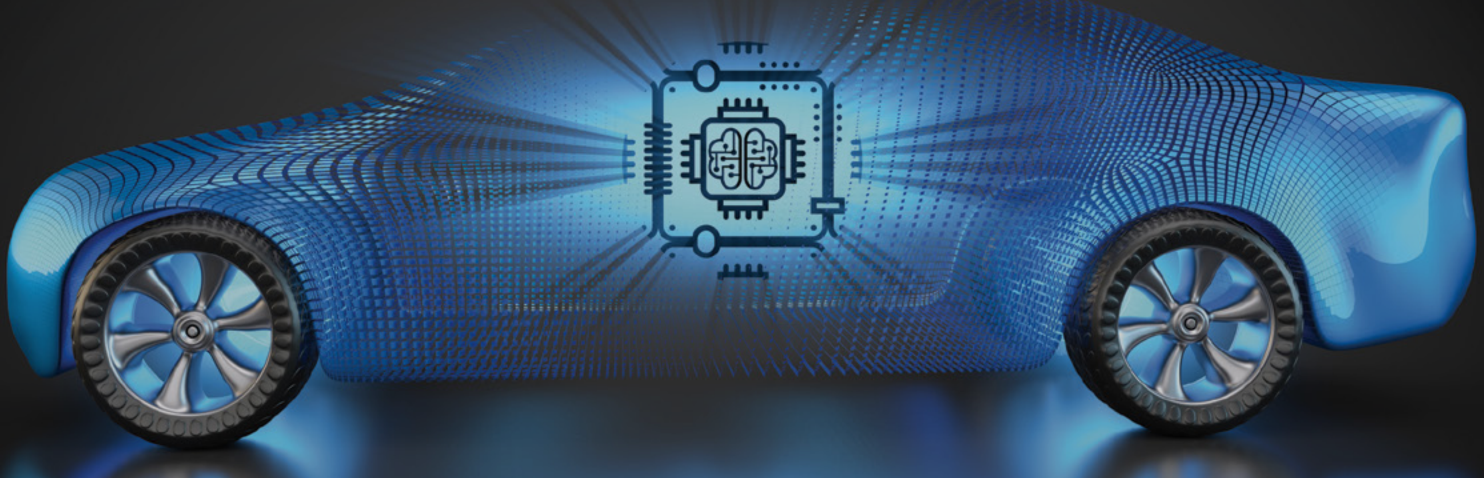
THE HAIG REPORT

Q2 | 2021

TRENDS IN AUTO RETAIL AND THEIR IMPACT ON DEALERSHIP VALUES

- *Unprecedented conditions continue in auto retail fueled by inventory shortages and strong economic recovery*
- *The average privately-owned dealership made $3.1M over the past twelve months, 2.2x profits in 2019*
- *Public company spending on US auto acquisitions in Q2 YTD exceeded $1.9B, 750% more than Q2 2020 YTD*
- *Buy-sell activity over the last 12 months is the second highest on record*
- *Blue sky values rose an estimated 52% from the end of 2019 and are now at record-high levels*
- *Public equity valuations are 109% higher than they were before the Pandemic*



HAIG PARTNERS

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The Haig Report Q2 2021 – Comentario de Finae Partners

El informe Haig resume las últimas tendencias en la industria de concesionarios de automóvil en EE.UU. y su impacto en el valor de los concesionarios. Según este informe, la unión de la recuperación económica en EE.UU. y la escasez de stocks está mejorando de manera significativa la cuenta de resultados de los concesionarios del país, y como consecuencia, su valor de mercado. Todo ello combinado con una fiebre inversora.

Los principales mensajes son los siguientes:

- La combinación al mismo tiempo de déficits de producción y una explosión de la demanda por la recuperación económica tras la pandemia, está provocando una escasez significativa de inventarios en los distribuidores de todo el país. Los niveles de inventario han caído alrededor de un 68% respecto a 2019.
- El stock que entra en las concesiones está generalmente pre-vendido.
- Como resultado de la intensa demanda y la escasez de oferta, los precios de los vehículos nuevos y usados han aumentado. El precio medio de venta de vehículos nuevos alcanzó un record en junio 2021 de $41k/vehículo, y los precios en VO se han incrementado a mayor ritmo que en VN durante 2021.
- El beneficio bruto por vehículo en la concesión se ha incrementado en un 88% de media en VN y en un 47% en VO, respecto a los niveles pre-covid, encontrándose también en máximos históricos.
- Los ingresos por financiación y seguros y la facturación de posventa también están creciendo y acompañando a los beneficios brutos derivados de la venta de vehículos.
- Todo lo anterior, combinado con una reducción de gastos (personal, publicidad, alquileres…) arrastrada desde los inicios de la pandemia, está llevando a los concesionarios de EE.UU. a niveles record de beneficio. Los beneficios medios por concesionario privado alcanzaron $3,1M en el periodo julio 2020 – junio 2021, un 121% superiores a los beneficios medios de 2019
- Derivado de lo anterior, se vienen produciendo incrementos tanto en el número de transacciones de compraventa (>+40% vs. niveles precovid) como en las valoraciones de los concesionarios de EE.UU.. Todo ello se refleja en la evolución de las cotizaciones de las empresas del sector, destacando principalmente la positiva evolución de aquéllas dedicadas a VO, como Carvana y CarMax.

Estas excelentes noticias del mercado norteamericano no parecen tener su paralelismo en la evolución del mercado europeo, como se aprecia en nuestro Observatorio. En Europa todavía existen dificultades en muchos países, con un mercado aún débil, tanto por la desigual evolución económica, como por la escasez de stocks derivada de los problemas de suministros de microprocesadores.

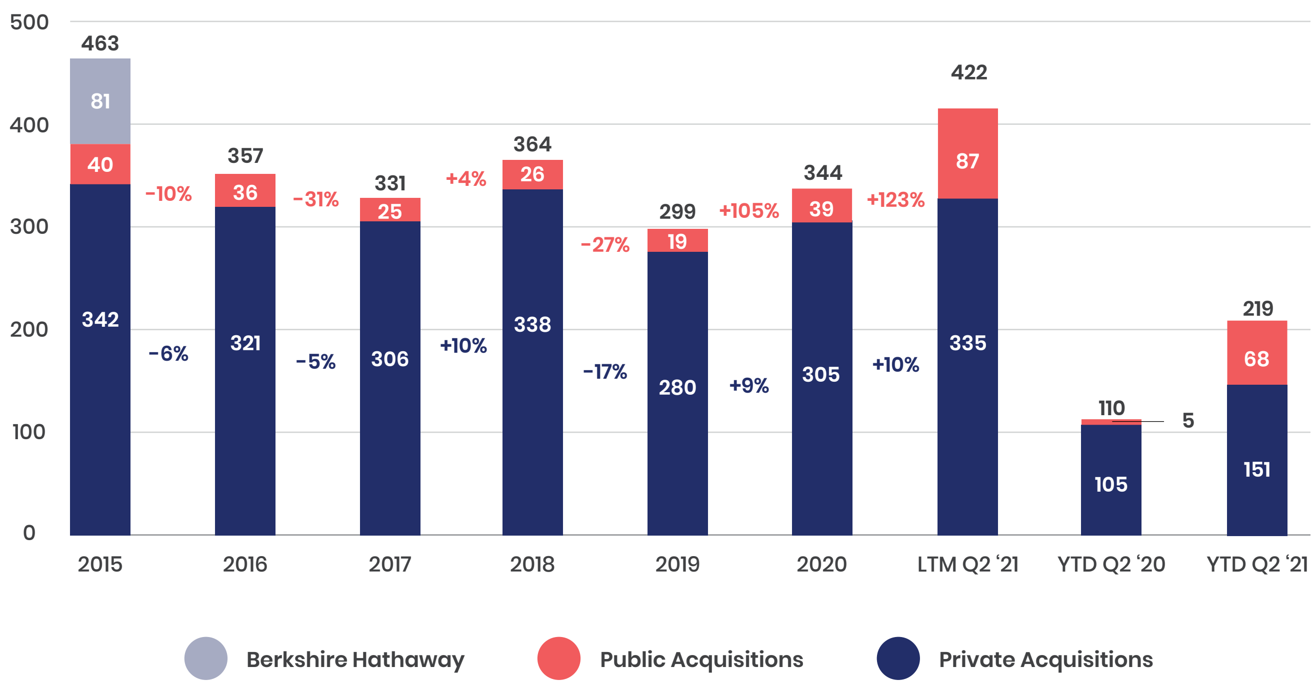
No obstante, en ambos lados del Atlántico sí hay una cosa en común: el aumento de transacciones de compraventa. Esta tendencia en Europa, y muy en particular en España, se produce como consecuencia de expectativas divergentes: por un lado empresarios interesados en salir del sector motivados por un cambio generacional o simplemente por su desencanto con el sector de distribución de automóviles, y por otro, empresarios convencidos de su futuro y volcados en encontrar oportunidades de crecimiento para alcanzar una masa crítica suficiente y así poder afrontar en mejor posición los retos del futuro.

