



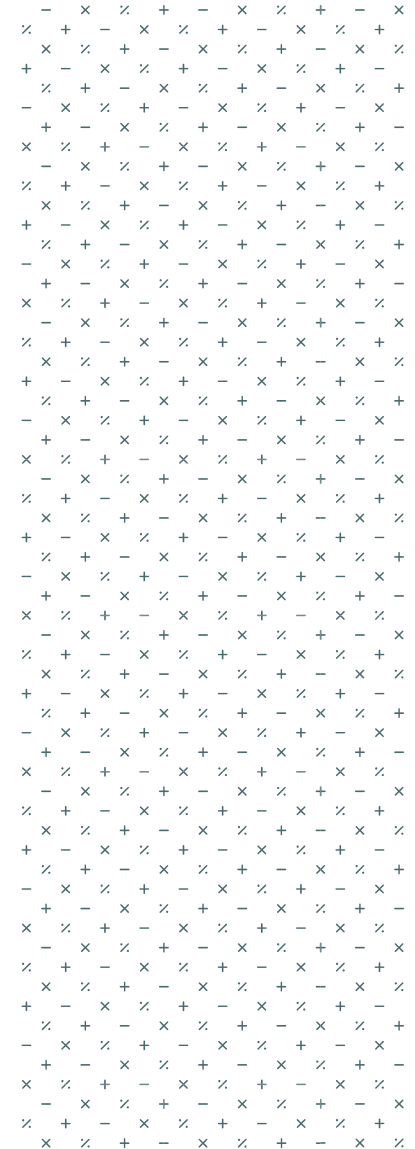
M&A Update and Preparing your Automotive Dealership for a Transition

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Learning Objectives

- Describe recent M&A activity and trends for automotive dealers
- Define due diligence and quality of earnings issues
- Apply best practices to prepare for a sale or acquisition
- Discuss common post-acquisition accounting matters



Polling Question #1 – In general, dealership profits have soared in 2021, how much longer do you think you'll see elevated profits?

