

The Art and Science of Preparing Your Dealership for Sale: Part 1

By Brad Stanek, Financial Advisor, Executive Director, CFP® and Paulina Matel, Financial Advisor, Vice President, CFP®

Selling your dealership is a significant undertaking requiring careful planning and execution. The art of preparing a dealership for sale involves developing a clear vision and strategy for your family's future since it requires thoughtful negotiations, industry relationships with the right potential buyers and presenting your dealership in the best possible light. The science side requires an in-depth understanding of your dealership's financial metrics, as well as conducting due diligence and navigating the tax complexities of the transaction.

Makes sense, right? Yet sobering data from the Exit Planning Institute data¹ shows five out of six business owners (83%) do not have an exit plan in writing. What's more 98% are not sure of the value of their business and four out of five (78%) have not set up a formal advisory team to help plan their exit. Perhaps that's why so many hard-working dealers are dissatisfied with the outcome of their sales. Don't be one of them.

Higher interest rates, a looming recession and tighter financial conditions for consumers, dealers, manufacturers, and buyers alike means, power sports dealers should not expect the same level of profits they enjoyed during the pandemic. But there are still plenty more buyers than sellers in the powersports arena and valuations remain strong.

Given this backdrop, how can you accurately determine what your dealership is worth? Our group, the Stanek Group at Morgan Stanley, recently co-hosted a webinar with George Chaconas and Courtney Bernhard of Performance Brokerage Services to answer those questions.

In this article, we explore the factors that impact your dealership valuation. In our 'Part 2' of the article, we will explore ways to plan for a dealership sale to maximize proceeds.

NEW LANDSCAPE FOR THE INDUSTRY

George C. Chaconas, Senior Partner, National Harley-Davidson & Powersports Dealerships Division of Performance Brokerage Services told us on a recent webinar that the market will determine what a willing buyer will pay and what a willing seller will accept. That said, Chaconas believes buyers are becoming more selective and sellers are becoming more realistic than they were at the height of the market a few years ago.

Chaconas's partner, Courtney A. Bernhard, believes she's been breaking seller's hearts lately. "The goodwill is pie in the sky," she related. "Based on our analysis and comps, it often comes down to how motivated the seller is and how motivated the buyer is to own a franchise in a

¹ Exit Planning Institute – State of Owner Readiness Research (<https://exit-planning-institute.org/state-of-owner-readiness>). 7.5.2023

certain business.”

Every dealer wants to know their multiple, of course. But it’s hard to throw out a standard multiple without doing careful analysis. Chaconas shared there’s a wide range of multiples, depending on each buyer’s and each seller’s immediate needs. “I’ve sold money-losing powersports and Harley-Davidson dealerships for millions of dollars because of the opportunity for a buyer to own a franchise business with territorial protection,” Chaconas related.

MIND YOUR BUCKETS

When Bernhard starts working with sellers, she advises them to look at their business as a series of buckets. Some buckets need to be filled up with more data and other buckets need to be cleaned up before the sale. For instance, for furniture, fixtures and equipment (FF&E), Bernhard often sees 25-year-old items on the depreciation schedule or event items that have long since been disposed of. That’s a red flag for buyers. On the flip side, Bernhard says she often sees new items that have come into the business – special tools and lifts, etc. – that have never been added to the depreciation schedule. This is also a red flag.

Then there is mismanagement of parts, accessories and general merchandise. “I’m super passionate about this area,” noted Bernhard. “Whether it’s automotive, powersports or Harley Davidson, the parts department gets absolutely no love,” lamented Bernhard. “Dealers don’t move obsolescence off their sheets. If you are preparing for a sale, when is the last time you did a full physical inventory on your parts? Are they barcoded?” she asked. “Questions like this always come up before closing. The last thing you want is to show a huge delta between what the seller thought they had in inventory and what’s actually there,” she explained.

With advance planning, you have time to clean up those inaccuracies. There are wholesalers that will buy used parts as well as an active market online. Finally, consider moving out old inventory as quickly as possible. Don’t sit and wait for the best deal. Just get it out the door. “You don’t want to be negotiating over used inventory that’s underwater at your closing,” asserted Bernhard.

When it comes to your real estate, Chaconas said it’s imperative to get a third-party appraisal done by a reliable national firm. Also, if you’ve been paying yourself above (or below) market rent on your real estate, Chaconas said you’re understating (or overstating) your earnings and that can impact your valuation. He said the new owner will insist on only paying market rent. “We often see the seller turning over unadjusted profit/loss statements to the buyer without factoring in the recasting that could make the earnings look substantially different,” Chaconas said. “This gives the buyer leverage over what gets recast.”

Other deal factors that buyers consider:

- **Market presence.** Dealers are always interested in acquiring a strategic or geographic footprint, or maybe a line that they don’t currently carry.
- **Financial performance.** Many buyers are looking to buy dealerships with strong revenue growth and financial track.
- **Operational efficiency.** Dealerships that run well without the owner being present are also very attractive to buyers.

- **Curb appeal.** It's like selling your house. What's the buyers' first impression of your dealership? Is it clean? Are the tiles stained? Is the roof leaking? Is the parking lot paved? Has the exterior been painted recently?
- **Getting your ducks in a row.** Have up-to-date and well-organized financials. Make sure key business documents are missing. If a buyer sees you scrambling around to find important documents at closing – articles of incorporation, shareholders agreements and updated minutes -- they'll assume you've also been running your dealership in a haphazard fashion and that can impact your valuation.

CONCLUSION

You've worked too hard to build your dealership to leave exit planning to chance. Start the planning process well in advance and make sure you have the right team in place to ensure the best possible outcome for you, your family, your dealership and your community.

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