Haig Partners provides expert advice and comprehensive services to auto dealers interested in selling their businesses or buying new ones. We have been involved in the purchase or sale of more than 230 dealerships totaling nearly $3.0 billion in value, more than any other team in the industry. With experience from AutoNation and Asbury, as well as prominent investment banks, we are the leading full-service firm in our industry. Haig Partners is currently engaged on eight transactions in which we are advising the sellers. These transactions range in value from $15M to over $60M. We are also engaged in assisting a large buyer who is seeking investments of $200M to several billion dollars.

Please visit our website at www.haigpartners.com for more information. We always enjoy hearing from dealers who are interested in buying or selling dealerships, or in the current state of the market.

Alan Haig
(954) 646-8921
alan@haigpartners.com

Nate Klebacha
(917) 288-5414
nate@haigpartners.com

OVERVIEW

Another Great Quarter to Be An Auto Dealer. Dealership profits have reached another record high and economic indicators suggest that good times will continue for the foreseeable future. These factors are supporting the most robust buy-sell market we have seen in over a decade. Buyers are paying record high prices for individual stores and dealership groups as demand is growing from public companies, private groups and investors new to our industry. Dealers and investors alike prefer the returns that they can get from auto dealerships compared to other investment alternatives. The announcement by Warren Buffet that Berkshire Hathaway was acquiring Van Tuyl, Inc., the largest privately held dealership group, is perhaps the best example of how our industry is attracting large amounts of “smart” money.

“Fortune Favors the Bold.” The ancient Romans spoke these words when leading their troops into battle. We can almost hear these words being spoken by buyers around the country today as buy-sell activity continues to grow strongly. The total number of private and public dealership acquisitions increased 69% from the first nine months of 2013 to the first nine months of 2014, according to The Banks Report. The number of dealerships acquired by private dealers increased 72% while the number of dealerships acquired by public dealers increased 50%. Automotive News has a smaller database of dealership acquisitions, but tracks them back to 2010. Its data indicates that 2014, through just nine months, is the most active period for buy-sells for private buyers since it began tracking the market.

Dealership Acquisitions

<table>
<thead>
<tr>
<th>Year</th>
<th>Automotive News</th>
<th>Banks Report</th>
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<td>Sep-14</td>
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Public Acquisitions | Private Acquisitions
As shown by the following table, the value of acquisitions in the US by public auto retailers rose 46% from $353M in the first nine months of 2013 to $514M in the first nine months of 2014. Unlike last year, there has been almost no international acquisition activity. Perhaps the economic difficulties in Europe and South America have deterred Group 1 and Penske from putting more capital in those markets. The fourth quarter is shaping up to be truly massive: Lithia closed the DCH acquisition which was reported as over $300M, AutoNation closed the acquisition of Barrier Motors which could exceed $200M, and Asbury announced a couple of acquisitions. These transactions could put the total for all acquisitions by public retailers in 2014 at a little over $1 billion.

Through nine months of 2014, Group 1, Penske and Lithia comprise about 90% of the spending by the public companies. We expect these figures will be rebalanced by the end of the year as the transactions announced by Asbury, AutoNation, and Lithia will close (Haig Partners is representing two of these sellers).

**Haig Partners Blue Sky Multiples.** The chart below sets forth our estimates for the typical range of multiples of adjusted pre-tax earnings that buyers will pay for the goodwill / blue sky of various franchises today. We are pushing up the minimum values for Mercedes-Benz and BMW as there is so much demand for these franchises that we don’t see owners parting with them at the lower end of the range of our former estimate. We also slightly raised Subaru and slightly lowered MINI. Of course, actual multiples paid by buyers for the franchises could be higher or lower than the ranges we provide. Each store is unique and brings its own set of opportunities and challenges. We caution readers not to view these multiples rigidly.
New Vehicle Sales Continue to Grow. The seasonally adjusted sales rate (SAAR) reached 17.5M units for the month of August, the highest monthly rate in over a decade, lifting sales to 16.3M units over the last twelve months (LTM) through October. A number of industry experts believe we will be reaching 17M units by 2015.

