ACG
Association for Corporate Growth

ACG® Cup

Sponsored by:

Association for Corporate Growth

December 2012

Evaluating Strategic Alternatives

HOULIHAN LOKEY

This is a fictional case study provided by Houlihan Lokey for the ACG Cup Competition.

To: MBA Investment Bankers LLC

From: Sellside Law Firm, LLP

Subject: Project Fastlane

Dear MBA Investment Bankers LLC:

Thank you for the tickets to the Lakers game last month. We had a really good time.

This memo is a follow-up to our earlier phone conversation regarding Fastlane, Inc. ("Fastlane" or the "Company"). Sellside Law Firm, LLP has been retained as legal counsel to the board of directors of Fastlane, with regard to the acquisition offer of $160 million (not including the assumption of debt) received by the Company from Autobahn AG ("Autobahn"). We have a relatively short timeline to respond to the offer. On behalf of the board of directors, we have invited a limited number of investment banking firms, including MBA Investment Bankers LLC, to present their thoughts to the board of Fastlane one week from today.

Fastlane Background

Fastlane is the holding company of an international automotive retail group with operations in both the United States and Europe. The Company sells over 10,000 new vehicles annually, primarily for a well known German luxury brand. The following is summary of the structure and operations of Fastlane.

- Fastlane is a Delaware corporation that owns the assets of the U.S. operations as well as 100% of the stock of Fastlane International AG, its European subsidiary.
- The Company is headquartered in Sherman Oaks, California, where its CEO, Jim Bob is based.
- Fastlane also maintains a European headquarters in Frankfurt, Germany, where Karl-Heinz Schumacher, President and Head of the European Operations, is based.
- The U.S. operations include four premier dealerships, three of which are located in the Los Angeles area (Beverly Hills, Santa Monica, and Sherman Oaks) and one in San Diego, which the Company recently acquired.
- The European operations comprise nine dealerships located in Germany, three in France, and two in Switzerland.
- The Company owns all its real estate.

Fastlane is privately held by two American families – the Millers and the Johnsons – who own 90% of the Company and the remaining 10% is owned by management. Jim Bob, CEO owns 5% and Karl-Heinz Schumacher, President also owns 5%.

Situation

While they are not involved in the day-to-day aspects of managing the Company, the shareholders call management on a regular basis to receive updates on the business. In particular, they are constantly pressing them to issue dividends and would like to get some liquidity in the near future in order to diversify their assets in interests other than the family business. Both the Millers and the Johnsons were initially intrigued when Jim Bob reported his discussion with Autobahn. However, they appear unimpressed by Autobahn's offer. Still, after several tough years, they are wondering whether this might be the right time to cash out.

Specifically, the Company is looking for you to advise them on whether they should:

- Accept Autobahn's offer;
- Reject Autobahn's offer and reach out to additional potential buyers;
- Keep the status quo; or
- Pursue other alternatives.

In providing this advice, the shareholders and management would like to know the following:

- What is Fastlane worth?
- Should they accept, reject, or negotiate with regard to the offer received from Autobahn?
- What other strategies are available to provide liquidity and/or enhance value for Fastlane's shareholders?

<u>Autobahn Background</u>

Autobahn is a private-held dealership group based in Frankfurt, Germany. Autobahn initiated discussions with Fastlane after meeting Jim Bob at the Mondial de l'Automobile (Paris Motor Show) in October. Autobahn is especially interested in the German operations, given the substantial synergies it expects to realize due to geographic overlap and potential back office consolidation. Specifically, it would eliminate the European headquarters, which would generate expected savings of $1.5 million a year. Autobahn is not very familiar with the U.S. market and does not expect to be actively involved in the U.S. operations upon completing a transaction, which would leave Jim Bob with broad autonomy to continue to run the U.S. operations. Autobahn does have dealerships within Europe that currently offer the premium brand sold both in Europe and the U.S. by Fastlane.

<u>Industry Highlights</u>

Recent Trends in the U.S.

The U.S. auto retail industry is cyclical and is in the midst of a recovery. There are several factors contributing to the increase in vehicle sales: consumers have become more confident in making big purchases; their need to replace aging vehicles is increasing; and credit has become more available in the marketplace.

- *Rising consumer confidence*. The unemployment rate has continued to tick down. As people become more confident of their employment outlook, they have a greater willingness to commit to buying a car.

- *Vehicles are aging*. The number of new vehicles sold decreased significantly from 2007 to 2011, causing the average age per vehicle to rise. With the median age for vehicles at a record high of 11 years, many experts believe pent-up demand will drive higher sales.

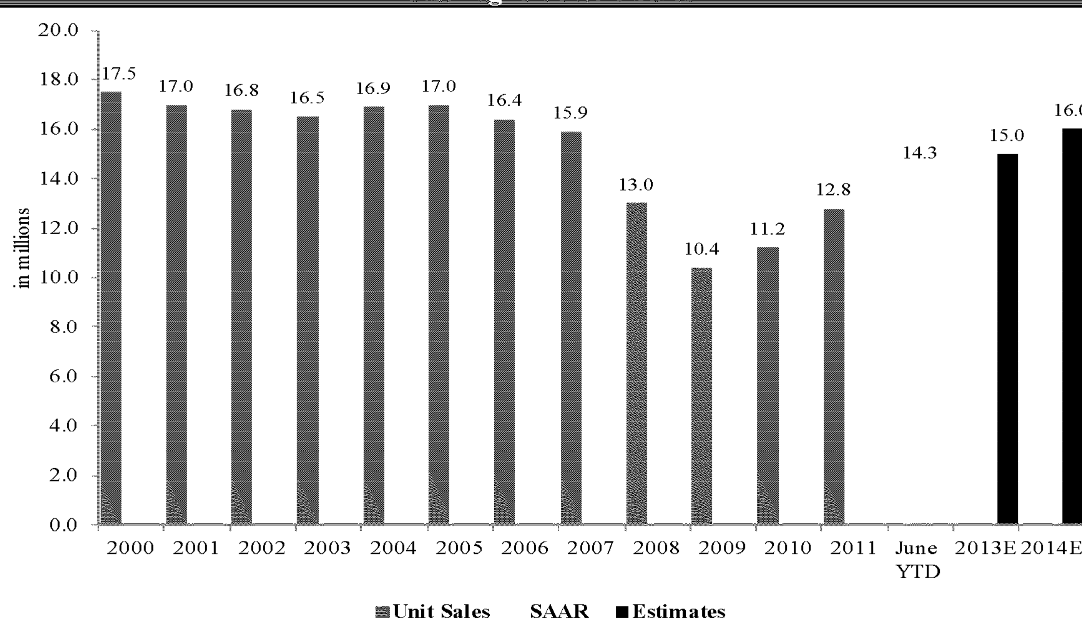
- *Improved credit terms and availability*. Interest on auto loans continues to be at all-time lows and lenders have increased credit to subprime borrowers. The Fed plans to keep rates at very low levels, which should help auto sales.

