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CEO SPOTLIGHT

## AutoNation's Michael Jackson Steps on the Gas

*Jackson has built AutoNation into the largest automotive retailer in the U.S., and become an industry visionary. Beware "The Ashes of Idiots."*

By **DYAN MACHAN**

April 18, 2015

On Mondays, the top executives of AutoNation, America's largest automotive retailer, meet with Mike Jackson, the company's CEO. Recently the group gathered around a conference table in the boss' office in Ft. Lauderdale, Fla., and were viewing mock-ups of potential logos for AutoNation Express, an online-oriented buying service available at 84 of the company's 232 dealerships.

Only Jackson, 66, voted. Reviewing one sketch, presented by the company's vice president of advertising, he barked, "Terrible! Are you showing us stuff we'll deliberately hate?"

At other times he has ended meetings with a curt "come back when you're prepared."



Jackson has been not only an effective CEO but a visionary spokesman for the auto industry. Photo: Josh Ritchie for Barron's

The experience can be unsettling for attendees, especially those who happen to spot a small urn in his office marked "The Ashes of Idiots."

Shareholders, on the other hand, are deeply impressed. "He doesn't waste anyone's time," says Michael Larson, a board member who oversees Bill and Melinda Gates' personal and foundation assets, including a 16% stake in AutoNation. "It's refreshing."

Most of all, Jackson's no-nonsense management style has produced results. With dealerships stretching from Florida to California that sell 34 new and used-car brands, AutoNation has become the auto manufacturers' biggest customer. "[Jackson] is the guy everyone wants to talk to," says Steve Cannon, CEO of Mercedes-Benz USA. "He's on my speed dial."

**SINCE JACKSON TOOK CHARGE** in 1999, the shares (ticker: AN) are up 470% to a recent \$64, nearly eight times the gain in the Standard & Poor's 500 index. Owing to the benefits of scale, operating improvements, and rebounding vehicle sales, AutoNation is on track to report its 18th consecutive quarter of double-digit profit gains.

The company earned \$415.8 million, or \$3.50 a share in 2014, up 17% year to year, on revenue of \$19 billion. It is expected to earn \$3.95 a share this year, and \$4.35 in 2016.

Sergio Marchionne, CEO of Fiat Chrysler Automobiles (FCAU), calls Jackson "one of the most influential and effective leaders in the automotive industry," adding that he "delivers on his promises."

The former head of Mercedes Benz's North American operations, Jackson was recruited to AutoNation in 1999 by co-founder Wayne Huizenga, who also co-founded Waste Management (WM). At the time, AutoNation was operating a hodgepodge of businesses and bleeding red ink. The shares had collapsed to \$9 from nearly \$40 three years earlier, enraging car dealers who had sold their companies to AutoNation and been paid in stock.

Jackson shuttered the megastores, sold ancillary assets, and refocused the company on selling, servicing, and financing cars. He brought discipline to AutoNation's spending and improved its capital structure. Prior management had ballooned the share count to fund acquisitions, but Jackson reversed course, shrinking shares outstanding by 78% in the next 15 years, to 114 million, at a cost of \$7.5 billion. He prefers investing in existing dealerships and acquiring new ones to repurchasing stock, but will buy back shares when acquisitions look too expensive.

"Talk to him and he'll explain that he thinks his real position is chief risk officer," said Edward Lampert, head of ESL Investments, in an e-mail.

ESL is AutoNation's largest shareholder, with a 20% stake. Jackson says he has a "running conversation" on capital allocation with Lampert and Larson.

**POSITIVE TRENDS IN THE** automotive industry lately have been working in AutoNation's favor. The average car on the road is a record 11.4 years old. Replacement demand and affordable credit drove U.S. car and light-truck sales to 16.5 million last year, a 14% increase from 2012, according to Manheim, a vehicle auctioneer. Jackson expects U.S. sales to top 17 million this year.

It's an especially good time to be the biggest kid on the block. The number of independent new-car dealers has fallen 30% since 1987. New-car

sales at the largest 125 dealer groups were up 13% in 2014, roughly double the gain of the overall industry, according to Automotive News and WardsAuto. Large dealerships accounted for 8% of the market a decade ago, but today claim 20%. AutoNation has a 3.5% share of the new-vehicle market.

The technological complexity of today's cars also gives the big chains an edge over smaller repair shops that can't afford equipment and training. Moreover, most auto makers want repairs under warranty done at the dealerships. The business is highly profitable; new-car sales contribute 57% of AutoNation's annual revenue, but only 22% of gross profit. Parts, servicing, and financing, on the other hand, account for 19% of sales but 65% of gross profit.



Size also confers an advantage in allowing AutoNation to shift labor and cars from store to store, depending on demand. Small dealerships would be hard-pressed to match the company's inventory and flexibility.

