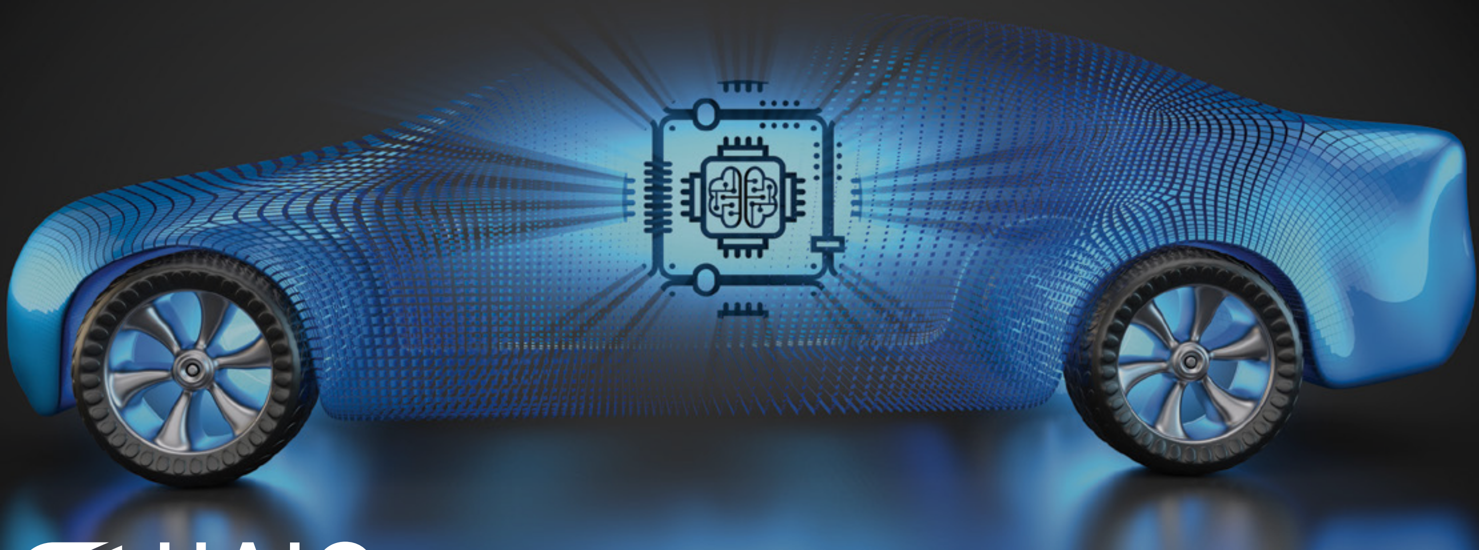
THE HAIG REPORT

Q2 | 2021

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- *Unprecedented conditions continue in auto retail fueled by inventory shortages and strong economic recovery*
- *The average privately-owned dealership made $3.1M over the past twelve months, 2.2x profits in 2019*
- *Public company spending on US auto acquisitions in Q2 YTD exceeded $1.9B, 750% more than Q2 2020 YTD*
- *Buy-sell activity over the last 12 months is the second highest on record*
- *Blue sky values rose an estimated 52% from the end of 2019 and are now at record-high levels*
- *Public equity valuations are 109% higher than they were before the Pandemic*



HAIG PARTNERS

INTEGRITY. CONFIDENTIALITY. EXPERIENCE.

OVERVIEW

It's an odd time when an empty lot means an overstuffed wallet. Every time we think dealership profits have peaked, they rise again. In 2020 they reached an estimated $1.9M, a record high. For the twelve-month period ended June 2021, they hit an estimated $3.1M. And if we annualize profits year to date, dealerships are on track to make $3.6M, almost two-and-a-half times what they were before the Pandemic. Inventory is so short that many dealers tell us they are selling deep into their allocation. And microchip production appears to be declining now due to plant closures from COVID and other incidents, so shortages are expected well into 2022. While these production challenges are temporary, the OEMs are saying they may prefer lower levels of vehicle production since they are also making higher profits. If so, gross profit margins for vehicles might settle a good bit higher than before COVID. Dealers have adapted to lower new vehicle sales by improving their skills in used vehicle sales, fixed operations and F&I. They have also learned how to operate with significantly lower costs. There is evidence that we will exit the Pandemic period with a business model that is better for both the OEMs and dealers. Less is more!

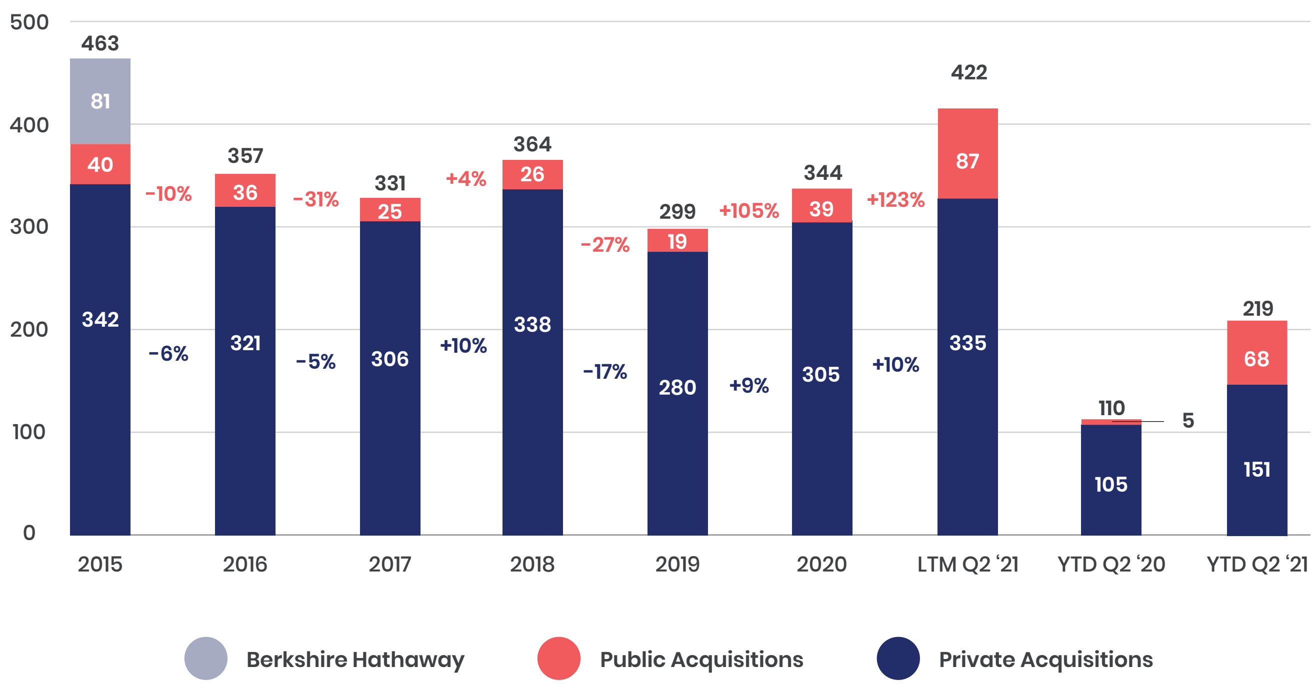
Many dealers have responded to these ideal conditions by acquiring more dealerships. The public companies have already spent $1.9B on acquisitions in the first six months of 2021, up more than 7 times from the same period last year when the Pandemic put most acquisitions on hold. And private dealers have also been active. Altogether, an estimated 219 dealerships have traded hands so far in 2021, twice as many as the same period in 2020.

These remarkable and unprecedented conditions have significantly elevated the value of dealerships. The publicly traded franchised retailers all reached record valuations in 2021. And the average blue sky value for privately owned dealerships has increased by 52% since 2019 to reach $10.3M, according to our estimates, also now at a record high level. Even at these higher prices, the returns on investment provided by dealership acquisitions are expected to exceed those of almost any other asset class, so we expect consolidation will continue over the next 24 months. For dealers today, life is truly good.

Buy-Sell Activity Is Surging

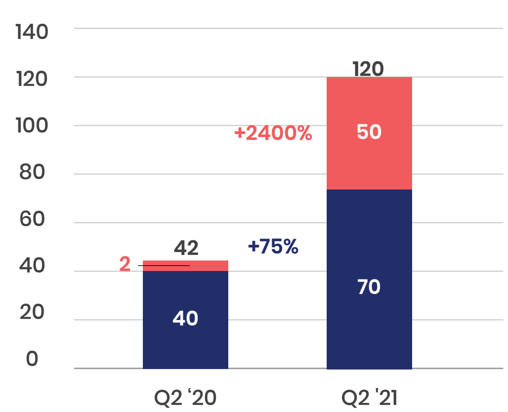
Buyers are eager for dealerships across the country. Prior to the Pandemic, we were seeing 75-90 dealerships sold per quarter. We saw 120 dealership sales in Q2 2021 alone. At the current pace, we could see the most dealership sales since 2015 when Berkshire Hathaway acquired the Van Tuyl Group. This is a sharp turnaround from March-June of last year when very few stores traded hands due to fears caused by COVID. And it's not just Lithia that is buying dealerships. Acquisitions by private dealers have increased by 44% to 151 dealerships in the first half of 2021 compared to 105 in the same period in 2020. Our firm is enjoying these robust conditions as we expect to advise on the sale of more dealerships in 2021 than any other year in our history.

