The Good Times Keep Getting Better

Profits at privately owned dealerships jumped 13.4% for the first quarter of 2015 compared to the first quarter of 2014. Net income from recurring operations at the public companies increased 16% during this period. The buy-sell market remains robust, although it may begin to level off in 2015 from the rapid growth of the past few years. Buyers continue to pay record prices for dealerships as demand is strong from public companies, private groups and investors new to our industry. Dealers and investors alike prefer the returns that they can get from dealerships compared to other investment alternatives. And sellers are coming to the market, attracted by these high prices. We have not changed any of the multiples for dealerships since our 2014 Year End Haig Report, but we remain in the midst of a highly active time for buying and selling stores.

Deal Activity Beginning to Level Off?

The value of acquisitions in the US by the six public auto retailers more than doubled from $705M in 2013 to $1.5B in 2014, but is down by about 30% in Q1 2015 vs. Q1 2014. Although it is early in the year, we would be surprised if 2015 matches the deal value we saw from these six retailers in 2014 as last year included two large deals that totaled about $850M. We may be entering a mid-cycle M&A market where these six publics are acquiring dealerships valued at $750M-$1.0B per year.

Berkshire Hathaway announced what they spent to acquire the Van Tuyl Group. Using the same accounting method as the public companies use, the price paid was $5.5B, a very nice payday indeed for the Van Tuyl family. We have not included that transaction in the graph below as we are not sure future acquisition spending will be disclosed. See page (9) for additional information.

The total number of dealerships acquired by private dealers increased just 3% in the first four months of 2015 compared to the same period in 2014, according to The Banks Report1. This level of private acquisition activity is high compared to previous years, but also indicates that the market is beginning to level off from the growth we have seen recently. The number of dealerships acquired by public dealers (excluding BHA) was essentially flat during the period. While we don’t see big growth in 2015 yet, and it is early in the year, this remains the best market for buying and selling stores since the acquisition binge by the publics in the late 1990s.

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1 The Banks Report: by Cliff Banks @ www.thebanksreport.com
The Average Blue Sky Multiple Is At Record Levels, But There Is a Wide Variance Between Brands.

Blue sky multiples have likely never been higher for German luxury dealerships as they are performing very well and both public and private dealers have a strong interest in these franchises. Some brands have settled into a level that is still strong but has not changed much in the past year, while others have not really budged from where they were over the past 20 years or so. The spread in blue sky values is remarkable to us. Buyers are telling us that they are willing to pay about twice the multiple for a BMW or Mercedes-Benz dealership than they would a Ford or Chevrolet dealership, and about 50% higher than for a Honda or Toyota dealership. Of course, actual multiples or prices paid by buyers for dealerships could be higher or lower than the ranges we indicate. Each store is unique and brings its own set of opportunities and challenges. And geography matters a great deal. We caution readers not to view these values rigidly. The chart below sets forth our estimates for the typical range of values that buyers will pay for the goodwill / blue sky of various franchises today.

Haig Partners Blue Sky Multiples

About Haig Partners

Haig Partners provides expert advice and comprehensive services to auto dealers interested in selling their businesses or buying new ones. We have been involved in the purchase or sale of more than 220 dealerships totaling nearly $3.0 billion in value. With experience from AutoNation and Asbury, as well as prominent investment banks, Haig Partners is the leading full-service firm in our industry. In the past six months, Haig Partners has helped five of its clients to sell their businesses for $209 million, excluding the value of new vehicles.

Please visit our website at www.haigpartners.com for more information. We always enjoy hearing from dealers who are interested in buying or selling dealerships, or in the current state of the market.
Macroeconomic Indicators Are Favorable for Auto Sales, But Growth is Sluggish.

