THE HAIG REPORT®

TRENDS IN AUTO RETAIL AND THE IMPACT THEY HAVE ON DEALERSHIP VALUES

FIRST QUARTER – 2016

HAIG PARTNERS

OVERVIEW

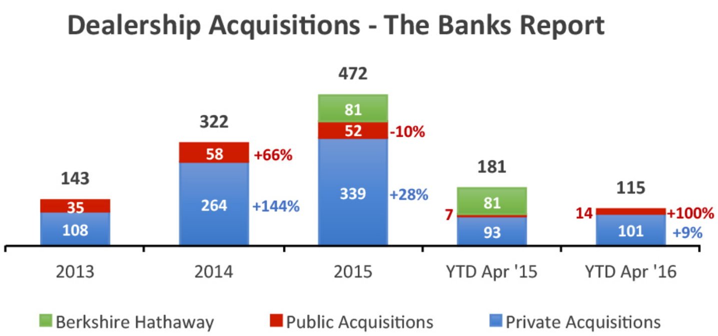
IN THIS ISSUE:

We Have Reached Cruising Altitude

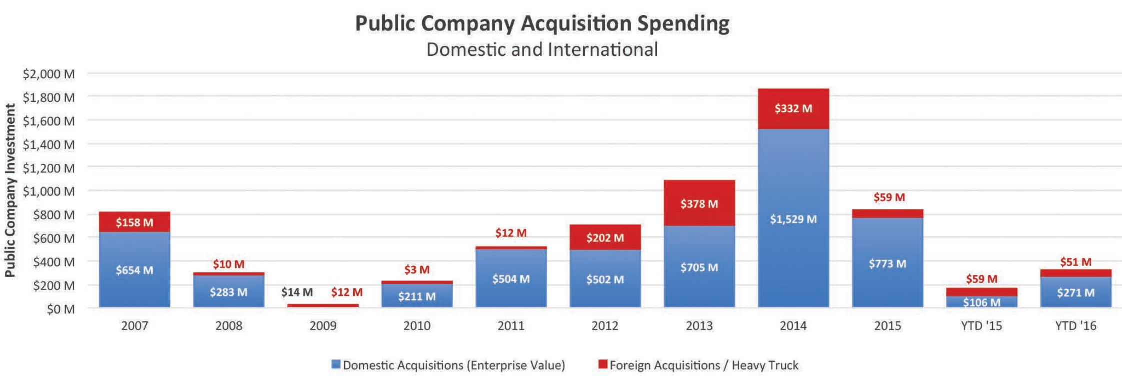
After six years of strong growth following the Great Recession, the auto retail market appears to be leveling off. As one dealer put it, "I wish it weren't so, but it ain't a bad place to be." Auto sales remain above 17 million units and dealership profits are still at record levels, although now growing more slowly. With few signs of an impending recession, dealers are still interested in buying dealerships, although more cautiously than in the past as they no longer expect growth to enhance their return on investment. This sentiment is reflected in the buy-sell data for the first quarter. Most public auto retailers are spending their capital on buying back shares while looking for smaller acquisitions that fit their strategies. Private buyers remain active as they are generating lots of cash, and acquisitions still appear to provide them with their highest return on investment. As a result of these factors, dealership values remain strong and we expect buy-sell volume will remain high for the foreseeable future.

The Buy-Sell Market Remains Active

Excluding the Berkshire acquisition in 2015, The Banks Report shows the total number of dealerships sold through April 2016 increased 15% from the same period in 2015. So far in 2016, we continue to see significant levels of deal activity between private buyers and sellers, with no slow-down in sight.



While private buyers remain highly active, Asbury, Group 1, Lithia, and Sonic did not spend a single dollar on acquisitions in the US in Q1.[1] AutoNation did a single large deal, buying the Allen Samuels Auto Group in Texas and Penske bought a couple of smaller luxury stores in New Jersey. Berkshire Hathaway did not report its acquisitions in its public filings, but the Banks Report indicates it acquired one store in Q1. So together, the publicly held auto retailers comprised just 6% of the number of transactions in Q1 2016, down from 9% in Q1 2015. In terms of acquisition value, however, the pubic company numbers appear higher than in 2015 because the Allen Samuels acquisition was large at $257M, or 95% of the total reported by the publics. Without the Allen Samuels deal, the value of acquisitions by the publics would have been 87% lower than in Q1 2015. While most of the publics are still trying to buy stores, we expect the remainder of 2016 to be less active for them than in 2015 due to their preference for allocating their capital to stock buy-backs when their stocks are trading at low multiples.



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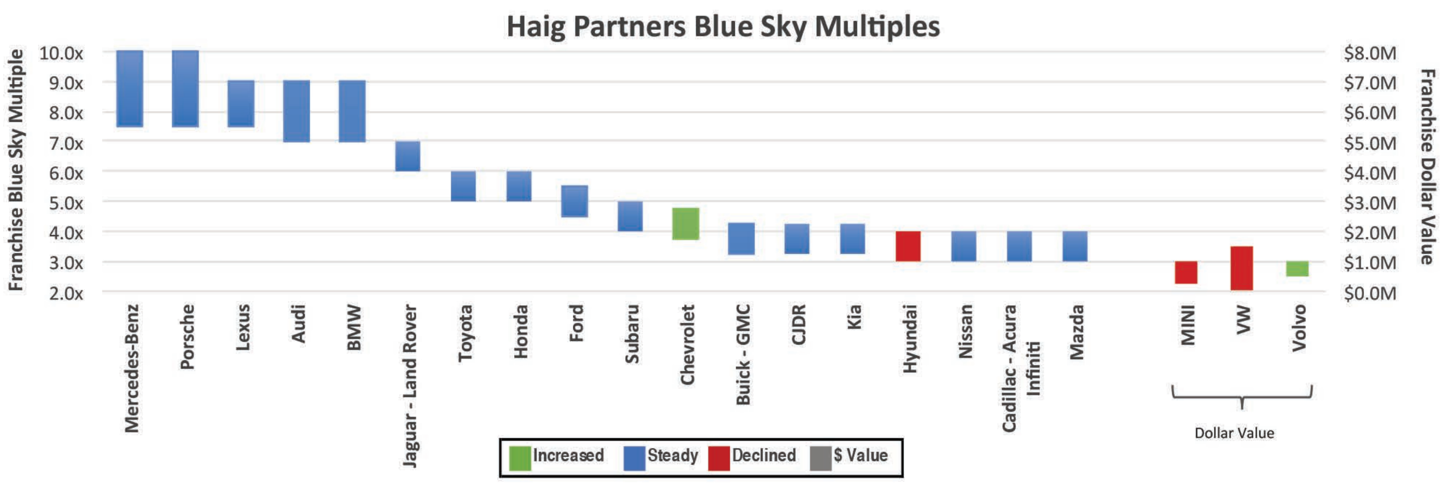
[1] *The Banks Report: by Cliff Banks @ www.thebanksreport.com*

Blue Sky Multiples Remain Strong

We continue to be impressed with the level of demand for dealership acquisitions by private buyers. Low fuel prices are boosting profits at domestic stores and attracting many buyers. Key midline import franchises like Honda and Toyota are selling lots of vehicles and have a highly predictable business model. We see stable multiples for most mid-line and domestic franchises. However, a number of buyers are expressing concerns with the shrinking growth and margins at the luxury brands. There is too much inventory and with a product mix that favors cars over trucks, sales have slowed or even fallen for these brands. Public companies will be avoiding these high multiple franchises for the time being, and private buyers are telling us they are slightly less motivated to acquire these brands until their margins can stabilize. Plus, these OEMs are requiring costly facility upgrades at many stores at the same time that profits are under stress. Bad timing!