Todos estos puntos se pueden también percibir en la última edición de nuestra encuesta “Índice de Confianza Finae Partners de Concesionarios en España”.

Buy-Sell Activity Is Surging

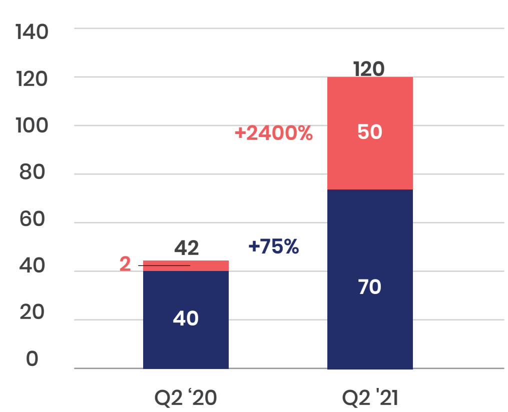
Buyers are eager for dealerships across the country. Prior to the Pandemic, we were seeing 75-90 dealerships sold per quarter. We saw 120 dealership sales in Q2 2021 alone. At the current pace, we could see the most dealership sales since 2015 when Berkshire Hathaway acquired the Van Tuyl Group. This is a sharp turnaround from March-June of last year when very few stores traded hands due to fears caused by COVID. And it's not just Lithia that is buying dealerships. Acquisitions by private dealers have increased by 44% to 151 dealerships in the first half of 2021 compared to 105 in the same period in 2020. Our firm is enjoying these robust conditions as we expect to advise on the sale of more dealerships in 2021 than any other year in our history.

US DEALERSHIPS BOUGHT/SOLD



Source: Automotive News, Banks Report, & Haig Partners

US DEALERSHIPS BOUGHT/SOLD: Q2 '20 VS. Q2 '21

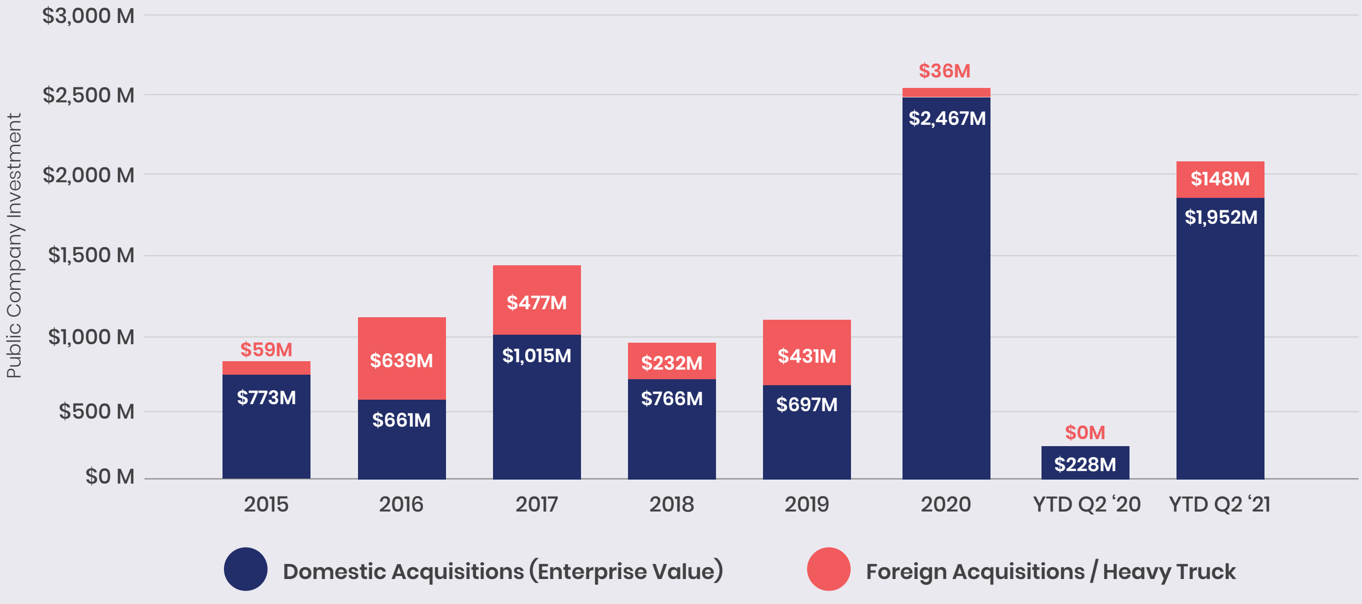


Public Company Acquisition Spending Should Remain At High Levels

The amount of spending by public companies exploded in 2020, reaching approximately $2.5B, which we believe was the most ever in a single year. And yet, it appears we will blow through that number this year as the publics have spent nearly $2.0B in just the first six months of 2021, a 756% increase over the amount they spent in the first six months of 2020. The massive increase in spending is attributable primarily to Lithia. In Q2 alone, Lithia spent $1.4B acquiring dealerships. We expect Lithia to continue its aggressive pace as it executes its plan to grow to $50B in revenue by the end of 2025.

While Lithia has been by far the most active buyer, the other publicly traded companies have also increased their rate of acquisitions. Group 1 acquired two Toyota dealerships that Haig Partners represented in Q1. In Q2, Penske and Sonic closed on acquisitions and AutoNation announced a sizeable deal. In addition to acquiring new car franchises, AutoNation, Penske and Sonic are also investing in used car dealerships and Penske continues to invest in its heavy truck dealership group. As a result of these other uses of capital, we expect Lithia to continue to be the leading acquirer of dealerships for some time.

PUBLIC COMPANY ACQUISITION SPENDING



Source: SEC filings

Buy-Sell Outlook For 2021

We expect buy-sell activity to remain elevated for the remainder of 2021. There are many dealers looking to acquire dealerships even at today's healthy prices and lenders are bullish. Buyers are open to more franchises than in the past since almost all of them are making good money. Importantly, demand is nationwide as we have seen strong offers in all regions of the country. We stated in our last report that it's possible we could be entering into a more rapid phase of consolidation in our industry. Current dealership valuations are high, and some dealers are increasingly concerned that they may not possess the human resources, technology, and scale needed to compete with large groups in the future. These worries could lead to an increase in the supply of dealerships for sale, a development that would be welcomed by the many buyers in the market today.