US DEALERSHIPS BOUGHT/SOLD



Source: Automotive News, Banks Report, & Haig Partners

US DEALERSHIPS BOUGHT/SOLD: Q2 '20 VS. Q2 '21

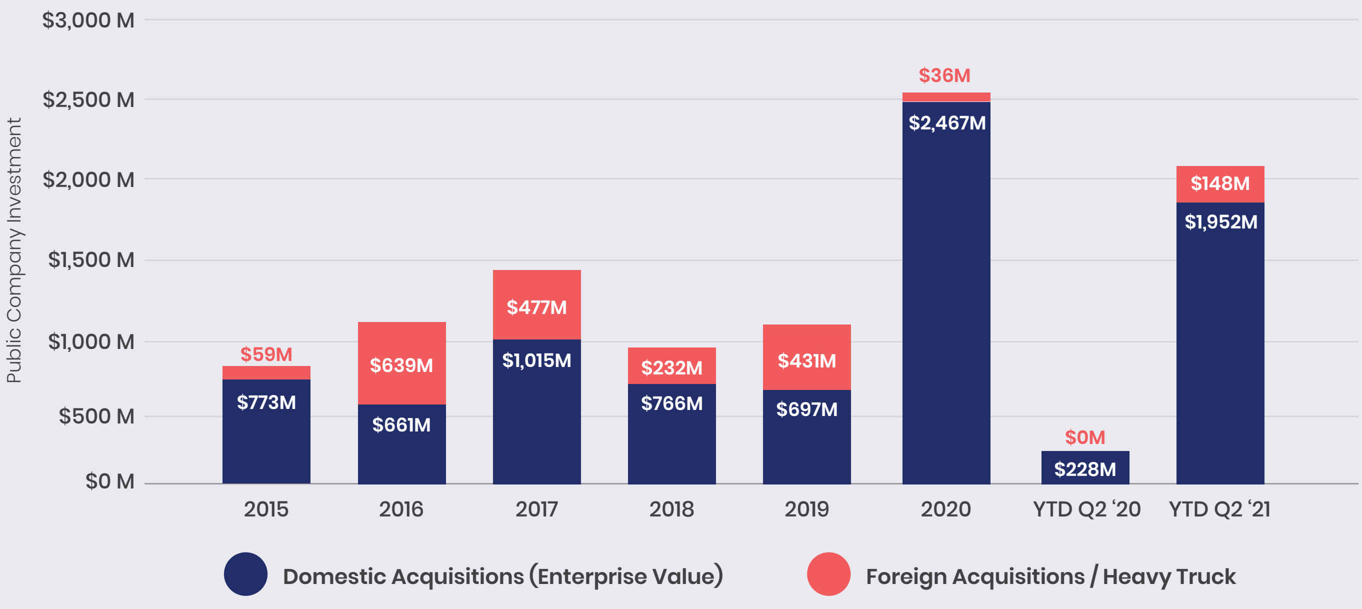


Public Company Acquisition Spending Should Remain At High Levels

The amount of spending by public companies exploded in 2020, reaching approximately $2.5B, which we believe was the most ever in a single year. And yet, it appears we will blow through that number this year as the publics have spent nearly $2.0B in just the first six months of 2021, a 756% increase over the amount they spent in the first six months of 2020. The massive increase in spending is attributable primarily to Lithia. In Q2 alone, Lithia spent $1.4B acquiring dealerships. We expect Lithia to continue its aggressive pace as it executes its plan to grow to $50B in revenue by the end of 2025.

While Lithia has been by far the most active buyer, the other publicly traded companies have also increased their rate of acquisitions. Group 1 acquired two Toyota dealerships that Haig Partners represented in Q1. In Q2, Penske and Sonic closed on acquisitions and AutoNation announced a sizeable deal. In addition to acquiring new car franchises, AutoNation, Penske and Sonic are also investing in used car dealerships and Penske continues to invest in its heavy truck dealership group. As a result of these other uses of capital, we expect Lithia to continue to be the leading acquirer of dealerships for some time.

PUBLIC COMPANY ACQUISITION SPENDING



Source: SEC filings

Buy-Sell Outlook For 2021

We expect buy-sell activity to remain elevated for the remainder of 2021. There are many dealers looking to acquire dealerships even at today's healthy prices and lenders are bullish. Buyers are open to more franchises than in the past since almost all of them are making good money. Importantly, demand is nationwide as we have seen strong offers in all regions of the country. We stated in our last report that it's possible we could be entering into a more rapid phase of consolidation in our industry. Current dealership valuations are high, and some dealers are increasingly concerned that they may not possess the human resources, technology, and scale needed to compete with large groups in the future. These worries could lead to an increase in the supply of dealerships for sale, a development that would be welcomed by the many buyers in the market today.

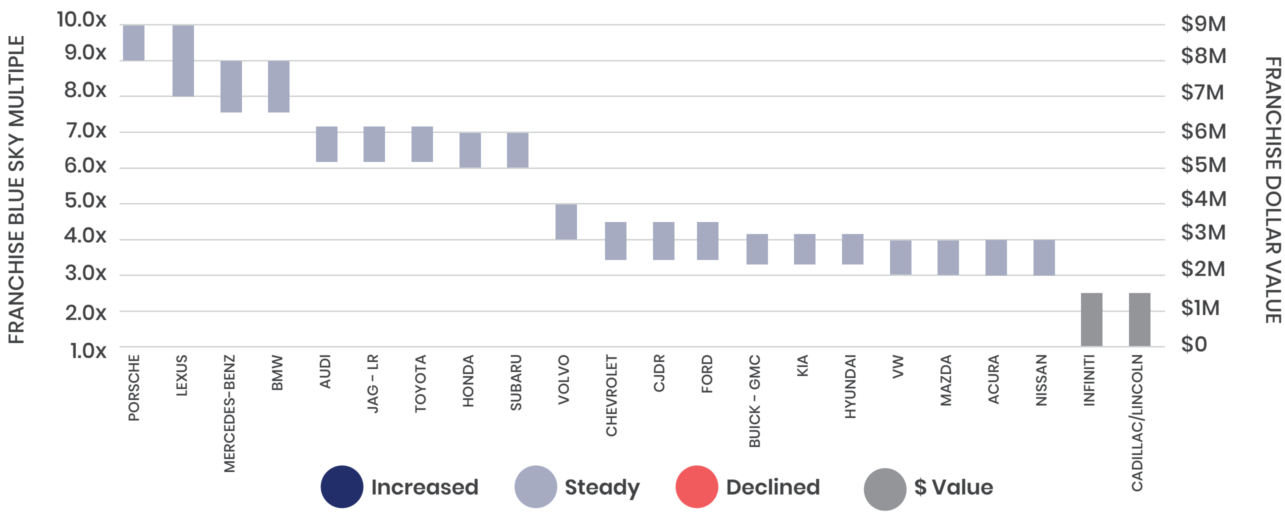
Blue Sky Values At All-Time High Levels

We carefully monitor the buy-sell market to assess the desirability of various auto franchises. We analyze offers for the transactions that we are involved in and regularly speak with leading buyers and many attorneys and CPAs who are involved in other acquisitions. When COVID arrived, it quickly had an impact. Some buyers pulled their offers, while others demanded price concessions. But as dealership profits rebounded, so did franchise values. While every transaction varies, we now estimate that most dealerships are about 52% more valuable today than they were at the end of 2019 in terms of blue sky values, and 26% higher than they were at the end of 2020, largely due to higher profitability levels. See the Buy-Sell Trends section for our analysis of dealership values.

The table below sets forth our expectation of what a buyer would pay for blue sky for various franchises, based upon an average of adjusted pre-tax profits from 2018, 2019 and the last twelve months ended 6/30/2021, excluding any profits from PPP forgiveness. These multiples are unchanged from our Q1 2021 Haig Report as we have seen no material changes in buyers' attitudes towards various brands.

Note: We are seeing particularly high interest in states like Florida and Texas where the business climate is favorable and there is no state income tax. Blue sky multiples will likely be higher than in the chart below. Also, in very large transactions that may be deemed strategic to the buyer, blue sky values can be higher than what we set forth below.

HAIG PARTNERS NATIONAL AVERAGE BLUE SKY MULTIPLES



The chart above is a guide for many dealerships. Still, the amount buyers will pay for dealerships varies depending upon many factors and can be higher or lower than the ranges we indicate. The table below provides a list of some qualifying factors that could impact the value paid for a dealership.

FACTORS IMPACTING MULTIPLES

Increases Multiple

- Underperforming
- Metro Markets
- Rapid Growth Markets
- Low Tax Markets
- Low Real Estate Cost
- Geography Well Suited to Franchise

Decreases Multiple

- Not Marketed Properly
- Facility Issues
- Rural Areas
- Slow/Negative Growth Markets
- High Tax Markets
- Add-Point Risk
- High Real Estate Cost
- Over-Dealered Markets

TRENDS IMPACTING AUTO RETAIL

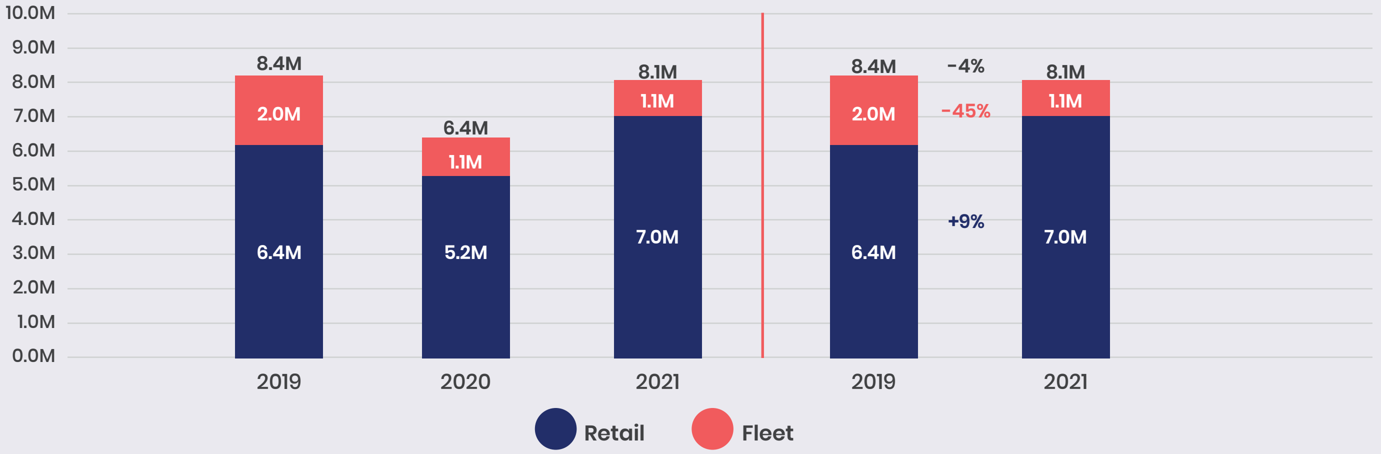
New Unit Sales Are Now Being Constrained By A Lack Of Supply

After a very strong spring, sales began to slow as dealers have sold through nearly all their inventory. The shortage of microchips has led to production shortfalls and shutdowns at many OEMs. SAAR peaked in April at 18.8M units, the strongest April sales in the history of the US auto industry and the highest monthly sales rate since July 2005, according to NADA. But then SAAR dropped down to 15.4M in June, and 14.8M in July. Combined retail and fleet sales for YTD June 2021 is -4% below YTD June 2019. This reflects a decrease of -45% for fleet slightly offset by an increase in sales of +9% for retail. Fleet sales could remain depressed for some time as OEMs focus on filling more profitable retail orders first. Overall demand is likely going to exceed supply for some time.