- A) 3 months
- B) 6 months
- C) 12 months
- D) Beyond 12 months



Trends in Auto Retail and the Buy-Sell Market



MAXIMIZING THE VALUE OF YOUR LIFE'S WORK



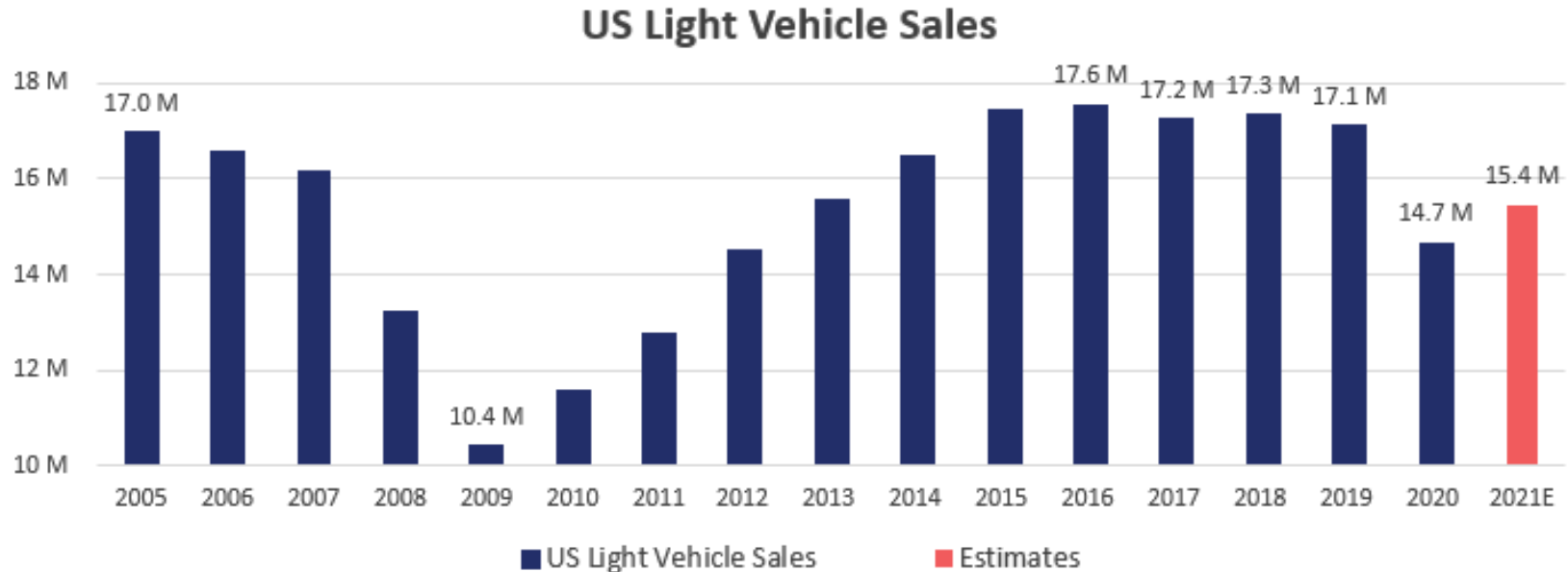
TRENDS

IN AUTO RETAIL

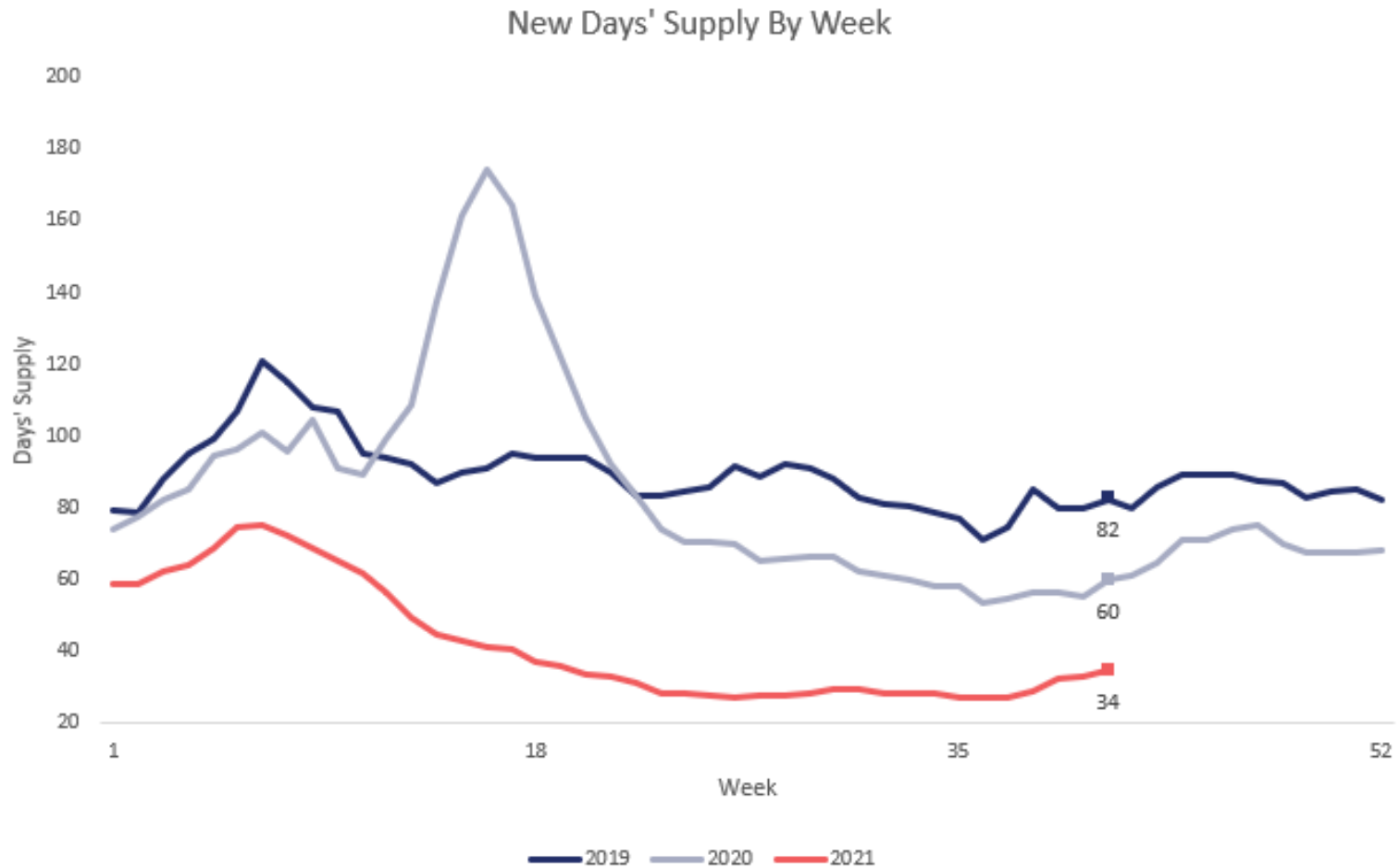


SAAR NOW DRIVEN BY PRODUCTION

- Production shortfalls are expected through 2022
- Reduced inventory has taught us that “Less is More”



