## THE HAIG REPORT

## Second Quarter - 2019

## TRENDSINAURO RITALLAND THARIMPAGT ONDEALERSHIP



Economic conditions remain favorable
Profits are up for public and private dealers
Buy-sells are down 34\% for the first half of 2019
Buy-sells were down a whopping 60\% in Q2
2019 compared to Q2 2018, perhaps due to a
high degree of uncertainty earlier in the year
Many more transactions involved single stores or very small groups (lower risk tuck-ins)

Blue sky values are holding steady for most brands, slightly lower for some luxury brands

We expect buy-sells will pick up in the second

PARTNERS

Remember to register for the 7th annual BuySell summit in Las Vegas on February 14, 2020!

## 350+ DEALERSHIPS Bought or Sold Since 1996

## \$4.9 BILLION IN VALUE

## $350+$ DEALERSHIPS

23 YEARS OF EXPERIENCE

## \#1 TRUSTED PARTNER

## THANK YOU!

The team at Haig Partners would like to thank our clients, buyers, industry partners and associates as we celebrate these milestones.

## OVERVIEW

02 - OVERVIEW

06 - TRENDS IMPACTING AUTO RETAIL

17 - TRANSACTIONS

18 - BUY-SELL TRENDS

20 - FRANCHISE VALUATION RANGES

23 - KEY TAKEAWAYS

Auto dealers have managed to defy gravity and increase their profits compared to last year. Dealers shrugged off declining new vehicle sales and rising expenses by increasing their focus on used unit sales, fixed operations and F\&l. Remarkably, gross profits on new units increased, offsetting a seven-year trend. Threats from autonomous vehicles, ride sharing and electrification have receded. Investors have noticed these positive trends, as the stocks of the publicly traded franchised retailers are up $\sim 47 \%$ YTD, well over the S\&P 500.

Despite robust conditions on the showroom floor, the buy-sell market has fallen significantly. There are a substantial number of dealerships available for purchase currently, but the number of dealerships that actually sold so far in 2019 is down 34\% from the same period in 2018 due to an especially sharp decline in Q2. The public retailers have been particularly shy, spending just \$227M on acquisitions in the first half of the year, compared to \$500M in the first half of 2018. We are still seeing strong pricing on desirable franchises in desirable markets, but buyers have become more cautious and selective, so dealerships need to be priced fairly and marketed well, or they may sit with no offers.

## The Buy-Sell Market Downshifts in Q2

After a flat first quarter, the number of dealerships that were sold in Q2 2019 appears to have declined substantially from Q2 of 2018. An estimated 49 stores closed in Q2 representing an approximately 60\% decline from an especially busy Q2 of last year that saw 122 stores change hands. As such, this would be the slowest quarter since 2013. Sales of dealerships involving private dealers are down 30\% so far this year while public company acquisitions are down $65 \%$. We are seeing in our practice and hearing from our attorney and CPA friends that both the volume of stores for sale and the number of buyers is still high but that transactions are taking longer and that some transactions are failing.

We do not believe this is a sign for panic in the buysell market. We think the political and economic uncertainty that prevailed around the beginning of the year caused the significant slowdown in Q2 buysell activity. Few deals were signed in Ql so few deals could close in Q2. The current fundamentals are still strong and we believe the buy-sell market will be more active over the next 12 months.

A notable dynamic in Q2 was the mix of single point stores sold was much higher in 2019. Approximately $70 \%$ of the stores sold in Q2 were single point transactions and this rate is usually around $45 \%$. Further, transactions involving groups of stores had an average of only 2.1 stores, much lower than the
~3.3 long term average. This would seem to indicate buyers were more risk averse recently and saw greater certainty in single point acquisitions that were likely tuck-ins.

As for segment mix, the first half of the year saw a higher mix of domestic ( $52 \%$ vs $45 \%$ ) stores changing hands while midline imports represented a smaller share ( $31 \%$ vs 39\%). We noted that Nissan represented 8\% of the stores sold so far in 2019 compared to 5\% in the same period of 2018 (with 11 in each period). Buyers may have felt pricing on Nissan stores has become too attractive to pass up.

Buyers tell us they 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 are paring their portfolio in anticipation of a decline in the overall auto retail industry.

## Public Company Acquisition Spending

The public companies have spent less than half on auto acquisitions in the US so far in 2019 as they did in 2018, just \$227M compared to the \$500M they spent in Hl 2018. The publics may have paused their investments to see how tariffs, trade wars, and Federal Reserve actions would all play out. If this level of spending continues, it will be the lowest level


Source: The Banks Report and Haig Partners
invested 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 experienced from early 2017 until just recently. Most acquisitions simply were not accretive, so these retailers focused on other opportunities such as used car stores, collision centers, and other less capitalintensive aspects of our industry. And after selling 55 dealerships over the last 18 months, we believe the public companies have largely rationalized their portfolios. Now that the stock prices for the publicly traded auto retailers have resurged, we hope to see an uptick in their acquisition activity, although those transaction closings will now likely push back into the first half of 2020 given how long acquisitions can take to complete.=

