ROUNDTABLE **Q&A**

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BUY-SELL Q&A

DECIDING TO SELL OR STAY? CONSIDER DOING BOTH

Dealers who may not want to completely exit the industry can consider divesting a store or selling a minority or majority stake in a dealership.

As the record-setting wave of dealership sales and acquisitions continues to sweep through the auto industry, many owners believe they have a binary choice: either sell or stay. But viable alternatives exist that would allow owners to stay in the game while shedding some of the day-to-day stressors and responsibilities. These options include divesting a store and selling a minority or majority stake in a dealership or dealership group, says Alan Haig, the founder and president of Haig Partners. Read on to learn more abouts the ins and outs of these alternative strategies.

Alan Haig

Q: We read from your reports that dealership profits reached record heights earlier this year. Do you see that changing now that we are experiencing economic headwinds?

Alan Haig: Dealership profits began to climb in the middle of 2020, thanks to strong consumer demand and high margins. Profits per dealership by the end of 2021 rose 3.4 times higher than before the pandemic. That's simply incredible!

Since the beginning of the year, however, a number of trends have appeared that typically hurt dealers. Gas prices and interest rates have increased. We have a declining GDP and all-time low consumer confidence. These factors are causing some buyers to pull back. Fortunately, many consumers have plenty of income and savings and have shown they're willing to spend heavily for a limited supply of vehicles. The net effect is that we may have reached a plateau in dealer profitability. Our data shows that dealer profits peaked at the end of the first quarter of 2022 and declined 1 percent in the second quarter of 2022.

The good news is that the level of pent-up demand is still growing because the supply of new vehicles is still falling. As a result, we expect that even if macroeconomic conditions remain unfavorable for the nation, vehicle margins – and therefore dealership profits – will remain high for at least several more years.

It seems another report comes out every day forecasting further microchip shortages, which should provide a margin buffer for dealers. We may see profits drift downwards, but they don't appear to be at risk of falling significantly for years to come. Others seem to agree, since we are still seeing strong demand for dealerships. Many groups are bullish on the future.

Q: Are you getting lots of calls from dealers looking to sell right now?

Haig: Yes, we are involved in more transactions in 2022 than at any point in the history of our firm. Most of our clients are at retirement age, but we also are seeing younger dealers and families who are interested in selling their dealerships now while prices are high. Some of these younger dealers and families are concerned about EVs, OEM actions and the ongoing trend towards very large auto groups that could hurt them in the future.

> "Dealers can sell stakes in their companies at today's high valuations, without fully exiting the business."

Q: Are there other options for dealers besides selling 100 percent of their dealerships?

Haig: We pride ourselves on giving honest and informed advice to help our clients achieve their goals. For dealers who are ready to exit, we can help them maximize the value of their businesses through a full sale. But other dealers are interested in solutions that are between keeping everything and selling everything. They may want to take advantage of the record high prices we are seeing for dealerships today, but still continue their careers as dealers. For these dealers, we recommend other strategies to meet their objectives.

Divestitures are one option. Groups may decide to sell stores that are in outlying markets, are underperforming or have facility issues. They can sell these dealerships to generate capital that then can be invested in their core markets or in other industries to create diversification. We have handled divestitures for large groups like CarMax, Group 1 Automotive, Hendrick Automotive Group and Holman, as well as smaller and mid-size groups.

Another option for a dealer is to sell a minority equity stake in their business to an investment group. The dealer would still control the company and would continue to be responsible for all operating decisions, interactions with lenders and OEMs, etc. The investor shares in the cash flow of the dealerships and can also provide needed capital for potential expansion. We currently are involved in several transactions like this.

And finally, we also are seeing some dealers elect to sell a majority interest in their companies. These dealers are near retirement and want to take advantage of high dealership valuations, but they still want to enjoy some of the benefits of investing in auto dealerships. Their management teams typically take over the responsibilities of operating the dealerships and interacting with lenders, OEMs, and vendors. The investor is now responsible for selecting and overseeing the management team, which will begin interacting with the OEMs and lenders. Haig Partners is representing several parties who are attracted to this option.

Q: What are the benefits to dealers for a partial sale of their business rather than a full sale?

Haig: As for divestitures, dealers typically can reallocate capital from under-performing assets to better-performing assets. Plus, dealers can eliminate the headaches that can come from far-flung or poorly performing dealerships. The public companies regularly divest stores acquired in the past so they can invest in stores that are a better fit for their future plans. Smaller dealers also prune stores to optimize their portfolio. Not all acquisitions work out, and there is little benefit for owning a poorly producing asset.

For sales of minority or majority equity stakes to investors, the main benefit is that dealers can sell stakes in their companies at today's high valuations, without fully exiting the business. They can continue to share in the high returns on equity that dealerships provide.

The sale of a minority stake generates cash for dealers to use to diversify their wealth into non-automotive investments. Diversification is a smart strategy. In addition, if they come across an attractive acquisition target, they can buy the stores with the help of their investor partner without putting all of their capital at risk. They can grow and diversify. And since they are only selling a minority stake, the dealer remains in control of their business. The dealer, not the investor, interacts with the OEMs, banks, management team, customers, etc.

The sale of a majority stake creates even more liquidity for a dealer, so it allows for more diversification. And if there are opportunities to acquire additional stores, the investor will provide most, if not all, of the capital needed. The dealers will likely still be involved on a daily basis, but much of the stress of being the dealer principal of a large business can go away.

Dealers who sell a minority interest or a majority interest will still retain their goodies, including health care, demos, dealer trips, etc.

Q: What are the risks to dealers for a partial sale of their business rather than a full sale?