Grosses May Be Stabilizing. We hear many retailers worry about a decline in new and used vehicle gross profits due to OEM stair-step programs, consumers’ use of the Internet, TrueCar and other causes. However, recent data indicates that grosses for new and used vehicles sold by the publics increased slightly year over year. Perhaps this is due to the sales mix of the public retailers that skews more towards the luxury segment that has higher margins than the overall market. There are certainly some franchises, like VW, whose margins have declined sharply in recent years.

Fixed Operations Growing Strongly. Although new vehicle sales growth may be slowing, dealers are reporting strong growth in their fixed operations. Private dealers reported fixed operations increased 5.5% so far in 2014 compared to the same period in 2013. Public retailers did even better, averaging 7.1% growth in 2014 compared to the same period in 2013. Some are predicting that increases in fixed operations will continue to boost profits per dealership even as new vehicle sales flatten out. This can occur as the parts and service businesses are higher margin and lag changes in new vehicles sales by a couple of years.
F&I Departments Continue to Grow. The public retailers are also showing strong growth in their F&I departments. The average F&I gross profit PVR reached an all-time high of $1,292 in September, up 5.5% year over year. And since there is little expense against this revenue, much of the increase in the F&I department is finding its way to the bottom line for the public retailers.

Strong Profits Continue for Private and Public Dealers. Private dealerships generated an average of $972K in pre-tax profit for the LTM ending September 2014. This is a record high level, up 15.2% from 2012 and up 6.2% year over year. Dealers tell us they are expecting a strong finish to the year, so we expect profits to continue to improve through year-end 2014. The strong run of dealership profits continues.

While the profits at private dealerships are still growing, the growth has flattened. The industry has returned to what many would expect mid-cycle: low-to-mid single digit growth rates in profits. Growth in certain markets and franchises, however, will outperform the market as a whole.
The public retailers are enjoying stronger growth in earnings than private dealers, with combined operating profit up 15% over the first three quarters of 2013. This growth includes acquisitions as well as same store results. With the industry hitting on all cylinders, Mike Jackson, CEO at AutoNation, captured the mood of many dealers when he recently said, “Next year’s going to be one of the all-time best years in the history of the auto industry.”

**Demand is Shifting to Larger, More Luxurious Vehicles.** Despite billions of dollars spent by the OEMs to develop products and billions of dollars of subsidies from the US government, the market share for electric and hybrid vehicles sits at less than 4% in the US and is falling.¹ Plus, the sales mix of conventionally powered vehicles is shifting from cars to CUVs and SUVs. Declining fuel prices are a big factor driving this consumer behavior as gas is now less than $3.00 per gallon in many markets and is likely to remain low due to increasing production in the US. While the EPA has set a corporate fuel efficiency requirement of 54.5 miles per gallon by 2025, the 2014 average is expected to be 24.2 MPG, up just 0.1 MPG over 2013.² This EPA requirement is set to be re-examined in two years to see if it is achievable. The price per vehicle would need to increase significantly while size and performance would suffer. We doubt lawmakers will have the stomach to force the kinds of changes on US consumers required to reach the current targets over the next ten years. If we are correct, those OEMs with a product mix that is heavy in trucks, SUVs, CUVs and high horsepower sedans (such as the domestics, Toyota, and luxury brands) are likely to gain market share at the expense of franchises that focus on high fuel efficiency (such as Volkswagen, Fiat and MINI).

**Sales Growth for Individual Franchises.** The following table sets forth the new unit sales performance of franchises on a LTM basis through October 2014 compared to the same period in 2013. Subaru continues to ride the wave of its CUV sales while brands that focus on small cars (like MINI and VW) are suffering. Fiat Chrysler (“FCA”) replace CJDR on our table although we wonder if it should be called Jeep & Co. since Jeep (up 46% so far this year) is driving that company’s overall 15% lift in sales. The premium luxury brands are also performing well.

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¹ IHS Polk June 2014
² WSJ 10-13-2014
Lenders Are Providing Lots of Capital to Dealership Buyers. We recently completed a survey of the 24 members of the American Financial Services Association. These members represent almost every major captive finance company and commercial lender to auto dealers in the US. The lenders are positive about the outlook for profits in 2015, but a number of them predict a downturn over the next five years. This perspective makes sense to us given the cyclical nature of our industry and that fact that we are in the fifth year of recovery.

