

THE HAIG REPORT[®]

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

FIRST QUARTER – 2018

- Industry sales exceed expectations with a 0.2% increase year-to-date through April
- The number of dealerships acquired decreased by 6%
- Total buy-sell transactions declined by 14% but transactions involving private sellers declined 33%
- Public company spending on US auto dealerships rose 41% to \$403M though they also sold 16 stores
- The supply of dealerships available for sale appears to be growing as the potential for industry disruption continues to loom
- Private dealership values are essentially unchanged, although we may see downward pressure on multiples later in the year



OVERVIEW

IN THIS ISSUE:

Overview	Page 2
Trends Impacting Auto Retail	Page 5
Buy-Sell Trends and Events	Page 12
Franchise Valuation Ranges	Page 13
Transactions	Page 17

This remarkable era in auto retailing continues. We have enjoyed many years of low interest rates, cheap gas, and rising employment. Consumer confidence remains near its 17-year high and household wealth has never been greater. It's true that dealership profits (and values) peaked a couple of years ago, but they remain close to record levels. The much-predicted downturn in sales has not yet happened. Congress even gave dealers a nice boost by lowering taxes and walking back pressure from the CFPB.

While sales remain strong, there are some troubling vibrations coming from the disruptive influences of technology. Dealers continue to suffer from the degradation of gross profits due to the shift in pricing power from the retailer to the consumer thanks to various digital tools. And over the next five to ten years, electrification, ride sharing and autonomous vehicles loom as threats. Some well-respected industry leaders predict that the best days of auto retail are behind us, that profits will never return to current levels and that many dealerships will end up closing their doors.

Our vision is not clear enough to predict the future. We can see that these disruptors will harm many dealers, but also that population growth will help others. And these potential threats may turn out to be not so bad over time (i.e. Tesla). But some dealers are not waiting for the future to “happen” to them. An increasing number of our most sophisticated dealer friends are beginning to prepare for these changes. They are investing in people, processes and technologies to evolve to become “integrated transportation providers” to consumers. These dealers are also focusing on building scale through acquisitions to increase their efficiency and make themselves strong enough to survive change, in whatever form it may come. A “get big or get out” mentality is growing.

For other dealers, these disruptors are troubling enough that they have decided to put their dealerships up for sale. Many of the leading consolidators have told us that the number of dealerships on the market has jumped substantially from even six months ago. Our practice is very active and appears to be accelerating. We are seeing dealers of all sizes wanting to monetize their greatest asset which could cause dealership valuations to fall if the supply of dealerships outstrips demand for them. Buyers who have complained for years about high prices for dealerships may see the leverage in the market shift to them. So far, we are seeing pricing remain strong for attractive franchises in good markets. But less desirable dealerships, typically tier 2 and 3 franchises and more challenging locations/markets, are finding it difficult to get the attention of buyers. Given all the activity, we expect 2018 will be another highly active year in the buy-sell market.

CONTACT US:

Alan Haig
(954) 646-8921
Alan@HaigPartners.com

Nate Klebach
(917) 288-5415
Nate@HaigPartners.com

Pat Carroll
(865) 755-7601
Pat@HaigPartners.com

Mike Toth
(561) 302-1413
Mike@HaigPartners.com

Kevin Nill
(904) 234-0008
Kevin@HaigPartners.com

www.HaigPartners.com

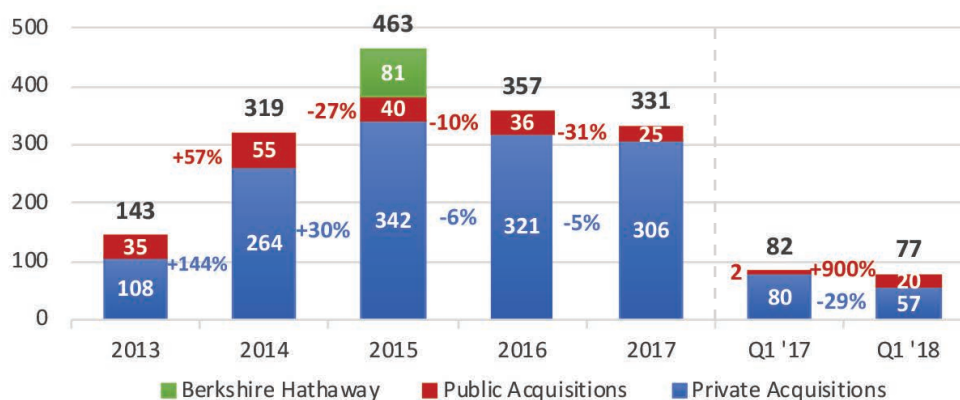
The Buy-Sell Market is Mixed

The buy-sell market is off to an interesting start in 2018 with an increase in public activity, but a decrease in private activity. There were 77 dealerships that sold in Q1 2018, down 6% from the 82 dealerships that sold in Q1 2017 according to the [Banks Report](#) and Haig Partners' data. The number of transactions (vs. dealerships) declined by 14%. It is important to note the publics were extremely active selling non-strategic dealerships in Q1 2018 with 13 transactions for 16 stores. The number of transactions involving private sellers declined a surprising 33%. Group transactions made up 27% of total transactions in Q1 2018 compared to 19% in Q1 2017. Stores in group transactions represented 53% of all stores sold, up from 43% in Q1 2017. The average group transaction had 3.2 stores, unchanged from Q1 last year. One transaction with 16 stores that was announced in Q1, but closed in Q2, was not reflected in these results.

We mentioned earlier that we have been hearing a lot of talk from buyers about more stores being for sale recently, but they are not yet resulting in more actual deals. Buyers are telling us they are becoming choosier about which dealerships to acquire: they need to be the right franchise, the right market, and the right kind of performer (not too good, not too bad) for the buyer to be willing to close.

The share of luxury stores that sold increased slightly, making up 16% of volume in Q1 2018 compared to 13% in Q1 2017. The share of import stores decreased to 35% in Q1 2018 compared to 38% in Q1 2017. Domestic stores made up 49% of volume in Q1, same as last year. These are relatively small shifts and the year is young, so it is too early to know if there are any meaningful changes coming in buyers' tastes.

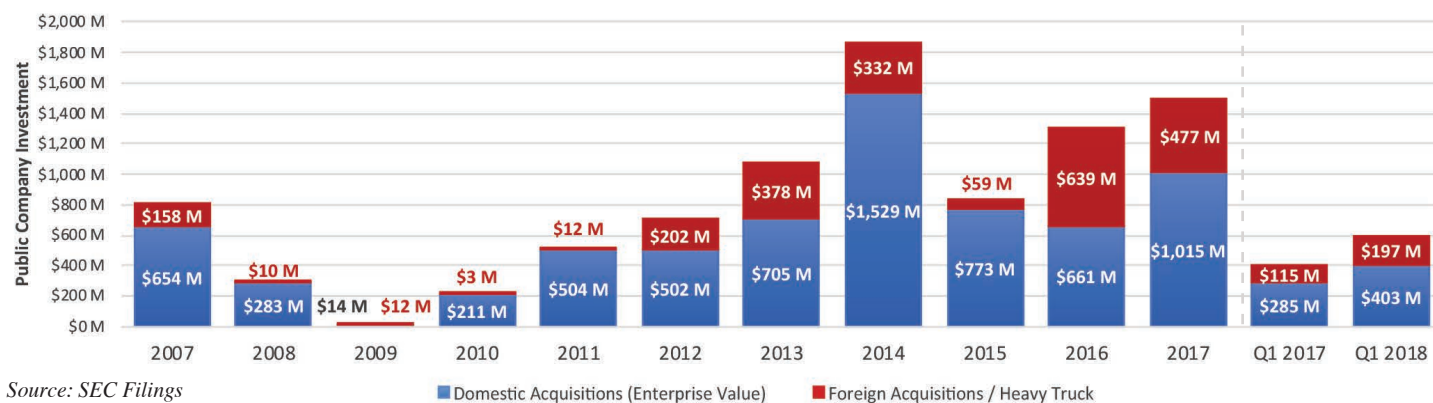
US Dealerships Bought/Sold



As for the public auto retailers, they spent \$403M on domestic dealership acquisitions in Q1 2018, the highest quarterly spend in at least the last five years, excluding Q4 2014 when Lithia acquired DCH. Lithia remains the most active, including its acquisition of Prestige Family of Fine Cars (a Haig Partners client). Asbury and Group 1 also made acquisitions in Q1. (Subsequent to Q1, Asbury purchased an Atlanta area Toyota dealership which was also a Haig Partners client). The “smart money” is still buying dealerships despite the threats from a recession or disruptors. We note that public companies sold dealerships worth approximately \$150M in Q1, including weaker franchises like Nissan and stores located in outlying markets where they had no significant scale.

