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2012 ASA ADVANCED BUSINESS VALUATION CONFERENCE

Dealership Valuation Issues

Advanced Business Valuation Conference

American Society of Appraisers

October 8, 2012

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OUR TOPICS

- Buyers and motives
- Other valuation topic updates, including methods and blue sky issues.

THE BUYERS AND MOTIVES

- The last 15 years
- 2009
- Consolidation will continue
  - Public
  - Large privates

THE BUYERS AND MOTIVES

- Motives
  - Sales per store (per NADA)
    - 2012 = 785 (estimated)
    - 2011 = 719
    - 2010 = 656 on 11.6m
    - 2009 = 565 on 10.6m
    - 2008 = 662 on 13.3m
    - 2007 = 778 on 16.2m
    - 2006 = 781 on 16.5m

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THE BUYERS AND MOTIVES

- Motives (continued)
  - SAAR
    - 2012 = 14.0 – 14.4m (various estimates thru August 2012)
    - 2011 = 12.7m
    - 2010 = 11.6m
    - 2009 = 10.6m
    - 2008 = 13.3m
    - 2007 = 16.2m
    - 2006 = 16.5m
    - 2000 – 2005 = 15.0 – 17.0m
  - Pent up demand?

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THE BUYERS AND MOTIVES

- **Motives** (continued)
  - **They are profitable and producing cash**
    - **Industry profits are still rising**
      - **2012 = 2.5%** (per NADA through June)
      - **2011 = 2.3%**
      - **2010 = 2.1%**
      - **2009 = 1.5%**
      - **2008 = 1.0%**
      - **2007 = 1.5%**
      - **2006 = 1.5%**
      - **2005 = 1.6%**
      - **2004 = 1.7%**

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THE BUYERS AND MOTIVES

- **Motives** (continued)
  - **They have capital**
  - **They seemed to be ahead on expense controls**
  - **Performed better in the rough times; thus, they had more cash sooner**
  - **Generally exponential profit levels for size**

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THE BUYERS AND MOTIVES

- Impact on blue sky
  - Multiples have risen over last few years
  - The divide between franchises is growing again
  - Comparison to "the old days"
  - However, growing gap in 2012 on asking price and willingness to buy, especially among the publics
  - Recent months' anxiety on political and economic issues possibly creating larger gap

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THE BUYERS AND MOTIVES

- Who are they buying from?
  - The thrilled survivors
  - Succession problems
  - Some are tired of increasing regulatory, legal and OEM issues
  - Tax motivated sellers
  - Those avoiding facility image requirements, the pain of the improvements, and other real estate issues

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OTHER VALUATION ISSUES

- Methods
  - Profit multiple (various names for it)
  - DCF
  - Per unit retailed
  - Return on investment
  - Franchise valuation vs. goodwill (GAAP issues)

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OTHER VALUATION ISSUES

- Blue sky consideration
  - What profits to use?
  - Location (AOR) and facility status
  - Franchises (domestic vs. import), and OEM relationship, and trends
  - Impact of higher earnings (exponential?)
  - Reputation
  - Leadership and management
  - Synergies or hypothetical party situation

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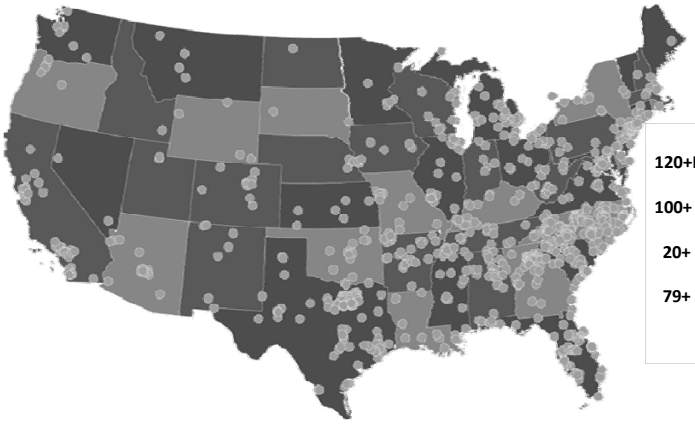

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