THE HAIG REPORT®

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

THIRD QUARTER – 2018

- The number of dealerships sold in Q3 2018 jumped 26% compared to Q3 2017. Excluding one large transaction involving Ken Garff Automotive Group, the number of dealerships sold in Q3 2018 declined 7% from Q3 2017.
- The number of dealerships sold Q1-Q3 2018 is up 35% compared to the same period in 2017. Excluding the Garff transaction, Q1-Q3 dealership sales are up 24% from the same period in 2017.
- Public company spending on US dealerships January-September 2018 is down 33% compared to the same period in 2017
- Blue sky multiples are lower for most domestic and mid-line import franchises
- Retail sales remain surprisingly healthy having stabilized at a plateau of over 13M new units for the past six months
- Dealership profits continue to slide, down 3% so far in 2018 compared to 2017

HAIG PARTNERS

OVERVIEW

IN THIS ISSUE:

Coal Mines or Fruit Trees?

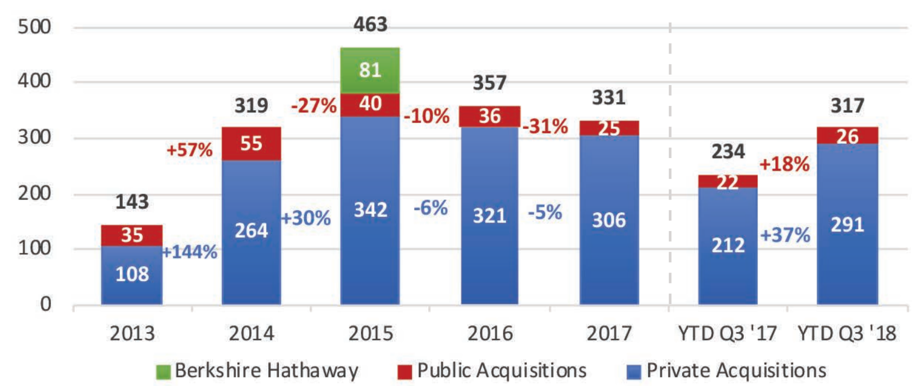
Most auto dealers continue to be pleased with the current state of the industry and their bottom lines. There are, however, concerns about the potential disrupting influence of technology on auto retailers. Some experts have said that dealerships have entered into a period of irreversible decline in value as consumers will shift away from the current modes of vehicle ownership for their transportation needs. This perspective paints many dealerships like "coal mines," an extractive industry that is good at producing profits for a period of time, but will eventually become depleted and worthless. This gloomy outlook is not predestined, however, as we are also seeing that some dealers are embracing technology in their businesses to boost their profits. And these dealers are training their staffs and changing their processes to be more consumer friendly. They see their dealerships as "fruit trees," assets that will continue to produce steady and even increasing profits if well nurtured.

The competing views of the future are leading to a highly active buy-sell market, with an increase of 35% in the number of dealerships sold year-to-date. In addition to the usual profiles of sellers who are looking to retire or unwilling to invest in new facility upgrades, we are also seeing a good number of dealers who are concerned about the future and have decided to exit the industry and redeploy their capital elsewhere. They are being met by buyers with deep pockets who are eager to grow in order to gain economies of scale and present more options to consumers, not only in the variety of franchise offerings but also via multiple transportation solutions.

The value of the publicly traded franchised auto retailers has fallen approximately 25% in the past three years. Values for privately owned dealerships have fallen much less, just 12% below peak values were set in 2015. We estimate dealership values have fallen 4.6% over the last twelve months. *Due to data we have gathered, we made slight downward revisions in the blue sky multiples of twelve of the 22 franchises we cover.* The trend for dealership values is downward and is driven by both declining store profits and lower multiples. We expect to see the buy-sell market remain active in the final quarter of 2018 and into 2019 based upon conversations we have had with buyers, bankers, lawyers, CPAs and the high level of activity we have in our own practice.

The Buy-Sell Market is Still Dynamic

With 106 stores trading in Q3 2018, the number of dealerships sold jumped 26% compared to Q3 2017, according to **The Banks Report** and data collected by Haig Partners. There was one large transaction in which Ken Garff Automotive Group purchased full ownership of 28 stores from a venture they were involved in with Leucadia National Corp. Excluding this transaction, the number of dealerships sold



Source: The Banks Report and Haig Partners

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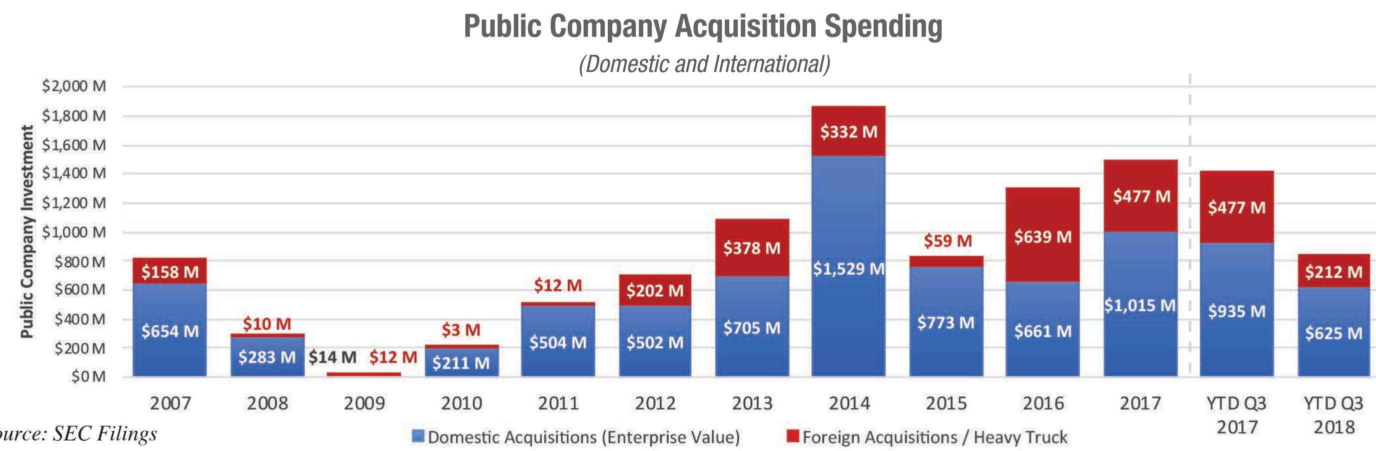
declined 7% in Q3 2018 compared to Q3 2017. The number of dealerships sold Q1-Q3 2018 is up 35% compared to Q1-Q3 2017. If we exclude the Garff transaction, dealership sales for Q1-Q3 2018 are up 24% compared to Q1-Q3 2017.

The transaction mix year-to-date through Q3 is largely unchanged from last year. Domestic stores made up 49% of transactions in Q1-Q3 2018 compared to 50% in the same period of 2017. Import stores comprised 38% of the stores sold Q1-Q3 2018 compared to 37% in the same period of 2017. Luxury stores were flat at 13% of stores sold for both periods.

After a strong first half of the year, including an especially strong Q1, the public auto retailers spent only $125M on domestic dealership acquisitions in Q3 2018, bringing the total for the year to $625M. At this point in 2017, the publics had invested nearly 50% more ($925M). Lithia remains the most active, including its acquisition of Prestige Family of Fine Cars (a Haig Partners client) and comprises approximately 60% of the total public spending year to date. Asbury and Group 1 spent about $90M each (including an Asbury purchase of a Toyota dealership which was also a Haig Partners client). AutoNation spent $68M which includes only one new vehicle dealership while Sonic and Penske still have yet to buy a new vehicle dealership in 2018. The public retailers have actually sold more dealerships (39) than they have bought so far in 2018 (25), which we discuss later in this report. Their divestitures are contributing to the number of buy-sells today.



Source: SEC Filings

Based on reports from the market and our own practice, we are expecting a good number of transactions to close in Q4 2018. The dominant reason appears to be that more dealerships are available for purchase today than in past years. Some dealers are opting to jettison franchises in which they have lost confidence, while older dealers without succession plans are looking to sell while dealership values remain strong. And we now have more clients in the prime of their careers who are choosing to sell today since they are concerned about the future of auto retail, whether it be the high capital requirements, the OEMs' growing control of dealership profits, or the potential risks presented by new technology. Another reason for the high number of buy-sells is that there is an increasing conviction that scale will matter more in the future than it has in the past. This belief is pushing some groups to purchase dealerships so they can be better positioned in the future.

HAIG PARTNERS: MAXIMIZING VALUE FOR CLIENTS

We combine the skills gained during our years in investment and commercial banking with the experience of buying and selling dealerships for AutoNation and Asbury. Haig Partners is not a traditional dealership brokerage firm. We do not seek "listings" of many dealerships. Instead, we provide the best possible advice and service to a limited number of clients, helping optimize the sale of their most valuable asset. We spend a tremendous amount of time and energy on each engagement. Emphasizing quality over quantity best serves our clients' interests.

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

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

Experience. Since we have been involved in 170 transactions for 290 dealerships with over $4.0 billion in value, we know how to respond to issues that can arise in a buy-sell process.

