THE HAIG REPORT

Third Quarter - 2019

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- Economic conditions remain favorable
- Profits are up for public and private dealers
- Buy-sells are down 36% for the first three quarters of 2019
- Public company spending jumped 80% in Q3 2019 compared to Q3 2018
- More transactions involved single stores or very small groups (lower risk tuck-ins)
- Blue sky values are holding steady for most brands
- Buy-sell activity appears to be picking up as buyers become more confident
- Remember to register for the 7th annual Buy-Sell Summit in Las Vegas on February 14, 2020!

HAIG PARTNERS

Excerpts from Article in Automotive News | *18 November 2019*

Investment Firm Buys 34 Auto Retail Properties in 15 states, D.C.

Melissa Burden

Alternative investment firm Apollo Global Management Inc. has purchased 34 U.S. automotive and motorcycle dealership properties in a deal valued at $585 million.

The transaction closed in the third quarter, and Haig Partners, a Fort Lauderdale, Fla., buy-sell firm, was financial adviser to Apollo, said Alan Haig, president of Haig Partners.

"Real estate is one of the biggest components of value in auto retail, and this purchase of dealership properties represents one of the largest transactions in our industry's history," Haig said in a statement.

First Investment

"It's Apollo's first investment in dealership real estate," Haig said.

A spokesman for Apollo said the company is interested in buying more dealership properties.

There was no breakdown of which properties Apollo purchased, but the majority are automotive dealerships, with a handful of motorcycle stores, Haig said. They are in 15 states and Washington, D.C., according to Haig.

Interest Returns

Institutional capital's interest in auto retail grew after Warren Buffett-led Berkshire Hathaway's 2015 purchase of Van Tuyl Group, a dealership group with 81 stores, Haig said. There was a lull in interest, as investors may have been concerned about a possible recession, the threat of electric and autonomous vehicles on the dealership model or lower dealership earnings that have rebounded some as of late, Haig said.

In the past six months to a year, Haig said, he has noticed a resurgence in interest among institutional capital in auto retail.

"This to me is an indication that investors are not just buying the stocks of AutoNation and Penske, etc.," Haig told Automotive News. "They're coming in and again making investments in auto retail."

"One of the largest transactions in our industry's history."

OVERVIEW

The strength of the auto retail model is evident yet again. Dealers shrugged off declining new vehicle sales by focusing on used vehicles, fixed operations, and F&I. The net result is that dealership profits increased by about 3% from the same period in 2018. Threats from autonomous vehicles, ride-sharing and electrification have receded. Investors have noticed these positive trends, as the stocks of the publicly traded franchised retailers are up a whopping 79% YTD, well over the S&P 500.

Despite robust conditions at dealerships, the buy-sell market is mixed in 2019. There are a substantial number of dealerships available for purchase, but the number of dealerships that actually sold in 2019 is down 36% from the same period in 2018. Spending on acquisitions by public companies is down 28% through Q3 2019 compared to the same period in 2018. Recently, however, along with the increase in dealership profits, we are beginning to see a resurgence in buy-sells coming together as dealers become more confident in the near and long-term future of our industry. Spending by the publics jumped 80% as they snapped up eleven dealerships compared to just three in Q3 2018. Dealership values remain strong and we expect that deal activity in 2020 will rebound to more normal levels.

The Buy-Sell Market for Private Dealers Fell Again in Q3

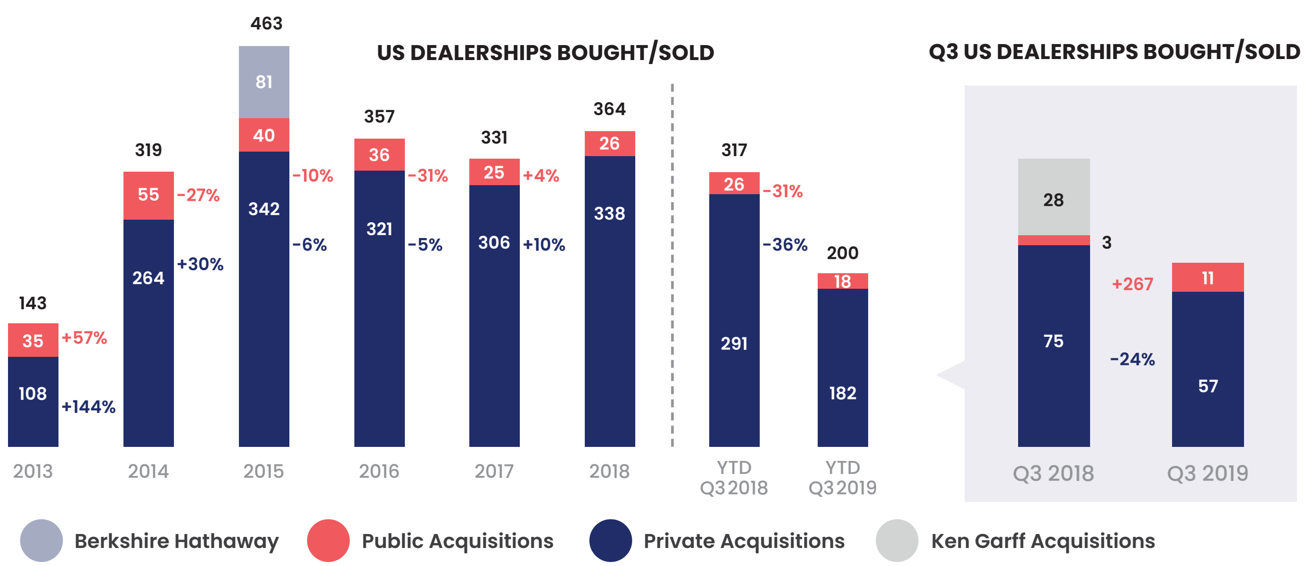
An estimated 68 stores were acquired by public and private buyers in Q3 2019, representing a 31% decline from an especially busy Q3 of 2018 that saw 106 stores change hands. One reason for this decline was due to a large deal that closed in 2018 comprised of 28 stores, the Ken Garff Automotive Group. If this one transaction is removed from the quarter, then we see a decline of 12.8% in dealership sales YTD 2019 compared to the same period in 2018.

For the year-to-date, purchases by private dealers fell 36% compared to the same period in 2018. The second quarter was particularly slow with a decline of 60%. Sales in the first quarter were about flat compared to last year.

We believe there are several reasons for the decline we have seen in 2019. First, the trade environment has been unsettled with threats of tariffs that have chilled the appetite of some dealers looking at franchises that are heavily dependent on imported vehicles. Second, there was economic uncertainty earlier this year as some believed a recession was likely by the end of the year. But perhaps the biggest factor that has led to a downturn is that the gap between the values sellers wanted for their dealerships and the prices buyers were willing to pay. Buyers have been expecting multiples to fall due to some of the reasons above, but sellers have actually seen their profits go up so they see little reason to accept offers they think are below prior levels. The result is that there has been a lot of talk between buyers and sellers, but fewer agreements.

When we dig into the data to see what kinds of deals are being completed, we see a notable increase in the percent of single point transactions. Approximately 70% of the stores sold in Q3 were single point transactions compared to a rate of 45% that we have seen in other years. The percentage of transactions involving groups has fallen from 55% to just 30%. Plus, the size of the groups being sold shrank to an average of only 2.6 stores compared to the 3.3 store average we have seen over the past several years. This shift to smaller transactions indicates to us that buyers have become more cautious. They are growing in small bites rather than big ones.

As for segment mix, year-to-date Q3 saw a higher mix of domestic (51% vs 49%) stores changing hands while midline imports represented a smaller share (32% vs 38%). Luxury brand sales were 17% compared to 13%. We noted that Nissan represented 11% of the stores sold so far in 2019 compared to 6% in the same period of 2018, well over their market share in terms of dealerships in the US. Lots of dealers have given up on this franchise, although we discuss later that Nissan may have reached the bottom.



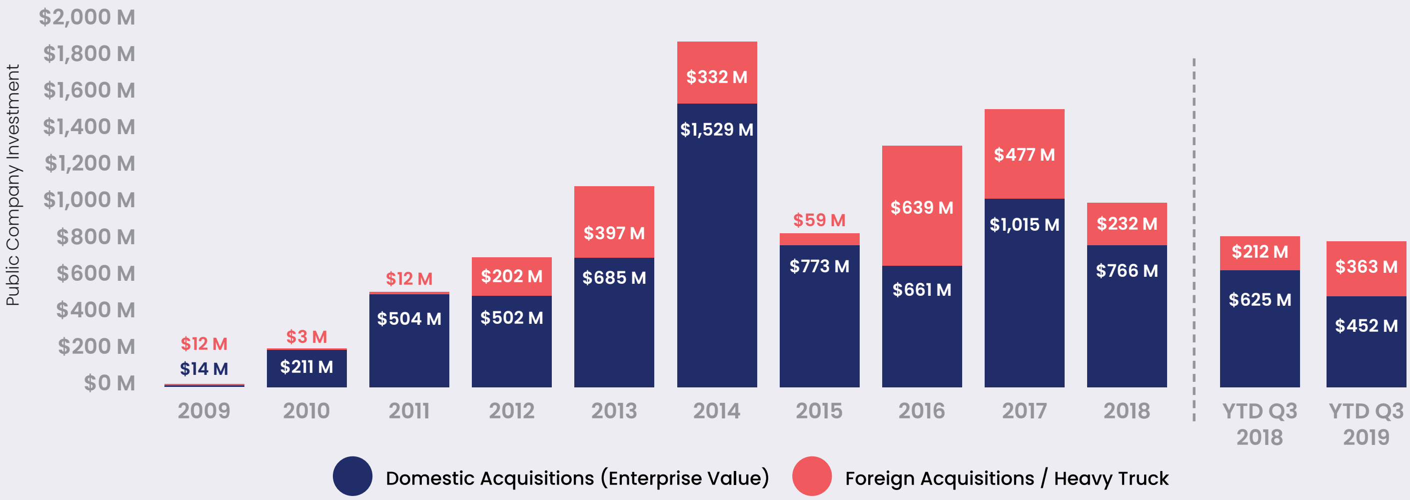
Source: The Banks Report and Haig Partners

Public Company Acquisition Spending Jumped 80% in Q3

Public company spending on auto acquisitions in the US has declined approximately 28% from $625M in the first nine months of 2018 to $452M in the same period of 2019. During the first half of the year, the publics bought very few dealerships as their stock prices had been low for some time due to investor concerns about tariffs, trade wars, Federal Reserve actions, concerns about a declining SAAR, and fears by some tech disruptors. Most acquisitions were not accretive to their share prices, so public groups largely focused on share repurchases, used-car stores, truck dealerships, collision centers, and other less capital-intensive aspects of our industry. But as these concerns began to dissipate in Q1 2019 the stock prices rebounded and are up 79% for the year. Now that acquisitions are more accretive, the public companies have become more active in the buy-sell market. In Q3 2019 the publics spent 80% more than in Q3 2018: $225M on acquisitions for eleven stores compared to $125M in Q3 2018 for just three stores.

