THE HAIG REPORT®

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

THIRD QUARTER – 2016

HAIG PARTNERS

OVERVIEW

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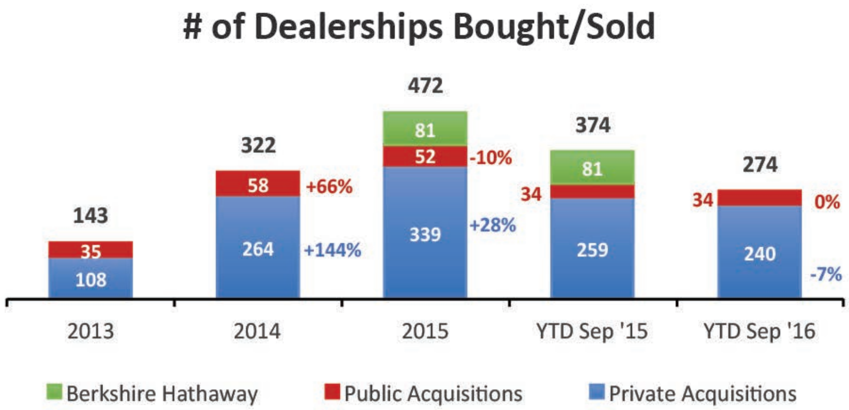
"I Ain't As Good As I Once Was, But…"

Auto dealers enjoyed another period of healthy profits in Q3, although conditions continue to soften as retail sales appear to have peaked and dealers are also fighting declining vehicle margins and rising costs. The buy-sell market seems to be tracking the overall health of the auto retail industry. We have seen a small decline in the average value per store as both earnings and blue sky multiples have contracted a bit. The volume of dealerships being purchased and sold is also falling slightly. Buyers are more cautious than in prior years as some are expecting dealership profits to fall, so deals are taking longer to negotiate and close. Luxury brand values have taken a hit over the past year, but other franchises are holding up well. The increase in the number of buyers is supporting dealership values. And while it is too soon to know, buyers may see the results of the recent national election as being positive for our industry. Maybe we will see a SAAR of 18 million units after all! Either way, the skies remain bright and we would expect a substantial number of dealerships to trade at healthy prices for the remainder of 2016 and 2017. To put market conditions in the somewhat confusing words of Toby Keith, "I ain't as good as I once was, but I'm as good once as I ever was," which to us means the market was better before, but it is still pretty darn good today.

The Buy-Sell Market Remains Active

Many leading dealers are telling us there has been a big increase in the supply of dealerships for sale. Perhaps sellers believe the market has peaked and they are trying to maximize their sale prices. Or these sellers could be concerned about being left behind as the industry continues to consolidate, or maybe some dealers simply want to retire to enjoy the fruits of their labors. At the same time, buyers are becoming more



Source: The Banks Report and Haig Partners

concerned about economic conditions and the result is that the volume of transactions has dropped slightly in recent months. The leverage in the marketplace has begun to shift from sellers to buyers. The Banks Report shows the total number of dealerships purchased by public and private dealers through September 2016 was 6.5% below the same period in 2015, when we exclude the Berkshire Hathaway acquisition of Van Tuyl. This decline was only 3% at the end of the first half of 2016 compared to the first half of 2015, so the results in the third quarter indicate that the buy-sell market continues to downshift from the record level of dealership sales that we saw in 2015.

Most of the public companies remain cautious on acquisitions. Group 1, Asbury, and Sonic have spent a combined $16M on auto dealership acquisitions in the US so far in 2016, so they were basically out of the market and have been focusing on existing operations, international acquisitions, and new business

CONTACT US:

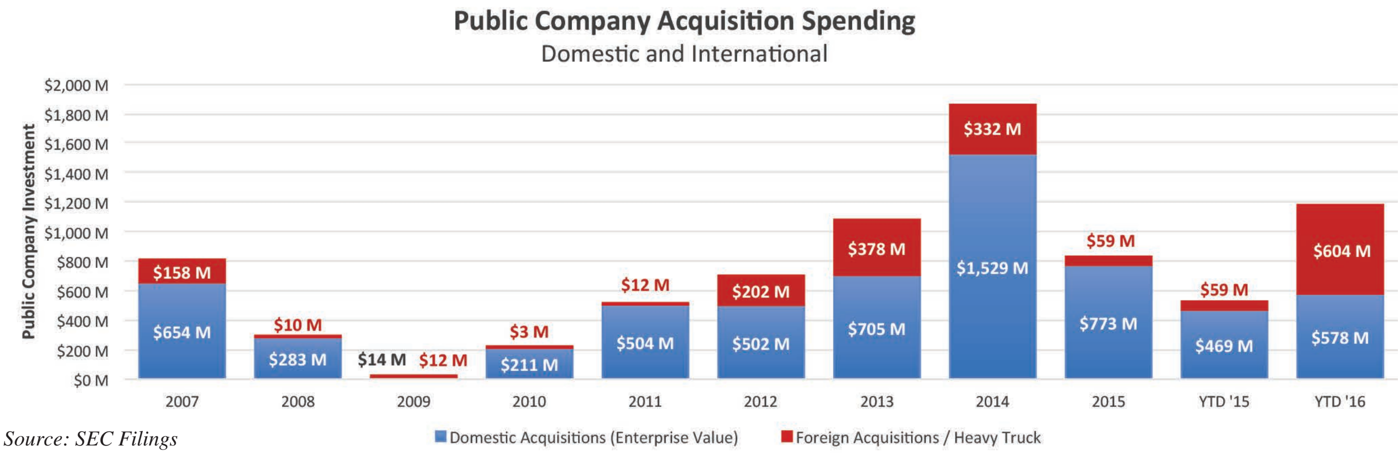
Alan Haig
(954) 646-8921
Alan@HaigPartners.com

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

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

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

www.HaigPartners.com



Source: SEC Filings

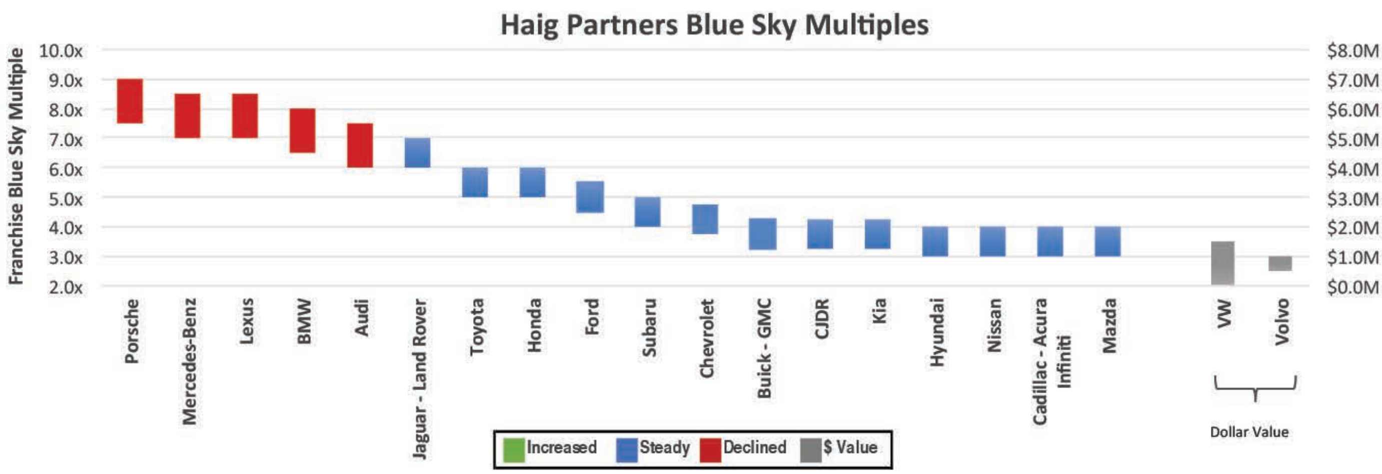
ventures. Penske has purchased no auto dealerships in the US but continued to invest in the truck industry, spending almost $500M for an additional 14.4% stake in Penske Truck Leasing. AutoNation and Lithia have been the most active with each of them buying one large group, along with a number of smaller acquisitions. While the number of dealerships acquired by the public companies is the same in 2016 compared to the same period in 2015 (due to the purchase of two large groups), the total number of transactions the public companies have closed is down 44%. Because these transactions were larger than normal, the chart above shows that the amount of spending by the publics on acquisitions actually increased 23% from the first three quarters of 2015 to 2016.