There are a number of key factors that influence consumers who are considering purchasing a vehicle and almost all are moving in a positive direction:

- **GDP Growth is Moderate.** Economists are projecting GDP growth in Q2-Q4 2015 of 3% to 4%, although GDP in Q1 2015 actually contracted, perhaps due to bad weather in the eastern part of the country.
- **Risk of Recession Appears Low.** A study by The Wall Street Journal put just a 12% chance of recession in 2015, similar to an estimate of the New York Fed. (WSJ 5/19/2015)
- **Interest Rates Remain Low.** The average cost for a five-year auto loan was 4.31% per Bankrate.com.
- **Employment and Wages Are Increasing.** Unemployment has fallen from 6.2% to 5.4% from April 2014 to April 2015. In addition, workers’ wages increased 2.6% over the twelve months ended March 2015, “their biggest annual gain in pay since 2008, evidence that a steady decline in unemployment is finally having an effect on paychecks” (WSJ 5/5/2015). More jobs at higher wages are a good recipe for consumer confidence and auto purchases.
- **Number of Miles Driven Is Increasing.** The total number of miles driven, which influences the vehicle replacement rate, increased 4% year over year during Q1 2015, according the US Department of Transportation.

New Vehicle Sales Continue to Grow.

Sales reached 16.8 M units through May of this year, an increase of 1.8% from 2014. Analysts are bullish on the industry as they point to the increase in the number of miles driven, the high average age of vehicles, and the large amount of new product in the pipeline. A number of industry experts believe we will surpass 17M units in 2015. John Murphy of Bank of America Merrill Lynch is even more optimistic as he estimates new vehicle sales will grow to 20 million units in 2018 before cycling down to 14M in the mid-2020s.

Supply of Used Cars Is Increasing.

In 2015, the supply of used cars up to five years old is projected to increase 8% to almost 12M units, and the number of off-lease vehicles is projected to increase 20% to 2.35M units, according to NADA. The used car market will see continued growth in future years as new car sales were growing rapidly from 2009-2014. A higher supply should help boost dealer profits since, for some franchises, there is more profit in used cars than new cars.

Fixed Operations Are Growing Nicely.

Private dealers reported fixed operations increased 5.4% in Q1 2015 compared to Q1 2014, maintaining the same level of growth that 2014 had over 2013. Public retailers did even better, averaging a whopping 8.2% growth in 2014 compared to the same period in 2013, and up 5.4% in Q1 2015 compared to Q1 2014. We believe that increases in fixed operations will continue to boost profits per dealership even as new vehicle sales flatten out.
**TRENDS IMPACTING AUTO RETAIL**

**Grosses May Be Sliding.**

Many retailers tell us one of their biggest challenges today is fighting an erosion of gross profit on the sales of new vehicles. This is due to many factors, such as OEM stair step programs, TrueCar, the ease that consumers have in comparing prices on mobile devices, etc. The first quarter of 2015 saw a particularly large drop in profits per vehicle retailed of 2.2% for new and 3.0% for used. This may be an anomaly, but if the drop in grosses continues, profits from new and used vehicle sales may not increase in 2015 even if sales are up.

What is particularly surprising about the drop in gross profits per vehicle retailed is that the sales mix is shifting towards higher profit truck and SUV/CUV sales and away from lower margin small cars.

**F&I Departments Continue to Grow.**

The public retailers’ average F&I gross profit PVR reached an all-time high of $1,345 in Q1 2015, up 4.9% from Q1 2014. And since there is little expense against this revenue, much of the increase in the F&I department makes its way to the bottom line for the public retailers. We hope private dealers are benchmarking their own F&I performance against these figures.
**TRENDS IMPACTING AUTO RETAIL**

**Strong Profits Continue for Private and Public Dealers.**

Private dealerships generated an average of $1.1M\(^1\) in pre-tax profit over the last twelve months. This was a record high level, and Q1 2015 was remarkably strong, up 13.4% from Q1 2014. Dealership profits have improved six years in a row and appear to be headed for a seventh year of increases.

![Graph showing NADA Average Private Dealership Earnings](image)

The table below shows the annual change in profits over the past 10 years. We are in a healthy mid-cycle period now, with annual profit growth in the 6%-9% over the past few years.