PUBLIC COMPANY ACQUISTION SPENDING

Domestic & International



Source: SEC filings

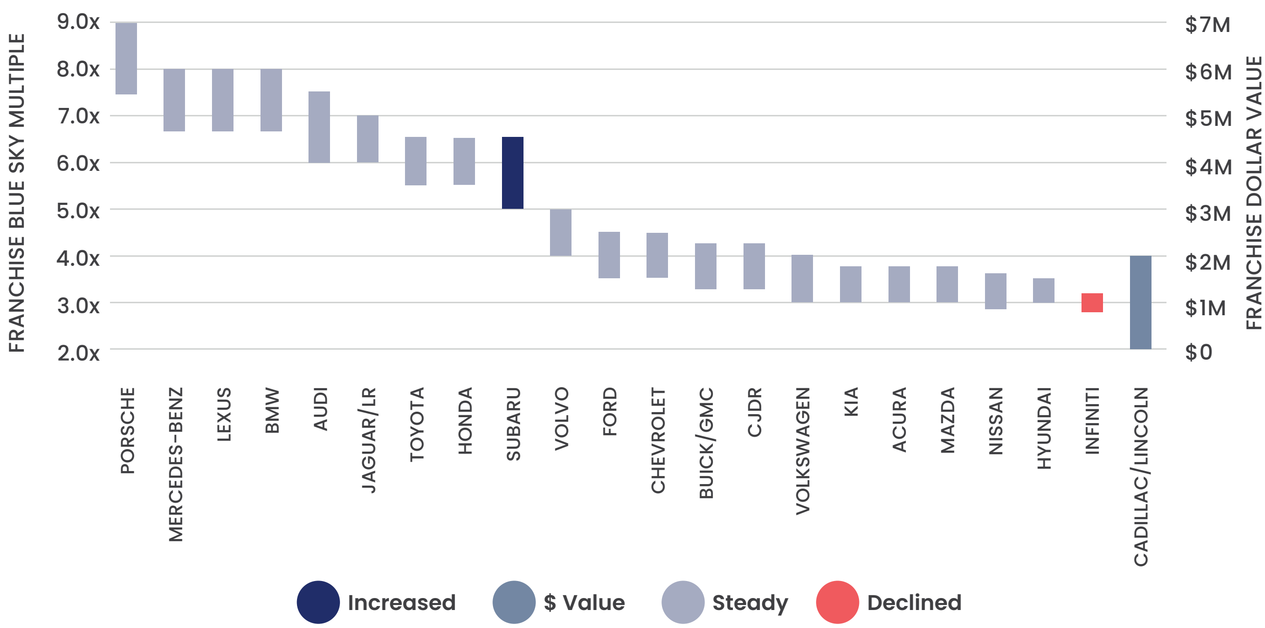
Buy-Sell Outlook for 2020

Based on reports from the market and our own practice, we are expecting a good number of transactions involving private buyers to close in the first quarter of 2020. There are more dealerships available for sale than in the past and there are many buyers with access to plenty of capital. Dealers are increasingly convinced that scale will matter more in the future than it has in the past. This "Get Big or Get Out" belief is pushing some groups to purchase dealerships so they can be better positioned in the future. That said, the "closing ratio" of acquisitions has been falling for several reasons. First, many sellers are asking too much for their dealerships compared to what buyers are willing to pay for them. They have not recognized that buyers have more choices today than in previous years and that buyers will only stretch for highly attractive opportunities. Second, while sellers want to exit, they are not feeling much pressure. Conditions are very good today, so many dealers are opting to hang onto their stores rather than sell for what they think is a low price. As a result, transactions are taking longer and more of them are failing.

Blue Sky Multiples Hold Steady for Most Brands

We carefully monitor the buy-sell market to assess the desirability of the various auto franchises. We analyze offers for the transactions that we are involved in and regularly speak with leading buyers and many attorneys and CPAs who are involved in dealership acquisitions. We have seen only modest movement in dealership values compared to Q2 2019, with Subaru values increasing while Infiniti values are falling.

HAIG PARTNERS BLUE SKY MULTIPLES



FACTORS IMPACTING MULTIPLES

Increases Multiple

- Underperforming Financially
- Metro Markets Where There Are More Buyers
- Rapidly Growing Markets
- Low Tax Markets
- Low Real Estate Costs
- Geography Well-Suited to Franchise

Decreases Multiple

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

The table above provides our estimate of what multiple or value a motivated 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.

In Q3, we see only small changes in blue sky values from the previous quarter. We are reducing the top and bottom end of the multiple range for Infiniti from 3.0x-3.75x to 2.75x-3.25x, and we are increasing the top-end of the blue sky multiple range for Subaru by 0.5x.

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

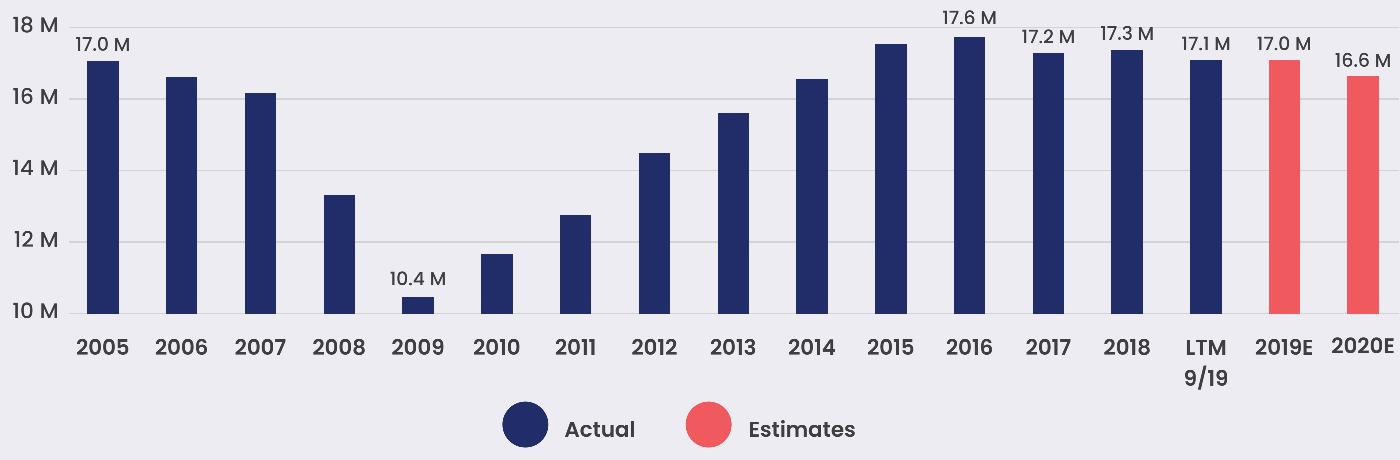
TRENDS IMPACTING AUTO RETAIL

While 2019 started slowly due to the impact of the Polar Vortex, the trade war and fears of a recession, the remainder of the year has provided a number of pleasant surprises for auto dealers and investors. New vehicle margins are up (first time since 2014), F&I PVRs continue to expand and fixed operations continue to increase. The growth in gross profits from these departments is offsetting rising wages and other costs. The bottom line is dealership profits are up by 2.9% through September 2019 compared to the same period in 2018. Even more encouraging is that in the third quarter of 2019 dealership profits increased 8% over profits in Q3 2018. Some of this lift might be making up for a sluggish Q1, but we are hopeful it will continue. It has been impressive to see the strength of the auto retail model where a weakness in one department can be overcome by a renewed focus on other departments.

New Unit Sales Remain Elevated, Surprising Many Forecasters

SAAR projections for 2019 have varied widely. At the beginning of the year, most analysts predicted a meaningful decline in SAAR into the low 16M range. But a strong second half of 2019 has convinced many that we will end up very close to 17.0M new units sold, less than a 2% decline from 2018. Some of the strength of the market is due to an increase in fleet sales. At retail, sales are down 2.3% through October compared to the same period in 2018, but still much higher than most analysts (and many dealers!) expected at the beginning of the year. There are numerous explanations for this strong finish in sales. A robust economy has helped a good deal: job growth has been strong, wages are increasing, and inflation is low. The result is that purchasing a new vehicle remains attractive for many US households.

US LIGHT VEHICLE SALES

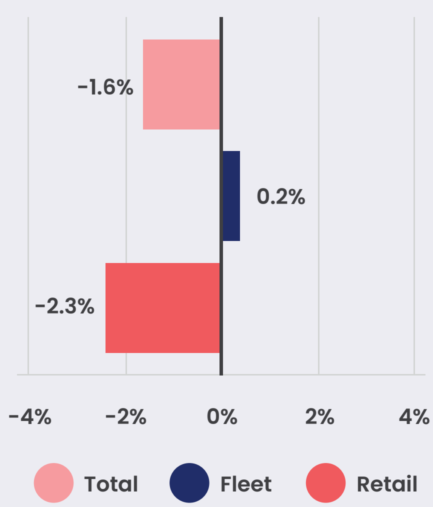


Source: Historicals - Automotive News, Estimates - IHS, Ward's, LMC/JD Power, Cox Automotive, NADA, Chicago Fed, Edmunds

Note the sales data above is total new vehicle sales, including fleet. Retail sales are down about 2.3% so far this year.

