Warren Buffett Buys New-Car Retail Chain

Investor Says He Plans to Buy More Dealerships Over Time

By
CHRISTINA ROGERS, ERIK HOLM and CHELSEY DULANEY
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Warren Buffett's Berkshire Hathaway plans to purchase Van Tuyl Group, the fifth-largest U.S. dealership chain by car sales and revenue. The group will be renamed Berkshire Hathaway Automotive.

Warren Buffett wants to sell you a car.

The billionaire investor on Thursday agreed to buy America's fifth-largest auto retailer and use it to launch a consolidation of the highly fragmented business.

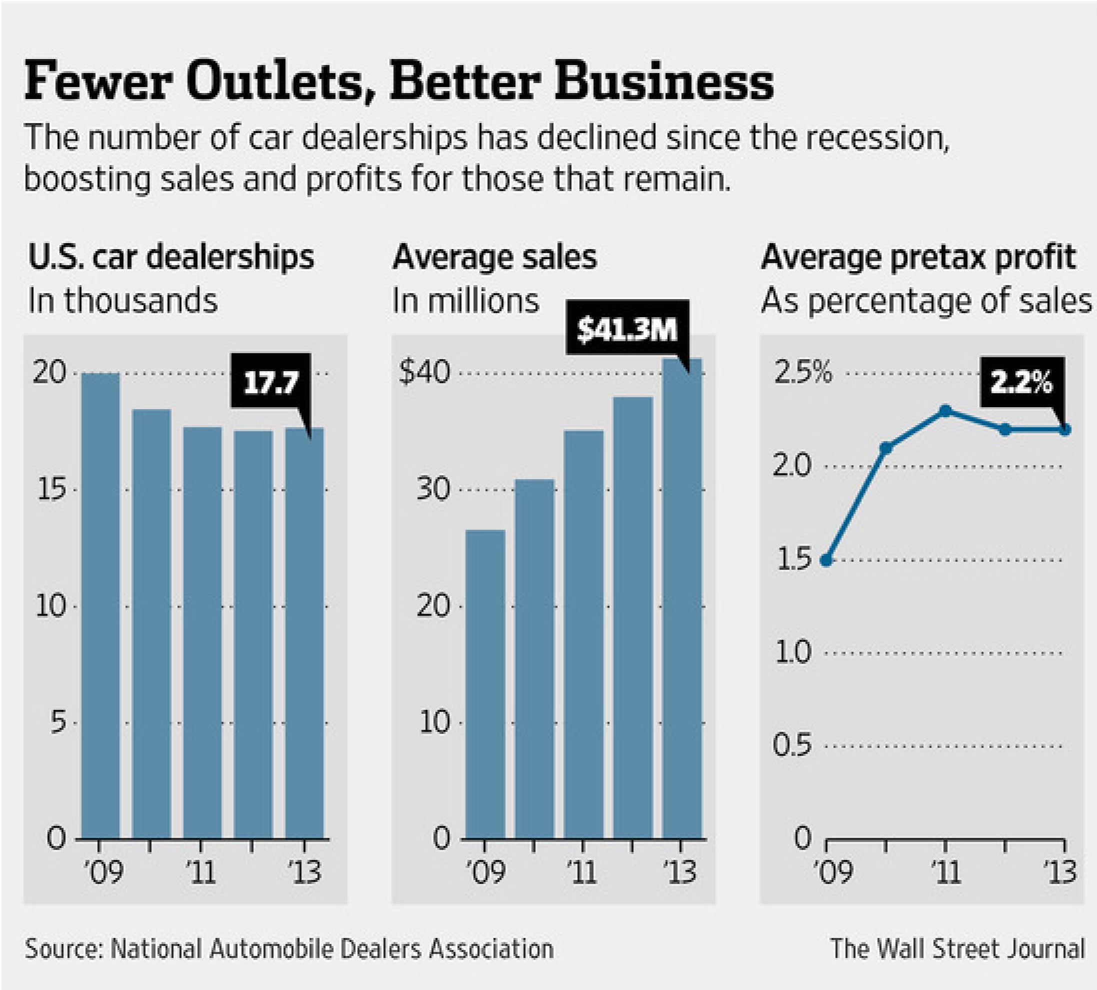
His Berkshire Hathaway Inc. would acquire an about $8 billion retail business with operations from Florida to California, and use it to snap up family-owned dealerships elsewhere. The retailer, which will be named Berkshire Hathaway Automotive, can leverage Berkshire's other companies to provide car sales, financing and related services.

he move comes as car-retailing is poised to undergo significant changes that provide greater efficiencies. Dealer profits have been rising as auto makers culled less financially stable businesses during last decade's financial crisis. Customers also have embraced the Web to shop for cars, cutting dealer overhead costs.

