TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

• A lift in sales and a drop in production are creating unprecedented conditions in auto retail
• Dealership profits jumped 197% in Q1 2021 compared to Q1 2020, reaching record-high levels
• Public company spending on US auto acquisitions in Q1 exceeded $443M, 226% more than Q1 2020
• Buy-Sell activity has surpassed pre-COVID levels
• Blue sky values rose an estimated 10% from the end of 2020 and are now at record-high levels
• Public equity valuations are 98% higher than they were before the pandemic
OVERVIEW

Dealers have enjoyed the unprecedented bust-to-boom period for about a year now. The strong demand from consumers paired with a lack of supply from the OEMs has created a gusher of profits. Oh, and we can’t forget the PPP loan money that is being forgiven and ending up tax-free in bank accounts across the country. No one could have predicted business conditions could be so good for dealers for so many months. And almost no OEM knew their profits could grow while their sales are low. Less Is More!

Now we wonder how long these conditions can last and what will life be like when production returns to more normal levels. Will some OEMs resort to their old push system and high-pressure tactics, or will they remember that life can be better when scarcity exists? Dealers tell us that inventories are likely to remain well below historical levels for the rest of this year and into 2022. This could create pent-up demand for vehicles. Employment should rebound which will help the economy further expand. The Federal government appears to want to continue to provide significant stimulus spending on infrastructure and for other purposes for the next few years. As a result of these factors, we believe profits at auto dealerships will remain elevated above pre-Pandemic levels for at least the next 18 months, although not likely as high as we are seeing now.

Investors are optimistic about the outlook for our industry as every publicly traded retailer, franchised and used, saw its valuation skyrocket during the pandemic. Dealers are equally bullish about our future. Almost all of the public companies are acquiring dealerships again, and hundreds, if not thousands, of private dealers are also out looking for stores to buy. Since almost every franchise is making good money today, almost all dealerships are finding willing buyers. Finally, we are seeing plenty of buy-sell activity in every region of the US. Thanks to strong demand and the high level of profits they are making, dealerships have never been more valuable. We estimate the average blue sky value per dealership in the US today is approximately $9M, which is 33% higher than at the end of 2019 (pre-Pandemic) and 10% higher than at the end of 2020. These elevated valuations are luring sellers into the market. We see an increasing number of dealers wanting to take advantage of current conditions to sell. And high prices are not the only reason some of the dealers have decided that now is the time to sell. Dealers are aging, some have concerns that it may be increasingly difficult to compete with larger groups that can offer more choice and convenience to customers, and some want to sell before capital gains taxes go up. The bottom line is that we are likely to see billions of dollars passed between dealers in the next few years.
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, compared to 99 dealership sales in Q1 2021. There have also been several large acquisitions announced in Q2 that could accelerate the pace further. If so, this year 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 25%, at 81 dealerships in 2021 compared to 65 in 2020.

Source: Automotive News, Banks Report, & Haig Partners
Public Company Acquisition Spending Should Remain At High Levels

The amount of spending by public companies exploded in 2020, reaching approximately $2.5B, by far the most ever recorded. We also saw healthy activity by the publics in Q1 2021 with a total of $443M spent on domestic acquisitions, a 226% increase compared to Q1 2020. The massive increase in spending is attributable primarily to Lithia’s acquisitions of stores in Florida and Arizona that totaled $383.5M. We expect Lithia to continue its aggressive pace as it executes its plan to grow to $50B in revenue by the end of 2025. It recently raised $1.8B to help it fund its growth, including the recent acquisition for the Suburban Group for an estimated $500M. With Lithia’s stock price trading at over 15x its earnings per share, it’s recent acquisitions are highly accretive so we can expect more acquisitions and more stock price growth, a virtuous circle.

Most of the other publicly traded franchised retailers have been quiet in recent years, but in the past six months their CEOs have said they are focused more on acquisitions and that they expect to close several deals in 2021. It’s hard to argue that stock buy-backs, which most of these companies have pursued in recent years, make sense when their stock prices are all trading near record-high levels. As a result, more of the profits being generated by the public retailers are likely to be directed towards acquisitions which will further boost the buy-sell market.

