## BUY-SELL Q\&A

## HOW TO SET A RECORD: ANATOMY OF A DEAL THAT DELIVERED

In June, leading automotive buy-sell advisor Haig Partners negotiated a record-setting sale in which Florida-based Morgan Automotive Group bought Al Hendrickson Toyota in Coconut Creek, Fla., for what's believed to be the highest price ever paid for a car dealership. What factors enter into forging a landmark sale like this? And what lies ahead in the buy-sell arena as dealership profits begin to normalize after an unprecedented run during the past few years? Alan Haig, the company's president and founder, provides insights below.
Q: We are reading about declining dealership profits, but you recently sold Al Hendrickson Toyota for an amount that set a record for the highest price ever paid for a single dealership. How does that happen?
Alan Haig: I'm going to make an analogy about great cooking. It's all about the best ingredients: A well-crafted recipe and the right timing.
We knew we had a special opportunity when one of my partners, Kevin Nill, started a relationship with Al Hendrickson Jr. Initially, Al was thinking about buying more stores. Then he learned about the potential value of his dealership, which would give him an opportunity to create a different kind of family enterprise with his son in the future. We knew Al had built his dealership into the second-highest-volume Toyota store in the country. But he wasn't just about volume. The profits were also among the highest we've seen, and he had built an excellent reputation founded on his slogan, "It's All About You." In addition, the dealership is in our backyard in South Florida, which is one of the top markets in the country. Finally, Toyota has long been one of the most desired OEM partners. Reputation, performance, location and brand were the core ingredients that we had to work with.
Q: What can you tell us about your recipe - the process you used to sell the dealership?
Haig: There are a lot of steps we take while representing a client to deliver upon our own promise, which is "Maximizing the Value of Your Life's Work®." The process involves a little secret sauce.
Valuation: We developed an estimate of how much a buyer might pay for the dealership. We're uniquely positioned to value dealerships because we're in the market every day, talking to buyers, discussing values and handling negotiations. Our estimate was strong, but being the record-setter that Al is, he challenged us to exceed it. Fortunately, he understood that there is a limit to what buyers can pay and still get a desirable return on investment. Both sides must be happy for a deal to happen.
Offering Materials: We created a compelling and comprehensive marketing package which allowed buyers to quickly understand the opportunity. We adjusted the historical financials that showed the true cash flow to the owner and identified areas of profit improvements to create a pro forma

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with three years of projections. Our materials also provided an appraised value of the real estate from a national firm and an estimate of needed improvements. We covered the economic outlook for the area, population growth and so forth. Our offering materials provided everything a buyer needs to know in order to make an informed offer. They are based on the materials that I used when I was head of acquisitions at AutoNation to show to senior management and the board of directors there. Buyers naturally lean toward transactions that are easy to figure out. We did the work for them, increasing the odds that buyers would pay attention to Al's dealership versus other acquisition opportunities.
Relationships With Buyers: We also identified a limited number of buyers which we believed would be the best fit for Al Hendrickson Toyota. We have five managing directors who work every day on selling auto dealerships. Each of us has been in the industry for decades, so together we know hundreds of people that are interested in acquiring dealerships. We know who wants to buy what, for how much, and where. For Al Hendrickson Toyota, we were able to reduce the long list of potential buyers to just a handful that we believed would be most interested, have the financial capacity and be easily approved by Toyota. Our process yielded the highest price with the most confidentiality. It's critical for any potential seller to have access to all the best buyers in the market.
Competitive Bid Process: We spent time with each of the potential buyers we contacted, explaining the attributes of the opportunity, going through our projections, answering questions and then soliciting and negotiating offers. This would have been very difficult for the owner to do while still operating his business. And even though we know who many of the leading buyers might be for a particular business, we don't always know which of them will emerge as the best buyer when we go to market. Occasionally the best buyer is right next door, but sometimes they are thousands of miles away. Rarely is the best buyer the one who contacts a seller directly. They are often looking for a low price and may avoid competitive bidding.
Our competitive-bid process with a limited number of highly likely buyers is the optimal way to produce the best offer that balances the objectives of maximizing price, preserving confidentiality and closing quickly.
Smoothing the Way to Closing: Once Al decided to sell to the Morgan Automotive Group, we helped him negotiate the definitive agreements and responded to due-diligence questions. In almost every sale, issues arise that must be addressed. Most dealers have been involved in very few buy-sells, while our team has been involved in the purchase or sale of more than 540 dealerships. Because of this experience, we've resolved just about every issue imaginable. In this transaction, we fortunately had none arise.