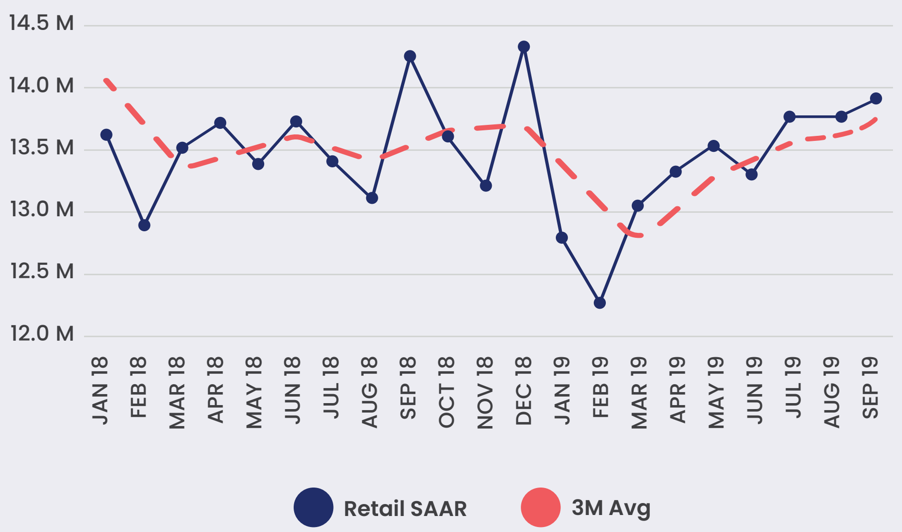
Y/Y SALES CHANGE

YTD September 2019



Source: JD Power

RETAIL SAAR



Source: JD Power

Macroeconomic Indicators Are Generally Favorable

GDP Continues to Beat Expectations
GDP grew at a 2.1% annual rate in Q3, surpassing economists' consensus expectation of 1.6% growth. The current forecast for GDP growth in Q4 2019 is 2.2% which should help our industry continue to perform well.

Employment and Household Income Are Increasing
The national unemployment rate declined by 0.2% from August to 3.5%, at historic lows. Average hourly earnings are up 3.0% compared to a year ago. With rising employment and wages, the labor market remains very healthy.

Inflation is Low
The 12-month inflation rate ticked down to 1.3% from 1.4% in August. When wage growth exceeds inflation consumers have higher real purchasing power.

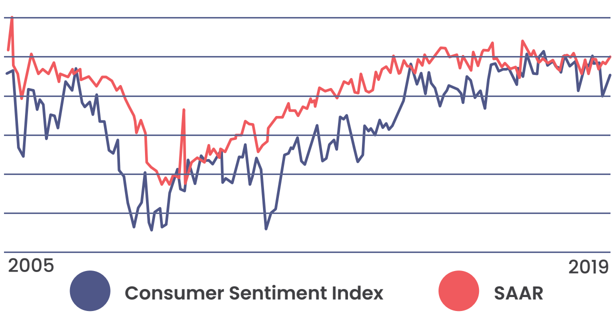
Consumer Sentiment Remains High
Consumer sentiment has leveled off to near-record levels at 95.5. To find consistent consumer sentiment readings at this level, we have to look back to the peak of the dot-com era 20 years ago. High consumer sentiment throughout 2019 is a positive predictor of future vehicle sales.

Fuel Prices Remain Low
Despite some volatility, gas prices are 1.2% lower than a year ago. In addition, consumer spending on gas has declined due to better fuel economy. For instance, a 2020 Ford Explorer gets 56% more miles per gallon compared to a 2009 model. Lower fuel prices allow consumers to spend more on vehicles.

Interest Rates Are Declining
The Fed cut overnight lending rates for a third time this year during its October 30th meeting by 25 basis points. For the auto industry, these cuts are significant as they mean lower car payments for consumers and reduced floorplan expense and mortgage payments for dealers. The average interest rate for a new-vehicle loan stayed under 6% for the fourth month in a row in October, according to the car shopping experts at Edmunds. The APR on new financed vehicles averaged 5.7% in October, compared to 5.7% in September and 6.2% in October of 2018.

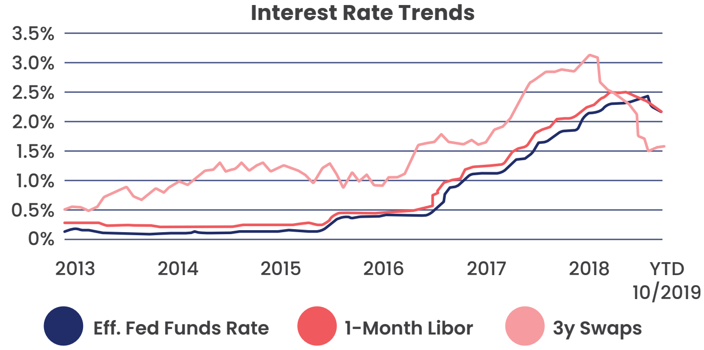
Transaction Size Drives Increasing Car Payments
One area of concern for dealers and economists is the rising cost of new vehicles. This increase has been driven partly by the shift in consumer preferences from cars to trucks and crossovers. Edmunds' data shows higher new vehicle prices have increased the average monthly payment by 3.7% in the past year, more than the increase in wages. We are hoping the recent rate cut by the Fed will result in lower payments by the end of 2019. To pay for these higher-cost vehicles, some customers are taking on ever bigger loans, extending loans out as far as 84 months, and entering into negative equity situations.

Consumer Sentiment vs SAAR



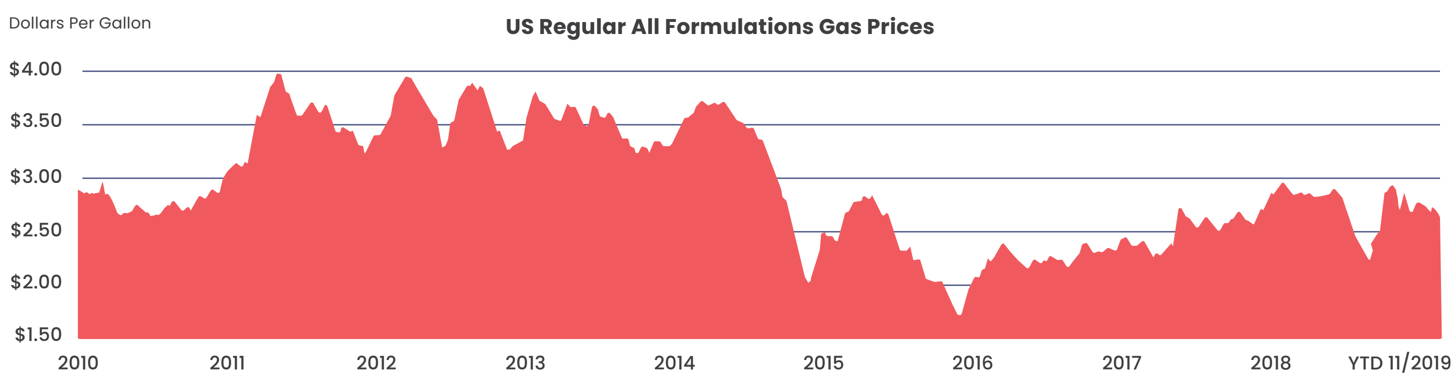
Source: Thompson Reuters/University of Michigan

Interest Rate Trends



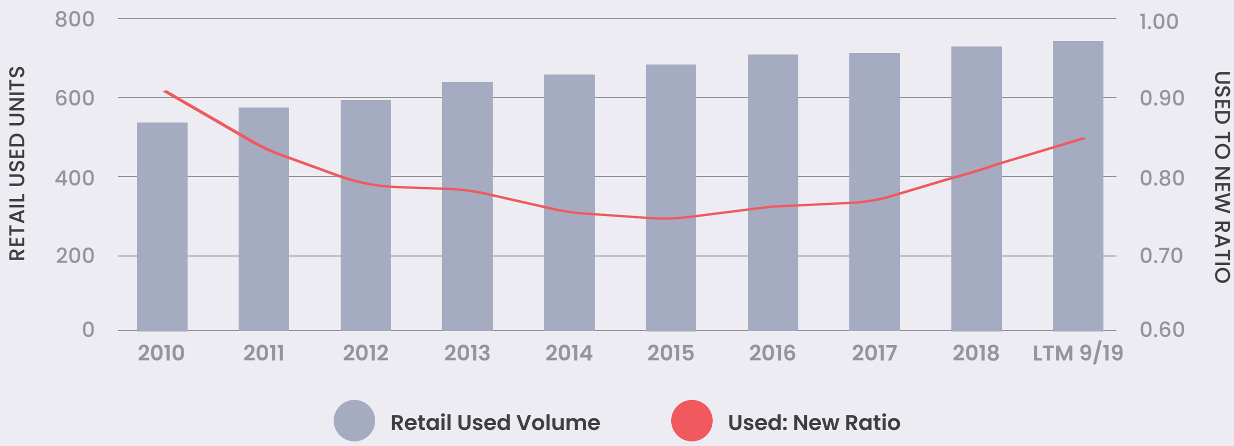
Source: Federal Reserve Economic Data

US Regular All Formulations Gas Prices



Dealers are Increasingly Focused on the Used Vehicle Market

NADA AVERAGE RETAIL USED UNITS PER DEALERSHIP



Since the new vehicle market is declining slightly, dealers have become increasingly focused on selling more used vehicles. Used vehicles have become an attractive alternative to new vehicles for many consumers since the mix of trucks and CUVs/SUVs available at dealers' lots now closely matches consumer demand and prices can be much lower. There is plenty of room for higher used vehicle sales at franchised dealerships since they account for just about 30% of total used sales. Same-store used vehicle volume was up 5.9% compared to last year for public auto retailers. Privately owned franchised dealers are also increasingly focused on used, and the average dealer had a used-to-new ratio of a little over 0.88:1.0 in September 2019 and 0.84:1.0 over the last 12 months. This ratio is up substantially from the 0.79:1.0 average in 2018 and is continuing to improve. We have several clients that have greater than a 2:1 used to new ratio. Their service departments are also busier thanks to more reconditioning.