Unemployment Rate vs. Vehicle Sales

Source: U.S. Bureau of Labor Statistics and Automotive News

- *Projected increases in new unit sales*. Partly due to the trends listed above, new unit sales in the U.S. are projected to grow from 12.8 million units in 2011 to 14.5 million units in 2012. Industry experts estimate 16.0 million plus units in the foreseeable future.

U.S. Light Vehicle Sales



Source: Automotive News

Recent Trends in Europe

The European auto retail industry has suffered from the ongoing recession in Europe and has seen sporadic sales and growth over the last three years. Due to the economic conditions throughout Europe, the industry has failed to get back to pre-2009 levels and is currently experiencing a market characterized by declining sales. The factors hindering growth in the European auto market are:

- *Overcapacity within the industry.* Excess quantity of vehicles has created an overcapacity all the way from retailers down to manufacturers. To combat this excess capacity, automobile manufacturers are laying off workers and retailers are desperately trying to increase sales and move the inventory they currently have.

- *Low consumer confidence.* The unemployment rate reached a record high of 11.6%. Currently, unemployment is more than 25% in Spain. In addition, consumer confidence is at its lowest point since early 2009. Consumers have been trading down from luxury brand goods and are waiting for the economy to rebound before making large purchases.

- *Economic outlook.* European economic forecasts continue to show slow or negative growth, causing consumers to cut back on discretionary spending. Luxury car manufacturers have seen decreased sales in the past few quarters and are forecasting a decrease in demand for 2013.

M&A Activity and Valuation Drivers

U.S. M&A Activity

- *Buyers are active.* There are many large public and private dealership groups looking to acquire and the supply of dealerships for sale is relatively low. Many leading dealer groups have made acquisitions in the past 12 months, and plan to continue to expand with budgets ranging from $10 million to $500 million. Private equity firms continue to seek ways to enter the industry, although only a handful of firms put any meaningful capital to work. The auto makers are not likely to encourage their presence in the market. High net worth individuals and family offices continue to express interest in buying dealerships.

- *Potential supply/demand imbalance in dealerships for sale.* Despite strong demand, many potential sellers appear to be waiting for another year or two to enter the market, perhaps to allow more time for their earnings to increase.

- *Large deals are rare.* In the U.S., there have only been 6 acquisitions over $100 million and 23 between $50 million and $100 million by public companies in the past 10 years. Selling a large dealership group is a complicated and difficult process, particularly if the owner wants to sell his company in a single transaction.

- *Valuation trends.* There are various ways to value dealerships, including the standard Blue Sky industry method, consisting of combining a multiple of adjusted pre-tax income with the value of real estate and the book value of other assets acquired. German luxury franchises continue to be the most desired by buyers, with Blue Sky multiples of adjusted pre-tax income in the 5.0x to 7.0x range vs. 2.0x to 4.0x for Big Three domestic manufacturers. Furthermore, franchise locations selling a high number of new vehicles tend to drive higher multiples, as new vehicle sales are the foundation for the entire dealership business model. As new vehicle sales increase, so do higher margin service and used car sales. Valuations are strong, with sellers with high quality assets getting compelling offers. Many buyers see upside in the future and are willing to pay for it.

European M&A Activity

- *Valuation trends*. Blue Sky multiples in Europe are approximately 2.0x lower than they are in the U.S., reflecting the weaker position that dealers have in Europe in their relationships with OEMs versus North America.

- *High activity*. Many dealers are looking for transactions in which they can get a bargain deal given the poor economic conditions. This has been driving M&A activity and due to the large quantity of interested buyers, attractive dealerships are continuing to get strong offers.

- *Consolidation*. In an effort to reduce costs and maintain volume, European companies are looking for strategic opportunities to consolidate operations and benefit from acquisition synergies.

<u>Other Factors to Consider in a Potential Transaction</u>

- In the automotive retail sector, synergies come from geographic overlap and back office consolidation. There are few, if any, synergies between retail activities that are located in regions which are several hundred miles apart.
- Most franchise agreements give the manufacturer a right of first refusal of a proposed transaction. Car manufacturers favor experienced, stable franchisees with a long-term commitment.
- As Autobahn currently operates dealerships within Europe that offer the same premium luxury brand that Fastlane offers, Autobahn is intimately familiar with the franchise.
- Both Jim Bob and Karl-Heinz Schumacher are in their mid-40s and would like to stay with the Company. They both enjoy comfortable salaries and would be interested in increasing their ownership stakes.
- Based on recent appraisals, the U.S. and European real estate exceed their respective book values by $6.2 million and $10.4 million, respectively.
- The U.S. operations account for their inventory under the LIFO method. As a result of rising prices over time, the balance sheet includes a sizable, $4.5 million LIFO reserve.
- Fastlane recorded goodwill of $11.9 million as a result of the 2011 acquisition of the San Diego dealership.
- In reviewing its 2012 income statement, management identified non-recurring expenses of $0.6 million for the U.S. operations and $0.4 million for the European operations.
- Assume the effective tax rate for all future years is 35% - for both U.S. and European operations.

<u>Information Provided</u>

We have included financial and other data for Fastlane and companies that we have preliminarily identified as comparable to our client to assist you in your evaluation (though we are not entirely sure which of the comparable companies are and are not appropriate to use as a comparison to Fastlane). Please see the attachment to this memo “Additional Information” for an index of the data provided.

Next Steps

We are looking for you to evaluate Autobahn's offer and advise our client on their options. In particular, please make sure to address the following questions:

- What is the value of Fastlane?
- How does the valuation of Fastlane compare to the consideration being offered?
- Are there any other deal structures, terms, alternatives or modifications to Autobahn's offer that would make this a more appealing transaction to the families and management?
- What other strategic alternatives are available to the shareholders in order to meet their objectives? Please include an evaluation of the alternatives along with keeping the status quo.
- What is your recommendation to our client?

We look forward to hearing your thoughts.

Sincerely,

Sellside Law Firm, LLP

ACG CUP - COMPETITION RULES

Time

You will be given 20 minutes to present your recommendations to the judges. There will not be a separate time allotted for questions and answers – Q&A will take place during your presentation.

Judges

The judges are ACG members who are local industry professionals in areas such as investment banking, valuation, private equity, junior capital providers, etc. The judges will represent the Board of Directors for purposes of your presentation, and should be addressed as such.

Presentation Format

You should prepare a PowerPoint presentation (or equivalent) for the judges. The format of the 20 minutes is to give this presentation on the screen in front of the judges and answer any questions that they raise.

Please bring 10 hard copies of this same presentation in order for the judges to follow along and refer to this while you are speaking.

It is expected that everyone in your group will participate in a meaningful way. While it is not required that everyone in the group have a primary speaking role, if you choose to lead most of the discussion with one or two of your best speakers you should make it clear that everyone contributed in a significant manner.

Anything beyond this presentation is completely up to your discretion – it should be whatever you believe is best to communicate the findings, recommendations, and analysis of your investment banking firm.

