

HOW TO VALUE AN RV DEALERSHIP





What's my dealership worth? That's the number one question we get from owners of recreational vehicle dealerships. You could pay a valuation firm thousands of dollars for a detailed, sophisticated discounted cash flow valuation, or you could use the following rule of thumb to get a pretty accurate "ball park" idea of what your RV dealership is worth.

RECREATIONAL VEHICLE DEALERSHIP OVERVIEW

RV dealers are expected to collectively pull in \$21.5 billion in revenue in 2017—making RV dealers one of the largest retail sectors in the U.S. The majority of RV dealers are owned by baby boomers who are beginning to think about retiring. These owners are interested in taking some chips off the table and doing something else. There are also a large number of entrepreneurs interested in owning an RV dealership and buying a successful dealer is a less risky alternative to starting one from scratch. Finally, there are over two dozen large, well-funded strategic buyers that are doing rollups of RV dealers to build their regional or national brands. Combined, these factors make the market very good for well-run RV dealerships.

Before we look at the numbers, let's review a few of the main value drivers for RV dealers:

Inventory: It's not cheap carrying 50-100+ RVs on a lot. In normal times, RVs can sit in inventory for an average of 3 to 4 months and often much longer.

Multiple Revenue Streams: Margins on new RV sales are slim so selling additional services to customers, like insurance, financing, warranty plans, accessories and so on can enhance the value of your dealership. In addition, margins on used RV sales are two to three times higher than on new RVs, so having a good mix of new and used sales is important as well.

Brands: Who wants to buy an RV from a no-name manufacturer? Brands like Airstream, Grand Design, Winnebago, and Forest River attract customers and increase the value of a dealership.

Macro Economics: How is the local and regional economy doing? Is the local population growing? Are employers entering or leaving the area? Is average household income increasing or decreasing? These trends will have an impact on future RV sales.

Real Estate: The trends mentioned above will also affect real estate values. What is the age of your facility? Does it need sprucing up? What could it be used for if it was not an RV dealership?

Margins & Cash Flow: The most important driver of the goodwill portion of the valuation is how the dealership has performed over the last few years. If revenue and margins are trending in the right direction it has a positive impact on the overall valuation. Flat or declining trends have the opposite effect.

CRUNCHING THE NUMBERS

There are a lot of complexities in valuing RV dealerships and multiple approaches. When buyers value an RV dealership for acquisition purposes, they often use the “blue sky method” or the “profit method”. Practically speaking, the Blue Sky Method combines two components of value: the dealer’s intangible assets plus its tangible assets. The value of the blue sky or intangible assets is calculated by multiplying the company’s pretax income by a multiplier based on the characteristics of the business being valued. Then the net value of the dealer’s tangible assets is added to

the value of the intangible assets to arrive at the total fair market value.

Here’s a real-world example (the names have been changed but the numbers are real). After two generations, the Allerton’s RV dealership has grown to become one of the largest RV dealers in its state. Allerton’s RV sells and services Winnebago RVs and a few other well-known brands.

The Allerton family has reinvested in their business over the years installing cutting-edge customer-relationship management software and savvy marketing programs. Better yet, Allerton’s sales staff knows how to cross-sell other products including insurance, financing, roadside support and aftermarket accessories. Their customer satisfaction ratings are top notch.

HERE ARE THE FINANCIALS:

Allerton RV Dealer			
	2014	2015	2016
Revenues	4,641,000	5,200,000	5,460,000
Payroll	394,485	442,000	464,100
Advertising	46,410	54,600	52,000
Pretax Income	213,486	239,200	251,160
Cash	340,000	360,400	345,000
Accounts Receivable	232,050	260,000	273,000
Inventory	1,392,300	1,560,000	1,638,000
Fixed Assets	1,300,000	1,365,000	1,433,000
Debt	1,903,070	2,086,500	2,190,700
Current Liabilities	185,640	208,000	218,400
Net Tangible Asset Value			1,279,900

HERE IS THE VALUATION:

