THE HAIG REPORT®

YEAR END – 2018

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- The number of dealerships sold in 2018 jumped 10% compared to 2017. Dealership sales in the 2nd half of the year were lower than sales in the first half and well behind the pace of Q3-Q4 2017.
- Public company spending on US dealerships in 2018 was down 25% from a strong 2017 and in-line with the average spending over the past four years
- Blue sky multiples are lower for a few mid-line import and domestic franchises
- Dealership profits continue to slide, down 2.6% from 2017
- Estimated average dealership blue sky values declined 5.3% in 2018 compared to 2017, on lower earnings and lower multiples

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OVERVIEW

IN THIS ISSUE:

Auto dealers enjoyed another year of strong profits thanks to a well-balanced business model. Dealers lament declining margins and new unit sales, but they have compensated by increasing their focus on selling more used cars and boosting their F&I and service departments. The net result was that profits at auto dealerships declined 2.6% from 2017 and are off 10% from their peak levels.

Dealers continue to face challenges from rising costs and changing consumer behaviors. The well documented longer-term threats such as ride sharing, electrification, and autonomous vehicles are on the minds of many. To increase their odds of success in the future, some dealers are taking strategic steps to increase the size of their groups so that they can lower costs and provide a broader selection of products to consumers in any channel they want to shop. A few are taking on outside investors to help with this growth. Others are tiptoeing towards one-price and revising pay plans and scheduling to attract younger employees. Most dealers we know believe it will be increasingly difficult for single store operators to thrive in the future.

The buy-sell market reflects these trends. There are many more sellers in the market today thanks to an aging dealer body, threats of a recession, and concerns about how the business model is changing. But dealership values have held up nicely, with multiples coming down just 10% from their peak levels in 2015-2016. Buyers are still attracted to the healthy return on investment that acquisitions can provide. Our practice so far in 2019 has been very active, having advised on the sale of ten dealerships in January and February. Judging from our conversations with many leading dealer groups and the strength of our transaction pipeline, we expect that 2019 will be another busy year for buy-sell activity.

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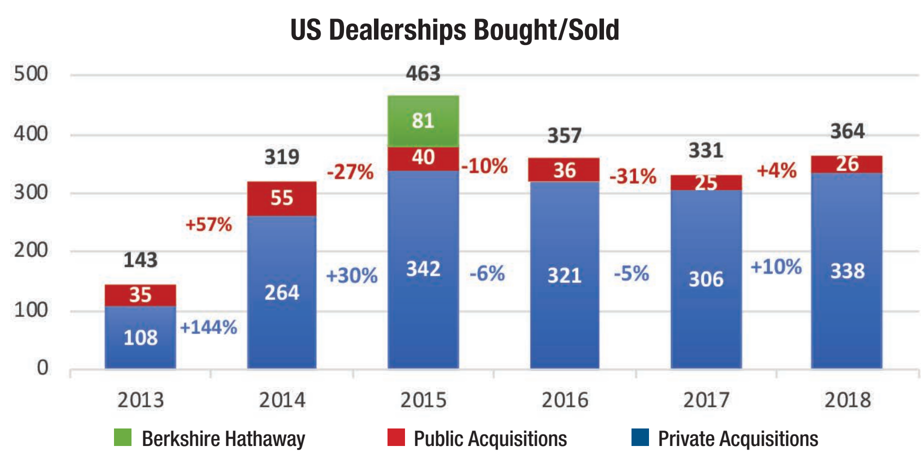
The Buy-Sell Market Is Still Robust Despite A Slowdown in Q4

An estimated 364 stores changed hands in 2018, a 10% increase from 2017. We have had four straight years of strong dealership sales. The fourth quarter of 2018, however, showed a 54% decline in buy-sell activity with just 53 stores being sold, compared with 97 in Q4 of 2017. Does this decline mean the buy-sell market is trending down sharply? We don't believe so for reasons we list on page 13.



Source: The Banks Report and Haig Partners

There are signs that buyers are becoming more careful in their purchases. Some buyers are only looking for stores in their core markets. Others are seeking only underperforming stores, or top brands in growing markets. And some of the buy-sell activity is driven by divestitures from large groups that are paring their portfolio in anticipation of a decline in the overall auto retail industry. Almost every buyer we speak to expects dealership values to fall further in 2019 due to flat or declining profits.

The transaction mix shifted slightly in Q4 with domestic share increasing for the full year to 48% of dealerships sold from 45% in 2017. Import stores made up 37% of stores sold in 2018 compared to 40% in 2017. Luxury stores were flat at 15% of stores sold for both periods.

Also notable for the year was a decline in transactions involving groups. In 2018, 20% of transactions were groups and they accounted for 46% of the stores sold. In 2017, 25% of transactions were groups and they accounted for 54% of the stores sold. We believe this shift reflects caution on behalf of buyers. They may be more comfortable picking up one store at a time that they can more easily integrate into their existing group, rather than taking on the tougher task of integrating a group of stores.

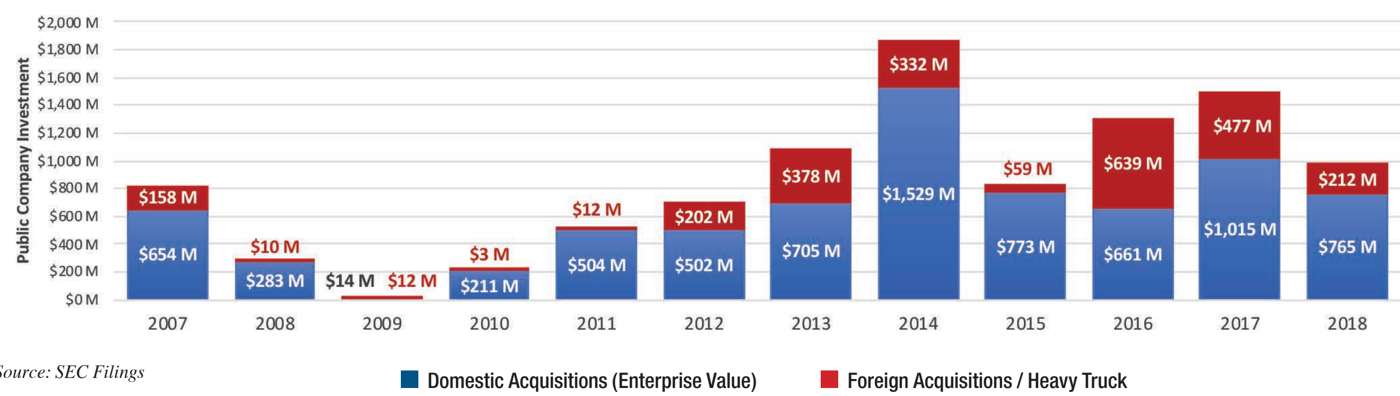
Public Company Acquisition Spending

After a strong first half of the year, including an especially strong Q1, the public auto retailers spent only $141M on domestic dealership acquisitions in Q4 2018, bringing the total for the year to $766M. Penske was the sole acquiror in Q4, and one of only three publics that made acquisitions in the second half of 2018. The publics sent $403M in Q1, $97M in Q2, $125M in Q3 and $141M in Q4, so their activity is consistent if not aggressive.

For the year, Lithia was the most active, including its acquisition of Prestige Family of Fine Cars (a Haig Partners client) and comprises approximately 50% of the total public spending. Asbury and Group 1 spent about $90M each (including an Asbury purchase of a Toyota dealership which was also a Haig Partners client). AutoNation spent $68M on one new vehicle dealership. Sonic executed no acquisitions during 2018. The public retailers finished 2018 disposing of more dealerships (40) than they bought (27). Their divestitures comprised more than 10% of the total stores sold in 2018, as several of them cut free weaker franchises or dealerships that required significant capital investments.

