

DHG

DIXON HUGHES GOODMAN LLP

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An ACG Global Webinar
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*Private Equity Groups or Family Offices Considering
Automotive Retail Dealership Acquisitions*

Scott Linch | Managing Partner, DHG Private Equity & Transaction Advisory



- Leads dedicated professionals across multiple service lines to provide private equity investors and portfolio companies a full array of services.
- More than 17 years of experience assisting DHG in navigating complicated transactions for corporate buyers and private equity groups
- Middle market transaction focus
- Extensive experience conducting buy-side and sell-side due diligence services for clients in a variety of industries.



- Oversees group spanning 1,500+ rooftops.
- 2015: Chair of the National Auto Dealer Conference for the American Institute of Certified Public Accountants (AICPA)
- 2014: Began term on the AICPA Auto Dealer Conference Committee
- 2004: Completed three year term as member of the AICPA Business Valuation Committee
- 2004: Chair of National Business Valuation Conference for the AICPA
- Writes and speaks extensively about relevant and emerging trends within the industry
- Since 1993, focused on assurance and valuation matters. Experience includes work in the capital investment area and the valuation space.

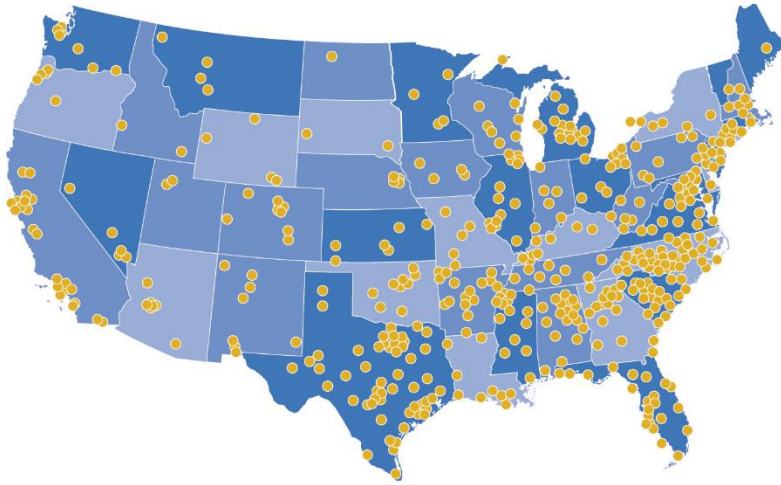
DHG Firm Profile

- 1800+ People
- 230+ Partners and Principals
- Largest firm headquartered in the Southern US
- 17th largest in the US
- ~50 SEC/Public audit clients
- Serving Clients Nationwide