Public Company Acquisition Spending

(Domestic and International)



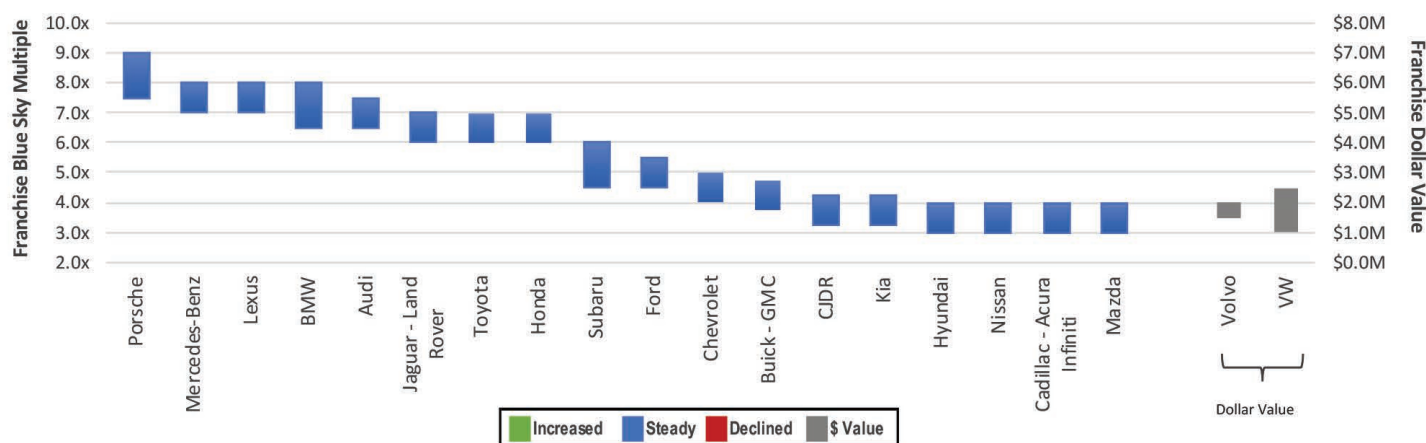
Based on the Q1 2018 data and our own transaction pipeline, we are expecting another strong year in the buy-sell market in 2018. Some dealers are opting to jettison franchises in which they have lost confidence. Older dealers without succession plans are looking to exit while dealership values remain strong. And we now have clients in the prime of their careers who are choosing to sell today since they are concerned about the future of auto retail, whether it be the high capital requirements, the growing control of the OEMs on dealership profits, or the potential risks that new technology present. And there is an increasing conviction that scale will matter more in the future than it has in the past.

Blue Sky Multiples Are Unchanged, But Could Decline Soon

Pricing remains steady since our last report, but with all the supply of dealerships coming on the market, sellers may soon need to reduce their prices to attract buyers. We continue to see a lot of interest in midline and luxury franchises, with only value shoppers

for weaker franchises. The table below provides our estimate of what multiple or value a buyer participating in a competitive sales process (i.e. not the only buyer at the table) would be willing to pay for the goodwill of a franchise, in addition to the other assets. The blue sky multiple is partly 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 and dealerships with facility issues will bring lower multiples. Underperforming dealerships can bring much higher multiples. Metro stores typically bring higher prices than stores in rural areas. Dealerships in states with no income tax usually bring premiums to dealerships in high tax states. In other words, each store is unique and brings its own set of opportunities and challenges. We caution readers not to view these values rigidly.

Haig Partners Blue Sky Multiples



We combine the skills gained during our years in investment and commercial 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 170 transactions for 290 dealerships with over \$3.9 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 our clients to focus on dealership operations.

TRENDS IMPACTING AUTO RETAIL





Overview

Most dealers we have spoken with were pleased with the start of the year. While the first two months were tepid, a robust March and solid April have dealers remaining optimistic that 2018 will be at, or just slightly behind last year. Retail sales remain strong, taxes were cut, and profits are healthy. Dealers have proven resilient and are increasing their focus on used vehicles, F&I and fixed operations. And dealers are increasingly looking at their expenses, trying to reduce advertising, floor plan and compensation.

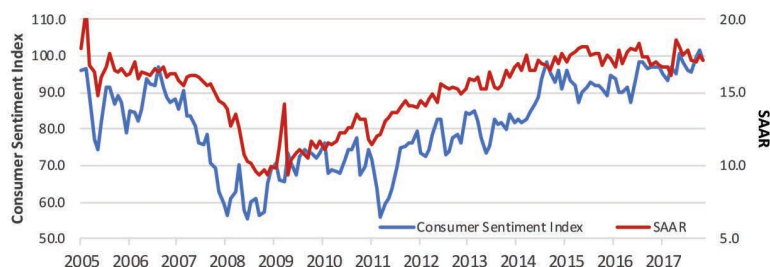
Macroeconomic Indicators Are A Mixed Bag

-  **GDP Is Growing.** GDP grew at 2.9% in Q4 and the first reading for Q1 was 2.3%. GDP growth is projected to be 2.9% for all of 2018 according to the Conference Board. This healthy growth can help sustain sales and profits in the auto industry.
-  **Employment and Household Income Are Increasing.** The US added over two million jobs in 2017, the sixth year in a row above this level. The unemployment rate in April stood at 3.9%, the lowest rate since 2000, and was 2.1% for college graduates. We are essentially at full employment. Wages grew 2.6% through April 2018, reflecting the tighter labor market.
-  **Number of Miles Driven Is Increasing, But More Slowly.** The total number of miles driven, which influences the vehicle replacement rate and is a key measure of demand for autos, increased 1.3% in 2017, a slower growth rate than the 2.4% from 2016 according to the US Federal Highway Administration.
-  **Consumer Sentiment is High.** Despite all the debate in the US regarding political and social issues, consumer sentiment remains near record high levels. Analysts expect that confident consumers will continue to purchase vehicles in 2018 at a rate just slightly lower than in 2017.

For all the economic positives, there are a few indicators headed in the wrong direction and are giving some dealers concerns about the future:

-  **Interest Rates Are Increasing.** The Fed increased interest rates by 0.75% in 2017 and a number of forecasters are predicting another three to four rate increases in 2018. Higher rates hurt dealers due to higher floorplan costs and mortgage expenses on floating rate loans. And of course, they suppress consumer demand for vehicles as average loan and lease payments increase. The Wall Street Journal has reported that the average car payment has increased 4.8% since January 2018, greater than inflation.
-  **Gas Prices are Rising.** The Department of Energy reported that the average price per gallon of fuel was \$2.64 through early May 2018, a 12% increase over the same period in 2017. Prices over the last 4 weeks are 16% higher than the same period in 2017. At some point, rising fuel prices reduce discretionary cash for auto purchases.
-  **Loan Terms Are Tighter.** Recent reports have indicated several banks have tightened standards for sub-prime borrowers by requiring higher down payments and credit scores, raising rates, and reducing 84-month loan availability.
-  **Profits Are Declining at Most Dealerships.** Per NADA, profits for the average privately owned dealership fell 1.9% in Q1 compared to Q1 2017, after falling 4.9% from 2016 to 2017. Public company filings show adjusted operating income falling at half of the six publics, with the group down 2.3% overall in Q1.