AutoNation isn't the only mega-dealer enjoying today's favorable dynamics. Group 1 Automotive (GPI), Lithia Motors (LAD), and Sonic Automotive (SAH) have all experienced impressive sales gains. Warren Buffett's Berkshire Hathaway (BRKA) bought the country's fifth-largest dealership, Van Tuyl Group, last year, and Buffett says he wants to buy other dealers. CarMax (KMX) offers competition in used cars, and Internet-based companies such as Autobytel (ABTL), Cars.com, Edmunds.com, and TrueCar (TRUE), which refer interested buyers to dealerships, are flourishing.

AutoNation Express, now in five states, is AutoNation's attempt to facilitate vehicle purchases via the Internet. A customer can pick out a new or used vehicle online, at a set price, and reserve it with a credit card for 48 hours. She can then test-drive it at a dealership, and complete the sales paperwork online. The company plans to have express service in all its stores by year end.

**JACKSON GREW UP IN** Moorestown, N.J., a working-class suburb of Philadelphia, in "a big Irish Catholic family" of five children with "Greatest Generation parents." His dad, a former navy aviator and engineer, met his mother at an oil refinery, where she worked in the payroll department and held his paychecks until he would agree to date her. They were married for 68 years, and hard work was central to the family's values. "Mike, you're a Jackson, and work will define you," Jackson says his father told him when he was 10.

Jackson graduated in 1971 from St. Joseph's University in Philadelphia, and was planning to attend law school in Washington. On the way south his 12-year-old Mercedes SL broke down, and he stopped at the Euro Motorcars dealership in Bethesda, Md., offering to work in return for repairs. When he discovered a gift for repairing cars, he stayed on, forgetting about law school.

Impressed by his under-the-hood talent, Mercedes sent him to other dealerships with problem cars. Eventually Jackson talked himself into a sales and marketing job with responsibility for the D.C. area.

But at 29 he went back to the dealership that had fixed his old clunker, becoming managing director.

In the next 11 years, he built the store into one of Mercedes' largest auto dealerships in the country. Mercedes dealers in the U.S. elected him in 1990 to represent them in negotiations with the German manufacturer. Hurt by unfavorable exchange rates, a luxury tax, and a staid image, U.S. Mercedes sales were languishing, while luxury newcomers Lexus and Infiniti were barreling into the market.

**JACKSON TOLD THE FOLKS** in Stuttgart just what Mercedes should do in the U.S.: Make major design changes, including faster acceleration; add sportier models; rethink pricing; and overhaul its image. Mercedes' response? The company hired him as the brand's U.S. marketing director.

By 1999, Mercedes was selling 190,000 cars a year in the U.S., up from 60,000 eight years earlier. Jackson was made CEO of Mercedes North America that year.

Meanwhile, Huizenga had bought up a number of Mercedes dealerships, and needed Jackson's approval to close the deals. Jackson declined to rubber-stamp them. "I had never heard of this guy," he says.

They agreed to meet, along with their lawyers, but dismissed the lawyers after several fruitless hours and reached an agreement themselves. In a now-familiar pattern, Huizenga enticed Jackson to join him in building AutoNation, which was then called Republic Industries and owned car dealerships and rental agencies, salvage yards, water-treatment facilities, and used-car superstores. It was renamed AutoNation in 1999.

Jackson considers it his duty to speak out on issues affecting the auto industry. Among other things, he warned of excess inventory levels before the credit crisis of 2008. "He is someone who can look around the next bend," says Ron Bloom, who served as a senior official in the Obama Administration and helped rescue the U.S. auto industry after the financial crisis.

Jackson, he notes, offered "incredibly straightforward advice" during this period, giving the Detroit task force confidence that Americans would buy cars from companies operating under bankruptcy protection, so long as they didn't linger too long in bankruptcy court.

**IN RECENT YEARS JACKSON** has agitated in vain for additional gasoline taxes to fund road improvements and create jobs. "It's the biggest no-brainer, he says. "But the American people feel they have an unalienable right to cheap gasoline, and no politician is getting between that."

He despairs of the resurgence in sales of gas guzzlers such as trucks and sport utility vehicles, which accounted for 53% of AutoNation's sales in March, versus 40% two years ago. While consumers and manufacturers are happy, he notes, these vehicles are bad for long-term prosperity, given their outside consumption of gasoline. He predicts there will be a debate in Congress, starting in 2016, as auto makers argue for the

government to loosen fuel-emission goals, a mistake in his view.

Jackson also has crusaded to outlaw texting while driving; he has spent three years haranguing sheriffs and legislators to get a law passed in Florida. While 45 states have a law of some sort forbidding text-messaging by drivers, many regulations have no teeth. "People spend 16 years raising a child, worrying about every little thing, and then put them in a car with a smartphone, unsupervised," he says.

As for AutoNation, he plans to acquire more strategically located dealerships that help fill out his map, but a buying spree is out of the question. "Dealers must be willing to sell," he says. "If they aren't, it's just asking to overpay."

Back in the conference room, Jackson and his team were reviewing how best to give AutoNation Express customers an online estimate of the trade-in value of a car. He pushed for a deadline, and got a commitment that the service will be up in test stores soon and completely functional by year end. That brought a smile to the boss, who leaned back contentedly and closed the meeting: "This parade is finally going," he said.

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