## Buy-Sell Outlook for 2019

Based on reports from the market and our own practice, we are expecting a good number of transactions involving private buyers to close in the second half of 2019. There are more dealerships available for sale than in the past and there are many buyers with access to plenty of capital. Many dealers are increasingly convinced that scale will matter more in the future than it has in the past. This "Get Big or Get Out" belief is pushing some groups to purchase
dealerships so they can be better positioned in the future. That said, the "closing ratio" of acquisitions is falling for several reasons. First, many sellers are asking too much for their dealerships. They have not recognized that buyers have more choices today than in previous years, and that buyers will only stretch for highly attractive opportunities. Second, while sellers want to sell for the reasons listed above, they are not feeling a lot of pressure to sell. Conditions are very good today, so many dealers are opting to hang onto their stores rather than sell for what they think is a low price. As a result, transactions are taking longer and more of them are failing.

## Blue Sky Multiples Decline Slightly For Premium Luxury Brands

In Q2 2019 we have seen steady demand from buyers, except many are beginning to question the big premium paid for premium luxury brands compared to mid-line imports and domestic franchises. We have seen no reduced appetite for Porsche dealerships, but we are reducing the bottom end of our blue sky multiple range for BMW, Lexus and Mercedes-Benz. The top end of the range remains in place because we are seeing buyers continue to stretch for these franchises if they are in good markets.

PUBLIC COMPANY ACQUISTION SPENDING
Domestic \& International


Source: SEC filings

Thanks to a lift in dealership profits so far this year, our estimated average blue sky value per dealership held steady from 2018. Since the blue sky values peaked in 2015 , the average dealership blue sky value is down $12 \%$. At current multiples, dealerships offer a healthy return to buyers and strong prices to sellers. However, there is a chance we will put downward pressure on multiples later this year and next if more dealers decide to sell and buyers take advantage of a supply-demand imbalance and reduce their level of their offers.

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 on the right provides a list of some qualifying factors that could impact the value paid for dealerships.


- Dealerships Not Marketed Properly
- Facility Issues/Upgrades Required
- Rural Areas
- Located in Slow/Negative Growth Markets
- Located In High Tax States
- Add-Points
- High Real Estate Costs
- Overdealered Markets

HAIG PARTNERS BLUE SKY MULTIPLES


## TRENDS IMPACTING AUTO RETAIL

So far 2019 has provided a number of pleasant surprises for auto dealers and investors. We expected interest rate increases but the Fed is cutting rates. 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. Retail sales are down, but new vehicle margins may be increasing. Improved performance with used vehicles and fixed operations has more than offset rising wages and other costs. The bottom line is that dealership profits are up by 0.6\% through June 2019 compared to the same period in 2018. The rest of the year will be hard to predict. Will we have tariffs that drive up prices and drive down demand? Will rates be cut further? Will dealers continue to improve their performance? It has been impressive to see the strength of the auto retail model, where a weakness in one department can be overcome by renewed focus on other departments.

## New Unit Sales Remain Elevated, Surprising Many Forecasters

Sales so far in 2019 have been mixed. The government shutdown and the Polar Vortex hurt sales in Q1, but Q2 was excellent for our dealer friends in much of the country. The net result is that total new unit sales are down $2 \%$ so far in 2019. Many experts, however, are predicting a greater decline later in the year and that we will end up with a decline in sales for the full year of $3.7 \%$ to 16.7 M units. It is important to remember, however, that analysts underestimated the SAAR in both 2018 and 2017, so there is a chance for the market to surprise us again.

## 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.

## Speed.

We focus on the transaction every day, allowing our clients to focus on dealership operations.

## 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 sales process that creates competition to generate highly attractive offers from buyers.

## Experience.

Since we have been involved in more than 170 transactions for over 350 dealerships with over $\$ 4.9$ billion in value, we know how to respond to issues that can arise in a buy-sell process.

US LIGHT VEHICLE SALES


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

Note the sales data above is total new vehicle sales, including fleet. Retail sales are down about $3.5 \%$ so far this year.


Source: JD Power (July 2018, 2019)

RETAIL SALES


[^0]
## Macroeconomic Indicators Are Generally Favorable

## GDP Continues to Beat Expectations

GDP grew at a $2.1 \%$ annual rate in Q2, surpassing economists' consensus expectation of $1.8 \%$ growth.

## Employment and Household Income Are Increasing

Unemployment in July remained unchanged from 3.7\% in June. This is still close to the half-century low of $3.6 \%$ reached during the first quarter of 2019. Average hourly earnings were up $3.2 \%$ compared to a year ago. The labor market remains very healthy.

## Inflation is Low

The Federal Reserve's inflation measure is up only $1.4 \%$ from last year, below the Fed's 2.0\% inflation target.

## Consumer Sentiment Remains High

Consumer sentiment surged to near record levels at 98.4. To find higher consumer sentiment readings, we have to look back to the peak of the dot-com era, 20 years ago. High consumer sentiment is a positive predictor of future vehicle sales.