![Graph showing NADA Average Private Dealership Earnings Y/Y Growth Rate](image)

While a rising tide floats all boats, the public retailers are enjoying even stronger growth in earnings than private dealers, with combined operating profit up 16% over 2014. This growth includes acquisitions as well as same store results.

![Graph showing Public Company Y/Y Operating Earnings Growth - Q1 2015](image)

**Demand Is Shifting to Larger, More Luxurious Vehicles.**

Sales of trucks, CUVs and SUVs grew 11% while sales of cars fell 0.5% through April 2015 compared to the same period ended April 2014\(^2\). The shift is powered partly by demographic changes as boomers want roomier vehicles. Declining fuel prices are also a big factor as gas is now less than $2.50 per gallon in many markets. If this trend continues, those OEMs with a product mix that is heavy in trucks, SUVs/CLVs and high horsepowe sedans (such as the domestics, Toyota, and luxury brands) are likely to gain market share at the expense of franchises that focus on high fuel efficiency (such as Volkswagen, Fiat and Smart).

\(^1\) Source: NADA – trailing twelve months ended March 2015  
\(^2\) Automotive News Data Center 5/4/2015
Sales Growth for Individual Franchises.

The following table sets forth the change in new unit sales at the major franchises through May 2015 compared to the period through May 2014. We are impressed by the performance of the premium luxury brands but a little surprised the domestics are not taking more share in this market that seems to favor their product mix.

![Year/Year Sales Performance - YTD May-2015](source: Automotive News)

Dealership Values Continue to Appreciate.

We estimate that the average blue sky multiple for all franchises on an unweighted basis was 4.7x in Q1, unchanged from year end 2014, but up 8% from 2013. The average profit per dealership according to NADA has increased 3% for the twelve months ended March 2015 compared to the full year 2014. Applying the 4.7x blue sky multiple to the average dealership pre-tax profit of $1.128M generates an average blue sky value of $5.35M, up 3% from year end 2014, 19% from 2013, and up 31% from 2012. Also, many dealerships are substantially more profitable than the data reported to NADA that goes into the average pre-tax profit figures. Most of our clients’ stores are averaging $2M-$6M in profit per rooftop, and we have seen a number of metro import and luxury stores that generate over $10M in annual profit.

![Average Blue Sky Value](source: Automotive News)

Even at these high valuations, dealership acquisitions provide attractive returns for buyers compared to other investment alternatives. The chart that follows shows a simple return-on-investment calculation for acquisitions (valued with a blue sky multiple at low, average and high levels, plus working capital and assets equal to 1.0x pre-tax profit) compared to other investment options. We assume 80% financing for the leveraged figures based on the data provided by a recent survey of leading lenders.
Blue sky multiples are high for a number of reasons:

- Buyers are confident about the economic outlook;
- There are currently more buyers than sellers in the market;
- Lenders are offering high loan-to-value financing at low interest rates; and
- Dealership acquisitions appear to offer better returns, even at high prices, than alternative investments in treasury bills, corporate bonds, real estate, and the stock market.

ALAN HAIG has been involved in the purchase or sale of more than 160 dealerships with a value of approximately $2.4 billion. For six years prior to establishing Haig Partners, Alan led the auto retail practice at The Presidio Group where he closed numerous transactions. Before that, he was Senior Vice President of Corporate Development at AutoNation, Inc., the world’s largest auto retailer, leading its dealership acquisitions and divestitures. He was also at AutoNation in its earliest days and wrote the original business plan for the new car division. Alan began his career in investment banking where he served as an analyst and associate for Drexel Burnham Lambert in New York City. He has an MBA from Columbia Business School, an MA from the University of North Carolina and a BA from Dartmouth College. He lives in Ft. Lauderdale, FL with his wife and their four children.

