

'It's still a hot market' for buy-sell

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DeBoer: "Now is the right time."

Buyers and sellers sound bullish about the dealership buy-sell market for the rest of 2016, although for different reasons.

Buyers see more sellers coming to market -- especially groups vs. individual stores -- and money is still cheap.

Sellers, on the other hand, are encouraged by continued high valuations.

"It's still a hot market," said Bryan DeBoer, CEO of Lithia Motors Inc. "Some of the market conditions in the last few months have brought to light the fact that if you want to get out, now is the right time to do it."

The publicly held group made eight acquisitions last year and DeBoer said it will do more in 2016, even though the decline in share prices among the publics has put a crimp in merger and acquisition strategies.

DeBoer and other large dealers say sellers are still asking high prices, but that it's not preventing deals from being done.

"We're seeing a lot of the same activity as last year," said Dean Fitzpatrick, president of Larry H. Miller Dealerships. "We're active and looking to grow."

The Miller group did not make any acquisitions last year, but Fitzpatrick said it is "close to" doing some deals this year as prices approach levels that make "sense for us."

Penske Automotive Group Chairman Roger Penske said, "We're open for business. We're looking across a broad spectrum of opportunities: U.S. retail, commercial vehicles in the U.S. and Canada."

Western Europe also is attractive, he said. Penske expects to grow the company 3 to 4 percent each year organically and another 3 to 5 percent via acquisitions. "We don't see anything slowing that down," he said.

Buy-sell adviser Mark Johnson, president of MD Johnson Inc. in Seattle, said dealership earnings have "flattened," prompting more sellers to exit while valuations are high.

Adviser George Chaconas, whose company, Performance Brokerage Services, is on course to have a record year, said an aging dealer body is contributing to the activity.

"We're starting to see more dealers exiting and that will continue," Chaconas said. "A lot of the children of dealers don't want to work as hard as their parents did."

Succession issues also are bringing sellers to market, said Tim York, managing partner of the dealerships practice at accounting firm Dixon Hughes Goodman LLP.

Buy-sell adviser Alan Haig said the retail industry's growing complexity makes it harder to run a dealership. He said some who grew up in the business and saw what their parents went through aren't sure they want to do it themselves.

Nontraditional buyers such as family offices and private capital are also contributing to the mix.

Aaron Jacoby, managing partner at law firm Arent Fox in Los Angeles, said outside investors are less hesitant to make purchases now that big names such as Warren Buffett and George Soros have done so.

"The fear factor of the unknown seems to be no longer there due to the big headlines of these new entrants," he said.

Scott Earthy, managing partner of Fremont Private Holdings, which acquired a majority stake in Morrie's Auto Group in Minneapolis, is looking at adding to the group or make more dealership purchases outside the group.

Erin Kerrigan, managing director of buy-sell advisory firm Kerrigan Advisors in Irvine, Calif., expects more dealership groups vs. individual stores to come up for sale in 2016, a trend that began last year.

And when the deals involve groups rather than individual stores, Kerrigan said manufacturers appear less likely to exercise their right of first refusal.

In the first quarter, buy-sell adviser Todd Berko of Bel-Air Partners in Hopewell, N.J., said he's seeing more large groups come to market. That's because the pricing is strong and will likely remain strong throughout the year, he said.

"I call it market timers," said Berko. "They want to make sure they don't miss every last dollar now that they've seen the market has turned a bit."

Amy Wilson contributed to this report.

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