Judging Criteria

Your presentation and analysis will be judged based on both your content as well as your presentation itself. While there is no "right" answer, the judges will be looking for you to have a well thought-out analysis that is effectively presented and well defended when questioned. You should treat the judges as a prospective client and answer their questions in a non-defensive manner. Remember that you want to "sell" your investment banking firm as their advisor for Fastlane. In addition, this is designed to be a "real-world" experience, and judges may interrupt with questions, just as a Board of Directors would, so be ready!

Below are listed some of the judging criteria:

ANALYSIS

- Fundamental valuation of Fastlane
  - Use of all appropriate valuation methods
  - Ability to discuss and defend key valuation assumptions, such as:
    1. Selected comparable companies – which are the better comparable companies and why?
    2. Selected comparable company multiples

iii. Selected discount rate
iv. Value / treatment of potential financial adjustments
v. Discussion of the Blue Sky method

- Compare valuation of Fastlane to consideration being offered
- Consideration of other deal structures, terms, alternatives, modifications to the offer
- Clear recommendation to Fastlane's shareholders

PRESENTATION

- Provide a clear outline of the situation and the factors the Company and shareholders need to consider
- Present a clear analysis and recommendations
- Answer the judges' questions effectively in an "advisory," not defensive manner

Honor Code

By participating, you agree to be bound by the honor code of your school, the rules contained herein and the rules that are provided prior to entering the data room. In particular, please note that NO outside help is allowed once you have received the case. Specifically, this includes help from anyone at your school, including faculty and other students.

Furthermore, no outside research is needed in addition to the facts in the case and ACG will not answer questions regarding the case itself. If you feel that there is missing information or something is unclear, simply make an assumption and be prepared to explain that assumption (do not say "the case did not say", remember that the judges are acting in the role of the shareholders, company management and Board and should be addressed as such).

Additional Information

I. Overview of Blue Sky Valuation Method

II. Fastlane Historical and Projected Financial Statements

A. Consolidated Income Statement
B. Consolidated Balance Sheet
C. U.S. Income Statement
D. U.S. Balance Sheet
E. European Income Statement
F. European Balance Sheet

III. Comparable Companies

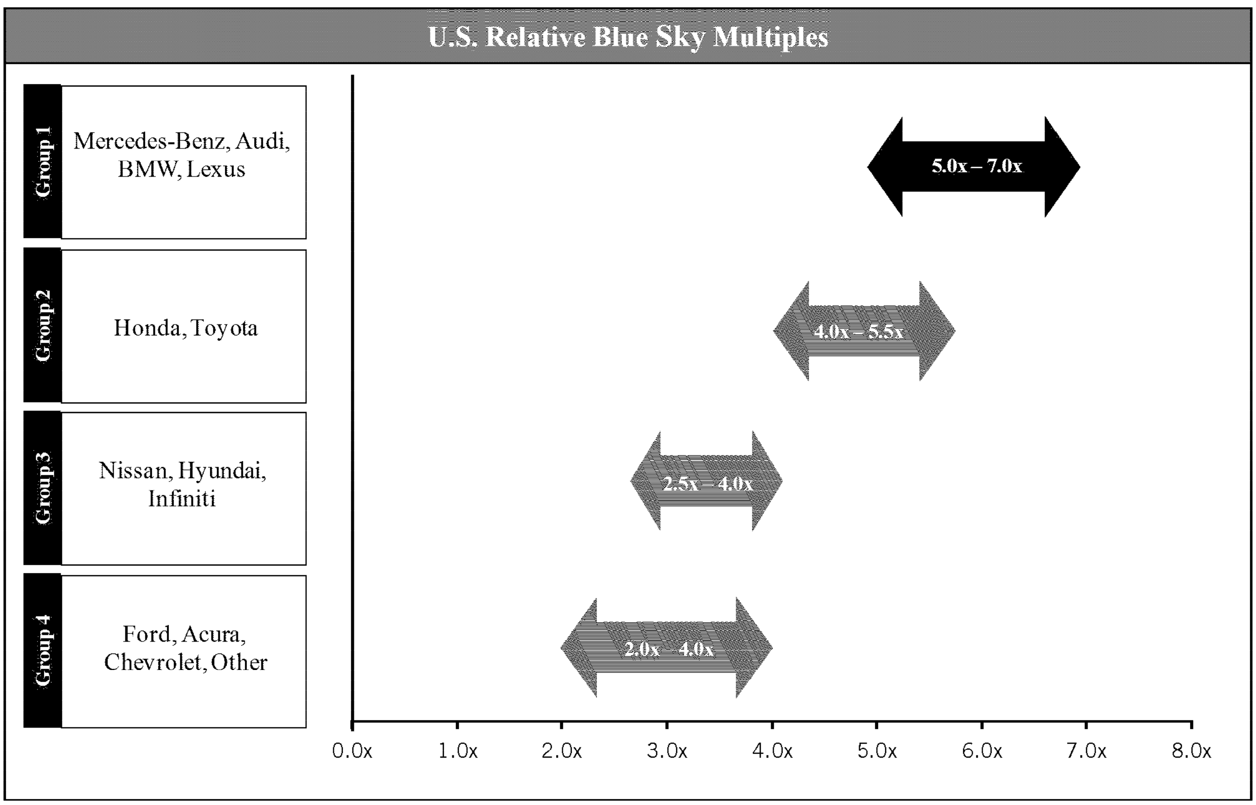
A. Descriptions
B. Operating Metrics
C. Weighted Average Cost of Capital

IV. Control Premiums

I. Overview of Blue Sky Valuation Method

The Blue Sky methodology is the industry convention utilized by strategic buyers in developing a valuation framework. The methodology estimates the equity value of dealerships based on two components: (i) net tangible asset value, plus (ii) the goodwill value or franchise value of the business. First, a baseline equity value for the business is calculated by taking the company's net book value of the tangible assets (tangible assets less liabilities), and adjusting that figure for the market value of the real estate assets. All the other assets (new and used vehicles, accounts receivable, fixtures and equipment), are generally taken at book value, which in most cases reflects the fair market value. Buyers will then determine the goodwill value for the business, which is based on a multiple of the adjusted pre-tax profit. The adjusted pre-tax profit represents the profitability of the business after all operating costs and any carrying costs associated with the assets of the business (i.e., after depreciation and interest, but before tax).

One of your competitors has outlined the following chart (that we directionally agree with) which sets forth estimates for the multiples of current adjusted pre-tax profit that buyers would pay for various franchises.



