

2026 **NADASHOW**

LAS VEGAS

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Managing Your Business to Buy, Sell or Maximize Profit

Hint – Do The Same Thing for All



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Key Takeaways

1

Dealers can increase net worth by selling for more \$, buying bigger, or generating more cash

More than you would imagine, Finance and Accounting functions facilitate all three

2

But:

Most organizations—**over 90%** — face gaps in their accounting function, and many CFOs are capable, but **under-resourced or in need of strategic upskilling**

3

Factory financial statements are woefully inadequate and **do not reveal accurate Cash Flow**

Buy / Sell / Hold - There's only one way to manage your dealerships



Cash is King – manage everything for cash flow



Every \$1 of Cash Flow

Generates \$4 - \$8 of dealership value, depending on franchise

Allows you to buy approx. \$4 of other dealerships

Adds to your net worth and lifestyle

Makes your spouse happier



But your financial reporting system probably isn't helping you...



Why care about financial management and reporting?

Cash

Inventory turn rate **matters more** than gross PVR!

- ✓ **\$3.2M gross** generated without additional inventory at lower margins (difference is in front end gross)
- ✓ **\$2.0M** to the bottom line, *after variable selling expenses*
- ✓ **\$12M** to blue sky value (at 6x)

CIT collections rate matters – slow collections **costs YOU money** and floor plan capacity!

- ✓ **\$1.8M** floor plan capacity unlocked
- ✓ **\$123K** expense avoided
- ✓ **\$0.7M** to blue sky value at 6x

There are many areas where **strong financial policies** generate value and cash

- ✓ These two alone unlocked **\$2.1M of net** and **nearly \$13M of blue sky**

Vehicle Inventory Turns		
Avg. NV Inventory	\$10.0M	\$10.0M
Total Gross PVR %	10%	8%
Turns Per Year	5.0x	8.0x
Gross Generated – NV¹	\$5.0M	\$6.4M
Avg. UV Inventory	\$5.0M	\$5.0M
Total Gross PVR %	15%	13%
Turns Per Year	8.0x	12.0x
Gross Generated - UV²	\$6.0M	7.8M
Total Incremental Gross Generated		\$3.2M
Incremental Profit After Selling Exp.		\$2.0M

CIT Collections		
New + Used Sales/Yr	\$160.0M	\$160.0M
Avg. Days in CIT	3	7
Avg. CIT Balance	\$1.3M	\$3.1M
FP Balance		\$1.8M
FP Interest Rate		7%
Floor Plan Expense Avoided		\$123K
Combined Incremental Profit		\$2.1M
Blue Sky Multiple		6.0X
Blue Sky Impact		\$12.7M

Why care about financial reporting?

Theft



CFO Chris Firlle was sentenced to 3 years and 5 months in prison for embezzling nearly \$2M over 4 years¹

- Well liked and trusted
- Access and opportunity without adequate internal corporate controls
- No \$ was stolen from our ORC dealership, served by Firlle, and owned in partnership with Firlle's dealer/employer

How to combat other Chris Firlles'

- ✓ Segregate conflicting duties so no one person can commit fraud without collusion
- ✓ Spot check vendors on P&L
- ✓ Perform reconciliations in a timely manner
- ✓ Credit card transactions - approved by someone else
- ✓ Have CPA review controls for threats and opportunities
- ✓ Review financials in sufficient detail to detect issues
- ✓ Use competent industry CPAs



Why care about financial reporting?

Proceeds in a Sale

Same store – different reporting	Good Reporting	Bad Reporting
Sales	\$100.0M	\$100.0M
Gross profit	\$11.5M	\$12.8M
Expenses	\$9.1M	\$8.6M
Other income	\$0.3M	\$0.3M
Net income	\$2.7M	\$4.5M
ADD IN:		
Non floor plan interest	\$0.2M	\$0.2M
EBIT	\$2.9M	\$4.7M
Seller adjustments	\$0.5M	\$.2M
Seller adjusted EBIT	\$3.4M	\$4.9M
Buyer adjustments	\$0.1M	\$(1.4)M
Buyer adjusted EBIT	\$3.5M	\$3.5M
Assumed Blue-Sky Multiple	6.0x	5.0x
Estimated Blue-Sky	\$21.0M	\$18.5M

“Seller’s numbers aren’t reliable. Let’s renegotiate or back out.”