NATE KLEBACHA has been involved in the purchase or sale of almost 60 dealerships for more than $550 million. Before helping to establish Haig Partners, Nate served as Vice President and then Principal at The Presidio Group where he was responsible for dealership analysis, preparation of marketing materials, responding to due diligence requests from buyers, and assisting in closing transactions. Prior to Presidio, Nate spent six years with Asbury Automotive where he was involved in the purchase or sale of more than 50 dealerships.

Nate holds an MBA from the NYU Stern School of Business and a BS from the University of Connecticut. He lives in Cold Spring Harbor, NY with his wife and their two children.
BUY SELL TRENDS

Biggest Deal. Ever.

Berkshire Hathaway disclosed the price it paid for the Van Tuyl Group (now Berkshire Hathaway Automotive or BHA) in its recent quarterly filings. If calculated as an asset deal the same way the publics typically acquire dealerships, the acquisition would be valued at $5.5B, including all dealership assets, real estate, and the portion that we believe is owned by management and the GMs at the stores. Because Berkshire Hathaway assumed liabilities in the transaction, it lists the net value of the deal (amount paid to the owners) at $4.1B. (We hope that Larry will not be mad at us for reporting this figure and drawing the attention of every wealth advisor on the planet.) Either way, this was by far the largest acquisition ever in our industry. The revenue and earnings of BHA were not provided so it is not possible to accurately calculate the blue sky multiple of pre-tax earnings that Berkshire Hathaway paid for the Van Tuyl Group.

We are not sure if Berkshire Hathaway will report on BHA’s acquisitions or financial results in future filings as they may be “immaterial” given the size of the parent company. For 2015, we will report this acquisition as a public deal, and break it out from the other public company acquisition spending.

Private Equity and Family Offices Are Beginning to Make Headway.

For the past several years, private equity firms have been interested in building a sizeable presence in the US auto retail industry, but with limited success. There were a few firms that acquired a handful of stores, and one firm that has managed to invest perhaps $100M or more in a private group, but none had really established themselves as a player in our industry until the advent of RFJ Partners. At last count, RFJ owned 24 dealerships, primarily in smaller markets in Texas, but they also recently acquired Dave Smith Auto that owns two of the highest volume dealerships in the US. RFJ expects it will be a Top 10 dealership group at some point and has largely grown by buying individual stores in rapid succession rather than big platform acquisitions. Its CEO and CFO have experience with both public and private companies and may be applying the best elements of both business models: attracting talented entrepreneurs to operate the stores while using modern accounting and finance practices to manage growth and control cash.

There are numerous other private equity firms that are looking to invest in auto retail. Haig Partners is representing a large private investment firm that is looking to make investments in dealer groups of at least $200M with no real cap on size. The presence of private equity firms is likely to support the demand for dealerships, although we do not see these firms as “dumb money” that is going to overpay owners for their dealerships. The individuals who run these firms are highly intelligent and have a wide range of investment opportunities.

Family offices are also working hard in the auto space. They are looking for investments in the $20M-$200M range, typically. Private equity firms and family offices are similar in that they not looking to buy stores and take over operations as traditional buyers do. They present a new option to owners of large dealership groups that are interested in taking some chips off the table at today’s strong valuations, but still want to continue to work and maybe even grow their company with outside funds. These investors might purchase 20%-90% of the stock of a dealer group and leave everything intact, including management, as they have no team to run dealerships. The retention of management is also critical for the approval of OEMs who will want to see continuity and experience at the helm. Haig Partners is representing one family office that is currently negotiating an investment in a mid- to large-sized group.
Some Brands Are Trading Much More Than Others.

