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AUTOMOTIVE **INSIDER**

AN M&A NEWSLETTER

WINTER 2025

THE FUEL LINE

DSMA'S NEW AUTOMOTIVE PODCAST



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10 SECRETS TO BUYING A DEALERSHIP **AT THE RIGHT PRICE**

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TABLE OF **CONTENTS**

03 A WORD FROM THE CEO

04 NAVIGATING CROSS-BORDER M&A

08 DSMA CEO FARID AHMAD ON AUTOMOTIVE M&A

12 HOW TAX CHANGES, EVS, AND INTEREST RATES ARE SHAPING CANADA'S DEALERSHIP BUY-SELL MARKET

16 THE VITAL ROLE OF ACCURATE DEALERSHIP VALUATIONS

20 10 SECRETS TO BUYING A DEALERSHIP AT THE RIGHT PRICE

24 BEYOND THE PRICE TAG

28 THE FUEL LINE: DSMA'S NEW PODCAST ON AUTOMOTIVE M&A

30 DRIVING SUCCESS WITH FINANCIAL ANALYTICS

34 NORTH AMERICAN GOODWILL MULTIPLES

A WORD **FROM THE CEO**



Dear Readers,

As the chill of winter settles in, we are thrilled to share the latest edition of our newsletter, packed with insights and updates tailored for the ever-evolving automotive industry.

At DSMA, this season has been marked by remarkable achievements and exciting opportunities. From facilitating cross-border acquisitions to providing expert guidance on dealership valuations, our focus remains steadfast: empowering our clients to navigate the complexities of today's market with confidence and clarity.

In this issue, we provide valuable insights for those expanding their reach, including key takeaways from our recent cross-border acquisitions event. We also explore the latest industry trends, offer exclusive perspectives from our Executive Q&A series, and present essential guidance for prospective buyers on making strategic dealership investments. The topics covered include the importance of accurate valuations, factors beyond price to consider when buying a dealership, and key considerations for navigating the complexities of dealership acquisitions, from financial planning to managing OEM relationships.

At DSMA, our commitment to delivering unparalleled insights and opportunities remains unwavering. Whether you are an experienced investor or just beginning your journey, we are here to ensure your path is clear and rewarding.

Thank you for trusting DSMA to be your partner in growth and success. We look forward to supporting you as we head into another exciting year in the automotive sector.

F. Ahmad

Founder and CEO
On behalf of the Partners at DSMA

NAVIGATING CROSS-BORDER MERGERS & ACQUISITIONS:

INSIGHTS AND OPPORTUNITIES FOR CANADIAN AUTO DEALERS EXPANDING INTO THE U.S.

As the North American auto market evolves, Canadian auto dealers are increasingly eyeing opportunities to expand into the United States. The potential for growth is significant, but so are the complexities of cross-border acquisitions.

To help navigate these challenges, Farid Ahmad, the Founder & CEO of DSMA, offers advice to Canadians considering American acquisitions on everything from exchange rate impacts to regional differences and the importance of due diligence. Ahmad emphasizes the critical need for preparation and expertise when entering the U.S. market.

The Appeal and Challenges of Cross-Border Expansion

For Canadian auto dealers, the allure of expanding into the U.S. is clear. The sheer size of the market, combined with the potential for higher returns, makes it an attractive prospect.

However, Ahmad points out that the U.S. auto industry is highly complex, with significant variations that can impact the success of a dealership.

“There is a lot of regional differences in the United States,” he explains. “I think any Canadian looking to move into the United States really needs to understand what culture they have and avoid buying a great deal in a state that does not share the same culture.”

Ahmad highlights the importance of understanding cultural and regulatory differences by region. For example, while Texas and Florida are booming markets with high demand, states like California come with their own set of challenges, including high taxes, stringent government regulations, and environmental issues. The diverse regional landscapes of the U.S. mean that a successful strategy in one area might not translate well in another, making it essential for dealers to thoroughly research and understand their target markets.



Exchange Rate Considerations: A Double-Edged Sword

The exchange rate between the Canadian dollar and the U.S. dollar is another crucial factor that can significantly influence the profitability of cross-border deals.

According to Ahmad, “Currency fluctuation will always have a positive or a negative impact on that transaction.” When the exchange rate is favorable, Canadian buyers can gain a competitive advantage, making U.S. assets more affordable. However, if the exchange rate shifts unfavorably, it can quickly turn a profitable venture into a financial strain, particularly if a business needs to be recapitalized.

Post-COVID Trends: Winners and Losers in the U.S. Market

The aftermath of the COVID-19 pandemic has further complicated the landscape for potential buyers. During the pandemic, many dealerships thrived due to unique market conditions, but as the market has normalized, a stark divide has emerged between well-managed dealerships and those that struggled.

“What we’ve seen is after COVID ended and business moved back to normal, the people that couldn’t manage themselves and were not good operators have not been able to succeed during this period of time,” Ahmad notes.

This shift has created opportunities for Canadian buyers. Distressed dealerships that once commanded high prices during the pandemic are now available at significantly reduced valuations. Ahmad cites an example where a dealership group that was valued at $128 million in 2022 is now on the market for just $10 million—an illustration of how rapidly conditions can change.

The Importance of Due Diligence in Cross-Border Deals

When it comes to the due diligence process, Ahmad emphasizes that cross-border acquisitions require a high level of scrutiny compared to domestic deals.

“The process from that execution (of a Letter of Intent) to when they actually hand the keys over to

DSMA's team, which includes specialists in essential services like banking, legal, and accounting, works closely with clients to smooth out the acquisition process. By anticipating potential issues and providing tailored advice, DSMA helps Canadian buyers avoid common pitfalls and make informed decisions.

them is very different between Canada and the United States," he explains.

In Canada, buyers are typically more conservative and ensure that financing is in place before proceeding with a transaction. In contrast, U.S. deals can sometimes fall apart late in the process due to financing issues, creating uncertainty and potential losses for both buyers and sellers.

Ahmad also points out that the due diligence process is generally more stringent in Canada. For instance, real estate valuations in Canada are rarely questioned, whereas in the U.S., buyers often negotiate these values even when presented with an appraiser's report. This difference in approach underscores the need for Canadian buyers to be cautious and to work with trusted professionals who understand the nuances of the U.S. market.

How DSMA Supports Cross-Border Buyers

Given these complexities, Ahmad highlights the role of DSMA in helping Canadian dealers navigate the U.S. market.

"We are aware of all the potholes," he says, "and we can set correct expectations."

DSMA's team, which includes specialists in essential services like banking, legal, and accounting, works closely with clients to smooth out the acquisition process. By anticipating potential issues and providing tailored advice, DSMA helps Canadian buyers avoid common pitfalls and make informed decisions.

Ahmad likens this support to having a trusted guide when navigating an unfamiliar territory.

"It'd be like me trying to buy a house in Brazil—if I don't have a Canadian real estate agent in Brazil, I may get steered incorrectly," he says.

This analogy underscores the importance of working with experts who understand both the Canadian and U.S. markets, particularly when dealing with the intricacies of cross-border transactions.

Lessons Learned: Anecdotes from the Field

Ahmad shared several anecdotes that illustrate the challenges Canadian dealers might face when expanding into the U.S. In one instance, a dealer discovered that the seller had falsified financial statements, which led to the bank refusing to finance the deal. This situation highlights the importance of thorough due diligence and working with trusted partners to verify the accuracy of financial information.

In another case, an attorney in the U.S. actively tried to derail a deal by spreading misinformation about the buyer. This incident underscores the competitive and sometimes cutthroat nature of the U.S. market, where even professionals can have conflicting interests. Ahmad advises Canadian buyers to be cautious and to work with advisors who have their best interests at heart.



INTERVIEWEE

FARID AHMAD
Chief Executive Officer
farid@dsma.com

HOW TO BUY A DEALERSHIP IN THE US SEMINAR

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DSMA hosted a one-day seminar in Vancouver in the Fall, for those seriously considering expansion into the U.S. market. This event was tailored specifically for Canadian dealers and provided them with a wealth of knowledge and resources to help them succeed in the U.S. market.