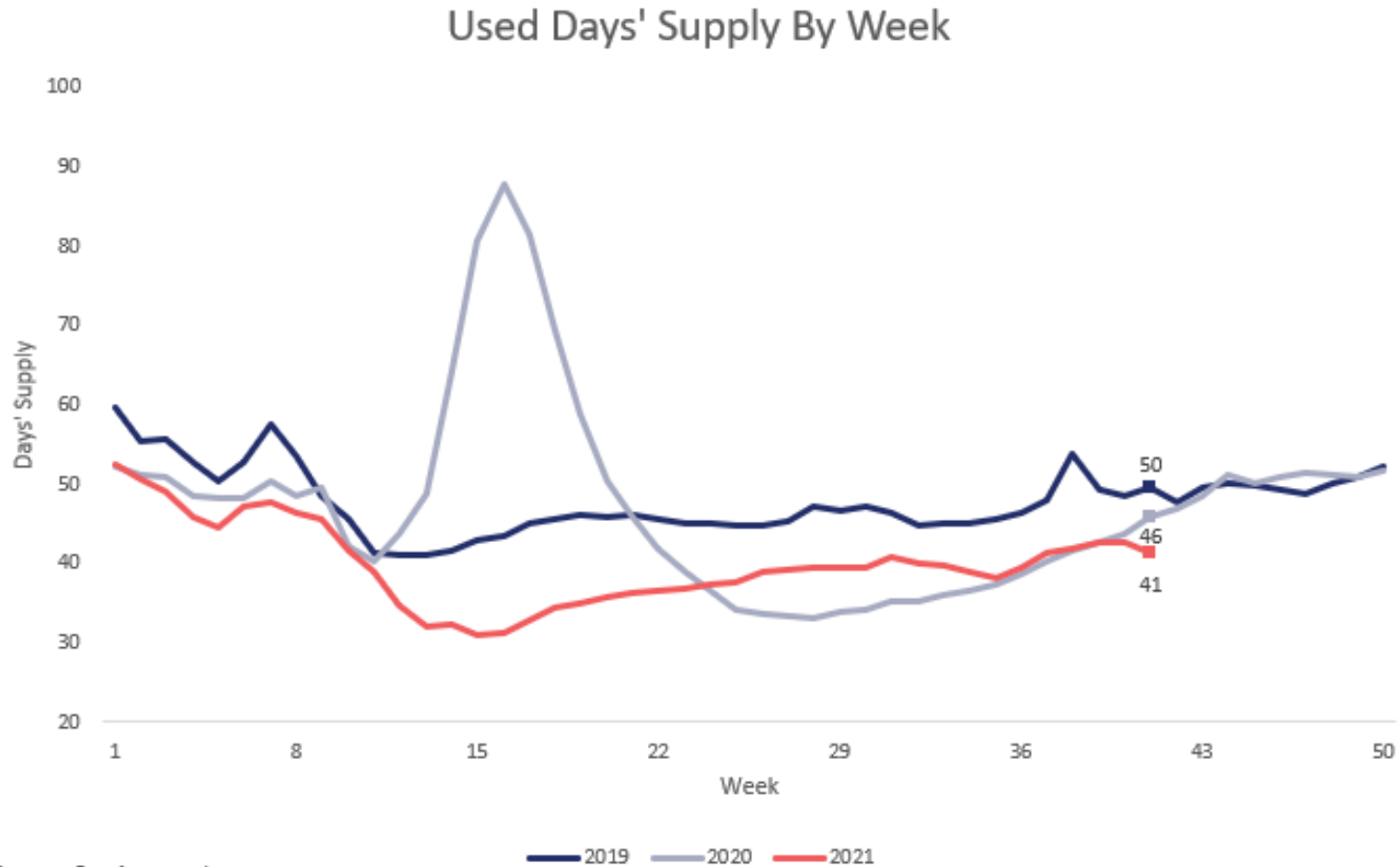
NEW DAYS' SUPPLY HAS BEEN CUT IN HALF



Source: Cox Automotive



USED DAYS' SUPPLY IS DOWN 18%



Source: Cox Automotive



NEW PVR HITTING ALL-TIME HIGHS

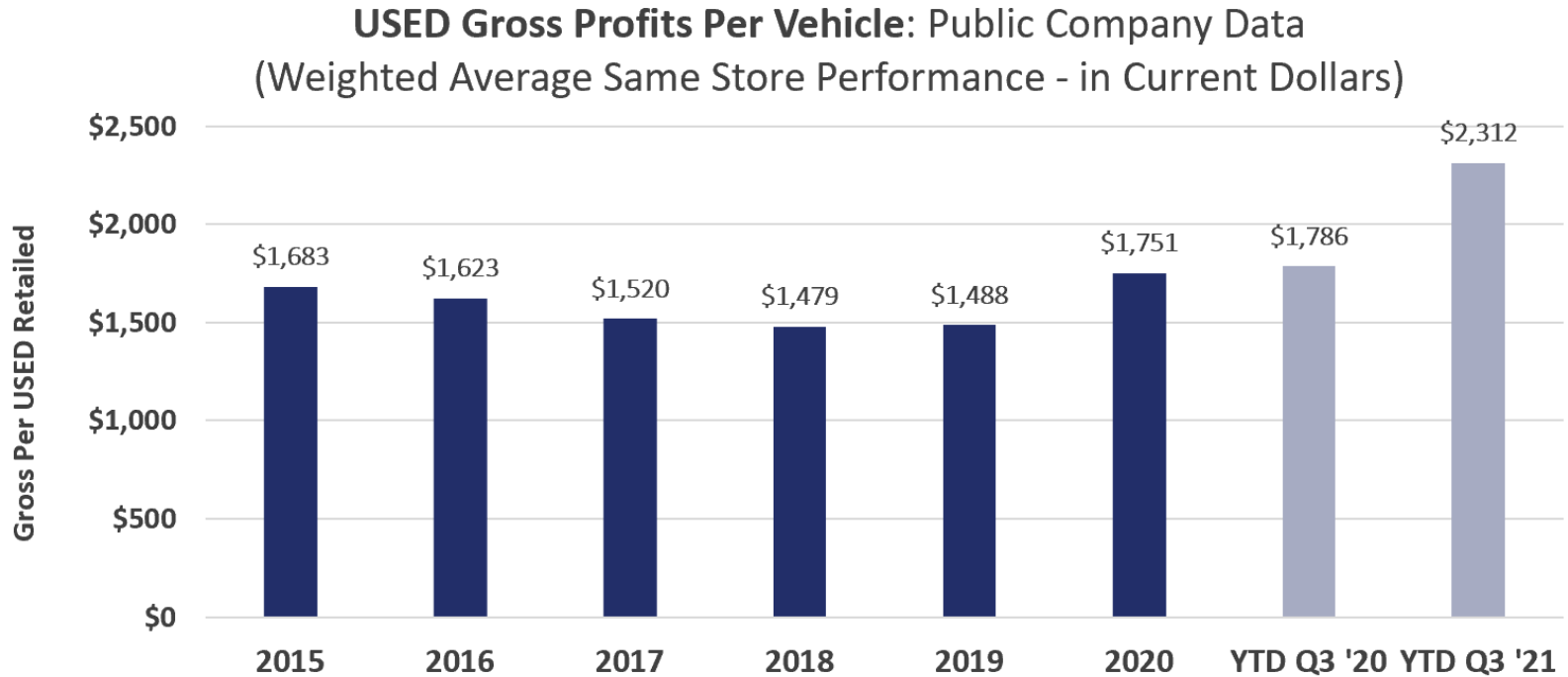
NEW Gross Profits Per Vehicle: Public Company Data
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings



