

THE HAIG REPORT®

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

SECOND QUARTER – 2017

- The number of rooftops sold in Q2 2017 is 6.5% higher than the number sold in Q2 2016, helping to offset a very weak Q1.
- Total rooftops sold January-June are down 17% from same time in 2016.
- Acquisition spending by public companies on US franchised dealerships January-June jumped 91% from same time in 2016.
- Private dealership values fall 2.1% as earnings fall 2.1%.
- Haig Partners' blue sky multiples are unchanged.
- Q3 M&A activity looks strong as conditions remain favorable.



OVERVIEW

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Market conditions continue to be healthy for dealers, although profits are ticking downwards due to creeping expenses. We are now in the 82nd straight month of job creation and unemployment is at a 16 year low.¹ Consumer confidence remains near all-time high levels thanks to these favorable conditions. While some in our industry have been predicting another recession, the retail SAAR has been holding for the past few months, perhaps due to heavy incentives from OEMs that keep consumers coming into showrooms. We have seen better times, but we have also seen much, much worse. One dealer said, “If I can’t be happy with a SAAR of over 16 million units, then I need some serious therapy.” We feel the same way.

The Buy-Sell Market Remains Active

The number of dealerships that traded hands in the first half of 2017 is down 17% compared to the same period in 2016, from 175 to 146, according to the [Banks Report](#) and our data. The good news is that the number of dealerships sold in Q2 2017 was 6.5% higher than the number of dealerships sold in Q2 2016, and based on what we are hearing and seeing for Q3, it seems that the second half of the year should be quite strong.

There is nominal change in terms of what kinds of dealerships were sold so far in 2017 compared to the same period in 2017. Group transactions made up 22.4% of total transactions in first half (H1) 2017 compared to 27.2% in H1 2016. The average group size increased to 3.2 stores from 3.0 stores. Stores in group transactions represented 48% of all stores sold, down from 53% in H1 2016. Domestic stores made up 47% of H1 2017 volume, the same as in H1 2016. Buyers appear to be attracted to these dealerships due to their strength in trucks and SUVs. Luxury stores again had the biggest decline, making up just 14% of volume in H1 2017 compared to 17% in H1 2016. Import stores were 39% of volume in H1 2017 compared to 36% in H1 2016.

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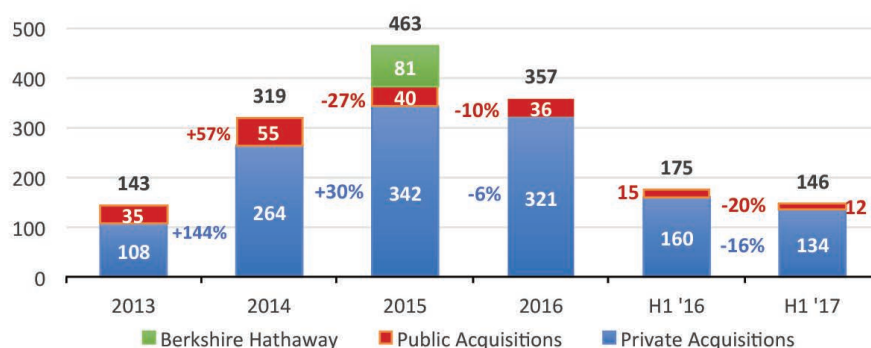
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US Dealerships Bought/Sold

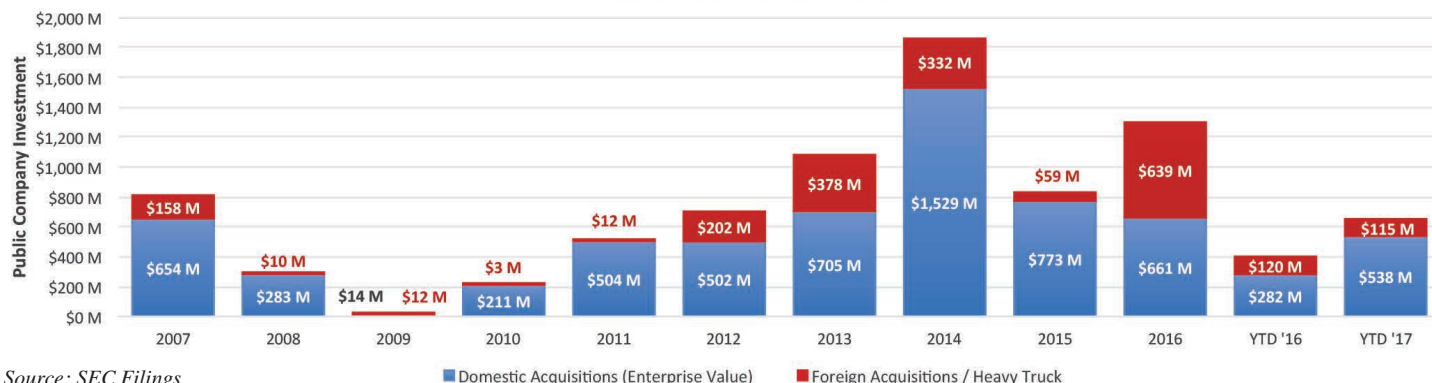


Source: The Banks Report and Haig Partners

After a slow start, 2017 is looking like it will be a very strong year in M&A for the public retailers. Four of the public companies have now spent \$538M on acquisitions this year, 91% more than the first half of 2016. In Q2 AutoNation acquired a Jaguar dealership and a collision center in Florida, Penske bought a large Mercedes-Benz dealership in Phoenix, and Lithia bought a group in Pittsburgh. Following its deal in Pittsburgh, Lithia announced the acquisition of another large group in Los Angeles, and Group 1 announced acquisitions in New Mexico and Ft. Worth. Five of the six public retailers have acquired stores so far in 2017.

¹ Source: WSJ, 8/5/2017.

Public Company Acquisition Spending Domestic and International

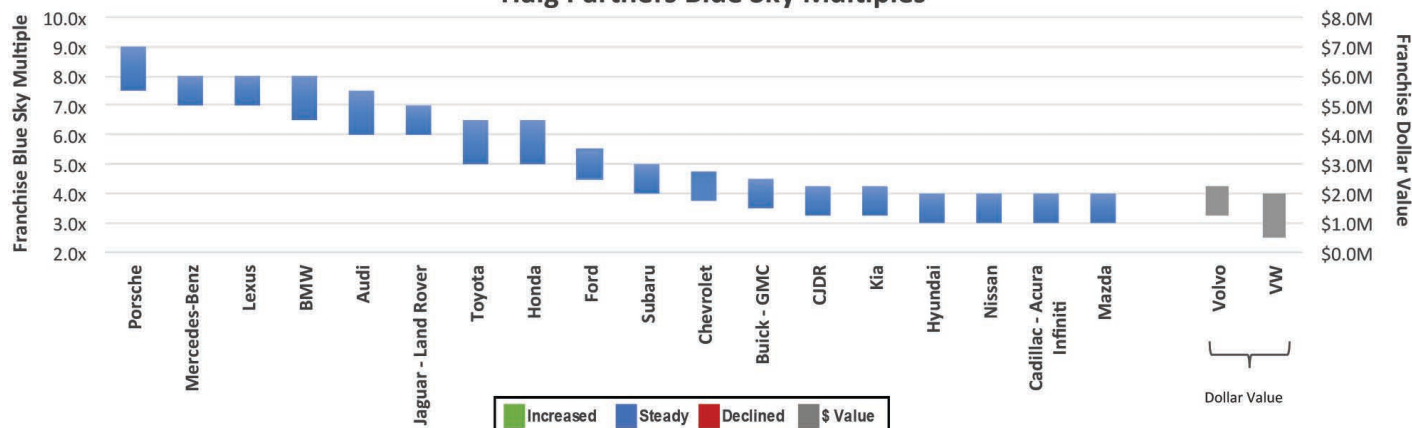


There is more “supply” of dealerships available for purchase than at any time we can recall. Perhaps this is due to an aging dealer body, or a realization that dealerships have peaked in terms of value so dealers who want out in the next few years are looking to sell now before values fall further. Sellers are far from desperate, however, so they are not selling their dealerships cheaply. Buyers are also plentiful, but they are cautious given declining dealership profits. The result is an active market with dealerships trading hands for slightly less than they sold for in prior years due to slightly lower earnings.

