

THE HAIG REPORT

Q1 | 2022

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- The Chipdemic continues to create extraordinarily favorable conditions in auto retail
- The average publicly owned dealership made \$7.1M in LTM Q1 2022, 10% higher than year-end 2021
- Public company spending on US auto acquisitions was \$588M in Q1 2022, 35% higher than Q1 2021
- Public equity valuations are 100% higher than they were before the Pandemic
- Average blue sky values rose an estimated 117% from the end of 2019 and are at record-high levels
- The near to mid-term outlook for dealerships appears bright, but threats are emerging



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OVERVIEW

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We are in a period when general economic indicators are having little impact on the auto retail industry. Inflation, gas prices and vehicle prices are all up significantly. The stock market, GDP, and consumer sentiment are all down significantly. Russia invaded Ukraine, causing tens of thousands of needless deaths, creating high levels of tensions between nuclear-armed nations, and further worsening global supply chain issues. We would normally expect these conditions to be disastrous for our industry, but instead, dealers are enjoying record earnings. Customers are aware of all the negative news, but there is just so much pent-up demand that they are buying vehicles at all-time high prices.

We can thank the Chipdemic and heavy government spending for these robust conditions. The supply of vehicles fell at the same time that people had more money to buy them. Dealership profits began to take off in the middle of 2020 and are still rising in Q1 2022. While we may be nearing peak earnings for dealerships, our math indicates we will remain in a period of elevated earnings for the next three years or so.

Because of these high profits, buyers are likely to remain keenly interested in expansion through acquisitions. Towering earnings amplified by high demand equates to record high blue sky values for dealerships. Buyers are coming to terms with how to value dealerships, banks are comfortable loaning money at elevated valuations, and sellers are motivated by high prices. So long as we don't fall into a recession that kills consumer demand, the buy-sell market should be highly active for the rest of the year.

Jeff K. Swickard

SWICKARD AUTO GROUP

"Normally we are buyers, not sellers. But we decided to divest Mercedes-Benz of South Atlanta since it was far from our growing base of stores on the West Coast. Our partnership with Mercedes-Benz is extremely important to us so we wanted to sell to a dealer with an excellent reputation with luxury customers. We respect Alan Haig and his team and we asked for their assistance in helping us to achieve our objectives. He, Mike Toth and John Davis led a highly confidential process by approaching a very small number of potential buyers that matched our ideal profile for a buyer." - **Jeff Swickard, Dealer Principal, Swickard Automotive Group**

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Buy-Sell Activity Is High But May Not Match 2021

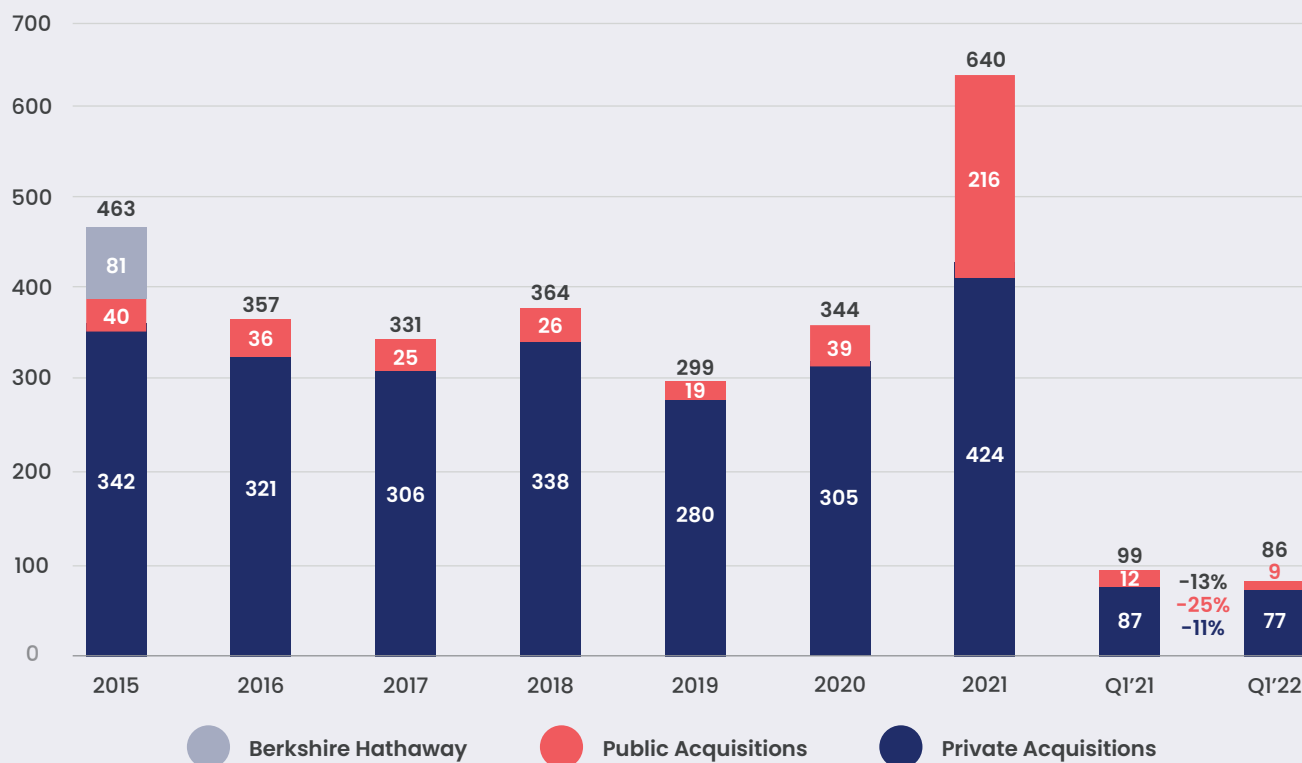
Based on our research and data from Automotive News and The Banks Report, 2021 was a historic year for auto dealership acquisitions. We estimate dealers purchased 640 rooftops last year, the most our industry has ever seen. The conditions were ripe for both buyers and sellers. Prices were high due to record levels of profits, and many sellers entered the market to take advantage of these prices and partially out of concern for higher taxes in the future.

The first quarter of 2022 is off to another strong start. Public and private buyers purchased 86 dealerships in Q1 2022 compared to 99 in Q1 2021, a decline of 13%. But spending by the publicly traded retailers on acquisitions is actually running ahead of last year's pace, with \$588M spent in Q1 2022 vs. \$434M in Q1 2021. Private buyers have been almost as active as last year. Despite the decline, the outlook for the rest of 2022 is promising. Dealership profits continue to rise even higher, and many dealers are bullish about the

outlook for auto retail. Prices will remain high. But it's also possible that we won't have as many megadeals come to market in 2022. Consider the following data to put 2021 in context.

- The number of dealerships sold in 2021 was 38% higher than the previous record set back in 2015.
- The number of dealerships sold was 89% above the average number of rooftops trading hands from 2016-2019.
- Public companies purchased 216 dealerships in 2021, up 645% from the average number over the past five years.
- Private buyers were also active, acquiring an estimated 424 rooftops in 2021, a lift of 34% from preChipdemic years.

US DEALERSHIPS BOUGHT/SOLD

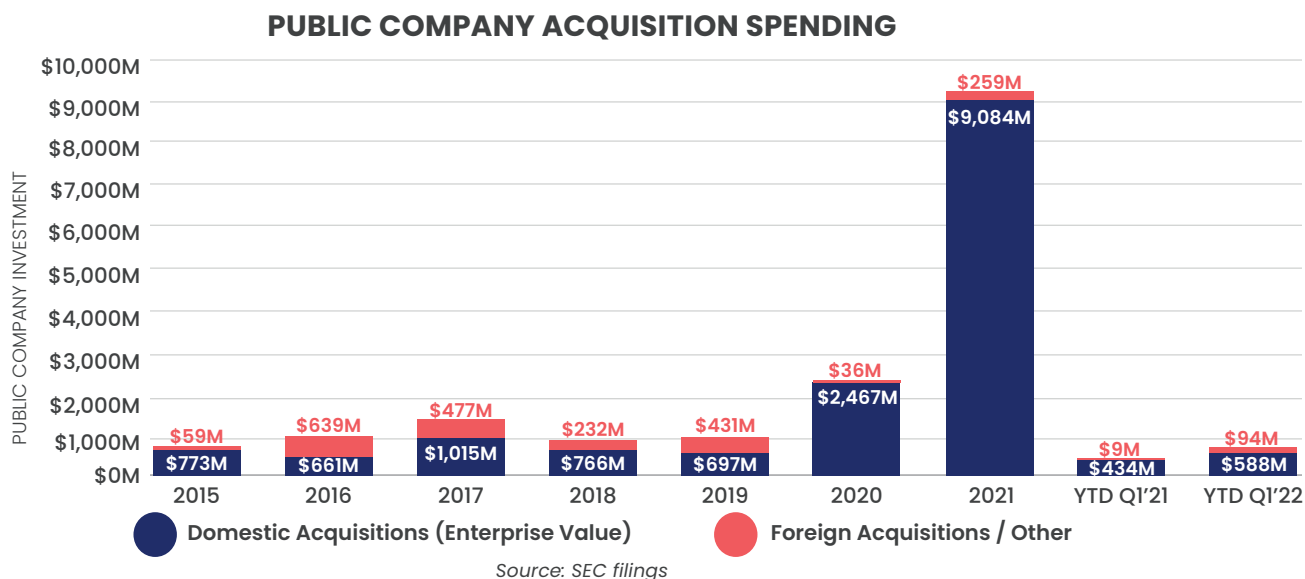


Source: Automotive News, The Banks Report, & Haig Partners

Public Company Acquisition Spending Has Reached Record High Levels

The amount of spending by public companies on US auto dealerships exploded in 2021, reaching \$9.1B, the most ever in a single year. The publics acquired nine dealerships for \$588M in Q1 2022 compared to 12 dealerships for \$434M in Q1 2021. They spent more money on fewer stores largely due to Group 1's acquisition of Charles Maund Toyota in Austin, Texas for around \$250M. We believe this is the most ever paid for a Toyota dealership, and perhaps the most paid for a dealership of any kind. Two words explain this record setting price: Toyota and Austin. Most of the publics were relatively quiet in Q1 2022, likely digesting some of the blockbuster deals they acquired last year. Many of the public company CEOs mentioned on their earnings calls that they are still on the hunt for acquisitions and the acquisition market remains robust, but they are looking for acquisitions that fit their strategic goals.

