THE HAIG REPORT

Q3 | 2021

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- *The Chipdemic continues to create extraordinarily favorable conditions in auto retail*
- *The average privately-owned dealership made $3.4M over the last twelve months ending Sep'21, 2.4x profits in 2019*
- *Public company spending on US auto acquisitions has exceeded $2.8B YTD Q3*
- *Public company spending on US auto acquisitions may reach $8B by year end 2021, 3.4x higher than 2020*
- *Blue sky values rose an estimated 61% from the end of 2019 and are at record-high levels*
- *Public equity valuations are 108% higher than they were before the Pandemic*

HAIG PARTNERS

INTEGRITY. CONFIDENTIALITY. EXPERIENCE.

OVERVIEW

The Chipdemic continues to be a dealer's best friend. We are running out of superlatives to describe how good conditions are at the moment, and for the foreseeable future. It's anyone's guess when supply will come back and conditions will return to "normal." Between now and then, dealers will enjoy their good fortunes and work hard to improve their capabilities in used vehicles, F&I and fixed operations.

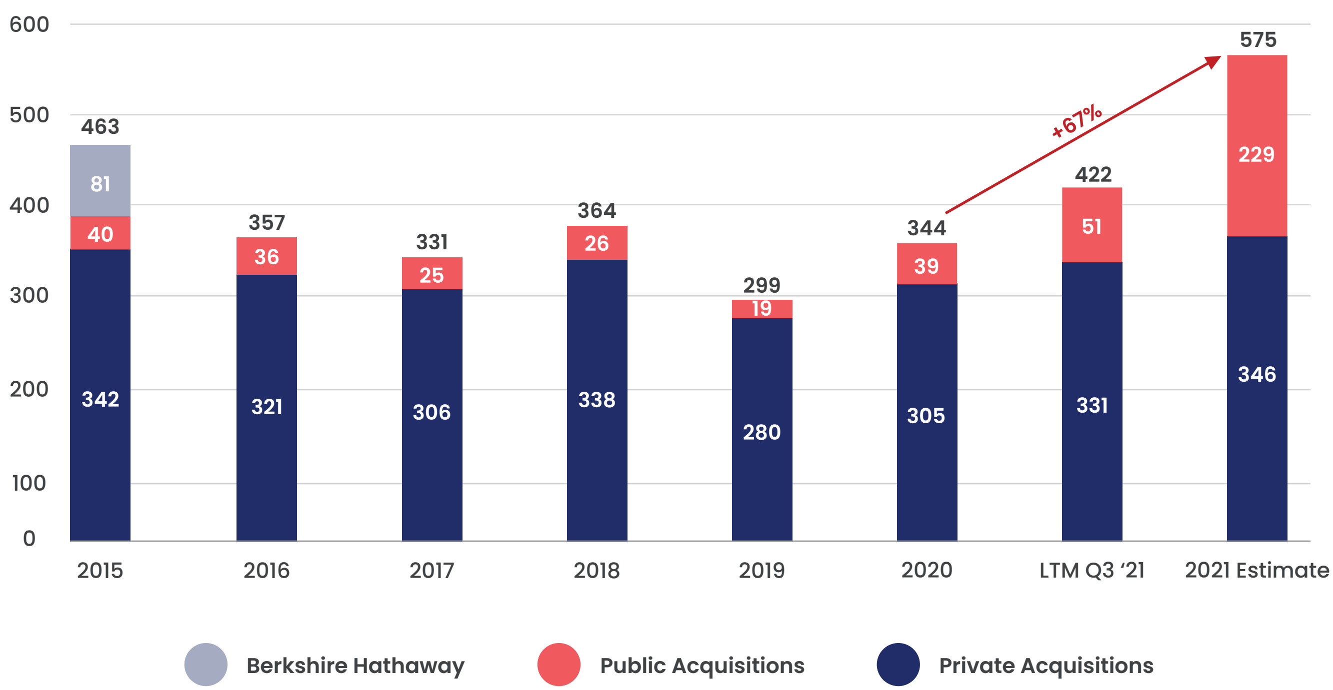
The concept that less is more is being proven every day. The days supply of new vehicles has shrunk by 76% since before the Chipdemic, leading to record high gross profits and lower expenses. As a result, private dealer profits have reached an average of $3.4M per store (adjusted for PPP forgiveness) over the past twelve months, 2.4x the levels from pre-Pandemic times. These profits, plus a conviction by many dealers that they need to be larger to compete in the future, is leading to a record amount of spending on dealership acquisitions. The publicly traded retailers look like they will spend about $8B on US auto acquisitions in 2021, more than three times the record that was set just last year. Before the Pandemic they were spending about 90% less than they will spend this year. Their shareholders are happy about the acquisitions as their stock prices reached all-time highs in 2021. Private dealers are also busy acquiring stores. Altogether, we estimate public and private dealers will acquire about 575 dealerships in 2021, far more than in any previous year. Sellers of all size are reaping the benefits of these exceptional times as the blue sky value per store is more than 61% higher than before the Chipdemic.

While a shock like the Pandemic can happen at any time, we expect conditions will continue to be excellent for dealers for the foreseeable future. As for the buy-sell market, our firm does not see any signs of a slow down. Some dealers want to seize what appears to be a once-in-a-life-time opportunity to sell at record high prices. And even at today's prices, acquisitions of dealerships offer compelling returns for buyers. These are special times! Let's make sure we enjoy our Thanksgivings for we should all feel very grateful.

Buy-Sell Activity At Record Levels

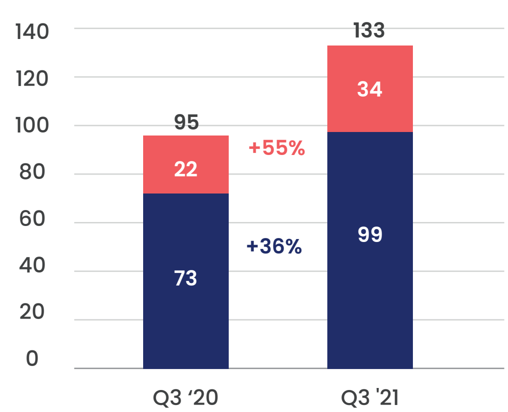
Based on our pending closings and data from The Banks Report, and Automotive News, dealers will purchase 575 rooftops this year, the most our industry has ever seen. The previous record was set back in 2015 at 463 dealerships. It appears we will surpass that record by about 25%. Before the Chipdemic we saw 300-400 dealerships trade hands per year, so if our estimates are correct, the buy-sell market is running about 65% above average in terms of volume. Deal values have also gone up substantially. Almost every public company is investing significant funds in buying more stores this year. Our data indicates they will purchase an estimated 229 dealerships in 2021, up 690% from the average number over the past five years. Private buyers have also been active, acquiring an estimated 346 rooftops in 2021, a lift of 12% from the average of the past five years. Our firm is enjoying these robust conditions as we expect to advise on the sale of a total of 50 dealerships in 2021, more than any other year in our history.

US DEALERSHIPS BOUGHT/SOLD



Source: Automotive News, Banks Report, & Haig Partners

US DEALERSHIPS BOUGHT/SOLD: Q3 '20 VS. Q3 '21



Source: Automotive News, Banks Report, & Haig Partners

Public Company Acquisition Spending Has Never Been Higher

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 about three times their typical level of spending. The publics have already spent nearly $2.9B in just the first nine months of 2021. Even more astounding, Asbury, AutoNation, Group 1 and Sonic have announced transactions that are to close in Q4 2021 that will push total public company spending to approximately $7.8B, about 9.5x the amount they were spending annually from 2012-2019.

For the past few years Lithia has been by far the most active buyer. They announced a plan to reach $50B in revenue which would have made it about 2.5x the size of AutoNation at the time. Along with acquisitions to establish a nationwide network of dealerships, Lithia announced its plans to develop its e-commerce platform, Driveway, to sell and service customers who don't want to come into dealerships. This bricks and clicks strategy was embraced by investors who have pushed up Lithia's stock to make it the most valuable franchised retailer in the world. Now, the other publicly traded companies have also increased their rate of acquisitions to build out their footprints and are rolling out their own e-commerce platforms.