Blue Sky Multiples Are Mostly Unchanged

Despite the slight decline in dealer profits, we have not seen any meaningful movement in blue sky multiples since we released our Year End 2016 Haig Report. Dealerships in attractive markets with no facility issues continue to bring strong prices, but dealerships that have significant challenges are attracting little interest from buyers since they have many acquisition options. The table below provides our estimate of what multiple a buyer participating in a competitive sales process (i.e., not the only buyer at the table) 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. Some OEMs like Toyota/Lexus, Mercedes-Benz, and BMW also offer large amounts of credit to buyers of their dealersships, which helps to boost the returns from buying their dealerships. 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








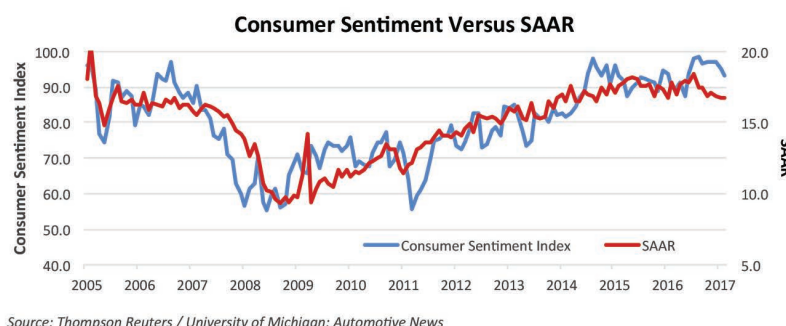
TRENDS IMPACTING AUTO RETAIL

Overview



Dealers seem resigned to the fact that we are in a world of slowly declining profits. They bemoan depressed new vehicle margins (often punctuated with profane words directed at the OEMs), but acknowledge that fixed operations and F&I are still improving. Many dealers we speak to are shifting more of their focus from their new vehicle departments to their used vehicle departments where they feel they can have more control over their grosses and since the size of the used market is far larger than the size of the new market. And dealers are increasingly looking at their expenses, trying to reduce advertising, floor plan and compensation.

Macroeconomic Indicators Are Mostly Positive

-  **GDP Is Growing.** Preliminary GDP growth for Q2 was a healthy 2.6%, exceeding the 1.8% and 1.2% growth of the previous two quarters. GDP growth for 2017 is forecast at 2.3%.
-  **Employment and Household Income Are Increasing.** The US added over two million jobs in 2016 and is on pace to exceed that level in 2017. The unemployment rate in July stood at 4.3%, the lowest rate since 2001, and was 2.4% for college graduates. Wages grew 2.5% in Q2, the second best growth rate since 2009. The employment picture does not get much better than this with plenty of jobs going unfilled.
-  **Number of Miles Driven Is Increasing.** The total number of miles driven, which influences the vehicle replacement rate and is a key measure of demand for autos, increased 1.6% in the first five months of 2017 according the US Federal Highway Administration.
-  **Gas Prices Remain Low.** The Department of Energy reported that the average price per gallon of fuel was \$2.35 through early August 2017, pretty close to the lowest levels we have seen in years. Low gas prices allow consumers to use their vehicles more and afford higher car payments.
-  **Consumer Sentiment is High.** We remain near record high levels of consumer sentiment. There is a strong correlation between auto sales and consumer sentiment. Consumers have a positive outlook and that is helping to keep vehicle sales near record high levels.



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

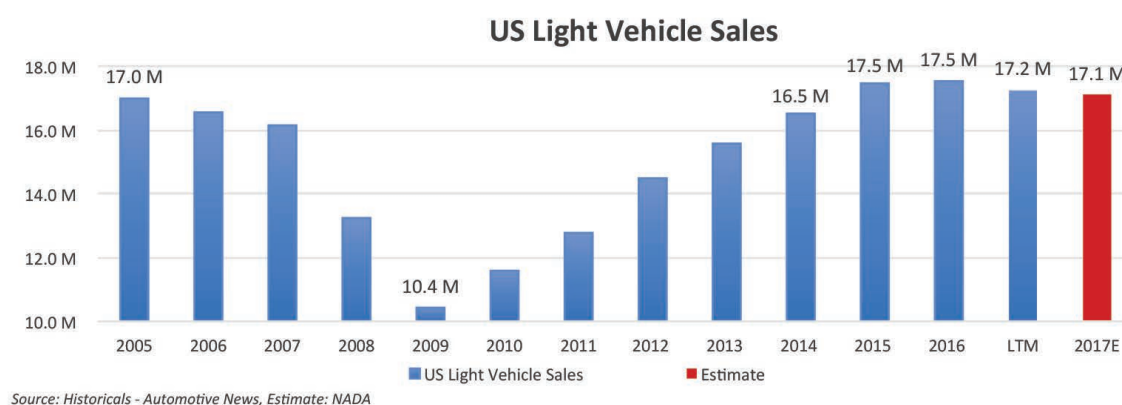
-  **Loan Terms Are Tighter.** Recent reports have indicated several banks have tightened standards for sub-prime borrowers by requiring higher down payments, raising rates, imposing shorter-term loans and requiring higher credit scores. Wells Fargo is the best example of this, as it announced it cut auto loan originations by 30% for the nine months leading up to March 31, 2017.
-  **Interest Rates Are Increasing.** The Fed has been increasing interest rates and they are likely to go higher. Current projections are for another 0.25% increase in 2017 and 0.5% in 2018 as the economy continues to grow. Higher rates are beginning to eat into dealers' profits, particularly when vehicle inventories are inflated and many dealers have built expensive facilities in recent years that are financed with floating rate loans. Fortunately, the impact has been milder for consumers with the average 60 month new car loan rate increasing by ~0.15%.

TRENDS IMPACTING AUTO RETAIL

Profits Are Declining at Most Dealerships. Per NADA, profits for the average privately owned dealership fell 4.1% in the first half of 2017 after falling 2.4% in 2016. Public company filings show operating income falling at four of the six publics in H1, with the group down 4.3% overall.

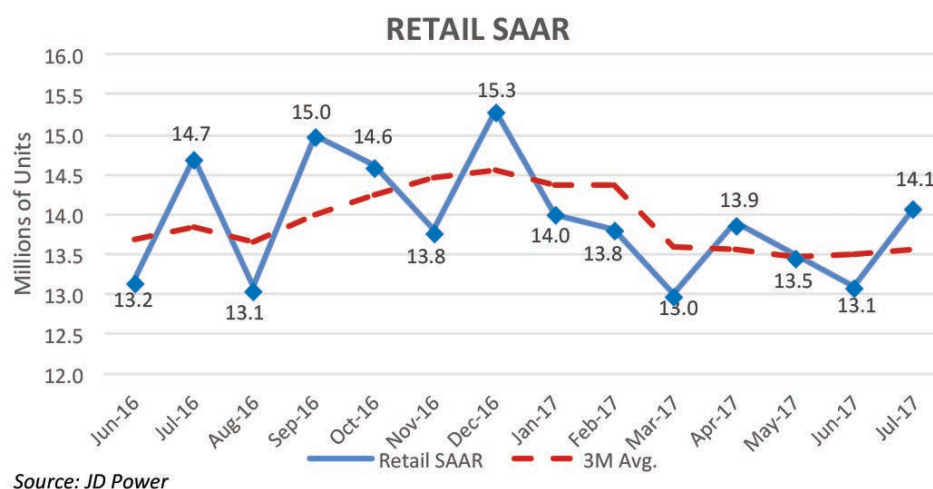
2017 New Vehicle Sales Are Down Slightly from 2016

After 2016's record high sales of 17.5M new units, 2017 is off to a choppy start with a decline of 2.9% in total sales through July. Manufacturers have been spending heavily on incentives to support these volumes, but inventories continue to rise. In the chart below, we show an estimate from NADA for 2017 of 17.1M units, representing a 2.2% year/year decline. The factories have all set their production schedules for 2017 so sales are highly likely to exceed 17M new units, the main question is what level of OEM incentives and price cutting by retailers will be needed to reach this figure.



Note that the data above is for total new vehicle sales, including fleet sales. According to Automotive Fleet, fleet sales are down 12.6% through July 2017. Retail sales, however, are holding up much better with a 1% decline compared to last year. In the chart below, JD Power shows that the US Retail SAAR is just 1% lower so far in 2017 compared to 2016, and the 3-month rolling average for number of new retail units sold has been fairly flat for the past four months at 14.1 million units. So dealers are still basically selling the same number of vehicles they did in 2016, but facing a different environment with margins and expenses.

We closely track projections for retail sales. One perspective that carries weight comes from Bob Carter, Toyota's head of sales in North America. Automotive News quoted him saying, "We are not in a sleigh ride down. Over the next 24 to 36 months the industry's annualized selling rate should be in the mid to the upper 16 millions, and that's good for customers and that's good for OEMs." His sentiment was supported by General Motor's chief economist, Mustafa Mohaterem, who said, "US total sales are moderating due to an industrywide pullback in daily rental sales. We anticipate US retail sales will remain strong for the foreseeable future." If these gentlemen are correct, we are not anticipating a sharp drop in sales like we experienced in 2008-2009.