USED PVR HITTING ALL-TIME HIGHS

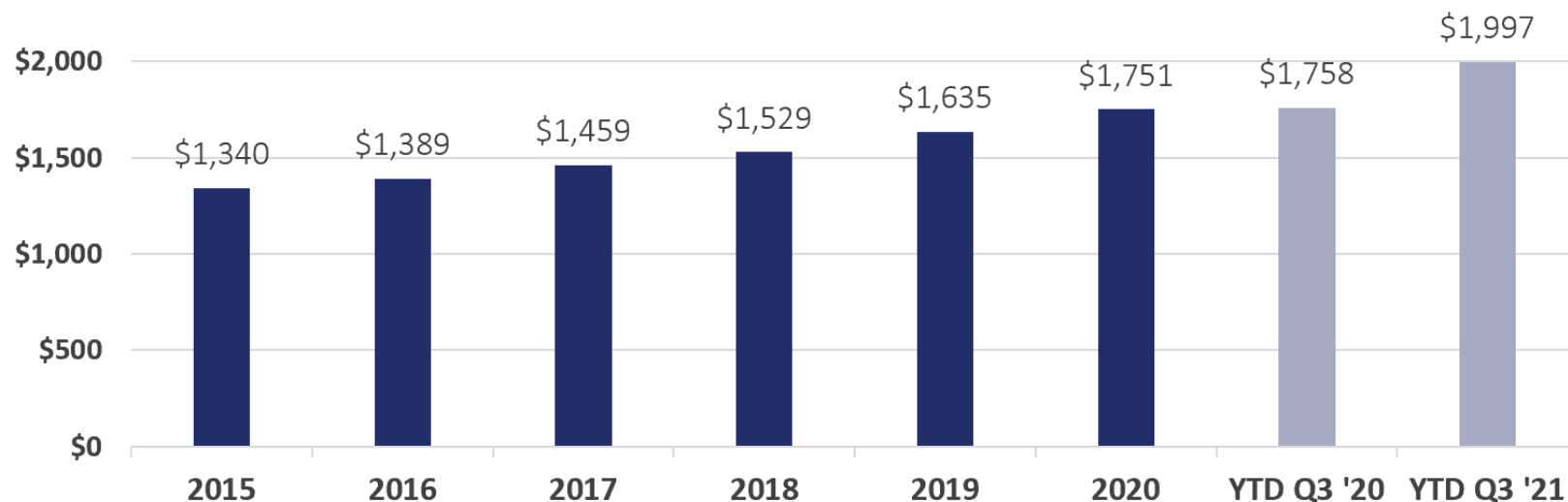


Source: SEC filings



AVERAGE F&I PVR HITTING ALL-TIME HIGHS

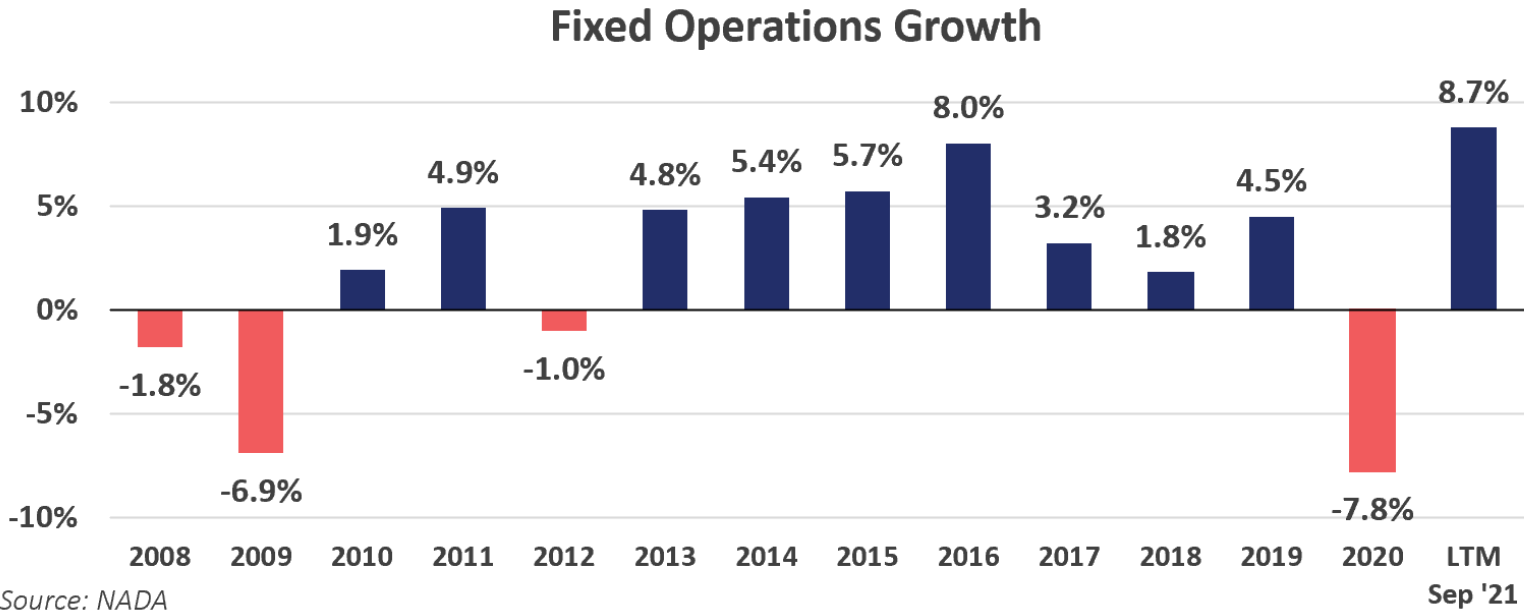
Public Company F&I Per Unit Retailed
(Weighted Average Same Store Performance - in Current Dollars)