We also asked this group of leading lenders about their activities in financing dealership acquisitions. A few smaller captive finance companies do not finance acquisitions, but for the other lenders, we were surprised by how much capital they are willing to offer dealers, as shown on the graphs below.

This data indicates that lenders are highly bullish on our industry with most saying they would finance 50% - 100% of the total price of blue sky, real estate, and other acquired assets. Some of these high loan-to-value transactions would need to be cross-collateralized, but we also heard that requirements for personal guarantees are being dropped as the market is competitive and these lenders want to build larger loan portfolios.

1 American Financial Services Association: www.afsaonline.org
Dealership Values Are Reaching New Heights. We estimate that the average blue sky multiple for all franchises on an unweighted basis was 4.4x at the end of Q3 2014, little changed from year end 2013. Applying this multiple to the average dealership pre-tax profit of $972K on a LTM basis through September 2014, we estimate that the average dealership had a blue sky value of $4.25M, up 7.1% from the average blue sky value as of LTM September 2013, and up 5.0% from year end 2013. See our 2013 Year End Blue Sky Report for details on how we calculate these values.

At this level, dealership acquisitions provide attractive returns for buyers compared to other investment alternatives. The chart below shows a simple return-on-investment calculation for acquisitions (valued with a blue sky multiple at low, average and high levels, plus working capital and assets equal to 1.0x pre-tax profit) compared to other investment options. We assume 80% financing for the leveraged figures based on the recent data provided by the lenders in our survey. With these assumptions, dealership acquisitions provide a higher return than other asset classes.

Blue sky multiples are high for a number of reasons:

- Buyers are confident about the economic outlook;
- Buyers have large amounts of cash thanks to the strong performance of their existing dealerships;
- There are currently more buyers than sellers in the market;
- Lenders are offering high loan-to-value financing at low interest rates; and
- Dealership acquisitions appear to offer better returns, even at high prices, than alternative investments in treasury bills, corporate bonds, real estate, and the stock market.

It has been a “seller’s market” for the past few years and we expect to see blue sky values remain strong into 2015 as demand for dealerships continues to exceed supply. Buyers are likely to continue paying strong prices for dealerships since they may be the best investment option in this low yield environment.
Investors are also placing high valuations on the public retailers. The average stock price for public retailers was approximately $60 per share in October, almost the highest level ever. Investors are bullish on the dealership model and support public retailers acquiring more of them.

**Average Public Company Stock Price**

![Average Public Company Stock Price Chart](source: Yahoo Finance)

**RECENT EVENTS**

**Berkshire Hathaway - “A Bigger Bazooka.”** While the Lithia/DCH deal confirmed that existing buyers were looking for large transactions, the entry of Berkshire Hathaway via the acquisition of the Van Tuyl Group demonstrates that there is a whole new level of investor interest in our industry.

Mr. Buffett has indicated that he plans to grow the Van Tuyl Group aggressively through acquisitions, saying that AutoNation was bigger only “for now.” The following chart may provide some indication as to just how large Berkshire Hathaway is compared to the public auto retailers. The vast size of Berkshire Hathaway indicates that Larry Van Tuyl and Jeff Rachor could have almost unlimited capital to grow. In fact, Berkshire Hathaway is reporting over $52 billion in cash and cash equivalents on its balance sheet that would, in theory, allow it to acquire all the public dealer groups, several times over. (Maybe Mr. Buffett is calling these CEOs next!)

![Market Capitalization Chart](source: Google Finance 11/21/2014)

Mr. Buffet’s ambition for rapid growth raises some important questions. Berkshire Hathaway may seek to grow the finance and insurance side of the Van Tuyl Group, but it seems that Mr. Buffett’s primary engine of growth will be through the acquisition of many, many stores. Van Tuyl reported it owned 75 dealerships at the end of 2013 generating about $8B in revenue. While very sizeable by any standard, Van Tuyl owned just 0.4% of the dealerships in operation at the end of 2013 leaving the 16,832 not owned by the public companies up for grabs at some point. But this is the same logic that Wayne Huizenga and other consolidators touted when they charged into the industry in the 1990s. And now, almost 20 years later, the public companies have only garnered ownership of 4.3% of dealerships. That begs the question, “What happened to all their big plans?”