PUBLIC COMPANY ACQUISITION SPENDING

Source: SEC filings

Blue Sky Multiples At All-Time High Levels

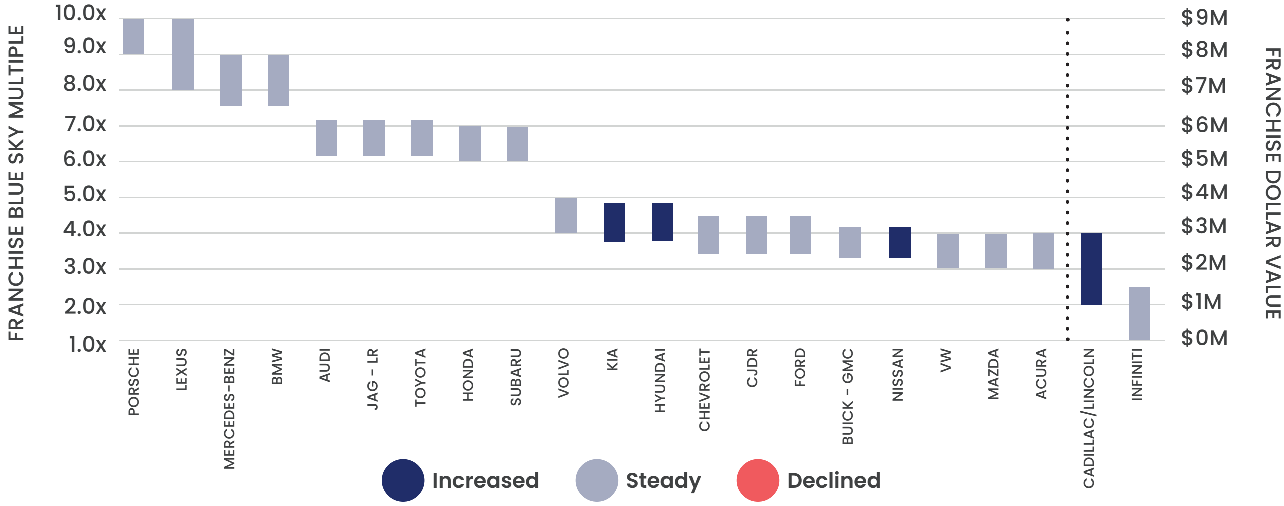
We carefully monitor the buy-sell market to assess the desirability of various auto franchises. We analyze offers for the transactions that we are involved in and regularly speak with leading buyers and many attorneys and CPAs who are involved in other acquisitions. When COVID arrived, it quickly had an impact. Some buyers pulled their offers, while others demanded price concessions. But as dealership profits rebounded, so did franchise values.

The table below sets forth our expectation of what a buyer would pay for blue sky for various franchises, applied to an average of adjusted pre-tax profits from 2018, 2019 and the last twelve months ended 9/30/2021, excluding any profits from PPP forgiveness. We have slightly increased the multiples of Hyundai, Kia and Nissan as well as the values of Cadillac and Lincoln. While every transaction varies, we now estimate that the blue sky value of dealerships is 61% higher now than at the end of 2019, and 33% higher than at the end of 2020, largely due to higher profitability levels.

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 are deemed strategic to the buyer, blue sky values are higher than what we set forth below.

Note: See the Buy-Sell Trends section for our analysis of average dealership values.

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.

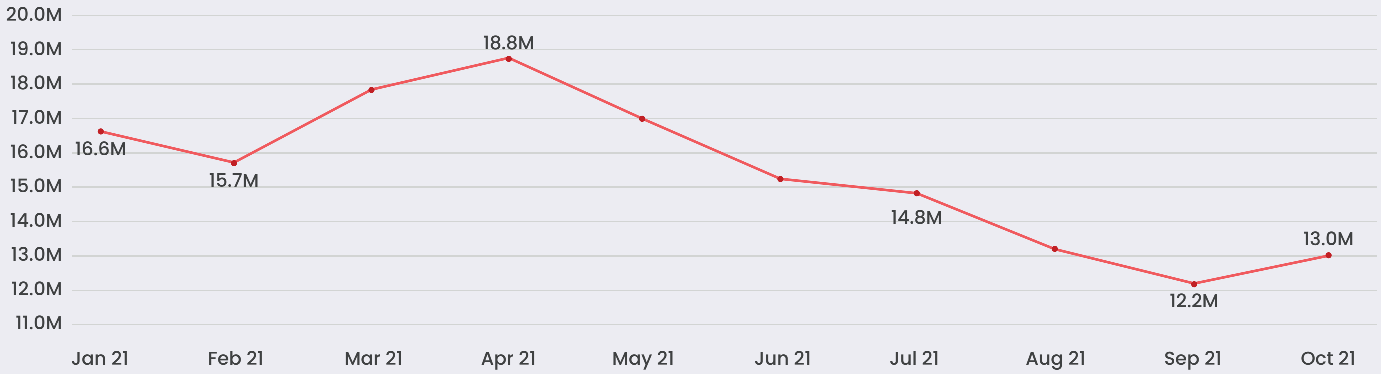
FACTORS IMPACTING MULTIPLES

TRENDS IMPACTING AUTO RETAIL

The Lack of Microchips Has Significantly Curtailed Sales

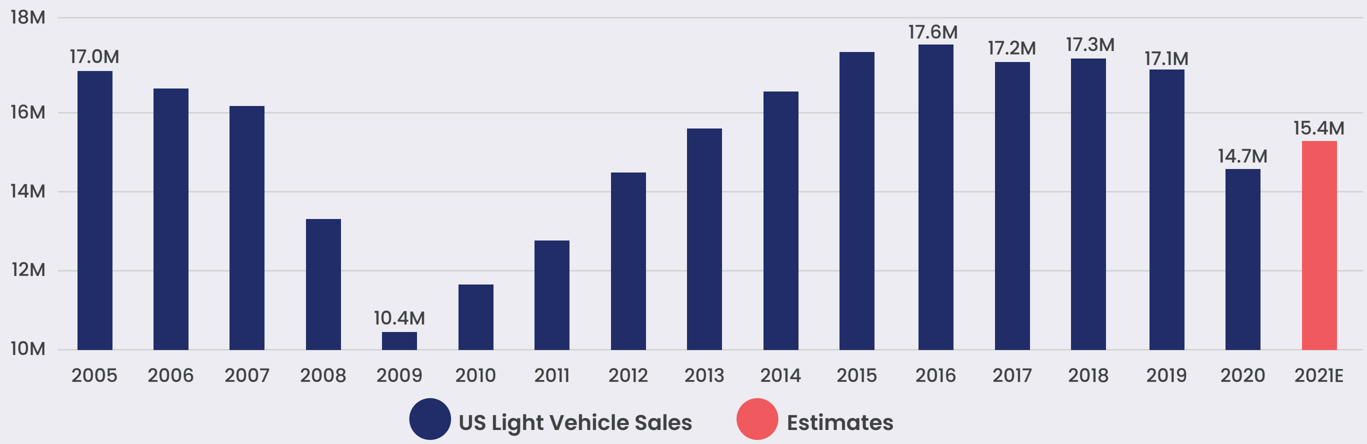
As the US began to exit the Pandemic in April 2021, SAAR peaked at 18.8M units, the strongest April sales in the history of the US auto industry and the highest monthly sales rate since July 2005, according to NADA. But since then, OEMs have struggled with a shortage of microchips. Sales began to slip and SAAR dropped down to 12.2M in September, almost 1/3 below pre-Pandemic times. Cox Automotive predicts vehicle supply will improve mildly in the fourth quarter 2021 and continue into 2022. Supply may not return to "normal" until the second half of 2022 or even 2023.

MONTHLY SAAR



Source: NADA

US LIGHT VEHICLE SALES



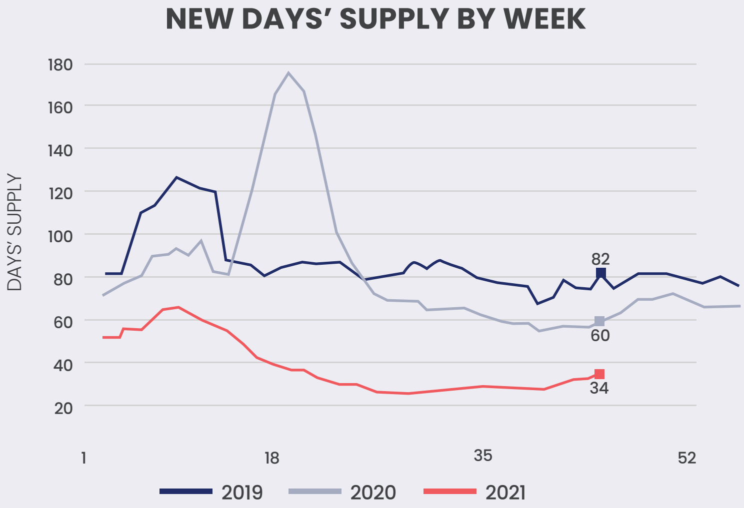
Source: IHS, Wards Auto, TrueCar, COX Automotive, NADA, J.D. Power

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

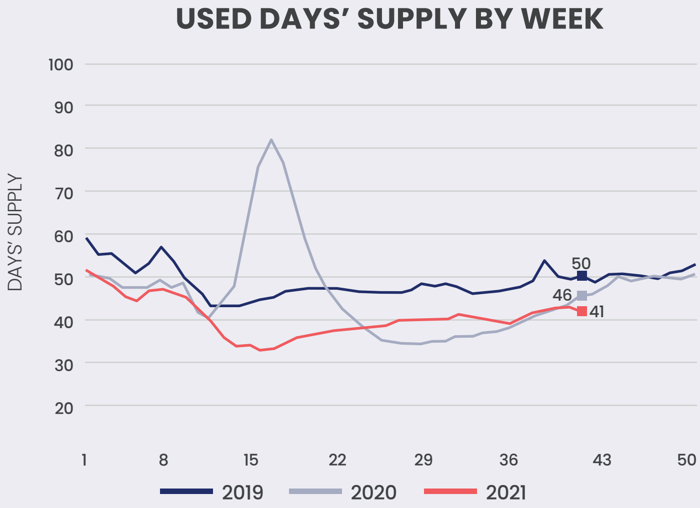
The combination of production shortfalls at the same time as an explosion of demand has created significant inventory shortages at dealerships nationwide. Inventory levels have dropped 76% from 2019 (pre-Pandemic levels). Dealers tell us their lots are close to empty and that they are selling far into their allocation. Customers are pre-ordering more than ever before so they can have a shot at purchasing a vehicle they want. As shown on the charts below provided by Jonathan Smoke, Chief Economist at Cox Automotive, there was just a 34 days' supply of new vehicles when October opened.