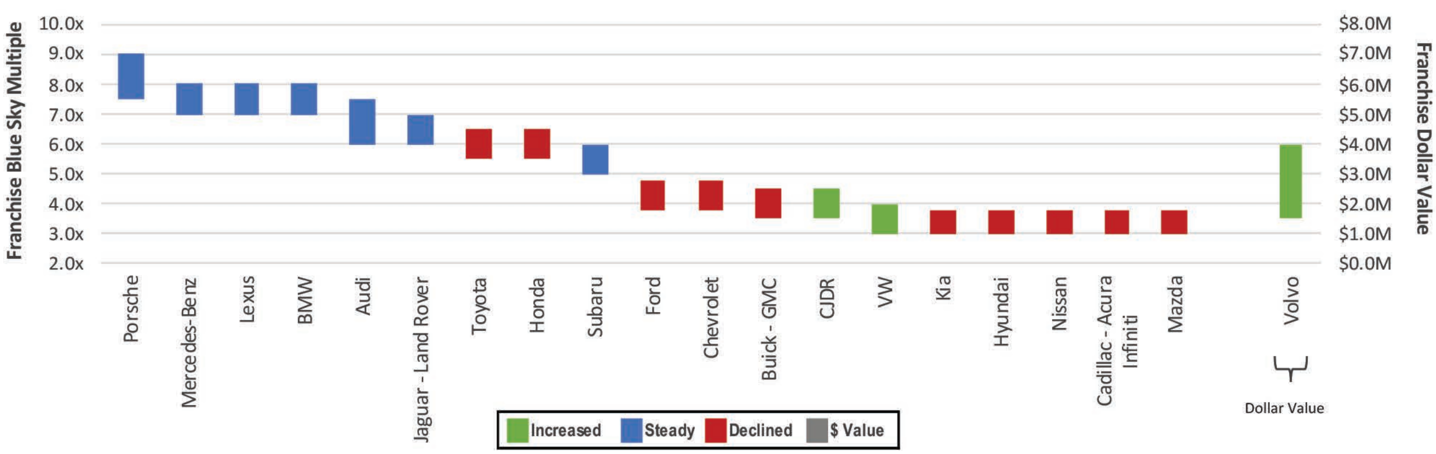
Speed. We focus on the transaction every day, allowing our clients to focus on dealership operations.

Blue Sky Multiples Are Edging Downward

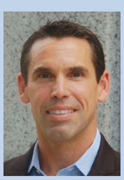
We have been expecting a decline in blue sky multiples for two reasons. First, dealership pre-tax profits have been falling for a couple of years and many expect they will continue to decline. Many buyers are now factoring in higher interest rates on floorplan, blue sky and mortgage financing, which will all reduce future cash flows from acquisitions. Second, the number of dealerships for sale has increased markedly, giving buyers more choices. Our estimates show the reduction in blue sky multiples is relatively modest from our last report, between one quarter and one-half turn on most domestic and mid-line import franchises. At these prices dealerships still offer a healthy return to buyers and significant sums to sellers.

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. The blue sky multiple is partly a reflection of the risk/reward profile that investors place on each franchise. Higher risk franchises command lower multiples, while franchises that are perceived as lower risk bring higher multiples. The net result is a risk-adjusted return profile as determined by the market. Of course, actual multiples or prices paid by buyers could be higher or lower than the ranges we indicate. Stores that are not marketed properly or have facility challenges will likely bring lower multiples. Underperforming dealerships will likely bring higher multiples. Metro stores typically bring higher prices than stores in rural areas. And geography also has a big influence in pricing. Dealerships in Florida and Texas, where growth is high and taxes are low, almost always bring premium prices. Conversely, dealerships in states with low to negative population growth and/or high taxes may trade at lower multiples. In other words, each store is unique and brings its own set of opportunities and challenges. We caution readers not to view these values rigidly.

Haig Partners Blue Sky Multiples



HAIG PARTNERS SPOTLIGHT:



Mike Toth
Partner

Prior to joining 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., the world's largest automotive retailer where he worked with Alan Haig on more than 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, a leading office supply retailer, 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 has 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.

Kevin Nill
Partner

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

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

PLEASE JOIN US IN CONGRATULATING OUR NEWEST PARTNERS

TRENDS IMPACTING AUTO RETAIL

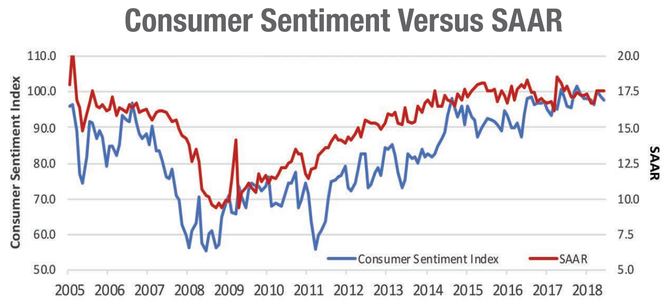
Overview

Most dealers we have spoken with are pleased with the first three quarters of the year since their after-tax profits are higher than last year due to the change in the tax code. They have also been successful in cutting some expenses and boosting profits in used, F&I, and fixed operations. They know that in a flat to declining sales environment, they will have to create their own lift if they want to maintain profits.

Macroeconomic Indicators Are A Mixed Bag

There are a number of mixed economic indicators that impact the auto retail industry.

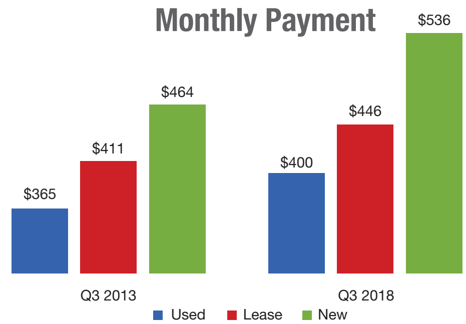
- *GDP Is Growing*. GDP is projected to grow 2.9% for all of 2018 and 3.0% in 2019, according to the Conference Board. There appears to be little risk for a recession in the next year or two.
- *Employment and Household Income Are Increasing*. The US added over two million jobs in each of the last six years and the pace of hiring has been accelerating almost every month this year. The unemployment rate in October stood at 3.7%, now the lowest rate since the 1960's, and was 2.0% for college graduates. We are close to full employment. As a result of the tighter labor market, wages grew 3.1% in October. These higher wages can help offset rising interest rates for consumers.
- *Consumer Sentiment Remains High*. Consumer sentiment remains high, but some concerns are creeping in regarding rising interest rates, tariffs, etc.
- *Incentives Are Falling*. For the fifth month in a row, average incentives on new vehicles have fallen. This is comforting in a market that is supposed to be downshifting, as it indicates that sales are driven more by natural demand than discounting.
- *Gas Prices Are Falling*. Thanks to production increases and other factors, the price of gas in the US has fallen back to $2.45 per gallon, the same price as a year ago. Lower fuel prices help to offset rising car payments.



Source: Thompson Reuters / University of Michigan; Automotive News

- *Number of Miles Driven Is Increasing, But More Slowly*. The total number of miles driven, which influences the vehicle replacement rate and is a key measure of demand for autos, continues to increase through August 2018, but just by 0.3%, slower than the 1.3% growth rate in 2017 and 2.4% growth in 2016, according the US Federal Highway Administration. This flattening measurement is part of the pressure we are feeling on new and used vehicle sales and margins.
- *Negative Equity Is Increasing*. More consumers are in a negative equity situation than in recent years. We believe this could have the effect of reducing future auto purchases or leases since these consumers will need to come up with more income or more equity to make purchases.
- *Interest Rates Are Increasing*. The Fed increased interest rates by 75 basis points ("bps") in 2017, 75 more bps in 2018, and is expected to raise rates by another 25bps before the end of the year. Three further 25bps increases are projected for 2019. That would equate to a 2.5% lift in two years. These increasing rates hurt dealers due to higher floorplan costs and mortgage expenses on floating rate loans. We have seen net floorplan go from a boost to income (due to OEM incentives) to an expense. And of course, they suppress consumer demand for vehicles as average loan and lease payments increase. According to Edmunds, the average APR for new vehicle loans in November 2018 was 6.0%, up from 4.8% in November 2017.