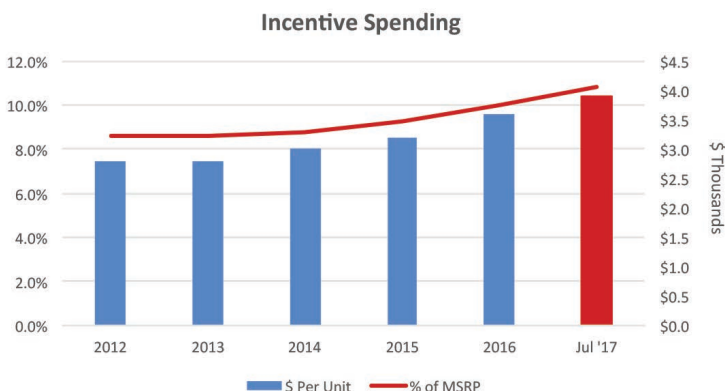
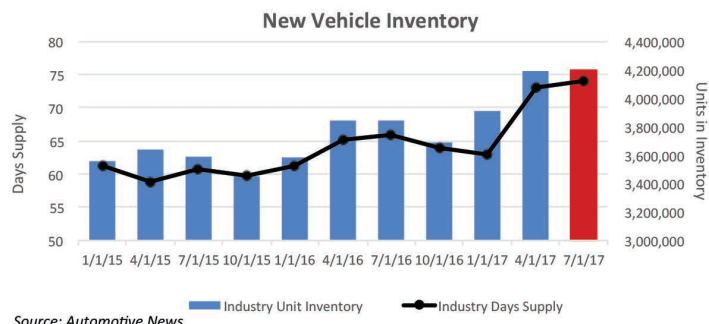
TRENDS IMPACTING AUTO RETAIL

Inventory and Incentives Continue to Grow

Dealers are now stocking a 74 days supply of new vehicles, compared to about 62 days at the beginning of 2015, about a 20% increase in two and a half years. In a declining sales environment, rising inventories are a symptom of overproduction. But rather than cutting production, OEMs continue to find ways to get dealers to accept additional inventory with the hope that OEMs will provide enough incentives to drive consumer purchases. These high levels of inventories place pressure on the bottom lines of dealers via higher floorplan expenses, reduced vehicle margins and higher compensation as a percentage of gross profit when salespeople earn flats and minis to move the units.

Although total inventories have grown, the luxury brands have done a better job at matching supply with demand in 2017. Premium luxury is up just 12%, but midline imports have seen a 33% increase in days supply. Traditionally they have been better at matching supply and demand but perhaps they have not been able to react adequately to the massive shift away from cars to larger vehicles.

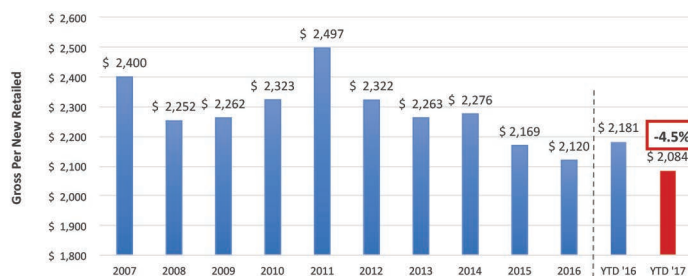
To stimulate further demand and help to offset rising inventories, the OEMs continue to crank up the discounts offered to dealers and customers. The following chart shows that incentives have been rising steadily and have reached the highest level in many years. While retailers complain that their margins are suffering, the OEMs are also enjoying lower profits per unit as they discount their products to attract customers.



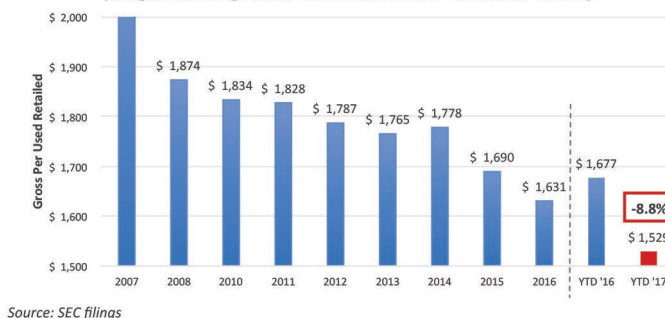
Vehicle Grosses Continue to Decline

As a result of some of the factors discussed above, new vehicle profits continue their slide, down 4.5% in the first half of 2017 for the public retailers. Only Group 1 managed to deliver an increase. Leading retailers we speak to seem to be resigned that profits on new units will continue to be low until the OEMs reduce production. Used vehicle gross profits at the public retailers were down 8.8% so far in 2017, but this was largely driven by much lower margins at AutoNation (down \$330 or 21%) that dragged down the average. Sonic managed an increase in used unit profits.

New Gross Profits Per Vehicle: Public Company Data
(Weighted Average Same Store Performance - in Current Dollars)



Used Gross Profits Per Vehicle: Public Company Data
(Weighted Average Same Store Performance - in Current Dollars)

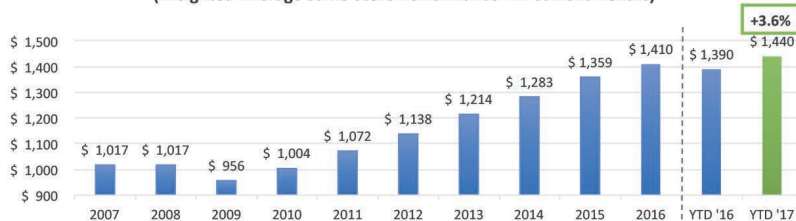


TRENDS IMPACTING AUTO RETAIL

Finance & Insurance Departments Are Generating Record Profits

Gross profits from F&I continue to grow, which is helping to offset the decline in gross profits per new and used vehicle sold. In H1, the public groups reported gross profit per vehicle retailed reached \$1,440, up 3.6%, or \$50 per vehicle, from H1 2016. All of the publics improved in this area, though the rate of improvement has slowed and is less than the declines in New and Used PVRs. A number of private dealers have disclosed they earn much 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)

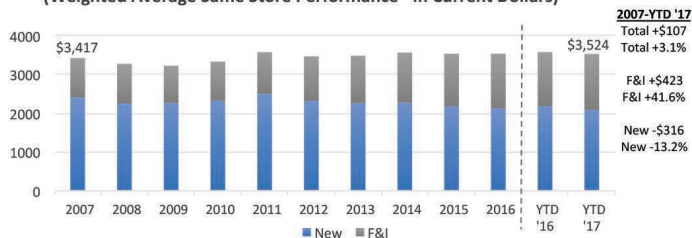


Source: SEC filings

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

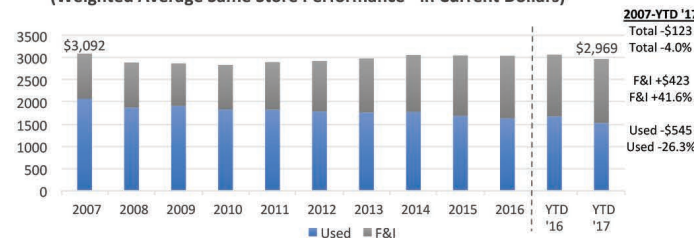
Although we hear many dealers lament the decline of vehicle margins, they have almost perfectly offset these losses with steady increases in F&I profits per vehicle retailed. The table below tracks this data back to 2009 and shows that on a combined basis total front and back end profits per vehicle retailed have remained largely flat, in dollar terms. Total profit increased 3.1% for new but fell 4.0% for used. Given the rise in new vehicle prices over this time, however, means that the profit margin as a percent of vehicle sales has fallen during this period.

