THE HAIG REPORT

Q4 | 2020

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- *Economic conditions continue to recover as COVID fears begin to wane*
- *Dealership profits (excluding PPP) jumped 34.2% from 2019, reaching record-high levels*
- *Public company spending on US auto acquisitions exceeded $2.5B, the highest level ever*
- *Buy-Sell activity has surpassed pre-COVID levels*
- *Blue sky values rose 20% and are now at record-high levels*
- *Public equity valuations are 107% higher than they were before the pandemic*
- *SEE PAGES 4 AND 16 FOR OUR OUTLOOK ON THE INDUSTRY AND BUY-SELLS*

HAIG PARTNERS

Integrity. Confidentiality. Experience.

OVERVIEW

Dealers may quote Charles Dickens when they describe 2020 to their grandchildren: "It was the best of times, it was the worst of times." We went from the most severe economic contraction in our nation's history to a period when dealerships reached record profitability. Our nation mourns the vast personal losses that many suffered during the pandemic, but we are grateful dealers were able to maintain most of their staff, keep them safe, and provide essential services to their customers. We are also thankful that vaccines are now being administered to many millions of people across the US. Our country now sits at the beginning of what is expected to be a long run of economic expansion, rising levels of employment and compensation, healthy consumer balance sheets, and low-interest rates. The OEMs have also earned big profits during this period which will help them design and market the next wave of products for consumers. Dealers have lots of cash, less debt, and plenty of optimism for the future. Does it get much better than this?

The surprisingly good conditions in auto retail have led to a significant uptick in dealership acquisitions. While the pandemic brought the buy-sell market to a halt from March through June, the level of M&A spending escalated quickly as dealers saw their profits begin to rebound strongly. The public retailers spent 61% more on US auto dealerships in 2020 than in any other year. On a combined basis, public and private buyers purchased 15% more dealerships in 2020 than in 2019, and the pace remains strong in 2021.

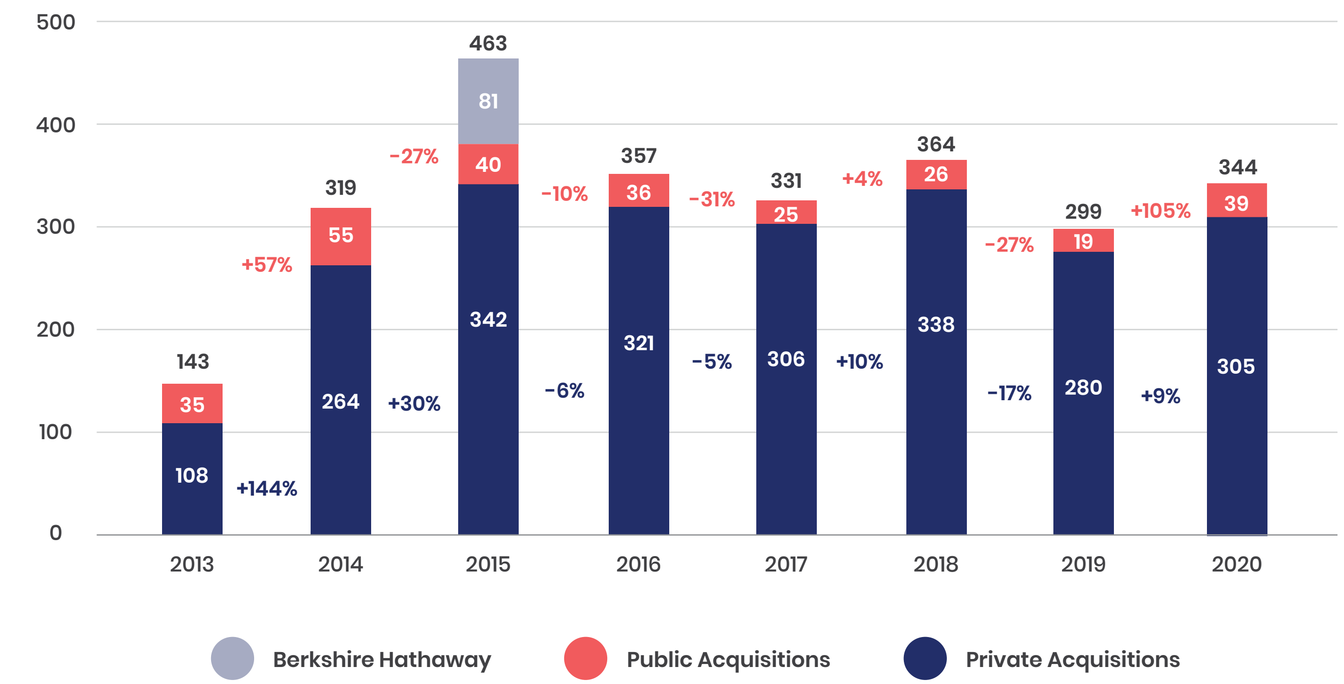
Investors have been paying close attention to our industry. Demand for shares of the public companies jumped due to the impressive growth in profits. The average public company stock price increased 107% from prior to the pandemic. Private dealers have also fared well. Their profits jumped an average of 34.2% from 2019 with estimated PPP forgiveness excluded. The demand from both public and private buyers has pushed up the blue sky values of dealerships to the highest level we have recorded. For the foreseeable future, we are past the "worst of times" and can now enjoy more of the "best of times."

Buy-Sell Activity Has Surpassed Pre-COVID Levels

COVID had a significant impact on the buy-sell market. Buyers had been purchasing an average of 25 to 30 dealerships per month over the past few years. From January to March 2020 the market was maintaining this pace before buyers became alarmed at the potential impact of COVID and pulled back. Closings in April and May dropped to under five per month, a decline of about 80%.

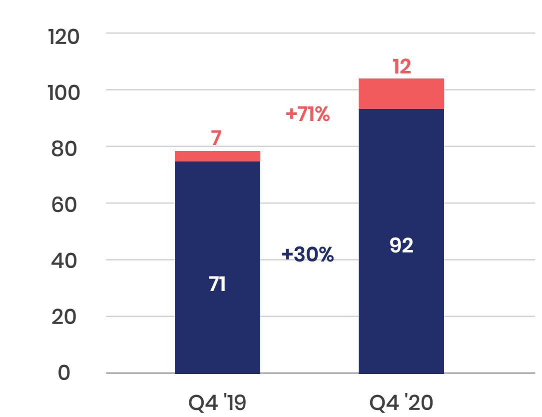
Once customers returned to showrooms and dealership profits began rebounding, so did the buy-sell market. In Q4 2020, we saw 104 dealerships change hands, a 33% increase compared to Q4 2019. Buy-sell activity in 2020 finished 15% higher than 2019 even with the collapse in Q2.

US DEALERSHIPS BOUGHT/SOLD



Source: Banks Report & Haig Partners

Q4 US DEALERSHIPS BOUGHT/SOLD



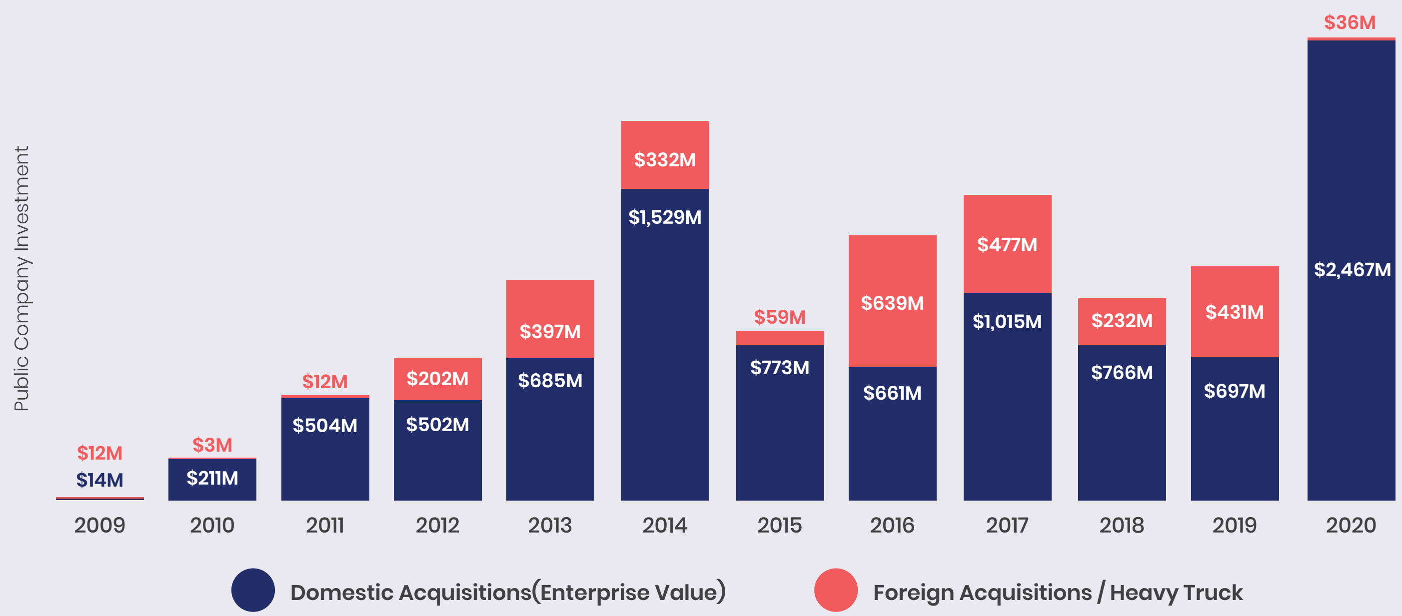
Public Company Acquisition Spending Has Reached Record Levels

The **amount** of spending by public companies exploded in 2020. A total of $2.5B was spent in 2020 on domestic acquisitions by the publics, a 249% increase compared to 2019. The massive increase in spending is attributable primarily to Asbury's and Lithia's acquisitions of stores in Texas and California that totaled $2.2B in the second half of 2020. In fact, the amount spent on domestic acquisitions by the public auto retailers in 2020 was 61% higher than in 2014, which previously held the record for public company acquisition spending.

Why this Level of Spending Matters

- Asbury and Lithia have publicly committed to spending many billions of dollars for acquisitions and they still have a long way to go before reaching their goals.
- Due to their high levels of spending, Lithia and Asbury are putting the other publicly traded companies under pressure to acquire dealerships or risk being left behind.
- It shows there is a market for even the largest dealership groups.
- Private buyers become more convinced that they should also be growing in this environment.
- Dealership values are boosted by strong demand.

PUBLIC COMPANY ACQUISITION SPENDING



Source: SEC filings

Buy-Sell Outlook for 2021

The high level of buy-sell activity that we saw in the second half of 2020 is continuing in the first half of 2021. We have already seen a number of large transactions close and more have been announced. Our firm is on track to close six transactions in Q1 2020 which would put us far ahead of where we were in 2020. There are many buyers looking to acquire dealerships even at today's healthy prices and lenders are also bullish and eager to lend to acquirers. Buyers are open to more brands than in the past since all franchises are making good money. And the demand is nationwide. We have seen strong offers in all regions of the country.