Vendor Spotlight | **RedCap Technologies**

RedCap Technologies provides dealers with a software-based system that allows them to offer pickup and delivery for their service customers. RedCap is used by dealers of all sizes and the results are impressive. For instance, revenue per repair order is up 20%, service loaner costs are down 30%, and appointment no-shows are near zero. The cost to dealers is about $1,000 per month plus $20 in driver cost per pickup or delivery fee with a service loaner. RedCap is a proven way to grow your service business by increasing convenience, retention, and CSI.

"RedCap has given Paragon the ability to compete head-on with Carvana, Tesla, and yes Amazon! There is no more important initiative than bringing our dealership directly to our customers." Brian Benstock, VP and General Manager of Paragon Honda and Paragon Acura.

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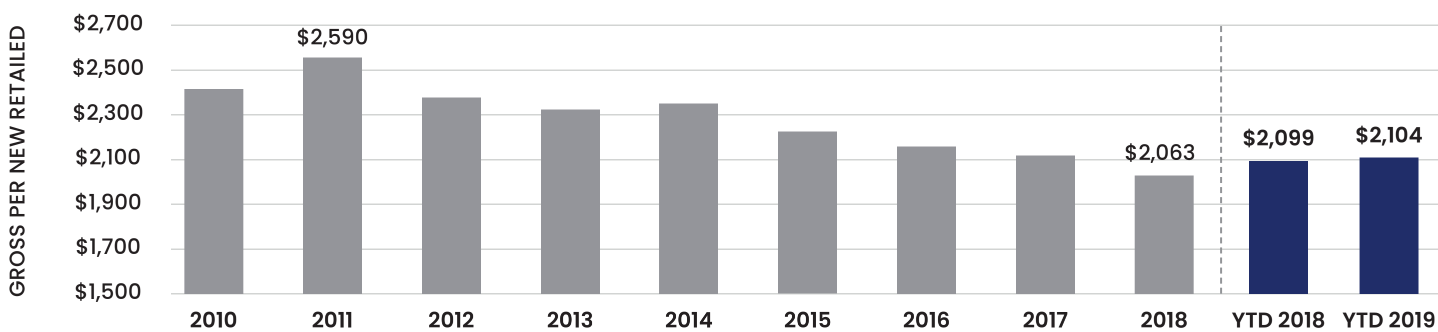
Are New Vehicle Grosses Improving?!

After five years of declining new vehicle margins that eliminated $527 per unit in gross profit, public retailers posted a $5 PVR increase for the year through Q3 2019. With two consecutive quarters of new vehicle PVR improvements, we may have seen the bottom of new vehicle gross profits. One dealership group we spoke to said its reversal of fortune began when they started focusing on generating front-end gross regardless of OEM volume-based incentives. With "smart volume" the dealer found a way to balance volume and front-end profitability.

New Gross Profit Per Vehicle: Public Company Data

Weighted Average Same Store Performance - In Current Dollars

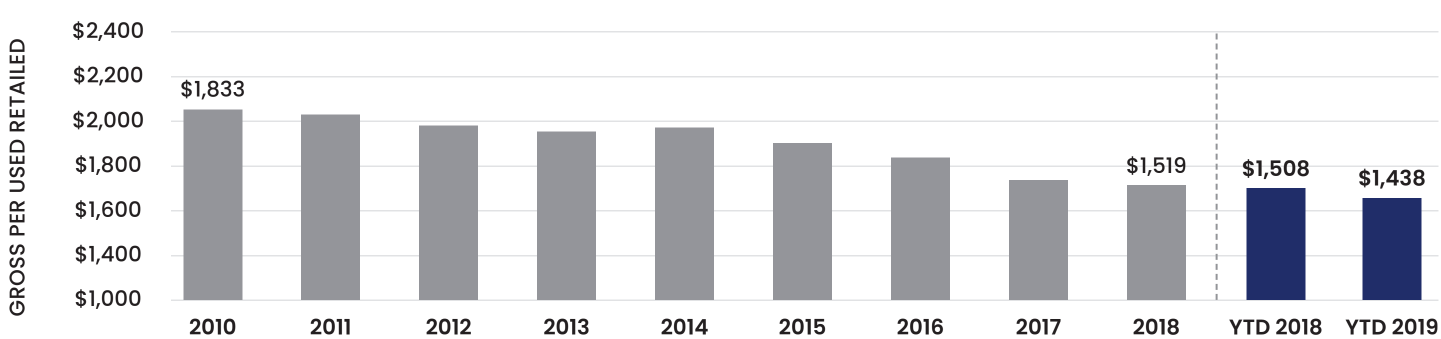


Source: SEC filings

As for used vehicles, the average gross profit per used vehicle for the publics slid $81 in Q3 compared to 2018. This data might have a bit of noise embedded as both Penske and Sonic operate prominent used-only locations and much of Penske's earnings come from the UK so it has suffered from currency fluctuations. These two groups notched the largest declines of the publics, with used per vehicle gross declining 13% and 12%, respectively, although their total used volumes increased. Excluding Penske and Sonic, Q3 2019 average gross profit per used vehicle increased $36 compared to Q3 2018.

Used Gross Profit Per Vehicle: Public Company Data

Weighted Average Same Store Performance - In Current Dollars



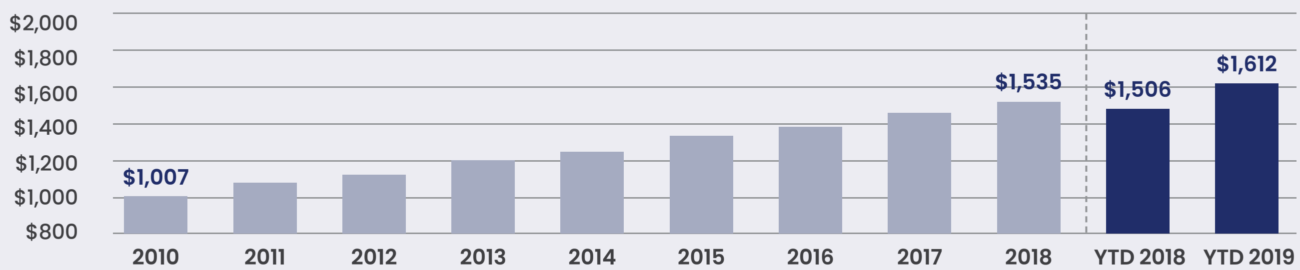
Source: SEC filings

Finance & Insurance Departments Are Generating Record Profits

F&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 $1,612 per vehicle retailed in F&I gross profit during the first nine months of 2019, up $106 (7.0%) from the same period in 2018. This increase is significant and more than offsets the decline in gross profit on used vehicles. A number of private dealers have disclosed they earn even higher profits than these figures, many near or over $2,000 per vehicle retailed. Private dealers also enjoy substantial profits that can be made through reinsurance companies that do not run through dealer statements.

PUBLIC COMPANY F&I PER UNIT RETAILED

Weighted Average Same Store Performance - In Current Dollars



Source: SEC filings

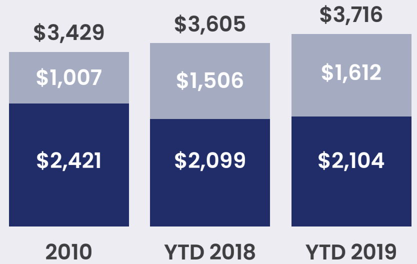
Combined Front and Back: Profits per Vehicle Retailed Continue to Increase

The tables below track combined front and back end profits per vehicle retailed data back to 2010. They show that on a combined basis, profits have trended up slightly in absolute dollar terms as the gains in F&I have more than offset the declines in front-end gross.

PUBLIC COMPANY VEHICLE GROSS + F&I PVR

Weighted Average Same Store Performance - In Current Dollars

NEW Vehicle Gross



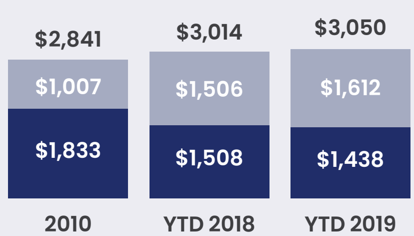
2010-2019 NEW

TOTAL	F&I	NEW
+$288	+$605	-$317
+8.4%	+60%	-13.1%

2010-2019 USED

TOTAL	F&I	USED
+$209	+$605	-$395
+7.4%	+60%	-21.6%

USED Vehicle Gross



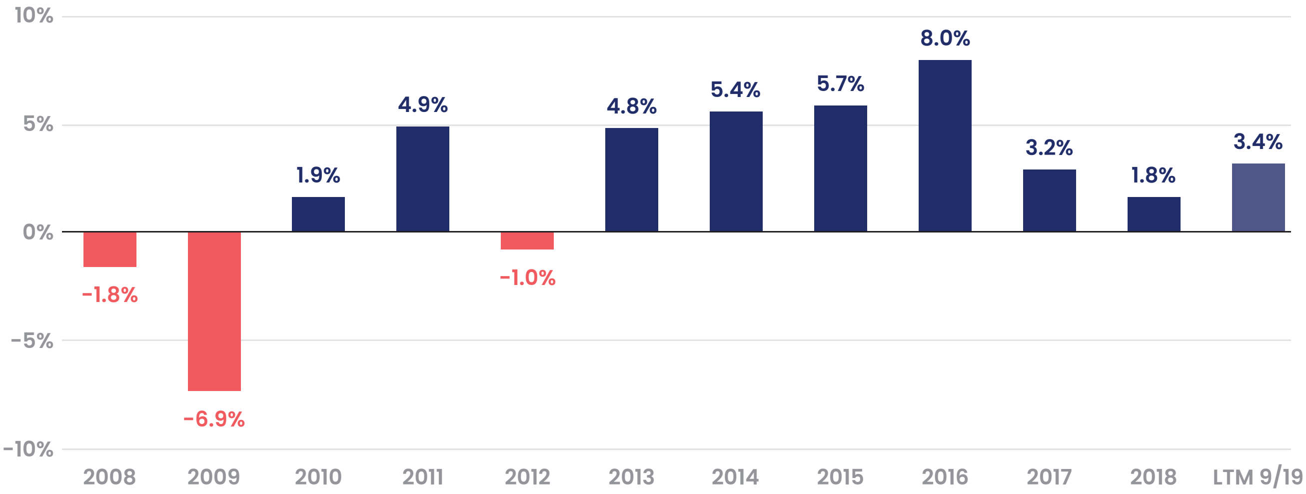
Note: Front end gross profit includes manufacturer incentives and other income.