II. Fastlane Historical and Projected Financial Statements

A. Consolidated Income Statement

($ in thousands, December fiscal year)	2010	2011	2012	2013	2014	2015	2016	2017
	Actual	*Actual*	*Estimated*	*Projected*	*Projected*	*Projected*	*Projected*	*Projected*
Sales	$ 535,358	$ 564,930	$ 610,585	$ 647,131	$ 673,989	$ 697,567	$ 724,315	$ 752,091
% change	*NA*	*5.5%*	*8.1%*	*6.0%*	*4.2%*	*3.5%*	*3.8%*	*3.8%*
Cost of sales	446,798	471,289	508,998	539,009	561,201	580,855	603,375	626,521
Gross profit	**$ 88,559**	**$ 93,641**	**$ 101,586**	**$ 108,122**	**$ 112,789**	**$ 116,712**	**$ 120,940**	**$ 125,571**
% of sales	*16.5%*	*16.6%*	*16.6%*	*16.7%*	*16.7%*	*16.7%*	*16.7%*	*16.7%*
Personnel expenses	$ 50,542	$ 52,001	$ 56,770	$ 59,582	$ 60,434	$ 61,095	$ 61,545	$ 62,196
Depreciation and amortization	5,127	5,207	4,994	4,946	4,989	5,052	5,055	5,062
Other operating expenses	27,560	28,619	29,218	29,098	29,347	29,418	30,446	31,648
Total operating expenses	**$ 83,229**	**$ 85,827**	**$ 90,982**	**$ 93,627**	**$ 94,771**	**$ 95,565**	**$ 97,047**	**$ 98,906**
% of sales	*15.5%*	*15.2%*	*14.9%*	*14.5%*	*14.1%*	*13.7%*	*13.4%*	*13.2%*
Operating income	**$ 5,331**	**$ 7,814**	**$ 10,605**	**$ 14,495**	**$ 18,018**	**$ 21,147**	**$ 23,893**	**$ 26,665**
% of sales	*1.0%*	*1.4%*	*1.7%*	*2.2%*	*2.7%*	*3.0%*	*3.3%*	*3.5%*
Interest expenses (income)	$ 4,863	$ 4,687	$ 4,348	$ 4,071	$ 3,544	$ 3,191	$ 2,995	$ 2,719
Income before tax	**$ 468**	**$ 3,127**	**$ 6,257**	**$ 10,424**	**$ 14,474**	**$ 17,956**	**$ 20,898**	**$ 23,946**
% of sales	*0.1%*	*0.6%*	*1.0%*	*1.6%*	*2.1%*	*2.6%*	*2.9%*	*3.2%*
Income tax expense	164	1,095	2,190	3,648	5,066	6,285	7,314	8,381
Net income	**$ 304**	**$ 2,033**	**$ 4,067**	**$ 6,776**	**$ 9,408**	**$ 11,671**	**$ 13,584**	**$ 15,565**
% of sales	*0.1%*	*0.4%*	*0.7%*	*1.0%*	*1.4%*	*1.7%*	*1.9%*	*2.1%*
Capital expenditures	$ 4,212	$ 4,390	$ 4,664	$ 4,883	$ 5,044	$ 5,185	$ 5,346	$ 5,513

II. Fastlane Historical and Projected Financial Statements (continued)

B. Consolidated Balance Sheet

($ in thousands, December fiscal year)	2010	2011	2012
	Actual	*Actual*	*Estimated*
Assets			
Cash and cash equivalents	$ 16,600	$ 5,424	$ 7,562
Accounts receivables	22,225	25,934	28,269
Inventories	80,953	85,312	83,485
Other current assets	12,384	14,758	10,981
Total current assets	**132,163**	**131,429**	**130,297**
PP&E, net	74,230	83,994	81,360
Goodwill	-	11,934	11,934
Other assets	4,011	4,038	6,124
Total long-term assets	**78,241**	**99,966**	**99,419**
Total assets	**$ 210,403**	**$ 231,394**	**$ 229,716**
Liabilities and stockholders' equity			
Notes payable [(1)]	$ 28,445	$ 36,378	$ 42,622
Accounts payable and accrued expenses	44,295	43,602	38,240
Other current liabilities	12,581	13,099	12,520
Total current liabilities	**85,321**	**93,079**	**93,382**
Long-term debt	50,471	65,099	60,264
Other long-term liabilities	23,132	21,156	22,399
Total long-term liabilities	**73,603**	**86,255**	**82,663**
Stockholders' equity	**51,479**	**52,060**	**53,671**
Total liabilities and stockholders' equity	**$ 210,403**	**$ 231,394**	**$ 229,716**

(1) Consists of "floor plan financing", a credit line used to finance inventory

II. Fastlane Historical and Projected Financial Statements (continued)

C. U.S. Income Statement

($ in thousands, December fiscal year)	2010	2011	2012	2013	2014	2015	2016	2017
	Actual	*Actual*	*Estimated*	*Projected*	*Projected*	*Projected*	*Projected*	*Projected*
Sales	$ 324,611	$ 356,555	$ 401,124	$ 427,197	$ 448,557	$ 466,499	$ 485,159	$ 504,565
% change	*NA*	*9.8%*	*12.5%*	*6.5%*	*5.0%*	*4.0%*	*4.0%*	*4.0%*
Cost of sales	272,990	299,328	336,142	357,564	374,993	389,993	405,593	421,817
Gross profit	**$ 51,620**	**$ 57,226**	**$ 64,982**	**$ 69,633**	**$ 73,563**	**$ 76,506**	**$ 79,566**	**$ 82,749**
% of sales	*15.9%*	*16.0%*	*16.2%*	*16.3%*	*16.4%*	*16.4%*	*16.4%*	*16.4%*
Personnel expenses	$ 29,944	$ 31,942	$ 37,592	$ 40,023	$ 40,513	$ 40,568	$ 40,697	$ 40,874
Depreciation and amortization	1,867	2,099	2,166	2,307	2,422	2,519	2,620	2,725
Other operating expenses	16,510	17,724	18,402	18,729	18,802	19,727	20,600	21,192
Total operating expenses	**$ 48,321**	**$ 51,765**	**$ 58,159**	**$ 61,059**	**$ 61,738**	**$ 62,814**	**$ 63,917**	**$ 64,790**
% of sales	*14.9%*	*14.5%*	*14.5%*	*14.3%*	*13.8%*	*13.5%*	*13.2%*	*12.8%*
Operating income	**$ 3,300**	**$ 5,461**	**$ 6,823**	**$ 8,574**	**$ 11,826**	**$ 13,692**	**$ 15,649**	**$ 17,958**
% of sales	*1.0%*	*1.5%*	*1.7%*	*2.0%*	*2.6%*	*2.9%*	*3.2%*	*3.6%*
Interest expenses (income)	$ 2,858	$ 2,730	$ 2,443	$ 2,282	$ 2,039	$ 1,921	$ 1,898	$ 1,777
Income before tax	**$ 442**	**$ 2,731**	**$ 4,380**	**$ 6,292**	**$ 9,787**	**$ 11,771**	**$ 13,751**	**$ 16,181**
% of sales	*0.1%*	*0.8%*	*1.1%*	*1.5%*	*2.2%*	*2.5%*	*2.8%*	*3.2%*
Income tax expense	155	956	1,533	2,202	3,425	4,120	4,813	5,664
Net income	**$ 287**	**$ 1,775**	**$ 2,847**	**$ 4,090**	**$ 6,361**	**$ 7,651**	**$ 8,938**	**$ 10,518**
% of sales	*0.1%*	*0.5%*	*0.7%*	*1.0%*	*1.4%*	*1.6%*	*1.8%*	*2.1%*
Capital expenditures	$ 1,948	$ 2,139	$ 2,407	$ 2,563	$ 2,691	$ 2,799	$ 2,911	$ 3,027