Public Company Acquisition Spending

(Domestic and International)



Source: SEC Filings

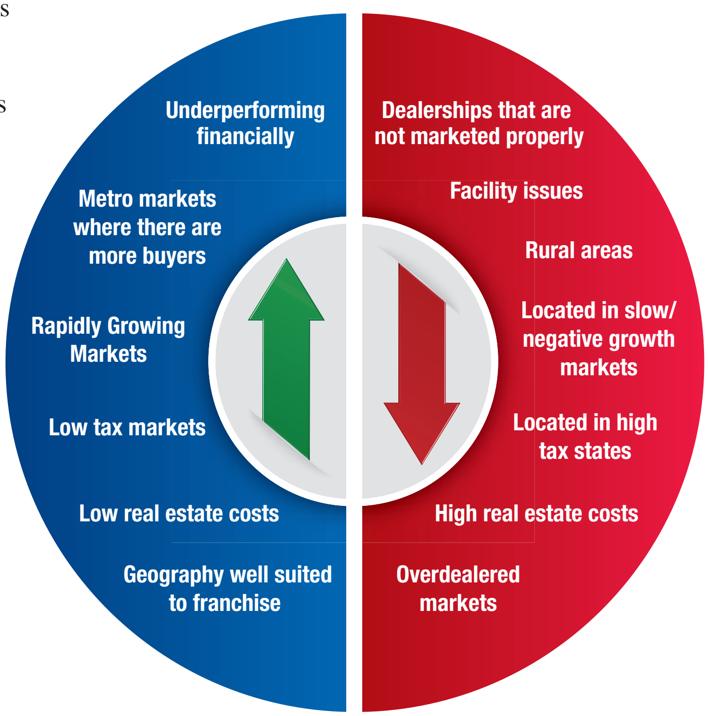
Based on reports from the market and our own practice, we are expecting a good number of transactions to close in Q1 2019. The reason appears to be that more dealerships are available for purchase today than in past years. Some dealers are opting to jettison franchises in which they have lost confidence, while older dealers without succession plans are looking to sell while dealership values remain strong. We also now have more clients in the prime of their careers who are choosing to sell since they are concerned about the future of auto retail, whether it be the high capital requirements, the OEMs' growing control of dealership profits, or the potential risks presented by new technology. Finally, another reason for the high number of buy-sells is that there is an increasing conviction that scale will matter more in the future than it has in the past. This "Get Big or Get Out" belief is pushing some groups to purchase dealerships so they can be better positioned in the future.

Blue Sky Multiples Continue to Edge Downward

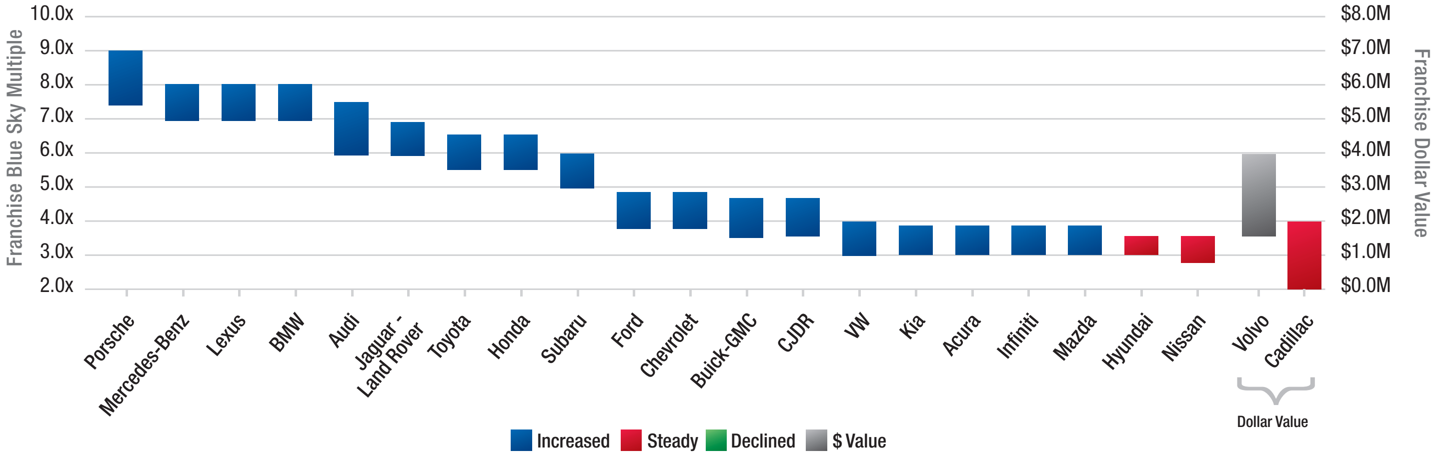
In Q3 2018 we reduced blue sky multiples for twelve of the 22 franchises we cover by 0.25x-0.5x. The reduction did not necessarily mean that demand was in decline, but was a reflection that because of earnings fluctuations, buyers needed to pay a lower multiple of historical earnings in order to keep their return on investment constant. The decline in earnings over the past three years has been modest, with the average dealership making 10% less than the peak in 2015. Our estimated average blue sky per dealership fell 13.4% during this period. But if buyers believe that profits will begin to fall at a faster rate, then we would expect multiples to decline even more. Or, if we begin to see an imbalance in the market, with more sellers than buyers, the multiples could fall quickly. We regularly hear buyers complain that they think prices are still too high. We reply that at current prices dealerships still offer a healthy return to buyers, and that selling at lower prices may not make sense to sellers who will have a hard time obtaining the same amount of cash flow from other investments.

The table below provides our estimate of what multiple or value a buyer participating in a competitive sales process (i.e. not the only buyer at the table) would be willing to pay for the goodwill of a franchise, in addition to the other dealership assets. Of course, actual multiples or prices paid by buyers for dealerships will vary depending upon a number of factors and could be higher or lower than the ranges we indicate. The table at right provides a list of some qualifying conditions that could impact the value paid for dealerships.

Factors Impacting Multiples



Haig Partners Blue Sky Multiples



TRENDS IMPACTING AUTO RETAIL

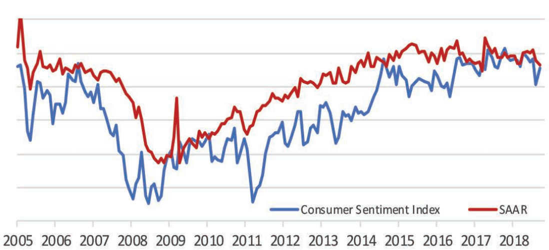
Overview

Despite tougher conditions, most dealers we have spoken with were pleased with their results in 2018. A few had their best year ever, while the majority were down several percentage points in terms of total profits. Just about all dealers enjoyed their highest ever after-tax profits due to the change in the tax code, but that does not mean they are resting. They have been focused on cutting expenses and boosting profits in used, F&I, and fixed operations. They know that in a flat to declining sales environment, they will have to create their own lift if they want to maintain profits.

Macroeconomic Indicators Are A Mixed Bag

- *GDP Is Growing*. GDP grew at a 2.6% rate in Q4, easily surpassing economists' consensus expectation of 2.2% growth. It is worth noting that this robust growth occurred despite threats of a government shutdown, that ultimately occurred, and tariffs that are in place, and those that are threatened.
- *Employment and Household Income Are Increasing*. The *Wall Street Journal* recently stated, "The job market doesn't get much better than this. The US economy has added jobs for 100 consecutive months. Unemployment recently touched its lowest level in 49 years." As a result of the tighter labor market, wages grew 3.2% in January. These higher wages can help offset rising interest rates for consumers. What is lost in these national figures, however, is that job and wage growth is uneven across the country. In general, markets in southern and western states are performing better than markets in the Midwest and Northeast.
- *Consumer Sentiment Remains High*. After a dip below 91 in January, consumer sentiment rebounded to 95.5 in February, but some concerns are creeping in regarding rising interest rates, tariffs, etc.
- *Gas Prices Are Falling*. Thanks to production increases, the price of gas in the US has fallen to $2.39 per gallon, approximately $0.15 cheaper than a year ago. Lower fuel prices help to offset rising car payments and incentivize consumers to purchase larger, higher margin vehicles.

