

DealersEdge

Webinar:
Update on Buy-Sell Market



CURRENT SITUATION

IN AUTO RETAIL

ECONOMIC INDICATORS ARE MIXED

GDP is Recovering at Record Speed

- Goldman Sachs forecasts a +5% jump in GDP from Q3 to Q4 2020 (first estimate of Q4 GDP is scheduled for 1/28/21)
- 2020 GDP growth est. -2.5%, 2021 est. +3.5%



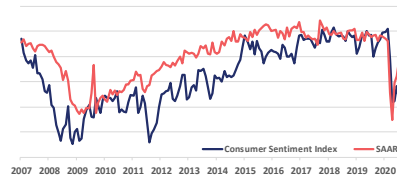
Employment Is Rebounding

- The unemployment rate of 6.7% in November improved from 14.7% in April
- Although we are recovering, we are still down 9.8 million jobs since February.



Consumer Confidence Is Starting To Recover

Consumer Sentiment Versus SAAR



Source: Thompson Reuters / University of Michigan; Automotive News as of September 2020

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CORE ECONOMIC INDICATORS ARE MIXED

Inflation is Low

- The 12-month inflation is 1.2% as of November 2020.



Gas Prices are Low

- 12.7% lower (33 cents/gallon) than last January



Interest Rates are Low

- New vehicle auto loan APR is 4.2%



People Are Driving Less

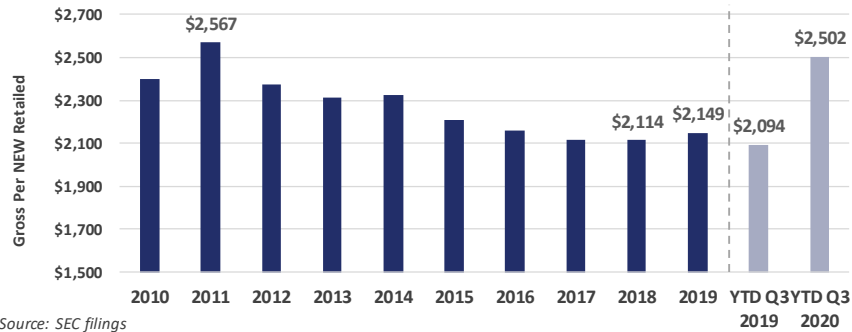
- Miles driven are down 8.6% in September and 8.8% in October



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LOW INVENTORIES LIFTING NEW GROSSES

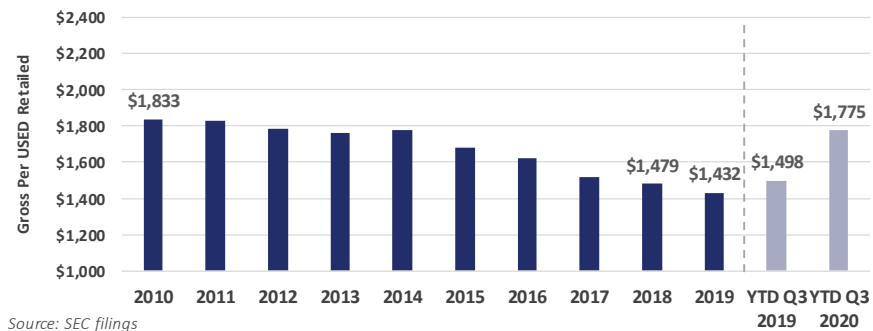
NEW Gross Profits Per Vehicle: Public Company Data
(Weighted Average Same Store Performance – in Current Dollars)



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USED GROSSES ARE ALSO IMPROVING

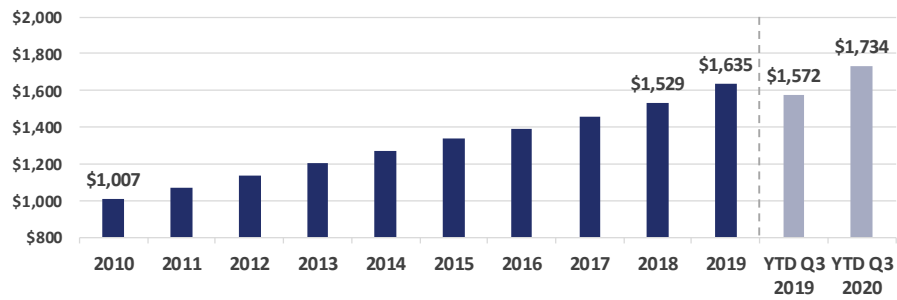
USED Gross Profits Per Vehicle: Public Company Data
(Weighted Average Same Store Performance – in Current Dollars)