The table below provides our estimate of what multiple a buyer participating in a competitive sales process (i.e. not the only buyer at the table) will pay for the goodwill of a franchise, in addition to the other assets. The blue sky multiple is a reflection of the risk/reward profile that investors place on each franchise. Higher risk franchises command lower multiples, while franchises that are perceived as lower risk bring higher multiples. The net result is a risk-adjusted return profile as determined by the market. Of course, actual multiples or prices paid by buyers could be higher or lower than the ranges we indicate. Stores that are not marketed properly will bring lower multiples. Underperforming dealerships can bring much higher multiples, and dealerships with facility issues may bring lower multiples. Each store is unique and brings its own set of opportunities and challenges. And geography matters a great deal. For instance, a Ford store in Texas is likely to bring a premium price compared to a Ford store in California. We caution readers not to view these values rigidly.



HAIG PARTNERS SPOTLIGHT:

PAT CARROLL, MANAGING DIRECTOR

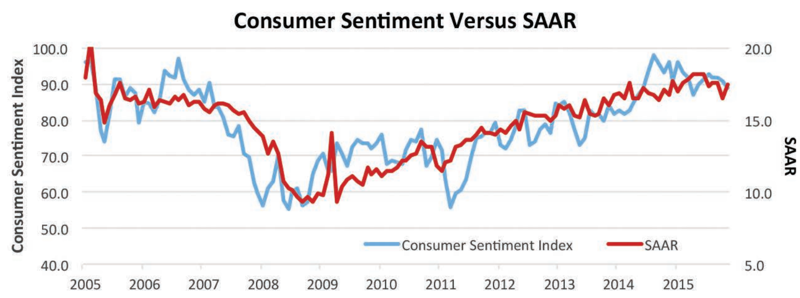
Pat joins Haig Partners after more than 25 years in the heavy truck dealership industry. Pat served as President and Dealer Principal of Freightliner of Chattanooga and Freightliner of Knoxville from 1990 through February 2015 when the businesses were sold to Penske Automotive's commercial vehicles division. During this period, he worked in all capacities. He led the design and construction of two state of the art dealership facilities, developed and maintained one of Daimler Trucks' largest parts accounts, managed customer, manufacturer and vendor relationships, as well as developed a strong team of long-term valuable employees and managers. Pat received his Bachelor of Aerospace Engineering (BAE) degree from Auburn University and pursued graduate studies at Princeton University and the University of Alabama.

TRENDS IMPACTING AUTO RETAIL

Macroeconomic Indicators Are Mostly Positive

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

- *GDP is Growing, But Slowly.* In late 2015, Congressional Budget Office was predicting real GDP growth to be above 2.5% in 2016, but it was only an estimated 0.6% in Q1 and is projected to be just 1.2% in Q2. While still positive, these rates are lower than in previous years.
- *Interest Rates Remain Low.* The average cost for a five-year auto loan was 4.3% per Bankrate.com, roughly the same level it has been since late 2015.
- *Employment and Household Income Are Increasing.* The US added nearly 800,000 jobs so far this year, keeping unemployment down to 4.9-5.0% overall, and 2.5% among college graduates. Real disposable income per capita was up 2.0% in Q1.
- *Number of Miles Driven Is Increasing.* The total number of miles driven, which drives the vehicle replacement rate and is a key measure of demand for autos, increased 3.9% through February 2016 compared to the same period last year, according the US Federal Highway Administration.
- *Gas Prices Remain Low.* The Department of Energy reported that the average price per gallon of fuel was $1.95 over the first four months of 2016, down from $2.43 in 2015 and a high of $3.62 in 2012. Savings on gas will put about $1,000 into the pocket of the average household in 2016.
- *Consumer Sentiment is High.* There is a strong correlation between auto sales and consumer sentiment. As the chart to the right shows, consumer sentiment has been relatively stable since September and remains near historically high levels.



Source: Thompson Reuters / University of Michigan; Automotive News

There are, however, a couple of indicators that are headed in the wrong direction and are giving some dealers concerns about the future:

- *Inventory Levels Are Rising.* Due to increased production and declining growth in the rate of new vehicle sales, inventory levels have been rising and putting pressure on gross margins. As a result, many dealers are seeing a downturn in the profitability of their new vehicle departments.
- *Used Car Pricing Is Declining.* NADA's Used Vehicle Price Index was down 3.6% for Q1 and is at the lowest levels since 2011. Lower used car prices can affect new vehicle sales as they make it more difficult for owners to trade in their vehicles for new ones, and used cars become more attractive as an option for buyers compared to new vehicles. Also, lower residual values on used cars will likely drive up the costs of auto leasing.
- *Profits at Some Dealers Are Declining.* Some private dealers are seeing lower profits at the dealerships in Q1 compared to the prior year. More evidence of this can be seen in the public company filings that showed the operating income declined at four of the six publics in Q1 for the first time in years.

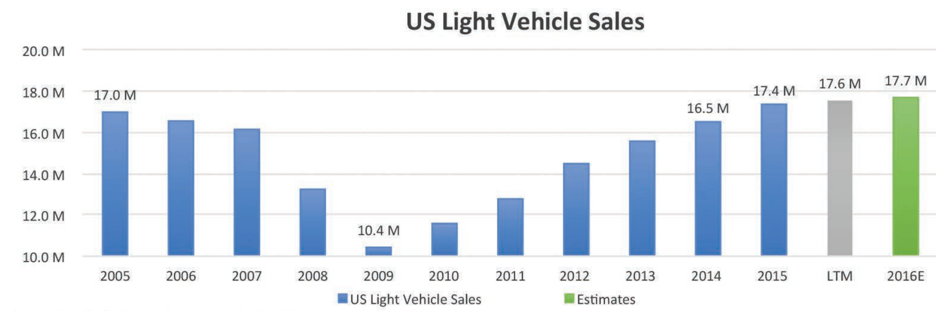
New Vehicle Sales Remain At All Time High, But Growing More Slowly Now Driven by Fleet

After a 3.3% decline in March, April SAAR grew 3.9%, setting the stage for another record year. There is debate among analysts about how much higher sales can go. Some experts believe 17-18 million units is the sales plateau in the US, but others see the industry going

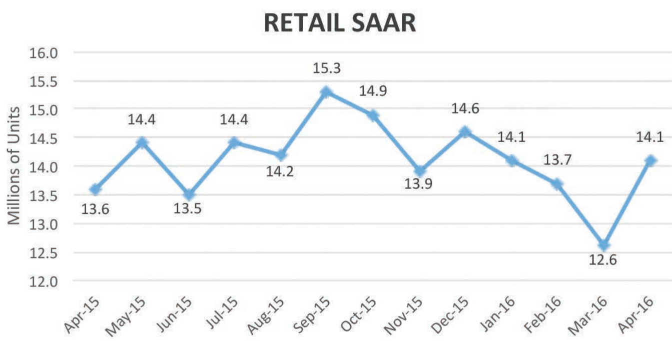
TRENDS IMPACTING AUTO RETAIL

higher, one as high as 20M units. Here we show a prediction for 2016 of 17.7M units, which would represent an increase of 1% over 2015, the lowest annual growth rate since the Great Recession.

