

THE HAIG REPORT[®]

FIRST QUARTER – 2019



TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- The number of dealerships sold in Q1 declined by 7% year over year
- Private dealership purchases rose 15% in Q1, offsetting the decline in public acquisitions
- The acquisition spending trend by the publics is at its slowest pace since 2010
- Luxury dealership sales, as a percentage of the market, grew 43% year over year
- Blue sky multiples are lower for domestic franchises
- Dealership profits continue to slowly decline
- New vehicle gross profits may have stabilized; gross profit per new vehicle sold increased at 5 of the 6 public companies
- The buy-sell market appears robust and we expect the last three quarters to perform well

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OVERVIEW

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Despite a tough couple of months to start the year, there appears to be plenty of gas left in the tank for the auto retail industry. March and April were so strong that they set profit records for many dealers. The net result was that average profits per dealership fell 0.7% from year end 2018.

We see mixed results when we peek under the covers a bit. New vehicle sales were down 4.2% at retail, but used sales were up. New vehicle margins at the public companies actually increased, while margins on used cars fell. F&I continues to increase, but so does floorplan expense. Fixed operations are now levelling off. There's not much to indicate that the market is going to improve, but it has been a tribute to the strength of the auto retail business model that dealerships continue to perform so well.

The buy-sell market is also performing well. We saw an estimated 83 dealerships trade hands in Q1 2019 compared to 89 in Q1 2018. The public retailers spent almost no money in Q1 2019 on buying dealerships, but private buying activity increased from last year. We continue to see many attractive dealerships and dealership groups coming to market, so 2019 will represent an excellent opportunity for groups looking to grow. But buyers have become more selective than in years past, so dealerships will need to be priced fairly and marketed well, or they may sit with no offers. Unless we see a big shock to our system, like tariffs, we expect the buy-sell market to be highly active for the rest of 2019.

The Buy-Sell Market Is Still Robust Despite A Slowdown in Q4

An estimated 83 stores changed hands in the first quarter of 2019, a 7% decrease from Q1 2018. The fourth quarter of 2018 showed a 54% decline in buy-sell activity with just 53 stores being sold, compared to Q4 2017. Does this decline mean the buy-sell market is trending down sharply? We don't think so for reasons we list on page 12.

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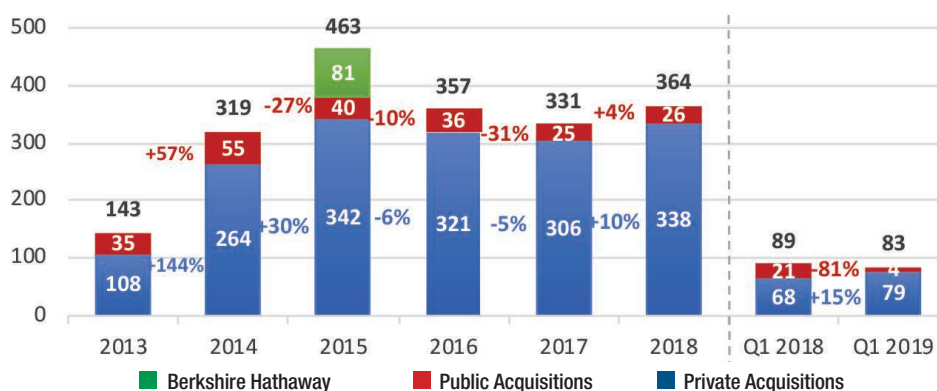
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US Dealerships Bought/Sold



Source: The Banks Report and Haig Partners

There are signs that buyers are becoming more careful in their purchases. Some buyers are only looking for stores in their core markets. Others are seeking only underperforming stores, or top brands in growing markets. And some of the buy-sell activity is driven by divestitures from large groups that

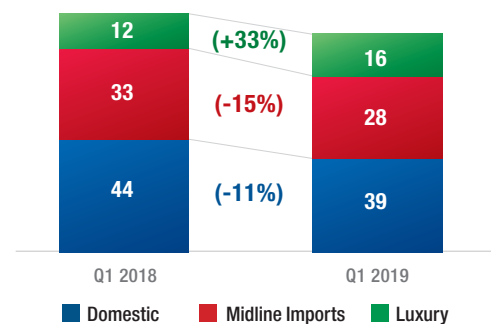
OVERVIEW – Q1 2019

are paring their portfolio in anticipation of a decline in the overall auto retail industry. Almost every buyer we speak to expects dealership values to fall further in 2019 due to flat or declining profits.

The transaction mix shifted slightly in Q1 with domestic share decreasing to 47% of dealerships sold from 49% in Q1 2018. Import stores made up 34% of stores sold in 2019, compared to 37% in Q1 2018. Luxury stores increased to 19% of stores sold from 13%, representing the largest swing of the segments. We noted that all the luxury stores sold were part of a group in Q1 2019 with no single point luxury stores transacted.

It is noteworthy that more transactions in Q1 involved groups. In Q1 2019, 29% of transactions were groups and they accounted for 55% of the stores sold. In the prior year, 23% of transactions were groups and they accounted for 47% of the stores sold. We believe this shift reflects positive sentiment on behalf of buyers. Consolidators may be more comfortable than last year that they can integrate a group of stores if the right opportunity presents itself.

Dealership Acquisitions by Segment



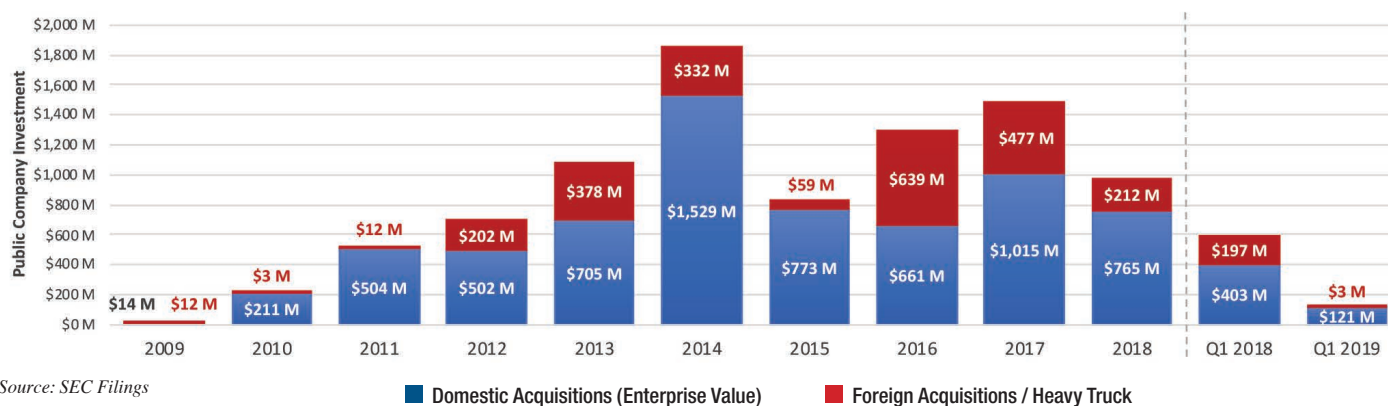
Source: The Banks Report and Haig Partners

Public Company Acquisition Spending

The public companies have spent very little on auto acquisitions in the US so far in 2019, with just \$121M compared to the \$403M they spent in Q1 2018. The level of spending in Q1 2019 was similar to the amount public companies spent in the 2nd through 4th quarters of 2018. If this level of spending continues, it will be the lowest level since 2010 when the industry was recovering from the Great Recession and there were almost no dealerships available for purchase. We believe the lack of investment is directly related to the low stock prices these companies have experienced over the past year. Most acquisitions simply were not accretive, so these retailers focused on other opportunities such as used car stores, collision centers and other less capital intensive aspects of our industry. Now that the stock prices for the publicly traded auto retailers have rebounded, we hope to see an uptick in acquisitions in the latter part of 2019.