Public Company Acquisition Spending (Enterprise Value)

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<tr>
<th>Year</th>
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<th>Foreign Acquisitions / Heavy Truck</th>
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<td>2015</td>
<td>$773M</td>
<td>$59M</td>
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<tr>
<td>Q1 '20</td>
<td>$0M</td>
<td>$163M</td>
</tr>
<tr>
<td>Q1 '21</td>
<td>$443M</td>
<td>$0M</td>
</tr>
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</table>

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. Our firm has already closed 12 transactions in 2021, about equal to what we did in all of 2020, and our pipeline looks robust for the remainder of the year.

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 skills, information 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.
OVERVIEW

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 33% more valuable today than they were at the end of 2019 in terms of blue sky values, and 10% higher than they were at the end of 2020, largely due to higher profitability levels.

In previous years we saw buyers focused primarily on adjusted profits from the most recent twelve-month period when calculating their blue sky offers since this period best predicted how dealerships would perform after an acquisition. This method was dropped in the second half of 2020 as buyers told us they were excluding any financial results from 2020 that had either been suppressed or inflated due to COVID. But now that the strong performance of the second half of 2020 seems likely to continue for the rest of 2021 and possibly beyond, many buyers are using a three-year average of adjusted profits from 2018 through 2020 and some are including the most recent trailing twelve-month period into a four period average when calculating their offers. Other buyers pay little attention to the profits a seller made in the past and rely on their own forecasts.

Regardless of the method used, buyers today are placing higher values on dealerships than in any previous period that we have seen.

The table below sets forth our expectation of what a buyer would pay for blue sky for various franchises, based upon a three to four period average of adjusted pre-tax profits, excluding any PPP forgiveness. These multiples are unchanged from our Q4 2020 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.

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

- Increased
- Steady
- Declined
- $ Value

- Underperforming
- Metro Markets
- Rapid Growth Markets
- Low Tax Markets
- Low Real Estate Cost
- Geography Well Suited to Franchise
- Not Marketed Properly
- Facility Issues
- Rural Areas
- Slow/Negative Growth Markets
- High Tax Markets
- Add-Point Risk
- High Real Estate Cost
- Over-Dealers Markets
New Unit Sales Have Exploded, But Are Constrained by a Lack of Supply

Dealers cannot keep up with demand for new vehicles. SAAR was 18.5M units in April, the strongest April sales in the history of the US auto industry and the highest monthly sales rate since July 2005, according to NADA. SAAR has now topped the 16-million mark in four of the last five months and surpassed pre-pandemic levels. And these figures are being constrained by a lack of new vehicle supply. The shortage of microchips has led to production shortfalls and shutdowns at many OEMs. Combined retail and fleet sales for YTD April 2021 improved 26.2% from YTD April 2020. This reflects an increase in sales of 40.1% for retail offset by a decrease of 20.8% for fleet. Fleet sales could remain depressed for some time as OEMs focus on filling more profitable retail orders first.

The shortage of supply is leading to sparsely populated dealer lots. Some 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 even resorting to decontenting vehicles, such as removing blind-spot monitoring systems, in order to push out more supply. A review of the new unit sales forecasts from several leading analysts indicates that we will see new unit sales of 15.9M, about 7% less than what the industry sold in 2019 and 8.5% more than what the industry sold in 2020.
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 30% from 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 April dipped below 40 days compared to the mid-90s in 2019, the last pre-Pandemic year. The Days’ Supply for used vehicles in April was in the mid-30s compared to the mid-40s in 2019. New vehicle inventory is down 25% compared to this time last year. Cox also reported that new vehicle incentive spending by the OEMs fell by nearly 16% in Q1 2021.