Blue Sky Multiples are Flat to Down

We are seeing a confluence of events in the market that is impacting blue sky multiples. Profits for many dealerships have fallen from their peak in 2015 and buyers expect there will likely be further declines. Plus, more dealers have entered the market to sell their dealerships. Normally, we would expect that falling profits and increased supply of dealerships for sale would lead to a significant drop in blue sky multiples as buyers would be less motivated and would have greater leverage over sellers. But during the past year we have also seen an increase in the number of buyers. In addition to existing dealers that want to grow, private equity firms, family offices and other wealthy investors are now hunting for dealerships. The net result appears to be that multiples for most franchises remain pretty close to the peak levels they reached near the end of 2015. Several premium luxury franchises have suffered a meaningful decline in demand and we have reduced blue sky multiples for these brands, although these dealerships still bring strong offers due to their high profits per store and relative scarcity.

The following table 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 dealerships, 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. In other words, each store is unique and brings its own set of opportunities and challenges. And geography matters a great deal. For instance, a Ford store in Texas is likely to bring a higher multiple than a Ford store in California.



POTENTIAL IMPACT OF THE ELECTION ON AUTO RETAIL

While Donald Trump has been a highly controversial candidate, there may be some very positive outcomes for dealers after he is sworn in. And these improvements could come quickly since the Republicans control all three branches of government.

- **Reduced Regulation**. The CFPB is likely to be muzzled or killed outright, which will protect the critical F&I income stream and allow lenders to provide more capital to dealers and consumers. Escalating EPA requirements regarding fuel efficiency may also be curbed, which might mean higher sales of higher profit trucks and SUVS and less emphasis on low margin electric cars. Labor issues could head back to historical policies. Health care costs should decline as costly elements of Obamacare are rescinded.

- **Lower Taxes**. Congress is working on tax reform that is likely to lower rates, leaving more money for consumers to purchase vehicles and more money for dealers to expand their dealerships, or buy additional stores. (I believe many dealers dream of one day getting a "Thank You!" note from the US Treasury or an elected official for helping to support our country, rather than being made to feel that they are targets from which local, state and Federal agencies simply want to extract money.)

- **Economic Growth**. Pro-business policies and lower taxes may help expand our economy. Businesses would have greater confidence to hire people, order supplies, and produce goods. Taxpayers would have more money in their pockets to spend, and some of that could be spent on autos. Many investors feel this way as the S&P 500 Index has increased 2.8% since the election (through 11/21/2016).

- **Improved Dealership Values**. A stronger economy could lead to higher profits for dealerships. Plus, lower taxes improve the after-tax returns of dealership acquisitions. The combined impact of higher profits and higher demand could result in dealership values even higher than the peak we saw in 2015. The public retailers average stock price has increased 16.9% since the election (through 11/21/2016).

Of course, there are also risks associated with a Trump presidency.

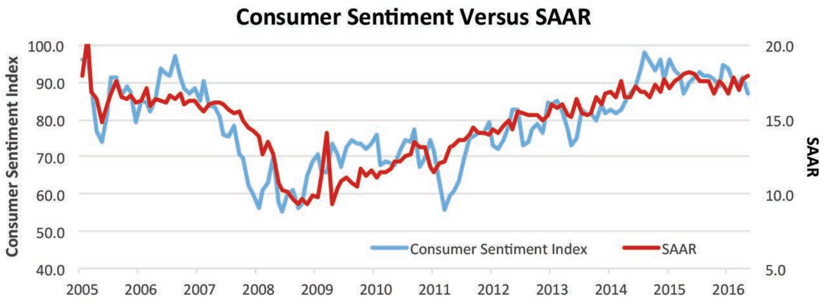
- **Higher Interest Rates**. Given the decline in the bond market, investors are expecting interest rates to rise during Trump's presidency. Higher rates reduce demand for cars and increase expenses.
- **Trade War**. Trump has railed about unfair trade policies. Many dealers sell imported cars and parts. If Trump applies tariffs on imported goods then profits could fall.
- **Real War**. Although President Trump seems less inclined to intervene than some of his predecessors, he also has an image of a tough leader and may resort to military force if provoked, instead of diplomacy.
- **Recession**. If Trump's policies lead to high inflation or erode consumer confidence we could tip into a recession.

TRENDS IMPACTING AUTO RETAIL

Macroeconomic Indicators Are Mostly Positive

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

- *GDP Is Growing Faster.* The initial report for Q3 was encouraging at 2.9%, much stronger than the 0.8% growth in Q1 and the 1.4% growth in Q2. Much of this growth was from businesses rebuilding their inventories, but consumer spending was up also.
- *Interest Rates Remain Low.* The average cost for a five-year auto loan was 4.3% per Bankrate.com, down slightly from levels seen since late 2015.
- *Employment and Household Income Are Increasing.* The US is on track to add over 2M jobs this year, keeping unemployment down to 4.9-5.0% overall, and 2.5-2.7% among college graduates. Average hourly earnings for private sector workers increased 2.8% year-over-year. *[WSJ 11/5/2016]*
- *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 3.1% through August 2016 compared to the same period last year, according the US Federal Highway Administration.
- *Gas Prices Remain Low.* The Department of Energy reported that the average price per gallon of fuel was $2.09 over the first seven months of 2016, down from $2.43 in 2015 and $3.62 in 2012. Annual savings on gas will exceed $600 compared to a year ago.
- *Consumer Sentiment is High.* There is a strong correlation between auto sales and consumer sentiment. As the chart at right shows, consumer sentiment remains quite high.



Source: Thompson Reuters / University of Michigan; Automotive News

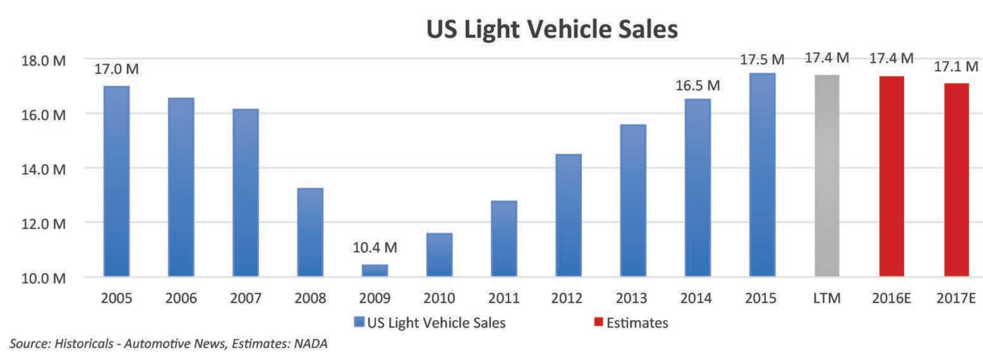
There are, however, a couple of indicators that are headed in the wrong direction and are giving some dealers concerns about the future:

- *Inventory Levels Are Elevated.* Due to increased production, declining growth in the rate of new vehicle sales, and stop-sale orders due to recalls, inventory levels are higher than normal and putting pressure on gross margins. Domestic, midline import and luxury inventories are up 6%, 6% and 18%, respectively, on November 1 2016 compared to a year ago.

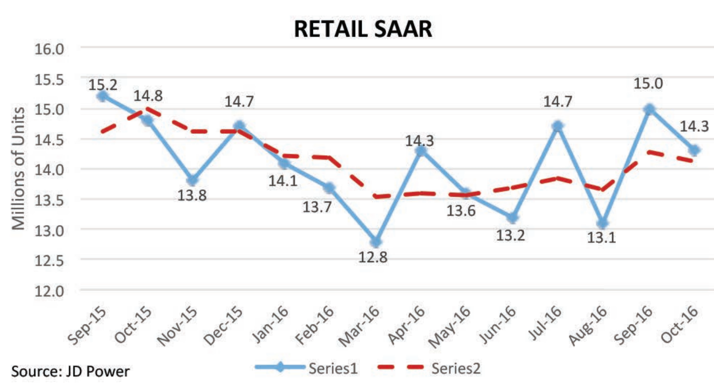
TRENDS IMPACTING AUTO RETAIL

- *Used Car Pricing Is Declining.* NADA's Used Vehicle Price Index was down almost 4% on the year and is at the lowest levels since 2011. Lower used car prices can affect new vehicle sales as they make it more difficult for owners to trade in their vehicles for new ones. Also, lower residual values on used cars will likely drive up the costs of auto leasing and hurt lenders who are forced to repossess vehicles.
- *Incentive Spending Increasing.* Incentive spending in October increased 14% Y/Y per Autodata, raising the concern that true demand for vehicles is weakening.
- *Loan Losses Are Increasing.* While auto loan balances have exceeded $1 trillion for the first time, some lenders, are seeing higher charge-off rates. The subprime sector is deteriorating fastest, with net losses hitting 8.9% in August, up from 7% a year earlier and 5.9% the year before that. *[WSJ 10/27/2016]*
- *Profits Are Declining.* Per NADA, profits for the average privately owned dealership fell 2% during the past twelve months ended in September compared to the full year 2015. Public company filings show operating income falling at four of the six publics in the first nine months of 2016 compared to the same period in 2015.

