THE HAIG REPORT®

Q4 | 2023

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- **2023 was the third-busiest year in automotive history for dealership M&A, with an estimated 528 dealerships bought/sold.**
- **The average publicly owned dealership made an estimated $5.0M in 2023, a 23% drop from 2022. Despite the decline, profits remain more than 2.5x pre-pandemic levels.**
- **Public company spending on domestic auto dealership acquisitions reached $2.8B in 2023, the second-highest amount on record and 50% higher than in 2022.**
- **Average estimated blue sky values remained elevated through 2023, down just 14% from the record levels seen in 2022.**

FROM OUR FAMILIES TO YOURS, THANK YOU!

The team at Haig Partners celebrated our 10th year serving the auto retail community last month. We have had the pleasure of advising on the sale of hundreds of dealerships for billions of dollars. While we certainly enjoy financial success from these engagements, we also deeply treasure the relationships we have built with these dealership owners over the years. They trusted us to assist them with the most important transactions of their lives, to help them to Maximize the Value of Their Lives' Work. Many of them have become friends through these transactions. We have also built close connections with dealership buyers as well with many of the attorneys and CPAs who work tirelessly to make sure the buy-sell world functions with the highest levels of professionalism. This edition of this Haig Report, the longest running report in our industry, is the 40th we have published. The purpose of the Haig Report is to share information that is helpful to those dealers who are considering the purchase or sale of a dealership or dealership group. We hope that it serves all of you well, and we are grateful for your attention and your contributions. We "raise our glasses" to you, dear reader, and look forward to the next ten years together in this amazing industry.

HAIG PARTNERS

MAXIMIZING THE VALUE FOR DEALERS

OVERVIEW

Life is getting harder for auto dealers, but it's still pretty darn good. We are seeing mixed trends in auto retail today. Positive trends include falling inflation, healthy growth in GDP, rising consumer confidence, and rising new vehicle sales. But these factors are being overcome by a sharp increase in new vehicle inventories that has resulted in retailers cutting prices (resulting in lower profits per vehicle), along with higher floorplan and advertising costs. Profits for the publicly traded retailers declined an estimated 23% from 2022 to 2023 on a per dealership basis. In Q4 2023, average profits per store fell 31% from Q4 2022, which implies we have not yet levelled off. On the other hand, Q4 2023 profits were still 78% higher than they were in Q4 2019, just before the pandemic hit.

The decline in profits has been anticipated by just about everyone in our industry. The biggest question on our minds is, where will profits level off? Some retailers believe that the OEMs have learned that less production equals higher profits, as long practiced by Porsche and Subaru. But others believe that the OEMs will soon forget that "less is more" and will resume their overproducing behavior. Inflation may also be a factor in keeping profits above historical levels. Dealers who made $1,500 on a new vehicle that sold for $30,000 (5% gross margin) before the pandemic may become accustomed to making $2,000 on a new vehicle that sells for $40,000 (5% gross margin). It will also be interesting to see if fixed operations continue to outpace inflation. Vehicles continue to grow ever more complicated and expensive to fix, and technicians remain in short supply. Many dealers we speak to believe that profits will decline again in 2024, perhaps ending up 15% or so below 2023 levels. If so, they will still be about 33% higher than in 2019.

The buy-sell market is also declining, although at a lower rate than the fall in dealership profits. Sales of dealerships fell 17%, but 2023 was still the third best year in terms of deal volume. Dealership values have also held up quite well. We estimate the average goodwill value of a publicly owned new vehicle dealership was $21.4M. This value is 14% below the estimated value in 2022, but is also more than double the value in 2019. So values and volume are declining in the buy-sell market, but conditions remain excellent.

We believe the trends listed above will continue at about the same pace for the remainder of 2024. Dealership profits may fall at about 1%-2% per month, and dealership values could continue to decline at about 1% per month. We are past peak profits and peak valuations in our industry, but retailers we speak with are still pleased to be in this industry.

South Motors and Vista Motors Sold to Morgan Automotive Group in Record-Setting Transaction

South MOTORS

VISTA Vista Motor Company

Haig Partners served as the exclusive sell-side advisor to Miami-based South Motors and Vista Motors on the sale of its **nine dealerships and two collision centers** to Morgan Automotive Group. Given their exceptional level of profits and their location in the highly sought-after South Florida market, it is believed that **the value paid for Vista BMW and South Honda exceeded previous values paid for those franchises. South Motors/Vista Motors is among the most valuable dealership groups ever purchased.**

From left to right: Jonathan Chariff, Larry Morgan, Alan Haig

BUY–SELL TRENDS

M&A Activity Hits Third-Highest Year on Record

Last year proved to be the third-busiest year in automotive history for dealership M&A. In total, an estimated 528 dealerships were bought or sold in 2023, a figure led only by the record levels observed in 2021 and 2022. The volume of buy-sell activity in 2023 was nearly 50% higher than pre-pandemic norms, when an average of 355 dealerships traded hands each year from 2015-2019.

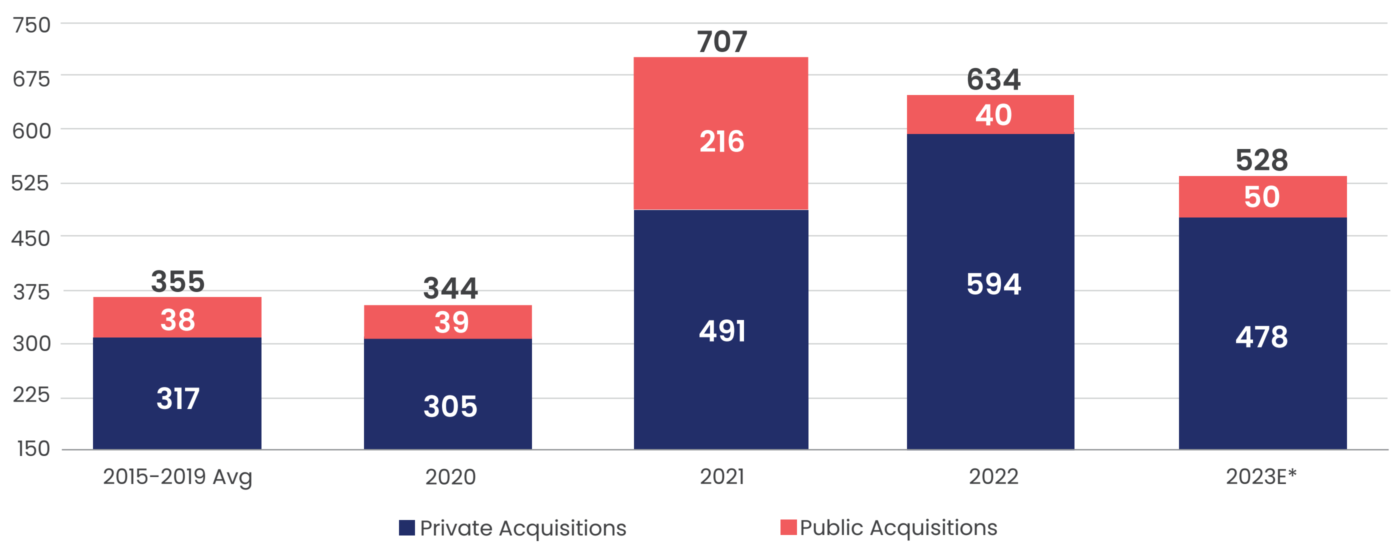
Private dealers remained highly acquisitive throughout 2023. They acquired over 90% of the dealerships that traded hands and paid healthy prices for these dealerships. Our firm had the honor to represent families who elected to exit the industry in 2023 and received record high prices for their particular franchises. These records were set in January for Stellantis in Charlotte, and in June for Toyota in South Florida. We were able to set more records in January of 2024 for BMW and Honda dealerships, also in South Florida. These records were set even as earnings had begun to decline. The publicly traded auto retail groups were more conservative, acquiring 50 dealerships in 2023. Several CEOs had stated that they were more interested in repurchasing their stock than dealerships, as they expected prices would retreat in the future. There were a few large transactions that met their return on investment requirements. In their Q4 earnings calls, the consensus amongst the publics is that they remain interested in acquisitions, "opportunistically," and Lithia began to hedge on its goal to reach $50B in revenue in the near future. Consolidation by the public companies has slowed dramatically from 2021 when they acquired 216 dealerships. The public retailers will likely continue to divest small and underperforming stores as they optimize their portfolios.

While the public retailers are the most visible acquirors, we believe it is important to note that they do not set the pace of the market, or determine the pricing for dealerships. Private dealers are much more active and have often been the buyers paying the highest prices.

Looking ahead, we expect the buy-sell market to remain highly active in 2024, possibly at the same levels we saw in 2023. Our firm has already served as the exclusive sell-side advisor on the sale of 23 dealerships through mid-March, and our pipeline of pending transactions is robust. Our newest clients have decided that with the best years of auto retail behind us, they prefer not to slog through what is likely to be a period of declining profits. With valuations still elevated well above pre-pandemic levels, they can sell their stores for high prices and move onto the next stages of their lives. The preceding four years have significantly boosted the wealth of almost every auto dealer in the US, allowing sellers to retire early and comfortably while still providing for their heirs and charitable interests.

If you are curious about the value of your business or want to learn about the process of selling a dealership or group of dealerships, please contact any member of our team for a confidential conversation. Our purpose is all about maximizing value for dealers!

