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M&A Update

Credibility is Key to Success At Nancy Phillips Associates

EDITOR'S COMMENTS:

In the past years, M&A Today has interviewed over 30 firms that assist clients with mergers and acquisitions. Since the majority of our readers are either intermediaries or recipients of intermediary services, M&A Today continues to feature these firms because their business models usually differ significantly from peer firms. There is value in learning how these various firms operate and what makes them successful. The Nancy Phillips Associates story is particularly interesting to M&A Today because of the power the firm engenders with buyers, sellers, and automobile companies – all generated through years of experience, accumulated knowledge and negotiating skills.

Nancy Phillips Associates provides comprehensive and highly personalized professional brokerage and valuation services for franchised automobile dealerships throughout the Northeast. With offices located in Hampton Falls, NH and Selden, NY, the

firm's philosophy is based on integrity and discretion, whether serving clients by evaluating their dealership's true value or representing their interests by orchestrating dealership sales, mergers, or acquisitions. With over a decade



Nancy Phillips

of experience, Nancy Phillips is uniquely qualified to confidentially advise dealership principals on identifying their present and future goals and the best options for achieving them.

Background

Nancy originally entered the business world as a manufacturer's representative for the fashion industry. Her passion, however, is automobiles and her career includes a wealth of integrated automotive industry experience, including roles as General Manager for a large New York dealership and owner/operator of a dealership in her native New Hampshire.

Upon selling her own dealership, Nancy found available brokerage services to be inadequate and ineffective. She identified a crucial need within the industry for professional and ethical brokerage and valuation services — prompting her to

obtain business valuation education from the University of New Hampshire. Nancy's prior education, including Sociology studies at the University of New Hampshire and a Marketing Certificate from the University of British

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Columbia in Canada, also contributed to a solid foundation for her company.

Since 1990, Nancy Phillips Associates has orchestrated over 100 dealership sales and expanded into New York and New Jersey, currently employing seven professionals.

Because real estate is an important part of dealership transactions, it is interesting to note that Nancy Phillips Associates is the only dealership broker that holds real estate brokerage licenses in every New England state.

Industry Dynamics

Most auto industry professionals are aware of industry dynamics from the manufacturer's viewpoint, including:

- Globalization of virtually all brands, with multiple manufacturing facilities worldwide
- Overcapacity in the U.S. and Europe but under capacity in third world countries
- The boom in trucks, SUV's and high end luxury cars
- Extreme pressure on union plants to be competitive with non-union plants, and the enormous pension plan overhang
- The advent of high-end hybrid cars, which incorporate a traditional piston engine and an electric

motor generator to increase fuel efficiency.

Many industry professionals are unfamiliar, however, with industry dynamics at the dealership level, which includes the following vital issues:

- The decrease in total U.S. dealerships from 24,000 just a few years ago to 20,000 currently. This is primarily due to an industry momentum towards consolidation with the goal of eliminating overlapping products as

GM is doing well.

Chrysler emerged from near bankruptcy 40 years ago to become the most progressive and most profitable Detroit car company. Today, post-merger with Daimler, Chrysler's sales are flat. Ford, however, went from the prosperous Taurus years to utter shambles with Jacque Nassar. Other issues including the Firestone debacle, a deterioration of consumer confidence, and lack of new models has also adversely affected dealers.

of franchise dealerships must be approved by the manufacturer.

M&A Today asked Nancy Phillips why she believes anyone would want to acquire an automobile dealership under these seemingly adverse conditions. Her response is worth noting: "A dealership can produce significant profits to an owner, but it must be well-managed with talented staff, good systems, desirable brand, dense population, etc. Historically, ownership has offered plentiful perks. For entrepreneurs, there aren't many other business options that can be grown as rapidly if managed well. While the automobile industry may fluctuate, it will never evaporate."

In dealership transactions a dealership evaluation is prepared to determine value based on certain industry criteria, and throughout negotiation all efforts are directed towards maintaining price.

well as dealerships, and increasing the number of dealerships with designated franchise combinations, upgrading dealership facilities and increasing overall profitability.

- Sales volatility amongst dealerships, depending on brand, at any given time. For example, consider the three major Detroit brands. A few years ago General Motors (GM) was on the verge of bankruptcy. Today with new management, new models and much improved quality,

- Consolidators and Internet shopping represent further competition for dealerships.

■ An unstable economy and issues such as war in the Middle East often cause dealership owners to consider selling. Nancy Phillips recently received sales mandates on 7 dealerships mostly attributed to marketplace uncertainty.

- Most dealerships are purchased by a tight group of 'industry insiders' and only the occasional outside investor. Further, all sales

Success Factors

According to Nancy Phillips the first step to a successful dealership sale or transaction is determining a dealership's true value. Unlike the sale of most businesses, the protocol in selling automobile dealerships is to state the price in the initial offering. In dealership transactions handled by Nancy Phillips Associates, a dealership evaluation is prepared to determine value based on certain industry criteria, and throughout negotiation all efforts are directed towards maintaining price.

A major consideration in negotiating the sale of any dealership is that any change in ownership is conditional upon approval from the franchisor. Franchisors require a specific debt-to-equity ratio, which is typically one-to-one or more, resulting in substantial unencumbered cash requirements for purchasers.