II. Fastlane Historical and Projected Financial Statements (continued)

D. U.S. Balance Sheet

($ in thousands, December fiscal year)	2010 *Actual*	2011 *Actual*	2012 *Estimated*
Assets			
Cash and cash equivalents	$ 15,410	$ 4,415	$ 5,855
Accounts receivables	12,379	18,934	21,676
Inventories	42,065	51,073	56,197
Other current assets	3,964	3,895	3,592
Total current assets	**73,818**	**78,316**	**87,320**
Investment in Fastlane International, AG	6,970	6,970	6,970
PP&E, net	28,519	39,359	38,313
Goodwill	-	11,934	11,934
Other assets	258	228	264
Total long-term assets	**35,746**	**58,491**	**57,481**
Total assets	**$ 109,564**	**$ 136,808**	**$ 144,801**
Liabilities and stockholders' equity			
Notes payable (1)	$ 28,445	$ 36,378	$ 42,622
Accounts payable and accrued expenses	8,909	10,958	11,772
Other current liabilities	10,603	11,536	11,010
Total current liabilities	**47,957**	**58,872**	**65,404**
Long-term debt	17,915	33,676	34,644
Other long-term liabilities	7,471	7,756	7,938
Total long-term liabilities	**25,386**	**41,432**	**42,582**
Stockholders' equity	**36,221**	**36,503**	**36,815**
Total liabilities and stockholders' equity	**$ 109,564**	**$ 136,808**	**$ 144,801**

(1) Consists of "floor plan financing", a credit line used to finance inventory

II. Fastlane Historical and Projected Financial Statements (continued)

E. European Income Statement

($ in thousands, December fiscal year)	2010 *Actual*	2011 *Actual*	2012 *Estimated*	2013 *Projected*	2014 *Projected*	2015 *Projected*	2016 *Projected*	2017 *Projected*
Sales	$ 210,747	$ 208,375	$ 209,461	$ 219,934	$ 225,432	$ 231,068	$ 239,156	$ 247,526
% change	*NA*	*(1.1%)*	*0.5%*	*5.0%*	*2.5%*	*2.5%*	*3.5%*	*3.5%*
Cost of sales	173,808	171,960	172,857	181,446	186,207	190,862	197,782	204,704
Gross profit	**$ 36,939**	**$ 36,415**	**$ 36,604**	**$ 38,488**	**$ 39,225**	**$ 40,206**	**$ 41,374**	**$ 42,822**
% of sales	*17.5%*	*17.5%*	*17.5%*	*17.5%*	*17.4%*	*17.4%*	*17.3%*	*17.3%*
Personnel expenses	$ 20,598	$ 20,059	$ 19,178	$ 19,559	$ 19,921	$ 20,527	$ 20,848	$ 21,323
Depreciation and amortization	3,260	3,108	2,828	2,639	2,567	2,533	2,435	2,337
Other operating expenses	11,050	10,895	10,816	10,370	10,545	9,691	9,846	10,456
Total operating expenses	**$ 34,908**	**$ 34,062**	**$ 32,822**	**$ 32,568**	**$ 33,033**	**$ 32,751**	**$ 33,130**	**$ 34,116**
% of sales	*16.6%*	*16.3%*	*15.7%*	*14.8%*	*14.7%*	*14.2%*	*13.9%*	*13.8%*
Operating income	**$ 2,031**	**$ 2,353**	**$ 3,782**	**$ 5,921**	**$ 6,192**	**$ 7,455**	**$ 8,244**	**$ 8,706**
% of sales	*1.0%*	*1.1%*	*1.8%*	*2.7%*	*2.7%*	*3.2%*	*3.4%*	*3.5%*
Interest expenses (income)	$ 2,005	$ 1,957	$ 1,905	$ 1,789	$ 1,505	$ 1,270	$ 1,097	$ 942
Income before tax	**$ 26**	**$ 396**	**$ 1,877**	**$ 4,132**	**$ 4,687**	**$ 6,185**	**$ 7,147**	**$ 7,764**
% of sales	*0.0%*	*0.2%*	*0.9%*	*1.9%*	*2.1%*	*2.7%*	*3.0%*	*3.1%*
Income tax expense	9	139	657	1,446	1,640	2,165	2,502	2,718
Net income	**$ 17**	**$ 257**	**$ 1,220**	**$ 2,686**	**$ 3,047**	**$ 4,020**	**$ 4,646**	**$ 5,047**
% of sales	*0.0%*	*0.1%*	*0.6%*	*1.2%*	*1.4%*	*1.7%*	*1.9%*	*2.0%*
Capital expenditures	$ 2,264	$ 2,250	$ 2,257	$ 2,320	$ 2,353	$ 2,386	$ 2,435	$ 2,485

II. Fastlane Historical and Projected Financial Statements (continued)

F. European Balance Sheet

($ in thousands, December fiscal year)	2010	2011	2012
	Actual	*Actual*	*Estimated*
Assets			
Cash and cash equivalents	$ 1,190	$ 1,009	$ 1,708
Accounts receivables	9,846	7,000	6,593
Inventories	38,888	34,239	27,288
Other current assets	8,420	10,863	7,389
Total current assets	**58,345**	**53,112**	**42,977**
PP&E, net	45,711	44,634	43,047
Other assets	3,753	3,810	5,860
Total long-term assets	**49,464**	**48,444**	**48,907**
Total assets	**$ 107,809**	**$ 101,557**	**$ 91,885**
Liabilities and stockholders' equity			
Accounts payable and accrued expenses	$ 35,386	$ 32,644	$ 26,468
Other current liabilities	1,978	1,563	1,510
Total current liabilities	**37,364**	**34,206**	**27,978**
Long-term debt	32,556	31,423	25,620
Other long term liabilities	15,661	13,400	14,461
Total long-term liabilities	**48,217**	**44,823**	**40,081**
Stockholders' equity	**22,228**	**22,527**	**23,826**
Total liabilities and stockholders' equity	**$ 107,809**	**$ 101,557**	**$ 91,885**

III. Comparable Companies

A. Descriptions

The following publicly traded comparable companies have been identified:

- **Asbury Automotive Group, Inc.**

  Asbury Automotive Group, Inc. operates as an automotive retailer in the U.S. The company offers various automotive products and services, including new and used vehicles; vehicle maintenance, replacement parts, and collision repair services; and financing, insurance, and service contracts. Its new vehicle sales include the sale of new vehicles to individual retail customers and commercial customers. The company's used vehicle sales comprise the sale of used vehicles to individual retail customers and other dealers at auction. Asbury operates 99 franchises, including 79 dealership locations in 18 metropolitan markets in 10 states. The company was founded in 1995 and is headquartered in Duluth, Georgia.