The authors of this report were highly involved in the rapid growth phases at AutoNation and Asbury. AutoNation grew from $0 to over $12B in revenue in just a few years by acquiring dozens of high performing dealership groups via stock purchases. It sought OEM approval on few of these deals, simply informing the OEMs after the deals
closed. Other groups also went public and wanted to grow aggressively, sometimes making their own challenges to the OEMs. This behavior enraged a number of the OEMs who were accustomed to more control over their dealers. A war broke out between the OEMs and the public dealer groups that was only settled by “framework agreements” that dictated under what conditions retailers could acquire franchises. While the framework agreements ended the litigation, they also severely limited the ability of large buyers to purchase additional dealerships. With little doubt, the OEMs won that battle for control over dealer networks.

So now the question is, will the entrance of Mr. Buffet shift some leverage back to the retailers? Our belief is that, yes, the OEMs will agree to loosen their restrictions on large dealer groups and allow them to acquire more dealerships. There are a number of reasons for our position.

- Some dealerships have grown in value so much that only buyers with very deep pockets can afford them. We routinely see dealerships trade for over $40M and there are hundreds of dealership groups that are worth in excess of $100M. If the OEMs deny the owners of these firms the rights to sell their businesses to legitimate operators we will see lawsuits as well as a reluctance on the part of dealers to invest in large facilities that the OEMs all favor. Why invest all that capital if there is no exit strategy?
- Dealerships are becoming more complex to operate, and larger operators, over the long-term, may outperform mom and pop operators because of their greater abilities in technology, marketing, etc.
- Some of the framework agreements are contradictory and may not hold up in court. One Japanese OEM prohibits contiguous ownership, one prohibits owning more than 20% of their stores in a single market, and a third actually encourages one dealer to dominate a market by owning multiple points in a market.
- The public companies have existed for around 20 years, and the OEMs are becoming more comfortable with their presence in the auto industry.
- And finally, Warren Buffet has such a powerful voice in the US that we believe that OEMs will not want to pick a public fight with him. No CEO of any Japanese OEM wants to hear Mr. Buffet complaining on Squawk Box about a foreign company restricting the ability of an American business owner to sell his dealership to the highest bidder.

So for the reasons listed above, we expect that the OEMs will make it slightly easier for Berkshire Hathaway and other large dealer groups to acquire more dealerships. But we still see some logistical constraints on how fast Berkshire Hathaway Automotive can grow:

- Acquisitions are very time intensive. It takes four months or more to acquire a single store and longer for a large groups of dealerships. It is difficult to grow quickly.
- It will also take time for BHA to attract new managers to run its new stores.
- Moving quickly means paying up for acquisitions, which lowers returns.
- Buying groups may mean new markets that bring greater risk and integration challenges.

These factors are likely to slow the growth of BHA compared to what Mr. Buffett has been expecting. But we also believe that the entrance of BHA is likely to stimulate the CEOs of other large dealership groups to step up their pace of acquisitions for several reasons:

- Framework agreements are likely to be eased for all major groups, freeing them to acquire more dealerships in their core markets as well as dealerships in new markets.
- Investors in the public companies are likely to expect more in growth through acquisitions if they trust in Mr. Buffett’s wisdom and they may be critical of companies who do not step up their level of activity.
- Leading groups like AutoNation, Penske, and Group 1 may not like the idea of getting passed by.
So what does this mean to the value of a dealership in the US? It will take years for us to understand the true impact of the creation of BHA, but at present we believe that the level of demand for dealerships just shifted into a slightly higher gear. Barring a big increase in the number of sellers coming to market, we believe the value of dealerships is going to increase even further.

BUY SELL TRENDS

**Public and Private Dealers Are Very Active.** The total number of private and public dealership acquisitions increased 69% from the first nine months of 2013 to the first nine months of 2014, according to The Banks Report. With stock prices near all-time highs, CEOs of the public retailers want to invest more of their capital in acquisitions to help further boost their stock prices. We project the level of acquisitions by public groups will reach $1B by the end of 2014, a level not seen since 2004.