Attendees got the opportunity to hear from experts in banking, accounting, and legal fields, as well as from Canadian dealers who have successfully navigated the U.S. market.

“It’s the only place you can go to a forum for a day and have one-on-one time with real experts in the automotive industry,” Ahmad emphasizes.

The Vancouver seminar was built on the success of a similar event held in Ontario last year, which received an overwhelming response and requests for more like it. The recent event featured an even broader range of topics and experts, making it an essential resource for any Canadian dealer serious about expanding into the U.S. market.

As the U.S. auto market continues to present opportunities for growth, Canadian dealers must approach cross-border acquisitions with caution and preparation. From understanding regional differences to navigating exchange rate fluctuations and conducting rigorous due diligence, success in the U.S. market requires a comprehensive strategy and the support of experienced professionals.

DSMA’s events offer Canadian dealers a unique chance to gain the insights and connections they need to make informed decisions. Whether you’re just beginning to explore the possibilities or are ready to take the next step, this seminar provides the tools and knowledge necessary to succeed in the complex and competitive U.S. market.

Thank you to our sponsors—BMO, Withum, Semaine Law, DRIVE Investment Partners, Signal, and QUOTUS—whose contributions make events like the Vancouver seminar possible. Their continued support helps empower Canadian dealers to make informed, strategic decisions when expanding into the U.S. market, ensuring that they are well-equipped to overcome the challenges and seize the opportunities that lie ahead.

DSMA CEO FARID AHMAD ON AUTOMOTIVE M&A: 2024 INSIGHTS AND WHAT LIES AHEAD FOR 2025

AS FEATURED ON AUTOMOTIVE NEWS "IN THE DRIVER'S SEAT"

Host Tim Dimopoulos joined Farid Ahmad, Founder and CEO of DSMA, as he reflects on a dynamic 2024 in automotive mergers and acquisitions, emerging trends and what to expect in 2025. Ahmad's deep expertise in the industry provided a fascinating glimpse into the factors influencing dealership transactions, the impact of global developments, and the shifting landscape for buyers and sellers. Below are the key takeaways from the conversation.

1. DSMA's Impressive Growth in 2024

Farid kicked off the interview by highlighting DSMA's remarkable performance in 2024 as he shared that the company experienced a significant boost in activity, achieving a 53% increase in transaction volume, which translated to over 100 completed deals in the year. Ahmad credited these results to the firm's ability to expand its dealership listings across North America and the UK, noting an increase of 40-45% in dealerships for sale compared to the previous year. This surge underscores the ongoing activity in the automotive M&A space, despite various economic pressures.

2. Emerging Trends in the M&A Market

When asked about notable trends in the market, Ahmad pointed to a few key developments. While 2024 has been a very active year in the M&A sector, he identified a slowdown in lending from banks, particularly for smaller transactions. The tightening of credit, combined with high interest rates, has posed challenges for buyers seeking financing for these deals. On the



positive side, Ahmad highlighted the recovery of new car sales volumes, which he sees as a promising sign for the industry moving forward. This increase in vehicle sales may help stabilize dealership performance and fuel more M&A activity in the coming years.

3. Brand Performance and Buyer Preferences

In terms of brand performance, Ahmad observed that certain automotive brands continue to attract strong demand from both buyers and sellers. Traditional German brands like Mercedes-Benz, Porsche, Audi, and BMW, along with manufacturers such as Toyota and Honda, remain highly sought after in the M&A space. However, he pointed to the rising popularity of Hyundai, Kia, and Mazda, brands that have gained substantial traction among buyers in 2024.

4. The Impact of Chinese Automakers in North America

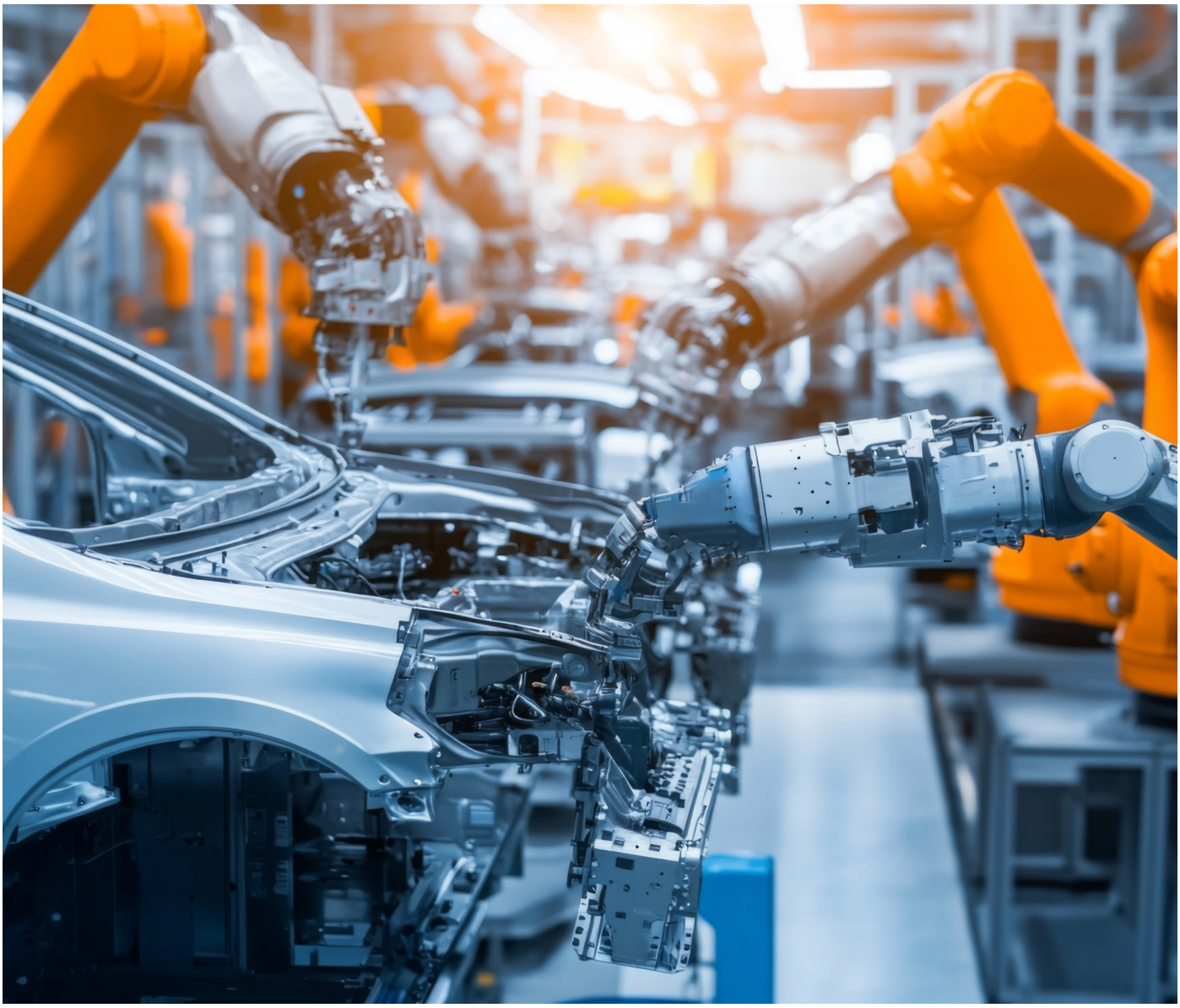
A major topic that Ahmad discussed was the potential entry of Chinese automotive manufacturers into the North American market. While he believes it is inevitable that Chinese brands will eventually make their mark in the region, he noted that regulatory and tariff barriers are likely to delay their full-scale entry. He referenced Chinese investments in manufacturing plants in Mexico and partnerships with existing brands, suggesting that the groundwork for their presence is already being laid. Ahmad acknowledged that the arrival of Chinese automakers could disrupt the market, particularly with regard to vehicle pricing, a concern that may prompt tariffs to protect local manufacturers.