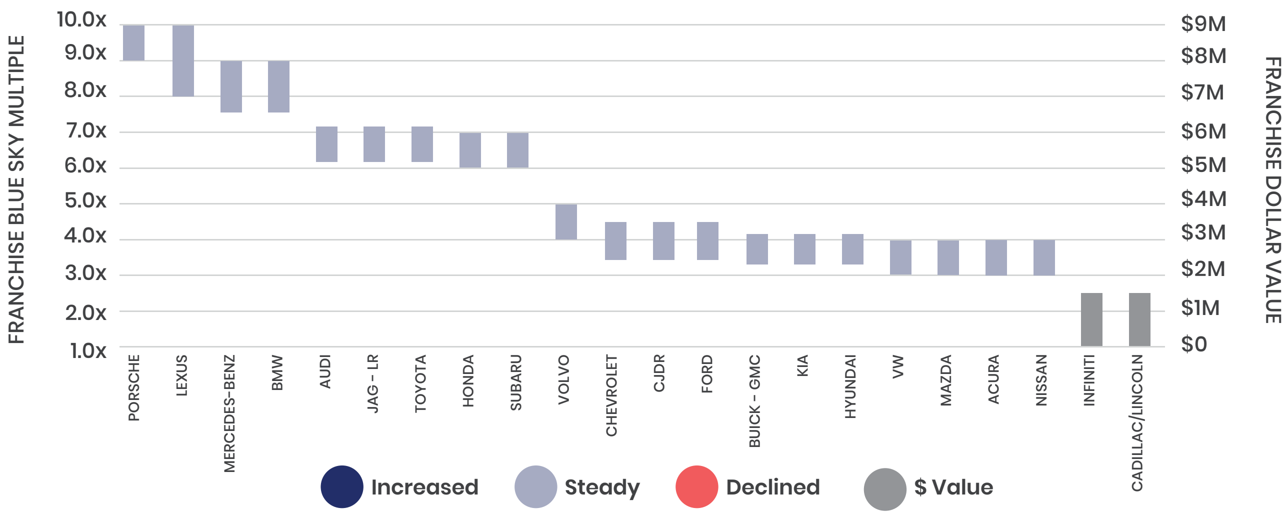
Blue Sky Values At All-Time High Levels

We carefully monitor the buy-sell market to assess the desirability of various auto franchises. We analyze offers for the transactions that we are involved in and regularly speak with leading buyers and many attorneys and CPAs who are involved in other acquisitions. When COVID arrived, it quickly had an impact. Some buyers pulled their offers, while others demanded price concessions. But as dealership profits rebounded, so did franchise values. While every transaction varies, we now estimate that most dealerships are about 52% more valuable today than they were at the end of 2019 in terms of blue sky values, and 26% higher than they were at the end of 2020, largely due to higher profitability levels. See the Buy-Sell Trends section for our analysis of dealership values.

The table below sets forth our expectation of what a buyer would pay for blue sky for various franchises, based upon an average of adjusted pre-tax profits from 2018, 2019 and the last twelve months ended 6/30/2021, excluding any profits from PPP forgiveness. These multiples are unchanged from our Q1 2021 Haig Report as we have seen no material changes in buyers' attitudes towards various brands.

Note: We are seeing particularly high interest in states like Florida and Texas where the business climate is favorable and there is no state income tax. Blue sky multiples will likely be higher than in the chart below. Also, in very large transactions that may be deemed strategic to the buyer, blue sky values can be higher than what we set forth below.

HAIG PARTNERS NATIONAL AVERAGE BLUE SKY MULTIPLES



The chart above is a guide for many dealerships. Still, the amount buyers will pay for dealerships varies depending upon many factors and can be higher or lower than the ranges we indicate. The table below provides a list of some qualifying factors that could impact the value paid for a dealership.

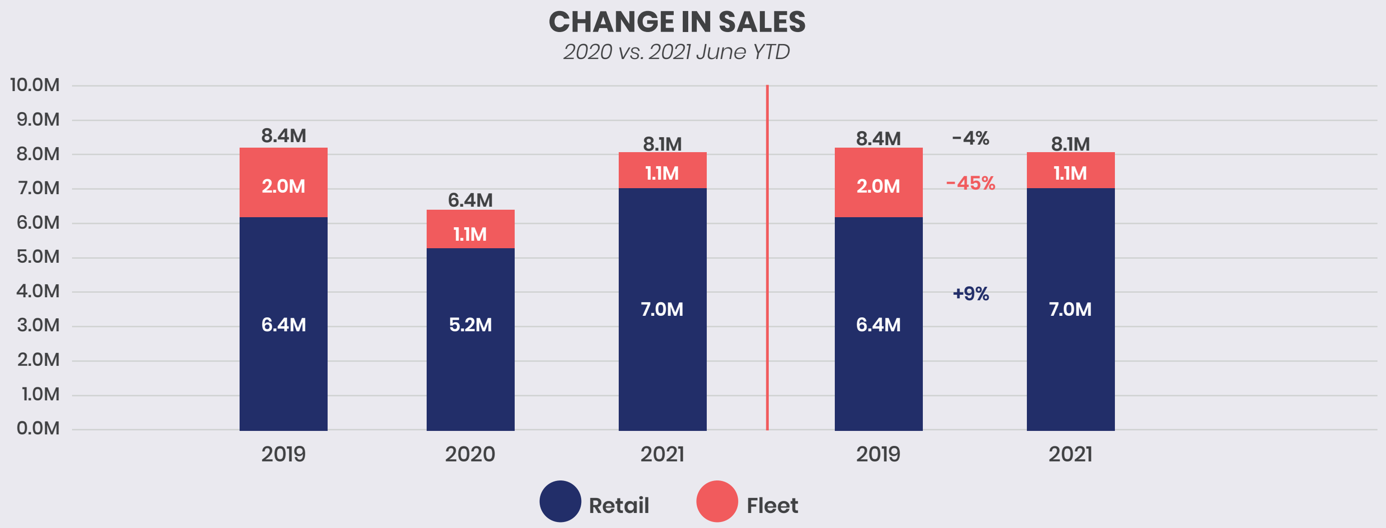
FACTORS IMPACTING MULTIPLES

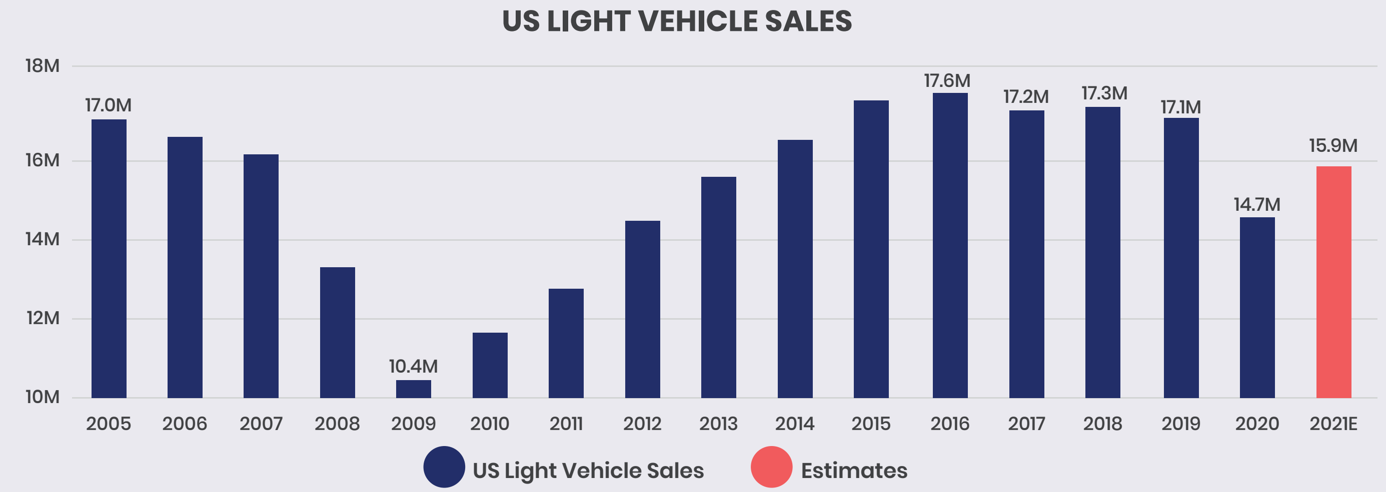
TRENDS IMPACTING AUTO RETAIL

New Unit Sales Are Now Being Constrained By A Lack Of Supply

After a very strong spring, sales began to slow as dealers have sold through nearly all their inventory. The shortage of microchips has led to production shortfalls and shutdowns at many OEMs. SAAR peaked in April at 18.8M units, the strongest April sales in the history of the US auto industry and the highest monthly sales rate since July 2005, according to NADA. But then SAAR dropped down to 15.4M in June, and 14.8M in July. Combined retail and fleet sales for YTD June 2021 is -4% below YTD June 2019. This reflects a decrease of -45% for fleet slightly offset by an increase in sales of +9% for retail. Fleet sales could remain depressed for some time as OEMs focus on filling more profitable retail orders first. Overall demand is likely going to exceed supply for some time.