We have the ability through relationships today to go out and purchase another \$5 billion if we wanted to today. Our goal is not to grow quickly. Our goal is to grow thoughtfully and be great capital allocators for our shareholders. – David Hult, CEO of Asbury



Blue Sky Values Are At All-Time Highs

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. The following table sets forth our expectation of what a buyer would pay for the blue sky for various franchises, applied to a three-year average of adjusted pre-tax earnings. Since NADA has discontinued its

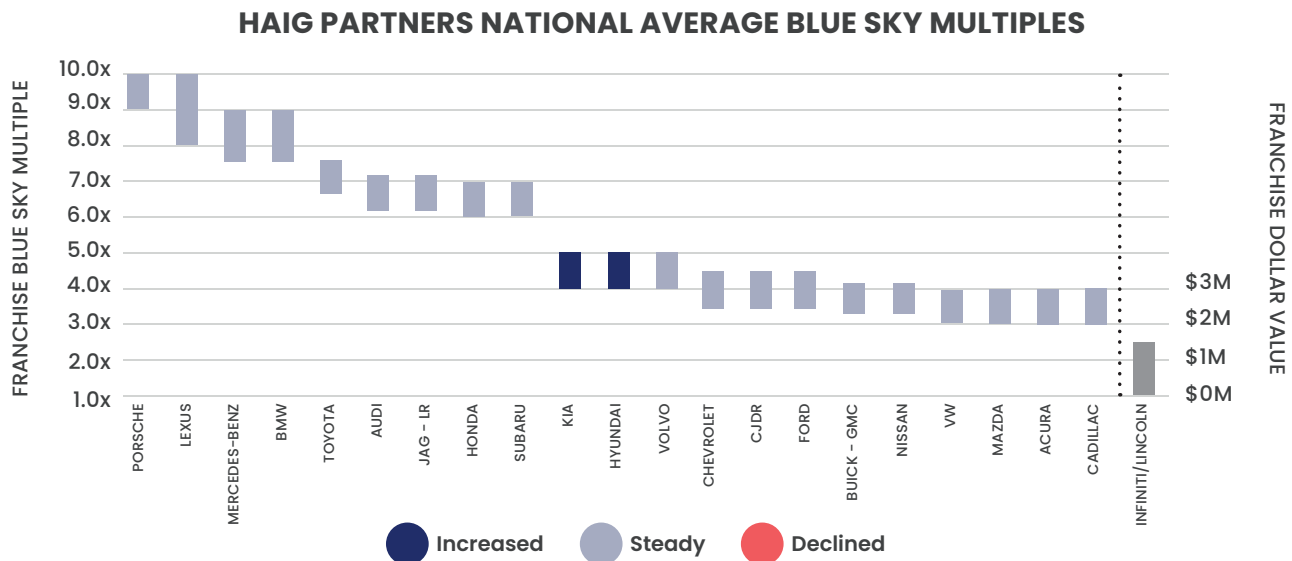
publication of private dealership financial performance, we have begun using the data from the publicly traded auto retailers to estimate average profits per dealership. The three-year average of adjusted pre-tax earnings we see buyers are comfortable with are one year of pre-Pandemic earnings (2019) with two years of Chipdemic era earnings (2020 and the most recent twelve month period, so Q2-2021 to Q1 2022). We then apply this three-year average of adjusted pre-tax profit to the average blue sky multiple for all franchises to calculate the estimated average blue

sky value per dealership. While every transaction varies, we estimate that the blue sky value of the average dealership owned by the public companies is 117% higher now than at the end of 2019, 78% higher than at the end of 2020, and 6% higher than at the end of 2021. The increase in blue sky value per dealership is largely due to higher profitability levels.

We are seeing particularly high interest in states like Florida and Texas where there are no state income taxes. Values are also strong throughout the Southeast, the Southwest and in Mountain States where population growth is strong

and the business climate is favorable. In these areas, 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.



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

This section covers general economic trends as well as others that are more limited to auto retail. We can't recall being in an environment when the market was so positive for dealers despite being so hard on consumers. We are hoping that the conditions will begin to align for both parties, in a positive way!

Inflation Is High

The 12-month inflation rate was 8.3% in April 2022, the highest rate since 1981. 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 Are High

The national average price per gallon of gas was \$4.32 as of early May, about 46% above the level at the same time last year and up 32% so far in 2022. 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.

GDP Is Declining

We mentioned earlier that the greatest threat we see to dealers over the next three to five years is a recession. Our finance textbooks define a recession as two consecutive quarters of negative GDP growth. We appear to be halfway there, as GDP decreased at an annual rate of 1.4% in Q1 2022. This is the first quarter of GDP decrease after six straight quarters of GDP growth. GDP decreased due to higher gas prices, supply chain issues, inflation and concerns about the Russian invasion of Ukraine. Aside from the humanitarian disaster, the war will drive up the cost of the food and energy that both countries export to the world. These factors are causing some consumers and corporations to become more cautious. Some economists are predicting the US economy will enter into a recession within the next year.

Unemployment Is Falling And Has Almost Returned To Pre-Pandemic Levels

Although GDP is falling, the unemployment rate fell to 3.6% in April 2022 as the economy generated 428,000 new jobs, according to the Labor Department. The unemployment rate is 0.1% from the pre-Pandemic level of 3.5% (February 2020). There are millions of job postings and more employees are willing to return to the workforce,

attracted by higher wages, safer conditions and reduced unemployment benefits. The labor force participation rate reached 62.2% in April 2022, nearly 1% below the February 2020 level of 63.4%. A rise in employment participation allows production to increase, providing an opportunity for inflation to decrease.

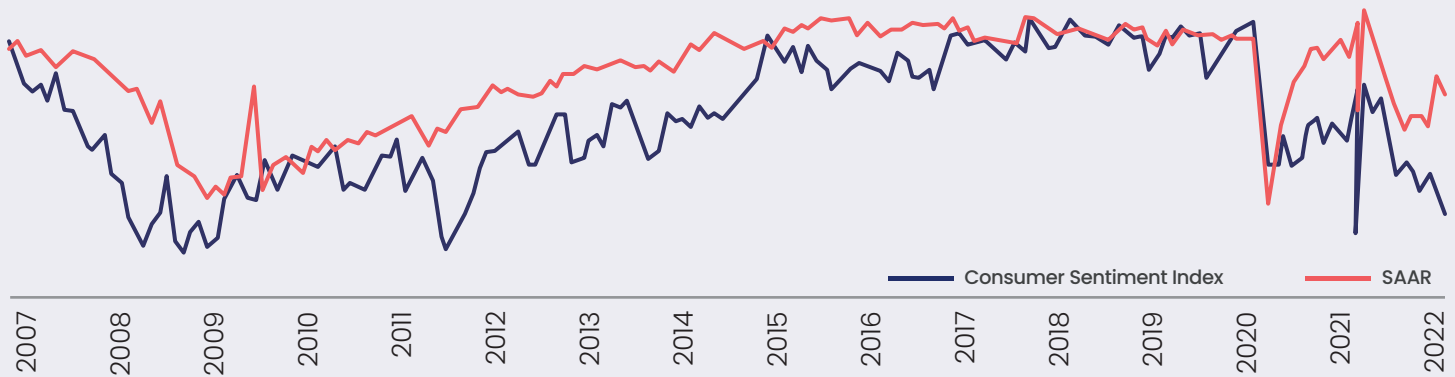
Interest Rates Are Increasing

The Federal Reserve increased its discount rate by 50 basis points in April to 1%, trying to push down inflation which it hoped was "transitory." Seven more hikes are projected in 2022, pushing the rate up to an expected 2.9%. The average mortgage rate in the US reached 5.27%, up from 2.96% at this time last year. Higher rates can suppress inflation because they reduce the demand for goods. The challenge for the Federal Reserve is to orchestrate a soft landing for the economy by keeping inflation in check without pushing the US into a recession. And it's not just consumers who pay higher rates. Dealership buyers may balk at paying 5% for acquisition financing when it was available for about half that rate earlier this year.