- **AutoNation, Inc.**

  AutoNation, Inc., through its subsidiaries, operates as an automotive retailer in the U.S. The company offers various automotive products and services, including new vehicles; used vehicles; parts, and automotive repair and maintenance services; and automotive finance and insurance products, which arranges financing for vehicle purchases through third-party finance sources. It also provides a range of vehicle maintenance, repair, paint, and collision repair services, such as warranty and customer-pay service work. In addition, the company offers various vehicle protection products, including extended service contracts, maintenance programs, guaranteed auto protection, tire and wheel protection, and theft protection products. AutoNation owns and operates 258 new vehicle franchises from 215 stores located in metropolitan markets, primarily in the Sunbelt region. The company was founded in 1991 and is headquartered in Fort Lauderdale, Florida.

- **Bilia AB**

  Bilia AB engages in the sale and service of vehicles. The company sells new and used cars, transport vehicles, and motorcycles, as well as offers customer financing and supplementary services. It also provides workshops, spare parts, fuel, stores, tires, tire hotels, glass repairs, and other services and products. The company has 100 facilities in Sweden, Norway, and Denmark, as well as operates an online auction site under the Netbil name in Sweden. Bilia AB is headquartered in Göteborg, Sweden.

- **Group 1 Automotive, Inc.**

  Group 1 Automotive, Inc., through its subsidiaries, engages in the marketing and sale of automotive products and services. It sells new and used cars, light trucks, and vehicle parts. The company also provides vehicle financing services; service and insurance contract services; and automotive maintenance and repair services. The company has operations located in metropolitan areas in the states of Alabama, California, Florida, Georgia, Kansas, Louisiana, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, Oklahoma, South Carolina, and Texas in the U.S.; and in the towns of Brighton, Hailsham, and Worthing in the United Kingdom. Group 1 owns and operates 121 automotive dealerships, 158 franchises, and 30 collision centers in the U.S. and the United Kingdom that offer 32 brands of automobiles. The company was founded in 1995 and is headquartered in Houston, Texas.

- **HR Owen plc**

HR Owen plc operates as a franchised motor dealer in the United Kingdom. The company sells new and used motor vehicles of various brands. It also engages in the after sales operations, including servicing vehicles; sale of parts and accessories; and body shop repair services. The company operates retail outlets in London, Hertfordshire, and Manchester, which includes seven sales franchises and six aftersales franchises for its Sports Car marques, such as Bugatti, Ferrari, Lamborghini, Lotus, and Maserati; two sales franchises and three aftersales franchises for Bentley and Rolls-Royce; and aftersales franchises for Audi, BMW, and Mini. HR Owen Plc was founded in 1932 and is based in London, the United Kingdom.

- **Inchcape plc**

Inchcape plc operates as an automotive retailer and distributor. The company engages in the sale of new and used vehicles of various automotive brands, including Audi, BMW, Jaguar, Land Rover, Lexus, Mercedes-Benz, Porsche, Rolls-Royce, Subaru, Toyota, and Volkswagen. It also offers car finance and insurance products, as well as after sales servicing and parts. The company sells its products and services through distribution, retail, and vertically integrated retail market channels in Australasia, Europe, north Asia, south Asia, Russia, China, the Balkans, the Baltics, Poland, South America, and Africa. Inchcape plc was founded in 1847 and is headquartered in London, the United Kingdom.

- **Inter Cars S.A.**

Inter Cars S.A. engages in the import and distribution of spare parts for cars and commercial vehicles in eastern Europe. It also supplies equipment for repair garages, and spare parts for motorcycles and tuning; and sells INCA scooters, motorcycles, quads, and UTV vehicles. In addition, the company offers consultancy services, and organizes training and seminars on the automotive services and market; manufactures semi-trailers, trailers, and casings for trucks; operates an independent garage network under the Q-Service, Q-Service Truck, and Auto-Crew brand; and leases real property. It has operations primarily in Poland, Ukraine, the Czech Republic, Slovakia, Latvia, Hungary, Italy, Croatia, Belgium, Romania, Latvia, and Cyprus. The company was founded in 1990 and is based in Warsaw, Poland.

- **Lithia Motors Inc.**

Lithia Motors Inc. operates as an automotive franchisee and retailer of new and used vehicles in the U.S. It sells new and used cars, and light trucks; offers replacement parts and service; provides vehicle maintenance, warranty, paint, and repair services; and arranges related financing, service contracts, protection products, and credit insurance. The company offers 29 brands of new vehicles and various brands of used vehicles in 86 stores in 11 states, as well as online at Lithia.com. Lithia Motors, Inc. was founded in 1946 and is headquartered in Medford, Oregon.

- **Lookers plc**

Lookers plc engages in the sale, hire, and maintenance of motor vehicles and motorcycles in the United Kingdom. The company operates in two divisions, Motor and Parts. The Motor division is involved in the sale of new and used cars; and servicing, repair, and sale of franchised parts to customers' vehicles. This division offers products of various brands, including Alfa Romeo, Aston Martin, Audi, Bentley, BMW, Chevrolet, Chrysler, Citroen, Ferrari, Fiat, Ford, Honda, Hyundai, Jaguar, Jeep, Kia, Land Rover, Lexus, Maserati, Mercedes-Benz, Nissan, Peugeot, Renault, Seat, Skoda, Smart, Toyota, Vauxhall, Volkswagen, Volvo, and Yamaha. It operates 111 franchised dealerships representing 31 marques from 70 locations. The Parts division supplies automotive parts, accessories, consumables, braking parts, and turbochargers, as well as distributes brands, such as Gates, Castrol, and Lucas to the independent automotive aftermarket. It operates through 22 locations. The company also engages in the sale, service, hire, and parts supply of agricultural, construction, and ground care machinery to professional users; and arranges vehicle finance and related insurance products. In addition, it offers a range of vehicle funding and management packages; vehicle rental services to the independent car and commercial vehicle rental sector; personal contract hire for private clients, and contract hire and fleet management services for business clients; and car and van rental services. The company was founded in 1908 and is headquartered in Manchester, United Kingdom.

- **Pendragon PLC**

Pendragon PLC, together with its subsidiaries, operates franchised motor car dealerships primarily in the United Kingdom and California. It engages in the sale and repair of new and used motor vehicles, including motor cars and motorbikes under the Stratstone and Evans Halshaw brand names. The company also sells new and used trucks and commercial vehicles, as well as provides after sales services, body repair services, and parts sales under the Chatfields brand name. In addition, it distributes parts under the Quickco brand name; and offers Pinnacle, a Web enabled system that helps dealers and fleet operators in vehicle sales and marketing, after sales, and bookkeeping and accounts generation. Further, the company provides automotive fleet leasing and management facilities; vehicle contract hire and leasing solutions primarily under the Pendragon Contracts brand name; motor vehicle finance and insurance services; and management and marketing services, as well as involves in property holding activities. Pendragon operates 235 franchise points and 14 dedicated used car locations worldwide. The company is based in Nottingham, United Kingdom.

