

BUY-SELL Q&A

VALUATION: HOW ARE DEALERSHIPS BEING VALUED TODAY?

With record numbers of dealerships exchanging hands this year and store valuations and profits reaching unprecedented highs, opportunities abound for both buyers and sellers. But how long might this exuberant market last? What can sellers do to maximize valuations? What steps must dealers take to maintain high valuations for the long term? Alan Haig, the founder and president of Haig Partners, a leading buy-sell consultant, offers some thoughtful insights on and context for these issues – and more.



Alan Haig

Q: How are dealership valuations faring in the current economic climate? Is the industry still at a high point?

A: Dealership valuations have reached all-time highs, just like dealership profits. In our third-quarter 2021 Haig Report, we estimate the average blue-sky value for dealerships is \$10.9 million, up 63% since 2019. The “Chipdemic” as we call it, will continue for some time, and dealers are also finding other ways to boost profits. We expect these high prices will stay with us well into 2022 and beyond. There are longer-term risks, however. If the OEMs revert to over-producing, interest rates go up, and new entrants like Tesla, Carvana and Vroom take significant market share from traditional dealerships, then we will likely see values fall.

Q: Is this a good time to buy or sell a dealership – or both?

A: A record number of dealerships will trade hands in 2022, so I would say that conditions are excellent for sellers and buyers. Sellers are getting record high prices and can exit the industry with enough money to ensure their families’ financial security for generations to come. From the buyers’ point of view, they are seeing more quality acquisition opportunities than at any time in my career. And while prices are high, so are

profits, so their return on investment is still strong. Finally, acquisitions can help buyers to establish the scale they need to thrive over the long term.

Q: What are the main factors that currently are influencing dealership valuations?

A: A buyer’s perception of future cash flows largely determines what it will pay for a dealership. How much profit will the dealership make in the next two, five or ten years? These projections can be particularly challenging today. Buyers are having to make calculated guesses on how much longer the Chipdemic will last. Also, what is the cost of the real estate and what investments will be needed to make it compliant with OEM requirements?

COVID is making these calculations difficult as well due to higher costs for labor and materials.

Q: What steps can sell-minded dealers take to ensure they’re maximizing their store valuations?

A: High profit is a seller’s best friend. Every extra dollar of profit gets a seller three to ten times more in purchase price. Dealers should also pay close attention to their real estate value and obtain one or more real estate appraisals to make sure they are getting the fair value. And at the risk of sounding self-serving, an advisor like Haig Partners also can add significant value to a seller. Our team can clearly explain the positive attributes of a dealership to buyers, how much money it has been making after add-backs and show

opportunities to improve profits in the future. And perhaps most importantly, we run a confidential sales process among the most qualified buyers in order to get them to compete and pay the highest possible price. The team at Haig Partners has extensive experience in helping dealers to maximize the value of their lives’ work.

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This means companies that sell direct to consumers could take significant market share. To compete, dealers will need to offer consumers a shopping experience similar to what they enjoy online: huge inventories and a frictionless

buyer experience. Dealers will thrive if they own many franchises, offer thousands of vehicles and embrace digital retailing, in addition to being consumer friendly in their physical dealerships. The get-big-or-get-out strategy can create massive wealth for those dealers that embrace it, but it could also erode value for dealers who do not evolve.

ABOUT THE PANELIST

ALAN HAIG

President, Haig Partners

Since 1996, the team at Haig Partners has been involved in the purchase or sale of 540+ dealerships totaling \$8 billion. They have represented 20 of the Top 150 dealership groups on the Automotive News Top 150 list, more than any other firm. The team at Haig Partners has unmatched auto retail experience previously serving in executive leadership and corporate development roles for AutoNation, Asbury, Bank of America’s Dealer Financial Services and DHG’s Dealerships. They author the Haig Report and are co-author of NADA’s Guide, “Buying and Selling a Dealership.”

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Q: How are dealership valuations calculated and who should make that calculation?