Consumer Sentiment Remains Low

Consumer Sentiment is an economic indicator that measures how optimistic consumers feel about their finances and the state of the economy. New vehicle sales and Consumer Sentiment, as measured by the University of Michigan, typically move together. When Consumer Sentiment is increasing, auto sales increase, and vice versa. But this relationship appears to be broken. Consumer Sentiment hit a decade low in March, falling to 59.4. Consumer Sentiment rebounded 6.3 points and hit 65.7 for April, but is still down 26% from last April. The declines are driven by rising inflation and a weak economic outlook. The effect of the war in Ukraine hit the index in March. These events could cause a reduction in demand for new vehicles, which could hurt both margins and volume at auto retailers, hitting profits hard.

Consumer Sentiment Versus SAAR



Source: Thomson Reuters / University of Michigan; FRED

The Lack Of Microchips Continues To Impair Production

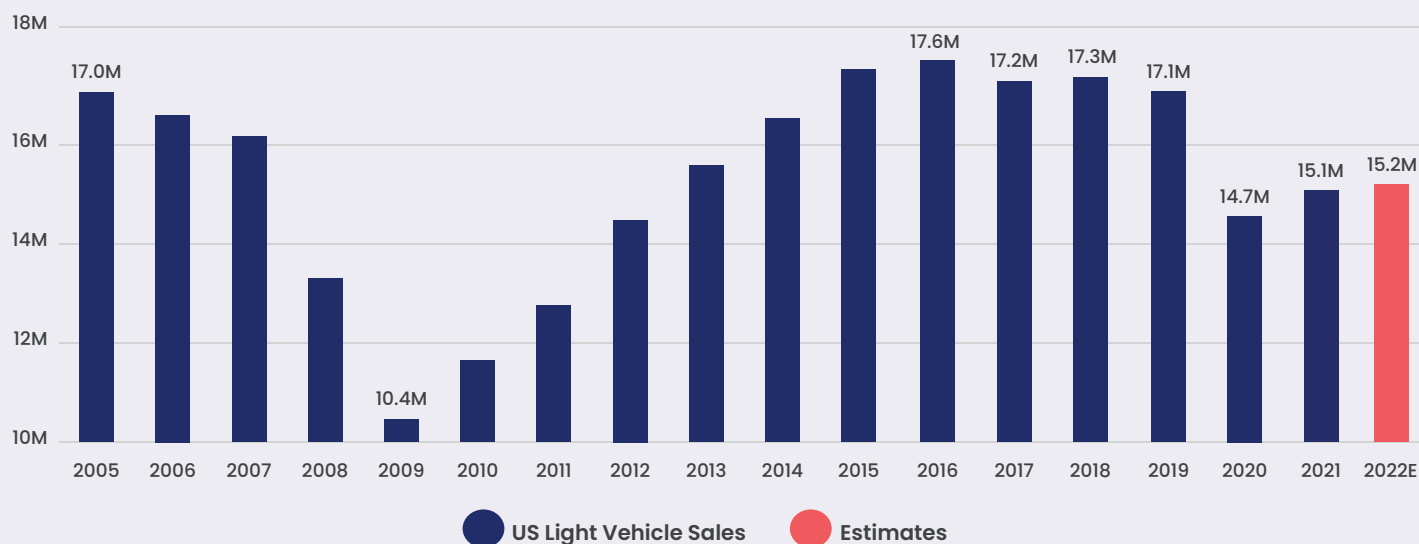
As the US began to exit the Pandemic in April 2021, the SAAR peaked at 18.8M units, the strongest April sales in the history of the US auto industry and the highest monthly sales rate since July 2005, according to NADA. But since April 2021, OEMs have struggled with a shortage of microchips. We are calling this period the Chipdemic era. Sales began to slip, and the SAAR dropped to 12.2M in September 2021, almost 1/3 below pre-Chipdemic levels. The SAAR started to recover in 2022 when it hit 15M in January. However, due to new production cuts partly caused by the Russian invasion of Ukraine, the SAAR fell to 14.3M in April 2022, 24% below the April 2021 level. With continued production issues, demand seems likely to exceed supply for the foreseeable future.

MONTHLY SAAR



Source: NADA

US LIGHT VEHICLE SALES



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

Two Years Into The COVID Era, Pent Up Demand Is Still Growing

The chart above shows the combined amount of fleet and retail sales for light vehicles in the US over the past 17 years. You can see the impact of the Great Recession when sales dropped about 40% from 16-17M sales to 10.4M sales in 2009. This drop was caused by a lack of confidence, a lack of credit and a lack of capital on behalf of buyers.

The drop in sales today is solely caused by a lack of supply as the level of demand is high. Many in our industry wonder how much longer current conditions will continue. It appears to us as though demand will exceed supply for some time to come. Here is some data to consider.

- From 2015-2019, new vehicle sales in the US averaged 17.3M units. About 1.8M units went into rental car fleets per year.
- Due to the Pandemic and subsequent Chipdemic, we are in a 7.4 million post-Covid unit deficit and are poised to lose an estimated 100,000 units per month in 2022 based on Manheim Consulting's, Kevin Chartier. The total amount of lost sales over this three year period could be said to be 8.2M units. To be conservative, let's eliminate the sales that would have gone to rental car fleets since demand for them truly dropped during the Pandemic as people stayed home. So the combined lost sales to consumers over this three year period could be said to be 5.1M units.
- It's unclear how much production capacity the OEMs have now, given they are shifting over production lines to EVs. But let's assume their capacity is 10% above the average level produced from 2015-2019, so 19.1M units per year (1.7 million units over the 2015-2019 average).
- Assuming that the OEMs would be ready to produce at this estimated maximum capacity by the beginning of 2023, which seems very unlikely given the ongoing supply chain issues, it would take an estimated 3 years to catch up with the lost production from 2020-2022 (5.1M lost units / 1.7 M units excess capacity per year = 3 years). By this calculation, we will remain in a period where demand exceeds supply well into 2025. Margins and profits are likely to remain elevated. And even as supply comes back at higher levels and margins begin to drop, the total amount of gross profit from variable ops may remain close to current levels. The rise in sales could offset the decline in gross profit per unit. Of course, a BIG caveat to the last sentence is that these projections are based on unproven production assumptions, and we also don't know what other factors will be at play that will affect dealers, like the expansion of the war in Ukraine and/or a recession.

Inventories Remain Low

The combination of production shortfalls and high demand has created significant inventory shortages at dealerships nationwide. According to Cox Automotive, the supply of new vehicles at the end of April 2022 was 63% below April 2020, at just a 35 days supply. Many dealers have an even smaller supply. Dealers' lots are close to empty and they are selling far into their allocations. Customers are pre-ordering more than ever before so they can have a shot at purchasing a vehicle they want. Dealers tell us they are enjoying the high margins, but are concerned that their profits will drop unless they get more to sell.

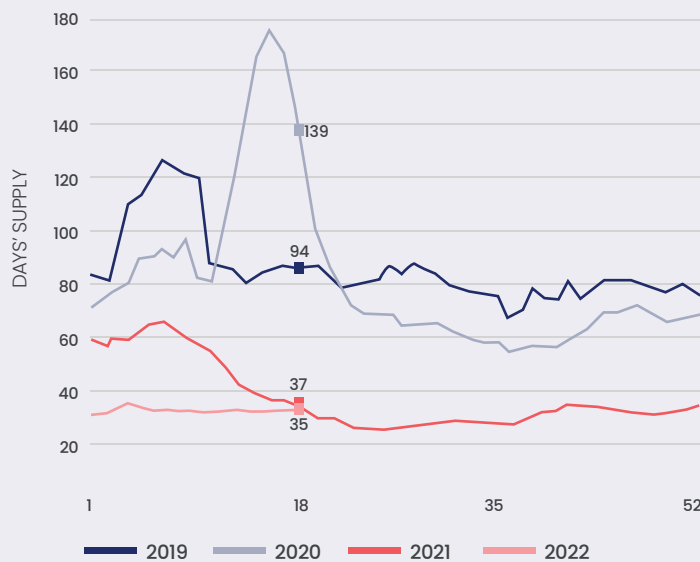
The situation with used inventories had been better since dealers can source from the 283 million used units that are on the roads in the US. But conditions have worsened over the past couple of months. The days' supply for used vehicles started off strong in 2022, hitting 61 days in January. However, the days' supply of used vehicles has dropped all the way down to 46 days at the end of April.

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 April was expected to reach \$45,232, an 18.7% increase from the prior year. In addition to raising prices, OEMs are reducing incentives. Incentive spending per vehicle is down to 2.3%, a record low. We wonder why there are any incentives at all given how quickly vehicles are selling.

Used vehicle prices have also been extremely high. The Manheim Index of used vehicles skyrocketed in 2021 and has not yet returned to Earth. Wholesale-used vehicle prices were up 14.1% in April compared to April 2021. Until the supply of new units returns to more normal levels, or until we see a drop in demand from buyers, we expect the value of used units will remain very high.