"We're certainly thinking big and would like to grow the business," said Jeff Rachor, president of Phoenix-based Van Tuyl Group, which Berkshire agreed to acquire in an all-cash deal. The purchase price wasn't disclosed.

Mr. Rachor, who will become Berkshire Hathaway Automotive's chief executive, said the new company intends to pursue dealer acquisitions in the South and Midwest where Van Tuyl already has stores, relying on its new owner's deep pockets. He estimated there are about 5,000 dealerships that have the scale that match its acquisition goals.

Van Tuyl, a closely held business that was founded in Kansas City nearly 60 years ago, owns dealerships that now sell about 240,000 vehicles a year. The company has been controlled by Larry Van Tuyl, the founder's son who will become chairman of the new business.



The deal comes amid ongoing consolidation in the industry. Publicly traded giants, including Florida-based AutoNation Inc. and Oregon-based Lithia Motors Inc., have been snapping up smaller retail chains, often run by families who have been selling cars for generations.

The new company is positioned to provide car buyers financing and insurance. Berkshire Hathaway is a major lender and its Geico insurance arm could gain access to customers as they need new auto insurance. Mr. Rachor said the retailer has studied starting its own auto finance arm that could lessen reliance on third-party lenders such as Ford Motor Credit or Ally Financial Inc.

“Financing is such a big deal, and Berkshire has a very low cost of capital. They’ll make a lot more money off this,” said Jeff Matthews, a Buffett-watcher and author of “Secrets In Plain Sight: Business & Investing Secrets of Warren Buffett.” Car dealers typically earn bigger profits on finance plans and service contracts than they do on selling new or used automobiles.

The push into the car-dealership market mirrors Mr. Buffett’s recent pushes into newspapers and real-estate brokerages. In both businesses, Berkshire has been snapping up assets across the U.S. Five years ago, Berkshire’s only 100%-owned media holding was the Buffalo News. Now, the list of newspapers it owns fills an entire page in Berkshire’s annual report. In the same report, Berkshire’s count of real-estate agents at its various brokerages topped 20,000—and the company has been steadily announcing more acquisitions all year long.

Berkshire Hathaway CEO Warren Buffett said on Thursday that he expects to buy more dealerships over time. *Associated Press*

With Berkshire's cash hoard of more than $50 billion, Mr. Buffett has said he is on the hunt for "elephants"—his word for big companies worth tens of billions of dollars that can add significantly to Berkshire's earnings.

This deal appears to be a modest-size purchase. David Kass, a professor at the University of Maryland's Robert H. Smith School of Business, said a comparison of Van Tuyl's revenue to publicly traded peers suggests the price tag may have been about $3 billion.

Mr. Rachor said Mr. Buffett isn't done spending on the business. "Berkshire gives us access to virtually unlimited capital and permanent capital," he said. "The resources that will be available are clearly a competitive advantage."

In many ways, the Van Tuyl Group acquisition is typical of Mr. Buffett's deals: a family-owned business with strong prospects that is in the middle of a generational transition. Many companies in his stable of businesses, which includes retail and manufacturing companies, came to Berkshire this way. In 2008, Berkshire agreed to buy industrial company Marmon in stages from Chicago's billionaire Pritzker family as they were untangling family-owned assets after the death of Jay Pritzker, the family patriarch.

Other Berkshire watchers said that Mr. Buffett likely was drawn to the Van Tuyl family's reputation and its strong relationships with other car dealers.

Lawrence Cunningham, a professor at George Washington University Law School, said the prominence Mr. Buffett gave to the "cultural fit" with Berkshire was notable.

"As far as I recall, Berkshire press releases have never made an acquisition's cultural fit so prominent and explicit," said Mr. Cunningham, who has collected Mr. Buffett's writings in a book titled, "The Essays of Warren Buffett."

The deal signals a continuation of Berkshire Hathaway's latest efforts to build a brand name in fragmented industries. In recent years, the Omaha, Neb., conglomerate bought dozens of local newspapers, most of which are housed under BH Media Group. A unit of Berkshire Hathaway Energy that owns real-estate brokerages and for years operated under local brand names also began using a unified brand in recent months: Berkshire Hathaway HomeServices.

Mr. Buffett is also familiar with the auto industry through Berkshire Hathaway's 2.1% stake in General Motors Co.

The acquisition "is a validation that auto retail is a solid, long-term investment," AutoNation CEO Michael Jackson said. Mr. Jackson, who runs the nation's biggest auto retailer, says the U.S. auto sales boom still has room to run.