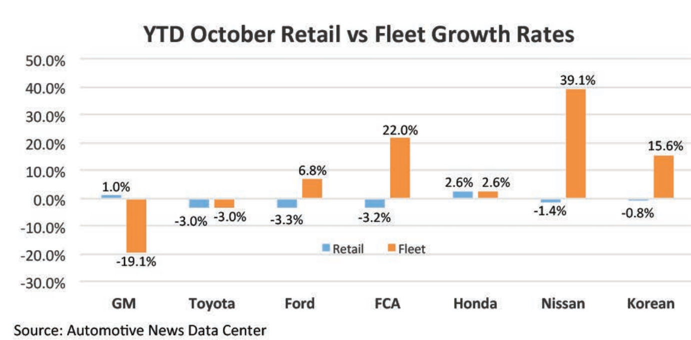
New Vehicle Sales Remain At All Time High, But Growing More Slowly And Driven by Fleet



After being ahead of 2015 for much of the year, total light vehicle sales are now 0.3% behind 2015 through October. In the chart at right, we show an estimate for 2016 of 17.4M units, representing a 0.4% year/year decline, and an estimate of 17.1M units for 2017, representing a 1.7% decline from 2016's estimate.



And while total new vehicle sales have increased slightly in 2016, it is important to note that this increase is due solely to a 10% increase in fleet sales. Both Automotive News and JD Power are indicating retail sales are essentially flat for the first half of 2016 versus the same period in 2015. In fact, as seen in the chart at right, JD Power shows that the US Retail SAAR peaked in September 2015 at 15.2M units and has not yet recovered in the past year.



We are still hearing about sales records from some OEMs, but most of these records are driven by sharply higher fleet sales, as evidenced by the chart at right that shows big spikes in fleet from OEMs like FCA, Ford, Nissan and the Koreans compared to restraint in fleet sales by GM, Toyota and Honda. GM indicated that their retail market share rose 1.5 points in October, the 16th monthly increase in the last 19 months. It has avoided selling many units into fleet as they say these units are marginally profitable and cut into the residual values of units they sell at retail. FCA recently

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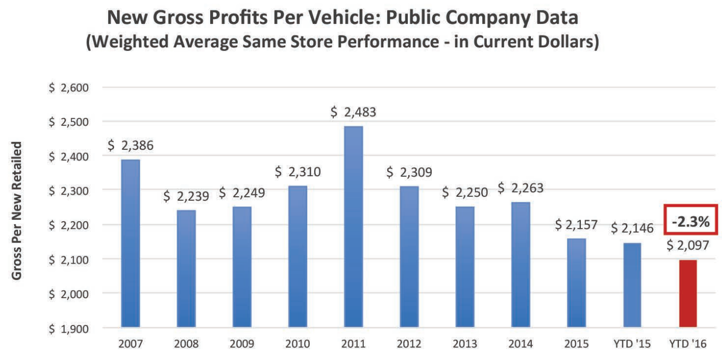
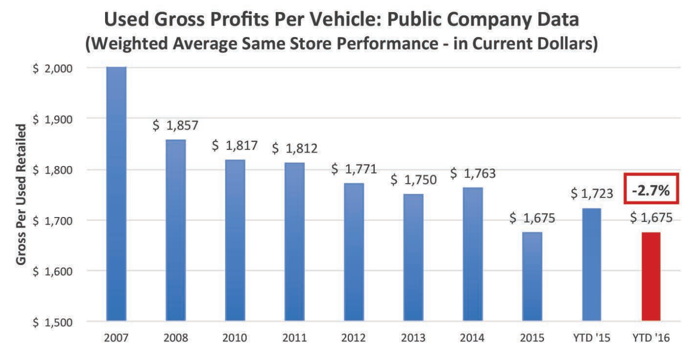
announced they would be following a similar strategy, although we wonder if they will be willing to suffer the sharp decline in overall sales that would result.

Vehicle Grosses Continue to Decline

After increasing 2.1% in Q2, gross profit per new vehicle sold declined again in Q3 by 4.3%, bringing the YTD decline to 2.3%. For used vehicles, average gross profits fell 4.5%, from Q1 2015 to Q1 2016, 3.1% from Q2 2015 to Q2 2016 and 1.5% from Q3 2015 to Q3 2016. The year to date decline on used vehicles is 2.7% compared to the same period in 2015. Only one out of the six public retailers indicated an increase on new in the quarter and another one reported an increase on used. OEMs are aware of this issue and some are adjusting their policies accordingly. Honda and Toyota have implemented advertising policies that prevent dealers from advertising below invoice. Ford recently dropped its stair-step program that had caused distortion in the market and eroded residual values. And some OEMs are adjusting production to better balance supply and demand.



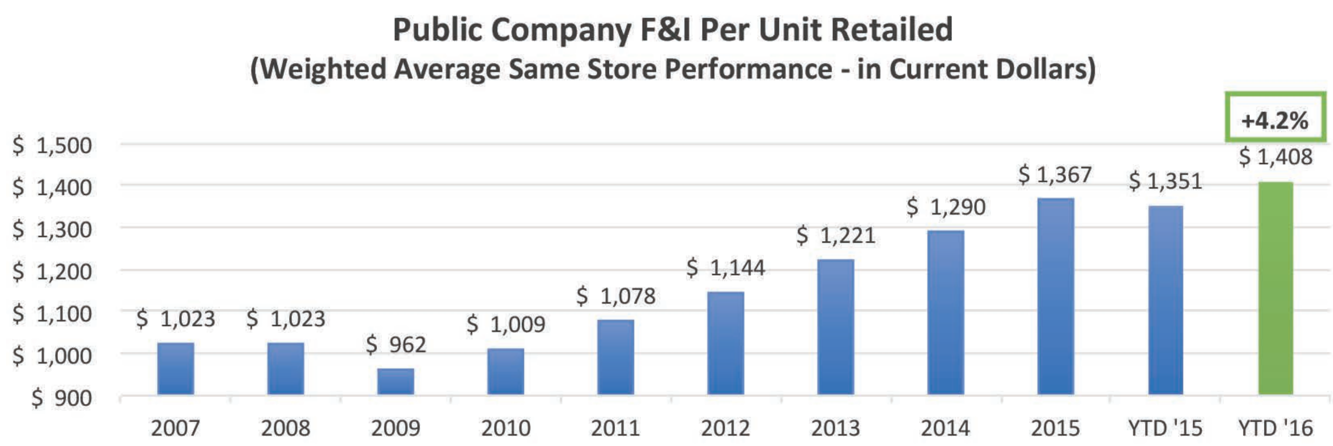
Source: SEC filings



Source: SEC filings

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 the first nine months of 2016, the public groups reported gross profit per vehicle retailed reached $1,408, up 4.2%, or $57 per vehicle, from the first nine months of 2015.

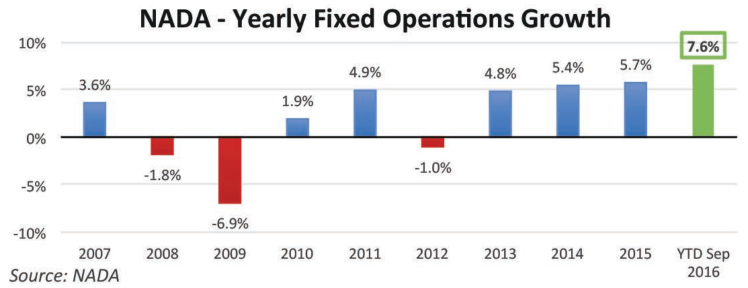


Source: SEC filings

TRENDS IMPACTING AUTO RETAIL

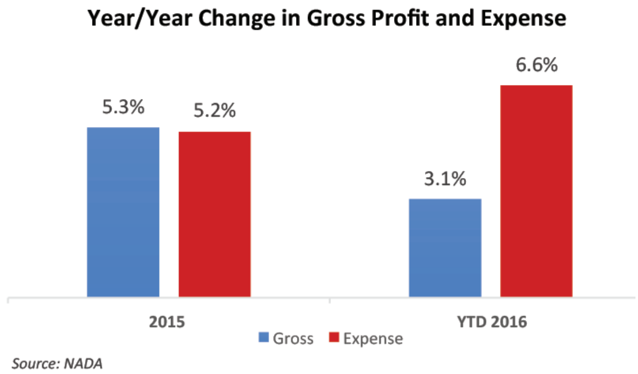
Fixed Operations Driving Higher Profits

Almost seven years of rising sales have significantly increased the number of units in operation. Also, the big spike in recalls that involve many millions of vehicles has been another boost for service departments. Private dealers reported fixed operations increased a whopping 7.6% through September of 2016. Public retailers also did well, averaging 4.5% growth on a same-store basis in the first nine months of 2016 compared to the same period in 2015. Higher profits from fixed operations may continue to support dealership profits even if vehicle sales and/or margins worsen.