Consumer Sentiment Versus SAAR



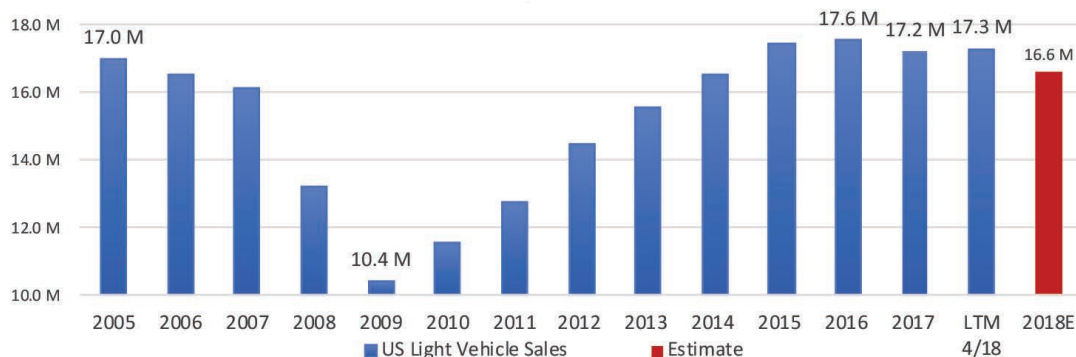
Source: Thompson Reuters / University of Michigan; Automotive News

TRENDS IMPACTING AUTO RETAIL

Q1 2018 Retail Sales Are Flat, Beating Expectations

So far in 2018, units are up 0.2% due to a significant increase in fleet while sales at dealerships appear to be flat. These results surprised most analysts who have been predicting a decline in sales for the year. The 16.6M forecast for 2018 shown below is an average of nine forecasts released over the last few months that range from a low of 16.0M to a high of 17.0M. If sales continue at this pace, analysts may need to revise their forecasts higher.

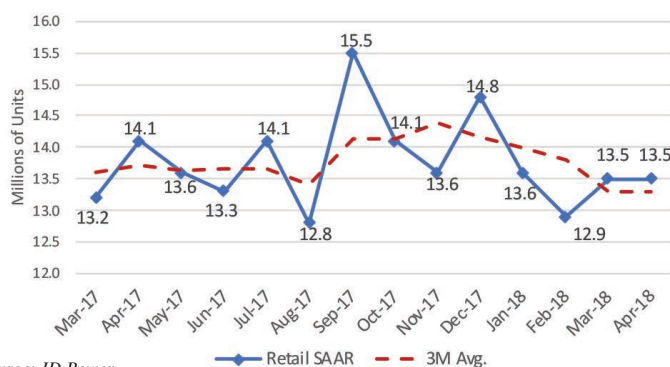
US Light Vehicle Sales



Source: Historicals - Automotive News, Estimates: NADA, IHS, Bank of America/Merrill Lynch, Edmunds, Ward's, Moody's, Cox, Morgan Stanley, LMC/JD Power

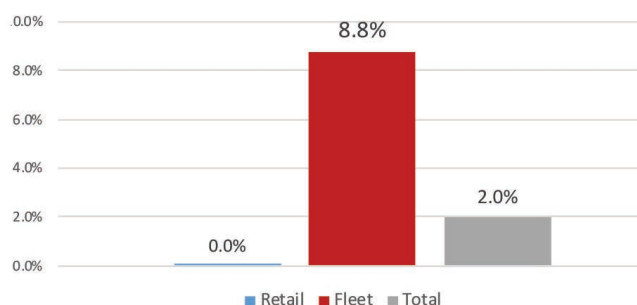
Note the data above is for total new vehicle sales, including fleet sales. According to data from JD Power, retail sales through March were unchanged from last year and fleet sales were up 8.8%. Automotive Fleet indicates fleet sales were up 4.5% through April. Dealers are still basically selling the same number of vehicles they did in 2016, but are facing a different environment with lower margins and higher expenses.

Retail SAAR



Source: JD Power

Y/Y Sales Change - YTD March 2018

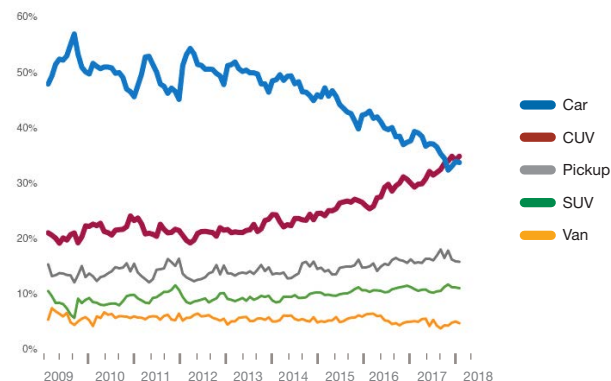


Source: JD Power

Massive Shift In Customer Demand

Customer demand is shifting from cars to CUVs far faster than expected. Profits have been lost at the OEM and retailer levels since more CUVs could have been sold, and cars had to be discounted to stimulate buyers.

Share of New Light Vehicle Sales



Source: COX Automotive

TRENDS IMPACTING AUTO RETAIL

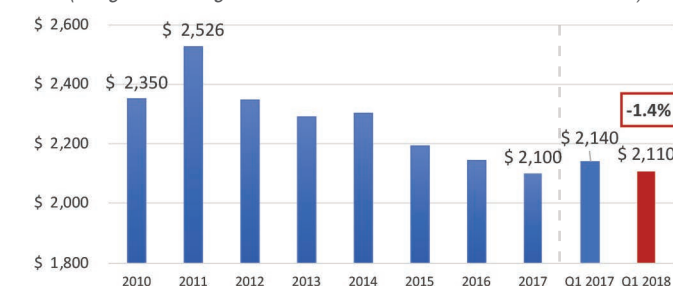
Vehicle Grosses Continue to Decline

New vehicle profits continue to slide, though at a slower pace, down 1.4% in Q1 for the public retailers. But there is some good news: Lithia and Penske managed to deliver small increases. These increases were due to a number of factors, including an improved mix of cars and trucks/SUVs/CUVs, and some production cuts by the OEMs. Is it possible we could be nearing the bottom of new vehicle margins?

The average gross profit per used vehicle fell 3.1% for the publics in Q1, although AutoNation and Penske were able to deliver increases. AutoNation is enjoying comparisons to a very difficult Q1 2017 when it introduced one-price selling and dumped many stop-sale vehicles held over from 2016. Penske's increase may have been due to higher margins at its used-only CarSense stores. Most analysts predict gross profits on used vehicles will continue to fall due to a large increase in vehicles coming off lease.

NEW Gross Profits Per Vehicle: Public Company Data

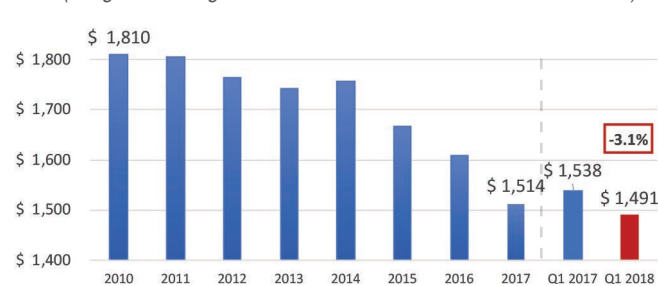
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

USED Gross Profits Per Vehicle: Public Company Data

(Weighted Average Same Store Performance - in Current Dollars)



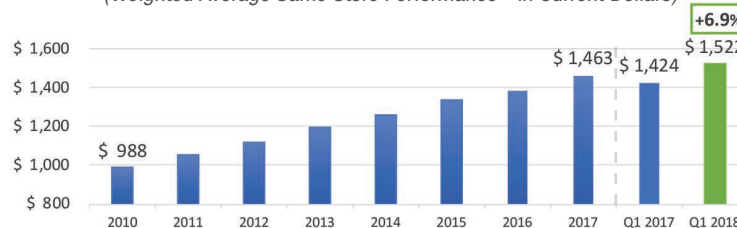
Source: SEC filings

Finance & Insurance Departments Are Generating Record Profits

F&I continues to shine for dealers, helping to offset the decline in gross profits per new and used vehicle sold. In Q1, the public groups reported gross profit per vehicle retailed reached \$1,522, up 6.9%, or \$98 per vehicle, from Q1 2017. This increase more than offsets the declines in the new and used departments. All of the publics improved in this area and AutoNation reached a record \$1,779 per vehicle retailed. A number of private dealers have disclosed they earn even higher profits than these figures, some over \$2,000 per vehicle retailed.

Public Company F&I Per Unit Retailed

(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

Combined Front and Back: Profits per Vehicle Retailed Are Basically Flat

The table below tracks combined front and back end profits per vehicle retailed data back to 2009 and shows that on a combined basis profits have remained largely flat, in dollar terms. Given the rise in new vehicle prices over this time, however, the profit margin as a percent of vehicle sales has fallen steadily.

