



PACE OF M&A

MAY 20, 2019

Colonnade Advisors LLC

Colonnade Advisors

Over **\$7.6** billion
in transaction volume

49

completed transactions

17

founder owned businesses sold

22

published industry whitepapers

2

partners on every deal

APC Integrated Services Group, Inc.

Automotive
Development Group

Capital Z

Preferred
Warranties

Mepco Insurance
Premium Finance

AutoAssure

Southfield
Capital

Endurance

Protect My Car

Preferred
Automobile
Credit Co.

Honor Finance

Tricolor Auto
Group

PayLink Payment
Plans, Inc

Omnisure

Brown & Brown

UDS, ADG, F&I Resources, O'Neil Financial Services, Agency Services, Preserve Extended Protection Plan

Vanguard

Centurion Automotive, Dealership Development

APCO

ADG

The Portfolio Group

Finance Concepts

IAS

Profit Portfolio & Dealer Consulting Group

SWDS

Evergreen Dealer & Insurance Services, Jet Management, United Insurance Group, Olympic Dealer Marketing

Confie Seguros

Cartel

NFP

Auto Group Services

WHAT IS MOTIVATING F&I ACQUISITIONS?

Increased distribution

Acquisitions lock in distribution channels, providing stability

Business line diversity

Market share expansion

Vertical integration

Brown & Brown

UDS, ADG, F&I Resources, O'Neil Financial Services, Agency Services Consolidated, Preserve Extended Protection Plan

Vanguard

Centurion Automotive, Dealership Development

Southfield Capital

APCO

ADG

OTPP

The Portfolio Group

Finance Concepts

Capital Z Partners

IAS

Profit Portfolio & Dealer Consulting Group

Genstar Capital

SWDS

Evergreen Dealer & Insurance Services, Jet Management, United Insurance Group, Olympic Dealer Marketing