Source: SEC filings

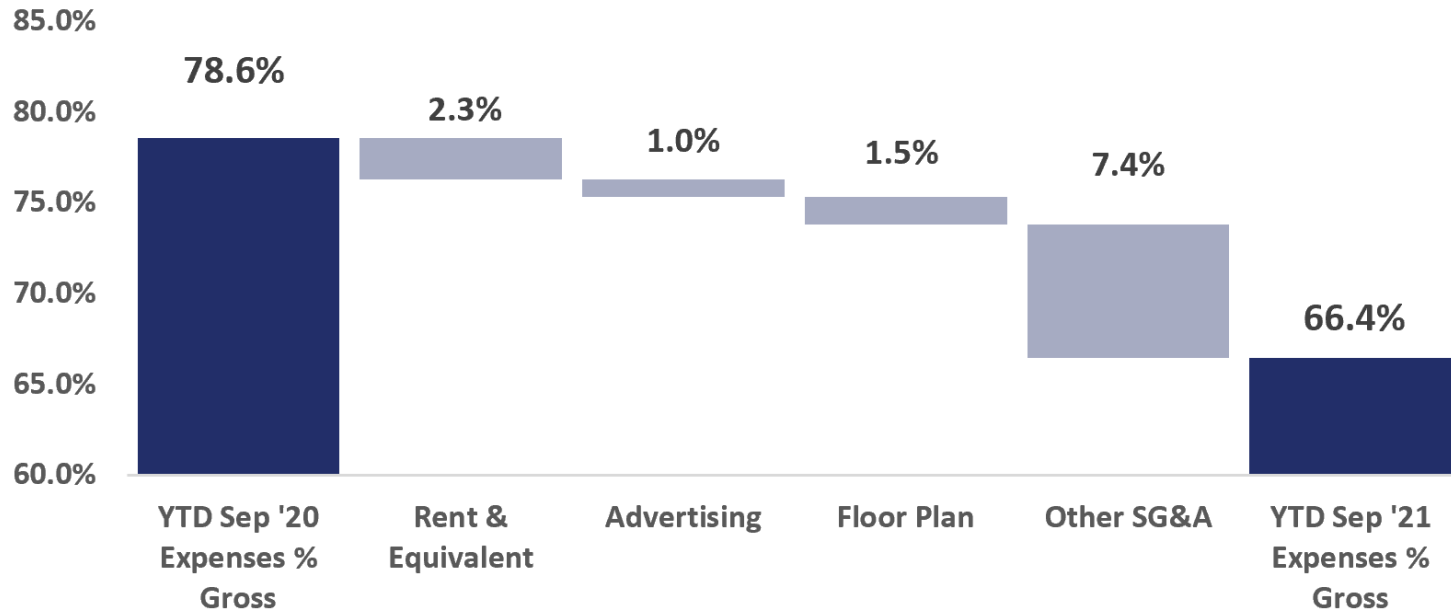


FIXED OPERATIONS HAVE RECOVERED BUT SOME DEALERS ARE CONCERNED FOR THE FUTURE



EXPENSES ARE DOWN

Change In Expenses YTD Sep '20/YTD Sep '21

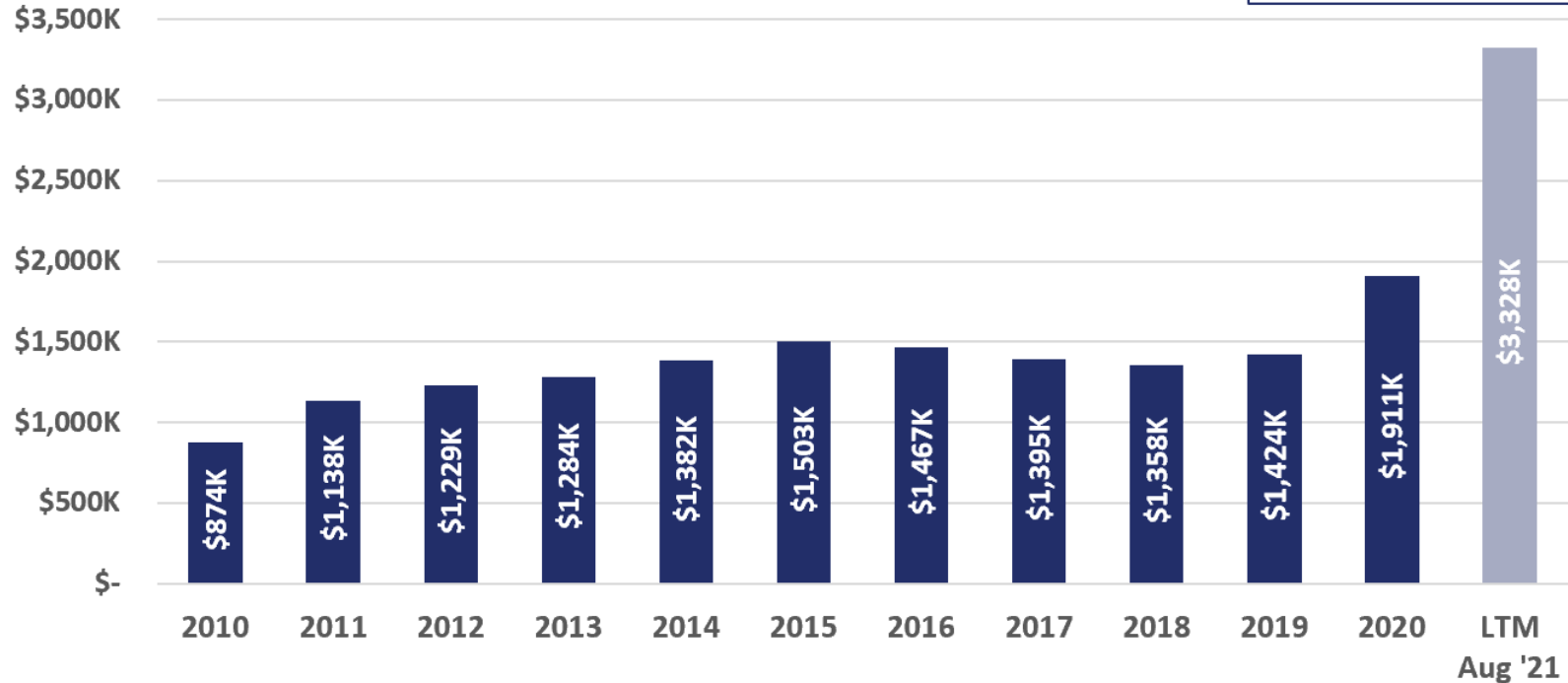


Source: NADA & Haig Partners



DEALERSHIP PROFITS ARE SOARING

NADA Average Private Dealership Earnings



Source: NADA & Haig Partners

Note: An estimated \$200K of PPP money has been removed from 2020 profits, and an estimated \$170K has been removed from YTD Aug 2021 profits.



Polling Question #2 – Do you think that dealerships will be more profitable post-pandemic than they were pre-pandemic?