## Fuel Prices Remain Low

Despite volatility, gas prices are $\$ 0.10$ lower than a year ago. In addition, expenditures on gas have declined due to
better fuel economy. For instance, the 2009 Ford Explorer averaged 15 mpg while the 2019 Ford Explorer averages 22 mpg, a $46 \%$ improvement. Consumers have responded by buying larger vehicles and maintaining the number of miles driven.

## Interest Rates Are Declining

The Fed cut overnight lending rates during its July 31st meeting by 25 basis points signaling a return to lower car payments, reduced inventory carrying costs, and lower
 below, has been a positive indicator for auto loan rates and indicates further rate cuts are expected in the back half of 2019. The average APR for new vehicle loans in July 2019 was $5.84 \%$, dropping below $6 \%$ for the first time in 2019, according to Edmunds.

## Transaction Size Drives Increasing Car Payments

Edmunds' data shows higher new vehicle prices have increased the average monthly payment by $5 \%$ in the past year. However, the recent decline in vehicle financing rates to $5.84 \%$ in July, down from $6.28 \%$ in April, may add a tailwind to vehicles sales in the second half of the year.


## Dealers Are Increasingly Focused on the Used Vehicle Market



Used vehicles are becoming a more attractive alternative to new vehicles for many consumers. The mix of trucks and CUVs/SUVs available now closely matches consumer demand and more used vehicles have the features that consumers seek such as Bluetooth and driver assistance features. The continued pressure on new vehicle grosses has encouraged dealers to seek more
volume by retailing additional used vehicles. And there is plenty of room for improvement since franchised dealers account for just about 30\% of total used sales. We are now in a period of peak lease returns so supply of used vehicles is excellent. Samestore used vehicle volume was up 4.1\% compared to last year for public auto retailers. Privately owned franchised dealers are also increasingly focused
on used, and the average dealer had a used-to-new ratio of a little over 0.91:1.0 in June 2019 and 0.85:1.0 over the last 12 months. This ratio is up substantially from the 0.79:1.0 average in 2018 and continuing to improve. We have several clients that have achieved greater than $2: 1$ used to new ratio, and their service departments are also booming.


John@HaigPartners.com (404) 406-710

## John Davis | Managing Director

Please welcome a new member of the Haig Partners Team! Haig Partners is proud to announce that John Davis, a fixture in the professional dealership services sector for over 35 years, has joined the firm. Serving many leadership roles at DHG during his tenure, John has emphasized customer service and has built strong and lasting relationships with clients throughout his career. John spent a significant portion of his professional career in the buy-sell space. He has advised on some of the largest transactions in the industry during his tenure. Additionally, he has held leadership roles in many organizations, including chairing the AICPA Automotive Conference's Steering Committee for several years.

## Are New Vehicle Grosses Improving!?

Following seven years of declining new vehicle margins that eliminated $\$ 527$ per unit in gross profit, public retailers posted a \$53 PVR increase in Hl 2019. It may be too soon to proclaim victory, but it appears that dealers have found a way to stem the tide of lost front-end gross margin. One group we spoke to said its reversal of fortune began when they started focusing on generating front-end gross regardless of OEM volume-based incentives. With "smart volume" the dealer found a way to balance volume and front-end profitability.

As for used vehicles, the average gross profit per used vehicle for the publics slid $\$ 50$ in Hl compared to 2018. This data might have a bit of noise imbedded as both Penske and Sonic operate prominent used-only locations and much of Penske's earnings come from the UK so it has suffered from currency fluctuations. These two groups notched the largest declines of the publics, with used per vehicle gross declining 9\% and $12 \%$, respectively, although their total used volumes increased. Excluding Penske and Sonic, H1 2019 average gross profit per used vehicle increased \$24 compared to H1 2018.

New Gross Profit Per Vehicle: Public Company Data
Weighted Average Same Store Performance - In Current Dollars


Used Gross Profit Per Vehicle: Public Company Data
Weighted Average Same Store Performance - In Current Dollars


Source: SEC filings

## Finance \& Insurance Departments Are Generating Record Profits

F\&l 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\&l manager performance, and more toward the sale of F\&l products. We have also heard of dealers changing F\&l providers and dramatically increasing gross with the same F\&l managers as before. The public companies earned \$1,607 per vehicle retailed
during the first six months of 2019, up \$103 (6.9\%) 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, many near or 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


## 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 upward as the gains in F\&l have more than offset the declines in front-end gross. This is contrary to the conventional wisdom and talking point that
dealers are being squeezed. Now it is true that, as a percentage of transaction value, gross margins have been compressed. It is also true that salesperson compensation is based upon gross, so sales comp has remained relatively steady on a dollar basis.

# PUBLIC COMPANY VEHICLE GROSS + F\&I PVR <br> Weighted Average Same Store Performance - In Current Dollars 



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

## Fixed Operations Growth Rebounds

According to NADA, fixed operations sales grew $7.6 \%$ for the average dealer in the first six months of 2019. The public companies reported a $5.4 \%$ same-store change during the same period. There appears to be substantially more growth available for franchised auto dealers. According to a 2017 study by Cox Automotive, franchised dealers account for only $30 \%$ of the automotive repair market in the US. And according to NADA, the average dealership's fixed absorption rate is less than 60\%. Taken
together, these data points indicate dealers have room to grow service and overall profitability while insulating themselves from potential declines in new vehicle sales. The typical calculation of units in operation by many OEMs utilizes a seven-year volume total. We are currently only in year six of our current SAAR plateau around 17 million units. As such, we don't expect UIOs will peak in the US until 2020, leaving additional runway for the average dealership.