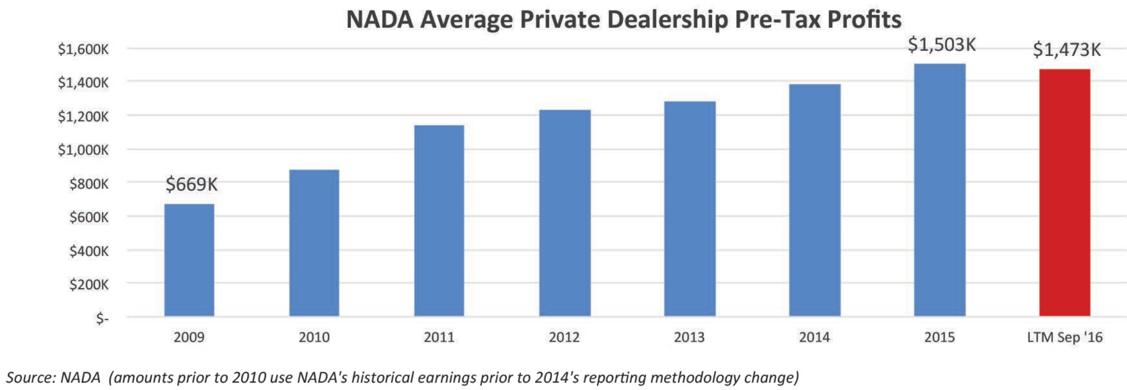
Dealership Expenses Are Growing Faster Than Gross Profit

NADA recently published data that showed the average dealership in the US during the year to date September period enjoyed a revenue increase of 5.8%, an increase in gross profit of 3.1%, but an average increase in costs of 6.6%. One dealer told us, "All the bad habits are coming back. We are selling lots of cars but getting fat again." We expect smart dealers will be highly focused on reducing costs in a mature market, and a number of the public companies have announced they have been taking steps to reduce inventory, personnel and other costs.

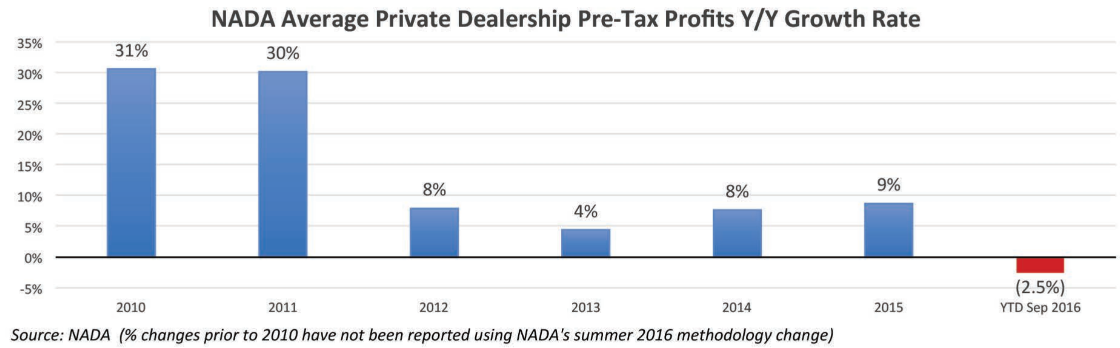


Dealership Profits Drop

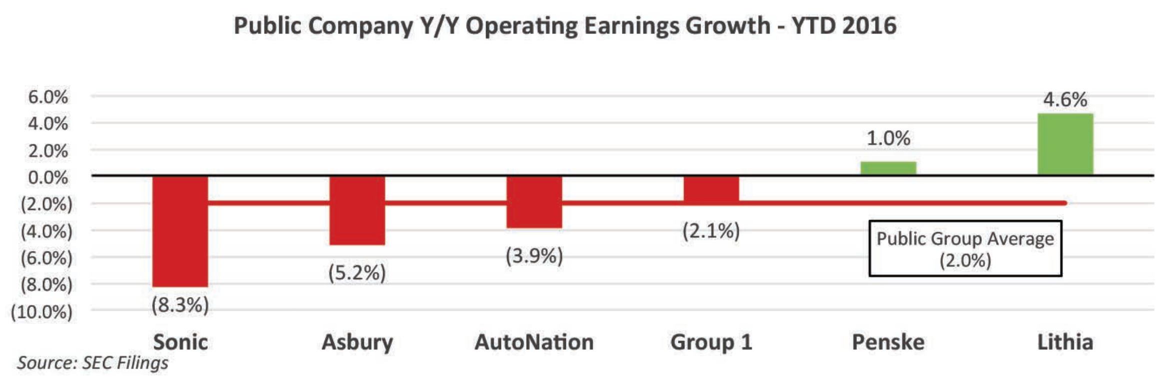
The net outcome of the trends listed above is that profits at dealerships have declined slightly so far in 2016. According to NADA, private dealerships generated an average of $1.473M in pre-tax profit over the last twelve months ended September 2016, a decline of 2.0% from the year ended 2015. It is becoming increasingly clear that profits per dealership peaked in 2015. However, profits are still at a very healthy area and we do not foresee sharp drops in the future. (Note: NADA recently changed the way it calculated profits per dealership to include dealer salary and other elements and has restated these profits back to 2009. We expect they will update previous years which will allow us to show the trends dating back to before the Great Recession.)



The following table shows the annual change in profits at privately owned dealerships since 2009. The seven-year run in growth of profits at dealerships may be at an end as we enter a market where retail sales and margins are trending down. Prior to the Great Recession, during the 2001 to 2007 period when new vehicle sales were essentially at a plateau, previous 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.

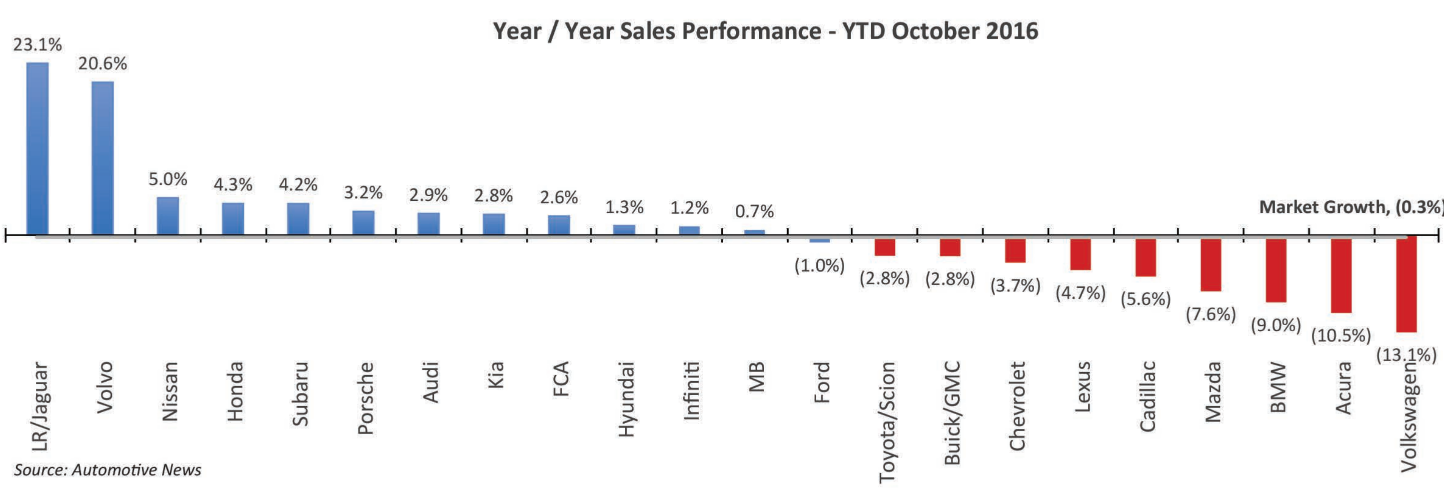


After being essentially flat in the first half of 2016, public retailers had a rough Q3 with earnings down 5.3% from Q3 2015. For the first nine months of 2016, earnings were down 2.0% compared to 2015. What is remarkable is that profits fell for many of the publics even though they have acquired dozens of dealerships in the past year that were included in these results, so on a same-store-basis, their results were even weaker.