5. Looking Ahead: Predictions for 2025

Looking to the future, Ahmad shared his predictions for the M&A market in 2025. He believes that political shifts could create a more favorable environment for business growth, including in the automotive sector. He sees the pro-America stance and potential tax breaks under a Republican government as positive factors that could stimulate activity in the M&A space. Furthermore, Ahmad expects that as interest rates decline, the M&A market will become more dynamic, attracting buyers who had been waiting on the sidelines due to economic uncertainty. In particular, he foresees increased activity as businesses anticipate a favorable tax climate and improved market conditions.

6. Farid's Business Philosophy and Mentorship

In the latter part of the interview, Tim engaged Ahmad in the 0-60 challenge, a fun segment designed to provide viewers with more personal insights. Ahmad shared that the most important piece of advice he ever received



came from a mentor in the Canadian car rental industry, who encouraged him to “think big.” He also revealed that two key mentors in his career were Jeff Rosen, who guided him during his time in retail automotive, and his current business advisors, Barry Shafran and Steve Quinn. Their mentorship has been instrumental in shaping Ahmad’s approach to both business and leadership.

Conclusion

Farid Ahmad’s interview on The Driver’s Seat offered a compelling look at the evolving landscape of the automotive M&A market. From DSMA’s stellar performance in 2024 to predictions for 2025, Ahmad’s insights provide valuable context for dealers, investors, and stakeholders navigating the complexities of the market. His views on brand preferences, the potential impact of Chinese manufacturers, and the influence of political and economic shifts offer crucial foresight for the year ahead.

To hear more about Farid Ahmad’s predictions and advice, be sure to listen to the full interview on The Driver’s Seat by Automotive News Canada. His expertise and candid perspective make it a must-listen for anyone interested in the future of the automotive M&A industry.



INTERVIEWEE

FARID AHMAD
Chief Executive Officer
farid@dsma.com

AUTHOR

AUTOMOTIVE NEWS CANADA


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HOW TAX CHANGES, EVS, AND INTEREST RATES ARE SHAPING CANADA'S DEALERSHIP BUY-SELL MARKET

AS FEATURED ON AUTOMOTIVE NEWS

The market for dealership mergers and acquisitions in the Canadian market has picked up strength as the year progressed. Yet it still remains vulnerable to volatile external factors, ranging from changes to the capital gains tax to rising vehicle inventories to falling interest rates. Farid Ahmad, the Founder and Chief Executive Officer of DSMA, explains how these forces and others could impact the buy-sell market for the remainder of 2024–and into 2025.

Q: How did the market for dealership acquisitions play out this year, compared to your expectations? Are there any lessons from 2024 that can be applied to expectations for 2025?

Farid Ahmad: Our expectations for the dealership acquisition market in 2024 have largely been met, with DSMA on track to achieve its sales objectives for the year. While the first quarter saw fewer transactions than initially forecasted, the market gained momentum as the year progressed and our fourth quarter will be strong, with an uptick in closings.

A key insight has been the volume of discussions we are having with our friends in various manufacturers' dealer-development departments, many of whom report record levels of dealership transactions this year. This surge includes not only our own deals, but also a notable number of private transactions.

Looking ahead to 2025, a critical lesson is to remain adaptable to fluctuations within the year, as the market can experience rapid shifts in activity.

Q: How have the changes to the federal government's tax system–most notably the changes in the capital gains tax–affected the pace of dealership acquisitions and how is that likely to play out in 2025?

Ahmad: The recent changes to the federal capital gains tax have certainly influenced the timing of dealership acquisitions. With minimal lead time from the government, many business



owners expedited their plans to sell, which resulted in an influx of early transactions. This led to a surge in consultations with accounting firms as clients sought to understand the implications of the new tax regime.

Our strong partnerships with major accounting firms across Canada allowed us to collaborate closely and support our clients in navigating these changes. Unfortunately, some business owners were unable to complete their transactions before the higher capital gains tax took effect, which was a missed opportunity.

As we look toward 2025, we anticipate that tax changes will continue to impact the timing and volume of acquisitions.

Q: AutoCanada Inc. recently announced that it's exploring the sale of its dealerships in the United States. Does this suggest a trend that could affect dealership acquisitions in Canada?

Ahmad: The recent announcement by AutoCanada regarding the potential sale of its U.S. dealerships is not indicative of a broader trend that would significantly impact the dealership acquisition climate in Canada. AutoCanada's decision seems to stem from specific challenges they faced in the U.S. market, including initial overvaluation of acquisitions and operational differences between the Canadian and U.S. markets. It's crucial for Canadian dealers to recognize these distinctions when considering cross-border acquisitions.

Q: Is the auto industry's unexpectedly sluggish transition to electric vehicles (EVs) affecting dealership acquisitions?

Ahmad: In our experience, the slower-than-expected transition to EVs has not significantly impacted dealership acquisitions. We have yet to encounter a buyer who has explicitly asked us to avoid presenting specific brands due to their EV strategies.

While the industry's shift toward EVs certainly is a topic of interest, it has not deterred potential buyers from exploring opportunities with brands at various stages of their EV transitions. The focus remains

> **As we look toward 2025, we anticipate that tax changes will continue to impact the timing and volume of acquisitions.**

on the overall performance and potential of a dealership, rather than its alignment with a particular EV strategy.

Q: Is Honda Canada's plan to reduce dealer profit margins an anomaly or an action that other automakers are likely to impose–and how would that affect dealership buy-sell activity?

Ahmad: Honda Canada's decision to reduce dealer profit margins has had a notable impact on the valuation of its dealerships. Just a few years ago, there was a high demand for Honda stores, but that landscape has shifted significantly. When a manufacturer reduces dealer profit margins to the extent that it materially affects a dealership's profitability, it inevitably leads to a decline in the value of that franchise.

If other automakers were to implement similar measures, it would likely have a broader impact on dealership buy-sell activity, with reduced profitability leading to lower valuations and potentially less interest from buyers. It's a reminder that manufacturers' policies directly influence the stability of dealer networks and the attractiveness of their franchises in the acquisition market.

Q: Clearly, some auto brands are more attractive for acquisition than others. Which brands are likely to be the most coveted by prospective dealership buyers?

Ahmad: Certain auto brands consistently stand out as more attractive acquisitions, due to their strong market performance, brand loyalty and profitability. Currently, the brands most coveted by prospective buyers are Audi, Hyundai, Kia, Subaru, Lexus, Mercedes-Benz, Porsche and Toyota.

These brands are often sought after because they offer a combination of robust sales volume, high customer retention and a diverse product lineup that appeals to a wide range of consumers. Their strong positioning in the market makes them prime targets for acquisition, as buyers are looking to capitalize on these brands' growth potential and established reputations.

Q: Falling interest rates and rising inventories have been good signs for 2024. Any other factors that could affect dealership acquisition activity going forward?

Ahmad: While the prospects of falling interest rates and rising inventories have been positive indicators for dealership acquisition activity in 2024, other factors could also play a significant role as we move into 2025. One such factor is the upcoming U.S. elections, which could influence U.S. automakers and subsequently impact the Canadian dealer network, depending on the policy changes that may follow.

Additionally, fluctuations in used-car inventories and values remain a critical area to monitor. Changes in supply and demand for pre-owned vehicles can directly affect dealership profitability and acquisition strategies, as they play a pivotal role in overall dealership performance.

Q: In the next year, will buying a dealership in Canada get easier, harder or remain about the same?

Ahmad: We anticipate that buying a dealership in Canada next year will remain much the same as in 2024. However, the process of closing deals has become increasingly complex and time-consuming, with greater scrutiny from banks, buyers, lawyers and manufacturers. Currently, it takes an additional 32 days on average from the execution of a letter of intent to final closing, compared to previous years.

We hope to see a return to more streamlined closing timelines in 2025, as the current extended process poses challenges for both buyers and sellers. Nonetheless, we expect the overall environment for dealership acquisitions to remain stable, with continued diligence required at every step of the process.



