

**Client:** Private Equity Investor

## Background

A New York-based private equity firm asked us to evaluate their investment in an automotive specialty-retail indirect lender. This lender had flourished during the few years after the financial crisis of 2008-2009 by financing certain categories of borrowers with blemished credit histories. The private equity firm was considering two different strategies: 1) divest itself of the investment; or 2) double down on its investment by making an additional investment in a chain of used car stores that was one of the primary originators of loans for the lender.

## Services Provided to the Client

We traveled to the lender's operational headquarters to gain an understanding of how this lender was thriving during the years after the financial crisis at a time when other lenders had reduced their exposure to this type of automotive credit. As follow-up, we reviewed financial statements and other operational metrics of this business to gain a deeper understanding for its success to date. We also analyzed financial and sales reports from the used car dealer and visited with them to get a flavor for its operation. We put together our findings in a detailed presentation made to the client after several months of work.

## Benefits to the Client

We advised the client to divest themselves of their interest in the lender and not to make an investment in the used car retailer at this time. Our analysis of the lender suggested that this lender had succeeded due to a "moment in time" opportunity that would soon pass once credit markets had recovered and other lenders revamped their underwriting practices. Second, our review of the used car retailer suggested that this company did not offer an attractive investment given its confusing business plan, poor execution and weak financial performance, and significant obstacles to future growth. Based in part on our advice, the client soon sold its interest in the lender to a mid-sized financial entity for a substantial gain. The client did not invest in the used car retailer.