9	4,013.8
Less accumulated depreciation	(646.7)	(526.8)
	3,874.2	3,487.0
Construction in progress	107.2	87.6
	\$ 3,981.4	\$ 3,574.6

### Long-Lived Asset Impairment Charges

We recorded no impairment charges in 2023, 2022, and 2021 associated with property and equipment. The long-lived assets were tested for recoverability and were determined to have a carrying value exceeding their fair value.

## NOTE 5. FINANCE RECEIVABLES

Our finance receivables are comprised of auto loan and lease receivables. Our auto loan receivables include amounts due from customers related to vehicle sales financed through US and Canada Financing Operations, secured by the related vehicles. Lease receivables include amounts related to vehicles leased through Canadian Financing Operations, also secured by the related vehicles. These amounts are presented net of an allowance for estimated losses.

Interest income on finance receivables is recognized based on the contractual terms of each loan and is accrued until repayment, reaching non-accrual status, charge-off, or repossession. Direct costs associated with loan originations are capitalized and expensed as an offset to interest income when recognized on the loans.

The balances of finance receivables are made up of loans and leases secured by the related vehicles. More than 98% of the portfolio is aged less than 60 days past due with less than 2% on non-accrual status.

### Finance Receivables, net

(\$ in millions)	December 31,	
	2023	2022
Asset-backed term funding	\$ 2,146.5	\$ 482.1
Warehouse facilities	749.3	1,383.9
Other managed receivables	452.9	390.9
Total finance receivables	3,348.7	2,256.9
Less: Allowance for finance receivable losses	(106.4)	(69.3)
Finance receivables, net	\$ 3,242.3	\$ 2,187.6

### Finance Receivables by FICO Score

(\$ in millions)	As of December 31, 2023				
	Year of Origination				
	2023	2022	2021	2020	Total
<599 <sup>1</sup>	\$ 62.2	\$ 39.0	\$ 17.6	\$ 2.4	\$ 121.2
600-699	586.6	463.6	152.7	16.1	1,219.0
700-774	568.1	422.5	63.9	5.9	1,060.4
775+	490.3	263.5	14.7	2.7	771.2
Total auto loan receivables	\$ 1,707.2	\$ 1,188.6	\$ 248.9	\$ 27.1	\$ 3,171.8
Other finance receivables <sup>(1)</sup>					176.9
Total finance receivables					\$ 3,348.7

(\$ in millions)	As of December 31, 2022			
	Year of Origination			
	2022	2021	2020	Total
<599 <sup>(1)</sup>	\$ 63.0	\$ 30.3	\$ 4.8	\$ 98.1
600-699	652.6	243.4	27.2	923.2
700-774	575.9	97.9	10.0	683.8
775+	369.5	21.5	4.5	395.5
Total auto loan receivables	\$ 1,661.0	\$ 393.1	\$ 46.5	2,100.6
Other finance receivables <sup>(1)</sup>				156.3
Total finance receivables				\$ 2,256.9

<sup>(1)</sup> Includes legacy portfolio, loans that are originated with no FICO score available, and lease receivables.

In accordance with Topic 326, the allowance for loan and lease losses is estimated based on our historical write-off experience, current conditions and forecasts, as well as the value of any underlying assets securing these loans. Consideration is given to recent delinquency trends and recovery rates. Account balances are charged against the allowance upon reaching 120 days past due status.

#### Rollforward of Allowance for Loan and Lease Losses

Our allowance for finance receivable losses represents the net credit losses expected over the remaining contractual life of our managed receivables. During 2023, provision expense and net charge-offs increased primarily due to the higher volume of originations and resulting growth in the finance receivables balance. Also a contributing factor is the 3-4 month lag between charge-off and recovery. Collectively these factors drove an overall increase in the allowance. The allowances for credit losses related to finance receivables consisted of the following changes during the period:

(\$ in millions)	Year Ended December 31,	
	2023	2022
Allowance at beginning of period	\$ 69.3	\$ 25.0
Charge-offs	(110.0)	(62.0)
Recoveries	47.6	19.1
Initial allowance for purchased credit-deteriorated loans	4.6	—
Sold loans	(3.9)	—
Provision expense	98.8	87.2
Allowance at end of period	\$ 106.4	\$ 69.3

See Note 1 – Summary of Significant Accounting Policies for additional information on the allowance for credit losses related to finance receivables.

#### Charge-off Activity by Year of Origination

(\$ in millions)	Year Ended December 31,	
	2023	2022
2023	\$ 14.2	\$ —
2022	61.9	17.3
2021	29.2	35.5
2020	2.8	5.1
Other finance receivables	1.9	4.1
Total charge-offs	\$ 110.0	\$ 62.0

### Purchased Financial Assets with Credit Deterioration

As part of our acquisition of Priority Auto Group on June 12, 2023, we purchased certain auto loan receivables for which there was evidence of more than insignificant deterioration of credit quality since origination (purchased credit-deteriorated or "PCD" assets). The following is a reconciliation of the difference between the purchase price paid by us for the financial assets and the par value (outstanding principal balance) of the assets on the date we acquired the portfolio:

(\$ in millions)	
Purchase price of PCD loans at acquisition	\$ 8.0
Initial allowance for credit losses of PCD loans at acquisition	4.6
Noncredit premium of PCD loans at acquisition	(3.4)
Par value of acquired PCD loans at acquisition	<u>\$ 9.2</u>

## NOTE 6. GOODWILL AND FRANCHISE VALUE

The following is a roll-forward of goodwill:

(\$ in millions)	Vehicle Operations	Financing Operations	Consolidated
<b>Balance as of December 31, 2021</b>	\$ 977.3	\$ —	\$ 977.3
Additions through acquisitions <sup>1</sup>	483.4	17.0	500.4
Reductions through divestitures	(17.9)	—	(17.9)
Currency translation	0.7	0.2	0.9
<b>Balance as of December 31, 2022</b>	<u>1,443.5</u>	<u>17.2</u>	<u>1,460.7</u>
Additions through acquisitions <sup>2</sup>	519.1	—	519.1
Reductions through divestitures	(51.1)	—	(51.1)
Currency translation	1.5	0.4	1.9
<b>Balance as of December 31, 2023</b>	<u>\$ 1,913.0</u>	<u>\$ 17.6</u>	<u>\$ 1,930.6</u>

(1) Our purchase price allocations for the 2021 acquisitions were finalized in 2022. As a result, we added \$500.4 million of goodwill.

(2) Our purchase price allocations for the 2022 acquisitions were finalized in 2023. As a result, we added \$285.9 million of goodwill. Preliminary purchase price allocation for a portion of our 2023 acquisitions resulted in adding \$233.2 million of goodwill. Our purchase price allocation for the remainder of the 2023 acquisitions are preliminary and goodwill is not yet allocated to our segments. These amounts are included in other non-current assets until we finalize our purchase accounting. See Note 16 – Acquisitions.

The following is a roll-forward of franchise value:

(\$ in millions)	Franchise Value
<b>Balance as of December 31, 2021</b>	\$ 799.1
Additions through acquisitions <sup>1</sup>	1,088.4
Reductions through divestitures	(33.6)
Currency translation	2.3
<b>Balance as of December 31, 2022</b>	<u>1,856.2</u>
Additions through acquisitions <sup>2</sup>	556.5
Reductions through divestitures	(14.5)
Currency translation	4.0
<b>Balance as of December 31, 2023</b>	<u>\$ 2,402.2</u>

(1) Our purchase price allocations for the 2021 acquisitions were finalized in 2022. As a result, we added \$1.1 billion of franchise value.

(2) Our purchase price allocations for the 2022 acquisitions were finalized in 2023. As a result, we added \$363.1 million of franchise value. Preliminary purchase price allocations for a portion of our 2023 acquisitions resulted in adding \$193.4 million of franchise value. Our purchase price allocations for the remainder of the 2023 acquisitions are preliminary and is not yet allocated to our segments. See Note 16 – Acquisitions.

## NOTE 7. NET INVESTMENT IN OPERATING LEASES

Net investment in operating leases consists primarily of lease contracts for vehicles with individuals and business entities. Assets subject to operating leases are depreciated using the straight-line method over the term of the lease



to reduce the asset to its estimated residual value. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

Net investment in operating leases was as follows:

(\$ in millions)	December 31,	
	2023	2022
Vehicles, at cost <sup>(1)</sup>	\$ 102.7	\$ 92.2
Accumulated depreciation <sup>(1)</sup>	(11.2)	(7.6)
Net investment in operating leases	\$ 91.5	\$ 84.6

<sup>(1)</sup> Vehicles, at cost and accumulated depreciation are recorded in other non-current assets, on the Consolidated Balance Sheets.

## NOTE 8. COMMITMENTS AND CONTINGENCIES

### Leases

We lease certain dealerships, office space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. We have elected not to bifurcate lease and non-lease components related to leases of real property.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 25 or more years. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Certain of our lease agreements include rental payments based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

We rent or sublease certain real estate to third parties.

The table below presents the lease-related liabilities and finance lease ROU assets recorded on the Consolidated Balance Sheets:

(\$ in millions)	December 31,	
	2023	2022
Operating lease liabilities:		
Current portion included in accrued liabilities	\$ 68.2	\$ 51.7
Noncurrent operating lease liabilities	427.9	346.6
Total operating lease liabilities	496.1	398.3
Finance lease liabilities:		
Current portion included in current maturities of long-term debt	7.8	2.0
Long-term portion of lease liabilities in long-term debt	91.6	54.4
Total finance lease liabilities	99.4	56.4
Total lease liabilities	\$ 595.5	\$ 454.7
Finance lease right-of-use assets:		
Total finance lease right-of-use assets <sup>(1)</sup>	\$ 132.7	\$ 75.9
Weighted-average remaining lease term:		
Operating leases	8 years	7 years
Finance leases	10 years	10 years
Weighted-average discount rate:		
Operating leases	4.78 %	4.31 %
Finance leases	5.53 %	4.85 %

<sup>(1)</sup> Finance lease right-of-use assets included in property and equipment, net of accumulated depreciation.

The components of lease costs, which were included in our Consolidated Statements of Operations, were as follows:

(\$ in millions)	Classification	Year Ended December 31,		
		2023	2022	2021
Operating lease cost <sup>(1)</sup>	Selling, general and administrative	\$ 96.9	\$ 77.9	\$ 53.1
Variable lease cost <sup>(2)</sup>	Selling, general and administrative	7.1	5.6	3.5
Amortization of finance lease right-of-use assets	Depreciation and amortization	3.8	4.2	5.9
Interest on finance lease liabilities	Other interest expense	4.1	3.7	4.2
Sublease income	Selling, general and administrative	(9.0)	(7.5)	(6.4)
Total lease costs		\$ 102.9	\$ 83.9	\$ 60.3

<sup>(1)</sup> Includes short-term and month-to-month lease costs, which are immaterial.

<sup>(2)</sup> Variable lease cost generally includes reimbursement for actual costs incurred by our lessors for common area maintenance, property taxes and insurance on leased real estate.

As of December 31, 2023, the maturities of our operating and finance lease liabilities were as follows:

(\$ in millions)	Operating Lease Liabilities	Finance Lease Liabilities
<b>Year Ending December 31,</b>		
2024	\$ 91.9	\$ 13.0
2025	85.0	25.0
2026	70.5	5.8
2027	62.8	5.9
2028	53.3	5.9
Thereafter	262.7	85.3
Total minimum lease payments	626.2	140.9
Less: present value adjustment	(130.1)	(41.5)
Total lease liabilities	\$ 496.1	\$ 99.4

#### Charge-Backs for Various Contracts

We have recorded a liability of \$175.6 million as of December 31, 2023 for our estimated contractual obligations related to potential charge-backs for vehicle service contracts and other various insurance contracts that are terminated early by the customer. We estimate that the charge-backs will be paid out as follows:

Year Ending December 31,	(\$ in millions)
2024	\$ 101.6
2025	45.6
2026	20.1
2027	6.7
2028	1.5
Thereafter	0.1
Total	\$ 175.6

#### Contract Liabilities

We retain the obligation for lifetime lube, oil and filter service contracts and at home valet contracts sold to our customers and assumed the liability of certain existing lifetime lube, oil and filter contracts. These amounts are recorded as a contract liability. At the time of sale, we defer the full sale price and recognize the revenue based on the rate we expect future costs to be incurred. As of December 31, 2023, we had a contract liability balance of \$308.9 million associated with these contracts and estimate the contract liability will be recognized as follows:

Year Ending December 31,	(\$ in millions)
2024	\$ 64.0
2025	51.4
2026	40.7
2027	32.2
2028	25.9
Thereafter	94.7
Total	\$ 308.9

The contract liability balance is recorded as components of deferred revenue and accrued liabilities in our Consolidated Balance Sheets.

### Self-insurance Programs

We self-insure a portion of our property and casualty insurance, vehicle open lot coverage, medical insurance and workers' compensation insurance. Third parties are engaged to assist in estimating the loss exposure related to the self-retained portion of the risk associated with these insurances. Additionally, we analyze our historical loss and claims experience to estimate the loss exposure associated with these programs. As of December 31, 2023 and 2022, we had liabilities associated with these programs of \$77.1 million and \$67.4 million, respectively, recorded as a component of accrued liabilities and other long-term liabilities in our Consolidated Balance Sheets.

### Litigation

We are party to numerous legal proceedings arising in the normal course of our business. Although we do not anticipate that the resolution of legal proceedings arising in the normal course of business will have a material adverse effect on our business, results of operations, financial condition, or cash flows, we cannot predict this with certainty.

## NOTE 9. CREDIT FACILITIES AND LONG-TERM DEBT

Below is a summary of our outstanding balances on credit facilities and long-term debt:

(\$ in millions)	Maturity Dates	December 31,	
		2023	2022
Long-term debt:			
Used and service loaner vehicle inventory financing commitments	Various dates through Apr 2026	\$ 902.8	\$ 877.2
Revolving lines of credit	Various dates through Apr 2026	1,620.7	927.6
Warehouse facilities	Various dates through Jul 2026	587.0	930.0
Non-recourse notes payable	Various dates through Apr 2031	1,705.6	422.2
4.625% Senior notes due 2027	Dec 2027	400.0	400.0
4.375% Senior notes due 2031	Jan 2031	550.0	550.0
3.875% Senior notes due 2029	Jun 2029	800.0	800.0
Real estate mortgages, finance lease obligations, and other debt	Various dates through Dec 2050	730.7	653.1
Total long-term debt		7,296.8	5,560.1
Less: unamortized debt issuance costs		(31.8)	(29.1)
Less: current maturities (net of current debt issuance costs)		(109.6)	(20.5)
Long-term debt, net		\$ 7,155.4	\$ 5,510.5

### Credit Facilities

#### US Bank Syndicated Credit Facility

On February 9, 2023, we amended our existing syndicated credit facility (USB credit facility), comprised of 21 financial institutions, including eight manufacturer-affiliated finance companies, maturing April 29, 2026.

This USB credit facility provides for a total financing commitment of \$4.6 billion, which may be further expanded, subject to lender approval and the satisfaction of other conditions, up to a total of \$5.5 billion. The allocation of the financing commitment is for up to \$800 million in used vehicle inventory floorplan financing, up to \$1.7 billion in revolving financing for general corporate purposes, including acquisitions and working capital, up to \$2.1 billion in new vehicle inventory floorplan financing, and up to \$50 million in service loaner vehicle floorplan financing. We have the option to reallocate the commitments under this USB credit facility, provided that the aggregate revolving loan commitment may not be more than 40% of the amount of the aggregate commitment, and the aggregate service loaner vehicle floorplan commitment may not be more than the 3% of the amount of the aggregate commitment. All borrowings from, and repayments to, our lending group are presented in the Consolidated Statements of Cash Flows as financing activities.

Our obligations under our USB credit facility are secured by a substantial amount of our assets, including our inventory (including new and used vehicles, parts and accessories), equipment, accounts receivable (and other rights to payment) and our equity interests in certain of our subsidiaries. Under our USB credit facility, our obligations relating to new vehicle floor plan loans are secured only by collateral owned by borrowers of new vehicle floor plan loans under the USB credit facility.

The interest rate on the USB credit facility varies based on the type of debt, with the rate of one-day SOFR plus a credit spread adjustment of 0.10% plus a margin of 1.10% for new vehicle floor plan financing, 1.40% for used vehicle floor plan financing, 1.20% for service loaner floor plan financing, and a variable interest rate on the revolving financing ranging from 1.00% to 2.00% depending on our leverage ratio. The annual interest rates associated with our floor plan commitments are as follows:

Commitment	Annual Interest Rate at December 31, 2023
New vehicle floor plan	6.58%
Used vehicle floor plan	6.88%
Service loaner floor plan	6.68%
Revolving line of credit	6.48%

Under the terms of our USB credit facility, we are subject to financial covenants and restrictive covenants that limit or restrict our incurring additional indebtedness, making investments, selling or acquiring assets and granting security interests in our assets.

#### Bank of Nova Scotia Syndicated Credit Facility

On June 3, 2022, we entered into a syndicated credit agreement with The Bank of Nova Scotia as agent (BNS credit facility), comprised of six financing institutions, including two manufacturer-affiliated finance companies.

The BNS credit facility provides for a total financing commitment of approximately \$1.1 billion CAD, including a working capital revolving credit facility of up to \$100 million CAD, a wholesale flooring facility for new vehicles up to \$500 million CAD, used vehicle flooring facility of up to \$100 million CAD, wholesale leasing facility of up to \$400 million CAD, and daily rental vehicle facility up to \$25 million CAD.

