



SOFTWARE-DEFINED VEHICLES AND HYBRID ELECTRIFICATION

Transform the US Automotive Landscape

JUNE 2026



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Executive Summary



The US automotive industry maintains a resilient long-term trajectory driven by steady consumer demand, technological innovation, and a strong consolidation landscape. Reflecting this sustained momentum, \$1,241.4 billion is the projected market size of the US automotive industry by 2035, growing at a CAGR of 6.3%. However, near-term growth is balancing against certain macroeconomic headwinds, as elevated financing costs and vehicle affordability pressures cause new vehicle sales to moderate.

These economic factors, paired with an increasing average vehicle age on the roads, have structurally shifted substantial profit pools toward downstream sectors like aftermarket parts, repairs, and dealership operations. As buyers adjust to these shifting market dynamics and look for cost-effective alternatives, 38.3 million units is the projected total for US used-vehicle sales in 2026.

Innovation is heavily concentrated in software-defined vehicles, creating new recurring monetization models through connected vehicle ecosystems. Concurrently, the powertrain transition is shifting toward a hybrid-led phase as consumers seek alternatives to battery electric options, while manufacturers increasingly deploy operational artificial intelligence (AI) across factory floors to enhance quality control and predictive maintenance. This evolving environment continues to fuel robust private equity (PE) investment across components manufacturing, dealership software, and service chains.

38.3 Million Units

is the projected total for US used-vehicle sales in 2026, as per Cox Automotive

\$1.2 Trillion

is the projected market size of the US automotive industry by 2035, growing at a CAGR of 6.3%, as per Market Research Future

Market Overview

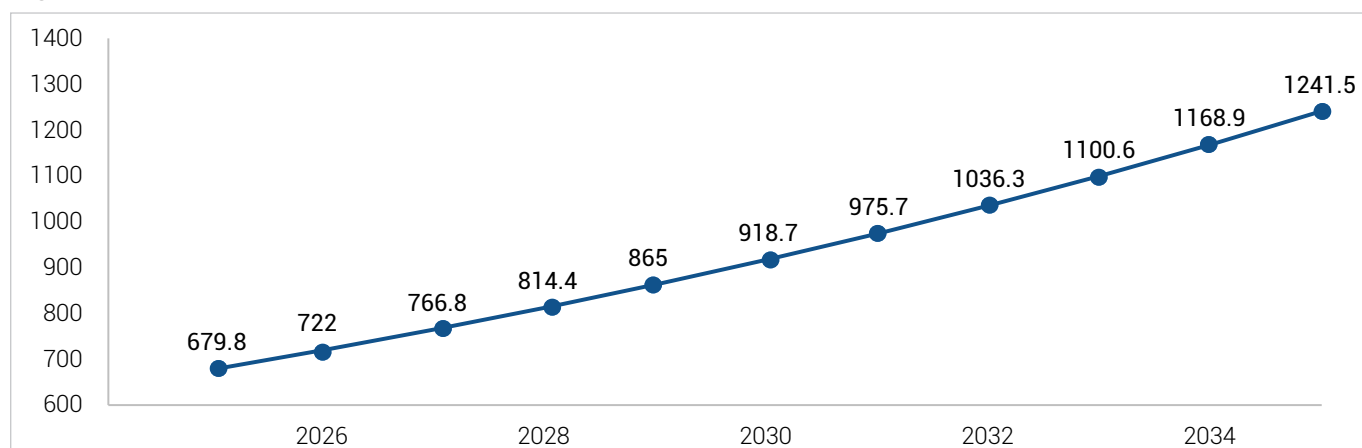


The US automotive industry remains one of the world's largest vehicle markets, with a total market size estimated at \$679.8 billion in 2025 and projected to grow at a 6.3% CAGR through 2035, as per Market Research Future. New light vehicle sales reached 16.2 million units in 2025, the highest level since 2019, reflecting resilient demand despite elevated interest rates and affordability pressures. However, S&P Global Mobility forecasts sales to moderate to approximately 15.8 million units in 2026 as financing costs and vehicle prices remain elevated.

