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For Chrysler dealerships, blue sky is back

By Automotive News



Photo by Automotive News Last year, AutoNation paid \$8.8 million for goodwill as a part of its purchase of a Chrysler store in Spring, Texas.

After enduring Chrysler's bankruptcy, the uncertainty of its acquisition by **Fiat** and the great recession, **Chrysler Group LLC** dealers are finally receiving healthy offers to buy their stores.

"We did not want to sell. We had no plans to sell. It was the right buyer and they wanted where we were," said Doug Moreland, a longtime Chrysler dealer.

Moreland and his partner sold four Chrysler and two Fiat stores in Phoenix and Tucson, Ariz., this spring to the privately held Larry H. Miller Group of Cos.

Terms of the deal were undisclosed, but Moreland said: "They paid a very, very good price" – a price that included blue sky multiples.

Blue sky is the intangible value of a dealership, including goodwill and other intangibles such as customer lists and marketing materials. It is expressed as a multiple of adjusted pretax income.

Such sales are becoming more common. In December, **AutoNation**, the country's largest automotive retailer ranked by 2012 new-vehicle retail sales units, paid \$8.8 million for goodwill as part of its purchase of a large Chrysler store near Houston. The store, formerly called **Spring Chrysler-Jeep-Dodge-Ram**, is among the 10 largest Chrysler dealerships in the nation. AutoNation did not disclose the blue sky multiple or annual unit sales of the store.

Four years ago, Chrysler Group dealerships garnered little or no blue sky, dealership brokers say.

"I remember in 2008 and 2009 it was tough to give away a Chrysler store," said Tim Lamb, president of **Tim Lamb Group**, a dealership broker in Granville, Ohio. "The turnaround has been really significant. There's a big demand for Chrysler stores, and the values have gone up significantly."

Presidio Group, a San Francisco financial services company that brokers dealership sales, said Chrysler Group stores are garnering blue sky values of 3 to 4, on a par with **Ford Motor Co.**, **Nissan** brand and **General Motors** dealerships. **Mercedes-Benz** dealerships' blue sky values were among the

highest in Presidio's most recent report, attaining multiples of 5.5 to 7.5. By comparison, **Toyota-Scion** and the **Honda** brand's multiples were 5 to 6.

"If I'm a dealer that's interested in growth, I don't think I would sell a Chrysler dealership today," said Alan Haig, Presidio's head of automotive services. "But if I were 70 and thinking about exiting, I would think now is a great time to consider selling because I'm going to get the best price that I could have gotten for the last 20 years."

Millions more

Blue sky values can vary widely depending on such factors as location and sales performance, said Mark Johnson, president of **MD Johnson Inc.**, a Seattle buy-sell adviser for auto dealers.

But Johnson said a Chrysler-Jeep-Dodge-Ram store today selling 100 new and 75 used vehicles a month and netting a \$2 million annual profit could expect to receive a blue sky premium of \$5 million to \$7 million in a sale. That would be on top of the price for real estate, fixed assets and other business tangibles.

"In 2008, that dealer probably had no buyers for their store," Johnson said. "They were basically kind of an off-limits brand trying to determine what was going to happen to them long term."

Chrysler entered bankruptcy in April 2009, shed much of its debt and 789 dealerships, and emerged two months later under the control of Italian automaker **Fiat S.p.A.**

But now, AutoNation CEO Mike Jackson said in a recent call with stock analysts: "I think that the Detroit renaissance is for real. It's sustainable."

AutoNation said it now includes Chrysler Group marques among its core brands. The company has 26 Chrysler-Jeep-Dodge-Ram franchises, representing 3.8 percent of its total 2012 new-car sales, according to its SEC filings.

Moreland, who still owns all or part of 15 dealerships, including eight remaining Chrysler stores, bought back stores in Colorado from **Lithia Motors** in the spring of 2009 because, he said, he believed in Chrysler.

"We bled like everybody else," Moreland said. "But we knew it would turn around."

Peter Grady, Chrysler's vice president for network development and fleet, said the number of acquisitions of Chrysler dealerships hasn't spiked. But, he said: "There's a lot of conversation going on."

"Everybody's doing well. [Dealer] profits are at a place that nobody's seen in 15 years. The numbers being paid for stores are pretty big, but what that should be indicating to everybody is the level of profitability that these stores have."

'Getting phone calls'

The improved business conditions have prompted solicitations to dealerships not on the market.

"We're a 70-year, third-generation family business, exclusively Chrysler-Dodge-Jeep-Ram," said Tyler Schultz, co-owner of **Schultz Motors** in Milan.

"We're suffering from the same plight that a lot of other smaller dealers our size are suffering from, with our fixed costs similar to larger dealerships. Still, I'm getting phone calls."

The dealership, within a dozen miles of Chrysler's Dundee Engine plant, sells only 125 to 150 new cars a year in the city of fewer than 5,000 residents that include a heavy percentage of Ford retirees from a nearby parts plant.

Still, Schultz said, he has received four calls in the past year asking whether he and his business-partner brother would consider selling. So far, he says he's staying put.

Schultz said: "The future for Chrysler, apparently, looks good."

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