Public Company NEW Vehicle Gross + F&I PVR

(Weighted Average Same Store Performance - in Current Dollars)



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

Public Company USED Vehicle Gross + F&I PVR

(Weighted Average Same Store Performance - in Current Dollars)



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

TRENDS IMPACTING AUTO RETAIL

Used Vehicle Market Is An Opportunity For Growth

As the new car market begins a period of flat to declining sales, a number of dealers have told us they are increasing their focus on used vehicles. The supply of used vehicles is increasing and the mix of cars to trucks/SUVs/CUVs is more in line with current consumer demand. There is now a big opportunity in used sales although sales per franchised location have stagnated recently. Franchised dealers account for just 29.2% of total used sales, and dealers' Used to New Ratio actually declined from 0.90x in 2010 to 0.77x over the last 12 months. AutoNation, Penske, and Sonic recognize this opportunity as all of them are investing heavily in buying or building used vehicle dealerships. They want a bigger part of the 40+ million in used cars that are sold annually in the US, and to lessen their exposure to a downturn in SAAR and declining new vehicle margins.

Edmunds Retail Used Vehicle Report



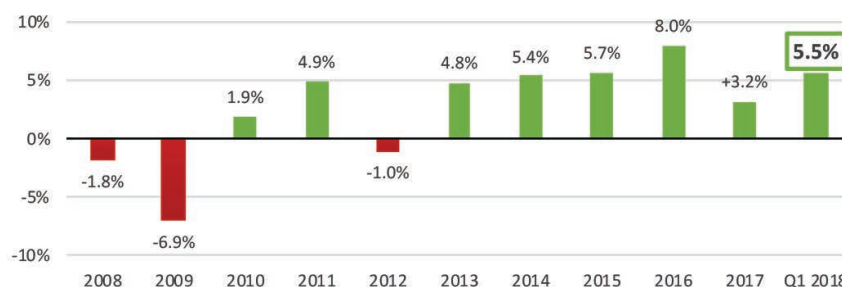
NADA Average Retail Used Per Dealership



Fixed Operations Continue to Drive Higher Profits

Private dealers reported fixed operations are up 5.5% in Q1 2018 compared to Q1 2017. We had been concerned that the growth in fixed operations might be nearing an end since the growth rate in 2017 was the lowest since the Great Recession, but perhaps the big spike in 2016 simply pulled forward some demand. The Takata airbag recalls in 2016 reached millions of vehicle owners and some might have used the service visit for a new airbag to take care of other needed work. We saw the same spike in 2011 due to the Toyota accelerator pedal recall, followed by a lower growth rate in 2012. In fact, if you average the growth rates for 2016 and 2017 you get 5.6%, almost the same growth rate we saw in 2014, 2015 and year-to-date.

NADA Fixed Operations Growth



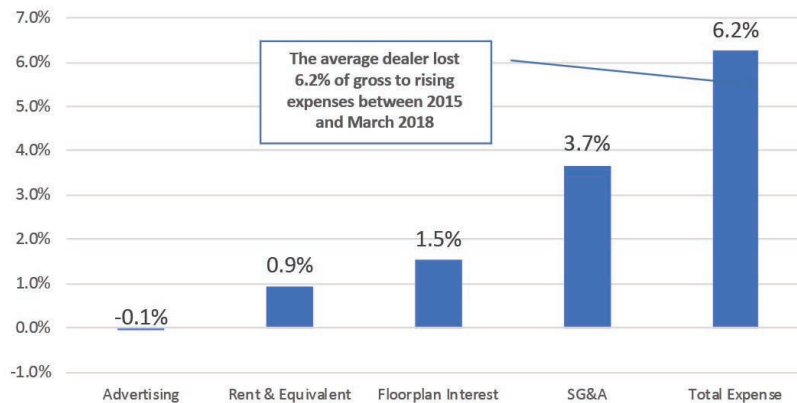
Source: NADA

Dealership Expenses Are Growing Faster Than Gross Profit

Rising costs appear to be the greatest threats to dealership profits. NADA data shows the average privately owned dealership grew gross profit by 2.3% while its expenses increased by 3.8%. Public companies grew their gross profit by 6.7% (partially due to acquisitions) but their expenses jumped 8.7% (per SEC filings, adjusted). Dealers are telling us they are seeing higher costs in floorplan, compensation, and rent (from the many expensive facilities that have been built in recent years, and rising rates). This recognition has begun to take hold with dealers and we hear much more about inventory control, cost containment programs, and even personnel reductions in non-revenue generating departments.

Change in Expense as a % of Gross Profit

(2015 - LTM March 2018)

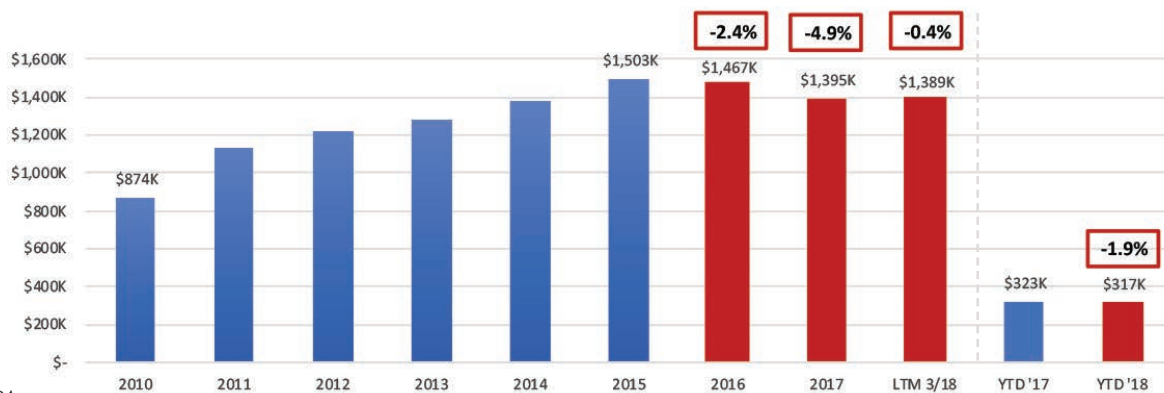


Source: NADA

Dealership Profits Drop Slightly

The net outcome of the trends listed above is that profits at privately owned dealerships declined 4.9% from 2016 to 2017, according to NADA. Profits are down 1.9% in Q1 2018 compared to Q1 2017. Comparing the last twelve months through March 2018 to full year 2017, profits are down 0.4%. We are still close to record profits per dealership, however, and most dealers we speak to remain pleased.

NADA Average Private Dealership Earnings



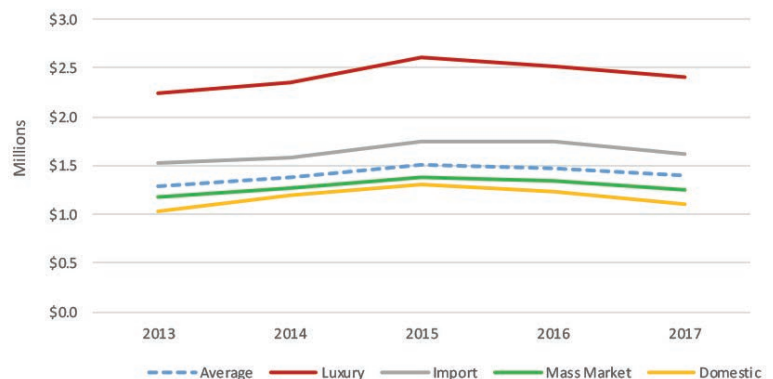
Source: NADA

NADA also provides profits per franchise type: luxury, midline import, and domestic. Based on the table at right, luxury stores continue to earn twice as much as domestic stores (which are far more numerous) and significantly more than midline import stores. All types of franchises saw their earnings peak in 2015 and have been trending down slowly since then.

The table that follows shows the annual *change* in profits at privately owned dealerships since 2009. Like many dealers, we wonder what will happen to future profits at dealerships. Prior to the Great Recession, during the 2001 to 2007 period when new vehicle sales were essentially at a plateau, NADA data showed that annual

Average Dealership Net Profits

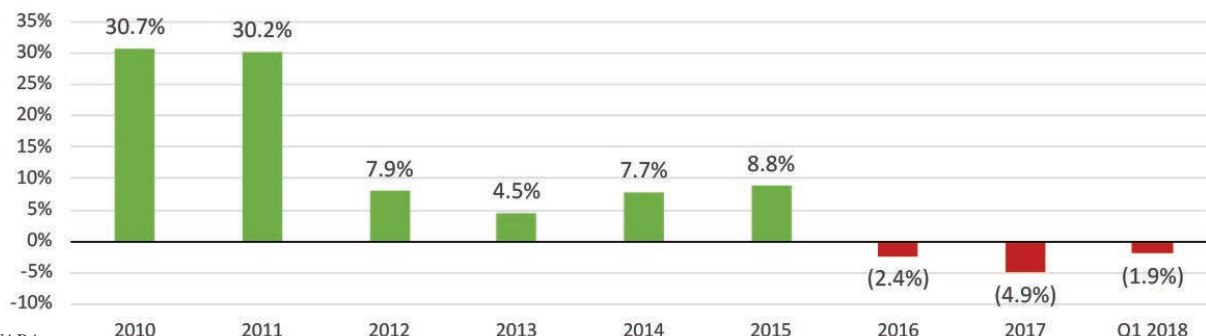
By Brand Category



Source: NADA

profits per dealership fell by about 5% per year due to falling margins and rising costs until the recession hit in 2008. We may now be entering a similar cycle.