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 wants to encourage customers to pre-order vehicles, setting a target of 20%-25% of sales, compared to almost none before the Pandemic. Mr. Farley said the result could be higher margins and lower costs for Ford and its dealers. We wonder if OEMs will start dialing back the floor plan credits they give to dealers.

The situation with used inventories is much improved. The days' supply for used vehicles climbed from the mid-30s in April to 41 at the end of September, just 11% below year-ago levels. Dealers are doing a better job sourcing used vehicles to offset the decline in new vehicle supply. They are purchasing more off lease vehicles, competing harder for trade-ins, and purchasing more directly from consumers. Due to their new skills, dealers have been able to maintain sales of used vehicles close to pre-Pandemic levels, in contrast with sales of new vehicles that are now far lower.



Source: Cox Automotive



Source: Cox Automotive

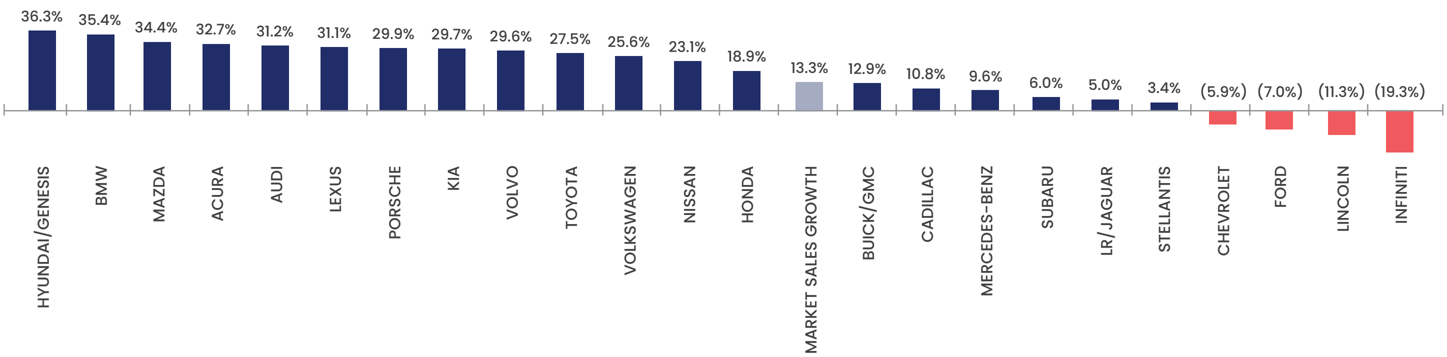
As a result of the strong demand and lack of supply, pricing on new and used vehicles has surged. JD Power data shows the average new-vehicle retail transaction price in October is expected to reach a record $43,999. The previous high for any month, $42,921, was set in September 2021. We have jumped nearly $3,800 in price since June! In addition to raising prices, OEMs are reducing incentives. They fell from 10.9% before the Chipdemic to only 5.9% in August. We wonder why there are any incentives at all given how quickly vehicles are selling.

Used vehicle prices have also been jumping. The Manheim Index of used vehicles (sold at wholesale) continues to skyrocket as it increased 8.3% in the first 15 days of October compared to September. Until the supply of new units returns to more normal levels, we expect the value of used units will remain very high.

Changes In Sales For Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in the first nine months of 2021 compared to the same period in 2020. While inventory has been extremely limited in recent months, the average franchised dealership has sold 13.3% more units YTD 2021 compared to the same period in 2020 because sales fell so significantly in March and April of last year. All franchises besides Chevrolet, Ford, Lincoln and Infiniti saw improving sales. Note, this data reflects changes in total sales per brand, including fleet sales. Since the OEMs severely limited their sales to fleets to feed their retailers, the sales performance at dealerships has been slightly better than this data reflects.

YEAR/YEAR SALES PERFORMANCE - YTD Q3 '21



Source: Automotive News

GDP Has Recovered But Growth May Be Slowing

GDP grew at an annual rate of 2% in Q3 2021. This is the fifth straight quarter of GDP growth and the economy is now larger than it was before the Pandemic. However, economists tell us that much of the growth has been driven by stimulus spending and GDP growth is beginning to slow due to the Delta variant, supply chain issues, lower labor participation rates and inflation. These factors are causing some consumers and corporations to become more cautious.

Unemployment Continues To Decrease

The unemployment rate fell to 4.6% in October as the economy generated 531,000 new jobs, according to the Labor Department. The unemployment rate can fall even further, however, hopefully to the pre-Pandemic level of 3.5% in February 2020. There are still millions of job postings, and more employees appear to be willing to return to the workforce, attracted by higher wages, safer conditions and reduced unemployment benefits. We wonder if the new vaccine mandates for employers will result in more people returning to work, or more people dropping out.

Inflation Remains Elevated

The 12-month inflation rate was 6.2% in October 2021, much higher than the 2% target that the Federal Reserve has established. Inflation is even higher in the auto industry as the prices of new and used vehicles jumped double digits since last year. If inflation outpaces wage gains, consumers will have a harder time affording vehicle purchases, and dealership profits may suffer.

Fuel Prices Continue To Rise

The national average price per gallon of gas was $3.39 as of November 1, 2021, 61% above the level at the same time last year and still climbing. Gas prices have not been this high since 2014. Higher fuel prices can reduce demand for vehicles since consumers have less money to spend on monthly payments. Higher fuel prices could increase demand for electric vehicles which will be welcome news for the OEMs who plan to bring dozens of EV models to the market soon.

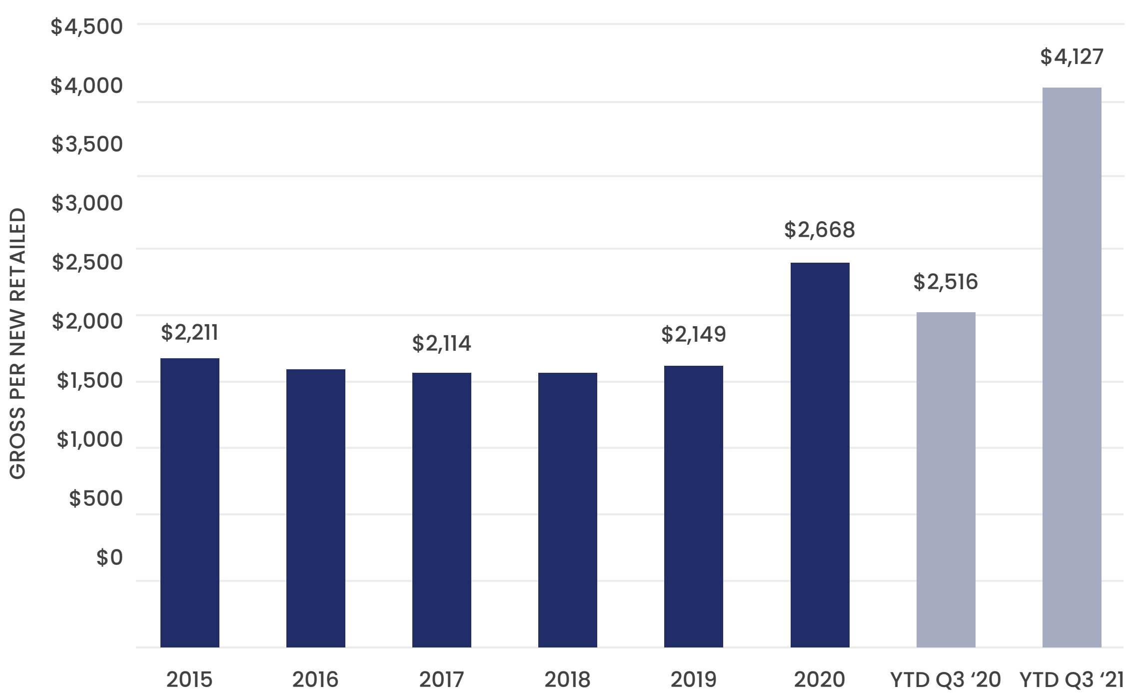
New Vehicle Grosses Rise Even Further

Thanks to strong demand and limited supply, gross profits per new vehicle continue to skyrocket. The public companies made an average of $5,337 in front-end gross profit per new vehicle retailed in Q3 2021, $1,611 higher than the same period in 2020 and up $1,100 since Q2 2021! Gross profits on new vehicles in Q3 were 137% higher than pre-Chipdemic. Dealers tell us the OEMs don't know when they will be able to source enough components to resume full production. It appears likely that high margins will be with us well into 2022 and possibly beyond.