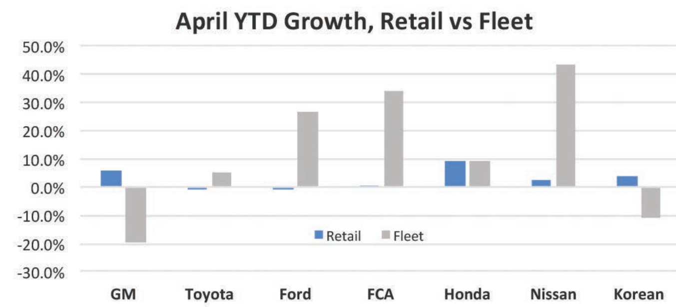
It's important to note, however, that fleet sales have increased 10.6% this year according to Automotive News.. When looking at retail sales only, JD Power estimated volume would reach 4.3M through April 2016, an increase of 0.5% on a selling day adjusted basis, a near zero change year over year. In fact, as seen in the chart below, JD Power shows that the US Retail SAAR peaked in September 2015 at 15.3M units and has not yet recovered in the past seven months.



Source: Historicals - Automotive News, Estimates: NADA



Source: JD Power

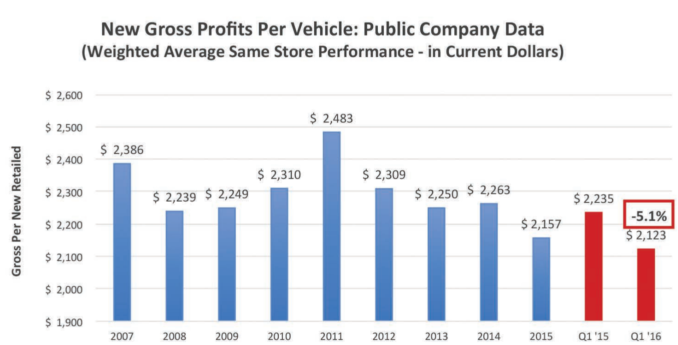


Source: Automotive News Data Center

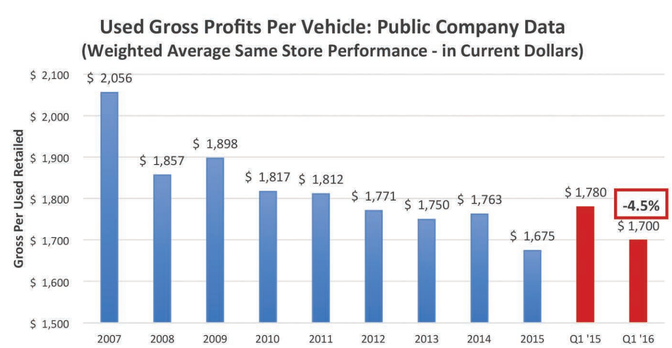
Almost all the sales records that we hear about today are driven by fleet sales, as evidenced by the table above that shows big spikes in fleet from some OEMs like FCA, Ford and Nissan, compared to restraint by GM, Toyota, Honda and the Koreans.

Grosses Are Sliding: A Symptom of Oversupply?

Perhaps the biggest challenge today remains an erosion of gross profit on the sales of new and used vehicles. According to data published by the public retailers, profits per vehicle retailed declined 5.1% for new and 4.5% for used from Q1 2015 to Q1 2016. This trend is surprising to many since the market is shifting towards luxury vehicles, trucks and SUVs that typically bring higher than average margins. Some of the decline has been happening in the midline import segment, in brands like Honda, Toyota, Nissan, Volkswagen, Kia and Hyundai. Here, the decline has been driven by a number of factors, such as OEM stair step programs, turn and earn policies, TrueCar, the ease that consumers have in comparing prices on mobile devices, etc. In the premium luxury segment, a higher sales mix of lower priced models that bring less margin are contributing to lower average gross profits, but the main culprit is



Source: SEC filings



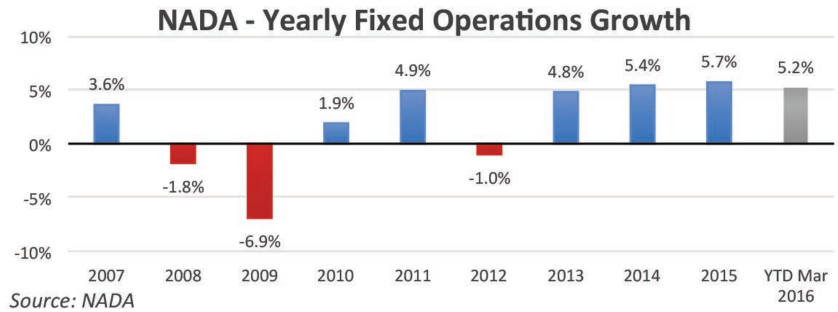
Source: SEC filings

TRENDS IMPACTING AUTO RETAIL

an oversupply of new units, perhaps caused by slowing sales growth, a shift from cars where premium luxury does well to CUVs/trucks where premium luxury underperforms, and also the slowdown in China that OEMs are reacting to by sending more units to US dealers. Oversupply can be corrected if the luxury OEMs choose to dial back their production and we are starting to hear that they are moving in this direction.

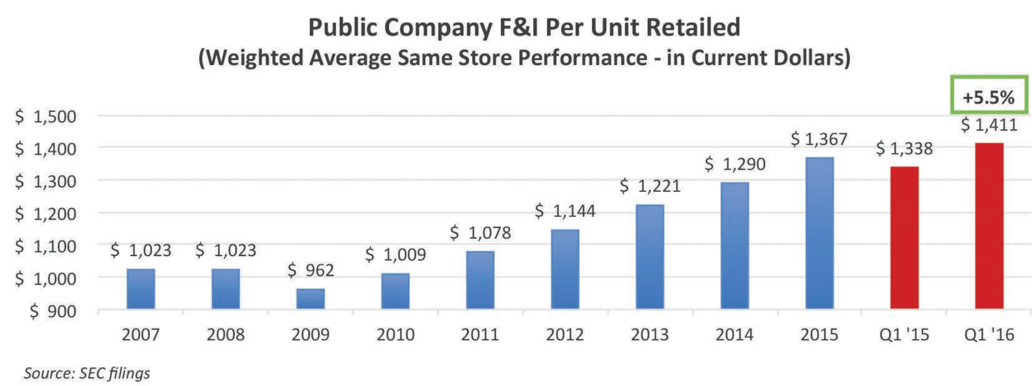
Fixed Operations Driving Higher Profits

Almost six years of rising sales have been boosting the number of units in operation in the US and these vehicles are showing up in service drives around the country. Private dealers reported fixed operations increased 5.2% in early 2016. Public retailers also did well, averaging 6.2% growth on a same-store basis in Q1 2016 compared to Q1 2015. Higher profits from fixed operations may continue to lift dealership profits even if vehicle sales and/or margins worsen.



