

Thinking of Selling Your Dealership?

PART 1

Deciding whether to buy, sell, or hold starts with careful advance planning. Don't rush to exit just to meet an arbitrary deadline.

By Brad Stanek, CFP®, Financial Advisor

It's no secret that the past two years have been unusually good for our industry. Most of the dealers I speak with have plenty of cash on hand, little or no inventory, and record numbers of first-time customers due to COVID and other factors that I'll discuss with you shortly.

With valuations for successful dealerships at the highest level in recent memory, it's tempting to think about selling while the proverbial good times last. But, when dealers ask me if now is the right time to sell, I tell them not to exit just to time the market or to beat arbitrary tax changes looming on the horizon. It must be the right time for you and your family, no matter what kind of offers your peers are getting.

As with so many important things in life, you don't want to rush into an exit decision when your life's work is on the line. It pays to start planning well in advance. In fact, I **spoke** about this very topic at the recent **RVDA Annual Convention** in Las Vegas and received a number of great questions from attendees. I'll share some of them with you below.

What does the market for selling a dealership look like today and what are your expectations for the next 12 months?

As my colleague **Jesse Stopnitzky** mentioned on a recent Morgan Stanley webcast we did together, the buy-sell activity in 2021 "has been truly extraordinary" and he estimates that more dealerships will be bought and sold in 2021 than ever before.

Dealerships are usually sold because the owner(s) wanted to retire, became ill, or for a partnership dissolution. But Stopnitzky, a partner at Performance Brokerage Services, and an RVDA Associate member, pointed to a number of other factors driving buy-sell activity in these unusual times:

1. **Timing.** Many dealers chose to cash out while profits were at all-time highs and at record valuations and hoping to exit before the next downturn or a potential tax reform.
2. **COVID.** The pandemic brought on additional operational challenges that made retirement look even more appealing than usual.
3. **Acquisition binge.** Larger dealer groups have been extremely acquisitive.
4. **Low-interest rates.** This makes financing very inexpensive for buyers.
5. **Record-breaking goodwill.** The goodwill or intangible values for RV dealerships are also at an all-time high.

The value of a business is largely determined by its profitability, so the higher the profits, the higher the value. According to the Spader benchmark composites for 2020, the average net-to-sales percentage was 7.1% -- twice as high as it was in 2019. Stopnitzky said the majority of dealers' financial statements he's reviewing show over 10% net-to-sales in 2021. "The industry is on fire, but it's no longer just the national companies who are on the hunt," observed Stopnitzky. "The local and regional dealers are cash flush with profits and PPP money, they have reduced the debt on their balance sheets, and are now and looking for additional investment opportunities. Plus, these buyers have access to financing historically low interest rates," added Stopnitzky. These factors increase the buyer pool and add further demand.

If you think about it, where else can buyers find a comparable investment with such a low risk and a high return than another RV dealership? With the national companies putting pressure on the marketplace, this further drives up values. "The basic principles of supply and demand are in extreme play right now," noted Stopnitzky. "A combination of these elements is key in driving values higher and increasing the likelihood of a sale," he added.

Stopnitzky among others believe that 2022 will benefit from many of the same variables (see above) that led to robust profitability over the last 18 months. He believes the units that were pumped into circulation will increase the service and parts business. "Interest rates will remain low for dealers and consumers. With lower vehicle inventory and quicker vehicle turns, we will continue to see high grosses and low flooring expense," added Stopnitzky.

That being said, as the industry eventually corrects itself and profit margins normalize, so will the values.

Is there a point of diminishing returns in which there is simply not enough inventory to sustain the performance?

Stopnitzky said that on a recent transaction he completed, right before signing the offer, the buyer asked for lists of new and used inventory, plus a list of units on order, their expected arrival date and any pre-sold factory orders. “The buyer needs to maintain the performance in order to justify the purchase price and service the debt. That can only be done with available inventory,” he explained.

Industry watchers were cheered by a recent announcement of 600,000 units projected for 2022 and that's very exciting for the industry. Yet, every day we speak with dealers who are struggling to get inventory.

Source: RV Industry Association <https://www.rvia.org/news-insights/rv-shipments-projected-reach-600000-units-2022>

While Stopnitzky among others expects another robust year for transactions in 2022, he believes buyers will grow increasingly concerned about the inventory issue. If the situation worsens, buyers may start to lose confidence in a dealer's ability to maintain performance and that would adversely impact the amount of goodwill they're willing to offer.

