

Automotive News

Dealer hits big time with boost from private equity

Donna Harris | July 2, 2007

When Carlos Hoz de Vila wanted to leave his native Bolivia and go to college in the United States, the teenager earned \$50,000 by handling complicated financial deals for banks.

After he later got a job in Washington, D.C., as a fledgling car salesman, Hoz de Vila sold 30 to 40 vehicles a month, routinely outperforming senior colleagues.

Now - after a two-decade career as a successful auto dealer - he wants to go big time. The 44-year-old entrepreneur has launched a five-year plan to build his network of eight dealerships in Pennsylvania and New Jersey into a 24-store, \$1.5 billion empire.

He's doing it with the aid of financing from a private equity fund, banks and real estate investment trusts. And he plans to maintain control of the venture.

In recent years, private equity groups have made deals to buy auto suppliers, auctions and finance companies, and even the Chrysler group. But they did not put money into franchised dealerships that can yield the fat profits that investors crave.

This deal could change everything. Industry analysts say the limited partnership could become a model for similar private equity deals.

Hoz de Vila (pronounced hoss-day-VIL'-la) says his new venture, a limited partnership called Condor Automotive Group, has overcome that reluctance. He already has raised an initial \$200 million with the help of Park Avenue Equity Partners, a private equity firm based in New York.

"I'm an entrepreneur," Hoz de Vila told Automotive News.



Dealer Carlos Hoz de Vila has embarked on a plan to turn his network of eight dealerships in Pennsylvania and New Jersey into a 24-store, \$1.5 billion empire.

The goals of private equity firms generally differ from those of dealers and car companies, says Sheldon Sandler, founder of Bel Air Partners, a Skillman, N.J., investment firm that brokers dealership sales.

Making it happen

Private equity groups typically want to take charge of a business, turn it around and sell it in five to seven years, Sandler says. Dealers aren't keen on ceding control of their businesses. And automakers seek long-term, hands-on investors in dealerships, Sandler says.

Last year, computer tycoon Michael Dell made a run at publicly held Asbury Automotive Group. The bid collapsed, sources familiar with the deal say, when Dell and his backers could not gain automaker approval for the purchase.

Park Avenue Equity Partners is putting capital into a 15-year fund designated for Condor, the company that Hoz de Vila set up. He calls the structure a SEAM, an acronym for special equity asset management.

"Traditionally, the investment horizon for a private equity fund is five to seven years," he says. "Ours is at least 15 years. And our fund has two optional two-year extensions, which makes it potentially a 19-year fund."

As general partner, Hoz de Vila - not Park Avenue - controls Condor's operations. He also is an investor in the company.

When the investment matures, Condor has several options. Among them, Park Avenue could sell its interest in the company to Hoz de Vila or another private equity firm. Or Condor could go public.

Hoz de Vila's track record and personal background may reassure investors.

As an auto dealer for two decades, Hoz de Vila has revived failing Detroit 3 franchises that others thought would never see black ink. Some of his dealerships achieved a 5 percent net return on sales within a year after he bought them - more than three times the profit margin of the typical franchised dealership.

Hoz de Vila also is the son-in-law of Sid DeBoer, CEO of Lithia Motors Inc., one of the nation's biggest public dealership groups.

'Move mountains'

"The fact that Sid is a great operator and a great CEO of an automotive retail public company definitely helped me to realize that I can also move mountains," Hoz de Vila says.

Unlike DeBoer, though, Hoz de Vila says he wants Condor to grow as a private company. "I started my own business long before I met my wife and Sid," he says.

Sandler of Bel Air Partners says that on six recent occasions, he tried unsuccessfully to negotiate deals between auto dealers and private equity groups. As a smaller group, Sandler reasons, Park Avenue may have been more willing to accept Hoz de Vila's demand that he control Condor's operations.

Injecting private equity capital in the auto retail market would help prop up dealership values, Sandler says. He forecasts a buyer's market for dealerships in the next few years because fewer potential owners can afford the most desirable properties.

Hoz de Vila tied Condor's creation to his acquisition this year of three Mercedes-Benz dealerships that have combined annual revenue of about \$250 million. His five other dealerships sell Toyota, Honda, Ford, Dodge, Chrysler and Hyundai vehicles.

A Mercedes-Benz USA spokeswoman confirms the company approved the Condor deal. She refused further comment.

Mark Johnson, a dealership consultant in Seattle, says Mercedes endorsed the agreement because Hoz de Vila maintains control of Condor's operations, "just like a straight bank loan."

Says Johnson: "The factory said that was the only way they could do the deals."