

# THE HAIG REPORT®

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

## YEAR END – 2017

- The number of rooftops that sold in 2017 declined 7% from 2016.
- The number of rooftops that sold in Q4 2017 compared to Q4 2016 increased 24%, primarily due to GPB Automotive's acquisition of Prime Motors in Boston.
- Acquisition spending by the publics in 2017 increased 53% versus 2016, mostly thanks to Lithia.
- Private dealership values fell by an estimated 2.6% from year end 2016 due to increased expenses.
- Haig Partners' blue sky multiples are mostly unchanged, except for slight increases in several mid-line franchises.
- The buy-sell market remains highly active and we expect similar conditions in 2018.



# OVERVIEW

## IN THIS ISSUE:

Overview	Page 2
Trends Impacting Auto Retail	Page 4
Buy-Sell Trends and Events	Page 11
Franchise Valuation Ranges	Page 13
Transactions	Page 17

This economy just won't quit. Employment is rising, wages are growing, interest rates remain low, and US households are reaching new levels of wealth. That said, auto sales are starting to trend down at the same time that dealership expenses are increasing, so profits at dealerships are under pressure. The buy-sell market remains very active, although at a slightly lower level than in the past. The new tax code could soon be having an impact on dealership values. All dealers will be paying lower taxes and we expect this to lift the level of demand for dealerships. If so, we could continue to see a decline in profits but an increase in blue sky multiples. We expect it will take at least a year for the market to confirm our hunch.

## The Buy-Sell Market Is Trending Lower, Slowly

The number of dealerships that sold in 2017 declined 7% compared to 2016 according to the [Banks Report](#) and our data. The fourth quarter of 2017 was strong, with 97 stores changing hands including 27 from the GPB acquisition of Prime Motors in the Boston area, compared to 78 stores in Q4 of 2016. Excluding the GPB/Prime transaction, Q4 would have been down 10% from Q4 2016. We have now had two consecutive years of decline in sales of dealerships.

Group transactions made up 24.9% of total transactions in 2017 compared to 27.0% in 2016. The average group size that sold increased from 3.2 stores to 3.6 stores. Stores in group transactions represented 54% of all stores sold, down from 55% in 2016. Excluding GPB/Prime, 50% of stores sold in 2017 were part of a group. Domestic stores made up 45% of volume in 2017, unchanged from 2016. Buyers are attracted to these dealerships due to their strength in trucks and SUVs. The share of luxury stores that sold declined, making up 14% of volume in 2017 compared to 17% in 2016. Import stores increased their share to 41% in 2017 compared to 38% in 2016.

## CONTACT US:

Alan Haig  
(954) 646-8921  
[Alan@HaigPartners.com](mailto:Alan@HaigPartners.com)

Nate Klebacha  
(917) 288-5415  
[Nate@HaigPartners.com](mailto:Nate@HaigPartners.com)

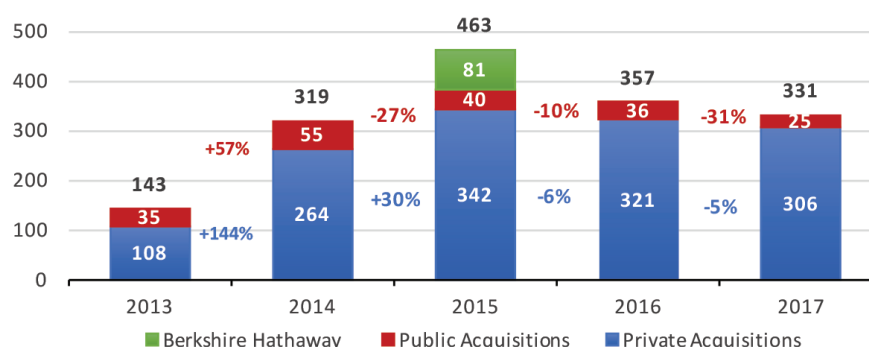
Pat Carroll  
(865) 755-7601  
[Pat@HaigPartners.com](mailto:Pat@HaigPartners.com)

Mike Toth  
(561) 302-1413  
[Mike@HaigPartners.com](mailto:Mike@HaigPartners.com)

Kevin Nill  
(904) 234-0008  
[Kevin@HaigPartners.com](mailto:Kevin@HaigPartners.com)

[www.HaigPartners.com](http://www.HaigPartners.com)

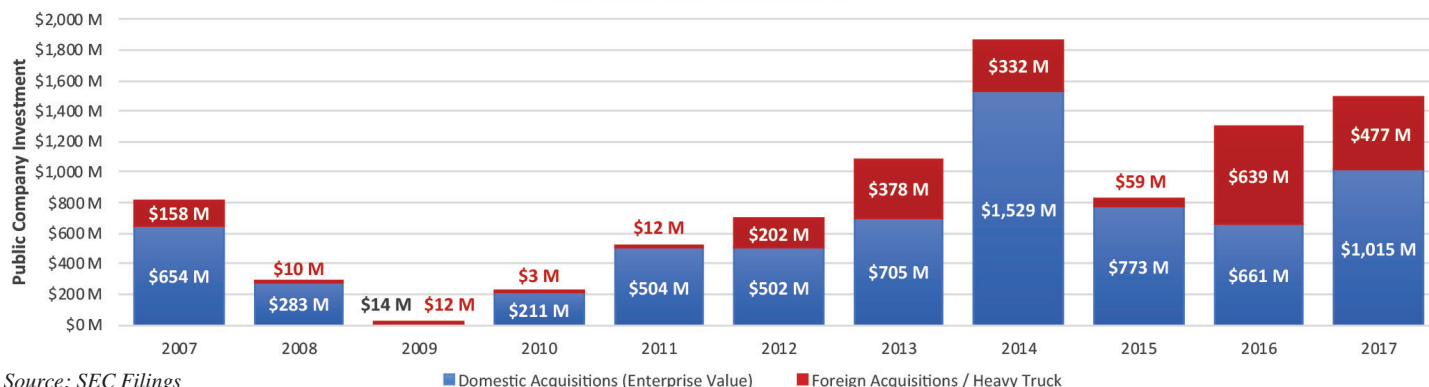
## US Dealerships Bought/Sold



Source: The Banks Report and Haig Partners

As for the public auto retailers, spending exceeded \$1 billion for only the second time in the last 10 years and was 53% higher than 2016. Lithia was the most active. Sonic was the only public retailer without an acquisition. Several announcements were made by the publics in Q1 of 2018 about acquisitions, including Lithia's acquisition of the majority of the dealerships owned by Prestige Family of Fine Cars, a \$900 revenue group of luxury dealerships that Haig Partners represented. Although there has been much speculation on the potential negative impact on auto dealerships from ride sharing, electrification, autonomous vehicles and changes to the franchise system, the "smart money" is still buying dealerships.