As a result of the strong demand and lack of supply, pricing on new and used vehicles has jumped. JD Power stated, “The average price for a new vehicle was $37,200 in Q1 2021, up 8.4% from the same period in 2020. About half of buyers are paying within 5% of the sticker price with some even paying above sticker.” Used vehicle prices are also increasing, reaching $25,463 in April, also according to JD Power, about $2,800 (12.4%) over April of 2020. And prices are still going up. Some used vehicles are worth more this year than they were worth last year, reversing the long-held conviction that used vehicles are solely depreciating assets. The Manheim Index of used vehicles sold at wholesale has skyrocketed over the past few months, implying that used vehicle values are likely to increase even further in the next couple of months. Wholesale prices in April 2021 increased 8.3% from March 2021 and were up 54.3% compared to April 2020.

Changes In Sales For Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in Q1 2021 compared to Q1 2020. All franchises besides Chevrolet, Jaguar/Land Rover, and Infiniti saw improving sales. Note, this data reflects changes in total sales per brand, including fleet sales, so the sales decline at dealerships is less severe. It’s interesting to see that the domestic OEMs have performed worse than the industry average. They have had much greater production difficulties than OEM’s had in Europe, Japan or Korea.
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. Travel plummeted during the pandemic but drivers returned to the roads in earnest as the economy has reopened. The number of miles driven in March 2021 was just 3.1% lower than March 2019 levels. We expect the number of miles driven to increase as people return to work and school and go on long-postponed vacations.

**GDP Is Recovering**

GDP grew at an annual rate of 6.4% in Q1 2021. This growth puts the US economy within 1% of its late 2019 peak. GDP growth has been fueled by the widespread adoption of the COVID-19 vaccinations and additional government spending in Q1 2021. This is the third straight quarter of GDP growth and experts believe this trend will continue in Q2 2021 and will remain steady in the second half of the year as the vaccination rate increases and more segments of the economy reopen.

**Unemployment Has Dropped But Remains Elevated**

The unemployment rate has fallen significantly from 14.7% in April 2020 to 6.1% in April 2021, according to the US Bureau of Labor and Statistics. But job growth has stalled in recent months. There are millions of job postings, but we still have five 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 and government unemployment benefits are being reduced, people will feel more comfortable returning to the workplace and further boosting our economy.

**Inflation Has Returned**

The 12-month inflation rate through April 2021 soared to 4.2%. Inflation has been an insignificant factor in our economy for many years. The 12-month inflation rate in April 2020, for instance, was just 0.3%. The last time we saw inflation at this level was September 2008 during the Great Recession. Used cars and trucks accounted for over a third of the 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.

**Fuel Prices on the Rise**

The national average price per gallon of gas was $3.02 as of May 24th, 2021, 54% above the level at the same time last year. The price has increased for several reasons, including rising cost of crude oil globally, an increase in driving in the US, and a ransomware attack on a fuel pipeline on the East Coast. 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 Consumer Confidence Index is recovering from the plummet of a near historic high of 101.0 in February 2020 to 71.8 in April 2020. After months of fluctuation, the index reached 88.3 in April 2021. This is a 23% increase from April 2020; however, it is still 9% below the April 2019 level. It’s remarkable SAAR has jumped so high despite relatively low consumer confidence. We surmise that stimulus payments directly to consumers may be the leading explanation. Preliminary results for May showed a decline due to consumers’ fears of inflation.

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.

Consumer Confidence Continuing to Rise

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New Vehicle Grosses At Post Recession Highs

Thanks to strong demand and limited supply, gross profits per new vehicle jumped $854 in Q1 2021 compared to Q1 2020 for the public retailers. Gross profits on new vehicles are about 40% higher now than pre-COVID. How long can this continue? Leading dealers tell us the OEMs most impacted by the microchip shortage really don’t know when they will be able to source enough components to resume full production. That implies the high margins will be with us for most, if not all, of 2021 and possibly beyond. And when production does resume, we are hoping that there will be significant pent-up demand to keep sales volumes at levels higher than they were before the pandemic.

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. A number of seasoned dealers laugh at our hopes, however. They expect the OEMs will resort to fighting over market share and will return to their ways of overproducing and then resorting to costly methods to clear out inventory. We make a friendly suggestion to our OEM friends and urge them to read our guest editorial that was published in Automotive News on December 14, 2020 that was entitled, “Less Is More.”

### NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

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

![Graph showing new gross profits per vehicle from 2015 to Q1 '21.](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 $319 increase in profit per used unit in Q1 2021 compared to Q1 2020. Current margins are about 20% higher than they were before COVID. 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.
Finance & Insurance Departments Are Generating Record Profits

F&I profits per vehicle continue to increase as transaction values go up and retailers do a better job on product penetration. The public companies earned $1,850 per vehicle retailed in F&I gross profit in Q1 2021, up an impressive $139 (8.1%) from Q1 2020.
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 2010. 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 Q1 2021.

### PUBLIC COMPANY VEHICLE GROSS + F&I PVR
*Weighted Average Same-Store Performance - In Current Dollars*

#### NEW Vehicle Gross
- **2010**
  - $3,407
  - $2,400

- **Q1’20**
  - $3,886
  - $2,175

- **Q1’21**
  - $4,879
  - $3,029

#### USED Vehicle Gross
- **2010**
  - $2,841
  - $1,007

- **Q1’20**
  - $3,224
  - $1,711

- **Q1’21**
  - $3,681
  - $1,832

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<th>F&amp;I</th>
<th>TOTAL</th>
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<td>$1,007</td>
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<td>$837</td>
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<table>
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<td>2010</td>
<td>$1,833</td>
<td>$841</td>
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<tr>
<td>2021</td>
<td>$1,832</td>
<td>$29.6%</td>
<td>$2,131</td>
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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 Beginning 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. But that decline can be attributed mostly to Q2 2020 when the effect of the pandemic was most severe.

In Q1 we saw fixed operations jump 2.4% over Q1 2020 and during the twelve-month period ended Q1 2021 fixed operations increased 0.6% from 2020. We hope that this growth will continue through the rest of 2021 as the country reopens and the number of miles driven increases.

### FIXED OPERATIONS GROWTH

Source: NADA
Dealerships Have Reduced Expenses

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, and less advertising. Lower inventory levels also helped. As demand rebounded dealers have been careful to watch their costs. Gross profits have increased 28.8% from Q1 2020 to Q1 2021, but costs have increased just 4.5%. As a result, total expenses have dropped from 87.4% of gross profit in Q1 2020 to just 70.9% of gross profit in Q1 2021. If dealers can retain this discipline, then they will have the opportunity to generate even higher profits.

Dealership Profits Exploded in 2020 and Continue to Grow

The net outcome of the trends listed above is that average profits at privately owned dealerships increased 25.1% over the last twelve months ended in March 2021 compared to 2020, excluding any estimated PPP forgiveness. CPAs tell us that some dealers elected to take some of their PPP forgiveness into income beginning in December 2020. To eliminate this non-recurring income, we identified a spike of an estimated $200k of other income within dealership profits and have eliminated this from their earnings. Average dealership profits are up 67.9% from 2019 to LTM Q1 2021! Dealership profits are so good right now that one dealer told us, “We no longer count the money we’re making. We just weigh it.” The table below shows the annual earnings at privately owned dealerships since 2010.
Public Dealership Values Have Soared Since The Pandemic Hit

The share prices of the six public franchised retailers have increased sharply since the beginning of last year and are far outperforming the S&P 500 Index. Investors are clearly excited about the auto retail business model that has proven to be highly flexible and resilient to almost any economic shock that exists. 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. Note that the used retailers consist of CarMax and Carvana. The market value of Carvana’s stock is over $45B at the time of this writing – more than all the franchised retailers combined. Lithia’s market value of $10.7B 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. We hope they are correct as that implies that profits for privately owned dealerships will also remain healthy.

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 dealerships.
The buy-sell market rebounded from a near-death experience in March and April 2020. Prior to the pandemic, 25-30 dealerships were trading hands on an average month. We were on the same pace in Q1 2021 but are expecting a jump in Q2 thanks in part to Lithia’s acquisition in April of the 43 dealerships owned by the Suburban Group. About 80% of the stores that sell are acquired by private buyers even though Lithia gets most of the headlines. We are also seeing more activity by the other publicly traded retailers. We had the pleasure of selling two Toyota dealerships to Group 1 in March, and AutoNation has announced the acquisition of 11 dealerships owned by the Peacock Automotive Group based in South Carolina that is expected to close in Q2 2021.