U.S. DEALERSHIPS BOUGHT/SOLD



** - Total 2023 transaction volume expected to rise over time as news of additional transactions reaches the public*

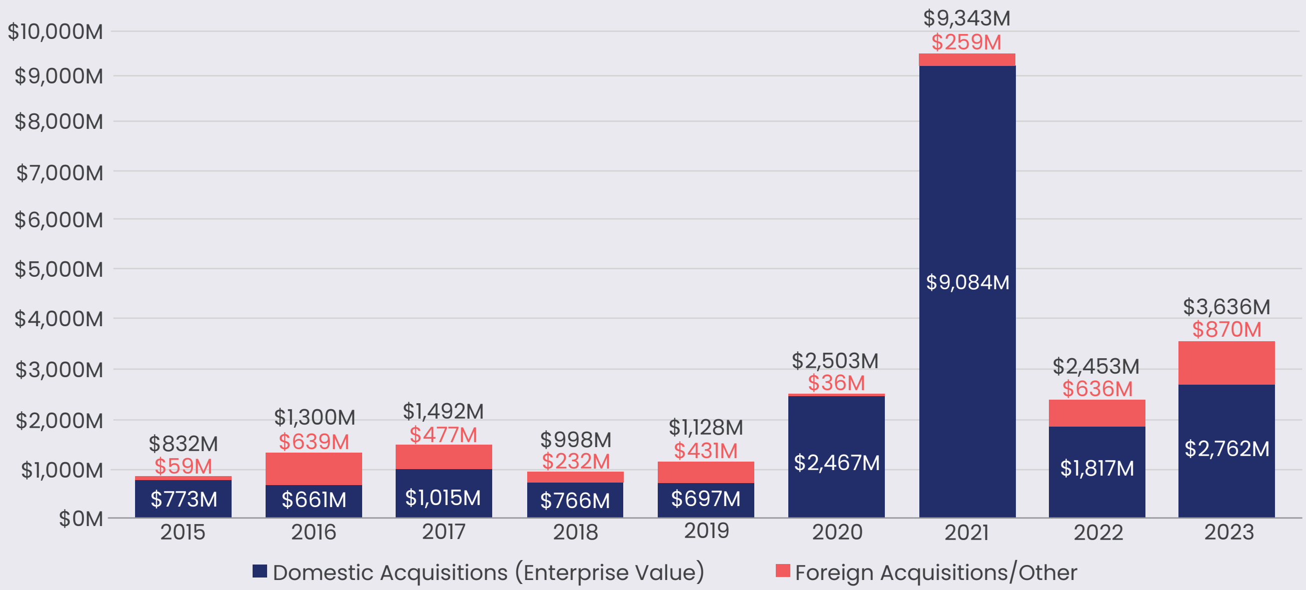
Source: Automotive News, SEC Filings, The Banks Report, Haig Partners

Public Auto Retailers Want to Acquire Platforms and Divest Underperformers in 2024

The publicly traded auto retailers remained acquisitive throughout 2023, spending $2.8B on US auto dealerships, 52% more than in 2022. Spending across the publics was lumpy, however, with a wide range of spending and strategies. Asbury spent $1.5B on a large platform, or more than half of all public company spending in 2023 on US auto dealerships. Lithia spent an estimated $500M on another platform, and one of the public retailers did not buy anything at all. The majority of the stores acquired came from just two transactions in the Mid-Atlantic region.

Based on their Q4 earnings calls, we expect the public auto retailers to remain acquisitive in 2024. Lithia stated that 90% of their M&A dollars will be focused on domestic automotive acquisitions, with a continued focus on large dealerships in regions like the South Central, Southeast and Midwest. Group 1, which acquired six dealerships in 2023, has already acquired 10 dealerships in the first three months of 2024. If these retailers shift more of their cash flow towards acquisitions, we expect dealership values will benefit. Several of the publicly traded retailers commented that they would also be divesting underperforming or small dealerships.

PUBLIC COMPANY ACQUISITION SPENDING



Source: SEC Filings

Haig Partners National Average Blue Sky Multiples

We carefully monitor the buy-sell market to assess the desirability of various franchises and overall market conditions. We analyze offers for transactions we are involved in and regularly speak with leading buyers and attorneys, bankers and CPAs involved in other acquisitions.

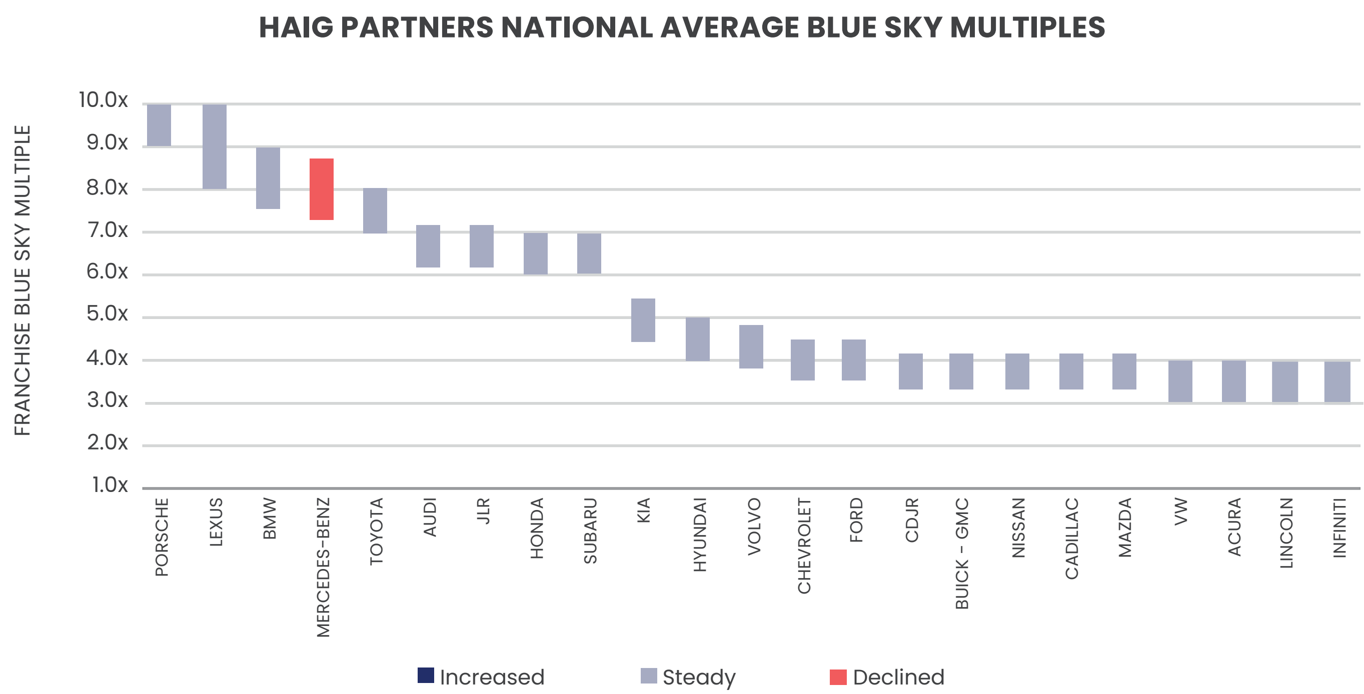
Most buyers still base their blue sky offers on a multiple of earnings that they expect in the future – and future expectations have varied considerably in recent years. The amount of goodwill they are willing to pay is based upon what their targets are for return on investment, internal rate of return, payback period, or other valuation methodologies. In general, franchises that provide high profits, growth and safety bring the highest multiples. Franchises that are declining and offer lower profits yield the lowest multiples.

The following table sets forth our expectations of what a buyer would pay as a multiple of pre-tax profits for the blue sky value of various franchises.

Prior to the pandemic, you could apply these multiples to the most recent year of adjusted pre-tax profits to derive blue sky. Between 2020 and 2023, buyers began to average in years of pre- and post-pandemic profits. Today, buyers are using a wide range of valuation methodologies, which can vary down to the franchise level. For example, for buyers evaluating an acquisition of a Toyota, few are even considering what the dealership made in 2019 since Toyota has improved so much as an OEM and the retail business model has also improved since then. For Toyota dealerships, many buyers are basing their offers off of current earnings, which they believe will continue to be steady for 2024 and beyond. For Stellantis dealerships, on the other hand, that are struggling with low sales and aging inventories, some buyers are looking at 2019 as a good indicator of future profits. Buyers of almost all franchises base their offers on projections of future profits, which they expect will be lower than in 2023 but higher than in 2019. Given the uncertainty of future profits, we have been seeing a wide variation in offers for dealerships in the current market. For one group of dealerships we were marketing, we received three offers: one at $40M in goodwill, one at $90M in goodwill and one at $125M in goodwill. The group was making between $25M and $30M in pre-tax profit. Same assets, marketed at the same time. We preferred the highest offer.

We caution potential sellers to not simply take the multiples and apply them to their current earnings to estimate goodwill. As we stated above, market conditions are highly variable today, so having access to data from many other transactions that have occurred recently is essential to understand and predict value. We regularly provide valuation information to our clients and potential clients.

To learn more about what your business could be worth, please contact us to have a confidential, no-obligation conversation.



Source: Haig Partners

Blue Sky Values are Declining ~1% Each Month

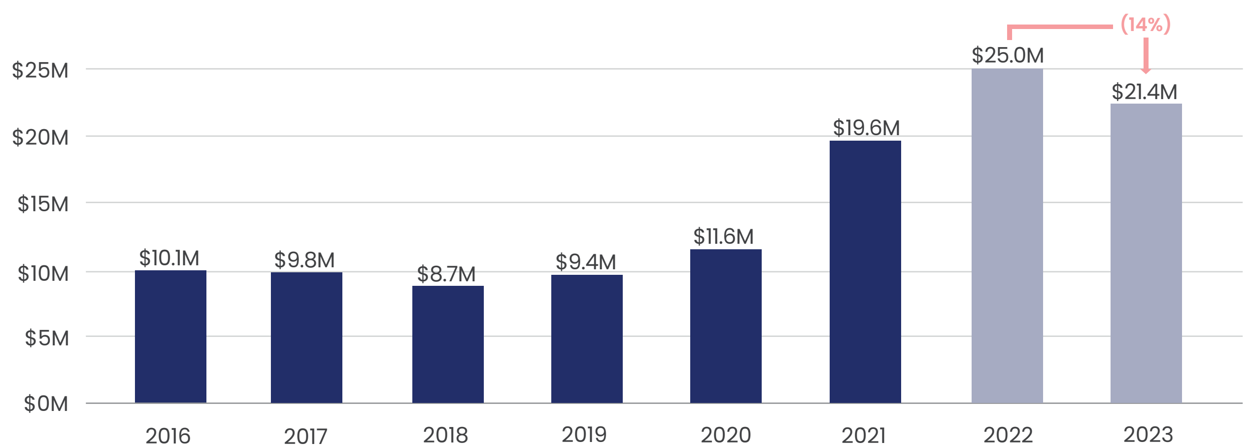
We estimate that the average blue sky value of a publicly owned new car dealership declined 14% from 2022 to year-end, and we expect blue sky value will fall at about 1% a month through the remainder of 2024.

As new vehicle supply returned in 2023, it eroded dealers' pricing power, resulting in decreasing front-end gross profit on new and used vehicle sales throughout the year. To quote one of our dealer friends, "We've had to learn how to sell cars again,". Inventory-starved franchises, like Toyota and Honda, may be the most protected against declining front-end gross profits, but dealers across the board are feeling pressure on their bottom lines. The compounding effect of expensive inventory coupled with sky-high interest rates is being felt across the country via much-higher floorplan expense.

When borrowers have to pay more for debt, they will pay less for blue sky. For most buyers, cash is expensive. Buyers with access to cheap cash – or even better, cash on hand – are unanimously preferred over those with financing contingencies in their offer letters. Time is of the essence for sellers, and every month matters. Any slowdown, whether perceived or real, puts sellers at risk of price renegotiations. And if the trend we witnessed in 2023 continues, we estimate that the average dealership loses 1% of its value every month.

