



Information for Buyers

There are a number of questions you need to answer as you embark on the process of buying a dealership. We've provided the "top 10" here, along with some brief answers, to demonstrate our brokering expertise. When you work with CalPro Brokers, we'll make sure you have all the questions regarding your specific situation as answered in a way that makes you confident about moving forward.

1. **How am I going to find a dealership?** There are a number of resources available to you in seeking available dealerships in a given market, but it might be difficult for you to find them all. A dealership broker spends his days searching for qualified buyers and sellers, and this is in the best position to perform a search for the type of dealership you're looking for.
2. **What is the fair value of the dealership?** Dealerships are normally sold based on the value of the assets less liabilities transferred plus goodwill (commonly referred to as "blue sky," and calculated by multiplying the net income of the dealership by anywhere from one to six times). In other situations, the seller has a figure in mind that he wants, and the buyer needs to determine what he is willing to pay.
3. **Is the real estate available?** Sometimes the dealership real estate may also be available for purchase, which obviously will require more financial strength from the buyer with respect to down payment and lending capacity. For legal and tax reasons, we suggest that real estate be held in your living trust rather than by the corporation.
4. **How do I check the books?** Once a buy/sell is signed, it's critical that you have a CPA specializing in the auto business perform a "mini-audit" of the books during your due diligence period. You need to ensure that the assets you're buying are fairly stated and you want to make sure that the net income figures are real. Reviewing the dealership's tax returns may more properly reflect its true income. Areas such as finance reserves, factory incentives, parts statements, receivables pre-paid expenses, accruals and even cash in the bank are problematic in many dealerships. You don't

want to see tens or even hundreds of thousands of dollars vanish from equity after you've signed on the dotted line.

5. **How is the buy/sell structured?** Dealership buys/sells are almost always asset purchase agreements rather than stock sales; buyers would rarely want to purchase sellers' corporations due to unknown liabilities. If the deal is structured as a stock purchase, the buy/sell must have very strong indemnity language.
6. **If I hire a broker, whom can I trust?** Make sure the broker you use is licensed, understands the business and can fully explain all aspects of the transaction to you. Because purchasing a dealership is a complex transaction involving proper marketing, negotiating, legal analysis, and financial and accounting analysis, you need an honest and trustworthy broker to guide you through each step of the process.
7. **Should I elect LIFO?** LIFO, a tax write-off for the inflation of your inventory, is something you should carefully discuss with your CPA. LIFO involves a complex formula that analyzes your inventory all year to arrive at an annual inflation index. In years when inventory goes down, there can be "phantom income" to report, and if the dealership's assets are ever sold, the full LIFO reserve will come back as income.
8. **What are the negotiation points in a buy/sell?** There are several areas in a buy/sell that create a large range in the top and bottom selling prices. These include "blue sky," interest and advertising assistance, parts pricing, fixed assets, used vehicles, and demonstrators. The legal wording of indemnity clauses also often becomes a negotiation area.
9. **Should I form an S-Corp or an LLC?** Many dealers elect "S" status for the dealership corporation, but LLCs are not often utilized for dealerships. An analysis should be done of the dealership you are purchasing to decide whether S-Corp status is right for you. There is a tax advantage for single-owner S-Corps, particularly on the first \$320,000 of net income.
10. **What are the first steps after the deal closes?** Your number-one priority will be properly staffing your new dealership. You must never forget that the car business is the people business. You'll want to interview existing staff to determine who will stay and who will leave. If a union is involved, be sure to get adequate advice from a labor law firm.

Contact Information:

www.calprobroskers.com

jschiavo@calprobroskers.com

408.828.6275

bghirengelli@calprobroskers.com

510.396.3148

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