- A) No
- B) Yes, by 5%
- C) Yes, by 10%
- D) Yes, by 20% or more

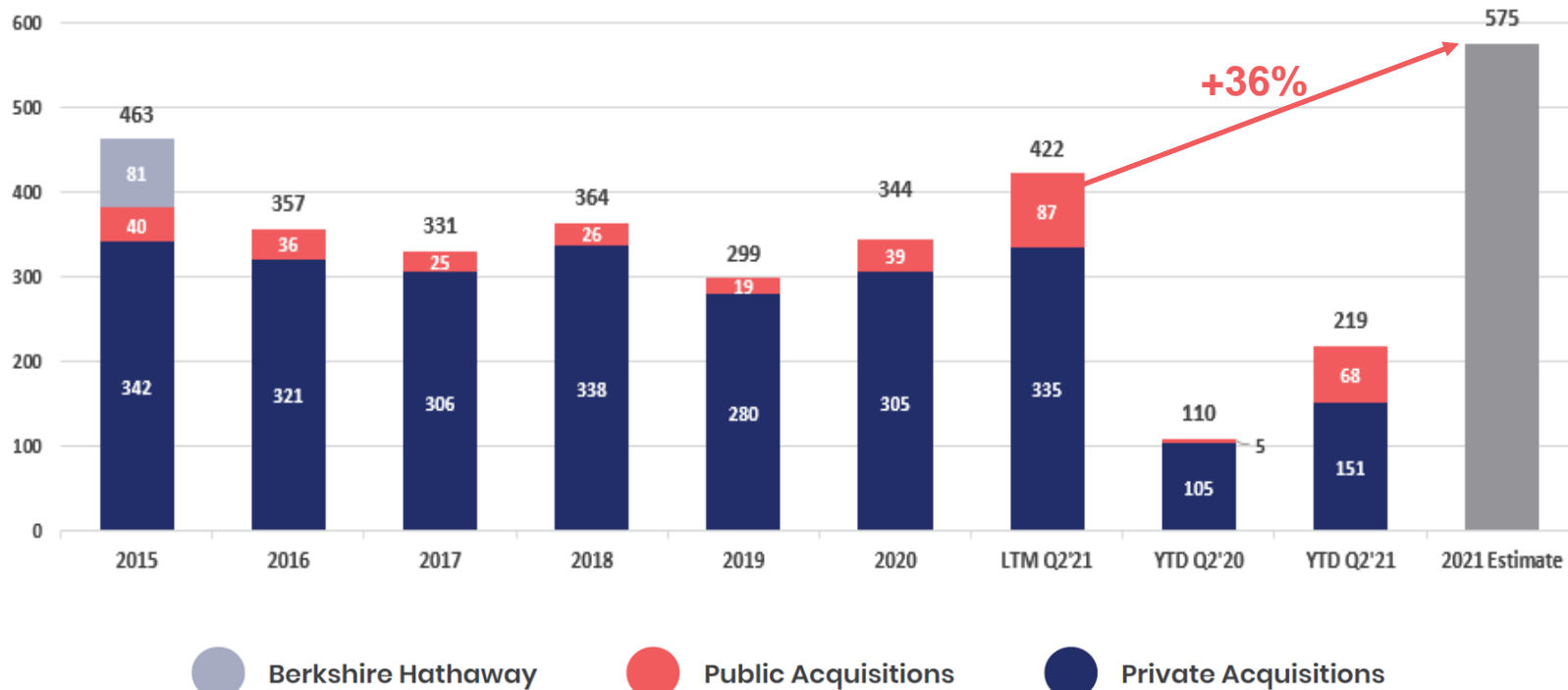


C U R R E N T B U Y - S E L L
C O N D I T I O N S



ACQUISITION APPETITE IS AT RECORD LEVELS

US DEALERSHIPS BOUGHT/SOLD



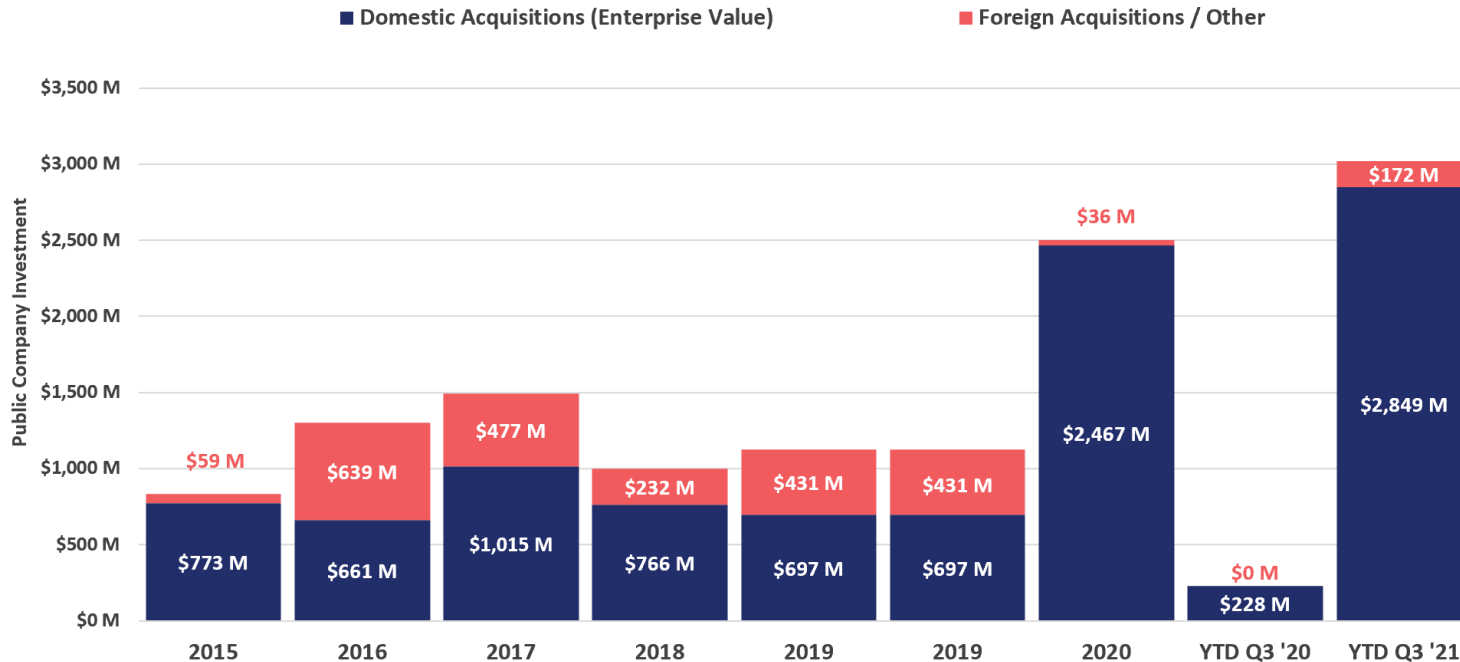
Source: Automotive News, Banks Report, & Haig Partners



PUBLIC COMPANY SPENDING WILL EXCEED \$8B!

- Announced deals include Asbury Automotive Group's planned purchase of Larry H. Miller Dealerships (\$3,2B), Group 1 Automotive's planned purchase of Prime Automotive (\$880M) and Sonic Automotive's planned purchase of RFJ Auto Partners (\$700M).
- AutoNation announced plans to purchase Priority 1 Automotive Group (purchase price TBA).