Public Company Acquisition Spending

(Domestic and International)



Source: SEC Filings

Based on reports from the market and our own practice, we are expecting a good number of transactions involving private buyers to close in 2019. There are more dealerships available for sale than in the past and there are many buyers with access to plenty of capital. Some dealers are opting to jettison franchises in which they have lost confidence, while older dealers without succession plans are looking to sell while dealership values remain strong. We also now have more clients in the prime of their careers who are choosing to sell since they are concerned about the future of auto retail, whether it be the high capital requirements, the OEMs' growing control of dealership profits, or the potential risks presented by new technology. Finally, the increasing conviction that scale will matter more in the future than it has in the past is expected to result in higher transaction volumes. This "Get Big or Get Out" belief is pushing some groups to purchase dealerships so they can be better positioned in the future.

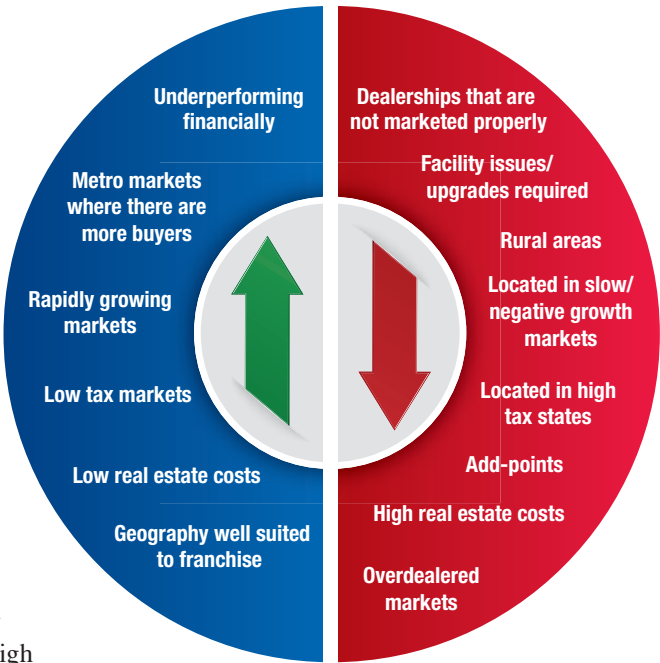
Blue Sky Multiples Held Constant, Except Domestics

In Q1 2019 we have seen steady demand from buyers for all franchises except domestic brands. Ford and GM dealers tell us they are concerned about the management teams at these OEMs and the loss of market share. An example is the newly released Chevy Silverado which debuted to little consumer interest, with volumes down 15.9% from the prior year (and prior model). We have also heard that Ford dealers are disappointed by the lack of support from the factory and fewer entry-level models for younger buyers. As such, we reduced blue sky multiples for all domestic franchises by 0.25x.

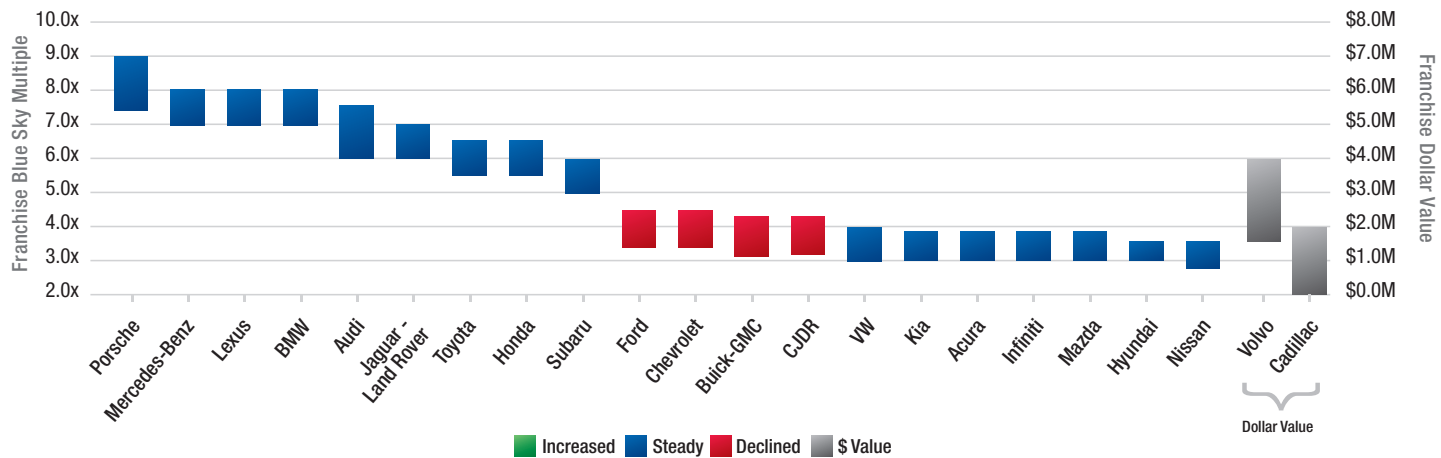
The decline in earnings over the past three years has been modest, with the average dealership making 10% less than the peak in 2015. Our estimated average blue sky per dealership fell 13.5% during this period. If buyers believe that profits will begin to fall at a faster rate, then we would expect multiples to decline even more. At the same time, if we begin to see an imbalance in the market, with more sellers than buyers, then multiples could fall quickly. We are hearing of many stores coming to market, but the compression on value seems to be mostly impacting dealerships that are less than ideal candidates for acquisition (high tax states, overperformers, low growth markets, etc.). There is still strong demand (and values) for many opportunities. At current prices dealerships offer a healthy return to buyers, so selling at lower prices may not make sense to sellers who will have a hard time obtaining the same amount of cash flow from other investments. As such, we see a widening gap in buyer and seller expectations of value.

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 dealership assets. Of course, actual multiples or prices paid by buyers for dealerships will vary depending upon a number of factors and could be higher or lower than the ranges we indicate. The table above right provides a list of some qualifying factors that could impact the value paid for dealerships.

Factors Impacting Multiples



Haig Partners Blue Sky Multiples










TRENDS IMPACTING AUTO RETAIL

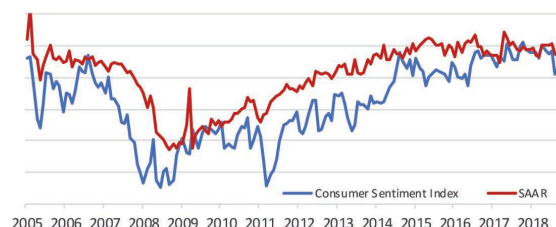
Overview

It has been a volatile year so far for dealers. January and February were some of the worst months in many years, perhaps because of the compounded effect of the government shutdown and the Polar Vortex that kept customers at home. But March and April have been some of the best months ever for many dealers. Since the macroeconomic factors that impact new vehicle sales are largely out of their control, dealers are focusing on other parts of their business. One bright spot in Q1 was that new vehicle margins increased at five of the six publicly traded franchised retailers. This increase is encouraging as it could represent the end to a seven year slide in new vehicle margins. Also, dealers continue to focus on cutting expenses and trying to boost profits in used, F&I, and fixed operations. F&I, in particular, has been a shining star for some groups as they update their processes to emphasize the sale of products. These dealers know that in a flat to declining sales environment, they will have to create their own lift if they want to maintain profits.