Berkshire Hathaway is buying into an industry where the number of independent shops is dwindling. The U.S. new-car dealership count dwindled to about 17,700 last year, from about 30,800 in 1970, according to the National Automobile Dealers Association. The consolidation was helped along in 2009 when hundreds of dealerships were closed during the bankruptcies of Chrysler and GM.

The survivors are enjoying a booming business. Auto sales are tracking at near-decade highs, and demand for trucks, luxury cars and sport-utility vehicles is sizzling. And having survived the U.S. auto industry's painful restructuring in 2008-2009, many dealers also are benefiting from strong used-car prices.

"Some of these dealers are flush with cash," said Cliff Banks, president and founder of The Banks Report, which tracks the auto-retail business.

The high concentration of family ownership in the auto-retailing business means the industry remains highly fragmented, with publicly traded companies controlling only about 8% of the revenue.

As many of the founders of the smaller businesses get older, they have been cashing out and selling to bigger groups.

Erin Kerrigan, founder and managing director of Kerrigan Advisors, a dealership merger-and-acquisition consultant, called the deal "a harbinger of what's to come."

—Anupreeta Das contributed to this article.

Berkshire Hathaway Buys Into a Family Business

Car-Dealership Has High Concentration of Family Ownership, Such as Van Tuyl Group

By

CHRISTINA ROGERS AND JOHN D. STOLL

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Berkshire Hathaway Inc. 's purchase of a mega-car dealer group has billionaire Warren Buffett buying into a family business—in more ways than one.
While the Van Tuyl Group is big, collecting $8 billion in 78 stores scattered across 10 states, it is at its core a family-run business. Founded by Cecil Van Tuyl in 1955 with a Chevy dealer in Kansas City, the group blossomed in the following decades. His son Larry joined the company in 1971, expanding to consulting.

The fifth-largest U.S. dealer chain by car sales and revenue, in many ways, looks like countless other auto-retailing outfits in America. Michigan has the LaFontaines, Wisconsin has the Bergstroms, Texas has the Sewells, Arizona has the Sandersons. And the list goes on. Often, these families are well-known because of the countless community sponsorships they support, such as Little League baseball, and because they are major local advertisers.

The high concentration of family ownership in the dealer business means the industry remains highly fragmented, with publicly traded companies only about 8% of the revenue, even with the rise in dealership M&A.

As many of the founders of the smaller businesses get older, they have been cashing out and selling to bigger players. AutoNation Inc., Penske Automotive Group, Sonic Automotive and Lithia Motors are some of the publicly traded dealership firms that have shown an appetite to acquire smaller or even similarly sized rivals.

Erin Kerrigan, founder and managing director of Kerrigan Advisors, a dealership merger and acquisition consultant, said that with many dealers nearing retirement age, the industry has undergone a wave of consolidation in the past few years. She said there are still many large, privately held groups with owners who are getting to the age where it might look attractive to sell off the business.

"This transaction is going to be a harbinger of what's to come," Ms. Kerrigan said. "We'll see many more large, family offices buy dealership groups."

Mr. Buffett will be one of the few players with access to the type of capital needed to lure longtime owners to sell. While terms of the Van Tuyl Group weren't disclosed, the all-cash deal is likely far out of the reach of most of America's dealer groups.

Berkshire Hathaway is buying into an industry where the number of independent shops is dwindling, however. The U.S. new-car dealership count dwindled to about 17,700 last year, from about 30,000 in 1970, according to the National Automobile Dealers Association. The consolidation was helped along in 2009 when hundreds of dealerships were closed during the bankruptcies of Chrysler and General Motors Co.

The survivors are enjoying a booming business. Auto sales are tracking at near-decade highs, and demand for trucks, luxury cars and SUVs (long the cash cows of the auto industry) is sizzling. This has boosted profitability. And, having survived the U.S. auto industry's painful restructuring in 2008-2009, many dealers are benefiting now from strong used-car prices.

"Some of these dealers are flush with cash," said Cliff Banks, president and founder of the Banks Report, which tracks the auto-retail business. "They restructured their businesses [during the downturn], streamlined them, cut out costs, and sales have rebounded faster than expected."

But winning in the auto-dealer game is less about moving metal and more about selling finance, insurance and service products. Some dealers have their own finance arms, but most have strong relationships with so-called captive finance arms, such as Ford Motor Credit, or auto-finance giants such as Ally Financial.
Low interest rates have made it easier to offer cut-rate leases and auto loans. Dealers typically enjoy bigger margins on finance products than on the sale of a new or used car.