A common mistake that Nancy sees dealers make when attempting to sell on their own is overpricing or under pricing, due to lack of appropriate research and not seeking professional advice. An additional factor in auto dealership business transactions is the disposition of the real estate. It is almost always sold along with the business to the new owner or leased with an option to purchase.

The four basic valuation metrics include:

■ **Business value computed as a return on sales.**

This includes an assessment of the value of the franchise based on certain industry statistics and formulas for typical profit potential. Criteria include: franchise desirability, sales potential, market share and demographic data.

■ **The Franchise Method**

is a formula utilized within the industry to determine potential profitability based on the market area plan for unit sales in conjunction with the enterprise. Within this average coverage of fixed expenses from the service portion of the business method, a profit factor is computed for each potential sales unit in order to assess overall dealership profit potential.

■ **Multiple of Recast Net Before Tax.**

The average net before-tax for automobile dealerships is 1.9%. High line and prime Asian imports generally create returns at a higher level, with 4% considered very strong while marginal franchises or under-performing dealers may obtain lower margins. In the process of dealership evaluation there is a multiple attached to current recast financial returns in order to determine the appropriate intangible value of the business. The multiple employed is considerably lower than many other industries, and has averaged between 2 and 5 for nearly a decade.

■ **Comparable Sales**

is a very practical metric that utilizes comparable data from other dealership transactions. Comparables are analyzed based on franchise and brand similarities, the size and demographic make up of the assigned market area, and the number of other similar dealerships within a designated sales territory. As one of four valuation metrics, the following chart shows a goodwill factor as a percentage of sales based on certain franchises. The IBV is added to the total fixed assets being acquired as a valuation metric.

Experience and meticulous preparation contribute to Nancy Phillips' success

excellence, professionalism and success, Nancy Phillips puts together

RECENT AUTO DEALERSHIP TRANSACTIONS

Intangible Business Value (IBV) as a Percentage of Total Revenues

State	Franchise	IBV
ASIAN IMPORTS		
NH	Toyota	6.3%
MA	Nissan	5.1%
VT	Honda	5.0%
EUROPEAN IMPORTS		
MA	Volvo	4.8%
RI	Volkswagen	3.5%
NH	Volkswagen	3.2%
GENERAL MOTORS		
VT	Pontiac-Buick-GMC	4.2%
ME	Chevrolet	4.1%
NH	Chevrolet	3.1%
DAIMLER-CHRYSLER		
VT	Chrysler-Plymouth-Dodge	4.7%
MA	Jeep	3.7%
MA	Dodge	3.0%
FORD		
CT	Ford	4.3%
NY	Ford	4.2%
ME	Ford	4.1%

many of the transactions she handles without any advertising or market exposure. The dealerships she represents almost always sell within 9 months of listing and her success rate in terms of selling the dealerships she lists consistently exceeds 90%.

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approval from the franchisor. Franchisors require a specific debt-to-equity ratio, which is typically one-to-one or more, resulting in substantial unencumbered cash requirements for purchasers. Despite this, Nancy Phillips works hard to

as a deal maker. Other keys to success include first ensuring that prospective sellers have committed to selling; have considered tax and estate planning ramifications and have appropriately dealt with environmental issues.

By virtue of her long-standing reputation for

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negotiate all her transactions without seller paper, because of the inherent risk factor that comes with fluctuations in the auto industry. When a change of ownership occurs, purchasers must often agree to facility upgrades, higher capitalization rates and stringent performance criteria. Nancy's experience enables her to know the appropriate issues to negotiate up front, in order to prevent last minute deal-breakers.

Nancy Phillips' outstanding reputation of integrity and skill in orchestrating dealership sales serves as leverage in prompting buyers to seriously consider purchasing the dealerships she represents. Her expertise, keen instinct, diligence and composure consistently attract clients to engage her firm's services.

Summary

The sale of an auto dealership and its real estate is difficult, complex and time

consuming. Almost half of Nancy Phillips' clients initially try to sell their dealerships themselves, and upon failing to complete the transaction, seek her advice and services. Her record of suc-

Nancy Phillips Associates maintains a portfolio of approximately ten appropriately priced dealerships for sale and a robust database of 1,000 pre-qualified purchasers.

cess speaks for itself. At any given time, Nancy Phillips Associates maintains a portfolio of approximately ten appropriately priced dealerships for sale and a robust database of 1,000 pre-qualified purchasers. The firm completes about twelve transactions a year ranging in size from \$1 to \$30 million, and averaging around \$6 million.

Nancy Phillips Associates success is based on these principles:

- Knowing the true value of a dealership
- Documenting and selling the real potential of the dealership
- Marketing only to serious qualified prospects
- Maintaining excellent rapport with all automobile franchisors
- Coordinating all necessary agreements and contracts
- Real estate and appraisal expertise
- Powerful negotiation skills, assertiveness and perseverance

The Nancy Phillips success story proves that factors such as focus, keen attention to detail, and perseverance and integrity have earned this firm its esteemed industry reputation.

For further information contact Nancy Phillips at Nancy Phillips Associates, P.O. Box 600, Hampton Falls, NH 03844 (Telephone 603-929-0006, Fax 603-926-1014, e-mail: auto@nancyphillips.com and web site: www.nancyphillips.com).

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M&A Today,
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