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)

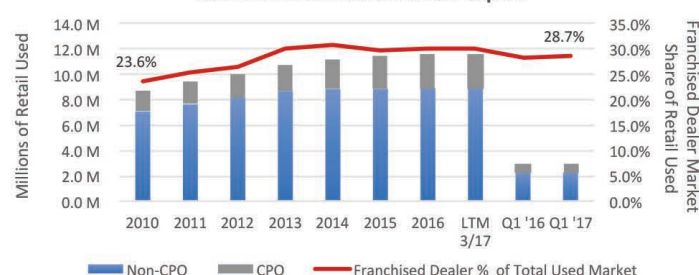


Source: SEC filings; F&I as reported for new and used combined

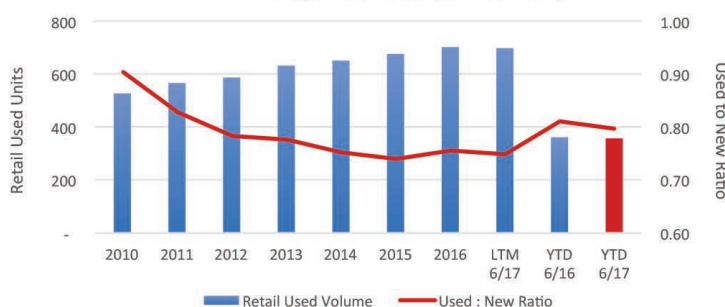
Used Vehicle Market Remains Healthy Despite Fears

A number of dealers have told us they are increasing their focus on their used vehicle departments as their new car sales and margins continue to soften. Franchised dealers account for just 30.1% of total used sales and the Used to New Ratio has actually declined from 0.90x in 2010 to 0.75x over the last 12 months, so there is significant upside potential. Dealers may have been more focused on their new vehicle departments and hitting their OEM sales targets. But now, for many franchises, the profit per unit on used vehicles exceeds the profit per unit on new vehicles. Some experts have been concerned about a “tsunami of off-lease vehicles” that may be hitting the market, but any losses from oversupply are likely to hit lenders rather than dealers since dealers will be purchasing used units at wholesale prices set by the market each month, not at off-lease residual values set at the time the vehicles were sold.

Edmunds Retail Used Vehicle Report



NADA Average Retail Used per Dealership



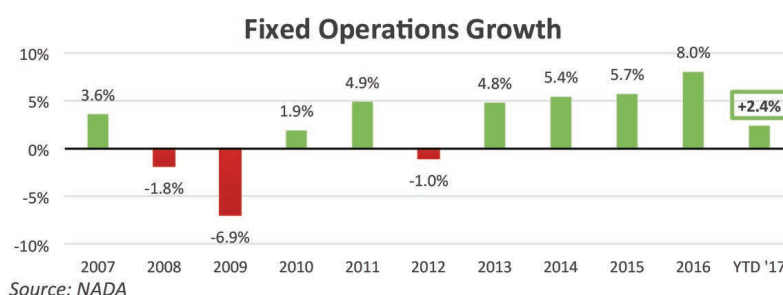
No Mas! Are Dealers Beginning to Resist?

We have seen Hyundai, Kia, Mazda, Nissan, even Toyota dealerships earning less than \$700 per new unit sold. A few of these dealers have told us they are walking away from the high volume/low margin strategy. One dealer was spending over \$700 per vehicle retailed to try to hit his stair step numbers, only to see them further increased in July. He is in the process of cutting new vehicle orders, reducing his inventories, laying off staff and bringing his advertising spending to a more rational level of \$350 per car. And he is looking to boost his used to new ratio to 1.0:1.0 and is increasing his focus on fixed operations. This dealer believes the net result will be higher gross profits and lower expenses. His OEM may become unhappy, but we believe that other dealers will be following this same course if stair step programs are not set at reasonable levels. If so, the level of new vehicle sales could drop further, but the level of dealership profits could actually increase. This is the beauty of the auto retail model: dealers are in several different businesses and weakness in one area can be offset by growth in another. Plus, costs are highly variable so they can be dialed back when conditions dictate.



Fixed Operations Driving Higher Profits

Private dealers reported fixed operations increased 2.4% so far in 2017 compared to the same period in 2016. Public retailers also did well, averaging 3.1% growth on a same-store basis in H1 2017 compared to H1 2016. Seven years of rising sales have significantly increased the number of units in operation. Also, numerous recalls have boosted service departments. Higher profits from fixed operations may continue to support dealership profits even if vehicle sales and/or margins worsen, although it is worth noting that 2017's growth is the slowest we have seen in five years.

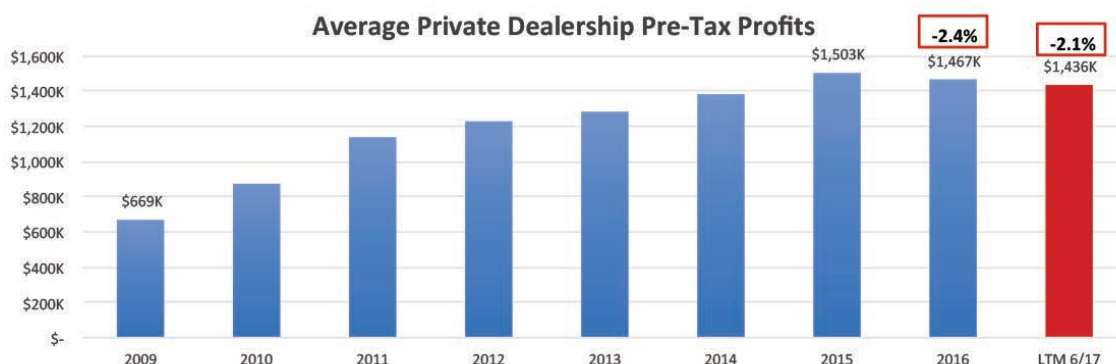


Dealership Expenses Are Growing Faster Than Gross Profit

Rising costs appear to be the greatest threat to dealership profits. NADA data shows the average private dealership during H1 2017 grew gross profit by 0.9% and the public companies grew their gross by 2.8%. However, the average private dealer saw expenses increase 3.8% and the public companies had an increase of 4.7% (per SEC filings, adjusted). Dealers are telling us they are seeing higher floorplan expenses, higher compensation expense, and well as higher rents from the many expensive facilities that have been built in recent years.

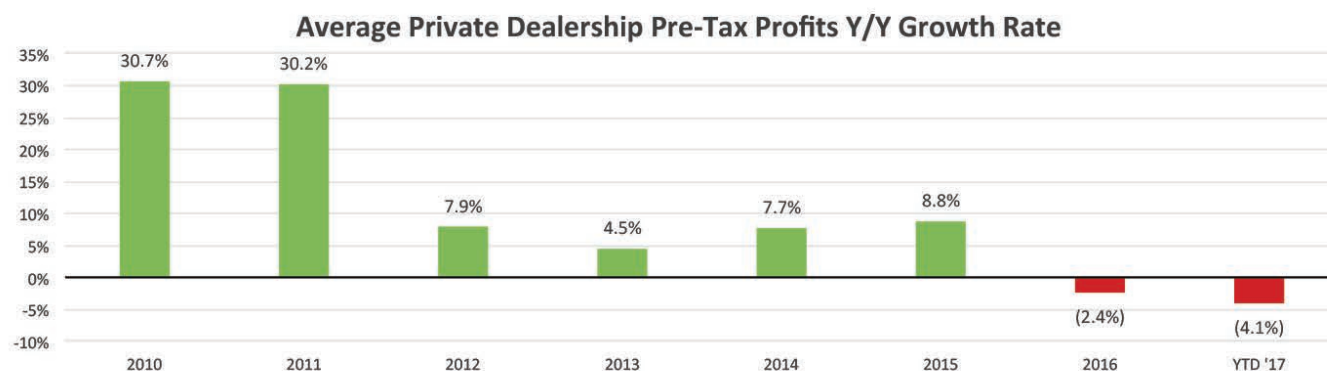
Dealership Profits Drop Slightly

The net outcome of the trends listed above is that profits at privately dealerships declined 2.1% from full year 2016 to the last twelve-month period ending June 2017, according to NADA. The year-to-date decline is even greater, at 4.1%, which indicates the decline is accelerating. However, average profit of over \$1.4M per store is still a very robust level and many dealers we spoke with are pleased with their results.



Source: NADA (amounts prior to 2009 have not been adjusted for NADA's summer 2016 methodology change)

The table below 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 profits per dealership fell by about 5% per year due to falling margins and rising costs until the recession hit in 2008. It is possible we are now entering into a similar cycle. It appears that gains in F&I and Fixed Operations are slowing and may not be enough to offset lower vehicle margins and slowing sales. Alert dealers will focus on expense control and increasing efficiencies to maintain or even boost profits until conditions begin to improve again.



Source: NADA (% changes prior to 2010 have not been reported using NADA's summer 2016 methodology change)

As for the public companies, average profits have fallen 4.3% so far in 2017. But there is a wide range of performance with profits at Lithia up 12.3%, in part due to its healthy acquisition pace, while Sonic fell a surprising 22.5%, which they attributed to start-up expenses

HAIG PARTNERS SPOTLIGHT:



KEVIN NILL, MANAGING DIRECTOR

Kevin is joining Haig Partners after almost 30 years of commercial banking experience, including 20 years at Bank of America's dealer financial services group. He served many of the Top 150 dealer groups, including all of the public retailers, as well as numerous smaller dealers across the US. Kevin and his team of senior bankers managed the largest portfolio of loans to auto dealers of any commercial bank. Because Bank of America is a leading blue sky lender, Kevin has been involved in well over 100 buy-sell transactions. He has a keen understanding of how dealerships are valued and the way transactions are structured. Kevin's former clients described him as a trusted advisor who provided expert advice that helped them to build the value of their companies. Long one of the leading commercial bankers to dealers across the US, Kevin will bring that results-driven, client-centered focus to Haig Partners.