## FIXED OPERATIONS GROWTH



Source: NADA


David@HaigPartners.com (510) 604-0308

## David Spisak | Managing Director

Please welcome another new member to the Haig Partners Team. David Spisak brings a wealth of knowledge and real world experience in auto retail and related technology solutions. He spent 27 years in auto retail, including stints as President and General Manager of Smythe European, the most profitable auto dealership in the United States at the time, and as Market President at AutoNation where he was responsible for over 30 dealerships. After leaving AutoNation, David began developing several technology companies that provide software and services to auto dealerships, including ReverseRisk, a web-based analytics reporting platform that was acquired by Reynolds and Reynolds in 2016. He has been able to guide these start-ups from concept, product development, securing capital, marketing to dealer groups, and then highly successful exits. David's background makes him uniquely qualified to lead Haig Partners' practice in advising companies that provide software, internet and business services to the auto retail industry. Haig Partners assists these companies with strategic advice, capital raises, and mergers and acquisitions.

## Gross Profits Are Growing But So Are Expenses

The average privately owned dealership watched gross profit (including other vehicle income) grow by $4.4 \%$ in the first six months of 2019, a very encouraging result. The bad news is that operating expenses grew even faster, up $5 \%$ compared to the prior year. Dealership selling general and administrative expenses as a percent of gross profit increased from $82.9 \%$ in the first half of 2018 to $83.4 \%$ in the first half of 2019.

Floorplan expense has driven almost all of the increase in cost. The chart below right shows a $\$ 275$ swing in net

PERCENTAGE EXPENSE GROWTH YTD 2018/2019


## Dealership Profits Are Increasing

The net outcome of the trends listed above is that average profits at privately owned dealerships increased 0.6\% over the last 12 months after three years of declines. This is a remarkable performance on the part of the dealers and shows the flexibility of the auto retail model. Dealers compensated for declining new unit sales and rising costs with higher sales of used units, higher F\&l profits and a greater emphasis on fixed operations. While profits over the last 12 months are still down $8.9 \%$ from the peak in 2015, most dealers we speak with are pretty excited about their current levels of performance. One dealer summarized market conditions as an "8 out of 10 ." The table on the next page shows the annual change in profits at privately
floorplan cost over the last $31 / 2$ years. But there are also some positive trends. The Federal Reserve's recent 25 BPS rate cut should lead to a $\$ 25$ lower floorplan expense per vehicle retailed for the average dealer. Also rent and equivalent expense decreased as a percent of gross profit. This decline surprised us since many dealers continue to invest in facilities due to OEM requirements. Perhaps this is a change in the rent dealers charge themselves due to the new tax code. Finally, advertising costs are falling thanks to a shift from traditional media to more effective digital marketing tools.

NET FLOORPLAN INTEREST INCOME / (EXPENSE)
Per New Retail Vehicle (2015 - June 2019)

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 20012007, 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


## Sales Performance for Individual Franchises

We are seeing some significant shifts in market share so far this year. Many smaller volume franchises are growing nicely, while a number of the highest volume franchises are declining.


Source: Automotive News (June Data)

## Private Dealership Values Are Stable

The estimated average blue sky multiple for all franchises on an unweighted basis was 4.80x in Q2 2019 according to our estimates, approximately the same as in Q4 2018. Profits per dealership on a LTM basis increased 0.6\% compared to the full year 2018. Applying the $4.80 x$ blue sky multiple to the average
dealership pre-tax profit of \$1.37M over the last 12 months generates an average blue sky value of $\$ 6.6 \mathrm{M}$, up $0.9 \%$ from year end 2018 . As the chart below shows, this is down ~12\% from the peak in 2015 but remains very strong relative to historical levels.

## ESTIMATED AVERAGE BLUE SKY VALUE



## Public Franchised Dealership Groups Outperforming The S\&P in 2019

Auto retail stocks have far outperformed the market so far in 2019. Many investors turned negative on the publicly traded franchised dealership groups in January 2017. They were worried about a downturn in the economic cycle and had concerns about the potential technology disrupters like autonomous vehicles, electrification, and ride sharing. Circumstances have changed over the past six months and investors are again seeing value in auto retailers. Most investors now believe autonomous vehicles are unlikely to impact dealers for decades, and electric vehicles will remain niche
players. In addition, dealers have shown investors that they can adapt to a declining new vehicle sales market by increasing their focus on used vehicles, F\&l and fixed operations. As a result, the stock of auto retailers have outperformed the S\&P 500 by more than $100 \%$. We also show a table showing the market capitalization of all the franchised retailers as well as CarMax and Carvana. We encourage dealers to take note of some of the customer friendly practices and technology deployed by these two used car retailers, and that investors believe these practices will drive strong growth in the future.

