

CAR DEALER

The Auto Dealer's Management Briefing**INSIDER****October 15, 2006**

Trend spotting

The **Dodge Charger** is likely to become the next big thing for police cruisers. In head-to-head tests by the Michigan State Police, the Charger beat Ford's Crown Victoria Interceptor and Chevy's Impala 9C1 in acceleration, braking, and top speed. Chevy and Ford excelled only in the visibility and accessibility categories. The police version of the Charger is equipped with a 340-horsepower Hemi V-8 and a stiffer suspension.

BMW is reportedly working on a stretched version of its 6-series, which will feature four doors and four seats under a coupe-like roof. Codenamed LC5, the structural integrity of the new Bimmer will be supported, not by pillars, but by overlapping doors (the rear ones always shut first and open last), plus reinforced sills and side panels.

Mercedes-Benz is finally ready to roll out its small SUV. Mercedes is using its next-generation C-class wagon as the basis for this small crossover, which is likely to be dubbed the GLK. It will come in both four-wheel- and two-wheel-drive versions.

Volkswagen is said to be working on a sportier version of its Passat sedan. The R36 will be adapted from the concept car that was on display at last year's SEMA convention. It will be propelled by a 300-horsepower version of VW's 3.6-liter V-6.

An update on dealership valuations

A leading dealership brokerage and valuation expert has a good news, bad news report for car dealers based on recent dealership buy/sell transactions.

According to figures compiled by dealership broker Nancy Phillips (603-658-0004; www.nancyphillips.com), 2006 has been a tough time to be a car dealer, especially the owner of a domestic franchise. Outside of a few high-profile transactions that reportedly commanded eye-popping "blue sky" numbers, dealership buy/sells over the last six months indicate a marked drop in valuations.

Compare the chart included in this issue with the similar information in the April 15, 2006 issue of *Car Dealer Insider* to see what we mean. Nissan, which was a rising star just a year or so ago, seems to have lost most of its allure. In the April report, a Nissan franchise sold with a blue-sky value of \$3,623 per new vehicle retailed, which was itself a decline from previous reports. In our October example, another Nissan store went for only \$2,245 PNVR. (Note: Ms. Phillips expresses franchise valuations in terms of the number of new vehicles the dealership sells, as opposed to the more common multiple of trailing earnings).

continued on page 2

Inside this issue

New report shows dealership valuations in the doldrums	1
Another to analyze on-the-ground vehicle inventories	3
How employee handbooks become employment contracts	5
Cash is king, profits are an opinion	6

continued from page 1

Go to www.dealersedge.com and search the archives for articles that mention Nancy Phillips. Compare the figures in her current reports with those of the last year or so to get a more accurate sense of the trend in dealership valuations.

Ms. Phillips provides a similar analysis (“blue sky” expressed in terms of dollars per-new-vehicle-retailed) for six actual transactions in which she was involved over the last six months. Nancy Phillips’ report is reproduced below. ❖

BENCHMARKS OF VALUE IN DEALERSHIP TRANSACTIONS September 2005 through September 2006

Business Value, otherwise known as ‘goodwill’ refers to the intangible amount paid for a dealership over and above the worth of its operating assets. This table illustrates business value paid for dealership transactions orchestrated by Nancy Phillips Associates and industry affiliates in other regions of the country.

Franchise	Buyer Type	Region	Trade Area	Business Value as % of Sales	Business Value PNVR
Chrysler-Dodge*	Small Dealer Group	Northeast	Under 250,000	11.4%	\$ 5,769
GMC-Buick	Small Dealer Group	Northeast	250,000 - 500,000	8.8%	\$ 4,450
Hyundai	Small Dealer Group	Northeast	250,000 - 500,000	4.5%	\$ 2,899
Suzuki	Small Dealer Group	Northeast	Under 250,000	3.3%	\$ 2,500
Nissan	Small Dealer Group	Northeast	Under 250,000	3.7%	\$ 2,245
L/M, Nissan	Individual Dealer	Northeast	Under 250,000	3.0%	\$ 1,348

* This transaction was a strategic acquisition by a contiguous dealer. Therefore, Business Value is substantially over current domestic statistics.

Information Description

Buyer Type
Individual Dealer
Small Dealer Group
Large Dealer Group

Business Value (BV) - As a percent of total revenues
Means the percent of intangible business value exclusive of the actual value for all other business assets.

Trade Area
Population within 20-mile radius
Under 250,000
250,000 – 500,000
500,000 – 1,000,000
1,000,000 +

Business Value PNVR - Per new vehicle retailed
Means the dollar amount of intangible business value (exclusive of all other business assets) per new vehicle retailed.

Nancy Phillips provides comprehensive and highly personalized professional brokerage and valuation services for franchised automobile dealerships. She was a featured speaker at the 2004 DealersEdge “Dealers in Transition” conference. For more information, visit www.nancyphillips.com or call Nancy Phillips Associates at 603-658-0004.