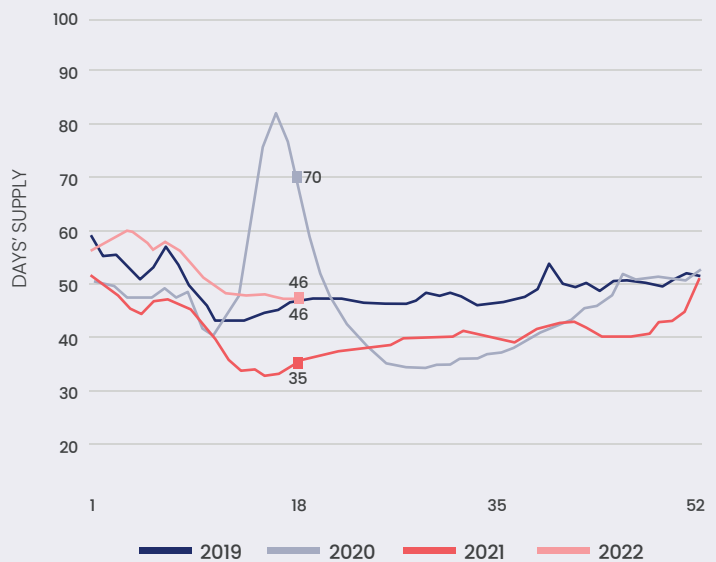
As we continue to see record new and used vehicle prices each month, vehicle buyers are benefiting from more equity on their trade-in vehicles. In April, J.D. Power reported that the average trade-in equity for vehicles was \$9,668, a 72% increase from April 2021.

NEW DAYS' SUPPLY BY WEEK



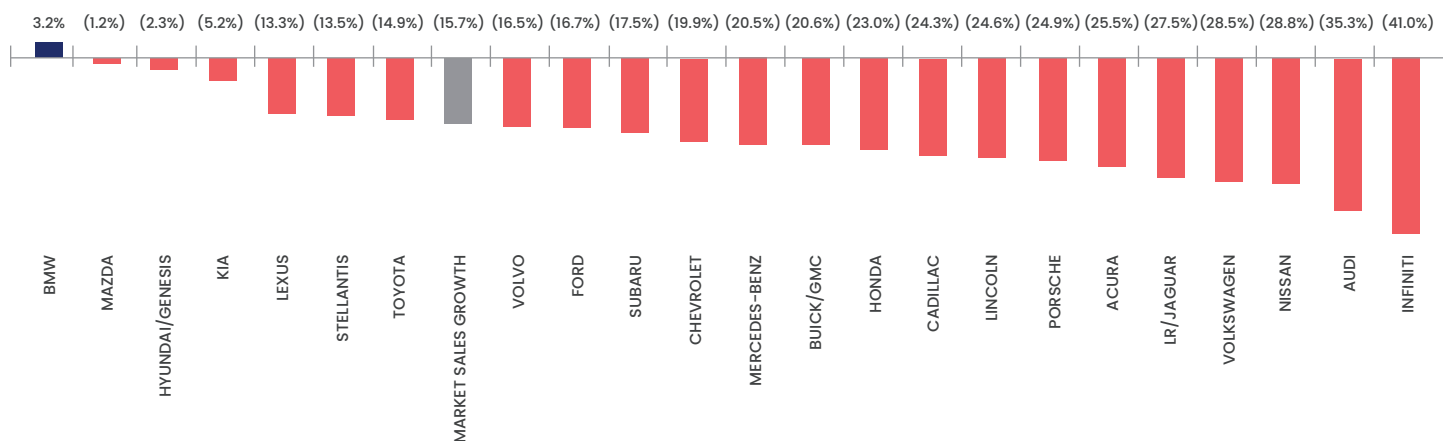
Source: Cox Automotive

USED DAYS' SUPPLY BY WEEK



Source: Cox Automotive

YEAR/YEAR SALES PERFORMANCE – Q1 2022



Source: Automotive News

Almost All Franchises Are Suffering A Drop In New Vehicle Sales

The chart above sets forth the change in new unit sales among the major franchises in Q1 2022 compared to Q1 2021. Inventory shortages are biting further into new vehicle as the average franchised dealership sold 15.7% fewer new units in Q1 2022 compared to Q1 2021. BMW is the only brand to increase sales. Mazda, Kia and Hyundai also far outperformed the market. If sales drop much further, profits for both OEMs and dealers could fall. Dealers are facing a dilemma on pricing. Those who sell at MSRP bear the pain of seeing some of their customers flip their vehicles for a quick profit. Those who charge over MSRP are worried their OEMs will cut their allocations, or that customers with long memories will defect to other retailers in the future. We wonder if MSRP should be abandoned for the next few years until supply can meet demand, otherwise we will continue to see unwanted tension between OEMs, retailers and customers. Let the market set the price for new vehicles, as in the used market.

New Vehicle Gross Profits Continue To Increase

Despite the drop in Consumer Sentiment described on pages 6 & 7, demand has been strong for new vehicles. Lots of buyers combined with limited supply has caused gross profits per new vehicle to skyrocket in 2021. This trend has continued into 2022 as the public companies made an average of \$6,244 in front-end gross profit per vehicle. Gross profits on new vehicles in Q1 2022 were 180% higher than pre-Chipdemic (2019). Dealers tell us the OEMs don't know when they will be able to source enough components to resume full production. Each week we hear about new supply constraints, and the war in Ukraine is continuing to exacerbate the shortages since

Ukraine supplies 90% of the neon needed to produce semiconductors. A number of economists who follow the auto industry are predicting that it will be years before the availability of vehicles meets the demand for them. During that time, barring a shock to demand, we expect that margins will remain elevated. Unfortunately, the OEMs have been watching these elevated new vehicle margins with a combination of envy and resentment. Some want to take this profit for themselves by instituting an agency model in which the OEM acts as the dealer and the dealer acts as a delivery person. We discussed that at length in our last report and refer to it again on Page 15.

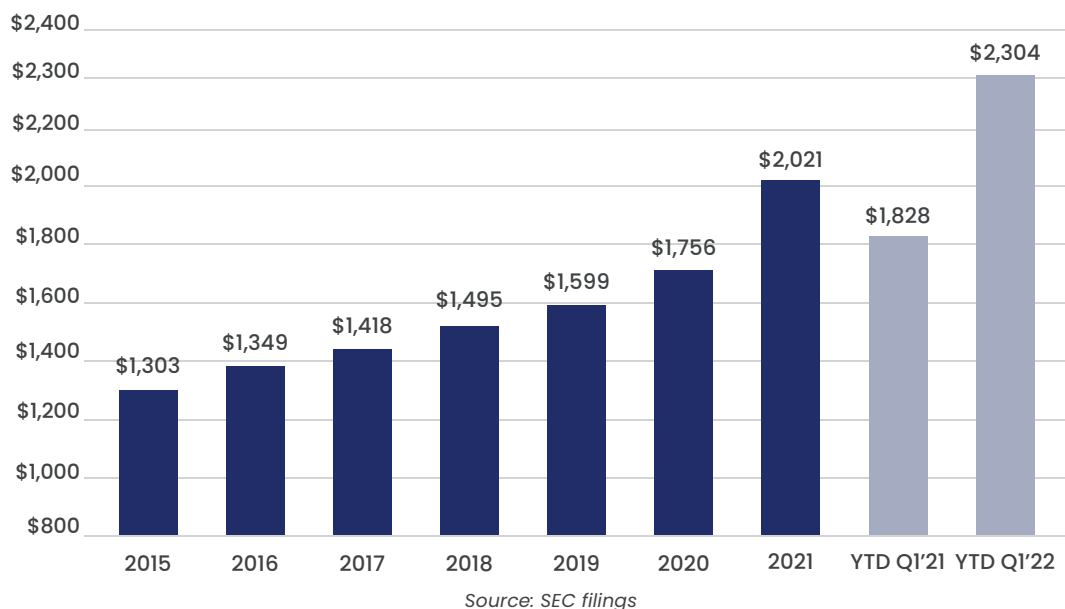
NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA*(Weighted Average Same Store Performance - In Current Dollars)***Used Vehicle Gross Profits Are Decreasing**

A spike in demand for used vehicles and a decline in off-lease used units provided dealers with significant pricing power in the market last year. However, we have seen pricing power fall recently as gross profit per used unit in Q1 2022 was 10% below the 2021 level. There are several reasons why used gross profits could have declined, and the year is still young so it remains to be seen if we have hit peak profit per used, or if Q1 2022 was a temporary blip. Gross profit per used vehicle is still 42% higher than in 2019, the last year before the Chipdemic.

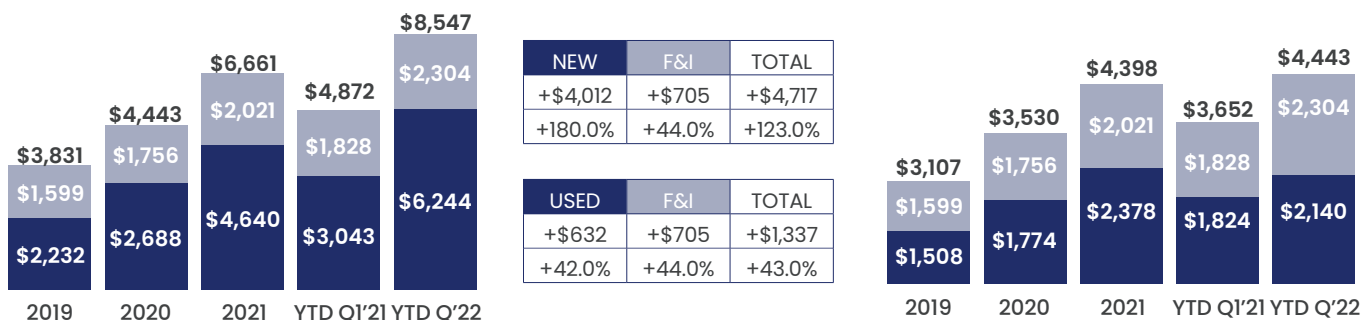
USED GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA*(Weighted Average Same Store Performance - In Current Dollars)***Finance & Insurance Income Is Rising Along With Higher Transaction Values**

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 \$2,304 per vehicle retained in F&I gross profit in Q1 2022, up an impressive 14% from the average per vehicle during 2021.