Commitment	Annual Interest Rate at December 31, 2023
Wholesale flooring facility	6.46%
Used vehicle flooring facility	6.71%
Daily rental facility	6.66%
Wholesale leasing facility	6.76%
Working capital revolving facility	6.71%

All Canadian facilities other than the wholesale flooring facility, which is a demand facility, mature on June 3, 2025. The credit agreement includes various financial and other covenants typical of such agreements.

#### Wells Fargo Syndicated Real Estate Facility

On February 9, 2023, we amended our existing syndicated real estate backed facility with Wells Fargo Bank, National Association, as agent (WFB credit facility), which includes eight financial institutions, including two manufacturer affiliated finance companies, maturing July 14, 2025.

The WFB credit facility currently provides a total financing commitment of up to \$196.0 million in working capital financing for general corporate purposes, including acquisitions and working capital, collateralized by real estate and certain other assets owned by us. The interest rate on the WFB credit facility uses Daily Simple SOFR plus a credit spread adjustment of 0.10% plus a margin ranging from 1.10%-2.50% based on our leverage ratio.

The WFB credit facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties by us. Financial covenants include requirements to maintain minimum fixed charge coverage ratio and a maximum leverage ratio, consistent with those under our existing syndicated credit facility with U.S. Bank National Association as administrative agent. As of December 31, 2023, we had \$195.8 million drawn on the WFB credit facility.

### Ally Real Estate Facility

On December 28, 2022, we amended our existing real estate backed facility with Ally Bank (Ally Capital in Hawaii, Mississippi, Montana and New Jersey), as lender. The credit agreement matures on September 12, 2025 and provides for a revolving line of credit facility (Ally credit facility) of up to \$300 million and is secured by real estate owned by us. The Ally credit facility will bear interest at a rate per annum equal to the greater of 3.00% or the prime rate designated by Ally Bank, minus 40 basis points. The Ally credit facility includes financial and restrictive covenants typical of such agreements, lending conditions, and representations and warranties. Financial covenants, including the requirements to maintain minimum fixed charge coverage ratio and a maximum leverage ratio, consistent with those under our existing syndicated credit facility with US Bank National Association as administrative agent. The covenants restrict us from disposing of assets and granting additional security interests. As of December 31, 2023, we had \$100.0 million drawn on the Ally credit facility.

### JPM Warehouse facility

On July 20, 2023, we amended our securitization facility for our auto loan portfolio (JPM warehouse facility) with JPMorgan Chase Bank, as administrative agent and account bank, providing initial commitments for borrowings of up to \$1.0 billion. The JPM warehouse facility matures on July 18, 2025. The interest rate on the JPM warehouse facility varies based on the Daily Simple SOFR rate plus 1.15% to 1.95%. As of December 31, 2023, we had \$395.0 million drawn on the JPM warehouse facility.

### Mizuho Warehouse facility

On July 20, 2023, we amended our securitization facility for our auto loan portfolio (Mizuho warehouse facility), with Mizuho Bank Ltd. as administrative agent and account bank, providing initial commitments for borrowings of up to \$750 million and matures on July 20, 2026. The interest rate on the Mizuho warehouse facility varies based on the Daily Simple SOFR rate plus 1.20%. As of December 31, 2023, we had \$192 million drawn on the Mizuho warehouse facility.

### Non-Recourse Notes Payable

DFC auto loans receivable are temporarily funded through our warehouse facilities until they can be funded through non-recourse asset-backed term transactions. These non-recourse funding vehicles are structured to legally isolate the auto loans receivable, and we would not expect to be able to access the assets of our non-recourse funding vehicles, even in insolvency, receivership or conservatorship proceedings. Similarly, the investors in the non-recourse notes payable have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loans receivable. We do, however, continue to have the rights associated with the interest we retain in these non-recourse funding vehicles.

In 2023, we issued \$1.9 billion in non-recourse notes payable related to quarterly asset-backed term funding transactions. Below is a summary of outstanding non-recourse notes payable issued:

(\$ in millions)	Balance as of December 31, 2023	Initial Principal Amount	Issuance Date	Interest Rate Range	Final Distribution Date
LAD Auto Receivables Trust 2021-1 Class A-D	\$ 97.4	\$ 344.4	11/24/21	1.30% to 3.99%	Various dates through Nov 2029
LAD Auto Receivables Trust 2022-1 Class A-C	150.6	298.1	08/17/22	5.21% to 6.85%	Various dates through Apr 2030
LAD Auto Receivables Trust 2023-1 Class A-D	315.0	479.7	02/14/23	5.48% to 7.30%	Various dates through Jun 2030
LAD Auto Receivables Trust 2023-2 Class A-D	402.1	556.7	05/24/23	5.42% to 6.30%	Various dates through Feb 2031
LAD Auto Receivables Trust 2023-3 Class A-D	349.4	415.4	08/23/23	5.95% to 6.92%	Various dates through Dec 2030
LAD Auto Receivables Trust 2023-4 Class A-D	391.1	421.2	11/15/23	5.71% to 7.37%	Various dates through Apr 2031
Total non-recourse notes payable	\$ 1,705.6	\$ 2,515.5			

### Senior Notes

Below is a summary of outstanding senior notes issued:

(\$ in millions)	Principal Amount	Earliest Redemption Date	% Currently Redeemable	Current Redemption Price	Maturity Date	Interest Payment Dates
4.625% Senior notes due 2027	\$400.0	12/15/22	100%	102.313%	12/15/27	Jun 15, Dec 15
3.875% Senior notes due 2029	800.0	06/01/24	40%	103.875%	06/01/29	Jun 1, Dec 1
4.375% Senior notes due 2031	550.0	10/15/25	40%	104.375%	01/15/31	Jan 15, Jul 15
Total senior notes	\$1,750.0					

**Real Estate Mortgages, Finance Lease Obligations, and Other Debt**

We have mortgages associated with our owned real estate. Interest rates related to this debt ranged from 3.0% to 8.5% at December 31, 2023. The mortgages are payable in various installments through July 1, 2038. As of December 31, 2023, we had fixed interest rates on 79.6% of our outstanding mortgage debt.

We have finance lease obligations with some of our leased real estate. Interest rates related to this debt ranged from 2.5% to 8.5% at December 31, 2023. The leases have terms extending through August 2037.

Our other debt includes sellers' notes and debt associated with our Canadian Financing Operations. The interest rates associated with our other debt ranged from 2.3% to 10.0% at December 31, 2023. This debt, which totaled \$7.0 million at December 31, 2023, is due in various installments through February 28, 2029.

**Future Principal Payments**

The schedule of future principal payments associated with real estate mortgages, finance lease liabilities, our senior notes and other debt as of December 31, 2023 was as follows:

Year Ending December 31,	(\$ in millions)	
2024	\$	82.3
2025		75.4
2026		51.0
2027		476.2
2028		109.6
Thereafter		1,686.3
Total principal payments	\$	2,480.8

This table does not include future payments related to revolving lines of credit or non-recourse notes payable.

**NOTE 10. RETIREMENT PLANS AND POSTRETIREMENT BENEFITS****Company-Sponsored Defined Contribution 401(k) Plan**

We have a defined contribution 401(k) plan and trust covering substantially all full-time employees. Contributions of \$44.0 million, \$29.9 million, and \$18.8 million were recognized for the years ended December 31, 2023, 2022 and 2021, respectively. Employees may contribute to the plan if they meet certain eligibility requirements.

**Executive Management Non-Qualified Deferred Compensation and Supplemental Executive Retirement Plan**

We offer a non-qualified deferred compensation and supplemental executive retirement plan (the "SERP") to provide certain employees the ability to accumulate assets for retirement on a tax deferred basis. We may, depending on position, also make discretionary contributions to the SERP. These discretionary contributions could vest immediately or over a period of up to five years based on the employee's age. Additionally, a participant may defer a portion of his or her compensation and receive the deferred amount upon certain events, including termination or retirement.

The following is a summary related to our SERP:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Compensation expense	\$ 1.3	\$ 1.1	\$ 1.4
Total discretionary contribution	\$ 1.7	\$ 1.0	\$ 0.9
Guaranteed annual return	5.00 %	5.00 %	5.00 %

As of December 31, 2023 and 2022, the balance due to participants was \$72.5 million and \$63.0 million, respectively, and was included as a component of other long-term liabilities in the Consolidated Balance Sheets.

**Company-Sponsored Defined Benefit Pension Plan**

In March 2023, we acquired UK-based Jardine Motors Group UK Limited, which included the assumption of a company-sponsored defined benefit pension plan applicable to a portion of the salaried present and past employees. The pension plan was closed to future accrual in December 2009.

The following table shows the changes in the benefit obligation, plan assets, and funded status for 2023 for the pension benefit plan.

(\$ in millions)	2023
<b>Change in projected benefit obligation:</b>	
Benefit obligation at beginning of year	\$ —
Interest cost	6.2
Benefit payments	(6.6)
Net transfer in (including the effect of any business combinations/divestitures)	172.8
Actuarial gain	(3.3)
Exchange rate changes	0.9
Benefit obligation at end of year	\$ 170.0
<b>Change in plan assets:</b>	
Fair value of plan assets at beginning of year	\$ —
Actual return on plan assets	(2.2)
Employer contributions	35.6
Benefit payments	(6.6)
Net transfer in (including effect of any business combinations/divestitures)	157.5
Exchange rate changes	1.0
Fair value of plan assets at end of year	185.3
Funded status at end of year	\$ 15.3
<b>Amounts recognized in Consolidated Balance Sheets:</b>	
Other non-current assets	\$ 15.3
Net amount recognized	\$ 15.3
<b>Amounts recognized in accumulated other comprehensive income (loss) (pre-tax):</b>	
Net actuarial loss	\$ (7.6)

The benefit obligation for our pension benefit is the projected benefit obligation based upon credited service as of the measurement date.

The December 31, 2023 pension funded status was favorably affected by employer contributions during the period together with an increase in the discount rate, partially offset by lower than expected asset returns.

#### Net Periodic (Benefit) Cost

Interest cost represents the increase in the projected benefit obligation, which is a discounted amount, due to the passage of time. The expected return on plan assets reflects the computed amount of current-year earnings from the investment of plan assets using an estimated long-term rate of return.

(\$ in millions)	Year Ended December 31, 2023
Interest cost	\$ 6.2
Expected return on plan assets	(8.8)
Net periodic (benefit) cost	\$ (2.6)

The components of net periodic pension (benefits) costs are included in other income (expense) in the Consolidated Statements of Operations.

## Actuarial Assumptions

The weighted-average assumptions used to determine the benefit obligation and net periodic pension cost of our pension plan were as follows:

	Year Ended December 31, 2023
Actuarial assumption used to determine benefit obligation:	
Discount rate	4.78 %
Actuarial assumption used to determine net periodic pension cost:	
Discount rate	4.86 %
Expected return on plan assets	6.79 %

The discount rate used in the determination of pension benefit obligation and pension expense was determined based on a review of long-term high-grade bonds of appropriate duration.

The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories, as measured by appropriate indices and forward looking expectations of returns. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at our determination of a composite expected return. The expected rate of return on assets has been set in line with the Trustee's target return.

## Plan Assets

There have been no changes in the methodologies used since the assumption of the pension plan in 2023. The following tables set forth by level, within the fair value hierarchy, the investments at fair value for our company-sponsored pension benefit plan:

(\$ in millions)	As of December 31			
	2023			
	Level 1	Level 2	Level 3	Total
Diversified Growth Funds	\$ —	\$ 32.4	\$ —	\$ 32.4
Liability Driven Instrument	—	113.7	—	113.7
Cash	39.2	—	—	39.2
Total investments at fair value	\$ 39.2	\$ 146.1	\$ —	\$ 185.3

We have formal investment policy guidelines for our company-sponsored pension plan. These guidelines were set by our pension plan Trustee. The Trustee has appointed an investment manager (Fiduciary Manager) to manage the pension plan's assets on a discretionary basis and to provide investment advisory services to the Trustee. The balance within and between these investments will be determined from time-to-time at the discretion of the Fiduciary Manager, with the objective of maximizing the probability of achieving the pension plan's investment strategy set by the Trustee, subject to maintaining risk within a limit agreed by the Trustee. The Trustee's duties include periodically reviewing and modifying those investment policy guidelines as necessary and ensuring that the policy is adhered to and the investment objectives are met.

The Trustee's investment objectives include the acquisition of suitable assets of appropriate liquidity which will generate an overall level of return that is sufficient to meet all liabilities as and when they fall due, and to ensure the security, quality, and profitability of the portfolio as a whole; to limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis; and to minimize the long-term costs of the pension plan by maximizing the return on the assets while having regard to the investment objectives.

The investment strategy makes use of three key types of investments:

- a range of low-risk instruments that provide a broad match to changes in liability values (including high-quality corporate bonds);
- a portfolio of secure income assets; and
- a diversified portfolio of return-seeking assets (including equities, listed real assets, diversifying strategies, hedge funds, private markets, alternative credit and downside protection).

The pension plan will hold assets in cash and other money market instruments from time to time as may be deemed appropriate. The long-term asset allocation targets adopted by the Fiduciary Manager is set out below.



Liability matching	38 %
Secure income	8 %
Diversified return seeking	54 %

Periodically, the Trustee reviews the target allocations to determine what adjustments should be made based on changing economic and market conditions and specific liquidity requirements.

We currently do not anticipate making any cash contributions to the plan in 2024.

Estimated future benefit payments are as follows for the years indicated:

(\$ in millions)	Pension Benefit Plans	
2024	\$	8.8
2025		9.2
2026		9.9
2027		10.0
2028		10.1
2029 - 2033		50.6

## NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

We account for derivative financial instruments by recording the fair value as either an asset or liability in our Consolidated Balance Sheets and recognize the resulting gains or losses as adjustments to accumulated other comprehensive income (loss). We do not hold or issue derivative financial instruments for trading or speculative purposes.

We have entered into four offsetting derivative arrangements that do not qualify for hedge accounting. These are related to a securitization facility, effective October 2, 2020 and June 15, 2021. We purchased and sold offsetting interest rate caps, all of which are 5-years long with notional amounts totaling \$298 million. As of December 31, 2023, the balance in all four agreements was an offsetting \$12.3 million and was located in other current assets and accrued liabilities, respectively.

See Note 14 – Fair Value Measurements for information on the fair value of the derivative contracts.

## NOTE 12. EQUITY

### Common Stock

The shares of common stock are not convertible into any other series or class of our securities. Holders of common stock are entitled to one vote for each share held of record.

### Repurchases of Common Stock

Repurchases of our common stock occurred under repurchase authorizations granted by our Board of Directors and related to shares withheld as part of the vesting of restricted stock units (RSUs).

Share repurchases under our authorization were as follows:

	Repurchases Occurring in 2023		Cumulative Repurchases as of December 31, 2023	
	Shares	Average Price	Shares	Average Price
Share repurchase authorization	142,729	\$ 240.81	7,047,510	\$ 174.96

As of December 31, 2023, we had \$467.0 million available for repurchases pursuant to our share repurchase authorization.

In addition, during 2023, we repurchased 70,692 shares at an average price of \$204.96 per share, for a total of \$14.5 million, related to tax withholdings associated with the vesting of RSUs. The repurchase of shares related to

tax withholdings associated with share-based awards does not reduce the number of shares available for repurchase as approved by our Board of Directors.

The following is a summary of our repurchases in the years ended December 31, 2023, 2022 and 2021:

	Year Ended December 31,		
	2023	2022	2021
Shares repurchased pursuant to repurchase authorizations	142,729	2,428,850	756,883
Total purchase price (\$ in millions)	\$ 34.4	\$ 671.4	\$ 214.8
Average purchase price per share	\$ 240.81	\$ 276.42	\$ 283.75
Shares repurchased in association with tax withholdings on the vesting of RSUs	70,692	56,911	54,318

#### Dividends

We declared and paid dividends on our common stock as follows:

Quarter declared	Dividend amount per share	Total amount of dividends paid (\$ in millions)
<b>2021</b>		
First quarter	\$ 0.31	\$ 8.2
Second quarter	0.35	9.3
Third quarter	0.35	10.6
Fourth quarter	0.35	10.6
<b>2022</b>		
First quarter	\$ 0.35	\$ 10.3
Second quarter	0.42	11.9
Third quarter	0.42	11.6
Fourth quarter	0.42	11.4
<b>2023</b>		
First quarter	\$ 0.42	\$ 11.5
Second quarter	0.50	13.8
Third quarter	0.50	13.8
Fourth quarter	0.50	13.7

## NOTE 13. SHARE-BASED COMPENSATION PLANS

#### 2009 Employee Stock Purchase Plan

The 2009 Employee Stock Purchase Plan (2009 ESPP) allows for the issuance of 3.0 million shares of our common stock. The 2009 ESPP is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended, and is administered by the Compensation Committee of the Board of Directors. As of December 31, 2023, 1.0 million shares were available for purchase pursuant to the 2009 ESPP.

Eligible employees are entitled to defer up to 10% of their base pay for the purchase of stock, up to \$25,000 of fair market value of our common stock annually. The purchase price is equal to 85% of the fair market value at the end of the purchase period. Compensation expense related to our 2009 ESPP is calculated based on the 15% discount from the per share market price on the date of grant.