Spencer Capital

Confie Seguros

Cartel

ABRY

NFP

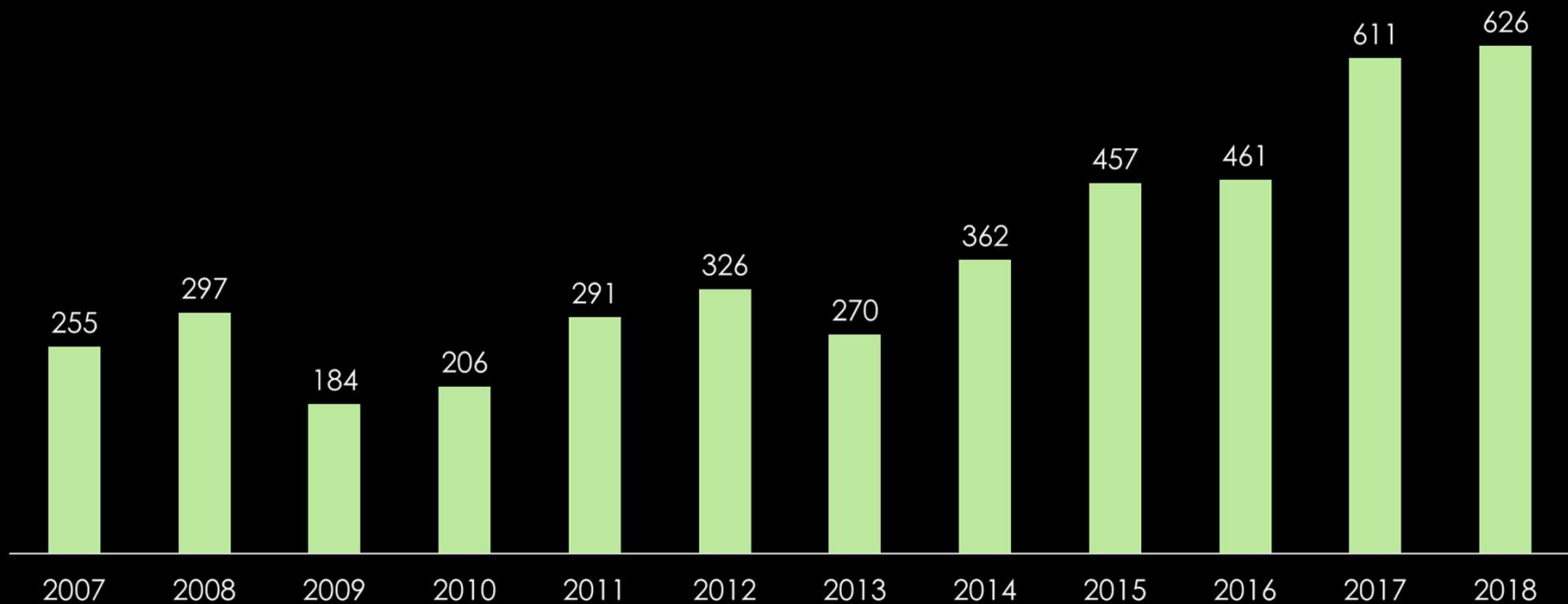
Auto Group Services

Stone Point Capital

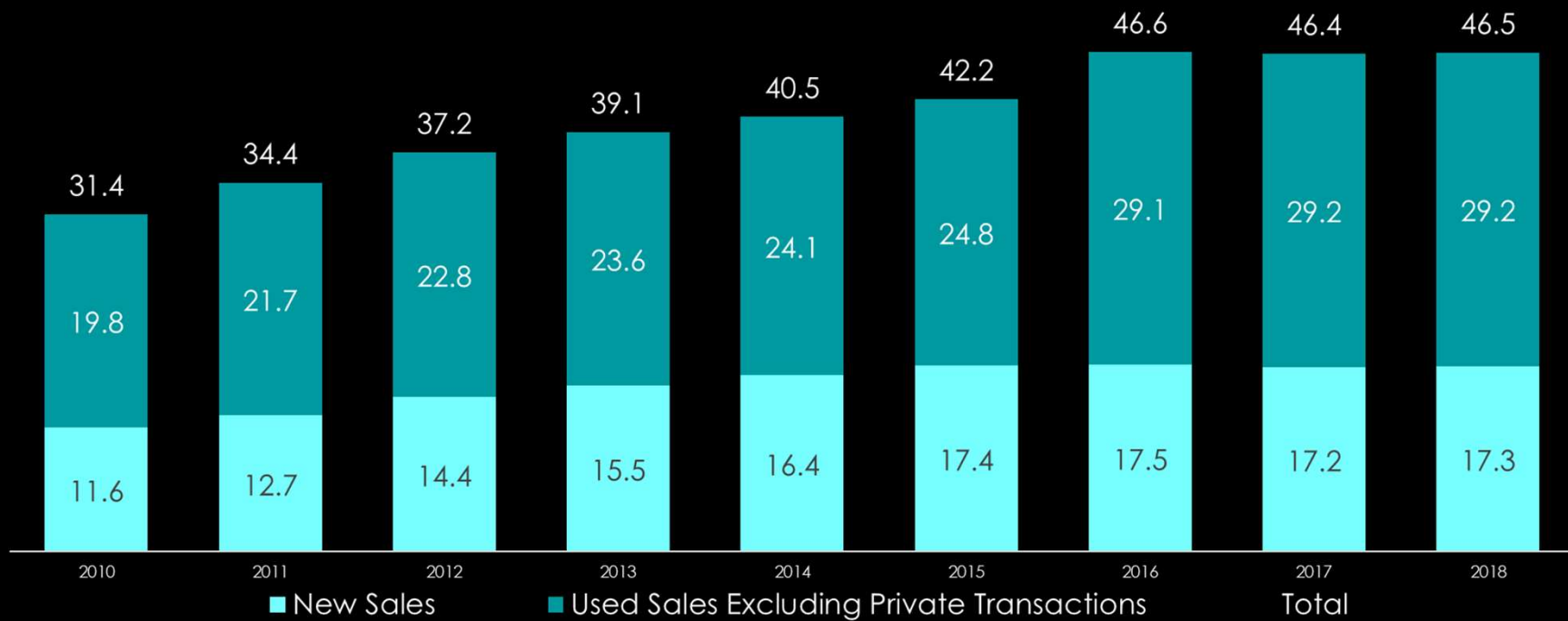
A MOUNTAIN OF PRIVATE EQUITY NOT YET INVESTED

- \$1.2 trillion private equity overhang
- In 2018, 1,175 private equity funds raised an estimated \$426 billion (up from \$350 billion in 2016)
- In 2019 – 3,750 funds are out raising capital targeting \$977 billion
- Pension funds are allocating 46% to private equity compared to 23% in 2011