**Sales of Lexus Stores Should Increase.** Several months ago Lexus lifted its cap of dealerships owned by a dealer group from six rooftops to eight rooftops, which should drive additional buy-sell activity. Lexus was the most restrictive of all of the OEMs and suppressed demand for these franchises.

**OEMs Are Requiring Facility Upgrades - Again.** The high level of profitability appears to be encouraging OEMs to require buyers to make significant facility upgrades in order to get approval. The German luxury brands have historically been the most difficult, but we are also now seeing Ford establish upgrade requirements for buyers. The bill could reach several million dollars for an Audi or BMW dealership, and $2M for a large Ford store.

**New Types of Investors Are Entering Our Industry.** We are regularly contacted by private equity firms, family offices, and entrepreneurs from other industries that are planning large investments in auto retail. One firm has rolled up ten separate dealerships in less than one year of operation with twelve more in the pipeline, while other firms are looking to purchase large dealership groups. Haig Partners is representing one large investment firm that is looking to make investments in large dealer groups in the $200M - $5B range. The presence of these investment firms is likely to further drive up demand for dealerships.

FRANCHISE VALUATION RANGES:

We have been involved in the purchase and sale of over 230 dealerships in our careers. Each quarter we contact many leading groups as well as accountants and lawyers who practice in auto retail, and a few OEMs. The information we gather supports our assessments of how the market values specific franchises.

**Dealership Valuation Methods.** Although there are various ways to value dealerships, we will refer to the traditional method of combining blue sky (calculated as a multiple of adjusted pre-tax profits), plus the value of other assets acquired. Pre-tax income should exclude non-recurring income or expenses and properly reflect the market value of any real estate owned by the seller and leased to the dealership.

The blue sky multiple ranges that we set forth in this report reflect our expectations of dealership values, and any upward or downward changes from the end of 2013. *We remind the reader that each dealership transaction is unique and dealerships may trade above or below the ranges we describe in this report.* Dealerships that are underperforming or are in highly desirable markets may have higher values, while dealerships that are in less desirable markets or that have significant real estate issues may bring lower multiples.
Luxury Franchise Blue Sky Multiples

Mercedes-Benz. Every leading buyer we spoke to told us that M-B is their most desirable franchise today. Sales were up 7% through October 2014 over the same period in 2013. M-B stores are able to generate high profits which attract large buyers. There is a minor facility image plan in the works: changing paint trim from blue to black. We are raising the bottom end of the multiple range as we have not heard of a M-B dealership selling for less than 6.0x. Higher multiple range: 6.0x-7.5x.

BMW. Still very much in demand with sales up 11%, although we hear some of the growth is artificial due to stores “selling” cars to their rental fleets or used car departments. Lots of new products should sustain growth. BMW’s latest image requirements are going to be less costly than originally indicated ($2M-$3M per store instead of $8M) so we are raising the bottom of our range. Higher multiple range: 5.5x-7.0x.

Lexus. Strongly rebounding with sales up an impressive 14%. Still the most beloved supplier in the industry, and the brand is working hard to attract younger customers. The new RC F coupe is going to get some attention as the brand’s new halo car. The news that Lexus was allowing groups to own a maximum of eight rooftops, up from the current limit of six, should spur more Lexus buy-sells. Same multiple range: 6.0x-7.0x.

Audi. Another very desirable luxury franchise with sales up a 15%, leading all luxury automakers in sales growth. While facility requirements have been costly and add-points are hitting some markets, many dealers would love to add Audi to their mix. Profits per store are still lower than at MB, BMW and Lexus, but this may change as Audi sales volumes and fixed operations catch up. Same multiple range: 6.0x-7.0x.

Porsche. Sales are up 11% over 2013 and have doubled over the past four years. While sales per store are still lower than the major luxury brands, the $10,000+ in gross profits per vehicle helps to bridge this gap and dealerships in metro areas are generating attractive profits. The new Macan is selling strongly and will bring new customers to the brand, just as Porsche intended. Facility upgrades required to handle the additional volume may offset these gains. Same multiple range: 6.0x-7.0x.

Land Rover. Land Rover sales are up 8% year-to-date. The brand is well positioned for the market’s current preference for SUVs, and the plan for additional lower priced models should help it to grow. For now, many stores are enjoying average gross profits of $15,000+ per unit and the trucks are sold before they ever hit the lot. Land Rover has to be the easiest franchise to run. In metro markets these dealerships can generate several million dollars in income, and some are astonishingly profitable. Same multiple range: 5.0x-6.0x.