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F&I CONTINUES TO IMPROVE

F&I Gross Profit Per Vehicle: Public Company Data
(Weighted Average Same Store Performance – in Current Dollars)



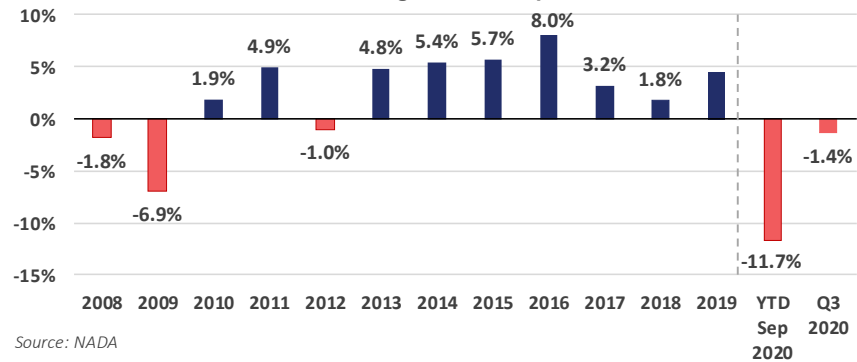
Source: SEC filings



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FIXED OPERATIONS IS IMPROVING

Percent Change in Fixed Operations

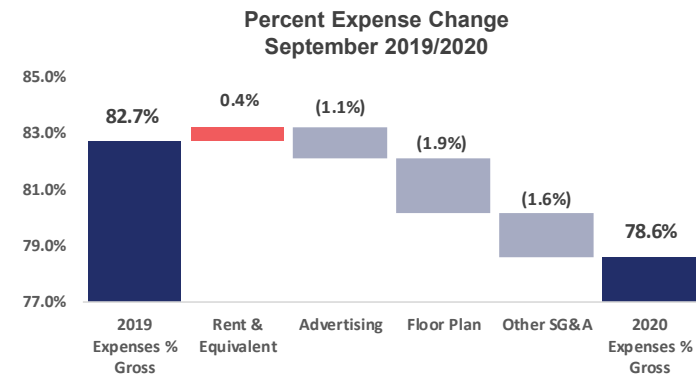


Source: NADA



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OVERALL EXPENSES ARE DOWN



Source: NADA

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DEALERSHIPS ARE MAKING RECORD PROFITS