Analysts predict the already reduced supply of new vehicles could drop further in Q3 due to a lack of critical components. OEMs are shifting production from lower profit vehicles to allocate chips to higher profit vehicles, like full-size trucks and SUVs. The OEMs are trying to adapt by de-contenting vehicles in order to push out more units, such as removing blind-spot monitoring systems. Audi is shipping vehicles with just one key. A review of the new unit sales forecasts from several leading analysts indicates new unit sales of 15.9M in 2021, about 7% less than what the industry sold in 2019. But we wonder if these projections are optimistic. One megadealer we spoke with says he forecasts he will only have an eight-day supply at the end of August. He was recently in contact with many of the leading OEMs who all told him the lack of chips was getting more severe, not less. It appears we will be in an era of reduced sales, elevated margins and lower expenses for at least the next six months.

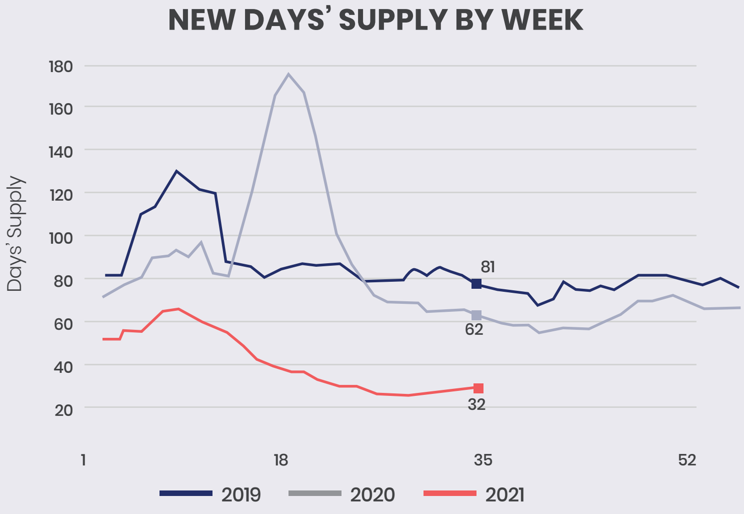




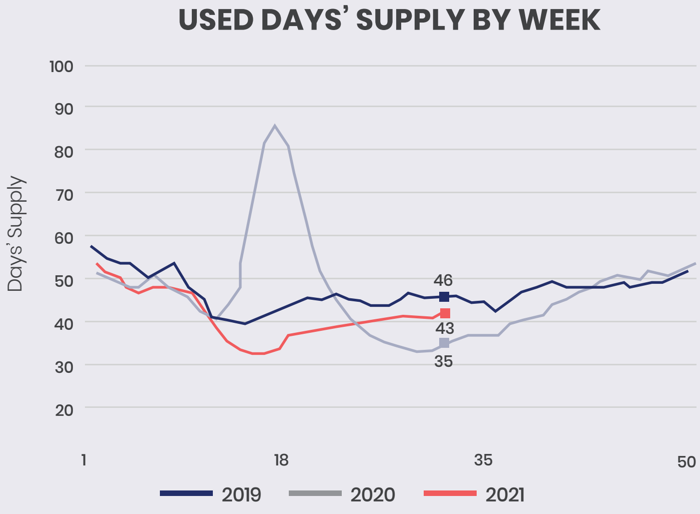
Source: IHS, Wards Auto, TrueCar, COX Automotive, NADA, J.D. Power

The Supply Of Vehicles Is Far Lower Than Demand, So The Prices Are Far Higher

The combination of production shortfalls at the same time as an explosion of demand is creating significant inventory shortages at dealers nationwide. Inventory levels have dropped about 68% from 2019 (pre-Pandemic levels). Dealers of some franchises, particularly the domestic brands, tell us their incoming stock is pre-sold and their lots are mostly empty. As shown on the charts below provided by Jonathan Smoke, Chief Economist at Cox Automotive, the Days' Supply for new vehicles in August dropped to 32 days compared to 81 in 2019, the last pre-Pandemic year. Surprisingly, the days' supply for used vehicles climbed from the mid-30s in April to 43 in August a 23% increase above the same period last year. We don't know whether this is due to a drop in demand or that dealers are doing a better job sourcing used vehicles to offset the decline in new vehicle supply. In 2019, the days' supply for used vehicles was in the mid-40s. Cox also reported that new vehicle incentive spending as a percentage of the average transaction price by the OEMs fell to a decade low of 7.4% in May. These factors led to a record high for average listing price for new vehicles of $41,729 in August.



Source: Cox Automotive



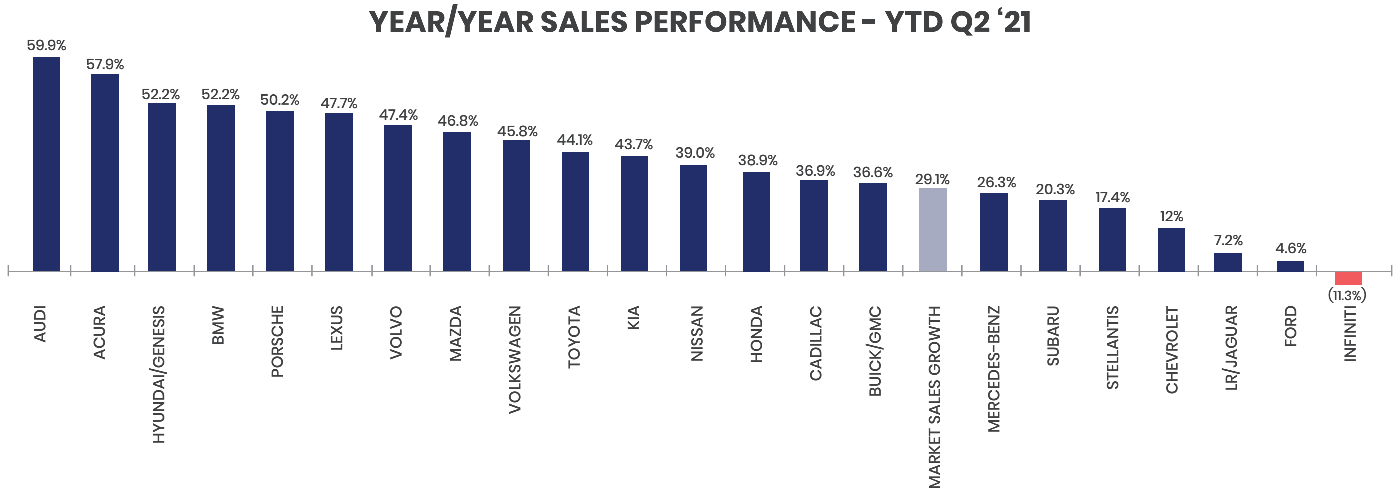
Source: Cox Automotive

As a result of the strong demand and lack of supply, pricing on new and used vehicles has surged. JD Power stated, "The average new-vehicle retail transaction price in July is expected to reach a record $41,044. The previous high for any month, $39,943, was set in June 2021." We jumped over $1,000 in price in just one month! Used vehicle prices increased at a much faster rate this year. The Manheim Index of used vehicles sold at wholesale skyrocketed in the first couple months of 2021, however, June saw a 1.3% decrease from May. This may indicate that we have hit the peak for used/wholesale prices, but with continuing production shortages, prices may continue to be volatile.

In terms of the level of new vehicle supply going forward, several OEMs have discussed they prefer lower levels of inventory on dealers' lots. Ford CEO Jim Farley said they wanted to encourage customers to pre-order vehicles via dealers, setting a target of 20%-25% of sales, compared to almost none before the Pandemic. Mr. Farley said the result could be higher margins for Ford and its dealers, and lower costs since advertising, incentives and floorplan expense could all be lower than in the past. Some Ford dealers are skeptical, however. They point out that customers have been trained for decades that they can pick from a huge inventory and drive away in a few hours, versus waiting weeks or months for a vehicle to be produced and shipped to them.