Cadillac/Acura/Infiniti. Cadillac is the weakest performing luxury brand with sales down 5%. Johan De Nysschen plans to separate Cadillac from its GM brethren to try to create a stronger luxury image for the brand. Acura sales are flat and profits are low, thus, there is little interest in this franchise from buyers in most markets. Infiniti was up 15% so far in 2014 and we might have been tempted to upgrade it, but former CEO De Nysschen’s recent departure to Cadillac is giving us pause. Same multiple range for this group: 3.0x-4.0x.

Mid-Line Import Franchise Blue Sky Multiples

Toyota-Scion. Toyota is up 5% for the year, about the same as the overall market. Corporate profits are very strong and every Toyota store we have seen in recent years is performing very well. Toyota is more weighted towards trucks and SUVs than its Japanese or Korean competitors, so we expect it may gain share in this market. High sales and profits per store attract many, many buyers. Same multiple range: 5.0x-6.0x.

Honda. Sales are up just 1% so far this year, so Honda has lost some market share. This slow start may be partly due to the delayed launch of the 2015 Fit, but we also see a franchise that is underweighted towards trucks and SUVs. Some dealers feel like Honda is beginning to lag behind Toyota, but others remain happy with how easy it is to operate Honda dealerships and want more of them. Same multiple range: 5.0x-6.0x.
**Subaru.** Subaru is at the head of the pack in terms of sales growth, up 20% year over year. Its product line-up skews towards CUVs, the hottest segment in the market. Subaru stores are now selling more cars per dealership than Ford, Chevrolet, Kia, and Volkswagen stores and their margins are healthy. Higher multiple range: 4.0x-5.0x (with pricing possibly higher in Snow-Belt states).

**Hyundai.** Lost some market share with sales up just 1%, perhaps due to a lack of capacity in CUVs. Hyundai should get more units from the plant it shares with Kia, but only after Kia’s new plant in Mexico opens. Sales per franchise are good, but we hope fixed ops pick up at some point. Same multiple range: 3.5x-4.5x.

**Kia.** Kia has more velocity than Hyundai with sales up 7% in 2014, reversing a tough 2013 when it lost share. That said, buyers view Kia like Hyundai, with similar business models that generate the same level of interest. Same multiple range: 3.5x-4.5x.

**MINI.** Sales are down a demoralizing 20% so far in 2014. Some buyers say this brand “has lost it way” and would not be interested at any price, while other buyers like the unique products and youthful customer demographics. The trend towards bigger vehicles does not help. Maybe they will launch a MAXI. Lower multiple range: 3.0x-4.0x.

**Nissan.** With sales up 14%, Nissan is pounding on Honda’s door to be the number two midline import. Its growth has been partly driven by controversial incentive programs. Dealers who surpass sales objectives can make strong profits at Nissan stores. Others, who believe their sales targets are too high, feel they never have a chance to make money and then are put under pressure by Nissan to sell their stores or even face termination. This dynamic is creating winners and losers in the Nissan franchise system, rather than the mutually rewarding partnerships that other OEMs say they want to achieve. We were told that NADA’s Dealer Satisfaction Survey for Nissan this year was brutally negative. Same multiple range: 3.0x-4.0x.

**VW.** Sales continue to badly lag the market, down a dismal 12% in a market that is up 6%. VW’s products are skewed towards a market with $5 per gallon gas. The add-points that VW awarded continue to open around the country and further depress sales per store and margins. We are crossing our fingers for the owner of a new store that we heard is opening in a $20+M facility. Many dealers are disillusioned and will not consider the brand at all, but some are buying opportunistically. Globally, the brand does very well, so we assume they will eventually get the product mix right for the US. Same multiple range: 2.75x-3.75x.

**Mazda.** Sales are up a strong 8% as new products attracted buyers. It can work as a tuck in acquisition, but low profits per store and tough competitors dampen demand for this franchise. Same multiple range: 2.5x-3.5x.