We stated in our last report that it's possible we could be entering into a more rapid phase of consolidation in our industry. Current dealership valuations are high, and some dealers are increasingly concerned that they may not possess the skills, information technology, and scale needed to compete with large groups in the future. These worries could lead to an increase in the supply of dealerships for sale, a development that would be welcomed by the many buyers in the market today.

Blue Sky Values Increase For Most Brands

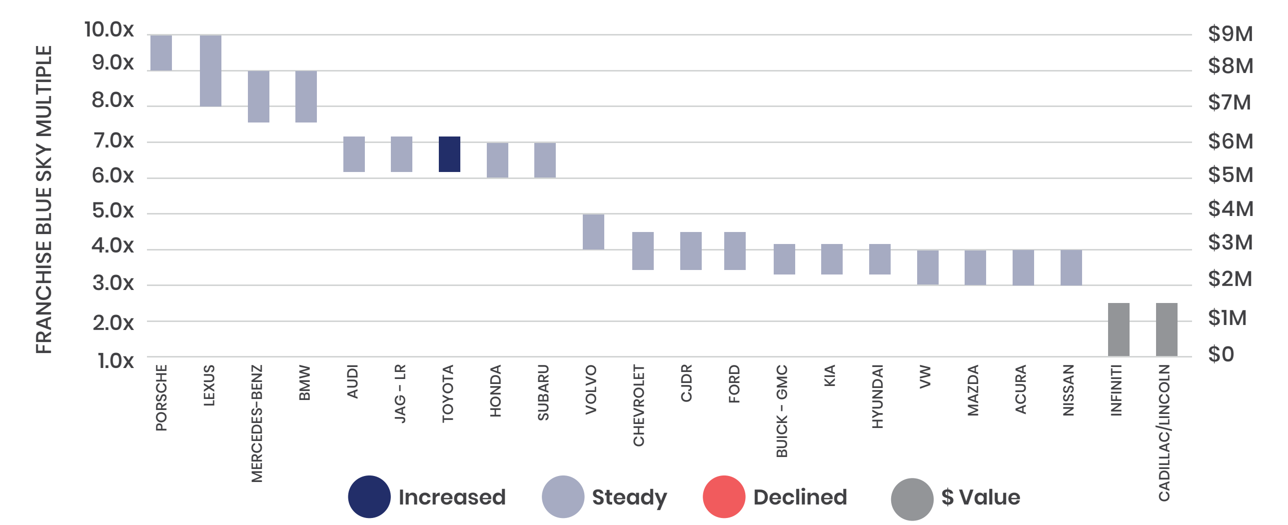
We carefully monitor the buy-sell market to assess the desirability of various auto franchises. We analyze offers for the transactions that we are involved in and regularly speak with leading buyers and many attorneys and CPAs who are involved in other acquisitions. When COVID arrived, it quickly had an impact. Some buyers pulled their offers, while others demanded price concessions. But as dealership profits rebounded, so did franchise values. While every transaction varies, we now estimate that most dealerships are about 20% more valuable today than they were at the end of 2019 in terms of blue sky values, largely due to higher profitability levels.

In previous years we saw buyers focused primarily on adjusted profits from the most recent twelve-month period when calculating their blue sky offers since this period best predicted how the dealership might perform in the next twelve-month period after an acquisition. This method was dropped in 2020 as buyers told us they were excluding any financial results from 2020 that had either been suppressed or inflated due to COVID. Instead, buyers in 2020 were primarily using year-end 2019 results when calculating their offers. But now that the strong performance of the second half of 2020 seems likely to continue for 2021 and possibly beyond, we are seeing buyers factor 2020 profits into their calculations. An increasing number of buyers are using a three-year average of adjusted profits from 2018 through 2020 as their prediction of future profits. Other buyers pay less attention to the profits a seller made in the past and rely primarily on their own forecasts that are based on their expectations of the future and the cost structures they maintain at their existing dealerships. All buyers are likely including lower interest rates in their calculations. Regardless of the method used, buyers today are placing higher values on dealerships than in any previous year that we have seen.

The table below sets forth our expectation of what a buyer would pay for blue sky for various franchises, based upon a three year average of adjusted pre-tax profits, excluding any PPP forgiveness.

Note: we are seeing particularly high interest in states like Florida and Texas where the business climate is favorable and there is no state income tax. Blue sky multiples will likely be higher than in the chart below.

HAIG PARTNERS NATIONAL AVERAGE BLUE SKY MULTIPLES



The chart above is a guide for many dealerships. Still, the amount buyers will pay for dealerships varies depending upon many factors and can be higher or lower than the ranges we indicate. The table below provides a list of some qualifying factors that could impact the value paid for a dealership.

FACTORS IMPACTING MULTIPLES

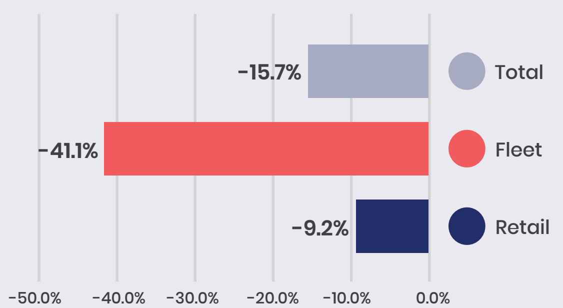
TRENDS IMPACTING AUTO RETAIL

New Unit Sales Continue To Rebound

Combined retail and fleet sales for 2020 declined 16% from 2019. This reflects a fall in sales of 9.2% for retail and 41.1% for fleet. The big drop in fleet came as rental car companies stopped buying vehicles as travelers stayed home, and municipalities also reduced their purchases.

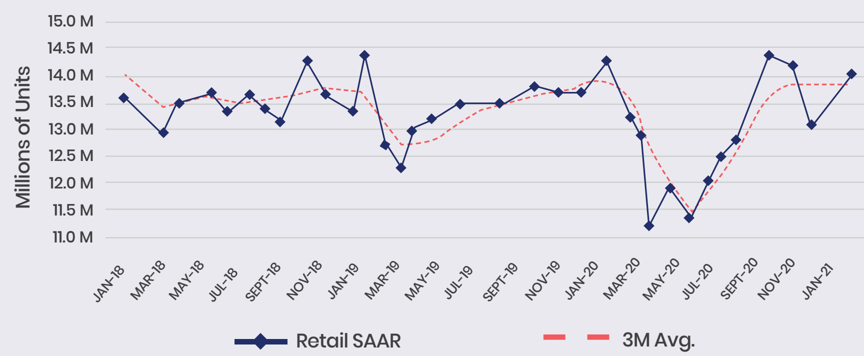
Retail sales have been rebounding nicely. SAAR has now topped the 16-million mark in four of the last five months and currently sits just 1% below pre-pandemic levels. For the rest of 2021, many experts are projecting continued growth in new vehicle sales compared to last year unless supply continues to be constrained due to the pandemic and microchip shortage. Based on these projections, total new unit sales would be 8% less than what the industry sold in 2019, although retail sales could actually be higher than in 2019.