ESTIMATED AVERAGE BLUE SKY VALUE

Based on Public Group Earnings



Source: Haig Partners & SEC Filings

Apple Automotive Group Sold to Ciocca Automotive

Haig Partners severed as the exclusive sell-side advisor to The Stewart Companies in the sale of its York, PA-based Apple Auotmotive Group to Ciocca Automotive. **Apple Automotive Group, with its ten franchised dealerships, two used dealerhips and six collision centers, is believed to be the most valuable dealership group to have been sold in Pennslyvania.**

TRENDS IMPACTING AUTO RETAIL

Inflation is Moderating

The 12-month inflation rate continued its decline in January 2024, falling from the 3.4% seen in December to 3.1% in the first month of the year. This means that inflation has fallen more than 50% from the 6.4% observed in January 2023, and about 67% from the 9.1% rate we saw in June 2022, the highest level since 1981. While painful in the short-term, the Fed's efforts to tame inflation have proven highly effective.

In terms of pricing on auto vehicles, the Consumer Price Index of used vehicles fell 3.4% from December 2023 to January of 2024, while the index for new vehicles stayed flat.

Multiple Rate Cuts Predicted in 2024

In its January meeting, the Federal Open Market Committee (FOMC) decided to hold interest rates steady at a target range of 5.25-5.50%, keeping the range at the highest level in more than 20 years. After raising rates 11 times between March 2022 and July 2023, it appears as though a tipping point is near, with the FOMC themselves forecasting two or three quarter-point cuts (0.25%) by the end of 2024, which could lower the benchmark rate to 4.6%. Banks and other institutions also predict three or four cuts by the end of the year.

GDP Growth Steady but Below Target

According to the Bureau of Economic Analysis, GDP growth remained steady in Q4, rising 3.2% quarter-over-quarter. However, like inflation, GDP growth also fell short of expectations in Q4. Originally projected to grow 3.3%, a decline in private inventory investment contributed to the missed growth target.

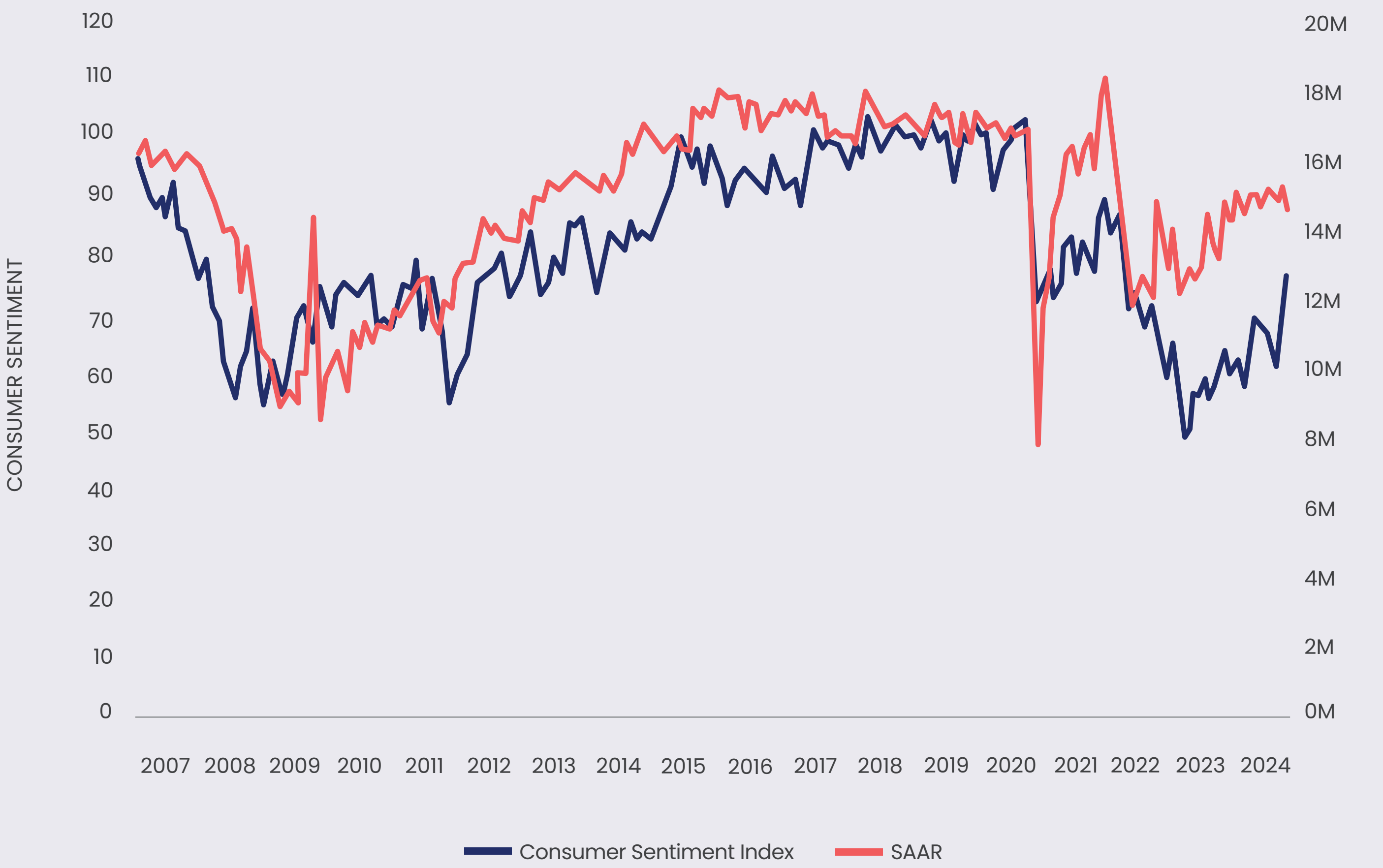
And while economic growth remains positive, the below-expected level of private inventory investment is concerning to some economists. Declines in private inventory investment can suggest weakness in customer demand, or pessimism about economic conditions.

Consumer Sentiment Surges to Highest Level Since 2021

The University of Michigan publishes a widely followed economic indicator, Consumer Sentiment, which tracks consumer confidence in the economy and their personal finances. In January 2024, the Consumer Sentiment index reached 79.0, its highest level since July 2021. Additionally, the month-over-month increase from December 2023 to January 2024 was the highest month-over-month increase ever observed, according to the University of Michigan.

The key drivers for this leap in consumer sentiment were improved perception of personal finances, positivity about the macroeconomic environment and increased confidence about inflation softening. Historically, the Consumer Sentiment index had a strong correlation with SAAR, as evidenced by the chart below. While this correlation was broken during the pandemic era, we believe that over time, the two metrics will continually realign themselves.

CONSUMER SENTIMENT VERSUS SAAR



Source: Thomson Reuters/University of Michigan; FRED

2023 SAAR Ends on a High Note

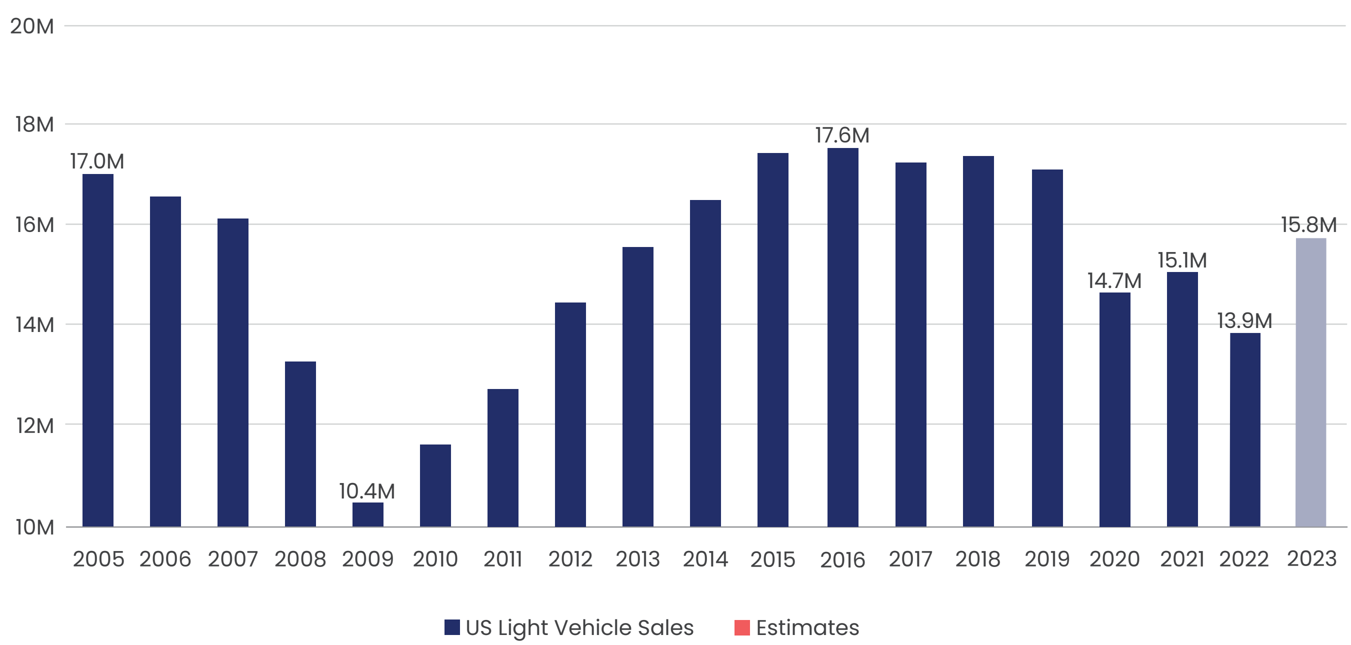
New light-vehicle sales exceeded expectations in February, achieving a SAAR (Seasonally Adjusted Annual Rate [of new vehicle sales]) of nearly 16M. This marked the 19th consecutive month of year-over-year sales increases, and the fourth time in the last year that the SAAR has neared 16M, according to Automotive News.

Breaking down light-vehicle sales through February 2024 YTD, the crossover segment has continued to boom, accounting for almost 50% of all new vehicles sold throughout the period. In terms of market share growth, hybrid vehicles landed on top, with their market share rising from 5.8% to 8.5% year-over-year. And lastly, in terms of powertrains, ICE vehicles accounted for 82% of sales, followed by hybrids (8.5%), EVs (7.2%) and plug-in hybrids (2.3%).