### 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 for them ever, according to our records. This trend continued into Q1 2021 as the public retailers spent $443M on acquisitions of auto dealerships, thanks mostly to Lithia. And, based on the two transactions we mentioned above, it looks as though Q2 2021 could surpass Q1 2021. And we expect more announcements throughout the rest of the year. The CEOs of all of the public franchised retailers have all said they are also on the hunt for deals. We appear to be entering another rapid phase of consolidation in our industry.

### Potential Impact of the 2021 Stimulus Program

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 and other causes, US consumers are sitting on $2 trillion of wealth above what they had prior to the pandemic. We believe a significant amount can end up in the hands of dealers as consumers will have more cash to purchase vehicles, businesses should start to grow again, and municipalities will resume fleet purchases. All this buying activity will likely support demand for dealerships as buyers will be able to project strong profits for the next few years.

### Large Groups Are Taking Share

Auto retail remains among the most fragmented retail sectors in the US, largely because there are relatively few economies of scale. Dealers all pay the same prices for their vehicles, labor, real estate, utilities, etc. As a result, smaller dealers have been able to effectively compete with larger dealers. But there is growing evidence that scale is beginning to matter in our industry. As consumers spend more time shopping for vehicles on their phones, those dealers that have the biggest inventories and the best digital capabilities are likely to take share from those that are smaller and less sophisticated. These larger groups also have more capital to invest in the expensive facilities that OEMs are requiring. And larger groups may be better able to attract, train, and retain talented workers. Data from Automotive News shows that larger dealers are increasingly taking a bigger part of the automotive pie. Some of this growth is through acquisitions, but we believe a good portion of it also comes from higher sales per store as these retailers take share from smaller dealers.

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**BUY-SELL TRENDS**

**Transaction Volume Is Climbing**

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**Potential Impact of the 2021 Stimulus Program**

President Biden has set forth a tax plan that, if enacted, could slow the buy-sell market. His plan calls for the Federal personal income tax rate for high earners to increase from 37% to 39.6%. Federal income corporate rates would jump from 21% to 28%. Federal capital gains taxes for high earners would jump from 20% to 39.6%. This plan could reduce the value of dealerships to individual buyers and public companies since they would have less after-tax income which would, of course, hurt sellers of dealerships. The tax plan might also reduce the supply of dealerships for sale since sellers would have lower after-tax proceeds. Dealers planning to retire might choose to hold onto their dealerships for another couple of years to build up additional savings or hope that a change in government would lower taxes in the future. We have no way of knowing if taxes will increase, but the possibility of such a tax increase may be why we have seen an increase in the number of sellers. They are trying to convert value of their dealerships to cash during the current period of low taxation.

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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 are giving them leverage in terms of pricing.
- 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 debt a buyer can secure.

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 $14M and $15M - remarkably consistent. Due to the pandemic, most dealers are enjoying record-high levels of income. 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.

Profits aren’t the only factor that drives dealership values. Interest rates are lower today than they were at this point last year. 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 than in prior years. For these reasons also, dealers can pay more for dealerships.

Finally, lenders have told us that they are also bullish about the future. They share the belief that future profits will settle somewhere between 2019 and current levels. When dealers can finance a large portion of an acquisition with debt then they can pay more for acquisitions.

In our Year-End 2020 Haig Report, we estimated the blue sky value for the average dealership in the US to be $8.1M, an increase of about 20% from year-end 2019. We based our estimate upon an average blue sky multiple of 5.2x and three-year average (2018-2020) pre-tax profit of $1.7M. While we haven’t seen any material changes in the blue sky multiples that buyers are willing to pay, we do see them basing their offers upon higher earnings than at the end of Q4 2020. We now estimate that the average blue sky value per store has increased almost 10% from Year-End 2020, to $9M. Our formula uses the average of adjusted pre-tax profits from 2018, 2019 and the last twelve months ended March 2021 of $1.72M and an average blue sky multiple of 5.2x.
The Outlook For Buy-Sells For The Remainder 2021

Buy-sell activity picked up speed in the first quarter 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. In terms of the supply of stores for sale, we believe that many dealers will see the remainder of 2021 as an excellent opportunity to exit at high prices. A number of these sellers are not necessarily at retirement age. Some clients have told us they are increasingly concerned about their ability to compete with larger groups. They see that it’s possible that the value of their businesses will erode even if the overall market is strong.