Macroeconomic Indicators Are Generally Favorable

-  **GDP Is Defying Expectations.** GDP grew at a 3.2% rate in Q1, easily surpassing economists' consensus expectation of 2.3% growth.
-  **Employment and Household Income Are Increasing.** Unemployment declined to 3.6% in April, a record low for the last 50 years. Average hourly earnings were up 3.2%. When wage growth is compounded with the average weekly hours worked, total wages are up 4.9% over the last year.
-  **Inflation is Low at 1.6%.** Despite strong growth in GDP, declining unemployment, and significant deficit spending by the US government, consumer prices are rising slowly. As a result, consumer spending power and savings are both increasing.
-  **Consumer Sentiment Remains High.** After sluggish readings in January and February, consumer sentiment rebounded to 98.4 in March and 97.2 in April as many negative talking points such as tariffs and border security have been drowned out by positive economic data. Consumer sentiment has been at 95 or above for 25 of the last 28 months.
-  **Fuel Prices Are Steady.** Despite the growth in GDP, gas prices have barely moved and are around \$0.04 higher than a year ago. Consumers are not feeling pressure to drive less or shift back to cars from larger vehicles which are more profitable for dealers and OEMs.
-  **Interest Rates May Not Increase Further.** The Fed increased interest rates by 75 basis points ("bps") in 2017 and 100 bps in 2018. Due to increasingly favorable economic data suggesting minimal inflation, the Federal Reserve indicated that it would be "patient" in their assessment of economic indicators that could be "transitory" in nature. Increasing rates hurt dealers due to higher floorplan costs and mortgage expenses on floating rate loans. A halt in rate increases would protect dealers. We have seen net floorplan go from a boost to income (due to OEM incentives) to a net expense. Despite the freeze in the federal funds rate, the average APR for new vehicle loans in April 2019 was 6.28%, up from 5.58% one year earlier, according to Edmunds.
-  **Car Payments Are Increasing, But About Comparable To Wage Growth.** Edmunds data shows that due to higher transaction prices and higher interest rates, the average monthly payments for new vehicles increased about 5% in the past year. This increase almost exactly matches the 4.9% increase in wages during this period. Used vehicle payments increased a slightly lower 3.3%.

Consumer Sentiment Versus SAAR

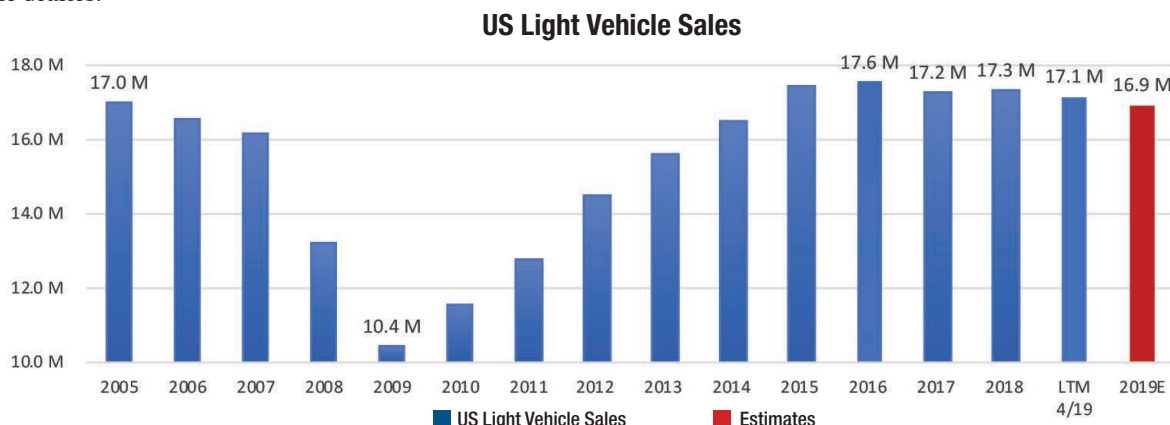


Source: Thompson Reuters / University of Michigan; Automotive News

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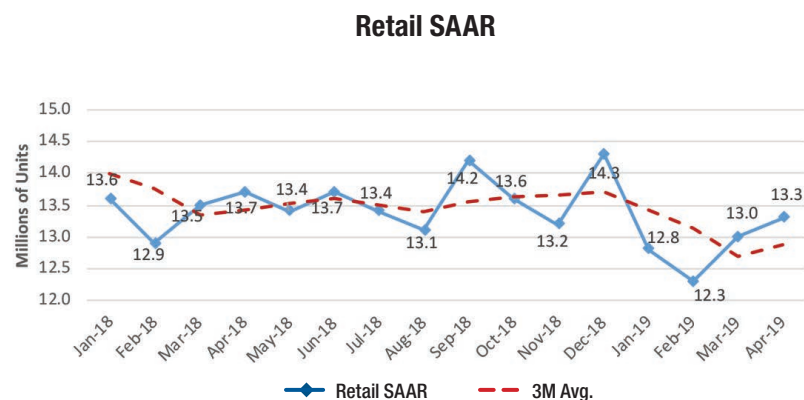
New Unit Sales Remain Elevated, Surprising Many Forecasters

The average forecast from several respected sources is that sales will drop 2.3% in 2019 to 16.9M units from 17.3M units in 2018. Sales so far in 2019 have been mixed. The government shutdown and the Polar Vortex hurt sales in January and February, but March and April were excellent for dealers.



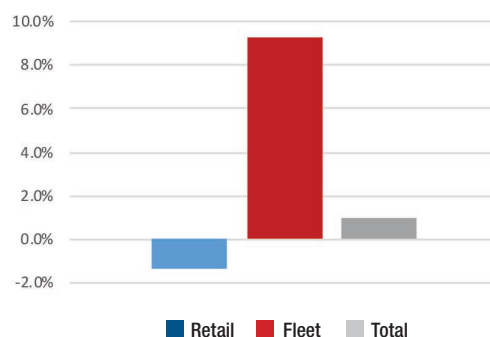
Source: Historicals - Automotive News, Estimates - IHS, Ward's, LMC/JD Power, Cox Automotive, NADA, Chicago Fed, Edmunds

Note the data above is for total new vehicle sales, including fleet sales. According to data from JD Power, retail sales year-to-date were down 4.2% from April 2018, while fleet sales were up 5.0%, partly driven by Nissan selling units to rental car companies that dealers could not sell to consumers. Retail new unit sales so far in 2019 have been soft as they are tracking a retail SAAR of 12.9M units, down from the 13.4M retail sales in 2018, perhaps hurt by the Polar Vortex and the government shutdown.



Source: JD Power

Y/Y Sales Change - YTD April 2019

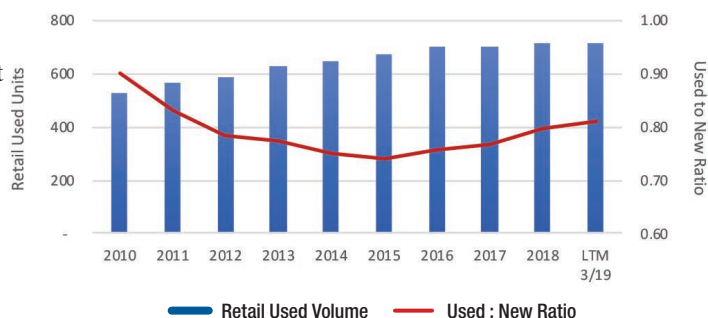


Source: JD Power

Dealers Are Increasingly Focused on the Used Vehicle Market

As franchised dealers continue to feel the pressure of front-end grosses on new units and declining new unit sales, they are increasing their focus on retailing used vehicles. There is plenty of room for improvement since franchised dealers account for just about 30% of total used sales. The rest are sold person-to-person, via independent dealers, or via larger used car retailers like CarMax and Carvana. The supply of used vehicles is increasing and, due to several years of strong new truck/SUV sales, the mix of used cars to trucks/SUVs/CUVs matches current consumer demand. According to Edmunds, an additional 300k lease returns will show up at dealers in 2019 which should help supply.