MONTHLY SAAR

Source: NADA

U.S. LIGHT VEHICLE SALES



Source: COX Automotive, NADA, Toyota, S&P Global Mobility

New Vehicle Inventory Surges

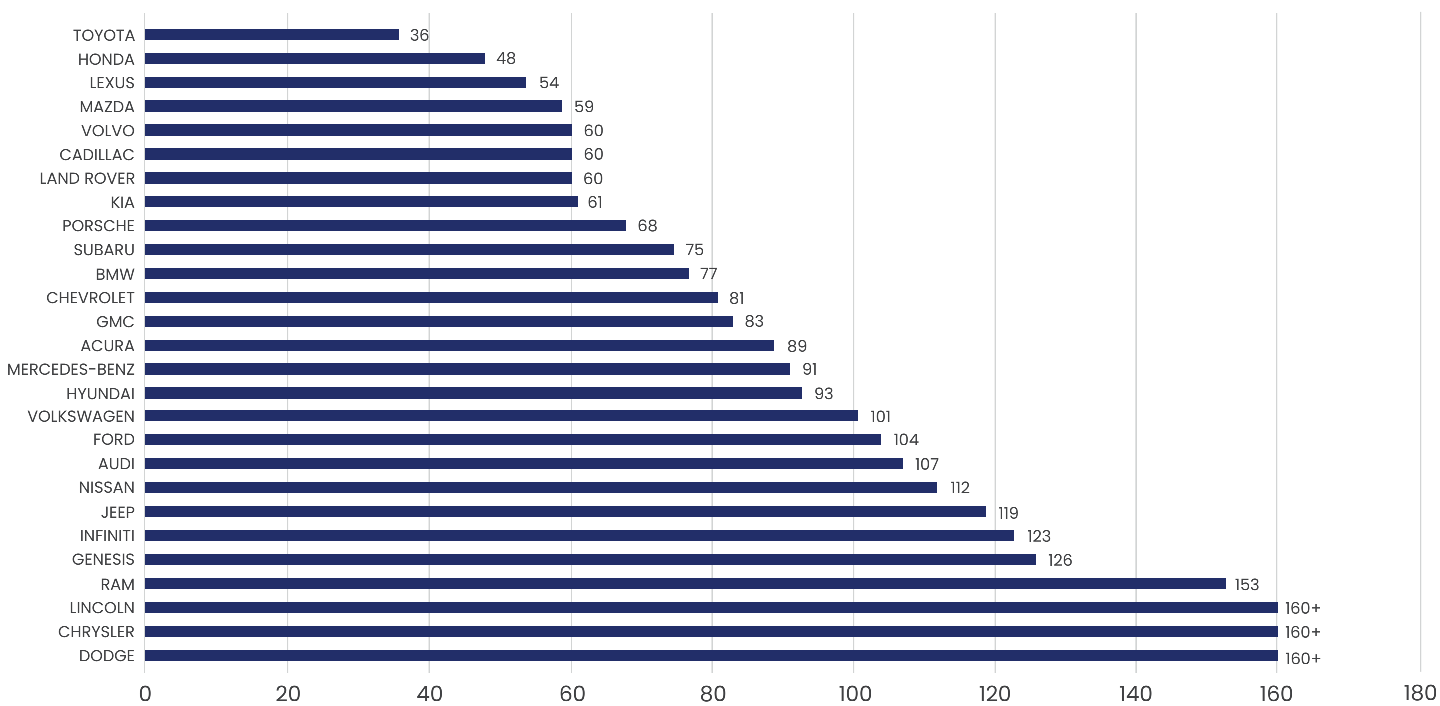
At the end of January, new vehicle inventories were at their highest level since June 2020, according to Cox Automotive. February began with 80 days' supply of new vehicle inventory, in line with January but 40% higher than the same time last year.

While there has been a large spike in new vehicle inventories, the numbers can vary dramatically between franchises. Several midline import brands continue to have the lowest new vehicle inventories, led by Toyota (36 days' supply) and Honda (48 days' supply). But the numbers rise quickly after that for most brands. Somehow, Subaru dealers now have 75 days of stock, more than any time we can recall. The worst offenders are Lincoln, Chrysler and Dodge, whose dealers have over 160 days' supply. They won't even reveal how high, just that their supply is > 160 days. But there are other core brands that also have far too much in stock, such as Hyundai (93 days), Ford (104 days), Nissan (112 days) and Jeep (119 days). Inventory levels that are this high put pressure on retailers, who will have to sell some of them at a loss to get them off their lots. And high inventories harm OEMs who will suffer lower future sales (retailers are already rejecting additional shipments of new inventory until they sell more of their existing stock), as well as higher advertising expenses and increased incentives to dealers and consumers.

As for luxury, Lexus and Land Rover have relatively low inventories, but other brands have some issues, either due to overproduction or stop sales. Porsche is sitting at 68 days' supply. Mercedes-Benz has 91 days' supply. Audi has 109 days' supply. Infiniti is a disaster at 123 days' supply. One reason the days' supply has increased for these brands is due to the slow selling EVs that are sitting on dealers' lots. At Porsche stores, for instance, there are no 911s in stock, but Taycans are being heavily discounted. One of our teammates at Haig Partners is driving an Audi E-Tron GT with a $130K sticker price for which he prepaid a one-year lease for $8,000. The effective monthly lease payment of $677 means that Audi and its dealers are paying dearly to get these vehicles sold before they age further. Why would Audi produce any more?

We had hoped that the OEMs would have learned a lesson during the post-pandemic era - to produce one less car than the market demands – but it appears that for many factories, they are looking at short term incentives and missing the bigger picture. They, and their dealers, will suffer until the proper balance between supply and demand is established.

DAYS' SUPPLY BY FRANCHISE
As of January 2024

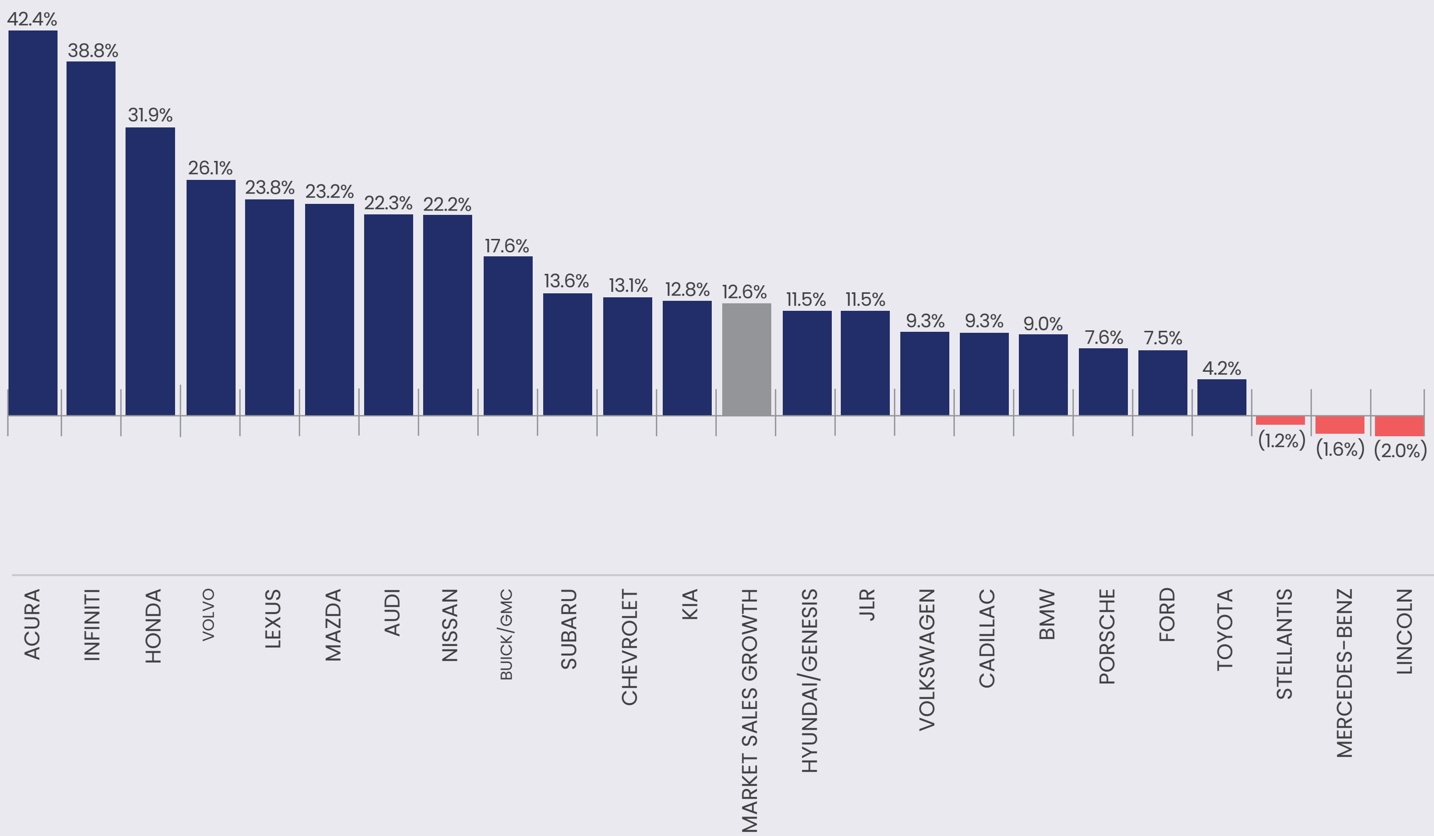


Source: Cox Automotive - vAuto

Midline Import & Luxury Brands Lead New Unit Sales Growth

Sales of new units increased 12.5% in 2023, with 20 of the 23 franchises we track selling more new units than the prior year. Acura (+42.4%), Infiniti (+38.8%) and Honda (+31.9%) sales grew the most, while Stellantis (-1.2%), Mercedes-Benz (-1.6%) and Lincoln (-2.0%) were the only franchises to see sales volume fall year-over-year. We are hoping for even higher sales in 2024 to help to soak up the excess new vehicle inventory that is sitting on many lots.

