

Concluding Thoughts

Dealerships are a complex and specialized type of business. We often say that they are like four or five businesses wrapped inside of one another...each with its own set of problems and potential. The Somerset Dealership Team works with dealers and their dealerships everyday; furthermore, our dealership experts understand your industry and the issues you face on a daily basis.

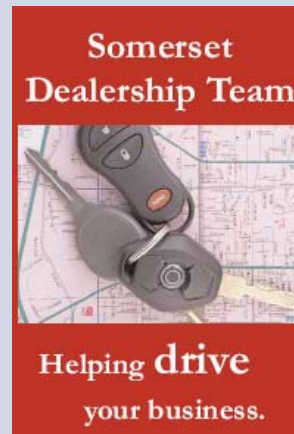
We regularly consult with our clients on a variety of matters to help them successfully operate their dealerships. When the time is right, we assist our clients in a transition of the dealership to an outside party or to the next generation.



Our Services

In addition to traditional tax and accounting, below is a list of just a few of the services we provide for dealers and their dealerships:

- Valuations
- Acquisitions & sales
- Cost segregation studies
- Expense reduction reviews & cost control solutions
- Fraud auditing, control & litigation support
- Negotiating insurance premiums & coverages
- Operational reviews for lost profit opportunities
- Government regulation compliance reviews
- Income, gift, estate, sales and property tax issues



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What's It Worth? A Few Thoughts on Valuing a Dealership.



Your dealership is likely the largest personal asset you have (or are likely to acquire). Accordingly, you need to ask for and receive assistance from a professional who not only knows how to value a business but also specifically knows how to value a dealership. This professional should be well-versed in dealership operations, have a working knowledge of the regulatory environment and be regularly involved with other dealership valuations.

Why do I need a valuation of my dealership?

There are many reasons to have your dealership valued, among them are:

- Gifting purposes
- Estate tax purposes
- Buy/sell agreements
- Assessing the adequacy of life insurance
- Financing
- Insurance claims
- Shareholder disputes
- Divorce
- Litigation support

For gift and estate planning and for certain litigation work, a formal valuation report is required. It must be prepared by someone familiar with the requirements of the IRS, the courts and the association to which the valuation expert belongs.

Are you aware that *unless a proper valuation report* is attached to your annual gift tax return, the IRS has unlimited time to question the value of the gifts.

Conversely, by including a proper valuation report, the statute of limitations for IRS scrutiny is limited to three years!



Having a valuation performed by a qualified dealership valuation expert is paramount when a dealer is interested in buying or selling a dealership. An attorney we work with frequently in putting dealership transactions together probably said it best, “An expert in dealership valuations and sales or purchasing dealerships can take advantage of those who represent themselves and the dealer will never know it.” The bottom line—just like buying and selling stocks from your stockbroker, you never want to pay too much or sell for too little.



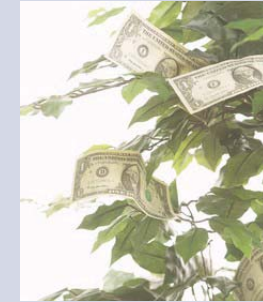
What about rules of thumb? Rules of thumb and listening to what another dealer from your 20 Group paid for their store is extremely dangerous. We have had clients tell us that a dealer-friend of theirs received some multiple of earnings for their dealership. At this point we typically ask a few questions—**Multiple of which earnings?** Net before or after taxes? Before or after owners’ salaries? What about rent or other payments to family members? Has depreciation been included? The questions go on and on...

What a dealer really needs to focus on today is **cash flow**. Without the proper cash flow, the debt cannot be repaid and the dealer cannot realize the proper return on investment to support the price paid. The dealer may not even be able to pay themselves a reasonable salary.

So, what drives value?

Franchise. An important value driver is the franchise. For example, if we are talking about a new car dealership, it is no secret that dealers of import luxury brands command higher profit margins than their domestic counterparts. Additionally, dealers of domestic brands with a full line of cars and trucks do better than those with only cars, minivans and SUVs. These performance advantages, **even if not fully realized** by the current dealer, significantly impact value.

Location. We have all heard it said “location, location, location.” This can be especially true for dealerships. Dealerships located “off the beaten path” often struggle and are typically going to be sold for a much lower price.



Dealerships located in affluent, metropolitan areas command a much higher value than stores in rural or less affluent areas.

Previous Performance. Stores that have performed well in the past are worth more than those that have not. If selling out, the dealership with a good past performance and maintenance of employees throughout the buy/sell would command a premium. Be aware that the reverse is also true when previous performance has been poor.

Other Considerations. These include the condition of facilities (well maintained, updated with the latest signage, etc.), the demographics of the area (high growth area or people moving away) and the alignment of the dealership’s franchise (i.e., GM’s alignment strategy, Chrysler’s Alpha program, etc.). There are always other considerations specific to your individual situation.