## Aquisitions Can Drive Value

Over the past couple of years, we wrote extensively about the apparent preference of the public groups to buy back their own stock rather than invest in additional rooftops. Now that stock prices have rebounded, we have taken a second look at the preferences and performance of the groups. Since 2016, one public group stood out as continuing to execute on their mission as a consolidator. According to public filings, Lithia acquired 54 stores since January 2016, whereas the other five groups did not acquire that many in total. As mentioned previously, the stocks of public auto retailers have greatly outperformed the S\&P 500 since the beginning of
the year. But not all stocks have performed similarly. Lithia, with its more active acquisition strategy, has far outperformed the other public franchised dealers in terms of the growth of its stock price. Its stock is up $32 \%$ over the past three years while the average of the other five retailers is up just $12 \%$. Lithia is adding value to its company by continuing to acquire dealerships and improving their performance post-closing. Lithia's strategy is being rewarded by investors who seek growth as well as strong cash flow. We believe private dealers can also emulate this strategy to improve their own net worths.

Public Franchise Retailers vs S\&P 500






[^1]PUBLIC RETAILER MARKET CAPITALIZATION


Source: Yahoo! Finance; Data as of 8/22/2019

## HAIG PARTNERS LATEST TRANSACTIONS

## APOLLO

Apollo Global Management has acquired dealership real estate assets.

HAIG PARTNERS

Haig Partners acted as financial advisor to Apollo Global Management in this transaction.


## ■M든



CHRYSLER Jeep


KIN


Automotive Group


Rockland


Norwood


Rockland


Norwood


Reading


Norwood


Massachusetts

Haig Partners acted as exclusive financial advisor to Gallery Automotive Group in this transaction.


Granbury Has been acquired by Weatherford
Has been acquired by
Shatemith
AUTOMOTIVE GROUP
Texas
Haig Partners acted as exclusive financial advisor to Jerry Durant Toyota in this transaction.

##  <br> BONIFACE HIERS <br> aUTOMOTIVE GROUP

Metairie

Has been acquired by


Hudson
Automotive Group, Inc
Louisiana
Haig Partners acted as exclusive financial advisor to Royal Honda in this transaction.


Melbourne
Has been acquired by
KELLY Auto Group

Florida
Haig Partners acted as exclusive financial advisor to Boniface Hiers Group in this transaction.


Washington


Lakewood


Tacoma


Tacoma


Tacoma

Advised on Recapitalization


Olympia


Olympia


Olympia


Olympia

## Vendor Spotlight

 DealerDOCX
## © DealerDOCX

DealerDOCX is the industry's leading document solution provider and the only one focusing exclusively on dealerships. It goes far beyond traditional approach to scanning by literally lifting key individual data points which allows clients to quickly and easily search for documents with just a few key search words thereby eliminating the painful process of manually searching each retrieved document for what you actually need. This allows them to see which managers are delivering the cleanest deals, easily prepare for manufacturer audits or determine if you have any deals with missing documents. DealerDOCX has nearly 3 million deal jackets and 200 million total documents under management, all easily retrievable in seconds and without any work from the client.
www.dealerdocx.com
vp.sales@dealerdocx.com

888-763-3629

## BUY-SELL TRENDS

## 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 us he is "getting two calls a day!" The increase in the number of stores for sale is likely due to several reasons: an aging dealer body (the silver tsunami), 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. We have heard that even owners of large, well-respected groups are considering a sale as they have 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 recently polled many of the leading lenders to dealers and all of them have indicated they are eager to loan more capital to dealers to help them finance acquisitions. None of them appear to be projecting a major decline in profits at dealerships due to a recession, changes in consumer behavior, or threats from technology.

## Buyers Are More Selective

We are seeing a "flight to quality." Given the concerns some buyers have about a potential downturn, they are more focused on stores that are a fit with their acquisition strategy in terms of franchise, location and profitability. Dealerships that have challenges, such as major facility issues, unions, or incoming add-points, will need to be priced lower than in the past to get the attention of buyers. And some dealership groups that want to grow are hoarding their "dry powder" and waiting for prices to fall. They see a growing supply/demand imbalance that will be rectified with reduced blue sky values.

## The Closing Ratio Is Falling

In 2015, almost every dealership that came to market found a willing and eager buyer. Today the situation is quite different. The number of sellers entering the marketplace is increasing, but we don't see an increase in the number of active buyers. Buyers tell us that they have capital and want to grow, 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 risk for sellers is that they may suffer a long marketing period and eventually have to accept lower offers than if they had priced their dealership correctly at the beginning. In the worse case, they may not be able to sell their stores at all. This is why we say the closing ratio is falling.

## Geography Is Increasingly Driving Value

California has the largest population and the highest auto sales of any state but due to high cost, lots of litigation, and high taxes some buyers are steering clear of this state. Texas and Florida have become the most desirable for dealers thanks to their dealer friendly franchise laws, rapid growth and low taxes. And we are also seeing more interest in the Southeast, mountain states, certain markets in the midwest, Carolinas and Tennessee. These areas offer high growth and low real estate costs, two of the essential ingredients for a high return on investment. Buyers may pay as much as $25 \%$ higher prices in these desirable areas compared to "average" markets, and $25 \%$ less than "average" in California for the same amount of earnings.