YEAR/YEAR SALES PERFORMANCE: 2022-2023



Source: Automotive News (Q4 2023 Data)

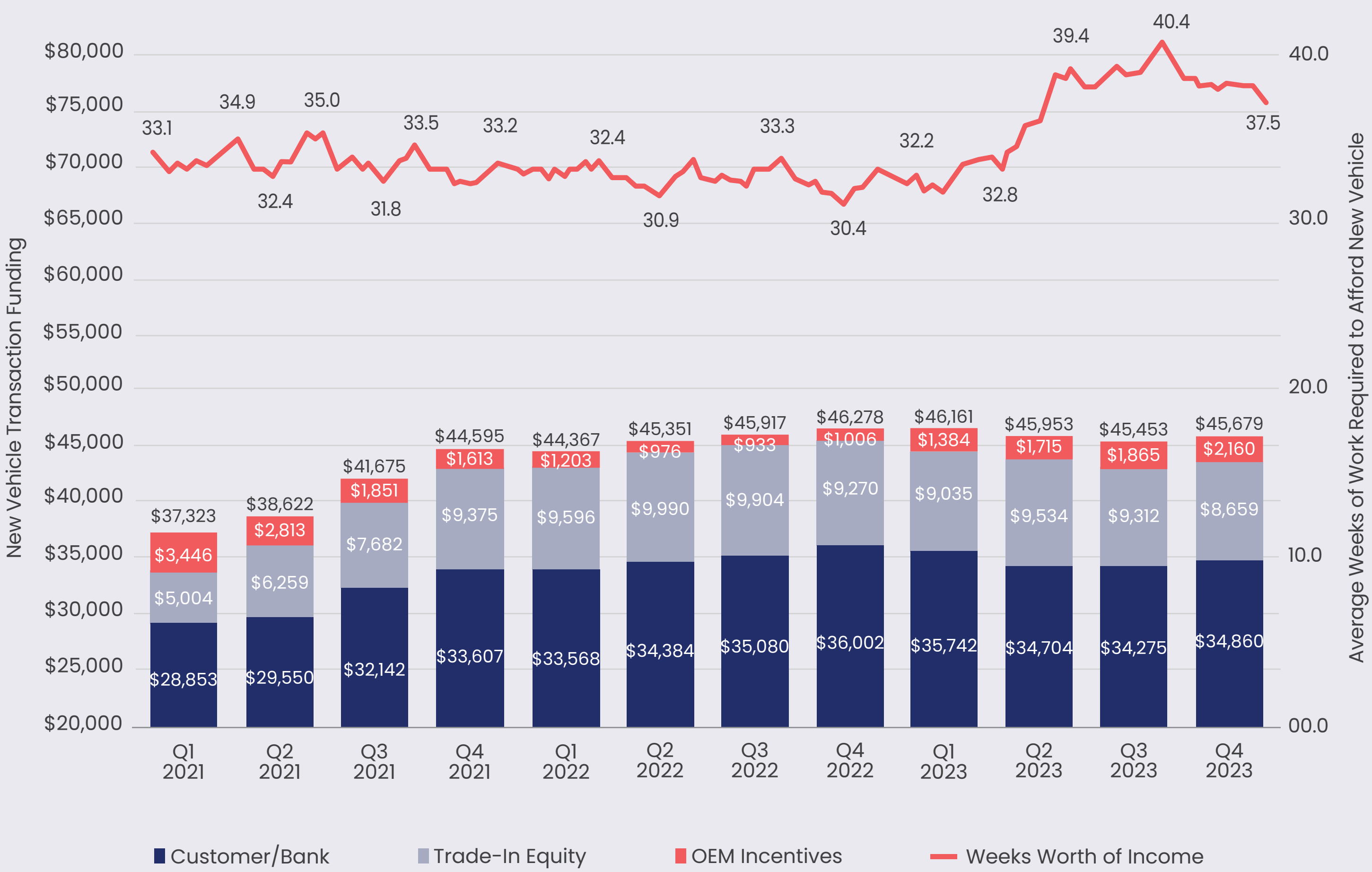
New Vehicle Affordability is Improving

While wages have been steadily increasing over the years, ATP has been rising faster. From 2012 to 2021, the average American had to spend between 30 and 35 weeks' worth of income ("WWI") to purchase a new vehicle. Then, the pandemic hit.

The average transaction price (ATP) for a new vehicle in Q4 2023 was $45,679, according to data from J.D. Power. This ATP represents a 0.5% increase from the previous quarter, but a 1.3% decrease from Q4 2022, which saw the highest new vehicle ATP on record. Since year, OEM incentives have more than doubled (+114%!), rising from an average of $1,006 to $2,160, while average trade-in equity has decreased by $611 (-6.6%).

Between March 2020, when COVID shut down much of the American economy, to December 2022, the WWI to purchase a new vehicle skyrocketed from 33 to over 40, a 30% increase. Vehicles were in short supply and demand was high. OEMs and dealers responded by rising prices sharply. Fortunately, since its peak in December 2022, affordability has been steadily improving month-over-month. According to Cox Automotive, customer WWI declined to 37.5 in January 2024, a 9% decline from the December 2022 peak. We hope this trend continues as more affordable models and trims reach dealers around the country.

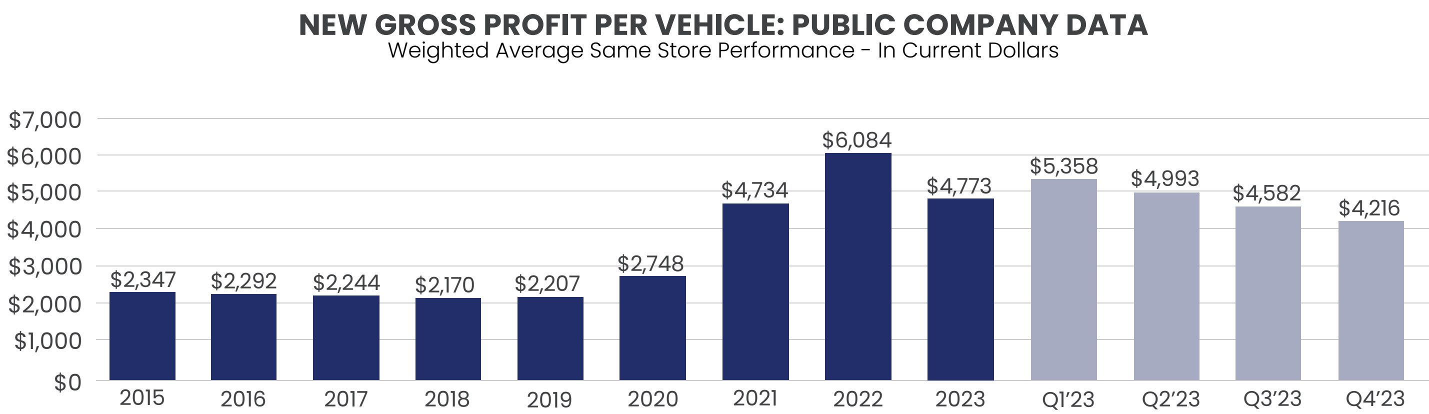
NEW VEHICLE PRICING, FUNDING AND AFFORDABILITY



Source: J.D. Power, Haig Partners, Federal Reserve Economic Data ("FRED")

New Vehicle Gross Profit Declines for 7th Straight Quarter

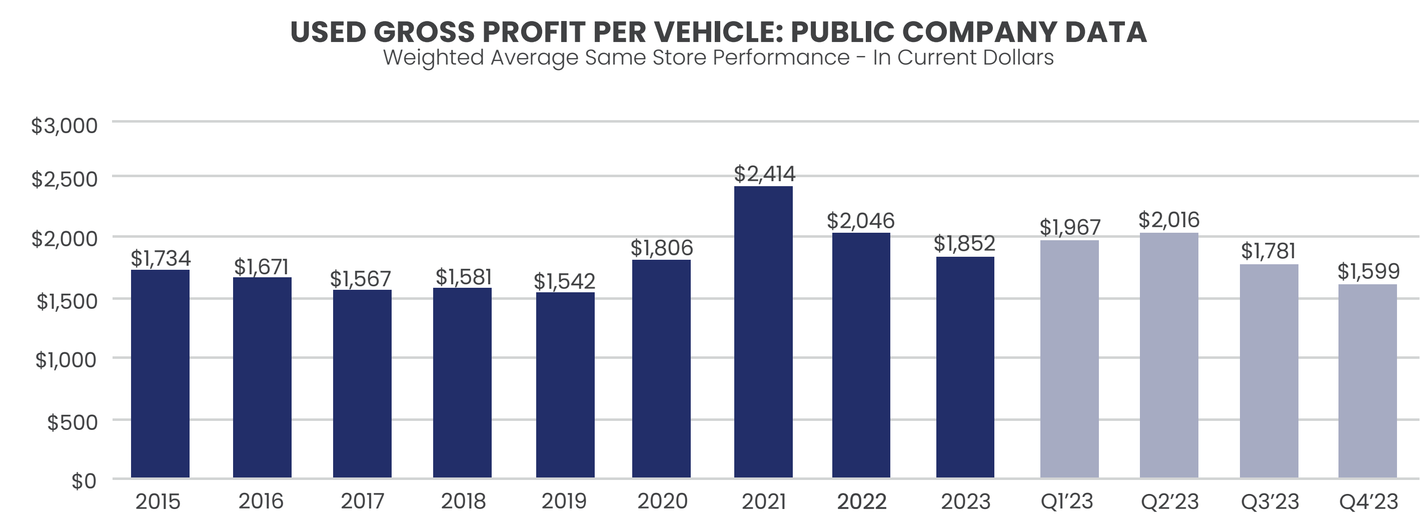
The publicly traded auto retail groups earned an average of $4,216 in front-end gross profit per new vehicle retailed in Q4 2023, marking the seventh straight quarter of decline. Front-end gross profit on new vehicle sales fell 8% from Q3 '23 to Q4 '23, and 21% from FY '22 to FY '23. It is important to note, however, that the source of this data is companies like Lithia and Group 1, which own a large number of luxury dealerships that get factored into the average. If you would like to benchmark the performance of your dealership or dealer group against these auto retail giants, we recommend comparing trends using percentages rather than comparing dollar amounts.



Source: SEC Filings

Used Vehicle Gross Profit Back to Pre-COVID Levels

In the first half of 2023, front-end gross profit on the sale of used vehicles appeared to be normalizing roughly 30% higher than pre-COVID norms. However, grosses tumbled in Q3 and Q4 2023, with the publicly traded auto retail groups earning an average of $1,599 in front-end gross profit per used vehicle retailed by the end of Q4. The average gross profit per used vehicle retailed in full-year 2023 was $1,852, a 12% decrease from 2022. As the supply of new vehicles has risen, dealers have had to reduce their prices on new vehicles, which in turn has eroded pricing for used vehicles and dragged down GPUs.