Public Company Acquisition Spending

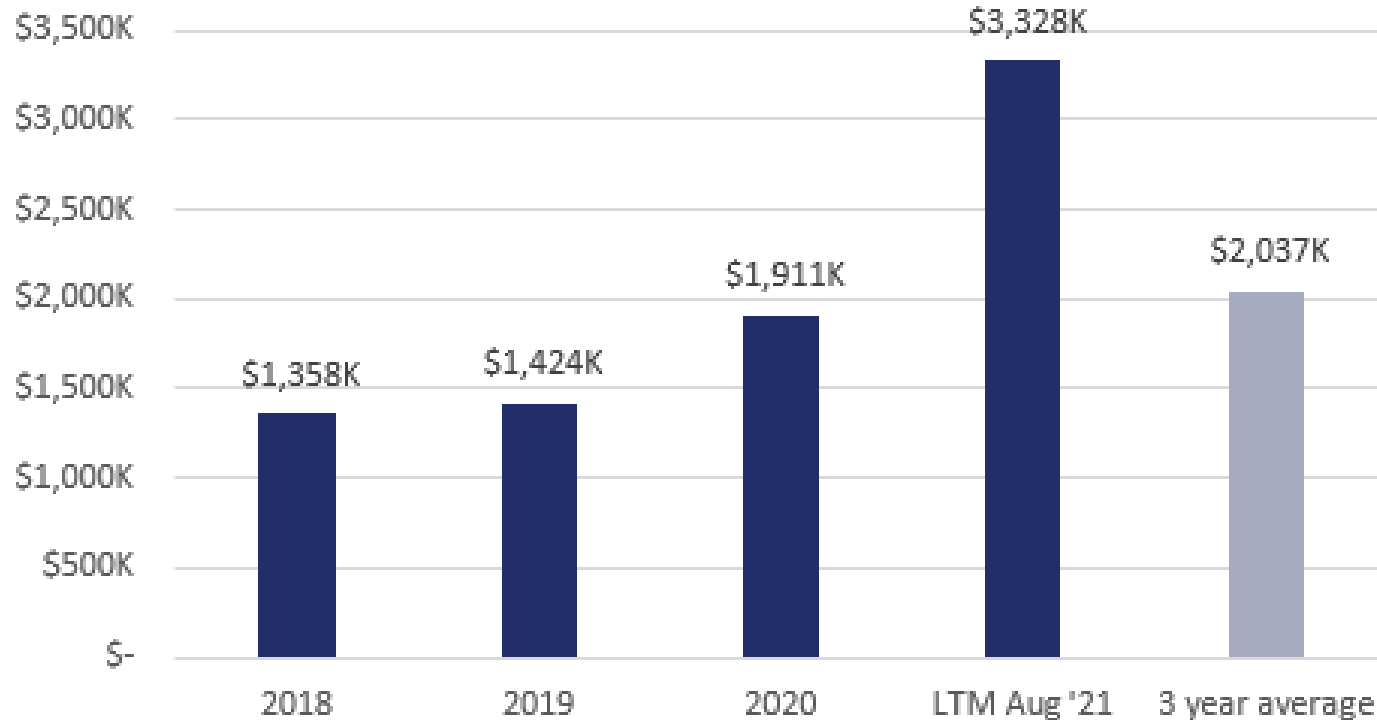


Source: SEC filings



HOW DO WE VALUE DEALERSHIPS TODAY?

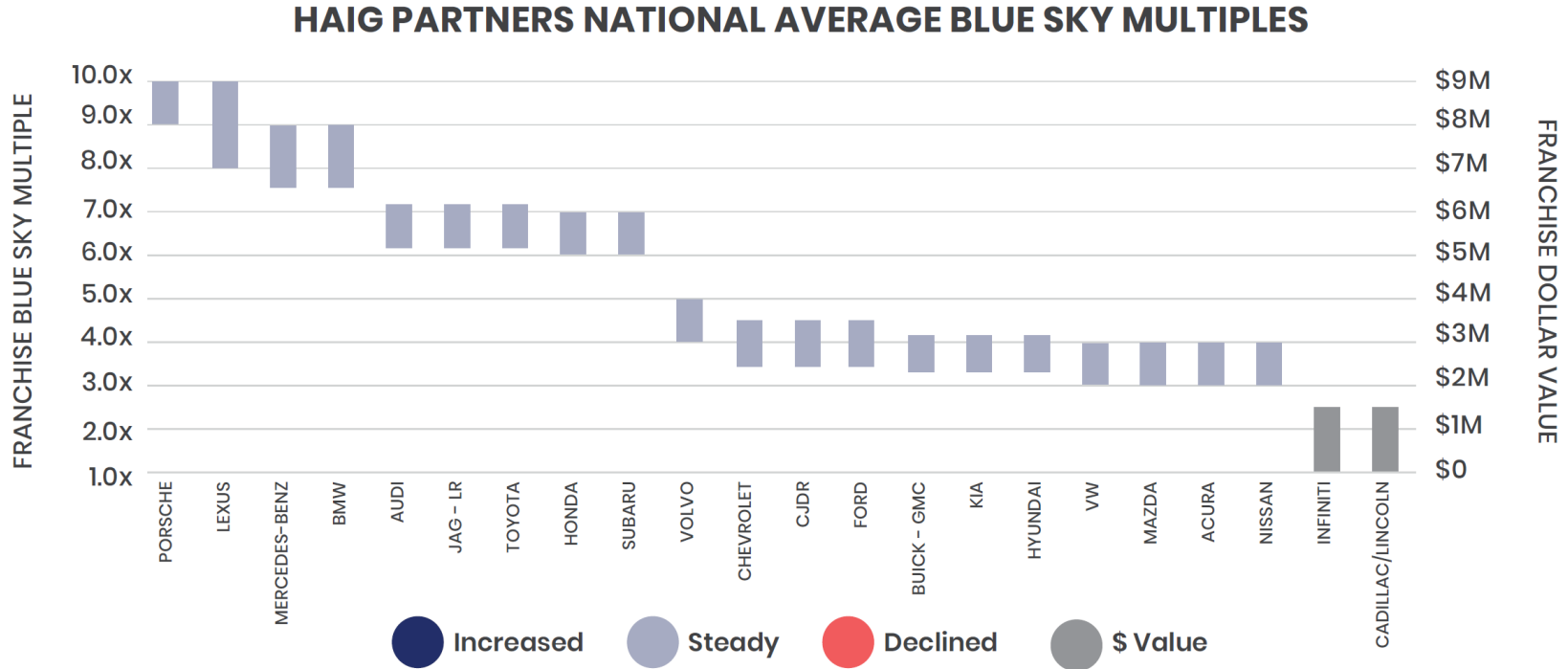
Average Adjusted Pre-Tax Profits for 2018-LTM Aug '21