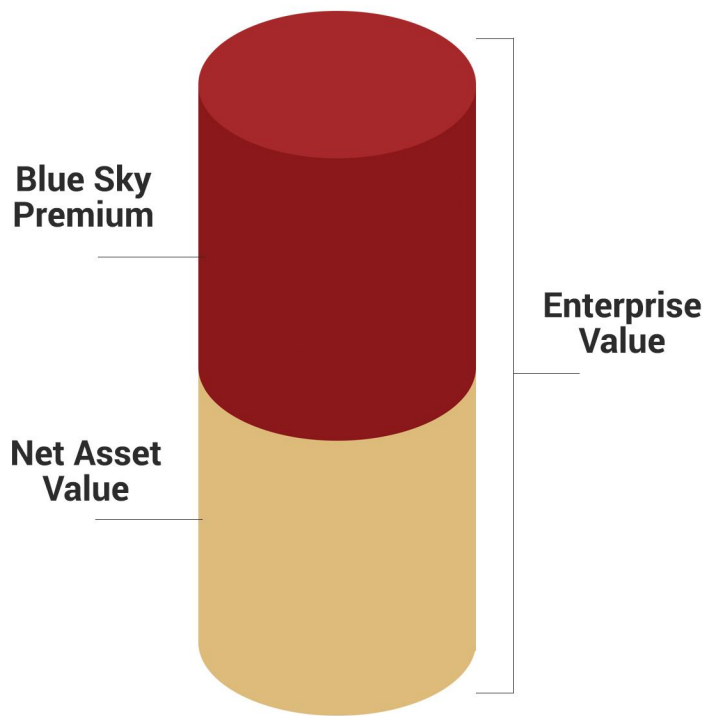
Let's apply the Blue Sky Method to determine the fair market value of Allertons RV.

To find the net tangible asset value, add the cash (\$345,000), accounts receivable (\$273,000) and inventory (\$1,638,000). Then add the fair market value of the fixed assets (the building and the land). Keep in mind that the fair market value of the real estate may be higher or lower than the book value shown on the balance sheet. For this example, we used book value of \$1,433,000. Adding these together, the net tangible asset value is \$1,279,900 (the sum of \$345,000 in cash, \$546,000 in accounts receivable, \$1,638,000 in inventory, \$1,433,000 in fixed assets, minus debt of \$2,190,700 and current liabilities of \$218,000).

Now for the goodwill or "blue sky" value. This premium reflects the going concern value of the dealership over and above its asset value. This value is based on a multiple of the dealership's cash flow. There are two questions. What is the right cash flow to use and what multiple should we use?

In a real valuation, we would use something called adjusted earnings before interest, taxes and depreciation or adjusted EBITDA. However, to keep this simple, we will use adjusted pretax income as a proxy in this example.

VALUATION COMPONENTS



The question of what multiple to apply to the pretax income is subjective and is based on the dealership's performance over the last few years and projected performance going forward. Typically, the multiple is somewhere between three and six times earnings, depending on the overall performance of the dealership. In this case, Allerton's revenues are trending upward and its pretax margin is about average for the industry. Payroll is just 8.5% of sales, which is good. The dealer represents good brands and has a good mix of new and used RV sales. Given its relatively strong performance, Allerton's is an attractive dealership that should be able to get a multiple of five times its pretax income, for a goodwill premium of \$1,255,800.

PUTTING IT ALL TOGETHER

If you add the net tangible book value to the goodwill value, Allerton's RV dealership has a fair market value of approximately \$2,535,700, or \$2.54 million if we round up.

Net Tangible Asset Value	
Cash	345,000
Accounts Receivable	273,000
Inventory	1,638,000
Fixed Assets	1,433,000
Debt	(2,190,700)
<u>Current Liabilities</u>	<u>(218,400)</u>
Net Tangible Asset Value	\$1,279,900
Blue Sky Premium	
Pretax Income	251,160
<u>Multiplier</u>	<u>5.0</u>
Blue Sky Premium	1,255,800
Enterprise Value	\$2,535,700

Of course, this is a quick and simple example. A more accurate valuation would involve using a discounted cash flow model and require a careful analysis to calculate the dealership's actual adjusted EBITDA and a risk adjusted multiple, but this approach provides you with a good "ball park" idea of what your dealership could be worth as you begin to think about your options.



By Rich Jackim, Managing Partner at Jackim Woods & Co.

Jackim Woods & Co. is a leading mergers & acquisitions advisor focused on providing senior level attention and flawless execution to clients in the recreational vehicle industry nationwide.

Rich Jackim is an experienced mergers and acquisitions advisor and a retired mergers and acquisitions attorney. He has over 20 years of experience advising owners of middle market companies and their boards of directors on mergers, acquisitions and divestitures. During his career, Rich has been involved in over 70 mergers or acquisitions of middle market companies worth over \$2 billion. Rich is also the author of the critically acclaimed book, *The \$10 Trillion Opportunity: Designing Successful Exit Strategies for Middle Market Business Owners*.

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