

BUY-SELL Q&A

AS MARKET SOFTENS, CONSIDER THESE HARD TRUTHS

The buy-sell market may not be as busy as the peak years of 2021 and 2022, but dealership valuations remain robust for any owner thinking about selling. Such is the demand for trusted advice in the buy-sell space that Haig Partners recently brought on board Jayson Crouch to add bench strength to Haig's team of experts. In this recent conversation, Haig Partners President Alan Haig discussed the state of the buy-sell market with Crouch and his fellow managing director, Kevin Nill, and what they see as trends that potential participants in this market should consider, be they buyer or seller.

Q: What can you tell us about current conditions in the buy-sell market?

Alan Haig: The market is highly active, and valuations remain strong. As published in the Q3 2023 Haig Report®, we estimate a total of 355 dealerships have traded hands so far this year. That number of buy-sells is off the peak we saw in 2021 and 2022 but far higher than any year before the pandemic started. We are seeing declining profits in new vehicles, and that is causing blue-sky numbers to drop a bit – about 1% per month from the peak in 2022. But even at this lower level, valuations remain more than twice as high as a few years ago.

Q: You recently added Jayson Crouch to your team as managing director. If conditions are beginning to soften, why is Haig Partners choosing to expand?

Haig: We are always on the hunt for talented people who have an impressive history of providing financial services to auto dealers. Our team at Haig Partners has extensive experience in a variety of industries that we bring to bear when serving auto dealers. Our team has senior experience serving dealers while they were in investment banking, commercial banking and accounting. Three of us worked at AutoNation, then the largest auto retailer, leading the acquisition and divestiture of hundreds of dealerships.

Jayson's background is a bull's-eye in terms of what we were looking for. He has had senior positions with JPMorgan and Bank of America, perhaps the two biggest providers of capital to auto retailers. Plus, he spent over a decade at Toyota Financial Services. We like that DNA. While we are on track to have a record year at Haig Partners, we believe we could be helping many more dealers maximize the value of their businesses when they choose to exit. Jayson will be focusing on the western part of the U.S. to help expand our business there.

Q: Kevin Nill, you also left a senior position at Bank of America to join Haig Partners some time ago. What's it like to sell dealerships instead of lending money to auto dealers?

Kevin Nill: It's been an incredible and rewarding transition. Banking was a great training ground for me, enabling me to develop important skills and develop relationships with hundreds of dealers around the country. But money is a commodity, and to differentiate oneself, you need to bring critical intangible attributes to benefit the client. These include a client-driven focus, substantial business and financial acumen, and a breadth of experience negotiating and structuring transactions.

These skills transition well to advising dealers on selling their businesses, which is far from routine, and the quality of advice in our industry can vary widely. Each transaction is different, and dealers' goals can vary. That means that as advisers, our team at Haig Partners has to be creative, flexible and relentless in advocating for our clients' interests. We put together comprehensive offering materials that cause buyers to pay attention to our transaction instead of another one in the market. And we craft a unique marketing strategy for each client to optimize price and confidentiality.

When the right conditions align, we get to make history, such as selling Al Hendrickson Toyota for the highest price ever spent on a dealership. Advising



From left: Alan Haig, Kevin Nill, Jayson Crouch

the Hendrickson family was truly a joy for me, Alan and the rest of the team. The banking business is more stable than the buy-sell world, but assisting an owner with the sale of a business is far more exciting.

Q: Jayson, is there specific knowledge that you gained from the lending industry and Toyota that is beneficial to a dealer who is selling dealerships?

Jayson Crouch: Absolutely! Banking expertise offers an understanding of the intricacies of finance, risk assess-

ment and valuation. I understand what is important to groups buying stores and how they were valuing dealerships. And since I was a senior executive at two of the largest financial institutions in the world, we knew we had to always act with the highest professional standards. I also understand how sellers should prepare to ensure buyers understand their business and how to relay this information to lenders to ensure transactions succeed. At Toyota, I partnered with some of the most valuable and best-operated dealerships in the country. Overseeing a six-state region and having inside knowledge of well over 100 dealerships in various markets provides a fast-track education on what works and what makes a dealership unique. Toyota is very focused on the dealer as customer and how to maximize customer loyalty. This mindset and the understanding of what drives the end-to-end dealership over time is extremely helpful in telling the seller's story and aligning the right buyers who will see the value of the overall strategy. Finally, Toyota's focus on continuous improvement is ingrained in my vision for success. We constantly questioned our processes and sought feedback to improve. I am bringing these skills with me to Haig Partners to ensure our clients receive the most favorable terms and valuations.

