

# Automotive News

## Study: Public dealers perform better

Publics play up profits; privates play them down

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### Tale of the tape

Here's how public dealership groups compared with the average private dealership in financial performance in 2005.

	Public	private
Gross profit as % of sales	15.10%	13.30%
Pretax profit as % of sales	2.9%*	1.60%
Annual revenue growth	7.30%	-2.10%

\*Excluding debt other than floorplan and mortgage interest

Sources: Bel Air Partners, National Automobile Dealers Association

It's the auto industry's version of vinyl vs. CD, the great debate over who runs dealerships more profitably, large public groups or traditional car retailers.

The comparison may be like apples and oranges. But a new study by a respected auto investment firm says public groups do better at operating comparable dealerships - with caveats.

The six largest public dealership groups recorded an average pretax profit of 2.9 percent of revenue in 2005, says Bel Air Partners. The average private dealership's pretax profit last year was 1.6 percent, says the study, citing data from the National Automobile Dealers Association.

Large public groups also beat private retailers in revenue growth, gross profit margins and return on total investment, the study concludes.

"Private dealers often say they run stores better than the public guys do," says Todd Berko, a partner with Bel Air. "But the fact of the matter is the public guys do a pretty good job."

Berko concedes that comparisons of public and private dealerships are inexact. Public groups play up their income to impress investors, he says, while private dealerships tend to minimize income to reduce taxes.

Other analysts argue public groups should be compared with large, professionally managed private retailers. The average NADA dealership, they say, is a smaller, domestic-brand store.

At the same time, Berko says, public retailers carry more debt than do private dealerships and groups. They incur steep legal costs to comply with federal regulation of public companies, he notes. The Bel Air study takes these factors into account, Berko adds.

Bel Air Partners brokers deals for public and private dealerships. Investment banker Sheldon Sandler founded the Skillman, N.J., firm.

## 6 of the top 8

Public groups occupy six of the top eight spots on the Automotive News list of the top 100 U.S. dealership groups. They are, in descending order by sales of new vehicles, AutoNation Inc., UnitedAuto Group Inc., Sonic Automotive Inc., Group 1 Automotive Inc., Asbury Automotive Group and Lithia Motors Inc.

Berko says three factors boost results for public dealers:

1. They focus on high-margin businesses - service and parts, finance and insurance and used-vehicle sales. Public groups typically exert tight control over used-vehicle inventory and invest heavily in service bays and equipment, he says.

2. Public groups' dealerships tend to be high-volume stores that achieve economies of scale. The average public dealership sells 1,172 new units a year, Berko says, while the average private dealership sells 788 new vehicles annually.

3. Public groups are quick to shed poorly performing stores and add desirable franchises. Import-brand cars and trucks provide 65 percent of public dealerships' new-vehicle sales, compared with 44 percent at private dealerships, Berko says.

Lithia Motors CEO Sid DeBoer says more than 70 percent of private stores "underperform by our standards."

"Many lost money and bring the NADA average down to the 1.6 percent" figure for pretax profit, DeBoer told Automotive News.

### 'Apples to oranges'

Some industry consultants dispute the comparisons in the Bel Air study. "It's apples to oranges," says Kevin Cunningham, director of business development for NCM, a dealer consulting firm in Overland Park, Kan.

David Wilson is president of a privately owned group of 16 dealerships, mostly Toyota, Lexus and Honda stores. He says his group's net pretax profit is triple the NADA average.

David Wilson Automotive Group, of Orange, Calif., ranks No. 13 on this year's Automotive News list of largest retailers. It reported more than \$1.50 billion in revenues in 2005.

"We compare ourselves to public companies all the time," Wilson says. "Our profit before taxes is substantially more than several of the public companies, on a third of the sales."

Lithia's DeBoer acknowledges that many private dealership groups achieve superior financial results.

"You would have to compare the best-run private dealers to the publics," he says. "Then I think the publics are at the average."