Market demand remains concentrated in high-margin utility vehicles. Compact SUVs accounted for approximately 21% of US registrations as of May 2025, while SUVs, crossovers, and pickup trucks collectively generate more than half of industry sales and the majority of original equipment manufacturer (OEM) profits. The market is also experiencing a gradual powertrain transition. Electric vehicles accounted for 6.5% of new light-duty vehicle sales in 4Q25, while hybrids continue to gain share faster than battery electric vehicles. Competitive dynamics remain concentrated, with General Motors, Toyota, Ford, Hyundai Motor Group, and Honda controlling roughly 66% of the US market. Despite affordability challenges, automotive M&A activity remains robust, with nearly 1,000 transactions announced in 2025. Strategic buyers accounted for approximately 68% of deal activity, while PE investors remained active across suppliers, automotive technology, and retail platforms.

The US automotive industry remains highly consolidated, driven by strong consumer demand for high-margin utility vehicles. Although recent sales achieved a post-pandemic peak, elevated financing costs are expected to moderate near-term growth. Concurrently, the market is experiencing a strategic transition toward hybrid powertrains alongside robust merger and acquisition activity.

Figure 1: US Automotive Market Size (in \$Billions)



Source: Market Research Future

Macro Drivers



Interest Rates & Auto Financing Costs

Auto financing remains a key demand driver, with the Federal Reserve keeping its policy rate at 3.5%-3.8% in April 2026, while the average 60-month new vehicle loan rate remained elevated at 7.5% in February 2026, continuing to pressure monthly vehicle payments and affordability.



Vehicle Affordability & Cost of Ownership

Affordability remains a major constraint on vehicle demand, with the average new vehicle transaction price reaching \$48,841 in July 2025, while the average monthly payment stood at \$752 in March 2026, despite improving incentives and income growth.



Consumer Confidence & Purchase Sentiment

Consumers remain cautious about major purchases, as the Conference Board Consumer Confidence Index fell from 98 in May 2025 to 93.1 in May 2026, contributing to delayed vehicle purchases and increased demand for used vehicles.



Labor Market Conditions and Income Growth

Consumer purchasing power remains supported by a relatively healthy labor market, with unemployment at 4.3% in May 2026, although real average hourly earnings decreased 0.7% YoY, limiting the ability of households to absorb higher ownership costs.



Household Debt & Auto Credit Health

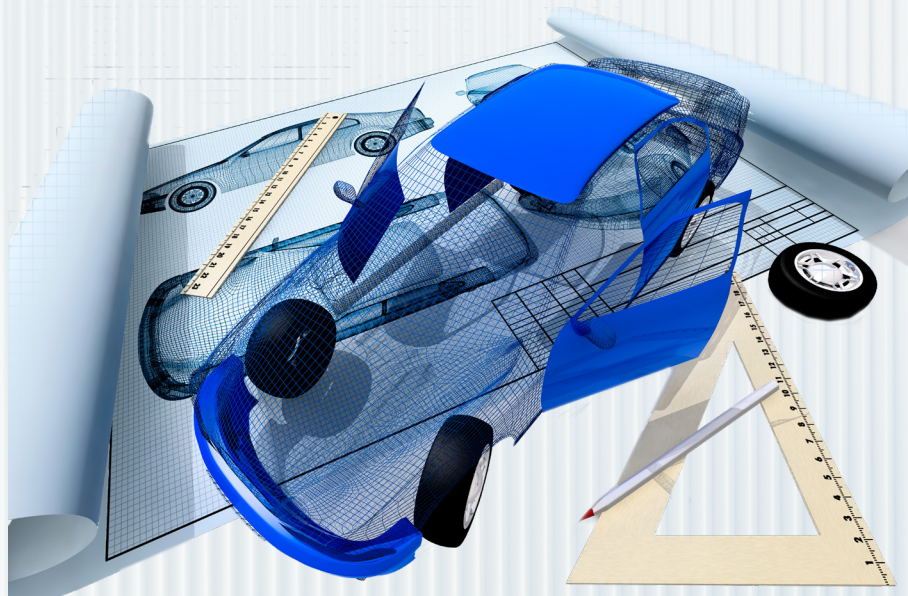
Rising consumer leverage continues to affect vehicle financing, with US auto loan balances reaching \$1.7 trillion in 4Q25, while 60+ day auto loan delinquencies stood at 1.6% in October 2025, remaining significantly above pre-pandemic levels.



Economic Growth and Consumer Spending

Economic growth continues to support automotive demand, with US GDP expanding 2.2% in 2025, while new light-vehicle sales increased 2.4% YoY to 16.2 million units, demonstrating resilience despite broader macroeconomic headwinds.