CHANGE IN SALES
2020 vs. 2019



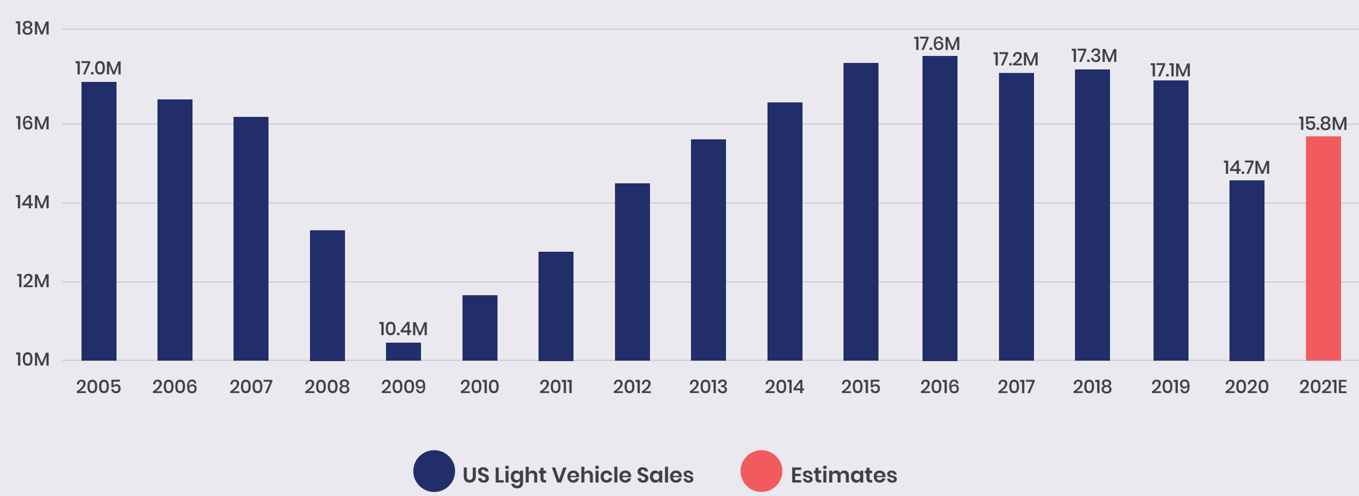
Source: JD Power

RETAIL SAAR



Source: JD Power

US LIGHT VEHICLE SALES

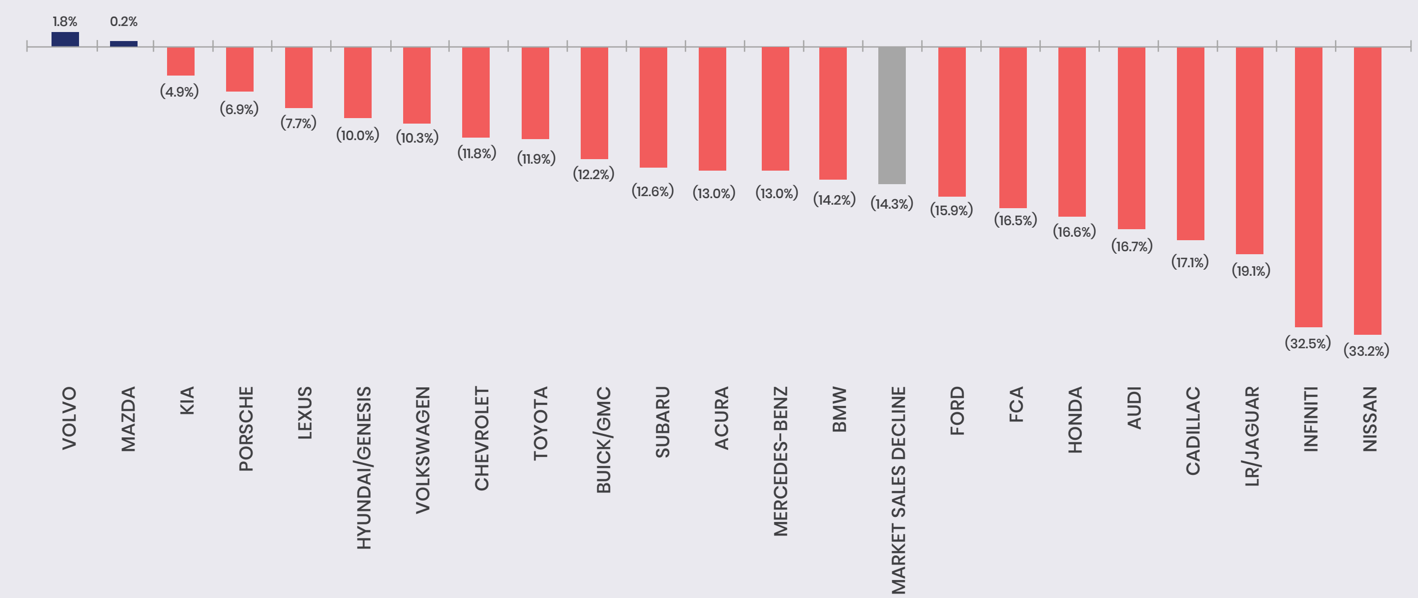


Source: Automotive News

Changes In Sales For Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in 2020 compared to 2019. All franchises besides Volvo and Mazda saw declining sales. Note, this data reflects changes in total sales per brand, including fleet sales, so the sales decline at dealerships is less severe.

YEAR/YEAR SALES PERFORMANCE – 2020



Source: Automotive News

GDP Is Recovering

GDP fluctuated wildly in 2020, going from the worst quarterly contraction in history during Q2 to the most robust quarterly growth in history for Q3. It ended down 2.3% compared to 2019, a remarkably good outcome thanks to massive government stimulus. The Congressional Budget Office predicts GDP will return to its pre-pandemic level in mid-2021, and to continue growing at an annual rate of 2.6% over the next five-year period.

Unemployment Continues To Drop

The unemployment rate has steadily improved since it spiked to 14.7% in April. According to the U.S. Bureau of Labor Statistics, the unemployment rate declined to 6.2% in February. We still have a long way to go as overall employment is down by almost 9.9 million jobs since February 2019.

Household Wealth Is At All Time High

Although employment has not yet fully rebounded, the average US household has more money to spend than ever before. The Federal Reserve stated that household net wealth was 10% higher at the end of 2020 than it was at the end of 2019. The gains came from lower debt, partly due to stimulus checks, and higher asset values from equities and real estate. This means that many consumers are in a strong position to purchase higher-value goods like autos, and that they will qualify for low-interest rates.

Fuel Prices Remain Low

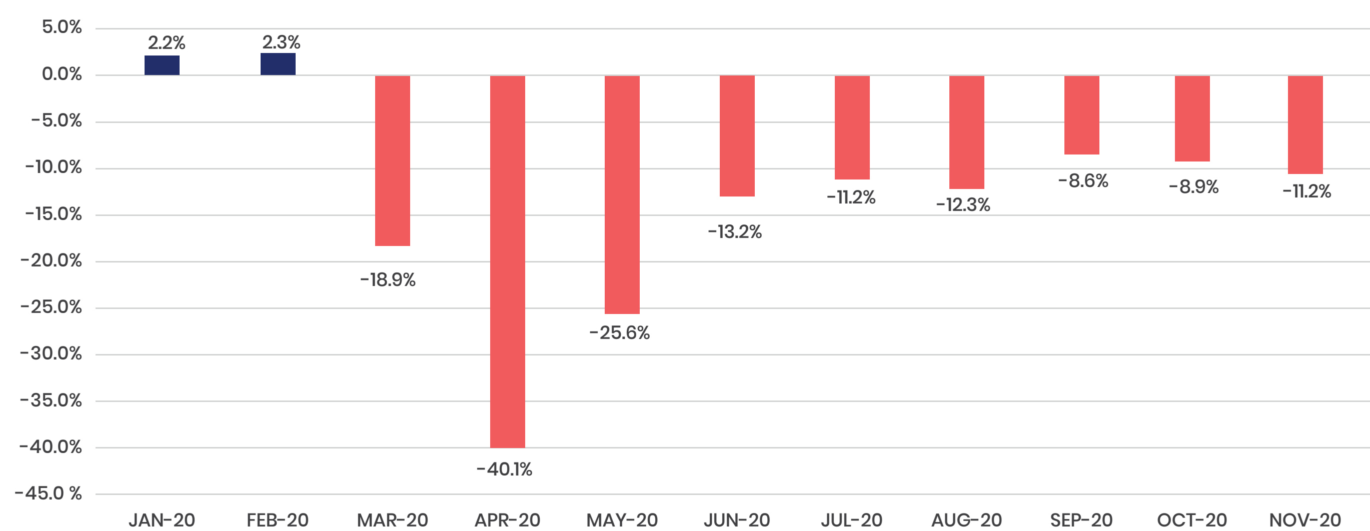
The national average price per gallon of gas in the pump was $2.58 at the middle of February 2021, 2.8% above the level at the same time last year. Economists predict that prices will remain around the same level through the end of 2022.

Miles Driven Fell, May Rebound This Summer

The number of miles driven on an annual basis is a crucial driver for our industry as it heavily influences the replacement rate for vehicles and spending on fixed operations. As people stayed home due to the pandemic, travel on all roads and streets plummeted. As the vaccine rolls out, it could have a big impact by making people feel more comfortable driving. We expect the number of miles driven to increase as we move further into 2021, although it may remain below historical levels for some time if people choose to continue to work, attend school and shop from home.

PERCENT CHANGE IN MILES DRIVEN BY MONTH

2019 vs. 2020



Source: Federal Department of Transportation

Interest Rates Will Continue To Remain Near Zero

The Federal discount rate has been hovering at just 0.25%, and the Federal Reserve has vowed it will remain at this level for years to come. Last year at this time it was 1.75%. Low-interest rates help to stimulate auto purchases and leases since they reduce the monthly payments for consumers. According to Edmunds, the average interest rate for a new-vehicle loan was 4.4% as of February 2021, compared to 5.6% in February of 2020. Low rates will also continue to boost dealer profits by reducing floorplan expenses and mortgage payments.

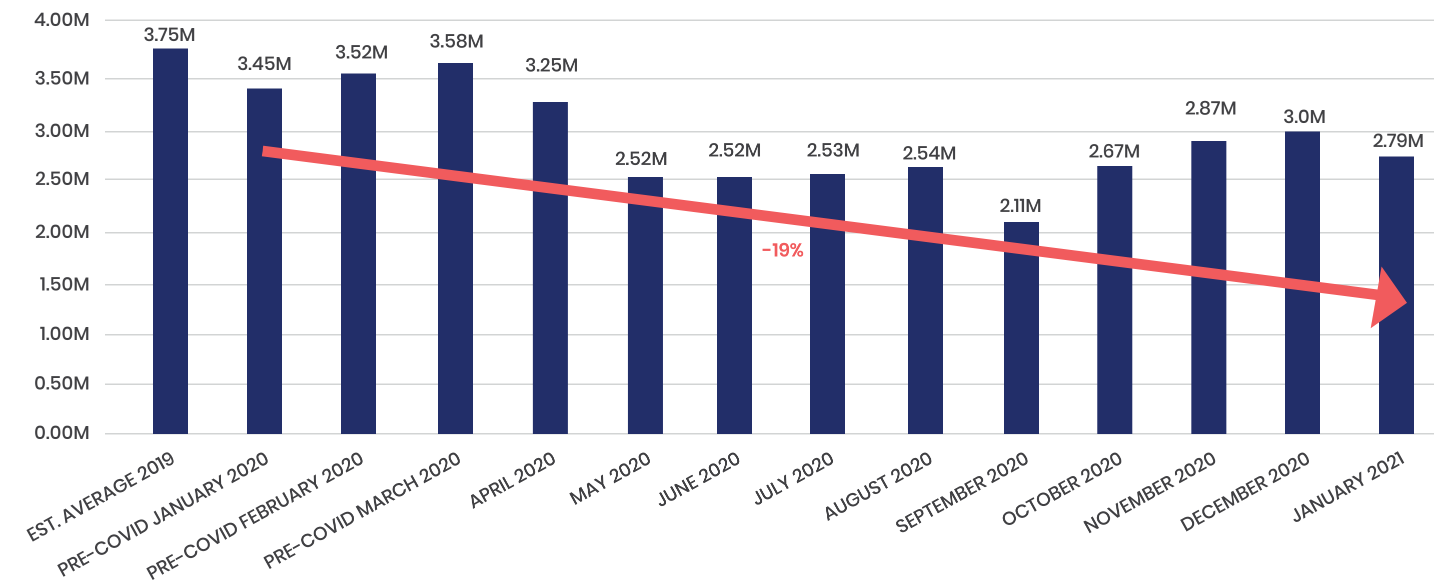
Consumer Confidence Is Rising, But Uncertainty Remains

The Consumer Confidence Index plummeted from a near historic high of 101.0 in February 2020 to 71.8 in April 2020. After months of fluctuation, the index reached 79.0 in February 2021. As infection rates and unemployment decline and the latest stimulus checks reach consumers' bank accounts, many economists predict a resurgence in consumer confidence and an uptick in spending.

Inventory Levels May Fall Again

While demand from consumers has rebounded strongly, supply from the OEMs is still low due to COVID-related production shortfalls and, more recently, a computer chip shortage. The result is that inventory levels have fallen precipitously over the last nine months. As shown in the table below, new vehicle inventory levels are down 19% from the beginning of January 2020 to the beginning of January 2021. Many of the manufacturers have stated inventory levels will continue to be suppressed due to the semiconductor chip shortage. Ford released a statement in February 2021 stating the lack of chips could cut the company's production by up to 20% in Q1 of 2021. Dealers tell us that many new vehicles are being sold off the car carriers as soon as they arrive at dealerships, at full sticker.

