Selling in Today's Environment? What RV Dealers Should Know

By Brad Stanek, CFP®, Executive Advisor, Financial Advisor

Key Takeaways

- Transaction volume remains brisk, but buyers are becoming more selective, and valuations are softening.
- However, premium dealerships in growing markets with strong brands are still commanding top dollar. Ask yourself, what you can do to become a quality dealership.
- As we shift from a seller's market to a buyer's market, it's never been more important to have a seasoned team in your corner with relevant transaction experience.

Few will argue that the buy-sell environment for RV dealerships today is drastically different from 12 months ago. Jesse Stopnitzky, a partner at Performance Brokerage Services Inc., told me on a recent webinar we did together that his firm's transaction volume remains close to the record pace of the past two years. However, he has seen *valuations* softening across all sectors he serves: automotive, RV, powersports, marine, trucking and equipment.

"We all knew the industry's performance during the pandemic was unsustainable, but we just didn't know when it was going to end," explained Stopnitzky, whose firm is the highest volume brokerage dealership firm in North America. "Profits have started to normalize, and buyers are therefore applying greater weight to the pre-pandemic years in both their valuations and their forecasts. Naturally, this is trickling down to the buy-sell market," noted Stopnitzky.

From where I sit, these changes are coming at a time when the RV industry is experiencing new challenges that impact profitability, including higher floor plan and payroll expense, curtailments on the 2022 units, and a significant reduction in units shipped. There is also a smaller pool of buyers. Given the headwinds, many dealers are focused on stabilizing their businesses with less appetite for growth.

During the pandemic, Stopnitzky said it was common to see a cash flush, independent dealer with one or two rooftops looking to acquire an additional dealership. Now they are focusing on tightening their operations instead of making acquisitions, he said. The same goes for the regional dealers, although Stopnitzky believes that they are more willing to explore acquisitions in 2024.

With the Fed raising interest rates over 500 basis points over the past 12 to 15 months, business loans for acquisitions are considerably more costly than they were before. Also, buyers have more to choose from as there are simply more sellers coming to market than there were before. "As dealers experienced record-breaking profits over the years, many dealers of all sizes are looking to exit rather than combat the challenging retail environment," noted Stopnitzky. He is also seeing an uptick in the number of struggling independent dealers shutting their doors and looking to exit in a somewhat down market. "In many cases those are asset-only sales in which there is no goodwill added in by the buyer," noted Stopnitzky.

Despite the current environment, national dealer groups that I have talked to are still in the hunt for dealerships that fit their long-term agendas. They recognize that these stores rarely come up for sale, and it may be a decade or generation before they come across another opportunity to acquire these dealerships again. “We’re still consummating transactions at very respectable values for premium dealerships in growing markets with strong brands,” noted Stopnitzky. Additionally, regional groups are still strong candidates for local opportunities that they can tuck into their operation, share the expense across multiple rooftops, and easily integrate and manage the acquisition, Stopnitzky added.

Advice for dealers looking to exit in today’s more challenging environment

“Quality dealers attract quality buyers,” observed **Ted Davis**, founder of Airstream Adventures, the world’s largest Airstream dealership. “If you’re on the cusp of becoming a quality dealer and thinking about coming to market, ask yourself what steps you can take to become a quality dealer,” Davis noted. “If you do, there will always be a market for your dealership, regardless of the economy.”

Ultimately, exit planning begins with you. Davis suggests zooming out to the 30,000-foot level. Ask yourself why you really want to exit the business you have worked so hard to build. What are your future goals? Do you just want to walk away completely? Or do you want to take some chips off the table and help groom the next level of management to sustain the dealership? Do your partners want out? Is there no one else in your family interested in assuming the reins? Are you simply exhausted?

“Getting clarity on these important decisions is critical so you can find a buyer that aligns with your goals,” advised Davis. “If you want to stay with the business in some capacity, then you should be talking with potential suitors who have similar goals in mind. On the other hand, if you just want to take the money and head for the Bahamas, you want to find a buyer who prefers to take over without owner involvement.”

Davis advised sellers not to worry too much about whether the market is still “hot.” He said the sale price is often based on the long-term growth potential for the dealership. “It’s critical to give buyers a vision of how much the business could grow if cash was not a constraint. Ask yourself what you’d do with a lot of extra cash to improve internal operations or pursue growth or acquisition opportunities that are synergistic with your business.”

How are buyers valuing dealerships today?

