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3 newcomers are among 5 dealers elected to CATA board of directors

Three newcomers joined two incumbents in winning three-year terms on the CATA board of directors, in election results announced June 11 at the CATA's annual meeting and golf outing.

Winners of a second term were **Dan Marquardt** (Marquardt of Barrington), and **Kelly Webb Roberts** (Genesis of Highland [Ind.]; Webb Chevrolet, Oak Lawn; Webb Chevrolet of Plainfield; Webb Hyundai, Highland, Ind.; and Webb Hyundai-Mitsubishi, Merrillville, Ind.). A director can serve up to three terms on the board.

Embarking on their first terms: **Dan Heller** (Heller Ford, El Paso; Heller Lincoln-Chrysler-Dodge-Jeep-Ram, Pontiac); **Scott Muller** (Muller Auto Group: Acura, Honda, Subaru, Volkswagen); and **Steve Phillipos** (Chevrolet of Homewood).

At the annual meeting, CATA Chairman Tony Guido encouraged fellow dealers to participate in the upcoming Barbecue for the Troops fundraiser for the USO of Illinois on July 13. In six years, CATA dealers have helped raise more than $750,000 for programs that support USO programs and services for deployed troops and their families.

"Like the Chicago Auto Show," Guido said, "the USO Barbecue for the Troops has become a signature event on the calendar for Chicago-area new-car dealers. We already have more than 100 dealers who have committed to hosting an event this July.

"From a simple collection center to a full-blown barbecue, it's not hard to host and help raise money for the USO of Illinois. Most importantly, it's not too late."

Dealers interested in learning more about hosting a fundraiser should contact the CATA's Jim OBrill, at (630) 424-6085; or Jennifer Morand, at (630) 424-6084.

Springfield maneuverings mixed bag for dealers, whammy for drivers

Illinois's session-ending legislative blitz proved to be a mixed bag for dealerships but a multi-whammy for drivers. The General Assembly's spring session concluded June 1 after a whirlwind final week spilled into overtime. It produced a budget, more gambling, legalized marijuana use, protections for abortion, a state construction plan and billions of dollars in tax increases to fund it.

Senate Bill 690, which awaits Gov. J.B. Pritzker's signature, would limit the tax credit available on traded-in vehicles to $10,000, a ceiling that would impact both consumers and Illinois dealers. However, the bill also would raise to $300 the maximum documentary service fee that can be charged in a vehicle sale.

If Pritzker approves it, all the contents of SB 690 would take effect Jan. 1, 2020. The CATA will spend the coming months trying to amend the trade-in cap.

Under a $45 billion state capital infrastructure plan, which also awaits Pritzker's signature, Illinoisans would see the state's gas tax double to 38 cents from 19 cents per gallon, a tax rate that has not changed since 1990.

An Illinois Policy Institute analysis found the typical Illinois driver will pay about $100 more on gasoline each year under a doubled gas tax.

Both increases would take effect July 1, the start of the state's fiscal year.

The state-level gas tax hike is estimated to generate an additional $1.2 billion — split between the state ($560 million) and local governments ($650 million).

Also, annual vehicle registration fees spike to $148 from $101. Owners of electric vehicles, meanwhile, would register for $248 annually, up from $35 every two years, under Pritzker's plan.

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Dealer groups join to promote F&I compliance policy

The National Automobile Dealers Association charged that finance and insurance products have been misconstrued in the media, through government enforcement and in lawsuits. So this year, the NADA, along with other trade groups, began promoting a policy that dealerships across the country can adopt to help ensure they are compliant when selling F&I products.

"They're frequently lumped into a category that suggests that all voluntary protection products are gratuitous and unnecessary and overpriced," said Paul Metrey, NADA vice president of regulatory affairs. "Those who are familiar with the products understand that they offer considerable value and peace of mind, and we want to make sure that people understand that.

"We also want to make sure dealers are provided with a helpful, optional compliance tool to try to ensure that their operations are compliant, transparent and, at the end of the day, consumer-friendly as it relates to voluntary protection products."

The NADA sent a notice in April to its members about the policy, which it created in concert with the National Association of Minority Automobile Dealers and the American International Automobile Dealers Association.

The policy is not mandated by any state or federal regulation, Mike Alford, chairman of the NADA's regulatory affairs committee, told dealers in a letter. But, he added, dealerships which adopt it would promise transparency when selling F&I products and establish procedures to ensure a policy is followed. The policy advises dealers on handling product selection and cancellations, presentations, pricing, advertisements and customer complaints, Alford wrote.

The dealer associations worked with F&I product companies, dealers, dealer lawyers and compliance experts to craft a two-page policy and a larger instruction booklet.

"The hope is that it provides dealers with tools they may not currently have to try to shore up their procedures," Metrey said.

"It makes us a better dealer," said 2019 NADA Chairman Charlie Gilchrist. "We actually have a pricing process that we follow now. I think it makes our F&I or business managers a little bit more comfortable and confident when they price the products. And they document the reasons they deviate down from the process. It gives them a little comfort, and as a dealer, it gives me a lot of comfort."