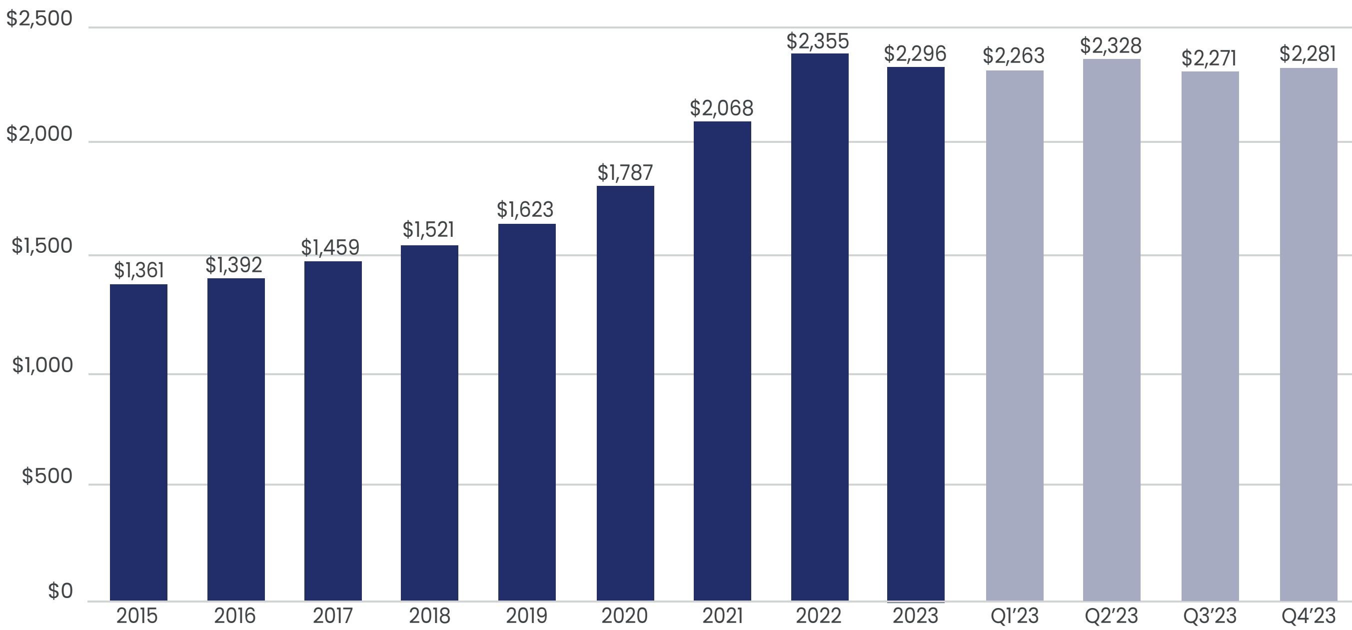


Source: SEC Filings

F&I Gross Profit is Holding Steady

F&I gross profit per vehicle retailed has remained largely flat since reaching its peak of $2,355 in 2022. In their earnings calls, the public auto retail groups stated that interest rates are putting negative pressure on F&I product penetration. Also, if average transaction prices stay flat or even decline as OEMs and retailers offer lower prices, then dealers will have lower vehicle values to finance, which could further suppress F&I gross profits. As interest rates recede in 2024, we could see F&I gross profit resume its previous, steady growth.

PUBLIC COMPANY F&I PER UNIT RETAILED
Weighted Average Same Store Performance - In Current Dollars



Source: SEC Filings

From left to right: Neely Darr, Vic Bailey IV, Vic Bailey III, John Davis.

VIC BAILEY

"We are grateful to John Davis, Derek Garber, and the entire Haig Partners team for their advice and guidance, leading us through a smooth and successful sale. John understood that the sale of a family business is more than just a financial transaction; it is an emotional transition and a significant journey for all our family members. John led us through every step of the way, providing us access to a team with unmatched experience, knowledge, depth of dealer relationships, and commitment to finding the right buyer."

- Vic Bailey III, President of Vic Bailey Automotive

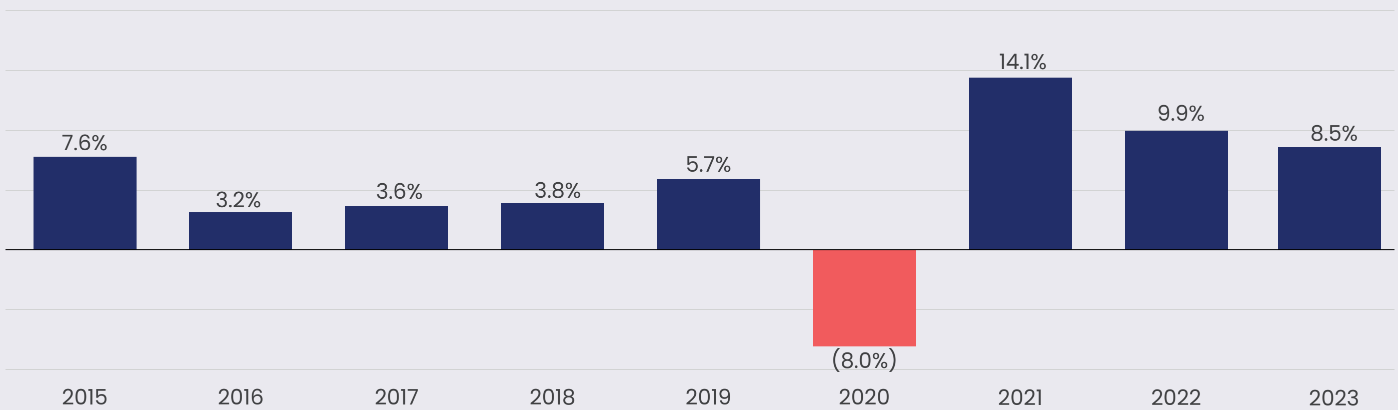
Fixed Operations Gross Profit Continues to Climb

Fixed operations are proving to be the most reliable source of gross profit growth for dealers, according to SEC filings from the publicly traded auto retailers. In 2023, gross profit from fixed operations grew 8.5%, helping offset some of the decline in variable operations gross profit.

Group 1 Automotive is a prime example of a large group investing heavily into their fixed operations. In the Q4 earnings call, Daryl Kenningham, President and CEO of Group 1 Automotive, went into detail around their success in fixed operations, saying, "We will continue to invest in that part of our business. Our focus is on the after sales impact of the customer journey, specifically increasing customer retention through more convenient service hours, training of our service advisors and technicians, flexible work schedules, improved customer relationship management software, and more innovative marketing using data science and technology, to reach our customers in a more relevant and timely was. As an example, we booked over 10,000 customer appointments in the quarter, using artificial intelligence, helping to meet our customers when, and where, they want to engage and do business with us."

FIXED OPERATIONS GROSS PROFIT GROWTH: PUBLIC COMPANY DATA

Same Store Performance - In Current Dollars



Source: SEC Filings

SHOCKLEY Honda

From left to right: Alan Haig, Marisa Shockley, Chris Ourisman and Mike Shockley

"While my brother, Mike, and I enjoyed the automotive industry, we wanted to move on while we were still young and could pursue other adventures. I'm also grateful for the financial and legal advisors who were instrumental in this transaction. Alan Haig and Matt DeSantis of Haig Partners gave us extensive advice over the past months that resulted in a highly desirable outcome for our family. They delivered more than I expected in several ways, delivering on their underpromise and outperform spirit. Alan knew how to describe the market potential of Shockley Honda and had relationships with leading buyers in our area and nationwide that resulted in several attractive offers. They have a deep understanding of how the buy-sell process works and assisted me in resolving open items all the way up to the closing day."

- Marisa Shockley, Former Co-Owner, Shockley Honda

Average Dealership Profits Decline 23%

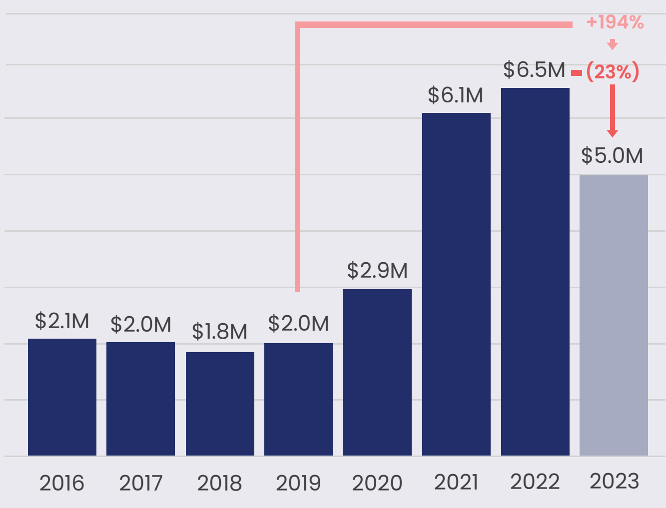
We estimate the average public company owned auto dealership made $5.0M of pre-tax income in 2023, a 23% decrease from the year before. The performance of stores owned by private dealers likely had the same outcome in 2023 on an overall basis, although we expect there would have been much more variation amongst the dealers. For instance, a dealer that owns a single Toyota store might not have seen any decline at all, as compared to the owner of a single Stellantis store that could have seen his profits shrink all the way back to 2019 levels, or even worse.

In 2024, we predict another year of double-digit declines in profit for the industry. Dealers tell us they are concerned that new vehicle gross profits will likely fall further, at the same time that floorplan and advertising expenses will increase. These are the opposite conditions that we enjoyed from 2020 to 2023. Despite these declines, the current level of profits is still elevated compared to pre-pandemic times. The pre-tax profit for the average publicly traded dealership in Q4 2023 was $1.0M, which is 31% below Q4 2022 but 78% higher than the average profit in Q4 2019, just before the pandemic hit.

One way that we see some dealers working to maintain their profits is through their acquisition strategies. Some buyers are increasingly focused on higher quality franchises, particularly Toyota, Lexus and BMW. And some dealers are working to divest dealerships that they believe will struggle in the future. Divestitures free up cash and management talent and allow dealers to focus on larger and more profitable dealerships. Why fight to make another $100K at a store that is struggling, when the same effort could yield you $500K at another dealership? Why continue to put talent into a location that will provide little to no profit? Portfolio management is an important aspect of owning a group of dealerships. We have written before that as dealers grow, they evolve from being operators to being investors.

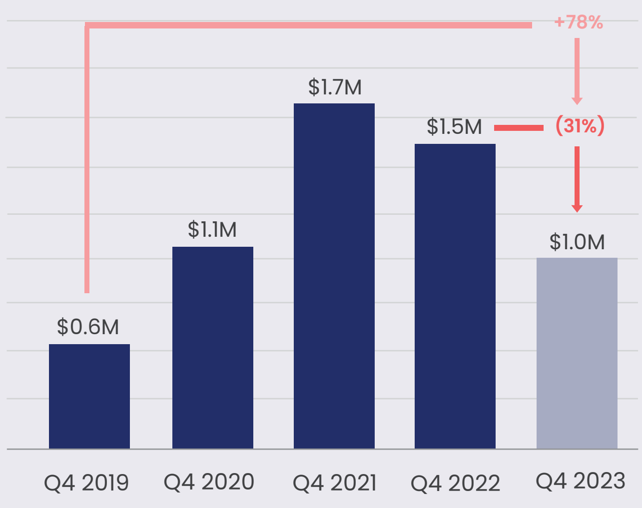
If you are interested in diversifying your group through acquisitions, or fueling growth through divestitures, please contact a member of our team. We frequently discuss both growth and exit strategies with clients around the nation, and it would be our pleasure to learn about your goals.