NADA Average Retail Used Per Dealership



TRENDS IMPACTING AUTO RETAIL

So far, dealers are being successful in increasing their sales of used vehicles. Same-store used vehicle volume was up 4% compared to last year for public auto retailers. Privately owned franchised dealers still have significant room for improvement, as the average dealer has a used to new ratio of just a little over 0.8:1.0, up just 1.5 vehicles per month from their sales rate in 2018.

New Vehicle Grosses Are Improving!

The publicly traded retailers suffered a seven-year decline in their front end margins that eliminated \$527 per unit in gross profit. But in Q1 2019, these retailers posted an average increase in gross profit of \$80 per new vehicle sold compared to Q1 2018. Five of the six retailers posted gains in new vehicle gross profit, although some may have suffered some consequences in seeking higher front end gross profit. For instance, AutoNation's new vehicles sales dropped so much in the quarter that they ended up generating less total gross profit from the sale of new vehicles than the prior quarter, even though their margins were higher. While it's too early to know if Q1 2019 is an aberration or an end to just about the only weak spot for dealers in recent years, the data is encouraging. If retailers have figured out how to increase gross profits per new vehicles sold, then they may be able to maintain or even boost profits during a period of declining sales.

NEW Gross Profits Per Vehicle: Public Company Data

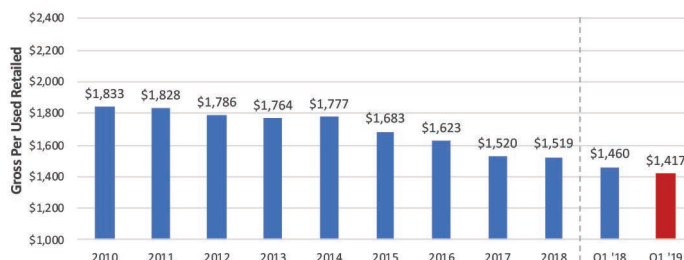
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

USED Gross Profits Per Vehicle: Public Company Data

(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

As for used vehicles, the average gross profit per used vehicle for the publics slid \$43 for Q1 and nearly \$100 compared to 2018. But this data might be a bit muddled, since Penske and Sonic, both publics with prominent used-only locations, were the only groups in the pack to notch declines in used per vehicle gross – 14% and 9.5%, respectively. These locations generally achieve used margins greater than franchised dealers, so it is possible that the two groups are consciously trading retail profits for growing market share and F&I opportunities.

Finance & Insurance Departments Are Generating Record Profits

F&I profits per vehicle continue to increase as transaction values go up and retailers do a better job on product penetration. We have heard from many dealers who are switching pay plans away from finance reserve, which has very little to do with F&I manager performance, and more toward the sale of F&I products. The public companies earned \$1,588 per vehicle retailed during the first three months of 2019, up \$80 (5.3%) from the same period in 2018. This increase is significant and more than offsets the decline in gross profit on used vehicles. A number of private dealers have disclosed they earn even higher profits than these figures, some over \$2,000 per vehicle retailed. Private dealers also enjoy substantial profits that can be made through reinsurance companies that do not run through dealer statements.

Public Company F&I Per Unit Retailed

(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

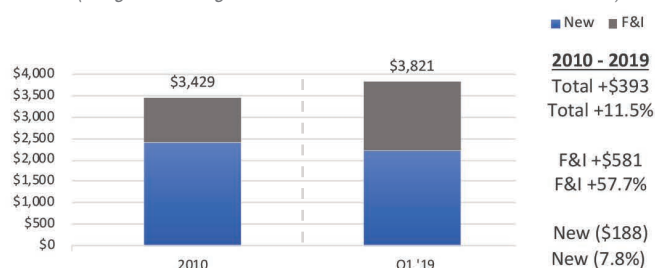
TRENDS IMPACTING AUTO RETAIL

Combined Front and Back: Profits per Vehicle Retailed Continue to Increase

The tables below track combined front and back end profits per vehicle retailed data back to 2010. They show that on a combined basis profits have trended up slightly in absolute dollar terms. Given the rise in 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

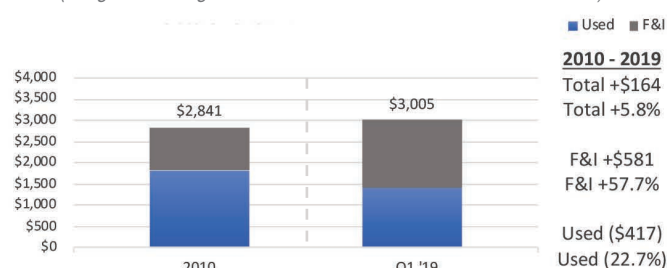
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings; F&I as reported for new and used combined
Note: Front end gross profit includes manufacturer incentives and other income

Public Company USED Vehicle Gross + F&I PVR

(Weighted Average Same Store Performance - in Current Dollars)

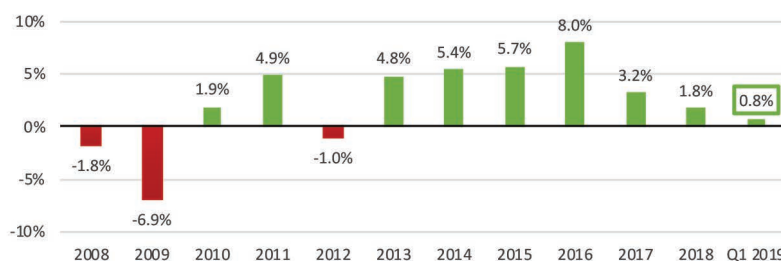


Source: SEC filings; F&I as reported for new and used combined
Note: Front end gross profit includes manufacturer incentives and other income

Fixed Operations Growth May Be Over

For almost every year since the Great Recession, dealers have enjoyed healthy growth in their fixed operations thanks to a growing number of units in operation, recalls, and higher share of customer pay business as vehicles have gotten more complicated. Growth in fixed operations has slowed recently up just 0.8% in Q1 2019 compared to Q1 2018. If the number of units in operation slides due to falling new vehicle sales, it's possible dealers will see less warranty and customer pay work. The good news is that there is a lot of parts and service business that dealers can target. According to a 2017 study by Cox Automotive, franchised dealers account for only 30% of the automotive repair market in the US. Dealers could also offset these potential declines by focusing more on the used vehicle business which drives higher recondition work.

NADA Fixed Operations Growth



Source: NADA

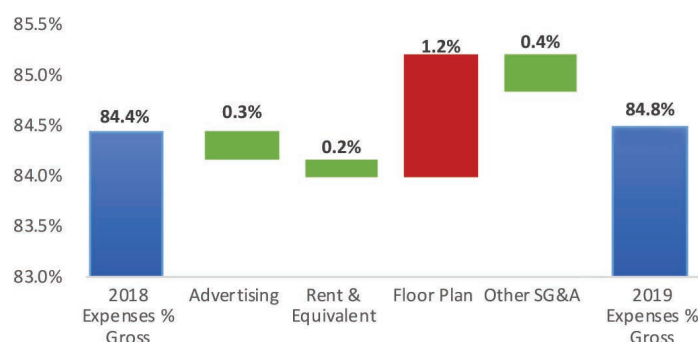
Dealership Expenses Are Growing While Gross Profit Is Shrinking

The average privately owned dealership watched gross profit (including other vehicle income) shrink by 0.4% in the first three months of 2019, compared to the prior year, while expenses grew by 0.1%.