For the year ended December 31, 2023, 124,154 shares were purchased pursuant to the 2009 ESPP at a weighted average price per share of \$235.64, with weighted average per share discount from market value of \$41.58.

Following is information regarding our 2009 ESPP:

	Year Ended December 31,		
	2023	2022	2021
Cash received related to ESPP purchases (\$ in millions)	\$ 29.3	\$ 34.4	\$ 29.6
Tax deductions associated with ESPP disqualifying dispositions (\$ in millions)	\$ 3.9	\$ 3.1	\$ 1.9
Weighted average per share discount for compensation expense recognized	\$ 41.58	\$ 38.57	\$ 50.58

### 2013 Stock Incentive Plan

Our 2013 Stock Incentive Plan, as amended, (2013 Plan) allows for the grant of a total of 3.8 million shares in the form of stock appreciation rights, qualified stock options, non-qualified stock options, restricted share awards and restricted stock unit awards (RSUs) to our officers, key employees, directors and consultants. The 2013 Plan is administered by the Compensation Committee of the Board of Directors and permits accelerated vesting of outstanding awards upon the occurrence of certain changes in control. As of December 31, 2023, 718,731 shares of common stock were available for future grants. As of December 31, 2023, there were no stock appreciation rights, qualified stock options, non-qualified stock options or restricted share awards outstanding.

### Restricted Stock Unit Awards

RSU grants vest over a period of time up to four years from the date of grant. RSU activity was as follows:

	RSUs	Weighted average per share grant date fair value
<b>Balance, December 31, 2022</b>	415,878	\$ 159.85
Granted	327,955	302.35
Vested	(182,056)	174.61
Forfeited	(32,101)	214.41
<b>Balance, December 31, 2023</b>	<u>529,676</u>	<u>287.04</u>

We granted 48,872 time-vesting RSUs to members of our Board of Directors and employees in 2023. Each grant entitles the holder to receive shares of our common stock upon vesting. A portion of the RSUs vest over three years for employees and vest quarterly for our Board of Directors, over their service period.

We granted 279,083 performance and time-vesting RSUs to our employees in 2023. These shares will be earned either over one or three-year performance periods based on attaining various target levels of operational performance, as well as market-based returns. These RSUs will vest over three or four years from the grant date.

Time-vesting RSUs and performance and time-vesting RSUs that are based on our financial performance metrics or non-financial operating goals are valued using the market value of our common stock on the date of grant, discounted for the present value of expected dividends. On the date of grant, we estimated the fair value of the total shareholder return (TSR) component of the performance and time-vesting RSUs using a Monte Carlo simulation model. The performance and time-vesting RSUs granted during the years presented are contingent on the achievement of our financial performance metrics, our comparative market-based returns, or the achievement of financial and non-financial operating goals.

The assumptions for the valuation of time-vesting RSUs and performance and time-vesting RSUs granted are summarized as follows:

	Year Ended December 31,		
	2023	2022	2021
<b>Time-vesting RSUs</b>			
Number of shares granted	48,872	18,080	33,665
Grant date fair value per share	\$ 268.60	\$ 283.86	\$ 312.83
Weighted-average assumptions/inputs:			
Expected dividend yield	0.6 %	0.5 %	0.4 %
Range of risk-free interest rates	3.6% - 4.7%	1.2% - 4.5%	0.3% - 1.0%
<b>Performance and Time-vesting RSUs</b>			
Number of shares granted	279,083	120,340	94,001
Grant date fair value per share	\$ 313.84	\$ 296.28	\$ 308.59
Weighted-average assumptions/inputs:			
Expected dividend yield	0.6 %	0.5 %	0.4 %
Range of risk-free interest rates	3.6% - 4.5%	0.4% - 3.2%	0.3% - 0.7%

Certain information regarding RSU grant vesting was as follows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Number of shares vested	182,056	147,441	141,857
Weighted average per share fair value of non-vested shares that vested during the period	\$ 174.61	\$ 110.77	\$ 107.50
Tax deduction realized related to shares that vested during the period (\$ in millions)	\$ 25.8	\$ 20.3	\$ 26.3

#### Share-Based Compensation Expense

Share-based compensation is recognized as a component of SG&A in our Consolidated Statements of Operations. SG&A expense related to all share-based compensation is as follows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Restricted stock unit awards	\$ 35.6	\$ 35.0	\$ 29.5
Employee stock purchase plan	5.2	6.1	5.2
Total share-based compensation	40.8	41.1	34.7
Tax expense recognized	(7.6)	(6.4)	(8.1)
Net reduction in net income	\$ 33.2	\$ 34.7	\$ 26.6

As of December 31, 2023, unrecognized share-based compensation related to outstanding, but unvested RSUs was \$56.5 million, which will be recognized over the remaining weighted average vesting period of 2.7 years.

## NOTE 14. FAIR VALUE MEASUREMENTS

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

- Level 1 - quoted prices in active markets for identical securities;
- Level 2 - other significant observable inputs, including quoted prices for similar securities, interest rates, prepayment spreads, credit risk; and
- Level 3 - significant unobservable inputs, including our own assumptions in determining fair value.

We determined the carrying value of accounts receivable, trade payables, accrued liabilities, finance receivables, and short-term borrowings approximate their fair values because of the nature of their terms and current market rates of these instruments. We believe the carrying value of our variable rate debt approximates fair value.

As of December 31, 2023, we had sold our remaining shares of Shift Technologies, Inc. (Shift). For the year ended December 31, 2023, we recognized a \$1.7 million loss related to Shift as a component of other income (expense), net in our Consolidated Statement of Operations, compared to a \$39.2 million loss for the year ended December 31, 2022.

We have fixed rate debt primarily consisting of amounts outstanding under our senior notes, non-recourse notes payable, and real estate mortgages. We calculated the estimated fair value of the senior notes using quoted prices for the identical liability (Level 1). The fair value of non-recourse notes payable are measured using observable Level 2 market expectations at each measurement date. The calculated estimated fair values of the fixed rate real estate mortgages and finance lease liabilities use a discounted cash flow methodology with estimated current interest rates based on a similar risk profile and duration (Level 2). The fixed cash flows are discounted and summed to compute the fair value of the debt.

We have derivative instruments consisting of an offsetting set of interest rate caps. The fair value of derivative assets and liabilities are measured using observable Level 2 market expectations at each measurement date and is recorded as other current assets, current liabilities and other long-term liabilities in the Consolidated Balance Sheets. See Note 11 – Derivative Financial Instruments for more details regarding our derivative contracts.

Nonfinancial assets such as goodwill, franchise value, or other long-lived assets are measured and recorded at fair value during a business combination or when there is an indicator of impairment. We evaluate our goodwill and franchise value using a qualitative assessment process. If the qualitative factors determine that it is more likely than

not that the carrying value exceeds the fair value, we would further evaluate for potential impairment using a quantitative assessment. The quantitative assessment estimates fair values using unobservable (Level 3) inputs by discounting expected future cash flows of the store. The forecasted cash flows contain inherent uncertainties, including significant estimates and assumptions related to growth rates, margins, working capital requirements, and cost of capital, for which we utilize certain market participant-based assumptions we believe to be reasonable. We estimate the value of other long-lived assets that are recorded at fair value on a non-recurring basis on a market valuation approach. We use prices and other relevant information generated primarily by recent market transactions involving similar or comparable assets, as well as our historical experience in divestitures, acquisitions and real estate transactions. Additionally, we may use a cost valuation approach to value long-lived assets when a market valuation approach is unavailable. Under this approach, we determine the cost to replace the service capacity of an asset, adjusted for physical and economic obsolescence. When available, we use valuation inputs from independent valuation experts, such as real estate appraisers and brokers, to corroborate our estimates of fair value. Real estate appraisers' and brokers' valuations are typically developed using one or more valuation techniques including market, income and replacement cost approaches. Because these valuations contain unobservable inputs, we classified the measurement of fair value of long-lived assets as Level 3.

There were no changes to our valuation techniques during the year ended December 31, 2023.

Below are our assets and liabilities that are measured at fair value on a recurring basis:

(\$ in millions)	As of December 31							
	2023				2022			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
<b>Investments</b>								
Shift Technologies, Inc.	\$ —	\$ —	\$ —	\$ —	\$ 1.8	\$ 1.8	\$ —	\$ —
<b>Derivatives</b>								
Derivative assets	12.3	—	12.3	—	22.1	—	22.1	—
Derivative liabilities	12.3	—	12.3	—	22.1	—	22.1	—
<b>Fixed rate debt <sup>(1)</sup></b>								
4.625% Senior notes due 2027	400.0	380.0	—	—	400.0	364.0	—	—
4.375% Senior notes due 2031	550.0	492.3	—	—	550.0	448.3	—	—
3.875% Senior notes due 2029	800.0	716.0	—	—	800.0	656.0	—	—
Non-recourse notes payable	1,705.6	—	1,705.1	—	422.2	—	411.8	—
Real estate mortgages and other debt	603.5	—	644.5	—	489.0	—	399.0	—

<sup>(1)</sup> Excluding unamortized debt issuance cost

No impairment charges were recorded in 2023 or 2022. During the third quarter of 2021, we recognized asset impairments of \$1.9 million related to the franchise value associated with certain dealership locations indicating carrying values less than fair values. These locations were subsequently sold in the fourth quarter of 2021.

## NOTE 15. INCOME TAXES

### *Income Tax Provision*

The income tax provision was as follows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
<b>Current:</b>			
Federal	\$ 207.5	\$ 269.2	\$ 266.2
State	71.7	105.5	111.6
Foreign	7.4	(0.9)	1.2
	286.6	373.8	379.0
<b>Deferred:</b>			
Federal	43.7	73.4	38.2
State	8.1	13.5	3.8
Foreign	12.2	7.7	1.1
	64.0	94.6	43.1
<b>Total</b>	<b>\$ 350.6</b>	<b>\$ 468.4</b>	<b>\$ 422.1</b>

At December 31, 2023, we had income taxes payable of \$28.9 million included as a component of accrued liabilities in our Consolidated Balance Sheets. At December 31, 2022, we had prepaid income taxes of \$33.6 million included as a component of other current assets in our Consolidated Balance Sheets.

The reconciliation between amounts computed using the federal income tax rate of 21% and our income tax provision is shown in the following tabulation:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Federal tax provision at statutory rate	\$ 286.0	\$ 363.3	\$ 311.7
State taxes, net of federal income tax benefit	39.5	76.9	85.4
Non-deductible items	10.8	5.0	4.8
Permanent differences related to share-based compensation	—	(2.4)	(2.6)
Net change in valuation allowance	19.9	25.0	25.3
General business credits	(5.3)	(2.6)	(2.3)
Foreign rate differential	3.1	1.4	0.5
Other	(3.4)	1.8	(0.7)
<b>Income tax provision</b>	<b>\$ 350.6</b>	<b>\$ 468.4</b>	<b>\$ 422.1</b>

**Deferred Taxes**

Individually significant components of the deferred tax assets and (liabilities) are presented below.

(\$ in millions)	December 31,	
	2023	2022
<b>Deferred tax assets:</b>		
Deferred revenue and cancellation reserves	\$ 105.2	\$ 126.6
Allowances and accruals	80.1	71.3
Lease liability	125.7	103.2
Credits and other	14.7	5.1
Net operating losses	41.6	27.9
Capital loss	33.7	—
Valuation allowance	(71.3)	(51.4)
<b>Total deferred tax assets</b>	<b>329.7</b>	<b>282.7</b>
<b>Deferred tax liabilities:</b>		
Inventories	(50.3)	(39.2)
Goodwill	(213.7)	(157.7)
Property and equipment, principally due to differences in depreciation	(244.1)	(233.0)
Right of use asset	(121.3)	(99.0)
Prepaid expenses and other	(49.6)	(40.1)
<b>Total deferred tax liabilities</b>	<b>(679.0)</b>	<b>(569.0)</b>
<b>Total</b>	<b>\$ (349.3)</b>	<b>\$ (286.3)</b>

We consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment.

As of December 31, 2023, we had a \$71.3 million valuation allowance recorded associated with our deferred tax assets. Of the total valuation allowance, \$29.7 million relates to our capital loss resulting from the sale of shares in Shift Technologies Inc. (Shift) and \$41.6 million relates to state net operating losses generated in current and previous years. During the year, the capital loss valuation allowance decreased \$4.3 million as a result of available capital gain during the carryback period and a reduction in the state deferred tax rate offset by further reduction in the Shift investment valuation in the current year. A valuation allowance remains for the capital loss benefit of which is not currently expected to be realized. The state NOL valuation allowance increased \$24.2 million in the current year as a result of losses incurred, the benefits of which are not expected to be realized.

As of December 31, 2023, we had state net operating loss (NOL) carryforward amounts totaling approximately \$41.6 million, tax effected, with expiration dates through 2043. We believe that it is more likely than not that the benefit from certain state NOL carryforward amounts will not be realized. In recognition of this risk, we have recorded a valuation allowance of \$41.6 million on the deferred tax assets relating to these state NOL carryforwards as discussed above.

As of December 31, 2023, we have a capital loss deferred tax asset of approximately \$33.7 million, tax effected. There are \$4.0 million, tax effected, of capital gains that can be offset by the capital loss during the carryback period. The remaining \$29.7 million capital loss carryforward, if unused, will expire in 2028. We believe that it is more likely than not that remaining benefit from the capital loss carryforward will not be realized. In recognition of this risk, we have recorded a valuation allowance of \$29.7 million on the deferred tax assets relating capital loss carryforward.

We have taken the position that we intend to indefinitely reinvest the earnings of our Canadian subsidiaries to ensure there is sufficient working capital to expand operations in Canada. Accordingly, we have not recorded a deferred tax liability related to foreign withholding taxes on approximately \$71.1 million of undistributed earnings of these Canadian subsidiaries as of December 31, 2023. Approximately \$3.6 million of tax would be payable upon the remittance of these undistributed earnings. We do not intend to indefinitely reinvest the earnings of our U.K. subsidiaries, however, we have not recorded a deferred tax liability related to foreign withholding taxes due to a 0% treaty rate on dividends.

### Unrecognized Tax Benefits

The following is a reconciliation of our unrecognized tax benefits for December 31, 2023, 2022, and 2021:

(\$ in millions)

Balance, December 31, 2021	\$	0.3
Increase related to tax positions taken - current year		0.3
Balance, December 31, 2022		0.6
Increase related to tax positions taken - current year		0.3
Balance, December 31, 2023	\$	0.9

Open tax years at December 31, 2023 included the following:

Federal	2020 - 2023
States (30)	2019 - 2023
Canada	2021 - 2023
United Kingdom	2020 - 2023

## NOTE 16. ACQUISITIONS

In 2023, we completed the following acquisitions:

- In February 2023, Thomhill Acura in Canada.
- In March 2023, Jardine Motors Group UK Limited in the United Kingdom.
- In June 2023, Priority Auto Group in Virginia.
- In June 2023, Wade Ford in Georgia.
- In July 2023, Hill Country Honda in Texas.
- In August 2023, Arden Auto Group in the United Kingdom.

Revenue and operating income contributed by the 2023 acquisitions subsequent to the date of acquisition were as follows:

(\$ in millions)	Year Ended December 31, 2023	
Revenue	\$	2,621.5
Operating income		81.3

In 2022, we completed the following acquisitions:

- In January 2022, John L. Sullivan Chevrolet, John L. Sullivan Chrysler Dodge Jeep Ram, and Roseville Toyota in California.
- In March 2022, Sahara Chrysler Dodge Jeep Ram, Desert 215 Superstore, and Jeep Only in Nevada.
- In May 2022, Sisley Honda in Canada.
- In June 2022, Esserman International Volkswagen & Acura in Florida.
- In June 2022, Henderson Hyundai Superstore in Nevada.
- In June 2022, Lehman Auto Group in Florida.
- In July 2022, Elk Grove Ford in California.
- In September 2022, Wilde Honda, Wilde Subaru, Wilde Chrysler Dodge Jeep Ram, Wilde Toyota, and Wilde East Towne Honda in Wisconsin.
- In October 2022, Seattle Airstream Adventures and Spokane Airstream Adventures in Washington.
- In October 2022, Portland Airstream Adventures and Ultimate Airstream Adventures in Oregon.
- In October 2022, Bay Area Airstream Adventures and South Bay Airstream Adventures in California.
- In October 2022, Boise Airstream Adventures in Idaho.
- In November 2022, Meador Chrysler Dodge Jeep Ram in Texas.
- In December 2022, Denver Exotics in Colorado.
- In December 2022, Glenn's Freedom Chrysler Jeep Dodge Ram in Kentucky.

All acquisitions were accounted for as business combinations under the acquisition method of accounting. The results of operations of the acquired stores are included in our Consolidated Financial Statements from the date of acquisition.