INTERVIEWEE

FARID AHMAD
Chief Executive Officer
farid@dsma.com

AUTHOR

AUTOMOTIVE NEWS CANADA


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THE VITAL ROLE OF ACCURATE DEALERSHIP VALUATIONS

In the fast-evolving automotive industry, dealership valuations have never been more crucial. For automotive Dealer Principals looking to make informed decisions, whether buying, selling, or securing financing, understanding how valuations work can dramatically influence outcomes. As seasoned experts at DSMA and having completed over 2,000 valuations, Andy Church, Vice President, East, USA and Bill Fields, Principal M&A Executive at DSMA have extensive experience in advising dealership owners in navigating the complex valuation process and providing valuable insights on the subject.

Key Metrics Driving Valuation Accuracy

When it comes to assessing a dealership's worth, there are several critical metrics that play a pivotal role. Profitability is paramount—how a dealership has performed financially over time provides the foundation for its valuation. As Bill explains, "Trends in profitability, along with key performance metrics, form the backbone of any dealership valuation." Dealers must also consider other aspects such as location, whether the facility is compliant with manufacturer image standards or not, and the nature of the franchise. Luxury franchises, for instance, typically carry higher valuations compared to domestic volume franchises due to their inherent brand value and profitability.

Moreover, market conditions can significantly impact a dealership's value. Both local and national economic trends affect profitability. Growing markets like many in the Southeast, with planning volumes that are increasing each year, have a higher value than dealerships in very rural markets where the population is going down year on year. For example, the loss of a major local industry in a smaller town could severely affect a dealership's performance; Andy points out, "I had a smaller town where a major industry relocated, and it caused a huge local impact that rippled through to the dealership."

The Pitfalls of Wishful Thinking

A common mistake many owners make is relying on wishful thinking when assessing their dealership's value. It's easy to assume that a dealership is worth more than it truly is, but this overestimation can lead to missed opportunities. Andy emphasizes, "Many dealers are overly optimistic about their dealership's worth and skip the critical step of getting an accurate valuation." This can result in pricing the dealership too high and consequently scaring away potential buyers or failing



to attract offers altogether. As Bill advises, “There’s nothing better than a properly priced dealership—it’s a win-win situation. The seller achieves a fair price, and the buyer feels confident in their investment.”

Uncovering Hidden Potential

It’s also important to note that valuations do not only serve to prevent dealers from pricing their dealerships too optimistically; many dealers are often pleasantly surprised to find that their dealership’s valuation comes in higher than expected. Andy says, “Our CPA team are profit hunters, they understand the business and where to look to ensure the value of the dealership is accurate and fair. Oftentimes our valuation comes in higher than what the Dealer originally thought. You can’t skip a valuation process.” Many dealers want to try and time the market, this is not the best strategy; the key is to move quickly and get the deal done as soon as possible.

> “Franchise dealerships provide a protected territory, more robust infrastructure, loyal customers, and better prospects for the future.”

The Role of Location and Franchises in Valuations

The importance of location in the results of a valuation cannot be overstated. As Bill highlights, “A dealership’s location is a massive factor in its valuation. Being situated on the wrong side of town or in a declining auto row can negatively affect its marketability.” A dealership in a prime area, however, has an inherent advantage, making it more desirable to buyers and lenders alike.

Additionally, dealership franchises carry a significant weight in valuation. There is a stark contrast in value between franchises, with luxury brands typically commanding a higher price than domestic volume franchises. Independents, on the other hand, lack the built-in brand equity of a franchise, making their valuations more challenging. As Andy explains, “Franchise dealerships provide a protected territory, more robust infrastructure, loyal customers, and better prospects for the future, all of which increase their valuation.”

Understanding the Goodwill Factor

Goodwill or "Blue Sky" represents a substantial portion of a dealership's overall value. The quality of management, customer satisfaction scores, and franchise value all contribute to goodwill. A dealership with strong leadership, a solid reputation, and a loyal customer base will naturally have a higher goodwill value. Bill notes that, "Profitability, franchise, and location are key drivers of goodwill. It's not just about the building or inventory—it's about the relationships and reputation built over time."

The Critical Element of Financial Health

The financial health of a dealership is the most critical factor in determining its value. If a dealership is struggling financially, a "flag value" is often used—an estimate based on the inherent value of the franchise and location, rather than profitability. A dealership that's financially healthy, on the other hand, will generally see a higher valuation, as it signals stability and future growth potential.

The need for clean financials is also crucial. Andy advises that dealerships should "get their financial statements cleaned up" before seeking a valuation. Disorganized financial records or a lack of transparency can significantly lower a dealership's value, making it more difficult to sell or secure financing.

The Dangers of Skipping the Valuation Process

Skipping a formal valuation can lead to costly mistakes, as seen in numerous cases where dealers either overestimated or underestimated their business's worth. "I've seen many dealers not want to accept the valuation we placed on their dealership," says Bill. "They go to market at an inflated price, only to have to reduce it later, wasting valuable time." A proper valuation not only helps set a fair price but also prepares owners for a successful transaction by ensuring that the dealership is priced realistically and makes certain that no time is wasted.

The Importance of Ongoing Valuations

The valuation process is not a one-time affair. Just as one wouldn't neglect regular appraisals of real estate, it is crucial to continually monitor the value of your dealership. As Andy suggests, "Your dealership is likely your most valuable asset. Just like you check the value of your stock portfolio every day, you should understand the value of your business on an ongoing basis."

At DSMA, clients benefit from free updates to their valuation within 12 months of a paid engagement, guaranteeing the Dealer stays informed as market conditions evolve. The advantage of working with DSMA lies in the company's ability to deliver a holistic valuation experience—one that goes beyond mere numbers. It's a comprehensive analysis that provides clarity on potential areas for improvement, operational efficiencies, and strategic opportunities, giving owners the insights needed to make informed, forward-thinking decisions. This proactive approach results in a dealership that is consistently positioned for optimal performance, no matter how market conditions shift.

The Value of Expertise

The expertise of firms like DSMA plays a central role in helping Dealer Principals understand and maximize the value of their business. With an accomplished team that includes Certified Public Accountants and other financial experts, DSMA brings unparalleled proficiency in valuations, having completed 2,000 valuations since the company's inception. This extensive experience underscores their ability to provide critical, data-driven insights that inform decision-making and provide dealers with a comprehensive and nuanced understanding of their dealership's true worth. A dealership valuation is far more than a number; it serves as a strategic roadmap to success. By understanding the intricacies of a dealership's value, owners can make more informed decisions, avoid costly mistakes, and strategically position their business for long-term growth.

Whether you are looking to buy, sell, secure financing, or simply gain clarity about your business's worth, an accurate and thorough valuation—backed by expert financial insight—is indispensable in today's competitive automotive landscape.

For further information or inquiries about dealership valuations, or if you wish to receive a comprehensive valuation, please contact Andy Church at andy@dsma.com or Bill Fields at bill.fields@dsma.com.



AUTHOR

ANDY CHURCH
Vice President, East, USA
andy@dsma.com



AUTHOR

BILL FIELDS
Principal M&A Executive, Southeast, USA
bill.fields@dsma.com

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10 SECRETS TO BUYING A DEALERSHIP AT THE RIGHT PRICE

Acquiring a dealership is a significant investment, and ensuring you get the best value requires strategic planning and expertise. Here are 10 secrets to help you navigate the process and secure the right price for your next dealership.

Secret 1: Location

The success of a dealership is strongly tied to its location. Start by conducting in-depth research on the city or town where the dealership operates. Analyze drive-by traffic patterns during both peak and off-peak hours to evaluate visibility and customer access. Look into upcoming housing and commercial developments that could influence future demand. Consider alternative locations as a backup plan for potential relocation. Finally, review property tax trends and assess whether the local municipal government fosters a pro-business environment, which can significantly impact long-term profitability.

Secret 2: Land & Building

The dealership's real estate plays a pivotal role in the overall investment. To reduce goodwill costs, negotiate for the seller to retain ownership of the land and building. Propose a 3- to 5-year lease term that includes a First Right of Refusal to purchase the property in the future. Ensure the lease rate is aligned with a current property appraisal to avoid overpayment. Additionally, explore opportunities for landlord-funded leasehold improvements to help minimize your initial cash outlay and support a smoother transition.