Finance & Insurance Departments Are Generating Record Profits

The public retailers' average F&I gross profit per vehicle retailed reached an all-time high of $1,411 per unit in Q1, up 5.5% from Q1 2015. 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.

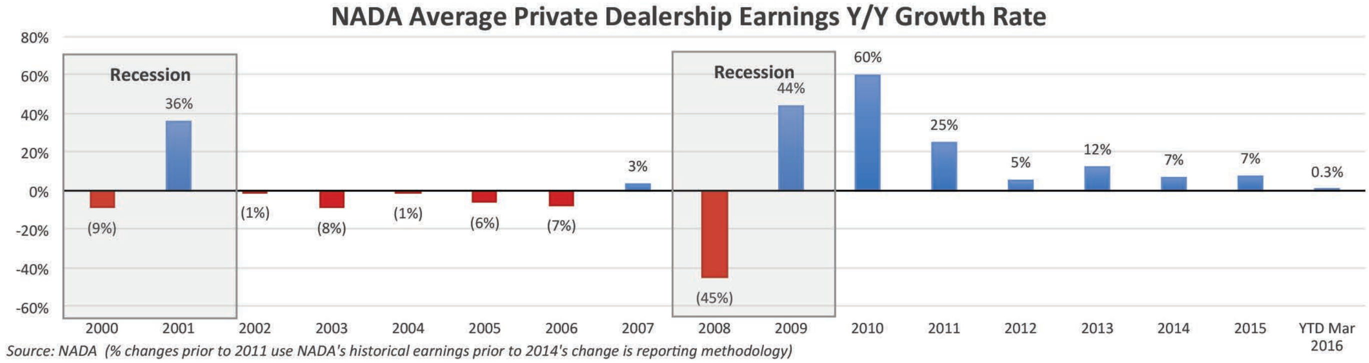


Dealership Profits Leveled Off in Q1

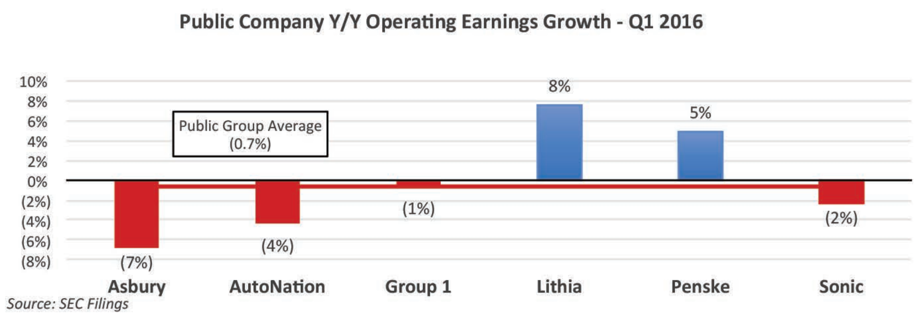
The net outcome of the trends listed above is that profits at dealerships leveled off, at least for Q1. Private dealerships generated an average of $1.168M in pre-tax profit over the last twelve months, up a negligible 0.3% from 2015, but still up 7% over 2014. We suspect the March dip in SAAR held back profit growth in Q1.

TRENDS IMPACTING AUTO RETAIL

The table below shows the annual change in profits at privately owned dealerships over the past 16 years. Despite concerns on retail sales and front end margins, we remain in a sweet period in auto retail, although the seven year run in growth of profits at dealerships may be nearing an end.

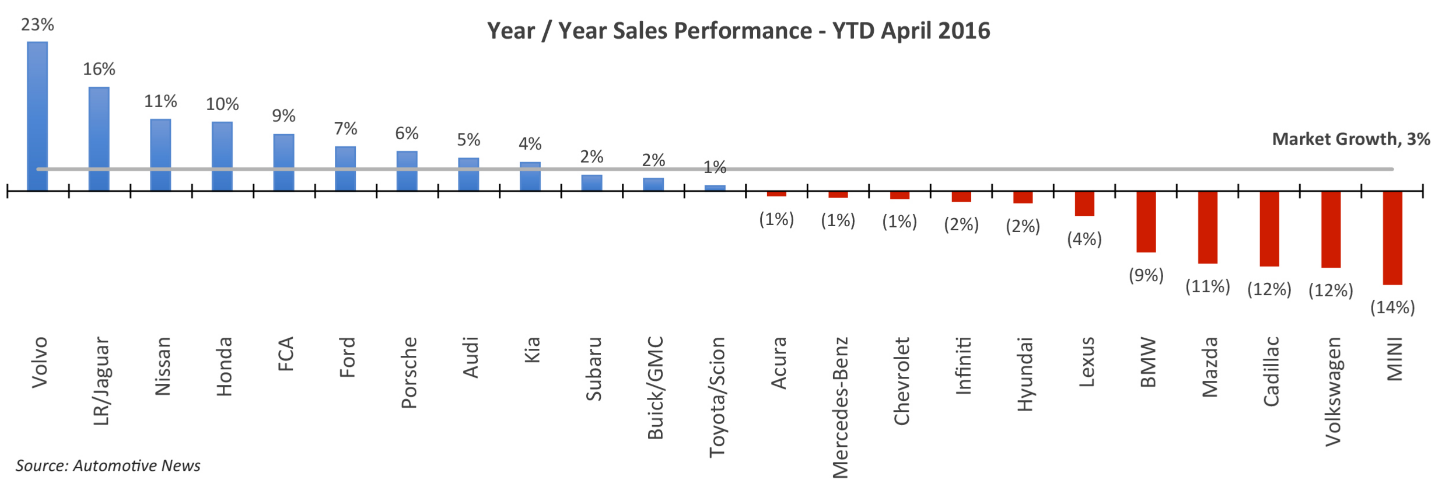


While most private dealers remain happy, several public companies are off to a rocky start so far in 2016 with their average profits down 0.7% in Q1 2016 compared to Q1 2015. Some of their struggles are due to their higher concentration in energy producing states and luxury brands compared to typical dealers.



Sales Growth for Individual Franchises

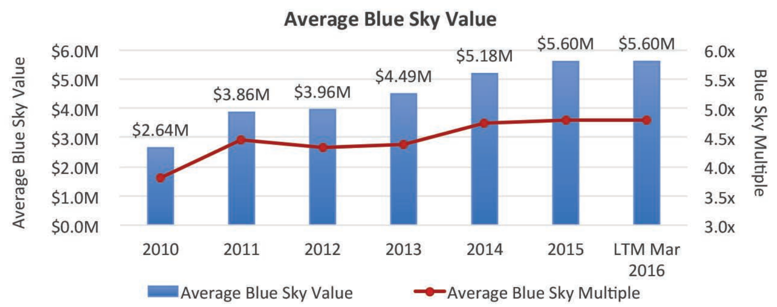
The following table sets forth the change in new unit sales at the major franchises in 2016 compared to 2015. For the first time in years we see about as many franchises losing sales as are gaining sales. Volvo has gone from the far right side of our table for many years to the enviable post position on the left side of the page. JLR, Audi and Porsche continue to gain share, but key luxury brands such as Mercedes, Lexus, and BMW that were beating the market over the past few years have surprised us with sales declines. Nissan, Ford and FCA all show gains here, but they were largely the result of big increases in fleet volume so dealers are not benefitting from the increase in sales. Sadly, franchises like Volkswagen and MINI continue to struggle badly.