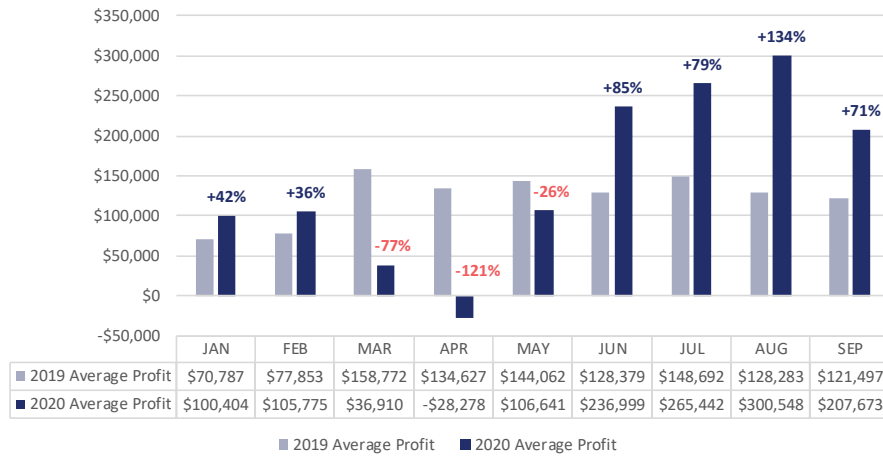


Source: NADA

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THE V-SHAPE RECOVERY

NADA Average Dealership Profits By Month
2020 vs. 2019



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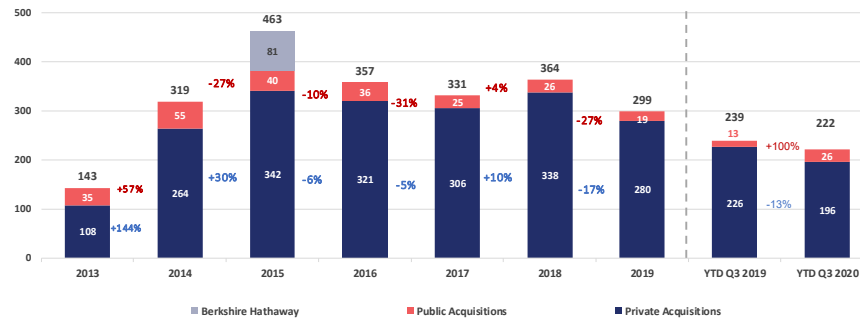
CURRENT BUY-SELL CONDITIONS

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ACQUISITIONS DECLINED THROUGH Q3, BUT ARE RAMPING UP QUICKLY

- 13% decrease YTD Q3 2020 from YTD Q3 2019 for private transactions

U.S. Dealerships Bought/Sold

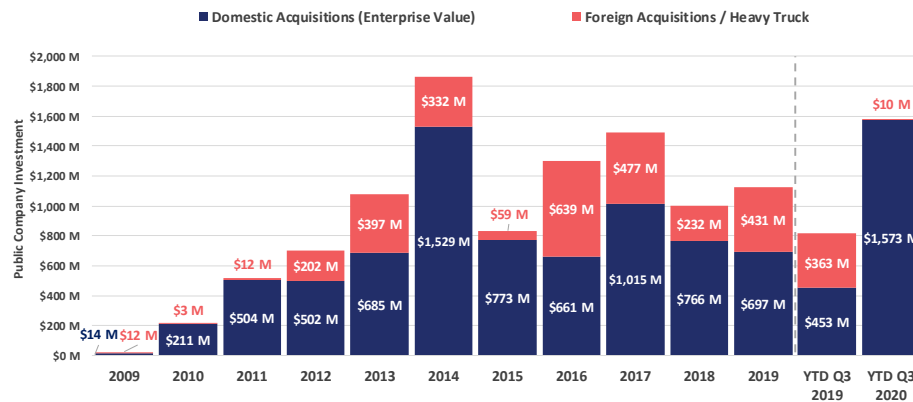


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PUBLIC COMPANY SPENDING IS APPROACHING AN ALL-TIME HIGH

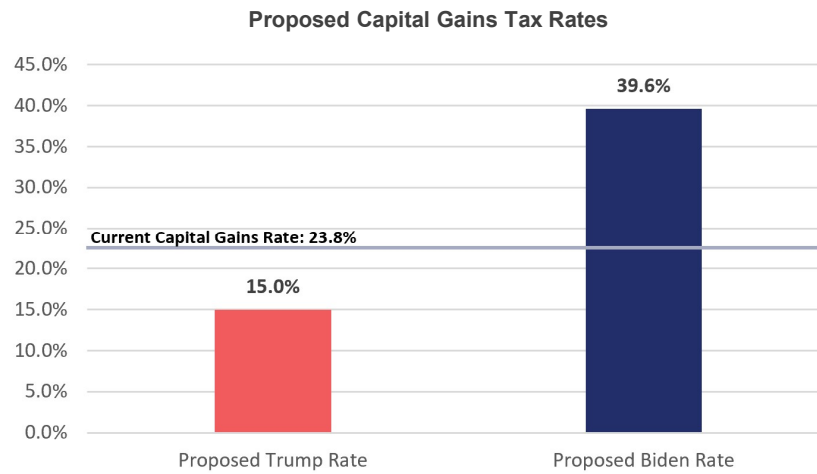
- Q3 showed a large uptick in spending – Asbury and Lithia deals
- 2020 public spending will approach 2014 levels

Public Company Acquisition Spending



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NEW TAX CODE COULD CHILL M&A



- Now that we know all the election results, we hope the democrat leadership moderates their tax position.