Emerging US Automotive Trends



Aging Vehicles Fuel Growth in Aftermarket and Service Revenue

The US automotive industry is witnessing a structural shift in profit pools away from new vehicle sales and toward downstream revenue streams such as aftermarket parts, service, repairs, used vehicles, and dealership fixed operations. This transition is being driven by an aging vehicle fleet, elevated vehicle prices, and changing consumer behavior.

According to S&P Global Mobility, the average age of vehicles on US roads reached a record 12.8 years in 2025, while the vehicle parc expanded to 289 million units. Affordability pressures have encouraged consumers to retain vehicles longer, increasing demand for maintenance and repair services. Reflecting these trends, the US light-vehicle aftermarket reached \$413.7 billion in 2024 and an estimated \$435 billion in 2025, with forecasts indicating it will exceed \$500 billion by 2028. Meanwhile, US used-vehicle sales are expected to reach 38.3 million units in 2026, as per Cox Automotive.

The growing importance of downstream activities is reshaping dealership economics and investment activity. US franchised dealerships generated \$164.6 billion in service and parts revenue in 2025, supported by more than 276 million repair orders, as per NADA. Although service and parts represented just 13.3% of dealership revenue, they accounted for a larger share of profitability due to higher margins than vehicle sales. These economics have fueled consolidation across dealerships, collision repair operators, service chains, and aftermarket distributors. For investors, downstream automotive businesses offer predictable cash flows, consolidation opportunities, and exposure to a vehicle fleet that continues to age regardless of broader industry cycles.

12.8 Years

was the record average age reached by vehicles on US roads in 2025, as per S&P Global Mobility

\$164.6 Billion

in service and parts revenue was generated by US franchised dealerships in 2025, as per NADA

Software-Defined Vehicles Drive Automotive Software Monetization

Software-defined vehicles (SDVs) are reshaping the automotive industry's value creation model by expanding revenue opportunities beyond vehicle sales into software, connectivity, and data-driven services. Automakers are investing heavily in AI, over-the-air (OTA) updates, and connected ecosystems to unlock recurring revenue streams and enhance customer engagement. Industry estimates suggest the global automotive software and electronics market is expected to exceed \$500 billion by the next decade, while modern vehicles now operate on approximately 650 million lines of code. Connected vehicle adoption is accelerating, with the number of US connected-car drivers projected to reach roughly 203 million by 2029, enabling manufacturers to continuously upgrade vehicle functionality throughout the ownership cycle.

The commercial impact is increasingly visible. Tesla reported approximately 1.3 million active Full Self-Driving subscriptions in 1Q26, while General Motors ended 2025 with 12 million OnStar subscribers and expects software and services deferred revenue to increase from \$5.4 billion to \$7.5 billion by the end of 2026. Rivian's software and services business generated approximately \$1.5 billion in 2025. Transactions such as Harman's acquisition of ZF's ADAS business and NXP's purchase of TTTech Auto highlight growing demand for software, connectivity, and AI capabilities. For investors, SDVs are a top growth theme, underpinned by recurring revenue, data monetization, and rising demand for software, connectivity, and AI across the vehicle lifecycle.

The Hybrid-Led Shift in Automotive Electrification

The US automotive industry is entering a new phase of electrification in which hybrids, rather than battery electric vehicles (BEVs), are driving growth. Hybrid vehicles accounted for nearly 20% of US new-vehicle sales in late 2025, making them the fastest-growing powertrain segment. In contrast, BEV market share declined from 10.6% in 3Q25 to 5.8% in 1Q26 following the expiration of federal EV incentives and softer consumer demand. Deloitte's 2026 Global Automotive Consumer Study found that 21% of US consumers intend to purchase a hybrid as their next vehicle, compared with just 7% for BEVs. Range concerns, charging times, and higher purchase costs remain key barriers to EV adoption.

Automakers are adjusting their strategies accordingly. Ford is increasing its focus on hybrid and range-extended vehicles after accumulating approximately \$19.5 billion in EV-related losses, while General Motors has reintroduced plug-in hybrids and recorded roughly \$7.6 billion in EV-related restructuring charges. Toyota, Honda, Hyundai, and Kia continue to expand hybrid offerings, with hybrids becoming a major contributor to sales growth. The shift is boosting demand for power electronics, hybrid powertrains, and automotive semiconductors. Supported by transactions such as Eaton's \$9.5 billion acquisition of Boyd's thermal-management business, the hybrid-led transition is creating attractive opportunities in technologies that benefit from both hybrid and electric vehicle growth.