One Firm = Strategic Collaboration

DHG Dealerships



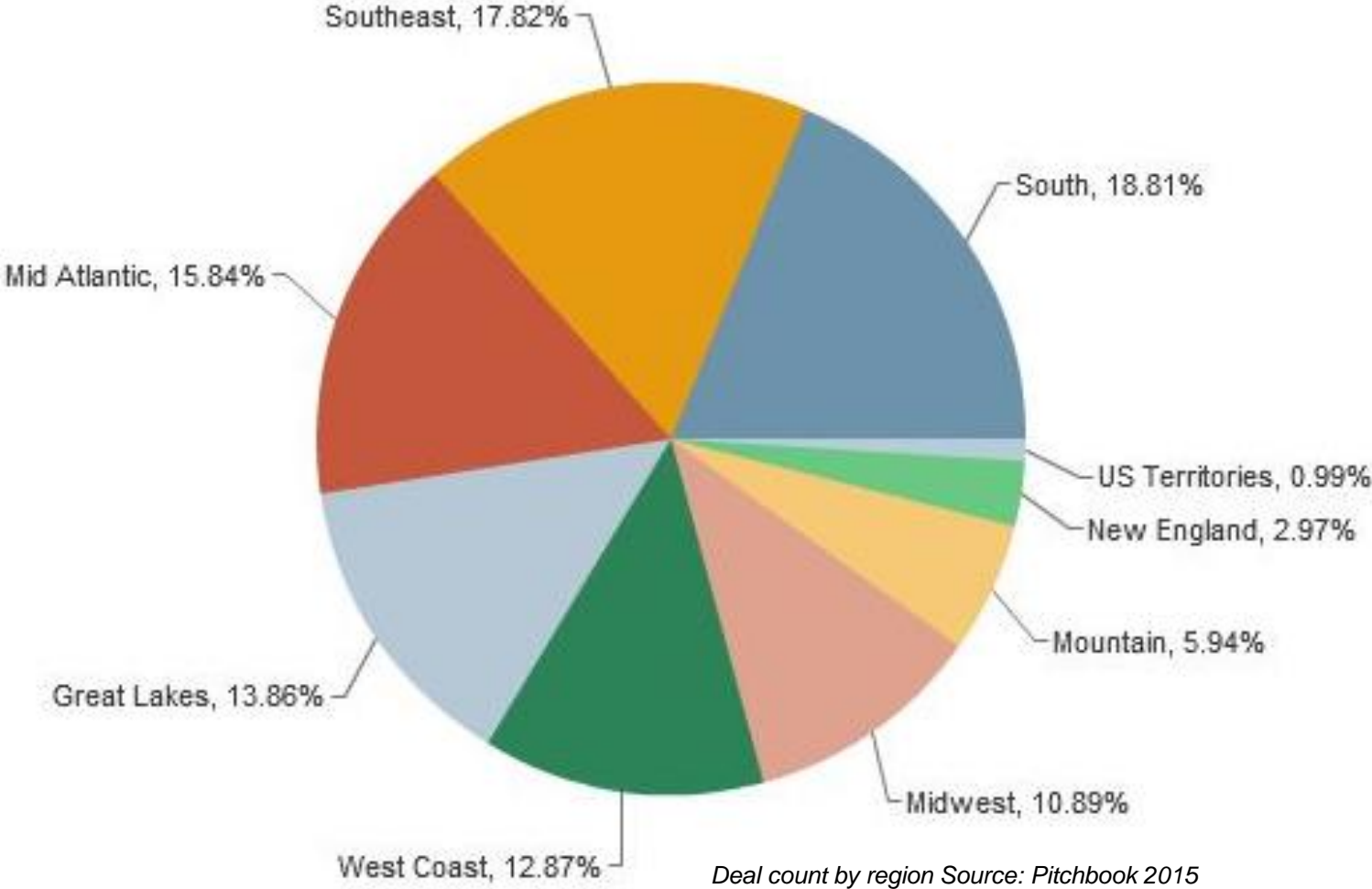
- 1,500+ Rooftops Served Nationwide
- 120+ Dealerships Professionals
- 20+ Dedicated Dealership Partners
- 6 of the Top 10 Dealership Groups are DHG Clients