U.S. AVERAGE NEW VEHICLE INVENTORY



Source: Cox Automotive & J.D. Power

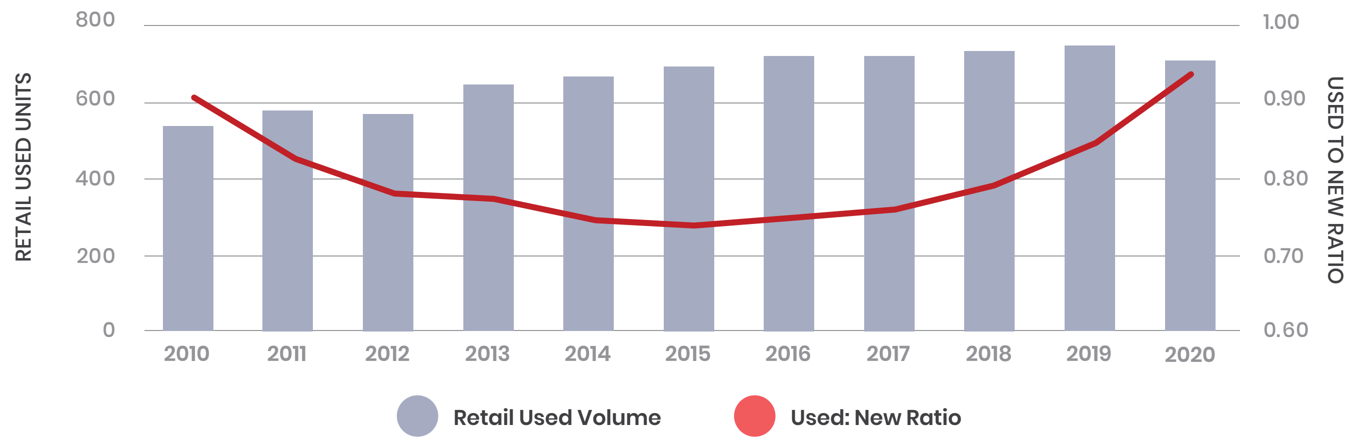
Electric Vehicles May Become a Bigger Factor for Dealers

EVs have only a small market share in the US, less than 3%. Almost every OEM, however, has been investing billions to develop EV products in the hopes they can sell them in larger numbers. Tesla has been leading the way for years, and they have been able to take a significant amount of market share in CA. One sales report we saw showed Tesla outselling other luxury brands in almost every part of the state. President Biden and many members in Congress are likely to take measures to reduce the amount of carbon emitted in the US and EVs will certainly become a bigger part of the sales mix in other states as well. What's uncertain is what the demand from consumers will be, and how profitable these units will be for dealers on both the sales and service side. We all know EVs require less maintenance, but we don't know what their long-term needs will be and how many years after the warranty expires will consumers bring them back to dealerships, as opposed to the independent repair market. The service business for dealers and EVs could be the same, possibly better, when battery replacement is factored in a decade down the road.

Dealers Are Increasingly Focused On Used Vehicles

Since the supply of new vehicles fell sharply earlier this year, dealers have increasingly focused on selling more used vehicles. Used vehicles sold at franchised dealerships account for just 30% or so of the total number of used units sold, so there is plenty of room for growth in dealers' used vehicle departments. Per NADA, privately owned franchised dealers had a used-to-new ratio of 0.91:1.0 for 2020. This ratio is up from the 0.85:1.0 average in 2019 and we expect it to grow thanks to more focus from dealers.

NADA AVERAGE USED SALES PER DEALERSHIP



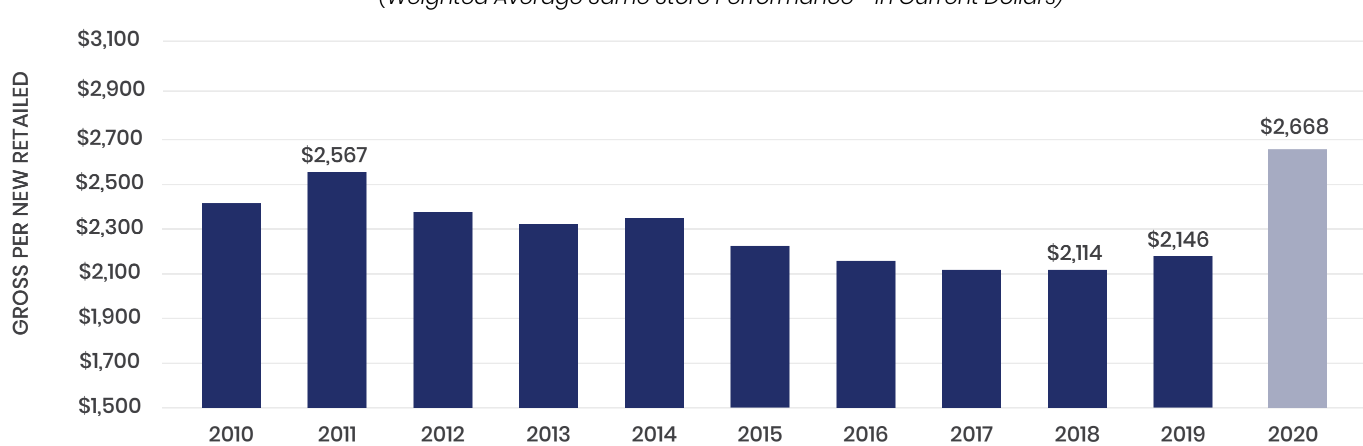
Source: NADA

New Vehicle Grosses At Post Recession Highs

Gross profits per new vehicle jumped an amazing $522 on average from 2019 to 2020 for the public retailers. One important question many in the industry are asking is, how long can this continue? History may provide us some guidance. The Japanese tsunami and Thai floods of 2011 created the last supply shock in auto retail. Production dropped most for Toyota, Honda, and Ford. During that period, almost all dealers compensated for the lack of inventory by raising prices. Production, however, returned within a few months and dealers saw their new vehicle gross profits per vehicle fall back to pre-flood levels within less than a year. We are hoping that the OEMs realize that their profits have also been far higher during COVID, where they produced fewer units but made more profit since they spent far less money advertising and incentivizing their products. A number of seasoned dealers laugh at our hopes, however. They expect the OEMs will resort to fighting over market share and will return to their ways of overproducing and then resorting to costly methods to clear out inventory. We make a friendly suggestion to our OEM friends and urge them to read our guest editorial that was published in Automotive News that was entitled, "Less Is More."

NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same Store Performance - In Current Dollars)



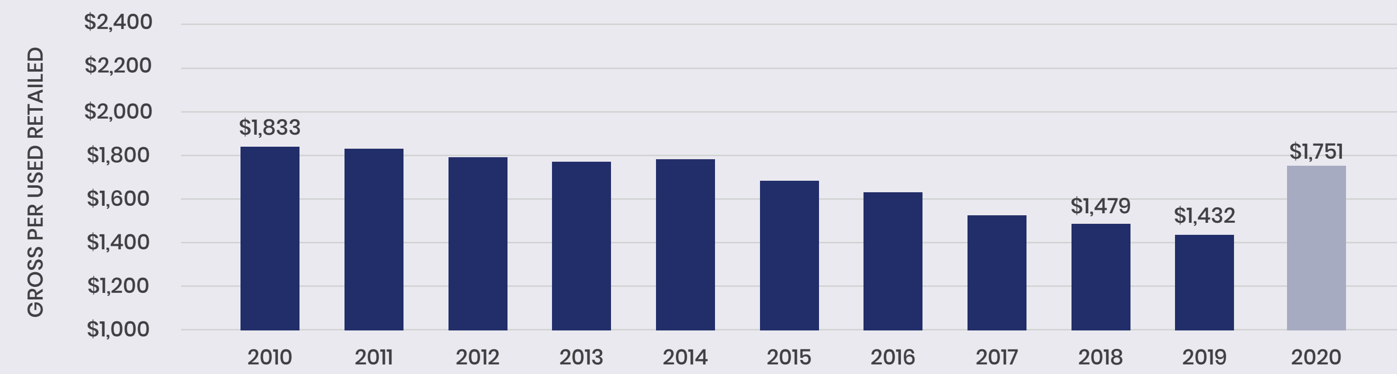
Source: SEC filings

Used Vehicle Grosses Have Spiked

An elevated demand for used vehicles coupled with a lack of new vehicle inventory has provided dealers with significant pricing power in the market today. The public retailers reported a $263 increase in profit per used unit in 2020 compared to 2019. It's likely that these elevated profits will remain until new vehicle production rebounds to meet demand. In the meantime, dealers are continuing to enjoy their good fortunes.

USED GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same Store Performance - In Current Dollars)



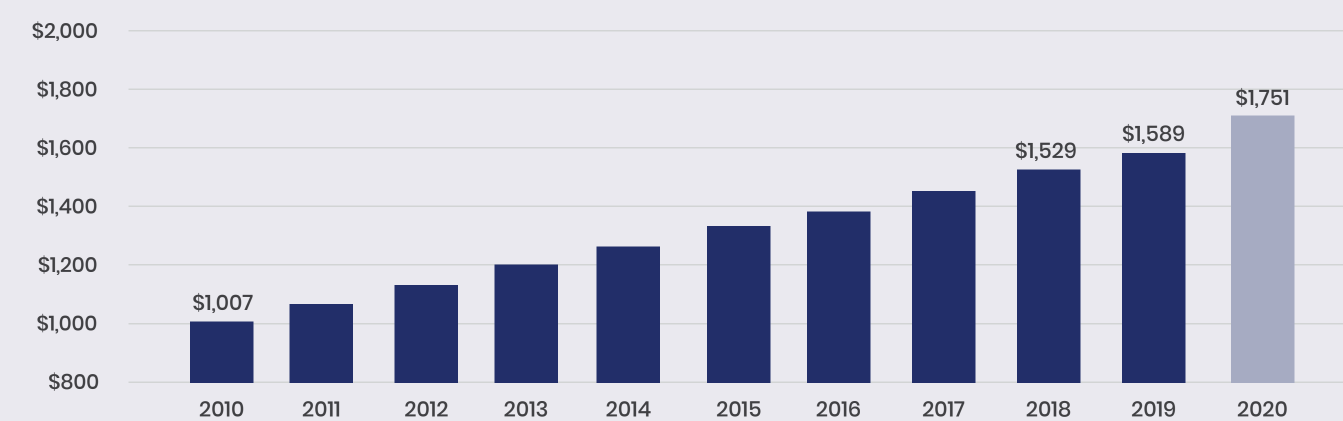
Source: SEC filings

Finance & Insurance Departments Are Generating Record Profits

F&I profits per vehicle continue to increase as transaction values go up and retailers do a better job on product penetration. The public companies earned $1,751 per vehicle retailed in F&I gross profit in 2020, up an impressive $162 (10.1%) from 2019.

PUBLIC COMPANY F&I PER UNIT RETAILED

(Weighted Average Same Store Performance - In Current Dollars)



Source: SEC filings

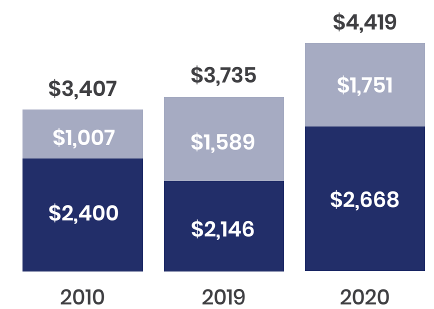
Combined Front And Back Gross Profits Per Vehicle Retailed Hit All-Time Highs

The tables below track total profits per vehicle retailed data back to 2010. Thanks to gains in front-end and back-end gross profits, dealers are enjoying record high profits for each vehicle they sold in 2020.