## 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 only eight dealerships in the first half of 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, but we believe they are missing out on an opportunity to acquire a significant number of attractive dealerships at prices lower than in the past.

The table on the 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 or invest in acquisitions.

PUBLIC COMPANY CAPITAL ALLOCATION


Source: SEC filings

## FRANCHISE VALUATION RANGES


#### Abstract

We have been involved in the purchase and sale of $350+$ 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.


## 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.

## Luxury Franchise Blue Sky Multiples

## Porsche

Through the first seven months of the year, Porsche dealers have delivered $5.3 \%$ more units from a year ago. July retail sales rose an astonishing $23.3 \%$ to a new record for the month. Executives attribute the recent surge in sales to the new generation Cayenne and refreshed Macan. We are representing a Porsche dealer in an attractive market and the offer we accepted was impressive. We get many calls from dealers seeking this franchise and they will stretch far to buy one. The only complaint we hear is burdensome facility requirements. Same multiple range: 7.5x-9.0x.

## Mercedes-Benz

On a year-to-date basis, sales are down 3.9\% as MB juggled inventory and model changeover issues early in the year. MB is in 2nd place behind BMW but comfortably ahead of 3rd place Lexus in the luxury sales race. Mercedes ranked second out of all luxury brands with consumers with $44.2 \%$ loyalty according to J.D. Power. Dealers still love this franchise, but it is more challenged than in the past. Lower bottom of the range: $6.5 \mathrm{x}-8.0 \mathrm{x}$.

## Lexus

Lexus is up slightly so far this year (+0.2\%) but trails BMW and MB. Customers love the brand as it beat all other luxury brands in terms of customer loyalty with a $47.6 \%$ according to J.D. Power. And dealers praise Lexus even if they struggle with low margins and an aging product line-up. Lower bottom of the range: $6.5 x-8.0 x$.

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 Ql 2019. 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.

## BMW

BMW sales increased 4.7 percent in July 2019 and $2.3 \%$ for the year putting them ahead of archrival MB for the luxury sales crown. The brand's momentum continues, with year-over-year sales increases now for six straight months. Dealers have praised the change in advertising tactics that boosted margins while executives attributed the sustained and consistent growth to new products and the lasting strength of the brand. Several BMW stores we have been involved with recently are generating over \$6,000 in new vehicle gross profit (including incentive money). BMW ranked third on J.D. Power's 2019 U.S. Automotive Brand Loyalty Study out of all luxury brands with a $43.6 \%$ loyalty percentage. Lower bottom of the range: $6.5 x-8.0 x$.

## Audi

Audi has suffered from a number of factors so far this year, including senior management turmoil, and sales are down $5 \%$. New products are showing strong gains (A6/A7/A8 cars, e-tron and Q8 SUVs), which drove good performance in July. Margins have also been helped by these new products. Audi was ranked slightly behind the other "big 4" luxury brands in J.D. Power's 2019 U.S. Automotive Brand Loyalty Study. Of some concern, Audi inventories are up 36\% from last year. Dealer interest in Audi can vary more than other luxury brands but recent sentiment seems to be improving. Same value range: $6.0 x-7.5 x$.

## Jaguar / Land Rover

JLR is up 4.8\% so far for the year ( $+9.8 \%$ for Jag and $+3.1 \%$ for LR). JLR executives are optimistic because of recent sales and the introduction of new and upgraded products. With the introduction of the E-Pace and the battery powered I-PACE, Jaguar's lineup will expand to seven models for the first time in the brand's history. But quality issues remain as Land Rover ranked 6th place behind Audi in terms of customer loyalty, while Jaguar ranked dead last out of all luxury brands in terms of loyalty percentage at 20.6\%, according to J.D. Power. The upcoming Defender models should be big sellers, but we worry about future investments in products due to challenges at its parent company. For combined JLR stores where no add points are coming. Same multiple range: 6.0x-7.0x.

## Volvo

Sales have increased $5.2 \%$ versus the previous year. For the first time since 2007 the Volvo brand is set to sell over 100,000 units in the US. The gains are thanks to the introduction of the XC40 and S60 which both retail at a smaller price point then the rest of the models. While dealers are optimistic about Volvo's momentum, some are nervous about more aggressive facility requirements which will lead to more investment and boost overhead costs. Since more Volvo stores are profitable, we are moving from a flat value for blue sky, to a range of pre-tax earnings. New value range: 4.0x-5.0x.

## Acura

Acura sales are up $0.7 \%$ for the year. Acura remained in the middle pack in J.D. Powers' 2019 U.S. Automotive Brand Loyalty Study with a customer loyalty percentage of $36.1 \%$. There is much less interest in this franchise than the premium luxury brands. Same multiple range: 3.0x-3.75x.

## Infiniti

The free-fall continues for this brand with sales down $12.5 \%$ for the year. A near $30 \%$ decline in cars was compounded by modest declines in trucks. The products are nice, but the OEM needs to alter its business model so dealers can retain gross and rebuild consumer loyalty. Same multiple range: 3.0x-3.75x.