Changes In Sales For Individual Franchises

The following chart sets forth the change in new unit sales among the major franchises in the first six months of 2021 compared to the same period in 2020. All franchises besides Infiniti and Lincoln saw improving sales. Note, this data reflects changes in total sales per brand, including fleet sales. Since the OEMs have been reducing their sales to fleets to feed their retailers, the sales increase at dealerships is even higher. It's interesting to see that the domestic OEMs have performed worse than the international brands. We are told they cut their orders for microchips in the early months of the Pandemic and were unable to find new sources when demand returned. While these sales increases look impressive, we are concerned that the second half of the year will be much more difficult for dealers since all OEMs are now signaling the lack of microchips is going to reduce their production going forward.



Source: Automotive News

GDP Is Recovering

GDP grew at an annual rate of 6.5% in Q2 2021. This growth puts the level of economic activity in the US above the pre-Pandemic level. This is the fourth straight quarter of GDP growth. Despite the impressive growth, much of it has been driven by stimulus spending and many experts are now concerned that GDP growth will slow for the remainder of the year due to the Delta variant of COVID which is causing some consumers and corporations to become more cautious. Retail sales fell 1.1% in July.

Unemployment Has Dropped But Remains Elevated

The unemployment rate has fallen significantly from 11.1% in June 2020 to 5.9% in June 2021, according to the US Bureau of Labor and Statistics. There are millions of job postings, but we still have nearly four million fewer employed people than before the Pandemic. Some say the effective unemployment rate is 0.0%: anybody who wants a job can get a job. We are hoping now that the vaccines have arrived people will feel more comfortable returning to the workplace and further boosting our economy. But again, the Delta variant of COVID may slow the return of unemployed workers into our economy.

Inflation Has Returned

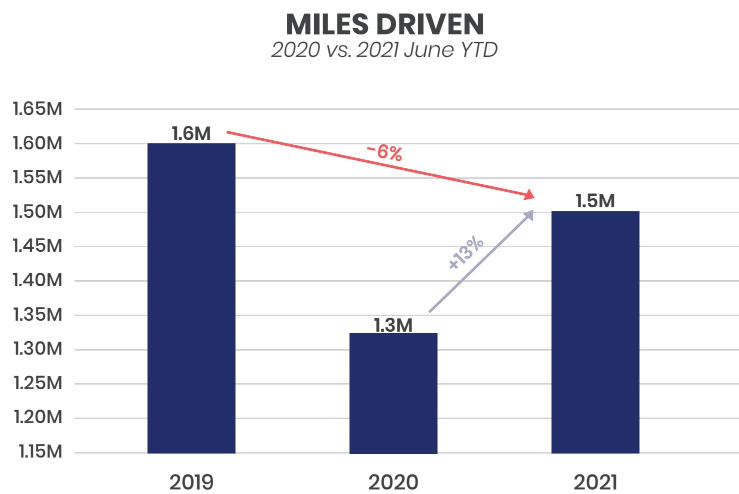
The 12-month inflation rate hit 5.4% in June 2021. This was a 0.9% increase from May, and the largest 12-month increase since August 2008 during the Great Recession. Prices of used vehicles continue to rise sharply, increasing 10.5% in June and accounted for more than one-third of the seasonally adjusted increase. High inflation can be a drag on our industry, since it pushes up the cost of vehicles and can lead to higher interest rates, both of which reduce demand for vehicles and increase the cost of stocking them. The new budget and infrastructure bills in congress may cause inflation to remain elevated.

Fuel Prices On The Rise

The national average price per gallon of gas was $3.15 as of July 19th, 2021, 44% above the level at the same time last year and 10.6% higher than Q1 2021. OPEC and its non-OPEC allies reached a deal in July to increase production which could help bring down prices. Higher fuel prices can reduce demand for vehicles since consumers have less money to spend on monthly payments. It's likely higher fuel prices will increase demand for electric vehicles.

The Number Of Miles Driven Has Almost Recovered

Travel plummeted during the Pandemic as many people stayed home for work or school. The number of miles driven on an annual basis is a crucial driver for our industry as it heavily influences the replacement rate for vehicles and spending on fixed operations. The number of miles driven in June 2021 YTD was 6% lower than the June YTD 2019 levels, which implies that fixed operations still have room for growth.



Interest Rates Remain Near Zero – For Now...

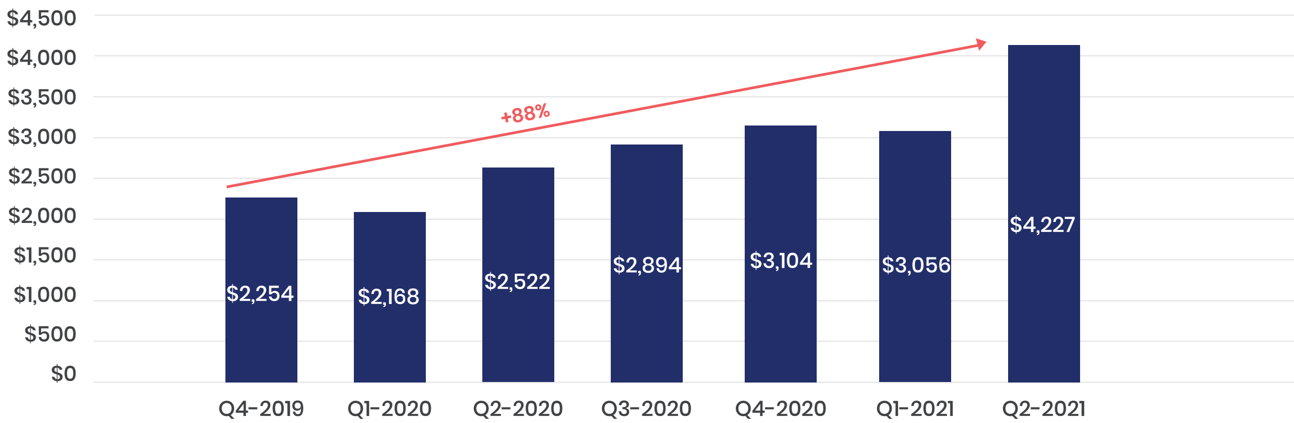
The Federal discount rate has been hovering at just 0.25% for the past year. Low interest rates help to stimulate auto purchases and leases since they reduce the monthly payments for consumers. Low rates also boost dealer profits by reducing floorplan expenses and mortgage payments. But if inflation remains well above the target rate of 2% for another few months, many economists predict the Federal Reserve will need to react by raising rates. This could suppress profits for dealers by raising floorplan expenses and reducing demand for vehicles by increasing their monthly payments.

New Vehicle Grosses Rise Even Further

Thanks to strong demand and limited supply, gross profits per new vehicle *jumped an astonishing $1,317 in Q2 2021* compared to Q2 2020 for the public retailers. Gross profits on new vehicles are about 88% higher now than pre-COVID. How long can this continue? Leading dealers tell us the OEMs don't know when they will be able to source enough components to resume full production. Based on recent production forecasts, it now appears likely that these high margins will be with us well into 2022 and possibly beyond.

Another hope that we have is that the OEMs will realize that their profits have also been far higher during COVID, where they produced fewer units but made more profit since they spent far less money advertising and incentivizing their products. We wrote a guest editorial that was published in Automotive News on December 14, 2020, entitled, "Less Is More." But some dealers are skeptical that OEMs will be able to maintain self-control. They believe the OEMs will resort to fighting over market share and so will return to their ways of overproducing and then resorting to costly methods to clear out inventory.