TRENDS IMPACTING AUTO RETAIL

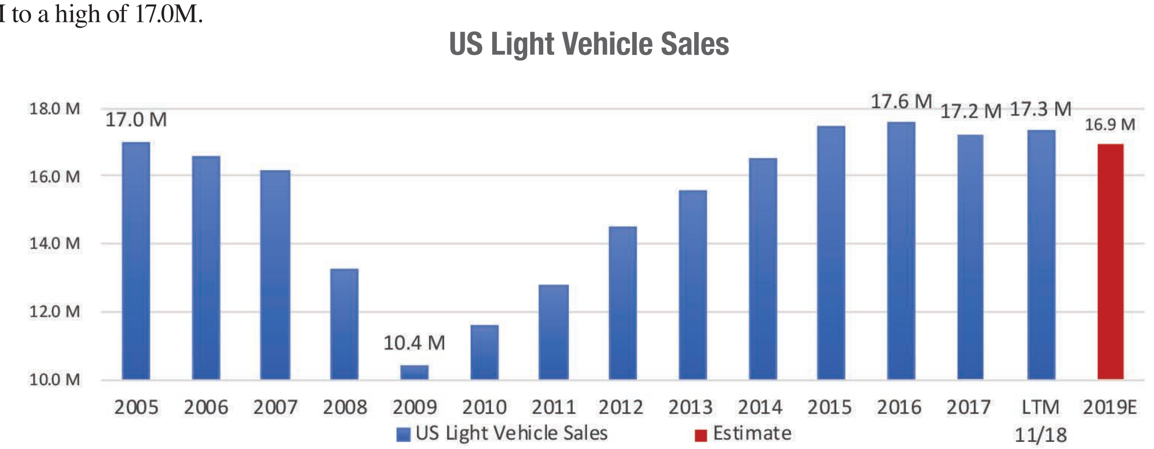


Source: Edmunds

- *Car Payments Are Increasing Faster Than Inflation*. Due to higher transaction prices and higher interest rates, the average monthly payments for new, used and leased vehicles have increased between 8.5% and 15.5%, far faster than inflation or wage growth. These higher payments have the potential to reduce sales in the future as consumers may elect to hold on to their vehicles longer, or trade down to lower value vehicles.

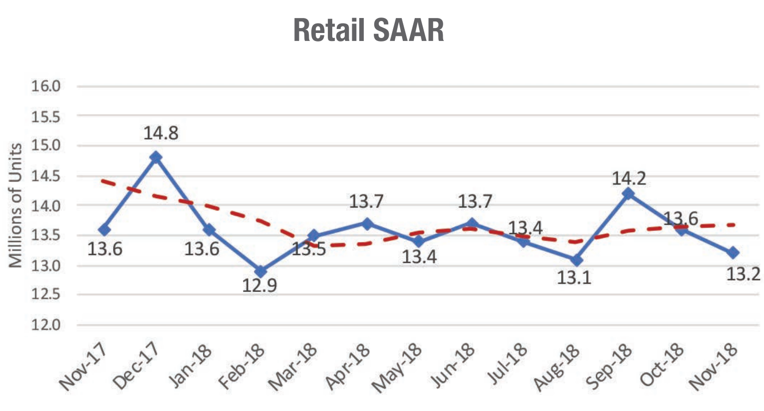
New Unit Sales Remain Elevated, Surprising Many Forecasters

Over the last twelve months, 17.3M new units have been sold, a slight *increase* from sales in 2017. The market is still very close to the highest level of sales that we reached back in 2016. These results have surprised most analysts who had been predicting a meaningful decline in sales for the year. The 16.9M forecast for 2019 shown below is an average of three forecasts released over the last few months that range from a low of 16.6M to a high of 17.0M.

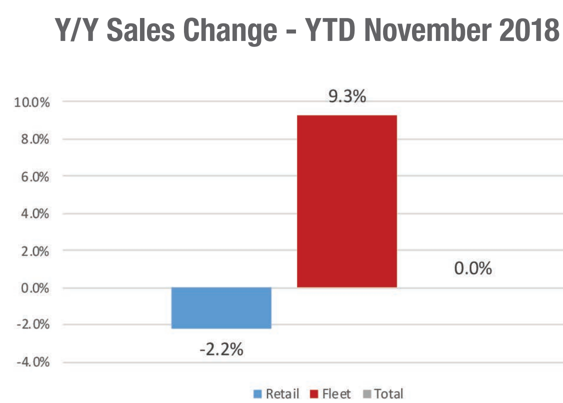


Source: Historicals - Automotive News, Estimates: IHS, Ward's, LMC/JD Power

Note the data above is for total new vehicle sales, including fleet sales. According to data from JD Power, retail sales for the eleven months ended November 2018 are down 2.2% from the same period last year, while fleet sales are up 9.3%. Retail sales for the past six months have been flat. Let's hope we enjoy this plateau for the foreseeable future.



Source: JD Power



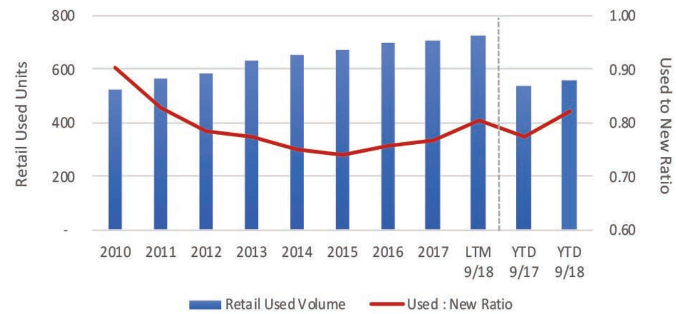
Source: JD Power

Dealers Are Increasingly Focused on the Used Vehicle Market

As the new car market begins a period of flat to declining retail sales, dealers are increasing their focus on retailing used vehicles. There is plenty of room for improvement since franchised dealers account for just 29.9% of total used sales. The supply of used

TRENDS IMPACTING AUTO RETAIL

NADA Average Retail Used Per Dealership



vehicles is increasing and the mix of cars to trucks/SUVs/CUVs is more in-line with current consumer demand. Dealers' Used to New Ratio is up to 0.82x through September 2018 compared to 0.78x in the same period of 2017. AutoNation, Penske, and Sonic recognize this opportunity, as all of them are pushing for higher volume in their franchised dealerships and are also investing heavily in building out used vehicle-only dealerships. They want a bigger part of the 40+ million in used cars that are sold annually in the US, and to lessen their exposure to a downturn in new vehicle sales and declining new vehicle margins. So far in 2018, the public retailers sold 4.3% more used vehicles than in the same period of 2017, while private dealers sold 4.4% more, even though the number of new cars sold declined.

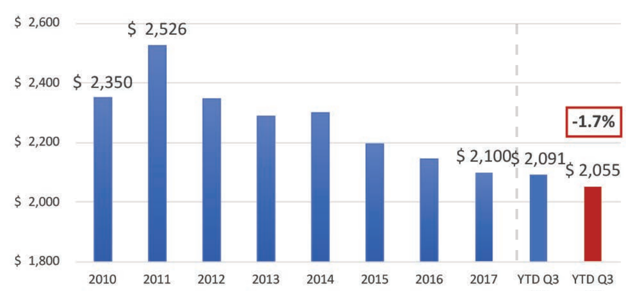
Vehicle Grosses Stabilize – A Bit

New vehicle gross profits continue to slide, down an average of 1.7% so far in 2018 for the public retailers. This trend has been frustrating for many retailers, but there may be a light at the end of the tunnel as Lithia and Penske managed to deliver small increases in new vehicle gross profits. There were a number of contributing factors, including an improved mix of cars and trucks/SUVs/CUVs, and some production cuts by the OEMs. Is it possible we could be nearing the bottom of new vehicle margins?

As for used vehicles, the average gross profit per used vehicle rose 0.1% for the publics in the first three quarters of 2018. These figures may be misleading as AutoNation and Penske were the only two public companies with increases in used vehicle profits. AutoNation is enjoying comparisons to a very difficult 2017 when it introduced one-price selling and sold many stop-sale vehicles. And Penske is reporting data that includes its used car stores that carry higher margins than what it generates at its franchised locations.

NEW Gross Profits Per Vehicle: Public Company Data

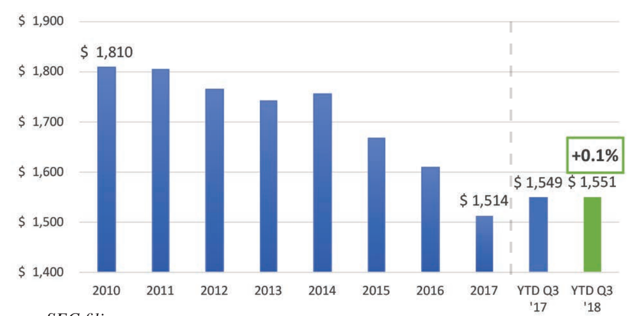
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

USED Gross Profits Per Vehicle: Public Company Data

(Weighted Average Same Store Performance - in Current Dollars)



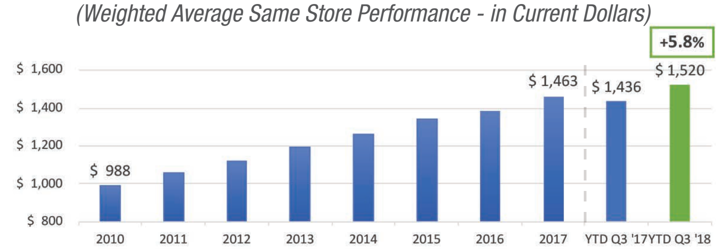
Source: SEC filings

Finance & Insurance Departments Are Generating Record Profits

F&I profits per vehicle continue to increase as transaction values go up and retailers do a better job on product penetration. The public companies earned $1,520 per vehicle retailed through Q3 2018, up $84 (5.78%) from Q3 2017. This increase more than offsets the decline in gross profit on new vehicles. A number of private dealers have disclosed they earn even higher profits than these figures, some over $2,000 per vehicle retailed.