BUY SELL TRENDS

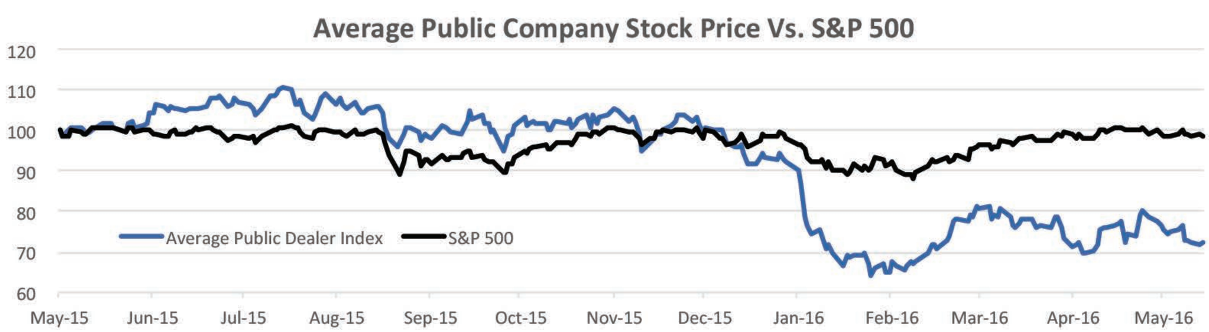
Blue Sky Multiples Have Peaked And Dealership Values Have Leveled Off - At Least In Q1

We estimate that the average blue sky multiple for all franchises on an unweighted basis was 4.80x in Q1, the same level as at year end 2015 when we posted a decline of almost 1% from the Q3 2015 average multiple which was 4.84x. While there is no way to know how accurate our estimates are, we believe we have passed the "peak" in terms of blue sky multiples, but not necessarily blue sky values. The average profit per dealership according to NADA is virtually unchanged for the last 12 months ended March 2016 from year end 2015. Applying the 4.80x blue sky multiple to the average dealership pre-tax profit of $1.168M over the last 12 months through March generates an average blue sky value of $5.60M, unchanged from year end 2015, but up 8% from 2014, and up 25% from 2013.



Even at these high valuations, dealership acquisitions provide attractive returns for buyers compared to other investment alternatives for dealers such as stocks, bonds and real estate.

While the value of privately owned dealerships has never been higher, we have seen a big sell off in the value of the public auto retailers. The average stock price for public retailers was approximately $48.97 per share on May 17, 2016, 34% below the highest level that they reached in the summer of 2015, and down 21% from the end of 2015.



Investors remain concerned that we have reached a plateau in sales and that overproduction by the OEMs could erode the profits of dealers. The average Price/Earnings per Share multiple has collapsed from 18.4x at the end of 2014 to 11.1x on May 17, 2016, and now trades far below the 23.7 Price/Earnings multiple of the S&P 500, meaning that investors see much less upside from auto retail than they do from the general economy.

Days Supply Has Increased Significantly for Some Brands, But Appears Healthy for Others

The table below shows the change in days supply from May 1, 2015 to May 1, 2016 for key categories. Note the spike in the days supply for the premium luxury brands, which increased an average of 39% from 46 days to 63 days during this period. One BMW dealer told us his days supply was over 100 when including the new units he had "sold" to his used car department to satisfy BMW! Luxury retailers are discounting their products to get them off their lots, thereby contributing to the decline in gross margins that the publics reported. Other brands, however, appear to have inventory levels in good shape. The domestic brands are averaging 79 days, a more moderate 9% increase to last year, and midline imports are averaging 61 days, a 4% increase from last year.

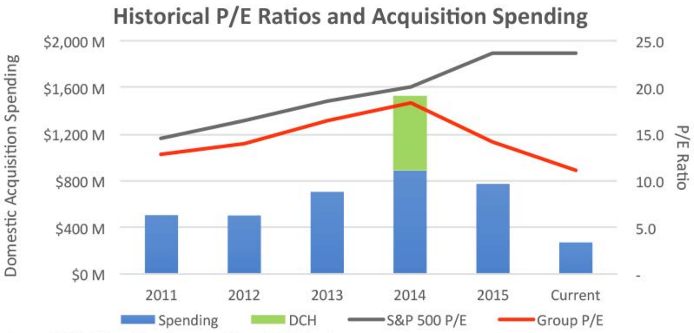
	Days Supply May 1				Inventory Units May 1			
	2016	2015	Chng.	%	2016	2015	Chng.	%
Domestic	79	73	6	9%	1,949,100	1,822,700	126,400	7%
Midline Import	61	58	2	4%	1,502,400	1,412,300	90,100	6%
Premium Luxury	63	46	18	39%	260,900	199,700	61,200	31%

Source: Automotive News

[1] *Per Standard & Poor's*

Public Companies Have Less Interest in Acquiring US Auto Dealerships

Excluding AutoNation's acquisition of Allen Samuels that was entered into in 2015 before its stock price fell, the value of acquisitions completed by the publics in Q1 was only $14M compared to $106M in Q1 2015. Most of the public companies reiterated in their Q1 earnings calls that share repurchase is more attractive relative to most acquisitions at their current valuations. In 2016, the publics may close on a number of tuck-in acquisitions but we believe they will be much less active than in prior years. The chart to the right shows the strongly correlated relationship between the level of acquisition spending and Price/Earning Ratios for the public companies. (Note: excludes Berkshire Hathaway)



Source: Public Filings, Morningstar and Standard & Poor's

Private Dealer Groups Are Making Large Acquisitions

Private dealers continue to drive consolidation in our industry, and many dealers are generating huge amounts of cash that they want to put to work by buying more dealerships and dealership groups. The most common type of acquisition is a single store deal in an existing market, but we are also seeing private groups acquire large platforms in new markets. These private groups are capable of making acquisitions of hundreds of millions in transaction value, a realm that even public companies have rarely ventured into. They have access to large amounts of capital from lenders and their own savings, and they are less likely to have restrictions from OEM framework agreements that have long restricted the public companies from growing faster. A recent example is the announcement of the Holman Automotive Group's acquisition of Kuni Automotive. Last year, the groups posted $3 billion in revenue that on a combined basis would have made them the ninth largest retailer on the Automotive News Top 150 list. And the Fields Auto Group acquisition of Brumos Automotive (a Haig Partners client) likely makes them the leading luxury retailer in Florida.

Private Equity and Family Offices Are Now Significant Players in Auto Retail

Several family offices and private equity firms have invested large sums in auto retail in recent years. RFJ Auto Partners, for instance, lists 27 dealerships that generated $1.3B in 2015 and we believe this number will be much higher in 2016 when it has a full year of operations from all the stores it bought in 2015. Another private equity firm that is new to our industry is of comparable size, although flying under the radar at present. And family offices new to auto retail have also invested hundreds of millions in 2015 and will want to invest more if their results are good. One such example is The Fremont Group (a Haig Partners client) that acquired Morrie's Automotive, a group of 12 dealerships in Minneapolis. These investors have backed experienced automotive retail executives and are building dealership groups that marry the entrepreneurial spirit of privately owned stores with the discipline of public companies. Now that the publics have retrenched, private equity firms and family offices may have a greater opportunity to acquire prime dealerships and dealership groups, although we expect them to be disciplined in their offers to avoid overpaying.