Sales Growth for Individual Franchises

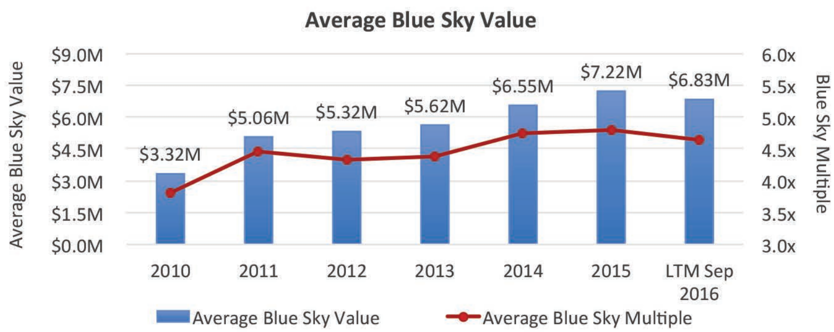
The following chart sets forth the change in new unit sales at the major franchises so far in 2016 compared to 2015. In prior years, almost all franchises were showing sales growth from the prior year, but now we see about as many franchises suffering sales declines as enjoying sales increases. And several franchises that show sales gains (FCA, Nissan, Koreans) have grown due to fleet sales that do dealers little good. Without fleet, the number of franchises posting sales declines would outnumber the franchises posting sales gains. There are a few bright spots, such as Volvo and Jaguar-Land Rover, but these were offset by key luxury brands like Lexus and BMW that are underperforming. Sadly, Volkswagen continues to struggle badly.



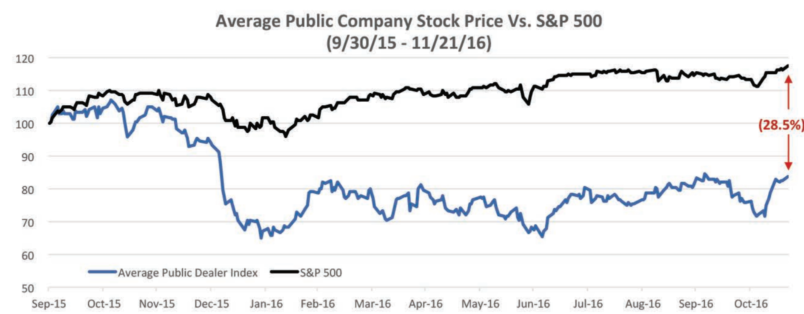
BUY SELL TRENDS AND EVENTS

Dealership Values May Have Peaked Along with Blue Sky Multiples

We estimate that the average blue sky multiple for all franchises on an unweighted basis was 4.64x in Q3, a 0.15x (3.2%) drop from Q2 2016 and a decline of 4.2% from the Q3 2015 average multiple of 4.84x. While there is no way to know how accurate our estimates are, we believe we have passed the "peak" in terms of blue sky multiples, and now possibly blue sky values. The average profit per dealership according to NADA has declined slightly for the last 12 months ended September 2016 from year-end 2015. Applying the 4.64 blue sky multiple to the average dealership pre-tax profit of $1.473M over the last 12 months through September generates an average blue sky value of $6.83M, down 5.4% from year end 2015.



While we estimate the value of privately owned dealerships has dropped slightly, there has been a big sell-off in the value of the public auto retailers. The average stock price for public retailers was $55.48 per share on November 21, 2016, 22% below their 52 week high, and down 10% from the end of 2015. And this is after a nice rebound after the presidential election that lifted these stocks by an average of 16.9% from the day before the election!



Despite the election, many investors remain concerned that we have reached a plateau in sales and that dealership profits will now decline. The average Price/Earnings per Share multiple has collapsed from 18.4x at the end of 2014 to 12.4x on November 21, 2016, and now trades far below the 24.4 Price/Earnings[1] multiple of the S&P 500, meaning that investors see much less upside from auto retail than they do from the general economy.

Technology And Other Trends Will Not Kill Dealerships

Much has been written recently about new developments and trends that some predict are going to make dealerships obsolete. We may be engaging in wishful thinking or have our heads in the sand, but we do not see these factors harming dealers for many years, if ever. But more important than our own opinions are those of dealership buyers, and so far none of them have told us they see a meaningful risk to dealership profits, and therefore values, from these potential risks.

- *Autonomous Cars.* Assuming that the brightest minds can make autonomous cars safer than human driven cars, there will still be accidents. Today, the liability for accidents is assigned to one of the drivers and the other party can sue for damages and will try to recover the maximum insured amount of the responsible party, typically $250,000. With autonomous cars, the victim will sue the OEM, a much deeper pocket. So OEMs will have a much higher risk profile than today. How will OEMs price in this risk? A big increase in the cost of vehicles will be rejected by the large majority of consumers.

- *Uber/Lyft.* These are sophisticated taxi services, so not completely new. We expect that these services will continue to grow in popularity and will expand the use of cars. All of the trips will be empty 50% of the time as the drivers travel to pick up their passengers. So we see Uber and Lyft as increasing the total number of miles driven, which will in turn increase the number of

[1] *Per Standard & Poor's*

vehicles sold and serviced. It is possible that Uber and Lyft will negotiate fleet deals for drivers which would suppress retail margins. But we think it is unlikely that the majority of drivers today will give up their cars to use Uber or Lyft. How many people will always want to ride in the back of an eight year-old car with stained seats, a sagging headliner, smelling of smoke and listen to a driver talking to their friends or loved ones? How many people use their vehicles for work, need car seats, or are simply unwilling to wait the 10 or so minutes to be picked up, or pay premium rates to travel during the times they need to travel every day to work or school?

- *Car Sharing.* This is already available. It is called either the rental car business (and Enterprise alone has 6,000 locations around the country) or hailing a taxi or Uber/Lyft car. The car sharing start-ups so far have gotten little traction.
- *Direct Distribution (Tesla Model).* It's unclear to us why any OEM would want to sell direct to consumers. Most new car departments make little money and are unable to support themselves without the used car department, F&I department and fixed operations. OEMs have already proven they are terrible at running dealerships. Plus, the cost to develop a dealership network is prohibitive. Assuming Tesla wanted to replicate the network that Mercedes-Benz dealers have built, they would need to invest well over $1 billion and be prepared to hire hundreds of thousands of employees to sell and service their cars. And how will they sell hundreds of thousands of cars a year without such a network? There are not that many examples of companies that are good at being vertically integrated, from R&D to manufacturing to retail. Can you name three?

HAIG PARTNERS: PROVIDING VALUE TO CLIENTS

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 to optimize the sale of their most valuable asset. We combine the skills gained during our years in investment banking with the experience of buying and selling dealerships for AutoNation and Asbury. We spend a tremendous amount of time and energy on each engagement. Emphasizing quality over quantity best serves our clients' interests.

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

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

Experience. Since we have been involved in more than 150 transactions for 270 dealerships with approximately $3.5 billion in value, we know how to respond to issues that can arise in a buy-sell process.

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

Of course, all buy-sell advisors say they are experienced and effective. We encourage any dealer who is considering hiring a firm to ask a few simple questions of the advisor he or she is talking to:

1. *How many dealership sales have you, personally (not your firm), closed in your career?*
2. *Can I speak to your last ten clients to learn about how you added value?*
3. *Why should I choose you over another advisor?*

We enjoy answering these kinds of questions. ***Haig Partners offers unmatched experience in our industry, and we are pleased to connect you with our former clients for references.***

- *Population Growth.* We expect that the trends above will take some sales and service work from dealerships, but we also believe that population growth in the US will outweigh any of these challenges. The US Census predicts that the population will grow 12% from 321M residents today to 359M by 2030, an increase of 38 million people (about the size of California, our most populous state!). While not all of these people will purchase vehicles, we believe a lot of them will. So even if trends chip away at dealerships, our expectations are that total retail volumes will continue to grow.

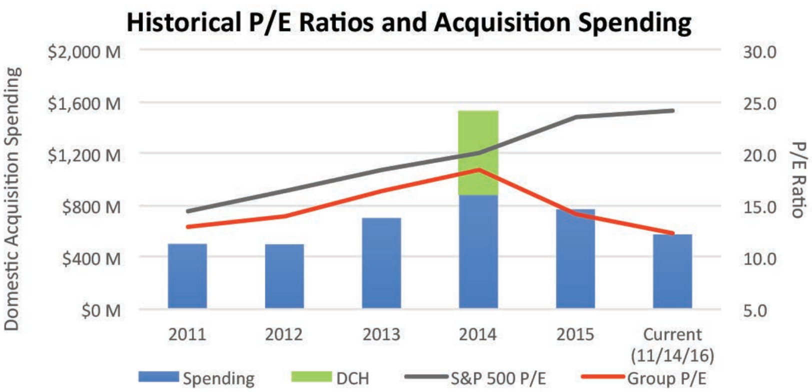
More Sellers and Declining Profits Means Lower "Closing Ratios" and Longer Transaction Times

In 2015, we had the luxury of getting strong offers for almost every business that we brought to market. And if our clients were not satisfied, we could update the numbers which had increased during our initial marketing process and go out to another group of buyers with an even more valuable business. There were more buyers than sellers so pricing was strong and the odds of success in selling a business were very high. Buyers moved quickly to lock in deals.