There is hope among many dealers that the OEMs will realize that their profits have also been far higher during Chipdemic when they produced fewer units but made more profit, They spent far less money advertising and incentivizing their products. We wrote a guest editorial encouraging the OEMs to maintain production discipline that was published in Automotive News on December 14, 2020, entitled, "Less Is More." Many dealers, however, 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.

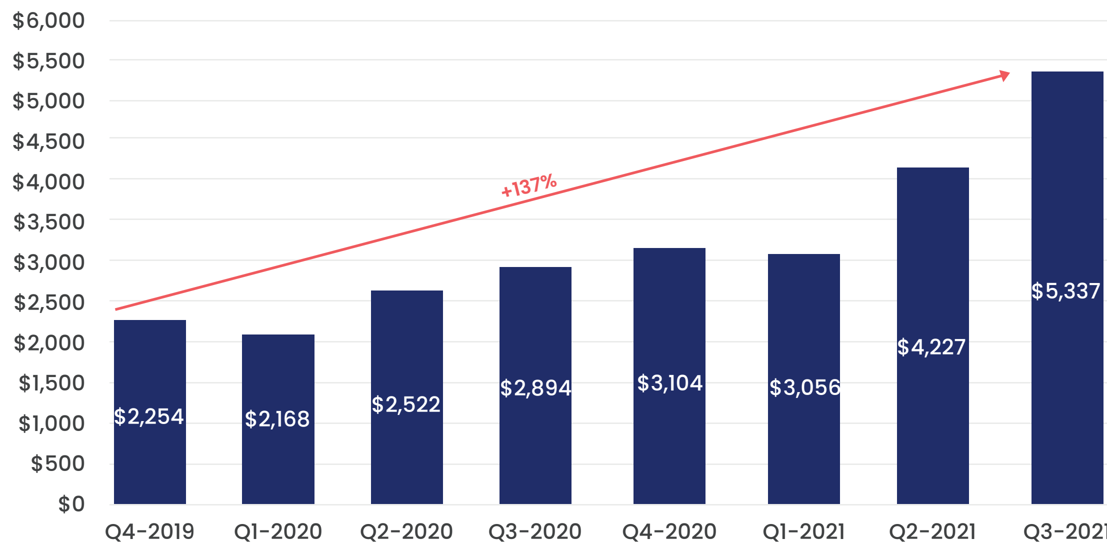
NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same Store Performance - In Current Dollars)



Source: SEC filings

NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA BY QUARTER



Source: SEC Filings

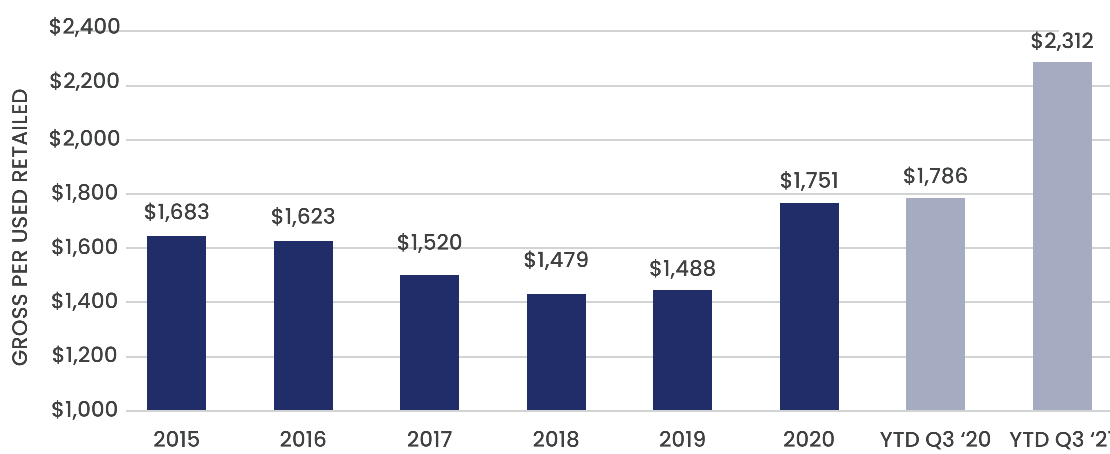
Used Vehicle Grosses Are Also Elevated

A spike in demand for used vehicles has provided dealers with significant pricing power in the market today. The public retailers reported a $526 increase in gross profit per used unit in YTD Q3 2021 compared to YTD Q3 2020.

Gross profit per used unit is 55% higher than in 2019, the last year before the Chipdemic. 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 a record high $1,997 per vehicle retailed in F&I gross profit in YTD Q3 2021, up an impressive 14% from YTD Q3 2020. We believe privately owned dealerships are also doing a better job with F&I.

PUBLIC COMPANY F&I PER UNIT RETAILED

(Weighted Average Same Store Performance - In Current Dollars)

Source: SEC filings

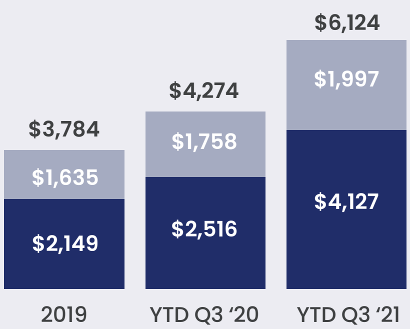
Combined Front And Back Gross Profits Per Vehicle Retailed Hit All-Time Highs

The tables below track total profits per vehicle retailed data back to 2019. Publicly traded dealer groups are enjoying record high profits for each vehicle they sold in Q3 2021 and we believe the same for virtually every private dealer as well. In Q3 2021, the public retailers made a total of $6,124 in front and back gross profit per new vehicle retailed, up 61.8% from before the Chipdemic. And the public retailers made a total of $4,308 in front and back gross profits per used vehicle retailed, up 37.9% from before the Chipdemic.

PUBLIC COMPANY VEHICLE GROSS + F&I PVR

(Weighted Average Same Store Performance - In Current Dollars)

NEW Vehicle Gross

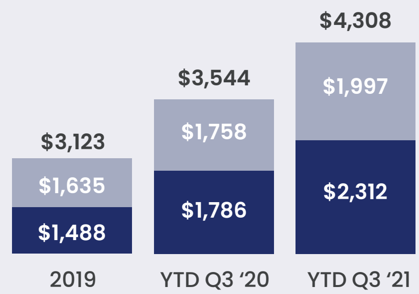


2019 - YTD Q3 2021

NEW	F&I	TOTAL
+$1,978	+$362	+$2,340
+92.0%	+22.1%	+61.8%

USED	F&I	TOTAL
+$824	+$362	+$1,185
+55.4%	+22.1%	+37.9%

USED Vehicle Gross



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

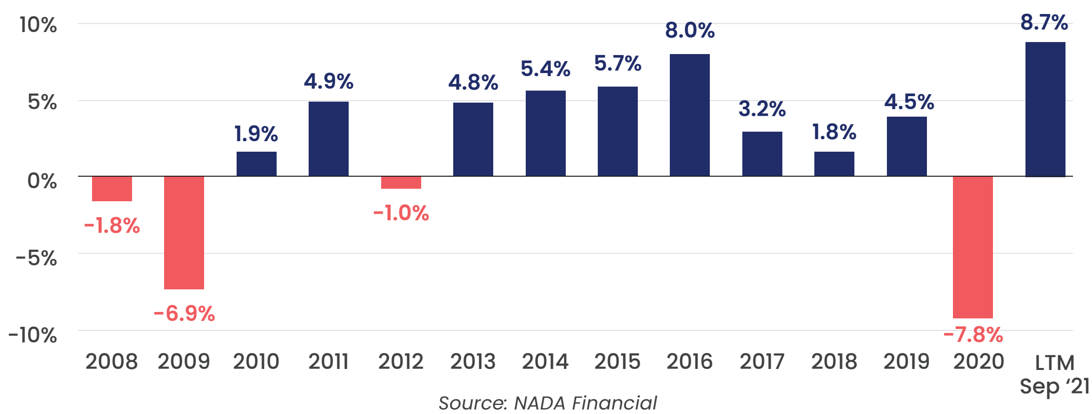
Source: SEC filings; F&I as reported for new and used combined

Fixed Operations Are Rebounding and Labor Rates Are Up

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. But as COVID began to recede, more people took to the road and the number of miles driven has increased. Fixed operations have rebounded and are now 0.3% above 2019 levels. As the economy continues to expand, fixed operations are poised to continue to grow.