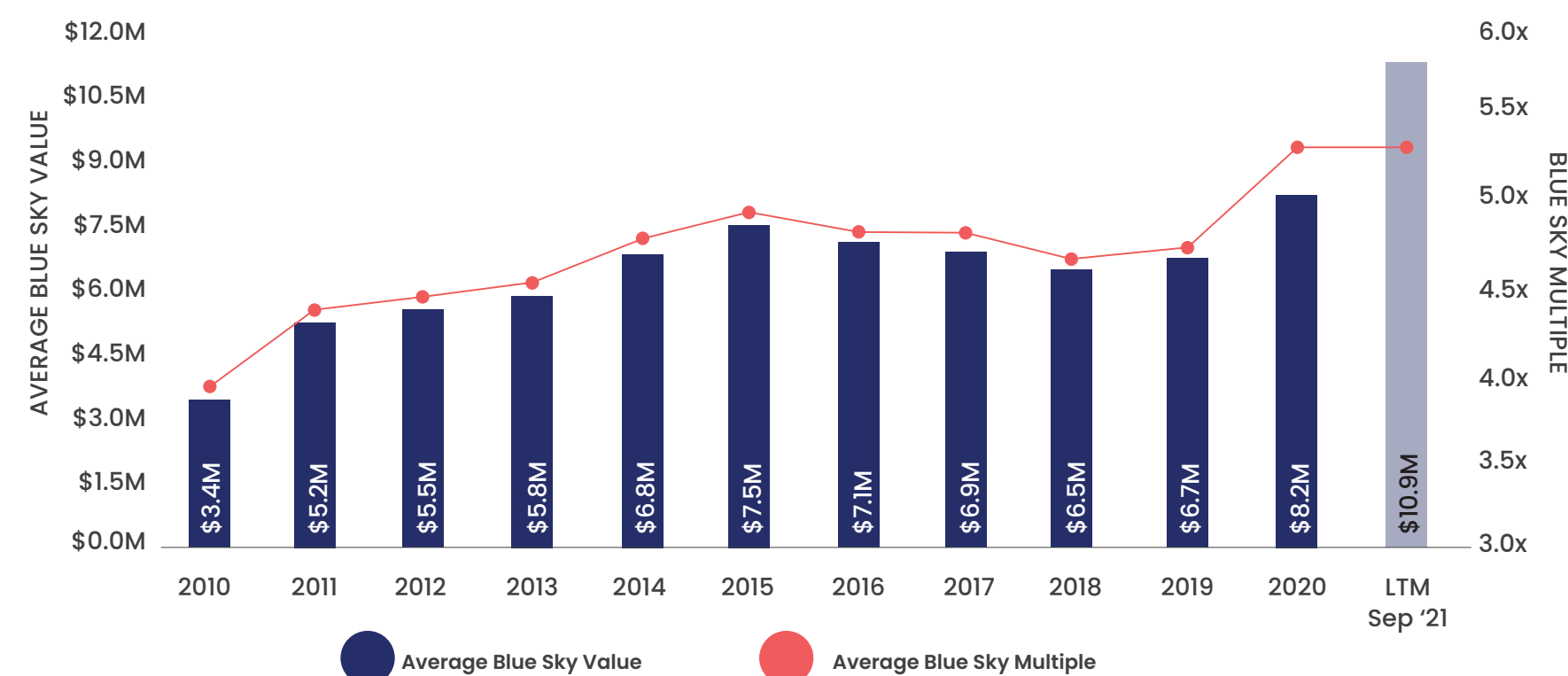
A: Dealers know that the record profits we’re currently enjoying will not last forever, but they do expect extreme profits to last well into 2022 and remain elevated in 2023 and 2024. While every deal is different, we see many buyers basing their offers upon an average of pre- and post-Chipdemic earnings. This method takes the average of adjusted profits for 2018, 2019 and the last twelve month period of 2021, then applies a blue-sky multiple to calculate the amount of blue sky a buyer will pay for a dealership. This method generates a blue-sky value of \$10.9 million for an average dealership (see below), up 63% from 2019, before the pandemic.

We have also seen buyers pay off just current earnings for acquisitions that they see as strategic and transforming. Since we are sometimes seeing wide ranges for dealership valuations, it’s critical for sellers to run a competitive sales process in order to find the very best buyer.

Q: What do you think the value of stores will be in five to 10 years?

A: We believe values for most dealerships will be strong for the foreseeable future. Earnings should remain high and buyers still have plenty of capital and desire to grow. But there are some longer-term risks that could hurt the value of some dealerships, as we mentioned before. Consumers are increasingly comfortable buying autos sight unseen.

ESTIMATED AVERAGE BLUE SKY VALUE



Source: Haig Partners Q3 2021 Haig Report