- **Penske Automotive Group, Inc.**

Penske Automotive Group, Inc. operates as an automotive retailer. It sells new and used vehicles of approximately 40 vehicle brands; offers vehicle maintenance and repair services; and engages in the sale and placement of third-party finance and insurance products, third-party extended service contracts, and replacement and aftermarket automotive products. The company operates 320 retail automotive franchises, of which 166 franchises were located in the U.S. and 154 franchises are located outside of the U.S. primarily in the United Kingdom. It also has operations in Puerto Rico and Germany. Penske Automotive Group, Inc. was founded in 1990 and is headquartered in Bloomfield Hills, Michigan.

- **S.A. D'Ieteren N.V.**

S.A. D'Ieteren N.V. provides various services to the motorists worldwide. It distributes Volkswagen, Audi, Skoda, Seat, Porsche, Bentley, Lamborghini, Bugatti, and Yamaha vehicles. The company also provides vehicle glass repair and replacement services under the Carglass, Autoglass, and Safelite brands. In addition, it offers long-term and short-term car rental services under the Avis and Budget brands; distributes spare parts and accessories; and sells used vehicles, as well as provides after sales services. The company was founded in 1805 and is based in Brussels, Belgium.

- **Sonic Automotive, Inc.**

Sonic Automotive, Inc. operates as an automotive retailer in the U.S. It engages in the sale of new and used cars, light trucks, and replacement parts; provision of vehicle maintenance, warranty repair, paint, and collision repair services; and arrangement of extended service contracts, financing, insurance, and other aftermarket products. The company operates 119 dealerships representing 30 brands of cars and light trucks, and 23 collision repair centers in 15 states. The company was founded in 1997 and is based in Charlotte, North Carolina.

- **Stern Groep NV**

Stern Groep NV engages in the automotive distribution activities in the Netherlands. The company also provides financial and technical services, including car hire, car insurance, private financing, business funding, and car rental and leasing, as well as engages in the management of car fleet, maintenance and repair of damaged vehicles, fitting out interiors of cars, and sale of mobility products. In addition, it is involved in real estate activities. The company is based in Amsterdam, the Netherlands.

- **Vertu Motors plc**

Vertu Motors plc engages in the retail of automotive products in the United Kingdom. It provides sales, service, parts, and bodyshop facilities for new and used cars, and commercial vehicles. The company operates 85 franchised and 3 non-franchised sales outlets under the under the Bristol Street Motors, Macklin Motors, Vertu Honda, and Bristol Street Motor Nation brand names, as well as operates 2 stand-alone service operations. It also operates as a pension scheme trustee; and provides vehicle financing and related insurance products, as well as is involved in the property business. The company is based in Gateshead, United Kingdom.

III. Comparable Companies (continued)

B. Operating Metrics

The following charts detail operating metrics for the comparable companies:

(figures in millions except per share amount)

Company	Stock Price	Shares Outstanding	Debt	Cash
Asbury Automotive Group, Inc.	$ 29.31	31.5	$ 898.8	$ 5.9
AutoNation Inc.	40.87	121.8	4,093.1	98.6
Bilia AB	12.73	24.5	37.7	6.2
Group 1 Automotive Inc.	59.28	21.5	1,576.8	38.8
HR Owen plc	1.05	23.6	37.9	12.0
Inchcape plc	6.40	461.8	668.9	1,033.5
Inter Cars S.A.	27.43	14.2	138.5	20.8
Lithia Motors Inc.	32.79	25.6	778.9	19.8
Lookers plc	1.17	383.6	103.4	41.0
Pendragon PLC	0.22	1,433.1	533.5	152.2
Penske Automotive Group, Inc.	26.48	90.3	2,790.0	25.9
S.A. D'Ieteren N.V.	45.27	55.1	1,361.9	655.1
Sonic Automotive Inc.	18.66	56.3	1,618.3	62.5
Stern Groep NV	18.73	5.4	461.4	1.6
Vertu Motors Plc	0.63	199.3	21.0	24.2

($ in millions)

	LTM Operating Indications					LTM Margins				2-Year Compound Annual Growth Rate				NFY Operating Indications	
Company	Revenue	Gross Profit	EBITDA	EBIT	Net Income	Gross Profit	EBITDA	EBIT	Net Income	Revenue	EBITDA	EBIT	Net Income	Revenue	EBITDA
Asbury Automotive Group, Inc.	$ 4,612.7	$ 765.8	$ 194.0	$ 171.2	$ 80.9	16.6%	4.2%	3.7%	1.8%	14.3%	19.8%	22.1%	56.8%	$ 4,674.6	$ 206.2
AutoNation Inc.	15,173.7	2,432.8	707.8	621.9	302.6	16.0%	4.7%	4.1%	2.0%	12.4%	16.4%	18.1%	17.0%	15,390.6	721.8
Bilia AB	17,908.0	2,714.0	661.2	299.2	174.0	15.2%	3.7%	1.7%	1.0%	7.6%	-5.0%	-16.1%	-25.7%	5,475.3	393.1
Group 1 Automotive Inc.	7,163.1	1,082.9	265.2	235.0	103.9	15.1%	3.7%	3.3%	1.5%	17.1%	23.8%	26.5%	65.9%	7,384.2	262.6
HR Owen plc	227.8	33.9	5.1	3.1	1.3	14.9%	2.2%	1.3%	0.6%	26.6%	73.3%	161.5%	42.2%	3,039.0	224.6
Inchcape plc	6,005.1	868.4	282.4	253.0	148.4	14.5%	4.7%	4.2%	2.5%	0.9%	1.1%	3.3%	0.9%	1,977.6	56.7
Inter Cars S.A.	2,946.5	912.4	188.3	153.7	96.4	31.0%	6.4%	5.2%	3.3%	13.0%	18.2%	23.2%	30.3%	3,602.7	106.7
Lithia Motors Inc.	3,216.6	528.4	161.1	144.1	79.3	16.4%	5.0%	4.5%	2.5%	27.6%	48.7%	64.3%	219.1%	3,314.9	161.1
Lookers plc	1,929.9	254.4	55.0	44.0	27.2	13.2%	2.8%	2.3%	1.4%	1.7%	5.9%	5.9%	25.8%	958.7	19.6
Pendragon PLC	3,606.7	518.5	156.5	120.3	44.0	14.4%	4.3%	3.3%	1.2%	2.4%	14.5%	25.9%	134.5%	1,245.2	13.6
Penske Automotive Group, Inc.	13,096.3	2,000.8	404.4	350.6	184.6	15.3%	3.1%	2.7%	1.4%	13.7%	16.9%	19.0%	36.9%	13,281.9	403.5
S.A. D'Ieteren N.V.	5,815.2	1,658.7	405.1	326.3	243.3	28.5%	7.0%	5.6%	4.2%	-2.0%	-7.2%	-11.3%	6.5%	6,084.2	297.4
Sonic Automotive Inc.	8,502.3	1,263.9	274.0	226.6	79.3	14.9%	3.2%	2.7%	0.9%	13.4%	15.2%	16.3%	41.1%	8,560.2	275.9
Stern Groep NV	967.8	174.6	49.1	8.2	4.9	18.0%	5.1%	0.8%	0.5%	4.9%	1.0%	54.3%	13.7%	958.7	19.6
Vertu Motors Plc	1,169.4	137.6	13.1	9.2	5.3	11.8%	1.1%	0.8%	0.5%	12.2%	10.4%	10.9%	-0.6%	1,245.2	13.6
Low	$ 227.8	$ 33.9	$ 5.1	$ 3.1	$ 1.3	11.8%	1.1%	0.8%	0.5%	-2.0%	-7.2%	-16.1%	-25.7%	$ 958.7	$ 13.6
High	$ 17,908.0	$ 2,714.0	$ 707.8	$ 621.9	$ 302.6	31.0%	7.0%	5.6%	4.2%	27.6%	73.3%	161.5%	219.1%	$ 15,390.6	$ 721.8
Median	$ 4,612.7	$ 868.4	$ 194.0	$ 171.2	$ 80.9	15.2%	4.2%	3.3%	1.4%	12.4%	15.2%	19.0%	30.3%	$ 3,602.7	$ 206.2
Mean	$ 6,156.1	$ 1,023.1	$ 254.8	$ 197.8	$ 105.0	17.0%	4.1%	3.1%	1.7%	11.1%	16.9%	28.3%	44.3%	$ 5,146.2	$ 211.7