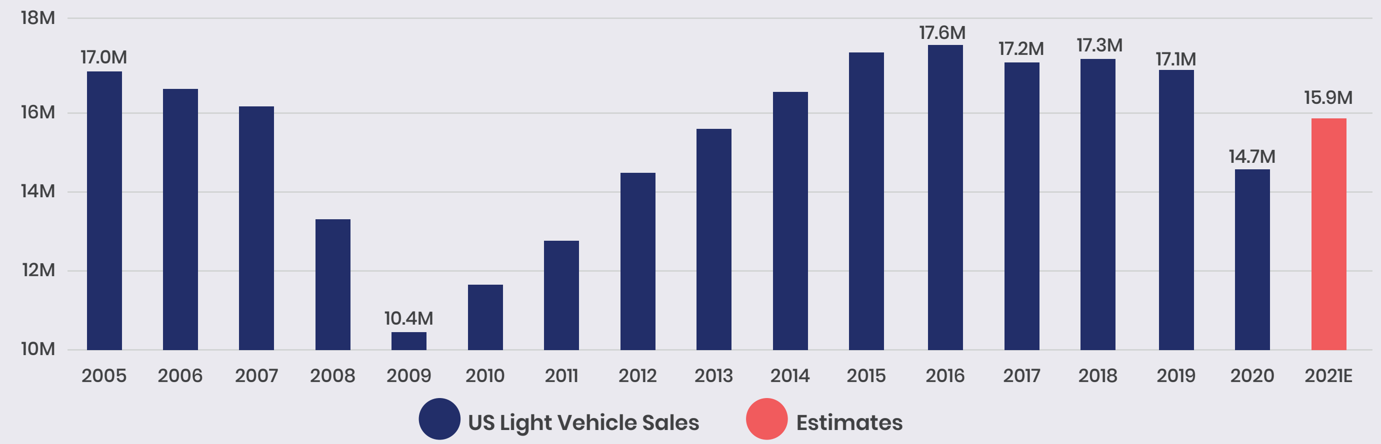
Analysts predict the already reduced supply of new vehicles could drop further in Q3 due to a lack of critical components. OEMs are shifting production from lower profit vehicles to allocate chips to higher profit vehicles, like full-size trucks and SUVs. The OEMs are trying to adapt by de-contenting vehicles in order to push out more units, such as removing blind-spot monitoring systems. Audi is shipping vehicles with just one key. A review of the new unit sales forecasts from several leading analysts indicates new unit sales of 15.9M in 2021, about 7% less than what the industry sold in 2019. But we wonder if these projections are optimistic. One megadealer we spoke with says he forecasts he will only have an eight-day supply at the end of August. He was recently in contact with many of the leading OEMs who all told him the lack of chips was getting more severe, not less. It appears we will be in an era of reduced sales, elevated margins and lower expenses for at least the next six months.

CHANGE IN SALES

2020 vs. 2021 June YTD



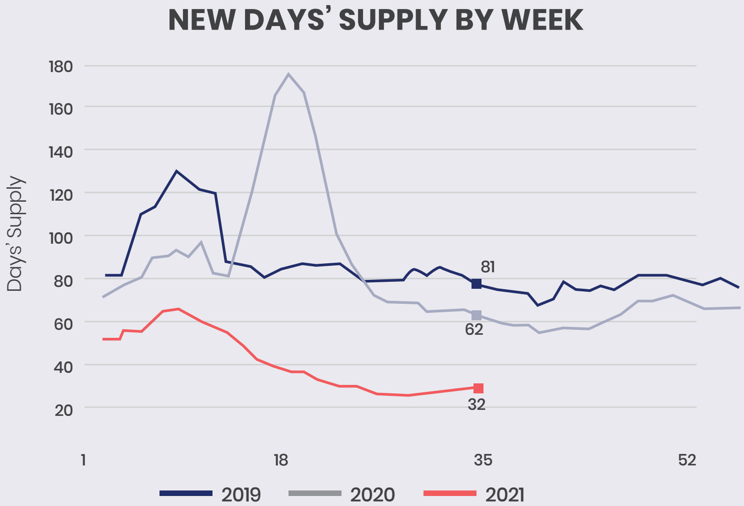
US LIGHT VEHICLE SALES



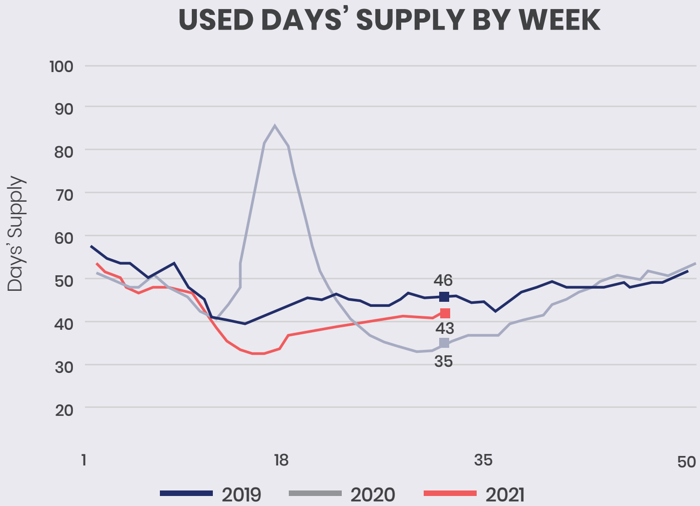
Source: IHS, Wards Auto, TrueCar, COX Automotive, NADA, J.D. Power

The Supply Of Vehicles Is Far Lower Than Demand, So The Prices Are Far Higher

The combination of production shortfalls at the same time as an explosion of demand is creating significant inventory shortages at dealers nationwide. Inventory levels have dropped about 68% from 2019 (pre-Pandemic levels). Dealers of some franchises, particularly the domestic brands, tell us their incoming stock is pre-sold and their lots are mostly empty. As shown on the charts below provided by Jonathan Smoke, Chief Economist at Cox Automotive, the Days' Supply for new vehicles in August dropped to 32 days compared to 81 in 2019, the last pre-Pandemic year. Surprisingly, the days' supply for used vehicles climbed from the mid-30s in April to 43 in August a 23% increase above the same period last year. We don't know whether this is due to a drop in demand or that dealers are doing a better job sourcing used vehicles to offset the decline in new vehicle supply. In 2019, the days' supply for used vehicles was in the mid-40s. Cox also reported that new vehicle incentive spending as a percentage of the average transaction price by the OEMs fell to a decade low of 7.4% in May. These factors led to a record high for average listing price for new vehicles of $41,729 in August.



Source: Cox Automotive



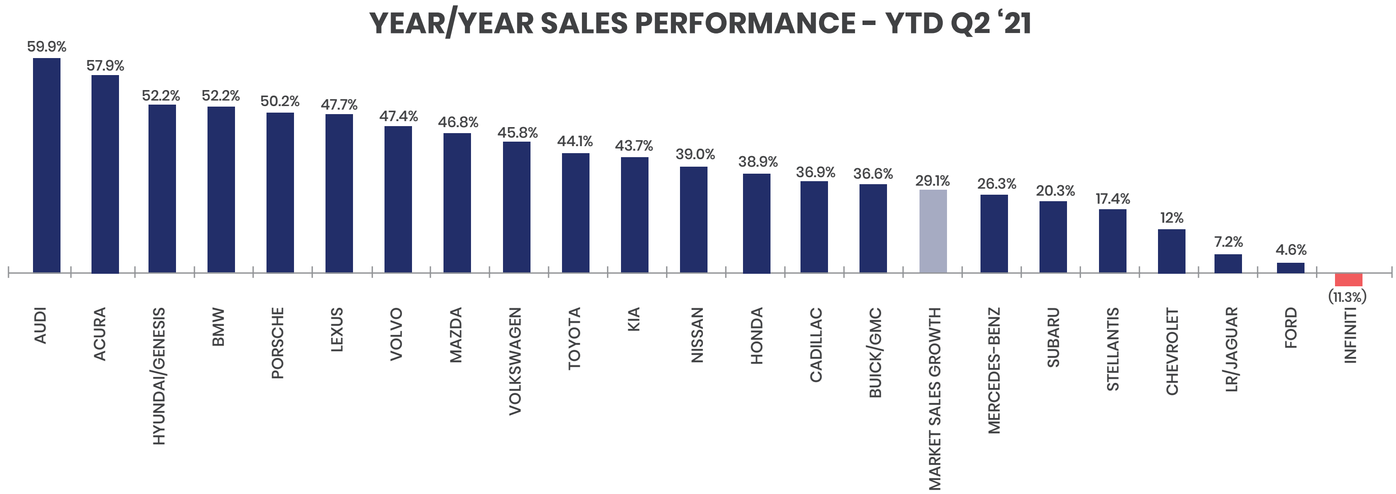
Source: Cox Automotive

As a result of the strong demand and lack of supply, pricing on new and used vehicles has surged. JD Power stated, "The average new-vehicle retail transaction price in July is expected to reach a record $41,044. The previous high for any month, $39,943, was set in June 2021." We jumped over $1,000 in price in just one month! Used vehicle prices increased at a much faster rate this year. The Manheim Index of used vehicles sold at wholesale skyrocketed in the first couple months of 2021, however, June saw a 1.3% decrease from May. This may indicate that we have hit the peak for used/wholesale prices, but with continuing production shortages, prices may continue to be volatile.

In terms of the level of new vehicle supply going forward, several OEMs have discussed they prefer lower levels of inventory on dealers' lots. Ford CEO Jim Farley said they wanted to encourage customers to pre-order vehicles via dealers, setting a target of 20%-25% of sales, compared to almost none before the Pandemic. Mr. Farley said the result could be higher margins for Ford and its dealers, and lower costs since advertising, incentives and floorplan expense could all be lower than in the past. Some Ford dealers are skeptical, however. They point out that customers have been trained for decades that they can pick from a huge inventory and drive away in a few hours, versus waiting weeks or months for a vehicle to be produced and shipped to them.

Changes In Sales For Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in the first six months of 2021 compared to the same period in 2020. All franchises besides Infiniti and Lincoln saw improving sales. Note, this data reflects changes in total sales per brand, including fleet sales. Since the OEMs have been reducing their sales to fleets to feed their retailers, the sales increase at dealerships is even higher. It's interesting to see that the domestic OEMs have performed worse than the international brands. We are told they cut their orders for microchips in the early months of the Pandemic and were unable to find new sources when demand returned. While these sales increases look impressive, we are concerned that the second half of the year will be much more difficult for dealers since all OEMs are now signaling the lack of microchips is going to reduce their production going forward.



Source: Automotive News

GDP Is Recovering

GDP grew at an annual rate of 6.5% in Q2 2021. This growth puts the level of economic activity in the US above the pre-Pandemic level. This is the fourth straight quarter of GDP growth. Despite the impressive growth, much of it has been driven by stimulus spending and many experts are now concerned that GDP growth will slow for the remainder of the year due to the Delta variant of COVID which is causing some consumers and corporations to become more cautious. Retail sales fell 1.1% in July.