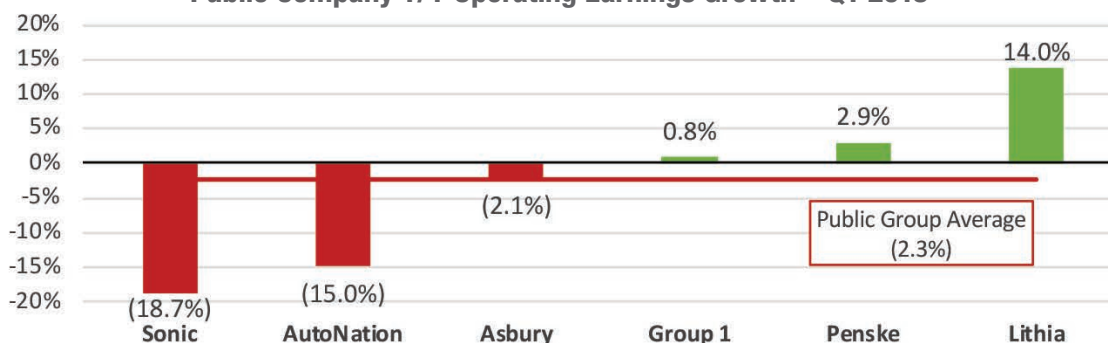
NADA Average Private Dealership Earnings Y/Y Growth Rate



Source: NADA

As for the public companies, average profits were down in Q1 2018 by 2.3% compared to the first quarter of last year. But there is a wide range of performance with profits at Penske up 14.0%, in part due to its healthy acquisition pace, while Sonic is down 18.7%, which it attributes to heavy spending on its used car dealerships.

Public Company Y/Y Operating Earnings Growth – Q1 2018

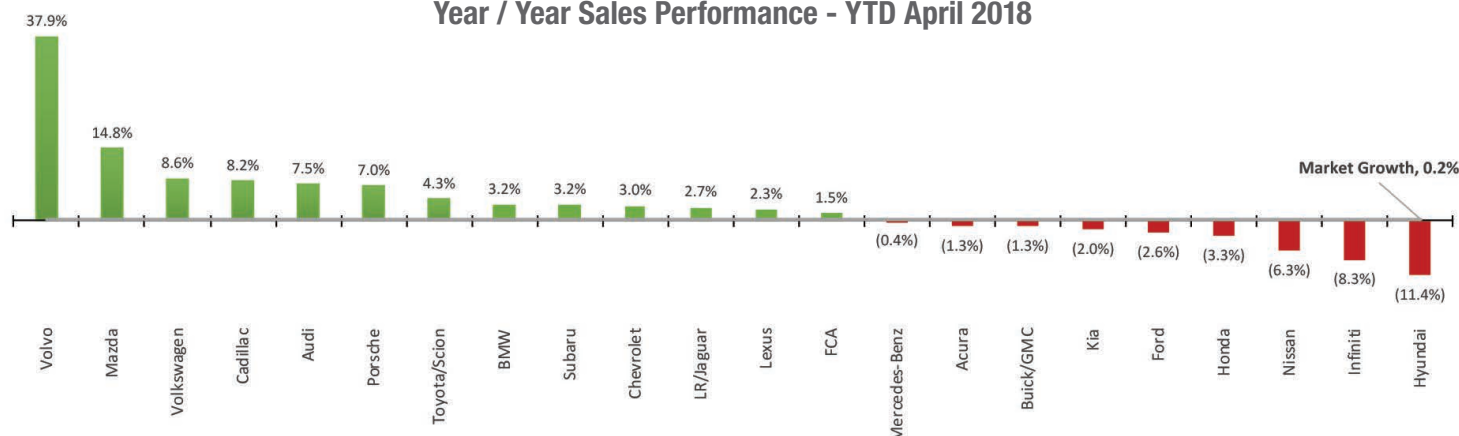


Source: SEC Filings

Sales Growth for Individual Franchises

The following chart sets forth the change in new unit sales at the major franchises so far in 2018. Note, this data reflects changes in total sales per franchise, so it includes fleet sales that cloud the results at the retail level. For instance, Nissan and the Korean brands have been selling more units into fleet, while GM and FCA have pulled back. Despite their fleet sales, Hyundai and Nissan really suffered in Q1. Audi and Porsche continued with impressive growth and BMW demonstrated its renewed product strength by outperforming Lexus and Mercedes-Benz. Past poor performers including Volvo, VW and Mazda are seeing nice increases as they take advantage of new CUV/SUV product introductions.

Year / Year Sales Performance - YTD April 2018

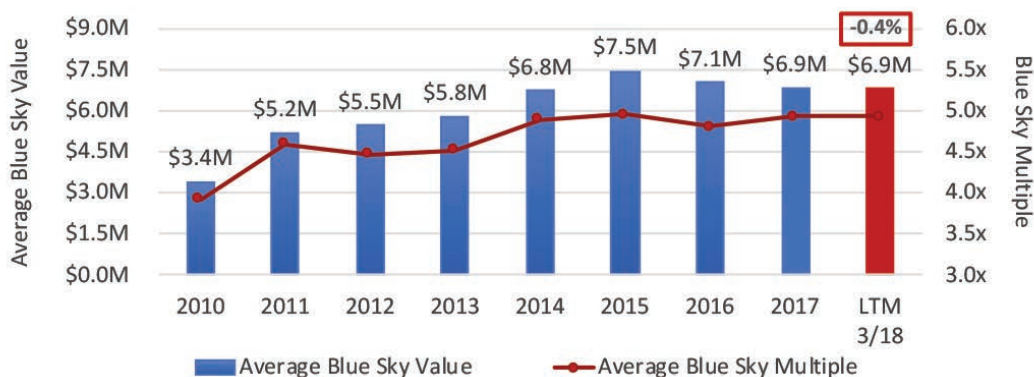


Source: Automotive News

Dealership Values Remain Strong

The average blue sky multiple for all franchises on an unweighted basis was 4.93x in Q1 according to our estimates, unchanged from year end 2017. Profits per dealership over the last twelve months fell 0.4% compared to full year 2017. Applying the 4.93x blue sky multiple to the average dealership pre-tax profit of \$1.4M over the last twelve months generates an average blue sky value of \$6.9M, down 0.4% from year end 2017. We are just a few months into the year, but so far our data indicates dealership values are essentially unchanged from the end of 2017.

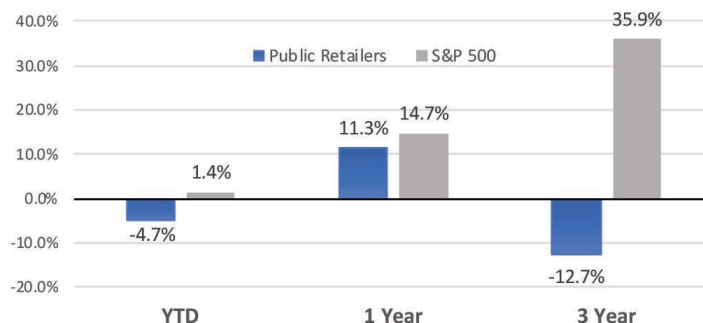
Estimated Average Blue Sky Value



Despite the steady valuations of privately owned dealerships, the stock market remains unexcited about the public retailers. The table set forth at right shows that the average stock price for the public retailers has underperformed the S&P 500 Index on a year-to-date basis, over the past twelve months, and particularly over the past three years. Investors are concerned about declining profits in the short term, and the potential long-term disruptors that are now in the news almost daily.

