

# When Your Shop is Worth Much More Than You Thought

by Art Blumenthal, MBA, CBI

*Case Study: Owner of San Francisco-based Import Service Shop Delighted to Discover Just How Valuable His Business is to Qualified Buyers*

I sometimes share case studies of the clients I have been able to assist in my role as an aftermarket business broker and provider of intermediary and advisory services. I do that when I think the story will provide a reader in similar circumstances with new insights or helpful information.

In the case of Cowden Automotive, Inc., I acted in a consulting capacity

assisting the owner and his broker in valuing the business, creating a marketing plan, finding a qualified buyer and arranging financing for the sale.

Although every sale of a shop in which I am involved has its own unique set of circumstances, which makes my job both very interesting and very challenging, Cowden Automotive stands out as particularly memorable because I was able to demonstrate to the long-term owner, Paul Cowden, that his business was worth about three times what he had initially thought.

Needless to say, delivering that kind of good news to a shop owner is a rewarding experience. Discovering that the sale of his business would result in his retirement nest-egg being substantially larger than he had ever thought was a fitting tribute to someone who had spent his entire working career as a busy automotive service shop owner.

## **The Business**

Cowden Automotive, Inc. is a well-established premier



independent import car repair specialist owned and operated by Paul Cowden. Known for quality, service and integrity, Cowden Automotive has been offering an affordable alternative to the new car dealer since its founding in 1978. The shop's reputation for honest and efficient customer service for more than 37 years has resulted in a loyal consumer base. Annual sales have consistently produced steady cash flows.

Cowden Automotive is a well-maintained shop comprising 8,245 sq.-ft. with 10 service bays and 5 lifts. The business provides diverse automotive services, including advanced diagnostics, preventive maintenance services, oil changes, brakes, steering & suspension, transmissions, starting and charging, belts and hoses, climate control and four-wheel-drive systems.

Located at 875 Folsom Street in the South of Market ("SOMA") district of San Francisco, the shop is in a densely populated urban setting in an upscale neighborhood. For many years, the shop has operated as a 4-day per week, 10-hours per day business.

### The Seller

Paul Cowden has successfully built a brand and reputation with dozens of 5-star reviews on Yelp. The success of the business is attributable to his drive and integrity and three highly trained and productive technicians who have over 60 years of combined experience.

In his mid-60's, Paul tired of the long hours. "I was both the service writer and office manager, regularly putting in as much as 14 hours per day. After years of that much work, I decided to take the plunge and sell."

Even more crucially, Paul recognized that the nature of his business had changed and addressing those changes



*Paul Cowden, long-term owner of Cowden Automotive, Inc. in San Francisco, CA*

would require new methods. He said, "New vehicles are very reliable and don't require that much service and we were never a shop that did a lot of heavy engine overhauls or modifications. We were mostly a maintenance and diagnostics shop. So I thought maybe it was time to get a new owner who knows better how to advertise utilizing social media. I contacted Art after reading a few of his articles in *Shop Owner* magazine."

### The Business Valuation

I often inform my clients that, unlike selling a house or other real estate, an automotive business will be viewed by a buyer in terms of its "cash flow," and your potential income stream will be compared by buyers

to other investments in the marketplace. Most business owners, and their accountants, do their best to minimize taxes, not maximize profits. Remember that buyers are buying your cash flow more than anything else. While there are a variety of sophisticated methods of

sition. It all relates to risk. Those aftermarket businesses with dependable recurring revenue, reasonable expenses, acceptable profit margins, and the financials to prove it will be in the greatest demand.

### **Lesson Learned**

The lesson learned here is that a business owner is making a mistake to state a price before knowing the full potential value of the business. Don't sell yourself short by setting a price too quickly, even if you are burned out and highly motivated to retire, downsize or pursue other business interests.

Many sellers and brokers simply do not have the skills or don't have the time and energy to find legitimate add-backs to cash flow (known as "recast-

ing"), such as "personal" expenses that are run through the business. A broker who has industry-specific experience will have seen thousands of financial statements for automotive businesses and therefore will know exactly which expenses to question as higher than industry norms and how to recast them accordingly.

If you decide to hold off on marketing your business, it is still smart to obtain a baseline valuation for your business today. As mentioned earlier, the simple exercise of going through the valuation process teaches a business owner how a prospective buyer determines an offering price.

In articles I have written in past issues of *Shop Owner*, I discussed the concept of the "Sellability Score" as it pertains to auto service businesses. "Sellability" is a powerful indicator of the value of your business, regardless of whether or not you have any intention or even interest in selling your business today. A high Sellability Score



*Interior of Cowden Automotive's 10-bay shop*

valuing a business, the bottom line is that the sales price of the business will likely translate to a multiple of the cash flow, so everything that can be done to present your business with the highest cash flow will directly result in a higher sale price.

In Paul Cowden's case, as with most business owners contemplating a sale, he needed assistance in establishing a sale price. Paul said, "Art dove into the financials and was able to establish a basis for valuing the business at more than three times what I had thought. Wow! That new selling price figure put a whole new slant on the financial realities of my upcoming retirement years. The only thing that was better than the sale price Art established was when he actually got what he said was its true worth."

Cash flow is the driver behind business valuations and business acquisitions. The consistency and quality of revenue and income will be key when assessing an acqui-

may confirm or surpass the value you have in mind. A lower Sellability Score may point directly to the underlying issues in your business that undermine its value.

### Another Crucial Factor

In addition to cash flow directly impacting a sale price, other considerations can factor in as well. In the case of Cowden Automotive, the lease arrangements presented a challenge. Many commercial buildings in the San Francisco market have been

more than covered the term of the bank financing which Art helped to arrange. I give credit to him for making all that happen."

### The Buyer

After being on the market for a little over a year, Cowden Automotive was purchased by Mike Masarweh, who owns an auto repair shop about a mile and a half away. This will be a second shop for him for a few years and he will retain the business name and then consolidate operations when the lease on his other location runs out and cannot be extended.

Sometimes it works out that after a nationwide marketing campaign to attract interested buyers, the shop is ironically sold to someone right in your own backyard. Although Paul knew of Mike's shop and thinks he had probably driven by it "a million times," the two had never met previously.

Mike's shop does a lot more heavy engine overhaul work than Cowden Automotive did. His plan is to use his current place for body work only and bring all the mechanical work to his new location. Eventually he will have to move the entire business to the Cowden Automotive building. **SO**

converted to residential, driving up real estate values and making it difficult for businesses like auto service to extend their leases. An aftermarket business buyer and the financing bank will seek assurances that they can either purchase the real estate or be able to sign a long-term lease with the landlord with renewal options.

Paul said, "The standard for commercial leases in this part of town used to be five years, but most recently they have decreased to three years. Art immediately recognized that securing a long-term lease was critical to maximizing the value of the business and providing an avenue for a buyer to secure 10-year financing for the purchase of my business. Art's guidance led to discussions with the landlord to establish what eventually amounted to an amended 16-year lease, consisting of a four-year term and three, four-year options to renew, which

*Leveraging more than 30 years of experience as both an aftermarket business owner and aftermarket technology executive, Art Blumenthal LLC provides business intermediary and advisory services to both buyers and sellers of industry businesses of all sizes. Art is a member of IBBA (International Business Brokers Association, Inc.). For more information, to get your business "Sellability*



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