

Automobile



SHELDON SANDLER WHEELS AND DEALS IN DEALERSHIPS.

WANT TO SELL YOUR CAR DEALERSHIP? WANT TO BUY ONE? You could do worse than to call Sheldon Sandler at Bel Air Partners in Skillman, New Jersey.

Sandler's firm has done almost \$5 billion in transactions for dealers over the last ten years, helping to put together many of the biggest automotive retail groups in the country. But he was a Wall Street CPA—whose closest contact with the car business was his *AUTOMOBILE MAGAZINE* subscription—when a Texas car dealer rolled into his office in 1995, wanting to do an initial public offering (IPO) for a dealership group. "Nobody on Wall Street wanted to talk to him," recalls Sandler, a longtime New Jersey resident. "They weren't car people—they didn't care about the product. They all lived in the city.

"I loved cars. And I understood that the world was inevitably heading toward larger dealer groups and using public money to buy dealerships. We found that buyers would pay a lot more when you

bundled several stores—and the cash streams they represented—together."

Today, big, publicly traded dealership groups constitute six percent of the market. They're divided among six majors: AutoNation, Asbury Automotive Group, Group 1 Automotive, Lithia Motors, Penske Automotive Group, and Sonic Automotive.

Large, privately held groups comprise the bulk of remaining dealerships, but Sandler thinks the current economic downturn has slowed the spread of huge dealer groups. However, car dealerships can still be fine investments.

"The appeal is that you get a high turnover of capital with a decent return, and it's relatively inexpensive to get into. When I say relatively, we still can be talking about millions of dollars. A top Toyota dealership could change hands for \$10 million. A Lexus store might be \$20 million. Lexus of Las Vegas sold recently for \$100 million. Or you can buy a struggling Ford dealership for \$500,000 or less, and hope for the best.

"When it works out right, your return can be disproportionately high, because you're not investing your own capital. You're floating it with loans based on your cash flow. You don't actually pay for inventory. The cars are financed [a.k.a. floor-planned], as is the real estate. The only real investments you make are variable costs, like employees. You can put your money in a bond and get two percent, or you can put it in a car dealership, where you can earn twenty or thirty percent if things go right."

Sandler thinks dealers don't often get the credit they deserve for knowing what the carmakers must do to succeed. "Look, they're the canaries in the coal mine. They're the ones who see the floor traffic. They're the ones who immediately know what the sales are; they can tell you where we're headed faster than anybody else. And there's a tremendous sea change going on. Everybody knows this, but the dealers feel it. They see, for example, that Toyota made a terrible bet on the Tundra. They'll tell you, 'Look at our inventory of Tundras.' Honestly, dealers are all obsessed with gas mileage nowadays. Because consumers are."

A key service Bel Air performs for its clients, both sellers and buyers, is assessing the value of the businesses in question. This, Sandler reports, is not just a function of

"Dealers are the canaries in the coal mine. They see where we're headed."

location, physical plant, and local demographics, but helping to analyze the underlying strength of the franchise itself. This is perhaps the part of Sandler's work that taps most deeply into his car savvy, because a working knowledge of what makes a car good or what's in a carmaker's pipeline helps him to understand where things are going.

We asked Sandler to give us his quick reactions to several brands in the Wall Street argot of buy, sell, and hold [see sidebar below]. But in truth, Sandler had something unexpected to say about many of them:

Aston Martin: "Blood in the streets. Vantage inventories are stacked up a mile high at every dealer."

Bentley: "I'm a believer. You don't need to sell a lot of cars when the [profit] margins are this fat."

BMW: "The 1-series? Way overpriced. The BMW X6? What the hell is that?"

Ford: "Sucking wind... I like the way the Flex looks a lot, but the dealers are worried the [mediocre] gas mileage could kill it. And where's the European Focus? That would have been a home run."

Infiniti: "They're not this and they're not that, but I'd take an Infiniti store. They make money."

Jaguar: "Defies gravity."

Land Rover: "I can't understand it, but some dealers make a lot of money."

Porsche: "Very hard to make money. There just aren't enough models or customers."

Saab: "Throw in the towel. You get virtually nothing for [a Saab store]."

And what about those much-feared Chinese brands? "They have a tremendous, insatiable demand in China for their own vehicles, but their cars are junk at the moment. Even so, do you think that Hyundai is going to give up its market to Chery? Do you think that Toyota is going to surrender to Brilliance? I don't think so. Is there a future for Chinese cars in America? Maybe, but not in my lifetime." — JAMIE KITMAN

Sheldon says:

BUY: Audi, Bentley, BMW, Cadillac, Honda, Mazda, Mercedes-Benz, Toyota

HOLD: Acura, Chevrolet, Ford, Infiniti, Kia, Land Rover, Nissan, Porsche, Rolls-Royce, Volkswagen, Volvo

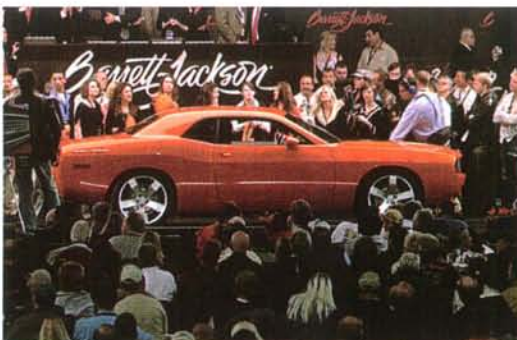
SELL: Aston Martin, Buick, Hummer, Jaguar, Pontiac, Saab

Going, Going, Gone—for a Good Cause

Buyers, raise high your paddles. Future collector cars increasingly are sold at auction, with their premium prices benefiting charity.

▼ Dodge Challenger SRT8

LIST PRICE: \$41,985 • **SOLD FOR:** \$400,000 (Barrett-Jackson, Scottsdale, 2008) • **PROCEEDS BENEFIT:** notMYkid • **WHAT'S SO SPECIAL?** First production Challenger SRT8, with optional sunroof, MyGig with navigation, and performance tires. Included a trip for two to the Dodge Challenger 500 NASCAR race (airfare, lodging, VIP race passes), a meet and greet with Kyle and Richard Petty, plus an extra hood signed by both Pettys.



▼ Dodge Challenger SRT8

LIST PRICE: \$41,985 • **SOLD FOR:** \$228,143.43 (eBay, 2008) • **PROCEEDS BENEFIT:** Victory Junction Gang Camp • **WHAT'S SO SPECIAL?** In honor of Richard Petty, the forty-third Challenger SRT8 to roll off the line is painted a unique B5 blue with the option of custom red and white side graphics with Petty's famous number 43. The winner also got the same NASCAR race package as the buyer of the first 2008 Challenger (above).

▼ Cadillac Escalade ESV (used)

RETAIL PRICE: \$25,000 (est.) • **SOLD FOR:** \$45,000 (Barrett-Jackson, Palm Beach, 2008) • **PROCEEDS BENEFIT:** Childrens Hospital L.A. • **WHAT'S SO SPECIAL?** An '03 model driven by Tony Soprano in the last three seasons of *The Sopranos*. Included a shirt worn by James Gandolfini on the show.



▼ Ford Shelby GT500KR

LIST PRICE: \$79,995 • **SOLD FOR:** \$550,000 (Barrett-Jackson, Scottsdale, 2008) • **PROCEEDS BENEFIT:** Juvenile Diabetes Research Foundation • **WHAT'S SO SPECIAL?** First production GT500KR; has a full glass roof with racing stripes etched into the glass. Came with a matching Fender Stratocaster guitar. Buyer has the opportunity to drive the car on the track at the Homestead, Florida, NASCAR race.