Public Company F&I Per Unit Retailed

(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

TRENDS IMPACTING AUTO RETAIL

Combined Front and Back: Profits per Vehicle Retailed Are Actually Up

The tables below track combined front and back end profits per vehicle retailed data back to 2010. They show that on a combined basis profits have trended up slightly in dollar terms. Given the rise in new vehicle prices over this time, however, the profit margin as a percent of vehicle sales has fallen steadily.

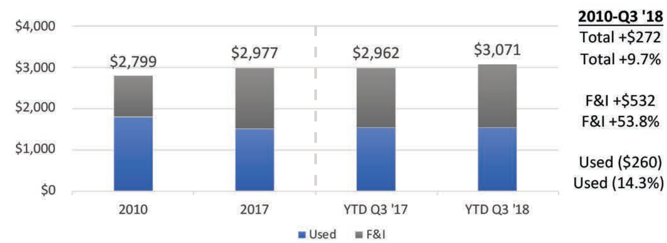
Public Company NEW Vehicle Gross + F&I PVR

(Weighted Average Same Store Performance - in Current Dollars)

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

Public Company USED Vehicle Gross + F&I PVR

(Weighted Average Same Store Performance - in Current Dollars)

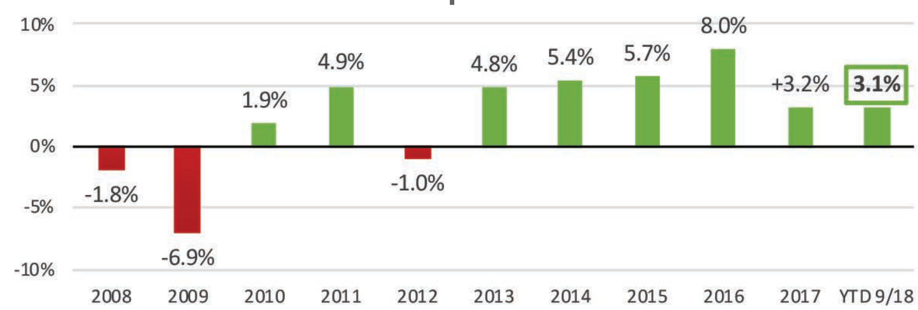


Source: SEC filings; F&I as reported for new and used combined

Fixed Operations Continue to Drive Higher Profits

Private dealers reported fixed operations are up 3.1% through September 2018 compared to the same period of 2017. The growth rate in fixed operations appears to be falling from the mid-single digit rate that we have enjoyed for the past five years. As the number of units in operation peaks, dealers will likely find it harder to generate incremental profits from their fixed operations. The public retailers saw a 2.8% increase in fixed operations revenue and 3.9% increase in gross profit so far in 2018.

NADA Fixed Operations Growth



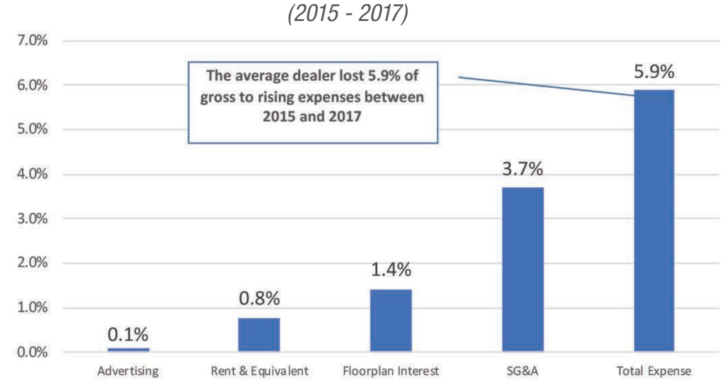
Source: NADA

Dealership Expenses Are Growing Faster Than Gross Profit

Dealers have been working hard to lower their costs during this period of flat sales and declining new car margins and we are seeing good results. Even though unemployment is low, SG&A at privately owned dealerships increased just 0.4% as a percentage of gross profit in the first eight months of 2018 compared to the same period of 2017. Advertising expenses actually fell 0.4%. What is proving harder

Change in Expense as a % of Gross Profit

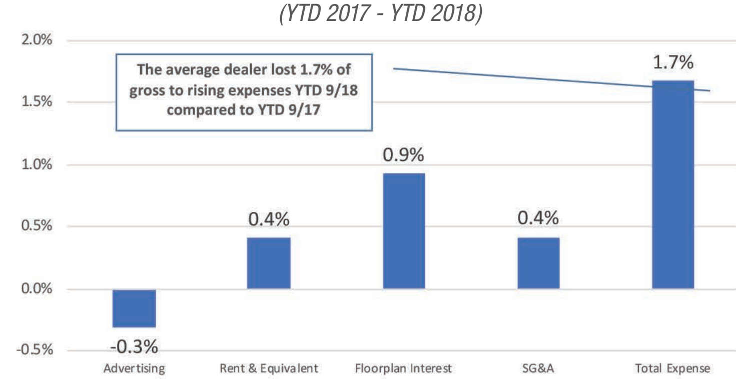
(2015 - 2017)



Source: NADA

Change in Expense as a % of Gross Profit

(YTD 2017 - YTD 2018)

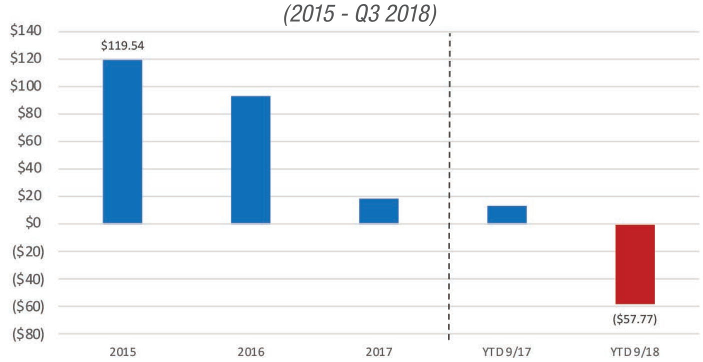


Source: NADA

to overcome is the impact of rising interest rates at dealerships. Floorplan interest expenses and rent both increased. For private dealers, the chart on the right shows that floorplan interest expense now exceeds floorplan credits. This change has eroded profits per new vehicle by $177 over the past three years. Public companies grew their gross profit by 5.9% in the first three quarters of the year (partially due to acquisitions), but their expenses jumped 7.1% (per SEC filings, adjusted).

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

(2015 - Q3 2018)

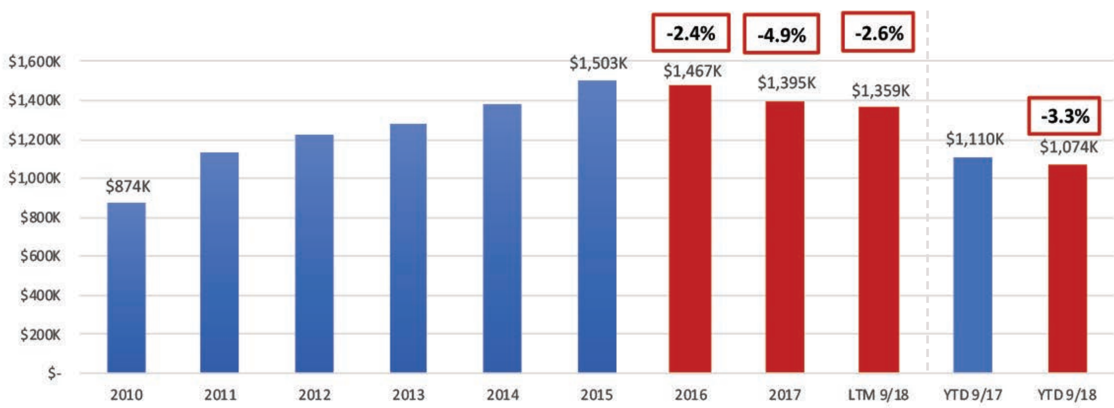


Source: NADA

Dealership Profits Drop Slightly

The net outcome of the trends listed above is that average profits at privately owned dealerships are down 3.3% in the first nine months of 2018 compared to the same period in 2017 on top of a 4.9% decline from 2016 to 2017. Average profits per store have fallen about 9% from their peak in 2015.

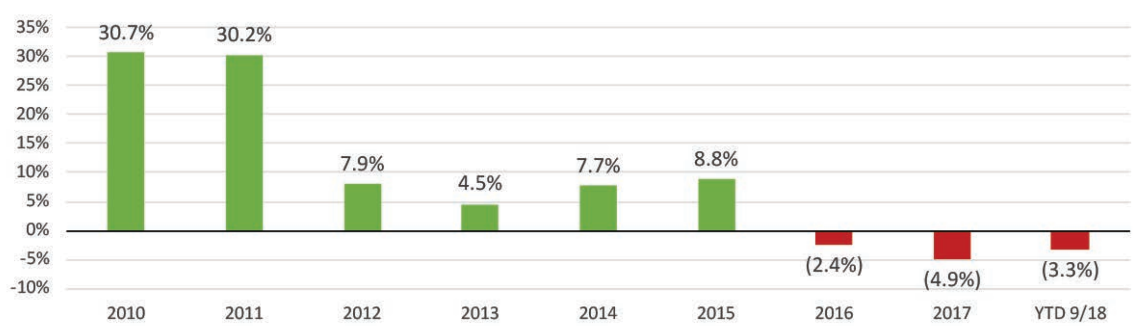
NADA Average Private Dealership Earnings



Source: NADA

The table below shows the annual change in profits at privately owned dealerships since 2009. 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. We may now be entering a similar cycle.