We examined the data from The Banks Report that showed which dealerships (by brand) had traded in 2014. While The Banks Report may miss some of the transactions that occur but are not publicized, we do get a picture of the trading volatility of the different brands. On the table below, note that the most traded franchises as a percentage of total dealerships that exist in the US are the premium luxury and mid-line import brands, while the least traded are the domestic brands and Lexus. For instance, The Banks Report showed that 4.5% of the Land Rover stores in the country traded hands last year while just 1% of the Chevrolet stores were sold. When we compare this graph to our Haig Multiples chart, we see a strong correlation between high volatility and high multiples, but we also notice some outliers. A good number of Nissan stores traded hands even though many buyers tell us they are not seeking this franchise. Perhaps some dealers have decided they are not good fits in the Nissan network and are selling to more bullish operators. Volvo may be the same story. Conversely, we are seeing very few Lexus stores sell despite an impressive growth rate over the past several years. We believe this is because Lexus puts more limits on buyers than any other franchisor. Public companies tell us they do not consider Lexus acquisitions unless they are very large stores since they are only allowed to own a handful across the country. As proof, according to our math, public companies own 24% of US BMW points, 15% of US Mercedes-Benz points but just 10% of US Lexus points. (Note: Although the Banks Report data showed that only 1% of Chevrolet franchises traded in 2014, compared to 4.5% of Land Rover stores that traded, there are still many more sales of Chevrolet dealerships since there are 3,024 Chevrolet stores in the country compared to just 167 Land Rover stores.)

Sellers Are Younger Than You Might Think.

One might expect that most sellers would be in their 60s-80s and ready to retire, but about three quarters of our clients are only in their 40s and 50s and have decided to take advantage of strong dealership values to exit their investments. Some of these younger clients are looking forward to some R&R after decades of hard work, while others are willing to stay on with the buyer, at least for a period of time. They like the idea of eliminating their down side and diversifying their net worth by putting a large amount of money in the bank, and they can still reenter the industry later if they like.
FRANCHISE VALUATION RANGES:

We have been involved in the purchase and sale of over 220 dealerships in our careers dating back to 1996 and, in our opinion, this is likely the best time ever to sell an auto dealership. Each quarter we contact many leading groups as well as accountants, bankers and lawyers who practice in auto retail. They are all telling us that the prices being paid for dealerships today, particularly luxury brands, are reaching levels never before seen. At Haig Partners, we are seeing the same thing in our own practice. And we are seeing a greater separation in value between the German luxury franchises and all others.

Dealership Valuation Methods.

Although there are various ways to value dealerships, we will refer to the traditional method of combining blue sky (calculated as a multiple of adjusted pre-tax profits), plus the value of other assets acquired. Pre-tax income should exclude non-recurring income or expenses and properly reflect the market value of any real estate owned by the seller and leased to the dealership.

The blue sky multiple ranges that we set forth in this report reflect our expectations of dealership values, and any upward or downward changes from the end of 2014. We remind the reader that each dealership transaction is unique and dealerships may trade above or below the ranges we describe in this report. Dealerships that are underperforming or are in highly desirable markets may have higher values, while dealerships that are in less desirable markets or that have significant real estate issues may bring lower multiples.

Luxury Franchise Blue Sky Multiples

**Mercedes-Benz.** M-B multiples have exploded over the past year or so. Some buyers are willing to pay 10x adjusted pre-tax profit for M-B stores in certain highly desirable markets, while M-B stores in almost any market are likely to bring over 7x. We have many sources that are seeing this pricing, and our own experience with recent M-B transactions confirms the strong level of interest from buyers. Sales are up 13% so far in 2015 vs. 5% for the overall market as M-B continues its pursuit of a higher volume business model. Same multiple range: 7.0x-10.0x.

**BMW.** Pricing on BMW stores has also exploded as buyers see BMW and M-B as essentially comparable brands and are paying the same multiples. Sales are up 7% so far in 2015. With 24% of BMW points already in the hands of the publics, buyers are bidding eagerly for almost every store that comes to market, or offering huge prices to try to induce dealers to sell. Same multiple range: 7.0x-10.0x.

**Porsche.** Porsche has joined the same club as M-B and BMW with dealers willing to pay high multiples for stores in desirable markets. Sales are up 11% in 2015 and have more than doubled over the past four years. While sales per store are growing rapidly, per unit gross profits are still remarkably high. Buyers should expect facility investments to handle the growth, plus some add points in southern markets. Same multiple range: 7.0x-10.0x.