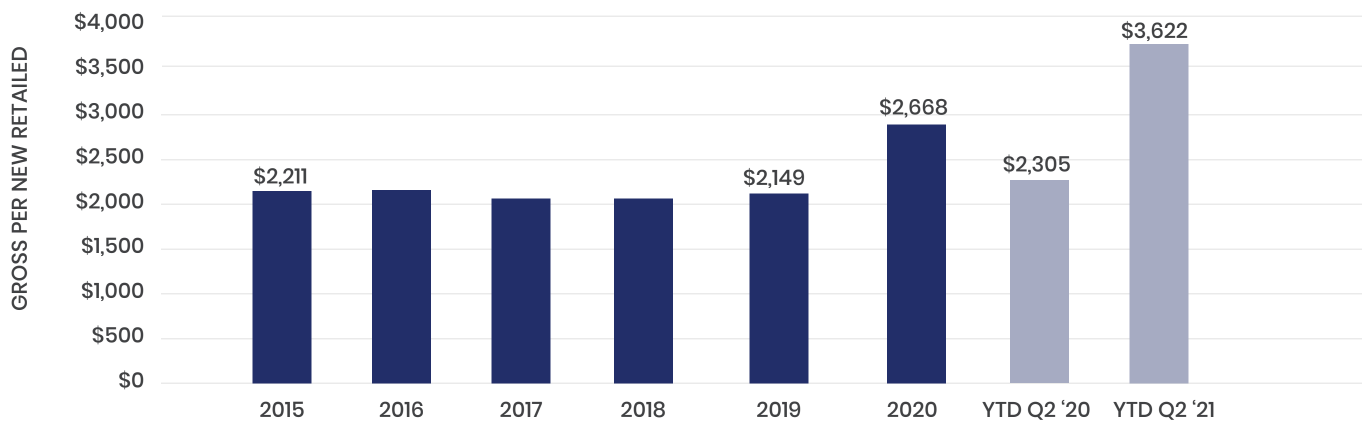
NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA BY QUARTER



Source: SEC Filings

NEW GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same-Store Performance - In Current Dollars)



Source: SEC filings

Used Vehicle Grosses Are Also Elevated

A spike in demand for used vehicles has provided dealers with significant pricing power in the market today. The public retailers reported a $625 increase in gross profit per used unit in Q2 2021 compared to Q2 2020. Gross profit per used unit is 47% higher than in 2019, the last year before the Pandemic. Dealers tell us they are doing everything possible to increase their used vehicle inventories, including more aggressive offers to consumers, accepting all lease buy-out opportunities from the OEMs, and bidding aggressively at auctions. It's likely that these elevated profits will remain until new vehicle production rebounds to meet demand.

USED GROSS PROFITS PER VEHICLE: PUBLIC COMPANY DATA

(Weighted Average Same-Store Performance - In Current Dollars)

Source: SEC filings

Finance & Insurance Is Rising Along With Higher Transaction Values

F&I profits per vehicle continue to increase as transaction values go up and retailers do a better job on product penetration. The public companies earned $1,878 per vehicle retailed in F&I gross profit in YTD Q2 2021, up an impressive $165 or 10% from YTD Q2 2020. We believe privately owned dealerships are also doing a better job with F&I. With fewer units to sell, dealers can spend more time trying to maximize profits from this department while still pleasing customers.

PUBLIC COMPANY F&I PER UNIT RETAILED

(Weighted Average Same-Store Performance - In Current Dollars)

Source: SEC filings

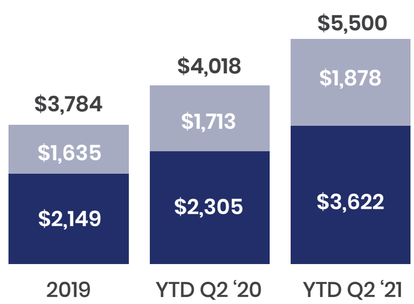
Combined Front And Back Gross Profits Per Vehicle Retailed Hit All-Time Highs

The tables below track total profits per vehicle retailed data back to 2019. Thanks to gains in front-end and back-end gross profits, publicly traded dealer groups are enjoying record high profits for each vehicle they sold in Q2 2021.

PUBLIC COMPANY VEHICLE GROSS + F&I PVR

(Weighted Average Same-Store Performance - In Current Dollars)

NEW Vehicle Gross

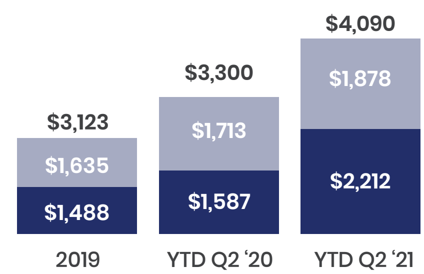


2019 - YTD Q2 2021

NEW	F&I	TOTAL
+$1,473	+$243	+$1,716
+68.5%	+14.9%	+45.3%

USED	F&I	TOTAL
+$724	+$243	+$967
+48.7%	+14.9%	+31.0%

USED Vehicle Gross



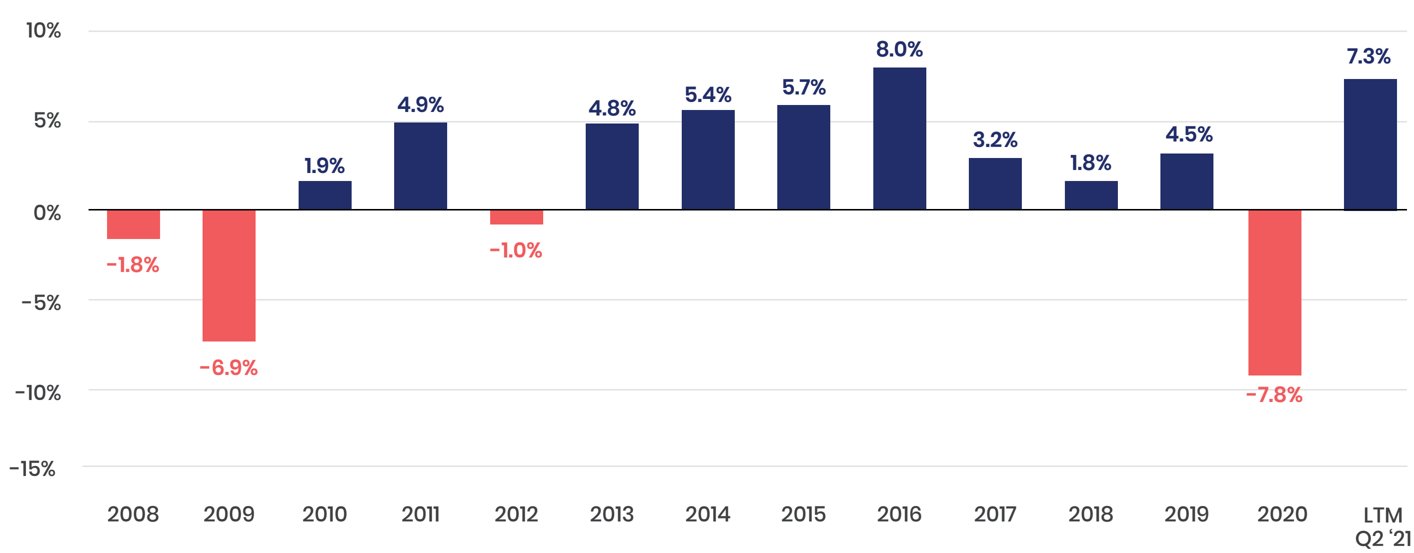
Note: Front-end gross profit includes manufacturer incentives and other income.

Source: SEC filings; F&I as reported for new and used combined

Fixed Operations Continue To Rebound

Fixed operations took a big hit during COVID. People were driving less so dealers saw decreased demand for maintenance, repairs, parts and collision work. According to NADA, fixed operations fell 7.8% for the average dealer in 2020. In Q2 we saw fixed operations jump 15.5% over Q2 2020. During the twelve-month period ended Q2 2021 fixed operations increased 7.3% from full year 2020. Fixed operations are now just 1% below 2019 levels. As the economy continues to expand, fixed operations are poised to continue to grow.