FRANCHISE VALUATION RANGES

We have been involved in the purchase and sale of 520+ 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
Sales were up 44.8% in Q1 2021 compared to Q1 2020 and saw the highest percentage increase in unit sales of any franchise for the period. Porsche continues its upward trend as PCNA has now seen its two best quarters back to back. 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 of 2018, 2019, and LTM adjusted pre-tax profit: 9.0x–10.0x.

Lexus
Sales at Lexus were up 31.8% in Q1 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 pleased with the high, strong used car and fixed operations. We are seeing very strong demand for this franchise. Same multiple range on average of 2018, 2019, and LTM adjusted pre-tax profit: 8.0x–10.0x.
**Mercedes-Benz**

Mercedes-Benz sales increased 19.5% in Q1 2021 compared to Q1 2020. Mercedes-Benz volume leaders in Q1 included the GLE, GLC and E-Class/CLS, matching market gravitation towards CUVs. We recently advised on the sale of two Mercedes-Benz dealerships and buyers are highly interested in the brand. **Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 7.5x–9.0x.**

**BMW**

Q1 sales were up 20.1% 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 2018, 2019, and LTM adjusted pre-tax profit: 7.5x–9.0x.**

**Audi**

Audi sales were up 33% YoY compared to Q1 2020. 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. **Same multiple range on 2018, 2019, and LTM adjusted pre-tax profit: 6.25x–7.25x.**

**Jaguar / Land Rover**

JLR saw unit sales decline 11.0% combined in North America in the first quarter of 2021 compared to the same period, ending it’s streak of 10 consecutive years of growth. This drop, due to production difficulties caused by the pandemic, should reverse soon. Dealers can’t keep the new Defender in stock and demand is keen for the Range Rover products. Land Rover enjoys the highest gross profit per unit of any franchise: comparable to Porsche, higher than BMW and Mercedes-Benz. Jaguar is a different story. It appears JLR no longer wants to compete in the same segment as Mercedes-Benz, BMW and Audi and plans on repositioning Jaguar at a higher price point, closer to Porsche or possibly Bentley, and possibly with an all-electric product line. Most dealers have transitioned their marketing efforts to used cars. Profits per store are likely the lowest for any major franchise. **Same value range: $0–$1,500,000.**

**Volvo**

Volvo continued its ascent as the brand saw a 40% increase in sales in Q1 2021 compared to the same time last year. March marked ten consecutive months of growth for the brand and the best March result in 14 years. 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 2018, 2019, and LTM adjusted pre-tax profit: 4.0x–5.0x.**

**Acura**

Acura’s sales increased 32.8% in the first quarter of 2021 compared to the same period in 2020. The brand saw its best March in 16 years, boosted by the all-new MDX. A shortage of inventory is helping this brand that suffers from lower margins and a smaller product line than its premium luxury competitors. **Same multiple range on 2018, 2019, and LTM adjusted pre-tax profit: 3.0x–4.0x.**

**Infiniti**

Infiniti sales fell 25.4% in the first quarter of 2021 compared to the same period in 2020. The brand continues to struggle and finds itself among the worst performers of any brand we track. The brand has an aging product lineup as well as negative public perception that is getting harder to shake. Most dealers have transitioned their marketing efforts to used cars. Profits per store are likely the lowest for any major franchise. **Same value range: $0–$1,500,000.**

**Cadillac**

Cadillac sales jumped 23% in the first quarter of 2021 compared to the same period last year. The brand was able to gain 11% 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. **Same value range: $0–$1,500,000.**

**Lincoln**

Lincoln sales were down 0.6% in the first quarter 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. It can be a helpful add-on to a dealer with an available facility. **Same value range: $0–$1,500,000.**
Toyota
Toyota announced a 20.3% increase in Q1 2021 compared to the same time last year. As more and more OEMs are abandoning the shrinking compact and midsize car segments, Toyota has held strong – and is reaping the benefits. The Corolla is the best-selling compact car with more than 25% segment share, and the midsize Camry has a commanding 32% segment share. It also has a full line of CUVs along with small and full-size trucks. 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 of 2018, 2019, and LTM adjusted pre-tax profit: 6.0x–7.0x.