**Audi.** Another very desirable luxury franchise with sales up 12% in 2015, Audi has been leading all luxury automakers in sales growth for the past several years. While facility requirements have been costly and add-points are hitting some markets, many dealers are shopping for Audi stores and some have traded recently for very high prices. Profits per store are growing nicely but are still a good bit lower than at M-B, BMW and Lexus. Some dealers complain that the factory can be difficult. Same multiple range: 7.0x-9.0x.

**Lexus.** Strongly rebounding with sales up an impressive 15% so far in 2015. Still the most beloved supplier in the industry, the brand is also working hard to attract younger customers. One large dealer said, “Lexus has its mojo back.” Despite its renaissance, demand for this franchise remains suppressed by Lexus’ cap on ownership of just eight stores. Very few traded hands in 2014, although we think today would be a good time for the original Lexus dealers to consider selling them. Many of these dealers are at retirement age. Same multiple range: 6.5x-8.0x.
Jaguar-Land Rover. Although combined sales were flat in 2014, JLR is up 17% so far in 2015 and JLR dealers are well positioned as JLR is launching more SUVs at LR and as well as a low cost sedan and its first SUV at Jaguar. These new models should help drive higher volume which is needed at smaller JLR stores to help cover overhead. Many stores are enjoying average gross profits of $10,000+ per Land Rover, and the trucks are sold before they ever hit the lot. In metro markets these dealerships can generate surprisingly large profits and are easy to run compared to other franchises. Same multiple range: 6.0x-7.0x.

Cadillac/Acura/Infiniti. Cadillac is the weakest performing luxury brand with sales down 1% so far in 2015. GM's product plan to help Cadillac gain market share is still some time away from helping. Acura sales are up 7%, but there remains little interest in this franchise from buyers in most markets. Infiniti was up 7%, but again little interest from buyers in most markets. Same multiple range for this group: 3.0x-4.0x.

Mid-Line Import Franchise Blue Sky Multiples

Toyota-Scion. Toyota is up 5% for the year vs. 4% for the overall market. Corporate profits are massive, promising good things for the future. We are currently representing our second large Toyota dealer in the past year and have long been impressed with the Toyota business model. New vehicle margins are moderate, but the high volume of sales combined with good F&I, large used vehicle volume and strong fixed operations combine to drop a lot of profit to the bottom line. Toyota is more weighted towards trucks and SUVs than its Japanese or Korean competitors so we expect it to gain share in this market. We are now marketing our 4th large Toyota store in recent years. High profits per store continue to attract lots of buyers. Same multiple range: 5.0x-6.0x.

Honda. Sales are up just 1% so far in 2015 so Honda is losing market share as overall sales are up 4%. Its product mix is currently underweighted towards trucks and SUVs, however, Honda is releasing its updated Pilot and Ridgeline vehicles, and launching its new small CUV, the HR-V, that should help it take share and increase dealer profits. Despite a recent lull in product, most dealers remain bullish on Honda dealerships and want more of them. High used cars and strong fixed operations help. Same multiple range: 5.0x-6.0x.

Subaru. Subaru continues its torrid growth streak, up 16% so far in 2015. With a product line-up skewed towards CUVs, Subaru is now selling more cars per dealership than Ford, Chevrolet, Kia, and Volkswagen and fixed operations should also be growing strongly as UIO counts are booming. More production is coming from its plant in Indiana so we see more growth for some time, although add points are arriving in some markets in the South and will hurt neighboring dealers. Same multiple range: 4.0x-5.0x (with pricing higher in Snowbelt states).

Kia. Kia sales have grown 4% so far in 2015. New car margins are decent and fixed ops should be growing as units in operation have likely never been higher. This franchise can provide a high ROI to buyers as the multiple is relatively low and real estate costs are less than most other brands. Same multiple range: 3.5x-4.5x.