F&I agencies are analogous to retail insurance agencies



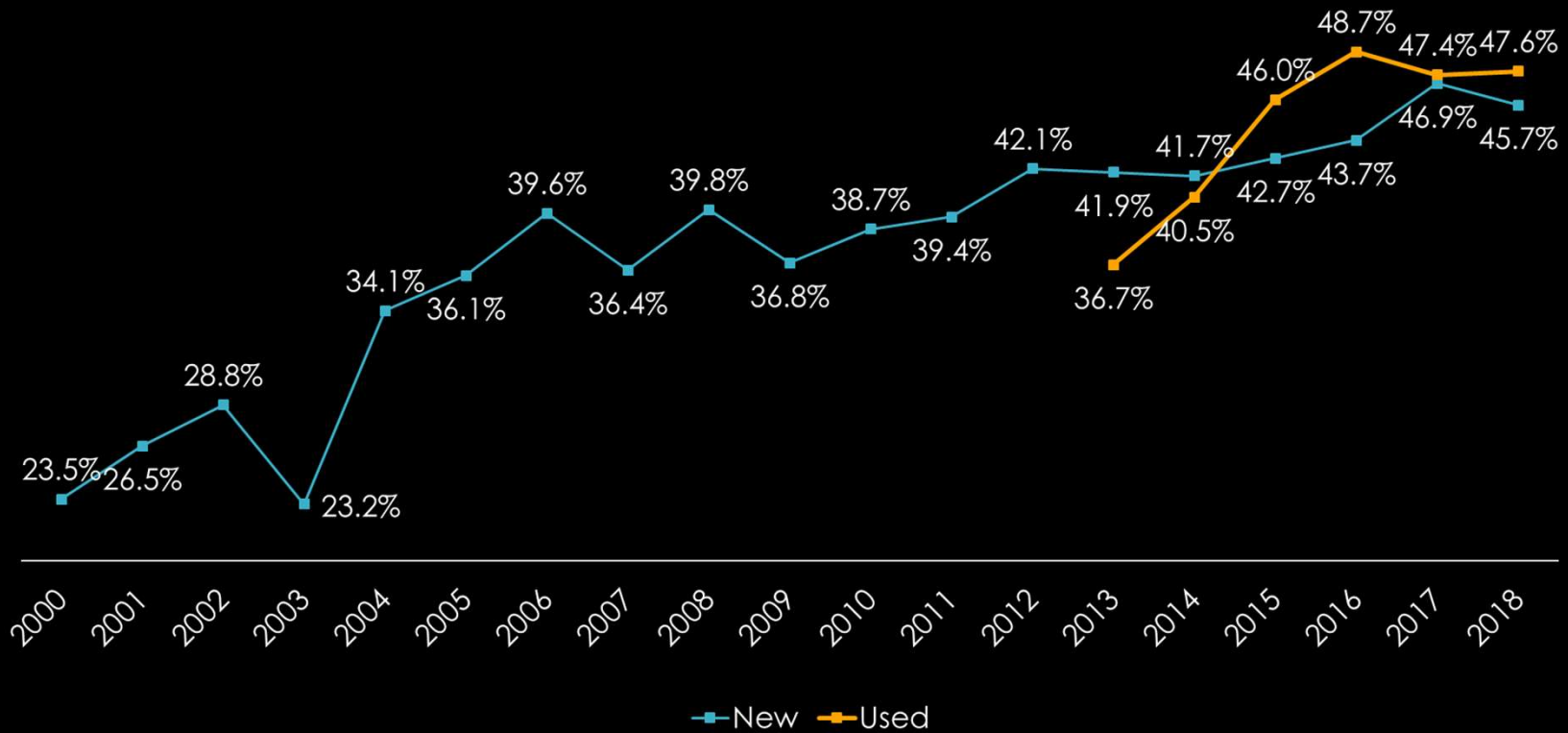
FRANCHISE VEHICLE SALES



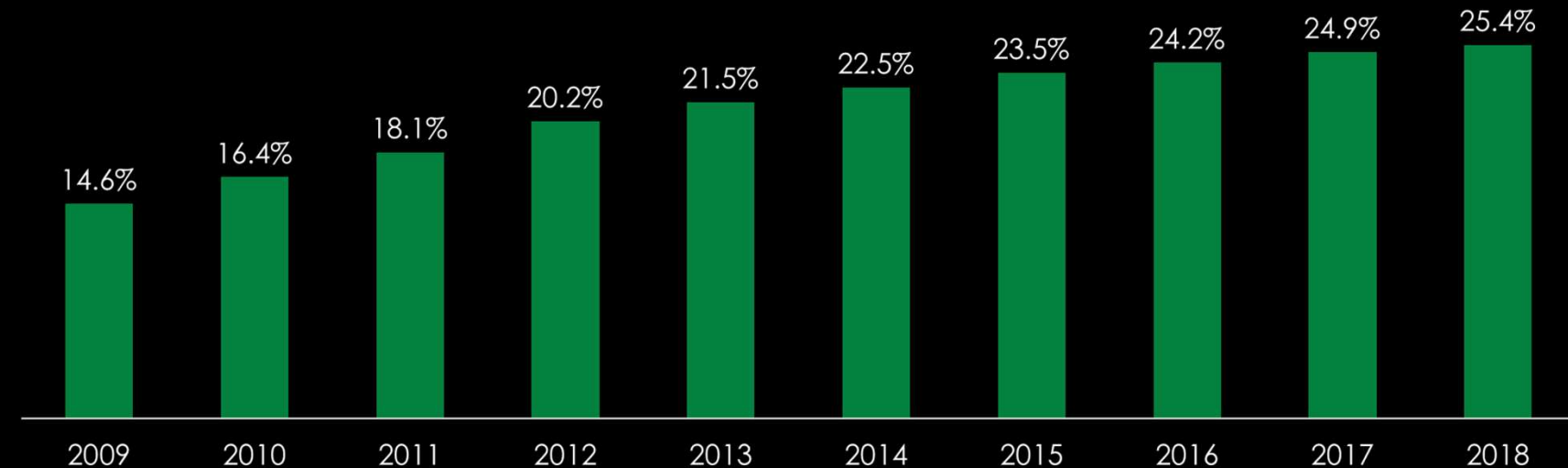
LOWER MARGINS HAVE INCREASED DEALER FOCUS ON F&I



VSC PENETRATION



F&I CONTRIBUTION TO DEALERSHIP GROSS PROFIT IS INCREASING



Source: NADA

THE DRIVERS OF VALUE



Do you have an
enterprise?



Client
diversification



Strength of
client
relationship



Income
Generation



Employee
stability



Location



Eye of the
beholder

VALUATION: DEPENDENT ON SIZE AND VALUE DRIVERS

- Multiple of EBITDA (earnings before interest, taxes, depreciation and amortization)
- Often talk about the “multiple”. But the multiple of what? What is your EBITDA?

SMALL AGENCY
(<\$2.5mm)

4x – 6x

MID SIZE AGENCY
(\$2.5mm-\$10mm)

7x – 9x

LARGE AGENCY
(\$10mm+)

10x – 13x

	Financials	Adjustments you think you have	Adjusted Financials	Adjustments Accepted by Buyer	Buyer Adjusted Financials
Revenues					
Commissions	\$2,600,000	\$200,000	\$2,800,000	\$100,000	\$2,700,000