The following tables summarize the consideration paid for the acquisitions and the preliminary amount of identified assets acquired and liabilities assumed as of the acquisition date:

(\$ in millions)	Year Ended December 31,	
	2023	2022
Cash paid, net of cash acquired	\$ 1,170.1	\$ 1,240.8
Contingent consideration	7.3	3.9
Non-controlling interest	21.1	—
Total consideration transferred	\$ 1,198.5	\$ 1,244.7

(\$ in millions)	Year Ended December 31,	
	2023	2022
Trade receivables, net	\$ 76.2	\$ 0.2
Inventories	572.7	228.3
Franchise value	193.4	63.7
Goodwill	233.2	30.1
Property and equipment	394.8	379.9
Operating lease right-of-use assets	89.6	—
Finance receivables, net	5.7	—
Other assets	280.4	639.1
Trade payables	(47.9)	—
Floor plan notes payable	(353.7)	(0.7)
Borrowings on lines of credit	(47.9)	—
Finance lease obligations	(45.0)	(78.5)
Deferred taxes, net	5.9	—
Other liabilities and deferred revenue	(158.9)	(17.4)
Total net assets acquired and liabilities assumed	\$ 1,198.5	\$ 1,244.7

The purchase price allocations for the 2023 acquisitions are preliminary as we have not obtained all of the detailed information to finalize the opening balance sheet related to real estate purchased, leases and contract liabilities assumed and the allocation of franchise value and goodwill to each reporting unit. Management has recorded the purchase price allocations based on the information that is currently available.

We expect all of the goodwill related to U.S. acquisitions completed in 2023 to be deductible for U.S. federal income tax purposes. Due to local country laws, we do not expect goodwill related to U.K. acquisitions completed in 2023 to be deductible for U.K. income tax purposes.

The purchase price allocations for the 2022 acquisitions were finalized in 2023, including amounts posted to, real estate, franchise value, and goodwill, reducing the amounts posted to "Other assets" shown in the table above.

We account for franchise value as an indefinite-lived intangible asset. We recognized \$27.2 million and \$15.0 million, respectively, in acquisition related expenses as a component of selling, general and administrative expenses in the Consolidated Statements of Operations in 2023 and 2022, respectively.

The following unaudited pro forma summary presents consolidated information as if the acquisitions had occurred on January 1 of the year:

(\$ in millions, except for per share amounts)	Year Ended December 31,	
	2023	2022
Revenue	\$ 32,237.1	\$ 31,945.2
Net income	1,055.4	1,366.0
Basic net income per share	38.35	48.46
Diluted net income per share	38.27	48.23

These amounts have been calculated by applying our accounting policies and estimates. The results of the acquired stores have been adjusted to reflect the following: depreciation on a straight-line basis over the expected lives for property, plant and equipment; accounting for inventory on a specific identification method; and recognition of interest expense for real estate financing related to stores where we purchased the facility. No non-recurring pro forma adjustments directly attributable to the acquisitions are included in the reported pro forma revenues and earnings.

## NOTE 17. EARNINGS PER SHARE

We calculate basic earnings per share (EPS) by dividing net income attributable to Lithia Motors, Inc. by the weighted average number of common shares outstanding for the period, including vested RSU awards. Diluted EPS is calculated by dividing net income attributable to Lithia Motors, Inc. by the weighted average number of shares outstanding, adjusted for the dilutive effect of unvested RSU awards and employee stock purchases.

The following is a reconciliation of net income attributable to Lithia Motors, Inc. and weighted average shares used for our basic EPS and diluted EPS:

(\$ in millions, except for per share amounts)	Year Ended December 31,		
	2023	2022	2021
Net income attributable to Lithia Motors, Inc. and applicable to common stockholders	\$ 1,000.8	\$ 1,251.0	\$ 1,060.1
Weighted average common shares outstanding – basic	27.5	28.2	28.8
Effect of employee stock purchases and restricted stock units on weighted average common shares	0.1	0.1	0.2
Weighted average common shares outstanding – diluted	27.6	28.3	29.0
Basic earnings per share attributable to Lithia Motors, Inc.	\$ 36.36	\$ 44.38	\$ 36.81
Diluted earnings per share attributable to Lithia Motors, Inc.	\$ 36.29	\$ 44.17	\$ 36.54

The effects of antidilutive securities on common stock was evaluated for the years ended 2023, 2022, and 2021 and determined to be immaterial.

## NOTE 18. SEGMENTS

As of December 31, 2023, we had two reportable segments: Vehicle Operations and Financing Operations. Our Vehicle Operations consists of all aspects of our auto merchandising and service operations, including our retail automotive, recreational vehicles, and motorcycle franchises that sell new vehicles, used vehicles, parts, repair and maintenance services, and vehicle finance and insurance products. Vehicle Operations excludes financing provided by our Financing Operations. Our Financing Operations segment provides financing to customers buying and leasing retail vehicles from our Vehicle Operations.

All other remaining activity is reported under "Corporate and Other," including corporate personnel costs, certain unallocated reserves, internal charges, and other unallocated corporate overhead expenses. Internal charges consist of corporate expense allocations which increase segment income for "Corporate and Other" while decreasing segment income for the other operating segments. These internal corporate expense allocations are used to increase comparability of our dealerships and reflect the capital burden a stand-alone dealership would experience. Examples of these internal allocations include internal rent expense, internal floor plan financing charges, and internal fees charged to offset employees within our corporate headquarters that perform certain dealership functions.

The reportable segments identified above represent our business activities for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker (CODM) to allocate resources and assess performance. Our CODM is our Chief Executive Officer.

Asset information by segment is not utilized for purposes of assessing performance or allocating resources and, as a result, such information has not been presented.

Certain financial information on a segment basis is as follows:

(\$ in millions)	Year Ended December 31,		
	2023	2022	2021
Vehicle operations revenue	\$ 31,042.3	\$ 28,187.8	\$ 22,831.7
Vehicle operations gross profit	5,228.9	5,154.3	4,263.9
Floor plan interest expense	(150.9)	(38.8)	(22.3)
Vehicle operations selling, general and administrative	(3,482.6)	(3,260.0)	(2,568.0)
<b>Vehicle operations income</b>	<b>1,595.4</b>	<b>1,855.5</b>	<b>1,673.6</b>
Financing operations interest margin:			
Interest, fee, and lease income	268.5	134.1	45.9
Interest expense	(170.5)	(52.2)	(4.8)
Total interest margin	98.0	81.9	41.1
Selling, general and administrative	(36.7)	(32.0)	(18.2)
Total pre-provision income	61.3	49.9	22.9
Provision for loan and lease losses	(98.8)	(44.4)	(9.4)
Depreciation and amortization	(8.4)	(9.5)	(2.5)
<b>Financing operations (loss) income</b>	<b>(45.9)</b>	<b>(4.0)</b>	<b>11.0</b>
Total segment income for reportable segments	1,549.5	1,851.6	1,684.5
Corporate and other	187.8	213.9	80.4
Depreciation and amortization	(195.8)	(163.2)	(124.8)
Other interest expense	(201.2)	(129.1)	(103.4)
Other income (expense), net	22.0	(43.2)	(52.0)
Income before income taxes	\$ 1,362.3	\$ 1,730.0	\$ 1,484.8

## NOTE 19. SUBSEQUENT EVENTS

### Acquisition Activity

On January 31, 2024, we acquired Pendragon's UK motor division and vehicle management division, as well as a partial stake in the remaining London Stock Exchange listed independent software business, Pinewood Technologies. Preliminary purchase price is approximately £430 million for the assets acquired and liabilities assumed. The initial accounting for the business combination is incomplete and all amounts are considered preliminary. In addition, we also entered into a new joint venture to expand Pinewood's software into the North American market.

### ABS Transaction

In February, we issued \$329.4 million in non-recourse notes payable related to our first quarter asset-backed term funding transaction, with interest rates ranging from 5.17% to 6.15%, and final distribution dates through June 2031.

AMENDED AND RESTATED  
**LITHIA MOTORS, INC.**

2009 EMPLOYEE STOCK PURCHASE PLAN

Amended and Restated Effective as of October 25, 2023

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## TABLE OF CONTENTS

1.	PURPOSE .....	1
2.	DEFINITIONS.....	1
2.1	“Account” .....	1
2.2	“Benefits Representative” .....	1
2.3	“Board” .....	1
2.4	“Code” .....	1
2.5	“Committee” .....	1
2.6	“Common Stock” .....	1
2.7	“Company” .....	1
2.8	“Disability” .....	1
2.9	“Effective Date” .....	2
2.10	“Employee” .....	2
2.11	“Employer” .....	2
2.12	“Employment” .....	2
2.13	“Entry Date” .....	2
2.14	“Fiscal Quarter” .....	2
2.15	“Market Price” .....	2
2.16	“Participant” .....	3
2.17	“Plan” .....	3
2.18	“Stock” .....	3
2.19	“Subsidiary” .....	3
2.20	“Total Pay” .....	3
3.	ELIGIBILITY .....	3
3.1	Eligibility Requirements .....	3
3.2	Limitations on Eligibility .....	3
4.	SHARES SUBJECT TO THE PLAN.....	4
5.	PARTICIPATION .....	4
5.1	Payroll Deduction Authorization .....	4
5.2	Continuing Effect of Payroll Deduction Authorization .....	5
5.3	Employment and Shareholders Rights.....	5
6.	PAYROLL DEDUCTIONS.....	5
6.1	Participant Contributions by Payroll Deductions .....	5
6.2	No Other Participant Contributions Permitted.....	5
6.3	Changes in Participant Contributions .....	5
7.	GRANTING OF OPTION TO PURCHASE STOCK.....	6
7.1	Quarterly Grant of Options .....	6
7.2	Option Price .....	6
8.	EXERCISE OF OPTION.....	6
8.1	Automatic Exercise of Options .....	6

TABLE OF CONTENTS  
(continued)

8.2	Dividends Generally .....	6
8.3	Pro-rata Allocation of Available Shares .....	6
9.	OWNERSHIP AND DELIVERY OF SHARES .....	7
9.1	Beneficial Ownership.....	7
9.2	Registration of Stock.....	7
9.3	Delivery of Stock Certificates.....	7
9.4	Regulatory Approval.....	7
10.	WITHDRAWAL OF PAYROLL DEDUCTIONS .....	7
11.	TERMINATION OF EMPLOYMENT .....	8
11.1	General Rule .....	8
11.2	Termination Due to Death or Disability .....	8
11.3	Termination Other Than for Death or Disability .....	8
11.4	Rehired Employees .....	8
12.	ADMINISTRATION OF THE PLAN.....	9
12.1	No Participation in Plan by Committee Members .....	9
12.2	Authority of the Committee .....	9
12.3	Meetings.....	9
12.4	Decisions Binding.....	9
12.5	Expenses of Committee .....	9
12.6	Indemnification.....	9
13.	DESIGNATION OF BENEFICIARY .....	10
14.	TRANSFERABILITY .....	10
15.	NO RIGHTS AS A SHAREHOLDER UNTIL SHARES ISSUED.....	10
16.	CHANGES IN THE COMPANY’S CAPITAL STRUCTURE.....	10
17.	PLAN EXPENSES; USE OF FUNDS; NO INTEREST PAID .....	12
18.	TERM OF THE PLAN .....	12
19.	AMENDMENT OR TERMINATION OF THE PLAN.....	12
20.	SECURITIES LAWS RESTRICTIONS ON EXERCISE .....	12
21.	SECTION 16 COMPLIANCE.....	12
22.	WITHHOLDING TAXES FOR DISQUALIFYING DISPOSITION .....	13
23.	NO RESTRICTION ON CORPORATE ACTION .....	13
24.	USE OF FUNDS.....	13

TABLE OF CONTENTS  
(continued)

25.	MISCELLANEOUS .....	13
25.1	Options Carry Same Rights and Privileges.....	13
25.2	Headings .....	13
25.3	Gender and Tense .....	13
25.4	Governing Law .....	13
25.5	Regulatory Approvals and Compliance .....	13
25.6	Severability .....	14
25.7	Refund of Contributions on Noncompliance with Tax Law.....	14
25.8	No Guarantee of Tax Consequences.....	14
25.9	Company as Agent for the Employers .....	14

AMENDED AND RESTATED

LITHIA MOTORS, INC.

2009 EMPLOYEE STOCK PURCHASE PLAN

1. **PURPOSE.** This Amended and Restated Lithia Motors, Inc. 2009 Employee Stock Purchase Plan (the “Plan”) is amended and restated as of October 25, 2023. The Plan is intended to provide an incentive for employees of Lithia Motors, Inc. (the “Company”) and its participating Subsidiaries to acquire or increase their proprietary interests in the Company through the purchase of shares of Common Stock of the Company. The Plan is intended to qualify as an “employee stock purchase plan” under Sections 421 and 423 of the Internal Revenue Code of 1986, as amended (the “Code”). The provisions of the Plan will be construed in a manner consistent with the requirements of such sections of the Code and the respective Code regulations.

2. **DEFINITIONS.** As used in this Plan:

2.1 “Account” means the account recorded in the records of the Company established on behalf of a Participant to which the amount of the Participant’s payroll deductions authorized under Section 6 and purchases of Common Stock under Section 8 shall be credited, and any distributions of shares of Common Stock under Section 9 and withdrawals under Section 10 shall be charged.

2.2 “Benefits Representative” means the employee benefits department of the Company or any such other person, regardless of whether employed by an Employer, who has been formally, or by operation or practice, designated by the Committee to assist the Committee with the day-to-day administration of the Plan.

2.3 “Board” means the Board of Directors of the Company.

2.4 “Code” means the Internal Revenue Code of 1986, or any successor thereto, as amended and in effect from time to time. Reference in the Plan to any Section of the Code shall be deemed to include any amendments or successor provisions to any Section and any treasury regulations thereunder.

2.5 “Committee” means the Compensation Committee of the Board. The Board shall have the power to fill vacancies on the Committee arising by resignation, death, removal or otherwise. The Board, in its sole discretion, may split the powers and duties of the Committee among one or more separate Committees, or retain all powers and duties of the Committee in a single Committee. The members of the Committee shall serve at the discretion of the Board.

2.6 “Common Stock” means the Common Stock, without par value, of the Company.

2.7 “Company” means Lithia Motors, Inc., an Oregon corporation, and any successor thereto.

2.8 “Disability” means permanently and totally disabled as defined in Section 22(e)(3) of the Code.



2.9 “Effective Date” means the date on which this Plan was initially approved by the shareholders of the Company.

2.10 “Employee” means any person who, at such time, is in the Employment of an Employer.

2.11 “Employer” means the Company, its successors, any Subsidiary, and any parent or subsidiary corporation that issues or assumes rights or obligations under the Plan in any transaction described in Section 424(a) of the Code or by a parent corporation or a subsidiary corporation of such corporation..

2.12 “Employment” means Employment as an employee or officer by the Company or a Subsidiary as designated in such entity’s payroll records, or by any corporation issuing or assuming rights or obligations under the Plan in any transaction described in Section 424(a) of the Code or by a parent corporation or a subsidiary corporation of such corporation. In this regard, neither the transfer of a Participant from Employment by the Company to Employment by a Subsidiary nor the transfer of a Participant from Employment by a Subsidiary to Employment by either the Company or any other Subsidiary shall be deemed to be a termination of Employment of the Participant. The Employment shall be treated as continuing while a participant is on military leave, sick leave or other leave of absence approved by the Company or a Subsidiary that meets the requirements of Treasury Regulations Section 1.421-1(h)(2). Where the period of leave exceeds 3 months or such other period of time specified in such Regulation and the Participant’s right to reemployment is not guaranteed by statute or contract Employment shall be deemed to be terminated on the first day following such three month period or such other period specified in such Regulation. Any worker treated as an independent contractor by the Company or any Subsidiary who is later reclassified as a common-law employee shall not be in Employment during any period in which such worker was treated by the Company or a Subsidiary as an independent contractor. Any “leased employee”, as described in Section 414(n) of the Code, shall not be deemed an Employee hereunder.

2.13 “Entry Date” means the first day of each Fiscal Quarter.

2.14 “Fiscal Quarter” means a three consecutive month period beginning on each January 1, April 1, July 1 and October 1, commencing with the first such date following the Effective Date and continuing until the Plan is terminated.

2.15 “Market Price” means, the market value of a share of Stock on any date, which shall be determined as (i) the closing sales price on the immediately preceding business day of a share of Stock as reported on the New York Stock Exchange or other principal securities exchange on which shares of Stock are then listed or admitted to trading or (ii) if not so reported, the average of the closing bid and asked prices for a share of Stock on the immediately preceding business day as quoted on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”), or (iii) if not quoted on NASDAQ, the average of the closing bid and asked prices for a share of Stock as quoted by the National Quotation Bureau’s “Pink Sheets” or the National Association of Securities Dealers’ OTC Bulletin Board System on the immediately preceding business day. If the price of a share of Stock shall not be so reported or quoted pursuant to the previous sentence, the fair market value of a share of Stock shall be determined by the Committee

in its discretion, provided that such method is appropriate for purposes of an employee stock purchase plan under Section 423 of the Code.

2.16 “Participant” means any Employee who meets the eligibility requirements of Section 3 and who has elected to and is participating in the Plan.

2.17 “Plan” means the Lithia Motors, Inc. 2009 Employee Stock Purchase Plan, as set forth herein, and all amendments hereto.

2.18 “Stock” means the Common Stock (as defined above).

2.19 “Subsidiary” means any domestic or foreign corporation, limited liability company, partnership or other form of business entity (other than the Company) (i) which, pursuant to Section 424(f) of the Code, is included in an unbroken chain of entities beginning with the Company if, at the time of the granting of the option, each of the entities other than the last entity in the unbroken chain owns at least a majority of the total combined voting power of all interests in one of the other entities in such chain, and (ii) which has been designated by the Board or the Committee as an entity whose Employees are eligible to participate in the Plan.