Unemployment Has Dropped But Remains Elevated

The unemployment rate has fallen significantly from 11.1% in June 2020 to 5.9% in June 2021, according to the US Bureau of Labor and Statistics. There are millions of job postings, but we still have nearly four million fewer employed people than before the Pandemic. Some say the effective unemployment rate is 0.0%: anybody who wants a job can get a job. We are hoping now that the vaccines have arrived people will feel more comfortable returning to the workplace and further boosting our economy. But again, the Delta variant of COVID may slow the return of unemployed workers into our economy.

Inflation Has Returned

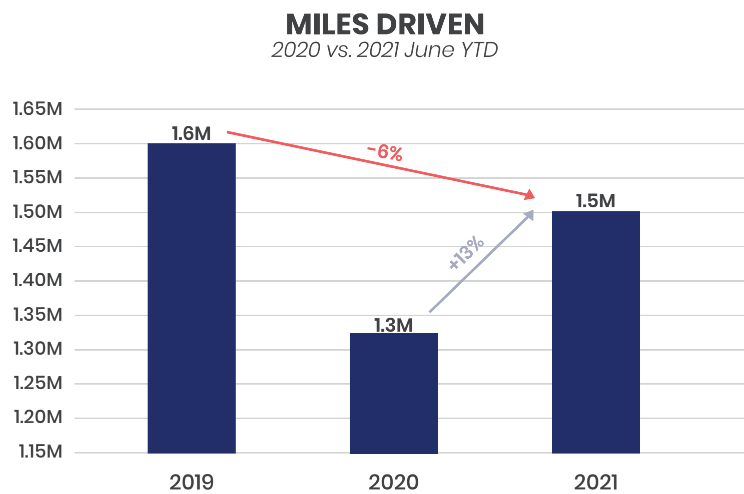
The 12-month inflation rate hit 5.4% in June 2021. This was a 0.9% increase from May, and the largest 12-month increase since August 2008 during the Great Recession. Prices of used vehicles continue to rise sharply, increasing 10.5% in June and accounted for more than one-third of the seasonally adjusted increase. High inflation can be a drag on our industry, since it pushes up the cost of vehicles and can lead to higher interest rates, both of which reduce demand for vehicles and increase the cost of stocking them. The new budget and infrastructure bills in congress may cause inflation to remain elevated.

Fuel Prices On The Rise

The national average price per gallon of gas was $3.15 as of July 19th, 2021, 44% above the level at the same time last year and 10.6% higher than Q1 2021. OPEC and its non-OPEC allies reached a deal in July to increase production which could help bring down prices. Higher fuel prices can reduce demand for vehicles since consumers have less money to spend on monthly payments. It's likely higher fuel prices will increase demand for electric vehicles.

The Number Of Miles Driven Has Almost Recovered

Travel plummeted during the Pandemic as many people stayed home for work or school. The number of miles driven on an annual basis is a crucial driver for our industry as it heavily influences the replacement rate for vehicles and spending on fixed operations. The number of miles driven in June 2021 YTD was 6% lower than the June YTD 2019 levels, which implies that fixed operations still have room for growth.



Interest Rates Remain Near Zero – For Now...

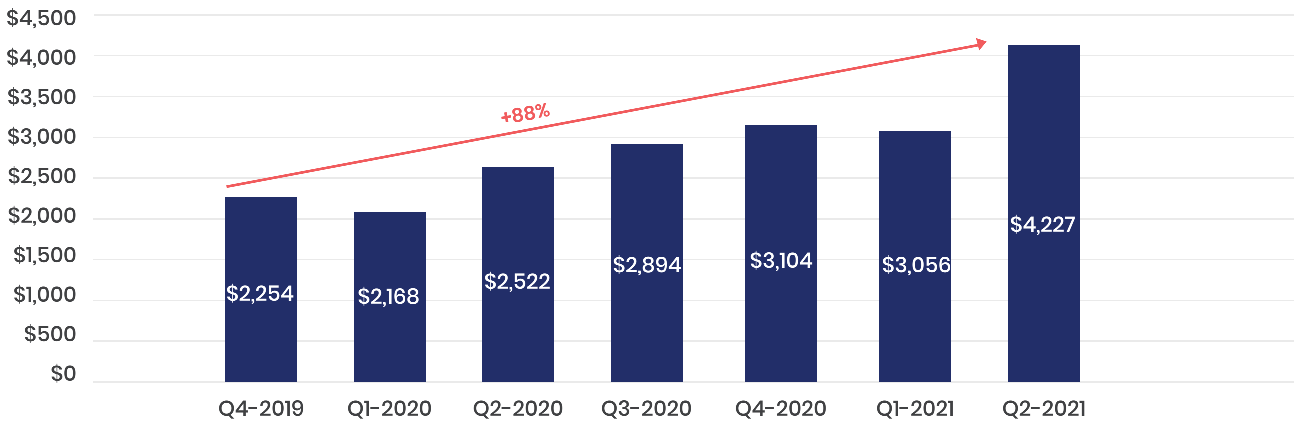
The Federal discount rate has been hovering at just 0.25% for the past year. Low interest rates help to stimulate auto purchases and leases since they reduce the monthly payments for consumers. Low rates also boost dealer profits by reducing floorplan expenses and mortgage payments. But if inflation remains well above the target rate of 2% for another few months, many economists predict the Federal Reserve will need to react by raising rates. This could suppress profits for dealers by raising floorplan expenses and reducing demand for vehicles by increasing their monthly payments.

New Vehicle Grosses Rise Even Further

Thanks to strong demand and limited supply, gross profits per new vehicle *jumped an astonishing $1,317 in Q2 2021* compared to Q2 2020 for the public retailers. Gross profits on new vehicles are about 88% higher now than pre-COVID. How long can this continue? Leading dealers tell us the OEMs don't know when they will be able to source enough components to resume full production. Based on recent production forecasts, it now appears likely that these high margins will be with us well into 2022 and possibly beyond.

Another hope that we have is that the OEMs will realize that their profits have also been far higher during COVID, where they produced fewer units but made more profit since they spent far less money advertising and incentivizing their products. We wrote a guest editorial that was published in Automotive News on December 14, 2020, entitled, "Less Is More." But some dealers are skeptical that OEMs will be able to maintain self-control. They believe the OEMs will resort to fighting over market share and so will return to their ways of overproducing and then resorting to costly methods to clear out inventory.

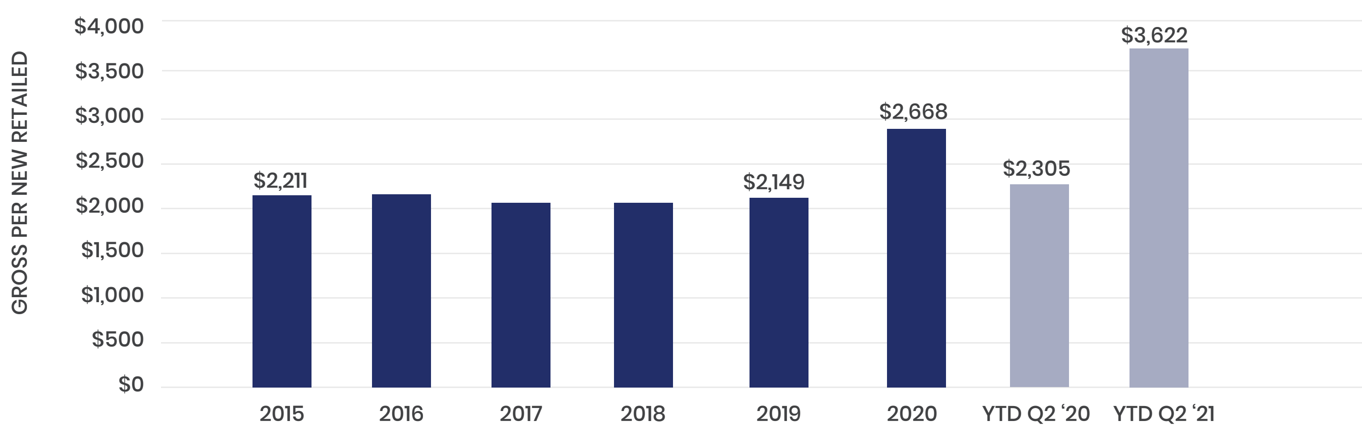
NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA BY QUARTER



Source: SEC Filings

NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same-Store Performance - In Current Dollars)



Source: SEC filings

Used Vehicle Grosses Are Also Elevated

A spike in demand for used vehicles has provided dealers with significant pricing power in the market today. The public retailers reported a $625 increase in gross profit per used unit in Q2 2021 compared to Q2 2020. Gross profit per used unit is 47% higher than in 2019, the last year before the Pandemic. Dealers tell us they are doing everything possible to increase their used vehicle inventories, including more aggressive offers to consumers, accepting all lease buy-out opportunities from the OEMs, and bidding aggressively at auctions. It's likely that these elevated profits will remain until new vehicle production rebounds to meet demand.

USED GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same-Store Performance - In Current Dollars)

Source: SEC filings

Finance & Insurance Is Rising Along With Higher Transaction Values

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 $1,878 per vehicle retailed in F&I gross profit in YTD Q2 2021, up an impressive $165 or 10% from YTD Q2 2020. We believe privately owned dealerships are also doing a better job with F&I. With fewer units to sell, dealers can spend more time trying to maximize profits from this department while still pleasing customers.

PUBLIC COMPANY F&I PER UNIT RETAILED

(Weighted Average Same-Store Performance - In Current Dollars)

Source: SEC filings

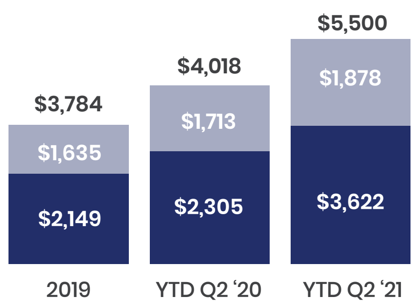
Combined Front And Back Gross Profits Per Vehicle Retailed Hit All-Time Highs

The tables below track total profits per vehicle retailed data back to 2019. Thanks to gains in front-end and back-end gross profits, publicly traded dealer groups are enjoying record high profits for each vehicle they sold in Q2 2021.