Another trend we have seen recently is that dealers are pushing through significant labor rate increases to consumers and OEMs. We are hearing about warranty labor rates well into the $200s and even above $300 per hour at some stores. These increases are part of the lift in dealer profits. Cox Automotive shared that it is seeing an 18% increase in the average value per repair order since 2019 even though the number of appointments is still below pre-Pandemic times. If dealers can elevate their labor rates then they will have a strong hedge against fewer units in operation due to the Chipdemic, as well as the potential decline in parts and service work on EVs as they gain market share.

FIXED OPERATIONS GROWTH



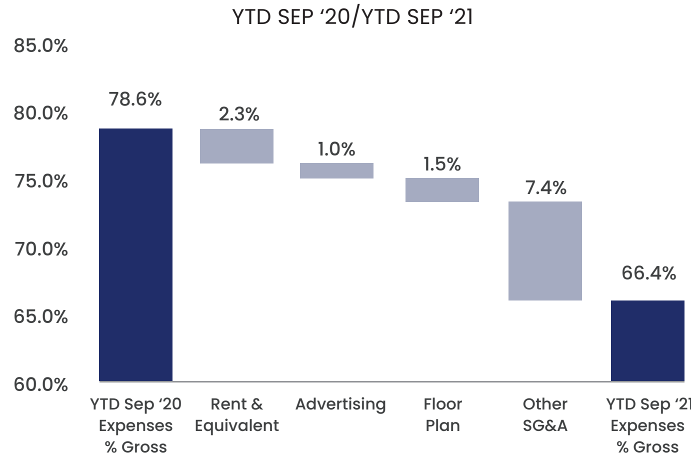
Source: NADA Financial

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 37.6% from YTD Sep 2020 to YTD Sep 2021, but costs increased just 16.3%. As a result, total expenses have dropped from 78.6% of gross profit in YTD Sep 2020 to just 66.4% of gross profit in YTD Sep 2021. As for 2022, some dealers are concerned that they will see their costs escalate. Wages are increasing and disrupted supply lines are driving up the cost of other goods.

CHANGE IN EXPENSES

YTD SEP '20/YTD SEP '21

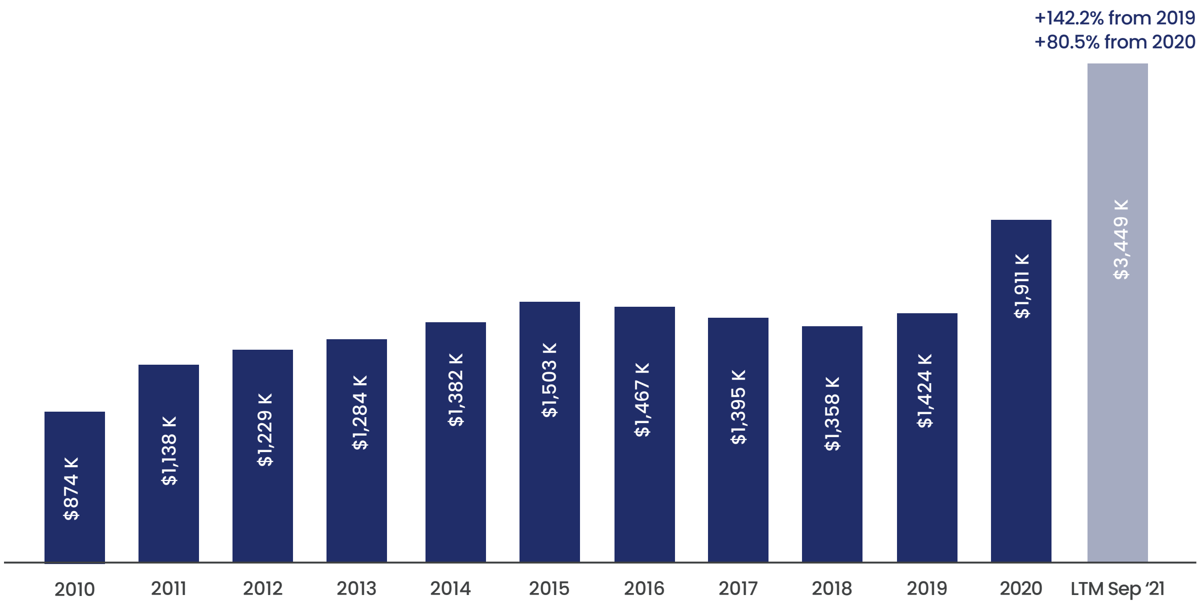


Source: NADA & Haig Partners

Dealership Profits Exploded

The net outcome of the trends listed above is that the average profit at a privately-owned dealership exploded to an estimated $3.4M over the past twelve months ended September 2021, an increase of 142.2% (2.4x!) compared to 2019, the last year before the Pandemic. This unprecedented level of 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 YTD 2021 for a total of $370K eliminated from earnings over the last twelve months. Dealers use terms like, "silly," "unreal," and "simply absurd" to describe what they are seeing on their monthly statements. The table below shows the annual earnings at privately owned dealerships since 2010.

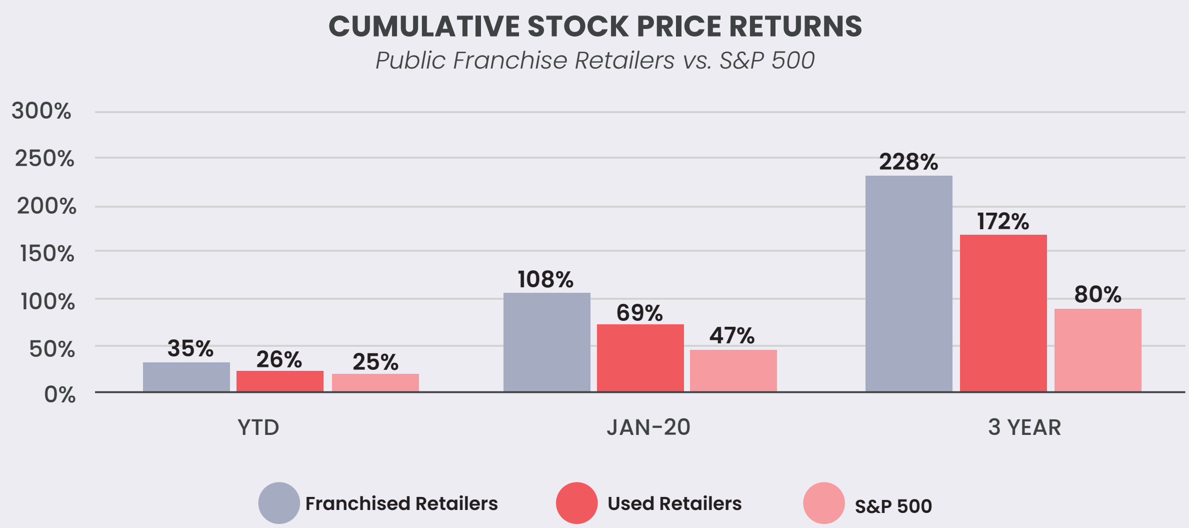
NADA AVERAGE PRIVATE DEALERSHIP EARNINGS



Source: NADA & Haig Partners

Public Dealership Values Have Soared Since The Chipdemic

The share prices of the six public franchised retailers and three public used vehicle 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 expenses, and a bigger focus on used vehicle sales. They also see the possibility that technology will help these larger groups take share from smaller dealers. The used retailers consist of CarMax, Carvana and Vroom. (Note: we are excluding CarLotz from this group due to its small size.) The most valuable retailer in our industry is Carvana with an equity value of over $52 billion at the time of this writing – more than all the franchised retailers combined. It generated its first profitable quarter in Q2 2021, and the company continues to grow rapidly. Lithia is the most valuable franchised retailer with a market value of $10B that has also increased significantly over the past 24 months since it announced its ambitious expansion plans.



Source: Yahoo! Finance; Data through 11/05/2021

Tesla Surpasses $1 Trillion Valuation

Tesla has just 2.6% market share in the US, but its value has surged over the past few years, and it now has an equity value of over $1 trillion. The only companies with a market capitalization of over $1 trillion are Amazon, Apple, Google, and Microsoft. This is rare air. Countless people think the enthusiasm for Tesla seems overblown, but we feel sorry for anyone who has shorted this stock over the years. They likely lost—a lot. The market cap was just $100B in 2019, so it has increased 10x in just two years, making Elon Musk the world's richest man.

