

Table of Contents

- Preface 3**
 - Who Should Read This Book 3
 - Organization and Content 4
 - Acknowledgments 5
 - Contacting the Author 5
 - About the Author 5
- Table of Contents 7**
- Chapter 1: Overview of the Auto and RV Dealership Industry 13**
 - History 13
 - Origins 13
 - Development 13
 - Installment Plans 13
 - 1970s to Early 90s 14
 - 1990-2000 14
 - Industry Overview 15
 - Industry Shapshot 15
 - Industry Leaders 19
 - Industry Make-up 19
 - Trade Organizations 19
 - Industry Trends 20
 - Franchising Agreements with Vehicle Manufacturers 20
 - Market Fragmentation/Decline of Big Three Share 21
 - Globalization 23
 - Service and Parts Sales 23
 - Rising Costs of Parts 25
 - Entertainment and Growth of Electronics 25
 - Rise In Safety Features 25
 - Internet Presence 25
 - Seasonality 26
 - Trademarks 27

Table of Contents

Types Of Trucks	27
Medium and Heavy Trucks	27
Recreational Vehicles (RVs)	29
Marketing By Recreational Vehicle Dealers	30
Snapshot of RV Dealers and Margins	31
RV Trade Organizations	32
RV Owner Demographic Statistics	33
Risks	34
Dependence on Success of Manufacturers	34
Labor Strikes	35
Natural Hazard/Weather	35
Competition	35
Direct Competition	36
Indirect Competition	36
Internet Competition	36
Regulatory Environment	36
Government Regulations	36
Lemon Laws	37
Environmental	37
Licenses	38
Foreign Trade Risks	38
Future Outlook	39

Chapter 2: Analyzing a Dealership's Financial Statements & Operations 41

Overview	41
An Auto Dealership Owner's Business Strategy	43
Operating Revenue From Dealerships	44
Dealership Revenue	44
Revenue Recognition	44
Auto Sales	45
After Market Revenues	45
Finance and Insurance Sales	45
Service, Parts and Collision Repair	46
Operating Expenses From Dealers	47
Operating Costs	47
Purchase of Vehicles	47
Parts and Service Equipment	47
Personnel Expense/Salaries & Wages	47
General and Administrative Expense	48
Depreciation and Amortization	48
Lease and Facility Expense (Real Estate)	48
Insurance	49
Miscellaneous Operating Expenses	49
Inventory Financing	49
Advertising	50
Summary	50
Liquidity and Capital Resources	50
Working Capital	50
Capital Expenditures	51
Review of Dealership's Financial Position	51
Activity Ratios	54
Liquidity Ratios	55
Long Term Debt and Solvency Ratios	56
Dealership Profitability Ratios	56
DuPont Model	60
Automotive Industry Composite Analysis	62
Typical Industry Auto Dealership Activity Ratios	63

Inventory Turnover	63
Receivables Turnover	63
Working Capital Turnover	64
Fixed Net Asset Turnover	64
Typical Industry Auto Dealership Liquidity Ratios	64
Current Ratio	64
Quick Ratio	65
Typical Industry Auto Dealership Long Term Debt & Solvency Ratios	65
Debt to Total Capital	66
Debt to Equity	66
Interest Coverage Ratios	66
Typical Industry Auto Dealership Profitability Ratios	66
Gross Margin & Operating Margin	67
EBIT Margin	67
EBITDA Margin	68
Profit Margin	68
Return on Assets	68
Return on Equity	69
Return on Investment	69
Typical RV Dealer Financial Ratios	69
Secondary Sources of Auto Dealership Norms and Business Ratios	70
Adjustments for Extraordinary and Nonrecurring Items	71
Choice of Business Entity	75
Checklist of Important Items for Dealership Valuations	76
Company History and Background	77
Industry Analysis	77
Marketing and Sales	78
Dealership	78
Financial and Accounting Overview	79
Reporting Systems/Controls	80
Taxes	80
Personnel and Management	80
Chapter 3: Summary of Business Valuation Approaches	81
Overview	81
Cost Approach	82
Market Approach	82
Income Approach	83
Summary	84
Reconciliation	84
Chapter 4: Business Valuation: Auto/RV Dealerships	85
Adjusted Balance Sheet (Business Valuation)	85
Inventories	85
Goodwill	87
Market Approach (Guideline Company Approach)	88
Adjustments of Cash Flow	88
Publicly Traded Information	89
Subject Auto Dealership Value Based Upon Multiples	92
Working Capital	92
Market Valuation of Small Companies (Business Valuation)	93
Owner's Discretionary Cash Flow (ODCF)	95
Subject Auto Dealership Value Based Upon ODCF Multiples	95
Subject Company Concluded Value Based on ODCF and Revenue	95
Market Valuation (Rules of Thumb)	95
Income Approach Example (Business Valuation)	95