First, the good news. Dealers have been working hard to lower their costs during this period of flat sales and declining vehicle margins and we are seeing some good results. Advertising expenses fell 0.3% as a percentage of gross profit thanks to the shift to digital marketing that can be more effective than traditional media for many dealerships. Surprisingly, the rent and equivalent expense actually declined as a percent of gross

Change in Expense as a % of Gross Profit + OVI

(YTD 3/18 - YTD 3/19)



Source: NADA

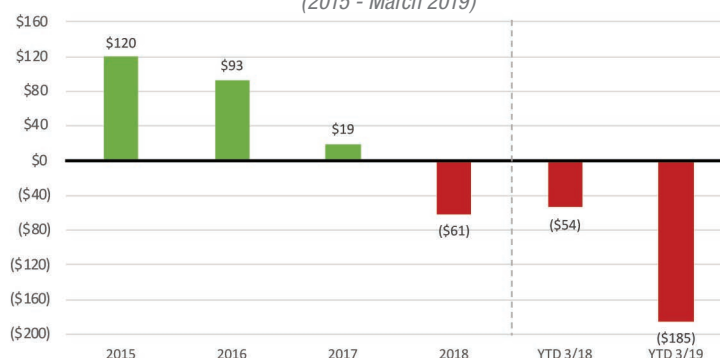
TRENDS IMPACTING AUTO RETAIL

profit, despite higher interest rates than in prior years. It's possible that we are past the peak in terms of dealership real estate values in some markets. Finally, SG&A at privately owned dealerships, as a percentage of gross profit, was down nearly 0.5%.

What is proving harder to overcome is the impact of rising interest rates on floorplans. For private dealers, the adjoining chart shows that floorplan interest expense now exceeds floorplan credits. The amount of expense associated with financing inventory has increased by more than 200% in March YTD 2019, compared to the prior year.

Net Floorplan Interest Income / (Expense) Per New Retail Vehicle

(2015 - March 2019)



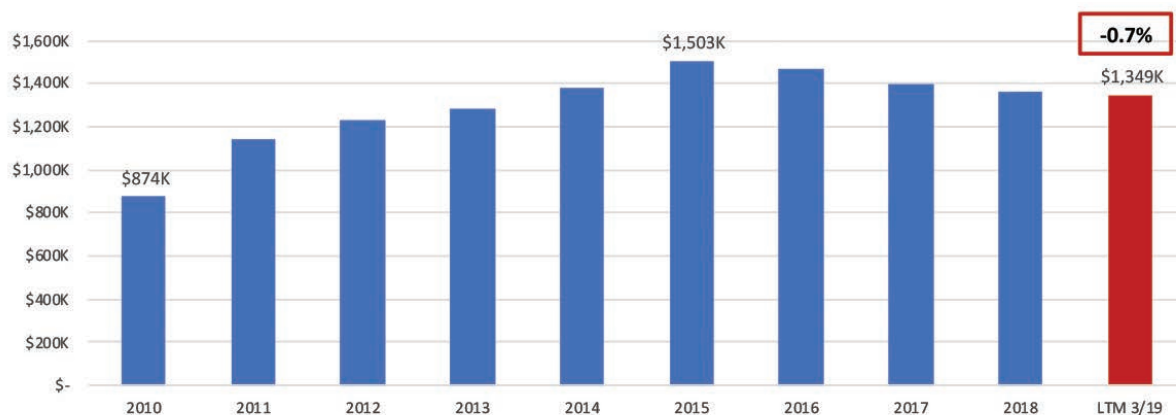
Source: NADA

Dealership Profits Drop Slightly

The net outcome of the trends listed above is that average profits at privately owned dealerships are down 0.7% for the LTM ending March 2019 compared to Year End 2018. If annualized, the decline in profit per dealership would be about 2.6% from 2018, which would be a decline of about 12% from its peak in 2015.

The table below shows the annual change in profits at privately owned dealerships since 2010. 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 profits per dealership fell by about 5% per year due to falling margins and rising costs until the recession hit in 2008. What is interesting is that while the flattening of sales recently is similar to what happened from 2001-2007, dealerships are not suffering from a similar decline in profits. Perhaps dealers and the OEMs have learned how to better cope with a flat to declining sales environment and are using technology to increase efficiencies in inventory management, employee costs, marketing and other aspects of their businesses.

NADA Average Private Dealership Earnings



Source: NADA

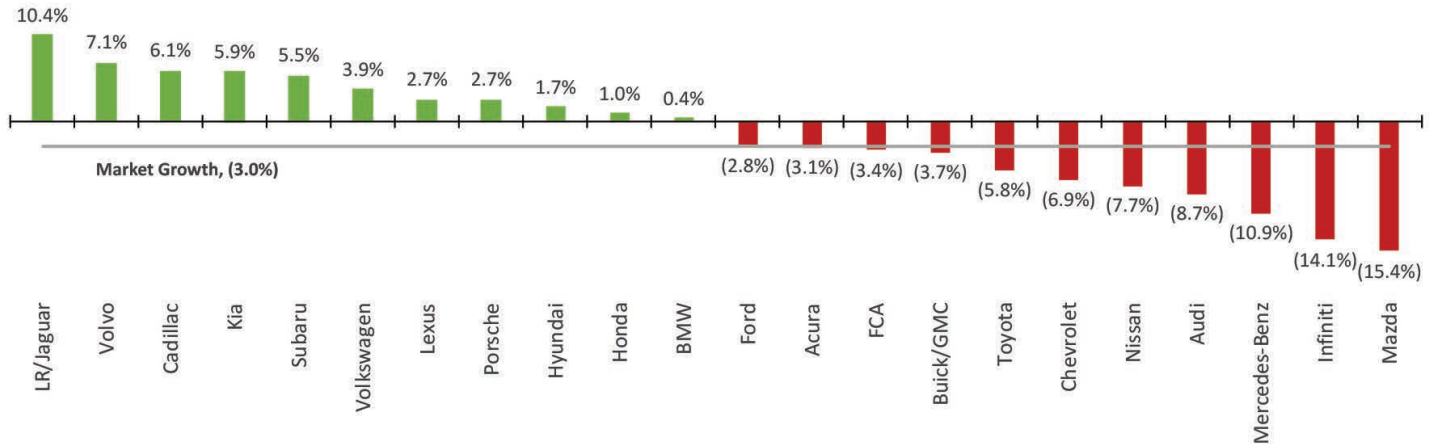
Sales Growth for Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in 2018. Note, this data reflects changes in total sales per franchise, so it includes fleet sales that could skew the results at the retail level. JLR and Volvo sales jumped 10.4% and 7.1%, respectively, thanks to new products with wide appeal. After what we saw as a nice run of improved performance, Mazda suffers at the other end of the scale due to their rolling back of customer incentives. Infiniti continues to live up to its reputation as a difficult franchise to manage. Perhaps more troubling is that there are several important brands such as Toyota, Chevrolet, Audi and Mercedes-Benz that are

TRENDS IMPACTING AUTO RETAIL

showing troubling signs of weakness early in the year. There is still plenty of time for recovery, however, and several of these brands have key product launches coming up.

Year / Year Sales Performance - YTD April 2019



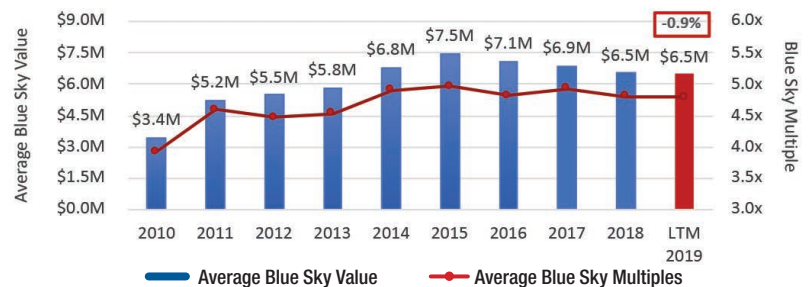
Source: Automotive News

Private Dealership Values Are Declining Slightly

The estimated average blue sky multiple for all franchises on an unweighted basis was 4.79x in Q1 2019 according to our estimates, down slightly from 4.80x in Q4 2018. Profits per dealership on a LTM basis fell 0.7% compared to the full year 2018.