My journey in the automotive sector has always been about seeking excellence and aligning with entities that prioritize the same. Haig Partners represents the pinnacle of industry expertise in the buy-sell advisory space. What specifically drew me was the organization's commitment to high professional standards, its unparalleled track record and the caliber of its team.

Q: Can you share feedback on some of the most active franchises in the buy-sell market right now and why?

Nill: Let's start with Toyota. The team at Haig Partners has represented a total of 41 Toyota and Lexus dealers. They have long been popular brands with dealers, but over the past few years, interest from dealers has increased significantly. And the values for these dealerships have skyrocketed. Our team has represented Al Hendrickson Toyota and John Elway Crown Toyota, two of the most valuable dealerships ever sold. But we are also seeing strong interest from buyers for Hyundai, Kia and Subaru as well as luxury brands like BMW and Mercedes-Benz.

Q: What makes Toyota so special?

Crouch: My tenure at Toyota gave me an insider's view of many of the nation's premier dealerships. Toyota's highly attuned dealer engagement model is a standout trait of its approach. They've strategically positioned "listening posts" throughout the company to ensure investments align with customers and dealers, fostering trust. This plays a pivotal role in the notable execution and high demand when these dealerships come to market.

Toyota's success formula isn't tied to just one component. Their product offerings consistently resonate with the market; they possess a sophisticated captive finance unit, and their customer loyalty strategies, both in the dealerships and at HQ; are differentiators. The allure of the Toyota and Lexus brands won't wane soon. And therefore, they will continue to command impressive valuations.

Q: What trends are you seeing in the buy-sell space, particularly given the current economic landscape, and what guidance can you offer potential buyers and sellers?

Crouch: Overall, we are in a dynamic time, and forecasting the market is challenging.

My advice to prospective buyers? Focus less on market timing. The resilience of blue-sky values in this interest rate environment attests to the sustained interest of buyers seeking strategic acquisitions and the overall strength of the retail automotive industry. Profits are normalizing by about 1% per month on strong revenue, as reported by the publics for Q3. We don't know where the new equilibrium will be. However, the central case thought is the balance will be above pre-pandemic profits. Demand remains strong, and the buy side investment thesis remains very sound in today's market. I'd say the case for M&A is very attractive. If you see a good dealership that fits your strategy, go for it. The next time it comes to market may be decades from now.

My advice to sellers? There are active buyers who are well-capitalized coming off the pandemic profit trends, enabling them to purchase from balance sheet liquidity and reducing their exposure to tighter bank lending appetites. With profits remaining above pre-pandemic norms, you should take advantage of the current market if you plan to sell in the next one to three years.

Finally, there is very high value in choosing an advisor that understands the detailed nuances of your operation and is tuned into the market. There are just too many variables to these transactions – our team at Haig Partners is unmatched for its breadth and depth of experience and network.

Nill: The buy-sell market has remained quite robust, and valuations continue to show strength despite the current rate environment and pressure on net income. To obtain these values, it's essential to work with an adviser who can help navigate the complexities of the market today and as it evolves over the next 18 to 24 months. Our team is always available to have a confidential conversation to discuss a dealer's specific needs and goals, whether a near-term sale is under consideration or if a dealer is looking for guidance on how best to position stores for sale in the future.

Haig: I've been involved in purchasing and selling dealerships since my first stint at AutoNation in 1996. That was a boom time, when several public companies were formed and hundreds of dealerships acquired. There was a lot of talk of permanent change in the industry as capital and technology began to have an impact.

The time today feels similar. There is an enormous amount of capital in the market. Many buyers are confident that larger scale will give them advantages in the future, and so they want to grow. Sellers are benefiting from these conditions. Values are high because there are ready buyers for most dealerships. The risk to sellers is overconfidence. Valuations are slowly declining, and more dealerships are coming to market every day. Just look at all the buy-sells that are happening due to a healthy supply of stores for sale. Sellers need to have a clear understanding of what dealerships are worth, who the best buyers are in the market today, and how to get a transaction closed quickly and smoothly.

This is the world we play in, every day. Our team is uniquely positioned to help dealers maximize the value of their life's work. As Kevin said, if you're interested in having a confidential conversation to discuss your questions and future plans, our team is standing by ready to speak with you.