Incentive bonus	300,000		300,000	-300,000	0
Revenues	<u>2,900,000</u>		<u>3,100,000</u>		<u>2,700,000</u>
Expenses					
Payroll					
4 Sales Agents	800,000		800,000		800,000
3 Back Office	300,000	-100,000	200,000		300,000
1 Owner	800,000	-600,000	200,000	-600,000	200,000
Total	<u>1,900,000</u>		<u>1,200,000</u>		<u>1,300,000</u>
T&E	350,000	-100,000	250,000	-50,000	300,000
G&A	100,000		100,000		100,000
Total	<u>2,350,000</u>		<u>1,550,000</u>		<u>1,700,000</u>
Pre-Tax Profit	<u>\$550,000</u>	\$1,000,000	<u>\$1,550,000</u>	\$450,000	<u>\$1,000,000</u>

DEAL STRUCTURE

	Your		
	<u>Company</u>	<u>Buyer</u>	<u>Year 3</u>
EBITDA	\$3.0	\$15.0	\$23.8
Multiple	7.0x		8.0x
Price	\$21.0		\$190.4

	<u>Purchase Price</u>	<u>At Close</u>	<u>End of Year 1</u>	<u>End of Year 2</u>	<u>End of Year 3</u>	<u>Total</u>
Cash	\$9.9	\$9.9				
Earnout	9.0		\$3.0	\$3.0	\$3.0	
Rollover Equity	2.1					
Total Proceeds	21.0	9.9	3.0	3.0	3.0	
Cash	\$18.9	\$9.9	\$3.0	\$3.0	\$3.0	\$18.9
Equity Ownership	2%					3.2
						<u>\$22.1</u>