NADA Average Private Dealership Earnings Y/Y Growth Rate

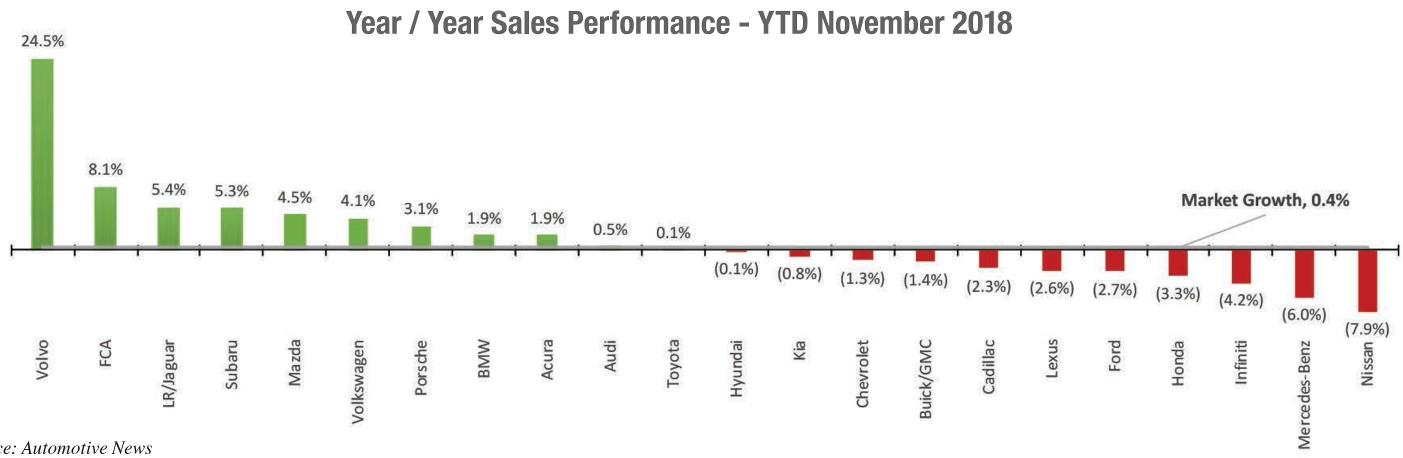


Source: NADA

Sales Growth for Individual Franchises

The following chart sets forth the change in new unit sales at the major franchises so far in 2018. Note, this data reflects changes in total sales per franchise, so it includes fleet sales that cloud the results at the retail level. FCA's sales jumped 8.1% thanks to new Jeep and

Ram models, while Nissan suffers at the other end of the scale, despite its jump in fleet sales. Mercedes-Benz is recovering from some production issues. Past poor performers including Volvo, VW and Mazda are seeing nice increases as they take advantage of new CUV product introductions.



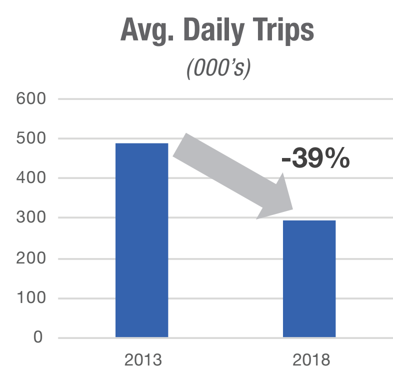
Source: Automotive News

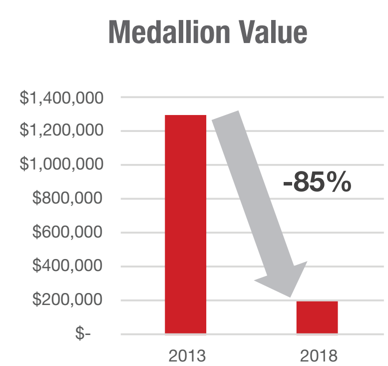
Debate About Autonomous Vehicles, Ride Sharing, and Electrification Continues

There has been a huge amount of press regarding autonomous vehicles ("AVs") and when they will begin to impact the auto retail business. We pay close attention to this topic since we hope that dealership values remain high for decades to come. The truth is that no one knows when AVs will begin to impact cash flow, and we don't expect that the eventual impact will be shared equally by all dealerships, or in all markets. For instance, if a major benefit of the combination of ride sharing and autonomous technology is to save money on transportation, then it seems likely that those who are most cost conscious will gravitate towards it. Sales of lower priced cars could suffer first. Trucks may be largely unaffected since many people use their trucks as their offices or for towing, so franchises that are heavy in trucks may feel little impact. Urban areas are a better fit for autonomous vehicles than suburban or rural areas, where wait times may be too long and distances too great for consumers to find them practical. Rural dealerships may never feel the effects of AVs.

Electrification seems to be a more pressing risk to dealership cash flows since electric vehicles will likely require fewer parts and less service work, the most profitable part of the dealership model. Even though there is scant consumer demand in this country today for these vehicles, most OEMs have been spending many billions of dollars to design these vehicles and they are beginning to hit showrooms now. States like California are going to force consumers to buy them.

In the short term, it's possible that ride sharing could reduce private ownership of vehicles as some households might opt to drop a third vehicle that is little used. One friend decided to sell the car used by his kids who were at college when he realized he was spending about $8,000 per year on insurance and depreciation. They will have an Uber budget when they are home. Ride sharing has certainly disrupted the public transit and taxi business. The chart below shows the impact of ride sharing on the trip volume for New York City taxis and the value of the medallions required to operate a taxi. While we are not suggesting ride sharing will have the same impact on dealership values, it is important to be aware of what can happen to players in an industry who do not innovate to meet the changing demands of consumers.

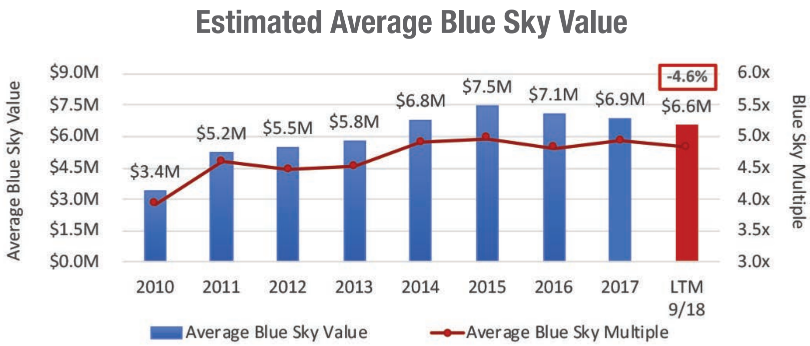




Private Dealership Values Are Declining Slightly

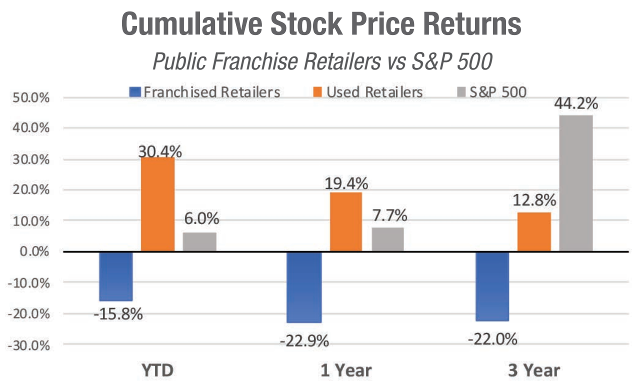
The estimated average blue sky multiple for all franchises on an unweighted basis was 4.83x over the last twelve months according to our estimates, down slightly from 4.91x last quarter. Profits per dealership over the last twelve months fell 2.6% compared to full year 2017.

Applying the 4.83x blue sky multiple to the average dealership pre-tax profit of $1.36M over the last twelve months generates an average blue sky value of $6.6M, down 4.6% from year end 2017.

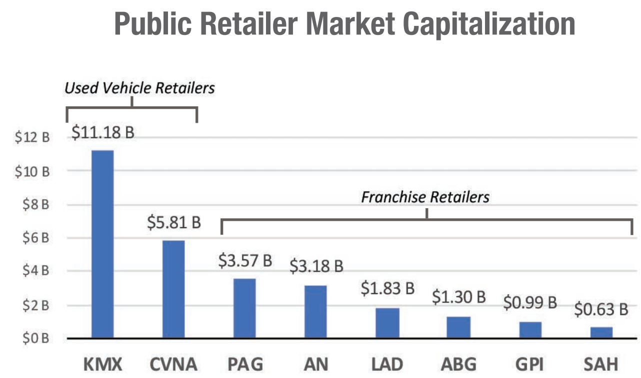


Investors Remain Negative on Franchise Dealership Groups

The stock market continues to be negative about the public franchised retailers. The table set forth below shows that the average stock price for the franchised retailers has consistently underperformed the S&P 500 Index. Investors are concerned about declining profits in the short term, and the potential long-term disruptors that are now in the news almost daily. Many of these investors have moved to other industries or prefer to invest in companies like CarMax or Carvana, the online used car retailer. Investors appear to be increasingly attracted to business models that show less reliance on new vehicle retailing, which they expect will decline over the next few years and are worried could plummet in the next few decades. This perspective can also be seen in the Market Capitalization chart below.