## Q: How important is timing in your recipe for a record-setting sale?

Haig: The buy-sell market moves in cycles. During the Great Recession of 2008 and 2009, there were almost no dealerships sold. Buyers were preserving their cash, and no one wanted to sell for a low price. As conditions improved, so did the buy-sell market. We leveled off with an average of 300 to 350 dealerships sold from 2012 through 2019.
The pandemic brought unique opportunities and challenges to auto retailers. To our amazement, profits ended up tripling for many dealers between the start of the pandemic and the first quarter of 2023. While profits tripled, blue-sky values doubled, as most buyers assumed that profits would decline
when the effects of COVID disappeared. Selling a dealership during this boom time has been a smart choice for many owners, and so the number of transactions exploded. In 2021, we saw 707 sales; and in 2022, we saw 634 sales. Buyers had plenty of cash and were optimistic. Sellers who decided to exit the market obtained very high prices.
These favorable sale conditions have continued in 2023. In January, our firm advised on the sale of Lake Norman Chrysler-Dodge-Jeep-Ram for the highest price ever paid for a CDJR dealership, according to Stellantis. And then there was the all-franchise record-setting Al Hendrickson Toyota sale in June.

What we don't know is what the future holds. Our economy is performing pretty well right now, and it's possible we will avoid a recession. But if employment drops, interest rates surge higher or consumer confidence drops, then demand will retract. And if the OEMs should somehow open their floodgates on producing more vehicles than the market demands, we could see a significant reduction in dealership profits. Any of these conditions would likely cause dealership valuations to fall.

## Q: These dealerships you are talking about are high-volume stores located in some of the most desirable areas. What about stores that are more typical of Main Street USA?

Haig: We continue to see high demand for dealerships across the country and for almost every brand. Our clients have signed agreements to sell their dealerships in 14 states so far this year, and the values our clients are accepting are usually within or above the range we estimated for them at the outset of the engagements.
I believe there are a few reasons why demand remains strong.
First, almost every dealer has benefited from the massive run-up in profits during the past three years. They have a lot of cash to invest, and many believe buying auto dealerships provides a better return on investment than the stock market, real estate or other asset classes.
Second, most of the public companies are pursuing acquisition strategies that are national in scope.
Moreover, three of the public companies have set forth growth plans that will require them to buy hundreds of dealerships during the next few years. They are shopping in almost every state,
In addition, there are many regional and local groups looking to grow in their immediate areas. Owning more stores in the local area will provide a larger inventory of new and used vehicles, a more diverse brand mix to attract and retain customers, more career opportunities to attract and retain employees, and the ability to leverage some of their costs.
The variety of buyers active in the marketplace is also helping to support strong values. Large buyers are typically looking for large stores and multistore acquisitions. They can afford $\$ 100$ million to over $\$ 1$ billion for an acquisition. Small to mid-sized buyers are more focused on the core of the market, dealerships that are making $\$ 2$ million to $\$ 10$ million today.
The one area where we see low demand today is for domestic stores in rural areas. Buyers are concerned about the costs to make dealerships compliant


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with OEM demands for selling electric vehicles, the challenges of attracting management personnel in small towns and the perception that Ford, General Motors and Stellantis would like many of these dealerships to disappear. Potential buyers wonder what their allocations will be like and then who would want to buy the stores from them in the future when they are ready to retire.
Q: What's your outlook for dealership values for the rest of 2023?
Haig: In terms of pricing, conditions are still excellent for sellers. Valuations at dealerships have declined slightly along with the decline in earnings, but goodwill is at least twice as high as what might have been expected before the pandemic. This is not to say that all sellers will see their wishes come true. Some sellers simply have unrealistic expectations in terms of bluesky values. And certain franchises are hard to value today, given questions about inventory, their EV strategy and OEM production levels. But we are confident that leading franchises in almost every town in the U.S. will have numerous willing buyers. It is still a seller's market.

## ABOUT HAIG PARTNERS

Haig Partners LLC helps dealers maximize the value of their businesses when they are ready to sell. The team at Haig Partners has unmatched experience, with executives from leading retail dealer groups and financial institutions. The team has advised on the purchase or sale of more than 540 dealerships worth more than $\$ 9.4$ billion and has represented 26 groups that qualify for the annual Automotive News list of the Top 150 Dealership Groups, more than any other firm. Haig Partners leverages its expertise and relationships to lead clients through a confidential and customizable sales process that also maximizes the value of their businesses. It publishes the Haig Report, the industry-leading quarterly report that tracks trends in auto retail and their impact on dealership values, and co-publishes the National Automobile Dealers Association's guide Buying and Selling a Dealership. For more information, visit www.haigpartners.com or contact Alan Haig at alan@haigpartners.com or (954) 646-8921.


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