Investors are excited for several reasons that can be read about in other reports. Tesla is now the #3 luxury brand in the US and is growing far faster than BMW, Lexus, or Mercedes-Benz. It is likely to be the #1 luxury brand in 2022 if current trends continue. Tesla's highest-selling vehicles, the Model 3 and the Model Y, target younger buyers who want performance and an EV. The next product is the Cybertruck. The styling is polarizing, but Tesla says it has 1.25 million orders from consumers! To give a sense of scale, Ford sold 900,000 F-150s in 2019. Even if not all of these consumers decide to buy a Cybertruck, with a $1 trillion valuation, Tesla will have all of the capital it needs to develop more conventional products that could be squarely aimed at the most lucrative segment of the US auto industry. Ford and GM are racing to launch their full-size EV trucks, and their customers have proved very loyal over the years, but if Tesla is successful in taking a significant share in this segment, dealers who own domestic brands may suffer significant declines in profit from current levels.

And Tesla is not the only new entrant that dealers need to stay focused on. Rivian has just come to market with its version of a full-size EV pickup truck. It went public in November 2021 and now has an equity value of $125B as of the date of this report. Moreover, another early-stage company called Lucid Group is also valued at $60B. Lucid just started delivering its first sedan that has over 1,100 horsepower (0-60 in 2.2 seconds) and a range of 520 miles, more than any other EV. GM's equity is valued at a little over $80B, Ford's equity is a little more than $70B, and Honda's equity is valued at around $60B. Volvo recently went public and had a valuation of $23B. These OEMs have been around for many decades and make billions of dollars in profits, but investors are betting the new entrants are going to displace the current OEMs with a more profitable business model. Unfortunately, Tesla, Rivian, and Lucid have no plans to franchise their dealer networks.

Dealers and their OEMs will need to develop new skills and products to compete with these well-capitalized entrants who fully intend to take significant market share in the US. Dealers can demonstrate the value of the franchise system to consumers, state legislatures, and the OEMs. Convenient service and a consumer friendly sales process should be one of our strengths.

BUY-SELL TRENDS

Transaction Volume Is Climbing

Prior to the Pandemic, we saw about 25-30 dealerships being sold on an average month. It looks like the pace will jump to about 48 dealerships per month in 2021. In total, we estimate 575 dealerships will trade hands, about 2.4x more than in 2020, which was the most active year until this year. While the public companies get most of the headlines, almost 70% of the dealerships were acquired by private buyers.

Record Spending By The Public Retailers

The amount of money spent by the publicly traded auto retailers on US auto dealerships has exploded since the Pandemic hit. The public retailers were spending between $700M and $1B on acquisitions of US auto dealerships in the five years before the Pandemic hit. But this pace exploded in 2020 as they spent a combined $2.5B on US auto acquisitions. In 2021, most of the public companies are actively spending large sums of money to hit strategic objectives and satisfy shareholders looking for growth. In the first nine months of 2021 the public retailers spent nearly $2.9B on acquisitions of auto dealerships, more than in all of 2020, but the rate of spending almost doubled in Q4 alone as the public retailers have announced an estimated additional $5B on acquisitions to close by year end. If all of the announced deals close, the publicly traded retailers could spend $8B on acquisitions in 2021, shattering the prior year's record of investments in US auto dealerships.

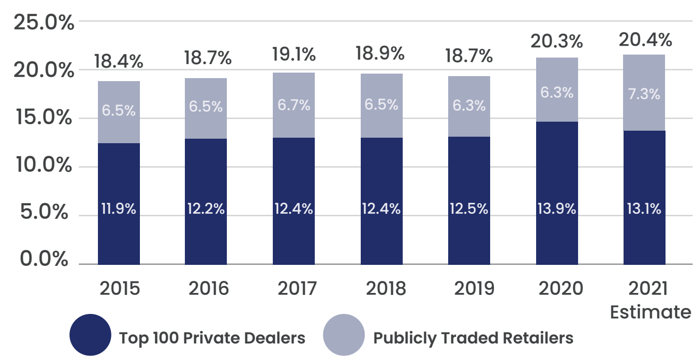
Real Estate Values Are Stable

From 2010-2019 we saw dealership real estate values steadily rise. Recent buyer appraisals have come in at or above pre-Pandemic levels. Appraisers appear to realize that dealerships are performing well, they are able to support healthy rent factors, and buyers are eager to purchase them. We believe appraisers will need to increase the appraised value of dealerships soon, however, as the cost of construction has soared so much that the previous metrics they used to calculate costs per foot are now too low, particularly for luxury dealerships.

Consolidation Is Slow And Steady

The chart below shows the percentage of dealerships owned by the Top 100 public and privately held groups dating back to 2015. Consolidation was relatively slow for most of this period, but consolidators began aggressively acquiring dealerships in late 2020 and appear to be picking up the pace. By year end 2021, we estimate the publics and the Top 100 groups will own 20.4% of new vehicle sales volume in the US, up form 18.4% in 2015. We expect this pace of consolidation to continue. The public companies are aggressive in buying large platforms today, and we are hearing from many mid-large size groups looking to add scale. We rarely hear from a single point owner looking for his second store.

MARKET SHARE OF NEW VEHICLE SALES VOLUME



Source: Automotive News Top150, SEC Filings, Haig Partners

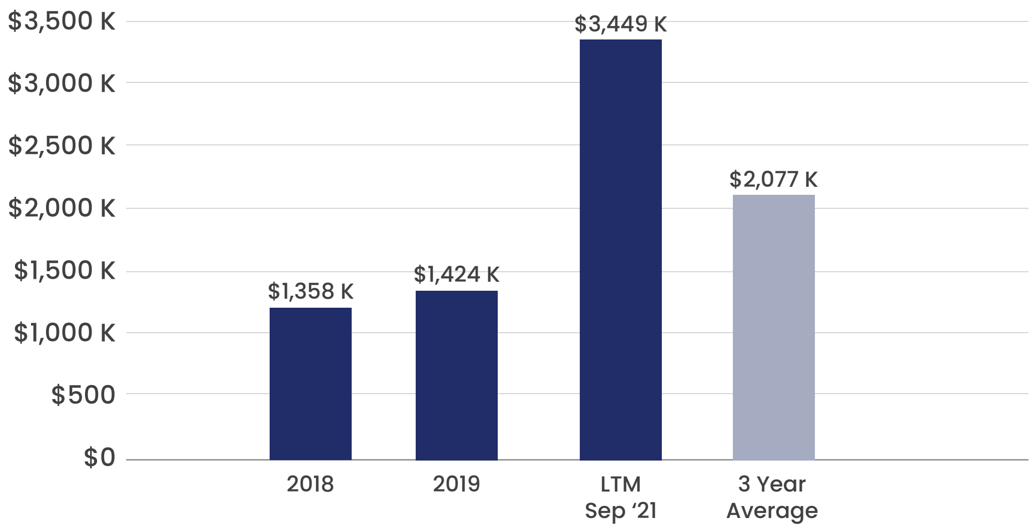
Private Dealership Values Are At All-Time High Levels

Many factors drive the blue sky value of dealerships. A buyer's expectations of future profits are important, as are interest rates, the amount of capital a buyer has and how much financing 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/blue sky values were also very steady during this period, ranging from $6.5M-$7.5M from 2014-2019. The Pandemic, and now the Chipdemic, 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 before the Chipdemic. 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, PPP forgiveness and low taxes. Finally, lenders have told us that they are also bullish about the future and are supportive of acquisitions. When dealers can finance a large portion of an acquisition with debt, they can pay more.

We believe many buyers continue to use an average of the adjusted pre-tax profit from previous years multiplied by a franchise-specific blue sky multiple in determining how much they will pay for blue sky. These buyers expect that profits are likely to remain at or near current levels for the next few quarters, and will remain elevated above historical levels for at least another year, possibly two. This formula uses the average of adjusted pre-tax profits from 2018, 2019 and the twelve month period ending in September 2021. This equates to average adjusted pre-tax earnings of $2.08M. The other part of the equation is the average blue sky multiple. On page 17 we show that our research and experience indicate that the average franchise has a blue sky multiple of 5.24X. Based on this data, we estimate that buyers are willing to pay $10.9M in blue sky for a typical dealership, up an estimated 61% from year-end 2019 and up 6% from the end of Q2 2021. We have never seen blue sky valuations at this level in our careers.