Consumer Sentiment Versus SAAR



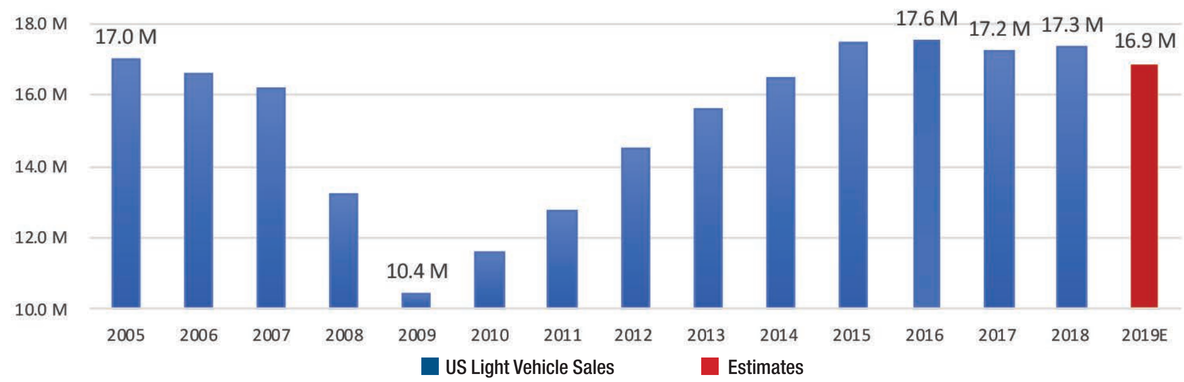
Source: Thompson Reuters / University of Michigan; Automotive News

- *Number of Miles Driven Is Increasing, But More Slowly*. The total number of miles driven, which influences the vehicle replacement rate and is a key measure of demand for autos, continues to increase through November 2018, but just by 0.3%, slower than the 1.3% growth rate in 2017 and 2.4% growth in 2016, according the US Federal Highway Administration.
- *Interest Rates Are Increasing*. The Fed increased interest rates by 75 basis points ("bps") in 2017 and 100 bps in 2018. Due to market volatility and political pressure in December, the Federal Reserve indicated that it would be "patient" in their consideration of any future rate hikes. Increasing rates hurt dealers due to higher floorplan costs and mortgage expenses on floating rate loans. We have seen net floorplan go from a boost to income (due to OEM incentives) to a net expense. And of course, they suppress consumer demand for vehicles as average loan and lease payments increase. According to Edmunds, the average APR for new vehicle loans in December 2018 was 5.9%, up from 4.7% in December 2017.
- *Car Payments Are Increasing Faster Than Inflation*. Edmunds data shows that due to higher transaction prices and higher interest rates, the average monthly payments for new and used vehicles has increased about 5% in the past year, faster than inflation or wage growth. These higher payments have the potential to reduce sales in the future as consumers may elect to hold on to their vehicles longer, or trade down to lower value vehicles.

New Unit Sales Remain Elevated, Surprising Many Forecasters

The total number of new unit sales in 2018 surprised many experts. Rather than declining, total sales increased 0.6% from 2017 to reach 17.3M units. While we hope sales will remain on this plateau, the average forecast from several respected sources is that sales will drop to 16.9M units.

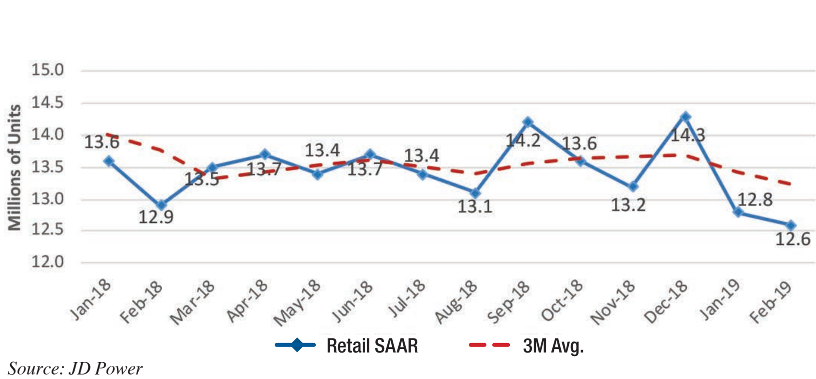
US Light Vehicle Sales



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

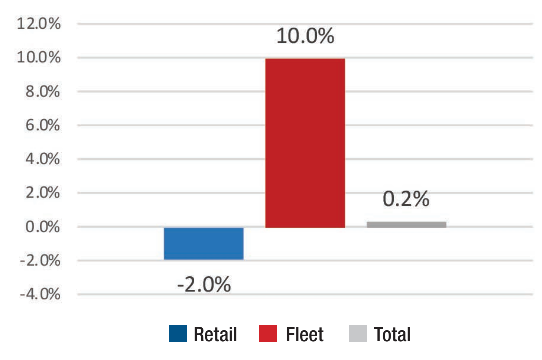
Note the data above is for total new vehicle sales, including fleet sales. According to data from JD Power, retail sales for 2018 were down 2.0% from 2017, while fleet sales were up 10.0%. This big increase in fleet sales is concerning as it may be a symptom that the OEMs are overproducing, and that these fleet sales can further hurt new and used margins for retail units. Nissan was the biggest fleet supplier as its retail sales fell. New unit sales so far in 2019 have been soft as they are tracking a retail SAAR of 12.7M units, down from the 13.7M retail sales in 2018, perhaps hurt by bad weather and the government shutdown. Dealers are not panicking, but they are wondering if our sales plateau has now entered a downturn.

Retail SAAR



Source: JD Power

Y/Y Sales Change - 2018

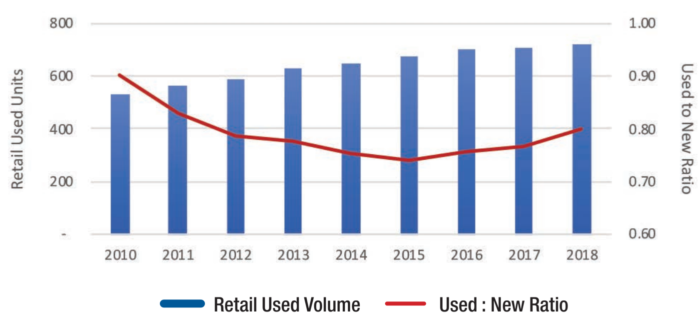


Source: JD Power

Dealers Are Increasingly Focused on the Used Vehicle Market

As franchised dealers continue to feel the pressure of front-end grosses on new units and declining new unit sales, they are increasing their focus on retailing used vehicles. There is plenty of room for improvement since franchised dealers account for approximately 30% of total used sales. The supply of used vehicles is increasing and the mix of cars to trucks/SUVs/CUVs is more in-line with current consumer demand. Dealers' ratio of used retailed

NADA Average Retail Used Per Dealership



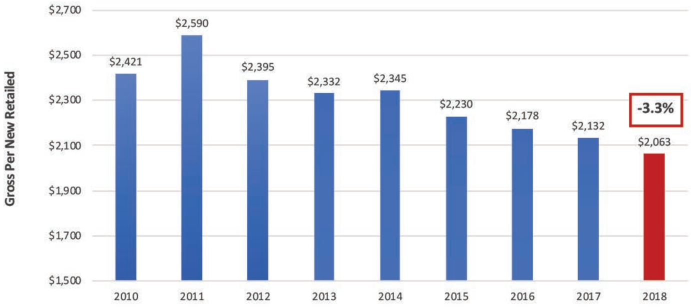
vehicles to new was up to 0.79x in 2018, compared to 0.77x in 2017. Public and private dealers want a bigger part of the 40+ million in used cars that are sold annually in the US. According to Edmunds, an additional 300k lease returns will show up at dealers in 2019 which should help supply.