Applying the 4.79x blue sky multiple to the average dealership pre-tax profit of \$1.35M over the last twelve months generates an average blue sky value of \$6.5M, down 0.9% from year end 2018.

Estimated Average Blue Sky Value

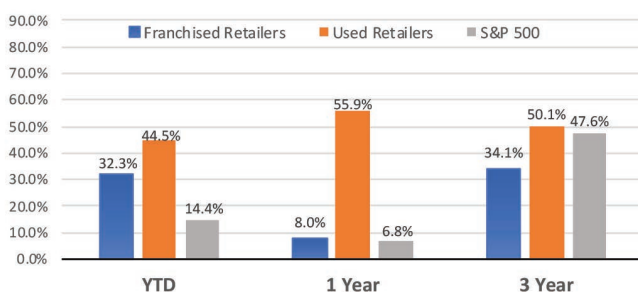


Investors Warm Up to Public Franchise Dealership Groups

Investors turned negative on the publicly traded franchised dealership groups in January 2017. They were worried about a downturn in the economic cycle and then had concerns about the potential technology disrupters like autonomous vehicles, electrification, and ride sharing. Circumstances have changed and investors are again seeing value in auto retailers as certain technology threats recede and retailers show they can adapt to the changing environment by increasing their focus on used vehicles to offset a decline in new vehicles.

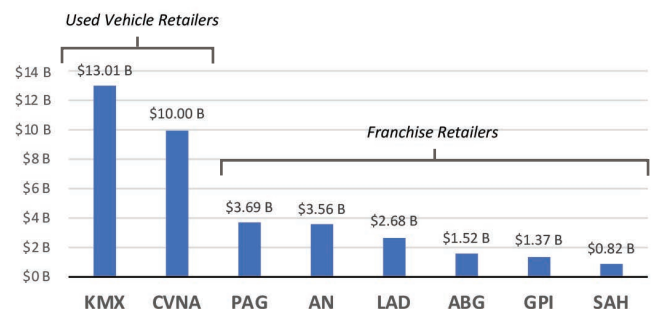
Cumulative Stock Price Returns

Public Franchise Retailers vs S&P 500



Source: Yahoo! Finance; Data through 5/21/2019

Public Retailer Market Capitalization



Source: Yahoo! Finance; Data through 5/21/2019

BUY SELL TRENDS AND EVENTS

In our year-end 2018 report we listed a number of trends that are still present.

- **More Sellers Are Coming to Market.** Several large dealers have told us they have never had so many inbound calls with acquisition opportunities. One dealer told me he is getting a call almost daily! 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, risks presented by new technologies and changes in consumer behavior. One large buyer told us that even owners of large, well respected groups are contacting him, which he chalked up to, “fear about the future, lack of understanding about how to compete, and a growing distaste for dealing with the OEMs.”
- **Buyers Are Active.** A number of dealership groups are eager to grow and have adopted the mantra of “Get Big or Get Out.” Their profits are still very healthy and they would rather invest their surplus capital now rather than leave it in the bank at anemic rates. Even if profits decline over the next few years, these buyers are calculating that buying the right store is the smart thing to do today.
- **Lenders Are Still Lending.** We regularly speak with commercial lenders and all of them have indicated they are eager to loan more capital to dealers to help them finance acquisitions. None of them appears to be projecting a major decline in profits at dealerships due to a recession, changes in consumer behavior, or threats from technology. Some large banks are now promoting syndicated loan facilities that make it much easier for mid-to-large dealer groups to grow through acquisitions.
- **Buyers Are Pickier.** We are seeing a “flight to quality.” Buyers are more selective given where we are in the business cycle. They are less interested in weaker franchises and they also want stores that are a fit with their acquisition strategy in terms of location and profitability. Dealerships that have challenges, such as major facility issues, unions, or incoming add-points, will need to be priced attractively to get the attention of buyers.

The Spread Between Offers and Asking Prices Is Widening

Buyers have always based their offers for blue sky on the basis of what they thought they would be making at the target dealership after closing. In periods when profits are going up, buyers can pay a strong multiple of historical earnings for goodwill and still get their desired returns. In the buyer's mind, the “real” multiple they are paying is less than what the seller sees since profits will be going up. During periods where dealership earnings are going up, there is often overlap between offers from buyers and expectations of sellers and both sides can be happy in a transaction. Deal volume goes up in this kind of an environment.

The situation changes, however, if buyers believe that future earnings could be less than historical earnings. In this case, in order to get the same rate of return as acquisitions with increasing earnings, they will reduce the multiple of earnings they are willing to pay to get a stream of cash flow. In an environment such as this, there is commonly a disconnect between buyers and sellers. Buyers think sellers are being unreasonable, and sellers think buyers are trying to take advantage of them.

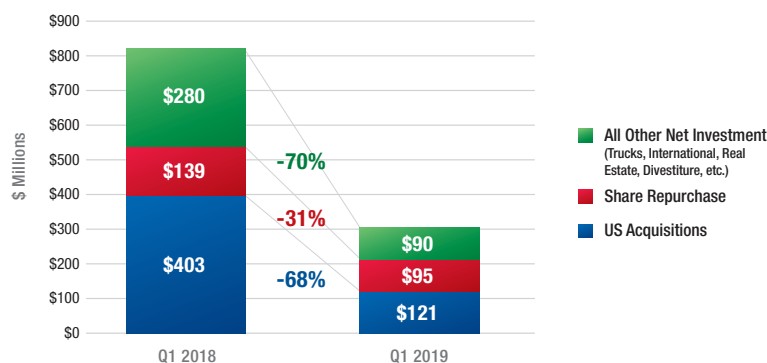
We are now seeing this shift in beliefs in the marketplace. A number of buyers are telling us they are interested in growing, but some of the asking prices they are seeing today are far too high to make economic sense. Buyers will not chase dealerships they see as overpriced when there are so many stores on the market. The issue for sellers is that they may suffer a long marketing period which will likely result in a lower price than if they had priced their dealership correctly at the beginning.

Public Companies Are Investing Less

The public retailers have been shrinking their store count over the past couple of years, and this trend is continuing. The public retailers sold 16 dealerships and bought four dealerships in Q1 2019. Some of them have recently detailed plans of realigning their portfolios away from tough brands, such as Nissan. Other divestitures are dealerships that require significant facility investments or that are nominally profitable. Public companies have historically shrunk during periods of declining SAAR and seek to expand during upswings.

The table at right shows where the public companies have been putting their cash. They have basically been hoarding it so far this year. Perhaps they are unsure if they should buy back more stock and risk more declines in their share price, or invest in acquisitions that could suffer a decline in performance.

Public Company Capital Allocation



Source: SEC filings



HAIG PARTNERS: MAXIMIZING VALUE FOR CLIENTS

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 more than 170 transactions for over 300 dealerships with over \$4.3 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.

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FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 300+ dealerships in our careers dating back to 1996. Each quarter we contact many leading dealer groups as well as accountants, bankers and lawyers who practice in auto retail. The information that we gain from these conversations and our own transactions form the basis for the following evaluations. In Q1 2019, we saw steady values for most of the import and luxury brands, but slight reduction in interest for the domestic groups as several of them are showing declining sales of trucks and CUVs. Also, some large dealers talk about a “flight to quality” as they make acquisitions and consider divestitures. Some tell us they are worried that stores that are nominally profitable today or lose money will have big problems if we see a significant softening in the industry.