Honda
Honda sales in Q1 2021 were up 14.4%, the lowest of the midline import franchises, but exceeded the market overall. 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 2018, 2019, and LTM adjusted pre-tax profit: 6.0x–7.0x.

Subaru
Subaru reported a 23% increase compared to Q1 2020 and the best first-quarter sales in company history. All models saw gains in March 2021 which marked the eleventh consecutive month of 40,000+ vehicle sales. 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 2018, 2019, and LTM adjusted pre-tax profit: 6.0x–7.0x.

VW
Volkswagen saw sales increase by 21% in Q1 2021 compared to Q1 2020, marking the brand’s best Q1 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 and it remains to be seen how this strategy will play out. If consumers are given subsidies to buy EVs, VW could take significant share since it will likely have more models for consumers than most other brands. Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.0x–4.0x.

Kia
Kia sales increased 15.7% in the first quarter of 2021 compared to the same time period last year. The recent releases of all-new models helped Kia achieve its best-ever sales month in March and best-ever first quarter sales. Kia’s recovery from the pandemic has been quicker than most due to good products and adequate inventory. The higher-priced 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 2018, 2019, and LTM adjusted pre-tax profit: 3.25x–4.25x.

Hyundai
Hyundai is enjoying a strong start to 2021 with its highest Q1 sales ever, an increase of 38% compared to Q1 2020. Hyundai’s recent success has gone hand in hand with the introduction of its new crossovers, including the full-sized Palisade which dealers struggle to keep in stock. Dealers are excited by renewed consumer confidence, stable inventory, and compelling lineup. As with Kia, Hyundai’s recovery from the pandemic has been quicker than most due to good products and adequate inventory. The higher-priced Palisade is attracting higher-income customers who also spend on maintenance. Hyundai dealership profits had jumped before the pandemic and are now even higher. Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.25x–4.25x.

Mazda
Mazda continues to be one of the top-performing franchises with an increase of 23% in the first quarter of 2021 compared to the same period last year. Several vehicle models experienced their best months ever in March including the CX-30, CX-5, and the CX-9. 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 2018, 2019, and LTM adjusted pre-tax profit: 3.0x–4.0x.

Nissan
Nissan announced a 10.8% increase in Q1 2021 compared to Q1 2020, finally flipping the downward spiral the brand was becoming accustomed to experiencing. New and upcoming core products should allow Nissan dealers to better compete. For the next four years, the brand will prioritize optimization (including reducing yearly production), dealer profits, and sustainable growth at the forefront of its strategy. We recently sold two Nissan dealerships and the desire from the franchise remains, shall we say, an acquired taste. Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.0x–4.0x.
DOMESTIC FRANCHISE BLUE SKY MULTIPLES

**Ford**

Ford reports total vehicle unit sales were up by 1.0% YoY for Q1 2021; with trucks up 5.1%, SUVs up 14.3%, and cars down a whopping 56.7%. Ford has announced several production slowdowns for the first half of 2021 which could reduce units produced by upwards of 1 million. Ford might have the dubious distinction as “worst impacted by the Pandemic.” That said, Ford is bringing some exciting new products to market including the Mustang Mach-E and an all-electric version of the F-150. Its identical styling to the gas model might attract more customers than Tesla’s “cyber truck” and still hold true to its work truck status. *Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.5x–4.5x.*