FIXED OPERATIONS GROWTH



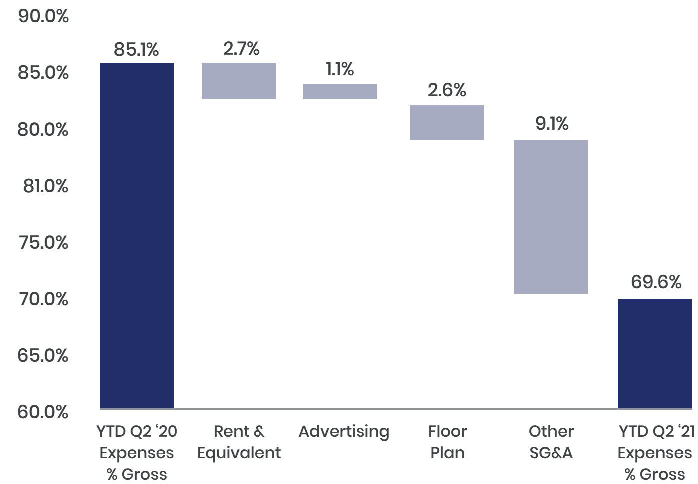
Source: NADA

Dealership Expenses Remain Low

When the Pandemic hit, many dealers reacted by paring their expenses as much as possible. They discovered they could serve their customers with fewer employees, fewer vendors, less advertising and lower inventory levels. As demand rebounded dealers have been careful to watch their costs. Gross profits have increased 42% from YTD Q2 2020 to YTD Q2 2021, but costs increased just 16.1%. As a result, total expenses have dropped from 85.1% of gross profit in YTD Q2 2020 to just 69.6% of gross profit in YTD Q2 2021. While it may be difficult to keep costs low as inflation creeps in and wages increase, we believe dealers will be able to enjoy a lower cost base for some time to come.

CHANGE IN EXPENSES

YTD Q2 '20 / YTD Q2 '21

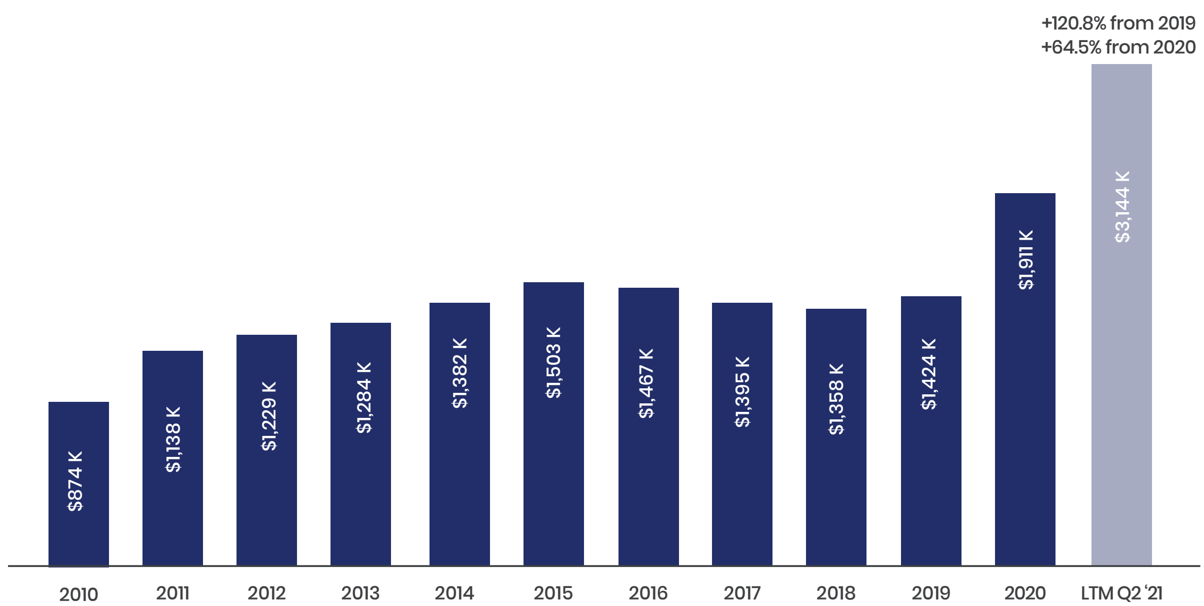


Source: NADA & Haig Partners

Dealership Profits Explode

The net outcome of the trends listed above is that average profits at privately-owned dealerships exploded over the past year to record high levels. Average profit per privately owned dealership reached an estimated $3.1M over the past twelve months ended June 30, 2021, an increase of 64.5% compared to the full year 2020. This unprecedented jump in profits excludes estimated proceeds from PPP loans that many dealers have begun to take into income. To eliminate this non-recurring income, we identified a spike of an estimated $200k in 2020 and another $170K from the YTD 2021 results for a total of $370K eliminated from earnings over the last twelve months. Average dealership profits are up 120.8% from 2019 to LTM Q2 2021. Dealers use terms like, "silly," "unreal," and "simply absurd" to describe what they are seeing on their monthly statements. A dealer last quarter told us, "We don't count the money anymore, we just weigh it." We wonder if he can even lift it this quarter. The table below shows the annual earnings at privately owned dealerships since 2010.

NADA AVERAGE PRIVATE DEALERSHIP EARNINGS



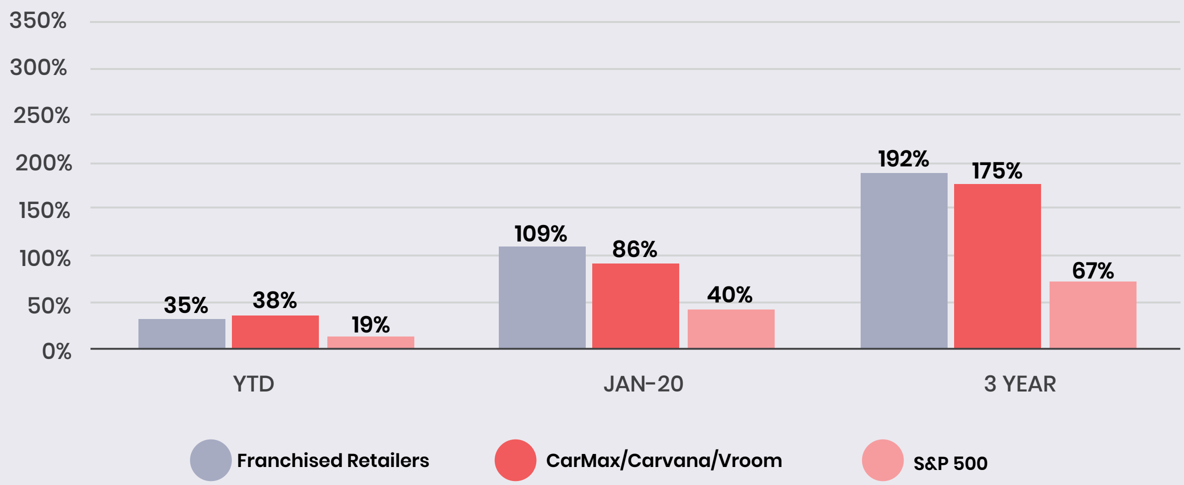
Source: NADA & Haig Partners

Public Dealership Values Have Soared Since The Pandemic Hit

The share prices of the six public franchised retailers have increased sharply since the Pandemic began and are far outperforming the S&P 500 Index. Investors are attracted to the auto retail business model that has proven to be resilient to almost any economic shock. They see that the public companies are generating large amounts of profit even with lower volumes thanks to higher gross profits per vehicle, reduced personnel expenses, a bigger focus on used vehicle sales, low floor plan rates and the possibility that technology will help these larger groups take share from smaller dealers. The used retailers consist of CarMax, Carvana and Vroom, and there is now talk that Sonic might spin off its Echo Park used vehicle business to create a fourth publicly traded used vehicle retailer. (Note: we are excluding CarLotz from this group due to its small size.) The market value of Carvana's stock is over $60B at the time of this writing – more than all the franchised retailers combined. It generated its first profitable quarter in Q2 2021, surprising many analysts, and the company continues to grow very rapidly. Lithia's market value of $10.4B has also increased significantly over the past 24 months since it announced its ambitious expansion plans. Investors have confidence that the future profits of these larger auto retailers will remain strong for the foreseeable future. These high valuations imply that values for privately owned dealerships will also remain healthy.