III. Comparable Companies (continued)

C. Weighted Average Cost of Capital

(dollars in millions)

Guideline Company	Debt	Preferred Stock	Equity Market Value	Total Capitalization	Debt to Equity Market Value	Debt to Total Capitalization	Preferred Stock to Total Capitalization	Equity Market Value to Total Capitalization
Asbury Automotive Group, Inc.	$898.8	$0.0	$935.3	$1,834.1	96.1%	49.0%	0.0%	51.0%
AutoNation Inc.	4,093.1	0.0	5,066.4	9,159.5	80.8%	44.7%	0.0%	55.3%
Bilia AB	37.7	0.0	316.9	354.6	11.9%	10.6%	0.0%	89.4%
Group 1 Automotive Inc.	1,576.8	0.0	1,331.3	2,908.1	118.4%	54.2%	0.0%	45.8%
HR Owen plc	37.9	0.0	25.3	63.2	149.5%	59.9%	0.0%	40.1%
Inchcape plc	668.9	0.0	405.7	1,074.6	164.9%	62.2%	0.0%	37.8%
Inter Cars S.A.	138.5	0.0	388.7	527.2	35.6%	26.3%	0.0%	73.7%
Lithia Motors Inc.	778.9	0.0	853.5	1,632.4	91.3%	47.7%	0.0%	52.3%
Lookers plc	103.4	0.0	464.5	567.9	22.3%	18.2%	0.0%	81.8%
Pendragon PLC	533.5	0.0	318.5	852.0	167.5%	62.6%	0.0%	37.4%
Penske Automotive Group, Inc.	2,790.0	0.0	2,391.1	5,181.1	116.7%	53.9%	0.0%	46.1%
S.A. D'Ieteren N.V.	1,361.9	0.0	2,479.2	3,841.1	54.9%	35.5%	0.0%	64.5%
Sonic Automotive Inc.	1,618.3	0.0	1,124.8	2,743.1	143.9%	59.0%	0.0%	41.0%
Stern Groep NV	461.4	0.0	101.2	562.6	455.9%	82.0%	0.0%	18.0%
Vertu Motors Plc	21.0	0.0	125.3	146.3	16.8%	14.4%	0.0%	85.6%
Median	$668.9	$0.0	$464.5	$1,074.6	96.1%	49.0%	0.0%	51.0%
Mean	$1,008.0	$0.0	$1,088.5	$2,096.5	115.1%	45.3%	0.0%	54.7%

Guideline Company	Levered Beta	Unlevered Beta	Equity Risk Premium	Size Premium	Cost of Equity	Cost of Debt	Cost of Preferred Stock	WACC
Asbury Automotive Group, Inc.	1.67	1.03	6.25%	1.88%	14.7%	6.2%	0.0%	9.5%
AutoNation Inc.	2.22	1.46	6.25%	1.01%	17.3%	2.5%	0.0%	10.3%
Bilia AB	2.33	2.17	6.25%	2.94%	19.9%	5.6%	0.0%	18.1%
Group 1 Automotive Inc.	2.00	1.13	6.25%	1.82%	16.6%	5.8%	0.0%	9.6%
HR Owen plc	2.97	1.51	6.25%	6.36%	27.3%	7.0%	0.0%	13.7%
Inchcape plc	0.81	0.39	6.25%	2.94%	10.3%	5.6%	0.0%	6.2%
Inter Cars S.A.	0.87	0.71	6.25%	2.94%	10.7%	4.0%	0.0%	8.6%
Lithia Motors Inc.	0.17	0.10	6.25%	1.88%	5.3%	5.6%	0.0%	4.5%
Lookers plc	0.91	0.79	6.25%	2.94%	11.0%	5.6%	0.0%	9.6%
Pendragon PLC	0.15	0.07	6.25%	2.94%	6.2%	5.6%	0.0%	4.6%
Penske Automotive Group, Inc.	1.72	0.98	6.25%	1.81%	14.9%	5.6%	0.0%	8.8%
S.A. D'Ieteren N.V.	0.51	0.37	6.25%	1.81%	7.3%	5.6%	0.0%	6.0%
Sonic Automotive Inc.	0.59	0.30	6.25%	1.88%	7.9%	5.6%	0.0%	5.4%
Stern Groep NV	0.65	0.16	6.25%	6.36%	12.8%	5.6%	0.0%	5.3%
Vertu Motors Plc	0.73	0.65	6.25%	6.36%	13.2%	5.6%	0.0%	11.9%
Median	0.87	0.71			12.8%	5.6%	0.0%	8.8%
Mean	1.22	0.79			13.0%	5.4%	0.0%	8.8%

IV. Control Premiums

Median and mean control premiums paid in recent transactions:

Control Premium Selection

Last 90 Days

Domestic Transactions	
Number of Transactions	56
Median	24.7%
Mean	26.3%
International Transactions	
Number of Transactions	66
Median	26.5%
Mean	28.0%
All Transactions	
Number of Transactions	122
Median	25.8%
Mean	27.2%

Last 12 Months

Number of Transactions	499
Median	26.9%
Mean	27.3%

Investment banking services provided by HL Capital, Inc.; investment advisory services provided by HL Financial Advisors, Inc. In the European Economic Area and Hong Kong services provided by HL (Europe) Limited and HL (China) Limited, respectively.

About Houlihan Lokey

Houlihan Lokey is an international investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and valuation. The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, and Asia. Independent advice and intellectual rigor are hallmarks of our commitment to client success across our advisory services. Houlihan Lokey is ranked globally as the No. 1 restructuring advisor, the No. 1 M&A fairness opinion advisor over the past 10 years, and the No. 1 M&A advisor for U.S. transactions under $1 billion, according to Thomson Reuters. For more information, please visit www.HL.com.