## Public Company Acquisition Spending Domestic and International

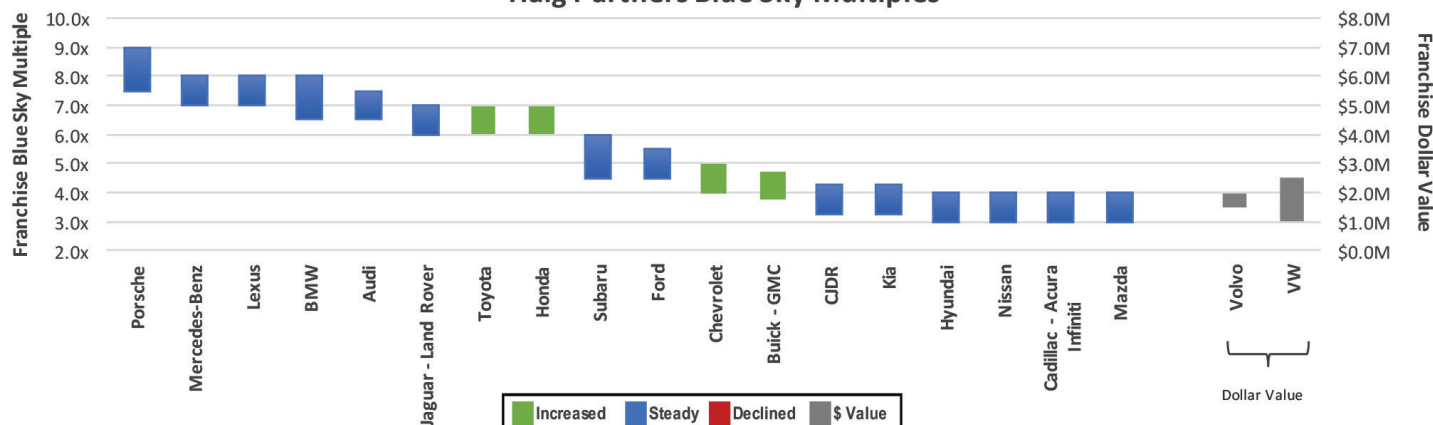


The buy-sell market looks like it will have another strong year in 2018. Some dealers are opting to jettison franchises in which they have lost confidence. And older dealers without succession plans are looking to exit while dealership values remain strong. But we also have a number of clients in the prime of the careers who are choosing to sell now since they are concerned about the future of auto retail, whether it be the high capital requirements, the growing control of the OEMs on dealership profits, or the potential risks that new technology present. And there is an increasing conviction that scale will matter more in the future than it has in the past.

## Blue Sky Multiples Are Unchanged

Despite the slight decline in dealer profits and in the number of dealerships being sold since our Q3 2017 Report, we are seeing a lot of strength in midline franchises like Honda, Toyota and General Motors. Dealerships that have significant challenges are attracting little interest from buyers unless they are an excellent market. 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 assets. The blue sky multiple is partly a reflection of the risk/reward profile that investors place on each franchise. Higher risk franchises command lower multiples, while franchises that are perceived as lower risk bring higher multiples. Some OEMs like Toyota/Lexus, Mercedes-Benz, and BMW also offer large amounts of credit to buyers of their dealerships, which helps to boost the returns from buying their dealerships. The net result is a risk-adjusted return profile as determined by the market. Of course, actual multiples or prices paid by buyers could be higher or lower than the ranges we indicate. Stores that are not marketed properly and dealerships with facility issues will bring lower multiples. Underperforming dealerships can bring much higher multiples. Metro stores typically bring higher prices than stores in rural areas. Dealerships in states with no income tax usually bring premiums to dealerships in high tax states. In other words, each store is unique and brings its own set of opportunities and challenges. We caution readers not to view these values rigidly.

## Haig Partners Blue Sky Multiples



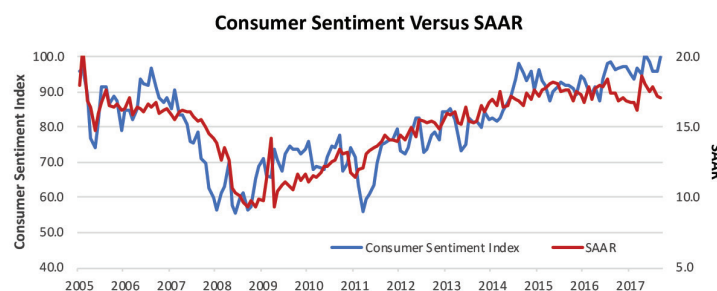
# TRENDS IMPACTING AUTO RETAIL

## Overview

The dealers we have spoken with are still pretty happy, although they are increasingly frustrated with the influence of the OEMs and their daily operations. Dealers seem resigned that we are in a world of slowly declining profits and are pivoting to focus on used vehicles, F&I and fixed operations. And dealers are increasingly looking at their expenses, trying to reduce advertising, floor plan and compensation.

## Macroeconomic Indicators Are Mostly Positive

- **GDP Is Growing.** GDP grew at 3.2% in Q3 and the revised reading for Q4 was 2.5%. GDP growth is projected at 2.9% in 2018 according to the Conference Board. These healthy increases can help sustain sales and profits in the auto industry.
- **Employment and Household Income Are Increasing.** The US added over two million jobs in 2017, the sixth year in a row above this level. The unemployment rate in December stood at 4.1%, the lowest rate since 2000, and was 2.1% for college graduates. Jobless claims hit the lowest level in 50 years. Wages grew 2.5% in Q4 and for the full year. The employment picture does not get much better than this.
- **Number of Miles Driven Is Increasing.** The total number of miles driven, which influences the vehicle replacement rate and is a key measure of demand for autos, increased 2.4% in 2016 compared to 2015 and another 1.3% in the first 10 months of 2017 according to the US Federal Highway Administration.
- **Consumer Sentiment is High.** Despite all the debate in the US regarding political and social issues, consumer sentiment remains near record high levels. Analysts expect that confident consumers will continue to purchase vehicles in 2018 at a rate just slightly lower than in 2017.
- **Gas Prices Remain Low.** The Department of Energy reported that the average price per gallon of fuel was \$2.61 in February. The US is now the world's largest energy producer, so we expect fuel prices to remain low, which allow consumers to use their vehicles more and purchase more trucks and SUVs, which are more profitable for OEMs and dealers.



Source: Thompson Reuters / University of Michigan; Automotive News

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

- **Interest Rates Are Increasing.** The Fed increased interest rates by 0.75% in 2017 and a number of forecasters are predicting another three rate increases for a total of 0.75% in 2018. Higher rates hurt dealers due to higher floorplan costs and mortgage expenses on floating rate loans. And of course, they suppress consumer demand for vehicles.
- **Car Payments are Rising.** The Wall Street Journal has reported that the average car payment has increased 4.8% since January 2018, greater than inflation.
- **Loan Terms are Tighter.** Recent reports have indicated several banks have tightened standards for sub-prime borrowers by requiring higher down payments, raising rates, reducing 84-month loan availability and requiring higher credit scores.
- **Profits Are Declining at Most Dealerships.** Per NADA, profits for the average privately owned dealership fell 4.9% in 2017 after falling 2.4% in 2016. Public company filings show adjusted operating income falling at half of the six publics in 2017, with the group down 0.2% overall.

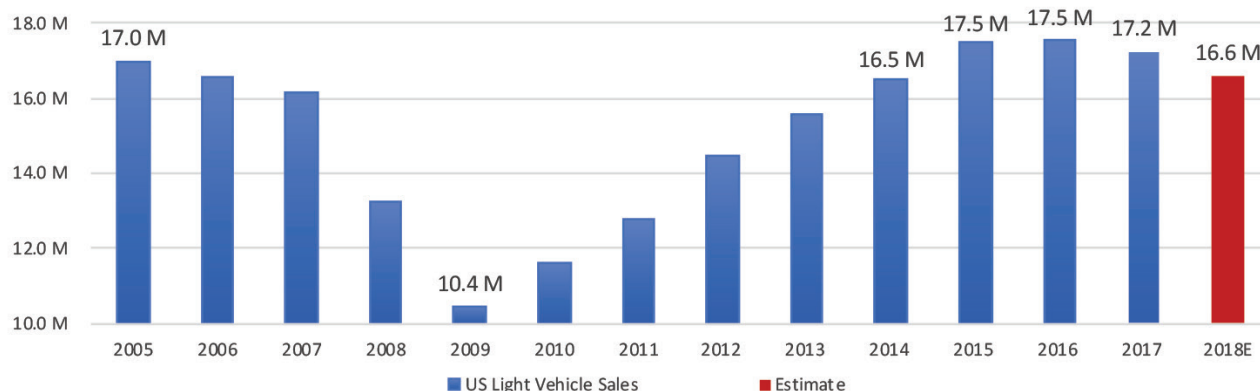


## TRENDS IMPACTING AUTO RETAIL

### 2017 New Vehicle Sales Fell Slightly But Remain Healthy at Dealerships

After 2016's record high sales of 17.55M new units, sales in 2017 declined 1.8% to 17.2M new units. At this level, every OEM, supplier and dealer should still be nicely profitable. The US economy shows no signs of a recession, but analysts still predict a decline in new vehicles sales in 2018 to somewhere in the 16.2M to 17.0M unit range. Our 16.6M forecast for 2018 shown below is an average of nine forecasts released over the last few months that range from a low of 16.0M to a high of 17.0M.