203 Million

is the projected number of US connected-car drivers by 2029, as per eMarketer

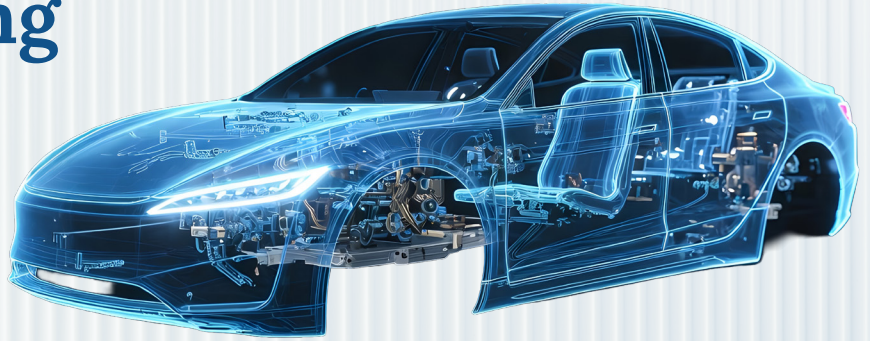


21%

of US consumers intend to purchase a hybrid as their next vehicle, as per Deloitte's 2026 Global Automotive Consumer Study



Operationalizing AI in the US Automotive Industry



AI Emerges as a Competitive Advantage in Automotive Operations

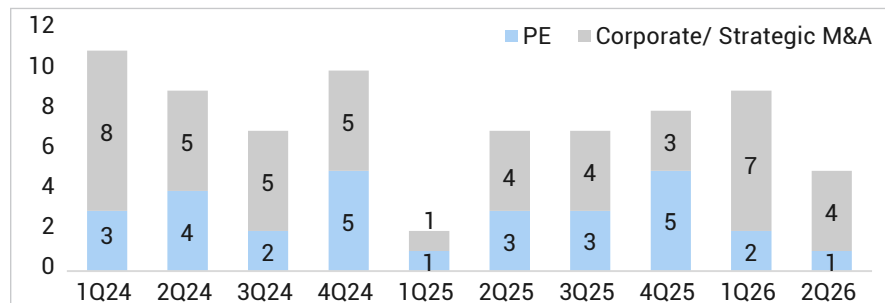
Based on recent deployments, AI is emerging as a meaningful source of operational advantage across the automotive value chain. Rather than focusing solely on autonomous driving, OEMs are increasingly applying AI across manufacturing, engineering, and enterprise functions. A 2025 study found AI-enabled inspection systems achieved up to 98.3% defect-detection accuracy and reduced end-of-line quality issues by 48.2%, highlighting AI's growing role in improving efficiency, quality, and cost performance.

Among OEMs, General Motors has emerged as a leader in applying AI directly to manufacturing operations. The company has deployed AI-powered quality-control systems across assembly lines to inspect weld integrity and detect EV battery tray leaks, improving defect identification beyond traditional manual inspection methods. Tesla is leveraging AI-driven predictive maintenance across its production facilities, with the company reporting more than a 30% reduction in unplanned factory downtime at its California plant. Stellantis has taken a broader enterprise-wide approach, deploying a generative AI-enabled predictive maintenance platform across 28 manufacturing sites globally. The system analyzes historical plant issues and resolutions to recommend fixes and improve equipment reliability. Together, these examples illustrate how AI adoption in automotive is shifting from isolated pilot projects to scaled operational deployments. The most compelling opportunities are increasingly found in applications that improve factory utilization, reduce downtime, enhance quality control, and accelerate engineering productivity, as these use cases offer clearer and more immediate returns on investment than many emerging automotive technologies.

AI is emerging as a critical lever for improving operational efficiency across the automotive value chain as OEMs deploy it across manufacturing, engineering, and enterprise functions. Leading automakers are using AI to enhance quality control, predictive maintenance, and equipment reliability, demonstrating a shift from pilot projects to scaled deployments that strengthen manufacturing performance, reduce downtime, and improve productivity.