## Cadillac

Cadillac sales are essentially flat for the year. The new XT4 is helping and is being joined by the XT6 right now covering the hot three-row midsize segment. Still the new CT5, revised CT6 and Escalade are desperately needed. Cadillac was ranked near the bottom of luxury brands in the 2019 U.S. Automotive Brand Study by J.D. Power with a $34.1 \%$ loyalty percentage. Same value range: \$0-\$2,000,000.

## Mid-Line Import Franchise Blue Sky Multiples

## Toyota

Sales are down $3 \%$ for the year, but we continue to receive calls from dealers looking to buy this franchise. Toyota will have the best balance of car and truck models now that FCA, Ford and GM have largely exited the car business. We were recently involved in the sale of two Toyota stores in Texas and demand was very high. Toyota stores can make very high profits given their high sales per location and big fixed opeations. Toyota also ranked second in the 2019 U.S. Automotive Brand Loyalty Study by J.D. Power of Mass Market Brands with a loyalty percentage of $59.5 \%$. Same multiple range: $5.5 x-6.5 x$.

## Honda

Sales are down 1\% for the year, slightly ahead of the overall market. Honda ranked third in J.D. Power's study of Mass Market brand loyalty with a loyalty percentage of $57.5 \%$. We were recently involved in the sale of several highly profitable Honda dealerships and demand was strong. Strong new vehicle volume and fixed operations can drive healthy profits. Dealers worry about them cutting production too much, rather than trying to stimulate more demand. Same multiple range: $5.5 x-6.5 x$.

## Subaru

Subaru reported its best ever July sales and second best sales month in company history. July sales increased $7.9 \%$ over July 2018, which marks 92 months of yearly/month over month growth. Sales are up $5.6 \%$ in so far in 2019, and Subaru is now outselling Hyundai. Subaru ranked highest among mass market brands, according to J.D. Power, with a loyalty percentage of $61.5 \%$. Also, Subaru inventory levels continue to be the lowest in the industry at less than 30 days supply, which implies sales can continue to grow. Same multiple range: 5.0x-6.0x (with higher pricing in Snow-Belt states).

## VW

Sales are up a strong 6.1\% for the year led by the Tiguan (+35\%), Atlas ( $+18 \%$ ) and the Jetta ( $+17 \%$ ). VW now sells more CUVs than cars, more in line with the overall market. This could be a good time to consider investing in this franchise, particularly in markets like CA that are pushing consumers towards electric vehicles. VW will likely be a leader in this category due to their settlement with the US government from the diesel emissions scandal. Same multiple range: 3.0x-4.0x.

## Kia

Hello Telluride! This model pushed Kia to a $+0.6 \%$ in July and $+3.3 \%$ for the year. The all-new Telluride SUV is exceeding Kia's own projections and maintains its status as one of the fastestselling models on the market. The top selling Forte and Sportage saw double digit increases in sales as compared to last July. Kia's days supply of inventory stood at just 35 days as of $8 / 1$, the second lowest in the industry. Kia hopes to keep the momentum going with the new 2020 Soul coming in the second half of 2019. Kia ranked sixth with a loyalty percentage of $49.4 \%$ in J.D. Power's 2019 Automotive Brand Loyalty Study. Same multiple range: $3.0 x-3.75 x$.

## Hyundai

Hyundai experienced a $13.9 \%$ increase in July and the 12th straight month of increasing total sales on a comparative monthly basis. Hyundai success can be attributed to another great month for CUV sales, up $39 \%$ compared to July 2018 while cars were down $11.4 \%$. CUVs now represent $58 \%$ of total sales as the brand is correcting its poor car/truck/SUV mix. The Santa Fe, Kona, and Tucson all saw double digit increases in sales. The all new Palisade SUV had a strong first full month of sales. Executives note that they've been able to keep their fleet sales in check while keeping their days' supply and incentives below the industry average. Same multiple range: 3.0x-3.5x.

## Mazda

New unit sales through July have decreased a devastating 13.9\% compared to last year. The biggest weakness is in sedans. In some markets this franchise is capable of making \$1M or more, but most places, it struggles to compete with other brands. Few dealers target this brand. Same multiple range: 3.0x-3.75x.

## Nissan

Sales are down $7.8 \%$ for the year and down $8.9 \%$ in July. The drama continues at Nissan as dealers tell us factory execs remain somewhat paralyzed by the Ghosn scandal, the boardroom fight with its partner Renault, and departures of many senior managers in the US. The hangover of stuffing the sales channel lingers as many dealers are refusing new inventory until they can sell down their 2019s (and even some 2018s!). The unpopular stair step programs remain in place, although not as ambitious as in prior years. Some Nissan dealers tell us they no longer gun for these programs and are now selling fewer cars but making more money. Despite recent struggles, the Nissan brand ranked eighth out of twenty mass market brands, according to J.D. Power, with a loyalty percentage of $45.8 \%$. Overall, this brand remains in purgatory and a catalyst for change is badly needed. This could be the worst time to sell a Nissan dealership: profits and buyer appetite are both low, but product design and quality are high. Of course, this also could make it one of the best times to buy a Nissan dealership. We hope a brighter future is coming for Nissan dealers. Lower multiple range: 2.75x-3.75x.