2.20 “Total Pay” means regular straight-time earnings or base salary, plus payments for overtime, shift differentials, incentive compensation, bonuses, and other special payments, fees, allowances or extraordinary compensation, prior to reduction pursuant to Section 125, 132(f) or 401(k) of the Code, but excluding allowances and reimbursements for expenses such as relocation allowances or travel allowances, income or gains on the exercise of Company stock options, and similar items.

### 3. ELIGIBILITY.

3.1 Eligibility Requirements. Participation in the Plan is voluntary. Each Employee who has completed at least ninety (90) days of continuous Employment with an Employer (calculated from his last date of hire to the termination of his Employment for any reason) will be eligible to participate in the Plan on the first day of the payroll period commencing on or after the later of (i) the Effective Date or (ii) the Entry Date on which the Employee first satisfies the aforementioned eligibility requirement. Each Employee whose Employment terminates and who is rehired by an Employer shall be treated as a new Employee for eligibility purposes under the Plan.

3.2 Limitations on Eligibility. Notwithstanding any provision of this Plan to the contrary, no Employee will be granted an option under the Plan:

3.2.1. if, immediately after the grant, the Employee would own stock, and/or hold outstanding options to purchase stock, possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary; or

3.2.2. which permits the Employee’s rights to purchase stock under this Plan and all other employee stock purchase plans (within the meaning of Section 423 of the Code) of the Company and its Subsidiaries to accrue at a rate which exceeds \$25,000 of the fair

market value of the stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time, all as determined in accordance with Section 423(b)(8) of the Code.

For purposes of Section 3.2.1 above, pursuant to Section 424(d) of the Code, (i) the Employee with respect to whom such limitation is being determined shall be considered as owning the stock owned, directly or indirectly, by or for his brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and (ii) stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries. In addition, for purposes of Section 3.2.2 above, pursuant to Section 423(b)(8) of the Code, (i) the right to purchase stock under an option accrues when the option (or any portion thereof) first becomes exercisable during the calendar year, (ii) the right to purchase stock under an option accrues at the rate provided in the option but in no case may such rate exceed \$25,000 of fair market value of such stock (determined at the time such option is granted) for any one calendar year, and (iii) a right to purchase stock which has accrued under one option granted pursuant to the Plan may not be carried over to any other option.

4. **SHARES SUBJECT TO THE PLAN.** The total number of shares of Common Stock that upon the exercise of options granted under the Plan will not exceed 3,000,000 shares (subject to subsequent shareholder approval of additional shares and registration of such shares) and subject to adjustment as provided in Section 16, and such shares may be originally issued shares, treasury shares, reacquired shares, shares bought in the market, or any combination of the foregoing. If any option which has been granted expires or terminates for any reason without having been exercised in full, the shares represented by such option will again become available for purposes of the Plan. Any shares which are not subject to outstanding options upon the termination of the Plan shall cease to be subject to the Plan.

#### 5. PARTICIPATION.

5.1 **Payroll Deduction Authorization.** An Employee shall be eligible to participate in the Plan as of the first Entry Date following such Employee's satisfaction of the eligibility requirements of Section 3. At least 10 days (or such other period as may be prescribed by the Committee or a Benefits Representative) prior to the first Entry Date as of which an Employee is eligible to participate in the Plan, the Employee shall execute and deliver to the Benefits Representative, on the form prescribed for such purpose, an authorization for payroll deductions which specifies his chosen rate of payroll deduction contributions pursuant to Section 6, and such other information as is required to be provided by the Employee on such enrollment form. The enrollment form shall authorize the Employer to reduce the Employee's Total Pay by the amount of such authorized contributions. To the extent provided by the Committee or a Benefits Representative, each Participant shall also be required to open a stock brokerage account with a brokerage firm which has been engaged to administer the purchase, holding and sale of Common Stock for Accounts under the Plan and, as a condition of participation hereunder, the Participant shall be required to execute any form required by the brokerage firm to open and maintain such brokerage account.

5.2 Continuing Effect of Payroll Deduction Authorization. Payroll deductions for a Participant will commence with the first payroll period beginning after the Participant's authorization for payroll deductions becomes effective, and will end with the payroll period that ends when terminated by the Participant in accordance with Section 6.3 or due to his termination of Employment in accordance with Section 11. Payroll deductions will also cease when the Participant is suspended from participation due to a withdrawal of payroll deductions in accordance with Section 10. When applicable with respect to Employees who are paid on a hourly wage basis, the authorized payroll deductions shall be withheld from wages when actually paid following the period in which the compensatory services were rendered. Only payroll deductions that are credited to the Participant's Account during the Fiscal Quarter will be used to purchase Common Stock pursuant to Section 8 regardless of when the work was performed.

5.3 Employment and Shareholders Rights. Nothing in this Plan will confer on a Participant the right to continue in the employ of the Employer or will limit or restrict the right of the Employer to terminate the Employment of a Participant at any time with or without cause. A Participant will have no interest in any Common Stock to be purchased under the Plan or any rights as a shareholder with respect to such Stock until the Stock has been purchased and credited to the Participant's Account.

## 6. PAYROLL DEDUCTIONS.

6.1 Participant Contributions by Payroll Deductions. At the time a Participant files his payroll deduction authorization form, the Participant will elect to have deductions made from the Participant's Total Pay for each payroll period such authorization is in effect in whole percentages at the rate of not less than 1% nor more than 10% of the Participant's Total Pay.

6.2 No Other Participant Contributions Permitted. All payroll deductions made for a Participant will be credited to the Participant's Account under the Plan. A Participant may not make any separate cash payment into such Account.

6.3 Changes in Participant Contributions. Subject to Sections 10 and 21, a Participant may increase, decrease, suspend, or resume payroll deductions under the Plan by giving written notice to a designated Benefits Representative at such time and in such form as the Committee or Benefits Representative may prescribe from time to time. Such increase, decrease, suspension or resumption will be effective as of the first day of the payroll period as soon as administratively practicable after receipt of the Participant's written notice, but not earlier than the first day of the payroll period of the Fiscal Quarter next following receipt and acceptance of such form. Notwithstanding the previous sentence, a Participant may completely discontinue contributions at any time during a Fiscal Quarter, effective as of the first day of the payroll period as soon as administratively practicable following receipt of a written discontinuance notice from the Participant on a form provided by a designated Benefits Representative. Following a discontinuance of contributions, a Participant cannot authorize any payroll contributions to his Account for the remainder of the Fiscal Quarter in which the discontinuance was effective.

## 7. GRANTING OF OPTION TO PURCHASE STOCK.

7.1 Quarterly Grant of Options. For each Fiscal Quarter, on the first day of the Fiscal Quarter a Participant will be deemed to have been granted an option to purchase as many whole shares as may be purchased with the payroll deductions credited to the Participant's Account during the Fiscal Quarter (together with any payroll deductions from the previous Fiscal Quarter retained in the Participant's Account as of the end of such Fiscal Quarter as provided in Section 8.1 and any cash dividends paid during the Fiscal Quarter as provided in Section 8.2).

7.2 Option Price. Notwithstanding any provision to the contrary in this Plan, the option price of the Common Stock purchased with the amount credited to the Participant's Account during each Fiscal Quarter will be equal to 85% of the Market Price of a share of Stock on the last day of the Fiscal Quarter.

## 8. EXERCISE OF OPTION.

8.1 Automatic Exercise of Options. Unless a Participant has elected to withdraw payroll deductions in accordance with Section 10, the Participant's option for the purchase of Common Stock will be deemed to have been exercised automatically as of the last day of the Fiscal Quarter for the purchase of the number of whole shares of Common Stock which the accumulated payroll deductions (and cash dividends on the Common Stock as provided in Section 8.2) in the Participant's Account at that time will purchase at the applicable option price. No fractional shares may be issued under the Plan. As of the last day of each Fiscal Quarter, the balance of each Participant's Account shall be applied to purchase the number of whole shares of Common Stock as determined by dividing the balance of such Participant's Account as of such date by the option price determined pursuant to Section 7.2. Any amounts accumulated in a Participant's Account during a Fiscal Quarter under Section 5.1 that are not sufficient to purchase a full share of Common Stock at the end of such Fiscal Quarter shall be retained in the Participant's Account for the subsequent Fiscal Quarter, subject to earlier withdrawal by the Participant as provided in Section 10. The Participant's Account shall be debited accordingly. The Committee or its delegate shall make all determinations with respect to applicable currency exchange rates when applicable.

8.2 Dividends Generally. Cash dividends paid on shares of Common Stock which have not been delivered to the Participant pending the Participant's request for delivery pursuant to Section 9.3, will be combined with the Participant's payroll deductions and applied to the purchase of Common Stock at the end of the Fiscal Quarter in which the cash dividends are received, subject to the Participant's withdrawal rights set forth in Section 10. Dividends paid in the form of shares of Common Stock or other securities with respect to shares that have been purchased under the Plan, but which have not been delivered to the Participant, will be credited to the shares that are credited to the Participant's Account.

8.3 Pro-rata Allocation of Available Shares. If the total number of shares to be purchased under option by all Participants exceeds the number of shares authorized under Section 4, a pro-rata allocation of the available shares will be made among all Participants authorizing such payroll deductions based on the amount of their respective payroll deductions through the last day of the Fiscal Quarter.

## 9. OWNERSHIP AND DELIVERY OF SHARES.

9.1 Beneficial Ownership. A Participant will be the beneficial owner of the shares of Common Stock purchased under the Plan on exercise of an option and will have all rights of beneficial ownership in such shares. Any dividends paid with respect to such shares will be credited to the Participant's Account and applied as provided in Section 8 until the shares are delivered to the Participant.

9.2 Registration of Stock. Stock to be delivered to a Participant under the Plan will be registered on the books and records of the Company in the name of the Participant, or if the Participant so directs by written notice to the designated Benefits Representative or brokerage firm, if any, prior to the purchase of Stock hereunder, in the names of the Participant and one such other person as may be designated by the Participant, as joint tenants with rights of survivorship or as tenants by the entireties, to the extent permitted by applicable law. Any such designation shall not apply to shares purchased after a Participant's death by the Participant's beneficiary or estate, as the case may be, pursuant to Section 11.2. If a brokerage firm is engaged by the Company to administer Accounts under the Plan, such firm shall provide such account registration forms as are necessary for each Participant to open and maintain a brokerage account with such firm.

9.3 Delivery of Stock Certificates. The Company, or a brokerage firm or other entity selected by the Company, shall deliver to each Participant a certificate for the number of shares of Common Stock purchased by the Participant hereunder as soon as practicable after the close of each Fiscal Quarter. Alternatively, in the discretion of the Committee, the stock certificate, or other written documentation or notice of electronic transfer evidencing such stock ownership, may be delivered to a designated stock brokerage account maintained for the Participant and held in "street name" in order to facilitate the subsequent sale of the purchased shares.

9.4 Regulatory Approval. In the event the Company is required to obtain from any commission or agency the authority to issue any stock certificate hereunder, the Company shall seek to obtain such authority. The inability of the Company to obtain from any such commission or agency the authority which counsel for the Company deems necessary for the lawful issuance of any such certificate shall relieve the Company from liability to any Participant, except to return to the Participant the amount of his Account balance used to exercise the option to purchase the affected shares.

10. WITHDRAWAL OF PAYROLL DEDUCTIONS. At any time during a Fiscal Quarter, but in no event later than 15 days (or such shorter prescribed by the Committee or a Benefits Representative) prior to the last day of the Fiscal Quarter, a Participant may elect to abandon his election to purchase Common Stock under the Plan. By written notice to the designated Benefits Representative on a form provided for such purpose, the Participant may thus elect to withdraw all of the accumulated balance in his Account being held for the purchase of Common Stock in accordance with Section 8. Partial withdrawals will not be permitted. All such amounts will be paid to the Participant as soon as administratively practical after receipt of his notice of withdrawal. After receipt and acceptance of such withdrawal notice, no further payroll deductions will be made from the Participant's Total Pay beginning as of the next payroll period during the Fiscal Quarter in which the withdrawal notice is received. The Committee, in its discretion, may determine that amounts otherwise withdrawable hereunder by Participants shall

be offset by an amount that the Committee, in its discretion, determines to be reasonable to help defray the administrative costs of effecting the withdrawal, including, without limitation, fees imposed by any brokerage firm which administers such Participant's Account. After a withdrawal, an otherwise eligible Participant may resume participation in the Plan as of the first day of the Fiscal Quarter next following his delivery of a payroll deduction authorization pursuant to the procedures prescribed in Section 5.1.

## 11. TERMINATION OF EMPLOYMENT.

11.1 General Rule. Upon termination of a Participant's Employment for any reason, his participation in the Plan will immediately terminate.

11.2 Termination Due to Death or Disability. If the Participant's termination of Employment is due to death or Disability, the Participant (or the Participant's personal representative or legal guardian in the event of Disability, or the Participant's beneficiary (as defined in Section 12) or the administrator of his will or executor of his estate in the event of death), will have the right to elect, either to:

11.2.1. Withdraw all of the cash and shares of Common Stock credited to the Participant's Account as of his termination date; or

11.2.2. Exercise the Participant's option for the purchase of Common Stock on the last day of the Fiscal Quarter (in which termination of Employment occurs) for the purchase of the number of shares of Common Stock which the cash balance credited to the Participant's Account as of the date of the Participant's termination of Employment will purchase at the applicable option price.

The Participant (or, if applicable, such other person designated in the first paragraph of this Section 11.2) must make such election by giving written notice to the Benefits Representative at such time and in such manner as prescribed from time to time by the Committee or Benefits Representative. In the event that no such written notice of election is received by the Benefits Representative within 30 days of the Participant's termination of Employment date, the Participant (or such other designated person) will automatically be deemed to have elected to withdraw the balance in the Participant's Account as of his termination date. Thereafter, any accumulated cash and shares of Common Stock credited to the Participant's Account as of his termination of Employment date will be delivered to or on behalf of the Participant as soon as administratively practicable.

11.3 Termination Other Than for Death or Disability. Upon termination of a Participant's Employment for any reason other than death, or Disability pursuant to Section 11.2, the participation of the Participant in the Plan will immediately terminate. Thereafter, any accumulated cash and shares of Common Stock credited to the Participant's Account as of his termination of Employment date will be delivered to the Participant as soon as administratively practicable.

11.4 Rehired Employees. Any Employee whose Employment terminates and who is subsequently rehired by an Employer shall be treated as a new Employee for purposes of eligibility to participate in the Plan.

## 12. ADMINISTRATION OF THE PLAN.

12.1 No Participation in Plan by Committee Members. No options may be granted under the Plan to any member of the Committee during the term of his membership on the Committee.

12.2 Authority of the Committee. Subject to the provisions of the Plan, the Committee shall have the plenary authority to (i) interpret the Plan and all options granted under the Plan, (ii) make such rules as it deems necessary for the proper administration of the Plan, (iii) make all other determinations necessary or advisable for the administration of the Plan, and (iv) correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any option granted under the Plan in the manner and to the extent that the Committee deems advisable. Any action taken or determination made by the Committee pursuant to this and the other provisions of the Plan shall be conclusive on all parties. The act or determination of a majority of the Committee shall be deemed to be the act or determination of the Committee. By express written direction, or by the day-to-day operation of Plan administration, the Committee may delegate the authority and responsibility for the day-to-day administrative or ministerial tasks of the Plan to a Benefits Representative, including a brokerage firm or other third party engaged for such purpose.

12.3 Meetings. The Committee shall designate a chairman from among its members to preside at its meetings, and may designate a secretary, without regard to whether that person is a member of the Committee, who shall keep the minutes of the proceedings. Meetings shall be held at such times and places as shall be determined by the Committee, and the Committee may hold telephonic meetings. The Committee may take any action otherwise proper under the Plan by the affirmative vote of a majority of its members, taken at a meeting, or by the affirmative vote of all of its members taken without a meeting. The Committee may authorize any one or more of their members or any officer of the Company to execute and deliver documents on behalf of the Committee.

12.4 Decisions Binding. All determinations and decisions made by the Committee shall be made in its discretion pursuant to the provisions of the Plan, and shall be final, conclusive and binding on all persons including the Company, Participants, and their estates and beneficiaries.

12.5 Expenses of Committee. The Committee may employ legal counsel, including, without limitation, independent legal counsel and counsel regularly employed by the Company, consultants and agents as the Committee may deem appropriate for the administration of the Plan. The Committee may rely upon any opinion or computation received from any such counsel, consultant or agent. All expenses incurred by the Committee in interpreting and administering the Plan, including, without limitation, meeting expenses and professional fees, shall be paid by the Company.

12.6 Indemnification. Each person who is or was a member of the Committee shall be indemnified by the Company against and from any damage, loss, liability, cost and expense that may be imposed upon or reasonably incurred by him in connection with, or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan, except for any such act or omission constituting willful misconduct or gross negligence. Such person shall be indemnified by the Company for all amounts paid by him in settlement thereof, with the Company's approval, or paid



by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13. **DESIGNATION OF BENEFICIARY.** At such time, in such manner, and using such form as shall be prescribed from time to time by the Committee or a Benefits Representative, a Participant may file a written designation of a beneficiary who is to receive any Common Stock and/or cash credited to the Participant's Account at the Participant's death. Such designation of beneficiary may be changed by the Participant at any time by giving written notice to the Benefits Representative at such time and in such form as prescribed. Upon the death of a Participant, and receipt by the Benefits Representative of proof of the identity at the Participant's death of a beneficiary validly designated under the Plan, the Benefits Representative will take appropriate action to ensure delivery of such Common Stock and/or cash to such beneficiary. In the event of the death of a Participant and the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Benefits Representative will take appropriate action to ensure delivery of such Common Stock and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Benefits Representative), the Committee, in its discretion, may direct delivery of such Common Stock and/or cash to the spouse or to any one or more dependents of the Participant as the Committee may designate in its discretion. Prior to the death of the Participant, no beneficiary will acquire any interest in any Common Stock or cash credited to the Participant's Account.