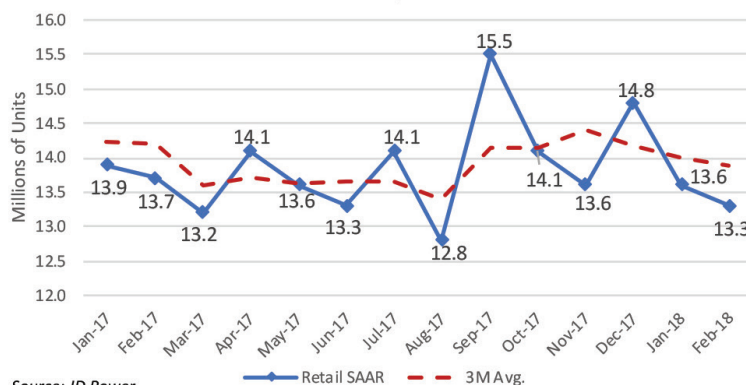
#### US Light Vehicle Sales



Source: Historicals - Automotive News, Estimates: NADA, IHS, Bank of America/Merrill Lynch, Edmunds, Ward's, Moody's, Cox, Morgan Stanley, LMC/JD Power

Note the data above is for total new vehicle sales, including fleet sales. According to Automotive Fleet, fleet sales were down 8.1% for 2017 which would put retail sales almost flat with last year. Data from JD Power in the adjacent chart confirms US retail sales fell less than 1% in 2017 compared to 2016. Dealers are basically selling the same number of vehicles they did in 2016, but are facing a different environment with lower margins and higher expenses.

#### RETAIL SAAR



Source: JD Power

## 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 more than 160 transactions for 280 dealerships totaling more than \$3.8 billion in value. With experience from AutoNation, Asbury, Bank of America, 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 \$1.2 billion, excluding the value of new vehicles.

Please visit our website at [www.haigpartners.com](http://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.

## TRENDS IMPACTING AUTO RETAIL

### Vehicle Grosses Continue to Decline

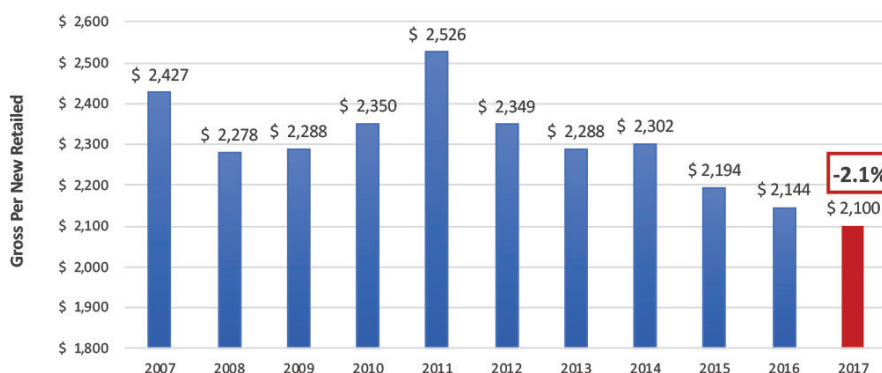
New vehicle profits continue to slide, down 2.1% in 2017 for the public retailers. But there is some good news: Group 1, Sonic, Lithia and Penske managed to deliver small increases. These increases were due to a number of factors, including an improved mix of cars and trucks/ SUVs/CUVs, and reduced production by the OEMs.

Used vehicle gross profits at the public retailers were down at all of the public companies as supply of new used vehicles is increasing rapidly. The average gross profit per used vehicle fell a painful 6.3% for the publics in 2017, but this was largely driven by much lower margins at AutoNation (down 11%) that dragged down the average as it introduced one-price selling in all of its used vehicle departments.

### Finance & Insurance Departments Are Generating Record Profits

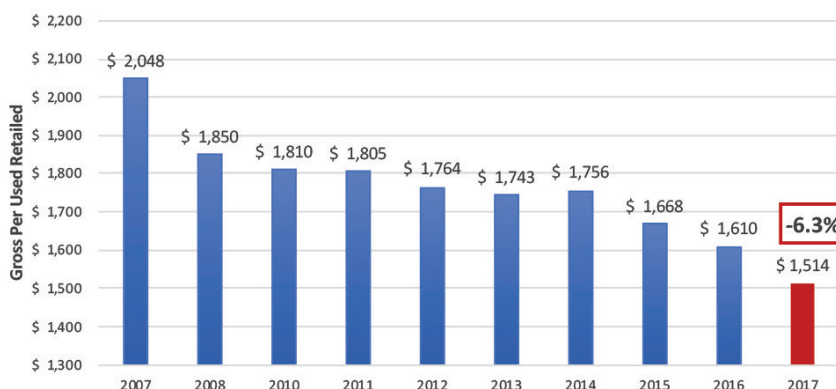
F&I continues to shine for dealers, helping to offset the decline in gross profits per new and used vehicle sold. In 2017, the public groups reported gross profit per vehicle retailed reached \$1,463, up 5.1%, or \$75 per vehicle, from 2016. All of the publics improved in this area and AutoNation reached a record \$1,732. per vehicle retailed. A number of private dealers have disclosed they earn much higher profits than these figures, some over \$2,000 per vehicle retailed.

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



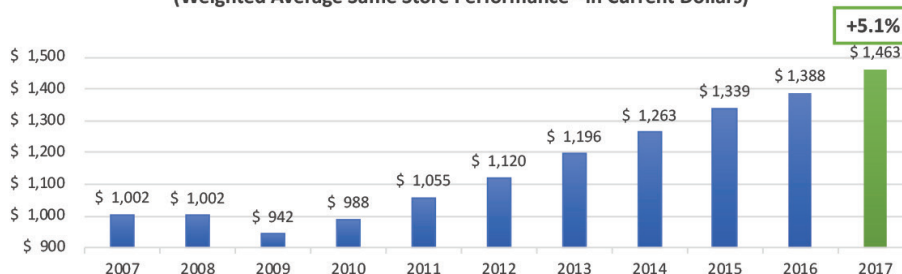
Source: SEC filings

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



Source: SEC filings

**Public Company F&I Per Unit Retailed**  
(Weighted Average Same Store Performance - in Current Dollars)



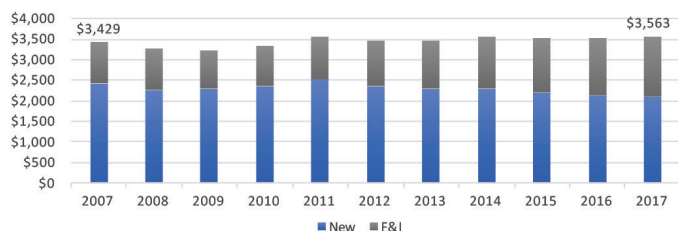
Source: SEC filings

## TRENDS IMPACTING AUTO RETAIL

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

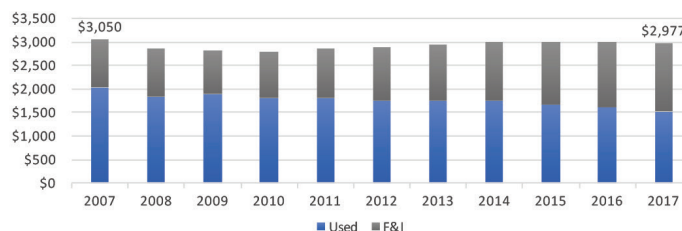
The table below tracks combined front and back end profits per vehicle retailed data back to 2009 and shows that on a combined basis profits have remained largely flat, in dollar terms. Given the rise in new vehicle prices over this time, however, the profit margin as a percent of vehicle sales has fallen 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)

