

Automotive News

Tycoons remain cautiously bullish on auto dealerships

Jim Henry

Automotive News | January 26, 2009 - 12:01 am EST

Despite plummeting new-vehicle sales and profits, several of the world's richest investors say they retain an appetite for auto retailing. Among them: computer tycoons Michael Dell and Bill Gates and Black Entertainment Television founder Robert Johnson.

Collectively, they appear to be betting that business conditions for auto dealerships are close to bottoming out. For now, the investors continue to pick their spots.

Last May, Dell — the founder of Dell Computers and the private equity fund MSD Capital LP — announced a private venture with Jeffrey Rachor, a former president of Sonic Automotive Inc., to enter auto retailing. But by the start of 2009, the partners had not acquired any dealerships.

"We feel very fortunate we have not closed a dealership transaction to date," Rachor told *Automotive News*. "Had we moved forward with some of those, we would have dramatically overpaid."

Big business

A number of the wealthiest Americans have set their sights on buying or investing in auto dealerships. They include

Michael Dell: Founder of Dell Computers

Bill Gates: Chairman of Microsoft

Robert Johnson: Founder of Black Entertainment Television

Edward Lampert: Chairman of Sears Holdings Corp.

Shopping, not buying

Rachor said MSD Automotive Partners, of Chattanooga, Tenn., has talked with dealers and continues to shop around. But the venture plans to hold off on acquisitions until dealership prices come down, he said.

"Every other asset class has come down — residential, commercial real estate, other retail businesses, stocks, debt," Rachor said. "It's only logical that dealership assets need to reprice significantly as well.

"As time goes on, people are going to realize this industry has undergone a structural change, not just a temporary change."

Gates, chairman of Microsoft Corp., seeks to take advantage of low share prices among publicly traded auto retailers. He is now the second-largest shareholder in AutoNation Inc., the biggest U.S. dealership group.

Last November, his charitable foundation, the Bill & Melinda Gates Foundation Trust, surpassed 10 percent ownership of AutoNation.

With shares owned by another Gates company, Cascade Investment LLC, Gates controlled about 12 percent of the dealership group as of December.

AutoNation spokesman Marc Cannon declined to comment on Gates' stake. The Gates Foundation and Cascade do not comment on investments in individual companies.

AutoNation's largest shareholder is Edward Lampert, chairman of Sears Holdings Corp. and ESL Investments Inc. Like Gates, Lampert raised his stake in AutoNation late last year, to about 45 percent.

Lampert was an AutoNation board member for five years but stepped down last May to devote more time to Sears.

Partners get conservative

In 2007, Johnson joined two other prominent investors to form RLJ-McLarty-Landers Automotive Partnership. The private dealership group in Little Rock, Ark., operates 35 franchises in Arkansas and other south central states. The dealer group has bought five dealerships since the partnership was formed. The partners are:

-- Johnson, who sold Black Entertainment Television to Viacom. He also owns the Charlotte Bobcats of the National Basketball Association.

-- Thomas "Mack" McLarty III, a former White House chief of staff under President Bill Clinton. McLarty also worked for presidents Jimmy Carter and George H.W. Bush.

McLarty sold a majority interest in his family chain of dealerships to Asbury Automotive Group in 1998. He also has interests in auto dealerships in South America and China.

-- Steve Landers Sr., who in 1995 sold his family dealership chain to Unit-ed-Auto Group — now Penske Automotive Group. Landers was president of Penske's south central region until 2003, when he left the company. He then acquired a Toyota franchise in Little Rock and got back into independent auto retailing.

Landers said he, Johnson and McLarty are open to dealership acquisitions but want to stay conservative.

He said the partnership also seeks to remain concentrated geographically, so top managers can spend as much time as possible visiting dealerships. The group has "hub" operations in northwest Arkansas; Kansas City, Mo.; Huntsville, Ala.; and Shreveport, La.

Worth waiting for revival

In the long run, Landers told *Automotive News*, dealership groups that can survive the current downturn will benefit from pent-up consumer demand and reduced retail competition.

"There used to be 5,700 dealers for Chrysler," Landers said. "At the end of the day, there might be 2,500. When business comes back, those 2,500 will be pretty successful because of the amount of competition that's gone away."

Auto retailing analysts say would-be investors are waiting for dealership values to come down. At the same time, would-be sellers are reluctant to cut prices, says Todd Berko, head of the financial analysis group for Bel Air Partners LLC.

"The profitability of everybody's store is way down," says Berko, whose Skillman, N.J., company brokers dealership sales. "If you're a seller, you don't want to sell at the bottom. The public companies are out of acquisition mode, and the private guys are being very cautious."

Rick Nelson, an analyst for the Little Rock investment firm Stephens Inc., says values of privately held dealerships have been slower to fall than those of publicly held ones. But he expects that to change.

"The market has been more efficient on the public side of things," Nelson says. "Some of the private dealers are

still holding out for the valuations of the past, but the macroeconomic background has changed."



ENLARGE

In 2007, from left, Thomas "Mack" McLarty III, Robert Johnson and Steve Landers Sr. formed RLJ-McLarty-Landers Automotive Partnership, a private dealership group that operates 35 franchises in south central states.

PRINTED FROM: <http://www.autonews.com/apps/pbcs.dll/article?AID=/20090126/RETAIL07/301269698&template=printart>

Entire contents ©2010 [Crain Communications, Inc.](#)