Dealership Valuation Methods

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

The blue sky multiple ranges that we set forth in this report reflect our expectations of what buyers in *competitive situations* will pay for the goodwill of average dealerships and we note any upward or downward changes from Q4 2018. We remind the reader that each dealership transaction is unique, and dealerships may trade above or below the ranges we describe in this report. See page 5 for factors that could increase or decrease the multiples paid by buyers from what we estimate here.

Luxury Franchise Blue Sky Multiples



Porsche. This franchise is, “the Cinderella of the ball,” according to one dealer. Sales increased 7.7% compared to a year ago. Following big months in January and February, Porsche recorded a new all-time high in retail sales in the month of March. The hit products keep coming with strong demand for the updated Cayman and 911. New products include a Cayenne Coupe, a Panamera Coupe and its first all-electric sedan – the Taycan. Porsche had the highest consumer traffic and some of the best customers among luxury franchise dealers in the Cox Brand Scorecard. Gross profits per unit remain best in class thanks to production which is closely calculated to produce less than what the market wants. Genius for all concerned! High margins for the OEM, high profits for the dealer, and high residual values for consumers who purchase the vehicles. We wonder why other OEMs don’t adopt these tactics. We get many calls from dealers seeking this franchise, and they will stretch far to buy one. Same multiple range: 7.5x-9.0x.



Mercedes-Benz

Mercedes-Benz. Mercedes sales were down 10.6% through April 2019, due in part to a decline in consumer interest in the brand’s crossovers and SUVs. Dealers tell us their profits are strong however, demonstrating that volume matters, but grosses and expenses matter more. As of April, Mercedes is the second highest selling luxury brand and earned the top ranking among luxury brands in the Cox Brand Scorecard with an “A” in every category. Lots of new products are coming, however, so some dealership groups expect sales to recover later in 2019. Same multiple range: 7.0x-8.0x.



Lexus. Through April, Lexus sales were up 2.7% compared to last year. Lexus showed the strongest volume increase among the major luxury brands, coming closer to stealing second-place in the luxury segment. Lexus was the runner-up brand in the Cox Brand Scorecard with strong results across the board. We were involved in the sale of four Lexus dealerships in recent years and the demand was very high! Same multiple range: 7.0x-8.0x.



BMW. BMW managed to generate a modest 0.4% increase in 2019 off strong demand for the X3, offsetting double-digit declines in the car segment and X1. One dealer we spoke with praised a change in advertising standards that boosted margins for most dealers. Several BMW stores we have been involved with recently are generating over \$6,000 in new vehicle gross profit (including incentive money). BMW was one of two brands that received

FRANCHISE VALUATION RANGES

perfect scores in the Cox Brand Scorecard, being noted for its range of offerings and customer interest in the brand. So far in 2019 BMW has outsold Mercedes. Same multiple range: 7.0x-8.0x.



Audi. Audi had a 8.7% decrease in overall sales year to date. Audi blames early struggles on the government shutdown, transport problems and the winter weather as partial causes. The vehicle line-up presents a mixed bag of results with small sedans like the A3 contracting 45% while the A6 increased 71%. Consumers still love the product as evidenced by their high marks in the Cox Brand Scorecard, but dealers have told us they are frustrated that profits at their Audi stores are well below those of other luxury brands. Some lament the departure of Scott Keogh for VW as they believed he was effective in boosting franchise value. Audi was ranked behind the other “big 4” luxury brands in the Cox Brand Scorecard with their range of selection lowering their overall score. Same value range: 6.0x-7.5x.



Jaguar-Land Rover. JLR, up 10.4% on the year, reported its second-best March sales month ever with multiple nameplates notching all-time records. The Discovery exceeded the previous sales record by 14%, while the Velar surpassed its previous record by 9%. Executives attribute the strong sales to a robust product offering. Land Rover is pulling all the weight in this family, as Jaguar was the lowest ranked luxury brand in the Cox Brand Scorecard. One dealer told us the I-Pace and the E-Pace, Jaguar’s newest products, are already stacking up at the port. JLR has become a bit of a love-hate franchise for dealers. They love the high profits they can earn from Land Rover, but grind their teeth over facility demands, a significant number of add-points coming, and the weakness of Jaguar. Some dealers are concerned about JLR’s overexposure to China and Brexit which could materially reduce profits for the company and crimp development dollars for future products. For combined JLR stores where no add points are coming, same multiple range: 6.0x-7.0x.



Acura. Acura sales fell 3.1% year to date through April. This is a slightly misleading statistic however, as the new RDX has become the #1 retail-selling model in the segment and #2 in luxury SUV, while the overall brand performance is dragged down by sedans. Despite a limited product range, Acura was ranked 4th among luxury brands in the Cox Brand Scorecard with a focus on their younger product offerings and customer perceptions. Acura dealers were also cited as the least likely to endure challenges in working with the OEM across luxury brands. Same multiple range: 3.0x-3.75x.



Infiniti. Sales declined 14.1% through April. Infiniti remains stuck behind Nissan’s dealership relations misdeeds. Despite the QX50 having its best April ever, the Q60 and QX30 both had declines greater than 45% compared to the prior year. Infiniti was near the bottom of the Cox Automotive Brand Scorecard, scoring the lowest out of all luxury brands in customer loyalty. Same multiple range: 3.0x-3.75x.



Cadillac. Cadillac sales were up 6.1% in Q1 2019 on the popularity of the newly released Cadillac XT4. A larger XT6 is coming later this year. Except for the Escalade ESV, every returning model decreased in sales compared to Q1 2018. The Cadillac brand did well overall in the Cox Automotive Brand Scorecard, but scored poorly for lack of product diversity and customer loyalty. Same value range: \$0 - \$2,000,000.



Volvo. Volvo had an impressive start to 2019 with a 7.1% increase year over year through April. Dealers tell us Volvo has been successfully moving upmarket and are gaining market share with the 60 and 90 series product. Volvo executives remain optimistic about its future outlook, citing the successful management of the increased sales volumes in 2019. Volvo was ranked highly on the Cox Automotive Brand Scorecard. Same value range: \$1,500,000 - \$4,000,000.

Mid-Line Import Franchise Blue Sky Multiples



Toyota. The brand is off to a tough start to the year, with sales down 5.8% from the same period in 2018 due to outdated designs such as the Prius (-43%). Unlike most competitors which are abandoning sedans, Toyota competes effectively in the car market as well as offer consumer-favorite trucks and SUVs. Toyota was named one of the top non-luxury brands according to the Cox Automotive Brand Scorecard, receiving perfect marks across the board. Dealers value these stores thanks to high profits per store and a friendly OEM. We get many calls from dealers looking to buy this franchise. Same multiple range: 5.5x-6.5x.

FRANCHISE VALUATION RANGES



Honda. Honda sales were up 1.0% compared to the prior year. We are beginning to hear a little complaining among some Honda dealers. The new products are a hit and the franchise gets praise for being easy to run, but the very low front end margins in many markets make it difficult for those dealers to generate attractive profits. Some dealers complain about low incentive spending. One dealer went so far as to question Honda's commitment to dealer profitability. Honda was rated the third best non-luxury brand with strong customer perception of the brand according to the Cox Automotive Brand Scorecard. We have been involved in the sale of three Honda stores recently and interest has been very strong. Same multiple range: 5.5x-6.5x.