Vehicle Grosses Remain Challenging

New vehicle gross profits continue to slide, down an average of 3.3% in 2018 for the public retailers. We keep hoping this decline will level off, but if it continues to fall, more retailers may change the way they retail new cars. In order to reduce the amount of compensation paid on low margin new vehicle sales, more dealers are experimenting with one-price, and some are having a sales person handle both the sales and F&I transactions with customers. But these are not simple transitions and can bring significant risks to dealers.

NEW Gross Profits Per Vehicle: Public Company Data

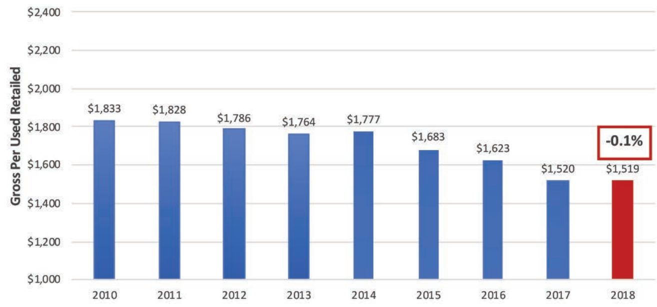
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

USED Gross Profits Per Vehicle: Public Company Data

(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

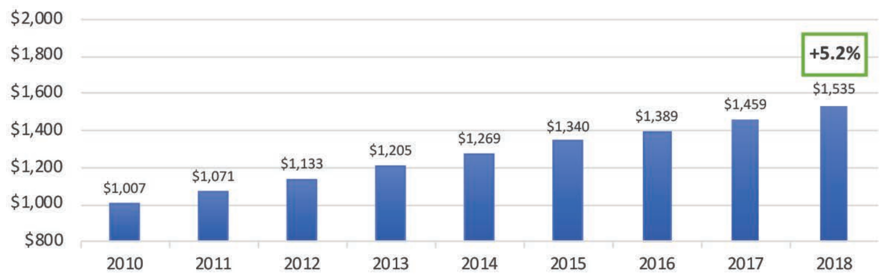
As for used vehicles, the average gross profit per used vehicle was largely unchanged for the publics in 2018. Penske was able to notch a $88 per copy expansion of gross on used due to the increased prominence that their used-only locations have taken within the organization. These locations generally achieve used margins greater than franchised dealers. AutoNation is enjoying comparisons to a very difficult 2017 when it introduced one-price selling and sold many stop-sale vehicles. We are also seeing more dealers implement one-price on used, even if they continue to negotiate on new vehicles. This change is helping to reduce compensation for used units, and to increase customer satisfaction since it reduces the length of the transaction.

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 $1,535 per vehicle retailed during 2018, up $76 (5.2%) from 2017. This increase is significant and more than offset the decline in gross profit on new and used vehicles. A number of private dealers have disclosed they earn even higher profits than these figures, some 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

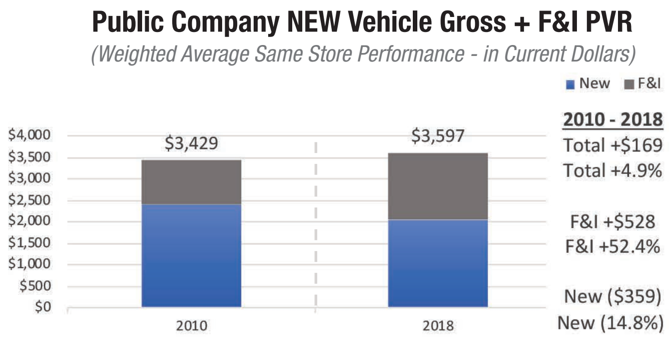
(Weighted Average Same Store Performance - in Current Dollars)



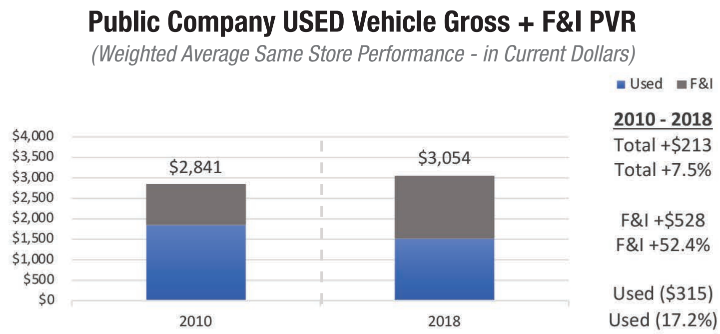
Source: SEC filings

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. Given the rise in new vehicle prices over this time; however, the profit margin as a percent of vehicle sales has fallen steadily.



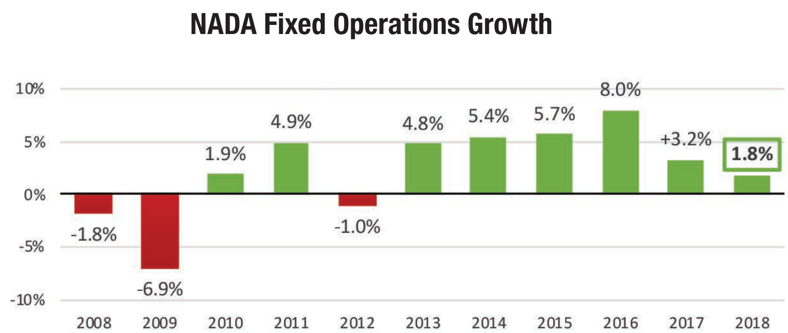
Source: SEC filings; F&I as reported for new and used combined
Note: Front end gross profit includes manufacturer incentives and other income



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

Fixed Operations Continue to Drive Higher Profits

Private dealers reported fixed operations were up 1.8% 2018 compared to 2017. The growth rate in fixed operations has been falling for the past two years as the growth in units in operations slows and because of lower recall work. As the number of units in operation peaks, dealers will need to find other ways to keep their service departments busy. Some dealer friends are increasing their ad budgets for fixed operations work.

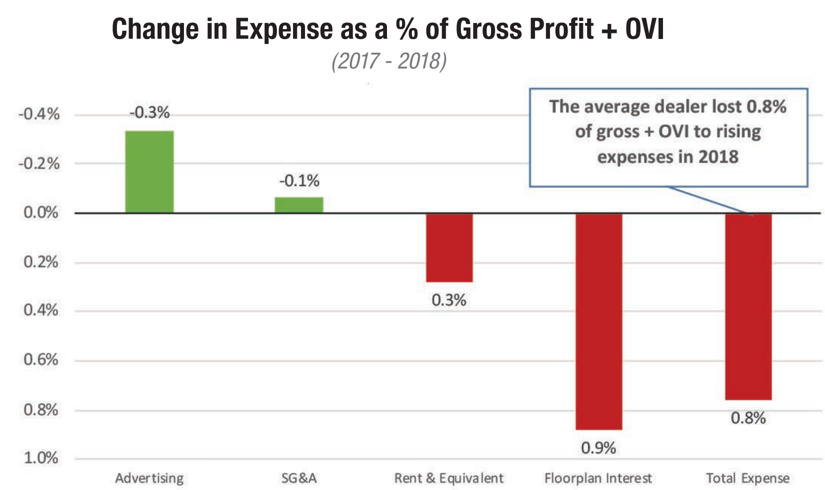


Source: NADA

Dealership Expenses Are Growing Faster Than Gross Profit

While the average privately owned dealership grew gross profit by 1.3% (1.9% including OVI), expenses grew by 2.8%, leading to an overall decline in profits.