Secret 3: Upside Analysis

Identify key areas for growth and profitability by focusing on immediate opportunities to enhance performance. Normalize the income to accurately reflect the business's true earnings potential. Prioritize improvements in F&I profitability and work to increase the average gross profit per unit for both new and used vehicles. Evaluate the rent factor to ensure it aligns with current market standards. Lastly, maximize operational efficiency by analyzing and optimizing the fixed absorption rate, a critical measure of long-term sustainability.

Secret 4: Continue Benefits

Preserving existing employee benefits is essential for ensuring a smooth transition. Maintain the current health plan to provide stability and continuity for employees. Offer key team members vehicle usage benefits for a 2-, 3-, or 5-year term, demonstrating your commitment to their well-being. Retain family members already employed at the dealership to maintain internal



relationships and operational consistency. Recognize that these benefits often hold greater value for employees than for buyers, providing an opportunity to reduce goodwill payments while fostering trust and loyalty.

Secret 5: Legacy

Honoring the dealership's legacy can provide significant strategic benefits. Recognize the value the dealership's name holds for both the seller and the surrounding community. If the name carries a strong, positive reputation, retaining it can ensure a seamless transition and maintain customer trust. Conversely, if the name is associated with a poor reputation, rebranding may be necessary to protect future growth. Keeping an established name with a positive history can also reduce branding and marketing costs, making the transition smoother and more cost-effective.

Secret 6: More Than One Way!

Implementing creative financing strategies can significantly reduce upfront costs. Explore Vendor Take-Back (VTB) financing as an option to ease initial financial pressure. Prioritize acquiring the business first while deferring negotiations for the property to a later stage. Retaining the seller as a shareholder can help share financial risk and minimize your capital outlay. Additionally, proposing a share sale structure can offer tax advantages and create mutual benefits for both parties, making the deal more attractive and efficient.

Secret 7: K.I.S.S.

Keep your offer simple and clear. Create a straightforward Letter of Intent (LOI) with minimal





conditions. Avoid overly complex terms that could deter the seller. Be fair and reasonable to foster trust and goodwill. Save detailed negotiations for the final purchase agreement.

Secret 8: The Manufacturer

Engaging the manufacturer early in the process is critical to a successful acquisition. Prepare a well-organized and compelling application package to present to them. Familiarize yourself with their current and future imaging and branding requirements to ensure alignment. Demonstrate strong performance metrics to build confidence in your capabilities as an operator. Emphasize your financial stability, particularly your available, unencumbered cash, as manufacturers prioritize buyers who are well-positioned to meet their standards and support long-term success.

Secret 9: Inventories

Effectively managing inventories can lead to significant cost savings. If the seller's dealership is standalone, propose purchasing all parts inventories to streamline the transition. Allocate a higher portion of the purchase value toward Furniture, Fixtures, and Equipment (FFE) to minimize goodwill costs. Establish clear policies for handling trade-in vehicles, parts, and equipment to avoid ambiguity. Carefully assess the value of post-model year inventories and negotiate pricing to reflect their true worth. Agree to take all used vehicles in stock that are less than 30 days old while negotiating favorable pricing for older inventory to ensure financial efficiency.

Secret 10: Vendors and Banks

Strategic vendor and financial partnerships are critical to a successful transaction. Evaluate the benefits of continuing with the seller's current bank for financing to maintain stability. If advantageous, retain the same Dealer Management System (DMS) company to ensure operational continuity. Carefully assess your working capital requirements in advance to avoid unexpected shortfalls. Identify synergies with existing vendors that could unlock cost-saving opportunities and streamline operations. Finally, ensure you have a comprehensive understanding of your financials before finalizing the offer to make informed, confident decisions.

Bonus Secret: Hire DSMA

Partnering with DSMA sets you up for a successful dealership acquisition. Our team delivers expert valuations to guarantee competitive pricing and leverages strong relationships with manufacturers to facilitate smoother negotiations. Gain access to exclusive market insights that uncover the best opportunities. With experienced professionals advocating for your interests, you will benefit from skilled negotiation and strategic guidance. Enjoy a streamlined, efficient buying process, complete with access to exclusive listings that position you for long-term success.

Buying a dealership is a complex process, but with the right approach and support, you can secure the perfect deal at the right price. Contact DSMA today to learn how we can help you achieve your dealership ownership goals.



AUTHOR

JOHN CHISHOLM
Executive VP. of Global M&A
john.chisholm@dsma.com



85% OF OEM APPLICATIONS **NEVER MAKE IT TO THE TABLE.**

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BEYOND THE PRICE TAG:

KEY FACTORS POTENTIAL BUYERS MUST KNOW ABOUT WHEN BUYING A DEALERSHIP

For many entrepreneurs, the dream of owning a dealership represents the pinnacle of business achievement. The allure of partaking in the automotive industry, overseeing the sale of vehicles, and managing a bustling operation can be a tempting prospect. However, the process of acquiring a dealership is far more intricate than simply securing the capital to close the deal. It requires a strategic blend of financial planning, industry experience, a solid reputation, and alignment with the expectations of both financial institutions and Original Equipment Manufacturers (OEMs).

At DSMA, we guide prospective buyers through every step of the acquisition process, making it easier and more efficient. Our goal is to ensure that prospective buyers are fully prepared for the distinct dynamics involved. This article explores the key factors beyond the price tag when acquiring a dealership, helping those considering this venture position themselves for success.

1. Financial Preparation: Leaving Room for Flexibility

Securing the necessary funds is an important step in the acquisition process, however, it is crucial to know that the full financial commitment extends beyond the dealership's sticker price. Buyers must be prepared for upfront costs such as a significant down payment for both the real estate and goodwill. A common starting point is a 20% down payment on the real estate and at least 50% for the goodwill—though these figures can fluctuate depending on the nature of the deal.

However, what is often overlooked is the financial flexibility needed to weather the inevitable ups and downs that come with operating a dealership. Financial institutions will dig deeper into a buyer's financial situation, evaluating their savings, personal guarantees, and whether they can sustain the business in the event of a downturn. It's not just about having the initial capital but about demonstrating the capacity to manage potential risks and unforeseen challenges.

Gaining a clear understanding of the entire investment helps ensure a smooth and successful transaction—which is why DSMA is here to provide support and guidance throughout each step, helping potential buyers navigate the process with confidence.



2. The Importance and Intricacies of Location

The location of the dealership is a crucial element—not only for customer accessibility but also for OEM approval. A potential buyer must consider whether they are willing to relocate to manage the dealership or if they are prepared to commit to operating in a region where they do not currently reside. This is a key consideration for many manufacturers, who prefer hands-on, owner-operators embedded within their local communities.

In some cases, manufacturers will require evidence of residence within the dealership's operating area, as absentee ownership is typically not favored. As you consider potential dealerships, weigh the lifestyle implications: Are you prepared to move your family or invest significant time in a different region? While smaller towns may offer lower entry costs, the location must align with your personal and professional goals.

3. Reputation Matters—Both Personal and Business

A strong reputation—both personal and professional—

> **"In some cases, manufacturers will require evidence of residence within the dealership's operating area, as absentee ownership is typically not favoured."**

plays a pivotal role in securing a dealership. Manufacturers conduct thorough background checks, including police, court, and social media records. These checks are typically more in-depth than many buyers expect. Even the best financial package cannot override a history of criminal behavior, such as a DUI charge, or negative personal references.

Your reputation within the automotive community also carries significant weight. Being referred by an existing dealership owner or having established relationships within the industry can bolster your candidacy.

Similarly, the reputation of your previous business ventures can help or hinder your progress. If you have had success in another industry, that's great, but without the relevant experience and industry-specific expertise—such as at least five years as a General Manager in a new car dealership—OEMs are unlikely to consider your application favorably.

4. OEM Relationships: Building Trust

A dealership acquisition is not only a financial transaction but a partnership with the OEM. For buyers with little experience in the automotive sector, it is essential to establish a relationship with the manufacturer early on. Manufacturers prefer to work with applicants who have a proven track record within the industry or with a hands-on operational approach.

