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DEALERSHIP PROFITS ARE DROPPING BUT REMAIN MORE THAN TRIPLE PRE-PANDEMIC LEVELS. BLUE SKY VALUES ARE ALSO FALLING BUT REMAIN AN ESTIMATED 2.5x HIGHER THAN IN 2019

Fort Lauderdale, FL. [Haig Partners LLC](#) released its closely followed [Haig Report®](#) for Q1 2023, which tracks trends in auto retail and their impact on dealership values.

Pre-tax profits at dealerships owned by publicly traded auto retailers have begun to trend downward. The average adjusted pre-tax profit per dealership was \$6.2M during the past twelve-month period ended 3/31/2023, down 5% from the full year 2022. Average pre-tax profits in Q1 2023 fell 22% from Q1 2022, one of the best-performing quarters ever for the publicly traded groups. Despite this decline, the average estimated pre-tax profit per publicly owned dealership remained over 3.0x higher than 2019 levels.

Buy-sell activity decreased 31% in Q1 2023 compared to Q1 2022. An estimated 82 dealerships were acquired in the first quarter of this year, down from 118 in the same period in 2022. Despite a slow start to the year, we believe buy-sell activity will pick up for the remainder of 2023 based on both our pipeline of transactions and the lofty 2025 revenue goals set by the public retailers. Dealers have plenty of cash and are still making strong profits. Many groups are looking to reinvest their profits by acquiring additional dealerships, as they believe larger groups will have advantages over smaller ones in the future.

Blue sky values for dealerships fell an estimated 3% from the end of 2022 to the end of Q1 2023. Buyers have been expecting a decline in profits when formulating their offers for dealerships. The decline we are seeing is in line with those expectations, so the decline in blue sky values has been minimal since 2022.

Highlights from the [Q1 2023 Haig Report®](#) include:

- The average adjusted pre-tax profit per dealership was \$6.2M during the past twelve-month period ended 3/31/2023, down just 5% from the full year 2022 but still more than triple the levels seen in 2019.
- Dealership profits in Q1 2023 decreased 22% from their peak in Q1 2022 but are still 230% higher than in 2019.
- Estimated blue sky values remain robust, down just 3% from the record levels seen at year-end 2022. Buyers have already been pricing in a decline in earnings.
- Private buyers are by far the most active, as they are looking to reinvest their record profits. They are paying record-high values for a number of franchises in 2023.
- Public companies remain acquisitive but have broadened their focus, spending more money on stock buybacks and international transactions while continuing their hunt for US dealerships.
- Top 150 dealership groups hold 23% of total US dealerships, a 21% increase since 2014.



Alan Haig, President of Haig Partners, shared, “Although dealership buy-sell activity slowed in Q1, we are receiving many inbound requests from dealers looking to grow. Their balance sheets are loaded with cash and hold very little debt. They have confidence that the long-term outlook for automotive retail is positive. This confidence is showing up in record-high values being paid for stores. Last year, we had the honor of serving as the exclusive advisor on the sale of [John Elway’s Crown Toyota](#) in California, which attracted the second-highest value ever paid for a Toyota dealership, to our knowledge. Earlier this year, we were proud to represent Jack and Robin Salzman in the [sale of their CDJR stores](#), one of which sold for a record-high price for that franchise, according to Stellantis. We expect to set another record for a store that is on track to close soon for the highest price ever paid for a single dealership.”

Q1 2023 Buy-Sell Trend Highlights

- **Blue sky values remain elevated, but a downward trend has begun.** Given the massive increase in pre-tax profits, we have seen record-high prices set for dealerships sold in 2022 and 2023. Even so, valuations are challenging today. One of the biggest challenges may be getting buyers and sellers to agree on pricing. Buyers will want to value dealerships based on future earnings. Sellers will want to value stores based on historical earnings. With challenges such as these, it is critical for owners of dealerships to run a competitive process to surface the Most Motivated Buyer®.
- **Outlook for future dealership profits.** While the future is anyone’s guess, we can tell from the prices that buyers are paying that they believe dealership profits are going to remain elevated well above 2019 levels for some time. A large factor contributing to this confidence is pent-up consumer demand. Prior to the pandemic, US consumers were purchasing an average of 17.3M units per year. If we assume that would have continued over the next four years, there could be as many as 11.2M units that would have sold had they been produced. Even if this number is cut in half, the amount of pent-up demand will fuel the US auto retail industry for some time, keeping margins and profits higher than those seen in the past.
- **A busy year for dealership buy-sells.** There are plenty of buyers and sellers in the market. Therefore, we expect the remainder of 2023 to be another busy year for transactions. A typical dealership today is worth around \$40M, including real estate and other assets. Mid-sized groups are valued in the hundreds of millions of dollars, and large groups can bring more than a billion dollars. At these values, an increasing number of dealers and their families are having serious conversations about the risks and capital investments required to remain competitive. Many are making the decision to take their chips off the table via a sale to start enjoying the fruits of their labor sooner.
- **State of consolidation.** Driven by a desire for higher profits, whether in local markets or across the country, dealer groups are growing through acquisitions. As groups add more stores, they enjoy a broader mix, attracting more customers and higher economies of scale, which in turn drive improved margins across all dealerships in their portfolio. As the market continues to consolidate, many dealers are wondering: should I get bigger, or should I get out?
- **Almost every franchise is growing again.** In 2022, of the 24 franchises we track, 20 saw a drop in sales compared to 2021. Q1 2023 brought the opposite outcome. 20 of the 24 franchises enjoyed sales increases over Q1 2022, with Audi, Infiniti and Porsche leading the pack. Stellantis



and Toyota saw a drop in sales. We expect franchises to show sales increases as the year progresses, production continues to ramp up and some OEMS increase their incentives.

To any dealers who are wondering what their businesses might be worth, please contact [any member of our team](#) to have a confidential conversation about what we see in the market and to discuss how we may be able to assist you in Maximizing the Value of Your Life's Work®.

About The Haig Report®

The [Haig Report®](#), the leading industry quarterly report that tracks trends in auto retail and their impact on dealership values, includes data and analysis on the performance of auto dealerships, discusses noteworthy events impacting the automotive retail industry, identifies trends in the M&A market for dealerships, provides guidance on estimated value ranges for different franchises and shares an outlook for the automotive retail buy-sell market. The Haig Report® is based on data gathered from reputable public sources and interviews with leading dealer groups and dealers, bankers, lawyers and accountants who specialize in auto retail.

About Haig Partners

Haig Partners LLC helps dealers maximize the value of their businesses when they are ready to sell. They have unmatched experience with executives from leading retail dealer groups and financial institutions. They have advised on the [purchase or sale](#) of more than 590 dealerships for over \$9.3 billion, including 25 on the Top 150 Dealership Groups list published by Automotive News, more than any other firm. The team at Haig Partners leverages expertise and relationships to lead clients through a confidential and customizable sales process, helping them to maximize the value of their dealerships. They author the [Haig Report®](#), the leading industry quarterly report that tracks trends in auto retail and their impact on dealership values, and co-author NADA's Guide, "Buying and Selling a Dealership." For more information, visit www.haigpartners.com.

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