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

Fixed Operations Growth Rebounds

According to NADA, fixed operations sales grew 3.4% for the average dealer in the first nine months of 2019 compared to the same period last year. The public companies reported a 7.0% same-store change during the same period. Franchised auto dealers have room for substantially more growth. According to a study by Cox Automotive, franchised dealers account for only 30% of the automotive repair market in the US. And per NADA, the average dealership's fixed absorption rate is less than 60%. Dealers have room to grow service and overall profitability while insulating themselves from potential declines in new vehicle sales. The typical calculation of units in operation by many OEMs utilizes a seven-year volume total. We are currently only in year six of our current SAAR plateau around 17 million units. As such, we don't expect UIOs will peak in the US until 2020, leaving room for higher fixed operations for the average dealership.

FIXED OPERATIONS GROWTH



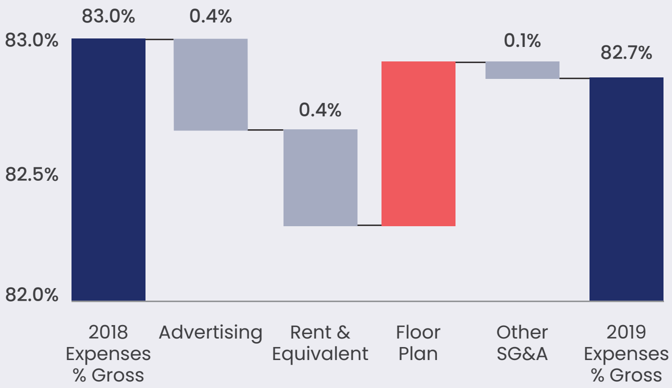
Source: NADA

Dealership Gross Is Up and Expenses Are Down

The average privately-owned dealership grew its gross profit (including other vehicle income) by 2.5% in the first nine months of 2019 compared to the same period last year, while operating expenses increased by only 2.1% compared to the prior year. Dealership selling, general and administrative expenses as a percent of gross profit decreased from 83% in Q3 of 2018 to 82.7% in Q3 of 2019.

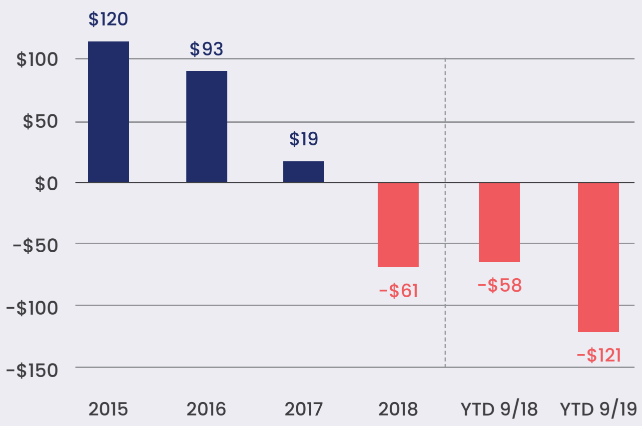
Dealers have become more efficient in several areas. First, they have reduced their advertising expenses as a percentage of gross profit as they continue to move away from traditional forms of advertising into digital media. Also, rent and equivalent expenses decreased as a percent of gross profit. This decline surprised us since many dealers continue to invest in facilities due to OEM requirements. Perhaps this is a change due to the new tax code in the way dealers handle their real estate entities and the rent they charge themselves. And dealers have been frugal in other areas of their cost structure, resisting expense creep. Floorplan expense has been the main headwind for dealers so far in 2019, as rates in the first half of the year were substantially higher than in 2018. But thanks to the recent rate reductions by the Federal Reserve, dealers are likely to reduce this expense in future quarters.

PERCENTAGE EXPENSE GROWTH YTD 2018/2019



NET FLOORPLAN INTEREST INCOME / (EXPENSE)

Per New Retail Vehicle (2015 - Sept 2019)

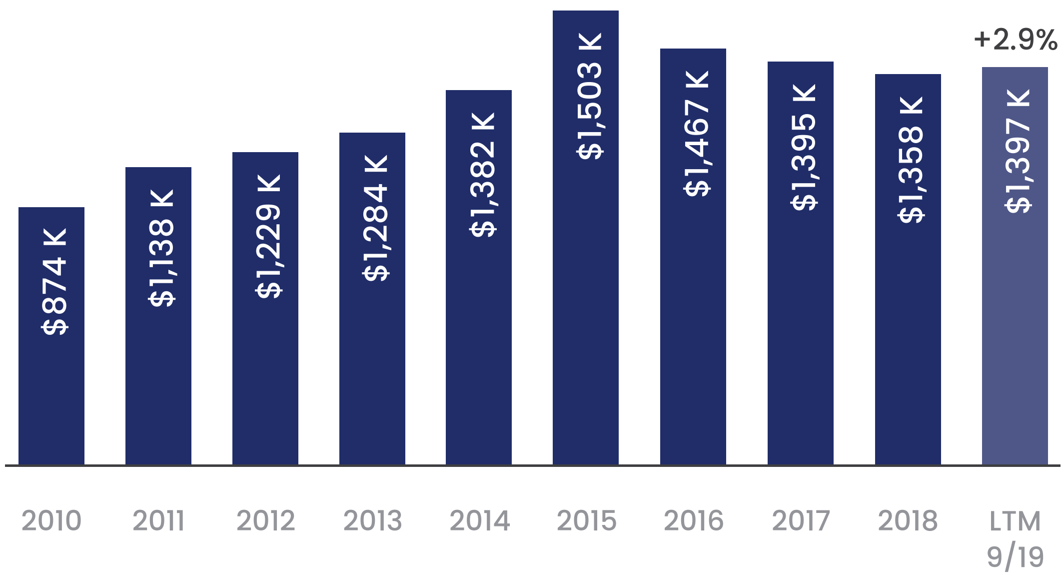


Source: NADA

Dealership Profits Are Increasing

The net outcome of the trends listed above is that average profits at privately owned dealerships increased 2.9% over the last 12 months. Although the year-over-year increase in profits of private dealers is small, it is the first sign of a positive trend after three years of decline. The public companies reported an average increase of 1.1% in adjusted operating earnings during the same period. This is a remarkable performance on the part of the dealers and shows the flexibility of the auto retail model. Dealers compensated for declining new unit sales with higher sales of used units, higher F&I profits and a greater emphasis on fixed operations. While profits over the last 12 months are still down 7.6% from the peak in 2015, most dealers we speak with are pretty excited about their current levels of performance. The table on the next page shows the annual change in profits at privately owned dealerships since 2010. Prior to the Great Recession, during the 2001 to 2007 period when new vehicle sales were essentially at a plateau, NADA data showed that annual profits per dealership fell by about 5% per year due to falling margins and rising costs until the recession hit in 2008. What is interesting is that while the flattening of sales recently is similar to what happened from 2001-2007, dealerships are not suffering from a similar decline in profits.

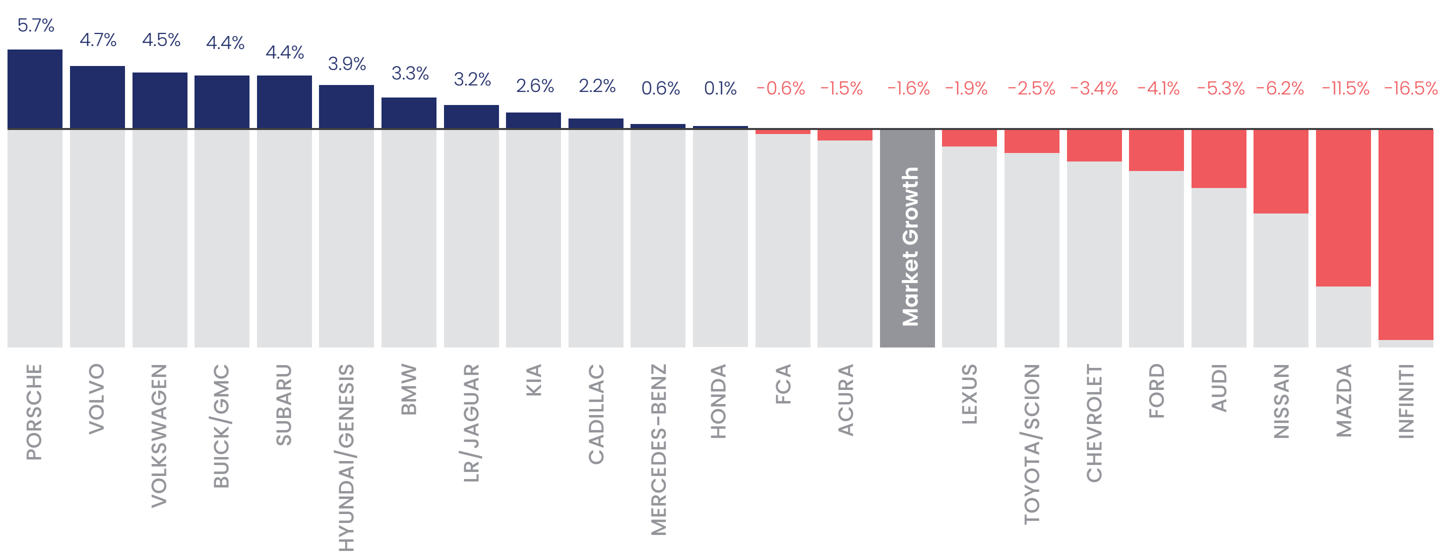
NADA AVERAGE PRIVATE DEALERSHIP EARNINGS



Changes in Sales for Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in 2019. Note, this data reflects changes in total sales per franchise, so it includes fleet sales that cloud the results at the retail level. Porsche and Volvo sales jumped 5.7% and 4.7%, respectively, thanks to new products taking share from rivals. Most of the volume brands saw flat to slightly declining sales. Audi is down a troubling 5.3%. Nissan continues to struggle with sales down 6.2% while Infiniti is collapsing, down 16.5%.

