

## **Groupe Park A – Appendix TN-2b**

### **Consolidation Mechanisms**

These slides show how an investment banker would use public information to formulate a “consolidation play” for Groupe Park Avenue.

They would aim to take advantage of two important elements:

- 1) GPA is more profitable than the average “mom and pop” dealer.
- 2) Public companies trade at significantly higher EBIT multiples than do private firms.

Can a scenario be created that is in the best interests of the family?

*Note that this is a hypothetical scenario, for discussion purposes only, to illustrate how consolidators use arbitrage (between public and private multiples) to create value. This scenario does not in any way reflect the actual value of Groupe Parke Avenue.*

# Start from the average dealer data, GPA sales, and AutoCanada 2013 information

|   | Avg Dealer | GPA_Avg   | AutoCanada  |
|---|------------|-----------|-------------|
| SALES                                   | \$20,064   | \$431,376 | \$1,409,040 |
| EBIT                                    | \$321      |           | \$57,516    |
| CURRENT ASSETS                          | \$7,246    |           | \$383,975   |
| <i>Intangible assets &amp; Goodwill</i> |            |           | \$108,985   |
| <i>Building and Equipment</i>           | \$601      |           | \$122,915   |
| FIXED ASSETS                            | \$601      |           | \$231,900   |
| TOTAL ASSETS                            | \$7,847    |           | \$615,875   |
| LIABILITIES                             | \$6,194    |           | \$425,633   |
| NET WORTH                               | \$1,653    |           | \$190,242   |
| LIABILITIES AND NET WORTH               | \$7,847    |           | \$615,875   |
|   |            |           | 15x         |
|   |            |           | \$615,875   |
|   |            |           | -\$61,458   |
|   |            |           | -\$425,633  |
|   |            |           | \$862,740   |
|   |            |           | \$991,525   |

*This is the only public financial information available on GPA*

*The case notes the average dealer generates EBIT of 1.6% of sales.*

*Investment bankers can often derive ballpark (but relatively accurate) valuations from relatively little information.*

## Calculate the enterprise value of an average dealer; compare this to AutoCanada

|   | Avg Dealer | GPA_Avg   | AutoCanada  |
|---|------------|-----------|-------------|
| SALES                                   | \$20,064   | \$431,376 | \$1,409,040 |
| EBIT                                    | \$321      |           | \$57,516    |
| CURRENT ASSETS                          | \$7,246    |           | \$383,975   |
| <i>Intangible assets &amp; Goodwill</i> |            |           | \$108,985   |
| <i>Building and Equipment</i>           | \$601      |           | \$122,915   |
| FIXED ASSETS                            | \$601      |           | \$231,900   |
| TOTAL ASSETS                            | \$7,847    |           | \$615,875   |
| LIABILITIES                             | \$6,194    |           | \$425,633   |
| NET WORTH                               | \$1,653    |           | \$190,242   |
| LIABILITIES AND NET WORTH               | \$7,847    |           | \$615,875   |
| MULTIPLE OF EBIT (BLUE SKY)             | 5x         |           | 15x         |
| TOTAL ASSETS                            | \$7,847    |           | \$615,875   |
| - 50% BLDG & EQUIP                      | -\$301     |           | -\$61,458   |
| MIINUS LIABILITIES                      | -\$6,194   |           | -\$425,633  |
| PLUS (EBIT x MULTIPLE)                  | \$1,605    |           | \$862,740   |
| ENTERPRISE VALUE                        | \$2,958    |           | \$991,525   |

*Here we calculate enterprise value without real estate and buildings at 50% of book value.*

*For an average dealer, assume 5x multiple, a blended average of the Haig multiples.*

*While AutoCanada trades at 29x EBIT at the time of the case was written, here assume 15x.*