Kevin holds a BA in Business Administration from Taylor University. He lives in Jacksonville, FL with his wife and three children.

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"I am thrilled and honored to be joining Haig Partners, which I have long considered the industry's leading advisor to clients pursuing a dealership acquisition or divestiture strategy.

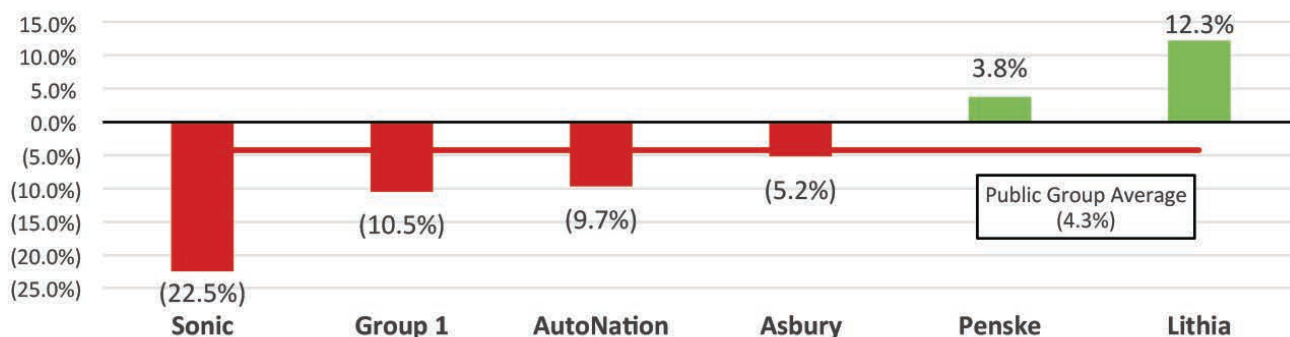
I have witnessed numerous times how effectively Haig Partners has represented its clients to maximize the value of their dealerships and pursued flawless execution on their behalf.

I look forward to complimenting this tremendous team in support of our dealer clients."

– Kevin Nill

with its stand-alone used car dealerships. AutoNation fell mostly because of investments in its brand extension strategy and lower vehicle grosses, especially used. Group 1 said it is suffering due to its heavy exposure to the oil patch in Texas and Oklahoma.

Public Company Y/Y Operating Earnings Growth - H1 2017

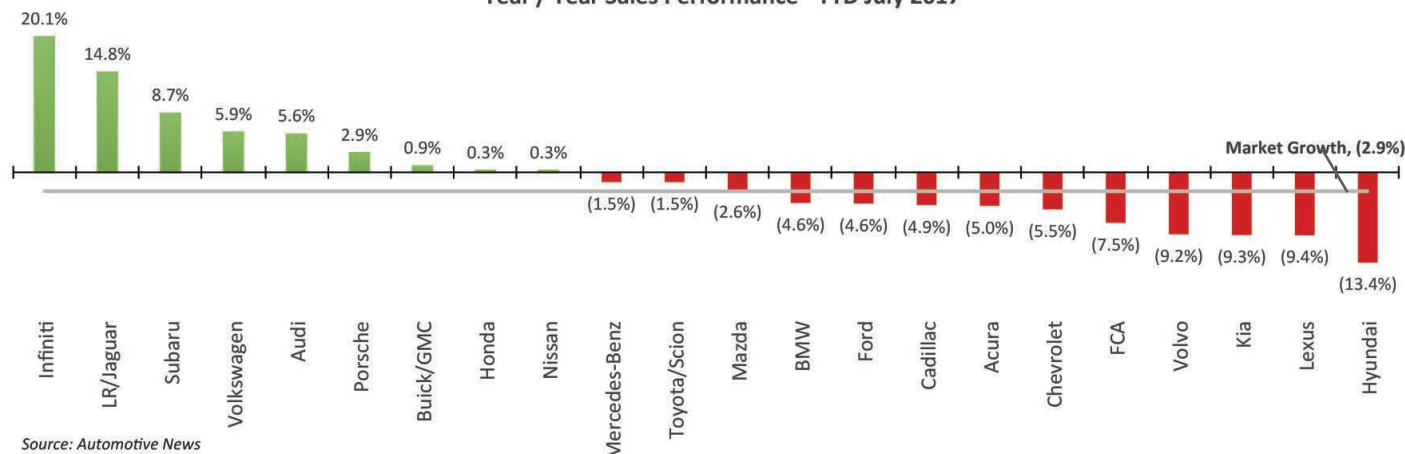


Source: SEC Filings

Sales Growth for Individual Franchises

The following chart sets forth the change in new unit sales at the major franchises for the first seven months of 2017. Note these are total sales so they include fleet sales that cloud the results at the retail level. About 1/3 of the franchises are up while 2/3 are down, a big change from what we showed in our Year End 2015 Haig Report in which every OEM except VW had sales growth. Hyundai & Kia are struggling with a lack of CUVs and trucks in a market that continues to shift in that direction. And a lack of a US CEO does not help either. The domestics are all losing share despite being heavy in trucks and SUVs, perhaps due to their pull back on fleet sales. On the positive side, Jaguar-Land Rover continues its sales explosion and Infiniti, VW, Subaru, Porsche and Audi all had solid gains at the retail level.

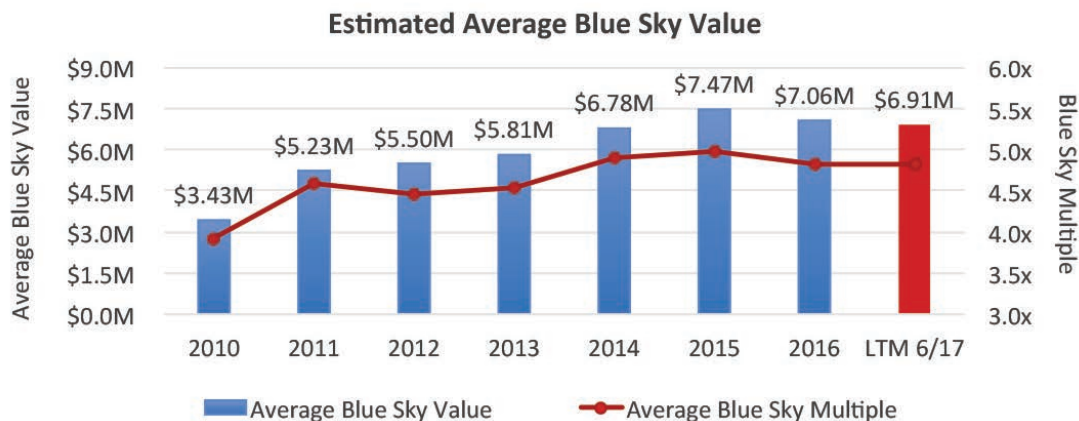
Year / Year Sales Performance - YTD July 2017



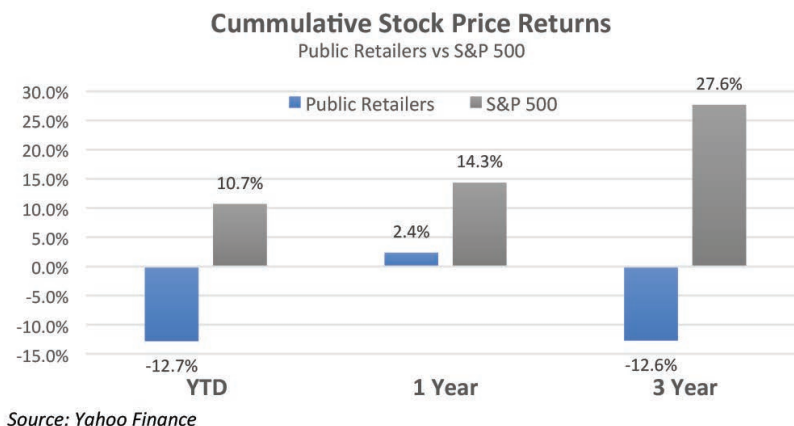
Source: Automotive News

Dealership Values Declined Slightly

The average blue sky multiple for all franchises on an unweighted basis was 4.82x in Q2, unchanged from the end of 2016, according to our analysis. Trailing twelve month profits per dealership have fallen 2.1% since year end 2016. Applying the 4.82x blue sky multiple to the average dealership pre-tax profit of \$1.436M over the last twelve months generates an average blue sky value of \$6.91M, down 2.1% from year end 2016.