Sales of Dealership Groups Are On The Rise

We have noticed an increase in the number of dealership groups that are coming to market, as opposed to individual stores. Through April 2016, The Banks Report listed 19 group transactions with an average of 3.4 stores per group, compared to 14 groups with 2.6 stores per group for the same period in 2015. There are a number of reasons for this. First, many dealers are aging and are taking advantage of strong market conditions to sell their entire group. Second, buyers have lots of capital and are looking to grow quickly. And third, the growth in family offices and private equity firms is driving the demand for larger "platform deals" that bring them several hundred million dollars in revenue in a single transaction, as opposed to tuck-in deals that many of the major groups have been pursuing for years.

Volkswagen Remains a Mess

Nine months after the scandal was admitted by its executives, VW still does not have a clear solution to deal with the fallout. Dealers have been left with expensive buildings and collapsing sales during this period while VW executives sought a fix (which seems to be nonexistent) and negotiated with US regulators. We have read about a plan to purchase recalled units or reimburse customers later this year, but in the meantime, there are few products to offer to customers given all diesels are on a stop-sale and new product has not yet arrived. Litigation is imminent from many sources. As a result of these issues, we know that some leading dealers are giving up on VW, while other more optimistic dealers are taking the risk that the ship will be righted and are seeking to buy stores.

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 250 dealerships in our careers dating back to 1996. In the past 12 months Haig Partners has been involved in representing buyers or sellers of Aston Martin, Audi, Bentley, Cadillac, Chevrolet, Chrysler-Jeep-Dodge-Ram, Ferrari, Ford/Lincoln, Honda, Hyundai, Infiniti, Jaguar/Land Rover, Kia, Lexus, Maserati, Mazda, Mercedes-Benz, Nissan, Porsche, Subaru, Toyota and VW dealerships. 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.

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 what buyers will pay for the goodwill of dealerships, and we note any upward or downward changes from the end of 2015. 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, are over performing or that have significant real estate issues may bring lower multiples.

Luxury Franchise Blue Sky Multiples

Mercedes-Benz

Mercedes-Benz. Like most other premium luxury franchises, M-B is suffering from weakening sales and declining margins. Sales underperformed the market in 2015 and declined 1% through April. Dealers are complaining of too much inventory and too much pressure from M-B corporate. Nevertheless, M-B dealerships remain much in demand as they are capable of generating high levels of profits and dealers are pleased with M-B's leadership. We have been involved in the sale of three M-B stores recently and demand was strong. It's possible that the demand for these stores will cool if margins remain compressed and/or sales flatten, but for now it is retaining its high level of desirability. Same multiple range: 7.5x-10.0x.

BMW. BMW underperformed the market in 2015 and declined a whopping 9.4% through April. BMW is now trailing Lexus and Mercedes in unit volume. This reduction in sales has corresponded to, or perhaps caused, a spike in inventories and a significant reduction in new vehicle margins. The days supply of new inventory soared 37% from 32 days supply on April 1, 2015 to 43 days supply on April 1, 2016. And the actual days supply could be much higher if vehicles that have been "RDR'ed" (meaning dealer are showing vehicles as sold even though there are no actual customers) are included. Further antagonizing dealers are the tough facility requirements that BMW is imposing that will cost millions per location. That said, BMW stores are highly profitable, the OEM is taking steps to reduce inventories, and acquisition opportunities are rare, so buyers remain highly interested whenever one becomes available. Same multiple range: 7.0x-9.0x.

Audi

Audi. Audi remains the fastest growing German luxury brand with increases of 11% in 2015 and 5% through April. However, add-points, expensive facility requirements and a decline in new vehicle margins are frustrating some dealers. The days supply of new vehicles has spiked 39%, rising from 41 days on 4/1/2015 to 57 days as of 4/1/2016, leading to margin compression. Audi dealers spent the last few years complaining they could not get enough units, but are now swimming in cars. We believe Audi is smart enough to take actions to reduce oversupply that will help margins to recover, and new product is coming that should help the franchise continue to grow. Same multiple range: 7.0x-9.0x.

Porsche. Porsche continues to perform strongly with sales up 10% in 2015 and 6% through April. Per unit gross profits have declined from their stratospheric heights due to increased inventories and a higher mix of lower priced/ margin Macans. Buyers should expect facility investments to handle the growth, plus some add points in southern markets. Dealers tell us they remain highly interested in Porsche stores, particularly in metro markets in which they can earn strong profits. Same multiple range: 7.5x-10.0x.

Lexus. Lexus had an excellent year in 2015 but is off to a slow start in 2016, declining 4% through April. Dealers love Lexus and it came in first in "Value" in NADA's Winter 2016 Dealer Attitude Survey. Parts and service departments are growing strongly now that units in operation have increased so much over the past five years. Plus, unlike its German competitors, Lexus has not inflicted painful facility requirements on its dealers, so much of the cash flow from Lexus stores ends up in the pockets of their dealers. We expect more Lexus stores will sell in 2016 as they are performing at or near peak levels and Lexus has slightly relaxed its cap on multi-store ownership. We were involved in the sale of two Lexus stores recently, and interest was very strong. Same multiple range: 7.5x-9.0x.

Jaguar-Land Rover. JLR was up an amazing 26% (37% for Land Rover alone) in 2015 and another 16% through April. This strength should continue in 2016 with new models at Jaguar, including its first SUV, and a line of lower priced SUVs at Land Rover. These new models should help smaller JLR stores to cover overhead, and help JLR stores better compete with other luxury brands that have a broader line up of cars and CUVs/SUVs. However, margins have fallen on new Land Rovers due to higher inventory levels and a new margin structure. Days supply has doubled over the past year, rising from 19 days to 42 days. JLR's new strategy is for more volume at lower grosses and we hope this will result in more total profit at JLR stores. There are new facility requirements to handle the higher volumes, and JLR is adding dealers in some markets. Same multiple range: 6.0x-7.0x.

Cadillac/Acura/Infiniti. Cadillac sales are down 11.5% through April with an aging vehicle portfolio. Johann De Nysschen is working hard to make Cadillac into more of a luxury brand, but the problem remains that there are far too many Cadillac stores in the US, so the average profit per store is much lower than at other premium luxury stores. Acura matched the market in 2015 but underperformed slightly through April with a 1% decline. Profits per store in some markets remain uninspiring to many buyers. Infiniti was up 14% in 2015, but was down 2% through April. These near luxury franchises have a hard time making over $1M in most markets, but they can provide nice tuck-in acquisitions. Same multiple range for this group: 3.0x-4.0x.

Volvo. The new XC90 is a hit and volume was up 24% in 2015 and another 23% through April, a remarkable comeback for a franchise that was fading fast in the US. Its other new products look attractive, and having a deep pocketed Chinese parent will help Volvo to regain some of the market share it has lost over the years. It will also take time for fixed operations to recover as units in operation have likely fallen to the lowest level in decades. Nevertheless, the franchise is alive and can be a nice tuck-in if facility costs are modest. Higher value range: $500,000 - $1,000,000.

