

Dealership Multiples Reaching Unprecedented High Prices

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A recent Automotive News [article](#) highlights that individual dealership multiples are reaching astronomically high prices. And it doesn't look like the pressure's going to subside any time soon.

Especially for the red-hot German brands, the limited number of stores for sale inevitably leads to fierce competition and high prices.

And the pressure isn't being helped by the fact that [more investors](#) are looking at getting into the automotive dealership space.

The industry's way of measuring dealership valuations is what's called a "blue sky multiple". This is defined as the intangible value of a dealership, expressed as a multiple of adjusted pretax profit. Estimated multiples can vary enormously based on a dealership's location and other factors.

Typical blue-sky multiples for Mercedes-Benz, BMW and Porsche dealerships are 7 to 10 times adjusted pretax profit, according to the Year End 2014 [Haig Report](#) released last month. Blue-sky multiples for Audi are 7 to 9 times, it said.

"I have never seen prices this high for dealerships before, and there's a particular spike on the German luxury" brands, says Alan Haig. Haig is president of Haig Partners, a dealership buy-sell advisory firm in Fort Lauderdale, FL.

Sellers of German dealerships can often dictate the deal terms and command top dollar when negotiating with potential buyers.

The Automotive News article notes that sellers can sometimes be very "creative" with their definition of annualized income – whether that's trailing 12 months, the physical year or the last physical three years, sellers can find ways to plump up the income on which purchase multiples are based.

And like revenue, many sellers are also very liberal in their accounting methods to determine the store's profits – because the higher the store's profit, the higher the selling price.

Buy-sell adviser Mark Johnson said that for every German luxury brand store for sale, there are usually 50 buyers vying for it.

Johnson, president of [MD Johnson Inc.](#), said his clients who own German branded stores get "one to two calls per

week from a broker or a dealer wanting to know if they're selling."

The aggressive pursuit is due to a low supply of German luxury brand stores.

To put it in perspective: BMW has 339 franchises in the U.S. Mercedes-Benz has 366, Audi has 283 and Porsche has 189. In contrast, Toyota, another in-demand dealership brand, has 1,236 franchises.

Johnson said that at any given time, only about 3 percent of German luxury franchise dealers are even considering a succession plan that "could include" a sale.