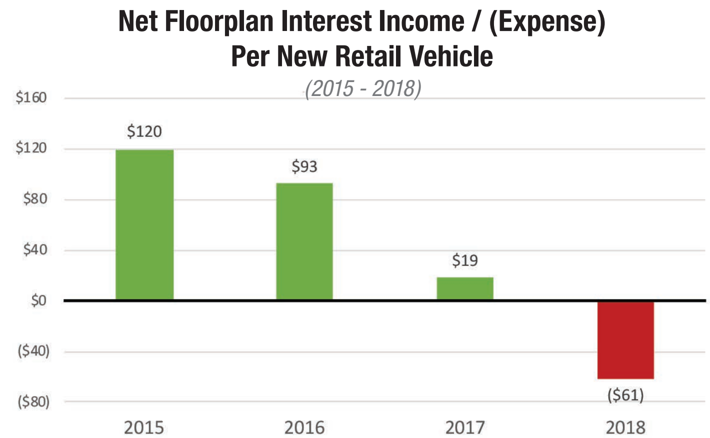
Dealers have been working hard to lower their costs during this period of flat sales and declining vehicle margins and we are seeing good results. Even though wages are growing, SG&A at privately owned dealerships was basically flat as a percentage of gross profit in 2018 compared to 2017. Somehow, dealers are getting more productivity out of their staff. Advertising expenses actually fell 0.3% as a percentage of gross profit + OVI thanks to the shift to digital marketing that can be more effective than traditional media for many dealerships. What is proving harder to overcome is the



Source: NADA

impact of rising interest rates on floorplans, as well as dealers' investment in more expensive facilities. Floorplan interest expense and rent both increased.

For private dealers, the chart above shows that floorplan interest expense now exceeds floorplan credits. This change has eroded profits per new vehicle by $180 over the past four years. Dealers tell us they are now more focused on reducing their inventories even if it means upsetting their OEMs.



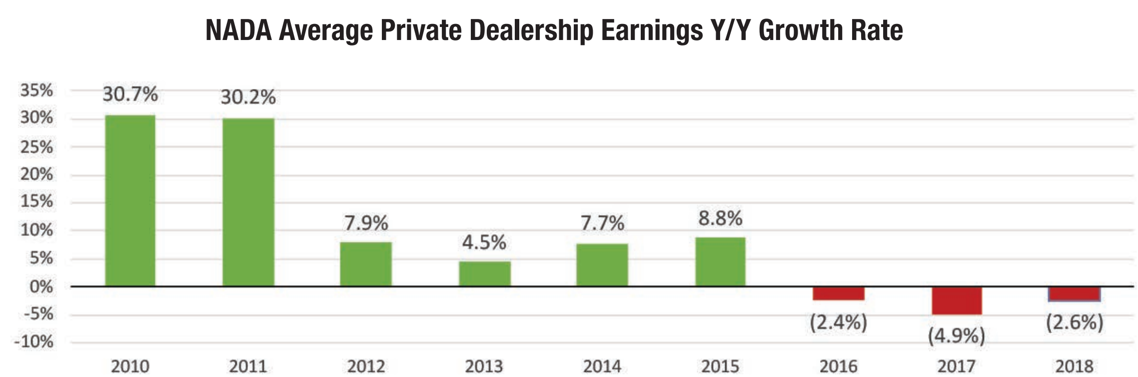
Source: NADA

Dealership Profits Drop Slightly

The net outcome of the trends listed above is that average profits at privately owned dealerships are down 2.6% in 2018, compared to 2017. This is on top of a 4.9% decline from 2016 to 2017. Average profits per store have fallen about 9.7% from their peak in 2015.

Source: NADA

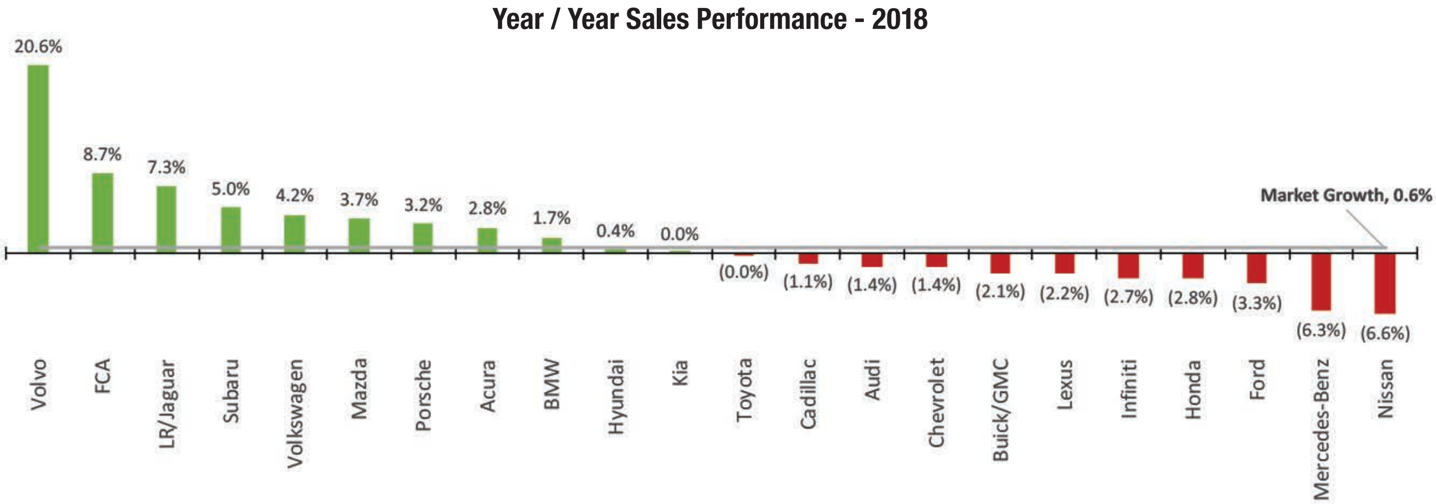
The table below shows the annual change in profits at privately owned dealerships since 2010. Prior to the Great Recession, during the 2001 to 2007 period when new vehicle sales were essentially at a plateau, NADA data showed that annual profits per dealership fell by about 5% per year due to falling margins and rising costs until the recession hit in 2008. We may now be in a similar cycle.



Source: NADA

Sales Growth for Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in 2018. Note, this data reflects changes in total sales per franchise, so it includes fleet sales that cloud the results at the retail level. FCA's sales jumped 8.7% thanks to new Jeep and Ram models, while Nissan suffers at the other end of the scale, despite a jump in fleet sales. Mercedes-Benz is recovering from some production issues. Past poor performers such as Volvo, VW and Mazda are seeing nice increases as they take advantage of new CUV introductions.



Source: Automotive News

Tesla May Drop Some Showrooms and Sell More Online

Tesla is contemplating closing many of its showrooms and sell more of its products via its website with no test drives. This is a cost savings move and could be revealing significant weakness at Tesla, but it opens Pandora's Box for auto retailers. Tesla has been given an exemption in most states from the prohibition of an OEM also being a retailer. NADA, state dealer associations and dealers decided it was best to drop their fights against Tesla selling to consumers to avoid creating a bigger battle that could have put in question the whole franchise system. But now, if one OEM can sell vehicles direct to consumers with no physical presence in states where they are selling, what would stop another OEM from doing the same thing, or perhaps even giving the rights for Amazon to sell directly to consumers across the country? Given the declining margins in our industry, dealers need to fight to preserve all possible sales. We urge dealers to fully support your state dealer associations to maintain the current system that benefits customers, employees and dealership owners. Through this experience, we are hoping that Tesla will see that it would be more successful if it offered our dealer friends the right to sell and service these impressive products. While some early adopter folks will buy expensive autos online, sight unseen, the majority of customers would prefer a test drive and a conveniently located service center for such an expensive purchase.