Mid-Line Import Franchise Blue Sky Multiples

Toyota. Toyota slightly underperformed the market with 4% growth in 2015 and flat performance through April. This surprised us since Toyota has plenty of trucks and CUVs, but we have to remember that its main strength over the years has been in Corollas and Camrys which are suffering in this low cost gas environment. Dealers have been complaining about declining new vehicle margins, but we are also hearing that Toyota's new advertising covenants that are designed to raise grosses are having some positive effects. Despite the low margins, Toyota's high volume/low gross business model is proving to be highly profitable for most dealers. High profits per store and a right-sized dealer network continue to attract lots of buyers. Same multiple range: 5.0x-6.0x.

Honda. Honda sales lagged the market in 2015 with sales up just 2%, but grew strongly through April at 11%. Sales are picking up thanks to a barrage of new or redesigned products that should help Honda to take share profitably in 2016. Bank of America / Merrill Lynch's latest Car Wars report predicts that these updated core products, along with the new models, will make Honda the fastest growing major OEM over the next 3 years with a replacement rate of 96% compared to the industry average of 80%. Loyal customers and a balanced business model of strong variable and fixed operations continue to attract buyer interest. Dealers love the predictability of the Honda business model. Same multiple range: 5.0x-6.0x.

Subaru. Subaru's torrid sales growth slowed in 2016 with sales up only 2.4% through April. Dealers love Subaru, and it came in second in "Value" in NADA's Winter 2016 Dealer Attitude Survey. We are told Subaru is out of production capacity but will be boosting production in Q3. With a product lineup that is geared towards CUVs, and with advertising that is appealing to Millenials, young families and educated older folks, Subaru continues to take share from its larger Japanese and Korean rivals. Buyers may need to expand dealerships to handle the higher volume. Same multiple range: 4.0x-5.0x (with pricing higher in Snow-Belt states).

Kia. Sales beat the market, up 8% in 2015 and 4% through April. We have been involved with several Kia franchises recently and we have been impressed with the profits that good dealers can generate. We hope Kia can help its dealers generate a bigger fixed operations business. 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: 3.25x-4.25x.

Hyundai. Sales were up 5% in 2015, but down 2% through April. 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. Hyundai also announced that it will launch Genesis Motors as a separate luxury franchise. This concerns us as it may mean fewer sales at Hyundai dealerships as the Genesis models are removed, new facility expenses, and higher overhead. This plan will likely reduce the return on investment for Hyundai acquisitions. Lower multiple range: 3.0x-4.0x.

Nissan. Sales were up 6% in 2015 and 11% through April. Much of the sales growth in 2016 has been through fleet, as its retail sales are up 2.3%. We have already described Nissan's strategy of encouraging "preferred dealers" to consolidate markets so we won't repeat it again. Dealers complain more about Nissan than almost any other franchise and they gave Nissan poor ratings in NADA's Winter 2016 Dealer Attitude Survey. With so much interference from the factory, we don't see buyers stretching to purchase these franchises. Same multiple range: 3.0x-4.0x.

Mazda. Sales were up 4% in 2015, but have declined 11% through April. Mazda has been underweighted in trucks and CUVs and that has cost them sales in this environment of cheap gas (a new CX-9 this summer should help though). Few buyers seek Mazda as a stand-alone acquisition, but like the returns they can get from them as a part of an acquisition. Same multiple range: 3.0x-4.0x.

VW. Nothing has improved for this franchise since the news of the cheating scandal came out. Sales were down 5% in 2015 and another 12% through April. We are a little surprised VW is doing this well given all the negative press and the lack of products for dealers to sell. VW ranked dead last in NADA's Winter 2015 Dealer Attitude Survey regarding "Value," so there was no joy in the dealer body. VW has proposed a plan to compensate owners up to $5,000 and/or buy back their diesel vehicles, as well as making other payments to US regulators to settle their claims, so perhaps VW can begin to start moving beyond these troubles. The biggest issue for US VW dealers is that they need new products to meet the demands of US consumers. Some US dealers have given up on VW and are offering their franchises for little to no blue sky. This could be a buying opportunity for dealers who have strong stomachs, but most will steer clear. Lower value range: $0 - $1,500,000.

MINI. After a strong first half of 2015, sales stalled and came in at 4% for the year and are down 14% through April. Low gas prices are kryptonite to this franchise that now seems to be marketing how big its vehicles are, in contrast to earlier marketing messages about how small they were. The MINI product is much more appealing than what we saw from Scion, smart and Fiat, but we wonder if small car franchises have a future in the US given low fuel prices. While MINI is doing well internationally, it was the second lowest rated franchise in NADA's Dealer Attitude Survey regarding "Value." Since stand-alone MINI stores are marginally profitable, or even money losers, we value MINI stores as a range in dollars. Lower value range: $250,000-$1,000,000.

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.)

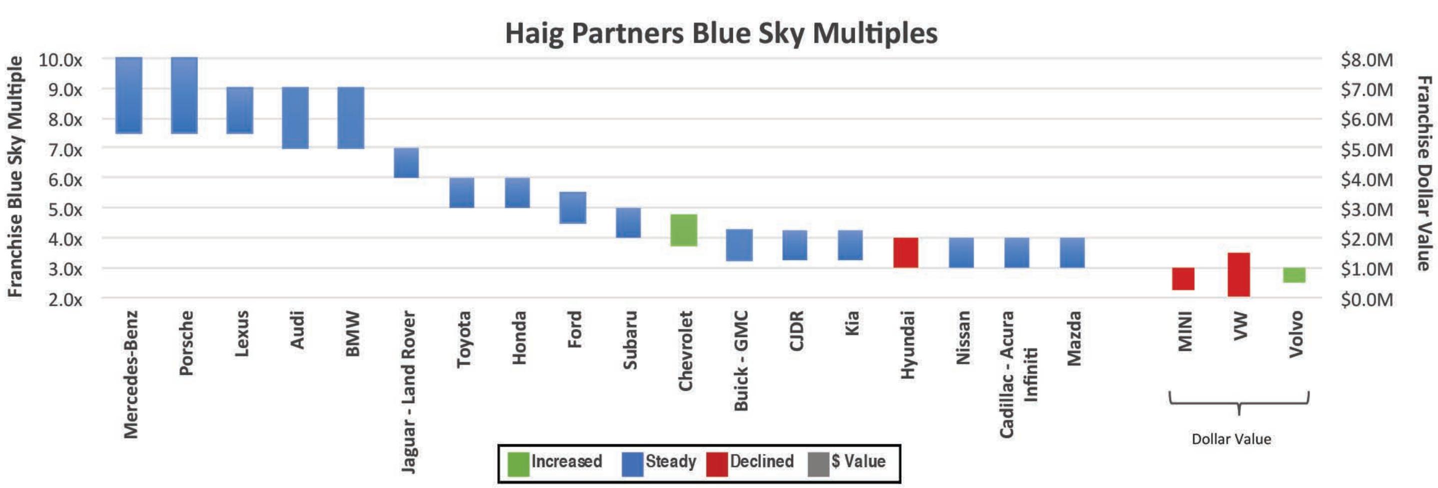
Ford. Ford sales were up 5% in 2015 and another 7% through April on the strength of trucks and Lincoln. The bulk of the increase in 2016, however, has been due to fleet sales. Retail sales declined slightly so far in 2016. Ford's product mix is a good fit for today's environment of low gas prices, so we would expect them to gain share in 2016.