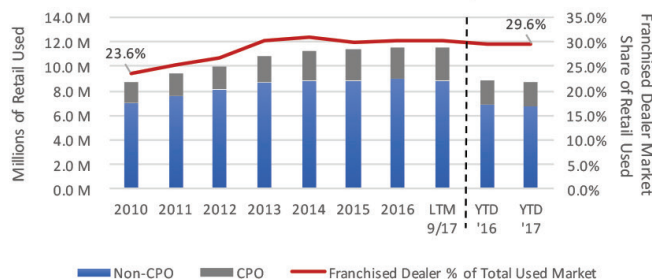


Source: SEC filings; F&I as reported for new and used combined

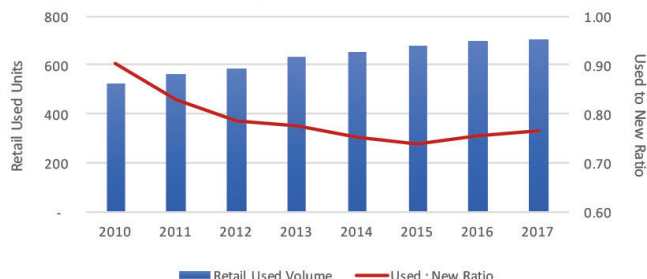
### Used Vehicle Market Is An Opportunity For Growth

As the new car market begins a period of flat to declining sales, a number of dealers have told us they are increasing their focus on used vehicles. The supply of used vehicles is increasing and the mix of cars to trucks/SUVs/CUVs is more in line with current consumer demand. There is now a big opportunity in used sales. Franchised dealers account for just 29.6% of total used sales, and dealers' Used to New Ratio actually declined from 0.90x in 2010 to 0.76x over the last 12 months. Even as used vehicle supply increases, new car dealers are not taking advantage of this opportunity. Used car sales in 2017 were essentially flat compared to 2016. It seems that the increase in supply is being sold by CarMax and other used car retailers.

Edmunds Retail Used Vehicle Report



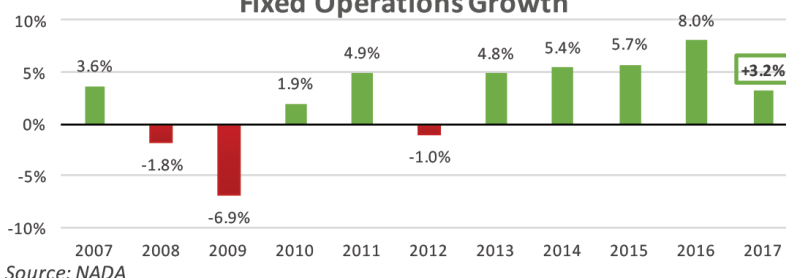
NADA Average Retail Used per Dealership



### Fixed Operations Continue to Drive Higher Profits

Private dealers reported fixed operations increased 3.2% in 2017 compared to the same period in 2016. Public retailers also did well, averaging 2.7% growth on a same-store basis in 2017. But these increases are smaller than in years past. The growth rate in auto sales slowed and then reversed in recent years. There was a spike in 2016 due to the Takata airbag recalls that might have pulled forward a number of warranty claims and customer pay work. We saw the same spike in 2011 due to the Toyota accelerator pedal recall, followed by a lower growth rate in 2012.

Fixed Operations Growth



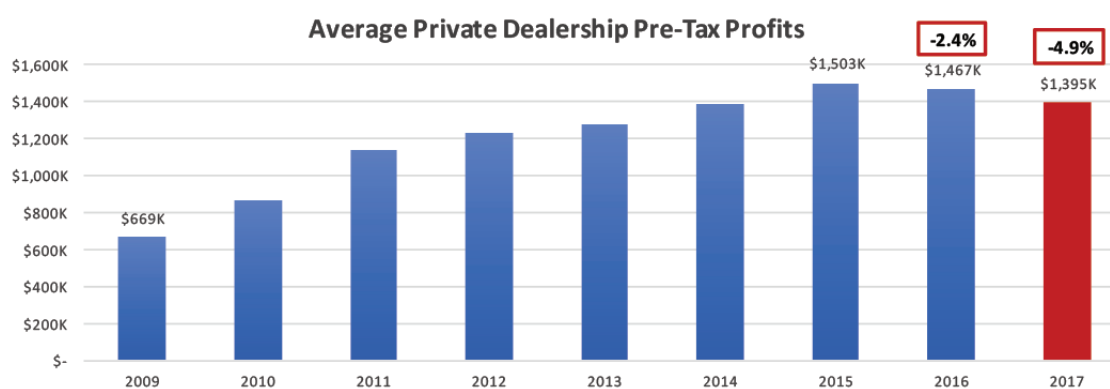
Source: NADA

## Dealership Expenses Are Growing Faster Than Gross Profit

Rising costs appear to be the greatest threats to dealership profits. NADA data shows the average privately owned dealership grew gross profit by 0.4% while the public companies grew their gross profit by 5.1% (partially due to acquisitions). However, the average private dealer saw expenses increase 3.2% and the public companies had an increase of 6.5% (per SEC filings, adjusted). Dealers are telling us they are seeing higher expenses in floorplan, compensation, and rent (from the many expensive facilities that have been built in recent years).

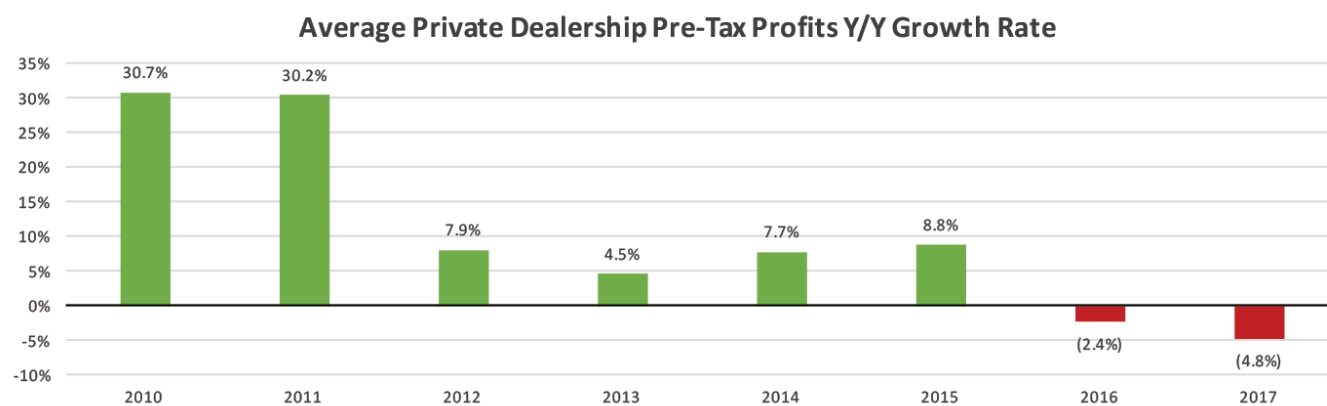
## Dealership Profits Drop Slightly

The net outcome of the trends listed above is that profits at privately owned dealerships declined 4.9% from 2016 to 2017, according to NADA. We are still close to record profits per dealership, however, the most dealers we speak to are still pleased.