We believe privately owned dealerships are also doing a better job with F&I. As their volume has fallen, dealers have had more time to focus on their F&I processes and training. They have developed new strengths that should endure.

PUBLIC COMPANY F&I PER UNIT RETAILED*(Weighted Average Same Store Performance - In Current Dollars)***Combined Front And Back Gross Profits Per Vehicle Retailed Hit All-Time Highs**

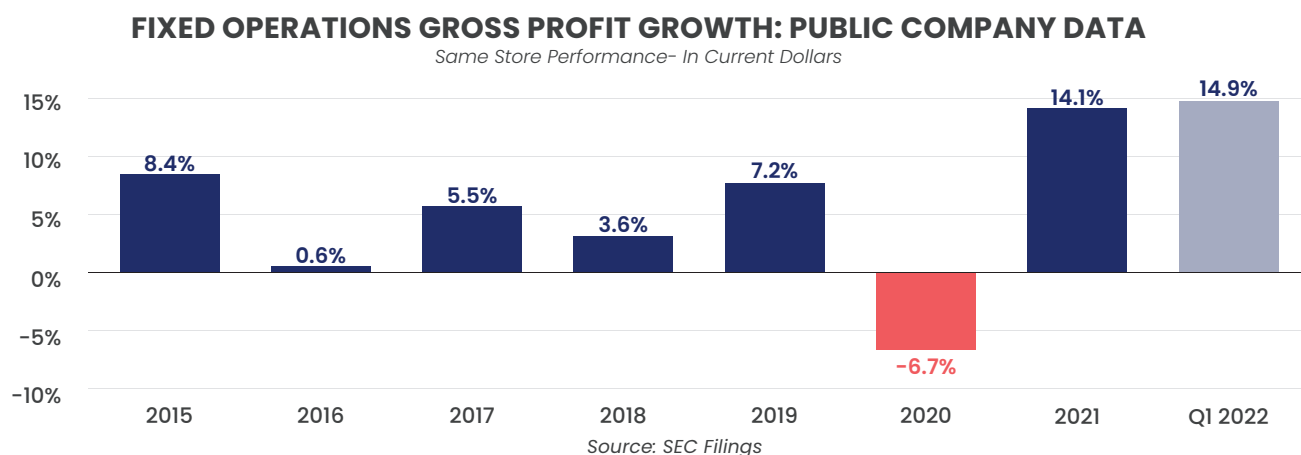
The tables below track total profits per vehicle retailed data back to 2019. Publicly traded dealer groups enjoyed record high profits for each vehicle they sold in 2021 and we believe the same for virtually every private dealer as well. This trend has continued into Q1 2022 as the public retailers made a total of \$8,547 in front and back gross profit per new vehicle retailed, up 75% from Q1 2021. And the public retailers made a total of \$4,443 in front and back gross profits per used vehicle retailed, up 22% from Q1 2021.

PUBLIC COMPANY VEHICLE GROSS + F&I PVR*(Weighted Average Same Store Performance - In Current Dollars)***NEW Vehicle Gross****2019 - YTD Q1'22****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 Up Due To Customer Pay, Recalls And Higher Labor Rates

Fixed operations took a big hit during COVID. But recently the number of miles driven has increased. Plus, due to the lack of new vehicles available for purchase, many people have been spending more money to maintain their existing vehicles. And finally, we have seen dealers pushing through big labor rate increases as demand is high, the number of technicians is low, and competition for labor has pushed up compensation. As a result of these three

factors, fixed operations rebounded in 2021 and 2022 is off to a strong start with Q1 2022 fixed operations gross profits growing an impressive 14.9% year over year. The growth in fixed operations is an example of the strength and flexibility of the auto retail model. If the supply of new vehicles falls, then consumers spend more to maintain their current vehicles.

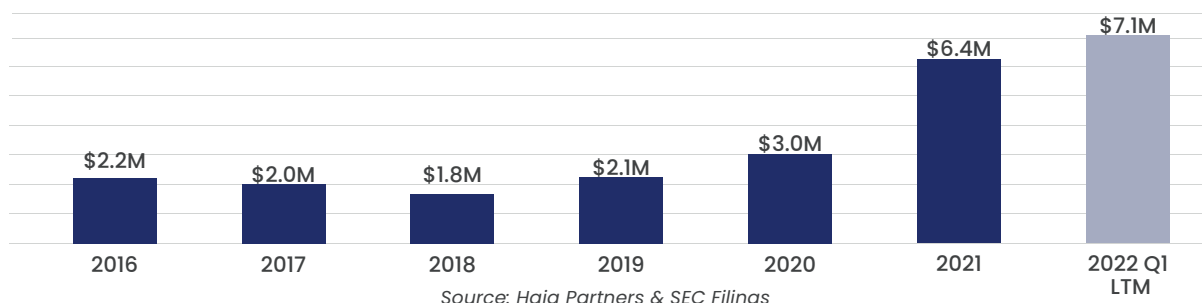


Dealership Profits Reach Another Record High

The net outcome of the trends listed on the previous pages is that profits exploded at dealerships in 2021. For many years we have referenced a composite of the financial results of privately owned dealerships that NADA shared on its website. But NADA stopped releasing the composite in October 2021 and has announced that they will no longer be sharing this information with the public. In order to track trends in profits per dealership, we are now analyzing the financial statements released by the publicly traded franchised retailers and are breaking their statements down to the individual store level. We had to make a number of adjustments and estimates to make the financial statements of publicly owned dealerships comparable to privately owned dealerships. For instance, since many of the publicly traded retailers own their real estate instead of leasing it from a related entity, like most

privately owned dealerships, we had to create a rent factor based on the value of the land and buildings listed on the balance sheets of the publicly traded companies. We won't be able to get completely accurate information on per store performance, but what is most important to us is the trend in dealership profits. From this analysis, we estimate that profits per rooftop for publicly-owned dealerships exploded to an estimated \$7.1M for the most recent twelve-month period ended Q1 2022, an increase of 242% (3.4x!) compared to 2019, the last year before the Chipdemic and 10% higher than full year 2021. The table on the next page shows the estimated earnings at publicly owned dealerships since 2016. We believe the profits at privately owned dealerships have also tripled since 2019, based upon data NADA released up to October 2021.

PUBLIC GROUP ADJUSTED EARNINGS PER DEALERSHIP

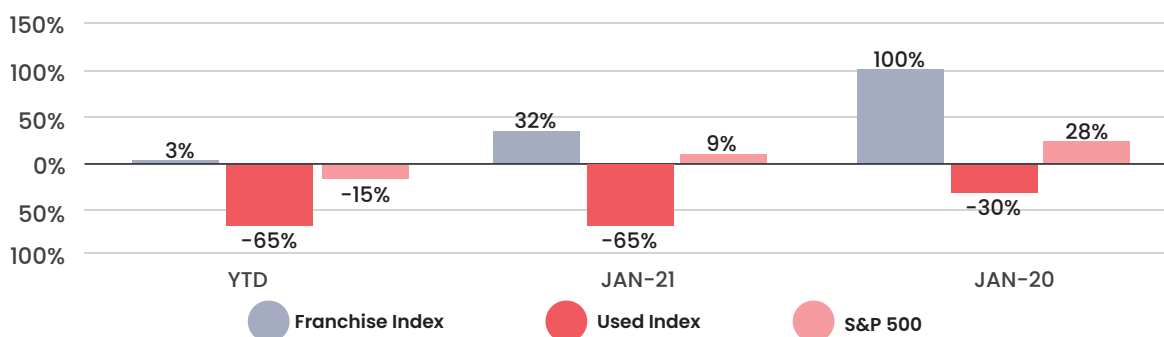


Public Auto Retailers Values Have Soared Since The Chipdemic Began

The average share price of the franchise retailer index has increased 3% so far in 2022 even though the S&P 500 has declined 15% due to fears of inflation, rising rates, the war in Ukraine and other factors. Note the decline in the two-company index of Used Auto Retailers, CarMax and Carvana. This decline is mostly due to the big decline in the value of Carvana as it fell far short of investor expectations. But CarMax's stock has also underperformed the franchised auto retailers, demonstrating the strength of their business model.

CUMULATIVE STOCK PRICE RETURNS

Public Franchise Retailers vs. S&P 500



Source: Yahoo! Finance; Data through 5/13/2022

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- Management and Leadership Training
- Customized In-Dealership Consulting
- Largest 20 Groups

For more information about how NCM can help you compete in the era of consolidations, visit [NCM's website at www.ncmassociates.com](http://www.ncmassociates.com).