Hyundai. Sales are up just 2% so far in 2015, slightly below the market average. The company is shifting its supply of CUVs from other markets to increase availability and recently announced it will launch a light truck in the US. Like Kia, this franchise can provide a high ROI to buyers as the multiple is relatively low and real estate costs are less than most other brands. Same multiple range: 3.5x-4.5x.

Nissan. With sales up 3% in 2015, Nissan has passed Honda for the first time in memory, although a meaningful portion of its sales are to fleet buyers. There continues to be friction between the factory and some of its dealers. As we understand it, Nissan wants dealers who will focus on Nissan as opposed to spreading their focus across multiple brands. Nissan is encouraging leading dealers to operate several Nissan stores in a market in order to better compete with Honda and Toyota dealers. For those dealers who are successful, their stores are making impressive profits. But for those dealers who struggle against their facing Honda or Toyota stores, their profits can be weak if they miss sales targets set by Nissan. And attorneys who represent these dealers tell us their clients are being urged to “move up or move out” of the Nissan network, sometimes encouraged by termination letters. Further, we have been told there are over 100 add points planned in the US, which are likely to further erode the profits of existing Nissan stores in those markets, but enrich those dealers who get them in good markets. Due to these opportunities and challenges, there is a good amount of buy-sell activity in the dealer network. Same multiple range: 3.0x-4.0x.
**Mazda.** Sales are up just 1% so far, below the industry average of 4%. We were surprised to read about Mazda’s new alliance with Toyota which makes us more bullish on the future of this company and its success in the US. Although we have previously seen little demand for this franchise, we are seeing some Mazda stores generate nice profits and buyers have begun to notice. Same multiple range: 3.0x-4.0x.

**VW.** Sales continue to lag the market badly, already down a woeful 4% in a market that is up 4%. VW is moving its product mix more towards CUVs with several redesigns and a new product, but it will likely be another tough year for dealers before VW rebounds. Globally, the brand does very well, so we assume they will eventually get the product mix right for the US. Perhaps 2015 will be the bottom for this franchise, so this might be a buying opportunity. Given the severe decline in sales over the past two years at most dealerships, we don’t see VW stores trading for a multiple of earnings, but rather for a flat dollar amount based upon their potential for future profits. Value range: $500,000 - $3,000,000.

**MINI.** Sales have jumped 28% so far this year after a period of imploding results. MINI is fighting low gas prices and a consumer base that is seeking larger, more comfortable vehicles, but BMW NA CEO Ludwig Willisch has said that 2015 will be the best year ever for MINI thanks to new products. Since poor sales and margins made lots of MINI stores marginally profitable, or even money losers, we have changed our valuation for MINI stores from a multiple of pre-tax income to a range in dollars. Same value range: $500,000-$2,000,000.

**Volvo.** It is possible that this franchise has hit rock bottom. Finally! Sales were flat from the same period in 2014. We stopped reporting on this brand as their sales and franchise value had sunk so low, but the news that they are planning a factory in the US gives us hope that its new owners can resurrect it. And they have a new XC90, replacing the model that was, incredibly, 15 years old. We compliment the Volvo salespeople who were able to convince customers in recent years to buy a car of that era. Few stand-alone stores are likely to be profitable at this point if a fair rent is charged, so when they trade they are selling for a dollar value instead of a multiple of earnings. Same value range: $100,000 - $500,000.

### Domestic Franchise Blue Sky Multiples

*(Note: The multiples paid for domestic franchises will likely be higher in markets like Texas where trucks sell well and lower in markets like California where imports dominate.)*

**Ford.** Ford sales are up 2% so far in 2015, and sales may pick up more as the year progresses as production of its new F-150 ramps up and its other CUVs and SUVs remain popular. Ford said transaction values on the new F-150s have jumped several thousand dollars a unit, which should mean higher profits for dealers. We have been involved in the sales of three Ford dealerships recently. All were strongly profitable and got significant interest from buyers. Same multiple range: 4.0x-5.0x.