The stock market remains bearish on the public retailers. The table set forth below shows that the average stock price for the public retailers has underperformed the S&P 500 Index by significant amounts on a year-to-date basis, over the past year, or over the past three years. The one exception to this is Lithia which has outpaced the growth of the S&P 500 thanks to its sharply higher earnings that are largely due to its rapid pace of acquisitions.



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\$3.6 Billion in Value
272 Dealerships
21 Years Experience
1 Trusted Partner



BUY SELL TRENDS AND EVENTS

Deal Volume Remains Down, But Spending May Be Up

The total number of dealerships that were sold in the first half of 2017 is 17% lower than in the first half of 2016. Public company spending on US auto acquisitions in the first half of 2017, however, jumped 91% over the first half of 2016 as AutoNation, Group 1, Penske and Lithia all closed deals. And their third quarter deal activity looks to be very lively as Lithia announced the acquisition of a large group in Los Angeles and Group 1 announced acquisitions in New Mexico and Ft. Worth.

More Sellers Are Coming to Market

Perhaps due to an aging dealer body, the number of dealers willing to sell their businesses is at a high level today. Other dealers may realize that their stores are more likely to decline in value than increase, so they want to sell now rather than waiting for the market rebound, which is likely to be at least several years away. Haig Partners has more ongoing client engagements than at any time in our history.

Buyers Are Pickier

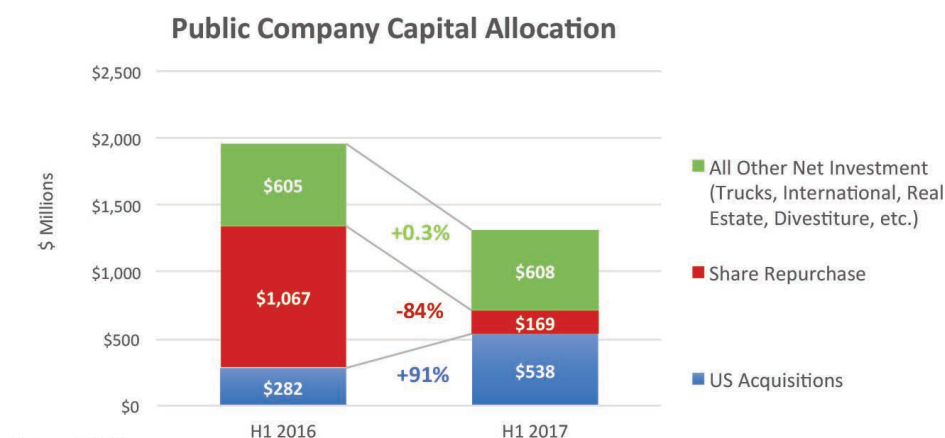
Buyers are telling us they are more selective given where we are in the auto cycle. They want stores that are a tight fit with their acquisition strategy in terms of location, franchise, and operating performance. Pricing remains healthy for attractive dealerships, but dealerships that have challenges such as facility issues, unions, or incoming add-points will need to be priced a good bit lower than comparable deals in the market to get the attention of buyers. And since profits are likely to trend down, which would likely push dealership values lower, time may work against the interest of sellers. An overpriced dealership will sit until its owners adjust their price expectation, and offers in the future may be lower than what they are currently.

Sales of Dealership Groups Remain Steady

While down slightly so far in 2017 compared to the same period in 2016, a large number of dealership groups are trading hands. In fact, 48% of all the dealerships sold so far this year have been part of dealership groups. Certain buyers have the appetite to grow in large bites and lenders remain ready to provide financing.

Public Companies Refocused on Core Franchised Dealership Acquisitions

Though much of the public retailers' \$282M spending in Q1 was for stand-alone used car stores and collision centers, nearly all of their \$253M spending in Q2 was on franchised new car dealerships. Perhaps the success Lithia is having is a reminder that their core business is a wise place to invest and is what investors reward. In fact, Lithia continues to set the pace as the fastest growing public auto retailer as it closed on a large group of stores in Los Angeles and shows no signs of slowing. In his Q2 earnings call, Lithia CEO Bryan DeBoer said, "As the SAAR level moderates and



private dealers' profitability remains static, the opportunity to consolidate ownership in our industry will never be greater." In the first half of 2017, the public company spending on truck related businesses, foreign based dealerships, real estate and other investments was about the same as in the first half of 2016. And despite the drop in the retailers' stock prices, share repurchases were 84% lower in H1 2017 compare to the same period in 2016.

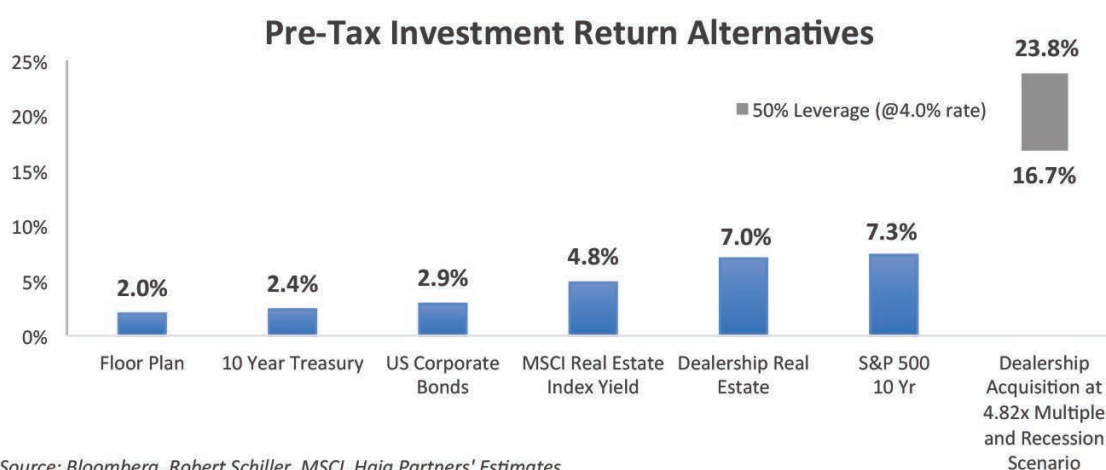
Potential Returns on Investment When Factoring in a Recession

Despite concerns that dealership profits may continue to slide, there are still a lot of buyers in the market. They tell us the returns they expect to get from an acquisition of an auto dealership surpass the returns they expect from other investment opportunities, so long as they don't plan on selling the dealership in the next couple of years. Here is an example of their logic using Haig Partners' current estimated average blue sky value, then factoring in a decline in profits due to a recession and then a subsequent recovery. The following set of projections shows the cash flows to an investor, as well as the Internal Rate of Return for the investment, using a conservative set of assumptions that the dealership's profits fall by 10% three years in a row and then recover for three years before stabilizing at current levels. The dealership is sold at the end of ten years for the same price the dealer paid for it, so no appreciation of value, and no benefit for inflation. The Internal Rate of Return is projected to be 16.7% on a pre-tax basis and 13.5% on an after tax basis. When using 50% leverage in the acquisition, the projected Internal Rate of Return jumps to 23.8% on a pre-tax basis and 19.3% on an after tax basis.

UNLEVERAGED CASH FLOW													
	Investment	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Exit	IRR
Pre-Tax	\$ (8.36M)	\$ 1.44M	\$ 1.29M	\$ 1.16M	\$ 1.05M	\$ 1.15M	\$ 1.27M	\$ 1.44M	\$ 1.44M	\$ 1.44M	\$ 1.44M	\$ 8.36M	16.7%
After-Tax	\$ (8.36M)	\$ 1.24M	\$ 1.13M	\$ 1.02M	\$ 0.93M	\$ 1.01M	\$ 1.11M	\$ 1.24M	\$ 1.24M	\$ 1.24M	\$ 1.24M	\$ 7.03M	13.5%

LEVERAGED CASH FLOW - 50% BLUE-SKY LOAN @ 4%													
	Investment	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Exit	IRR
Pre-Tax	\$ (4.18M)	\$ 0.92M	\$ 0.78M	\$ 0.65M	\$ 0.53M	\$ 0.64M	\$ 0.75M	\$ 0.92M	\$ 0.92M	\$ 0.92M	\$ 0.92M	\$ 8.36M	23.8%
After-Tax	\$ (4.18M)	\$ 0.76M	\$ 0.64M	\$ 0.54M	\$ 0.44M	\$ 0.52M	\$ 0.61M	\$ 0.74M	\$ 0.74M	\$ 0.73M	\$ 0.73M	\$ 7.03M	19.3%

We then compare the projected IRR for a dealership acquisition in this scenario to the expected returns on investment for other asset classes to show that auto dealership acquisitions remain a compelling opportunity for dealers with extra capital compared to other common places to invest cash even considering a downturn.

