



# Advising Automobile Dealers LLC

a Texas Limited Liability Company

## What is a Dealership Worth?

### THE FINANCIAL STATEMENT CANNOT TELL YOU

Although most people will say that a dealership's "worth" consists of the sum total of following assets (less liabilities):

1. Fixed Assets;
2. New Vehicle Inventory;
3. Demonstrator Inventory;
4. Used Vehicle Inventory;
5. Parts and Accessories;
6. Special Tools;
7. Work in Process;
8. Sublet Repairs;
9. Miscellaneous Inventory and Supplies;
10. Prepaid Expenses and Security

Deposits;

11. Corporate Goodwill (May or may not include company name and telephone numbers);
12. Personal Goodwill (Could make a big tax difference with "C" corporations);
13. Covenant Not to Compete; and,
14. Consulting Fee Agreement.



### SOME OF THE PROBLEMS ESTABLISHING THOSE VALUES ARE:

1. **FIXED ASSETS** – There are five definitions used to value "fixed assets" and the spread between them could be over half a million dollars. Which one did you use?
2. **NEW VEHICLES INVENTORY** - What is a new vehicle? Are current model year conversions "new" vehicles? What about vehicles that have one or all of the following: miles, damage, non-OEM add-ons? Carry-overs? What about dealer prep, advertising monies, floor-plan assistance, etcetera.
3. **DEMONSTRATOR INVENTORY** - Same questions as "new", plus a couple of others.



4. **USED VEHICLE INVENTORY** – Used vehicles are worth more when they are front-line ready and sitting at the dealership than they are when they are sitting at the auction and need to be transported to the dealership and reconditioned.
5. **PARTS AND ACCESSORIES** - Just because a part or accessory is in its original, unmarked, unopened box, and in the current parts and accessories catalogue, does not mean it is returnable. Also, just because a part may be non-returnable does not mean it is not worth retail.

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6. **SPECIAL TOOLS** - There are several formulas that may be used to count and value special tools.
7. **WORK IN PROCESS AND SUBLET REPAIRS**  
- There are also several methods used to categorize and value these items.
8. **MISCELLANEOUS INVENTORY AND SUPPLIES**
9. **PREPAID EXPENSES AND SECURITY DEPOSITS** – The value shown on the dealership's financial statement may be high or low. These items must be independently valued.
10. **CORPORATE GOODWILL** - May or may not include company name and telephone numbers.
11. **PERSONAL GOODWILL** - Could make a big tax difference with "C" corporations.
12. **COVENANT NOT TO COMPETE** - What items should be eliminated from it?
13. **CONSULTING FEE AGREEMENT** - What elements are required in order for it to be tax deductible to the corporation?



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Having gone through the above, additional planning with your team is still required to determine the maximum dollars you will have after the sale and after tax, if you are the seller, and the minimum and maximum number of dollars you can pay for blue sky, if you are the purchaser.



In short, the same dealership has different values to different people because, in the final analysis, return on investment depends upon what the purchaser perceives can be earned in the store (by that particular purchaser), what the purchaser perceives the intrinsic value of that particular dealership, franchise, location (or all of the above) represents to the purchaser's organization or future plans.

All of the above needs to be "tailored" to each unique situation whether you are a purchaser or a seller - and that's where **Advising Automobile Dealers LLC** should be used to help obtain you optimum value for your efforts and assets - whether you are buying, selling, valuing or just planning.

Dealership buy-sells are technical documents. One preposition and one verb could change the price a quarter million dollars or more. I have seen it! A comma here or there, or an adjective inserted in the right place could change the entire meaning of the document.

There are dozens of instances in buy-sells where dealers left hundreds of thousands of dollars on the table, or paid hundreds of thousands they did not have to pay. And when they left the closing table, neither the parties nor their advisers ever knew what they did.

Read More: <http://ezinearticles.com/?Dealership...rds&id=9337665>

\*For a detailed discussion of valuing dealerships and blue sky, see our articles linked to our website.

[www.advisingdealers.com](http://www.advisingdealers.com)

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