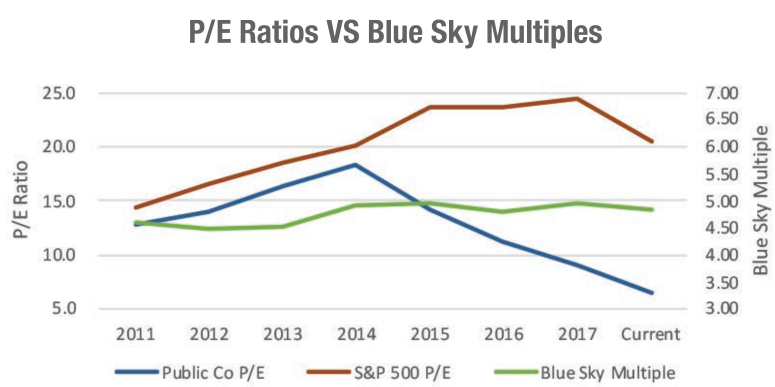
Source: Yahoo! Finance; Data through 12/3/2018



Source: Yahoo! Finance; Data through 12/3/2018

Value of Publicly Traded Retailers Has Diverged from Privately Owned Dealerships

Due to the concerns listed above, the combined price/earnings ("P/E") multiple for the six franchised dealership groups has fallen to 6.5x, 50% below its average levels since the recession ended. Private dealer groups are less concerned about these risks. The average blue sky multiple that we publish has declined just 3% since 2015 compared to a decline of 54.0% for the P/E ratio for the publics, a roughly comparable guide of investor confidence. The chart at right shows the stability of blue sky multiples paid to acquire privately owned dealerships compared to the sharp decline in P/E multiples. There are several potential reasons for this divergence. It's possible that public investors are overreacting to concerns for the future and that P/E multiples will rebound. When we ask growing private groups about the future, they tell us they are still attracted to the high level of cash-on-cash returns they can achieve in buying dealerships and that they don't see their cash flows being negatively impacted by tech threats like autonomous vehicles for at least the next fifteen to twenty years. What blue sky multiples will be in 2038 are not part of their analyses.



Source: SEC Filings, Yahoo Finance, Standard & Poor's, Haig Partners

BUY SELL TRENDS AND EVENTS

In our Q2 2018 report we listed a number of trends that are still present.

- **More Sellers Are Coming to Market.** The number of dealers willing to sell their businesses is at a high level today. The increase in the number of stores for sale is likely due to several reasons: an aging dealer body, the beginning of what may be a decline in dealership values, greater recognition that economies of scale (digital marketing, facilities, talent development and retention, etc.) are required to compete, risks presented by new technologies and changes in consumer behavior.
- **Buyers Are Active.** A number of dealership groups are eager to grow and many have adopted the mantra of "Get Big or Get Out." They would rather invest their surplus capital now rather than leave it in the bank earning anemic returns. Even if profits decline over the next few years, these buyers are calculating that buying the right store in the right market is the smart thing to do today.
- **Lenders Are Still Lending.** We regularly speak with commercial lenders and all of them have indicated they are eager to loan more capital to dealers to help them finance acquisitions. None of them appear to be projecting a major decline in profits at dealerships due to a recession, changes in consumer behavior, or threats from technology. Some large banks are now promoting syndicated loan facilities that make it much easier for mid-to-large dealer groups to grow through acquisitions.
- **Buyers Are Pickier.** Buyers are telling us they are more selective given where we are in the business cycle. They want stores that are a fit with their acquisition strategy in terms of location, franchise, and profitability. Dealerships that have challenges, such as facility issues, unions, or incoming add-points, will need to be priced far lower than before to get the attention of buyers. Weaker brands may also struggle to get attention. Since profits may continue to trend down, time may work against the interest of sellers. Buyers will not chase overpriced dealerships and sellers may suffer a long marketing period which will likely result in a lower price than if they had priced their dealership correctly.

Real Estate Values May Have Peaked

Since the Great Recession, the value of dealership real estate has steadily increased. Recently, several lenders have told us that they are beginning to see real estate appraisals coming in below prior levels. This same decline has been happening in the housing industry and may be happening in commercial real estate as national retailers like Sears, Toy-R-Us and others are closing their doors and putting millions of square feet of property on the market. While it is too early to call this a powerful trend, rising rates and a shift to online shopping could hurt the value of commercial real estate such as auto dealerships.

Distressed Assets Are Popping Up

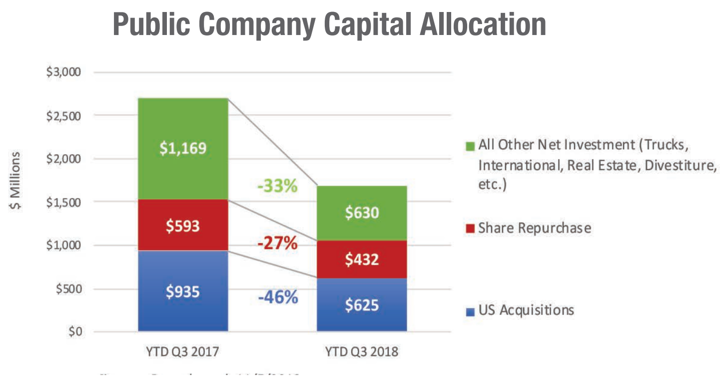
Although bankruptcies at dealerships have been rare for the past decade, we have learned about insolvency at Reagor Dykes, a chain of 13 stores in TX, five All Pro branded dealerships in PA, MI and NJ, and the Momentum Auto Group in CA with seven dealerships. It's not clear yet what the common denominators are between these groups since they are in different states and with different franchises. Perhaps a combination of overleverage and slipping profits created these problems.

Public Companies Are Shrinking, Not Growing

The public retailers have sold 39 dealerships and bought 25 dealerships so far in 2018. Some of these sales are of tough brands like Nissan. Others are dealerships that require significant facility investments, or that are nominally profitable but can generate lots of cash that can be used for other purposes. Public companies have historically shrunk during periods of declining SAAR and seek to expand during the next upswing in the business cycle.

BUY SELL TRENDS AND EVENTS

The table at right shows where the public companies have been putting their cash. You can see that so far in 2018 the publics have spent less on acquisitions, stock buy-backs and real estate/facility investments. They appear to be frozen at the moment, perhaps as their CEO's decide if it makes sense to invest or retrench given the mixed signals the economy is giving off.



Source: SEC filings

ABOUT HAIG PARTNERS

Haig Partners provides expert advice and comprehensive services to auto dealers interested in selling their businesses or buying new ones. We have been involved in 170 transactions for 290 dealerships totaling more than $4.0 billion in value. With experience from AutoNation, Asbury, Bank of America, and Crowe, as well as prominent investment banks, Haig Partners is the leading full-service firm in our industry. In the past four years, Haig Partners has helped its clients to sell their businesses for over $1.4 billion, excluding the value of new vehicles.

Please visit our website at **www.haigpartners.com** for more information. We always enjoy hearing from dealers who are interested in buying or selling dealerships, or discussing the current state of the market.

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FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 290 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. *You will see that we lowered multiples on twelve of the twenty-two franchises that we cover. The decline in the blue-sky multiple is 0.25x-0.5x for each of these franchises. This decline is a reflection in the overall market conditions in which buyers have become more cautious and have more options*. We still have 3.0x as the floor for all franchises, but we are now hearing pricing in the 2.0x-2.5x range!

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 Q2 2018. We remind the reader that each dealership transaction is unique and dealerships may trade above or below the ranges we describe in this report. Dealerships that are underperforming or are in highly desirable markets may have higher values. Conversely, dealerships that are in less desirable markets, are overperforming or that have significant real estate issues may bring lower multiples.

Luxury Franchise Blue Sky Multiples

PORSCHE

Porsche. Porsche has had a healthy start with 3.1% growth in the first eleven months of 2018. Those who own the franchise usually label it their favorite child. Margins remain at $10,000 per unit, thanks to limited production and highly desirable products. Plus, fixed operations continue to grow as UIOs have boomed thanks to the Macan. Same multiple range: 7.5x-9.0x.

Mercedes-Benz

Mercedes-Benz. M-B was down 6.0% so far in 2018 due to a 19.9% decline in July sales caused by inventory shortfalls. While M-B is still among the most desirable franchises, dealers are telling us that the franchise is having a tough year. Many expect the franchise to recover so buyers are still contacting us seeking these stores. We are looking forward to our next Mercedes client! Same multiple range: 7.0x-8.0x.

