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Auto Dealership Transaction Activity Update

[AUTOMOBILE](#), [BUSINESS ADVISORS](#), [BUSINESS VALUATION](#), [TRANSACTION ADVISORY SERVICES](#)
BY DAN RISKE

Kerrigan Advisors, an auto dealership acquisition advisory firm, reported that total automobile dealership transaction activity increased by a record 17% in the first quarter of 2015 compared to the first quarter of 2014. Berkshire Hathaway's acquisition of controlling interests in the Van Tuyl Group represented the most significant of the 55 transactions that took place in Q1 2015. The Van Tuyl transaction, valued at \$4.1 billion, represents the largest automobile dealership purchase in history. The Van Tuyl Group operated 78 automobile dealerships and 116 franchises and had more than \$9 billion in annual revenue when it was purchased.

Premiums paid for auto dealerships have also reached record highs due, in part, to the improving economy and more readily available acquisition financing. According to reports from Haig Partners (another auto dealer acquisition advisor) and Kerrigan Advisors, blue-sky multiples in the first quarter of 2015 have ranged between approximately 6.0x and 10.0x pre-tax adjusted earnings for most luxury car brands (e.g., Mercedes, BMW, Porsche, etc.) and between approximately 3.0x and 6.5x for most non-luxury brands (e.g., Honda, Toyota, Chevrolet, etc.). As a benchmark, Haig Partners reported 2013 luxury brand blue-sky multiples between 5.0x and 7.5x; non-luxury brand multiples ranged between 3.0x and 6.0x. Most dealerships are valued based upon their assets plus their blue-sky value. As a rough example, an auto dealership with net assets of \$10 million, adjusted pre-tax earnings of \$2 million and an indicated blue-sky multiple of 7.0x would be worth \$24 million [(\$2 million in earnings x 7 multiple) + \$10 million of net assets = \$24 million].

Intuitively, buyers are paying high prices for dealerships for a reason: high investment return expectations. Dealerships can be attractive investments since they normally produce returns in excess of alternative stock market investments. However, it is uncertain how long the high prices and returns will last. According to Kerrigan Advisors, dealership purchase activity among private equity and closely held family companies has already begun to decline in 2015, which could be an indication that the perception of dealership investments is not as positive as it once was.

The industry blue-sky multiple data presented above should only be used to gain a better understanding of a dealership's value, and the multiples are certainly not "one size fits all." Many other important factors, such as the location of the particular dealership and future earnings potential, should be taken into account to perform a thorough dealership valuation. Schneider Downs has significant experience consulting with automobile dealerships and preparing dealership valuations. [For more information about Schneider Downs' business valuation and other business advisory services, please contact us.](#)

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