NADA in its 2014 industry report said new-vehicle profit-per-vehicle fell to $69 in 2013 from $111 the prior year. Used vehicles returned $254 in per-vehicle profit, up from $194 in 2012.

Finance and insurance products, meanwhile, can be money machines. Combined sales from F&I, service contracts and other products accounted for 38.8% of gross profit in the new- and used-vehicle departments in 2013.

Some of Mr. Buffett's new peers are welcoming him to the table already. The acquisition "is a validation that auto retail is a solid, long-term investment," AutoNation Chief Executive Mike Jackson said. Mr. Jackson has been telling investors that the U.S. auto sales cycle isn't headed for a big fall, as some forecasters have warned, but still has room to run.
A big question is how quickly Mr. Buffett can snap up more stores to add to his collection. The bigger Berkshire Hathaway's auto dealership business gets, the easier it will be to influence auto makers when it comes to sales strategies or even product plans.

In a note to investors, Wells Fargo equity analyst David Lim said auto makers still limit the number of franchises owned by a single dealer group and dealership acquisition costs are elevated relative to historic trends.
According to Kerrigan Advisors, dealership buy and sell activity was up 60% in the first quarter this year, with the majority of those transactions—83% -- coming from privately owned groups. Their dominance is reflected by the rising number of private dealerships with sales of more than $1 billion. Last year, there were 36 private dealerships with $1 billion plus sales, up from just 14 in 2010 and 11 in 2009.

—-Joseph B. White contributed to this article.

Oct. 2, 2014

Buffett Nabs Car Dealership As First Step Into Fragmented Market

ByErik Holm

Warren Buffett already had the planes and trains. Now he's got automobiles.

Mr. Buffett's Berkshire Hathaway Inc. on Thursday announced an agreement to acquire Van Tuyl Group, the fifth-largest auto dealership firm in the U.S. Mr. Buffett said he plans to use the newly acquired company as a platform to make an even bigger move into the fragmented market for car sales.

"This is just a very very good operation…I fully expect we'll buy a lot more dealerships over time," Mr. Buffett said in an interview on CNBC, where he disclosed the deal moments before Berkshire put out a press release about the transaction.

After becoming a part of Mr. Buffett's Omaha, Neb.-based company, the auto dealership will be known as Berkshire Hathaway Automotive.

Mr. Buffett has built Berkshire over the past five decades into a massive conglomerate that includes businesses that span vast swaths of the U.S. economy, including car insurer Geico Corp., energy company MidAmerican, and smaller concerns like Dairy Queen and See's Candies. Berkshire also owns railroad Burlington Northern Santa Fe and jet leasing firm NetJets.

The move into the car-dealership market appears to pull from the same playbook Mr. Buffett has been using for his recent pushes into newspapers and real-estate brokerages.

In both sectors, Berkshire has been rapidly snapping up assets across the U.S. Five years ago, Berkshire's only 100%-owned newspaper holding was the Buffalo News. Now, the list of newspapers it owns fills an entire page at the end of Berkshire's most recent annual report. In the same report, Berkshire's count of real-estate agents at its various brokerages topped 20,000–and the company has been steadily announcing more acquisitions all year long.

Jeff Matthews, a Berkshire-watcher who's authored "Secrets In Plain Sight: Business & Investing Secrets of Warren Buffett," said the same thing is likely to happen with car dealerships.

"It's a very fragmented business, and finding a successor is the single hardest part of the dealership game. It's always a dicey thing," said Mr. Matthews. "The dealers have to spend a lot of time making sure whoever is coming along to replace them will do a good job" because the car manufacturers will give them close scrutiny and can sign off on their pick.

Mr. Matthews also said he sees parallels with Berkshire's serial acquisitions of electrical utility companies. Utilities are closely regulated and, thus, must bank on their reputation, much like car dealers much work to please the car manufacturers.

Terms of the Van Tuyl deal weren't disclosed.

The deal is the latest example of a family-owned business turning to Mr. Buffett and Berkshire Hathaway to secure their company's future. Mr. Buffett touts his desire to hold his acquisitions "forever" as a reason for closely held concerns to seek out Berkshire for deals instead of turning to private-equity firms.

Both Mr. Buffett and Larry Van Tuyl, the firm's chief executive, said it was a major factor for the latest deal.

"He just wanted to make sure Van Tuyl found a permanent home," Mr. Buffett said on CNBC.

Mr. Van Tuyl's father, Cecil Van Tuyl, began managing a Kansas City Chevrolet dealership in 1955. Father and son spent decades building the company into the largest group of privately held automotive dealerships in the country. It now has over $8 billion in revenue and 78 independently operated dealerships with over 100 franchises in 10 states, according to the statement.