Kerrigan Advisors represented
EDMARK
superstore

In its sale to
KENDALL AUTO GROUP
January 17, 2017

“Kerrigan Advisors smoothly guided us to this very successful outcome, offering just the right combination of expertise, responsiveness and client service to shepherd the process to its optimal conclusion. We appreciated having Kerrigan Advisors by our side throughout the sale.”

Jim Chalfant, Owner of Edmark Superstore

Contact us for a confidential conversation to discuss your buy/sell needs.

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DEALERSHIP ACQUISITION ACTIVITY

2016 was an adjustment year for US auto retail. After enjoying a compounded average growth rate of 23% for seven years, auto sales growth slowed considerably last year. The fear of declining new vehicle sales, combined with profit margin pressure, pulled certain dealership buyers out of the market in 2016, particularly the publics. Similarly, some sellers who were considering a sale hesitated to go to market, worried they would no longer receive the valuations they expected.

Many of the concerns of 2016 were set off by the steep decline in the public dealership groups’ valuations at the beginning of the year. The Kerrigan Index dropped 25% in January 2016, triggered by the realization that industry sales and earnings growth would be more challenging going forward. This drop at the beginning of the year placed The Kerrigan Index down a significant 42% from its June 2015 high.

Chart I
The Kerrigan Auto Retail Index – January 2016
Source: SEC Filings and Kerrigan Advisors Analysis

The Kerrigan Index dropped 25% in January 2016, ending the month 42% off its June 2015 high. This decline was driven by Wall Street’s concern regarding an auto retail sales plateau and its effect on future earnings.

The markets concerns were not without merit, as can be seen in Chart II, on the following page. For the first time in eight years, the average dealership, per NADA, saw their annual earnings decline slightly in 2016. This decline, while minimal, was a wake-up call that auto retail’s high growth period was transitioning to a sales plateau.
Even with the new reality of plateauing sales, industry revenues in 2016 achieved another record year and earnings were more than double pre-recession averages. Interestingly, while the public auto retailers’ market valuations declined significantly in 2016, private dealership valuations remained high, a testament to auto retail’s fragmentation. The publics represent a small portion of the buy/sell market and less than 10% of industry sales. In contrast to prior periods, they had relatively minimal influence on buy/sell pricing last year, particularly since deep-pocketed private buyers were willing and able to meet seller’s pricing expectations. This was distinctly true as it related to large transactions previously considered the exclusive domain of public acquirers.

Going into 2017, Kerrigan Advisors expects a very active buy/sell market, with the potential to hit record levels. This expectation is driven by a recent rebound in sellers coming to market, happy to discover they did not miss their window to obtain strong values for their stores, as well as continued demand from private buyers for large acquisition opportunities. More of the public auto retailers are also looking to make US acquisitions again, in large part due to their improved valuations since the presidential election (The Kerrigan Index is up 21% since November 2016, see Chart III on the following page). There is no question the Trump administration’s pro-growth, anti-regulation, and tax reform platform has injected fresh life into auto retail and the buy/sell market. Kerrigan Advisors believes the fluctuations in today’s auto retail market will create attractive acquisition opportunities for exceptional operators and astute consolidators, many of whom are eager to put large amounts of capital to work.
With this backdrop, Kerrigan Advisors has identified the following four market trends, which our firm expects to meaningfully impact the buy/sell market in 2017 and beyond.

- Buyers’ return on investment parameters drive buy/sell activity
- Sellers’ pricing expectations rationalize with a plateauing market
- Buyers seek investments in higher margin auto retail business segments
- Dealers are increasingly open to equity and growth capital partners

The Blue Sky Report® is informed by Kerrigan Advisors experience representing our sell-side clients in today’s buy/sell market, as well as research conducted by our firm. Kerrigan Advisors is the most active, licensed sell-side advisor to auto dealers in the industry. In the last 20 months, Kerrigan Advisors has successfully advised on the sale of 43 dealerships. Our firm works exclusively for sellers of higher value dealerships and dealership groups. We do not take listings or maintain inventory, rather we develop a custom, professional sales approach for each client to maximize transaction proceeds. Our team oversees and manages our client’s sale process from beginning through a successful closing. In our view, dealerships are far too valuable to be sold any other way.

We hope you find the information presented in this quarter’s report helpful to your business. We look forward to answering any questions you may have regarding The Blue Sky Report® and The Kerrigan Index or Kerrigan Advisors’ sell-side or capital raising services for auto dealers and their families.
If you would like to read the rest of the report, please visit our website:

www.kerriganadvisors.com/theblueskyreport