Subaru. Subaru saw a 5.5% increase in sales year to date. Outback sales were notably strong as it achieved its best April ever - up 9.2% year over year. The all-new Ascent is performing well and creating a positive outlook for dealers. Subaru is positioned to take this momentum into Q2. The franchise continues to grow into a desirable alternative to Honda and Toyota stores. The brand performed well in the Cox Brand Automotive Scorecard with high marks across the board, scoring poorly only in range of products. Same multiple range: 5.0x-6.0x (with higher pricing in Snow-Belt states).



Kia. Kia sales were up 5.9% through April 2019, which included the brand's best first quarter performance in four years. Sales have been boosted by the all-new Telluride SUV, exceeding Kia's own projections. Kia hopes to keep the momentum going with the new 2020 Soul coming in the second half of 2019. Kia dealers seem excited about the increased customer traffic as well as all the new product they are getting. Same multiple range: 3.0x-3.75x.



Hyundai. Hyundai experienced a 2% increase in sales in April 2019, marking 9 straight months of growth for the brand. The boost in sales is attributed to a better product mix and strong SUV sales led by the new Santa Fe. Hyundai experienced their best SUV sales month in company history in March. New products include the 2019 Kona Electric, best range of all non-luxury electric vehicles, and the Palisade SUV. The drama with Genesis spills over from last year, with sales down 49%. Same multiple range: 3.0x-3.75x.



Nissan. Nissan saw a 7.7% decrease in sales for the first four months of 2019, highlighted by a decrease of 15.6% for its bestselling Nissan Rogue. After a tumultuous 2018, the situation between many dealers and Nissan remains tense. Despite consecutive months of decline, the red ink is showing signs of slowing as the brand pivots away from a high-volume, low-margin fleet sales model. Nissan ranked toward the middle of the non-luxury brands in the Cox Automotive Brand Scorecard. Dealers have shown more confidence recently in the OEM and are hopeful that the brand is turning the corner, as the plan continues to be to bring down fleet volume in 2019. The new management team says it is committed to selling fewer units but making more money. This is a message that may resonate with dealers, although most are taking a "wait and see" approach. This could be the worst time to sell a Nissan dealership: profits and buyer appetite are both low. We hope a brighter future is coming for Nissan dealers. Same multiple range: 3.0x-3.75x.



Mazda. Mazda sales plunged 15.4% year to date in 2019. Mazda has seen a decrease in sales for the past couple months as all three models on the CX-line experience sales declines or held steady, and the redesigned Mazda 3 declined 19.7% on pricing that is nearly \$3,000 more than the outgoing model. Mazda lacks CUV diversity, which has cost them sales in today's SUV/CUV/Truck heavy retail environment. Mazda ranked near the bottom of the Cox Brand Scorecard, taking low marks in range of products and customer's interest in the brand. Lower top of multiple range: 3.0x-3.75x.



VW. The company reported an increase of 3.9% through April 2019, led by the Tiguan (+25%) and the Jetta (+63%). VW has positioned itself well in the market with two volume products. Some of their older models, Passat and Golf, declined with model refreshes near. Buyers are taking interest in the franchise once again. With many VW stores operating profitably at the end of 2018, we moved our estimated values from a dollar value range to a multiple of earnings range: 3.0x-4.0x.

FRANCHISE VALUATION RANGES

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's US sales dropped 2.8% compared to the prior year. We are living in the best truck and SUV market in auto history, and the Ford brand is stalling. Dealers tell us that Ford management seems a bit lost and many wonder if they will have a job in the next month. Good products like the Bronco are coming, but innovation seems light compared to prior years when we saw the Ecoboost engine and aluminum F-150s. One bright spot is Lincoln enjoyed its best Q1 in more than a decade thanks to its nicely styled new SUVs. The Lincoln brand is up 6.4% this year. Buyer demand for this franchise has fallen slightly. Lower multiple range: 3.5x-4.5x.



Chevrolet. Chevrolet saw a 6.9% decrease for the first four months of the year. Chevrolet, like Ford, is planning to discontinue several low selling car lines and shutter factories. Vehicles such as the Colorado, Trax and Equinox set a first-quarter sales record, but a core redesigned Silverado appears to be a disappointment. Sales of the Silverado are down 15.9% compared to the prior year, perhaps due to a lack of incentives. The reintroduction of the iconic Blazer has failed to gain traction, with the Wall Street Journal saying, "Even an affordable Blazer isn't worth the price." The question of how GM handles the SFE incentive payments has been addressed, but some dealers are missing their targets and profits have suffered. Chevrolet was the second highest scoring domestic brand in the Cox Brand Scorecard. Lower multiple range: 3.5x-4.5x.



FCA (Chrysler-Jeep-Dodge-Ram-Fiat). Total sales were down 3.4% through April, behind a markedly slower period for Jeep. Jeep sales data is murky with the old Wrangler model out of production prior to redesign. The new Gladiator is well received and should help Jeep sales rebound. The Ram 1500 outsold the Silverado for the first time in our memory. Even Chevy dealers are tipping their hat to its attractive styling. Chrysler, Dodge, Fiat and Alfa Romeo each saw a decline in sales. While many dealers love the return on investment in this franchise, some are still concerned about Chrysler-Dodge-Fiat's questionable franchise value. Fiat is disappearing faster than gelato in August. Lower multiple range: 3.25x-4.25x.



Buick-GMC. GMC saw a 2.7% decline and Buick experienced a 5.8% decline YTD. GMC, like Chevrolet, is struggling to introduce product (or pricing) that consumers find attractive. The strength of the GMC brand has been its upscale appeal with more than 95% of Sierra sales comprised of 'high end models'. Combined sales per store are lower than other franchises, but grosses can be higher thanks to premium pricing of full-sized trucks. This remains a sleeper franchise because of GM's renewed focus on high-content, high-margin trucks first. Lower multiple range: 3.25x-4.25x.

KEY TAKEAWAYS

*The quality of assets
for sale today is
higher than at any
time we can recall...*

We are off to another strong quarter in terms of both dealer profits and buy-sell activity. With the disruption of a government shut down and polar vortex, profits per dealership showed little effect, down just 0.7% in the 1st Quarter. Buy-sells also dipped slightly, down 7%, but are rumored to be set for a strong year with many large transactions in the pipeline.

The buy-sell market remains highly active. As for sellers, we continue to see an increase in the number of them coming to market. The quality of assets for sale today is higher than at any time we can recall. Dealers are coming to market to sell their stores due to age, lack of a succession plan, frustration with the OEMs, and concerns about how the business is going to be impacted by technology. Buyers' attitudes vary. Some buyers have adopted a "wait and see" approach to the market, hoping store prices will fall due to a recession or an over-supply of sellers. But other buyers are aggressively seeking growth in this period when prices are down from the peak, and there are plenty of dealerships available for purchase. We saw 83 dealerships trade hands in Q1 2019 compared to 89 Q1 2018, a decline of about 7%. Almost all of the acquirors were private dealers as the public companies were largely inactive. We expect more activity from the public groups later this year.

Having been involved in over 170 transactions for more than 300 dealerships, no other firm has a better understanding of the perspectives of both buyers and sellers of dealerships across the US. We use this expertise to create highly informative and compelling offering materials that help buyers to focus on our clients instead of other opportunities. And we listen to our clients to create a customized marketing process that carefully balances their priorities of maximizing price, preserving confidentiality, and time to closing. Through our unmatched expertise, deep relationships with buyers, and well-honed processes, Haig Partners is able to produce highly desirable outcomes for our clients.

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June 23-26, Greenbrier, WV
- **Automotive Trade Association Executives (ATAE):**
July 11-13, Stowe, VT
- **National Association of Minority Automobile Dealers (NAMAD):**
July 9-12, Miami, FL
- **Southern Automotive Trade Association Executives (SATAE):**
September 8-11, Highlands, NC
- **American Institute of CPAs (AICPA):**
October 27-29, Las Vegas, NV

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