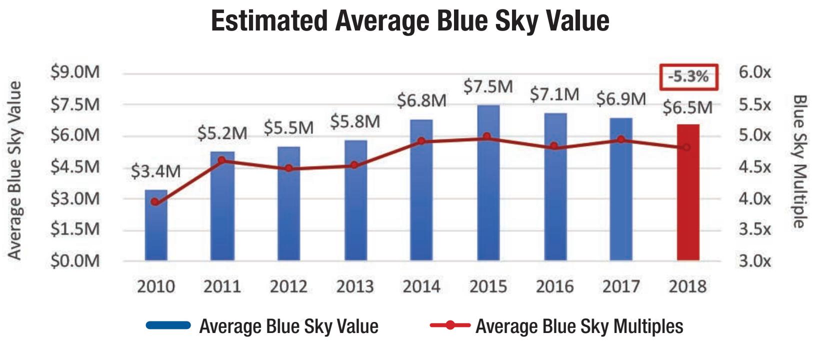
Stair-Step Programs Continue to Plague Dealers

Dealers have long complained about stair-step programs that they believe hurt profitability and the long-term image of the brand they represent. Targets are often arbitrary and unreachable. For various reasons, larger dealers seem better equipped to handle stair-step programs. This gives them both a pricing and a selection advantage over smaller dealers. Further, customers get upset when they learn that pricing can vary significantly, even from the same dealer, in the same month. We find it hypocritical that OEMs so closely measure customer satisfaction while also encouraging dealers to pursue sales practices that upset customers. Some dealers respond by playing their own games by chasing the targets for two years and then deliberately having a poor year so they can reset their stair-step targets. Also, dealers with unrealistic targets are focusing more on used and fixed operations.

Private Dealership Values Are Declining Slightly

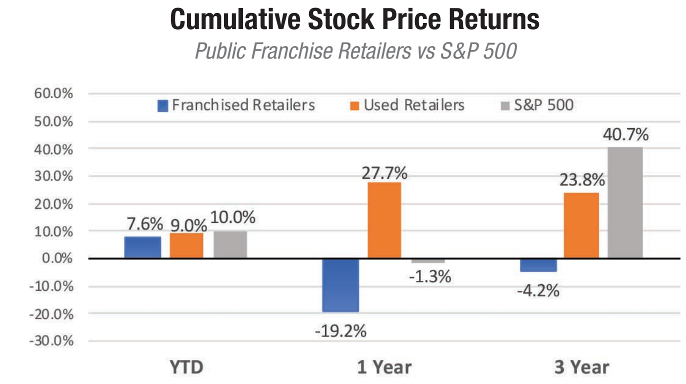
The estimated average blue sky multiple for all franchises on an unweighted basis was 4.80x at the end of Q4 2018 according to our estimates, down slightly from 4.83x last quarter. Profits per dealership over the last twelve months fell 2.6% compared to full year 2017 and have fallen nearly 10% from their peak in 2015.

Applying the 4.80x blue sky multiple to the average dealership pre-tax profit of $1.36M over the last twelve months generates an average blue sky value of $6.5M, down 5.3% from year end 2017.

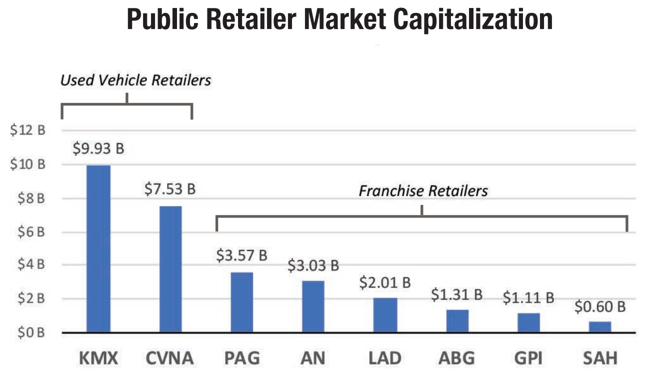


Investors Remain Negative on Public Franchise Dealership Groups

The stock market continues to be uninspired by the public franchised retailers. The table set forth below shows that the average stock price for the franchised retailers has consistently underperformed the S&P 500 Index. Investors are concerned about declining profits in the short term, and the potential long-term disruptors that are now in the news almost daily. Many of these investors have moved to other industries or prefer to invest in companies like CarMax or Carvana that have better growth prospects. Investors appear to be increasingly attracted to business models that show less reliance on new vehicle retailing.



Source: Yahoo! Finance; Data through 3/8/2019



Source: Yahoo! Finance; Data through 3/8/2019

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

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

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

Experience. Since we have been involved in more than 170 transactions for over 300 dealerships with over $4.3 billion in value, we know how to respond to issues that can arise in a buy-sell process.

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

Call today to schedule your free consultation!

BUY SELL TRENDS AND EVENTS

In our Q3 2018 report we listed a number of trends that are still present.

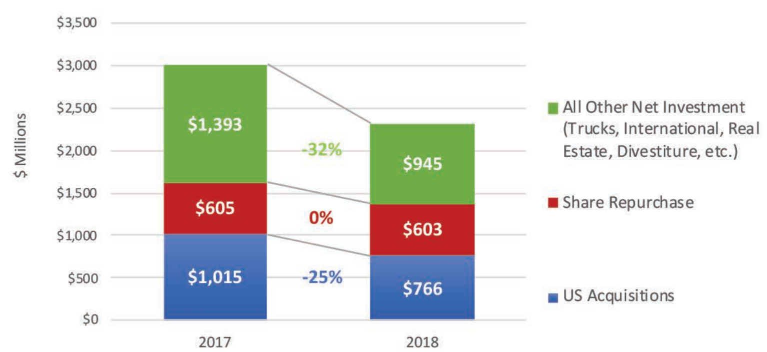
- **More Sellers Are Coming to Market.** The increase in the number of stores for sale is likely due to several reasons: an aging dealer body, the beginning of what may be a decline in dealership values, greater recognition that economies of scale (digital marketing, facilities, talent development and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

Public Companies Are Investing Less

The public retailers sold 40 dealerships and bought 27 dealerships in 2018. Some of them have recently detailed plans of realigning their portfolios away from tough brands, such as Nissan. Other divestitures are dealerships that require significant facility investments or that are nominally profitable. Public companies have historically shrunk during periods of declining SAAR and seek to expand during upswings.

The table at right shows where the public companies have been putting their cash. You can see that in 2018 the publics spent less on acquisitions and real estate/ facility investments while share repurchases were flat. Several of the publics still have significant headroom in their authorized share repurchases. Given the low share prices and expectations of declining dealership profits, our assumption is that public companies will be spending less money on acquisitions in 2019.

Public Company Capital Allocation



Source: SEC filings

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 300+ 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. In Q3, we lowered multiples on twelve of the twenty-two franchises that we cover. The decline in the blue-sky multiple was 0.25x-0.5x for those franchises. In Q4, we see steady values for most of the mid-tier and luxury brands, but slight declines in interest for Hyundai, Nissan and Cadillac. Large dealers are talking about a "flight to quality" as they make acquisitions and consider divestitures. Some tell us they are worried that stores that are nominally profitable today or that lose money, will have big problems if we see a significant decline in the industry.

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 average dealerships and we note any upward or downward changes from Q3 2018. We remind the reader that each dealership transaction is unique, and dealerships may trade above or below the ranges we describe in this report. See page 5 for factors that could increase or decrease the multiples paid by buyers from the what we estimate here.