## 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

Sales are down $3.3 \%$ YTD, perhaps due to a pull-back by Ford Credit. Ford has shifted its strategy to focus on their strong portfolio of trucks and SUVs while increasing pricing. The new Ranger is selling well despite lackluster reviews and the F series is holding share. Dealers, however, are not happy about the abandonment of the car segment without a clear plan. Ford gave up 10k sales in June on the Focus alone. We hear that Ford is planning to extend Fusion production in response to dealer concerns. Some dealers remain skeptical of senior management. Same multiple range: $3.5 \mathrm{x}-4.5 \mathrm{x}$.

## Chevrolet

Sales are down $6.7 \%$ on the year, driven largely by a loss of sales of the new Silverado (down $12.2 \%$ representing a 36 k unit decline) and Cruze (down nearly $50 \%$ for the year, representing 38 k unit decline). The loss of sedan sales will be hard to make up and future fixed operations could suffer also as there will be fewer units in operation. We hear some dealers complaining that GM is too focused on future autonomous and electric vehicles and needs to get back to designing products that consumers want today. Same multiple range: $3.5 \mathrm{x}-4.5 \mathrm{x}$.

## FCA (Chrysler-Jeep-Dodge-Ram-Fiat)

FCA is the best performing domestic OEM although sales are still down $1.7 \%$ year to date. Ram is carrying the day for FCA lately. The new 1500 truck is wildly popular with sales up $56 \%$ in June and $28 \%$ for the year. The new Gladiator was able to capture $7 \%$ of the mid-sized truck market after only one month on lots which should help Jeep rebound (-7\% YTD). Dealers have figured out the stairstep programs which are not overly ambitious, so they are able to generate healthy gross profits. Same multiple range: $3.25 \mathrm{x}-4.25 \mathrm{x}$.

## Buick-GMC

Buick was down $2.2 \%$ while GMC was up $2.9 \%$ for the year. Most of the Buick and GMC SUVs were up while the Buick cars were down $36.6 \%$. Buick has shifted its focus from sedans to crossovers instead. GMC's renewed focus on high-content, high-margin trucks first has helped the brand and the Sierra is faring much better than its Chevy Silverado sibling. IHS Market awarded a segment loyalty award for the Yukon Denali XL for 'Full-Size SUV'. Both Buick and GMC were ranked toward the bottom of the 2019 U.S. Automotive Brand Study by J.D. Power with loyalty percentages of $28.3 \%$ and $37.5 \%$ respectively. Same multiple range: $3.25 x-4.25 x$.

JOIN US IN LAS VEGAS

7th Annual BUY-SELL SUMMIT \&
26th Annual DEALER/CEO/CFO FORUM

FEB 14th, 2020 | CAESARS PALACE
Visit www.AutoTeamAmerica.com to register today

## KEY TAKEAWAYS


#### Abstract

After delivering an impressive first half of the year, dealers tell us they are cautiously optimistic about the rest of 2019. One large dealer put current conditions at " 8 out of $10 . "$ We are in far better shape than many analysts predicted.


We are off to a strong start to the year with dealer profits up $0.6 \%$ so far in 2019. But the buy-sell market looks much different year to date as the number of dealerships that traded is down $34 \%$ compared to last year. Nearly all of this decrease is due to a $60 \%$ decline in Q2 2019 compared to Q2 2018. This appears to be due to a high degree of uncertainty in Q4 2018 and Q1 2019 regarding the direction of the economy.

While some uncertainty remains, we believe buyers have become more confident thanks to higher dealer profits. We expect buy-sell activity will be higher in the second half of 2019 but total activity for the year will be below 2018.

We see the current environment as a rare opportunity for buyers to grow quickly. We continue to see an increase in the number of dealerships coming to market and the quality of some of these assets is higher than at anytime we can recall.

Having been involved in over 170 transactions for more than 350 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.

## Contact us today to learn more about your dealership's potential value:

## Alan Haig

(954) 646-8921

## Mike Toth

(561) 302-1413

John Davis
(404) 406-7110 John@HaigPartners.com

## David Spisak

(510) 604-0308

David@HaigPartners.com

## Nate Klebacha

(917) 288-5414 Nate@HaigPartners.com

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

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

515 E. Las Olas Bld.

Suite 860
Ft. Lauderdale, FL 33301

## JOIN US AT THESE EVENTS!

## Alan Haig Presenting At:

Geffen Mesher 9th Annual Northwest Dealership Seminar
September 19, 2019, Portland, OR

American Institute of CPAs (AICPA)
October 27-29, 2019, Las Vegas, NV

Bank of America / Merrill Lynch 2019 Auto Dealer Day
December 4, 2019, New York, NY

Buy-Sell Summit and Owner/cEO/CFO Forum
Immediately Before NADA
February 14, 2020, Las Vegas, NV

National Association of Dealer Counsel (NADC)
October 27-29, 2019, Chicago, IL


[^0]:    Source: JD Power

[^1]:    Source: Yahoo! Finance; Data through 8/22/2019