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VALUATION
HOW WE SEE IT

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THE PANDEMIC IS MAKING VALUATIONS DIFFICULT

- Profits fell, then have jumped to record highs for many
- Will buyers even count 2020 profits? (PPP, inventory shortage, vendor concessions, LIFO, furloughs, interest and rent abatement, etc.)
- What will profits be in the future?
- How much debt will lenders provide to buyers?
- What will happen to real estate values?



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REAL ESTATE VALUES

Our Fears...

- Consumers will maintain their online purchases to the detriment of physical retailers, permanently
- Empty buildings will have no takers...
- Leading to significant reduction in value for commercial real estate
- Auto dealership values would suffer as land prices fell, and lenders become concerned about declines in performance for auto retailers



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REAL ESTATE VALUES

What We have Seen...

- Landlords have not significantly dropped their asking prices for commercial real estate
- Auto dealers profits have INCREASED from June-September from prior years
- Dealership appraisals have been mixed



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VALUATION THOUGHTS

Positives

- Interest rates will be very low for many years
- Dealers have removed costs
- Dealers are focusing more on used vehicles, F&I and fixed
- Technology is improving customer service and reducing expenses
- Buyers of all sorts are entering the market to acquire dealerships

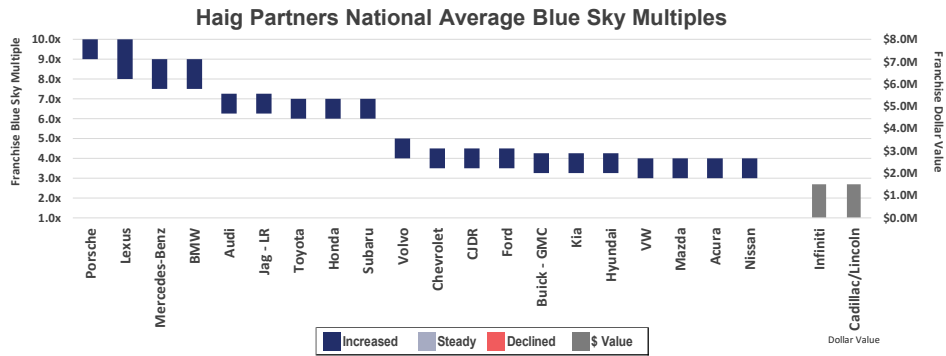
Negatives

- Future profits may be lower due to economic/employment challenges
- Pandemic may significantly reduce miles driven
- Some expense reductions are short lived (landlord and vendor concessions)
- Long term threats remain (EVs, new entrants like Tesla/Rivian)
- Taxes could be going up



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HAIG PARTNERS BLUE SKY MULTIPLES FOR Q3 – ABOVE 2019 MULTIPLES



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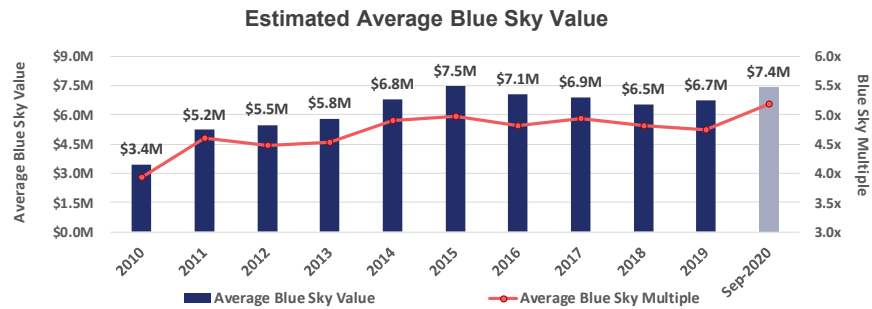
FACTORS IMPACTING MULTIPLES

- Increases Multiple**
- Underperforming
 - Metro Markets
 - Rapid Growth Markets
 - Low Tax Markets
 - Low Real Estate Costs
 - Geography Well Suited to Franchise

- Decreases Multiple**
- Not Marketed Properly
 - Facility Issues
 - Rural Areas
 - Slow/Negative Growth Markets
 - High Tax Markets
 - Add-Point Risk
 - High Real Estate Costs
 - Over-Dealers Markets
 - Overperforming

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Q3 BLUE SKY VALUES ABOVE 2019 LEVELS



- 10% discounts seen in April/May
- 5% discounts seen early in the Summer
- Current valuations are above 2019 levels



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THANK YOU!



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