

# Automotive News

## Dealership groups' balance sheets are healthy

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Share prices of public dealership groups rose on the New York Stock Exchange even as GM and Ford stock slid, says investment banker Sheldon Sandler.

*Photo credit: UPI PHOTO/MONIKA GRAFF*

A \$10,000 investment in General Motors stock three years ago would have been worth less than \$7,000 by late January.

The same-sized stake in AutoNation Inc., the nation's largest public dealership group, would have soared to nearly \$20,000 in value. An investment in UnitedAuto Group Inc. would have more than tripled.

The comparison illustrates something that stock analysts have noted of late: The fate of shares in publicly traded dealership groups is not tied to that of U.S. automakers.

All public dealership group share prices have done well lately, even as GM and Ford Motor Co. stocks slid, says Sheldon Sandler, founder of Bel Air Partners, of Skillman, NJ. Sandler, an investment banker who had roles in some dealerships going public, credits investors with "an intellectual leap" for differentiating between automakers and retailers.

"Investors are saying, 'There is a difference,'" Sandler says. "They have seen the financial results. They have seen the strong balance sheets."

That's good news for the dealership groups and holders of their stocks. But some experts see obstacles to further share value gains by the public groups. Analysts also doubt that other private dealership groups are willing or able to go public. And another trend may be on the horizon: attempts by large private equity funds to acquire dealerships.

"Household names are looking at this, trying to make the right acquisitions," Sandler says. "But it's very difficult" given their criteria, he says.

Dealerships are being evaluated on their own merits as good cash-flowing businesses as opposed to quick-hit opportunities on Wall Street, Sandler says.

John Pico, vice president of Automotive Advisors of America Inc., agrees that the number of publicly traded groups isn't likely to grow, and it could decline if public groups merge or if one or more is taken private.

"What you see is what you're going to have," says Pico, a retired lawyer who became a Dallas-based consultant to dealers. "The glow has worn off."

In addition, he says, taking a company private automatically adds 2 percent to the gross profit margin simply because there are fewer legal requirements and disclosures.

Pico suggests that Capital Automotive Real Estate Investment Trust, of McLean, Va., which owns dealership properties in more than 30 states and leases them back to dealers, could be a precursor. It was taken private in a \$3.4 billion deal last year.

### **New obstacles**

Pico says public dealership groups have been encountering new obstacles to growth through acquisition. Sometimes it is resistance by manufacturers to the sale of certain franchises.

Sandler also sees fewer opportunities for growth through acquisition. He attributes that to a scarcity of high-quality stores going on the market.

"They want to buy more, but they are more selective. They have sharper pencils," Sandler says. "They still have to make acquisitions to add to earnings. The question then is how many good dealerships become available that they can buy."

None of that is meant to say that the car business is not a good business to be in, the experts say.

"Nothing can beat a good private dealer whose got his own money at stake, his own reputation at stake, his own ego at stake in his store," Sandler says.

But the public dealership groups still provide a way for an individual investor to get in. And since the groups have a mix of brands, investors are protected even when individual automakers struggle.

"They particularly like those who have over the past five years emphasized import dealerships," Sandler says. "Maybe 80 percent of (UnitedAuto Group's) business is that of imports."

### **Diversification pays off**

Of course, diversification is a widely accepted principle of investing. Its merit across the automobile industry was demonstrated in the latest Automotive News/PricewaterhouseCoopers Total Shareholder Return Index, released last month.

The index goes beyond changes in share prices and includes the value of stock splits and buybacks and reinvestment of cash dividends.

It shows, for example, that while there are some very sick individual automakers and suppliers, investors in global automotive portfolios still would do OK.

Among car companies globally, there was one-year return for investors of 9.4 percent. Parts makers worldwide did even better, returning 13.4 percent.

U.S. public retailers, a far smaller group of companies, returned 7.1 percent.

Given the cyclical nature of the business, might there even be hope for big rebounds by the troubled automakers?

Rob Hinchliffe, auto analyst with UBS Securities LLC in New York, is not optimistic.

He says the boom-bust cycles of the past were tied to changes in volume. But this time, GM and Ford are struggling during times of near-record industry sales.

Proving again, Sandler says, that for investors in dealerships, "On the down side, that big public (dealership groups are) protected against the exposure that those individual dealers might have."