PUBLIC COMPANY VEHICLE GROSS + F&I PVR

(Weighted Average Same-Store Performance - In Current Dollars)

NEW Vehicle Gross

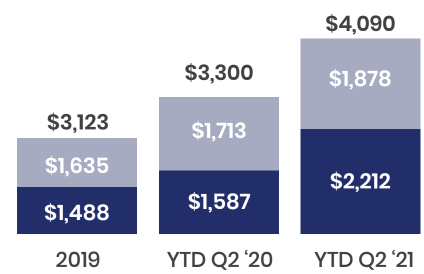


2019 - YTD Q2 2021

NEW	F&I	TOTAL
+$1,473	+$243	+$1,716
+68.5%	+14.9%	+45.3%

USED	F&I	TOTAL
+$724	+$243	+$967
+48.7%	+14.9%	+31.0%

USED Vehicle Gross



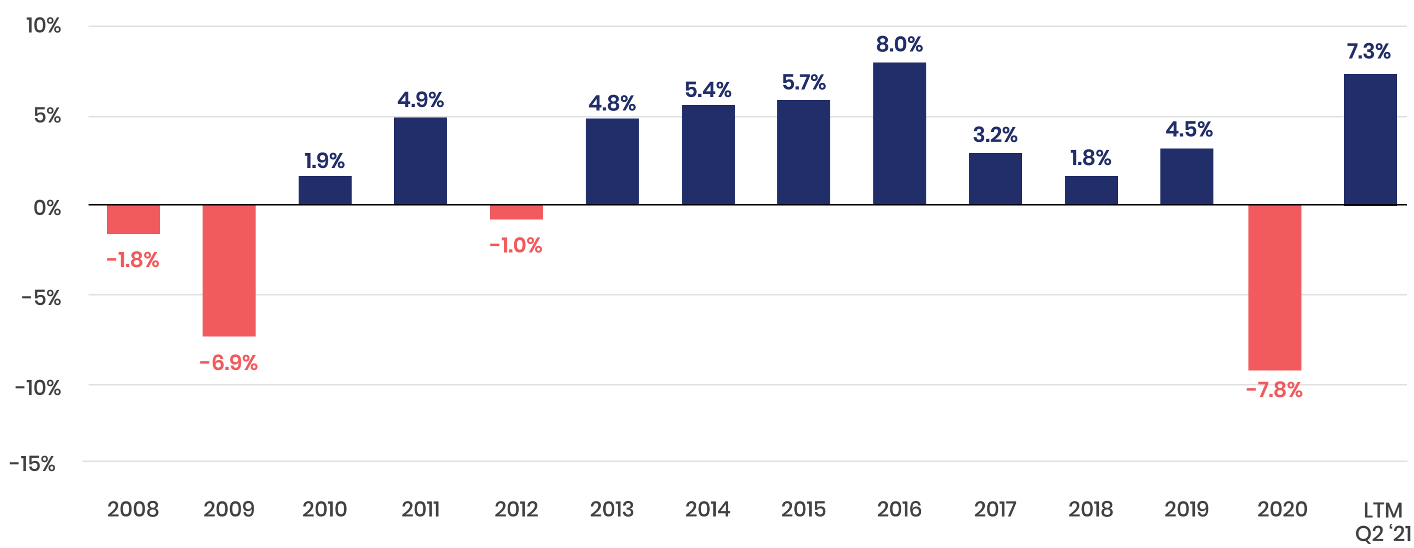
Note: Front-end gross profit includes manufacturer incentives and other income.

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

Fixed Operations Continue To Rebound

Fixed operations took a big hit during COVID. People were driving less so dealers saw decreased demand for maintenance, repairs, parts and collision work. According to NADA, fixed operations fell 7.8% for the average dealer in 2020. In Q2 we saw fixed operations jump 15.5% over Q2 2020. During the twelve-month period ended Q2 2021 fixed operations increased 7.3% from full year 2020. Fixed operations are now just 1% below 2019 levels. As the economy continues to expand, fixed operations are poised to continue to grow.

FIXED OPERATIONS GROWTH



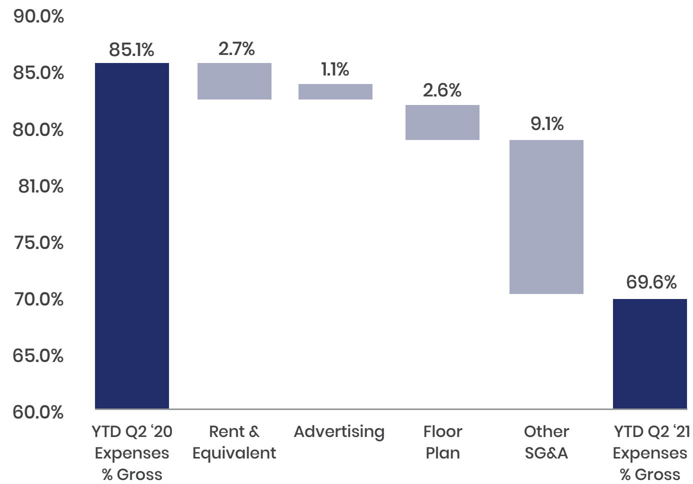
Source: NADA

Dealership Expenses Remain Low

When the Pandemic hit, many dealers reacted by paring their expenses as much as possible. They discovered they could serve their customers with fewer employees, fewer vendors, less advertising and lower inventory levels. As demand rebounded dealers have been careful to watch their costs. Gross profits have increased 42% from YTD Q2 2020 to YTD Q2 2021, but costs increased just 16.1%. As a result, total expenses have dropped from 85.1% of gross profit in YTD Q2 2020 to just 69.6% of gross profit in YTD Q2 2021. While it may be difficult to keep costs low as inflation creeps in and wages increase, we believe dealers will be able to enjoy a lower cost base for some time to come.

CHANGE IN EXPENSES

YTD Q2 '20 / YTD Q2 '21

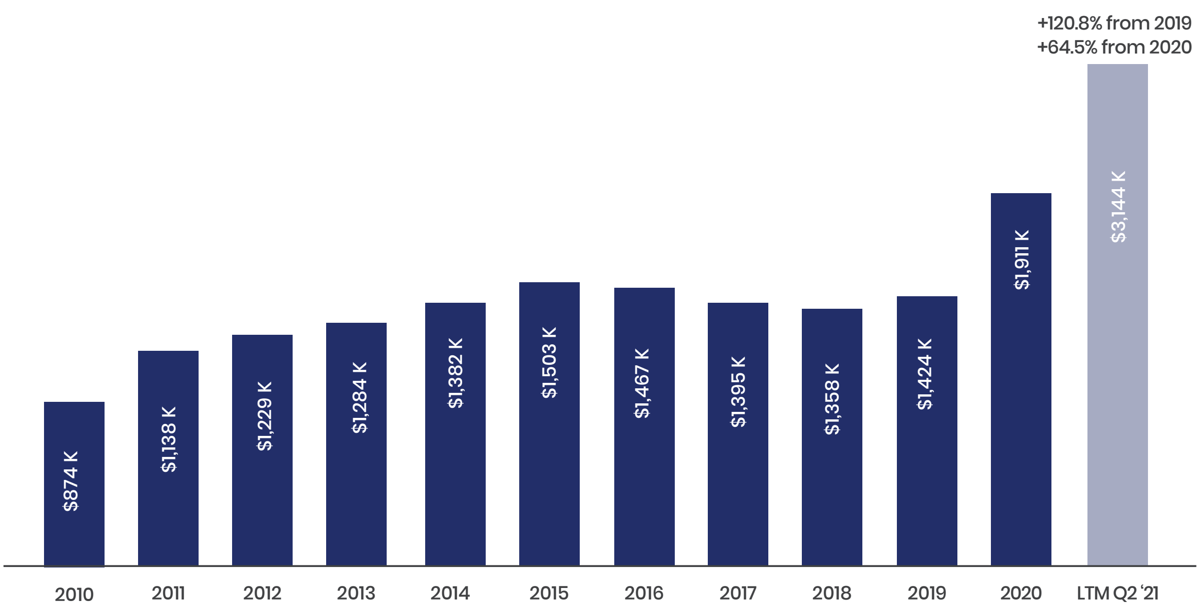


Source: NADA & Haig Partners

Dealership Profits Explode

The net outcome of the trends listed above is that average profits at privately-owned dealerships exploded over the past year to record high levels. Average profit per privately owned dealership reached an estimated $3.1M over the past twelve months ended June 30, 2021, an increase of 64.5% compared to the full year 2020. This unprecedented jump in profits excludes estimated proceeds from PPP loans that many dealers have begun to take into income. To eliminate this non-recurring income, we identified a spike of an estimated $200k in 2020 and another $170K from the YTD 2021 results for a total of $370K eliminated from earnings over the last twelve months. Average dealership profits are up 120.8% from 2019 to LTM Q2 2021. Dealers use terms like, "silly," "unreal," and "simply absurd" to describe what they are seeing on their monthly statements. A dealer last quarter told us, "We don't count the money anymore, we just weigh it." We wonder if he can even lift it this quarter. The table below shows the annual earnings at privately owned dealerships since 2010.

NADA AVERAGE PRIVATE DEALERSHIP EARNINGS



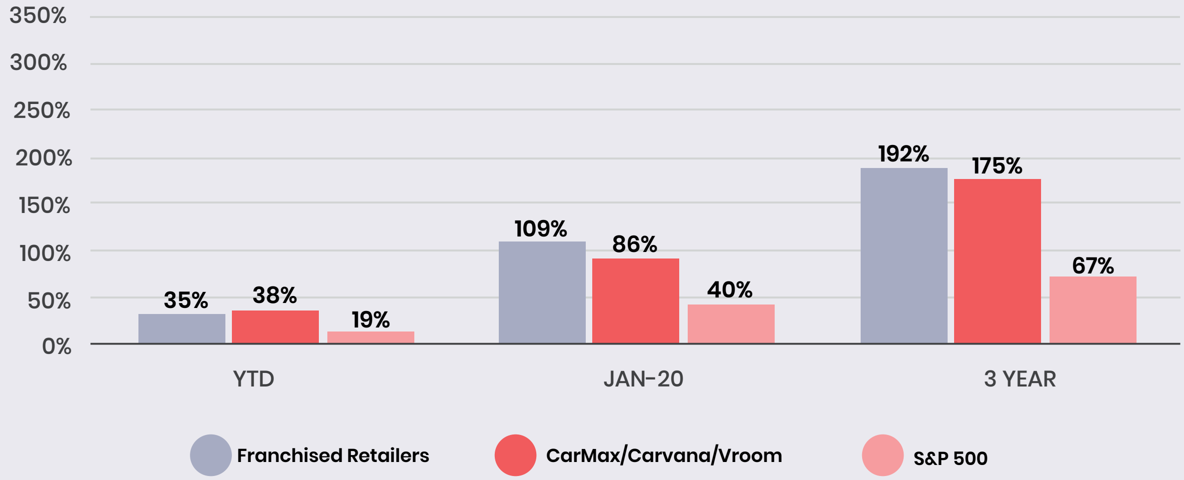
Source: NADA & Haig Partners

Public Dealership Values Have Soared Since The Pandemic Hit

The share prices of the six public franchised retailers have increased sharply since the Pandemic began and are far outperforming the S&P 500 Index. Investors are attracted to the auto retail business model that has proven to be resilient to almost any economic shock. They see that the public companies are generating large amounts of profit even with lower volumes thanks to higher gross profits per vehicle, reduced personnel expenses, a bigger focus on used vehicle sales, low floor plan rates and the possibility that technology will help these larger groups take share from smaller dealers. The used retailers consist of CarMax, Carvana and Vroom, and there is now talk that Sonic might spin off its Echo Park used vehicle business to create a fourth publicly traded used vehicle retailer. (Note: we are excluding CarLotz from this group due to its small size.) The market value of Carvana's stock is over $60B at the time of this writing – more than all the franchised retailers combined. It generated its first profitable quarter in Q2 2021, surprising many analysts, and the company continues to grow very rapidly. Lithia's market value of $10.4B has also increased significantly over the past 24 months since it announced its ambitious expansion plans. Investors have confidence that the future profits of these larger auto retailers will remain strong for the foreseeable future. These high valuations imply that values for privately owned dealerships will also remain healthy.