YEAR/ YEAR SALES PERFORMANCES – YTD 2019

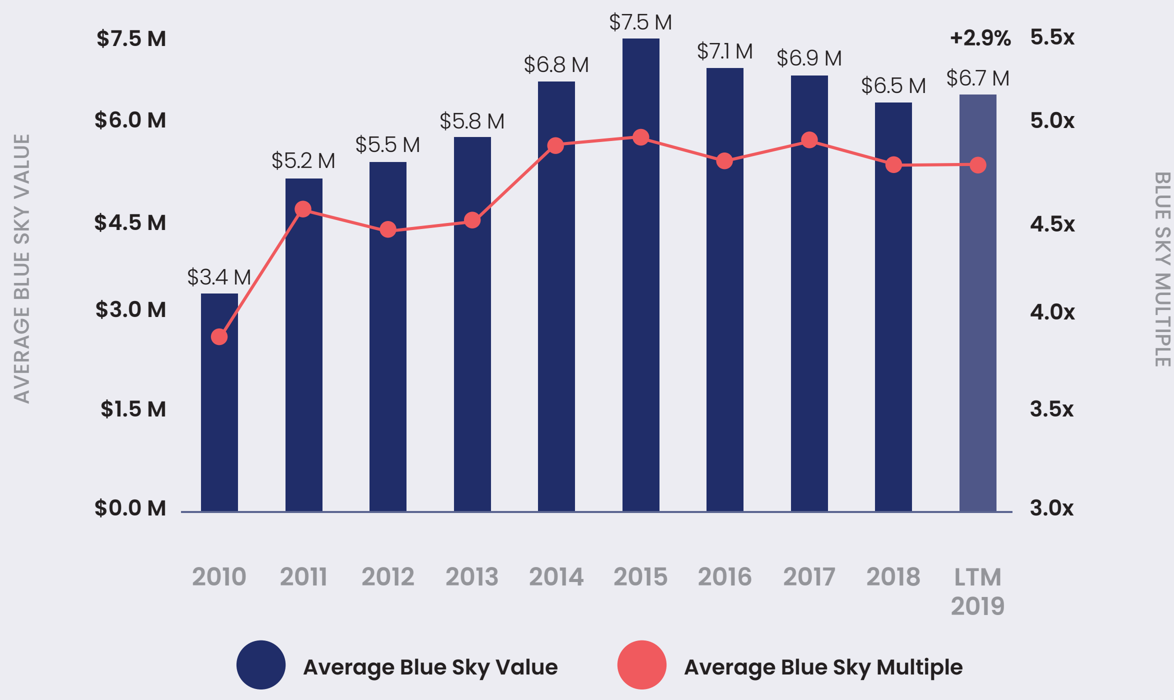


Source: Automotive News (September Data)

Private Dealership Values Are Stable

The estimated average blue sky multiple for all franchises on an unweighted basis was 4.80x in Q3 2019 according to our estimates, approximately the same as in the past three quarters. Profits per dealership on an LTM basis increased by 2.9% compared to the full year 2018. Applying the average 4.80x blue sky multiple to the average dealership pre-tax profit of $1.40M over the last 12 months generates an average blue sky value of $6.7M, up 2.9% from year-end 2018. As the chart below shows, this is down ~7% from the peak in 2015 but remains strong relative to historical levels.

ESTIMATED AVERAGE BLUE SKY VALUE



350+ DEALERSHIPS

Bought or Sold Since 1996

$5.0 BILLION IN VALUE

350+ DEALERSHIPS

23 YEARS OF EXPERIENCE

#1 TRUSTED PARTNER

THANK YOU!

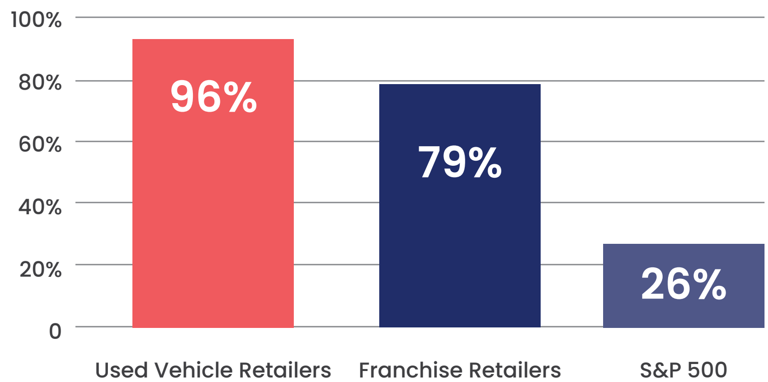
The team at Haig Partners would like to thank our clients, buyers, industry partners and associates as we celebrate these milestones.

Public Franchised Dealership Groups Outperforming The S&P in 2019

Many investors turned negative on the publicly traded franchised dealership groups in January 2017. They were worried about a downturn in the economic cycle and had concerns about the potential technology disruptors like autonomous vehicles, electrification, and ride-sharing. Circumstances have changed over the past nine months and investors are again seeing value in auto retailers. Most investors now believe that, for the foreseeable future, autonomous and electric vehicles are unlikely to hurt dealer profits. In addition, dealers have shown investors that they can adapt to a declining new vehicle sales market by increasing their focus on used vehicles, F&I and fixed operations. As a result, the stock prices of auto retailers are up an average of 79% since the beginning of the year and have outperformed the S&P 500 by more than 200%. CarMax and Carvana have also delivered impressive results for their shareholders. We encourage dealers to take note of some of the customer-friendly practices and technology deployed by these two used car retailers, and that investors believe these practices will drive strong growth in the future.

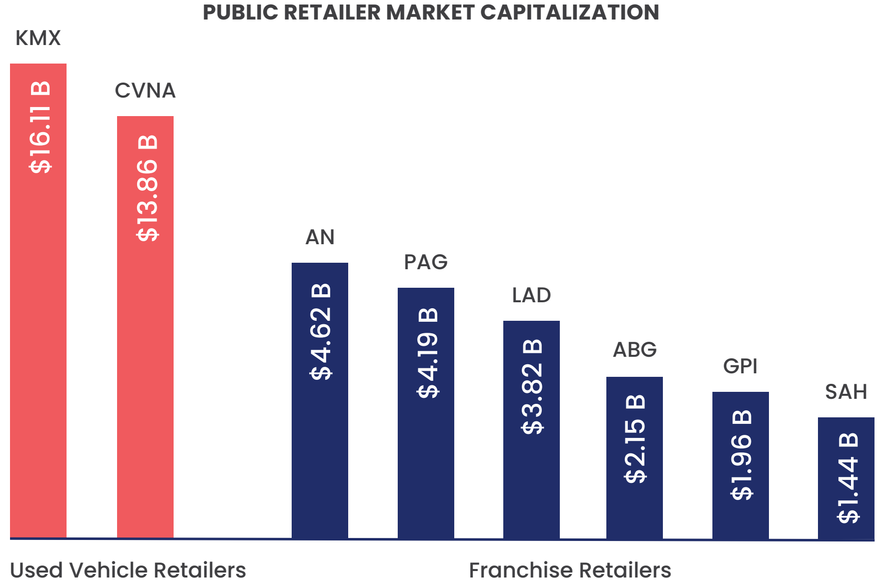
CHANGE IN STOCK PRICE

Public Auto Retailers vs S&P 500 YTD Nov-19



Source: Yahoo! Finance; Data as of 11/22/2019

PUBLIC RETAILER MARKET CAPITALIZATION



Source: Yahoo! Finance; Data as of 11/22/2019

HAIG PARTNERS LATEST TRANSACTIONS

APOLLO

Apollo Global Management has acquired dealership real estate assets for $585 million.

HAIG PARTNERS

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

Sonnen | Marin | Marin

Have been acquired by

Haig Partners acted as exclusive financial advisor to Sonnen Motor Cars in this transaction.

INDIGO AUTO GROUP

California

GALLERY Automotive Group

Rockland | Rockland | Reading

Norwood | Norwood | Norwood

Have been acquired by

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

Prime MOTOR GROUP

Massachusetts

HUBER

Have been acquired by

Safford AUTOMOTIVE GROUP

Virginia

Haig Partners acted as exclusive financial advisor to Huber Motor Cars in this transaction.

Has been acquired by

Royal HONDA

Metairie

Hudson Automotive Group, Inc

Louisiana

Haig Partners acted as exclusive financial advisor to Royal Honda in this transaction.

JERRY DURANT TOYOTA

Granbury

DURANT TOYOTA

Weatherford

Have been acquired by

Shottenkirk AUTOMOTIVE GROUP

Texas

Haig Partners acted as exclusive financial advisor to Jerry Durant Toyota in this transaction.

BONIFACE HIERS AUTOMOTIVE GROUP

Melbourne

Has been acquired by

KELLY Auto Group

Florida

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

TITUS-WILL Est. 1938

Washington

HAIG PARTNERS

Haig Partners acted as exclusive financial advisor to Titus-Will in this recapitalization.