At DSMA, we have had the privilege of helping clients strengthen these relationships. As shared by Gracielle Sills, an M&A associate for DSMA in Quebec, Canada one notable example includes a candidate, who was guided through his acquisition

of a GM dealership, and another example includes Principal M&A Executive Manon Messier's client, looking to acquire a Volkswagen dealership. For these clients, our role was to help them understand the expectations of the OEM, structure their application, and provide the necessary support to build credibility in the eyes of manufacturers. Notably, DSMA guided Manon's client seamlessly throughout the entire process, developing a dealer point package, assisting with the submission of documents to Volkswagen, and thoroughly preparing him for the meeting with Volkswagen executives, which culminated in success.

5. The Role of Industry Experience

Experience in the automotive industry is vital, with a minimum of 10 years in the field and at least five years as a General Manager being the standard expectation for many OEMs. The industry is dynamic, with cycles of growth and decline, and the OEMs need to be assured that buyers have the skill set and resilience to navigate these fluctuations.

For many, this experience doesn't just come from time spent selling cars. OEMs value proven leadership, operational expertise, and an understanding of the intricacies involved in managing a high-stakes, large-scale business. If you lack experience in running a dealership, partnering with a skilled General Manager who has an in-depth understanding of dealership operations can be a game-changer. This partnership can make a significant difference when presenting to an OEM.

6. Common Mistakes and Misconceptions

One of the most common mistakes buyers make is choosing a brand and location based on personal preferences without fully understanding the financial and operational implications. For instance, a buyer might be attracted to the idea of purchasing a Kia or Toyota dealership in Montreal, thinking it's an ideal market. However, the reality of real estate costs and the current multiple for those brands might quickly render the deal much more expensive than expected.

Buyers often underestimate the additional costs involved—such as legal fees, environmental inspections, permit requirements, management systems, and ongoing operational expenses. These expenses can quickly add up, so it's essential to plan for them early in the process—a service that DSMA provides to ensure potential buyers are fully prepared and avoid any unexpected costs.

7. Long-Term Considerations: The Reality of Ownership

Owning a dealership is more than just a business opportunity—it's a long-term commitment. Success in the automotive industry requires commitment, adaptability, and the ability to navigate industry challenges such as recalls, fluctuating demand, or shifts in the automotive landscape (such as the rise of electric vehicles).

The decision to buy a dealership should not be based on superficial factors like prestige or the desire for financial success. It's important to reflect on why you want to enter this field. Are you driven by passion for the industry, or are you simply pursuing a profitable venture? The automotive industry is full of ups and downs, and managing a dealership requires courage, perseverance, and a deep understanding of the business. Those who excel are often the ones who are able to weather difficult years and make the necessary investments even when the road gets tough.

Conclusion: Navigating the Dealership Acquisition Process

Acquiring a dealership is a prestigious goal, and while the financial requirements are significant, the real challenges lie in the preparation, the relationships built, and the ongoing effort to maintain a successful operation. DSMA is here to help buyers navigate this complex journey, ensuring that they are not only prepared for the acquisition but also poised for long-term success.

We work closely with clients to assess their qualifications, identify potential challenges, and provide the tools and connections needed to present a strong case to the OEM. Whether you are a first-time buyer or a seasoned entrepreneur, our expertise can guide you every step of the way.

Ultimately, owning a dealership is a rewarding endeavor, but it requires more than just money to succeed. It requires a combination of experience, reputation, financial stability, and a clear vision for the future. Fortunately, with the right preparation and guidance, you can turn your dream of dealership ownership into a successful reality.



AUTHOR

DORA ZORZ
Marketing Coordinator, Copywriter
dora.zorz@dsma.com

THE FUEL LINE
AN AUTOMOTIVE M&A PODCAST

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Accelerate your knowledge with *The Fuel Line*, the essential podcast for navigating the high-octane world of automotive mergers and acquisitions. Hosted by Farid Ahmad, Founder & CEO of DSMA, each episode delivers top-tier insights from leading executives, industry analysts, key decision-makers, and everyone in between. **Introducing DSMA's first podcast. Tune in today to stay ahead of the curve.**



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THE FUEL LINE:

KEY TAKEAWAYS SO FAR FROM DSMA'S NEW PODCAST ON AUTOMOTIVE M&A

DSMA's new podcast, The Fuel Line, is making waves in the automotive industry, offering a front-row seat to the latest trends and expert insights in the automotive M&A space. Hosted by Farid Ahmad, Founder & CEO of DSMA, the podcast has already brought listeners compelling conversations with top industry leaders, offering a unique look at the forces shaping the future of automotive transactions. In the first few episodes, The Fuel Line has covered everything from economic forces driving M&A activity to leadership philosophies shaping the future of the automotive market. Here's a quick recap of the episodes so far:

Episode 4: Economic Forces Driving Automotive M&A with Erik Johnson

Farid Ahmad sits down with Erik Johnson, Vice President and Senior Economist at BMO, for a deep dive into the economic trends impacting the automotive sector. From interest rates to consumer confidence, Erik breaks down how macroeconomic forces are affecting dealership valuations and M&A activity. This episode is essential for anyone looking to understand the financial landscape that drives automotive deals.

Episode 3: Behind the Wheel with Don Romano, CEO of Hyundai Canada

Farid is joined by Don Romano, President and CEO of Hyundai Canada, to discuss his career journey, Hyundai's growth in



Canada, and the leadership tactics that have fueled its success. Don shares his philosophies on leadership, diversity, and how Hyundai is preparing for the future of the automotive industry. This episode is packed with valuable lessons for both current and aspiring leaders in the automotive world.

Episode 2: Demystifying Valuations with Maxime Théorêt

Maxime Théorêt, CPA and Managing Partner at DSMA, joins Farid to talk about the complexities of dealership valuations. Maxime explains how DSMA assesses value and shares his insights on what factors play a crucial role in determining a dealership's worth. With interest rates on the rise, this episode is a must-listen for anyone involved in buying or selling dealerships.

Episode 1: Launch Into the Automotive World

In the premiere episode, Farid speaks with John Chisholm, Vice President at DSMA, to learn about his career and his role in helping clients navigate the intricacies of automotive M&A. This episode provides a great introduction to the work DSMA does and how they are helping businesses successfully manage their M&A transactions.

Why Tune In?

The Fuel Line is the go-to podcast for anyone interested in the rapidly changing automotive M&A landscape. Hosted by Farid Ahmad, Founder & CEO of DSMA, the show offers expert insights on economic trends, dealership valuations, leadership strategies, and the future of the industry—helping its listeners stay ahead in a competitive market.

If you have questions or would like to be a guest on the podcast, feel free to contact us at thefuelline@dsma.com.

Don't miss out—catch up on the latest episodes today!

MAXIMIZING DEALERSHIP SUCCESS

QUOTUS' GUIDE TO DEALER PARTNERSHIPS WITH FINANCIAL INSTITUTIONS AND OEMS

Strategic partnerships between dealers, OEMs, and financial institutions are essential for success on both sides. While OEMs and lenders serve as trusted consultants, providing valuable insights and market intelligence to help dealers optimize operations, mitigate risks, and boost profitability, it's equally important for dealers to have the right financial analytics and support in place. With this foundation, these partnerships can drive long-term growth and operational efficiency for all parties involved. To fully leverage these partnerships, dealers must harness the power of financial data and analytics to drive smarter decision-making.

It is essential to recognize that retail automotive financial performance extends far beyond selling vehicles—it requires both understanding and leveraging financial data to drive profitability and growth. While financial analytics are critical for informed, data-driven decision-making, a staggering 86% of finance leaders in the automotive industry admit they aren't fully utilizing their financial data's potential. To maximize growth, dealers need the right tools and information to unlock the full value of this data.

This guide explores how dealers, OEMs, and financial institutions can work together to ensure dealerships have the tools, resources, and financial backing needed to thrive in an increasingly competitive market.

For dealers looking to enhance their partnership with key stakeholders, the following strategies are worth considering:

1. Ensuring Clean Financials – A dealership's financial records form the foundation for any valuation or financing effort. Clean, organized, and transparent financial statements are essential for establishing trust with buyers and lenders. Disorganized financials or a lack of transparency can lead to:

- **Lower Valuations:** Unclear records raise red flags about potential hidden issues, reducing the dealership's perceived value.
- **Delays in Transactions:** Buyers and lenders will spend additional time and resources scrutinizing unclear financials, which can stall deals.
- **Lost Opportunities:** In competitive markets, messy financials can make potential buyers or investors walk away. Financial institutions should encourage their dealership clients



to maintain clean, accurate records to streamline financing processes and improve valuation outcomes.