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

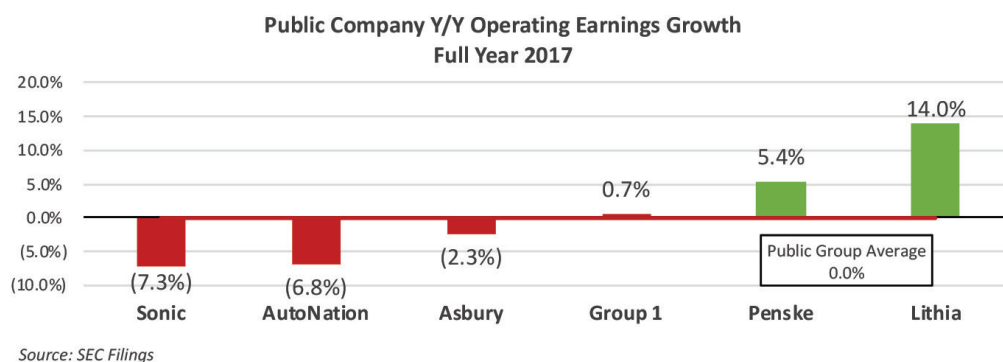
The table below shows the annual *change* in profits at privately owned dealerships since 2009. Like many dealers, we wonder what will happen to future profits at dealerships. Prior to the Great Recession, during the 2001 to 2007 period when new vehicle sales were essentially at a plateau, NADA data showed that annual profits per dealership fell by about 5% per year due to falling margins and rising costs until the recession hit in 2008. We may now be entering a similar cycle.



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

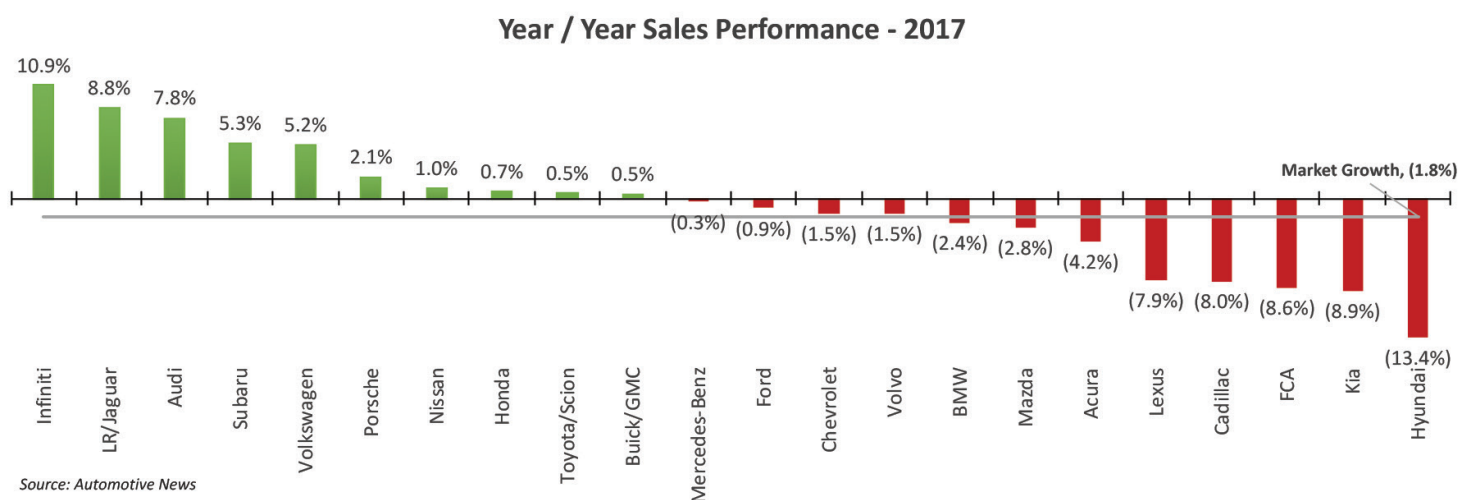
As for the public companies, average profits were flat in 2017. But there is a wide range of performance with profits at Lithia up 14.0%, in part due to its healthy acquisition pace, while Sonic is down 7.3%, which it attributes to heavy spending on its used car dealerships.





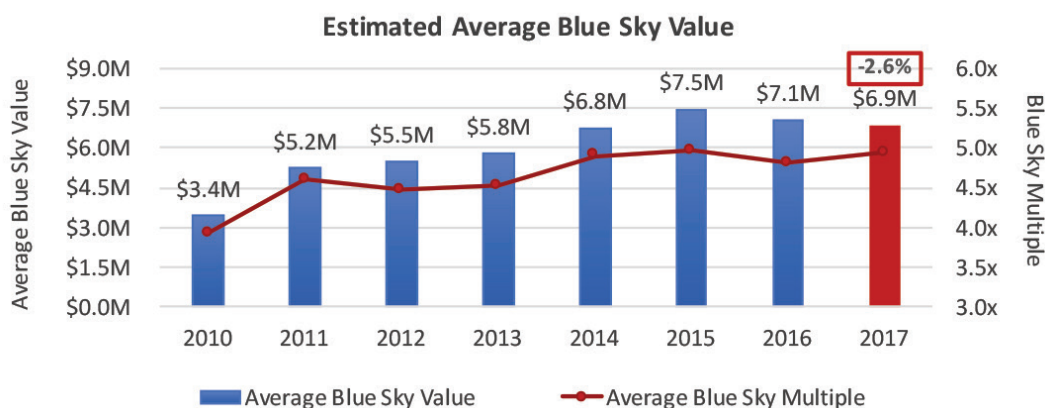
## Sales Growth for Individual Franchises

The following chart sets forth the change in new unit sales at the major franchises for 2017. Note, this data reflects changes in total sales per franchise, so it includes fleet sales that cloud the results at the retail level. For instance, Nissan sold a lot of units into fleet near the end of 2017, while GM pulled back. The Korean brands really suffered, while JLR, Audi, Subaru and VW turned in impressive gains.



## Dealership Values Declined Slightly

The average blue sky multiple for all franchises on an unweighted basis was 4.93x in Q4, up a small amount from the end of 2016, according to our estimates. Profits per dealership in 2017 fell 4.9% since 2016. Applying the 4.93x blue sky multiple to the average dealership pre-tax profit of \$1.395M over the last twelve months generates an average blue sky value of \$6.9M, down 2.6% from year end 2016.



The stock market remains unexcited about the public retailers. The table set forth at right shows that the average stock price for the public retailers has underperformed the S&P 500 Index by significant amounts on a year-to-date basis, over the past year, and over the past three years. Lithia has performed better than the other public companies, thanks to its sharply higher earnings that are largely due to its rapid pace of acquisitions.



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

## HAIG PARTNERS: PROVIDING VALUE TO CLIENTS

We combine the skills gained during our years in investment 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.

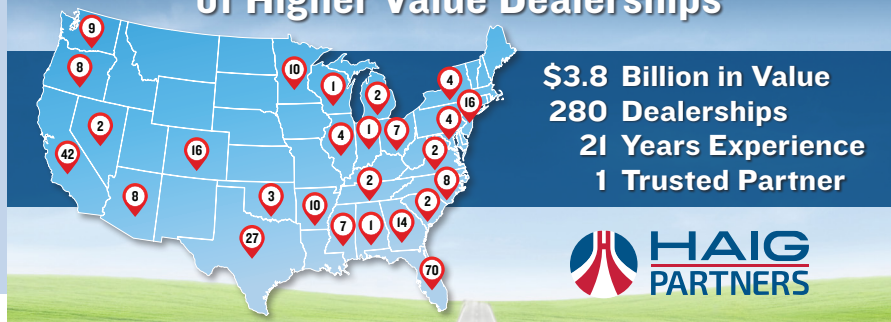
**Relationships with Buyers.** We know many of the best buyers across the US and understand what they want to acquire, what their ability is to close, and how they negotiate. By targeting specific buyers instead of running ads, we preserve confidentiality and close transactions more efficiently.

