Do You Know What Your Body Shop Business Is Worth?

By Willard Michlin

Do You Know What Your Body Shop Business Is Worth?

by: **Willard Michlin**

Many smaller body shop owners have asked, "How do I appraise my body shop?" In the last month I have been asked to do two appraisals on body shops. The first appraisal was to assist in partnership dissolution; the second appraisal was for marriage dissolution. (That is what the attorneys call a divorce.) Would you like to know how to appraise the value of a body shop business?

Before we begin, I would like to make one comment. Whenever a CPA has done an appraisal of a body shop, I find that their opinion of value is much greater than the actual value the market place will pay. This is not because the CPA's do not know what they are doing because they do; it is just that the market place places a much higher risk on buying a body shop than the accountants do. The following is an excerpt from one of those appraisals.

THE THREE WAYS TO APPRAISE A BUSINESS

1. The ASSET VALUATION METHOD. This method is basically used when a body shop does less than $400,000 a year in gross income and the seller is making wages, but no real profit above what he would be paid if working for another. On this size business, a buyer is willing to pay for the assets of the business but little or nothing for goodwill. The equipment is usually worth between $50,000 and $100,000, depending on how many frame machines the business owns and how nice a spray booth the business owns.

I have seen some specialized shops sell for more than the above number because they have a truck spray booth or another business attached to the main business. Examples of attached business might be an auto repair shop or towing operation. Also the location, size and real estate rental amount will influence the value of any business, to some degree.

2. The second method, I call the GROSS SALES METHOD. This is used when the sales are over $1,000,000 a year but the profit is unknown or financials are not available or reliable. Because of

experience, a Body shop buyer can make reasonable estimates of future profits, if they have some basic information. The basic information includes rent, source of business (DRP, STREET, or a CAR RENTAL AGENCY), and the desirability of the location.

When this method is used, the value appears to be about 3 months sales or 25% of the last 12 months sales. This method is not very reliable on businesses with sales of less than $1,000,000, because the question of being profitable is very questionable. Why is this breaking point $1,000,000 in annual sales? Multi−store buyers will have well paid managers, so many figure their breakeven point is around a million.

Less than $1,000,000 in sales is not even worth their time. Of course we know that there are exceptions to the rules. Some of the exceptions are A. when a new location will be a satellite store to a bigger location. B. The buyer must have a location in a specific area to please a DRP. C. To get rid of a competitor.

3. The third and most used method of evaluating any business, including body shops, is the NET PROFIT METHOD. This method is based on the idea that a business is worth what it generates, in profit and benefits, for an owner. Body shops, like so many other small businesses, often do not show a profit, at the end of the year. Strange, how so many businesses of different sizes all just happen to end up with little or no profit. What I find really amazing is that the IRS doesn't audit more businesses then they currently do.

As a result of showing poor profits, on the books, it becomes very difficult to use the NET PROFIT METHOD for appraising many small businesses. Luckily for me, I can quite often find hidden profits, of a business, by adding to the books, items we call owner's benefits. These include: Owners salaries, if a corporation. Personal autos and all the related expenses used by the owner and his family that are written off against the business, fife insurance and health insurance for the owners.

Depreciation is also a hidden profit that is usually added back in to the taxable profit to help build up the total owners benefits. And lastly, personal utilities, phones, trips, etc. that are deducted on the tax return but are not really costs to run the business.

After saying all this, what is the value of a business based on the Net Profit Method? Automotive businesses, especially auto body shops appear to sell for between 1.5 to 2 years adjusted profit (book profit plus owners benefits added back in). Larger body shops doing over $2,000,000 in annual sales may sell for much more, because the owner is making much more money, than just his salary and a buyer will consider part of the profit a return on his financial investment.

Very large body shops that are being bought by public corporations are evaluated primarily on their return on investment (Percentage profit that is being made on the cash purchase price of the business.) These big buyers can afford to pay between 5 times and 10 times annual net profit, after deducting all officers' salaries and perks.

Often these, public corporations, high purchase prices include two important restrictions, which is really why they are buying the business in the first place. First: The business is bought for little or no real money. They use restricted corporate stock that is not negotiable for two years. And second: The management is required to stay and run the company for some period of years.

The bottom−line, as I see it, is that you sold your soul, not your business. One last comment on selling to large corporations; heaven help the seller who sells his business for corporate stock or the buyers bonds and the buying company goes broke or the stock market crashes. I had a close friend sell his company for mostly cash and some seller carry back financing in Dec 1997. By Feb 1998 the buying company was in bankruptcy, making the paper my friend held worthless.

CONCLUSION: Appraising a business, especially body shops, is an art not a science. No two people will appraise the value of a business the same. I am amazed that the same thing one buyer thinks is a great asset is what another buyer thinks is a major negative. Differences of opinion are what make life interesting.

Willard Michlin is an Investor, Business Broker, California Real Estate Broker, Accountant, Financial

Distress Consultant, Well known Public speaker and Administrative/Business Consultant. He can be contacted at his Ventura, California office by calling 805−529−9854 or by e−mail at kismetrei@earthlink.net. See other article by Willard at

Is This A Good Time To Sell Your Body Shop Business?

By Willard Michlin

Have you ever asked yourself the question? "Is this a good time to sell my business?" That is a question every business owner asks himself, everytime he has a bad day. I once received e−mail from the editor of the Auto Body News, asking me that key question. "What is happening in the market today? Is this a good time to sell? " My quick answer was "These are very interesting times."

Of course that answer doesn't tell you anything that you can get your teeth into. So! Let me clarify my answer. Since I have been selling body shops for nearly 5 years, I have seen many changes in the body shop industry. One thing that hasn't changed is that there have always been an abundance of both sellers and buyers. The buyers have always been, and still are picky about what they were looking for.