Budget

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Lobbyists for the CATA and for retailers managed to deflect suggestions for the $40 billion state budget, which takes effect July 1, to limit Illinois businesses to $1,000 a month through the vendor collection allowance. The allowance currently permits them to keep 1.75 percent of all retail sales taxes collected each month.

Deputy Gov. Dan Hynes, the former state comptroller who served as Pritzker's point man on the budget, estimated that 95 percent of Illinois businesses are too small to feel the impact of the proposed change because they collect less than $57,143 a month in sales taxes (the point at which their deduction would begin to exceed $1,000).

But larger dealerships can accrue millions of dollars a month through the vendor collection allowance.

Dave Anderson, of First American Bank, lines up his 50-foot putt for the chance to win $25,000 at the CATA golf outing on June 11. The shot stopped short of the cup.

Marketplace

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Carla Abruzzini, (630) 329-5069. Résumé on file at the CATA.

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As new-car retailing slows, dealership buy/sell action rises in Q1

New-vehicle sales might be softening so far this year, but franchised dealerships themselves are turning at a significant pace.

The dealership buy/sell market rocketed to a strong start in this year's first quarter with 54 completed transactions, representing a 38.5 percent increase year-over-year, analysts from Kerrigan Advisors reported. The company's First Quarter 2019 Blue Sky Report indicates that 2019 is on track to be the sixth consecutive year of 200 transactions or more.

Despite a 3.2 percent new-vehicle sales decline, Kerrigan Advisors founder and managing director Erin Kerrigan noted that continued profit stability and an increase in sellers coming to market is contributing to the robust outlook for the buy/sell market.

"As Kerrigan Advisors predicted, 2019 is shaping up to be another solid year for buy/sells and valuations," Kerrigan said in a news release. "In the face of a decline in new-vehicle sales, the diversity of the dealership business model continues to demonstrate its value through its ability to sustain profits.

"In addition, the influx of older generation sellers coming to market, coupled with private capital jumping into the void left by the publics, all add up to a promising buy/sell year," she said.

Kerrigan Advisors explained the first three months of the year reflect a shift in industry focus toward used vehicles, F&I and service and parts. Kerrigan noted that this shift to higher margin profit centers (Used-vehicle gross margin is three times that of new vehicles, and F&I per new vehicle sold has risen 60 percent since 2010.) is a key reason strategic buyers and outside investors remain interested in auto retail acquisitions, with particular interest in high performing dealerships representing strong franchises in growth markets.

And, with aging dealers increasingly concerned about their ability to succeed in a consolidating, evolving auto retail industry, the firm pointed out that buyers are facing new opportunities — although increasing industry debt poses a looming risk.

According to the report, the healthy economy and strong financial markets means there continues to be a high rate of complex multi-dealership transactions.

Among the franchises being acquired, domestics continued to grow their buy/sell market share, while import non-luxury franchises saw their market share decline, primarily driven by Hyundai, Kia, Mazda, Nissan and Volkswagen.

Interest in top domestic franchises, such as Chevrolet and Ford, as well and top non-luxury imports, such as Toyota, Honda and Subaru remain high, according to Ryan Kerrigan, managing director of Kerrigan Advisors.

"In the face of all these positives in the market, it must be noted that the outlook is less promising for some players, especially weaker, lower performing franchises with low buyer demand who are finding it more difficult to find a buyer, particularly at a strong price," Ryan Kerrigan said.

"Another factor to watch is that dealership rents appear to have peaked, with Q1 2019 showing a decline for the first time in 10 years," he said. "We expect that many dealers are realizing that their businesses can no longer support these high rent levels and, as rents fall, real estate values often follow."

The report also highlighted that image upgrades required by OEMs are sending sellers to market, but, because these sellers are unwilling to invest the capital required to become facility-compliant, their dealerships will sell at a lower blue sky value in 2019.

In addition, the report identified the following three trends, which are expected to meaningfully impact the buy/sell market through the remainder of 2019. They include:

- Dealership real estate values start to peak.
- Industry debt levels increase buy/sell market risk.
- Auto retail's lack of a dominant public consolidator opens the door to private capital.

Other highlights from the Q1 report:

- Significant increase in used to new sales ratio (.96). Kerrigan Advisors expects the industry to continue to move towards a 1:1 used to new ratio.
- Fourteen multi-dealership transactions, representing 26 percent of the first quarter's buy/sell market.
- Domestics buy/sell market share increased 5.5 percent in the first quarter to the highest level in five years.
- U.S. public auto retailers' acquisition spending in the US decreased 68.6 percent in 2019's first quarter compared to the first quarter of 2018, primarily driven by the downward slide in their stock prices.
- Publics sold 18 franchises, for a net decline of 13 franchises.
- Private buyers acquired 95 percent of the franchises sold in the first quarter.
- The average dealership saw a 2.2 percent decline in rent in the first quarter.
- Dealership real estate remains auto retail's most valuable asset class, exceeding blue sky on average by 67.1 percent.
- Kerrigan Advisors' assessment of blue-sky multiples for Q1 2019 remained relatively stable.

Thanks, sponsors!

Many allied members of the CATA participated as sponsors of the association's golf outing on June 11, to help offset the event's costs. Please express your thanks to the sponsors and give them your consideration when doing business throughout the coming year.

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