Unlike real estate, we cannot base the value of a dealership on the cost to build a similar dealership, said Stopnitzky. “We don’t have ‘comparables’ because every dealership is highly unique. Don’t fall for the old trap: ‘Well I heard they sold for X amount.’ Too often in the RV industry dealers like to use an all-in number,” Stopnitzky added. “Does that include your real estate? Of course not. What about your inventory? Of course not. You need to distinguish and value the various components of a transaction.”

Davis, Stopnitzky, and many other experts we work with agree that the most common valuation method is the income approach – how much income the dealership can produce. That is why buyers will try to calculate your earnings or EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) and apply a multiple to determine the value. But that is an incomplete analysis. How is the EBITDA calculated each year?

For owners who are sole proprietors, it is common to expense non-business-related expenses through the dealership. And they are often underpaying market rent if they have owned the real estate on their properties for a long time. Most buyers will adjust the earnings to account for those benefits. Also, how many years are being reviewed? Typically, buyers would go back three years – yet, considering how much of an anomaly the pandemic was, they are often going back five years. Finally, how much weight is being applied to each year to reach your "average" EBITDA? It would be unreasonable for a buyer to acquire a business based on a straight three-year average that includes COVID earnings.

"We use multiple weighted averages to determine an average EBITDA and compare your margins to benchmarks for the RV industry," Stopnitzky shared. "Once we have an average EBITDA, we need to determine an appropriate multiple to apply to it. Stopnitzky said EBITDA multiples for the RV industry tend to be between 2x and 4x based on a host of tangible and intangible variables including brands, market size, market share, location, facility, employees, reputation, number of service bays, etc. But as mentioned earlier, in today's tougher climate, he said lower-performing dealerships may be forced to sell at asset-only prices.

It is also important to consider which assets and components are included as part of that multiple. Many buyers believe the multiple of earnings should solely be used to determine the goodwill. But Stopnitzky said some buyers include furniture, fixtures, and equipment (FF&E) as part of the multiple, especially if it involves heavily depreciated assets. Some buyers may even include the parts and accessories.

Ultimately, Stopnitzky said the valuation is based on a combination of the seller's historical adjusted earnings, pro forma (projected earnings), and the buyer's desired return on investment. "Buyers will use your track record to build a forecast, and they'll back themselves into an offer that satisfies their desired ROI," he explained. "Ultimately, the value of your dealership is the return a buyer can expect on the investment based on their projected earnings."

What's different about the market today?

I have found that buyers are largely ignoring a seller's 2020 and 2021 numbers unless sellers can make a case about organic and sustainable growth that was not purely COVID-related. Stopnitzky agreed. He said dealer net-to-gross historically has been around 20% to 25%. But many dealers generated 40% to 50% gross profits during COVID. "We knew those numbers were unsustainable. They need to be ignored from the valuation calculation since they'll distort the facts," he added.

I have also seen 2022 inventory become a point of contention in transactions. Buyers have been requesting up to a 25% curtailment on the 2022 inventory. Buyers are also getting creative with their deal structures. They are looking for seller financing and earnouts. We advise most clients to do an outright sale, but if their personal goals can support delaying through a deferred sale, there are sizeable tax advantages to consider.

What's next?

According to Stopnitzky, the environment is "clearly shifting to a buyer's market," but again, "this is only a moment in time. The valuation principles and the motivation for a purchase or a sale have remained unchanged."

Davis advised dealers to not let changing market conditions cause you to "hit the pause button" if now is the right time in your life to sell. "Eventually, we're all going to leave the company we founded, whether it's through a buy-sell agreement, or we pass away or win the lottery." Market conditions are simply separating the good solid dealers from those that aren't. "It's still a very good time to sell because fewer dealers are on market right now. All of us who are looking to acquire don't want to wait until the market is hot again and then must re-start the due diligence process," Davis added. "The fundamentals haven't changed. Good dealerships are good dealerships."

Morgan Stanley projects that the economic slowdown caused by Fed rate hikes could last another 12 months. But once the dust settles and the economy compresses, there is always an expansion that lasts for multiple years. Savvy buyers know this. They may take their foot off the gas a little bit now, but they want to be well ahead of the re-acceleration when it happens.

Now more than ever, you want to have the right team in place before going to market. That includes a CPA, financial planner, investment banker and broker, each with relevant transaction experience. In Part 2 of this article, we will discuss ways to maximize post-sale proceeds, minimize taxes, and plan for the next stage of life without having a demanding business to run.

Conclusion

You've worked too hard to build your business to leave things to chance. RVDA members can receive a complimentary, no-obligation 30-minute consultation to discuss their options as well as a complimentary Financial Stress test and **Second Opinion** (i.e., Total Wealth Analysis) about their businesses.

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