We’ve seen this – in one deal a seller stated, “all the 13th month entries are tax only.” We analyzed, only to find out otherwise, and **adjusted EBIT was half what they reported**

- Good reporting supports decision making **and** dealmaking
- Unreliable accounting and unsupported addbacks **cost sellers money**
- **Bad numbers = cautious buyers**
- In the current normalized environment, **this is truer now** than it was during COVID

Factory financial statements are inadequate

What are your dealership's cashflows?

How much profit or expense have you taken off statement?

If you reverse packs, what are the real profits by department?

How do you compare dealership performance across brands?

What are the performance trends on a trailing 3, 6, or 12-month basis?

ANSWER:
No idea! Dealer statements DO NOT tell you



ALL other industries report financials in US GAAP – Why not ours?

**GAAP
Statements**



Illustrate a firm's true operational cashflow



Display consolidation of profits and losses of all related entities



Recognize profit in the appropriate department



Are comparable across brands and even across industries



Can be presented across multiple time periods to demonstrate accurate trends

GAAP Reporting

Don't employ "Fantasy Accounting Principles"

- ✓ Record expenses and income when they occur
 - ⊗ Don't
 - Inappropriately spread expenses by hiding them in prepaids
 - Recognize OEM incentives in income prematurely to avoid a bad month

- ✓ Have a capitalization policy and consistently apply it
 - ⊗ Don't
 - Capitalize repairs
 - Expense CAPEX

Report what happened – not what you wish happened!

- ✓ *Fantasy Accounting Principles* erode trust of lenders, capital partners and OEMs and leave you making decisions from inaccurate information

	GAAP	Fantasy Accounting Principles	Fantasy accounting explanations
Sales	\$8,333,000	\$ 8,333,333	
Cost of Sales	<u>7,375,000</u>	<u>7,375,000</u>	
Gross Profit	958,000	958,333	
Expenses	758,000	642,000	<i>Defer some real expenses to prepaids</i>
Other income	<u>25,000</u>	<u>132,000</u>	<i>Recognize OEM funds that weren't earned yet</i>
Net income	<u>\$ 225,000</u>	<u>\$ 448,333</u>	Fantasy achieved - bad month averted!

“What relief, we thought it was going to be a bad month!”

Meanwhile, next month you're starting in the negative, due to those manipulations, and the users of your financials no longer trust you.

It always catches up!

GAAP Reporting

If my GAAP income statement says I made \$4.5M why didn't my bank balance increase that much - *where's the money?!?*

- ✓ The income statement alone **is only part of the story**
- ✓ Full understanding of the operations **requires a Cash Flow Statement**
- ✓ **A cash flow statement shows:**
 - ✓ Net income
 - ✓ Adds back noncash expenses
 - ✓ Uses and sources of cash that did not affect the income statement directly
 - ✓ It tells the story of how you deployed the funds you generated
- ✓ If you only have a non-GAAP income statement, **you're not getting the full financial story**

Income Statement

Sales	\$ 100,000,000
Cost of sales	87,200,000
Gross profit	12,800,000
Expenses	8,600,000
Other income	300,000
Net income	\$ 4,500,000

Cash Flow Statement

Net income	\$ 4,500,000	
Depreciation	250,000	<i>Noncash expenses added back</i>
Change in operating assets & liabilities	(500,000)	<i>Working capital increased using cash flow</i>
Operating cash flows	4,250,000	
Purchase of FF&E	(500,000)	<i>Invested in new shop equipment</i>
Investing cash flows	(500,000)	
Debt principal payments	(900,000)	<i>Paid down blue-sky loan principal</i>
Owner distributions	(2,500,000)	<i>Oh yeah - I guess I did take some money out</i>
Investing cash flows	(3,400,000)	
Change in cash	350,000	
Cash beginning of period	1,500,000	
Cash end of period	\$ 1,850,000	

Looks like my operations generated \$4.25M – I used that to invest in new shop equipment, pay down debt and distribute money to myself with my cash increasing \$350k. I get it now!

ORC says, “If you don't produce a Cash Flow Statement, you cannot know where your \$ is going.”

Is Your “CFO” Really a CFO?



