

Automotive News

Utah dealer builds an empire

With investor's help, he aims to double revenues in 2 years

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Quiz for dealers: How can you coax Wall Street to turbocharge your company's growth without losing control?

Robert Garff, owner of what may be the nation's fastest growing dealership group — the \$1.4 billion Ken Garff Automotive Group, of Salt Lake City — thinks he has found the answer.

Within the next two years, Garff plans to double his company's revenues with the help of his deep-pocketed partner, Leucadia Financial Corp., of Salt Lake City.

Garff, 65, insists he is not pursuing growth for its own sake. "That's the ideology of a cancer cell," he says.

He says he wants to maintain management control so that his two sons and son-in-law can take over the family business. That's a key goal for Garff, who swept floors in his father's body shop when he was 13 years old.

Fast company

Facts about Ken Garff Automotive Group

Headquarters: Salt Lake City

CEO: Robert Garff

Annual unit sales: About 40,000, evenly divided between new and used vehicles

Number of new-vehicle dealerships: 40

Annual revenue: \$1.4 billion



Dealer Robert Garff wants to maintain management control so that his sons and son-in-law can take over the business.

Don't lose control

Here's how he's doing it.

Garff wants to buy dealerships — preferably in mid-sized markets in the West and Midwest — that sell at least 200 new and used vehicles a month. Target franchises include Toyota, Lexus, Honda, Chevrolet, Ford, Chrysler, Mercedes-Benz and BMW.

To raise money for acquisitions, Garff recruited Leucadia because one of the company's executives is a longtime acquaintance. Leucadia is a private subsidiary of a public holding company in New York.

Leucadia, a buyout firm, owns a majority stake in a limited-liability company that Garff created to buy dealerships. That company is separate from the operation that owns his 30 Utah dealerships.

Garff and his management team run all of the group's dealerships in Utah, plus the newly acquired stores throughout the West and Midwest. Leucadia is a passive investor.

"There are checks and balances," Garff explains. "There is an exit strategy if we have disagreements. It is not as if I am a minority shareholder without rights."

Leucadia would not comment last week on its partnership with Garff.

Despite his aggressive revenue targets, Garff says his business model prevents his company from taking on too much debt, tying up too much revenue in acquisitions or using capital from a private equity firm that might want control in exchange.

He believes other private groups will adopt a similar strategy to expand their operations.

"It's a trend that's coming as you get bigger and bigger dealerships," Garff says. "How many people can buy an operation in a big city that sells 3,000 to 4,000 cars a year and has plant, equipment and real estate worth \$70 million? Private parties don't have that kind of cash."

Family affair

The Garff group did not take part in this year's *Automotive News* survey of the top 125 U.S. dealership groups. But its unit sales suggest that it could rank among the 25 largest groups.

The dealership group is named for Garff's father, Ken, who founded it in 1932. Although the company is celebrating its 75th anniversary, its growth reached warp speed only recently.

When Ken Garff died 10 years ago, the group had 10 new-vehicle dealerships, all in Utah. Today, it has 40 stores. In just the past year, Garff Automotive has added nearly a third of its dealerships.

Robert Garff — working with his sons John, 39, and Matthew, 33, and a son-in-law, Richard Folkerson, 42 — also has stores in California, Texas, Nevada, Indiana and Iowa.

Garff says his company must continue to grow to achieve economies of scale and to provide opportunities for family members and employees. But he sets tough targets for return on investment.

Noting that his father was once the world's largest mobile home dealer, Garff says: "We have a track record of doing big things."

Tough competition

Last month, Mark Vukovich sold Dewey Ford in Ankeny, Iowa, to Garff Automotive for an undisclosed price. Garff now has four dealerships in the Des Moines market.

Vukovich, 52, says he had planned to get out of auto retailing in a few years. But Ford's declining U.S. market share accelerated his timetable.

"The future of the single-franchise owner in metropolitan areas is dim," Vukovich says. "Consolidators have huge economies of scale. It makes it hard for an individual dealer to compete."

Ford Motor Co. initially was reluctant to approve the deal because of Leucadia's majority stake in the operation, Vukovich says. In 2002, he says, Ford rejected the dealership's sale for a much higher price to publicly held Lithia Motors Inc.

But Vukovich says Garff paid him blue sky — the value of the dealership's intangible assets — of three times its net pretax earnings. Some Ford dealerships today fetch only the value of their real estate and improvements when they are sold, he says.

Vukovich also cites Garff's record of keeping the employees of the dealerships it buys and donating to local charities.

Sheldon Sandler, an investment banker who brokers dealership sales, says a well-funded private group such as Garff Automotive represents a "big opportunity" to dealers who want to sell their stores.

Often such dealerships are outside the preferred geographic footprint or brand mix of a public dealership group, Sandler notes. And automakers often restrict public groups' growth by limiting the number of franchises they can own, says Sandler, who runs Bel Air Partners in Skillman, N.J.

Growth path

Garff warns that his approach to financing acquisitions is not for a small dealer. "Unsophisticated people can be eaten alive," he says.

But that description doesn't fit Garff, who is a prominent public figure in Utah. He is a former Republican speaker of the state House of Representatives.

As chairman of the organizing committee for the 2002 Winter Olympics in Salt Lake City, Garff worked closely with GOP presidential candidate Mitt Romney, who was CEO of the games.

Other business ventures include the Utah Blaze, a professional arena football team that Garff owns. Last month, his company donated \$3 million to the University of Utah's business school.

Garff concedes that automakers may be reluctant to approve the transfer of franchises to partnerships that include large public corporations or private equity groups. Car companies prefer hands-on dealership owners, he says.

But in time, Garff says, factories will see the value of third-party investment in dealership purchases. "The factories want one person they can call who is in charge," he says. "In our company, that's me."