CUMULATIVE STOCK PRICE RETURNS

Public Franchise Retailers vs. S&P 500



Source: Yahoo! Finance; Data through 8/13/2021

Real Estate Values Are Stable

From 2010-2019 we saw dealership real estate values steadily rise. We are happy to report that recent buyer appraisals have come in at or above pre-Pandemic levels. Appraisers appear to have realized that dealerships are performing well, they are able to support healthy rent factors, and that buyers are eager to purchase them.

BUY-SELL TRENDS

Transaction Volume Is Climbing

Prior to the Pandemic, we saw about 25-30 dealerships being sold on an average month. In the first six months of 2021, we saw an average of more than 36 dealerships trade hands per month. Almost 70% of the dealerships were acquired by private buyers even though Lithia gets most of the headlines.

Monthly Dealership Sales in YTD Q2 2021		
	Private Buy/Sell	Public Buy/Sell
January	23	0
February	28	2 Acquisitions
March	30	16 Acquisitions
April	34	35 Acquisitions
May	2	0
June	34	15 Acquisitions
Total	**151**	**68**

Source: Automotive News, Banks Report & Haig Partners

Record Spending By The Public Retailers

The amount of money spent by the publicly traded auto retailers on US auto dealerships exploded in the second half of 2020 to reach the highest level ever, according to our records. This trend continued into the first half of 2021 as the public retailers spent nearly $2B on acquisitions of auto dealerships, thanks mostly to Lithia. If the current pace continues, the publicly traded retailers could spend $3B on acquisitions, which would be about 20% higher than 2020, creating another record year of investments in US auto dealerships.

Potential Impact Of The 2021 And Beyond Stimulus Programs

Congress in Q1 2021 passed a $1.9T spending bill providing significant sums to state and local governments, $1,400 checks to many millions of households, hundreds of billions to shore up underfunded pension plans, vaccine distribution, and payments to companies in certain industries, etc. Due to this bill and other causes, US consumers are sitting on more than $2 trillion of wealth above what they had prior to the Pandemic. Congress is now debating a $1T infrastructure bill and a $3.5T budget that would put substantially more cash in the hands of consumers, businesses and governments. We believe a significant amount of this money can end up in the hands of dealers as buyers of all varieties will have more cash to purchase vehicles. Strong sales and profits at dealerships will likely support the current high level of demand for dealerships as buyers will be able to project strong profits for the next few years. The long-term impact is less clear.

The Current Perspectives Of Buyers And Sellers

Each month we are in contact with dozens of dealership buyers and potential sellers. Here are their perspectives on current market conditions.

The buyer's perspective:

- They are thrilled with their dealerships' performance.
- They have a lot of cash on their balance sheets and want to invest it.
- They are open to most brands.
- They are aware they will need to pay more for dealerships than perhaps at any other time.
- They are particularly interested in low-tax states such as Florida and Texas.
- They are having difficulty valuing dealerships due to the surge in earnings that is likely temporary.

The seller's perspective:

- Their high profits can sometimes create indifference between retaining dealerships and selling them. "If I get a great price, I want to sell. Otherwise, I'm happy to keep making all this money."
- Some are increasingly concerned about their ability to compete with larger groups who have greater access to the talent, breadth of inventory, capital, and technology.
- They are interested in getting their dealerships sold in 2021, hoping to avoid a tax increase that might become effective in 2022.

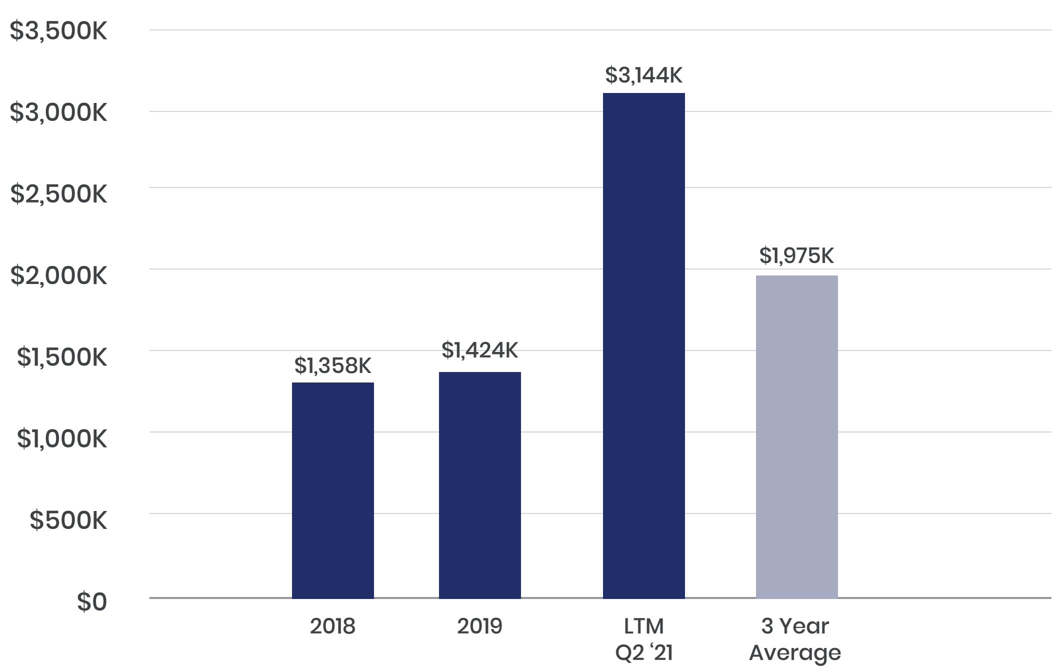
Private Dealership Values Are At All-Time High Levels

Many factors drive the blue sky value of dealerships. A buyer's expectations of future profits are important, as are interest rates and the amount of capital a buyer has and how much debt is available.

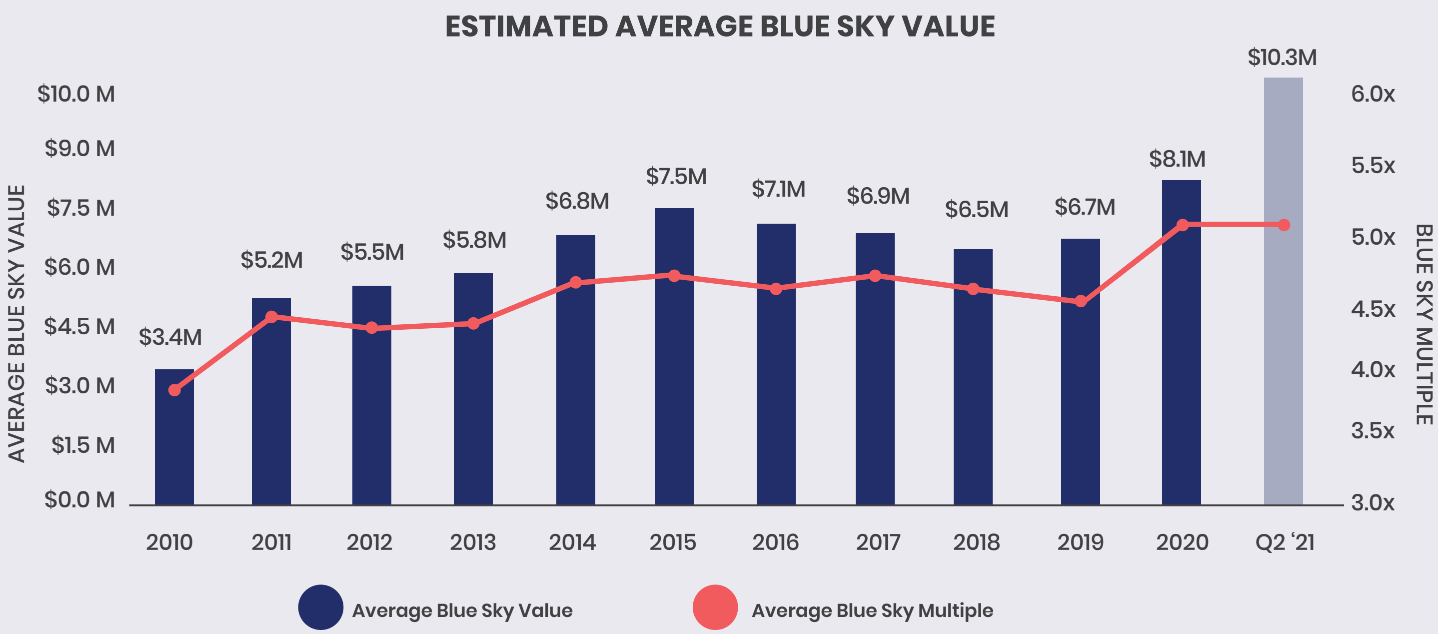
Let's start first with a buyer's expectations of future profits. For the past several years we have enjoyed annual sales of over 17M new units and average dealership profits between $1.4M and $1.5M - remarkably consistent. As a result, goodwill values were also very steady during this period, ranging from $6.5M-$7.5M from 2014-2019. The Pandemic, and now the microchip shortage, has significantly altered valuations for dealerships. Profits have more than doubled in the past year. Dealers know these record profits won't last forever, but they are optimistic they can still generate profits in the future that are higher than they were in 2019 and 2020. In addition to higher profits, interest rates are lower today than in previous years. Lower rates increase cash flows for buyers and therefore the returns on investment from acquisitions. Plus, dealers have plenty of cash on hand and less debt thanks to high profits and low taxes. Finally, lenders have told us that they are also bullish about the future and so are supportive of acquisitions. When dealers can finance a large portion of an acquisition with debt then they can pay more for acquisitions.