EARNOUTS ARE CHALLENGING

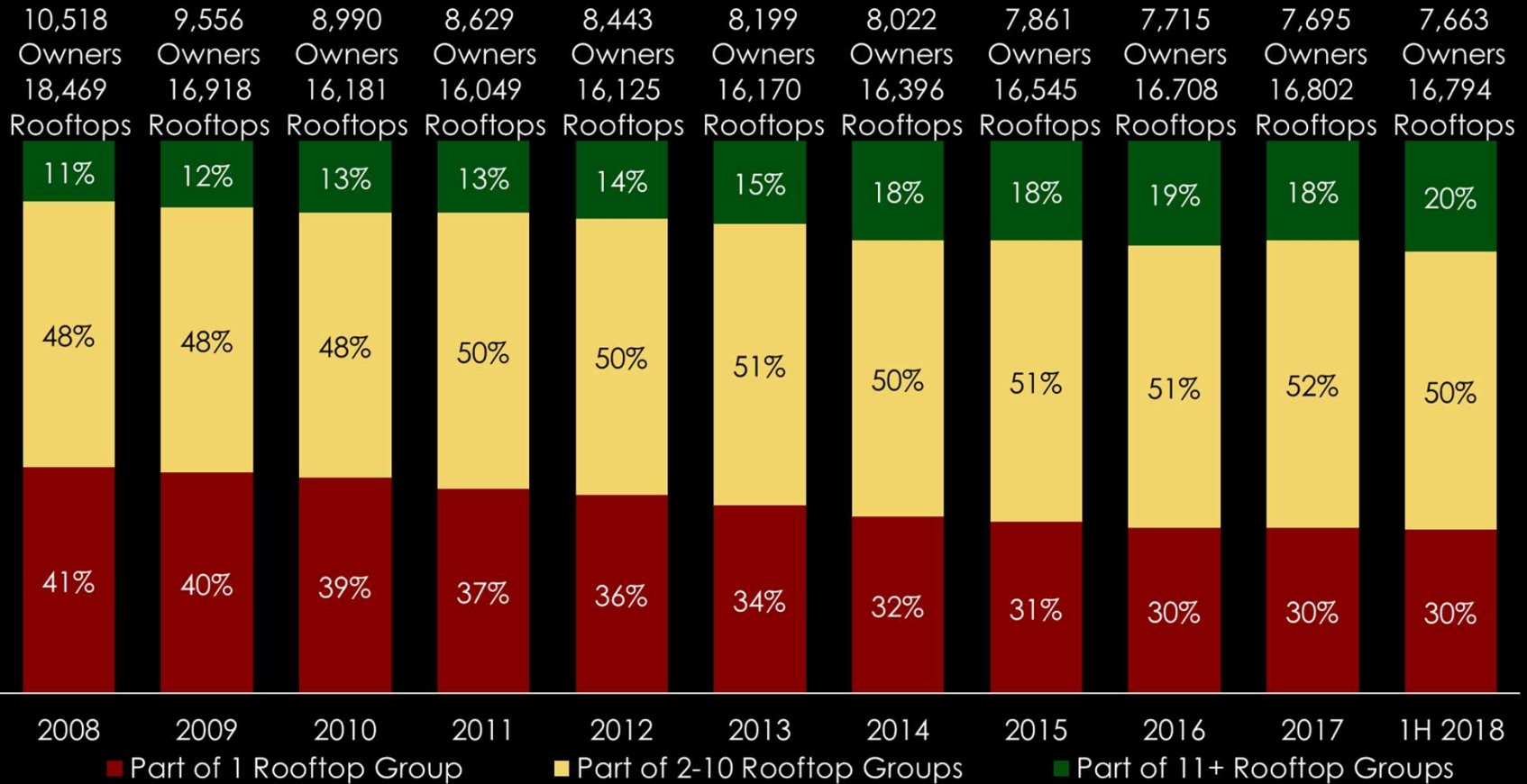
WHY SELL NOW?

Valuations are strong

High level of buyer interest

Larger agency groups are arising

THREAT: DEALERSHIP CONSOLIDATION



PREPARE TO SELL

- Non-competes should be in place with the sales agents long before the process

People

- If an MGA, consider bringing independent agents onto payroll

Financials

- The monthly and annual financials should be reviewed or audited by an accounting firm

Data

- Be able to easily report revenues and contracts sold by dealership store, dealership group, selling agent, administrator and product by month for the last three years

Retirement

- Transition key accounts



COLONNADE ADVISORS LLC

Gina Cocking

(312) 953-2658

gcocking@coladv.com