Luxury Franchise Blue Sky Multiples

PORSCHE

Porsche. Porsche sales grew 3.2% in 2018, marking nine years of growth in a row. Dealers are grateful for the excitement new models are generating among customers. This year Porsche will introduce the next-generation 911, the updated Macan, and the first all-electric sports car – the Taycan. Porsche had the highest consumer interest and best customers among luxury franchise dealers in the Cox Brand Scorecard and was cited by JD Power as "a clear winner" in luxury in their annual Franchise Assessment. We agree! After having seen several Porsche statements in metro markets lately, we believe Porsche stores are often more profitable than other German luxury brands on much lower sales. Same multiple range: 7.5x-9.0x.

Mercedes-Benz

Mercedes-Benz. M-B sales were down 5.3% in 2018 mostly due to a 19.9% decline in July sales caused by production issues. We hear M-B is going to discontinue some of its slow selling variants, which should help dealers stock a better selection of the models that customers are buying. M-B still retained the sales lead among luxury brands and it earned the top ranking among luxury brands in the Cox Brand Scorecard with an "A" in every category. Early sales are down 13.8% so far in 2019, but some expect a strong rebound in sales with the arrival of several new models including the all new A-Class sedan and GLE. Same multiple range: 7.0x-8.0x.

LEXUS

Lexus. Sales fell another 2.2% from a poor 2017. Dealers remain hopeful after a strong finish to 2018 with support from a host of new product launches. Lexus expects a very strong first quarter with sales up 1% so far in 2019. Dealers we speak to wish Lexus would accelerate its product launches. It took them forever to launch a three-row RX, for instance. Lexus was the runner-up brand in the Cox Brand Scorecard with strong results in customer attitude and perceptions of the brand and range of lineup. We were involved in the sale of four Lexus stores recently and demand was high. Same multiple range: 7.0x-8.0x.

BMW

BMW. Unit sales increased 1.7% in 2018, putting BMW just behind Mercedes-Benz in luxury brands in 2018. They were the only one of the "Big 4" luxury brands to post a gain. Inventory appears to be better positioned for 2019 after being tight in Q1 2018. BMW has good momentum, posting 14 consecutive months of increased sales, although loaner cars continue to be a drag on earnings. The updated X5 is selling well and the new X7 is just reaching dealerships. These products, along with a new 3-Series that hits later this year should continue the good times at BMW and possibly push it into first place among luxury brands. BMW one was one of two brands that received perfect scores in the Cox Brand Scorecard. We have closed transactions recently involving the sale of three BMW stores that all drew impressive values. Same multiple range: 7.0x-8.0x.

Audi. Audi had a 1.4% decrease in overall sales for the year after a weak December. Previously, Audi boasted a 100+ month-long growth streak. Audi blamed market conditions and a delay in inventory. Despite these declines, Audi dealers tell us they are feeling better about the brand thanks to new leadership that cares more about dealer profitability. Audi was ranked behind the other leading luxury brands in the Cox Brand Scorecard with difficult OEM relations dragging down their score. Those relations may now be on the upswing. The upcoming e-tron should do very well in CA and help to take back some share from Tesla. Same value range: 6.0x-7.5x.

Jaguar-Land Rover. JLR continues to post impressive sales, up 7% from 2017, and it reported its best ever December with an increase of 33% from 2017. The momentum carried into 2019 as JLR posted its best January ever and is up 22.2% so far this year. Despite these impressive sales gains, some JLR dealers are concerned about the future. There are many add points going in around the country that will hurt existing dealers. The size of the dealer body jumped about 6% in just one year, with more add-points coming. And dealers are being pushed to upgrade their facilities to comply with JLR's extremely expensive requirements, including giving half of the showroom space to Jaguar which badly lags Land Rover in sales and consumer interest. Jaguar is a major concern. It was the lowest ranked luxury brand in the Cox Brand Scorecard as dealers complain about aged inventory which is leading to big discounts. One dealer told us JLR was offering retailers $29K off 2018 XJ-Ls that were still sitting at the port. And finally, JLR itself is under pressure from Brexit, a slow-down in China and other factors that led to its parent company to take a $4B write-down. Some dealers are opting to exit in an uncertain environment, while others want to buy in. For the moment, for stores with no add-point, same multiple range: 6.0x-7.0x.

Acura. Acura sales are up thanks to the new RDX, which has become the #1 retail-selling model in the segment and #2 luxury SUV overall. The brand had an impressive 11.4% increase in December 2018, resulting in a YoY increase of 2.8%. Acura is up 10.6% so far in 2019. Acura was ranked 4th among luxury brands in the Cox Brand Scorecard. Same multiple range: 3.0x-3.75x.

Infiniti. Infiniti is struggling as sales fell 3.1% in 2018 and another 10.9% so far in 2019. Some dealers avoid the franchise since it suffers some of the same issues as Nissan. Same multiple range: 3.0x-3.75x.

Volvo. Back from the grave! Volvo had an impressive 2018 with a total increase of 20.6% and its highest sales volume in the US for a decade. Volvo officials attribute some of the success to the opening of the first US factory in South Carolina. Volvo still has many loyal customers and should attract more eco-conscious buyers as it transitions to an all hybrid and electric fleet over the next five to ten years. Volvo is providing dealers help with upgrading their facilities. Volvo was cited by JD Power as "showing strong positive movement" in luxury in their annual Franchise Assessment. Same value range: $1,500,000 - $4,000,000.

Cadillac. Cadillac sales were down 2.7% in 2018 and many dealers feel that the franchise is trending further downward. Every model saw decreases in total sales. Sales per location are almost as low now as at Lincoln locations and few stand-alone dealers can be happy today unless they are big used vehicle dealers. Relations between dealers and Cadillac are deteriorating. Since few stand-alone Cadillac dealerships are doing well, we are changing from a multiple of earnings to a flat value for blue sky. Estimated value range for average stand-alone stores: $0 - $2,000,000.

Mid-Line Import Franchise Blue Sky Multiples

Toyota. Sales were down 0.4% in 2018 and another 6.7% so far in 2019. Most Toyota dealers continue to be pleased as the brand competes well in all segments other than full-size trucks. Toyota has more new products coming than any OEM over the next few years according to Bank of America's Car Wars Report, but it is also trimming some low selling car models. Some dealers tell us they cannot get enough inventory, which should mean good things for margins. Toyota was one of two brands to receive perfect scores on the recent Cox Brand Scorecard. Dealers want more of these stores thanks to high profits per location and better than average relations with the factory. Almost every dealer would like another Toyota store. Same multiple range: 5.5x-6.5x..

Honda. Sales were down 2.8% versus last year due to floods in Mexico and a lack of incentives on its sedans. Dealers have complained about Honda's pullback in leasing that is making life difficult for dealers in high-lease penetration markets like California. We are hearing Honda has recently improved its programs so maybe it will regain momentum. Honda scored an "A" in the recent Cox Brand Scorecard with a top ranking in OEM relations and customer perceptions of the brand. We have been involved in the sale of three Honda stores recently and interest has been very strong. Same multiple range: 5.5x-6.5x.

Subaru. Subaru finished 2018 with 5% growth and celebrated its tenth consecutive record year. December 2018 marked the best-ever sales month for the brand, although sales were expected to be slowing due to production issues and some recent recalls. Subaru scored an "A" in the recent Cox Brand Scorecard and was cited by JD Power as "a clear winner" in non-luxury in their annual Franchise Assessment. Future outlook is positive as the Crosstrek, Legacy and Outback each won the Kelley Blue Book 2019 Best Resale Value Award in respective categories. In several markets, this franchise is more desirable than Honda or Toyota. Moreover, dealers seem to enjoy their interaction with Subaru executives and feel that their suggestions are being heard. Same multiple range: 5.0x-6.0x (with pricing higher in Snow-Belt states).

Kia. Sales were flat in 2018, nearly matching the market. In December, Kia saw a 10.2% increase in sales over the same period last year and another 5.9% so far in 2019. Exciting new models such as the Stinger and Niro did well. Kia hopes to build momentum with new models being introduced soon including an updated Soul and Telluride, its first three row SUV. Kia dealers are excited about the new product they are getting. Same multiple range: 3.0x-3.75x.