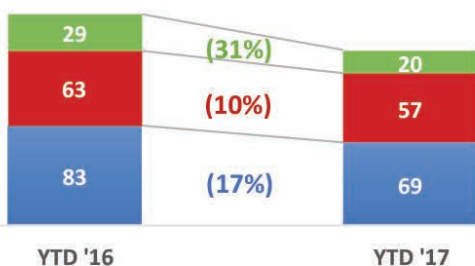


Sales of Luxury Stores Have Fallen Sharply

The US auto market has shifted quickly in the past 18 months from cars to trucks. This shift hurt a number of the luxury brands that found themselves with the wrong mix of vehicles at dealerships. Dealership buyers have taken notice as sales of luxury dealerships fell 21% in 2016 compared to 2015 and another 31% in the first half of 2017 compared to the same period in 2016. Perhaps there was an exceptionally high number of luxury dealerships that sold in 2015 and the first half of 2016 because their valuations had risen to such

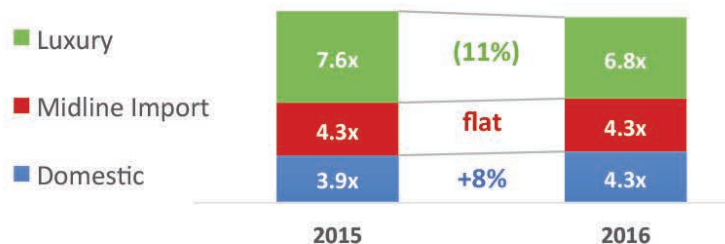
high levels. And perhaps now owners of luxury stores are waiting for profits to recover before taking them to market. Blue sky multiples also adjusted with the shift in consumer demand, with the average luxury multiple declining by 11% and the average domestic multiple increasing by 8% as buyers became more interested in their large lineup of trucks and SUVs. The tables below show how the mix of acquisitions has shifted, and also how the multiples of premium luxury brands, domestic brands, and midline import dealerships have changed over the past year.

Dealership Acquisitions by Segment



Source: The Banks Report and Haig Partners

Haig Partners Average Blue Sky Multiples



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Alan Haig, President

- Over 30 years of experience in investment banking, corporate development and auto retail
- Wrote original business plan in 1996 for AutoNation's franchised automotive business
- Led the M&A department at AutoNation twice in his career
- Has closed over 107 transactions for over 211 dealerships
- \$3.1B+ value for dealership transactions
- Frequent speaker at industry events and often quoted in the media



Nate Klebacha, Partner

- Over 20 years of experience in investment banking, finance, and auto retail
- Financial analysis for acquisitions and divestitures at Asbury Automotive
- Has closed over 76 dealership transactions for over 120 dealerships
- \$2B+ value for dealership transactions
- Speaker at NADA/ATD



Mike Toth, Managing Director

- Over 20 years of experience in investment banking, retail operations and auto retail
- Conducted financial analysis for acquisitions and divestitures at AutoNation
- Has closed over 40 dealership transactions for over 50 dealerships
- \$450M+ value for dealership transactions



Pat Carroll, Managing Director

- ~25 years owning and operating heavy truck dealerships
- Former Haig Partners client, sold his business to Penske in 2015 and remained with Penske for a year during transition
- Focused on heavy truck

We welcome confidential conversations with dealers interested in selling or buying and we are pleased to connect you with former clients for references.

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FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of more than 270 dealerships in our careers dating back to 1996. In the past three years, Haig Partners has been involved in representing buyers or sellers of Aston Martin, Audi, Bentley, Cadillac, Chevrolet, Chrysler-Jeep-Dodge-Ram, Ferrari, Ford/Lincoln, Honda, Hyundai, Infiniti, Jaguar/Land Rover, Kia, Lexus, Maserati, Mazda, Mercedes-Benz, Nissan, Porsche, Subaru, Toyota and VW dealerships. Each quarter we contact many leading dealer groups as well as accountants, bankers and lawyers who practice in auto retail. The information that we gain from these conversations and our own transactions form the basis for the following evaluations.

Dealership Valuation Methods

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

The blue sky multiple ranges that we set forth in this report reflect our expectations of what buyers in competitive situations will pay for the goodwill of dealerships and we note any upward or downward changes from Q1 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. One buyer of a Toyota dealership recently informed me he paid over 12x adjusted pre-tax profit for a large Toyota store since he believes it will make significantly more money in the future. 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 outperformed the market, growing 4.9% in 2016 and 2.9% so far in 2017. With a higher mix of low priced Macans, the days of \$10,000 grosses are gone for good, but the increase in units in operation is leading to record months in dealers' service departments. Porsche stores are rare and the product pipeline looks exciting, so dealers tell us they are highly interested when they come to market. Same multiple range: 7.5x-9.0x.



Mercedes-Benz. M-B sales are down 1.5% so far in 2017, outperforming the market and beating BMW and Lexus. M-B dealerships are capable of generating high levels of profits compared to most other franchises. Some facility spending is coming to meet new image requirements. One negative of the brand is that they continue to add new points that hurt local dealers. We have been involved in the sale of five M-B stores recently and demand has been strong. Same multiple range: 7.0x-8.0x.



Lexus. Lexus fell 3.9% in 2016 and is down 9.4% so far in 2017 with only the NX posting a gain. This is partly due to Lexus' decision to back off leasing after losing money on lease returns. But dealers tell us that their margins are higher, so they are not too upset by the change. Lexus is also adjusting to the shift from cars to trucks. Inventory stood at 77 days on July 1, far higher than in years past. Dealers still love Lexus and it came in first in "Value" in NADA's Summer 2016 Dealer Attitude Survey. We were involved in the sale of two Lexus stores in 2016 and interest was very strong. Same multiple range: 7.0x-8.0x.



BMW. So far in 2017, BMW is slightly behind the market. Inventories appear to be much healthier than in 2015 and 2016 with the lowest days supply of any premium luxury brand as of July 2017. Dealers tell us they are playing fewer games with loaner fleets that in the past were used to inflate sales. Dealers are still short CUVs and most of its CUV models are aging compared to the competition. The new 5 Series is off to a good start. With key redesigns coming in 2018 and 2019, and a renewed commitment to become the leader in luxury sales, we expect BMW dealers will gain back share and boost profits. Facility upgrade requirements continue to be a challenge for some dealers, and these requirements can suppress franchise value. Same multiple range: 6.5x-8.0x.



Audi. Audi continues to grow faster than the market with sales up an impressive 5.6% so far in 2017. Audi's SUV factory in Mexico opened in late 2016 to produce the new Q5, which helped alleviate shortages in that product. Audi dealers have worked through an excessive amount of car inventory that was suppressing margins and has altered its Business Plan Objective system to make it easier for dealers to achieve bonuses. We have also heard they will be reducing the costs of their loaner car program and making other changes to address dealer complaints of low profits compared to other luxury brands. Same multiple range: 6.5x-7.5x.



Jaguar-Land Rover. JLR was up an amazing 26% (37% for Land Rover alone) in 2015 and 23.6% in 2016. Its growth continues so far in 2017 with JLR up 14.8% and Jaguar up a whopping 66%. However, inventory is up to 87 days on July 1 as some models simply do not sell. Like Porsche, the days of \$10,000 new vehicle grosses are over as more lower priced units are sold. The blue sky multiples for JLR are hard to determine today since the factory is exerting leverage on stand-alone Jaguar and Land Rover dealers to combine while also adding a large number of add-points. We are seeing transactions where the buyer is paying an exorbitant price for the sister brand but getting a JLR add-point as a reward. The dealers that don't combine see an add-point in their market given to a third party, which will hurt both of them. It's an effective but rough tactic that JLR is using to get its franchises under one roof and upgrade dealer facilities across the country. For combined JLR stores where no add point is coming, same multiple range: 6.0x-7.0x.



Cadillac/Acura/Infiniti. Cadillac sales were down 3% in 2016 and another 5% so far in 2017. New products (CT6 and XT5) launched into highly competitive segments have not helped performance and there is no new product until MY 2019. Inventory stood at 96 days on July 1. Acura underperformed in 2016 and so far in 2017, down 8.9% and 5.0%, respectively. Acura CUVs have fared ok but cars are declining significantly. Inventory was 78 days on July 1, too high for a franchise with limited models. Infiniti is a different story, up an impressive 20.1% so far in 2017 (even cars were +18.3%). Infiniti has done a good job at creating differentiated products with attractive styling at affordable prices. These near luxury franchises have a hard time making over \$1M in most markets, but they can provide nice tuck-in acquisitions. Same multiple range for this group: 3.0x-4.0x.