**Domestic Franchise Blue Sky Multiples**

(Note: The multiples paid for domestic franchises will likely be higher in markets like Texas where trucks sell well and lower in markets like California where imports dominate.)

**Ford.** Ford sales are down 1% for the year, probably because of the changeover to the new aluminum bodied F-150. If Ford’s bet pays off, sales should accelerate in 2015. In addition, the brand has several offerings in the SUV/CUV segment that is growing nicely today. Many buyers are looking for Ford stores that have enjoyed strong profit growth. We are involved in the sales of three Ford dealerships at present. All are strongly profitable and getting significant interest from buyers. Same multiple range: 4.0x-5.0x.

**FCA (Chrysler-Jeep-Dodge-Ram-Fiat).** Overall, the group’s sales are up 15% so far in 2014 led by Jeep, the hottest major brand in the industry, with sales up 46% so far in 2014. Jeep is outselling Kia, Subaru and Volkswagen thanks to its product portfolio that sits in the hot CUV/SUV segment. At a recent auto show, we saw more consumers interested in Jeep products than any other major brands. The other divisions are mixed, with Chrysler and Dodge down, but Ram and Fiat up. Profits per dealership are likely to be at all-time high levels. Same multiple range: 3.25-4.25x.
**The Blue Sky Report – Third Quarter 2014**

**Chevrolet.** Sales are up 3% so far, underperforming the market, but better than many would have thought given the recall crisis. Customers are paying up for Corvettes and the newly launched Silverado, Suburban, and Tahoe models that comprise a large portion of Chevrolet sales. Fixed ops are also growing. Corporate profits are strong which will help with future product development, marketing, etc. Same multiple range: 3.0x-4.0x.

**Buick-GMC.** Sales are up 9%, more than the market, and surprisingly strong given the recall crisis. Buick performed particularly well, and Yukons and Sierras are bringing strong grosses and higher volumes. Same multiple range: 3.0x-3.75x.

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**Haig Partners Blue Sky Multiples**

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**SUMMARY**

We are entering a golden era for dealership sales. Buyers are attracted by an improving economy and ample low-cost credit. Plus, thanks to low yields in other sectors of our economy, auto retail is attracting new interest from the financial community. The purchase by Berkshire Hathaway of the Van Tuyl Group is proof that even the wisest of investors are now looking to make strong returns in the auto retail industry.

Given the strong demand and record profits per dealership, the current value for a typical dealership is at an all time high. As such, we don’t know of a better time to sell a dealership, and an increasing number of dealers who are near retirement age are taking advantage of these market conditions to exit the industry. But we are also seeing younger dealers offer their businesses for sale. In fact, the majority of our clients are only in their 40s and 50s. They see that the value of their businesses has grown so much over the past five years that they want to sell now to eliminate downside risk and lock in significant net worth for their families. Most of these clients expect they will reenter the market by acquiring smaller dealerships in the future.

In this “win-win” period for dealership sales, with strong returns for buyers and strong pricing for sellers, we expect that the pace of dealership acquisitions will continue to grow. Remember, “Fortune Favors the Bold.”

Haig Partners is seeing these strong conditions in our current engagements. On the sell-side, we recently closed on the sale of a Toyota dealership to the Hendrick Automotive Group and are representing eight dealers who own a wide variety of franchises, including Chevrolet, Ferrari, Ford, Freightliner, Honda, and Mercedes-Benz. These transactions range in value from $15M to over $60M. Four are expected to close in the next 60 days. We also represent a large buyer who is seeking to make investments of $200M to several billion dollars in a dealership group. Few, if any, other firms have a better understanding of the perspectives of both buyers and sellers of dealerships, and we use this perspective to negotiate highly desirable outcomes for our clients.
HAIG PARTNERS: PROVIDING VALUE TO CLIENTS

We combine the skills gained during our years in investment banking with the experience of buying and selling dealerships for AutoNation and Asbury. Haig Partners is not a traditional dealership brokerage firm. We do not seek “listings” of many dealerships. Instead, we provide the best possible advice and service to a limited number of clients, helping optimize the sale of their most valuable asset. We spend a tremendous amount of time and energy on each engagement. Emphasizing quality over quantity best serves our clients’ interests.

Clients engage us to help sell their businesses for a number of reasons.