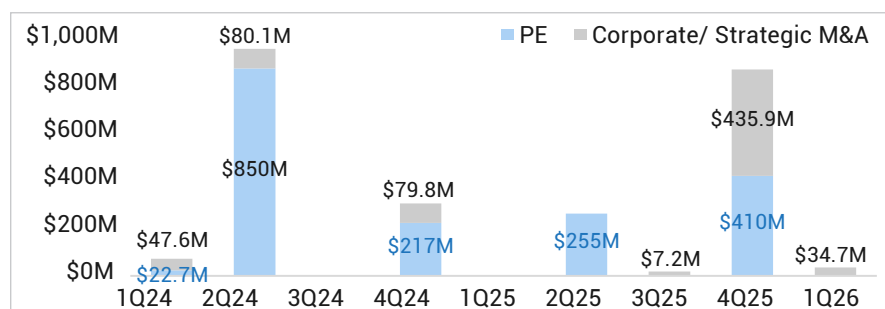
Key US Automotive Deals

Figure 2: Automotive Lower Middle Market and Middle Market Deal Count



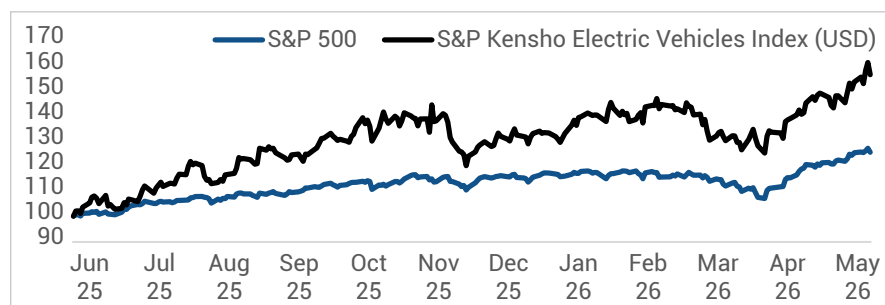
Source: PitchBook, data as of May 18, 2026

Figure 3: Automotive Lower Middle Market and Middle Market Capital Raised



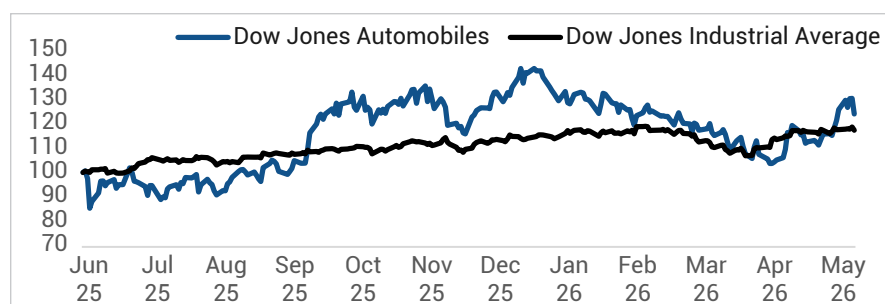
Source: PitchBook, data as of May 18, 2026

Figure 4: Dow Jones Automobiles YTD Performance



Source: Investing.com, data as of May 15, 2026

Figure 5: S&P Kensho Electric Vehicles Index YTD Performance



Source: Investing.com, data as of May 15, 2026

Automotive Lower Middle Market and Middle Market Deal Summary

74
Companies

79
Deals

86
Investors

52
Exits

\$1.6B
Largest Deal

\$3.6B
Capital Invested

Key Private Equity Deals Tombstones

March 09, 2026



to Acquire



a provider of quick-lube and automotive maintenance services, for approximately \$1.3 Billion.

November 11, 2025



to Acquire (Majority Stake)



a provider of automotive aftersales software connecting OEMs, dealers, and parts wholesalers, for an undisclosed amount.

October 14, 2025



Acquires



a provider of call-intelligence and communications software for automotive dealerships, for an undisclosed amount.

August 14, 2025



Acquire



a manufacturer of automotive tools and lighting products for the aftermarket sector, for an undisclosed amount.

June 13, 2025



Acquires



a distributor and service provider of automotive shop equipment solutions, for an undisclosed amount.

February 13, 2025



Acquires (Majority Stake)



manufacturers of forged and precision-machined automotive components, for approximately \$400 Million.