Table of Contents

Assumptions	96
Equity Discount Rate Calculation	96
Summary of Concluded Values	98
Chapter 5: Asset Valuation For RV and Auto Dealerships (Real Estate)	101
Introduction	101
Valuing An Auto Dealership's Real Estate Assets	102
Valuation Example	102
Ownership Interests	102
General Land and Building Analysis	104
Different Types of Auto Dealerships	104
Valuation Approaches	105
Cost Approach to Value	107
Land Value	107
Depreciated Value of the Subject	108
Direct Comparison Approach (Market Approach)	110
Summary of Comparables	110
Adjustments Made to Comparables	110
Sales Comparison Approach Analysis Conclusions	110
Income Approach	112
Comparable Leases	113
Market Rent Conclusions	113
Percentage of Gross Sales	113
Rent as a Return on Assets	114
Selection of Capitalization Rate	114
Summary (Concluded Value)	115
Leases & Lease Statistics	116
Chapter 6: Auto and RV Dealership Asset Valuation (Equipment)	121
Introduction	121
Value Definitions	122
Purposes of Valuation Relative to Definitions of Value	123
Approaches to Valuation	123
Cost	123
Sales	124
Income	124
Identification/Classification of Property	126
Data Sources	127
A Detailed Look at Typical Dealership Equipment	127
Auto Dealership Servicing	127
Description of Equipment	127
Lifts and Safety Stands	127
Lifts	128
Storage Service Lifts	128
Alignment Lifts	128
Scratch and Dent Lifts	128
Tire and Wheel Changers	128
Single-Arm Economy Tire Changers	128
Single-Arm Premium Tire Changers	129
Dual-Arm Tire Changers	129
High Performance Tire Changers	129
Heavy Duty Tire Changers	129
Tire Balancers	129
Wheel Service Combo	129
Body Work	129
Mobile Paint Panel Holder	130

Infrared Drying Lamp	130
Paint Booths	130
Other Items	130
Oil Drains	130
Transmission Jacks	130
Spray Wash Cabinets	130
Diagnostic Emissions Analyzer	130
AC Service Machine	131
Other Miscellaneous Items	131
Cost Approach	131
Installation Expenses	131
Indexes (Trending)	131
Depreciation	132
Example (1) of Age Life Analysis	134
Example (2) of Age/Life Analysis	134
Concluded Thoughts on Age Life Analysis	134
Market Approach	136
Items of Comparability and Techniques	137
Three Different Methods of Market Approach	137
Income Approach	138
Equipment Valuation Example	138
ACM-150 AC Service Machine	139
Observation	139
Basic Budgetary Estimates for Equipment Setup in a Service Center Area	140
Data Specification Sheet for Furniture, Fixtures & Equipment	141
Appraisers, Liquidators & The Auction Game	142
Auctions	142
Liquidation	143
Data Resources	145
References, Definitions & Glossary	147
Selected References	147
Auto Dealership and RV Industry Specific	147
Private Equity Business Valuation & Brokerage	148
Real Estate	151
Machinery & Equipment	151
Auto Dealership Industry Definitions	152
Business Appraisal Definitions	155
Real Estate Appraisal Definitions	156
Machinery and Equipment Appraisal Definitions	157
Glossary of Business Valuation Definitions	158
Business Valuation Resources and Where to Obtain It	163
Index	173