Cumulative Stock Price Returns

Public Retailer vs S&P 500



Source: Yahoo! Finance; Data through 5/9/2018

OEMs Are Making Significant Changes

Ford recently announced it will be ending production of all sedans in the US at the end of their current lifecycles. Although they alluded to having replacement offerings in the lineup, details have not been revealed. The risk to dealers could be significant. If current sedan shoppers do not convert to Ford's replacement product, buyers will defect to other brands taking profitable F&I and service opportunities with them, and away from Ford dealers. FCA made a similar announcement not long ago, admitting that producing cars was unprofitable for them. GM, Japanese and Korean brands should benefit from these decisions. We are concerned what would happen to FCA and Ford if fuel prices should rise further, or if the EPA under next administration reverts to high fuel efficiency requirements. It wasn't that long ago that gas was at \$5.00 a gallon and trucks and SUVs were tough to sell.

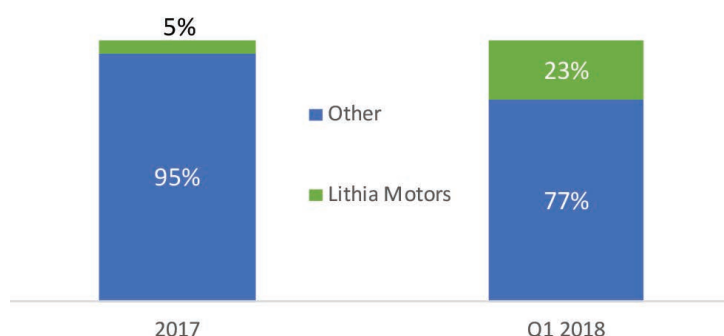
BUY SELL TRENDS AND EVENTS

Many Stores Are Being Purchased, But By Fewer Buyers

The first quarter of the year is off to a surprising slow start. The total number of transactions that closed was down 14% in Q1 2018 compared to Q1 2017, and the total number of stores was down 6%. Excluding the unusually large amount of public company divestitures in Q1 2018, the number of transactions involving private sellers declined 33%. Public company spending on US auto acquisitions so far in 2018 is up 41% over Q1 2017 with acquisitions by three of the six public retailers. While it is early in the year, we may be seeing a bifurcation in the market: some dealers, who have concerns about the future, are holding off on buying stores, while other dealers who are growth oriented are seeing more stores for sale and are buying aggressively. Lithia acquired 23% of all stores in Q1 2018, compared to 5% in all of 2017.

If Lithia were not active, the market might be much weaker in terms of volume, pricing, or both. (See pages 3-4 for charts.)

Lithia Share of Store Acquisitions



Source: The Banks Report and Haig Partners

More Sellers Are Coming to Market

The number of dealers willing to sell their businesses is at a high level today. One public company said the number of deals they were looking at was about three times what it was just a year ago. Another large private buyer we spoke with said that they were looking at four groups that were on the market that were very similar to a Top 150 Group that we are representing, and in the same part of the country. The increase in the number of stores for sale is likely due to several reasons: an aging dealer body, the beginning of what may be a decline in dealership values, greater recognition that economies of scale (digital marketing, facilities, talent development and retention, etc.) are required to compete, and the possibility of a permanent change in the way that consumers pay for their transportation.

Buyers Are Pickier

Buyers are telling us they are more selective given where we are in the auto cycle. They want stores that are a tight fit with their acquisition strategy in terms of location, franchise, and operating performance. Dealerships that have challenges, such as facility issues, unions, or incoming add-points, will need to be priced lower than before to get the attention of buyers. Weaker brands may also struggle to get attention. And since profits may continue to trend down, time may work against the interest of sellers. An overpriced dealership will sit until its owner adjusts his price expectation, and offers in the future may be lower than what they are currently.

Private Equity and Family Office Investment Activity May Be Declining

Although we expect there will be other investments from family offices and private equity firms at some point in the future, the trend now is toward the exit. Leucadia recently announced it sold its stake in Ken Garff Automotive Group to its partner, not another investment firm, and last year Abrams Capital exited auto retail when it sold its stake in Prime Motor Group to GPB Capital (which is continuing its rapid growth phase). We are also getting far fewer inbound calls from investors interested in learning more about auto retail. It seems private equity firms and family offices, who can place their capital in almost any industry, see better opportunities elsewhere given where we are in the auto sales cycle and the potential threat of disruptors.

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 290 dealerships in our careers dating back to 1996. In the past four years, Haig Partners has been involved in representing buyers or sellers of Alfa Romeo, Aston Martin, Audi, Bentley, BMW, Buick-GMC, Cadillac, Chevrolet, Chrysler-Jeep-Dodge-Ram, Ferrari, Fiat, Ford, Honda, Hyundai, Infiniti, Jaguar/Land Rover, Kia, Lamborghini, Lexus, Lincoln, Maserati, Mazda, McLaren, Mercedes-Benz, MINI, 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 in *competitive situations* will pay for the goodwill of dealerships and we note any upward or downward changes from Q4 2017. 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. Conversely, dealerships that are in less desirable markets, are overperforming or that have significant real estate issues may bring lower multiples.

Luxury Franchise Blue Sky Multiples



Porsche. Porsche has enjoyed 7% growth in the first four months of 2018. New car margins remain the envy of all franchises other than a few exotic brands. The stores rarely trade hands and buyers are numerous, particularly in metro areas. Same multiple range: 7.5x-9.0x.



Mercedes-Benz

Mercedes-Benz. M-B was down 0.3% in 2017, and is down another 0.4% so far in 2018. M-B is still the leader in luxury sales, but BMW and Lexus are closing the gap. Trucks have also surpassed cars in sales at M-B. Several dealers have told us they are pleased with M-B these days in terms of their relations with the factory and their profits per store which remain near the top of all franchises. Buyers continue to contact us seeking these stores. Same multiple range: 7.0x-8.0x.



Lexus. After a rough 2017 with a decline of 7.9%, Lexus has grown 2.3% in Q1 2018 primarily due to the NX and NX Hybrid compact SUVs having their best-ever April. Dealers are happy, other than wishing for the new car grosses of prior years. Profits per store across the US are back up over \$3M, according to an email we saw last year. We were involved in the sale of four Lexus stores recently. Same multiple range: 7.0x-8.0x.



BMW. After a 2.4% decline in 2017, BMW is up 3.2% so far in 2018 and is now the second highest selling luxury brand. Inventories are tight with days supply among the lowest in the industry. This should mean good things for margins. Key redesigns of vehicles have helped recently and the redesigned X5 and launches of the new X2 and X7 CUVs should fuel further growth and help win back market share. And BMW has announced it will be launching 25 plug in electric or hybrid vehicles by 2025, more than any other OEM, to our knowledge. One executive at a Top 20 dealer group told us the incoming product is excellent and he is more excited about BMW than any other franchise they own. BMW appears to be getting its mojo back after a few years of struggles. Same multiple range: 6.5x-8.0x.



Audi. Audi continues to grow faster than the market with sales up an impressive 7.8% in 2017 and 7.5% so far in 2018. But dealer profits are much lower than at other premium luxury brands. We are hearing dealers revolt at selling new units at many thousands below invoice in order to hit their stair step targets and earn incentive payments. We are concerned that dealers may begin to lose patience with this franchise. While they love the product, dealers tell us they are frustrated that the factory talks about, but does not correct, the issues with low dealer profits. Same multiple range: 6.5x-7.5x.



Jaguar-Land Rover. JLR was up 8.8% in 2017, but its sales so far in 2018 are up just 2.7%, a slowing rate of growth after many years of impressive gains. Jaguar and Land Rover stores continue to be combined, sometimes in a shotgun marriage fashion: JLR tells the Land Rover dealer to buy the Jaguar store or see an add point be awarded in his market. The strength of the product pipeline has dealers convinced in the future of the brand, so they continue to pour money into acquisitions and new facilities. For combined JLR stores where no add points are coming, same multiple range: 6.0x-7.0x.



Cadillac/Acura/Infiniti. Cadillac sales were down 8% in 2017, but are up an estimated 8.2% in 2018 thanks to the strength of the XT5. This franchise badly needs more appealing products. We recently met with a Cadillac dealer who told us over 80% of his sales were from just two models, Escalade and XT5. He joked that Cadillac dealers are the most optimistic on the planet – they have been hoping for a turnaround for 40 years. Acura underperformed and was down 4.2% in 2017 and 1.3% year to date. April was a not favorable month for the brand as sales were down 15.9%. Acura also needs new CUV models in order to achieve sales growth and dealers are anxiously awaiting the new RDX to jumpstart sales. Infiniti had a very different sales story in 2017 with an impressive 10.9% gain, but sales are down 8.3% so far this year. A bright spot for the brand was the redesigned QX50 crossover, which delivered a sales gain of 18% in April. Notably, most dealers tell us they do not experience the same degree of issues with Infiniti regarding stair step and other burdensome programs as they experience with Nissan, its sister brand. Same multiple range for this group: 3.0x-4.0x.