Lakewood | Tacoma | Tacoma | Tacoma

Olympia | Olympia | Olympia | Olympia | Olympia

BUY-SELL TRENDS

More Sellers Are Coming to Market

Several large dealers have told us they have never had so many inbound calls with acquisition opportunities. The increase in the number of stores for sale is likely due to several reasons: an aging dealer body (the silver tsunami), the fear of 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. Some dealers are also opting to sell as they have a growing distaste for dealing with the OEMs. There is a wide range in terms of the quality of assets available for sale today. Some dealers are divesting of challenging brands like Nissan that are losing them money today. At the same time, we are also representing several large groups that are highly profitable, own attractive franchises, and have scale in growing markets. We believe the current environment represents a rare opportunity for growth. **Buyers who are hoping that prices will fall may be disappointed and miss opportunities to add scale with attractive brands.**

Buyers Are Active and Institutional Capital Has Returned

Thanks to healthy profits and a clearing outlook for the future, there are a substantial number of buyers active in the market today. Some are concerned about the possibility of a downturn over the next few years, but they are enjoying record profits and would rather invest their surplus capital now than leave it in the bank at anemic rates. Most groups are willing to consider tuck-ins of franchises in their current markets, and some are willing to stretch outside their current areas for top franchises and attractive platforms. We have also seen a return of family office and private equity investment in our industry. These players were dormant for much of the past 18 months or so. We recently advised Apollo Global Wealth on the acquisition of $585M in dealership properties across many markets in the US. Also, another very large private equity firm has recently formed a partnership to provide growth capital to a dealer in the Southeast. And a family office is providing hundreds of millions of capital for dealership acquisition in partnership with two other dealers in the Southeast. Finally, as we stated earlier, public companies have ramped up their spending recently. While private dealers are still the leading acquirers, we are pleased that all of these sources of capital are actively investing in our industry.

Lenders Are Still Lending

We recently polled many of the leading lenders to dealers and all of them have indicated they are eager to loan more capital to dealers to help them finance acquisitions. None are projecting a major decline in profits at dealerships due to a recession, changes in consumer behavior, or threats from technology.

Buyers Are More Selective

Given the concerns some buyers have about a potential downturn, dealers have become more selective in what opportunities they are pursuing. Some are value shoppers, willing to make numerous low offers in the hopes of buying a franchise for a price lower than in previous years. Other buyers are passing over tougher brands and challenging markets. They are targeting only high-quality franchises in desirable locations. Dealerships that have challenges such as major facility issues, unions, or incoming add-points, will need to be priced a good bit lower than in the past to get the attention of buyers. And some dealership groups that want to grow are hoarding their "dry powder" and waiting for prices to fall. They see a growing supply/demand imbalance that they hope will be rectified with reduced blue sky values.

The Closing Ratio Is Falling

In 2015, almost every dealership that came to the market found an eager buyer. Deals did not linger. Recently, the situation has been quite different. The number of sellers entering the marketplace increased, but buyers have been telling us that some of the asking prices they are seeing are too high to be attractive. Buyers will not chase dealerships they see as overpriced when there are so many stores on the market. The risk for sellers is that they may suffer a long marketing period and eventually have to accept lower offers than if they had priced their dealership correctly at the beginning.

Geography Is Increasingly Driving Value

Texas and Florida have become the most desirable states for dealers thanks to their dealer friendly franchise laws, rapid growth, and low taxes. We are also seeing significant interest in the Southeast, Southwest, Mountain States, and certain markets in the Midwest. These areas offer high growth and low real estate costs, two of the essential ingredients for a high return on investment. Buyers may pay as much as 15%-25% higher prices in these desirable areas compared to “average” markets.

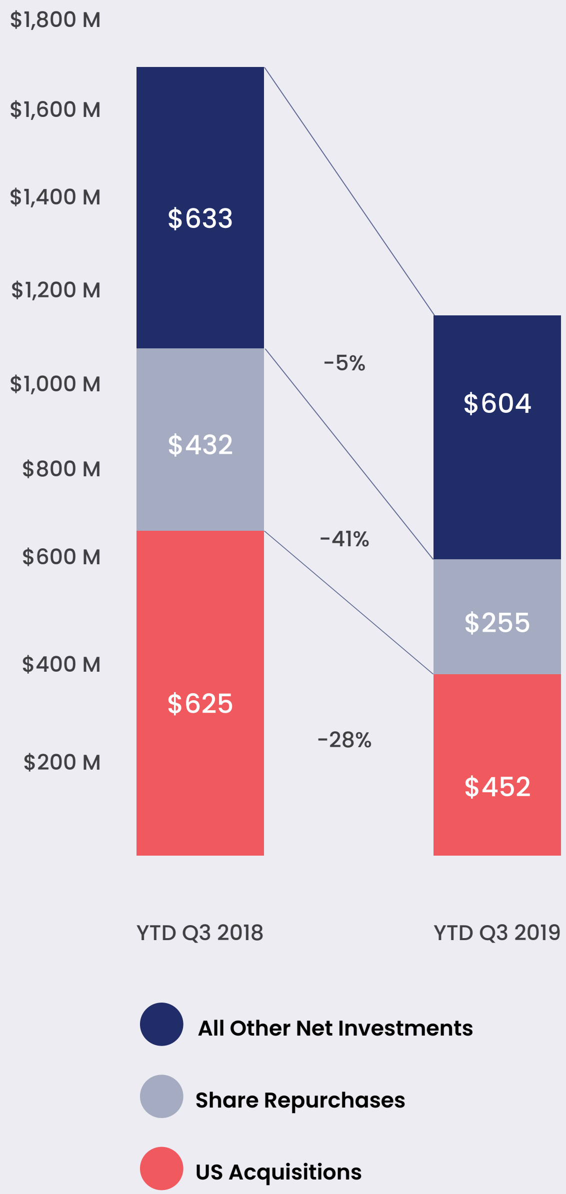
Public Companies Are Returning to the Market

The public retailers have been shrinking their store count over the last couple of years. This trend has continued in 2019 as they sold 34 dealerships and bought 18 dealerships. Some of the publics have recently detailed plans of realigning their portfolios away from tough brands such as Nissan. Other divestitures are dealerships that require significant facility investments, that are nominally profitable, or were in outlying areas.

Now that acquisitions are increasingly accretive today, the public companies are more active in the buy-sell market. In Q3 2019 the publics spent 80% more than in Q3 2018: $225M on acquisitions for eleven stores compared to $125M in Q3 2018 for just three stores.

The table on the right shows where the public companies invest their capital during the first nine months of 2018 and the same period of 2019.

PUBLIC COMPANY CAPITAL ALLOCATION



Source: SEC filings

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 350+ dealerships in our careers dating back to 1996. Each quarter we contact many leading dealer groups as well as accountants, bankers, and lawyers who practice in auto retail. The information that we gain from these conversations and our own transactions form the basis for the following evaluations.

Dealership Valuation Methods

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

The blue sky multiple ranges that we set forth in this report reflect our expectations of what motivated buyers in competitive situations will pay for the goodwill of average dealerships and we note any upward or downward changes from Q2 2019. We remind the reader that each dealership transaction is unique, and dealerships may trade above or below the ranges we describe in this report. **See page 5 for factors that could increase or decrease the multiples paid by buyers from what we estimate here.**

Luxury Franchise Blue Sky Multiples

Porsche

Porsche sales have increased 5.7% on the year thanks to fresh product such as the 911, Macan and Cayenne. Porsche ranked highest among all brands in JD Power's recent sales satisfaction study (4th time in the last 5 years). Profits per vehicle are high and this strength appears likely to continue as consumers have put down thousands of deposits for the upcoming Taycan electric sedan. We were pleased to represent a dealer on the sale of his Porsche store recently. We get many calls from dealers seeking this franchise and they will stretch far to buy one. Some dealers complain about burdensome facility requirements. **Same multiple range: 7.5x-9.0x.**

Mercedes-Benz

Mercedes Benz reported the third-best quarter in the company's history (+12.2% YoY) and an overall increase of 0.6% in sales over the first nine months versus the same period last year. The brand is now flat with last year through October after a slow start due to problems with product homologation. Momentum is building in showrooms thanks to key SUV launches. MB is in 2nd place behind BMW but comfortably ahead of 3rd place Lexus in the luxury sales race. MB was second only to Porsche in the recent JD Power sales satisfaction study. Dealers still love this franchise despite its recent challenges that appear to be behind them. Demand for these stores remains strong. **Same multiple range 6.5x-8.0x.**

Lexus

September sales plummeted 23.2% and Lexus is down 1.9% on the year. Year to date sales have fallen on all models except the ES sedan and RC. Dealers are concerned about the aging product lineup and an aging customer base. Customers still love the brand as it beat all other luxury brands in terms of customer loyalty with 47.6% according to J.D. Power. Despite challenges on the showroom floor, strong fixed operations are keeping Lexus dealerships nicely profitable. Executives seem optimistic about a turnaround stemming from updated products and continued customer loyalty. **Same multiple range 6.5x-8.0x.**

BMW

BMW continues to trend positive with a 3.3% increase in sales year to date versus the same time last year. With September's results, the brand has now achieved positive sales growth in 24 out of the last 25 months and BMW maintained its sales crown among all luxury brands. This can be attributed to continued interest in newer products as well as strength from its CUVs. Dealers have praised the change in advertising rules that boosted margins. Several BMW stores we have been involved with recently are generating over $6,000 in new vehicle gross profit including incentive money. BMW ranked third on J.D. Power's 2019 U.S. Automotive Brand Loyalty Study out of all luxury brands. **Same multiple range 6.5x-8.0x.**

Audi

Audi's sales are down 5.3% on the year but we are hearing dealers talk about improving conditions at this franchise. Margins have been helped by new products and the challenges with the loaner car program appear to be clearing up. Dealers are hoping these changes translate into higher profits per dealership which lags other premium luxury brands. Audi ranked below average in the recent JD Power sales satisfaction study, below the other "big four" luxury brands. **Same multiple range 6.5x-7.5x.**

Jaguar / Land Rover

LR sales were up 3.2% through the first nine months of the year (+6.0% for Jag and +3.1% for LR). Consumers love the design of the products and margins remain high on the larger Land Rover vehicles. That said, product quality remains a problem as Land Rover ranked 6th place behind Audi in terms of customer loyalty, while Jaguar ranked dead last out of all luxury brands in terms of loyalty percentage at 20.6%, according to J.D. Power. In the short term, fixed ops benefit. Expensive facility requirements erode the value of this franchise somewhat. On the plus side, the upcoming Defender models should be popular for upscale customers who are wary of Wranglers as the only rugged and sporty 4x4 choice. **For combined JLR stores where no add points are coming: Same multiple range: 6.0x-7.0x.**