PUBLIC COMPANY VEHICLE GROSS + F&I PVR

Weighted Average Same Store Performance - In Current Dollars

NEW Vehicle Gross

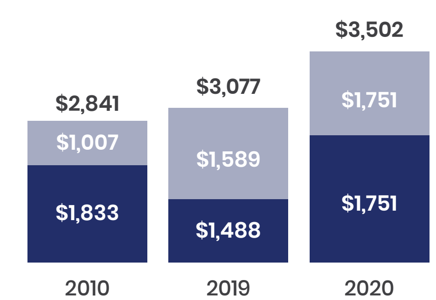


2010 - 2020

NEW	F&I	TOTAL
+$268	+$743	+$1,011
+11.2%	+73.8%	+29.7%

USED	F&I	TOTAL
-$82	+$743	+$661
-4.5%	+73.8%	+23.3%

USED Vehicle Gross



Note: Front end gross profit includes manufacturer incentives and other income.

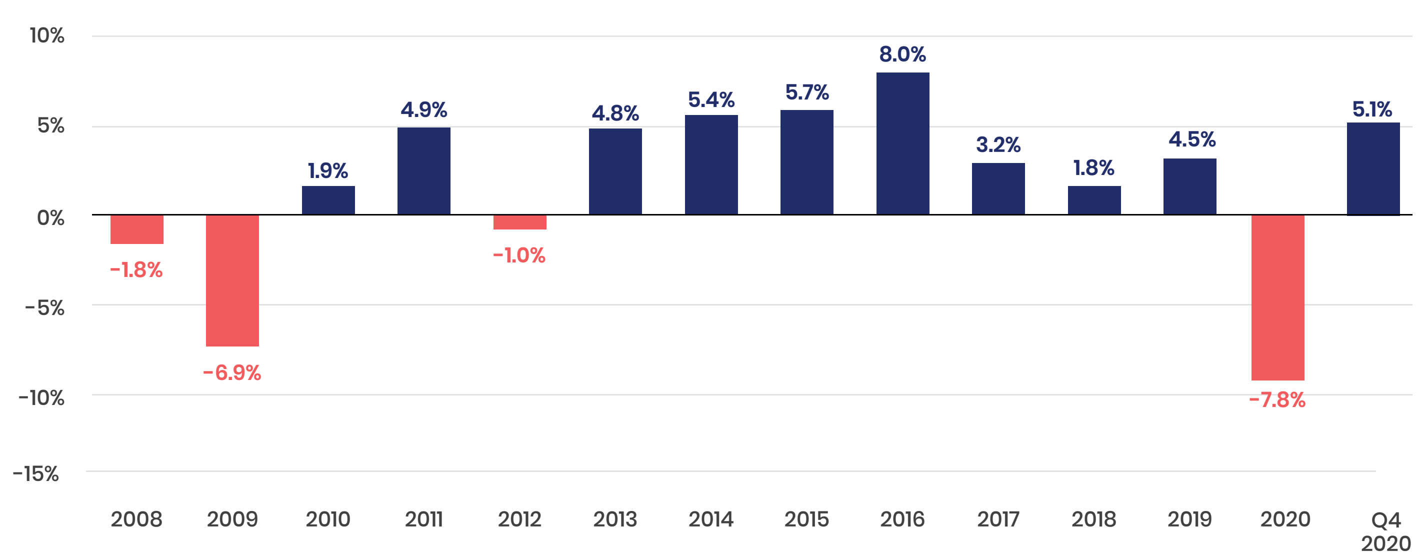
Source: SEC filings; F&I as reported for new and used combined

Fixed Operations Are Beginning To Rebound

Perhaps the biggest source of suffering for dealers from COVID has been in their fixed operations. After a decade of steady increases, people are driving less due to the pandemic so dealers have seen decreased demand for maintenance, repairs, and parts. According to NADA, fixed operations fell 7.8% for the average dealer in 2020.

But that decline can be attributed mostly to Q2 2020 when the effect of the pandemic was most severe. In Q4 we saw fixed operations jump 5.1% over Q4 2019. We hope that this growth will continue through the rest of 2021 and serve as another tailwind to dealership profits.

FIXED OPERATIONS GROWTH



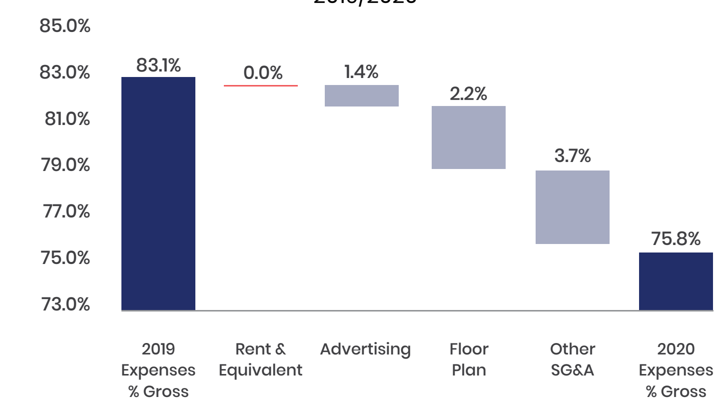
Source: NADA

Dealerships Have Reduced Expenses

When the pandemic hit many dealers reacted by paring their expenses as much as possible. As demand rebounded dealers have been careful to watch their costs. They have discovered they can serve their customers with fewer employees, fewer vendors, and less advertising. Advertising expenses are down 18.8% YoY as dealers felt less need to promote their products given how limited their inventories were. As a result, SG&A expenses have dropped from 83.1% of gross profit in 2019 to just 75.8% of gross profit in 2020. If dealers can retain this discipline when the economy rebounds, then they will have the opportunity to generate even higher profits.

CHANGE IN EXPENSES

2019/2020

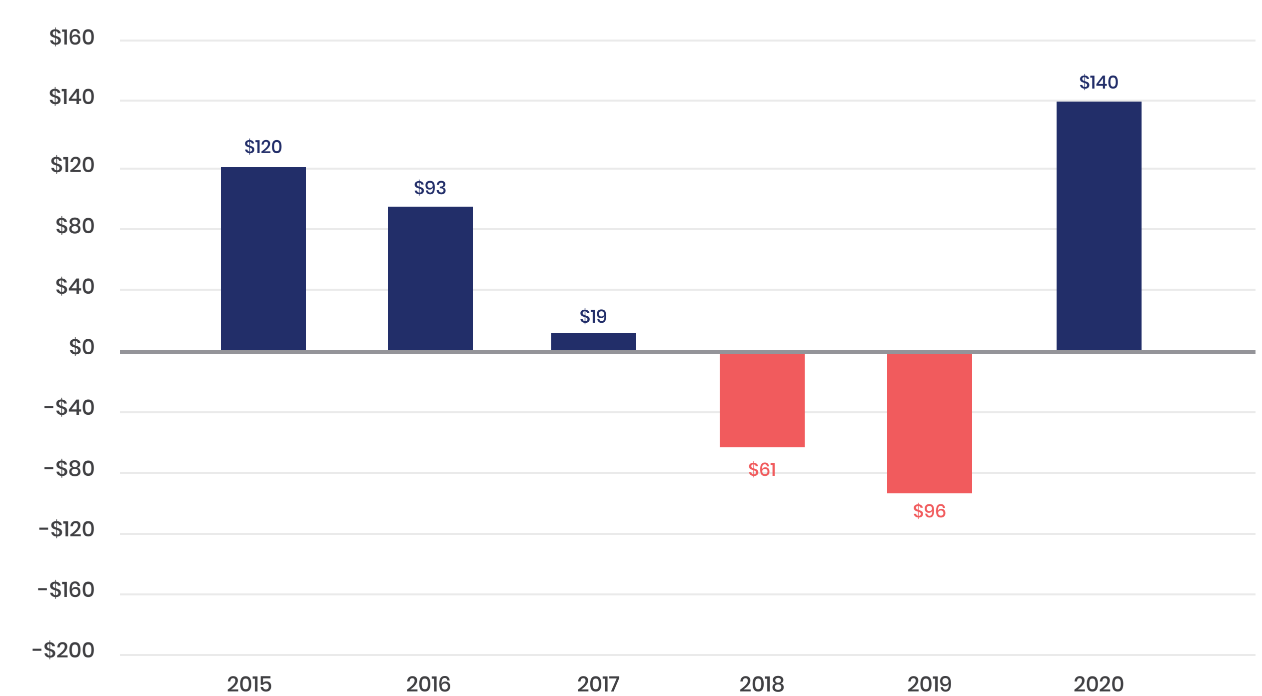


Source: NADA

As shown in the chart, a reduction in floorplan expense has been much welcomed by dealers. Net floorplan expense per vehicle retailed decreased from an expense of $96 in 2019 to income of $140 in 2020. This profit is likely to increase in 2021 as dealers will enjoy a full year of lower rates.

NET FLOORPLAN INTEREST INCOME / (EXPENSE)

Per New Retail Vehicle (2015 - 2020)



Source: NADA

Dealership Profits Exploded in 2020

The net outcome of the trends listed above is that average profits at privately owned dealerships increased an estimate 34.2% in 2020 compared to 2019, excluding any estimated PPP forgiveness. The table below shows the annual earnings at privately owned dealerships since 2010.

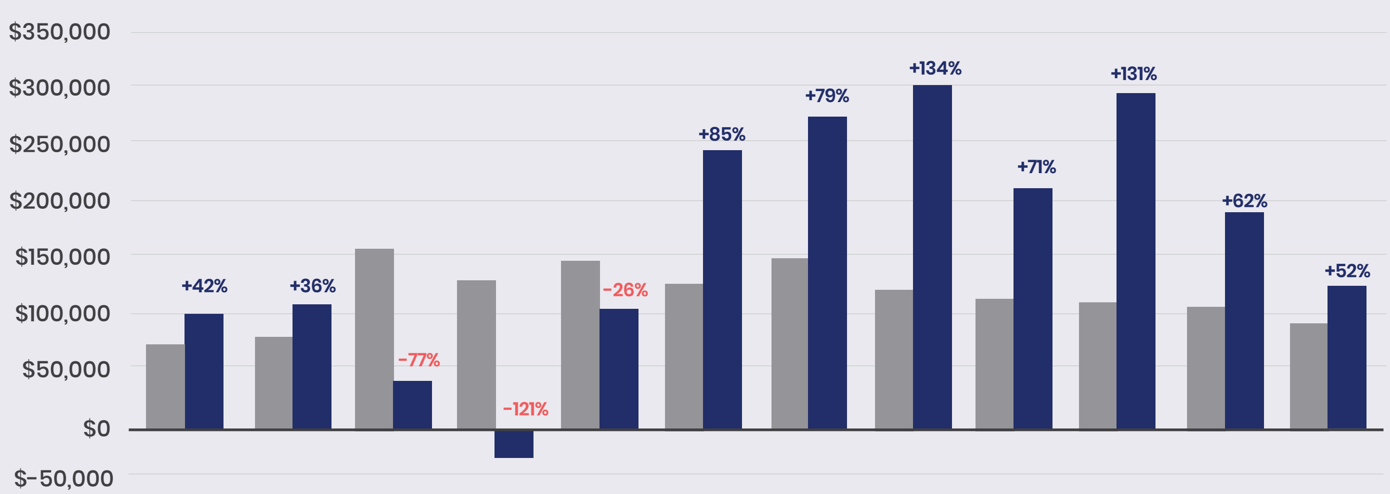
NADA AVERAGE PRIVATE DEALERSHIP EARNINGS

Source: NADA & Haig Partners

The table below shows the extreme fluctuations of dealership profits on a monthly basis in 2020, and how they compared to 2019. CPAs tell us that some dealers elected to take some of their PPP forgiveness into income beginning in December 2020. To eliminate this non-recurring income, we are excluding an estimated $200K of loan proceeds from profits in the month of December 2020.