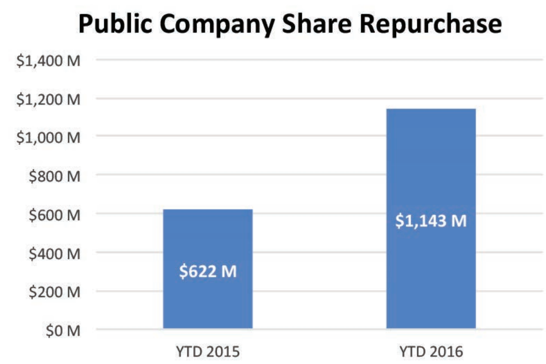
Today, profits are trending down and there are more stores available for buyers to choose from. Some sellers who do not understand the new dynamics may be disappointed and unsuccessful in selling their dealerships. Even those deals that do close seem to be taking more time as buyers are cautious in their negotiations and due diligence.

Public Companies Are More Focused on Share Repurchase Than Acquisitions

Only AutoNation and Lithia have made any meaningful acquisitions of US auto dealerships in 2016. While the $597M spent on acquisitions so far in 2016 by the publics exceeds the $476M spent during the same period in 2015, about 70% of the amount spent this year has been on just two deals, one of which closed in Q1 after having been negotiated in Q3 2015, when conditions were better. On a combined basis, the publics have acquired just nine other dealerships so far in 2016 (~3% of the total that have traded hands) for a total of approximately $180M. Instead of acquisitions, the public companies have increased their share purchases from $622 million in the first nine months of 2015 to $1.143 billion in the same period of 2016, an increase of 84%. Stock purchases are a way to return cash to shareholders but they also reduce the denominator in the Earnings Per Share calculation, thereby helping to boost stock prices which is how most of their CEOs are measured.

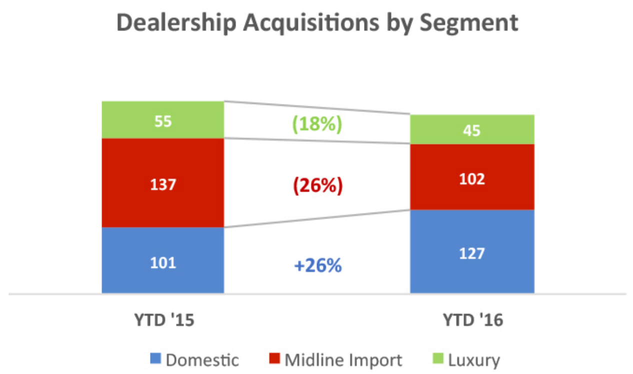


Source: Public Filings, Morningstar and Standard & Poor's

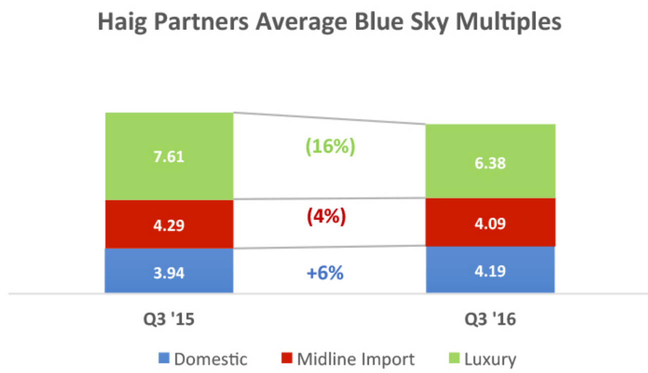


Buyers Are Shifting Their Focus From Luxury Stores to Domestic Stores

Consumers in the US have shifted quickly in the past 18 months from cars to trucks. This shift has hurt a number of the premium luxury brands which founds themselves with the wrong mix of vehicles at dealerships, hurting profits. Sales of luxury stores fell 18% so far in 2016 compared to the same period in 2015. But the shift has benefited the domestic brands that have traditionally been weighted towards trucks and SUVs. Buyers follow the money and so they have been more active in acquiring 26% more domestic stores in 2016 than they were last year. Domestic brands have seen some increase in their blue sky multiples, but the lift has been moderate since there are some ten thousand domestic dealerships that operate in the US so buyers have numerous options to acquire domestic stores without paying a large multiple. The tables below show how the mix of acquisitions has shifted over the past year, and also how the multiples of premium luxury brands, domestic brands, and midline import dealerships have changed over the past year.



Source: The Banks Report and Haig Partners



Potential Returns on Investment When Factoring in a Recession

In our past reports, we have shown simple Return on Investment calculations on acquisitions that assumed cash flows would remain constant over time. We thought it might be useful to show how some dealership buyers view the potential returns on investment from acquisitions over a ten-year period that include a recession. We looked at three basic scenarios to consider a range of possible outcomes from an acquisition of dealership for 5.0x earnings (slightly above our current average blue sky multiple) plus assets equal to another year of earnings, for a total investment cost of 6.0x earnings.

- **Scenario 1** - *Growth*: Profits increase by 15% over three years, then a recession occurs in which profits fall 20% below their peak, and then profits return to peak over the next three years before a sale for the same multiple paid.
- **Scenario 2** - *Flat*: Profits remain the same for two years, a recession occurs in which profits fall 20% below their peak, and the profits return to original levels for five years before a sale for the same multiple paid.
- **Scenario 3** - *Decline*: Profits fall 20% and never recover. Sale occurs in ten years at a multiple 1x lower.

The table below shows the projected pre-tax cash flows and Internal Rates of Return from these acquisitions on an unleveraged and leveraged basis. The leveraged scenarios assume a 10-year loan of 50% of the total purchase price at a rate of 4%. These returns far exceed the kinds of returns available to most dealers from other investment opportunities and demonstrate that even in a recession, dealership acquisitions can adequately service their debt.

PRE-TAX CASH FLOW - UNLEVERAGED

Scenario	Initial Investment	10 Years of Profits	Sale Proceeds	IRR
1 - Growth	($600)	$1,094	$693	20.3%
2 - Flat	($600)	$965	$600	17.3%
3 - Decline	($600)	$800	$400	12.3%

PRE-TAX CASH FLOW - LEVERAGED

Initial Investment	10 Years of Profits	Sale Proceeds	IRR
($300)	$724	$693	29.9%
($300)	$595	$600	24.8%
($300)	$430	$400	17.0%

We further thought our audience might be interested in the kind of projected after-tax returns that are available to dealership buyers. The amortization of goodwill is another positive feature of acquiring dealerships compared to other investments as the amortization can substantially reduce taxes. Assuming a maximum personal tax rate of 44.6% (39.6% Federal and 5% state tax rates), the after-tax, unleveraged IRR under Scenarios 1-3 ranges from 7.4% to 13.0%. The after-tax leveraged IRR under Scenarios 1-3 ranges from 10.3% to

18.8%. We even ran a scenario with leverage where cash flows fell 40%, and an investor could still get a 5% IRR after-tax. Not bad for a disaster scenario! And these returns will increase further if Congress lowers taxes.

AFTER-TAX CASH FLOW - UNLEVERAGED

Scenario	Initial Investment	10 Years of Profits	Sale Proceeds	IRR
1 - Growth	($600)	$755	$570	13.0%
2 - Flat	($600)	$683	$504	11.0%
3 - Decline	($600)	$592	$362	7.4%

AFTER-TAX CASH FLOW - LEVERAGED

Initial Investment	10 Years of Profits	Sale Proceeds	IRR
($300)	$416	$570	18.8%
($300)	$344	$504	15.6%
($300)	$253	$362	10.3%

Regardless of the math a buyer uses, dealership valuations remain healthy because they provide a return to buyers that exceeds almost any other kind of investment available on the market today, so long as they expect to hold the investment for ten years or more. And remember, if we experience any amount of inflation over the next ten years, these returns would be even higher.

THE TEAM

Alan Haig, President.

For six years prior to establishing Haig Partners, Alan led the auto retail practice at The Presidio Group where he closed numerous transactions, including two that he believes achieved record high levels of goodwill for the franchises involved. Before that, he was Senior Vice President of Corporate Development at AutoNation, Inc., the world's largest auto retailer, leading its dealership acquisitions and divestitures. He was also at AutoNation in its earliest days and wrote the original business plan for the new car division and then began leading dealership acquisitions. Through these positions, Alan has been involved in the purchase or sale of more than 160 dealerships with a value of approximately $2.4 billion. In his career, Alan has closed transactions with a value of over $5.7 billion.

Alan holds an MBA from Columbia Business School, an MA from the University of North Carolina and a BA from Dartmouth College. He lives in Ft. Lauderdale, FL with his wife and their four children.

Nate Klebacha, Partner.