• **Strained Bank Relationships:** Incomplete or inaccurate statements erode trust with financial institutions. Banks may perceive the dealership as a higher risk, resulting in more stringent lending conditions, higher interest rates, or reduced credit lines.

• **Increased Scrutiny and Compliance Costs:** Dealerships with disorganized financial records often face increased oversight from lenders, requiring additional audits or reviews that can be costly and time-consuming.

2. Aligning Financial Practices with Banking Standards

Banks and other lenders expect dealerships to meet similar financial standards, rendering it essential to align dealership practices with those of the banking sector. This alignment involves rigorous credit assessment, maintaining accurate financial records, and implementing robust risk management frameworks. Such practices not only facilitate smoother relationships with lenders but also support operational transparency. To ensure alignment with banking standards, here are key considerations for dealerships when managing financial practices:

• **Credit Assessment:** Adopt stringent credit checks to ensure customer creditworthiness.

• **Accurate Financial Records**: Document transactions, loan agreements, and customer payment histories meticulously.

• **Regulatory Compliance:** Stay informed of financial regulations related to lending, borrowing, and consumer protection to maintain a trustworthy and compliant operation.

• **Risk Management:** Develop a risk management framework to mitigate financial risks proactively, much like banks do.

OEMs and financial institutions seeking to strengthen their partnership with dealerships should consider the following strategies:

1. Aligning with the dealer's perspective: To mitigate risk in your portfolio, it is crucial to understand the key performance indicators (KPIs) that truly matter to a dealership—in other words, "see what dealers see" to adopt their viewpoint of their business. By leveraging robust financial analytics, financial institutions can closely monitor a dealership's health and proactively identify potential challenges. Metrics such as absorption rate, inventory turnover, and profit margins per department enable lenders to spot early warning signals of financial distress. At the same time, scenario analysis helps forecast performance under varying market conditions, reducing the likelihood of loan defaults and strengthening overall portfolio management.

2. Standardizing accounts to better access the group perspective: However, not all dealership financial statements are the same—they can vary by brand,



making it difficult to benchmark performance or assess risk on a comparable basis. This is where QUOTUS comes in: our platform standardizes dealership accounts and provides vital benchmarks, so you can compare and evaluate multiple dealerships—regardless of their brand—consistently and accurately. Armed with these uniform insights, lenders can simplify underwriting, identify high-risk accounts sooner, and foster stronger, more collaborative partnerships.

3. Understanding the market: Beyond mitigating risk, understanding industry trends and dealership performance relative to peers is essential. By tapping into these insights, you can guide your dealers to have a better financial health structure and can support operational improvements through data-driven decision-making and targeted training programs. Ultimately, QUOTUS empowers all stakeholders to adapt to evolving consumer demands and economic conditions, ensuring long-term viability and success.

How QUOTUS Can Help

For dealers, financial institutions, and OEMs aiming to stay competitive in 2025, financial analytics are not just a trend—they are a necessity. QUOTUS provides the essential intelligence needed to enhance underwriting, minimize risk, and foster stronger financial partnerships for both financial institutions and OEMs. With QUOTUS, accounts can be effortlessly standardized, enabling direct comparisons across all brands. Furthermore, a new valuation module (coming soon) will be available for both OEMs and financial institutions. With QUOTUS' comprehensive financial analytics and valuation tools, lenders and manufacturers gain the insights required to make informed decisions, strengthen dealership relationships, and ultimately drive long-term success.

Request a demo today to see how QUOTUS can elevate your financial strategy and bring new value to your business.



AUTHOR

VERONIQUE BOUCHER
Director of Technology
veronique.boucher@quotus.com

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NORTH AMERICAN **GOODWILL MULTIPLES**

CURRENT MULTIPLE RANGES BY BRAND

Many factors affect the actual Goodwill Multiple achieved when a dealership or group are sold. The values depicted here are an average based on current performance and economic trends from across the United States and Canada.

It is also important to note, that the only way to know the potential Goodwill Multiple for your dealership is to have your business valued by a professional CPA who truly understands the automotive industry.

DSMA has valued over 2,000 dealerships over the last few years and is the leading source for automotive dealership valuations in North America.

DSMA's valuations are trusted by banks, financial institutions, manufacturers, and dealers, like you.

If you would like to understand the Goodwill Multiple for your business, call DSMA at **833.650.4188** and ask to speak to your local valuation expert. All shared information will remain confidential.

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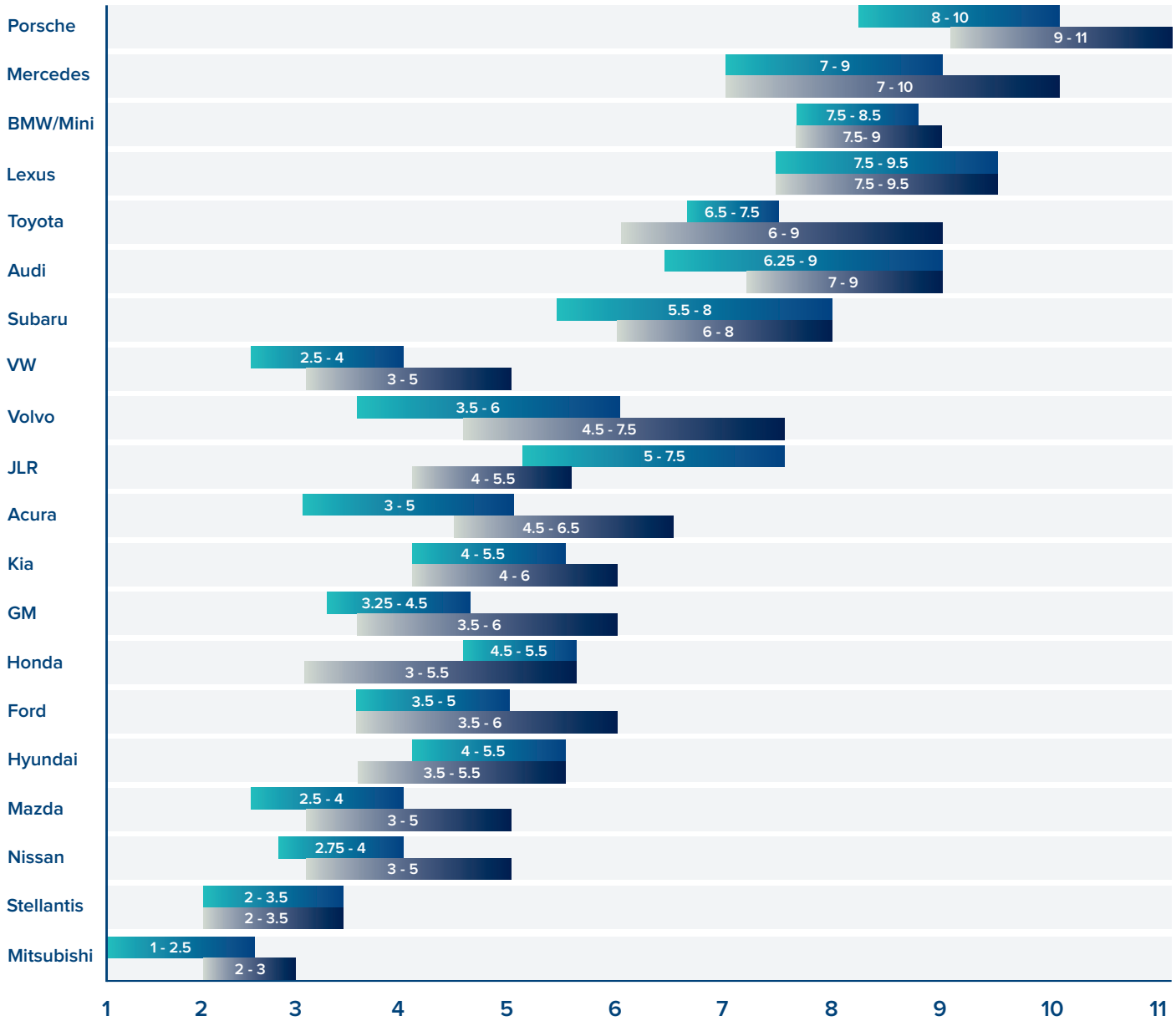
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USA Multiple

CAN Multiple

Multiples shown are of Earnings Before Tax (EBT). Colored bars represent the current minimum and maximum goodwill ranges.
Blue gradient represents U.S. Multiples.
Grey gradient represents Canadian Multiples. All DSMA valuation and Goodwill data is based on normalized financial data to ensure comparisons are valid from brand-to-brand.