AVERAGE ADJUSTED PRE-TAX PROFITS FOR 2018, 2019 & LTM SEP '21

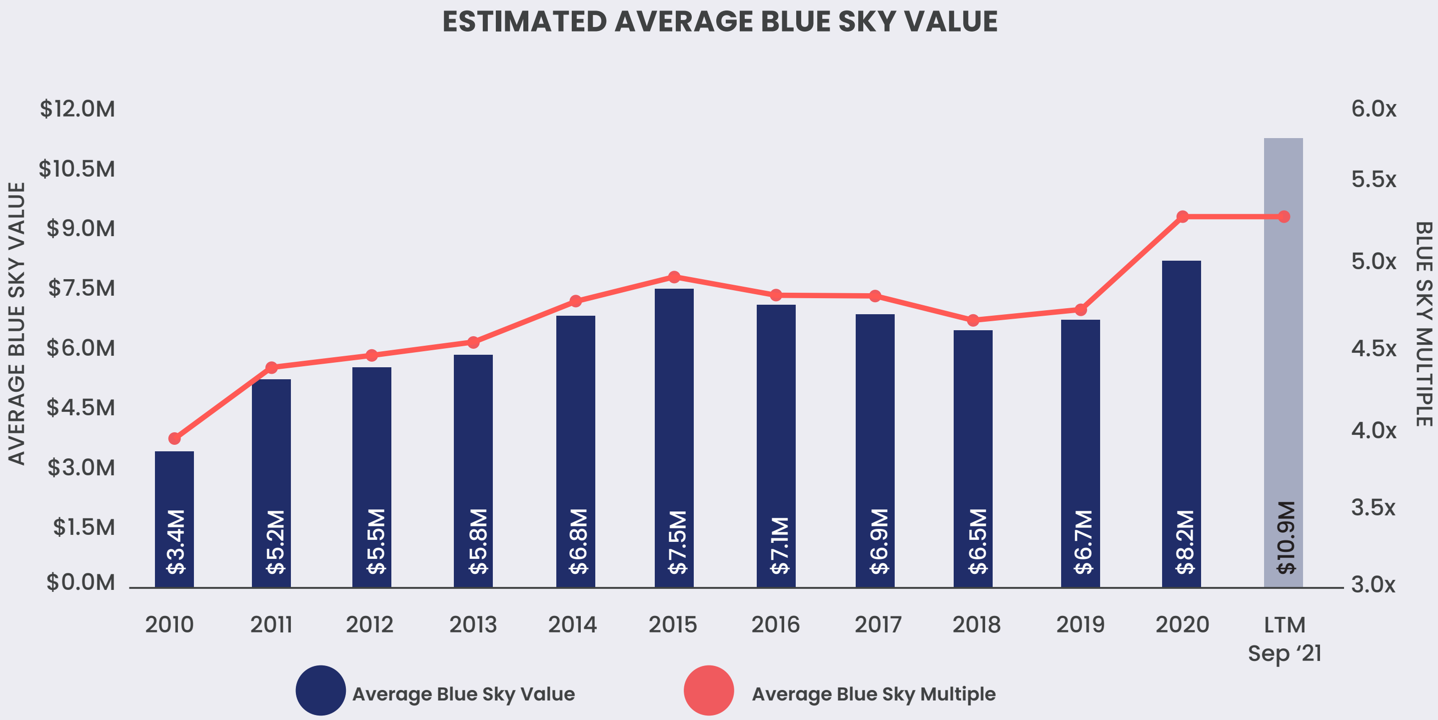


Source: NADA & Haig Partners

Buy-Sell Outlook for Q4 2021 and 2022

We will see a very high number of dealerships trade hands in the fourth quarter of 2021 thanks to the transactions announced by several public retailers and dozens of other transactions between private dealers that are scheduled to close soon. December is going to be a busy month for all of us in the buy-sell industry. Given the large number of transactions in for approval, it's likely some of them will be pushed into 2022. Our firm expects to advise on the sale of 23 rooftops over the next 90 days.

The buy-sell market does not appear to be slowing down. We are seeing plenty of dealers come to market to sell their stores. The conditions that drive a healthy buy-sell market are all still present. Profits are high, dealer confidence is high and interest rates remain low. In addition, buyers are open to more franchises and more markets than before the Chipdemic since almost all dealerships are making strong profits now and for the foreseeable future. Plus, the high value for stores today is stimulating dealers to consider exiting even if they are not at retirement age. Average single point dealerships are worth about $25M all-in. Midsized groups are valued in the hundreds of millions of dollars. Large groups bring billions of dollars. At these values, dealers and their families are having conversations about the pros of remaining dealers, but also the risks and capital investments required if they remain dealers. With plenty of buyers and sellers in the market right now, we expect 2022 to be another excellent year for transactions: likely not as active as 2021, but more than 2020 which was also an excellent year.



Larger Deals Can Bring Higher Multiples

One important caveat that we would like to make is that we are also seeing, in special situations, some buyers paying for dealerships based on their current earnings rather than a historical average. This can happen on larger deals where a buyer feels the transaction is strategic to its future, such as entering a new market with a large platform of dealerships, or with unique assets like luxury dealerships. This dynamic can help to explain why a number of large dealer groups have elected to sell in this environment.

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 540+ 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.

LUXURY FRANCHISE BLUE SKY MULTIPLES

Porsche

Porsche sales were up 29.9% in the first nine months of 2021 compared to the same period 2020. The Taycan is now outselling the 911, an encouraging start to the VW family of EVs that are coming. Porsche dealerships continue to bring the highest blue sky multiples other than Ferrari stores thanks to their scarcity, high profits, and ease of operation. Expensive facilities take a bite, however. **Same multiple range on average adjusted pre-tax profit: 9.0x-10.0x.**

Lexus

Sales at Lexus were up 31.1% in the first nine months of 2021 compared to the same period last year. The Chipdemic is allowing Lexus dealers to finally earn decent margins on their new units, overcoming the one weakness in their business model. The product has been stale for a while, but changes are coming. Lexus received the #1 ranking in terms of dealer optimism about the franchise. Based on this optimism, we are seeing very strong demand for the franchise. **Same multiple range on average adjusted pre-tax profit: 8.0x-10.0x.**

Mercedes-Benz

Mercedes-Benz sales increased 9.6% in the first nine months of 2021 compared to the same period in 2020, much less than other luxury brands. Some dealers are concerned about management turnover at MBUSA and that the brand has slipped from the #1 luxury brand YTD 2020 to #4 YTD in 2021 behind BMW, Lexus and Tesla. That said, dealers still want this franchise badly. We advised on the sale of two Mercedes-Benz dealerships recently and buyers were highly interested. **Same multiple range on average adjusted pre-tax profit: 7.5x-9.0x.**

BMW

Sales were up a whopping 35.4% in the first nine months compared to the same period last year, putting BMW as the #1 luxury brand so far in 2021. Gross margins remain very high on new vehicles and fixed operations are among the best of any franchise. The business model is very well balanced. BMW came in just behind Lexus and Porsche in dealer optimism in a recent NADA survey. **Same multiple range on average adjusted pre-tax profit: 7.5x-9.0x.**

Audi

Audi sales were up 31.2% so far this year compared to the same period in 2020. The brand achieved its best first quarter ever as its SUV lineup experienced massive growth. The inventory shortage has done wonders for this franchise as dealers are enjoying strong margins to go along with healthy sales. Dealers ranked Audi 4th in terms of their optimism about the franchise. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Jaguar / Land Rover

JLR saw unit sales increased 5.0% in the third quarter of 2021 YTD compared to the same period in 2020. This sluggish recovery is due to production problems, not a lack of demand. Dealers with multiple luxury brands say consumer demand for Range Rovers, Range Rover Sports and the new Defenders is sky high, perhaps just behind demand for G-Wagons. The future is still not clear at Jaguar, and that has put JLR's demands for new facilities on hold, frustrating some dealers that have already started or finished their projects. With a little more product, profits at these stores will soar even more. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Volvo

Volvo continued its ascent as the brand saw a 29.6% increase in sales in the third quarter of 2021 YTD compared to the same time last year. The entire Volvo model lineup was up year-over-year. 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 32.7% in the first three quarters of 2021 compared to the same period in 2020. The all-new MDX is a big help. This franchise is now nicely profitable and dealers ranked the brand 5th in terms of their optimism for luxury brands. **Same multiple range on average adjusted pre-tax profit: 3.0x-4.0x.**

Infiniti

Infiniti sales fell 19.3% in the third quarter of 2021 compared to the same period in 2020. The brand continues to struggle and finds itself as the worst performer of any brand we track. Infiniti has an aged product lineup and growing competition from other near-luxury brands like Cadillac, Genesis and Lincoln. The new QX60 should help. Profits per store are likely the lowest for any major franchise. **Same value range: $0-$1,500,000.**

Cadillac

Cadillac sales jumped 10.8% in the third quarter of 2021 YTD compared to the same period last year. The new Escalade has become its best-selling model. Dealers are excited to have the product but wish they had many, many more to sell. 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. **Higher value range: $1,000,000-$3,000,000.**

Lincoln

Lincoln sales were down 11.3% in the third quarter of 2021 YTD 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, Lincoln has suffered greater production shortages than other brands so it is not able to capitalize on improved products. When this recovers, dealers have hopes this franchise will blossom. **Higher value range: $1,000,000-$3,000,000.**

MID-LINE IMPORT FRANCHISE BLUE SKY MULTIPLES

Toyota
Toyota announced a 27.5% increase in the third quarter of 2021 YTD compared to the same time last year. In a recent NADA survey, dealers ranked Toyota #2 behind Lexus in terms of their optimism about the franchise. We have had the privilege of selling six Toyota dealerships this year and enjoyed strong offers on each one. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Honda
Honda sales in YTD Q3 2021 were up 18.9%. Although it has been losing share to Toyota, Hyundai and Kia recently, dealers are feeling good about Honda, ranking it #5 in terms of their optimism for the future in a recent NADA survey. Their products remain strong sellers and the business model is nicely balenced. **Same multiple range on average adjusted pre-tax profit: 6.0x-7.0x.**