NADA AVERAGE DEALERSHIP PROFITS BY MONTH

2019 vs. 2020



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
2019 Average Profit	$70,787	$77,853	$158,772	$134,627	$144,062	$128,379	$148,692	$128,283	$121,497	$121,651	$106,809	$82,436
2020 Average Profit	$100,404	$105,775	$36,910	-$28,278	$106,641	$236,999	$265,442	$300,548	$207,673	$281,049	$172,986	$125,292

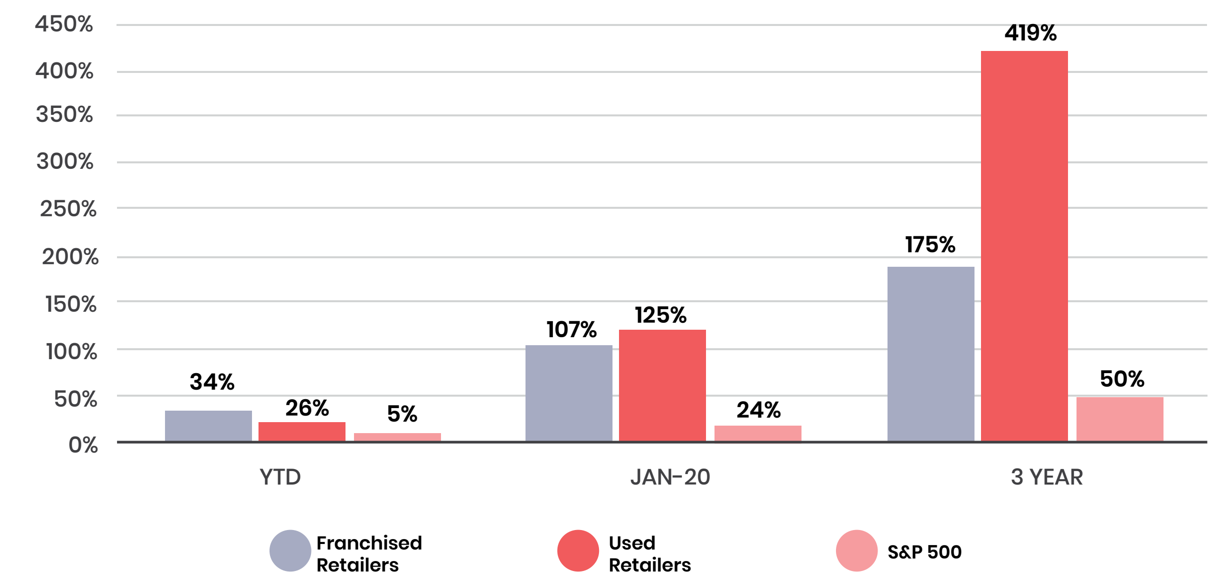
2019 AVERAGE PROFIT 2020 AVERAGE PROFIT

Public Dealership Values Have Soared Since The Pandemic Hit

The share prices of the six public franchised retailers have increased sharply since the beginning of last year. At the time of the publication of this report, the average stock price for the public retailers was 107% higher than the start of 2020. The S&P 500 Index is up only 24% during this time. This is an amazing turnaround based mainly on investors' excitement about the auto retail business model that has proven to be highly flexible and resilient to almost any economic shock that exists. Investors are seeing that the public companies are generating large amounts of profit even with a lower SAAR thanks to higher gross profits per vehicle, reduced personnel expenses, a bigger focus on used vehicle sales, low floor plan rates and the possibility that technology will help these larger groups take share from smaller dealers. The chart below shows how the franchised retailers have performed compared to the used retailers (CarMax and Carvana) and the S&P 500. Note that the used retailers have outperformed thanks largely to Carvana's explosion in market value to over $49B at the time of this writing – *more than all the franchised retailers combined.*

CUMULATIVE STOCK PRICE RETURNS

Public Franchise Retailers vs. S&P 500



Source: Yahoo! Finance; Data through 3/21/2021

Real Estate Values Are Stable

From 2010-2019 we saw dealership real estate values steadily rise. We are happy to report that recent buyer appraisals have come in at or above pre-pandemic levels. Appraisers appear to have realized that dealerships are performing well, they are able to support healthy rent factors, and that buyers are eager to purchase real estate at prices that equal or surpass 2019 levels.

BUY-SELL TRENDS

Transaction Volume Is Recovering

The buy-sell market came to a sharp halt in April as buyers became concerned about how dealerships would fare during the pandemic. The pace of 25-30 dealerships trading hands each month shrank to just a handful. Through the first six months of 2020, dealers had purchased 16% fewer dealerships than in the first six months of 2019. In the second half of 2020, however, we saw the acquisition pace exceed normal conditions as 209 stores changed hands. This puts the number of dealerships sold in 2020 to be 15% above last year. And the market still appears to be growing. We expect to see higher dealership sales in 2021 than in 2020 as all of the public companies are active again, and many leading private dealers are also opening their checkbooks. The chart below demonstrates the fluctuation in dealership sales throughout 2020.

Monthly Dealership Sales in 2020

	Private Buy/Sell	Public Buy/Sell
January	29	0
February	35	3 Acquisitions
March	26	5 Divestitures
April	3	0
May	6	0
June	31	2 Acquisitions/1 Divestiture
July	22	15 Acquisitions
August	22	5 Acquisitions/1 Divestiture
September	30	1 Acquisition
October	37	1 Divestiture
November	27	11 Acquisitions/2 Divestiture
December	37	2 Acquisitions/6 Divestiture
Total	**305**	**39**

Source: Banks Report & Haig Partners

Record Spending by The Public Retailers

The amount of money spent by the publicly traded auto retailers exploded in the second half of the year to make 2020 the highest level of auto retail M&A activity for them ever, according to our records. Thanks mostly to Asbury and Lithia, the public retailers spent $2.5B on acquisitions of auto dealerships in the US during 2020. And there is more to come: in Q1 of 2021, news broke that Lithia is acquiring large dealership groups in Michigan, California, and Florida. The CEOs of the other public retailers have all said they are also on the hunt for deals.

In our Q2 2020 Haig Report, we discussed Lithia's plan to acquire $20B of revenue over a five-year period. The company appears to be ahead of its goal as it has added several billion dollars in revenue in less than six months. Asbury recently told analysts it plans on buying $5B in revenue in the next five years. And we have a newly formed public company, LMP Automotive Holdings, that has begun to close on acquisitions in FL and WV. When you consider what Lithia plans to spend, plus what the other five (now six including LMP Automotive Holdings) publicly-traded retailers could invest, it's exciting to see that we appear to be entering another rapid phase of consolidation in our industry.

Potential Impact of the 2021 Stimulus Program

Congress recently passed a $1.9T spending bill providing significant sums to state and local governments, $1,400 checks to many millions of households, hundreds of billions to shore up underfunded pension plans, vaccine distribution, and payments to companies in certain industries, etc. The result is that there will be a significant flood of cash into the economy in the next few years. We believe a significant amount can end up in the hands of dealers as consumers will have more cash to purchase vehicles, businesses should start to grow again, and municipalities will resume fleet purchases. The stimulus package will also likely support demand for dealerships as buyers will be able to project strong profits for the next few years.

Potential Impact Of Biden Tax Plan

President Biden has set forth a tax plan that, if enacted, could slow the buy-sell market. His plan calls for the Federal personal income tax rate for high earners to increase from 37% to 39.6%. Federal income corporate rates would jump from 21% to 28%. Federal capital gains taxes for high earners would jump from 20% to 39.6%. This plan could reduce the value of dealerships to individual buyers and public companies since they would have less after-tax income which would, of course, hurt sellers of dealerships. The tax plan might also reduce the supply of dealerships for sale since sellers would have lower after-tax proceeds. Dealers planning to retire might choose to hold onto their dealerships for another couple of years to build up additional savings or hope that a change in government would lower taxes in the future. We have no way of knowing if taxes will increase, but the possibility of such a tax increase may be why we have seen an increase in the number of sellers. They are trying to convert their dealerships to cash during the current period of low taxation.

The Current Perspectives Of Buyers And Sellers

Each month we are in regular contact with dozens of dealership buyers and potential sellers. Here are their perspectives on current market conditions.

The buyer's perspective:

- They are thrilled with their dealerships' performance and expect good times will continue for the foreseeable future.
- They have a lot of cash on their balance sheets and want to invest it.
- They are open to most brands.
- They are aware they will need to pay more for dealerships than perhaps at any other time.
- They are particularly interested in low tax states such as Florida and Texas.

The seller's perspective:

- Their high profits are giving them leverage in terms of pricing.
- Some are increasingly concerned about their ability to compete with larger groups who have greater access to the talent, breadth of inventory, capital, and technology.
- They are interested in getting their dealerships sold in 2021, hoping to avoid a tax increase that might become effective in 2022.

Private Dealership Values Are At All-Time High Levels

Many factors drive the blue sky value of dealerships. A buyer's expectations of future profits are important, as are interest rates, the amount of debt a buyer can secure.