Volvo. After an impressive 2015 and 2016, up 24% and 18%, respectively, Volvo is down 9.2% so far in 2017. Although the XC90 is pretty new, its sales are down 23% year to date. Perhaps its price was set too high? The new XC60 should help continue Volvo's momentum. It will take time for fixed operations to recover as units in operation have likely fallen to the lowest level in decades. Nevertheless, the franchise is alive and might be an excellent value if Volvo continues to launch attractive new products and gain back the share it lost. It still has many loyal customers. Same value range: \$1,500,000 - \$2,000,000.

Mid-Line Import Franchise Blue Sky Multiples



Toyota. Toyota sales are down 1.5% so far in 2017, slightly better than the overall market. Truck and CUV sales are healthy but not enough to offset a steep decline in cars. Inventories are higher than normal at 63 days, although Toyota told its dealers this was a deliberate plan to provide enough product to sell while it was shutting down plants to prepare for new models. Toyota has more new products coming than any OEM over the next few years according to Bank of America's Car Wars Report, making it likely it will be gaining some share. Launches in MY 2018-2019 are car heavy but LOTS of new trucks are coming in 2020 and beyond, thanks in part to Toyota's new partnership with Mazda to build a \$1.6 billion assembly plant in the US. Dealers continue to love this franchise thanks to high profits per store and a dealer-friendly OEM. Same multiple range: 5.0x-6.5x.



Honda. Honda sales grew 4.8% in 2016 and another 0.3% so far in 2017. The CR-V is now the best-selling Honda, beating Accord and Civic that led the way for so many years. Loyal customers and a balanced business model of strong variable and fixed operations continue to attract buyer interest. They love the simplicity of running a Honda dealership, although they don't much like the new vehicle gross profits. The new Civic has been well received and the brand is regaining some of its momentum. Same multiple range: 5.0x-6.5x.



Subaru. Subaru's sales growth continued in 2016 with sales up 5.6% and another 8.7% through July 2017. Dealers are big fans of Subaru, and it came in second in "Value" in NADA's Summer 2016 Dealer Attitude Survey. With a product lineup that is geared towards CUVs, Subaru continues to take share from its larger rivals. Same multiple range: 4.0x-5.0x (with pricing higher in Snow-Belt states).



Kia. Sales were up 3.5% in 2016 but are off 9.3% in 2017 as the previously best-selling Soul was down 21%. This franchise can provide a high ROI to buyers as the multiple is relatively low and real estate costs are less than most other brands. We hear reports that the factory can be aggressive towards dealers it sees as underperforming, while some dealers tell us they like Kia management in the US and the product that is coming. At 57 days, inventory is in decent shape. Same multiple range: 3.25x-4.25x.



Hyundai. Sales beat the market in 2016, gaining 1.7% but are down 13.4% through July (worst among all major brands). The company is shifting its supply of CUVs from other markets to increase availability. Expect new CUV products in MY 2019 and beyond as well. Hyundai recently announced it wants to reduce the number of Genesis dealers and to establish it as a separate brand, perhaps in a separate showroom. Current demand for Genesis products is anemic with fewer than six units a month per dealer being sold. Even with better products, will stand-alone Genesis franchises be viable? We wonder if Hyundai would not be better suited focusing its development dollars on building more CUVs and maybe even a light truck under the Hyundai brand instead of trying to enter the daunting luxury market where established brands like Cadillac, Lincoln, Acura, Infiniti and Volvo struggle to attract sufficient buyers. Same multiple range: 3.0x-4.0x.



Nissan. Sales were up 5.5% in 2016 and 0.3% through July although much of the sales growth has been through fleet instead of retail sales. Units in operation have soared in recent years which should mean good things for service departments. However, many dealers still complain about Nissan and gave it poor ratings in NADA's Summer 2016 Dealer Attitude Survey. Dealers who have consolidated markets seem to be doing well and enjoying a strong return on investment. Same multiple range: 3.0x-4.0x.



Mazda. After declining 6.7% in 2016 due to a car heavy portfolio, Mazda is matching the market so far in 2017, largely due to the well received CX-9. Mazda has been underweighted in trucks and CUVs and that has cost them sales in this environment of cheap gas. Its new partnership with Toyota should increase supply of CUVs and boost profits. Same multiple range: 3.0x-4.0x.



VW. VW dealers are rejoicing with sales up 5.9% in 2017 so far. Some of this lift is unfortunate as it is thanks to customers coming to dealers to hand in their diesel vehicles in return for substantial cash payments that they are using to buy new VWs. But a good number of these customers are also defecting and taking the cash payments to other dealers down the street. VW is finally getting some fresh CUV products in the Atlas and a new Tiguan that it has desperately needed to move its sales mix from 43% truck/CUV towards the industry average of 60+%. Now that we are past the worst, we would expect an uptick in buyer appetite for this franchise. Same value range: \$500,000 - \$2,000,000.

Domestic Franchise Blue Sky Multiples

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



Ford. Ford sales declined 0.6% in 2016 and another 4.6% so far in 2017. We are perplexed why Ford would be losing share given that its product mix should be an ideal fit for consumers that are increasingly demanding bigger vehicles. And the management change at Ford was confusing to many dealers. Dealers tell us they just want more and better SUVs, CUVs and trucks. Ford has a significant number these product launches over the next three model years which should help them regain share. We have been involved in the purchase or sale of eight Ford dealerships recently. All attracted significant interest from buyers. Same multiple range: 4.5x-5.5x.



Chevrolet. With GM's pivot away from fleet sales, Chevy was down 1.4% in 2016 and another 5.5% in 2017. We applaud the decision to reduce fleet sales as dealers should benefit from higher demand. Consumers are attracted to its truck/CUV/SUV heavy lineup and GM has many of these products it will be releasing in upcoming years that should help it gain share and help dealer profits, especially new full-size pickups and SUVs in MY 2019 and 2020, respectively. We are hearing that the lucrative SFE program is going to be modified to pay dealers for beating average level of sales for the past three years, rather than sales in the previous year, so most dealers will not see a loss in profits per unit. Same multiple range: 3.75x-4.75x.



FCA (Chrysler-Jeep-Dodge-Ram-Fiat). FCA's sales were even with the market in 2016 but were driven by a 10% increase in fleet sales. So far in 2017, total sales are down 7.5% with only Ram showing an increase. FCA has been trying to shift away from fleet sales like GM. FCA's inventory is the lowest among the domestics suggesting they have adjusted production better than rivals. Some buyers love this franchise, while others are wary of FCA's long-term prospects. They don't see the same level of investment in future product as other OEMs and its products are getting a little stale. Truck and SUV launches are heavy in MY 2018-2020 which should help. We are a concerned about the idea of putting Jeep into a separate showroom. Same multiple range: 3.25x-4.25x.

BUICK GMC

Buick-GMC. In 2017, sales are up 0.9% in an overall market that is declining. GMC continues to perform well with its pick-up trucks and SUVs, particularly the new Acadia. However, Buick-GMC inventory is the highest among the domestics at 140 and 117 days, respectively. Its Denali sub-brand is increasingly popular with truck and SUV buyers who are seeking premium products and are willing to pay steep prices for decked out vehicles. This should continue with new full size pickups and SUVs coming in MY 2019 and 2020, respectively. The modification of the SFE program discussed above for Chevrolet should keep profits per unit strong, particularly as the market continues to shift towards trucks and SUVs which are the strong suit for this franchise. Same multiple range: 3.5x-4.5x..



Hendrick Automotive Group is the largest privately owned dealership group in the country with ~\$8.6B in revenue. Hendrick retained Haig Partners to help divest non-core assets.

SUMMARY

Despite lower sales and vehicle margins, many dealers continue to generate healthy profits. Dealers tell us they are adjusting to the new reality that future profitability will require focus on reducing expenses and boosting activity in used, F&I, parts and service departments.



The buy-sell market is a bit mixed, with the number of rooftops sold so far in 2017 down 17% from the same period in 2016, but public company spending up a whopping 91%. There are plenty of sellers in the market and buyers remain active and have the support of their lenders. We see public companies, privately owned dealership groups and investors all looking for transactions that fit their strategies. The price per dealership has fallen slightly, and we expect this trend to continue for some time until the next up cycle begins. Nevertheless, the returns that dealers can get on acquiring new stores still appear to be higher than other uses of their capital.

Haig Partners is seeing these conditions in our current engagements that range across the US. These transactions include domestic, import and luxury dealerships and range in size from single stores to large groups of dealerships. Having been involved in over 160 transactions for more than 270 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. We served as the advisor on two of the largest recent transactions, but we also are pleased to work on smaller transactions where we feel we can add value to the sale process. We believe we have earned an excellent reputation in our industry.



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Vegas (*Panelist*) – 3/21/2018**

**NADA 2018 in Las Vegas –
3/22/2018-3/25/2018**

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