# Scale the average dealer to GPA's size, then calculate the enterprise value

|   | Avg Dealer | GPA_Avg    |   | AutoCanada  |
|---|------------|------------|---|-------------|
| SALES                                   | \$20,064   | \$431,376  | <i>Scale the income statement by 21.5 (\$431K/\$20K)</i>                                      | \$1,409,040 |
| EBIT                                    | \$321      | \$6,902    |   | \$57,516    |
| CURRENT ASSETS                          | \$7,246    | \$138,709  | <i>Create a balance sheet based on ratios blended from the average dealer and AutoCanada.</i> | \$383,975   |
| <i>Intangible assets &amp; Goodwill</i> |            |            |   | \$108,985   |
| <i>Building and Equipment</i>           | \$601      | \$12,922   |   | \$122,915   |
| FIXED ASSETS                            | \$601      | \$12,922   |   | \$231,900   |
| TOTAL ASSETS                            | \$7,847    | \$151,631  |   | \$615,875   |
| LIABILITIES                             | \$6,194    | \$130,307  |   | \$425,633   |
| NET WORTH                               | \$1,653    | \$21,324   |   | \$190,242   |
| LIABILITIES AND NET WORTH               | \$7,847    | \$151,631  |   | \$615,875   |
| MULTIPLE OF EBIT (BLUE SKY)             | 5x         | 5x         |   | 15x         |
| TOTAL ASSETS                            | \$7,847    | \$151,631  | <i>Enterprise value is calculated at \$50 million.</i>  | \$615,875   |
| - 50% BLDG & EQUIP                      | -\$301     | -\$6,461   |   | -\$61,458   |
| MIINUS LIABILITIES                      | -\$6,194   | -\$130,307 |   | -\$425,633  |
| PLUS (EBIT x MULTIPLE)                  | \$1,605    | \$34,508   |   | \$862,740   |
| ENTERPRISE VALUE                        | \$2,958    | \$49,370   |   | \$991,525   |

## Modify GPA\_Avg to increase profitability to 4% EBIT

|   | Avg Dealer | GPA_Avg    | GPA_4%     |
|---|------------|------------|------------|
| SALES                                   | \$20,064   | \$431,376  | \$431,376  |
| EBIT                                    | \$321      | \$6,902    | \$19,592   |
| CURRENT ASSETS                          | \$7,246    | \$138,709  | \$138,709  |
| <i>Intangible assets &amp; Goodwill</i> |            |            |            |
| <i>Building and Equipment</i>           | \$601      | \$12,922   | \$12,922   |
| FIXED ASSETS                            | \$601      | \$12,922   | \$12,922   |
| TOTAL ASSETS                            | \$7,847    | \$151,631  | \$151,631  |
| LIABILITIES                             | \$6,194    | \$130,307  | \$130,307  |
| NET WORTH                               | \$1,653    | \$21,324   | \$21,324   |
| LIABILITIES AND NET WORTH               | \$7,847    | \$151,631  | \$151,631  |
| MULTIPLE OF EBIT (BLUE SKY)             | 5x         | 5x         | 5x         |
| TOTAL ASSETS                            | \$7,847    | \$151,631  | \$151,631  |
| - 50% BLDG & EQUIP                      | -\$301     | -\$6,461   | -\$6,461   |
| MIINUS LIABILITIES                      | -\$6,194   | -\$130,307 | -\$130,307 |
| PLUS (EBIT x MULTIPLE)                  | \$1,605    | \$34,508   | \$97,958   |
| ENTERPRISE VALUE                        | \$2,958    | \$49,370   | \$112,821  |

*Here, adjust the income statement to 4% EBIT with no change to the balance sheet.*

