

Subject: Don't miss what the press is saying about UBS / Bel Air Partners Elite Dealer Summit IX



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**The AutoRetail Informer**  
**An Efficient Insights, LLC Newsletter**  
**May 12, 2006**  
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Highlights:

- ARS.COM Component Performance
- This morning: U.S. Equities Down, GMAC Going on the Offense, GM Upgraded, Toyota downgraded, Nissan in Forbes, Adesa Announces Organizational Realignment.
- P/E Multiple Snapshot
- Reuters Indicates Toyota North America to Gain More Autonomy, What Does it Mean to "Buy American?"
- Pep Boys Shows 1Q Earnings Improvement
- ***UBS/Bel Air Partners Elite Dealer Summit IX***
- ***Our Quick Thoughts about the theme: "Preparing for a Restructured Automotive Industry"***
- ***Quick Thoughts from Pendragon Lunch***

UBS / Bel Air Partners Elite Dealer Summit IX
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After having covered the auto industry since the late 1990s and the auto retailers since 2001, you start to notice a lot of new faces over the years, and begin to think of yourself as having become the "old dog" writing investment research about the space. It's not until you walk into a room full of people like Trevor Finn (CEO of Pendragon,) Dave Power (founder of JD Power and Associates,) Jack Fitzgerald (Fitzgerald Auto Malls,) Walter Czanecki (Penske Corp/UAG,) and far too many other industry leaders to mention, that you are reminded that there are a number of people out there that have forgotten more about the industry than you've ever learned. For that, we thank Bel Air Partners and UBS for putting on such a great conference

The title of the conference was "Preparing for a Restructured Automotive Industry." Overall, we heard two prevailing themes: (1) too much manufacturing capacity and (2) too many dealers. No one wanted to say GM or Ford would go bankrupt, but no one also seemed to see the current initiatives and future product line ups as being the panacea (although most felt GM was making more progress than Ford.) Everyone appropriately pointed out that the issues were structural, not cyclical. We were also encouraged to hear Bob King from the UAW talk about how the culture the United Auto Workers (UAW) union is changing as they focus on partnerships and an emphasis on bringing value to the equation. However, we were a bit concerned to hear about their pilot program in experimenting with bringing UAW membership to dealerships.

## **Our Quick Thoughts about the theme: “Preparing for a Restructured Automotive Industry”**

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We’re not “cheering” for the demise of GM or Ford, but we are on the side of the consumer (a place we think all shareholders should be,) which means productivity improvements and a streamlined distribution system are all necessary. This will likely come about from either the unions and dealers allowing said rationalization, or economics dictating the change. While all of the industry experts and panelists focused on many issues like new product, automaker management, production capacity, and the dealer base, we were surprised to hear only one speaker, Jack Fitzgerald, discuss what’s most important: the customer. In fact, he even has done studies that shows a correlation between consumer reports (he referred to as the consumer union) and market share trends. Therefore he focuses on the vehicles that are scoring best in consumer reports, which at times the automakers do not like (particularly if it is their brand/vehicle being de-emphasized.) Yet, we think this is exactly where the market is headed, as multi franchise dealer groups (it doesn’t necessarily have to be an auto mall) are able to emphasize certain brands/vehicles when the products are popular and de-emphasize other brands/vehicles when the product line up is stale.

While the automakers appear to be fighting dealers that do this, we think they are shooting themselves in the foot as they find themselves with “less shelf space” (i.e. lower investment) coming from the stronger, more liquid, and usually more efficient players. This leaves the automakers’ stores/brands in the hands of less efficient competitors that have less capital to invest in the business. To wit, UnitedAuto Group is 90% foreign/luxury. Hopefully the restructuring efforts at the automakers recognize the importance of partnering with the more efficient players. Otherwise we worry the automakers woes will be compounded ten years from now as they find their distribution base left with the “Mom and Pops” while foreign competitors are partnered with the “Best Buys”, “Home Depots”, and Nordstrom’s of the industry.

Quick Thoughts from Pendragon Lunch

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We’ve often commented that the dealer groups in the United Kingdom were ahead of the large dealer groups in the United States. After hearing Trevor Finn, CEO of the United Kingdom’s largest dealer group Pendragon, at lunch yesterday we are even more convinced that this is the case. The economies of scale and efficiencies he discussed were impressive, to say the least. For example, they have their own dealer management system (DMS,) and they actually sell/license it to smaller competitors. Pendragon also has a call center that handles 8 – 9 million inbound calls (for all of the company’s stores) and 6 – 7 million outbound calls (including booking service center appointments.) The call center is something we have been encouraging management teams in the United States to consider ever since we saw UnitedAuto Group’s center with the Sytner Group (based in the U.K.) Management teams will refute back, saying local market conditions dictate local solutions. But how much power do the local players really have anyway with zone managers pushing more inventory on the General Manager than needed, and automakers thinking their store layout/design understands the consumer wants/needs better than the retailer? We continue to believe centralization empowers the managers to focus their efforts on personnel development and employees to focus on the customer. The administrative/merchandising aspects can be better handled at corporate.

The reason we think Pendragon (and even UnitedAuto Group’s Sytner Group) are ahead of dealers in the U.S. in this endeavor, is simply that they’ve been consolidating and centralizing operations for a longer period of time. Remember, most public dealers in the

U.S. haven't been on the market for even 10 years, while Pendragon did its IPO in 1989. Earnings since 1989 have grown from 5 pence a share to over 30 last year. Many investors pointed out Block Exemption laws (that essentially broke down the franchise protections) were why the company has seen such a surge in their earnings and stock price since 2003. However, efficient players tend to prevail as structural shifts occur, and given what's going on in the U.S. (remember "the problems are structural not cyclical") we tend to think some "event" similar to the block exemptions could occur in the U.S. as well. We don't know if that is one of the major automakers seeking chapter 11 bankruptcy protection, the UAW allowing for a more rational capacity (making the automakers less dependent on the "divide and stuff" inventory strategy,) or even the NADA going to the automakers and developing a distribution streamlining strategy, but something needs to give. In our opinion, the present environment needs to change, and the push toward a more efficient, streamlined distribution system is on.

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