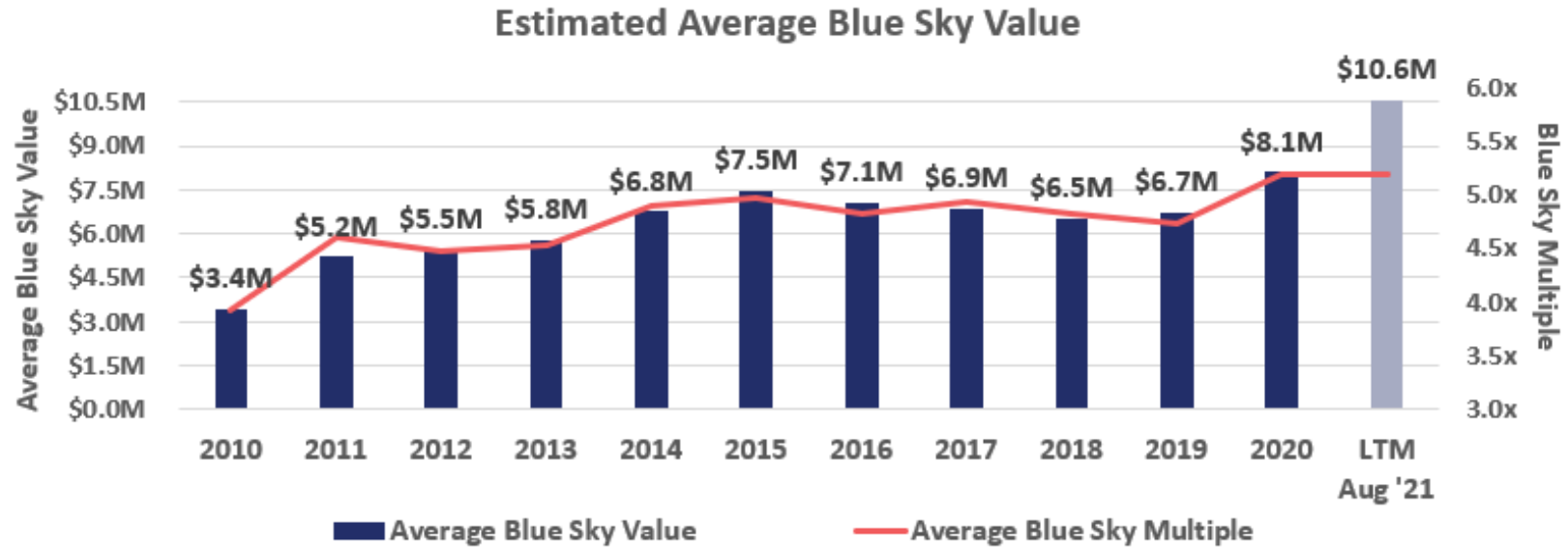
Source: NADA & Haig Partners



HAIG PARTNERS BLUE SKY MULTIPLES – Q2



BLUE SKY VALUES ARE AT RECORD-HIGH LEVELS



FACTORS IMPACTING MULTIPLES

Increases Multiple

- Low Tax Markets

- Low Growth Markets

Decreases Multiple



THANK YOU!

QUESTIONS?

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Polling Question #3 – Have you ever had a Quality of Earnings performed as part of your transaction?

- A) Yes
- B) No
- C) I haven't been involved in a transaction yet
- D) I'm not quite sure what a Quality of Earnings is



Quality of Earnings – Lessons Learned



Quality of Earnings

The report by itself does not provide a valuation, but it does play an important role in negotiating and structuring the deal. It can also help to reduce risk and hopefully reduce the likelihood of buyer's/seller's remorse.

- What is a Quality of Earnings?
- Why might you need a Quality of Earnings?



Pre-Tax Earnings vs. EBITDA

- **Pre-Tax Earnings**
 - Blue Sky calculated based on pre-tax earnings
 - Purchased assets and assumed liabilities
- **EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization**
 - Important for lenders and institutional investors



Types of Analysis Performed

- Unusual trends and variances
- Unusual accounting policies
- Changes in accounting methods, principals, policies, procedures, and estimates
- Impact of annual and periodic adjustments
- Unusual, nonrecurring, or non-operational income and expenses
- Product, product type, channel, customer, etc. sales and concentrations
- Cash proof of revenue
- Among many others



Common Issues

- Clean balance sheet is critical
 - Not just at year end, TTM will be analyzed
- Common items:
 - WIP
 - Old AR
 - Old warranty receivables
 - Obsolete parts
 - Pack and factory incentive reserves



Common Issues

- **Management Salary**
 - Who will continue post-transaction
 - Owner salary
 - CFO? Finance department?
 - Bonuses
- **Rent paid to owners**
 - Adjustments for 'market rent'
 - Straight-line rent expense
 - Properties recently added/disposed
 - Bifurcation of real estate entity vs operating entity
 - Improvements are often funded or recorded by operating entity
 - Temporary vehicle storage rent



Common Issues

- **Non-recurring and non-operational revenues and expenses**
 - Owner and family lifestyle/discretionary expenses
 - Unusual legal expenses
 - Transaction-related expenses
 - Transactions with related parties and intercompany transactions
 - One-time implementation costs
- **Other Items**
 - Packs, reserves, and allowances
 - Reinsurance income
 - Tax adjustments – LIFO and 263A Uniform Capitalization (UNICAP)
 - Period 13 adjustments and annual inventory write-downs
 - Shared service costs – centralized administration vs location specific administration



Polling Question #4 – What best describes your M&A plans this year?

- A) Purchasing at least one dealership this year
- B) Selling at least one dealership this year
- C) A little column A, a little column B
- D) This year was busy enough, I haven't had time to think about it



Buy/Sell Best Practices



Seller Best Practices

- Review and clean up schedules
 - Inventory
 - Customer deposits
 - Work in Process
- Have vehicle invoices and Manufacturer Certificates of Origin handy
- Review parts listing for aged parts to capitalize on any return credits
- Schedule a dedicated team
- Secure records



Buyer Best Practices

- Gain a good understanding of the target's DMS
 - What reports have to be run in real time?
- Know the manufacturer incentive programs
 - Are there discounts you should be getting on the inventory?
- Review fixed asset schedules ahead of time
 - Are major assets still on premises?
 - Are the assets based on GAAP value? Older asset might not yet be fully depreciated



Buyer Best Practices Continued

- Know what kind of taxes the seller is required to pay
- Even if certain liabilities are not part of the APA, understand what they are
 - PTO
 - Extended warranties
 - Lifetime oil changes
- Understand prorated items like utilities
- Have real estate to be purchased appraised



Accounting Considerations

- Transaction costs
 - Record in one place (for example, a prepaid account)
 - Understand which costs can be capitalized and which must be expensed
 - Tax and GAAP treatment can differ!
- Close books using the final schedule of purchased assets and assumed liabilities
 - Create a new vendor to run through any post-closing adjustments
- Value intangible assets
 - Franchise rights
 - Trade name





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