

PRIVATE EQUITY CAN WORK FOR DEALERS

February 10, 2008—Private equity can strengthen dealerships financially, dealer execs learned at AutoTeamAmerica's 14th annual CEO/CFO forum. Called "Navigating the Twists and Turns of Private Equity" and led by a panel of experts in the investment and banking industries, it was designed to aid top executives at major dealerships. "The [auto] industry is in rough shape right now," said Michael Bruynesteyn of Lehman Brothers. But things should begin to turn around by year end and into 2009, he predicted, as the Fed interest rate cuts begin to help auto sales.



Bruynesteyn also cited the labor deals the Detroit Three signed last year as a plus for the industry. But powertrain costs could go up considerably, he added, possibly by \$2,000 to 3,000 per vehicle. Of the Detroit Three, Chrysler is in the best shape, said Bruynesteyn. "I think they'll downsize and become more aggressive."

With the auto industry feeling the strain of a weak housing market and high gas prices, the panelists said now is a good time for dealerships to think about private equity. "There's absolutely a need for capital to come into the business," said Tom Butler, a managing director with investment banking firm Bel Air Partners, LLC. Another panelist, Ezra Mager, CEO of investment consulting firm EPM Advisory, LLC, said the auto industry's franchise laws are antiquated and the distribution system is broken. "Yours is the only business in America where there's no discount for volume," he said. Mager predicted that things will change when manufacturers realize they need more capital in their distribution systems.

Panelists said things private equity firms look for before investing in a business include a good management team; how large the business is; and growth profile. They also look for organized, "buttoned-up" businesses, Butler said. Likewise, surprises, such as undisclosed obligations, can cause a deal to fall apart.

The panelists stressed that dealers aren't selling their businesses when private equity firms invest. Instead, they become the managers and remain involved. "So it's not a way of cashing in," Mager said.