- Accounting and finance are **just as technical** as Structural Engineering
- Engineers (PE) / Accountants (CPA) are degreed and licensed
 - **CFOs are neither** - anyone can claim to be one
 - A dealer can call anyone they want “CFO”



What are the chances that this building’s structural steel was designed by a former Office Manager, HR manager, or personal assistant?

Would you feel safe in here if it was?

The foundation of your financial reporting may be just as shaky!

Does your CFO...



Know GAAP standards?

If not, your reporting is incorrect



Prepare Integrated Income Statements, Balance Sheets, Cash Flow statements?

If not, you don't know where your cash is going



Experience numerous EOY adjustments on your statements by your CPAs?

If so, every month-end report is probably wrong



Know how to project Cash Flow?

If not you're inevitably in for surprises and so is the bank



Understand capital structure. And are they respected by your lender?

If not, it's costing you a lower interest rate and \$



Close the books within a week of EOM?

If not, they are inefficient and you're not receiving information on a timely basis.



Benchmark KPIs against your peers and competitors?

If not, you are missing opportunities to be a better operator



Financial Forecasting

Financial Forecasting typically covers KPIs such as unit volume, revenue per unit, front end GPU, RO count, profit per RO, Operating Income, Net Income, Cash Flow

Operational Forecasts convey:

Where under or over-performance is occurring in your dealership

How many people to hire in each dealership

If you are at risk of financial issues or covenant non-compliance

Expected impact of various CAPEX decisions

Acquisition Forecasts are essential, to:

Reduce chance of buying a problem or overpaying

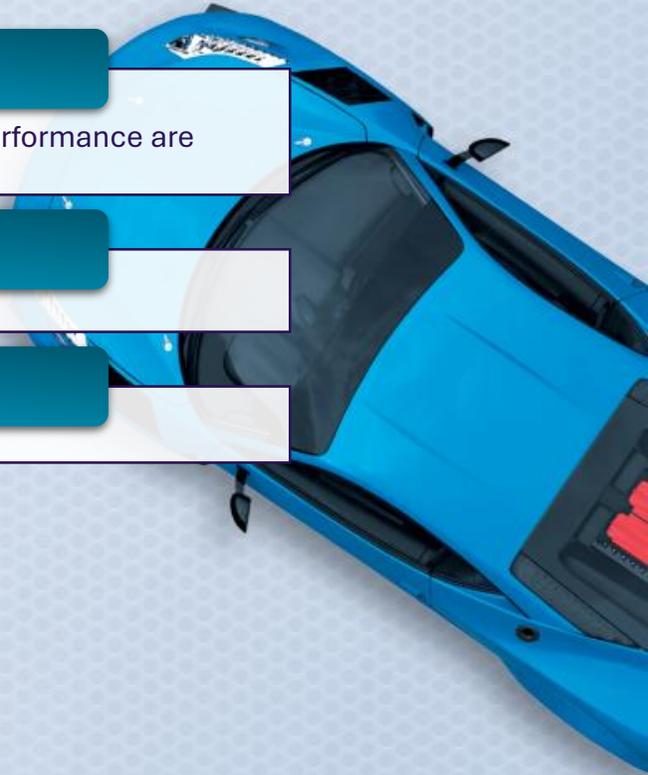
- Many dealers who failed to forecast post-Covid performance are getting crushed today

Secure bank financing

Secure equity financing

ALWAYS forecast Base, Upside and Downside cases

- ✓ Have contingency plans if downside case is realized
- ✓ Downside cases also facilitate the bracketing of risk incurred



Selecting a CFO / Controller

The new CFO of a dealer acquaintance was able to:

- ✓ Streamline the back office
- ✓ Reduce overhead staff
- ✓ Accelerate the EOM reposting time

Generating ~\$1M in savings and adding ~\$6M in blue sky value!