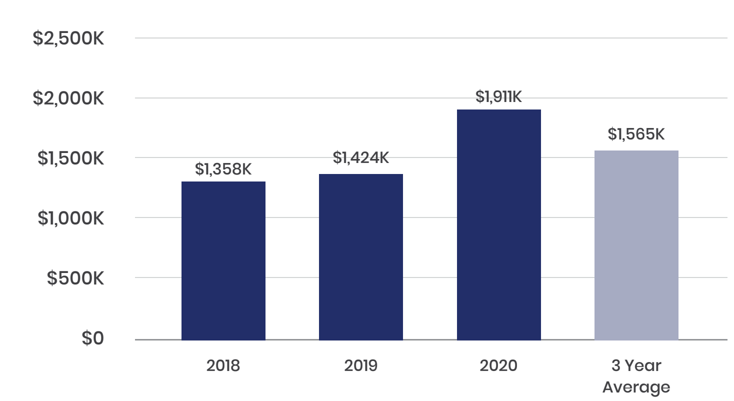
Let's start first with a buyer's expectations of future profits. For the past several years we have enjoyed annual sales of over 17M new units and average dealership profits between $1.4M and $1.5M - remarkably consistent. Due to the pandemic, most dealers are enjoying record-high levels of income. Dealers know these record profits won't last forever, but they are optimistic they can still generate profits in the future that are higher than they were in 2019.

Profits aren't the only factor that drives dealership values. Interest rates are lower today than they were at this point last year. Lower rates increase cash flows and therefore the returns on investment from acquisitions. Plus, dealers have plenty of cash on hand and less debt than in prior years. For these reasons also, dealers can pay more for dealerships.

Finally, lenders have told us that they are also bullish about the future. They share the belief that future profits will settle somewhere between 2019 and 2020 levels. When dealers can finance a large portion of an acquisition with debt then they can pay more for acquisitions.

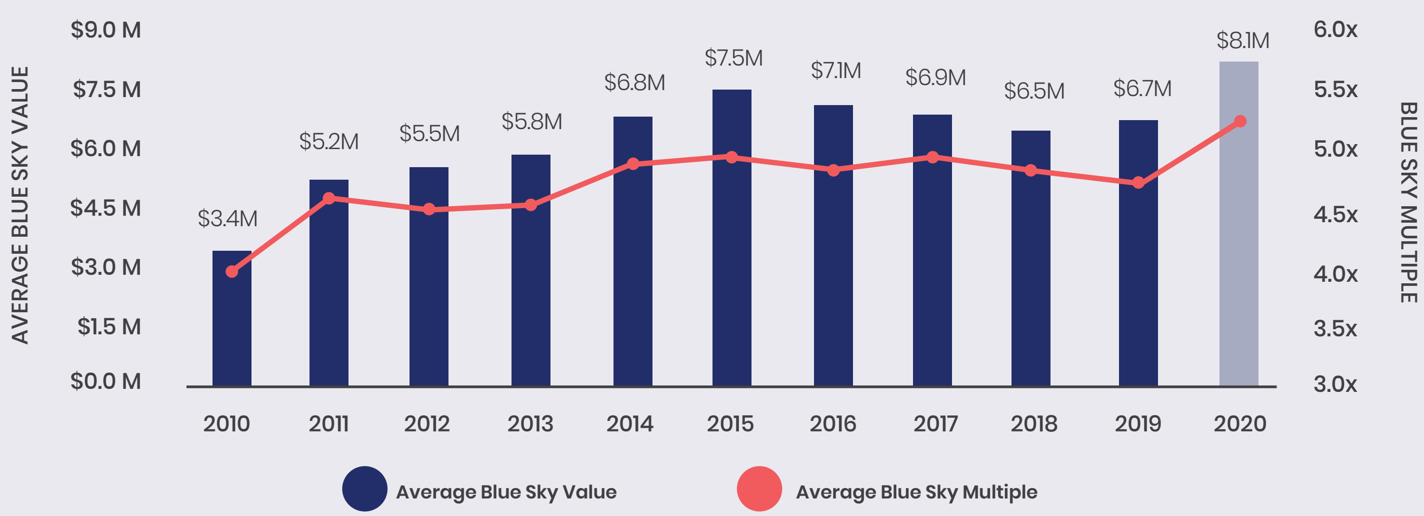
In our Year-End 2019 Haig Report, we estimated the blue sky value for the average dealership in the US to be $6.7M, based upon an average blue sky multiple of 4.8x and average pre-tax profit of $1.4M. We now estimate that the average blue sky value per store has increased 20% from Year-End 2019 to $8.1M. Some may ask, "Did the blue sky multiple increase or did buyers calculate higher earnings in their offer?" Buyers are telling us the answers to both questions are "yes." Buyers see higher earnings in 2020 than in 2019, and the economic recovery and low rates are pushing dealers to pay higher multiples. Many buyers appear to be using a three-year average of adjusted pre-tax profits from 2018-2020 when calculating their expectation of future performance. Using this formula, we estimate that a typical dealership trades for 5.2x the average pre-tax profit from 2018-2020 of $1.6M for an estimated blue sky value of $8.1M. This blue sky value reflects an increase of 20% from 2019 and is the highest level we have ever recorded.

AVERAGE ADJUSTED PRE-TAX PROFITS FOR 2018-2020



Source: NADA & Haig Partners

ESTIMATED AVERAGE BLUE SKY VALUE



The Outlook For Buy-Sells For The Remainder 2021

Buy-sell activity picked up speed in the fourth quarter and we expect it to remain robust for the remainder of 2021. Profits are likely to remain high, debt will remain cheap, and there are many groups looking to grow. For those groups with talent, technology, scale and capital we believe they will enjoy solid returns on their acquisitions. All of the public companies have announced plans to invest significant sums on acquisitions and private buyers are equally active. In terms of the supply of stores for sale, we believe that many dealers will see 2021 as an excellent opportunity to exit at high prices. A number of these sellers are not necessarily at retirement age. A number of our clients have told us they are increasingly concerned about their ability to compete with larger groups. They see that it's possible that the value of their businesses will erode even if the overall market is strong. These dealers will provide a steady supply of acquisition opportunities to the market.

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 500+ dealerships in our careers dating back to 1996. Each quarter we contact many leading dealer groups as well as accountants, bankers, and lawyers who practice in auto retail. The information that we gain from these conversations and our own transactions form the basis for the following evaluations. COVID-19, the economic shutdown, and the rapid recovery are certainly playing a role in dealership valuations today and we have factored its influence into our estimates.

LUXURY FRANCHISE BLUE SKY MULTIPLES

Porsche

Porsche sales were down 6.9% compared to 2019, but Q4 ended up 6.4% relative to Q4 last year. Thanks to their scarcity, high profits, and ease of operation, Porsche dealerships continue to bring the highest blue sky multiples of any franchise other than Ferrari. A client with a Porsche dealership recently signed an LOI at a price that well exceeded our expectations, so our valuation range could be light. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 9.0x-10.0x.**

Lexus

Sales were down 7.7% from last year. Lexus weathered the pandemic well and finished a close second in the race for the luxury sales crown. Lexus owners are delighted, as usual, with the quality, design, and driving experience offered by their vehicles. Dealers remain pleased with the higher margins, plus strong used car and fixed operations. Consumers ranked Lexus and Toyota as two of the more reliable brands in 2020 according to Consumer Reports. We are seeing very strong demand for this franchise. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 8.0x-10.0x.**

Mercedes-Benz

Sales decreased 13% for the year, about average with the overall market. Dealers praise the profits they are making from G-Wagons and AMG products in higher-end markets. Despite a lack of inventory, profits per location remain among the highest of any franchise. Some dealers are frustrated by the frequent turnover of the US CEO position, but we talk to plenty of buyers who are highly interested in the brand. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 7.5x-9.0x.**

BMW

Sales were down 18% for the year but had a strong fourth quarter. The strong finish was highlighted by two months of record retail deliveries. For the second year in a row, BMW finished as the best-selling luxury automaker in the United States. Dealers tell us BMW is working to revise its service loaner program which could result in higher profits for dealers. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 7.5x-9.0x.**

Audi

Audi sales were down 4.8% in the fourth quarter of 2020 compared to Q3 2019, and 17% on the year. Customers show a high level of loyalty to the brands, but Audi still falls short of its luxury competitors in terms of dealer profits and its facilities can be needlessly expensive. As a result, these dealerships sell for lower multiples than other premium luxury brands. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 6.25x-7.25x.**

Jaguar / Land Rover

JLR saw unit sales decline 17.2% combined in North America in the fourth quarter of 2020 compared to the same period last year. Dealers tell us their business remains very strong with excellent vehicle margins and strong fixed operations. Jaguar has announced it will become 100% EVs and that none of its current products will be updated. The new Defender is selling very well at high grosses. Despite the strength of Land Rover products, JLR stores trade at a slight discount to other premium luxury products when new facilities are required or add points are coming. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 6.25x-7.25x.**

Volvo

Volvo was one of the few brands that posted higher sales in 2020, finishing the year up 1.8% over 2019. It sold 14,244 cars in December 2020, 15.2% more cars than in December 2019, so its momentum is continuing. We have been seeing more consideration for this franchise as an up-and-coming luxury brand that is growing quickly. Some dealers are questioning Volvo's recent announcement that in the near future customers will be ordering cars from its corporate website instead of at dealerships. This would be a profound change from any other franchisor who sells the vehicle to the dealer and then the dealer sells it to the consumer. If enacted, dealers would need almost no sales staff, fewer managers and a much smaller facility. What happens with F&I is unclear. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 4.0x-5.0x.**

Acura

Acura's 2020 sales were down 13% from 2019 and declined 7.3% in Q4 2020 compared to Q4 2019. Despite the poor quarter, Acura has a fresh lineup of performance-focused models. Acura remains in a low volume – low gross category compared to its premium luxury peers meaning profits per location are much lower, therefore reducing the desirability of the brand. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.0x-4.0x.**

Infiniti

Infiniti sales fell 31.2% in Q4 2020 compared to Q4 2019. The brand finished the year down 32.5% versus 2019, the worst performance of any brand we track. The brand is suffering from an aging product lineup, not to mention significant management turmoil. Most dealers are more focused on used cars than on chasing volume targets. Profit per store is likely the lowest for any major franchise. Adding fuel to the fire, Infiniti has told dealers they will be without a replacement for the Q60, its highest-volume model, for six months during a production changeover. Brutal! **Same value range: $0-$1,500,000.**

Cadillac

After sharp declines for four consecutive quarters, Cadillac saw sales increase by 5.8% in Q4 2020 compared to Q4 2019 thanks to new products. Cadillac finished the year with a 17.1% decrease in overall sales versus 2019 but some of this decline may have been caused by GM's overall inventory shortage. Cadillac launched a program to electrify some of its vehicles. It required dealers to install costly charging stations, or accept a buy-out and terminate their franchise. The Wall Street Journal recently announced that 180 dealers have accepted payments to terminate their franchises. We view this as positive for remaining Cadillac dealers since its network is grossly overdealered. Cadillac stores sell just 148 units per location in 2020, far less than the 757 and 717 units sold on average by BMW and Mercedes dealers. With fewer locations, the remaining Cadillac dealers have the opportunity to provide a better experience to customers and generate higher profits. **Same value range: $0-$1,500,000.**