Subaru
Subaru reported a 6.0% increase in the first nine months of 2021 compared to the same period in 2020. This brand has suffered more than most in terms of production shortages as consumer demand remains very solid. Subaru has among the lowest days supply of any franchise. Dealers are very keen on US management and the overall business model, ranking it #4 in the overall rating category. We have been involved in the sale of several Subaru stores recently and demand was high. **Same multiple range on average adjusted pre-tax profit: 6.0x-7.0x.**

VW
Volkswagen saw sales increase by 25.6% in the first nine months of 2021 compared to the same period in 2020. SUV sales were up 58.2%, 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, but it remains to be seen how this strategy will play out. If consumers choose to buy EVs then VW could take 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 29.7% in the first nine 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. Dealers have become highly enamored with Kia recently, ranking it just behind Lexus and Toyota in terms of their optimism for the future. Kia dealership profits have jumped substantially thanks to higher volumes and better products. **Higher multiple range on average adjusted pre-tax profit: 3.75x-4.75x.**

Hyundai
Hyundai enjoyed a 36.3% sales increase in the first nine months of 2021 compared to the same period in 2020, leading all franchises that we track. 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 this franchise and we see it out-earning several other major franchises now. Questions regarding the Genesis franchise are hurting relations between dealers and the OEMs. Consumers are excited about the products, but the supply to dealers is so low that few can justify the standalone facilities Hyundai is requesting. **Higher multiple range on average adjusted pre-tax profit: 3.75x-4.75x.**

Mazda
Mazda continues to be one of the top-performing franchises with an increase of 34.4% in the first nine months 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. Dealers that have constructed new facilities are very pleased with the 12% margins they are earning, putting 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 23.1% increase in sales in the first nine months of 2021 compared to the same period in 2020. New and upcoming core products should allow Nissan dealers to try to recover further. Judy Wheeler and other Nissan execs have been visiting with dealers and mending fences. Nissan says it will put dealer profits and sustainable growth at the forefront of its strategy. The new strategy appears to be bearing fruit. Value seeking dealers are interested in acquiring this franchise again and we are pleased to see Nissan heading in the right direction. **Higher multiple range on average adjusted pre-tax profit: 3.25x-4.25x.**

DOMESTIC FRANCHISE BLUE SKY MULTIPLES

Ford

Sales fell 7.0% YTD Q3 2021 compared to the same period of 2020. Ford might have the dubious distinction as "worst impacted by the Pandemic." Ford has some exciting new products including the Mustang Mach-E, the full-size Bronco family, and an all-electric version of the F-150, but it's having a hard time producing them. When the Chipdemic passes, we expect Ford to get a greater lift than almost any other brand. **Same multiple range on average adjusted pre-tax profit: 3.5x-4.5x.**

Chevrolet

Chevrolet saw sales decrease by 5.9% for YTD Q3 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. Almost every incoming unit is pre-sold at full sticker, plus some, 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. This situation is quite a contrast to the decades when Chevrolet dealers suffered from a glut of inventory. **Same multiple range on average adjusted pre-tax profit: 3.5x-4.5x.**

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

Stellantis US reported a 3.4% increase in sales for the first nine months 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 products are arriving in dealerships now and have been well received. Dealers ranked Jeep 7th in terms of optimism for the future. Questions remain about future products for Dodge and Chrysler. **Same multiple range on average adjusted pre-tax profit: 3.5x-4.5x.**

Buick-GMC

Buick saw a 27.4% increase in sales in the first nine months of 2021 as compared to the same period last year thanks to its three CUV lineup. GMC saw a 8.0% increase in sales for the first nine months 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 has been postponed due to a lack of components. **Same multiple range on average adjusted pre-tax profit: 3.25x-4.25x.**

KEY TAKEAWAYS

As we said earlier, we are running out of superlatives to describe just how good conditions are for dealers right now. The strong demand from consumers combined with the lack of supply from the OEMs have combined to create a perfect storm of profits for dealers.

At the same time the Chipdemic caused dealership profits to spike, there were other trends happening in auto retail. Lithia had already started an aggressive acquisition campaign to grow to $50B in revenue over a five-year period. Other publicly traded retailers are also now back in the acquisition game. Together, they will spend almost $8B on acquiring US auto dealers in 2021, about 10x what there were spending per year in the ten-year period before Pandemic hit.

But all is not perfect. New entrants have created some concerns for dealers. Carvana demonstrated that many consumers are willing to purchase a car off a website, about 450,000 this year. Tesla became the #3 luxury brand and the #1 ranked auto maker in terms of its stock value, more than all the other OEMs combined.

The intersection of these trends has led to a most fortuitous event for auto dealers. At a time when competition from major companies (Lithia, Carvana, etc.) and new entrants (Tesla, etc.) has never been higher, profits have never been greater. As a result, many dealers have opted to exit the industry, pocketing billions at record high valuations. The average blue sky being paid for dealerships that are sold through a competitive marketing process has reached an estimated $10.9M, up 61% from 2019. Given the strong outlook for profits over the next 24-36 months, and the large number of dealers looking to grow, we expect the buy-sell market will be highly active for the foreseeable future. We at Haig Partners are eager to assist dealers in taking advantage of these exceptional times.

UPCOMING EVENTS

NAMAD Annual Membership Meeting
December 7, 2021 | Fontainebleau Miami Beach, FL

AutoTeam America
Buy/Sell Summit and Dealer/CEO/CFO Forum
Alan Haig – Speaker
March 10, 2022 | Caesar's Las Vegas, NV

NADA Show 2022
Alan Haig – Speaker: How to Buy or Sel a Dealership. Expo Floor at 12:30PM
March 11, 2022 | Convention Center Las Vegas, NV

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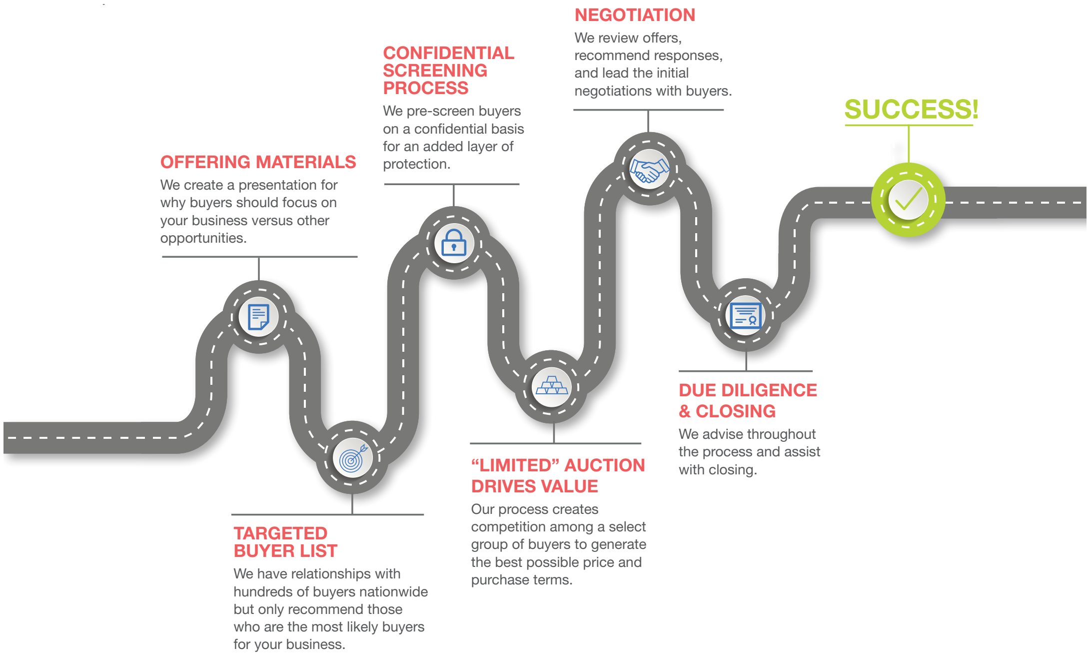
We use an investment banking approach to help you achieve your objectives of maximizing price, preserving confidentiality, and speed to closing.



"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**

"CarMax chose to divest 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**

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PENNSYLVANIA

KENNY ROSS AUTOMOTIVE GROUP

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OTHER BUYERS

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FX CAPRARA

HAS BEEN ACQUIRED BY

BOB JOHNSON AUTO GROUP

VERMONT

WHITE RIVER SUBARU

HAS BEEN ACQUIRED BY

DAVID ROSENBERG

MASSACHUSETTS

HYANNIS ORLEANS

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HAS BEEN ACQUIRED BY

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