DHG Private Equity



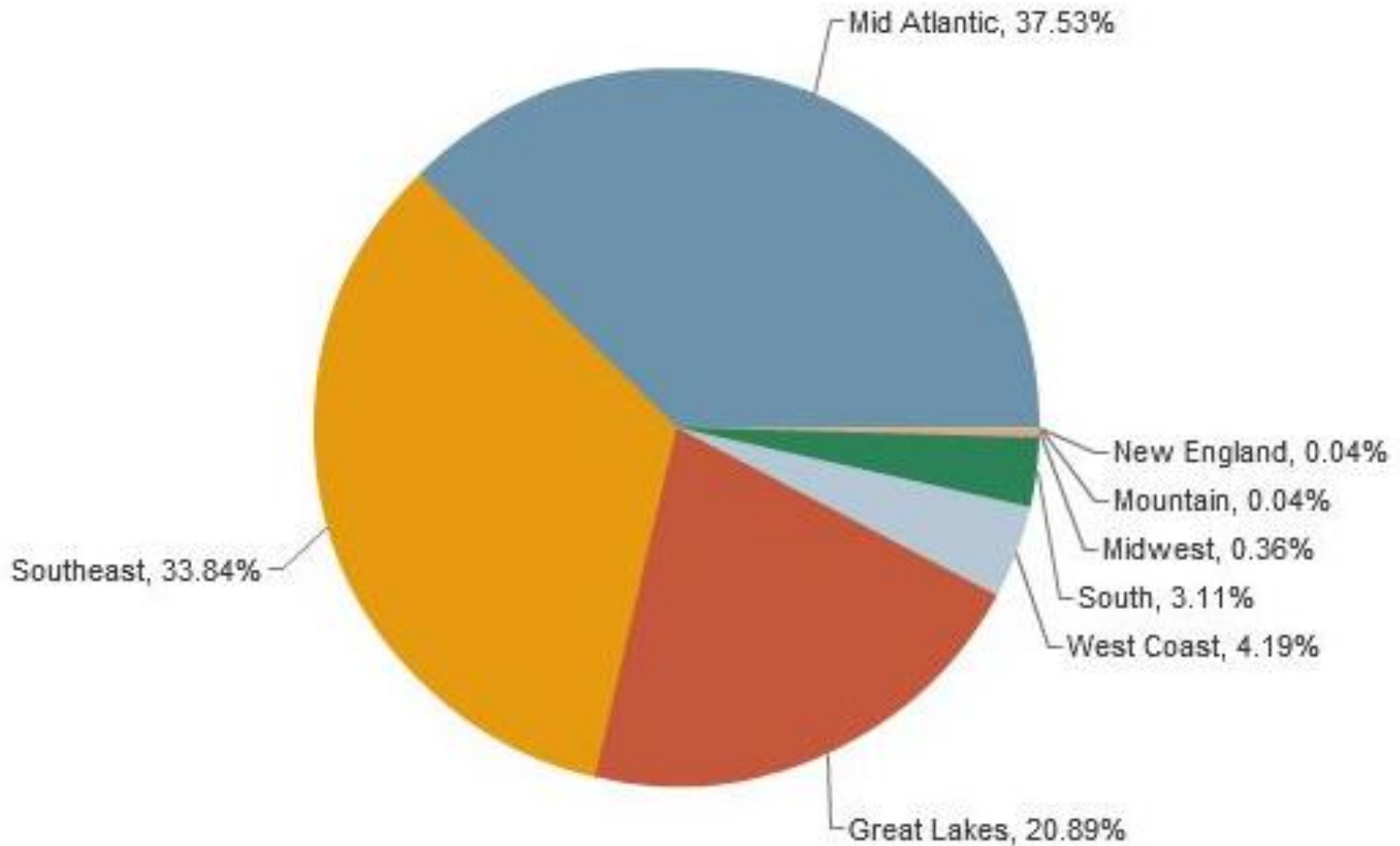
- Serving Private Equity, Family Office and Investors Nationwide
- Middle Market Focus
- Fund Services; Transaction Advisory Services; Portfolio Company Services; Exit Strategy Services