Lincoln

Lincoln's total sales were down 6.1% in 2020, due to the pandemic and the wind-down of sedans that it is discontinuing as it evolves to an all-SUV brand. Lincoln's SUV sales increased 5.3 percent, thanks to nicely styled products, making 2020 Lincoln's best retail SUV sales performance in 17 years. The brand is pushing for free-standing, costly facilities, irking dealers as there is not enough volume and gross profit at most locations today to support higher facility costs. Sadly, Lincoln finished at the bottom of Consumer Reports' 2020 Auto Reliability survey. **Same value range: $0-$1,500,000.**

MID-LINE IMPORT FRANCHISE BLUE SKY MULTIPLES

Toyota
Toyota finished the year as the number one retail brand for the 9th consecutive year despite an 11.4% sales decrease in 2020 compared to 2019. Dealers like the products and speak highly of US management which is doing a good job getting them the right products even in a supply challenged environment. Haig Partners is on track to sell five Toyota dealerships in Q1 in various parts of the country. We saw heavy bidding from many buyers which demonstrates that Toyota appeals to almost every dealer in the country. There is widespread conviction that Toyota/Lexus is the best OEM partner and the value of the partnership shows up in the value of the dealerships. **Higher multiple range on average 2018-2020 adjusted pre-tax profits: 6.25x-7.25x.**

Honda
Honda sales in 2020 were down 16.6%, more than the industry average, but did better in Q4 when its decline was in line with the market overall. Demand for these dealerships still remains high as dealers enjoy consistent, strong profits and a business model that is easier than most to manage. Dealers ranked Honda just behind Toyota and Subaru as their favorite for non-luxury brands. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 6.0x-7.0x.**

Subaru
Subaru saw a 12.6% drop in sales in 2020, ending a streak of 11 consecutive years of U.S. sales records. Thanks to a rebound in vehicle production, Subaru closed out the year with sales up by 0.3% for the fourth quarter of 2020 compared to the same period in 2019. Dealers speak highly of the US management team and the way it has managed its dealer network to allow dealers to grow steadily in sales and profits. We have been involved in the sale of several Subaru stores recently and demand was high from existing Subaru dealers and those hoping to break into the network. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 6.0x-7.0x.**

VW
Volkswagen sales fell 10% on the year, but increased 11% in Q4 2020 compared to Q4 2019, making it VW's best Q4 since 2014. VW's CUVs are faring well against competitors and it enjoyed its best quarter ever for SUV sales. VW is ahead of most of its competitors regarding electrification so it may take share in markets like CA, or nationwide if there are additional government programs that stimulate higher EV demand. VW stores continue to be low volume although dealers are finally enjoying decent gross profits on new units. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.0x-4.0x.**

Kia
Kia sales decreased just 4.9% in 2020 compared to 2019, far better than the industry average as its plants were better able to weather the pandemic and production remained strong. The brand's CUV lineup is well received by customers. Dealers are reporting high margins due to strong demand for Tellurides. With five all-new or significantly redesigned vehicles set for introduction in 2021, Kia has positioned itself well. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.25-4.25x.**

Hyundai
Hyundai saw a 10% sales decline in 2020 versus 2019, better than the industry average. Hyundai gained market share thanks to strong sales of its Santa Fe, Tucson and its full-sized Palisade which dealers struggle to keep in stock. Dealers tell us their margins are far higher than in years past due to both the pandemic and compelling products. Vehicle quality and reliability remain excellent, but some dealers are concerned about a push for new facility image investments and the possibility of stair-step programs once production returns to normal. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.25x-4.25x.**

Mazda
Mazda is one of just two franchises that gained in sales in 2020 (the other brand is Volvo). Its new products are clearly popular with consumers and Mazda finished the year at the top of Consumer Reports' 2020 Auto Reliability Survey. Toyota's investment in Mazda allowed Mazda dealers to use Toyota Financial Services as their captive lender. Dealers tell us that TFS buying deeper than its previous captive, and its lower rates have cut $100 per month on lease payments to consumers. Mazda store profits seem likely to remain higher than in the past even as we exit the pandemic. A few dealers are concerned Mazda will push dealers to upgrade facilities as we exit the pandemic but these investments are easier to make given recent profits. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.0x-4.0x.**

Nissan
Nissan suffered a 33.2% decrease in sales compared to 2019, worst in the industry except for Infiniti. The brand has been declining for a few years but good news is coming as new core products should allow dealers to rebuild sales. The pandemic brought an unexpected blessing to Nissan dealers as it helped many of them to clear out a large number of aged units at healthy prices. The automaker revealed its plans for the next four years, which puts optimization (including reducing yearly production), dealer profits, and sustainable growth as core elements its strategy. We believe the worst is behind Nissan and some dealers familiar with the brand will be looking to pick up these dealerships for far less than a competing franchise. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.0x-4.0x.**

DOMESTIC FRANCHISE BLUE SKY MULTIPLES

Ford
Sales were down 15.9% in 2020 compared to 2019, in good part since it discontinued virtually all its sedans and hatchbacks. Deliveries of crossovers and SUVs rose 4% year over year. The automaker, dealers and consumers alike are excited about upcoming products such as the redesigned Bronco and the new 2021 F-150 (with an electric version). Analysts report that Ford's new all-electric Mustang Mach-E has over 50,000 deposits, so its first year of production appears to be sold out. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.5x-4.5x.**

Chevrolet
Chevrolet saw sales fall 11% on the year but increase by 5% in Q4 2020 compared to Q4 2019. Dealers have been screaming for almost two years now about the difficulty of getting more inventory: first the strike, then the pandemic, and now microchips. We visited one client's dealership in February and he had ZERO new full-size trucks on the lot. Dealers are excited about the new vehicles and lineup changes including the all-new Tahoe and Suburban as well as an electric crossover, van and pickup are expected to join the Bolt within the next few years. A product line based on the Corvette brand could bring additional volume to the brand. Some dealers cheer CEO Mary Barra's leadership while others wonder if GM is getting too far ahead of the consumers with its heavy focus on EVs. Despite the lack of inventory, dealers generally do very well with this brand in markets that are not overdealered since they can generate healthy grosses on vehicles, strong F&I numbers and strong fixed operations. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.5x-4.5x.**

Stellantis
(FKA FCA: Chrysler-Jeep-Dodge-RAM-Fiat)
Stellantis US reported a 17% decline in sales compared to 2019. The fourth quarter showed improvement, however, as the RAM brand posted its best retail results ever in December. FCA recently merged with PSA, the European automaker, and the companies are now working on their integration plans. It's possible the PSA side of the family may have sedans or other products it can import as sell-through CJDR dealerships, but working on their integration strategy remains murky. These dealerships can offer healthy profits in areas where they are not oversaturated. Stellantis continues to push larger dealers to carve out a separate showroom for Jeep which it plans to take more upscale. The new Grand Wagoneer will be priced at $60,000-$100,000, putting it in the same category as luxury brands. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.5x-4.5x.**

Buick-GMC
On a combined basis, B-GMC sales fell 12% in 2020 compared to 2019. Buick is now all CUVs, a remarkable evolution from a brand synonymous with sedans and coupes. Dealers continue to have complaints about lack of supply of vehicles, just like Chevrolet dealers, but are excited about the new products. GMC performed the best of GM's brands in 2020, as sales declined by just 8.8% when the other brands saw sales plummet in the double digits for the year. We are seeing further differentiation between GMC and Chevrolet products. Many customers have placed deposits for the upcoming all electric Hummer truck that will retail for over $100K. It boasts over 1,000 horsepower and does 0-60 mph in 3.0 seconds, creating a new supertruck category. **Same multiple range on average 2018-2020 adjusted pre-tax profits: 3.25-4.25x.**

KEY TAKEAWAYS

COVID demonstrated the remarkable strength of the auto retail business model. Dealers were able to quickly pivot from strong sales to lock-downs within weeks. They cut large amounts of costs out of their business but were also able to take advantage of a strong rebound in demand by raising prices. The result was that dealership profits soared in the second half of 2020 to more than compensate for an abysmal Q2. Average dealerships profits, adjusted to remove PPP forgiveness, reached $1.9M, an all-time high.

Now that the impact of COVID has started to decline we expect employment will increase and people will begin to drive more. We are also going to see a stimulus package of $1.9 trillion that will begin to make its way into the economy. The combination of these factors is likely to drive a significant uptick in both demand for and production of vehicles. Margins should be good on new and used products given the current supply-demand imbalance that is likely to last well into 2021. We also expect to see a lift in service departments as consumers get back into their vehicles more often. With strong variable and fixed operations, auto dealers appear poised to have another excellent year.

Lithia continues to lead the industry in terms of its acquisition of dealerships. It has stated its plan to acquire $20B in revenue over a five-year period. It is acquiring a broad range of franchises and large groups. But Lithia is not alone among public retailers in its focus on growth. Asbury has also made significant investments over the past year the other public companies say they are looking to acquire again, too. While public groups attract more headlines, private dealers are also active, and they continue to purchase the large majority of dealerships each year. The strong demand from both larger and smaller buyers means that there is likely a buyer for any size dealership or dealership group that comes to market.

Since the average age of dealers is increasing, we expect there will be a steady supply of sellers coming to the market who have no succession plan. We are also working with a number of dealers who are not yet at retirement age but are concerned about the future of auto retail. They wonder about their ability to compete with groups that have more capital, bigger inventories, greater knowledge of technology, and a deeper pool of management talent. They want to secure the current value of their dealerships when profits are high and taxes are low, rather than take the risk that their dealerships will fall in value in the future.

The result of these various trends is that dealership values have increased from 2019 and buy-sell activity is accelerating. We expect these robust conditions to continue through the remainder of 2021.

Having been involved in the purchase or sale of more than 500 dealerships, no other firm has a better understanding of the perspectives of both buyers and sellers of dealerships across the U.S. We use this expertise to create highly informative and compelling offering materials that help buyers to focus on our clients instead of other opportunities. Our contacts with leading buyers across the country are unmatched. And we listen to our clients to create a customized marketing process that carefully balances their priorities of maximizing price, preserving confidentiality, and time to closing. Through our unmatched expertise, deep relationships with buyers, and well-honed processes, Haig Partners is able to produce highly desirable outcomes for our clients.

UPCOMING EVENTS

Wednesday, March 31 | 8:20-9:00AM ET
Bank of America Global Automotive Summit

April
Brady Ware Auto Retail Market Update Webinar

Wednesday, April 7 | 12:00-1:15PM ET
Auto Team America Buy/Sell Update And Industry Trends
Register for free webinar at www.autoteamamerica.com

Wednesday, April 21 | 12:00-1:00PM ET
Auto Team America Big Buyer and SPAC Panel
Register for free webinar at www.autoteamamerica.com

Monday, May 3 & Tuesday, May 4
NADC Virtual Member Conference
Members can register at www.dealercounsel.com

Thursday, June 17 | Speaker Alan Haig 9:00AM-12:00PM ET
Louisiana Auto Dealers Association
Members can register at www.lada.org

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