LEXUS

Lexus. After a rough 2017 with a decline of 7.9%, Lexus has fallen another 2.6% YoY. The RX continues to perform well, but has not been able to compensate for the dramatic declines in sedans. Lexus inventory continues to run high at 60 days. Lexus is pushing for facility upgrades and we are seeing this leading to more buy-sells as dealers elect to cash checks from buyers rather than write checks to contractors. Dealers remain supportive and still love the franchise. One dealer who converted to Lexus Plus, the one price system offered by Lexus, is pleased so far as it is friendlier to customers and employees. He believes more dealers of all kinds of franchises will adopt this method of selling vehicles. We were involved in the sale of four Lexus stores recently and demand was very high. Same multiple range: 7.0x-8.0x.

BMW

BMW. BMW is up 1.9% so far in 2018 and is the second highest volume luxury brand in 2018. Inventory appears to be better positioned after being tight in the beginning of the year. That means healthy sales and margins for dealers. Key redesigns of vehicles have helped recently and the redesigned X5 and launches of the new X2 and X7 CUVs should fuel further growth in sales and profits. One executive at a Top 20 dealer group told us the incoming product is excellent and he is more excited about BMW than any other franchise they own. We are also hearing fewer complaints about BMW putting pressure on dealers to punch new cars to achieve monthly sales targets (only to make them harder to achieve the next month). Same multiple range: 7.0x-8.0x.

Audi

Audi. Audi had a horrible month in October, declining 17.3% and snapping a 100+ month-long growth streak. Every model except the R8 was down. One dealer told us many models were on stop-sale due to an airbag issue. The new A6/A7 and Q3 can't get here soon enough. For the year, Audi is still up 0.5%. While consumers love the product, dealers tell us they are frustrated that profits at their Audi stores are well below those earned at other luxury brands. Bright spots for the brand include growing fixed operations thanks to growing UIO as well as healthy F&I profits. Same value range: 6.0x-7.5x.

Jaguar-Land Rover. JLR sales are up 5.4% through November. Although better than the industry average, this is the slowest rate of growth we have seen in many years from JLR, and it concerns us given the large number of add points and facility expansions that are going on around the US. We know of new facility costs that are reaching into the tens of millions of dollars. These seem like heavy investments for this low volume franchise. Dealers have been forecasting big sales increases at high gross profits per unit to justify spending all the capital to meet JLR's very expensive facility requirements. If sales slow and/or margins drop then JLR dealership profits could fall from their current position as one of the most profitable franchises. We hope this reversal of fortune does not happen. Bring on the new Defender models! For combined JLR stores where no add points are coming, same multiple range: 6.0x-7.0x.

Cadillac/Acura/Infiniti. Cadillac sales were down 2.3% in 2018 and many dealers feel like the franchise is a big mess. The headquarters are being re-relocated from New York City back to Detroit and dealers continue to wonder what products are going to come their way to reverse the distressing fall in sales and profits. The Pinnacle program reduced front end margins and makes dealers even more dependent upon below the line money. Relations between dealers and Cadillac are cooler than in the past. Acura sales are up for the first time in many months thanks to the new RDX, which is being very well received. The brand still needs more CUVs to match the offerings of other luxury brands (BMW will soon have seven CUV models!). Infiniti had an impressive 10.9% gain in 2017, but sales are down 4.2% so far this year. We are told store profits are down significantly. Some dealers liken Infiniti to Nissan and will not consider a purchase. A bright spot for the brand is the redesigned QX50 crossover. Lower top of multiple range for this group: 3.0x-3.75x.

Volvo. After a surprising 1.5% decline in 2017, Volvo is up an impressive 24.5% in the first eleven months of 2018. The new XC60 is driving much of Volvo's momentum. A new compact CUV (XC40) should fuel further growth and the company has launched a new subscription service with its CUV. It will take time for fixed operations to recover as units in operation fell to a low level. Nevertheless, this franchise demonstrates that fading brands can be rejuvenated with fresh product. Volvo still has many loyal customers and should attract even more eco-conscious buyers as it transitions to an all hybrid and electric fleet over the next 5-10 years. Profits are still low for most Volvo stores so we see them trading for "franchise value" as opposed to a multiple of earnings. Higher top value range: $1,500,000 - $4,000,000.

Mid-Line Import Franchise Blue Sky Multiples

Toyota. Toyota is up 0.1% so far in 2018. Toyota has a full-line of trucks and SUVs and it continues to compete heavily in the car market. Toyota dealers continue to be a happy crowd. They are particularly fond of Toyota Financial Services that provides excellent lease rates compared to competitors, and "buys deep" to help sell cars to credit challenged customers. Toyota has more new products coming than any OEM over the next few years according to Bank of America's Car Wars Report, but it is also trimming some low selling car models. Dealers want more of these stores thanks to high profits per store and a friendly OEM. We get many calls from dealers looking to buy this franchise. Lower multiple range: 5.5x-6.5x.

Honda. Honda sales are down 3.3% so far in 2018 as it is unwilling to match lease payments offered by Toyota and others. Honda's corporate profits are up, but this decision is making life difficult for dealers in high-lease penetration markets like CA and South Florida. Other dealers are still happy thanks to a well-balanced business model and loyal customers that drive healthy profits at dealerships. We have been involved in the sale of three Honda stores recently and interest has been very strong. Buyers will need to renovate facilities to meet Honda's Generation 3 standards. In an age of increasing complexity in auto retail, Honda dealerships provide dealers with steady, predictable profits. One dealer said owning a Honda store is, "like owning Google or Apple stock – rock solid with little to no downside." Lower multiple range: 5.5x-6.5x.

Subaru. Subaru's growth continues, up 5.3% in the first eleven months of 2018, although sales are slowing due to production issues and some recent large recalls. Perhaps the pressures of fast growth are finally creating a few cracks in what has been an amazing ascent from a Tier 3 brand to nearly a Tier 1 brand. The aptly named new Ascent 3-row SUV will help attract sales in one of the hottest segments. In some markets, this franchise is more desirable than Honda or Toyota stores. Same multiple range: 5.0x-6.0x (with pricing higher in Snow-Belt states).

Kia. Sales were down 8.9% in 2017 and another 0.8% so far in 2018. Older models such as the Optima, Soul and Sedona are hurting sales while exciting new models such as the Stinger and Niro did well. A large CUV is coming in 2019 and should help with volume and grosses. Some dealers can make $1M+ with this franchise while others struggle to find any traction. The situation seems to have stabilized for Kia dealers. Lower top of multiple range: 3.0x-3.75x.

Hyundai. Sales were down 13.4% in 2017 and are flat so far in 2018. The franchise seems lost right now with another change in the US CEO's office. We are having a hard time remembering their names now. Hyundai's sales mix is 54% cars when the rest of the market is approaching 70% trucks and CUVs. Help is on the way as we are told a large CUV and light truck are in the works. After much drama, Genesis will continue to be sold through existing dealers, and they will likely benefit from the heavy advertising we are seeing for this new generation of vehicles (too bad they are cars!). For value buyers, this could be a smart time to buy Hyundai stores as its future seems brighter than its present. Lower top of multiple range: 3.0x-3.75x.

Nissan. Sales have declined 7.9% in the first eleven months of 2018. The situation between many dealers and Nissan remains tense. We are told about half of the dealers are satisfied with their revised sales objectives needed to hit stair-step incentives, while the other half still feels they are too high. Almost all dealers, however, are dissatisfied with the profitability of their stores which has plummeted over the last year. One source said Nissan corporate is trying to orchestrate the sale of dozens of struggling dealers who are overleveraged and bleeding. The franchise is also burdened with many new 2017 and 2018 units that are decaying on dealers' lots. These highly aged units (some just had their second birthday!) are another symptom of the bad hangover that Nissan and its dealers are suffering - a result of Nissan trying to sell too many units. A Google search shows 439 new units that are model year 2017 are for sale within 50 miles of our corporate office, compared to 15 new 2017 Hondas, for instance. We hope our area is an anomaly! The dealers we talk to are less interested in chasing their stair step targets and are moving to increase profits via a higher focus on used cars and trimming costs. Some dealers have figured out the Nissan formula, but many simply avoid the franchise. Lower top of multiple range: 3.0x-3.75x

Mazda. After declining 2.8% in 2017, Mazda is up 4.5% in the first eleven months of 2018. All three CUV models grew while all three car models declined. Mazda has been underweighted in CUVs and has no light trucks at the moment, which has cost them sales in this environment. Its new partnership with Toyota should increase supply of CUVs and boost profits. A new CUV model is expected in late 2019. Lower top of multiple range: 3.0x-3.75x.

VW. The positive momentum at VW continues with sales up 4.1% so far in 2018. The Atlas and new Tiguan are huge winners, but cars are down a whopping 29.9% this year. It will be interesting to see what happens when VW comes with its electric cars, which should vault it from being the bad boy of emissions to one of the greenest OEMs. Buyers are more curious about this franchise and some locations perform at a high level. Profits in 2016 and 2017 were muddled by payments from VW to dealers but 2018 is bringing higher profits for dealers. Now that many VW stores are operating profitably, we are moving our estimated values from a dollar value range to a multiple of earnings range: 3.0x-4.0x.