**FCA (Chrysler-Jeep-Dodge-Ram-Fiat).** Overall, the group’s sales were up 6% so far in 2015, perhaps signaling a slowdown compared to the past several years when FCA was recovering from its bankruptcy. Jeep remains one of the hottest major brands in the industry with sales up 21.8%. Jeep alone is outselling Kia, Subaru and Volkswagen thanks to its product portfolio that sits in the hot CUV/SUV segment. The other divisions are mixed, with Dodge and Fiat down, and Chrysler and RAM up. Profits per dealership are likely to be at all-time high levels. Same multiple range: 3.25-4.25x.

**Chevrolet.** Sales are up 4% in 2015, matching the overall market and signaling that Chevrolet is recovering from the recall crisis. GM is boosting production of its light trucks, CUVs and SUVs that comprise a large portion of its sales, and most of the new vehicle department profits for dealers. We would expect Chevy to take share in this market without resorting to heavy incentives. Fixed ops are also growing. Corporate profits are strong which will help with future product development, marketing, etc. Same multiple range: 3.25x-4.25x.

**Buick-GMC.** Sales are up 9%, more than the market, riding the boom in truck and SUV/CUV sales. Buick performed particularly well, and Yukons and Sierras are bringing strong grosses and higher volumes. Same multiple range: 3.0x-4.0x.
SUMMARY

We remain in a highly active period for dealership sales. Buyers are attracted by an improving economy and ample, low-cost credit. Plus, thanks to low yields in other sectors of our economy, auto retail is attracting significant interest from the financial community. The purchase by Berkshire Hathaway of the Van Tuyl Group is proof that leading investors are looking to make strong returns in the auto retail industry. They believe this economic cycle still has real legs to it and that dealerships are likely to continue to generate robust earnings.

Given the strong demand and record profits per dealership, the current value for a typical dealership is at an all time high. As such, we don’t know of a better time to sell a dealership, and an increasing number of dealers who are nearing retirement age are taking advantage of these market conditions to exit the industry. But we are also seeing younger dealers offer their businesses for sale. In fact, the majority of our clients are only in their 40s and 50s. They see that the value of their businesses has grown so much over the past five years that they want to sell now to eliminate downside risk and lock in significant net worth for their families. Most of these younger clients expect they will reenter the market by acquiring underperforming dealerships in the future.

In this “win-win” period for dealership sales, with attractive returns for buyers and record pricing for sellers, we expect that the market for dealership acquisitions will continue to be highly active.

Haig Partners is seeing these strong conditions in our current engagements. On the sell-side, we recently closed on the sale of Sandy Springs Toyota to Hendrick Automotive, Sandy Springs Ford and Texas Motors Ford to Asbury, Mercedes-Benz of Reno to AutoNation and Freightliner of Chattanooga and Freightliner of Knoxville to Penske Automotive Group. We are currently representing dealers who own a wide variety of franchises, including Audi, Ferrari, Ford, Kia, Land-Rover, Maserati, Mercedes-Benz, Porsche, Subaru, Toyota and Volkswagen. We also represent a large buyer who is seeking to make investments of $200M to several billion dollars in a dealership group, and a family office interested in investments up to $200M. Few, if any, other firms have a better understanding of the perspectives of both buyers and sellers of dealerships, and we use this perspective to negotiate highly desirable outcomes for our clients.
To each of our clients, thank you and congratulations.

$209,579,197 in dealership sales proceeds are reasons to celebrate.

Over the past six months, Haig Partners has guided some of America’s most successful dealers through the sale process, securing more than $200 million for their businesses, excluding the value of new vehicles.

We work hard to provide the expertise you expect from an industry leader. With each transaction, our principals bring unmatched experience to the table, including more than 150 dealership buy-sells generating more than $3 billion.

We help create the value our clients deserve for their life’s work.
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