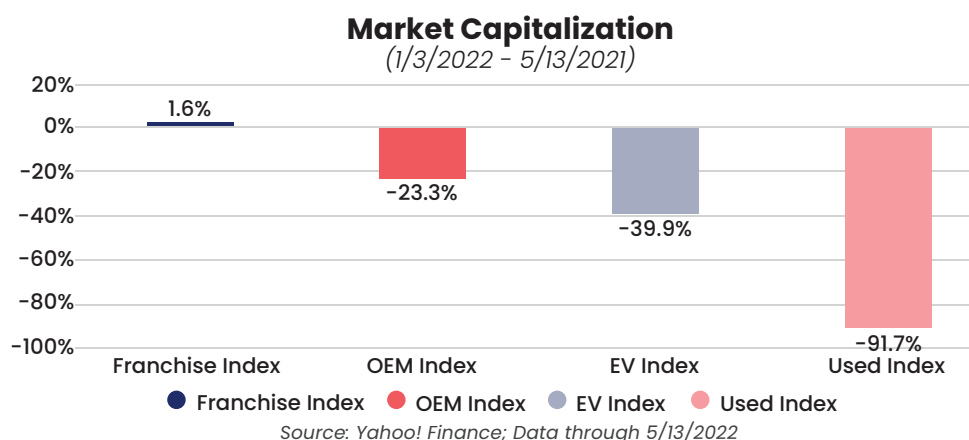
Auto Retail Model Proving To Be Resilient To Potential Threats

In our Q4 2021 Haig Report, we discussed some potential threats to the franchised auto retailers. Although these threats remain, a few of them appear to have diminished in severity, while one has increased in its potentially negative impact on auto retailers.

Of these threats, Carvana has had a number of serious setbacks. As of May 13, 2022, Carvana's stock had declined 89.4% from its peak value last summer, the company is laying off 12% of its workforce and executives are forgoing their salaries for the remainder of the year. This news came weeks after Carvana posted a \$506 million loss in the first quarter of 2022 on lower sales than the previous quarter, ending the impressive growth streak that had attracted so many investors. In addition, Carvana's acquisition of Adesa has closed, but only with the help of very expensive debt that will require hefty annual interest payments. Vroom is experiencing similar issues. The company's stock has fallen 97.7% from its high in August 2020, posted a \$310.5 million loss in the first quarter, is replacing the CEO, and is considering laying off some of its workforce. These companies will continue to compete with franchised dealers for used sales, but lack the more balanced business model that allows franchised dealers to pivot to profit in almost any environment.

The used online retailers are not the only ones struggling. Tesla (-35.6%), Rivian (-71.1%) and Lucid (-55.5%) have all lost significant market cap this year. Tesla has been battling with production challenges, recalling 130,000 U.S. vehicles in May, production lags/rising production costs and postponed product launches. Although being the largest U.S. IPO of 2021, Rivian has struggled with rising inflation, supply chain shortages and skyrocketing raw material costs on EV components. Lucid has also been fighting supply chain issues and inflation. Lucid delivered only 360 Air Sedans in Q1 2022, far below its stated target, while posting a \$598 million operating loss. The greatest risk these new OEMs face is that every mainstream OEM is launching their own EVs. These new products can be seen and serviced at almost every dealership across the US, which is far more convenient for many consumers. The latest EV to be launched is the Ford 150 Lightning. Early reviews are highly positive and the vehicle is priced far below most other EVs even though it offers significant functionality.

One risk that we discussed in our last report appears to be growing, the agency model. Ford has already announced its interest in taking orders for its EV models, so it is setting the price to consumers, and then having dealers serve as their delivery agent in return for an amount/margin Ford will determine. Dealers have told us they are aware of two luxury OEMs that are now far down the road with their own agency models, except that their plans will be for all of their products, including the possibility that all CPO units will be sold through the OEM websites but delivered by the dealers. F&I would also be done on the OEM website. If this is correct, there would be mostly negative ramifications for dealers, mainly through reduced profits. There could be some positive outcomes, such as a simpler business model and reduced investment in facilities. We believe dealers need to fiercely resist any changes to the existing retail model unless the dealer is clearly protected. Otherwise, dealers of those franchises will see lower incomes but also low blue sky values as buyers will focus primarily on OEMs who promote dealer friendly changes.



BUY-SELL TRENDS

Spending By The Public Retailers Is Up So Far This Year

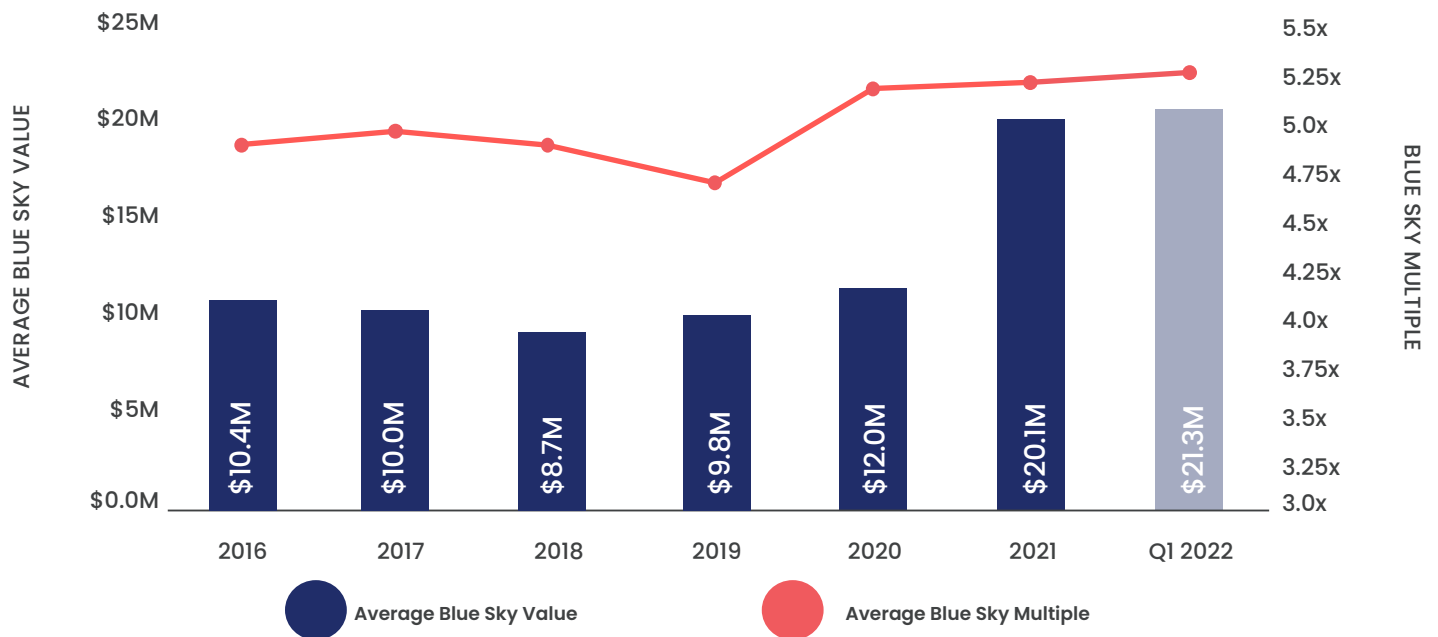
The amount of money spent by the publicly traded auto retailers on domestic acquisitions has exploded since the Chipdemic began. Historically, the public retailers have spent between \$700M and \$1B on domestic acquisitions per year. In 2021, we saw the highest year of spending from the publicly traded retailers ever in our industry, with nearly \$9.1B spent on domestic acquisitions. In Q1 2022, public retailers spent \$588M on domestic acquisitions, 35% higher than the \$434M spent in Q1 2021. It's notable that \$250M of the amount spent in Q1 2022 was Group 1's purchase of Charles Maund Toyota in Austin, TX. We believe this is a record setting price for any dealership, and likely more than twice the amount spent on any Toyota dealership in any market. For the rest of the year, however, we expect spending for the publics to be lower in 2022 than it was in 2021.

Transaction Volume Is Down Slightly In Q1 2022 vs. Q1 2021

Before the Pandemic, we saw about 25-30 dealerships being sold per month. That pace jumped to over 50 dealerships per month in 2021 and in total we estimate that 640 dealerships traded hands, about double the average number of dealerships sold per year before the Chipdemic set in. This year is off to a slower start, as we estimate that 86 dealerships traded hands in Q1 2022, down 13% from the number acquired in Q1 2021. It seems that the publics have been digesting last year's acquisitions as the publics only bought nine dealerships in Q1, down from 12 in Q1 2021.

ESTIMATED AVERAGE BLUE SKY VALUE

Based on Public Group Earnings



Dealership Values Are Still Rising, Slightly

Many factors drive the blue sky value of dealerships. A buyer's expectations of future profits are foremost, 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. Prior to the Pandemic, there were several years when we enjoyed annual sales of over 17M new units and average profits per publicly owned dealership were between \$1.8M and \$2.1M. As a result, goodwill/blue sky values per dealership were also very steady during this period. The Pandemic, and now the Chipdemic, have significantly altered valuations for dealerships. Profits have tripled over the past two years. 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. 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 acquisitions with debt, they can pay more.