Domestic Franchise Blue Sky Multiples

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

Ford. In the first eleven months of 2018 Ford is down 2.7%. Dealers we have spoken to are concerned about Ford's move away from car sales which represent about 20% of sales (about 14 units a month for the average dealer). One leading Ford dealer told us that while he expected consumers would move quickly away from buying Ford's car lineup after the news was announced, he was also seeing consumers moving away from buying Ford's smaller CUVs. Apparently, some consumers are concerned that Ford might stop producing these vehicles as well, which would hurt their resale values. Fixed operations will suffer as the number of units in operation falls. Dealers hope that promising new models like the Bronco and Ranger will replace the discontinued sedans but they expect this could take several years. The investment community also seems concerned as reflected in a Price/Earnings Multiple of just 5.5x. How did this happen in the golden era of SUVs and trucks? Lower multiple range: 3.75x-4.75x.

Chevrolet. Chevy is down 1.3% so far in 2018. Sales of almost all of Chevrolet's trucks/SUVs/CUVs are positive, while cars are down 22.1% so far this year. Chevy appears to be following in Ford's and FCA's footsteps as it recently announced it was killing off several low selling car lines and shuttering factories. This will likely hurt sales and service work at dealerships. The new full size truck and SUVs should help boost profits for dealers which will helpfully offset the decline in SFE money that dealers have come to rely on. The SFE program will continue to be a challenge if Chevy's sales drop. Despite these concerns, GM is now seen as the most stable and best positioned of the domestics. Lower multiple range: 3.75x-4.75x.

FCA (Chrysler-Jeep-Dodge-Ram-Fiat). Sales are up 8.1% so far in 2018 thanks to Jeep that is up 18.2% on the strength of the newly redesigned Wrangler. The new Ram is also getting good reviews. A number of our friends who own CJDR stores are reporting very strong profits from all departments. While many dealers avoided this franchise in the past due to concerns about FCA's long-term viability (and low product quality), more are telling us they are interested in owning CJDR dealerships. The new CEO, Mike Manley is getting good marks from dealers so far. Higher multiple range: 3.5x-4.5x.

Buick-GMC. Sales were down 1.4% in the first eleven months of 2018. Like Chevrolet, B-GMC should see a lift from the new full-size pickups and SUVs that are making their way to showrooms. Buick cars are a big challenge, and some dealers are stocking just one or two units per model since demand for them is anemic. And like Chevrolet, dealers are having a harder time in 2018 earning all their SFE money. Sales per store are lower than at other franchises, but grosses per new unit sold can be higher than at other brands thanks to premium pricing on full-size vehicles. B-GMC is a bit of a sleeper franchise that can produce a very nice return on investment for buyers. Lower multiple range: 3.5x-4.5x.

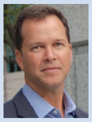
SUMMARY

Thanks to a robust economy and a flexible business model, good times continue for auto dealers. We appear to have reached a plateau in terms of vehicle sales while dealership profits are trending down slightly as costs rise. An increasing number of dealers are opting to sell their businesses while overall conditions are good. Many groups are interested in buying stores, but are more cautious than in the past due to concerns about falling profits. As a result, we are seeing a lot of deal activity at slightly lower prices than in the past.

Other than macroeconomic risks such as rising rates and operating expenses, many analysts are also warning of a decline in dealership values due to ride sharing, electrification, and autonomous vehicles. Some of our clients have heeded these warnings and are opting to get out now while values are high and redeploy their wealth into other business opportunities. Other dealers we speak to are doubtful these risks will materialize to the levels projected and are looking forward to scooping up franchises at lower prices. Overall, we believe that most dealers do expect changes from technology. They are beginning to take advantage of technology in digital marketing and inventory management and they are changing their practices to react to shifts in consumer behavior. We expect the buy-sell market will remain robust well into 2019 as some dealers are choosing to Get Big, while other dealers are choosing to Get Out.

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

CONTACT US: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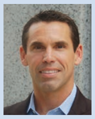
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Announcing Our Latest Transactions

Hendrick Acura Riverside
Has been acquired by
Spreen Automotive Group
California

Langdale Ford
Has been acquired by
Bowers Automotive Group
Georgia

Toyota
Toyota of Union City
Has been acquired by
Asbury Automotive Group
Georgia

Cobb County Kia
Has been acquired by
Jim Ellis Automotive Group — Expect the best — Est. 1971
Georgia

Motor Home Specialist — Where the World Shops
Has been acquired by
RV Retailer Holdings, LLC
Texas

Prestige Family of Fine Cars

BMW Ramsey	MINI Ramsey	Mercedes-Benz Paramus
Lexus Middletown	Lexus Ramsey	Toyota Ramsey

Has been acquired by
LITHIA
New York and New Jersey

Lincoln Paramus	McLaren Bergen County	*Has been acquired by* Other Buyers

Honda
Robertson Honda — Honda Automobiles — ...We're the people's choice.
Has been acquired by
Victory Automotive Group
California

Fred Anderson Nissan of Fayetteville
Has been acquired by
Flow Automotive Family
North Carolina

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The Leading Advisor to Buyers and Sellers of Higher Value Dealerships

Ford
Mike Davidson Ford
Acquired by
ASBURY AUTOMOTIVE GROUP
Florida

Brumos Automotive Acquired by FIELDS AUTO GROUP Florida
Jacksonville | Orange Park | Jacksonville | Orange Park | Jacksonville
Florida

TOYOTA Scion
Sandy Springs Toyota Scion
Acquired by
Hendrick AUTOMOTIVE GROUP
Georgia

Ford
Don Reid Ford
Acquired by
Peacock-Griffey AUTOMOTIVE
Florida

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

VALLEY MOTORS
Acquired by AutoNation
Maryland

PRINCETON
Acquired by
DTF Holdings LLC
New Jersey

Ford
Texas Motors Ford
Acquired by
ASBURY AUTOMOTIVE GROUP
Texas

KIA
Central Kia Lewisville
Acquired by
CLASSIC AUTOMOTIVE GROUP
Texas

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

FREIGHTLINER
Freightliner of Knoxville & Chattanooga
Acquired by
PENSKE
Tennessee

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Mercedes-Benz
Mercedes-Benz of Reno
Acquired by
AutoNation
Nevada

Ford
Sandy Springs Ford
Acquired by
ASBURY AUTOMOTIVE GROUP
Georgia

DESERT EUROPEAN MOTORCARS, LTD
ASTON MARTIN | BENTLEY
LAND ROVER | JAGUAR | MASERATI
Acquired by INDIGO AUTO GROUP
Transaction closed at previous firm.
California

Hendrick HYUNDAI
CHARLESTON | NORTH CHARLESTON
Acquired by
Krause Family Auto Group
South Carolina

Sovereign Motor Cars Ltd.
of Brooklyn, NY
Acquired by
Carmichan Holdings
New York
Transaction closed at previous firm.

TOYOTA
Fort Myers Toyota
Acquired by
AutoNation
Florida
Transaction closed at previous firm.

HONDA
Panama City
John Eagle Dealerships
Acquired by
GROUP 1 AUTOMOTIVE
Florida
Transaction closed at previous firm.

VISTA LEXUS
Acquired by
DREMOR AUTOMOTIVE GROUP
California
Transaction closed at previous firm.

TOYOTA
Toyota of Lewisville
Acquired by
RLJ mclarty landers automotive
Texas
Transaction closed at previous firm.

HELLER AUTO GROUP
Acquired by
GROUP 1 AUTOMOTIVE
California
Transaction closed at previous firm.

ATC
FREIGHTLINER WESTERN STAR
Dallas North | Dallas South | Ardmore
Fort Worth | Oklahoma City | Tulsa
Acquired by TRANSPORTATION resource partners PENSKE
Transaction closed at previous firm.
Texas & Oklahoma

MASERATI OF MANHATTAN
Acquired by
BNF Automotive Group
New York

LUMBERTON Ford LINCOLN
Lumberton Ford Lincoln
Acquired by
CROSSROADS CARS.COM
North Carolina

TRUCKCITY DRIVING TOWARD THE FUTURE
FREIGHTLINER
TruckCity of Gary
Acquired by
TRANSCHICAGO TRUCK GROUP
Indiana

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Join us at these events:

- **Ohio Auto Dealers Association Webinar:** January 16, 2019
- **AutoTeam America Buy-Sell Summit and CEO/CFO Forum before NADA**: January 24, 2019, San Francisco, CA (Other firms/speakers include Asbury Automotive, Bank of America Merrill Lynch, Del Grande Dealership Group, Hendrick Automotive Group, Hudson Auto Group, Mary Ann Keller and Advisors, Serra Automotive and Thomas “Mack” McLarty.
- **NADA Distinguished Speaker Series with Dale Pollak at NADA Convention:** San Francisco, CA, January 25, 2019
- **Dealer’s Edge Webinar:** February 14, 2019 http://store.dealersedge.com/dnb2.html
- **Bank of America Merrill Lynch’s Auto Summit**: New York, NY, April 17, 2019