Before helping to establish Haig Partners, Nate served as Vice President and then Principal at The Presidio Group where he was responsible for dealership analysis, preparation of marketing materials, responding to due diligence requests from buyers, and assisting in closing transactions. Prior to Presidio, Nate spent six years with Asbury Automotive where he was involved in the purchase or sale of more than 50 dealerships for more than $500M. Before Asbury, Nate held positions at O'Shaughnessy Capital Management and Bear Stearns Asset Management as assistant portfolio manager.

Nate holds an MBA from the NYU Stern School of Business and a BS from the University of Connecticut. He lives in Weston, CT with his wife and their three children. (Welcome, Baby Alex!)

Pat Carroll, Managing Director.

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

Mike Toth, Vice President.

Prior to Haig Partners, Mike served as Business Development Director at MEDNAX, Inc., a leading provider of physician services, where he was involved in acquisitions with a value of more than $800 million. Prior to that, Mike was the Director of Corporate Development at AutoNation, Inc., where he worked on the purchase or sale of approximately 40 dealership transactions with a value of more than $400 million. He also held positions at AutoNation managing the floorplan facilities and financial risk management programs. In addition, Mike held various operating and financial positions at Office Depot where he was responsible for retail categories with over $1 billion of revenue and participated in approximately 500 real estate projects.

Mike is a CFA® charterholder and holds an MBA from Florida Atlantic University and a BS in Accountancy from Villanova University. He lives in South Florida with his wife and two children.

FRANCHISE VALUATION RANGES

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

Dealership Valuation Methods

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

The blue sky multiple ranges that we set forth in this report reflect our expectations what buyers in competitive situations will pay for the goodwill of dealerships and we note any upward or downward changes from Q1 2016. In our opinion, dealers are going to have a more difficult time getting offers in the ranges we discuss below without a true marketing process because buyers are looking at more deals today than at any time in recent memory. Sellers are going to need to present their businesses to numerous parties to be confident of getting a good result. We remind the reader that each dealership transaction is unique and dealerships may trade above or below the ranges we describe in this report. Dealerships that are underperforming or are in highly desirable markets may have higher values, while dealerships that are in less desirable markets, are overperforming or that have significant real estate issues may bring lower multiples. (Note: the data below regarding sales is per Automotive News and the data regarding dealership profits is from NCM, as estimated by Haig Partners.)

Luxury Franchise Blue Sky Multiples

Porsche. Porsche has outperformed the market, growing 3.2% so far in 2016. Per unit gross profits have declined from their stratospheric heights due to increased inventories and a higher mix of lower priced/margin Macans. Given the significant growth in units in operation, we expect dealers will be enjoying a boom in fixed ops. Porsche stores are relatively rare, and buyers tell us they remain highly interested when they come to market. Lower multiple range: 7.5x-9.0x.

Mercedes-Benz. After a tough start to the year, M-B is now slightly outperforming the market with an increase in sales of 0.7%. M-B dealerships remain much in demand as they are capable of generating high levels of profits and dealers are pleased with M-B's leadership. We have been involved in the sale of five M-B stores recently and demand has been strong. Lower multiple range: 7.0x-8.5.

Lexus. Lexus had an excellent year in 2015 but is lagging in 2016, declining 4.7% through October. Dealers love Lexus and it came in first in "Value" in NADA's Summer 2016 Dealer Attitude Survey. But some dealers are complaining about stale products and low margins right now. Lexus has been over-weighted on cars in a market that is shifting to trucks and SUVs. Competition in the hot midsize CUV segment, which Lexus once dominated with the RX, grows tougher all the time. We were involved in the sale of two Lexus stores recently, and interest was very strong. Lower multiple range: 7.0x-8.5x.

BMW. BMW underperformed the market in 2015 and has declined 9% through October. BMW is trailing Lexus and Mercedes in unit volume while still heavily pushing dealers to sell new cars into their loaner fleets. X1 and X3 sales are strong in 2016 but the aging core 3 and 5 series cars are down more than 20%. With key redesigns coming in 2017 and 2018, we expect BMW to start gaining back share next year. Facility upgrade requirements continue to be a challenge for some dealers, and these requirements can suppress franchise value. We also just heard about a potential change to BMW's incentive structure that may make stores less profitable. Despite its recent issues, acquisition opportunities for BMW stores are rare, so buyers remain highly interested whenever one becomes available. Lower multiple range: 6.5x-8.0x.

Audi. Audi continues to grow faster than the market with sales increases of 11% in 2015 and 2.9% through October 2016. Customers love the new Q7 and Audi's SUV factory in Mexico opened in September to produce the new Q5, which will further boost Audi's production of higher margin SUVs that have been in limited supply. Audi also is making a mark in customer service, winning first place in a recent JD Power survey. Audi has largely worked through the excessive inventory that was suppressing margins, and has altered its Business Plan Objective system to make it easier for dealers to achieve bonuses. Lower multiple range: 6.5-7.5x.

Jaguar-Land Rover. JLR was up an amazing 26% (37% for Land Rover alone) in 2015 and another 23% through October. With the new XE and F-Pace in the market, Jaguar sold more than 3x as many units in October 2016 as October 2015. These new models, along with the upcoming Land Rover Discovery, should help JLR stores better compete with other luxury brands that have a broader line up of vehicles. The multiples for JLR are hard to value at the moment since the factory is pushing stand-alone Jaguar and Land Rover dealers to combine. We are seeing transactions where the buyer is paying an exorbitant price for the sister brand but getting a JLR add-point in a contiguous or distant market as a reward. The dealers that don't combine may see an add-point given to a third party, which will hurt both existing dealers. For combined JLR stores where no add point is coming, same multiple range: 6.0x-7.0x.

Cadillac/Acura/Infiniti. With an aging vehicle portfolio, Cadillac sales are down 5.6% through October. Cadillac's 400 smallest dealers have until the end of November to decide if they will give up their franchises for payouts up to $180K. This is a tough call for dealers, but we understand Cadillac's logic. Unless Cadillac dealerships can sell substantially more vehicles per location, its dealer body will never be able to match the luxury experience offered by its German competitors. Acura underperformed significantly through October with a 10.5% decline in sales and profits are down 15%. Infiniti was up 1.2% through October with a lineup offering more SUVs than cars, but dealership profits were down 23%. 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. With well-received new products, volume was up 24% in 2015 and another 21% through October, a remarkable comeback for a franchise that was fading fast in the US. 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 can be a nice tuck-in if facility costs are modest. Same value range: $500,000 - $1,000,000.

Mid-Line Import Franchise Blue Sky Multiples

Toyota. Toyota sales were down 2.8% through October. Dealers have been complaining about declining new vehicle margins, but we are also hearing that Toyota's new advertising covenants that are designed to support grosses are having some positive effects. Toyota's high volume/low gross business model continues to be highly profitable for most dealers. High profits per store and a dealer-friendly OEM continue to attract lots of buyers. Same multiple range: 5.0x-6.0x.

Honda. Honda sales grew 4.3% through October 2016, making it one of the best performing brand in terms of retail sales. Its new or redesigned products are selling well. Bank of America / Merrill Lynch's latest Car Wars report predicts that these updated core products, along with the new models, will make Honda the fastest growing major OEM over the next 3 years with a replacement rate of 96% compared to the industry average of 80%. Loyal customers and a balanced business model of strong variable and fixed operations continue to attract buyer interest. Dealers love the predictability of the Honda business model. Same multiple range: 5.0x-6.0x.

Subaru. Subaru's sales growth continues in 2016 with sales up 4.2% through October. Dealers love 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 and with advertising that is appealing to Millennials, young families and educated older folks, Subaru continues to take share from its larger Japanese and Korean rivals. While all the growth is fun for dealers, we wish there was more margin in the products. Buyers may need to expand dealerships to handle the higher sales and service volume. Same multiple range: 4.0x-5.0x (with pricing higher in Snow-Belt states).

Kia. Sales beat the market, up 2.8% through October, though the increase was driven by fleet. We have been involved with several Kia franchises recently and we have been impressed with the profits that good dealers can generate. This franchise can provide a high ROI to buyers as the multiple is relatively low and real estate costs are less than most other brands. Same multiple range: 3.25x-4.25x.

Hyundai. Sales beat the market through October at 1.3% growth, though driven by fleet. The company is shifting its supply of CUVs from other markets to increase availability and recently announced it will launch a light truck in the US. This shift from cars to trucks should help it to maintain or gain share. We are concerned about their plans for the Genesis brand as we feel that Hyundai will likely force dealers to move those products into a stand-alone facility. This increase in costs and overhead may never pay off for dealers. Same multiple range: 3.0x-4.0x.