Automotive Retail Snapshot – Deal Count By Region



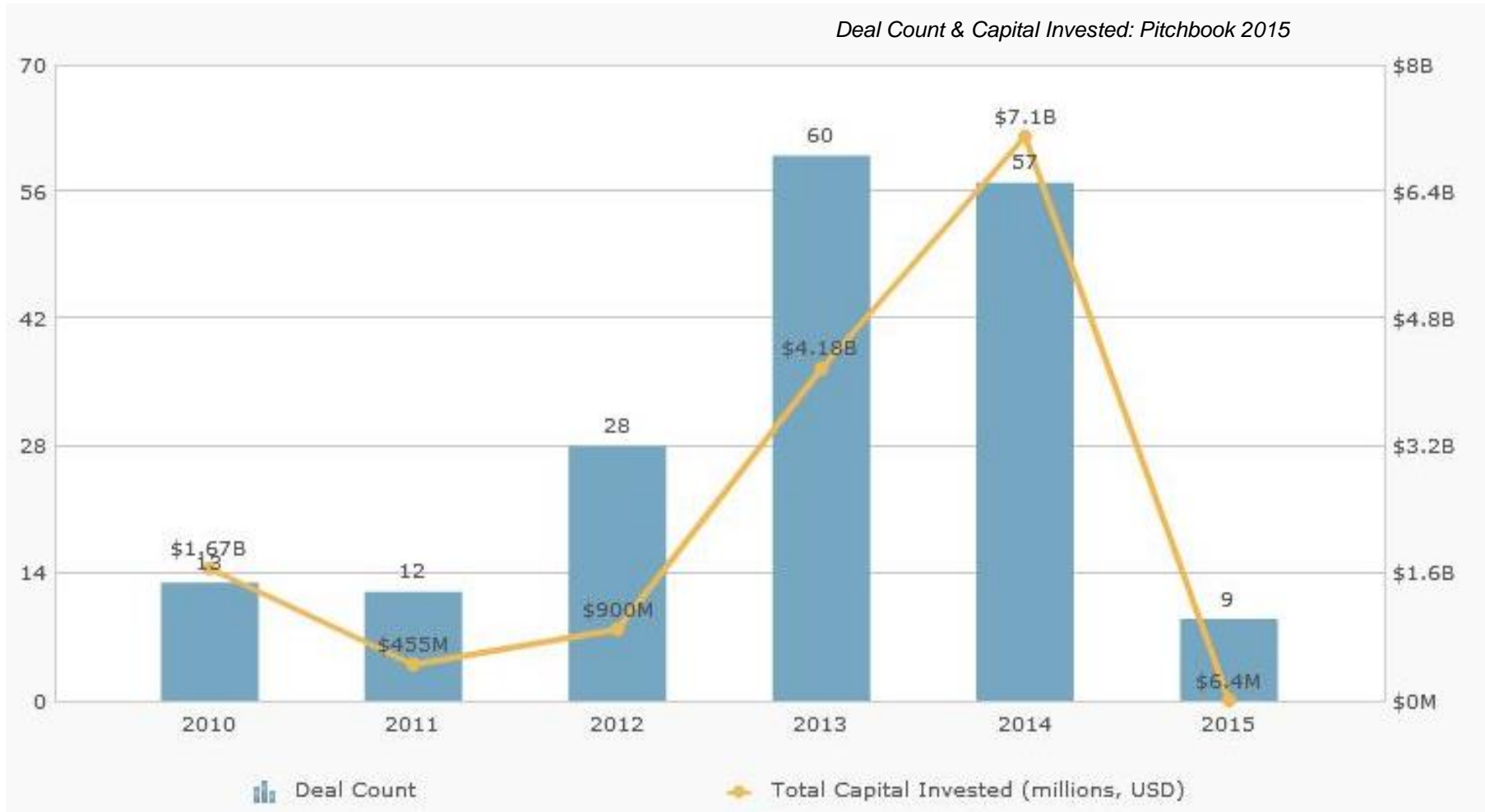
Deal count by region Source: Pitchbook 2015

Automotive Retail Snapshot – Capital by Region



Capital Invested by US Regions Source: Pitchbook 2015

Automotive Retail Snapshot – Deal Count & Capital



Automotive Retail Background



- Automotive retail industry – a snapshot
 - Automotive 2nd or 3rd largest “business” in U.S.
 - 90%+ owned privately (over 15,000 dealerships)
 - Often family owned and 2 or 3 generations into ownership
 - Highly regulated
- Succession – dealers and manufacturers are paying attention
- Dealership earnings and price tags arguably both at all-time highs
- Private equity / family office (PEFOs) attracted by historical ROIs