14. **TRANSFERABILITY.** No amounts credited to a Participant's Account, whether cash or Common Stock, nor any rights with regard to the exercise of an option or to receive Common Stock under the Plan, may be assigned, transferred, pledged, or otherwise disposed of in any way by the Participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge, or other disposition will be void and without effect. Each option shall be exercisable, during the Participant's lifetime, only by the Employee to whom the option was granted. The Company shall not recognize, and shall be under no duty to recognize, any assignment or purported assignment by an Employee of his option or of any rights under his option.

15. **NO RIGHTS AS A SHAREHOLDER UNTIL SHARES ISSUED.** With respect to shares of Stock subject to an option, an optionee shall not be deemed to be a shareholder, and the optionee shall not have any of the rights or privileges of a shareholder. An optionee shall have the rights and privileges of a shareholder when, but not until, the shares have been issued to the optionee following exercise of his option and reflected in the shareholder records of the Company or its transfer agent.

16. **CHANGES IN THE COMPANY'S CAPITAL STRUCTURE.** The Board shall make or provide for such adjustments in the maximum number of shares specified in Section 4 and the number and option price of shares subject to options outstanding under the Plan as the Board shall determine is appropriate to prevent dilution or enlargement of the rights of Participants

that otherwise would result from any stock dividend, stock split, stock exchange, combination of shares, or other change in the capital structure of the Company, merger, consolidation, spin-off of assets, reorganization, partial or complete liquidation, issuance of rights or warrants to purchase securities, any other corporate transaction or event having an effect similar to any of the foregoing.

In the event of a merger of one or more corporations into the Company, or a consolidation of the Company and one or more other corporations in which the Company is the surviving corporation, each Participant, at no additional cost, shall be entitled, upon his payment for all or part of the Common Stock purchasable by him under the Plan, to receive (subject to any required action by shareholders) in lieu of the number of shares of Common Stock which he was entitled to purchase, the number and class of shares of stock or other securities to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of the number of shares of Common Stock equal to the number of shares purchasable by the Participant hereunder.

If the Company is not the surviving corporation in any reorganization, merger or consolidation (or survives only as a subsidiary of an entity other than a previously wholly-owned subsidiary of the Company), or if the Company is to be dissolved or liquidated or sell substantially all of its assets or stock to another corporation or other entity, then, unless a surviving corporation assumes or substitutes new options (within the meaning of Section 424(a) of the Code) for all options then outstanding, (i) the date of exercise for all options then outstanding shall be accelerated to dates fixed by the Committee prior to the effective date of such corporate event, (ii) a Participant may, at his election by written notice to the Company, either (x) withdraw from the Plan pursuant to Section 10 and receive a refund from the Company in the amount of the accumulated cash and Stock balance in the Participant's Account, (y) exercise a portion of his outstanding options as of such exercise date to purchase shares of Stock, at the option price, to the extent of the balance in the Participant's Account, or (z) exercise in full his outstanding options as of such exercise date to purchase shares of Stock, at the option price, which exercise shall require such Participant to pay the related option price, and (iii) after such effective date any unexercised option shall expire. The date the Committee selects for the exercise date under the preceding sentence shall be deemed to be the exercise date for purposes of computing the option price per share of Stock. If the Participant elects to exercise all or any portion of the options, the Company shall deliver to such Participant a stock certificate issued pursuant to Section 9.4 for the number of shares of Stock with respect to which such options were exercised and for which such Participant has paid the option price. If the Participant fails to provide the notice set forth above within three days after the exercise date selected by the Committee under this Section 16, the Participant shall be conclusively presumed to have requested to withdraw from the Plan and receive payment of the accumulated balance of his Account. The Committee shall take such steps in connection with such transactions as the Committee shall deem necessary or appropriate to assure that the provisions of this Section 16 are effectuated for the benefit of the Participants.

Except as expressly provided in this Section 16, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares

or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Stock then available for purchase under the Plan.

17. **PLAN EXPENSES; USE OF FUNDS; NO INTEREST PAID.** The expenses of the Plan shall be paid by the Company except as otherwise provided herein or under the terms and conditions of any agreement entered into between the Participant and any brokerage firm engaged to administer Accounts. All funds received or held by the Company under the Plan shall be included in the general funds of the Company free of any trust or other restriction, and may be used for any corporate purpose. No interest shall be paid to any Participant or credited to his Account under the Plan.

18. **TERM OF THE PLAN.** The Plan shall become effective upon the approval of the Plan by the holders of the majority of the Common Stock present and represented at a special or annual meeting of the Company's shareholders held on or before 12 months after adoption of this Plan by the board of directors. Except with respect to options then outstanding, if not terminated sooner under the provisions of Section 19, no further options shall be granted under the Plan at the earlier of (i) December 31, 2029, or (ii) the point in time when no shares of Stock reserved for issuance under Section 4 are available.

19. **AMENDMENT OR TERMINATION OF THE PLAN.** The Board shall have the plenary authority to terminate or amend the Plan; provided, however, that the Board shall not, without the approval of the shareholders of the Company, (i) increase the maximum number of shares which may be issued under the Plan pursuant to Section 4, (ii) materially amend the requirements as to the class of employees eligible to purchase Stock under the Plan, or (iii) permit the members of the Committee to purchase Stock under the Plan. No termination, modification, or amendment of the Plan shall adversely affect the rights of a Participant with respect to an option previously granted to him under such option without his written consent.

In addition, to the extent that the Committee determines that, in the opinion of counsel, (i) the listing for qualification requirements of any national securities exchange or quotation system on which the Company's Common Stock is then listed or quoted, or (ii) the Code or Treasury regulations issued thereunder, require shareholder approval in order to maintain compliance with such listing or qualification requirements or to maintain any favorable tax advantages or qualifications, then the Plan shall not be amended by the Board in such respect without first obtaining such required approval of the Company's shareholders.

20. **SECURITIES LAWS RESTRICTIONS ON EXERCISE.** The Committee may, in its discretion, require as conditions to the exercise of any option that the shares of Common Stock reserved for issuance upon the exercise of the option shall have been duly listed, upon official notice of issuance, upon a stock exchange, and that either (i) a Registration Statement under the Securities Act of 1933, as amended, with respect to said shares shall be effective; or (ii) the Participant shall have represented at the time of purchase, in form and substance satisfactory to the Company, that it is his intention to purchase the Stock for investment and not for resale or distribution.

21. **SECTION 16 COMPLIANCE.** The Plan, and transactions hereunder by persons subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"),

are intended to comply with all applicable conditions of Rule 16b 3 or any successor exemption provision promulgated under the Exchange Act. To the extent that any provision of the Plan or any action by the Committee or the Board fails, or is deemed to fail, to so comply, such provision or action shall be null and void but only to the extent permitted by law and deemed advisable by the Committee in its discretion.

22. **WITHHOLDING TAXES FOR DISQUALIFYING DISPOSITION.** Whenever shares of Stock that were received upon the exercise of an option granted under the Plan are disposed of within two years after the date of grant of such option or one year from the date of exercise of such option (within the meaning of Section 423(a)(1)), the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy federal, state and local withholding and payroll tax requirements, if any, attributable to such disposition prior to authorizing such disposition or permitting the delivery of any certificate or certificates with respect thereto.

23. **NO RESTRICTION ON CORPORATE ACTION.** Subject to Section 19, nothing contained in the Plan shall be construed to prevent the Board or any Employer from taking any corporate action which is deemed by the Employer to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any option granted under the Plan. No Employee, beneficiary or other person shall have any claim against any Employer as a result of any such action.

24. **USE OF FUNDS.** The Employers shall promptly transfer all amounts withheld under Section 6 to the Company or to any brokerage firm engaged to administer Accounts, as directed by the Company. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company will not be obligated to segregate such payroll deductions.

25. **MISCELLANEOUS.**

25.1 **Options Carry Same Rights and Privileges.** To the extent required to comply with the requirements of Section 423 of the Code, all Employees granted options under the Plan to purchase Common Stock shall have the same rights and privileges hereunder.

25.2 **Headings.** Any headings or subheadings in this Plan are inserted for convenience of reference only and are to be ignored in the construction or interpretation of any provisions hereof.

25.3 **Gender and Tense.** Any words herein used in the masculine shall be read and construed in the feminine when appropriate. Words in the singular shall be read and construed as though in the plural, and vice-versa, when appropriate.

25.4 **Governing Law.** This Plan shall be governed and construed in accordance with the laws of the State of Oregon to the extent not preempted by federal law.

25.5 **Regulatory Approvals and Compliance.** The Company's obligation to sell and deliver Common Stock under the Plan is at all times subject to all approvals of and compliance with the (i) regulations of any applicable stock exchanges (including NASDAQ) and (ii) any

governmental authorities required in connection with the authorization, issuance, sale or delivery of such Stock, as well as federal, state and foreign securities laws.

25.6 Severability. In the event that any provision of this Plan shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if the illegal, invalid, or unenforceable provision had not been included herein.

25.7 Refund of Contributions on Noncompliance with Tax Law. In the event the Company should receive notice that this Plan fails to qualify as an “employee stock purchase plan” under Section 423 of the Code, all then existing Account balances will be paid to the Participants and the Plan shall immediately terminate.

25.8 No Guarantee of Tax Consequences. The Company, Board, and the Committee do not make any commitment or guarantee that any tax treatment will apply or be available to any person participating or eligible to participate in the Plan, including, without limitation, any tax imposed by the United States or any state thereof, any estate tax, or any tax imposed by a foreign government.

25.9 Company as Agent for the Employers. Each Employer, by adopting the Plan, appoints the Company and the Board as its agents to exercise on its behalf all of the powers and authorities hereby conferred upon the Company and the Board by the terms of the Plan, including, but not by way of limitation, the power to amend and terminate the Plan.



**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
797 Valley Street LLC	New Jersey	
6200 Centennial Center Holdco, LLC	Nevada	
7150 West Sahara Holdco, LLC	Nevada	
7200 West Sahara Property Holdco II, LLC	Nevada	
Ann Arbor-B, LLC	Michigan	BMW of Ann Arbor
Ann Arbor-CC, LLC	Michigan	Suburban Chevrolet Cadillac of Ann Arbor Suburban Chevrolet Cadillac Collision of Ann Arbor Suburban Used Car Outlet
Ann Arbor-CJD, LLC	Michigan	Suburban Chrysler Dodge Jeep Ram Fiat of Ann Arbor
Ann Arbor-M, LLC	Michigan	Mercedes-Benz of Ann Arbor
Austin-H, Inc.	Texas	Howdy Honda
Austin-KI, Inc.	Texas	Kia of North Austin
Avondale-N, Inc.	Arizona	Avondale Nissan
Back in Texas Auto Sales, LLC	Delaware	Grapevine Honda
Baierl Auto Parts, LLC	Pennsylvania	
Baierl Automotive Corporation	Pennsylvania	Baierl Acura
Baierl Chevrolet, Inc.	Pennsylvania	Baierl Chevrolet Baierl Collision Center
Baierl Holding, LLC	Pennsylvania	
Bellevue-S, LLC	Washington	Michael's Subaru of Bellevue
Bellevue-T, LLC	Washington	Michael's Toyota of Bellevue
Bend-CDJR, LLC	Oregon	Lithia Chrysler Dodge Jeep Ram of Bend
Bend-N, LLC	Oregon	Lithia Nissan of Bend
Cadillac of Portland Lloyd Center, LLC	Oregon	Cadillac of Portland
Caldwell-Air, LLC	Idaho	Boise Airstream Adventures
Camp Automotive, Inc.	Washington	Camp Chevrolet
Carbone Auto Body, LLC	New York	

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Centennial-Hy, LLC	Nevada	Centennial Hyundai
Chamblee-H, LLC	Georgia	Curry Honda
Chantilly-N, LLC	Virginia	Priority Nissan Chantilly
Chesapeake-A, LLC	Virginia	Priority Acura
Chesapeake-C, LLC	Virginia	Priority Chevrolet Greenbrier Chesapeake Priority Collision Center
Chesapeake-H, LLC	Virginia	Priority Honda Chesapeake
Chesapeake-Hy, LLC	Virginia	Priority Hyundai
Chesapeake-I, LLC	Virginia	Priority Infiniti
Chesapeake-T, LLC	Virginia	Priority Toyota Chesapeake Freedom Super Body Shop
Clackamas-Air, LLC	Oregon	Portland Airstream Adventures
Clackamas Ultimate Airstreams, LLC	Oregon	Ultimate Airstreams
Clear Lake-I, Inc.	Texas	Clear Lake Infiniti
Clinton-C, LLC	Michigan	
Coral Springs-A, LLC	Florida	Audi Coral Springs
Costa Mesa-CJD, Inc.	California	Orange Coast Chrysler Dodge Jeep Ram Fiat
Cranberry Automotive, Inc.	Pennsylvania	Baierl Toyota
Dah Chong Hong CA Trading LLC	Delaware	
Dah Chong Hong Trading Corporation	New Jersey	
Dallas-H, Inc.	Texas	John Eagle Honda of Dallas
Dallas-K, Inc.	Texas	Southwest Kia
Dallas-T, Inc.	Texas	John Eagle Sport City Toyota
Daron Motors LLC	New Jersey	DCH Academy Honda
DCH Bloomfield LLC	New Jersey	BMW of Bloomfield
DCH (Oxnard) Inc.	California	DCH Honda of Oxnard
DCH Auto Group (USA) Inc.	Delaware	
DCH CA LLC	California	
DCH Calabasas-A, LLC	California	Audi Calabasas



**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
DCH California Investments LLC	California	
DCH California Motors Inc.	California	DCH Toyota of Oxnard
DCH Del Norte, Inc.	California	
DCH DMS NJ, LLC	New Jersey	
DCH Essex Inc.	New Jersey	Audi Millburn
DCH Financial NJ, LLC	New Jersey	
DCH Freehold LLC	New Jersey	DCH Freehold Toyota
DCH Holdings LLC	Delaware	
DCH Investments Inc. (New Jersey)	New Jersey	
DCH Investments Inc. (New York)	New York	Dah Chong Hong (USA)
DCH Korean Imports LLC	California	DCH Kia of Temecula
DCH Mission Valley LLC	California	DCH Honda of Mission Valley
DCH Monmouth LLC	New Jersey	BMW of Freehold
DCH Montclair LLC	New Jersey	DCH Montclair Acura
DCH Motors LLC	New Jersey	DCH Kay Honda
DCH Nanuet LLC	New York	DCH Honda of Nanuet
DCH North America Inc.	Delaware	
DCH NY Motors LLC	Delaware	DCH Wappingers Falls Toyota
DCH Oxnard 1521 Imports Inc.	California	Audi Oxnard
DCH Riverside-S, Inc.	California	DCH Subaru of Riverside
DCH Support Services, LLC	New Jersey	
DCH Temecula Imports LLC	California	DCH Honda of Temecula
DCH Temecula Motors LLC	California	DCH Chrysler Dodge Jeep Ram Fiat of Temecula
DCH Thousand Oaks-F, Inc.	California	DCH Ford of Thousand Oaks
DCH TL Holdings LLC	Delaware	
DCH TL NY Holdings LLC	Delaware	
DCH Torrance Imports Inc.	California	DCH Toyota of Torrance
Denver Exotics, LLC	Colorado	Ferrari of Denver

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Desert-CJD, LLC	Nevada	Desert 215 Superstore
DFC Business Services, LLC	Delaware	
DFC Funding, LLC	Delaware	
Doral-A, LLC	Florida	Doral Acura
Doral-G, LLC	Florida	Doral Genesis
Doral-Hy, LLC	Florida	Doral Hyundai
Doral-K, LLC	Florida	Doral Kia
Doral-VW, LLC	Florida	Doral Volkswagen
Driveway Motors, LLC	Delaware	Driveway Motors Driveway
Driveway & Logistics LLC	Delaware	
Edmonds-T, LLC	Washington	
Elk Grove-F, Inc.	California	Elk Grove Ford
Fairfield-Air, Inc.	California	Bay Area Airstream Adventures
Farmington Hills Imports, LLC	Michigan	Audi Farmington Hills Porsche Farmington Hills Suburban Mazda of Farmington Hills Suburban Volkswagen of Farmington Hills
Farmington Hills-CJD, LLC	Michigan	Suburban Chrysler Dodge Jeep Ram of Farmington Hills
Farmington Hills-H, LLC	Michigan	Suburban Honda
Farmington Hills-N, LLC	Michigan	Suburban Nissan of Farmington Hills
Farmington Hills-T, LLC	Michigan	Suburban Toyota of Farmington Hills
Ferndale Collision, LLC	Michigan	
Ferndale-BG, LLC	Michigan	
Ferndale-F, LLC	Michigan	Suburban Ford of Ferndale
FH Collision, LLC	Michigan	
FL Doral-S, LLC	Florida	
Florida City-H, LLC	Florida	Largo Honda
Frisco-K, Inc.	Texas	Kia of Frisco