Some buyers ignore current profits and just focus on estimated future profits. However, we believe many buyers continue to use an average of the adjusted pre-tax profit from previous years multiplied by a franchise-specific goodwill multiple in determining how much they will pay for goodwill. Other buyers ignore the past and just focus on the future. It is our belief that both types of buyers expect that profits are likely to remain at or near current levels for the next few months, and will remain elevated about historical levels for at least another year, possibly two. As a result of these factors, we estimate that buyers are willing to pay $10.3M in blue sky for a typical dealership, up an estimated 52% from year-end 2019 and are up 14% from the end of Q1 2021. We have never seen blue sky valuations at this level in our careers. Our formula uses the average of adjusted pre-tax profits from 2018, 2019 and the last twelve months ended June 2021 of $1.98M and an average blue sky multiple of 5.2x.

AVERAGE ADJUSTED PRE-TAX PROFITS FOR 2018-Q2 '21



Source: NADA & Haig Partners



The Outlook For Buy-Sells For The Remainder Of 2021

Buy-sell activity is continuing at a high rate and we expect it to remain robust for the remainder of 2021. Profits are likely to remain high, debt will remain cheap, and there are many groups looking to grow. For those groups with talent, technology, scale and capital we believe they will enjoy solid returns on their acquisitions. All of the public companies have announced plans to invest significant sums in acquisitions and private buyers are equally active. We believe there is a good chance we will see two or more very large transactions (greater than $1B) as well as dozens of other smaller buy-sells. There is a good chance 2021 will represent a high watermark in terms of dollars spent on dealership acquisitions.

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 525+ 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. COVID-19, the economic shutdown, and the rapid recovery are certainly playing a role in dealership valuations today and we have factored its influence into our estimates.

LUXURY FRANCHISE BLUE SKY MULTIPLES

Porsche

Porsche sales were up 50.2% in the first six months of 2021 compared to the same period 2020. Porsche dealerships continue to bring the highest blue sky multiples other than Ferrari thanks to their scarcity, high profits, and ease of operation. **Same multiple range on average adjusted pre-tax profit: 9.0x-10.0x.**

Lexus

Sales at Lexus were up 47.7% in the first six months of 2021 compared to the same period last year, culminating in the division's second-best quarter ever (best-ever March). Lexus owners remain loyal and are happy with the quality, design, and driving experience offered by their cars. Dealers are pleased with the high, strong used car and fixed operations. We are seeing very strong demand for this franchise. **Same multiple range on average adjusted pre-tax profit: 8.0x-10.0x.**

Mercedes-Benz
Mercedes-Benz sales increased 26.3% in the first six months of 2021 compared to the same period in 2020. We recently advised on the sale of two Mercedes-Benz dealerships and buyers are highly interested in the brand. That said, we have learned that production of many of the high margin 8 cylinder vehicles is being curtailed, perhaps due to emissions issues. Since dealers make high profits on these vehicles, earnings at MB dealerships could suffer until the issues are worked out. **Same multiple range on average adjusted pre-tax profit: 7.5x-9.0x.**

BMW
Sales were up 52.2% in the first six months compared to the same period last year, building on the momentum generated during the second half of 2020. We continue to be impressed with the gross margins on new vehicles and healthy fixed operations at this franchise. **Same multiple range on average adjusted pre-tax profit: 7.5x-9.0x.**

Audi
Audi sales were up 59.9% so far this year compared to the same period in 2020, the best of any major brand we track. The brand achieved its best first quarter ever as the Audi e-tron set record sales, highlighting a growing segment of buyers interested in 'Luxury Electric vehicles. The inventory shortage has done great things for this franchise and dealers are enjoying strong margins to go along with healthy sales. That said, Audi is also struggling to maintain production due to a lack of microchips. We hear they are shipping vehicles with just one key. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Jaguar / Land Rover
JLR saw unit sales increased 7.2% in the first half of 2021 compared to the same period in 2020. Dealers can't keep the new Defender in stock and demand remains keen for it's other products. Land Rover enjoys the highest gross profit per unit of any franchise: comparable to Porsche, and higher than BMW and Mercedes-Benz. Jaguar is a different story. JLR plans on repositioning Jaguar at a higher price point, closer to Porsche or possibly Bentley, and possibly with an all-electric product line. The lower volume, higher gross strategy could be well received by JLR dealers who have long complained about losses from Jaguar. Facility requirements could also be reduced. Dealers tell us their business remains excellent with high margins on new and used vehicles and healthy fixed operations. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Volvo
Volvo continued its ascent as the brand saw a 47.4% increase in sales in the first half of 2021 compared to the same time last year. The entire Volvo model lineup was up year-over-year, led by CUVs which accounted for 83 percent of total sales. Dealers have become more interested in the franchise, but some are concerned about Volvo's plans for Polestar, centralized inventory and a desire to interact directly with consumers. **Same multiple range on average adjusted pre-tax profit: 4.0x-5.0x.**

Acura
Acura's sales increased an impressive 57.9% in the first half of 2021 compared to the same period in 2020. The all-new MDX is a big help. The shortage of inventory is helping dealers to earn healthy margins on their new products. **Same multiple range on average adjusted pre-tax profit: 3.0x-4.0x.**

Infiniti
Infiniti sales fell 11.3% in the first half of 2021 compared to the same period in 2020. The brand continues to struggle and finds itself the worst performer of any brand we track. Infiniti has an aging product lineup and growing competition from other near-luxury brands like Cadillac, Genesis and Lincoln. Most dealers are focused on used cars. Profits per store are likely the lowest for any major franchise. **Same value range: $0-$1,500,000.**

Cadillac
Cadillac sales jumped 36.9% in the first half of 2021 compared to the same period last year. The brand was able to gain a 1.1% market share in the luxury segment. The brand's growth can be attributed to the all-new Cadillac Escalade, which has quickly become its best-selling model. Dealers are excited to have the product but wish they had many, many more to sell. Cadillac, like other OEMs, is de-contenting vehicles in order to produce more of them. Retracting running boards and start-stop mechanisms are out for now. GM is in the process of buying out about 200 dealers, but many of these are small stores in rural areas so there will be few additional sales that make their way to metro dealers. Sales per Cadillac dealership will still be lower than sales at Audi, BMW, Lexus or Mercedes-Benz dealerships. **Same value range: $0-$1,500,000.**

Lincoln
Lincoln sales were down 0.6% in the first half of 2021 compared to the same period in 2020, which is surprising given how well almost every other luxury brand has performed in the past year. Its new SUV/CUV products have been well-reviewed, but like Ford, it has suffered from greater production shortages than other brands so it is not able to capitalize on improved products. The lack of inventory is making it harder for Lincoln to pressure dealers to create exclusive facilities. **Same value range: $0-$1,500,000.**

MID-LINE IMPORT FRANCHISE BLUE SKY MULTIPLES

Toyota

Toyota announced a healthy 44.1% increase in the first half of 2021 compared to the same time last year. Toyota had a stockpile of critical components like microchips so it was able to maintain production during most of 2021, but it just announced that it was cutting production between 40% and 60% in August as its microchip inventory has been depleted. Dealers believe Toyota/ Lexus is the best OEM partner, so dealership values are strong. We have sold five Toyota dealerships so far this year and we enjoyed bidding wars on each transaction. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Honda

Honda sales in YTD Q2 2021 were up 38.9%. It's new products have been well received but, Honda appears to have lost a step against Toyota perhaps due to less aggressive finance offers. Dealers still like the predictable profits and ease of operation. **Same multiple range on average adjusted pre-tax profit: 6.0x-7.0x.**

Subaru

Subaru reported a 20.3% increase in the first half of 2021 compared to the same period in 2020. Subaru was named the 'Most Trusted Brand' for the seventh consecutive year, the 'Best Overall Brand' and the 'Best Performance Brand' for the second consecutive year at the Kelley Blue Book Brand Image Awards. We have been involved in the sale of several Subaru stores recently and demand was high from existing dealers and those hoping to break into the network. **Same multiple range on average adjusted pre-tax profit: 6.0x-7.0x.**

VW

Volkswagen saw sales increase by a whopping 45.8% in the first half of 2021 compared to the same period in 2020, marking the brand's best six months of sales since 2013. SUV sales were up 55%, getting VW closer to the industry average. The inventory shortage helped VW dealers more than most since its margins have long been compressed. VW is highly focused on EVs which is where the industry appears to be headed, but it remains to be seen how this strategy will play out. If consumers choose to buy EVs then VW could take a significant share since it will likely have more models for consumers than most other brands. But if not, VW dealers will have little to sell. **Same multiple range on average adjusted pre-tax profit: 3.0x-4.0x.**

Kia

Kia sales increased 43.7% in the first six months of 2021 compared to the same time period last year. Kia's recovery from the Pandemic has been quicker than most due to good products and adequate inventory. The Telluride is attracting higher-income customers who also spend on maintenance. Kia dealership profits had jumped before the Pandemic and are now even higher. **Same multiple range on average adjusted pre-tax profit: 3.25x-4.25x.**

Hyundai

Hyundai is enjoying an increase in sales of 52.2% in the first six months of 2021 compared to the same period in 2020, more than almost any other brand. Hyundai's recent success is thanks to its new CUVs, including the full-sized Palisade which dealers struggle to keep in stock. Dealers are excited by renewed consumer confidence, stable inventory, and a compelling lineup. As with Kia, Hyundai dealers have benefited by having more supply than some of its competitors. Hyundai dealership profits had jumped before the Pandemic and are now even higher. **Same multiple range on average adjusted pre-tax profit: 3.25x-4.25x.**

Mazda

Mazda continues to be one of the top-performing franchises with an increase of 46.8% in the first half of 2021 compared to the same period last year. Mazda weathered the Pandemic well and continues to excite dealers with the momentum being built from planned new product launches and positive consumer perceptions. A number of our friends with Mazda franchises have constructed new facilities and are very pleased with the margins they are able to obtain: 12% all-in gross profit per new unit. This profit per car puts Mazda in a zone between midline and premium luxury brands. **Same multiple range on average adjusted pre-tax profit: 3.0x-4.0x.**