**Chevrolet**

Chevrolet saw sales decrease by 1.7% in the first quarter of 2021 compared to the same period in 2020. The weak sales are due almost entirely to a lack of inventory as consumers are clamoring for the newly redesigned full-size trucks and SUVs. The lack of chips has led to GM 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 worry how they will make money, but at the end of the month, they are counting record profits. *Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.5x–4.5x.*

**Stellantis (Chrysler–Jeep–Dodge–RAM–Fiat)**

Stellantis US reported a 5% increase in sales for Q1 2021 seeing a slight rebound, RAM posted a 16% increase for the quarter compared to the same period last year. Year-over-year sales of the Jeep brand increased 8%, while Chrysler saw an increase of 32% compared to 2020. Both Dodge and Fiat saw quite a large decrease of around 28% compared to the same period last year. These dealerships can offer healthy profits in areas where they are not oversaturated. 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 soon. *Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.5x–4.5x.*

**Buick–GMC**

Buick saw a 35.2% increase in sales in Q1 2021 as compared to the same period last year thanks to an all-CUV lineup. GMC saw a 10.5% increase in sales for the quarter. The demand was there for much higher sales, but Buick-GMC dealers are suffering from the same lack of inventory as Chevrolet dealers. Consumers and dealers alike are excited by the reveal of the new GMC Hummer EV SUV which should begin production this fall with dealers holding dozens of deposits at each store. *Same multiple range on average 2018, 2019, and LTM adjusted pre-tax profit: 3.25x–4.25x.*
Many of our dealer friends are having a hard time believing conditions could be so good. With gross profits up and expenses down, dealerships are making record profits. The average store may make over $2.5M this year, excluding PPP money, compared to the $1.6M before the Pandemic.

Dealers know these profits are inflated and could begin to drop when production returns to normal, but no one can predict where profits will level out. Will we enjoy a period of higher profits since dealers have learned to operate their stores with fewer people, smaller inventories and more efficient digital advertising? Another question that exists is if larger dealers will outperform smaller dealers as they have more capital to invest in facilities, more career opportunities to attract and retain people, larger inventories and more advanced technologies to interact with younger consumers. For over a hundred years our industry has allowed a small dealer to compete on equal terms with a larger dealer, but times may have changed.

The buy-sell market is mirroring what is happening in the showroom. Buyers are paying more. And they are willing to because they have lots of cash and like the returns on investment from acquiring dealerships. We saw the publics spend a record amount for dealerships in 2020 and we could see them exceeding that level in 2021. Private dealers are also active, acquiring over 80% of the dealerships that traded hands over the past year. Of the twelve transactions our firm has closed so far this year, just one was with a public company. In terms of value, we estimate the average blue sky per dealership reached $9.0M at the end of Q1 2021, up 10% from year end 2020 and up 33% from year end 2019, the last period before the Pandemic hit.

The next 12-24 months are likely to bring significantly more consolidation to our industry. It’s a great time to be a dealer!

**UPCOMING EVENTS**

**Thursday, June 17, 2021 | Sea Island, GA**
Louisiana Auto Dealers Association
Members can register at www.lada.org

**October 6-8, 2021 | Chicago, IL**
VAuto Summit
Additional information at www.vauto.com
Haig Partners is committed to the health of the auto buy-sell market and to maximizing the value of dealerships. Since over 80% of dealerships are acquired by private buyers, a key element is a large number of well-run and well-capitalized family-owned dealer groups that want to grow through acquisitions. For over 45 years the Rawls Group has assisted family-owned dealer groups to make changes necessary for them to thrive for future generations. The Succession Matrix shown below lists a number of areas where The Rawls Group advises its clients. Whether you want to buy, hold or sell, succession planning ensures dealers will be able to increase the value of their most important asset and protect their family legacy. See where you stand now by getting your free assessment snapshot by visiting www.seekingsuccession.com/assessment or calling Kendall Rawls at 407.578.4455.

BUILD VALUE TODAY AND CREATE OPTIONS FOR TOMORROW

THANK YOU AND CONGRATULATIONS TO OUR CLIENTS!
We Were Pleased to Help Maximize the Value of Their Lives’ Work.

Undisclosed Buyers • Undisclosed Sellers
Contact Us Today
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