The perfect shop in the eyes to the buyers is (A) one that has a customer base and a revenue stream that is reliable and isn't dependent on the owner being there to retain each individual customer, and. (B) doing a volume of at least $100,000 per month, but really much more. Large volume sellers think that if they have a DRP (Direct Repair Program. This is where the insurance companies set up a relationship with the body shop to do all their clients business. Much like an HMO in health insurance) contract, they have what the buyers want.

This may be true but the contracts are not automatically transferable, and a buyer will be very unhappy if the DRP leaves after paying money for this "reliable revenue stream." Smaller volume sellers, on the other−hand, not having corporate accounts, dealerships or other contracts still have hopes of getting lot of money for their shops. The average shop I run across is only doing about $300,000−$500,000 annual gross income. So what we have is a situation where a lot of buyers are looking to buy a shop, but there are not a lot of shops available, that fit what they are interested in.

This year, one change has occurred. There are fewer shops available than at any time in my career. Not fewer of the large volume shops for sale, that is fairly stable, but fewer of the small mom and pop repair shops that have not been in heavy demand. The reason, I believe this has happened is because of the booming economy. Low volume shops are doing better than they have in years. They are making money, and do not feel as much pressure to close down. They still would like to get out, but when they find out that their 5,000 sq. foot shop which is making them a $100,000 net profit, is only worth $100,000 on the open market they decide to keep on working.

As always, the shops doing $1 Million to $3 Million per year gross income is still in demand. The price alone still is the main factor, in determining if these shops will sell. A good example of this is what is happening in lower Orange County. There are currently a couple of shops in Lower Orange County that are for sale, by the owners. They appear to be very profitable but the asking price is too high and the buyers all know it. Even the fact that these are the only shops available for sale in this prime area has not changed the fact that buyers just refuse to over pay.

Last year I was marketing a high volume shop, in Ventura County. The buyers refused to pay the asking price, even though the volume was there. Why? The profit wasn't. In this situation, the buyers would not pay for the volume and stability of income unless the net profits were there. They didn't assume that they would make a profit where the current owner was not. It appears that buyers of today are very careful. I believe they do not trust their own ability to get business and are too careful.

To clear up any confusion about what kind of buyers we are talking about, lets break the buyers up into categories. The first category is the consolidators. There are two large ones in Southern California but they are not the whole market. I have talked to out of state consolidators that have inquired about moving in to the So California market. Consolidators want shops that fit their model. That model sometimes changes but basically they will buy a shop if it fits their model.

If it doesn't, they will not touch it. The price by itself doesn't turn their interest on or off. We do not have enough space to discuss what this group will buy, in this article. It is enough to say, " If your shop fits their criteria they would have contacted you and expressed interest. If they haven't contacted you, they are not interested." Period! They know their market place and who is in it.

By the way, if I owned a shop that a consolidator wanted, I would never sell to them. Being a professional negotiator for 20 years, I find the requested seller financing terms totally unacceptable. When I have found out about these sales, after the fact, I am amazed. I had buyers for the same money, or more, without the seller being at risk, but no one asked me.

The second category is the multiple location shop owners. Usually with one or more DRP contracts shop that wants to expand into more areas. They are very interested in the sq. footage of the shop, and its ability to handle over $2. Million Gross Income per year. This buyer only looks in limited areas. The areas being where they have been offered a DRP contract. When they are looking, they need it now, while the window of opportunity is open to them. If they can't find it quick, they will not need it at all. Recently I had a multiple shop buyer who had made an offer and was negotiating a shop in West Los Angeles. By the time we finished the negotiations, the DRP contract was gone and so was the buyer.

The third category is the buyers who have worked in the industry before, but do not currently own a shop. Also in this group are the buyers who have family in the industry, and money is no problem. This buyer believes " If it doesn't have a DRP, forget it. If it has a DRP and isn't making much money, also forget it". If it has a DRP, and it is making money, they are interested but only at what they consider is a fair price (In their eyes). This group I have successfully changed their mind at how they analyze what a good shop looks like and on occasion have bought shops with "a steady reliable income", other than insurance contracts.

The fourth category is the person that just wants a shop. They will do what they have to, to afford a shop that will work for them. This group is the working body man or auto repair shop mechanic. Because of their limited funds, this buyer will only pay what he or she feels the equipment is worth. They will pay nothing for goodwill because they believe that the seller's customers are not stable and will leave when the ownership changes. Are they wrong?

In Conclusion: There are a lot of buyers out there. My database has over 250 current names of body shop buyers. There is currently a shortage of shops for sale but mostly in the properly priced category. Most days I feel like a marriage broker with a lot of plain brides and a few beauties. The dowry for the beauties is more than most good−looking boys will pay. The balance of the girls may not be pretty, but some of them can sure cook. . Anyone want to get married? "Have I got a girl for you"

Willard Michlin is an Investor, Business Broker, California Real Estate Broker, Accountant, Financial Distress Consultant, Well known Public speaker and Administrative/Business Consultant. He can be contacted at his Ventura, California office by calling 805−529−9854 or by e−mail at kismetrei@earthlink.net. See other article by Willard at

Related Content:

Is This A Good Time To Sell Your Body Shop Business?
Open for Business
The 10 Bike Shop Customer Etiquette Commandments
Choosing The Best Flower Shop
Why Stock Photography is a Great Resource for Web Business

Read more Content at

Related Products:

Gate Crash into the Interior Design Industry.
Stretch Assistant Software
101 tips to stay fit and live longer.
Click Magnet Software
Software Empire

: A genuine resource center for Quality Ebooks and Softwares

This Free E−Book has been brought to you by [*Natural−Aging.com*](#).