*Valuation leaps from \$50M to \$112M.*

# Acquire companies equal to 1.5x GPA\_Avg, increase their profitability to 4% EBIT

|                  | Avg Dealer | GPA_Avg    | GPA_4%     | GPA_2.5x    | utoCanada   |
|------------------|------------|------------|------------|-------------|-------------|
| SALES            | \$20,064   | \$431,376  | \$431,376  | \$1,078,440 | \$1,409,040 |
| EBIT             | \$321      | \$6,902    | \$19,592   | \$48,979    | \$57,516    |
| CURRENT ASSETS   |            | \$138,709  | \$138,709  | \$346,773   | \$383,975   |
| Intangible       |            |            |            | \$75,000    | \$108,985   |
| Building         |            | \$12,922   | \$12,922   | \$47,922    | \$122,915   |
| FIXED ASSETS     |            | \$12,922   | \$12,922   | \$122,922   | \$231,900   |
| TOTAL ASSETS     |            | \$151,631  | \$151,631  | \$469,695   | \$615,875   |
| LIABILITIES      |            | \$130,307  | \$130,307  | \$338,372   | \$425,633   |
| NET WORTH        |            | \$21,324   | \$21,324   | \$131,324   | \$190,242   |
| LIABILITIES      |            | \$151,631  | \$151,631  | \$469,695   | \$615,875   |
| MULTIPLE C       |            | 5x         | 5x         | 5x          | 15x         |
| TOTAL ASSETS     |            | \$151,631  | \$151,631  | \$469,695   | \$615,875   |
| - 50% BL         |            | -\$6,461   | -\$6,461   | -\$23,961   | -\$61,458   |
| MINUS LIAB       |            | -\$130,307 | -\$130,307 | -\$338,372  | -\$425,633  |
| PLUS (EBIT       |            | \$34,508   | \$97,958   | \$244,896   | \$862,740   |
| ENTERPRISE VALUE | \$2,958    | \$49,370   | \$112,821  | \$352,258   | \$991,525   |

Here we assume that GPA\_4% sells 49% of the company for a \$110M cash injection. It uses \$75M to acquire dealerships equivalent to 1.5 times the size of GPA Avg (at its valuation), then invests the remaining \$35M to upgrade those dealers and changes their operating methods to achieve 4% EBIT.

The resulting entity is 2.5x the size of GPA.

## What is GPA\_2.5x worth as a public company?

|   | Avg Dealer | GPA_Avg   | GPA_4%    | GPA_2.5x    | utoCanada   |
|---|------------|-----------|-----------|-------------|-------------|
| SALES                                   | \$20,064   | \$431,376 | \$431,376 | \$1,078,440 | \$1,409,040 |
| EBIT                                    | \$321      | \$6,902   | \$19,592  | \$48,979    | \$57,516    |
| CURRENT ASSETS                          | \$7,246    | \$138,709 | \$138,709 | \$346,773   | \$383,975   |
| <i>Intangible assets &amp; Goodwill</i> |            |           |           | \$75,000    | \$108,985   |
| <i>Building and Equipment</i>           | \$601      | \$12,922  | \$12,922  | \$47,922    | \$122,915   |
| FIXED ASSETS                            | \$601      | \$12,922  | \$12,922  | \$122,922   | \$231,900   |
| TOTAL ASSETS                            | \$7,847    | \$151,631 | \$151,631 | \$469,695   | \$615,875   |
| LIABILITIES                             | \$6,194    | \$130,307 | \$130,307 | \$338,372   | \$425,633   |
| NET WORTH                               | \$1,653    | \$21,324  | \$21,324  | \$131,324   | \$190,242   |
| LIABILITIES AND NET WORTH               | \$7,847    | \$151,631 | \$151,631 | \$469,695   | \$615,875   |

| MULTIPLE OF EBIT (BL  | <i>GPA_2.5x<br/>value, 15x</i> | 5x       | 5x         | 5x         | 5x         | 15x        |
|-----------------------|--------------------------------|----------|------------|------------|------------|------------|
| TOTAL ASSETS          | \$469,695                      | \$7,847  | \$151,631  | \$151,631  | \$469,695  | \$615,875  |
| - 50% BLDG & EQUI     | -\$23,961                      | -\$301   | -\$6,461   | -\$6,461   | -\$23,961  | -\$61,458  |
| MIINUS LIABILITIES    | -\$338,372                     | -\$6,194 | -\$130,307 | -\$130,307 | -\$338,372 | -\$425,633 |
| PLUS (EBIT x MULTIPLE | \$734,687                      | \$1,605  | \$34,508   | \$97,958   | \$244,896  | \$862,740  |
| ENTERPRISE VALUE      | \$842,049                      | \$2,958  | \$49,370   | \$112,821  | \$352,258  | \$991,525  |