Hyundai. Hyundai finished up the year with a 1% decrease in sales, but showed signs of life with sales increasing in seven of the last eight months. Hyundai continues to suffer from a sales mix that is 54% cars when the rest of the market is approaching 70% trucks and CUVs. Genesis sales nearly halved, so it was good that dealers did not agree to build separate showrooms for this sub-brand. Hyundai also has a three row SUV coming, which should help. Lower top of multiple range: 3.0x-3.5x.

VW. The company reported a 4.2% increase over 2017. A refreshed Tiguan and all-new Atlas did well, while the Jetta, Golf and Passat saw declines. Dieselgate is largely in the past and many dealerships have returned to profitability, albeit still not yet at previous levels. Buyers are more curious about this franchise and see upside in purchasing this brand which sells so well in other countries. Maybe VW can figure out the US like its Audi and Porsche cousins. Same multiple range: 3.0x-4.0x.

Mazda. Mazda finished the year with a 3.8% increase in sales. Mazda profits per store have been low since Mazda been underweighted in CUVs and has no light trucks. Mazda and Toyota have recently broken ground on a combined manufacturing plant which will house Mazda's new crossover vehicle, so conditions could improve. Mazda is becoming more aggressive with dealers about image requirements, but it does provide dealers with as much as $500 per vehicle which helps to pay for many of the upgrades. Mazda ranked near the bottom of the Cox Brand Scorecard. Despite this low score, some dealers are happy with their stores as they can make $2M or more in profits. Unfortunately, most make much less and are often overlooked if they are part of a group of dealerships. Same multiple range: 3.0x-3.75x.

Nissan. Due to a number of well reported issues, Nissan finished 2018 with a 6.2% decrease in sales. The situation between many dealers and Nissan remains tense, but there is a glimmer of hope. We are told the new management team understands the problems of the past and is going to focus on rebuilding relationships with dealers. Nissan will move away from unrealistic sales targets that created bad behavior among dealers and long-term harm to the franchise. Nissan trailed nearly all of its peers in the Cox Brand Scorecard. Despite some attractive products and high sales per dealership, many dealers will not purchase a Nissan store at any price. Given all the problems, there are many unprofitable Nissan stores being sold for prices that likely range from $0-$2M. For stores with around 2% net-to-sales performance, lower top and bottom multiple range: 2.75x-3.50x.

Domestic Franchise Blue Sky Multiples

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

Ford. Sales fell 3.5% from 2017, largely due to a decline of 17.7% in sedan sales. Dealers remain concerned about the direction of senior management, but that did not stop Ford from finishing at top of the Cox Brand Scorecard for domestic brands with high scores in range of product and OEM relations. Sales could get a nice boost with all new products coming to showrooms such as the new midsize Ranger and all-new versions of the Explorer and Escape. Ford is also betting big on the return of the Bronco, which it is positioning to compete against the Jeep Wrangler, with multiple configurations. One dealer said the Bronco looks "awesome," but is worried that they have almost no low-cost vehicles to sell to customers since they have exited the sedan business. Same multiple range: 3.75x-4.75x.

Chevrolet. Chevy experienced a 1% decrease in total sales in 2018. Sales of almost all of Chevrolet's trucks/SUVs/CUVs are up, with the Traverse, Equinox and Trax showing double digit growth. Chevy, like Ford, is killing off several low selling car lines and shuttering factories which could hurt sales and service work at dealerships over the long-term. Chevy hopes for growth with the next-generation Silverado 2500HD and 3500HD. We are concerned that excitement over the new Silverado was lower than expected, perhaps because it is more expensive than its predecessor. One dealer told us there are no incentives on the new truck, so it is selling for $9,000 more than the outgoing truck, and many consumers don't see the value proposition. Slow sales on this new truck would mean that many dealers could miss their SFE targets in 2019 and significantly reduce their profits. Some dealers are concerned that GM is so focused on the future of autonomous driving that they are not working on creating affordable and competitive vehicles that dealers can sell today. Chevrolet was the second highest scoring domestic brand in the Cox Brand Scorecard. Same multiple range: 3.75x-4.75x.

FCA (Chrysler-Jeep-Dodge-Ram-Fiat). Sales were up 9% for the year and marked the highest level since 2001. December saw a 14% increase in sales with the Jeep Wrangler standing out with a 26% increase in sales. The Jeep brand set a full year record with a 17% increase in sales, while Ram sales climbed 7%. Average new unit sales per CJDR location significantly exceed Chevrolet and Ford sales per location, which means CJDR stores typically out-earn their domestic competitors. While many dealers have avoided this franchise in the past due to concerns about FCA's long-term viability and low product quality, more are now telling us they want to acquire these stores. Spirits are high after a 2.5% increase in a tough January, as well as a good cadence of new products including the new Jeep Gladiator and Ram heavy duty updates. Jeep, Ram and Dodge had the highest score for consumer interest and Ram had the highest score for brand loyalty in the Cox Brand Scorecard. Aside from these positives, some dealers are upset with the stair-step programs that will make it harder to maintain profits as the market slows. Same multiple range: 3.5x-4.5x.

Buick-GMC. Sales were down 5.6% on the year. Sales per store are lower than at other franchises, but grosses per new unit sold can be higher than at other brands thanks to premium pricing on full-size vehicles. Same concerns here as at Chevy about the increasing difficulty of hitting sales targets to get the much needed SFE payments, and about a lack of affordable products that dealers can sell today. B-GMC is a bit of a sleeper franchise that can produce a nice return on investment for buyers. Same multiple range: 3.5x-4.5x.

KEY TAKEAWAYS

Buyers still like the returns on investment that acquisitions provide compared to other uses of cash…

Dealers enjoyed another strong year in 2018 with most departments contributing nicely to the bottom line. New vehicle profits were down slightly, but growth in used, F&I and fixed operations mostly offset rising costs. The flexible business model continues to deliver for dealers as they enjoyed the fifth highest ever average profit per dealership. Conditions so far in 2019 are off to a tough start, so dealers are going to have to keep a close eye on costs to try to maintain profits.

The buy-sell market was highly active with a lift of 10% in the number of dealerships sold. This increase is largely driven by an increase in the number of dealerships coming to market for sale, as more dealers have decided they want to retire, take chips off the table before a larger decline, and/or have concerns about the future of the industry. So far, none of the tech disruptors (such as ride sharing, electric vehicles, and autonomous vehicles) are hurting dealers in any meaningful way, and most buyers don't think they will have an impact for years to come. Dealership buyers tell us they are interested in increasing their scale to offset rising expenses and better meet consumer expectations. And buyers still like the returns on investment that acquisitions provide compared to other uses of cash such as paying down debt, offsetting their floorplan expense, purchasing real estate, or investing in securities. As a result of these factors, dealership pricing is coming down slightly, off about 5% from 2017.

Having been involved in over 170 transactions for more than 300 dealerships, no other firm has a better understanding of the perspectives of both buyers and sellers of dealerships across the US. We use this expertise to create highly informative and compelling offering materials that help buyers to focus on our clients instead of other opportunities. And we listen to our clients to create a customized marketing process that carefully balances their priorities of maximizing price, preserving confidentiality, and time to closing. Through our unmatched expertise, deep relationships with buyers, and well-honed processes, Haig Partners is able to produce highly desirable outcomes for our clients.

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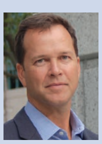

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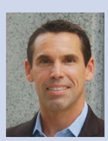

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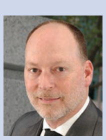

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- **National Association of Dealer Counsel (NADC):** Dana Point, CA, April 28-30, 2019
- **Virginia Auto Dealers Association:** Greenbrier, WV, June 23-26, 2019
- **American Institute of CPAs (AICPA):** October 27-29, Las Vegas, NV