**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 more than 160 transactions with over \$3.8 billion in value, we know how to respond to issues that can arise in a buy-sell process.

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

### The Leading Advisor to Buyers and Sellers of Higher Value Dealerships



# BUY SELL TRENDS AND EVENTS

## Deal Volume Is Down, Although Public Spending Is Up

The total number of dealerships that were sold in 2017 is 7% lower than in 2016. Public company spending on US auto acquisitions in 2017, however, jumped 53% over 2016 as five of the six publics closed deals. (See pages 2-3 for charts.)

## More Sellers Are Coming to Market

The number of dealers willing to sell their businesses is at a high level today. More dealers are ready to retire. Other dealers believe that their stores are more likely to decline in value than increase, so they want to sell now rather than waiting for the market rebound.

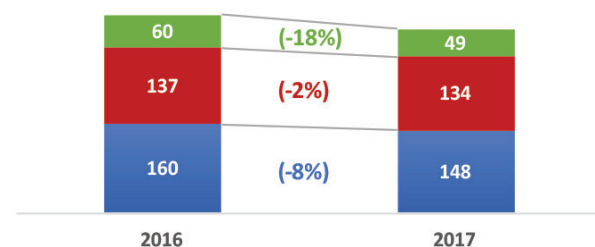
## Buyers Are Pickier

Buyers are telling us they are more selective given where we are in the auto cycle. They want stores that are a tight fit with their acquisition strategy in terms of location, franchise, and operating performance. Dealerships that have challenges, such as facility issues, unions, or incoming add-points, will need to be priced right to get the attention of buyers. And since profits may continue to trend down, time may work against the interest of sellers. An overpriced dealership will sit until its owner adjusts his price expectation, and offers in the future may be lower than what they are currently.

## Sales of Luxury Stores Have Fallen Sharply

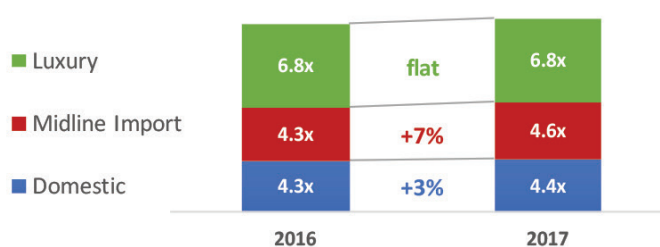
The US auto market has shifted quickly in recent years as consumers began purchasing a higher number of trucks and SUVs and fewer cars. This shift hurt a number of the luxury brands that found themselves with the wrong mix of vehicles. Dealership buyers have noticed and sales of luxury dealerships fell 22% in 2016 and 18% in 2017. That's a decline of 36% over the past two years! Blue sky multiples also adjusted with the shift in consumer demand. Average luxury multiples declined and average import and domestic multiples increased as buyers became more interested in their large lineup of trucks and SUVs. The tables below show how the mix of acquisitions has shifted, and also how the multiples of premium luxury brands, domestic brands, and midline import dealerships have changed over the past year.

Dealership Acquisitions by Segment



Source: The Banks Report and Haig Partners

Haig Partners Average Blue Sky Multiples



## GPB Enters Prime Time

Backed by thousands of small investors, GPB Capital's auto group is now one of the largest in the US. We have heard that it is raising in excess of \$50M per month to invest in auto dealerships. After its acquisition of Prime Auto in the Boston area, another private equity-backed dealer group, GPB says its dealership group would rank in the Top 10 by unit sales or revenue. GPB's group, now renamed Prime Auto, likes to purchase a majority stake in a dealership group and the dealer and his team stay on to run the dealership. This structure appeals to a dealer who likes the idea of cashing out most of the value from their company, while also remaining in their chair and getting a portion of the ongoing profits at the dealership. The OEMs have approved this structure, apparently because it allows dealers to exit larger groups while also increasing the odds of a smooth transition that does not negatively impact sales. In markets where Prime Auto already owns dealerships it can acquire 100% ownership of dealerships.

## THE NEW TAX CODE WILL ENHANCE RETURNS ON ACQUISITIONS

While we are not CPAs, we have the good fortune to know partners at many of the leading firms who serve auto dealers. We have spoken with them about the new tax code and what impact it could have on our industry. The team at Crowe Horwath showed us their calculations that a buyer's internal rate of return over a ten-year period on a typical acquisition would increase by 7.9%. The change in after tax proceeds to the seller was nominal, since capital gain tax breaks did not change. Of course, each transaction is unique and the code is complex, so we encourage dealers to contact their own tax advisors for guidance.

DHG provided the following summary of the changes to the tax code:

- Dealer groups should see an increase in after-tax cash flow. Groups organized as C Corporations should see a 13 percentage point drop in their income tax obligation, and groups organized in flow-through arrangements should see an approximate 10 percentage point drop in their income tax obligations.
- It is too early to know what dealers will do with the extra cash flow. Some groups will choose to pay down debt, some may choose to increase capital expenditures and some may choose to increase their acquisition activity.
- Another significant development in the new law is the increase in the estate tax exemption from \$11 million per couple to \$22 million. This presents some unique opportunities for estate and succession planning – some of which may involve a transaction.

Three of the leading tax and accounting firms were kind enough to provide some quotes that show their perspective of the new tax code on after-tax profits for dealers and the potential impact on dealership values.

*“With most dealer groups experiencing an increase in after-tax cash flow, we would expect some level of increase in dealership values, but it’s too early to predict what that increase looks like until we begin to see more transactions in this post-tax reform era.”*

- Buddy Dearman, Managing Partner, DHG Dealerships

*“After the enactment of the most significant tax reform in 30 years we have seen strong dealership buy-sell activity during the first quarter. While many market factors are influencing this activity the new tax law is a contributing influence. Existing dealer groups are anticipating additional free cash flow from ongoing operations to support additional growth while new tax benefits should improve the internal rate of return on new acquisitions. For selling dealers their after-tax proceeds may be enhanced. The benefits for both sides of the transaction may be significant and enhance the value in many transactions.”*

- Joe Magyar, Crowe Horwath

*“... the after tax cash flow for dealerships will be greater in nearly all cases. Absent other factors, a company which experienced a high effective tax rate prior to the tax reform would have an increase in the overall value of the dealership under the new tax rules ...The specifics of each dealership will be essential in determining the overall impact of the TCJA. Dealerships are particularly well situated with the provisions in TCJA, but they can potentially gain even greater benefit with careful entity structuring choices.”*

- Sid Tobiason and Kim Lineberger, Moss Adams



# FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of more than 280 dealerships in our careers dating back to 1996. In the past four years, Haig Partners has been involved in representing buyers or sellers of Alfa Romeo, Aston Martin, Audi, Bentley, BMW, Buick-GMC, Cadillac, Chevrolet, Chrysler-Jeep-Dodge-Ram, Ferrari, Fiat, Ford/Lincoln, Honda, Hyundai, Infiniti, Jaguar/Land Rover, Kia, Lamborghini, Lexus, Maserati, Mazda, McLaren, Mercedes-Benz, MINI, Nissan, Porsche, Subaru, Toyota and VW dealerships. Each quarter we contact many leading dealer groups as well as accountants, bankers and lawyers who practice in auto retail. The information that we gain from these conversations and our own transactions form the basis for the following evaluations.

## Dealership Valuation Methods

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

The blue sky multiple ranges that we set forth in this report reflect our expectations what buyers in competitive situations will pay for the goodwill of dealerships and we note any upward or downward changes from Q3 2017. We remind the reader that each dealership transaction is unique and dealerships may trade above or below the ranges we describe in this report. Dealerships that are underperforming or are in highly desirable markets may have higher values. 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 continues to outperform the market, growing 2.1% in 2017 and another 11.6% in the first two months of 2018 on the strength of its redesigned car lineup. Fixed operations and grosses remain strengths of the franchise. Porsche stores rarely come to market and they are highly sought after when they do. Same multiple range: 7.5x-9.0x.