Volvo. After a surprising 1.5% decline in 2017, Volvo is up 37.9% in the first four months of 2018. The new XC60 is helping to revive Volvo's momentum and the XC90 appears to have regained buyers. A new compact CUV (XC40) and redesigned S60 should fuel further growth. And the company is launching a new subscription service. It will take time for fixed operations to recover as units in operation fell to a low level. Nevertheless, this franchise demonstrates that fading brands can be rejuvenated with fresh product. Volvo still has many loyal customers and should attract even more eco-conscious buyers as it transitions to an all hybrid and electric fleet over the next 5-10 years. Same value range: \$1,500,000 - \$2,000,000.

Mid-Line Import Franchise Blue Sky Multiples



Toyota. Toyota ended up beating the market with 0.5% sales growth in 2017 and sales are up another 4.3% so far in 2018. The Camry was one of two cars in the top 10 of the mid-size segment that managed to increase sales in Q1. These gains appear to have come thanks to heavy lease subvention and other retail support as Toyota's profits in North America in Q1 2018 fell by 50% compared to last year. Toyota reaffirmed its commitment to be a full-line OEM so it should gain from Ford's abandonment of the sedan segment. We are hearing margins are up at many Toyota stores thanks to good products and tighter production. Toyota has more new products coming than any OEM over the next few years according to Bank of America's Car Wars Report, which should help retail profits. Dealers continue to love this franchise thanks to high profits per store and a dealer-friendly OEM. In a Summer 2017 NADA dealer survey, Toyota was ranked first, tied with Honda and Subaru, in terms of their optimism for the future. Like Mercedes, we get many calls from dealers looking to buy this franchise. Same multiple range: 6.0x-7.0x.



Honda. Honda sales grew 0.7% in 2017 but are down 3.3% so far in 2018. The performance of the brand's core models (Accord, Civic and CR-V) have slowed, while the Odyssey and Pilot have been standouts for Honda. Honda's new Accord launched to excellent critical reviews, but sales suffered since the lease payments were significantly higher than before. After an outcry by dealers (and increasing days supply), Honda relented and began subvening lease payments. Sales have since jumped and we expect its results for the rest of the year will be better. Although new vehicle margins are weak at many stores, loyal customers and a balanced business model of strong variable and fixed operations continue to attract buyer interest. Reasonable facility expectations are another strength of the Honda franchise. In a Summer 2017 NADA dealer survey, Honda was ranked first, tied with Toyota and Subaru, in terms of their optimism for the future of the franchise. In an age of increasing complexity in auto retail, Honda dealerships provide dealers with steady, predictable profits. Same multiple range: 6.0x-7.0x.



Subaru. Subaru's sales growth continues, up 5.3% in 2017 and another 3.2% in the first four months of 2018. Subaru is the Energizer Bunny of franchises – it just keeps going and going. However, one dealer told us while it is still great to be a Subaru dealer, the days of easy sales growth are slowing and it appears they are approaching a more steady state market share for the brand. Indeed, Subaru indicated incentive spending rose approximately

30% in the last year through March 31 and they expect another 10% increase ahead. The new Ascent 3-row SUV will help attract sales in one of the hottest segments starting this quarter. In a Summer 2017 NADA dealer survey, Subaru was ranked first, tied with Honda and Toyota, in terms of their optimism for the future of the franchise. Same multiple range: 5.0x-6.0x (with pricing higher in Snow-Belt states).



Kia. Sales were down 8.9% in 2017 and are off 2.0% in so far in 2018. Older models such as the Optima and Soul are hurting sales while exciting new models such as the Stinger and Niro did well. A large CUV, the Telluride, is coming in 2019 and should help, but that is far away in the eyes of Kia dealers who want more CUVs now. In the right market these dealerships can make \$1M-\$2M per location, although we also see them struggle in over-dealer markets. There are many Kia stores on the market today. Same multiple range: 3.25x-4.25x.



Hyundai. Sales were down 13.4% in 2017, the worst performance among the major brands we track. Sales were down another 11.4% so far in 2018. Cars are down a whopping 26% in 2018 while CUVs gained nearly 23%, so the issue appears to be an imbalance in production, which we Hyundai is working on. The sales mix is 60% cars when the rest of the market is 60% trucks and CUVs. We are told a large CUV and light truck are in the works. The previous plan to sell Genesis vehicles exclusively through standalone locations has been dropped. We wish the company would invest capital to develop products for its core brands rather than a full line for Genesis. There are many Hyundai stores on the market today. Same multiple range: 3.0x-4.0x.



Nissan. The drama keeps coming for Nissan dealers. Sales were up 1.0% in 2017 thanks to heavy fleet sales, but have declined 6.3% in the first four months of 2018, including a massive 29.1% drop in April, an “extremely challenging month,” according to Nissan. It almost sounds like a revolt at the dealer level. Dealers tell us the stair step incentive payments have been slashed although sales expectations remain unreasonable at many stores. Nissan executives achieved the 10% US market share objective it had long chased, but in the process created a franchise network that appears brittle and uneven. Many excellent dealers we know are “done” with the franchise. This has become an issue for sellers of Nissan stores since many dealers, even some of Nissan’s preferred dealers, avoid the franchise. Despite the negatives, some dealers do well with Nissan, particularly those who have consolidated markets. Same multiple range: 3.0x-4.0x.



Mazda. After declining 2.8% in 2017, Mazda is up 14.8% in the first four months of 2018 thanks to the redesigned CX-5. Mazda has been underweighted in CUVs and has no light trucks at the moment, which has cost them sales in this environment of cheap gas. Its new partnership with Toyota should increase supply of CUVs and boost profits. A new CUV model is expected in late 2019. Same multiple range: 3.0x-4.0x.



VW. The positive momentum at VW continues with sales up 5.2% in 2017 and another 8.6% so far in 2018. The Atlas and new Tiguan are winners, but cars are down a whopping 38% this year. One dealer told us cars are “ice” at his VW stores – frozen in place. Although VW has the highest days supply in the industry, at 105 days, buyers are more curious about this franchise and some locations perform at a high level. Profits in 2016 and 2017 are muddled by payments from VW to dealers so the franchises are not likely to trade on a multiple of pre-tax earnings. Same average value range: \$1,000,000 - \$2,500,000.

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. In the first four months of 2018 Ford is down 2.6%. We are a bit baffled why Ford has arrived in this awkward place. Its core truck/SUV/CUV products have never been more popular and yet its stock price has stumbled and there has been a lot of turnover in senior management. New CEO Hackett has made his first significant announcement which is that Ford, like FCA, is largely getting out of the sedan business. We don’t see this as positive for dealers who enjoy incremental gross profits from sedan sales which represent almost 17% of Ford’s total sales year to date (about 12 units a month for the average dealer), and fixed operations will suffer if the number of units in operations falls. Ford may help itself in the short term by eliminating losses it is incurring from sedans, but we wonder how much Ford and its dealer body will suffer if gas goes back to \$5 per gallon, or if the next administration restores high fuel economy standards. Hackett’s strategy is a rejection of Ford’s former goal of becoming the most fuel efficient automaker. On the other hand, maybe that strategy has been a distraction from

building the big vehicles that consumers prefer today. With the new Bronco and Ranger coming, dealers may soon forget about the era of Fiestas and Fusions. And the new Expedition and its sister ship, Lincoln Navigator, are hits. We have been involved in the purchase or sale of eight Ford dealerships in recent years. All got significant interest from buyers, and we continue to get calls from dealers seeking these stores. Same multiple range: 4.5x-5.5x.