Personally, I've been fascinated by what I've seen over the past 18 months: The majority of dealers have enjoyed huge sales growth, very little inventory, and significant cash on hand. These factors have attracted many potential buyers to the RV arena who have not been very active in recent years.

We all know the national players- have been very active, but car dealers are starting to enter the RV side as well. In fact, a group in Wisconsin is not only acquiring car dealerships, but a handful of RV dealerships as well. I expect this trend to continue. Considering how much cash on hand successful dealers have, it makes sense to purchase a dealership that's close to them, rather than start a second or third location from scratch.

With all that money out there looking to buy dealerships, many dealers have expressed interest in selling who might otherwise not be planning to exit. We're not just seeing 60-somethings looking to sell because they think it's time for them to retire. We're seeing younger and middle-aged sellers step up because they don't want to miss out on the record high prices that dealerships are fetching. *However, regardless of your age or situation, if you're considering a sale, it's imperative to have your ducks in a row before presenting your dealership to buyers and making it stand out from the crowd.*

Differentiate Yourself

Jane Saxon a partner at Somerset CPAs, and my co-presenter at the RVDA Convention, specialized in tax compliance and planning for dealerships. She believes the current conditions signal a strong market not only in the RV dealership industry, but for the broader M&A activity as well. “We’re seeing a lot of private equity enter the market, so it’s really a good time to be a seller,” noted Saxon. “It’s important to differentiate yourself in the market to appeal to buyers,” added Saxon. She agreed with Stopnitzky that inventory will make you more attractive to buyers as well as showing you can sustain the profits you’ve accumulated in recent years.

What are the most important considerations about maximizing my cash at close? Especially after taxes and after debts?

“At the end of the day, what really matters is how much we net from the deal,” said Saxon. “The initial offer is important, but the topline number you see is not as important as what you actually take home from the transaction.” Like me, Saxon believes planning for a successful exit must start well before you get the initial offer, or even the letter of intent (LOI). It’s really important to go through your financial statements and make sure they are clean, especially when it comes to understanding the discretionary expenses buried in your financial statements since buyers expect to see them. We want you to get credit for the true operations of your dealership. Think about what your financials would look like in the hands of a different owner. For this reason, we place a large focus on quality financial statements, clean inventory, and correct attribution of one-time and recurring expenses.

How many years of financials statements do buyers look for? What expenses do they pay close attention to?

Buyers typically look at the past three years. If there are non-recurring expenses during that time such as major improvements you made to the dealership, or if you have several family members on the payroll, or if you have several personal vehicles. “We call them discretionary (or normalized) expenses,” said Saxon. “Look at those expenses before you even consider going to market. Make sure you have a nice presentation that differentiates your dealership for the buyer. Buyers will be doing their due diligence. You want to be able to support your numbers with clean financial statements and a clean diligence process to preserve your initial offer price,” Saxon added.

Saxon said it’s very important to understand how the LOI works and how each piece of that offer affects you differently. “The top number -- and sometimes the highest offer you get -- may not result in the greatest net proceeds you receive. It’s really important to understand the

financial structure of the deal and then the tax structure of the deal.” That ultimately effects how much you’ll end up with when the transaction closes and how much finds its way to your bank account, added Saxon.

In my own experience, it’s very important to involve the seller’s accountant early on. For instance, he or she should recognize that the value of a non-compete is taxed at current income rates, but goodwill is taxed at lower capital gains rates. Also, consider your entire situation beyond just the transaction. By segmenting the assets properly, one dealer I worked with saved about \$40,000 on a transaction. Another dealer I worked with had a \$250,000 loss on an investment property his business owned. By selling that property at a loss in the same year he sold his dealership, he was able to save \$250,000 in taxes.

In the next installment of this article, we’ll talk about deal structures (stock sale vs. asset sale) and which corporate structure is best for you. Meanwhile, [contact me](#) any time if you have questions about exit planning. I’d love to hear from you. We have helped many of your RVDA peers with what we call the [Second Opinion Service](#), a comprehensive analysis of your personal and business wealth. Take a moment to review it and let me know what you think.

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