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia Florida Holding, Inc.	Florida	
Florida SS, LLC	Florida	
Fontana-H, Inc.	California	Rock Honda
Fort Worth-CJD, LLC	Texas	Meador Chrysler Dodge Jeep Ram
Wesley Chapel-C, LLC (formerly known as Fort Pierce-CJD, LLC)	Florida	Chevrolet of Wesley Chapel
Garden City-CJD, LLC	Michigan	Suburban Chrysler Dodge Jeep Ram of Garden City
Greencars, Inc.	Oregon	
Hampton-H, LLC	Virginia	Priority Honda Hampton
Hampton-T, LLC	Virginia	
Henderson-Hy, LLC	Nevada	Henderson Hyundai Superstore
Houston-A, Inc.	Texas	John Eagle Acura
Houston-H, Inc.	Texas	John Eagle Honda of Houston
Houston-I, Inc.	Texas	Southwest Infiniti
Hutchins Eugene Nissan, Inc.	Oregon	Lithia Nissan of Eugene
Hutchins Imported Motors, Inc.	Oregon	Lithia Toyota of Springfield
Jackson-T, LLC	Mississippi	Toyota of Jackson
Katy-H, Inc.	Texas	Honda Cars of Katy
Knoxville-CJD, LLC	Tennessee	West Knoxville Chrysler Dodge Jeep Ram
LA Motors Holding, LLC	California	
LAD Advertising, Inc.	Oregon	LAD Advertising LAD Printing The Print Shop at the Commons The Print Shop
LAD Carson-N, LLC	California	Carson Nissan
LAD Mission Viejo-JLR, Inc.	California	Jaguar Land Rover Mission Viejo
LAD Mobu, Inc.	Delaware	
LAD-AU, LLC	California	Audi Downtown LA
LAD-F, LLC	California	Ford of Downtown LA

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
LAD-MB, LLC	California	Mercedes-Benz of Downtown LA
LAD-N, LLC	California	Nissan of Downtown LA
LAD-P, LLC	California	Porsche of Downtown LA
LAD-T, LLC	California	Toyota of Downtown LA
LAD-V, LLC	California	Volkswagen of Downtown LA
Las Vegas-CJD, LLC	Nevada	Sahara Chrysler Dodge Ram
Las Vegas-G, LLC	Nevada	Genesis of Las Vegas
Las Vegas-Hy, LLC	Nevada	Hyundai of Las Vegas
Las Vegas-J, LLC	Nevada	Jeep Only
Latham Ford-F, LLC	New York	Ford of Latham
Lauderdale-A, LLC	Florida	Audi Fort Lauderdale
LBMP, LLC	Oregon	BMW Portland
League City-H, Inc.	Texas	Honda of Clear Lake
Lexington-CJD, LLC	Kentucky	Freedom Chrysler Dodge Ram of Lexington Freedom RAM Truck Center of Lexington Freedom Jeep of Lexington
LFKF, LLC	Oregon	Lithia Ford of Klamath Falls
LGPAC, Inc.	Oregon	Lithia's Grants Pass Auto Center Xpress Lube
Lithia AcDM, Inc.	Iowa	Acura of Johnston
Lithia Aircraft, Inc.	Oregon	
Lithia Anchorage-C, LLC	Alaska	Chevrolet of Wasilla
Lithia Anchorage-H, LLC	Alaska	Lithia Kia of Anchorage
Lithia Armory Garage, LLC	Delaware	Armory Chrysler Dodge Jeep Ram Fiat of Albany
Lithia Auction & Recon, LLC	Delaware	Auction & Recon
Lithia Auto Services, Inc.	Oregon	Lithia Body & Paint
Lithia BA Holding, Inc.	Delaware	
Lithia Baierl-S, LLC	Pennsylvania	Baierl Subaru Collision Center
Lithia BNM, Inc. (non-operating)	Oregon	

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia Bryan Texas, Inc.	Texas	Lithia Chrysler Dodge Jeep Ram Fiat of Bryan College Station
Lithia CCTF, Inc.	Idaho	
Lithia CDH, Inc.	Montana	Lithia Chrysler Dodge Jeep Ram Fiat of Helena
Lithia CIMR, Inc.	California	Lithia Chevrolet of Redding
Lithia CJDO, Inc.	Texas	All American Chrysler Jeep Dodge of Odessa
Lithia CJDSA, Inc.	Texas	All American Chrysler Dodge Jeep Ram Fiat of San Angelo All American Autoplex
Lithia CJDSF, Inc.	New Mexico	Lithia Chrysler Dodge Jeep Ram Fiat of Santa Fe
Lithia CM, Inc.	Texas	All American Chevrolet of Midland All American Collision of Midland
Lithia CO, Inc.	Texas	All American Chevrolet of Odessa All American Collision
Lithia Community Development Company, Inc.	Oregon	
Lithia Crater Lake-F, Inc.	Delaware	Crater Lake Ford
Lithia Crater Lake-M, Inc.	Delaware	Crater Lake Mazda
Lithia CSA, Inc.	Texas	All American Chevrolet of San Angelo All American Collision Center of San Angelo
Lithia DE, Inc.	Oregon	Lithia Chrysler Dodge Jeep Ram Fiat of Eugene
Lithia Des Moines-VW, LLC	Iowa	Lithia Volkswagen of Des Moines
Lithia DM, Inc.	Oregon	Lithia Chrysler Dodge Jeep Ram Fiat
Lithia DMID, Inc.	Texas	All American Chrysler Jeep Dodge Ram of Midland
Lithia Dodge of Tri-Cities, Inc.	Washington	Lithia Chrysler Dodge Jeep Ram Fiat of Tri-Cities

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia Eatontown-F, LLC	New Jersey	DCH Ford of Eatontown
Lithia Financial Corporation (previously Lithia Leasing, Inc. and Lithia Credit, Inc.)	Oregon	Lithia Leasing
Lithia FLCC, LLC	Texas	Access Collision Center
Lithia FMF, Inc.	California	Lithia Ford Lincoln of Fresno
Lithia Ford of Boise, Inc.	Idaho	Lithia Ford Lincoln of Boise
Lithia Fresno, Inc.	California	Lithia Subaru of Fresno
Lithia Georgia Real Estate, LLC	Georgia	
Lithia Hamilton-H, LLC	New Jersey	Hamilton Honda
Lithia Hazleton-H, LLC	Pennsylvania	
Lithia HDM, Inc.	Iowa	Honda of Ames
Lithia HGF, Inc.	Montana	
Lithia HMID, Inc.	Texas	Hyundai of Odessa
Lithia HPI, Inc. (non-operating)	Oregon	
Lithia Idaho Falls-F, Inc.	Delaware	Lithia Body and Paint of Idaho Falls
Lithia Imports of Anchorage, Inc.	Alaska	Lithia Anchorage Auto Body
Lithia Insurance Services, LLC	Oregon	
Lithia JEF, Inc.	California	Lithia Hyundai of Fresno
Lithia Klamath, Inc.	Oregon	Lithia Chrysler Jeep Dodge of Klamath Falls Lithia Body and Paint of Klamath Falls
Lithia Klamath-T, Inc.	Oregon	Lithia Toyota of Klamath Falls
Lithia LSGF, Inc.	Montana	
Lithia MBDM, Inc.	Iowa	Mercedes-Benz of Des Moines
Lithia Medford HON, Inc.	Oregon	Lithia Honda
Lithia Michigan Holding, Inc.	Michigan	
Lithia Middletown-L, LLC	New York	Lexus of Orange County
Lithia Monroeville-C, LLC	Pennsylvania	
Lithia Monroeville-F, LLC	Pennsylvania	
Lithia Moon-S, LLC	Pennsylvania	Driveway Subaru of Moon Township

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia Moon-V, LLC	Pennsylvania	Volkswagen of Moon Township
Lithia Morgantown-CJD, LLC	West Virginia	Chrysler Dodge Jeep Ram Fiat of Morgantown
Lithia Morgantown-F, LLC	West Virginia	Ford Lincoln of Morgantown
Lithia Morgantown-S, LLC	West Virginia	Subaru of Morgantown
Lithia Motors Support Services, Inc.	Oregon	Lithia's LAD Travel Service
Lithia MTLM, Inc.	Oregon	Lithia Toyota Lithia's Pre-Owned Outlet
Lithia NA, Inc.	Alaska	BMW of Anchorage MINI of Anchorage
Lithia NC, Inc.	California	Lithia Nissan of Clovis
Lithia ND Acquisition Corp. #1	North Dakota	
Lithia ND Acquisition Corp. #3	North Dakota	
Lithia ND Acquisition Corp. #4	North Dakota	
Lithia NDM, Inc.	Iowa	Lithia Nissan of Ames
Lithia NE Tech Training, LLC	New Jersey	
Lithia NF, Inc.	California	Lithia Nissan of Fresno
Lithia Northeast Real Estate, LLC	New Jersey	
Lithia Northwest Real Estate, LLC	Oregon	
Lithia NSA, Inc.	Texas	
Lithia of Abilene, LLC	Texas	
Los Angeles-M, Inc.	California	Keyes European
Lithia of Anchorage, Inc.	Alaska	Lithia Chrysler Dodge Jeep Ram Fiat of Anchorage
Lithia of Bend #1, LLC	Oregon	Bend Honda
Lithia of Bend #2, LLC	Oregon	Chevrolet of Bend Lithia Body & Paint of Bend
Lithia of Bennington - 1, LLC	Vermont	
Lithia of Bennington - 3, LLC	Vermont	
Lithia of Bennington - 4, LLC	Vermont	
Lithia of Billings II LLC	Montana	Lithia Toyota of Billings

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia of Billings, Inc.	Montana	Lithia Chrysler Jeep Dodge of Billings Lithia Body and Paint of Billings
Lithia of Casper, LLC	Wyoming	Greiner Collision Center Greiner Ford of Casper
Lithia of Corpus Christi, Inc.	Texas	Lithia Body and Paint of Corpus Christi Lithia Pre-Owned Vehicles Lithia Chrysler Dodge Jeep Ram of Corpus Christi
Lithia of Des Moines, Inc.	Iowa	BMW of Des Moines Lithia Body and Paint of Des Moines
Lithia of Eureka, Inc.	California	
Lithia of Fairbanks, Inc.	Alaska	Chevrolet GMC of Fairbanks
Lithia of Great Falls, Inc.	Montana	Lithia Chrysler Dodge Jeep Ram of Great Falls
Lithia of Helena, Inc.	Montana	Lithia Chevrolet GMC of Helena
Lithia of Honolulu-A, Inc.	Hawaii	Acura of Honolulu
Lithia of Honolulu-BGMCC, LLC	Hawaii	Honolulu Buick GMC Cadillac
Lithia of Honolulu-F, LLC	Delaware	Honolulu Ford
Lithia of Honolulu-V, LLC	Hawaii	Honolulu Volkswagen
Lithia of Killeen, LLC	Texas	All American Chevrolet of Killeen
Lithia of Lodi, Inc.	California	
Lithia of Maui-H, LLC	Hawaii	Island Honda Island Auto Center
Lithia of Missoula II, LLC	Montana	Lithia Toyota of Missoula
Lithia of Missoula III, Inc.	Montana	Lithia Ford of Missoula
Lithia of Missoula, Inc.	Montana	Lithia Chrysler Jeep Dodge of Missoula
Lithia of Pocatello, Inc.	Idaho	Lithia Chrysler Dodge Jeep Ram of Pocatello
Lithia of Portland I, LLC	Oregon	
Lithia of Portland, LLC	Oregon	Buick GMC of Beaverton
Lithia of Robstown, LLC	Delaware	Chrysler Dodge Jeep Ram of Calallen



**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia of Roseburg, Inc.	Oregon	Lithia Chrysler Dodge Jeep Ram Fiat of Roseburg Lithia Roseburg Auto Center
Lithia of Santa Rosa, Inc.	California	
Lithia of Seattle, Inc.	Washington	BMW Seattle
Lithia of South Central AK, Inc.	Alaska	Chevrolet of South Anchorage
Lithia of Spokane II, Inc.	Washington	Lithia Chrysler Dodge Jeep Ram Fiat of Spokane
Lithia of Spokane, Inc.	Washington	
Lithia of Stockton, Inc.	California	
Lithia of TF, Inc.	Idaho	Lithia Chrysler Jeep Dodge of Twin Falls
Lithia of Troy, LLC	New York	Subaru of Troy
Lithia of Utica - 1, LLC	New York	
Lithia of Utica - 2, LLC	New York	Don's Ford Body Shop Don's Ford
Lithia of Utica - 3, LLC	New York	Subaru of Utica
Lithia of Utica - 4, LLC	Delaware	
Lithia of Walnut Creek, Inc.	California	Diablo Subaru of Walnut Creek Lithia Pre-Owned Center of Walnut Creek
Lithia of Wasilla, LLC	Alaska	Lithia Chrysler Jeep Dodge Ram of Wasilla
Lithia of Yorkville - 1, LLC	New York	
Lithia of Yorkville - 2, LLC	New York	Chrysler Dodge Jeep Ram of Utica
Lithia of Yorkville - 3, LLC	New York	
Lithia of Yorkville - 4, LLC	New York	
Lithia of Yorkville - 5, LLC	New York	
Lithia Orchard Park-H, LLC	Delaware	Ray Laks Honda
Lithia Paramus-M, LLC	New Jersey	Mercedes-Benz of Paramus
Lithia Pittsburgh-S, LLC	Pennsylvania	Subaru of South Hills
Lithia Ramsey-B, LLC	New Jersey	BMW of Ramsey
Lithia Ramsey-L, LLC	New Jersey	Prestige Lexus of Ramsey

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Lithia Ramsey-M, LLC	New Jersey	MINI of Ramsey
Lithia Ramsey-T, LLC	New Jersey	Prestige Toyota of Ramsey
Lithia Real Estate, Inc.	Oregon	
Lithia Reno-CJ, LLC	Nevada	Lithia Chrysler Jeep of Reno
Lithia Reno-VW, LLC	Nevada	Lithia Volkswagen of Reno
Lithia Reno Sub-HYUN, Inc.	Nevada	Lithia Body & Paint Lithia Reno Subaru
Lithia Rose-FT, Inc.	Oregon	Lithia Body & Paint of Roseburg Lithia Ford of Roseburg
Lithia RV Holdings, Inc.	Oregon	
Lithia Salmir, Inc.	Nevada	Lithia Hyundai of Reno
Lithia Sea P, Inc.	California	Porsche Monterey
Lithia Seaside, Inc.	California	BMW of Monterey
Lithia SOC, Inc.	Oregon	Lithia Subaru of Oregon City
Lithia Spokane-B, LLC	Washington	BMW of Spokane
Lithia Spokane-S, LLC	Washington	Subaru of Spokane
Lithia SSP, LLC	Oregon	
Lithia TA, Inc.	Texas	Lithia Toyota of Abilene
Lithia Tennessee Holding, Inc.	Tennessee	
Lithia TO, Inc.	Texas	Lithia Toyota of Odessa
Lithia TR, Inc.	California	Lithia Toyota of Redding
Lithia VA Real Estate, LLC	Virginia	
Lithia VA Sales and Credit, LLC	Virginia	Priority Value Auto Sales Central Atlantic Sales (Newport News)
Lithia VAuDM, Inc.	Iowa	Audi Des Moines Lithia Volkswagen of Des Moines
Lithia Virginia Holding, Inc.	Virginia	
Lithia Wexford-H, LLC	Pennsylvania	Baierl Honda
LLL Sales Co LLC	California	
LMBB, LLC	Oregon	Mercedes-Benz of Beaverton

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
LMBP, LLC	Delaware	Mercedes-Benz of Portland Smart Center of Portland
LMOP, LLC	Oregon	MINI of Portland
LSTAR, LLC	Oregon	
Madison-H, Inc.	Wisconsin	Wilde East Towne Honda
Wesley Chapel-M, LLC (formerly known as Margate-CJD, LLC)	Florida	Mazda of Wesley Chapel
Medford Insurance, LLC	Oregon	
Mesquite-K, Inc.	Texas	Southwest Kia Mesquite
Mesquite-M, Inc.	Texas	
Miami Gardens-BG, LLC	Florida	Lehman Buick GMC
Miami Gardens-G, LLC	Florida	Lehman Genesis
Miami Gardens-Hy, LLC	Florida	Lehman Hyundai Lehman Auto World Collision Center
Miami Gardens-M, LLC	Florida	
Miami Gardens-S, LLC	Florida	Subaru of North Miami
Milton-Air, LLC	Washington	Seattle Airstream Adventures
Mission Hills-H, Inc.	California	Keyes Hyundai of Mission Hills
Mobile-S, LLC	Alabama	
Morgan Hill-Air, Inc.	California	South Bay Airstream Adventures
Newport News-C, LLC	Virginia	Priority Chevrolet
New Port Richey-Moto, LLC	Florida	
Norfolk-F, LLC	Virginia	Priority Ford Norfolk Norfolk Priority Collision
Northland Ford Inc.	Pennsylvania	Baierl Ford
Novi-I, LLC	Michigan	Suburban Infiniti of Novi
Orlando-JLR, LLC	Florida	Land Rover Orlando
Wesley Chapel-Hy, LLC (formerly known as Palm Beach-CJD, LLC)	Florida	Hyundai of Wesley Chapel
PA Real Estate, LLC	Pennsylvania	