**Mercedes-Benz.** M-B was down 0.3% in 2017 and is up 1.2% in the first two months of 2018, slightly ahead of the market. M-B dealerships are more profitable than almost any other franchise. Autohaus II is a needless expense, but not a major one for most dealers. One negative of the brand is that it continues to add new points in markets that seem well covered by existing dealers. We have been involved in the sale of six M-B stores in recent years and demand has been strong. Same multiple range: 7.0x-8.0x.



**Lexus.** After a rough 2017 with a decline of 7.9%, Lexus is off to a strong start in 2018 with a 9.6% gain through February primarily due to the NX compact SUV. Dealers are happy, as they seemingly always are. Profits per store across the US are back up over \$3M, according to an email we saw recently. We were involved in the sale of four Lexus stores recently and dealers were highly interested. Same multiple range: 7.0x-8.0x.



**BMW.** After a 2.4% decline in 2017, BMW is up 4.6% so far in 2018. Inventories continue to be well managed with days supply among the lowest in the industry. Dealers tell us they are playing fewer games with loaner fleets that had been used to inflate sales, but that BMW can still be tricky to work with. Key redesigns of cars have helped recently and upcoming SUV launches should fuel further growth over the next year and help win back some market share lost to MB. Bernhard Kuhnt, CEO of BMW of North America recently said one his highest priorities is to improve dealer profitability. One megadealer told us the incoming product is excellent and he is more excited about BMW than any other franchise they own. We were recently involved with the sale of a large BMW store and interest was strong. Same multiple range: 6.5x-8.0x.



**Audi.** Audi continues to grow faster than the market with sales up an impressive 7.8% in 2017 and 11.2% so far in 2018. Audi posted net gains in cars and every truck model. Audi's SUV factory in Mexico opened in late 2016 to produce the new Q5, which helped alleviate shortages in that product. However, dealers continue to tell us profits at Audi lag other luxury brands. They are frustrated because the factory talks about, but does not correct, the issues with low margins and high expenses. Same multiple range: 6.5x-7.5x.



**Jaguar-Land Rover.** JLR was up 8.8% in 2017, but sales are off 1.5% in the first two months of 2018. However, sales are off 1.5% in the first two months of 2018. Inventories, at 55 days, were among the highest of the luxury brands. Is it possible this franchise has peaked? The blue sky multiples for JLR are hard to determine today since the factory is exerting leverage on stand-alone Jaguar and Land Rover dealers to combine while also issuing a lot of add-points. We are seeing transactions where the Land Rover dealer is paying an exorbitant price for the Jaguar franchise and getting a JLR add-point as a reward. The dealers that don't combine see an add-point in their market given to a third party, which will hurt both of them. It's an effective but rough tactic that JLR is using to get its franchises under one roof and upgrade dealer facilities across the country. And dealers tell us the JLR facility design is dangerously expensive. For combined JLR stores where no add point is coming, same multiple range: 6.0x-7.0x.



**Cadillac/Acura/Infiniti.** Cadillac sales were down 8% in 2017 but are up 5.3% in 2018 with older products such as the ATS and Escalade helping sales the most. New products (CT6 and XT5) launched into highly competitive segments and are doing ok. No significant new product arrives until MY 2019. Inventory improved from 96 days on July 1 to 71 days in January. Acura underperformed, down 4.2% in 2017 and 0.9% year to date. Acura will need to deliver some new SUV models in order to achieve some sales momentum. We were involved in the sale of an Acura franchise recently and demand was far lighter than with most other brands. Infiniti was a different story in terms of sales, up an impressive 10.9% in 2017. So far in 2018, sales are down 7.3%. Infiniti has done a good job of creating differentiated products at affordable prices. These near luxury franchises have a hard time making over \$1M, but they can provide nice tuck-in acquisitions. Same multiple range for this group: 3.0x-4.0x.



**Volvo.** After a surprising 1.5% decline in 2017, perhaps due to a lack of inventory, Volvo is up 45.9% in the first two months of 2018. The new XC60 is helping to revive Volvo's momentum. A new compact SUV (XC40) and redesigned S60 and S80 should fuel further growth of this brand. It will take time for fixed operations to recover as units in operation fell to a low level. Nevertheless, the franchise is alive and might be an excellent value. It still has many loyal customers. Same value range: \$1,500,000 - \$2,000,000.

## Mid-Line Import Franchise Blue Sky Multiples



**Toyota.** Despite a rough start to 2017, Toyota ended up beating the market with 0.5% sales growth and sales are up another 10.1% through February 2018. Almost all of Toyota's trucks/SUVs/CUVs have gained so far in 2018. We are hearing margins are up at many Toyota stores thanks to good products and less production. Toyota has more new products coming than any OEM over the next few years according to Bank of America's Car Wars Report, which should help it gain share. Dealers continue to love this franchise thanks to high profits per store and a dealer-friendly OEM. In a Summer 2017 NADA dealer survey, dealers ranked Toyota first, tied with Honda and Subaru, in terms of their optimism for the future of the franchise. And Edmunds reported that Toyota had the highest customer loyalty of any OEM with customers returning to the brand 63% of the time. We have been involved in the sale of three Toyota stores recently and they attracted a lot of interest from buyers, regardless of location or performance. Higher multiple range: 6.0x-7.0x.



**Honda.** Honda sales grew 0.7% in 2017 but are down 3.7% so far in 2018. Loyal customers and a balanced business model of strong variable and fixed operations continue to attract buyer interest. Dealers appreciate reasonable facility requirements, although a lack of trucks is a negative. Dealers ranked Honda first, tied with Toyota and Subaru, in terms of their optimism for the future of the franchise. In an age of increasing complexity in auto retail, Honda dealerships provide dealers with steady, predictable profits. Sales of Honda stores increased 28% in 2017. Higher multiple range: 6.0x-7.0x.



**Subaru.** Subaru's sales growth continues, up 5.3% in 2017 and another 2.5% in the first two months of 2018. The new full-size Ascend SUV (19 cupholders!) will give Subaru a chance to retain loyal customers that were forced to different brands for three rows of seating. Dealers ranked Subaru first, tied with Honda and Toyota, in terms of their optimism for the future of the franchise. Inventory was the second lowest of any brand with a 37-day supply in January, which explains why Subaru incentives stand at about \$2,000 per car compared to the industry average of around \$4,000 per car. Same multiple range: 5.0x-6.0x (with pricing higher in Snow-Belt states).



**Kia.** Sales were down 8.9% in 2017 but have improved and are only off 2.6% in so far in 2018. Older models such as the Optima and Soul were hurting sales while exciting new models such as the Stinger and Niro did well. We hear a large SUV is coming in 2019. In the right market these dealerships can make \$1M-\$2M per location, although we also see them struggle in over-dealer markets. There are many Kia stores on the market today. Same multiple range: 3.25x-4.25x.



**Hyundai.** Sales were down 13.4% in 2017, the worst performance among the major brands we track. Sales were down another 12.2% so far in 2018. Cars are down 24% in 2018 while trucks gained 16%. The company is trying to shift production from cars to SUVs and we are told a large SUV may be in the works for MY 2019. Hyundai's plans to reduce the number of Genesis points is another blow to dealers who currently have this franchise. There are many Hyundai stores on the market today. Same multiple range: 3.0x-4.0x.