Nissan. Sales were up 5% through October although all of the sales growth in 2016 has been through fleet, as its retail sales are down slightly. We have already described Nissan's strategy of encouraging "preferred dealers" to consolidate markets in previous reports so we won't repeat it. Dealers complain more to us about Nissan than any other franchise and they gave Nissan poor ratings in NADA's Summer 2016 Dealer Attitude Survey. We feel badly for sellers of Nissan stores in most markets. The list of potential buyers is limited since dealers know that Nissan is likely to exercise its right of first refusal when possible, thereby assigning the contract to another buyer. Those preferred buyers are not motivated to make strong offers to sellers, since they know they don't really have to compete to buy Nissan stores. We believe a lot of franchise value is being eroded here so long as Nissan remains heavily involved in selecting its dealers. Same multiple range: 3.0x-4.0x.

Mazda. Sales have declined 7.6% through October. Mazda has been underweighted in trucks and CUVs and that has cost them sales in this environment of cheap gas. The new CX-9 is helping but with car sales down almost 14%, Mazda needs to adjust its portfolio quickly. Few buyers seek Mazda as a stand-alone acquisition, but like the returns they can get from them as a part of an acquisition. Same multiple range: 3.0x-4.0x.

VW: ~~Drivers Wanted~~ Customers Needed. VW sales were down 18.5% in October, their worst month since the diesel scandal broke, and they are down 13% for the year. With settlements in place for customers and dealers, we hope the franchise can begin to move beyond this scandal. Perhaps we have touched the bottom for this franchise but that will depend on VW's incoming products. Now that the settlements have been announced, we expect more buy-sell activity of low-performing VW stores. Buyers willing to stomach short-term losses may find buying a VW store to be one of their better long-term investments. Same value range: $0 - $1,500,000.

Domestic Franchise Blue Sky Multiples

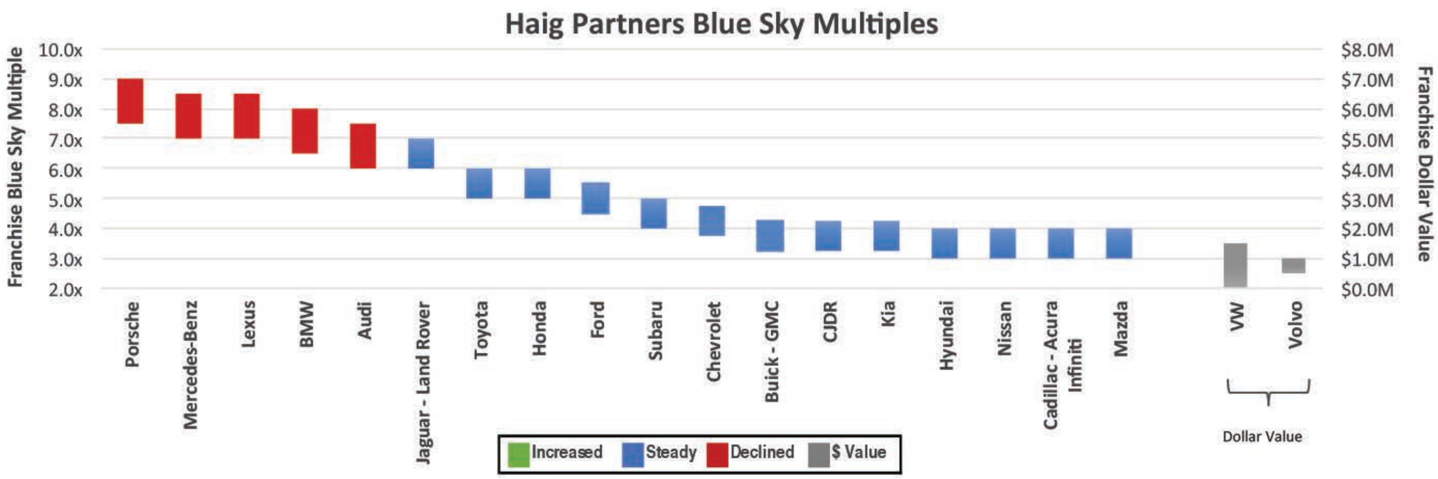
(Note: The multiples paid for domestic franchises will likely be higher in markets like Texas where trucks sell well and lower in markets like California where imports dominate.)

Ford. Ford sales have declined 1% through October, propped up by strong fleet sales. Retail sales have declined 2.8% so far in 2016, a bigger drop than average, which surprises us. Ford's product mix should be an ideal fit for today's low gas prices. Thankfully, Ford has recently dropped its stair step program that was unpopular with dealers and was hurting profits at many stores. Some dealers have been scratching their heads as Ford continues to pursue new ventures, a distinct change from the Alan Mullaly's focus on the core business. Despite possible distractions, Ford is still seen as the best positioned domestic OEM. We have been involved in the purchase or sale of seven Ford dealerships recently. All got significant interest from buyers. Same multiple range: 4.5x-5.5x.

Chevrolet. Sales were down 3.7% through October. However, the decline in 2016 is due to a reduction in fleet sales since its retail sales were up as consumers were attracted to its truck/CUV/SUV heavy lineup. The year has been good for dealers, although some are worried that a mature sales environment will make it increasingly difficult to qualify for GM's EBE/SFE incentive programs that call for sales increases over prior year. They are hoping GM will modify this program. If not, then profits could fall substantially at many dealerships since these programs comprise the majority of the profit in the new vehicle department. Same multiple range: 3.75x-4.75x.

FCA (Chrysler-Jeep-Dodge-Ram-Fiat). FCA's sales were up 2.6% so far through October due to a 28% increase in fleet sales. Retail sales are down 2.7% compared to last year. With sales declining, dealers see FCA's stair step programs that depend upon higher sales as unrealistic and in need of adjustment. Some buyers love this franchise, while others are wary of FCA's long-term prospects. We wonder if they are going to kill the Chrysler and Fiat brands and just focus on Dodge and Jeep. Same multiple range: 3.25-4.25x.

Buick-GMC. Sales were down 2.8% through July as GM pulled back on fleet sales. GMC continues to perform particularly well with its full-sized trucks, SUVS and the new Canyon light truck. Lower gas prices should continue to drive sales of high margin trucks and SUVs. These franchises have the same EBE/SFE concerns as Chevrolet. Same multiple range: 3.25x-4.25x.



SUMMARY

While we may have passed the peak of the market in terms of dealer profits, the buy-sell market remains highly active. Private dealers have access to lots of capital and are pursuing deals. Publicly traded dealer groups are still active, although less than in the past. And new entrants like private equity firms and family offices continue to work to deploy large amounts of capital buying dealerships. Overall, we see prices about the same for most franchises, with the exception of premium luxury in which we believe all franchises took a step back. We expect the remainder of 2016 to be a dynamic period in dealership buy-sells, although some of the "froth" we saw in late 2015 and early 2016 has probably been blown away.

Haig Partners is seeing these conditions in our current engagements that range from Florida to California. These transactions include domestic, import and luxury 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. The value of the transactions that we have closed over the past two years is approximately $800M, excluding new vehicle inventory values, which is over $50M per transaction and $25M per dealership. That said, we also are pleased to work on smaller transactions where we feel we can add value to the sale process.

The Leading Advisor to Buyers and Sellers of Higher Value Dealerships

$3.5 Billion in Value
270 Dealerships
20 Years Experience
1 Trusted Partner

HAIG PARTNERS

Haig Partners has advised on the purchase or sale of dealerships with approximately $800 million in value in the past two years.

Lumberton Ford Lincoln
Acquired by
CROSSROADS CARS.COM

Leigh Automotive
Mercedes-Benz of Tuscaloosa
Acquired by
SMITH AUTO GROUP

Brumos Automotive Acquired by FIELDS Auto Group Florida
Jacksonville | Orange Park | Jacksonville | Orange Park | Jacksonville

MORRIE'S AUTOMOTIVE GROUP Acquired by fremont FREMONT PRIVATE HOLDINGS
Minnetonka | Brooklyn Park | Brooklyn Park | Buffalo | Minnetonka | St. Louis Park
MASERATI | BENTLEY | ASTON MARTIN | Minnetonka | Chippewa Valley | Inver Grove

KIA
Central Kia Irving
Acquired by
CLAY COOLEY AUTO GROUP

KIA
Central Kia Lewisville
Acquired by
CLASSIC AUTOMOTIVE GROUP

MASERATI OF MANHATTAN
Acquired by
BNF Automotive Group

VALLEY MOTORS
Acquired by AutoNation

Ford
Mike Davidson Ford
Acquired by
ASBURY AUTOMOTIVE GROUP

FREIGHTLINER
Freightliner of Knoxville & Chattanooga Acquired by
PENSKE

Mercedes-Benz
Mercedes-Benz of Reno
Acquired by
AutoNation

Ford
Texas Motors Ford
Acquired by
ASBURY AUTOMOTIVE GROUP

Ford
Sandy Springs Ford
Acquired by
ASBURY AUTOMOTIVE GROUP

TOYOTA scion
Sandy Springs Toyota Scion
Acquired by
Hendrick AUTOMOTIVE GROUP

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