EXECUTIVE **TEAM**



FARID AHMAD
Chief Executive Officer
farid@dsma.com



MAXIME THÉORÊT, CPA
Managing Partner
maxime@dsma.com



JOHN CHISHOLM
Executive VP. Global M&A
john.chisholm@dsma.com



ANDY CHURCH
VP. East, USA
andy@dsma.com



JENNIFER RAFAEL
VP. Midwest, USA, Partner
jennifer.rafael@dsma.com



KYLE CHASE
VP. West, Canada, Partner
kyle.chase@dsma.com



ERIC LEVITT
VP. Central/West, USA, Partner
eric.levitt@dsma.com



CODY CANTU
Regional Director
cody.cantu@dsma.com



MÉLISSA SAMATAS
Vice President
melissa.samatas@dsma.com



SANDRA LIEM
VP. Marketing
sandra.liem@dsma.com



ETIENNE DEMEULES, CPA
Director of Finance & Valuation
M&A, Partner
etienne.demeules@dsma.com



JESSI KESSEL
Director of People and
Corporate Strategy
jessi.kessel@dsma.com



VERONIQUE BOUCHER
Director of Technology
veronique.boucher@quotus.com



ANTHONY CODISPOTI, CPA
Senior Manager Valuation & M&A
anthony.codispoti@dsma.com



CARMEN MARTIN
Executive Assistant/HR Executive
carmen.martin@dsma.com



NICOLA BIGGS
General Counsel
nicola.biggs@dsma.com

CANADIAN ASSOCIATE **TEAM**



WEST

KYLE CHASE
Vice President, Partner
kyle.chase@dsma.com



ONTARIO

LEV KOWALSKY
Principal M&A Executive
lev.kowalsky@dsma.com



ONTARIO

ROB MACKENZIE
M&A Associate
rob.mackenzie@dsma.com



WEST

JEFF RENAUD
Regional Manager
jeff.renaud@dsma.com



ONTARIO

JOHN RAYMOND
M&A Associate
john.raymond@dsma.com



ONTARIO

DARREN SAVAGE
M&A Associate
darren.savage@dsma.com



ONTARIO

JEETU VIRK
M&A Associate
jeetu.virk@dsma.com



QUEBEC & ATLANTIC

MÉLISSA SAMATAS
Vice President
melissa.samatas@dsma.com



QUEBEC

FRANCOIS MCDONALD
Principal M&A Executive
francois.mcdonald@dsma.com



QUEBEC

MANON MESSIER
Principal M&A Executive
manon.messier@dsma.com



QUEBEC

GRACIELLE SILLS
M&A Associate
gracielle.sills@dsma.com



QUEBEC

GEORGES THÉBERGE
M&A Associate
georges.theberge@dsma.com



ATLANTIC CANADA

ISABELLE FAHIE
M&A Associate
isabelle.fahie@dsma.com



CANADA

PHILIP PAYNE
M&A Associate Collision Repair
philip.payne@dsma.com

U.S. ASSOCIATE **TEAM**



EAST

ANDY CHURCH
Vice President
andy@dsma.com



MIDWEST

JENNIFER RAFAEL
Vice President, Partner
jennifer.rafael@dsma.com



CENTRAL/WEST

ERIC LEVITT
Vice President, Partner
eric.levitt@dsma.com



SOUTHEAST

BILL FIELDS
Principal M&A Executive
bill.fields@dsma.com



SOUTHEAST

ROBERT SCHLICHT
M&A Associate
robert.schlicht@dsma.com



SOUTHEAST

CHRIS FOSHEE
M&A Associate
chris.foshee@dsma.com



SOUTHEAST

ANDREW ZAHNER
M&A Associate
andrew.zahner@dsma.com



NORTHEAST

MICHAEL DEMARSHALL
M&A Associate
michael.demarshall@dsma.com



TEXAS

CODY CANTU
Regional Director
cody.cantu@dsma.com



CENTRAL/WEST

GARY SWARTZ
M&A Associate
gary.swartz@dsma.com



CENTRAL/WEST

WES SMITH
M&A Associate
wes.smith@dsma.com



CENTRAL/WEST

NOAH TRUBO
M&A Associate
noah.trubo@dsma.com



MIDWEST

JONATHON MORONI
M&A Associate
jonathon.moroni@dsma.com



MIDWEST

GREG BROWN
M&A Associate
greg.brown@dsma.com



MIDWEST

KEVIN CHRIST
M&A Associate
kevin.christ@dsma.com

U.S. ASSOCIATE **TEAM**



MIDWEST

MIKE FUNK
M&A Associate
michael.funk@dsma.com



MIDWEST

CHRIS HAWLEY
M&A Associate
chris.hawley@dsma.com



MIDWEST

ZACH HICKSON
M&A Associate
zach.hickson@dsma.com



PACIFIC NORTHWEST

RICK KINGDON
Principal M&A Executive
rick.kingdon@dsma.com



PACIFIC NORTHWEST

JONATHAN PUMPHREY
M&A Associate
jonathan.pumphrey@dsma.com



CASEY EVANS
Director of Business Development
casey.evans@dsma.com

ESSENTIAL SERVICES **TEAM**



MAXIM GINSBURG
Marketing Manager
maxim.ginsburg@dsma.com



XANA HODGSON
Senior Marketing Specialist
xana.hodgson@dsma.com



RICO MARQUES
Creative Marketing Specialist
rico.marques@dsma.com



DORA ZORZ
Marketing Coordinator,
Copywriter
dora.zorz@dsma.com



JASMINE KHREICHE
Paralegal
jasmine.khreiche@dsma.com



IVY LU, CPA
Manager, Deal Advisory
& Valuation
ivy.lu@dsma.com



RITA JIANG, CPA CFA
Deal Advisory & Valuation
rita.jiang@dsma.com



TYLER OSBORNE
Deal Advisory & Valuation
tyler.osborne@dsma.com



DINA-MARIE ESTEVAO
Intermediate Financial Analyst
dinamarie.estevao@dsma.com



WENDY DURWARD
Dir. of Acquisition Management
wendy.durward@dsma.com



JOHN HILL
Dir. of Acquisition Management
john.hill@dsma.com



DANIEL RESTREPO
Acquisition Management Specialist
daniel.restrepo@dsma.com



MARCOS ALVES
Junior Financial Analyst
marcos.alves@dsma.com



NICOLAS GAY-HUBAUX
Junior Financial Analyst
nicolas.gay-hubaux@quotus.com

QUOTUS **TEAM**



MAXIME THÉORÊT, CPA
Managing Partner
maxime@dsma.com



ALEX CHURCHILL
Chief Revenue Officer
alex.churchill@quotus.com



VERONIQUE BOUCHER
Director of Technology
veronique.boucher@quotus.com



CAMERON AHMAD
Sales and Customer Coordinator
cameron.ahmad@quotus.com



MARC-ANDRÉ PHANEUF
IT Specialist & Customer Success
marcandre.phaneuf@quotus.com



JONATHAN ROBINSON
Full Stack Developer
jonathan.robinson@quotus.com



NICOLAS GAY-HUBAUX
Junior Financial Analyst
nicolas.gay-hubaux@quotus.com

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Calgary, AB
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Canada
305 Renfrew Drive, Suite 202
Markham, ON | L3R 9S7

United States
4851 Tamiami Trail North, Suite 200
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