**Relationships with Buyers.** We know many of the best buyers across the US and understand what they want to acquire, what their ability is to close, and how they negotiate. By targeting specific buyers instead of running ads, we preserve confidentiality and close transactions more efficiently.

**Higher Prices.** We create offering materials that provide buyers with a compelling investment thesis about why they should acquire our client’s business instead of the other opportunities. We then run a process that creates competition to generate highly attractive offers from buyers.

**Experience.** Since we have been involved in more than 150 transactions with nearly $3.0 billion in value, we know how to respond to issues that can arise in a buy-sell process.

**Speed.** We focus on the transaction every day, allowing owners to focus on dealership operations.

Of course, all buy-sell advisors say they are experienced and effective. We encourage any dealer who is considering hiring a firm to ask a few simple questions of the advisor he or she is talking to:

1. How many dealership sales have you, personally (not your firm), closed in your career?
2. Can I speak to your last five clients to learn about how you added value?
3. Why should I choose you over another advisor?

We enjoy answering these kinds of questions. Haig Partners offers unmatched experience in our industry, and we are pleased to connect you with our former clients for references.

THE TEAM

**Alan Haig.** For six years prior to establishing Haig Partners, Alan led the auto retail practice at The Presidio Group where he closed numerous transactions, including two that he believes achieved record high levels of goodwill for the franchises involved. Before that, he was Senior Vice President of Corporate Development at AutoNation, Inc., the world's largest auto retailer, leading its dealership acquisitions and divestitures. He was also at AutoNation in its earliest days and wrote the original business plan for the new car division and then began leading dealership acquisitions. Through these positions, Alan has been involved in the purchase or sale of more than 170 dealerships with a value of approximately $2.2 billion. Alan began his career in investment banking where he served as an analyst and associate for Drexel Burnham Lambert in New York City. In his career, Alan has closed more than 100 transactions with a value over $5.5 billion.

Alan has an MBA from Columbia Business School, an MA from the University of North Carolina at Chapel Hill and a BA from Dartmouth College. He lives in Ft. Lauderdale, FL with his wife and their four children.

**Nate Klebacha.** Before helping to establish Haig Partners, Nate served as Vice President and then Principal at The Presidio Group where he was responsible for dealership analysis, preparation of marketing materials, responding to due diligence requests from buyers, and assisting in closing transactions. Prior to Presidio, Nate spent six years with Asbury Automotive where he was involved in the purchase or sale of more than 50 dealerships for more than...
$500M. Before Asbury, Nate held positions at O’Shaughnessy Capital Management and Bear Stearns Asset Management as assistant portfolio manager.

Nate has an MBA from the NYU Stern School of Business and a BS from the University of Connecticut. He lives in Cold Spring Harbor, NY with his wife and their two children.

**TRANSACTIONS**

**Current Transactions.** Haig Partners is engaged on eight transactions that are in various stages between marketing and closing. These transactions range in value between $15M to over $60M. We are also representing a large buyer who is seeking investments of $200M to several billion dollars.

**Recently Closed Transactions.** Alan Haig and Nate Klebacha have recently closed nine transactions across the US valued at over $450M, as shown in the tombstones below.* We are representing the sellers in four other transactions that are expected to close in December and January.

*Includes transactions closed while at a different firm.

Note: Although we believe we have compiled this information from reliable sources, we do not guarantee the information or make any representation about its accuracy.

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JOIN US BEFORE NADA AT THE
AUTOTEAM AMERICA BUY – SELL SUMMIT!

Wednesday 1/21/2015 from 1pm-5pm and Thursday 1/22/2015 from 9am-12pm

Topics will include:

- 2014 Buy-Sell Overview
- Large Buyer Panel: AutoNation, Group 1 and Private Groups
- Discussion of the Berkshire Hathaway/Van Tuyl Transaction
- How to Prepare for the Sale
- Case Studies in Dealership Valuations
- New Trends in Dealership M&A
- Private Equity Firms Discuss Their Plans to Invest in Auto Retail

Register at www.autoteamamerica.com. Fee to attend. Dealers only please.

Alan Haig
(954) 646-8921
alan@haigpartners.com

Nate Klebacha
(917) 288-5414
nate@haigpartners.com

www.haigpartners.com