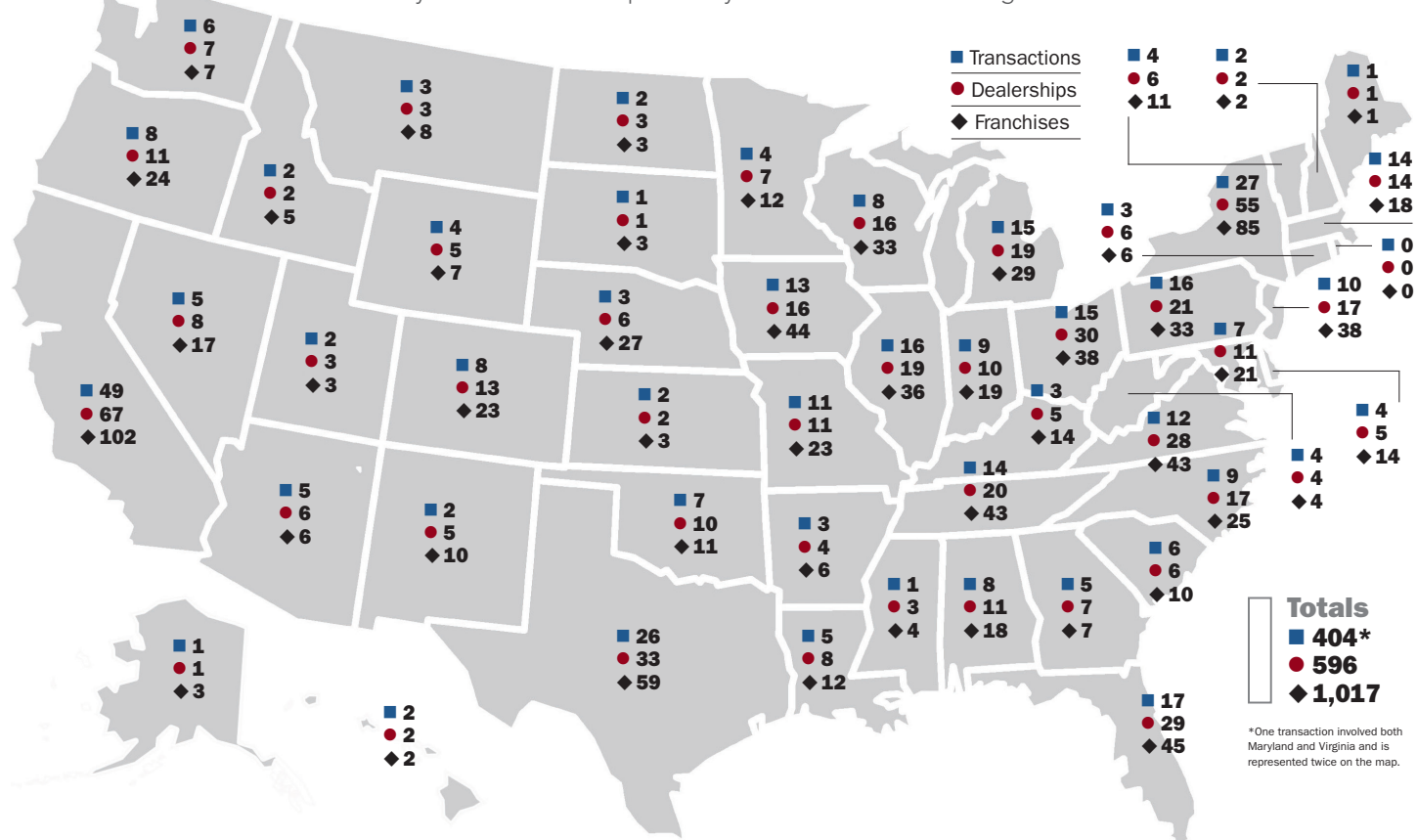
ABOUT HAIG PARTNERS

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. The team has advised on the purchase or sale of more than 545 dealerships worth more than \$9.6 billion and has represented 26 groups that qualify for the annual *Automotive News* list of Top 150 Dealership Groups, 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. It publishes the Haig Report®, the industry-leading quarterly report that tracks trends in auto retail and their impact on dealership values, and co-publishes the National Automobile Dealers Association'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, Kevin Nill at Kevin@HaigPartners.com or (904) 234-0008 or Jayson Crouch at Jayson@HaigPartners.com or (949) 573-2258.



2022 DEALERSHIP TRANSACTION SNAPSHOT

Transactions, dealerships trading hands and the number of franchises involved in deals by state in 2022 as reported by *Automotive News* in August.



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