Nissan

Nissan announced a 39.0% increase in sales in the first half of 2021 compared to the same period in 2020, finally halting its downward spiral. New and upcoming core products should allow Nissan dealers to try to recover further. For the next four years, Nissan says it will put dealer profits and sustainable growth at the forefront of its strategy. We recently sold two Nissan dealerships and the desire from the franchise remains an acquired taste. Some dealers can do really well with this franchise, while others struggle. **Same multiple range on average adjusted pre-tax profit: 3.0x-4.0x.**

DOMESTIC FRANCHISE BLUE SKY MULTIPLES

Ford

Ford reports total vehicle unit sales were up by 4.6% for the first half of 2021 compared to the first half of 2020. Ford might have the dubious distinction as "worst impacted by the Pandemic." In July 2021, the number of Ford vehicles at dealerships or in transit was just 133,000, down 69% from 2020 and 76% from 2019! Dealers also grumble that Ford is shipping mostly versions of its vehicles that contain fewer high-margin options as these also consume more microchips. Further complicating matters are quality issues including the need to replace the hardtop roof of every full-size Bronco produced so far, and they have suspended production to fix it. Still Ford is bringing some exciting new products to market including the Mustang Mach-E, the full-size Bronco family, and an all-electric version of the F-150, all of which have been well received within the market. **Same multiple range on average adjusted pre-tax profit: 3.5x-4.5x.**

Chevrolet

Chevrolet saw sales increase by 12.0% in the YTD Q2 2021 compared to the same period in 2020. Customers are clamoring for the newly redesigned full-size trucks and SUVs but frustrated dealers have little to sell. The lack of chips has led GM to temporarily shut down plants that produce lower profit models so the chips can be used for higher profit models. Dealers tell us almost every incoming unit is pre-sold at full sticker almost as soon as they arrive. Dealers look at their empty lots and wonder how they will make money, but at the end of the month, they are counting record profits. **Same multiple range on average adjusted pre-tax profit: 3.5x-4.5x.**

Stellantis (Chrysler-Jeep-Dodge-RAM-Fiat)

Stellantis US reported a 17.4% increase in sales for the first half of 2021. Stellantis continues to push larger dealers to carve out a separate showroom for Jeep which it plans to take more upscale. The new Jeep Wagoneer and the all-new Wrangler plug-in hybrid are arriving in dealerships now and have been well received. We wonder what impact the new Bronco vehicle family will have on Jeep sales. **Same multiple range on average adjusted pre-tax profit: 3.5x-4.5x.**

Buick-GMC

Buick saw a 36.6% increase in sales in the first half of 2021 as compared to the same period last year thanks to its three CUV lineup. GMC saw a 10.5% increase in sales for the first half of the year. The demand was there for much higher sales, but Buick-GMC dealers are suffering from the same lack of inventory and de-contented vehicles as Chevrolet dealers. The new GMC Hummer EV SUV was supposed to begin production this fall, but we wonder if it will be delayed or curtailed as the vehicle consumes a large number of microchips. GMC may opt to spread these chips across a larger number of Sierra trucks, Yukons and Denalis. **Same multiple range on average adjusted pre-tax profit: 3.25x-4.25x.**

KEY TAKEAWAYS

As we wrote at the outset of this report, it's an odd period in time when an empty lot means a full wallet. We're not sure what the rest of the year will bring, but we do expect profits to be significantly above pre-Pandemic levels from now through 2022. There is just too much pent-up demand for us to snap back in any meaningful way. And, as we stated earlier, even when production returns to more normal levels, we believe auto dealership profits will settle at a level above pre-Pandemic levels. There are certainly risks for dealers, such as renewed shutdowns due to COVID, electrification and changes to state franchise laws, but if our hunch is correct, the auto retail business will thrive for many years to come.

The high profits and promising outlook for the future are encouraging dealer groups to buy more dealerships. As groups grow in size, they also grow in capabilities. Larger groups have more choices for customers, greater ability to market to them, and so are more likely to gain customers and retain them for their next lease or purchase. Larger dealers also have a greater ability to leverage their scale to reduce costs, which gives them more profit to reinvest and buy more dealerships, and so the cycle of growth can be perpetuated. While a dealer that owns one store representing a good brand can continue to thrive in a single-point market, we believe smaller dealers will face increasing competition from larger groups in more densely populated markets. Even some larger groups are deciding to exit, however. The families that own these groups see the values available in the market today as a once-in-a-lifetime opportunity to cash out at a top price.

Given the success that dealers are having today, we expect the buy-sell market will remain highly active for the rest of 2021 and well into 2022, barring a big jump in capital gains taxes. And we believe that healthy demand means that dealership values will remain elevated. We estimate the blue sky value of the average dealership today has reached $10.3M, an increase of 52% from year-end 2019. And buyers are willing to pay these higher prices due to their expectations that profits will remain at record levels for the rest of the year, well into 2022 and possibly beyond. In short, it's a great time to be a buyer or a seller.

UPCOMING EVENTS

September 9, 2021 | Needham, MA
O'Connor & Drew Dealer Symposium
Additional information at www.ocd.com

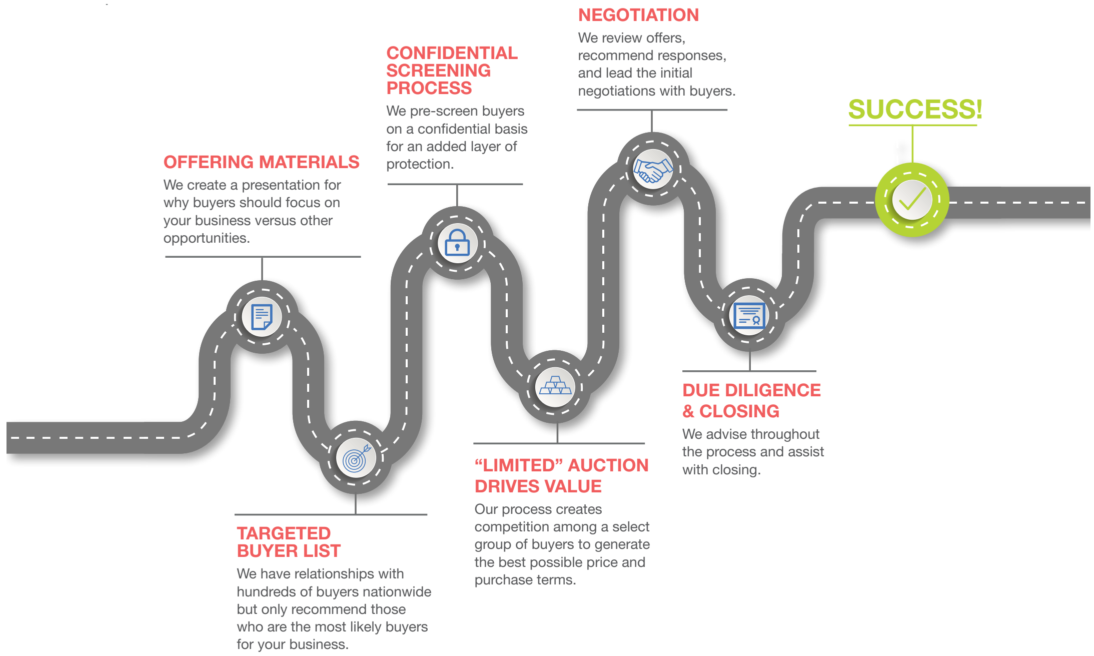
October 24-26, 2021 | Chicago, IL
NADC Fall Conference
Additional information at www.dealercounsel.com

October 25-26, 2021 | Las Vegas, NV
AICPA Dealership Conference
Additional information at www.future.aicpa.org

March 22, 2022 | Caesar's Las Vegas, NV
AutoTeam America Dealer CEO/CFO Forum and Buy/Sell Summit
Additional information at www.autoteamamerica.com

HOW WE MAXIMIZE THE VALUE OF YOUR LIFE'S WORK

We use an investment banking approach to help you achieve your objectives of maximizing price, preserving confidentiality, and speed to closing.



"When we made the decision to sell, we carefully considered who should represent us. The clear choice was Haig Partners. We preferred their straight-forward message, and they exceeded our expectations all along the way… This group of dealerships is a part of our legacy and we wanted to partner with the advisor that would listen to us and match us with a buyer who would share the respect we have for our customers and employees." **– Fox Auto Group, Jane Fox and Bill Fox, Former NADA Chairman**

"We made the decision to sell our Laurel Toyota new car store to continue to focus on our core business of delivering an exceptional used car buying and selling experience. I had the utmost confidence Haig Partners would represent our company with integrity and ensure this transaction would be completed successfully." **-CarMax, Enrique Mayor-Mora, Chief Financial Officer**

THANK YOU AND CONGRATULATIONS TO OUR CLIENTS!

We Were Pleased to Help **Maximize the Value** of Their Lives' Work.

Undisclosed Buyers • Undisclosed Sellers

HAIG PARTNERS

INTEGRITY. CONFIDENTIALITY. EXPERIENCE.

MISSISSIPPI

ASBURY AUTOMOTIVE GROUP

HAS BEEN ACQUIRED BY

McLARTY AUTOMOTIVE GROUP

MARYLAND

CARMAX TOYOTA LAUREL

HAS BEEN ACQUIRED BY

SHEEHY.com

NEW YORK

FOX DEALERSHIPS

HAS BEEN ACQUIRED BY

Jonathan Sobel 6σ

PENNSYLVANIA

Prime Motor Group, Kenny Ross Automotive Group

NORTH HUNTINGDON

NORTH HUNTINGDON

NORTH HUNTINGDON

SOMERSET

SOUTH PITTSBURGH

ADAMSBURG

NEW YORK

Prime Motor Group, FX Caprara

PULASKI

PULASKI

WATERTOWN

WATERTOWN

TEXAS

Prime Motor Group, Ron Carter

HOUSTON

HOUSTON

HOUSTON

ILLINOIS

MOTOR WERKS

HOFFMAN ESTATES

SCHAUMBURG

HAS BEEN ACQUIRED BY

ZEIGLER

VIRGINIA

Southern Auto Group drivingsouthern.com

GREENBRIER

GREENBRIER

GREENBRIER

LYNNHAVEN

NORFOLK

VERMONT

Prime Motor Group, White River Subaru

HAS BEEN ACQUIRED BY

DAVID ROSENBERG

NEW JERSEY

Prime Motor Group, North Plainfield Nissan

HAS BEEN ACQUIRED BY

PSD AUTOMOTIVE GROUP

CALIFORNIA

SAN FRANCISCO

HAS BEEN ACQUIRED BY

LITHIA

FLORIDA

WESLEY CHAPEL

HAS BEEN ACQUIRED BY

MORGAN AUTOMOTIVE GROUP

CALIFORNIA

Hofman Automotive Audi

PALO ALTO

HAS BEEN ACQUIRED BY

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