CUMULATIVE STOCK PRICE RETURNS

Public Franchise Retailers vs. S&P 500



Source: Yahoo! Finance; Data through 8/13/2021

Real Estate Values Are Stable

From 2010-2019 we saw dealership real estate values steadily rise. We are happy to report that recent buyer appraisals have come in at or above pre-Pandemic levels. Appraisers appear to have realized that dealerships are performing well, they are able to support healthy rent factors, and that buyers are eager to purchase them.

BUY-SELL TRENDS

Transaction Volume Is Climbing

Prior to the Pandemic, we saw about 25-30 dealerships being sold on an average month. In the first six months of 2021, we saw an average of more than 36 dealerships trade hands per month. Almost 70% of the dealerships were acquired by private buyers even though Lithia gets most of the headlines.

Monthly Dealership Sales in YTD Q2 2021		
	Private Buy/Sell	Public Buy/Sell
January	23	0
February	28	2 Acquisitions
March	30	16 Acquisitions
April	34	35 Acquisitions
May	2	0
June	34	15 Acquisitions
Total	**151**	**68**

Source: Automotive News, Banks Report & Haig Partners

Record Spending By The Public Retailers

The amount of money spent by the publicly traded auto retailers on US auto dealerships exploded in the second half of 2020 to reach the highest level ever, according to our records. This trend continued into the first half of 2021 as the public retailers spent nearly $2B on acquisitions of auto dealerships, thanks mostly to Lithia. If the current pace continues, the publicly traded retailers could spend $3B on acquisitions, which would be about 20% higher than 2020, creating another record year of investments in US auto dealerships.

Potential Impact Of The 2021 And Beyond Stimulus Programs

Congress in Q1 2021 passed a $1.9T spending bill providing significant sums to state and local governments, $1,400 checks to many millions of households, hundreds of billions to shore up underfunded pension plans, vaccine distribution, and payments to companies in certain industries, etc. Due to this bill and other causes, US consumers are sitting on more than $2 trillion of wealth above what they had prior to the Pandemic. Congress is now debating a $1T infrastructure bill and a $3.5T budget that would put substantially more cash in the hands of consumers, businesses and governments. We believe a significant amount of this money can end up in the hands of dealers as buyers of all varieties will have more cash to purchase vehicles. Strong sales and profits at dealerships will likely support the current high level of demand for dealerships as buyers will be able to project strong profits for the next few years. The long-term impact is less clear.

The Current Perspectives Of Buyers And Sellers

Each month we are in contact with dozens of dealership buyers and potential sellers. Here are their perspectives on current market conditions.

The buyer's perspective:

- They are thrilled with their dealerships' performance.
- They have a lot of cash on their balance sheets and want to invest it.
- They are open to most brands.
- They are aware they will need to pay more for dealerships than perhaps at any other time.
- They are particularly interested in low-tax states such as Florida and Texas.
- They are having difficulty valuing dealerships due to the surge in earnings that is likely temporary.

The seller's perspective:

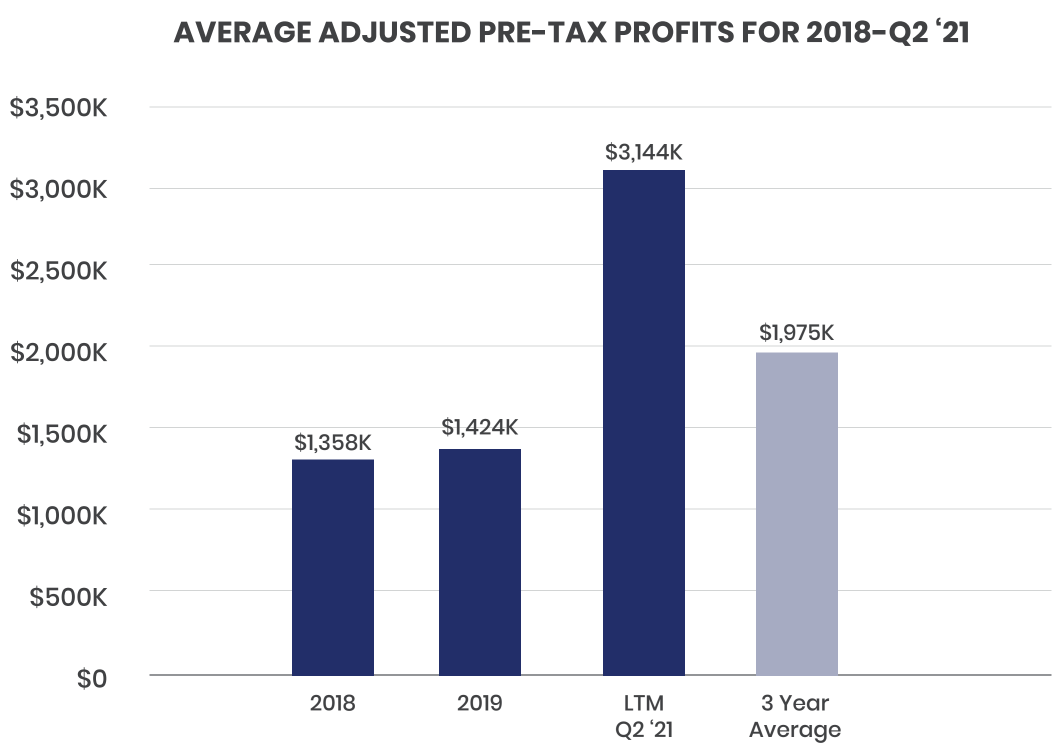
- Their high profits can sometimes create indifference between retaining dealerships and selling them. "If I get a great price, I want to sell. Otherwise, I'm happy to keep making all this money."
- Some are increasingly concerned about their ability to compete with larger groups who have greater access to the talent, breadth of inventory, capital, and technology.
- They are interested in getting their dealerships sold in 2021, hoping to avoid a tax increase that might become effective in 2022.

Private Dealership Values Are At All-Time High Levels

Many factors drive the blue sky value of dealerships. A buyer's expectations of future profits are important, as are interest rates and the amount of capital a buyer has and how much debt is available.

Let's start first with a buyer's expectations of future profits. For the past several years we have enjoyed annual sales of over 17M new units and average dealership profits between $1.4M and $1.5M - remarkably consistent. As a result, goodwill values were also very steady during this period, ranging from $6.5M-$7.5M from 2014-2019. The Pandemic, and now the microchip shortage, has significantly altered valuations for dealerships. Profits have more than doubled in the past year. Dealers know these record profits won't last forever, but they are optimistic they can still generate profits in the future that are higher than they were in 2019 and 2020. In addition to higher profits, interest rates are lower today than in previous years. Lower rates increase cash flows for buyers and therefore the returns on investment from acquisitions. Plus, dealers have plenty of cash on hand and less debt thanks to high profits and low taxes. Finally, lenders have told us that they are also bullish about the future and so are supportive of acquisitions. When dealers can finance a large portion of an acquisition with debt then they can pay more for acquisitions.

Some buyers ignore current profits and just focus on estimated future profits. However, we believe many buyers continue to use an average of the adjusted pre-tax profit from previous years multiplied by a franchise-specific goodwill multiple in determining how much they will pay for goodwill. Other buyers ignore the past and just focus on the future. It is our belief that both types of buyers expect that profits are likely to remain at or near current levels for the next few months, and will remain elevated about historical levels for at least another year, possibly two. As a result of these factors, we estimate that buyers are willing to pay $10.3M in blue sky for a typical dealership, up an estimated 52% from year-end 2019 and are up 14% from the end of Q1 2021. We have never seen blue sky valuations at this level in our careers. Our formula uses the average of adjusted pre-tax profits from 2018, 2019 and the last twelve months ended June 2021 of $1.98M and an average blue sky multiple of 5.2x.



Source: NADA & Haig Partners