Qualifications/training include

- ✓ Understanding GAAP standards and financial reporting
- ✓ Able to interpret dealership results and guide decision making
- ✓ Capable of managing and overseeing the accounting department (soft skills)
- ✓ Tax and regulatory compliance in the related states/jurisdictions



Training isn't just for service techs

- ✓ NADA Financial Management Seminar
- ✓ NADA Professional Series (Office)
- ✓ AICPA Dealership Conference
- ✓ CFO roundtables
- ✓ CPA firm advisors
- ✓ NADA CFO 20 Groups¹



Get help interviewing your next CFO

- ✓ Most dealers are not formally trained in accounting and thus struggle to discern between capable and incapable CFOs
- ✓ Involve trusted advisors - CPA firm, bankers, legal counsel, etc.
- ✓ Consider whether a candidate can articulate the topics discussed today
- ✓ Dealership CPA firms are a strong source of qualified candidates

Building Net Worth Through Growth

- A strong dealer may generate **50% more profit** than the lesser operator they purchase
- Industry consensus indicates **6 – 18 months to turnaround a store**
- At some point, performance levels-off
 - Performance then bumps along at the state of the economy – **2.0% in either direction.**
 - The dealer’s net worth is static at this point
- By purchasing and improving more stores, dealer net worth increases
- **Access to debt and equity capital** are essential to access this benefit
- **Financial reporting** plays a major role in access to capital

	Dealer A		Dealer B		Combined
	Baseline Performance or Value	1 Yr. Later No Acquisition	Pre Acquisition	Post Acquisition by Dealer A	1 yr. Later
<i>\$ in Millions</i>					
Number of Franchises	3	3	1	1	4
Avg Rev. Per Store	\$100.0	\$102.0 ⁽¹⁾	\$90.0	\$100.0	\$102.0
Total Revenue	\$300.0	\$306.0	\$90.0	\$100.0	\$408.0
Op. Profit %	4.0%	4.0%	2.50%	4.0%	4.0%
Operating Profit	\$12.0	\$12.2	\$2.3	\$4.0	\$16.3
Avg Blue Multiple	6.0x	6.0x	6.0x	6.0x	6.0x
Net Worth	\$72.0	\$73.4	\$13.5	\$24.0	\$97.9
Dealer A			Without Acquisition	With Acquisition	
Beginning Dealer Group Net Worth			\$72.0	\$72.0	
Additional investment (fund equity for acquisition)			-	\$13.5	
Growth in equity value			\$1.4	\$12.4	
Ending Dealer Group Net Worth			\$73.4	\$97.9	
Unlevered Structure					
(1) 2.0% inflation					

Your Lender Cares About

Financial Performance / Metrics

- **Working capital and liquidity** of the dealerships
- **Debt service coverage** – how much cashflow do you generate?
- Valuation of the dealership & real estate - **collateral**

Accurate and Reliable Accounting

- Lack of these leads to increased lender scrutiny, erosion of trust and partnership, and less favorable terms to compensate for the perceived risk
- If you don't want to talk to the bank each month, you need to **improve your accounting function**

Consistency

- **No one likes surprises** - your lender least of all



Your Equity Partner Cares About

Operating performance relative to peers

- Consistency of performance

Cash flow

Quality of financial reporting

- Inaccurate financial information erodes trust in the partnership

CSI

Forecasting ability

Audited or Reviewed financial statements

Organized Books & Records, legal documents

A magnifying glass is positioned over a bar chart. The chart shows data for quarters Q2, Q3, and Q4. Each quarter has two bars, one blue and one green. A dark blue callout box with white text is overlaid on the top right of the chart area.

Access to equity through a partner + debt, allows you to increase net worth through acquired growth



Build a Team of Trusted Advisors



**Don't pay to educate professionals
you hire who lack industry experience**

Onboard Dealership experts to avoid these mistakes...

- A seller hired a **non-dealership CPA** who was unable to follow a standard dealership closing workbook
 - X Failure of advisors to understand impacts of OEM programs on inventory values resulting in underpayments to the Seller for the new vehicles acquired
- Another Seller hired a **non-dealership attorney** who didn't understand standard the LOI -> APA -> Buyer diligence/OEM approval process
 - X They tried imposing a process from other industries, leading to additional legal expense for both parties, and deal delays to educate the attorney on standards in this industry



Recap: Managing Your Business to Buy, Sell or Maximize Profit

- **Build a strong accounting and finance function**
 - Get outside input
- **Sustainable cash flow is king and the key to building value**
- **Create several debt and equity options**
- **Learn how to forecast your stores and targets**
- **Think like a buyer and operate your business with a buyer's eye!**
 - Use the methodology reviewed here to **increase:**
 - Net worth through acquisitions
 - Your personal proceeds in a sale
 - Personal cash flow while reducing theft and lowering other inherent risks
- **Build a team of trusted, industry-focused professionals**



QUESTIONS?

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