We have been involved in the purchase or sale of six Ford dealerships recently. All were strongly profitable and got significant interest from buyers. Same multiple range: 4.5x-5.5x.

Chevrolet. Sales were up 5% in 2015 but down 1% through April. However, the decline in 2016 is due to a reduction in fleet sales while its retail sales were up as consumers were attracted to Chevy's product mix of trucks, CUVs and SUVs and its new Malibu. We would expect Chevy to take retail share in this market without resorting to heavy incentives. GM stated in January that is was raising its profit estimates for 2016 above an excellent 2015, so GM should continue to develop attractive products and support its ability to provide low cost financing to dealers and customers. Higher multiple range: 3.75x-4.75x.

FCA (Chrysler-Jeep-Dodge-Ram-Fiat). FCA's sales were up 8% in 2015 and another 8% so far through April due to a 34% increase in fleet sales. Retail sales are flat compared to last year. FCA is doubling down on producing more Jeeps while planning to outsource production of low margin cars. Fiat is basically done in this country and FCA's product quality remains mired in the basement, with 7 products ranking last or second to last in the 10 product segments in which it competes (Source: JD Power Initial Quality Study 2015). Despite these headwinds, profits per CJDR dealership are likely to be at all-time high levels. Some buyers love this franchise, while others are wary of FCA's long-term prospects. Same multiple range: 3.25-4.25x.

Buick-GMC. Sales increased 8% in 2015 and another 2% through April, despite lower fleet sales at GM. GMC continues to perform particularly well with its full sized trucks, SUVS and the new Canyon light truck. GM is thrilled with GMC which it says is one of the most profitable brands in the world from the OEM perspective. Lower gas prices should drive more sales of trucks, Yukons and Denalis, plus Buick styling is beginning to find fans. Same multiple range: 3.25x-4.25x.



SUMMARY

The buy-sell market for auto dealerships remains strong although some caution is beginning to creep into the minds of buyers. Private dealers looking for dealerships to acquire have access to lots of capital and deal volume is still high. Publicly traded dealer groups, however, have dialed back their acquisition spending and are allocating most of their capital to stock buy-backs until their stock prices recover. Overall, we see prices about the same for most franchises. The premium luxury brands have lost some of their luster, although buyers are still eager to buy them when they come to market. Demand for midline import brands is about the same, and we are seeing increased interest in buying domestic brands due to their favorable mix of trucks and SUVs during this period of low gas prices. The economy is sluggish, but still on a positive track. Lenders remain bullish on the industry and their clients' ability to repay loans, so acquisition funding is readily available. Despite some "cracks in the foundation" of our industry due to plateauing sales and margin compression, many private buyers are in the market and seeking acquisitions of all sizes and for all kinds of franchises. We expect 2016 to be another highly active period in dealership buy-sells.

Haig Partners is seeing these conditions in our recent engagements. Several of our sell side engagements in 2014 and 2015 involved public companies: Mercedes-Benz of Reno and Valley Motors (Audi, Mercedes-Benz, Subaru and VW) to AutoNation; Sandy Springs Ford, and Texas Motors Ford and Mike Davidson Ford to Asbury; and Freightliner of Chattanooga and Freightliner of Knoxville to Penske Automotive Group. But all of our transactions in 2016 are between private buyers and sellers. Brumos Automotive, which consists of two Mercedes-Benz stores, two Lexus stores and a Porsche store in Jacksonville, FL sold to the Fields Automotive Group, which owns a large number of luxury dealerships in FL and IL. The Fremont Group purchased Morrie's Automotive, a group of 14 franchises in Minneapolis. We advised on the sale of two Kia stores in the Dallas market that both went to private buyers. We have another client who owns a Mercedes-Benz dealership in the Southeast that is under contract to sell to a private buyer. And we are in market with several other dealerships or dealerships groups that are all under consideration for purchase by private dealer groups. We know of no other firm that has 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. The value of the transactions that we have closed over the past two years exceeds $750M, excluding new vehicle inventory values, for an average value of over $62M per transaction. That said, we also are pleased to work on smaller transactions where we feel we can add value to the sale process.

HAIG PARTNERS:
PROVIDING VALUE TO CLIENTS

We combine the skills gained during our years in investment banking with the experience of buying and selling dealerships for AutoNation and Asbury. Haig Partners is not a traditional dealership brokerage firm. We do not seek "listings" of many dealerships. Instead, we provide the best possible advice and service to a limited number of clients, helping optimize the sale of their most valuable asset. We spend a tremendous amount of time and energy on each engagement. Emphasizing quality over quantity best serves our clients' interests.

Relationships with Buyers. We know many of the best buyers across the US and understand what they want to acquire, what their ability is to close, and how they negotiate. By targeting specific buyers instead of running ads, we preserve confidentiality and close transactions more efficiently.

Higher Prices. We create offering materials that provide buyers with a compelling investment thesis about why they should acquire our client's business instead of other opportunities. We then run a process that creates competition to generate highly attractive offers from buyers.

Experience. Since we have been involved in more than 150 transactions with over $3.5 billion in value, we know how to respond to issues that can arise in a buy-sell process.

Speed. We focus on the transaction every day, allowing owners to focus on dealership operations.

Haig Partners offers unmatched experience in our industry, and we are pleased to connect you with our former clients for references.

To each of our clients, thank you and congratulations.

Over $750,000,000 in dealership sales proceeds are reasons to celebrate.

In the past two years, Haig Partners has guided some of America's most successful dealers through the sale process, securing over $750 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 151 transactions for 260 dealerships for value of more than $3.5 billion, excluding new vehicle inventories.

We help create the value our clients deserve for their lives' work.

HAIG PARTNERS

Brumos Automotive Acquired by Fields Auto Group Florida

Jacksonville | Orange Park | Jacksonville | Orange Park | Jacksonville

Morrie's Automotive Group Acquired by fremont — Fremont Private Holdings

Minnetonka | Brooklyn Park | Brooklyn Park | Buffalo | Minnetonka | St. Louis Park

Maserati | Bentley | Aston Martin | Minnetonka | Chippewa Valley | Inver Grove

Valley Motors Acquired by AutoNation

Mercedes-Benz

Mike Davidson Ford Acquired by Asbury Automotive Group

Central Kia Lewisville Acquired by Classic Automotive Group

Sandy Springs Ford Acquired by Asbury Automotive Group

Toyota | Scion

Sandy Springs Toyota Scion Acquired by Hendrick Automotive Group

Mercedes-Benz

Mercedes-Benz of Reno Acquired by AutoNation

Central Kia Irving Acquired by Clay Cooley Auto Group

Texas Motors Ford Acquired by Asbury Automotive Group

Maserati of Manhattan Acquired by BNF Automotive Group

Freightliner

Freightliner of Knoxville & Chattanooga Acquired by Penske

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