Dealership valuations are challenging today, given the huge run up in profits and the uncertainty of how long these good times will continue. Our firm has spent countless hours on the phone with dealership buyers over the past three months, discussing with them how they are valuing dealerships today. And we have analyzed the past ten transactions we have closed to reverse-engineer the offers we accepted compared to the current and historical adjusted earnings of the dealerships that we were selling. Based on analysis, we believe many buyers are using an average of the adjusted pretax profit from 2019, 2020 and the last twelve month period multiplied by a franchise-specific blue sky multiple to determine how much they will pay for the blue sky of the dealerships they wish to acquire. So an average of one year of Pre-Chipdemic profits and two years of Chipdemic era profits. These buyers expect that profits are likely to remain at or near current levels for the next year and will remain elevated for years afterward. The other part of the equation is the average blue sky multiple. In the graph on the previous page we show that our research and experience indicate that the average blue sky multiple for dealerships today is 5.25X, up just slightly from 2020. Based on this data, we estimate that the average publicly owned dealership has a blue sky value of \$21.3M, up an estimated 117% from year-end 2019 and up 6% from year-end 2021. We believe this math would hold true for privately owned dealerships, as well. The average privately owned dealership is smaller than the average publicly owned dealership, so its value is lower, but we believe its blue sky value has also doubled since before the Pandemic hit.

Larger Deals Can Bring Higher Multiples

One important caveat that we would like to make is that we are seeing higher multiples being paid for larger transactions. This can happen when a buyer feels the transaction is strategic to its future, such as entering a new market with a large platform of attractive dealerships. A single transaction can accomplish what would otherwise be years of work accumulating stores via acquisitions of single stores or small groups. These extra high values can help to explain why several large dealer groups have elected to sell in this environment.

Buy-Sell Outlook For 2022

Haig Partners has benefitted from these robust conditions, selling 50 dealerships in 2021 and 12 rooftops in the first quarter of 2022. From our perspective, the conditions that drive a healthy buy-sell market are all still present. Profits are high, dealers want to grow and credit remains plentiful. In addition, buyers are open to more franchises and more markets than before the Chipdemic since almost all dealerships are making strong profits and are likely to do so 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. Mid-sized 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 positives 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 the rest of 2022 to be another excellent year for transactions: likely not as active as 2021, but more than 2020 which was also an excellent year.

FRANCHISE VALUATION RANGES

Haig Partners has been involved in the purchase or sale of more than 560 dealerships in our careers. Each quarter we contact 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

After enjoying record-high sales in 2021, Porsche sales were down 24.9% in Q1 2022 compared to last year. Macan continues to be the sales leader with more than one-third of total volume, but the Taycan EV now represents 15% of total sales, demonstrating the demand for this technology in performance brands. 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 down 13.3% for Q1 2022 compared to the prior year. Lexus was one of two luxury franchises that outperformed the market this quarter. The Chipdemic is allowing Lexus dealers to earn decent margins on their new units. Lexus is finally launching new products to refresh a dated model lineup, including two revamped SUVs. Management has announced a balanced approach to future powertrains, offering customers the choice of gas, hybrid, plug-in hybrid or fully electric vehicles. We believe this is the smart strategy rather than putting too much emphasis on EVs like other brands. Lexus received the #1 ranking in terms of dealer optimism about the franchise. Based on this confidence, and the long-term love for anything Toyota-Lexus among dealers, 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 decreased 20.5% in Q1 2022 compared to Q1 2021. Dealers are concerned about management turnover at MBUSA and that the brand has slipped from the #1 luxury brand in 2020 to #4 in Q1 2022 behind Tesla, BMW and Lexus. The silver star still has powerful cache with dealership buyers, however, so many still want this franchise badly. We are concerned that MB management is overusing/abusing its Rights of First Refusal during buy-sells and taking deals away from the original buyers and assigning them to their favored dealers. If this continues, it will chill the demand for MB stores as dealers outside the MB franchise system will turn down MB acquisition opportunities since they won't want to waste time and risk of the embarrassment of being denied at the end of a buy-sell process. Sellers will have fewer buyers. **Same multiple range on average adjusted pre-tax profit: 7.5x-9.0x.**

BMW

Sales were up 3.2% for Q1 2022, putting BMW as the #1 brand for the quarter and the only brand to increase sales in Q1 2022 versus Q1 2021. BMW has done an excellent job on both supplying vehicles to its dealers and designing compelling products for consumers so dealers are happy with this franchise. BMW came in just behind Lexus and Porsche in dealer optimism in a recent NADA survey. BMW has many EV units coming, so the showdown with Tesla is now beginning. **Same multiple range on average adjusted pre-tax profit: 7.5x-9.0x.**

Audi

Audi sales were down 35.3% in Q1 2022 compared to Q1 2021, putting Audi as the second worst brand for the quarter. The products are excellent but Audi has done a weak job supplying its dealers with products. One dealer told us, "Audi has been a bit of a disaster recently." Nevertheless, dealers ranked Audi 4th in terms of their optimism about the franchise. We hope the volume will recover soon as dealers have made big investments in facilities. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Jaguar / Land Rover

JLR saw unit sales decrease 27.5% in Q1 2022 compared to Q1 2021. The demand for Range Rovers, Range Rover Sports and the new Defenders are sky high, but JLR has done perhaps the worst job of any OEM in supplying its dealers with vehicles. The product shortage is being compounded by the add points that are going in around the country, meaning sales per dealership location have fallen more than total sales. That said, JLR stores remain remarkably profitable due to their extremely high gross profits per new and used vehicle retailed, trailing just Porsche for mainstream franchises. Busy service departments also help. **Same multiple range on average adjusted pre-tax profit: 6.25x-7.25x.**

Volvo

Volvo saw a 16.5% decrease in sales in Q1 2022 compared to the same quarter last year, about the same for the market overall. Some dealers are excited by this franchise which has a unique niche in the market: luxurious, but in a quiet way. Profits are strong and the new facilities around the country are attracting higher end customers. Other dealers are concerned about Volvo's emphasis on EVs and hybrids and its interest in selling direct to consumers (the agency model). **Same multiple range on average adjusted pre-tax profit: 4.0x-5.0x.**

Acura

Acura's sales decreased 25.5% in the first quarter of 2022 compared to the same quarter last year. This decline comes after a strong 2021, due to new products. Acura stores are 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.**

Cadillac

Cadillac sales declined 24.3% in Q1 2022 compared to Q1 in the prior year. Like all GM brands, Cadillac has suffered from production woes far worse than average. Dealers are doing well with the SUVs and some in metro areas are reporting high interest in the soon-to-be-launched Lyriq SUV, Cadillac's first EV. We believed that many Cadillac dealerships were losing money before the Pandemic, so we valued them between \$0-\$1.5M. But thanks to strong margins on new vehicles and healthy fixed operations, most Cadillac stores are now profitable. **Same multiple range on average adjusted pre-tax profit: 3.0x-4.0x.**

Infiniti

Infiniti sales fell an astounding 41.0% in Q1 2022 compared to Q1 2021, the worst performance for any brand we track. The Qx60 has singlehandedly brought many Infiniti stores back into the black, but they are in short supply and no new products are coming for another year or so. Profits per store are likely the lowest for any major franchise, and many locations are essentially used vehicle stores at this point. **Same value range: \$0-\$1,500,000.**

Lincoln

Lincoln sales were down 24.6% in the first quarter of 2022. Its SUV/CUVs 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. While markets like Texas have a few high-volume Lincoln dealerships, the average Lincoln store is very small, selling an average of 10 units a month in 2021. **Same value range: \$0-\$1,500,000.**

MID-LINE IMPORT FRANCHISE BLUE SKY MULTIPLES

Toyota

Toyota announced a 14.9% decrease in sales in Q1 2022 compared to Q1 2021, slightly outperforming the market average. In a recent NADA survey, dealers ranked Toyota #2 behind Lexus in terms of their optimism about the franchise. Dealers who have seen the upcoming products like Tundra and Sequoia are very bullish about the franchise. Also, Toyota dealers are highly supportive of Bob Carter and the team at Toyota. They believe the communication from Toyota during the Chipdemic has been excellent, and they like that Toyota has not moved too fast towards EVs. At a conference before the New York Auto Show, Bob Carter said that Toyota wants to

be the, "Macy's of powertrains." It will offer customers powertrains based on gas, hybrid, plug-in hybrid and electric. He also affirmed its commitment to keeping its franchise model intact with no interest in moving to an agency model and selling directly to customers. Mr. Carter said Toyota viewed dealers as partners and a core part of its competitive advantage in the marketplace. We've had the privilege of selling six Toyota dealerships over the past year and enjoyed strong offers on each one. More than ever, this is the franchise that dealers want to own. **Same multiple range on average adjusted pre-tax profit: 6.5x-7.5x.**

Honda

Honda sales were down 23.0% in Q1 2022 compared to Q1 2021. Although it has been losing share to Toyota, Hyundai and Kia, dealers are feeling good about Honda, ranking it #5 in terms of their optimism for the future in a recent NADA survey. Honda products remain strong sellers and the business model is nicely balanced. Like Toyota, Honda is taking a "go slow and let the customer decide" approach to powertrains. We also liked the recent news that Honda may be reducing its facility commitments given that it expects dealers to stock fewer cars and more commerce to be done online. We applaud this common-sense willingness to reduce the burden of facility investments for dealers in growing markets. **Same multiple range on average adjusted pre-tax profit: 6.0x-7.0x.**

