

Second Edition

Excerpt from

What It's Worth:
**Automobile
Dealership
Value**

What It's Worth:
Automobile Dealership
Value

A BVR SPECIAL REPORT



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What It's Worth

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Introduction

Business valuations, by their very nature, are fluid. With changing market conditions, an array of industry-specific value drivers, and other considerations, it therefore can be difficult to describe “the value” of an auto dealership. Despite the challenges, this special report serves to accomplish two main objectives: (1) to leave a lasting record of key points to consider when performing a valuation of an automobile dealership; and (2) to discuss the current market in which a dealership operates along with insight on what drives value in an auto dealership. Most will agree that today’s market is as vibrant as ever, so the chapters included in this report strive to properly reflect the enthusiasm for this industry, all while identifying key components of it.

Throughout the following pages, you’ll read thoughts from numerous experts who work with auto dealerships daily and study valuation issues associated with this industry. These individuals include accountants, brokers, merger and acquisition executives, former dealership employees and owners, and other consultants and advisors. Combined, these experts point you in the direction to “hit the mark” when valuing and understanding the value of a dealership. What better resources for this special report than professionals who advise on buy/sells, executives who lead their groups on acquisition strategy, professionals whose financial livelihoods depend on transactions in this space, and others whose combined experience with auto dealerships is well over 200 years.

The authors also educate readers on issues such as the real estate considerations of auto dealerships, the used vehicle and independent dealership market segments, and the need for succession planning, which may create the need for valuations more than any other driver. Auto dealer owners and CFOs can also find useful information in these chapters, such as how to build value in a dealership for future sale and what the larger retailers are thinking in terms of future acquisitions.

Finally, we provide you with benchmarking data that aim to support the conclusions you might make when assessing the value of a dealership.

We hope this report is helpful—in whole or in part—as you strive to address the complex world of automobile dealership valuations.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim York". The signature is written in a cursive style with a large initial "T" and "Y".

Timothy W. York, CPA/ABV

**SECTION I:
THE CURRENT LANDSCAPE OF VALUE
IN AUTO DEALERSHIPS**

1. The Current Landscape of Value in Auto Dealerships¹

The retail automotive industry is, depending on which study you consider, the second or third largest industry in the United States. Just think about it. Most Americans get around in their vehicles, and a large portion of their cars and light trucks are purchased, generally speaking, from the franchised network of automotive retail establishments. In this chapter, Tim York, managing partner at Dixon Hughes Goodman, provides a business appraiser's view of the current status of the auto dealership industry.

Competitive landscape. “With approximately 18,000 dealerships, 95% of which are privately owned, the U.S. auto dealership industry is highly fragmented,” says York. In fact, many dealerships have been family owned for two or three generations. The 10 largest dealer groups own 1,300 stores, and only seven new vehicle publicly traded retailers exist (CarMax, primarily a used retailer, is excluded from this count). The newest public company acquisition is the Berkshire Hathaway purchase of the largest privately held group, Van Tuyl, for an undisclosed sum in 2015. From a business appraisal or pricing perspective, it may be difficult to compare a small privately owned auto dealership's value with a large publicly traded dealership, due to the natural size differences. Nevertheless, these large dealerships' statistics and data can be helpful in assessing the value of an auto dealership. (*Editor's note: For more information on valuation methods, see Chapter 4.*)

Dealership price tags—multiples of earnings—have varied over many years, but they are at all-time highs, and at least two groups are now producing quarterly data to describe these dynamics (*Editor's note: See bibliography in appendix*). The returns on investment (ROI) in this business can be significant, and the historical performance has driven potential investors to strongly consider

¹ Based on the BVR webinar, Latest Issues in Valuing Auto Dealerships, which was held June 8, 2015.



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- Pratt's Stats
- Public Stats
- BIZCOMPS
- Economic Outlook Update
- Factset Mergerstat/BVR Control Premium Study
- The FMV Restricted Stock Study
- Valuation Advisors Discount for Lack of Marketability Study
- ktMINE Royalty Rate Data & License Agreements
- First Research Industry, State & Province Profiles
- Butler Pinkerton Calculator – Total Cost of Equity and Public Company Specific Risk Calculator
- Mergerstat Review & Mergerstat Review Monthly
- Valuation Handbook Risk Premium Toolkit
- Valuation Handbook – Guide to Cost of Capital
- International Valuation Handbook – Guide to Cost of Capital
- Valuation Handbook – Industry Cost of Capital
- BizMiner Industry Financial Reports
- PitchBook Guideline Public Company Comps Tool

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