



# **NORMALIZATION: WHAT ARE THE REAL EARNINGS OF YOUR DEALERSHIP?**

While dealers may look to their dealer or CPA reviewed/audited financial statements as an indicator to their financial performance, neither of these will provide a dealer with what can be considered the actual earnings of the dealership are. Dealers have a great amount of discretion in shaping the reported financial performance of a dealership, whether through rent, compensation, packs, or expenses as examples.

In basic terms, a normalization analysis is looking at “addbacks and deducts” to the dealer’s profit that could be considered non-operational, non-recurring, or unsustainable in nature.

Some examples of addbacks and deducts to a dealership’s income can be:

- Owner/Family Salary
- Market Rent
- Management Fees
- Product Packs
- Personal Expenses
- Off the Books Income
- Tax Efficiency Items
- Non-Operational Interest
- One-Time or Extraordinary Events
- 13th Month Adjustments

The value in completing a normalization analysis for owners even if they are not selling rests in having an objective viewpoint of the actual performance of the dealership as stand-alone business. Over the course of time, dealers tend to allow a financial status-quo to remain in place while at the same time weaving in numerous profitability impacting measures that only go to obscure the actual profitability of a store. From not recording market rent to packing F&I products as an example, dealers create a less than objective financial picture of a dealership which fails in being truly represented in a dealer financial statement or CPA financial.

**AN INCOME NORMALIZATION IS INTENDED TO PRESENT AN ACCURATE PICTURE OF THE DEALERSHIP'S ACTUAL FINANCIAL POSITION.**

## WITH OUR DETAIL ANALYSIS OF THE DEALERSHIP'S FINANCIALS WE WILL:

- Assessment of a dealership's true financial health and performance.
- Identify any risk on the balance sheet that is of risk or concern.
- Understanding of the true earnings for the dealership.
- Identify real earnings of employees paid on the bottom line.
- Identify potential tax adjustments that may have been missed.
- Provide an opinion to the real business market value.
- Opinion as to the real Profitability of the dealership.

## IN OUR DETAIL ANALYSIS OF THE BALANCE SHEET, WE WILL PERFORM THE FOLLOWING STEPS IN ORDER TO GAIN A TRUE UNDERSTANDING OF THE DEALERSHIP'S TRUE EARNINGS:

- Trial balance detail analysis for three years.
- Detail schedule review.
- Recognition of the real balance for asset accounts.
- Financial statement analysis with our Axiom 115 Point Inspection (KPIs).
- Review of reporting from dealership.
- Selection of transactions via Analysis of GL detail.
- Interview with departmental managers.
- Analysis of additional documentation such as property appraisals, property taxes and long-term notes.

**AXIOM'S NORMALIZATION GOAL IS TO PROVIDE DEALERS AN OBJECTIVE AND ACCURATE ASSESSMENT OF THEIR PERFORMANCE AND PROFITABILITY.**



AXIOM ADVISORS IS A CONSULTING FIRM THAT FOCUSES EXCLUSIVELY ON THE NEEDS OF THE RETAIL AUTOMOTIVE INDUSTRY. AXIOM ADVISORS WAS FORMED IN THE SPIRIT OF PROVIDING A FRESH, NEW ALTERNATIVE TO MEET THE SPECIALIZED NEEDS OF RETAIL AUTOMOTIVE DEALERS. AXIOM SPECIALIZE IN M&A, ENTERPRISE MANAGEMENT AND LITIGATION SUPPORT.

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