Haig: As for divestitures, there are very few risks. Dealers will need to communicate to their remaining employees and OEMs that they are not beginning to exit the business, but are simply redeploying capital from one market to another. In my last stint at AutoNation, I helped sell 56 dealerships. AutoNation took the capital from those divestitures to purchase other dealerships, buy back stock and invest in facilities, all of which helped it grow its shareholder value.

For the sales of a minority or majority stake for dealers, the trade-off is that they have less control over operations, and they share in a smaller portion of the profits. In addition, if the industry suffers a downturn, they will suffer too, since they still have a material amount of their net worth in one industry. Also, if the dealer has sold a majority stake in the business, the investor will now have control of the major decisions for the company. The investor may want to appoint new management, spend money on facilities, change vendors, or borrow money for expansion. Plus, if an investor sells a majority stake in their group, they will no longer be the controlling partner. The investor might make decisions that could reduce profits or the future value of the business. The value of the dealer's remaining equity in the company could suffer.

Q: What are investors looking for and how do they decide which groups they want to invest in?

Haig: Investors are looking for well-run groups in attractive markets. A competent management team also is essential because investors expect dealers will spend less time working in the business than before. Also, investors are focused more on cash flow than specific brands. And finally, there needs to be a good cultural fit between the dealer and the investor. These investments can last from a few years to decades, so all parties need to believe they can trust each other over the long term. For those dealers who believe they fit these criteria, there is a tremendous opportunity to leverage favorable market conditions without exiting the industry.

Q: What happens in 5 to 10 years? Do the investors buy out the dealers?

Haig: That all depends upon the investor and the market conditions. These investors are not like traditional private equity firms that have to return all their capital to their investors over a 5- to 10-year period. The investors that we work with have much longer investment horizons. I think most arrangements between dealers and investors will last around a decade. By that time, the dealer may want to fully retire and get his capital out of the business and the investors may opt to exit along with him or her.

Q: How can a dealer confidentially explore the option of a partial sale of their business?

Haig: The process for selling a portion of a dealership or dealership group is similar to a 100-percent sale. Dealers can retain a firm like ours to provide a confidential valuation up front. That ensures the dealer understands the compensation he would likely receive from an investor and what the arrangement might look like. If the dealer chooses to move forward, we then will prepare a marketing package that provides investors with everything they need to know about that business in order to make offers, including details about its management team. We also would provide a list of potential investors, which will likely be more limited than in a full sale since there are fewer investors than traditional dealership buyers. After the list of potential investors is approved, we would enter into non-disclosure agreements with the investors and then negotiate for the best possible offers for the dealer. Whether a dealer is selling 10, 80 or 100 percent of his or her company, we are still going to maximize the value for our clients.

ABOUT THE PANELIST

ALAN HAIG • President, 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 and have advised on the purchase or sale of more than 575 dealerships for over $9.0 billion, and have represented 24 groups that qualify for the *Automotive News* Top 150 Dealership Groups ranking, 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. They author the Haig Report, the leading industry quarterly report that tracks trends in auto retail and their impact on dealership values, and are co-author of NADA'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.

HAIG PARTNERS
MAXIMIZING THE VALUE OF YOUR LIFE'S WORK

HAIG PARTNERS SERVED AS EXCLUSIVE ADVISOR ON THE FOLLOWING:

DIVESTITURES

Asbury – Gray Daniels Auto: Toyota, Ford, Chevrolet and Two Nissan Stores Sold to McLarty Automotive Group

Boniface Heirs – Infiniti Melbourne Sold to Kelly Automotive Group

CarMax – Laurel Toyota Sold to Sheehy Auto Group and Kenosha Toyota Sold to The Rydell Company

Anderson Automotive Group – Fred Anderson Nissan of Fayetteville Sold to Flow Automotive

Group 1 – Sterling McCall Hyundai Sold to Steele Auto Group

Hendrick Automotive Group – Hyundai Charleston and Hyundai North Charleston Sold to Krause Family Auto Group and Acura Riverside Sold to Spreen Automotive Group

Holman Automotive – Audi Palo Alto Sold to Swickard Auto Group

Jerry Durant Auto Group – Toyota Granbury and Durant Toyota Sold to Shottenkirk Automotive Group

Motor Werks – Mercedes-Benz and Infiniti of Hoffman Estates and Jaguar Land Rover Schaumburg Sold to Zeigler Automotive Group

Prime Motor Group
- Chevrolet and Subaru of Hyannis Sold to Copeland Auto Group
- FX Caprara: Chevrolet, Ford, Volkswagen, CJDR Sold to Bob Johnson Auto Group
- Kenny Ross Automotive Group: Two Ford Stores, Mazda and Subaru Sold to Atlantic Coast Automotive and Two Chevrolet Stores, Buick-GMC and Cadillac Sold to Other Buyers
- North Plainfield Nissan Sold to PSD Automotive
- Ron Carter Auto Group: Ford, Chevrolet, Buick-GMC, CJDR Sold to ZT Motors
- White River Subaru Sold to David Rosenberg
- Toyota Boston Sold to AMSI
- Toyota Hyannis and Toyota Orleans Sold to Group 1

South Motors – Wesley Chapel BMW Sold to Morgan Automotive Group

Swickard Auto Group – Mercedes-Benz Atlanta South Sold to Jim Ellis Auto Group

MAJORITY/MINORITY EQUITY SALES

Blossom Chevrolet – Equity Sold to Dobbs Equity Partners

John Elway's Crown Toyota – Equity Sold to Swickard Auto Group

Motor Home Specialist – Equity Sold to RV Retailer

Royal Honda – Equity Sold to Hudson Automotive Group

US Adventure RV Illinois and Iowa – Equity Sold to Campers Inn

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