Subaru

Subaru reported a 17.5% decrease in Q1 2022 unit sales. Subaru has long had among the lowest days supply of any franchise, and unfortunately, it still does, down to just a few days at most lots. Subaru dealers have a long list of orders from customers looking for many of its higher end variants. This is frustrating for all concerned, but as the order backlog grows, so does the promise of healthy future sales when production rebounds. Dealers are complimentary of Subaru management and the overall business model, ranking it #4 in the overall NADA rating category. We've 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 unit sales decrease by 28.5% in Q1 2022 versus Q1 2021, a good bit worse than the industry average. The inventory shortage helped VW dealers more than most since its margins have long been compressed, so most stores are likely now profitable. VW is highly focused on EVs, perhaps too much for some parts of the country. If consumers choose to buy EVs then VW could take a significant share since it will likely have more EV 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 decreased by just 5.2% in Q1 2022 compared to Q1 2021, putting it #4 of all franchises we track. Dealers have become big fans of the Kia dealership model over the past 24 months, 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, better margins, and higher fixed operations. Kia currently plans to offer all ICE and EV products through the same franchise agreements with dealers, making the future more predictable. **Increased multiple range on average adjusted pre-tax profit: 4.0x–5.0x.**

Hyundai

Hyundai unit sales decreased by just 2.3% Q1 2022 compared to Q1 2021, putting it #3 for all franchises this quarter. Hyundai dealerships may have appreciated in value more than any franchise we track, given their surge in volume and margin. We are seeing Hyundai stores in some markets making over \$10M per year, rarified air that was previously reserved for luxury and Toyota stores. But there are concerns. Hyundai's new EV brand, Ioniq, is offered to dealers via a "Participation Agreement." It's possible dealers will make less per vehicle selling Ioniqs than other models. As Hyundai pushes out more EVs through the Ioniq brand, overall profits for dealers could fall. Genesis is still a messy situation with far too many points and too few units being produced, but there is still pressure on dealers to build exclusive facilities that may never be profitable. Several leading dealers are suing Hyundai, a reflection of the poor relationship that Hyundai has with some of its dealers. **Increased multiple range on average adjusted pre-tax profit: 4.0x–5.0x.**

Mazda

Mazda sales decreased by just 1.2% in Q1 2022 versus Q1 2021, putting it as the #1 mid-line franchise and #2 franchise overall for the quarter. Mazda stores have become sneakily profitable, given their high margins for mid to high selling stores. Mazda's strong sales could be due to CX50s coming out of its new plant in AL that is a joint venture with Toyota. **Same multiple range on average adjusted pre-tax profit: 3.0x–4.0x.**

Nissan

Nissan announced a 28.8% decrease in unit sales for the quarter, much worse than its competitors. While falling further behind, there are some promising new products for Nissan dealers. Also, Nissan management has said it will put dealer profits and sustainable growth at the forefront of its strategy, so we have hopes that better times are ahead. Value-seeking dealers are interested in acquiring this franchise again, but others remain skeptical. **Same multiple range on average adjusted pre-tax profit: 3.25x–4.25x.**

DOMESTIC FRANCHISE BLUE SKY MULTIPLES**Ford**

Sales fell 16.7% in Q1 2022 compared to Q1 2021. Ford is a confusing franchise at the moment. Its core products remain much in demand, albeit in short supply. And its new EV models like the Mustang Mach E and the F150 Lightning look to be hot sellers. But some dealers believe CEO Jim Farlie is taking actions that threaten the long-time franchise model, and therefore make predicting future profits more difficult. We spoke about this at length in our Q4 2021 Haig Report. **Same multiple range on average adjusted pre-tax profit: 3.5x–4.5x.**

Chevrolet

Chevrolet saw sales decrease by 19.9% for Q1 2022. Customers are clamoring for the newly redesigned full-size trucks and SUVs, but frustrated dealers have little to offer. Almost every incoming unit is pre-sold at full sticker, plus some. We are hearing from some dealers that believe GM is investing too much of its engineering talent to develop EVs and not enough in producing vehicles customers want to buy today. GM has lost significant amounts of market share during the Pandemic era. These dealerships may enjoy a bigger than average rebound in sales when production returns to more normal levels. **Same multiple range on average adjusted pre-tax profit: 3.5x–4.5x.**

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

Stellantis reported a 13.5% decline in sales for Q1 2022, slightly better than average. Stellantis continues to push dealers to carve out a separate showroom for Jeep which it plans to take more upscale. The reward for the investment is a significantly higher allocation of Jeeps. Those dealers who don't make the investment may see their allocation shrink. The new Jeep products have been well received. Dealers ranked Jeep 7th in terms of optimism for the future, higher than any other domestic brand. Stellantis has assured its dealers that it has no plans to pursue the agency model, although it is requiring dealers to deliver better CSI in order to retain full margin on new vehicles. **Same multiple range on average adjusted pre-tax profit: 3.5x–4.5x.**

Buick-GMC

Combined Buick-GMC sales declined 20.6% in the first quarter of 2022 compared to the same time period in 2021. GMC was the best performing domestic brand, while Buick was the worst-performing brand of any brand we track. The demand was there for much higher sales, but Buick-GMC dealers are suffering from the same lack of inventory as Chevrolet dealers. The new GMC Hummer EV SUV is finally under production. **Same multiple range on average adjusted pre-tax profit: 3.25x–4.25x.**

KEY TAKEAWAYS

The first quarter of 2022 may bring auto dealers their highest profits ever. There are certainly variations amongst the various franchises, but this is a uniquely good time to be an auto dealer. An important question is, how much longer can these conditions last? Our math indicates that the level of pent up demand is so high that it will take three or more years before consumers will be satisfied and we would return to a situation where supply and demand would be in balance again. During that time, dealers should enjoy profits that are elevated above the years before the Pandemic. The biggest risk to dealers in the next one-three years appears to be a recession that hurts the demand for vehicles, which could in turn reduce margins and profits.

But that does not mean that all conditions will remain favorable to dealers. These unique times are pushing OEMs to make changes to ways they interact with dealers. The agency model could significantly reduce

dealer profits, but so could reductions in advertising and floor plan credits. Dealers will need to be alert to these potential changes and fight back when necessary. And dealers may need to revamp their business models to allow higher sales but with lower expenses so that they could offset any reduction in gross profit per unit.

In term of buy-sell activity, Q1 2022 is off to a decent start. We may not see as many blockbuster deals of very large dealer groups, but we do expect to see a higher level of stores trade hands than what we saw before the Pandemic. Buyers of all sizes are pushing to get bigger in order to better compete in the future. The demand for stores should remain strong, and therefore we expect blue sky values to remain around where they are currently, at record high values. These high prices will attract sellers who have decided for various reasons that now is the right time for them and their families to exit the industry.



Maximizing The Value Of Our Clients' Lives Work

Haig Partners LLC helps dealers maximize the value of their businesses. We have unmatched auto retail buy-sell experience with executives from leading retail dealer groups AutoNation and Asbury, and financial institutions including Bank of America Dealer Financial Services, DHG Dealerships, Deloitte, and JP Morgan. The team at Haig Partners has advised on the purchase or sale of more than 560 dealerships totaling \$8.5 billion. We leverage our expertise and relationships to lead clients through a confidential and customizable sales process, yielding the best price successfully.



Higher Prices

You benefit from a customized sales process. Detailed offering materials are created to provide buyers with a compelling investment thesis and a sales process is run that creates competition to generate highly attractive offers.



Confidentiality

You get an additional layer of protection. You have access to potential buyers who have been carefully selected based on your goals and objectives and that have been confidentially pre-screened.



Speed

You can stay focused on dealership operations. You continue to stay involved in the day-to-day as we focus on the transaction from beginning to closing.



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You have access to many of the best buyers. You gain the benefit of our reputation with buyers who respect our team, our process, and our commitment to maximizing the value of your life's work.



Driving Forward: The Future of Auto Retail and How Tomorrow Is Impacting Today's Buy-Sell Activity

Don't Let This Event Slip Into Your Rear View!
NADA Webinar – June 8, 2022 at 1 PM EST

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UPCOMING EVENTS

Speaker – “Driving Forward: The Future of Auto Retail and How Tomorrow Is Impacting Today's Buy-Sell Activity”
June 8, 2022 | NADA Webinar

VADA – Virginia Automobile Dealers Association Annual Convention
June 19, 2022 | Omni Grove Park Inn, Asheville, NC

Speaker – Driving Force Auto Dealer CPA Conference
June 27, 2022 | Hyatt Regency, Cleveland, OH

NADC Fall Conference
October 9, 2022 | The Ritz-Carlton, Chicago, IL

Speaker – AICPA Dealership Conference
October 27, 2022 | New Orleans Marriott, New Orleans, LA

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"Deciding to sell was one of the biggest decisions I have had to make. It was crucial to partner with an advisor committed to confidentiality and who has the experience and relationships to ensure the legacy we've built continues. The team at Haig Partners were the perfect partner for us on this journey."

– **Andy Crews, President and CEO and 2015 Time Dealer of the Year**



"Haig Partners understood and appreciated the gravity of our decision. True to their reputation, they led a smooth and comprehensive process that resulted in a very desirable outcome for our company. I am happy the Wylers are buying the stores as I know they will continue to build on the legacy our family has created."

– **John Betagole, President, Superior Automotive Group**

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