ADJUSTED ANNUAL EARNINGS PER DEALERSHIP
Based On Public Group Earnings



Source: Haig Partners & SEC Filings

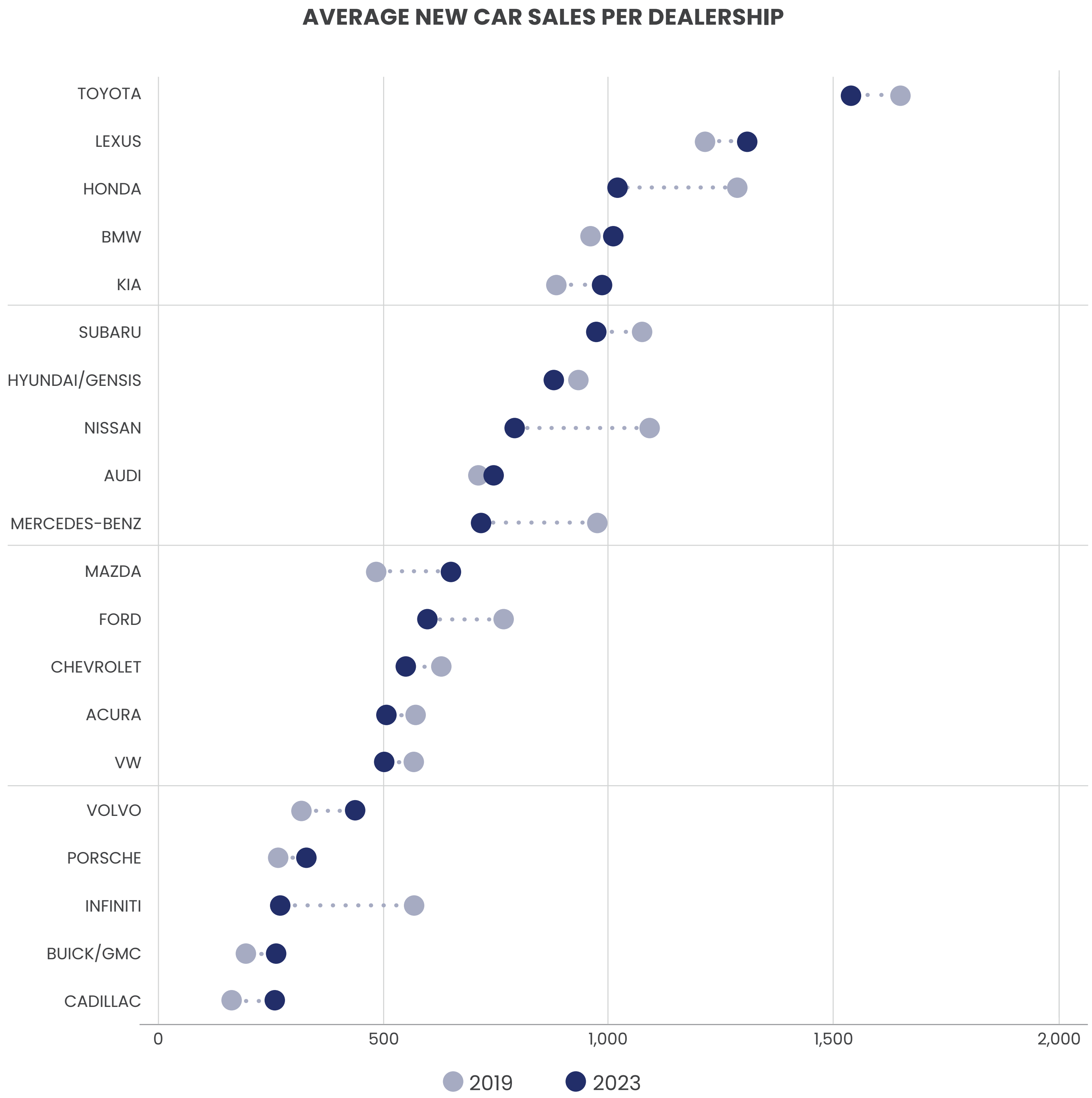
AVERAGE Q4 EARNINGS PER DEALERSHIP
Based on Public Group Earnings



Source: Haig Partners & SEC Filings

FRANCHISE VALUATION RANGES & TAKEAWAYS

There have been significant changes in market share since the pandemic. The table below shows the number of new units sold per dealership location in 2019 and in 2023. From this chart, it is clear that certain brands, like Mazda and Kia, have performed very well in recent years, while other brands, like Honda, Mercedes-Benz and Infiniti, have struggled significantly. These relative changes in volume also point to changes in the level of dealership profits, and therefore, dealership values, for each of these brands.



Source: Haig Partners, Automotive News, Urban Science

LUXURY FRANCHISE BLUE SKY MULTIPLES

Porsche

Porsche sales rose 7.6% from YE 2022 to 2023, trailing the growth experienced by the overall market as well as sales growth observed across competing luxury brands. Porsche dealerships remain exclusive, elusive, and extremely valuable in the buy-sell market. Both dealers and customers like the OEM's balanced approach to powertrains, retaining ICE models but introducing new EV and plug-in hybrid versions alongside them. Macan and Cayenne sales keep the lights on while limited-run 911's continue to command extremely high front-end gross profits. The new Macan EV has already received over 10,000 pre-orders as of March 2024, highlighting just how confident consumers are in the OEM's product. **Same multiple range: 9.0x-10.0x.**

Lexus

Lexus sales grew 23.8% from 2022 to 2023, making it the fifth-fastest growing brand last year. In 2023, Lexus was #2 in average dealer throughput and #1 in vehicle dependability. Lexus dealers are excited about their future due to high profits, and a quiet confidence that comes from perhaps the best "partnership" between and OEM and a dealer network (the same goes for Toyota dealers). With strong product, customer loyalty, impressive leadership vision, LFS backing and only 244 dealerships in the U.S., Lexus remains an extremely desirable and high-value brand. **Same multiple range: 8.0x-10.0x.**

BMW

BMW sales grew 9.0% in 2023, slower than the overall market (12%) but dealer confidence remains strong in the franchise. Gross profits per unit are among the highest in the industry, along with buyer demand for this franchise. We recently advised on the sale of three BMW locations in South Florida and we believe the value paid for Vista BMW and its companion location was highest ever for any auto dealership. BMW's EV strategy is also going well, with better product styling and pricing than their German peers. In sum, dealers are pleased with the product portfolio, the business model, leadership and its EV strategy. Interest in BMW franchises is beginning to surpass Mercedes. **Same multiple range: 7.5x-9.0x.**

Mercedes-Benz

Mercedes-Benz was one of only three major franchises that saw sales volume decline year-over-year, with volume declining 1.6% in FY2023. The cost offloading expensive EVs is reducing profits for dealers, who complain of high flooring expenses and having to sell these units for prices well below invoice. One dealer described the situation as, "dire." Due to these miscues, M-B dealers have missed one of the biggest sales rallies in recent history. Grosses on ICE models are very strong; enough to offset the expense of the silver star's stumbling EV lineup. Overall, profits at M-B stores remain very strong thanks to a balanced model of high profits from ICE products and fixed operations. M-B remains highly involved steering the sales of its dealerships to its preferred buyers, which we believe is eroding demand for their stores. Buyers not already within the M-B family hesitate to offer on Mercedes dealerships for fear the deal will be assigned to another buyer, regardless of their offer. The list of potential buyers for a M-B store shrinks from hundreds to dozens, reducing demand. Due to EV and network strategy issues, we are reducing the M-B's franchise multiple by 0.25x on both the low- and high-end of our range. This is a slight change, and could be reversed if MB adjusts its policies. **Decreased multiple range by 0.25x on low and high-end of range: 7.25x-8.75x.**

Audi

Audi sales increased 22.3% in 2023 over 2022, growing faster than BMW, M-B, Porsche and the overall market. Not much changed in Q4 2023 for Audi dealers, aside from some surprises from delayed shipments. Audi has signaled a shift away from its 2030 goal of a fully electric lineup, but offers few hybrid options in the near-term. Larger SUVs and sedans are still selling well and sustaining strong front-end grosses, while smaller SUVs and sedans are not faring as well. Overall, the franchise remains healthy and in-demand. **Same multiple range: 6.25x-7.25x.**

JLR

JLR increased its sales by 11.5% FY 2023 compared to FY 2022. Dealers are bullish on JLR as most of its products quickly disappear from their lots regardless of price. Customer loyalty is extremely high for its top products, and some place orders for the next vehicle when picking up their newest vehicle. The future remains murky for Jaguar which JLR said it intended to move further up-market as a fully electric brand. Jaguar reduced its franchise count by 25% in 2023 as dealers were offered extra Land Rover inventory in exchange for the Jaguar point. For the foreseeable future, most dealers will continue to rake in high margins at growing volumes. But with Land Rover add-points starting to open, dealers contiguous to these new locations will suffer due to higher competition. **Same multiple range: 6.25x-7.25x.**

Volvo

Volvo sales increased 26.1% from 2022 to 2023. Volvo hopes to generate double-digit sales growth again in 2024 with the release of two new electric crossovers. So far, Volvo has done a better job providing EV models that fit the taste and budget of its customers than most other OEMs. Volvo remains committed to going all electric by 2030 but believes a hybrid vehicle lineup will be essential before then. **Same multiple range: 3.75x-4.75x.**

Acura

Acura sales were up 42.4% FY 2023 compared to FY 2022, the highest increase among the franchises we track. Acura had significant production issues in 2022, so this lift might feel like a return to normal for dealers, as opposed to true gains. The brand will also introduce a new digital retailing tool. Acura dealers still have to focus on used vehicle sales to drive profits as they still struggle with low throughput on new vehicles sold per franchise. **Same multiple range: 3.0x-4.0x.**

Infiniti

Infiniti volume jumped 38.8% FY 2023 over the prior year, the second highest increase among the franchises we track. Despite this lift, Infiniti stores have not recovered from their sales levels of several years ago. Infiniti is trying to drive more throughput for its dealers by increasing production and improving logistics management. New product will help. Infiniti is introducing four new or redesigned models by 2027. Dealers are hoping the sales turnaround continues in 2024 to help Infiniti regain some of the significant ground it lost over the past few years. **Same multiple range: 3.0x-4.0x.**

Lincoln

Lincoln sales grew 8.8% in Q4, beating both Ford and the market. Lincoln's franchise count dropped by 16% during 2023. Throughput is growing but still trails domestic luxury rival Cadillac. Lincoln plans another ~20% reduction in franchise count this year, which may mean that new unit sales at remaining Lincoln dealerships could grow 20%. But even this growth will barely put a dent in the 160+ days' supply of new vehicles stacked up on dealers' lots, among the highest in the industry. Lincoln will need to roll out massive incentives to clear these vehicles, or dealers will need to deploy equally massive price cuts. **Same multiple range: 3.0x-4.0x.**

MID-LINE IMPORT FRANCHISE BLUE SKY MULTIPLES

Toyota

Toyota is on a roll. Its sales increased just 4.2% in 2023, well below the industry average, but supply has been ramping up quickly in recent months. Its product portfolio is stuffed with many new or freshened models, most of which can be ordered with ICE, hybrid, or plug-in hybrid powertrains. Adding to Toyota's strength is its outstanding relationship with the franchise network. Jack Hollis, Executive Vice President of Toyota Motor Sales U.S.A., spoke at the AutoTeam America Conference that we help to organize at NADA in January. He reiterated Toyota's commitment to the dealer network, unlike other OEMs that flirt with other retail models, or anti-dealer policies like stair-step programs. Toyota stores are ranked #1 in terms of their sales per location in 2023, and we don't see that changing anytime soon.
Same multiple range: 7.0x-8.0x.