Chevrolet. Chevy is up 3% so far in 2018 on the strength of retail sales. Sales of all of Chevrolet's trucks/SUVs/ CUVs are positive, while cars are down a breathtaking 25.1% so far this year. The new Silverado/Tahoe models are coming soon. Transaction prices have gotten surprisingly high in some models and dealers tell us they are beginning to strain to earn their EBE payments which were layoffs in an era of rising sales. GM will need to evolve this program in an era of flat to declining sales. CEO Mary Barra has done an impressive job exiting Europe while printing big profits in the US and China. GM is still producing cars, including hybrids and electric vehicles, albeit at heavy losses on most models. Chevy may have become the best positioned domestic brand, replacing Ford, especially if it can capture some of the sedan customers who will have nothing to buy from Ford. Refreshed Malibus, Cruzes and Sparks will be waiting for them. Same multiple range: 4.0x-5.0x.



FCA (Chrysler-Jeep-Dodge-Ram-Fiat). FCA was down 8.6% in 2017 largely due to a pullback in fleet sales that offset the 20% increase in Jeep sales. So far in 2018, sales are up 1.7%. Some dealers have been wary of this franchise as they are concerned about below average quality, and a relatively weak corporate balance sheet. But margins are higher than many other mid-line brands and fixed ops are strong (thanks to that to low vehicle quality). Our neighbor recently traded in his Range Rover for a new Wrangler, so that vehicle continues to drive big profits for the company and the new version appears to be very well received. FCA was the first to pull out of the small car business and we expect that will work out well for them in the near term. But, like Ford, if gas prices and/or fuel efficiency standards rise, FCA will have made a bad bet. Same multiple range: 3.25-4.25x.



Buick-GMC. In 2017, sales were up 0.5%, but are down an estimated 1.3% so far in 2018. Buick has done well this year with a 4.6% gain, while GMC trucks have been struggling a bit. Buick will likely see incremental growth as it launches the Avenir luxury sub-brand. Like Chevrolet, new large pickups and SUVs are coming in MY 2019 and 2020, respectively, and should help these brands do well. We are told that GMC will become further differentiated from Chevy and incorporate numerous advancements such as a carbon fiber bed, which could help it take share from other truck makers. Given GMC's sizable contribution to GM's financial results, we see strong investments in the future for GMC. Same multiple range: 3.75x-4.75x.

SUMMARY

The auto retail market is off to a strong start in 2018. Dealers' profits continue to decline slightly but remain near all-time high levels. Autonomous driving, electrification, ride sharing, Tesla, new entrants to the industry and other threats have not impacted dealer profits. We remain in a golden era of auto retail with high profits and healthy sales.



The buy-sell market is a bit mixed. Spending by public companies is up compared to Q1 2017, but the total number of dealerships acquired so far is lower than at this point last year. And the number of transactions excluding public company divestitures has fallen by 33% as buyers may have pulled back from the market. It is too early in the year to read much into these results, but the leverage in the market appears to be shifting to buyers. The number of sellers is increasing at the same time buyers are becoming more particular about the dealerships they want and the prices they are willing to pay. Our experience so far in 2018 is that pricing has remained steady with 2017, but we think there is a good chance that prices begin to fall in 2018 unless sellers become more bullish.

Having been involved in 170 transactions for 290 dealerships, no other firm has a better understanding of the perspectives of both buyers and sellers of dealerships across the US, and we use this perspective to negotiate highly desirable outcomes for our clients.

Announcing Our Latest Transactions



prestige FAMILY OF FINE CARS



Ramsey



Ramsey



Paramus



Paramus



Middletown



Ramsey



Ramsey

Has been acquired by



New York and New Jersey



Bergen County

Has been
acquired by

Other Buyers



Riverside

Has been acquired by



California



Has been acquired by



Georgia



TOYOTA

Toyota of Union City

Has been acquired by



Georgia



Has been acquired by



Georgia

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 170 transactions for 290 dealerships totaling more than \$3.9 billion in value. With experience from AutoNation, Asbury, Bank of America, as well as prominent investment banks, Haig Partners is the leading full-service firm in our industry. In the past four years, Haig Partners has helped its clients to sell their businesses for over \$1.3 billion over the last four years, 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 discussing the current state of the market.



HAIG PARTNERS

The Leading Advisor to Buyers and Sellers of Higher Value Dealerships



Mike Davidson Ford
Acquired by



Florida



Acquired by



Jacksonville



Orange Park



Jacksonville



Orange Park



Jacksonville

Florida



Sandy Springs Toyota Scion
Acquired by



Georgia



Don Reid Ford
Acquired by



Florida



Mercedes-Benz of
Tuscaloosa Acquired by



Alabama



Acquired by



Maryland

PRINCETON



Acquired by

DTF Holdings LLC

New Jersey



Texas Motors Ford
Acquired by



Texas



Central Kia Lewisville
Acquired by



Texas



Acquired by



FREMONT PRIVATE HOLDINGS



Minnetonka



Brooklyn Park



Brooklyn Park



Buffalo



Minnetonka



St. Louis Park



MASERATI



ASTON MARTIN



Minnetonka



Chippewa Valley



Inver Grove

Minnesota



Freightliner
of Knoxville &
Chattanooga
Acquired by



Tennessee

Maximizing the value of your life's work. HaigPartners.com | 954-646-8921



HAIG PARTNERS

The Leading Advisor to Buyers and Sellers of Higher Value Dealerships

<div><p>Mercedes-Benz</p><p>Mercedes-Benz of Reno Acquired by</p><p>AutoNation</p><p>Nevada</p></div>	<div><p>Sandy Springs Ford Acquired by</p><p>ASBURY AUTOMOTIVE GROUP</p><p>Georgia</p></div>	<div><p>DESERT EUROPEAN MOTORCARS, LTD</p><div></div><div></div><p>MASERATI</p><p>Acquired by INDIGO — AUTO GROUP —</p><p>Transaction closed at previous firm.</p><p>California</p></div>		<div><p>CHARLESTON NORTH CHARLESTON</p><p>Acquired by</p><p>Krause Family Auto Group</p><p>South Carolina</p></div>		
<div><p>Sovereign Motor Cars Ltd.</p><div><p>of Brooklyn, NY Acquired by</p><p>Carmichan Holdings</p><p>New York</p><p>Transaction closed at previous firm.</p></div></div>	<div><p>TOYOTA</p><p>Fort Myers Toyota Acquired by</p><p>AutoNation</p><p>Florida</p><p>Transaction closed at previous firm.</p></div>	<div><p>Panama City John Eagle Dealerships Acquired by</p><p>GROUP 1 AUTOMOTIVE®</p><p>Florida</p><p>Transaction closed at previous firm.</p></div>	<div><p>Acquired by</p><p>California</p><p>Transaction closed at previous firm.</p></div>	<div><p>TOYOTA</p><p>Toyota of Lewisville Acquired by</p><p>RLJ mclarty landers automotive</p><p>Texas</p><p>Transaction closed at previous firm.</p></div>	<div><p>Acquired by</p><p>GROUP 1 AUTOMOTIVE®</p><p>California</p><p>Transaction closed at previous firm.</p></div>	
<div><p>The Associated Truck Dealers of America, LLC FORT WORTH FREIGHTLINER WESTERN STAR</p><p>Acquired by</p><p>TRANSPORTATION resource partners</p><p>Texas & Oklahoma</p></div>		<div><p>Dallas North</p><p>Dallas South</p><p>Ardmore</p><p>Fort Worth</p><p>Oklahoma City</p><p>Tulsa</p><p>PENSKE</p><p>Transaction closed at previous firm.</p></div>		<div><p>MASERATI OF MANHATTAN</p><p>Acquired by</p><p>BNF Automotive Group</p><p>New York</p></div>	<div><p>Lumberton Ford Lincoln Acquired by</p><p>North Carolina</p></div>	<div><p>DRIVING TOWARD THE FUTURE</p><p>TruckCity of Gary Acquired by</p><p>TRANS CHICAGO TRUCK GROUP</p><p>Indiana</p></div>



347 N. New River Drive East
Suite 1807
Ft. Lauderdale, FL 33301

PRESORTED
STANDARD MAIL
U.S. POSTAGE
PAID
BOCA RATON, FL
PERMIT NO. 1767



Join us at these events:

- **National Alliance of Auto Dealer Advisors**,
Chicago, IL, June 25-27, 2018
- **Moss-Adams Dealership Summit**,
Las Vegas, NV, June 28-29, 2018
- **Automotive Trade Association Executives**,
Half Moon Bay, CA, July 12-14, 2018
- **Auto Dealer Seminar** hosted by Haig
Partners, SunTrust, Crowe, Bass Sox Mercer
Atlanta, GA, August 6, 2018 (details TBD)
- **Geffen Mesher Dealer Seminar**,
Portland, OR, September 26, 2018

www.haigpartners.com