February 13, 2025

TRIVE CAPITAL

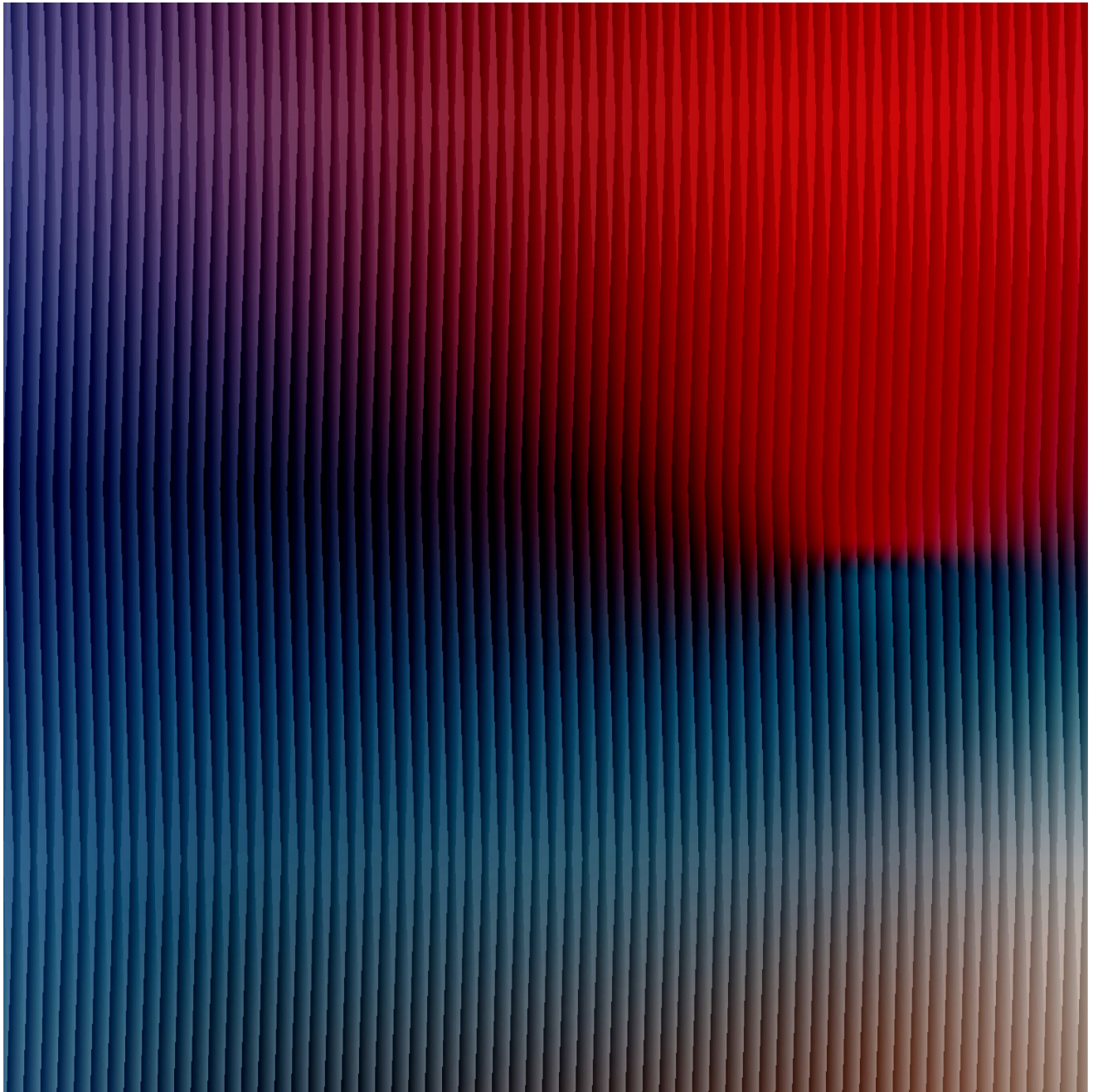
Invests



a provider of collision repair services through a multi-shop operator platform, for an undisclosed amount.

Automotive Upcoming Events

		
Automotive Chassis Systems USA 2026 Conference	June 23–24, 2026	Ann Arbor Marriott Ypsilanti, Eagle Crest, MI
Safety.AD USA	June 29–30, 2026	Hyatt Regency, San Francisco Downtown Soma, CA
Auto.AI USA	June 29–30, 2026	Hyatt Regency, San Francisco Downtown Soma, CA



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