Volvo

Sales increased 7% in September and 4.7% over the first nine months of 2019 compared to the same time last year. This marks the strongest September for Volvo in the past 13 years. SUVs are the big driver, but cars are also up 6% on the year, perhaps making Volvo the only OEM showing gains in cars. The new S60 (Volvo's first model assembled in America) appears to be selling well and will be joined soon by a new V60 wagon also made in America. We are seeing some dealers invest significantly in their dealerships, a tangible sign of higher expectations for Volvo's future. **Same multiple range: 4.0x-5.0x.**

Acura

Acura sales are down 1.5% for the year, about even with the market. Acura's entire lineup is being refreshed for '21 and '22 which may help it take share. Until Acura helps boost dealership profits, interest in this franchise is likely to remain tepid. **Same multiple range: 3.0x-3.75x.**

Infiniti

The brand continues its downward spiral, seeing sales drop 43.9% in September compared to the same month in 2018. Infiniti is down 16.5% over the first three quarters of 2019. Every model was down year-over-year including the newer QX50 which was just released last year. Even scarier is that there appears to be no new product coming in the next twelve months. Many of these dealerships are no longer profitable, and those that are will likely be focusing on used cars to make a living. It's not clear to us when conditions will stabilize. **Lower multiple range: 2.75x-3.25x.**

Cadillac

Cadillac is up 2.2% through Q3. Cadillac's improved lineup including the XT4, XT5, and the new XT6, passed Acura as the fifth best-selling luxury brand in the US so far this year. The other models in the lineup continued to see decreasing sales. Cadillac placed very near the bottom in the JD Power survey of luxury brands. A new Escalade is due in early 2020 which should drive traffic and buyers to showrooms. Unfortunately, there remain too many Cadillac stores so profits per store will remain anemic. **Value range: $0-$2,000,000.**

Lincoln

Sales have increased by 4.7% so far this year compared to the same period in 2018. Lincoln is trying to build on its good news by pushing dealers to de-dual Ford/Lincoln stores to better compete with other luxury brands. This is a tough issue, as sales volumes are too low to support profitable standalone Lincoln stores, but it's also hard to deliver a luxury experience in the same facility where a lot of fleet/commercial business is being done. With no real profits per location to price off of, we see these franchises trading for a flat value. **Value range: $0-$2,000,000.**

Mid-Line Import Franchise Blue Sky Multiples

Toyota

Toyota reported a 2.5% decrease in sales through the first three quarters. Despite this slump, we continue to receive calls from dealers looking to buy this franchise. Toyota will have the best balance of car and truck models now that FCA, Ford, and GM have largely exited the car business. We were recently involved in the sale of two Toyota stores in Texas and demand was very high. Toyota stores can make very high profits given their high sales per location and big fixed operations. Toyota also ranked second in the 2019 U.S. Automotive Brand Loyalty Study by J.D. Power of Mass Market Brands with a loyalty percentage of 59.5%. **Same multiple range: 5.5x-6.5x.**

Honda

Sales are up 0.1% through nine months, picking up after a slow first half of 2019. Honda ranked third in J.D. Power's study of Mass Market brand loyalty with a loyalty percentage of 57.5%. Honda stores can make impressive profits despite anemic new vehicle margins thanks to big fixed operations. Dealers worry about them cutting production too much, rather than trying to stimulate more demand. Customers love this franchise and remain intensely loyal. We were involved in the sale of several Honda dealerships and demand was strong across the board. **Same multiple range: 5.5x-6.5x.**

Subaru

September was a rare down month for Subaru which experienced a 9.4% decrease versus September 2018 and marked the end of 93 consecutive months of month-over-month growth. Subaru remained up 4.4% on the year through Q3. Brand representatives attributed the recent decline in sales to tight supplies in inventory as well as the shorter sales period. Executives and dealers alike are looking forward to continued growth with a strong end of the year for the brand. Subaru ranked highest among mass-market brands, according to J.D. Power, with a loyalty percentage of 61.5%. Also, Subaru inventory levels continue to be the lowest in the industry at less than 30 days supply, which implies sales can continue to grow. Fixed operations are booming as units in operation are far higher than in the past. Dealers are chasing these stores and demand has likely never been higher. We are hearing about big prices for these dealerships and they are more desirable than Honda or Toyota dealerships in some markets. **Higher top end of the multiple range: 5.0x-6.5x.**

VW

Volkswagen sales were up 4.5% through the third quarter. The SUV segment continues to drive the brand's growth, thanks to the loyalty of roughly half of the VW brand car owners who returned to the brand and switched to VW SUVs. VW ranked well above the industry average in JD Power's recent sales satisfaction study. This could be a good time to consider investing in this franchise, particularly in markets like CA that are pushing consumers towards electric vehicles. VW will likely be a leader in this category due to its settlement with the US government from the diesel emissions scandal. **Same multiple range: 3.0x-4.0x.**

Kia

The brand posted a 2.6% increase in sales so far in 2019 due to the new Telluride. Kia ranked second on JD Power's recent initial quality study, in terms of lowest problems per 100 vehicles. We are hearing of many dealers making healthy profits on these dealerships now that its mix of cars/CUVs is improving. Fixed operations are weak compared to Honda and Toyota, but F&I can be better. **Same multiple range: 3.0x-3.75x.**

Hyundai

The brand reported a 3.9% increase in sales during the first nine months of the year and a 5% increase in Q3 2019 versus the same time period last year. Hyundai has bolstered its sales by adding SUV models to its lineup, including the very hot Palisade that is selling well over sticker. Executives note that they've been able to keep their fleet sales in check while keeping their days' supply and incentives below the industry average. **Same multiple range: 3.0x-3.5x.**

Mazda

Year to date sales through September saw an 11.5% decrease in sales compared to the same time last year. The biggest weakness is in sedans. The brand has been facing a prolonged downfall due to a limited product lineup and the increasing competition from other brands. Few dealers are targeting this brand.
Same multiple range: 3.0x-3.75x.

Nissan

The brand is down 6.2% through the first nine months, and 14.6% in September, still obviously feeling the effects of a tumultuous start including the Ghosn Scandal. Although consumers love the product styling and quality, dealers are reluctant to add new inventory until they can sell older models. Many have elected to exit the Nissan business altogether and have sold their stores out of distaste for this OEM's business model over the past few years. Nissan management appears to be listening. The new head of North America, Jose Valls, has dialed back the pressure on dealers and seems to be OK with letting volume to the level of demand for it. He has also moved away from the aggressive and often uneven stair-step programs that rewarded some dealers while penalizing others. Dealers can now focus more on retailing and serving customers and less on fighting the factory as they did in the past. We are seeing some Nissan stores across the country generating large profits. Perhaps this franchise has reached the bottom and now might be the time to acquire one for far less than even a year or two ago. **Same multiple range: 2.75x-3.75x.**

Domestic Franchise Blue Sky Multiples

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

Ford

Ford sales are down 4.1% YTD. As expected, this year has served as a transitional period for Ford, as they have dropped their sedans and moved to a portfolio heavily dominated by trucks and SUVs. Ranger sales, as well as the introduction of the all-new Explorer and Escape, have helped strengthen their position. Truck sales are up 8.8% and Ford continues to sell more commercial vehicles in America than any other brand. It will be interesting to see the market reaction to the new Mustang Mach E, Ford's first electric vehicle. Dealers are hoping for some volume from this model to replace lost sales from discontinued sedans. **Same multiple range: 3.5x-4.5x.**

Chevrolet

GM announced that Chevrolet sales decreased 3.9% year to date but increased 4.6% in Q3 2019 versus the same time last year. The Silverado continues to carry the brand, with sales increasing 16.6% in Q3. Chevrolet ranked highly in JD Power's recent sales satisfaction study in terms of mass-market brands. The strike doesn't seem to have hurt dealers much, but we are hearing lots of complaints about declining profits at GM stores. Fewer dealers are able to earn the SFE payments as new unit sales are lower this year than last and GM has not promised a new incentive program to replace these lost profits. **Same multiple range: 3.5x-4.5x.**

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

Sales have remained relatively flat on the year, with only 527 more deliveries than the previous year. Ram and Jeep remain the group's bread and butter, with Ram as the only FCA brand with an increase in sales during September (+2.7% in September and +15% on the quarter). FCA executives are happy with overall customer enthusiasm regarding new products which is resulting in increasing transaction prices. **Same multiple range: 3.25x-4.25x.**

Buick-GMC

Overall, year to date Q3 2019, Buick-GMC sales increased by 4.4% versus the same period last year. GM Dealers have noted that they have not felt much blowback from the strike. Buick and GMC ranked numbers 1 and 2 respectively on JD Power's recent sales satisfaction study. Dealers who own these franchises are also reporting lost SFE incentive money, with no replacement program in sight. **Same multiple range: 3.25x-4.25x.**

KEY TAKEAWAYS

We are on track for another excellent year with dealer profits up 2.9% so far in 2019. The buy-sell market, however, downshifted sharply with the number of dealerships sold down 36% compared to last year. Nearly all of this decrease is due to a 60% decline in Q2 2019 compared to Q2 2018. This appears to be due to a high degree of uncertainty in Q4 2018 and Q1 2019 regarding the direction of the economy.

While some uncertainty remains, we believe buyers have become more confident thanks to higher dealer profits and greater confidence in the future. Buy-sell activity increased in Q3 compared to Q1 and Q2 and should continue to increase in Q4, but total activity for the year will be below 2018.

We see the current environment as a rare opportunity for buyers to grow quickly. There are many stores on the market and the quality of some of these assets is higher than at any time we can recall.

Having been involved in over 170 transactions for more than 350 dealerships, no other firm has a better understanding of the perspectives of both buyers and sellers of dealerships across the US. We use this expertise to create highly informative and compelling offering materials that help buyers to focus on our clients instead of other opportunities. We listen to our clients to create a customized marketing process that carefully balances their priorities of maximizing price, preserving confidentiality, and time to closing. Through our unmatched expertise, deep relationships with buyers, and well-honed processes, Haig Partners is able to produce highly desirable outcomes for our clients.

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

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JOIN US AT THESE EVENTS!

Alan Haig Presenting At:

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

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

www.haigpartners.com