**Nissan.** Sales were up 1.0% in 2017 and another 3.3% in the first two months of 2018, perhaps due to fleet sales. Nissan executives achieved the US market share objective it had long chased, but in the process created a franchise network that has been described as brittle and uneven. Profits are almost impossible without hitting stair step objectives and dealers tell us these objectives are often arbitrary and set unreasonably high. Many excellent dealers we know are "done" with the franchise. They have sold their Nissan stores and will not consider purchasing another one. New management at Nissan seems to be getting the message and we hear of changes that will help improve profits for dealers. Higher UIO should translate into better fixed operations. Despite the negatives, some dealers do well with Nissan, particularly those who have consolidated markets. Same multiple range: 3.0x-4.0x.



**Mazda.** After declining 2.8% in 2017, Mazda is up 13.9% in the first two months of 2018 thanks to the redesigned CX-5. Mazda has been underweighted in CUVs and has no light trucks at the moment. Its new partnership with Toyota should increase supply of CUVs and boost profits. A new CUV model is expected in late 2019. Same multiple range: 3.0x-4.0x.



**VW.** VW dealers are feeling better about this franchise with sales up 5.2% in 2017 and another 5.7% so far in 2018. The new Atlas and Tiguan CUVs are giving a boost, but cars are down a shocking 42%. VW has the highest days supply in the market at well over 100. Now that we are past the worst, buyers are more bullish on this franchise. Profits in 2016 and 2017 are muddled by payments from VW to dealers so the franchises are not likely to trade on a multiple of pre-tax earnings. One potentially game changes for the franchise: VW announced ambitious plans to build and sell many electric vehicles in the US which could help it amend for its diesel sins and take back much needed market share. Same average value range: \$1,000,000 - \$2,500,000.

## Domestic Franchise Blue Sky Multiples

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



**Ford.** Ford sales declined 0.9% in 2017 and are down 5.7% in the first two months of 2018, with weakness in both cars and trucks. Dealers are wondering about the outcome of all the senior management changes. Dealers tell us they want more and better SUVs, CUVs and trucks and Ford has a significant number of these product launches over the next three model years. The finance arm is key to dealer profits. We have been involved in the purchase or sale of eight Ford dealerships recently. All attracted significant interest from buyers. Same multiple range: 4.5x-5.5x.



**Chevrolet.** With GM's pivot away from fleet sales, Chevy was down 1.5% in 2017 and another 2.6% so far in 2018. Chevrolet has a heavy truck/CUV/SUV lineup and the new Silverado/Tahoe models are coming soon. Transaction prices have gotten surprisingly high. We saw a fully loaded Traverse with a sticker of \$53K, about as much as an entry level X5. Some dealers are beginning to strain to earn their EBE payments which were layoffs in an era of rising sales. These payments are critical to overall profitability and we wonder if Chevy will need to loosen further requirements to get dealers to continue to push volume. Senior management is steadier than at Ford and its strategy seems to be working well. Sales of GM stores increased 24% in 2017 as buyers were attracted by its product mix and strong profits per store. Higher multiple range: 4.0x-5.0x.



**FCA (Chrysler-Jeep-Dodge-Ram-Fiat).** FCA sales were down 8.6% in 2017 largely due to a pullback in fleet sales. So far in 2018, sales are down 6.8%. Some dealers love this franchise; well, really Ram and Jeep, and the high return on investment it offers. Margins are stronger than many other mid-line brands and their shops are busy due to low vehicle quality. But some dealers will not buy a CJDR store. They don't see the same level of investment in future product as other OEMs and wonder how long consumers will put up with quality issues when so many other OEMs are producing excellent vehicles. Truck and SUV launches are heavy in MY 2018-2020 which should help and there is already a lot of excitement around the new Wrangler. Same multiple range: 3.25-4.25x.



**Buick-GMC.** In 2017, sales were up 0.5% but have reversed so far in 2018 at -6.4%. Buick has done well this year while GMC trucks have been struggling. Like Chevrolet, new large pickups and SUVs coming in MY 2019 and 2020, respectively, should help these brands do well. We are told that GMC will become further differentiated from Chevy, which could help it take share from other truck makers. GMC alone contributes 16% of GM's total profits so we see strong investments in the future of this brand. Sales of GM stores increased 248% as buyers were attracted to its product mix and strong dealer profits. Higher multiple range: 3.75x-4.75x.

## SUMMARY

Dealers enjoyed a strong year in 2017 although increasing costs are beginning to erode dealer profits. After speaking to many dealers and other experts in the auto business, 2018 looks like it could be very similar. Healthy sales supported by high incentives and lots of new truck/CUV/SUV product launches. The change in the tax code is positive for almost all dealers. Autonomous driving, electrification, ride sharing, Tesla, new entrants to the industry and other threats have not yet impacted dealer profits. We remain in a golden era of auto retail with high profits and healthy sales.



The buy-sell market was very active in 2017 and we expect the same conditions to continue in 2018. Some dealers are choosing this window to exit the business and there are many buyers waiting to negotiate with them. We see less demand for weaker franchises, but at the same time we are seeing even higher demand for midline franchises. We have raised our multiples on Honda, Toyota, Chevrolet and Buick/GMC that are heavy in trucks/SUVs/CUVs.

The lower tax rates will increase the returns on investments. In our conversations with leading private buyers, we believe that the net effect of slightly declining profits with slightly lower tax rates will result in the market basically going sideways: there will be a similar number of dealerships trade as last year and the values per store will be about the same.

Haig Partners is seeing these conditions in our recent and ongoing transactions. Sellers include dealers looking to retire, those concerned about the future, and those unwilling to make facility investments required by the OEMs. Buyers of all types are in the market, including public companies, groups backed by private equity, mid-sized dealership groups and single point store owners.

We represented the owners of Prestige Family of Fine Cars, a \$900 million luxury group with BMW, Mercedes-Benz, two Lexus locations and other premium dealerships. There was significant interest from many of the leading buyers in the US and in the Northeast, but Lithia was the best buyer as it continues to grow aggressively. We also see some of the most successful groups deciding to divest franchises that they believe will not provide acceptable returns on capital invested.

Having been involved in over 160 transactions for more than 280 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.





## HAIG PARTNERS ADVISES PRESTIGE FAMILY OF FINE CARS ON SALE TO LITHIA MOTORS, INC.

*(\$900 Million in Estimated Steady State Annual Revenue)*

Ramsey, NJ, February 28, 2018 – Haig Partners LLC is pleased to have represented the owners of Prestige Family of Fine Cars (“Prestige”) in the sale of six of their dealerships to Lithia Motors, Inc. (NYSE: LAD), including one BMW, two Lexus, one Mercedes, one Mini, and one Toyota dealership.

“We are pleased to welcome the Prestige team to our family,” said Bryan DeBoer, Lithia’s President and Chief Executive Officer. “These stores are centrally located in Paramus and Ramsey, New Jersey and Middletown, New York, near our existing DCH operations. These are high visibility locations, representing strong brands in some of the most affluent areas in the tristate area.” Lithia estimated the group will generate \$900 million in steady state annual revenue.

Prestige’s Founder, Joseph T. Dockery, stated, “It has been our greatest joy serving our community who shared our passion for automobiles for the past 50 years. The success we have had has been from our loyal customers and our dedicated and talented employees. Lithia was a great partner for us in this process and we also thank the team at Haig Partners for advising us on this large and complicated transaction. It was a pleasure working with them.”

Alan Haig and Nate Klebach of Haig Partners LLC were the financial advisors to Prestige. Stephen Dietrich and Sarah Seedig of Holland and Knight served as legal counsel. Tony Argiz of MBAF provided tax and accounting services.

“Joe Dockery and Chris Turner built a very large and successful business. The opportunity to help them through this once in a lifetime process made this an exciting transaction for us. The New York area is the largest luxury market in the country and Prestige owned several of the highest volume stores,” said Alan Haig. The team at Haig Partners has been involved in the purchase or sale 28 luxury dealerships in the past several years and over 280 dealerships during their careers.





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