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
PA Support Services, LLC	Pennsylvania	
Panama City-Moto, LLC	Florida	
Paramus World Motors LLC	New Jersey	DCH Paramus Honda
Personalized Marketing, LLC	Oregon	
Philadelphia-F, LLC	Pennsylvania	
Phoenix-T, Inc.	Arizona	Bell Road Certified Collision Center Bell Road Toyota
Plymouth-C, LLC	Michigan	Suburban Cadillac of Plymouth Suburban Cadillac Collision of Plymouth
Ramsey HoldingCo, Inc.	Iowa	
Redwood-Hy, LLC	Nevada	ABC Hyundai
RFA Holdings, LLC	Oregon	
Roanoke-H, LLC	Virginia	Priority Honda Roanoke
Rock Business Services, Inc.	California	
Rockwall-H, Inc.	Texas	Honda Cars of Rockwall
Rockwall-K, Inc.	Texas	Southwest Kia of Rockwall
Roseville-C, Inc.	California	
Roseville-K, Inc.	California	
Roseville-T, Inc.	California	Roseville Toyota
Round Rock-K, Inc.	Texas	Kia of Round Rock
Sacramento-L, Inc.	California	Lexus of Sacramento Lexus of Roseville
Salem-B, LLC	Oregon	BMW of Salem
Salem-H, LLC	Oregon	Honda of Salem
Salem-V, LLC	Oregon	Volkswagen of Salem
San Antonio-H, LLC	Texas	Hill Country Honda
Sanford-CJD, LLC	Florida	Chrysler Dodge Jeep Ram of Seminole County
San Francisco-B, Inc.	California	BMW of San Francisco MINI of San Francisco
SCFC Business Services LLC	Delaware	

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Sharlene Realty LLC	New Jersey	DCH Brunswick Toyota
Sherman Oaks-A, Inc.	California	Audi Van Nuys
Sherman Oaks-Ac, Inc.	California	Acura of Sherman Oaks
Sherman Oaks-B, Inc.	California	BMW of Sherman Oaks
Shift Portland, LLC	Oregon	
Smyrna-F, LLC	Georgia	Wade Ford Wade Ford (Pre-Owned) Wade Ford (Fleet)
Driveway Finance Corporation (formerly known as Southern Cascades Finance Corporation)	Oregon	
Southeast SS, LLC	Tennessee	
Southwest Realty Holdings Holdco, LLC	Nevada	
Spokane Valley-Air, LLC	Washington	Spokane Airstream Adventures
Springfield-T, LLC	Virginia	Priority Toyota Springfield
Sterling Heights-F, LLC	Michigan	Suburban Ford of Sterling Heights
Sterling-BM, LLC	Virginia	BMW of Sterling MINI of Sterling
Sterling-RLM, LLC	Virginia	Lamborghini Washington McLaren Washington Rolls-Royce Motor Cars Washington Bugatti Washington
New Port Richey-H, LLC (formerly known as Tamarac-CJD, LLC)	Florida	Genesis of New Port Richey Hyundai of New Port Richey Hyundai of New Port Richey Certified Used Cars
New Port Richey-V, LLC	Florida	Volkswagen of New Port Richey
Tampa-F, LLC	Florida	Elder Ford of Tampa Elder Ford Collision
Tampa-H, LLC	Florida	Tampa Honda

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Tampa Bay-Moto, LLC	Florida	
Thousand Oaks-S, Inc.	California	DCH Subaru of Thousand Oaks
TN Real Estate, LLC	Tennessee	
Troy Collision, LLC	Michigan	Suburban Collision of Troy
Troy Exotics, LLC	Michigan	Aston Martin Detroit Bentley Troy Lamborghini Troy Maserati of Troy McLaren Troy Rolls-Royce Motor Cars Michigan
Troy-F, LLC	Michigan	Suburban Ford of Troy
Troy-BG, LLC	Michigan	Suburban Buick GMC of Troy
Troy-C, LLC	Michigan	Suburban Cadillac of Troy
Troy-CJD, LLC	Michigan	Suburban Chrysler Dodge Jeep Ram of Troy
Troy-H, LLC	Michigan	Suburban Hyundai of Troy
Troy-I, LLC	Michigan	Suburban Infiniti of Troy
Troy-JLR, LLC	Michigan	Jaguar Land Rover Troy
Troy-N, LLC	Michigan	Suburban Nissan of Troy
Troy-S, LLC	Michigan	Suburban Subaru of Troy
Troy-T, LLC	Michigan	Suburban Toyota of Troy
Troy-V, LLC	Michigan	Suburban Volvo Cars
Troy-VW, LLC	Michigan	Suburban Volkswagen of Troy
Troy-M, LLC	Michigan	Suburban Mazda of Troy
Tustin Motors Inc.	California	DCH Tustin Acura
Union-H, LLC	New Jersey	Planet Honda
Union-K, LLC	New Jersey	
Urbandale-S, LLC	Iowa	Ramsey Subaru of Des Moines
Valencia-A, Inc.	California	

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Van Nuys-C, Inc.	California	
Van Nuys-H, Inc.	California	Keyes Hyundai of Van Nuys
Van Nuys-L, Inc.	California	Keyes Lexus of Valencia Keyes Lexus
Van Nuys-T, Inc.	California	Keyes Toyota
Vienna-MN, LLC	Virginia	
Washington-F, LLC	Michigan	Suburban Ford of Romeo
Waterford-F, LLC	Michigan	Suburban Ford of Waterford
Waukesha-CJD, Inc.	Wisconsin	Wilde Chrysler Dodge Jeep Ram
Waukesha-H, Inc.	Wisconsin	Wilde Honda
Waukesha-S, Inc.	Wisconsin	Wilde Subaru
Wesley Chapel-H, LLC	Florida	Wesley Chapel Honda Wesley Chapel Pre-Owned Super Center
Wesley Chapel-T, LLC	Florida	Wesley Chapel Toyota
Wesley Chapel-Moto, LLC	Florida	
West Allis-T, Inc.	Wisconsin	Wilde Toyota
Yuba City-CJD, Inc.	California	John L. Sullivan Chrysler Dodge Jeep RAM
Zelienople Real Estate, L.L.C.	Pennsylvania	
Zelienople Real Estate I, L.P.	Pennsylvania	
Lithia Canada Holding Company, Inc	Canada	Lithia Canada Hold Co
Lithia Master LP Company, LP	Canada	Lithia Master LP and Pfaff APC
Lithia Master GP Company, Inc	Canada	
Lithia Canada Real Estate, Inc	Canada	
Lithia Canada Real Estate 2, Inc	Canada	
Canada-MC, LP	Canada	McLaren Distributorship
Canada-MC GP, Inc	Canada	
Motus Car Rental, LP	Canada	Motus Rental Car, Pfaff Wholesale-Parts & Pfaff Wholesale-Vehicles

**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Motus Car Rental GP, Inc	Canada	
Vaughan-P, LP	Canada	Pfaff Porsche
Vaughan-P GP, Inc	Canada	
Vaughan-A, LP	Canada	Pfaff Audi
Vaughan-A GP, Inc	Canada	
Vaughan-S, LP	Canada	Singer
Vaughan-S GP, Inc	Canada	
Woodbridge-PA, LP	Canada	Pagani of Toronto
Woodbridge-PA GP, Inc	Canada	
Woodbridge-MC, LP	Canada	McLaren Toronto
Woodbridge-MC GP, Inc	Canada	
Autoworks Woodbridge, LP	Canada	Pfaff Autoworks & Pfaff Tuning
Autoworks Woodbridge GP, Inc	Canada	
Lithia Canada Leasing, LP	Canada	Pfaff Leasing & Pfaff Reserve
Lithia Canada Leasing GP, Inc	Canada	
Mississauga-B, LP	Canada	Pfaff BMW
Mississauga-B GP, Inc	Canada	
Guelph-S, LP	Canada	Pfaff Subaru
Guelph-S GP, Inc	Canada	
Markham-P, LP	Canada	Porsche Centre Markham
Markham-P GP, Inc	Canada	
Newmarket-V, LP	Canada	Volkswagen of Newmarket
Newmarket-V GP, Inc	Canada	
Newmarket-A, LP	Canada	H.J. Pfaff Audi
Newmarket-A GP, Inc	Canada	
Markham-B, LP	Canada	BMW Markham & Mini Markham
Markham-B GP, Inc	Canada	
Richmond Hill-H, LP	Canada	Pfaff Harley-Davidson



**SUBSIDIARIES OF LITHIA MOTORS, INC.**  
(as of December 31, 2023)

<b>NAME OF ENTITY</b>	<b>STATE OR COUNTRY OF ORIGIN</b>	<b>ASSUMED BUSINESS NAME(S) (if different than entity name)</b>
Richmond Hill-H GP, Inc	Canada	
Autoworks Markham, LP	Canada	Pfaff Autoworks
Autoworks Markham GP, Inc	Canada	
Vancouver-MP, LP	Canada	McLaren Vancouver
Vancouver-MP GP, Inc	Canada	
Thornhill-H, LP	Canada	Sisley Honda of Thornhill
Thornhill-H GP, Inc	Canada	
Thornhill-A, LP	Canada	Acura of Thornhill
Thornhill-A GP, Inc	Canada	
Vaughan-D, LP	Canada	Ducati Toronto
Vaughan-D GP, Inc	Canada	
Lithia UK Holding Limited	United Kingdom	
Jardine Motors Group UK Limited	United Kingdom	
Jardine Sports Cars Limited	United Kingdom	
Jardine Specialist Cars Limited	United Kingdom	
Wayside Trade Parts Limited	United Kingdom	
Lancaster Public Limited Company	United Kingdom	
Jardine Motors Pension Trustee Limited	United Kingdom	
JMG (Scotland) Limited	United Kingdom	
Jardine Cars Limited	United Kingdom	
Jardine Luxury Vehicles Limited	United Kingdom	
Jardine Automotive Limited	United Kingdom	
JMG LP	United Kingdom	
Arden Maidstone Limited	United Kingdom	Arden Maidstone BMW Mini
Arden Tunbridge Wells Limited	United Kingdom	Arden Tunbridge Wells BMW Mini Motorrad
Arden Aylesford Limited	United Kingdom	
Arden 2 Limited	United Kingdom	

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the registration statements (Nos. 333-190192, 333-43593, 333- 69169, 333-156410, 333-39092, 333-61802, 333-106686, 333-116839, 333-116840, 333-135350, 333-161590, 333-168737, 333-231255) on Form S-8 of our reports dated February 23, 2024, with respect to the consolidated financial statements of Lithia Motors, Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Portland, Oregon  
February 23, 2024

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Bryan B. DeBoer, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2024

By: /s/ Bryan B. DeBoer

Bryan B. DeBoer

Chief Executive Officer, President, Director, and Principal Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Tina Miller, certify that:

1. I have reviewed this annual report on Form 10-K of Lithia Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2024

By: /s/ Tina Miller

Tina Miller

Chief Financial Officer, Senior Vice President, and Principal Accounting Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350**

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bryan B. DeBoer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2024

By: /s/ Bryan B. DeBoer

Bryan B. DeBoer

Chief Executive Officer, President, Director, and Principal Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934 AND 18 U.S.C. SECTION 1350**

In connection with the Annual Report of Lithia Motors, Inc. (the "Company") on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Miller, Senior Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2024

By: /s/ Tina Miller

Tina Miller

Chief Financial Officer, Senior Vice President, and Principal Accounting Officer

**LITHIA MOTORS, INC. (“THE COMPANY”)  
DODD-FRANK COMPENSATION RECOUPMENT POLICY**

**Adopted July 27, 2023**

**Purpose**

Lithia Motors, Inc. (the “Company”) has determined that it is in its best interest to adopt this compensation recoupment policy (this “Policy”) to comply with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”), as codified by Section 10D of the Securities Exchange Act of 1934 (the “Exchange Act”), and Section 303A.14 of the New York Stock Exchange Listed Company Manual.

**Application**

This Policy provides for the Company’s recoupment of certain incentive compensation paid to individuals who are, or were at any time, during the Covered Period (as defined below), executive officers as defined in Rule 10D-1(d) of the Exchange Act (each, a “Covered Executive”) in the case of certain restatements of the Company’s financial statements filed with the Securities and Exchange Commission (“SEC”) to the extent permitted by applicable law. For the avoidance of doubt, a Covered Executive may include a former executive officer that left the Company, retired, or transitioned to an employee role (including after serving as an executive officer in an interim capacity) during a Covered Period. This Policy will be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

**Administration**

This Policy will be administered by the Compensation Committee (the “Committee”) of the Company’s Board of Directors (the “Board”). Any determinations made by the Committee will be final and binding on all affected individuals.

**Interpretation**

The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Section 10D of the Exchange Act and any applicable rules or standards adopted by the SEC and the New York Stock Exchange.

**Recoupment**

In the event the Company is required to prepare an accounting restatement of any of its financial statements filed with SEC under the Exchange Act, or the Securities Act of 1933 due to

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the Company's material noncompliance with any financial reporting requirement under the U.S. federal securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error correction was recognized in the current period or left uncorrected in the current period (in each case, a "Recoupment Event"), the Committee will review all Incentive Compensation that was received by the Covered Executives in the three fiscal years immediately preceding the earlier of: (i) the date the Board, the Committee, or the officer(s) authorized to take such action if Board or Committee action is not required, concludes, or reasonably should have concluded, that the Recoupment Event has occurred or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an accounting restatement (the "Covered Period"). The Covered Period shall also include any transition period (that results from a change in the Company's fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence. For the avoidance of doubt, an out of period adjustment correcting immaterial errors in a prior period that is also not material to the current period is not a Recoupment Event.

In connection with such review, the Committee will require that the Covered Employee promptly repay or forfeit to the Company the full amount of the excess of (1) any Incentive Compensation received, paid to, granted to, or earned or vested by the Covered Employee that was calculated based on the financial statements that were subsequently restated over (2) the amount of such Incentive Compensation to which the Covered Employee would have been entitled based on the restated financial statements. For Incentive Compensation based on (or derived from) stock price or total shareholder return where the amount of recoverable Incentive Compensation is not subject to mathematical recalculation directly from the information in the applicable restatement, the amount will be determined by the Committee based on a reasonable estimate of the effect of the restatement on the stock price or total shareholder return upon which the Incentive Compensation was received (in which case, the Company will maintain documentation of such determination of that reasonable estimate and provide such documentation to the New York Stock Exchange).

For purposes of this Policy, the term "Incentive Compensation" means any compensation that is received, granted, earned, or vested (i) by an individual while they are a Covered Executive, and (ii) based wholly or in part upon the attainment of a financial reporting measure. "Financial reporting measures" are measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from such measures, including stock price and total shareholder return. For the avoidance of doubt, Incentive Compensation does not include annual salary (except with respect to any salary increases earned wholly or in part based on the attainment of a financial reporting measure), bonuses paid solely at the discretion of the Committee or Board that are not paid from a "bonus pool" that is determined by satisfying a financial reporting measure performance goal; bonuses paid solely upon satisfying one or more subjective standards and/or completion of a specified employment period; non-equity incentive plan awards earned solely upon satisfying one or more strategic measures or operational measures; and equity awards that vest solely based on the passage of time and/or attaining one or more non-financial reporting measure.

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For purposes of this Policy, Incentive Compensation will be deemed to have been received during the fiscal period during which the financial reporting measure specified in the compensation award is attained, even if the payment or grant of such Incentive Compensation occurs after the end of such fiscal period.

### **Impracticable**

The Committee will recover any excess Incentive Compensation received reasonably promptly and in accordance with this Policy unless such recovery would be impracticable, as determined by the Committee or, in the absence of such a Committee, a majority of independent directors on the Board, in accordance with Rule 10D-1 of the Exchange Act and applicable securities exchange rules, and either (i) pursuing such recovery would violate home country law of the jurisdiction of incorporation of the Company where that law was adopted prior to November 28, 2022 and the Company provides an acceptable opinion of counsel to the New York Stock Exchange to that effect; (ii) the direct expense paid to a third party to assist in enforcing this Policy would exceed the recoverable Incentive Compensation and the Company has (A) made a reasonable attempt to recover such amounts and (B) provided documentation of such attempts to recover to the New York Stock Exchange; or (iii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of the Internal Revenue Code of 1986, as amended.

The Committee will determine, in its sole discretion, the method for recouping Incentive Compensation pursuant to this Policy.

### **Other Recoupment Rights**

Any rights or remedies under this Policy are in addition to, and not in lieu of, any other rights or remedies that the Company may have pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement, and any other legal rights and remedies available to the Company, or any actions that may be imposed by law enforcement agencies, regulators, administrative bodies or other authorities.

This Policy shall apply and control to the extent inconsistent with the Company's Compensation Recoupment policy adopted in 2022 and the recoupment provisions in the Company's Short Term Incentive Plan and those found in the Company's equity award agreements.

### **Amendment**

The Committee may amend this Policy from time to time in its discretion, and will amend this Policy as it deems necessary to reflect the regulations adopted by the Securities and Exchange Commission under Section 10D of the Exchange Act and to comply with any rules or standards adopted by a national securities exchange on which the Company's securities are then listed.

### **Indemnification or Reimbursement**

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The Company will not indemnify or reimburse any Covered Executives against the loss of any incorrectly awarded Incentive Compensation.

**Effective Date**

This Policy will be effective as of October 2, 2023 and will apply to Incentive Compensation for which the financial reporting measure is attained after that date.

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