Honda

Honda continues to show considerable progress in vehicle production and posted a sales increase of 31.9% from 2022 to 2023. Honda performance is outpacing many of competitors, helping them regain market share lost during the pandemic due to production difficulties. Unlike for many other franchises, February 2024 was a great month for Honda dealers, and as always, fixed operations remain strong. Dealership buyers are highly interested in Honda, and we are seeing very attractive offers for the franchise. We recently represented the owners of South Honda in Miami, FL and we believe that the price paid for that dealership was the most ever for any Honda dealership. Due to their lower profits, Honda dealerships are less expensive than Toyota dealerships but offer products with similar customer appeal. At the same time, Honda dealerships trade at a higher multiple than the Korean brands, even though new vehicle sales volumes are about the same. Dealers tell us their Honda stores have better fixed operations and used vehicle sales than the Korean brands offer. As a result, the business model is more stable as it is less reliant on large grosses on new units. **Same multiple range: 6.0x-7.0x.**

Subaru

Subaru sales rose 13.6% in 2023, a little ahead of the overall market growth rate. Consumers love the OEM's customer-centric approach, which creates excitement and loyalty around the brand. Subaru invests significant resources to ensure customer satisfaction, including providing extensive coverage for quality control issues in recent years. And dealers love the results, which include dependable gross profits, strong fixed operations and a belief in "better things to come." **Same multiple range: 6.0x-7.0x.**

Kia

Kia sales increased 12.8% over 2022. Consumers are happy with the styling and affordable prices. Kia dealers continue to post impressive profits that outperform most franchises. Dealers also tell us they are largely pleased with their interactions with Kia's management. In the buy-sell market, most buyers are interested in this franchise, a contrast to before the pandemic when many Kia stores were nominally profitable. Some dealers believe Kia franchises are more valuable than Honda franchises in certain markets. Due to much higher earnings and greater demand from buyers, it's possible that Kia stores have appreciated in value more than any other brand. **Same multiple range: 4.5x-5.5x.**

Hyundai/Genesis

Hyundai/Genesis reported a sales increase of 11.5% from 2022 to 2023, marking the third year in a row of record-setting sales. We are also seeing a strong February 2024 with the franchise setting an all-time February sales record. Hyundai dealers continue to enjoy great profits. Their products are impressive in terms of design, quality and value. However, Hyundai continues to apply pressure to dealers to make pricey facility upgrades at Hyundai and to build new showrooms for Genesis. For dealers who are unwilling to build new showrooms, some are trying to sell the franchise, and in other cases, Hyundai is asking them to turn in the Genesis franchise. Given the significant run up in profits per store, Hyundai remains a very desirable brand for most buyers. **Same multiple range: 4.0x-5.0x.**

Mazda
Mazda sales increased 23.2% from 2022 to 2023, ending the year with their best December performance on record. Mazda achieved its highest annual market share of 5.1% among direct competitors in 2023. Mazda's leadership wants to foster close relationship with dealers, akin to Toyota. Dealer throughput skyrocketed 82% from 2012-2023, ending 2023 with an average of 859 units sold. Ranked #8 in brand ranking and #6 in residual values by Consumer Reports, Mazda is currently outpacing the industry in dealer profitability growth. Dealers that have invested in the new Mazda image have been pleased with results and returns, and their renewed partnership with Toyota for private label financing is accelerating the brand's growing momentum. **Same multiple range: 3.25x-4.25x.**

Nissan
Sales increased 22.2% at Nissan in FY 2023 compared to FY 2022. Nissan has struggled as a brand for several years. Its management team claims that dealer profits and sustainable growth are core elements of their strategy, but recent actions indicate otherwise. Nissan dealers have 112 days supply, 40% above the industry average. Nissan's inventives are not enough to clear out aging inventory, with plenty of 2023 models on dealers' lots. This means high floorplan expense for dealers, as well as losses on sales of aging units. To make matters worse, Nissan announced it sold 44% of its total volume in January to fleet operators. Experts believe that high fleet sales result in lower residual values for Nissan vehicles, which will hurt retail customer loyalty and future retail sales as a result. We have seen this movie before. The good news is that Nissan does have lower priced models, which should allow it to reclaim market share. The demand for Nissan stores is still mixed as the brand works on its rebound. **Same multiple range: 3.25x-4.25x.**

Volkswagen
VW 2023 sales increase by 9.3% over 2022. Despite the increase, VW remains a low-volume and low gross profit per unit franchise. VW needs to sell the upcoming Scout through its dealer network. We also believe VW should consider paying dealers to shut down some of their stores to allow remaining dealers improve new unit sales and better compete against Japanese and Korean OEMs. Cadillac, Lincoln, Genesis and Buick have shown that fewer dealers create stronger dealers, and we hope VW adopts this strategy soon. **Same multiple range: 3.0x-4.0x.**

DOMESTIC FRANCHISE BLUE SKY MULTIPLES

Ford
Ford sales growth slowed in Q4 to a 0.6% gain over the prior year period, trailing the market again despite being arguably the least impacted by the UAW strike. Ford has been promoting its EV strategy, but results have been disastrous. It lost over $5.5 billion in its EV division last year, more than the last year. Dealers are glad for the recently announced shift in production to more hybrid and plug-in hybrid models including doubling the mix of F-150 hybrids. Also, the Ford Pro division is selling vehicles and software that are resonating strongly with commercial customers. Many dealers appear to be in a wait-and-see mode with Ford. If Ford can shift production quickly we think demand for these stores could rise. **Same multiple range: 3.5x-4.5x.**

Chevrolet
Chevrolet dealers were having a good year until a 0.5% drop in sales in Q4 due to the strike. Even so, the brand beat the market with a 13.1% increase for the year. GM's EV strategy has been a flop so far, like Ford's. The good news is that GM continued to sell plenty of its ICE products such as Silverado pickups, and its commercial business is also strong. GM appears to be matching powertrain demand better than Ford, and managing inventory better than Stellantis. These strengths, coupled with its recovery from the UAW strike, should make for a strong 2024 for dealers. **Same multiple range: 3.5x-4.5x.**

Stellantis (Chrysler-Dodge-Jeep-RAM-Fiat)
Stellantis dealers endured another rough quarter and year, badly underperforming the market with declines of 1.1% and 1.3%, respectively. Stellantis is suffering from a bad hangover caused by pushing up the wholesale prices of its vehicles too high during the pandemic era, and not taking cues from the pushback the market was sending. Poor quality in some of its newest and most expensive models did not help either. Stellantis stores now struggle with the highest days' supply in the industry. Stellantis recently re-invoiced certain units at lower prices to help dealers, and we believe its incentives are now the highest in the industry. Dealers tell us that these incentives are now having a big impact on lifting sales, and their inventories are now declining. Stellantis stores could represent one of the best buying opportunities in the market today. **Same multiple range: 3.25x-4.25x.**

Buick-GMC
Buick-GMC led sales gains at GMC in Q4 and for the year with gains of 3.5% and 17.6%, respectively. It was recently revealed that Buick took back nearly 900 franchises representing nearly one half of the points that existed at the start of 2023. As a result, throughput at the average Buick point grew over 100%. In absolute terms, however, that is only 5 extra units per month since Buick sales had fallen so far. The extra service helps a little, also. GMC produces some of the most desirable light trucks in the industry, and production of these units were impacted by the UAW strike. With the UAW happy and back to work, dealers are optimistic for 2024. **Same multiple range: 3.25x-4.25x.**

KEY TAKEAWAYS

Profits at auto dealerships fell 23% in 2023 as dealers navigated a challenging time of rising inventories. Profits in Q4 2023 were 31% lower than in Q4 2022. Consumers are having difficulty affording new vehicles at the same time OEMs are producing more of them. This falling tide, in terms of profits, is being felt more strongly at some franchises, like Stellantis and Nissan, than others like Toyota. Even with this decline, however, dealership profits remain well elevated above pre-pandemic times. In Q4 2023, the average dealership still generated profits that were 78% higher than in Q4 2019.

We are seeing similar trends in the buy-sell market. Sales of dealerships have fallen from the peak level in 2021 of 707 rooftops to an estimated 528 in 2023. And estimated average blue sky per dealership has fallen from a peak of $25M in 2022 to $21.4M in 2023, still more than twice the values we saw in 2019, before the pandemic. We expect dealership values to fall at approximately 1% per month through the remainder of 2024.

Our firm has had the pleasure of representing sellers of 23 dealerships so far this year from five transactions. And based on the number of other dealers that we are advising, we believe that 2024 will be another strong year in the buy-sell market. Sellers are still getting strong prices for their dealerships, and buyers are becoming more interested now that prices have receded a bit. Lower interest rates coming in the second half of the year will provide more help to buyers.

UPCOMING EVENTS

2024 NY Automotive Forum – Speaker
March 26, 2024 | New York City, NY

Bank of America | Global Automotive Summit – Speaker
March 27, 2024 | New York City, NY

National Association of Dealer Counsel 2024 Annual Conference – Speaker & Sponsor
April 14-16, 2024 | Napa, CA

Ohio Automobile Dealers Association Annual Conference – Sponsor & Attendee
April 19-22, 2024 | Sandestin, FL

ASOTU Con – Speaker
May 14-17, 2024 | Baltimore, MD

Virginia Automobile Dealers Association Annual Conference – Sponsor & Attendee
June 9-12, 2024 | Isle of Palms, SC

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