An Increase in Interest

- Last two years – more mainstream private equity/family office investor entry to the industry
 - Almost none until almost 5 years ago
 - Berkshire Hathaway – Van Tuyl
 - 2015 NADA – George Soros
 - Many others
- Bottom line – deals are being made
 - Dealers have more options to execute exit strategy
 - Largest volume of deals in years, even with pricing
 - Increase in Right of First Refusals



Polling Question #1

In the next year, will the pace of dealerships buy/sells:

- A. Increase,
- B. Stay about the same,
- C. Decrease, or
- D. Dumb question

Challenges Entering the Dealership Space



- Manufacturer relationships and approval
 - Protection of brand
 - Longevity of investment
 - Corporate structure and applications
- Partnering with the right dealership executive
 - Looking for those that have:
 - Experience in successfully operating multi-store, growing, possible M&A
 - Market effectiveness, CSI/SSI metrics, team builders

Challenges Entering the Dealership Space



- Understanding how deals are priced in the dealership world
 - Shift in methods and terminology
 - Franchise value concepts
 - Due diligence issue
- Understanding how this industry and successful dealerships operate
 - Wholesale, retail, service, manufacturing, insurance, financial activity
 - Where does the dealer really make money
 - Business can turn quickly in “average” times
 - Industry specialists

Challenges Entering the Dealership Space



- Getting dealership to understand the PEFO
 - Policies, procedures, systems, reporting requirements
 - Changes in capital structures
 - Earnings and cash needs

- Obtaining desired synergies

- Working with the manufacturer on product, allocation, facilities, and more
- Centralization of functions, also while exploring and expanding
- The pace of daily activity

Polling Question #2

With the growing emergence of PEFOs in this space and activity by the public retailers and large private groups, in the next year will the multiples paid for dealerships:

- A. Increase,
- B. Stay about the same, or
- C. Decrease?
- D. Who Knows?

Dealer Mindset

- Selling
 - Selling out completely or just partially to remain, at least for a while
 - Rules of engagement after closing
 - Consider all the perks and jobs – the sale is not just about value, it's also about family member jobs, perks, demos, health insurance, 20 Group trips, etc.
- Negotiation mindset
 - Selling cars vs. selling a business
 - “Working it like a car deal”
 - Negotiate everything

The Dealer Should.....

- Identify key relationships with manufacturers
 - Impact on approval that is required before a deal can close
 - The story to be told (ex. succession, stay on board, etc.)
 - Facilities

- Get financial documents in order



- Clean, crisp, polished financials desired
- Add backs identified and supported, other corroborating info to support price, sales, volume, margins, expenses

Considerations of the Deal

- The document, due diligence, and closing
 - Even on asset deals, lots of crumbs to be gained/lost
 - Parts, fixed assets, used vehicle, deal jackets, and many more
 - Process, systems, relationships, vendors and more (DMS, CRM, paint booth and supplies, uniforms for tech, etc.)
 - Many places to misstep
 - Get some industry help



Polling Question #3

Driverless vehicles will impact the automobile dealership industry in which way:

- A. Enhance the business due to more people owning vehicles,
- B. Stay about the same, or
- C. Decrease the business due to ride sharing, efficiencies gained, etc.?

Polling Question #4

15 years from now Apple will have a significant influence on automotive retailing that could negatively impact franchised dealers?:

- A. True
- B. False

Strategize Accordingly



- Automotive retail industry foresight:
 - Continued consolidation and acquisition
 - Continued growth, though slowing
- Private equity and family office investors need the right strategy to:
 - Understand unique industry characteristics
 - Make more deals happen



Questions & Thank You



Tim York
Managing Partner
DHG Dealerships
tim.york@dhgllp.com
205.212.5301



Scott Linch
Managing Partner, DHG Private
Equity and Transaction Advisory
scott.linch@dhgllp.com
704.367.7053