Exit Process from the Buyer’s Perspective

Recap of a Webinar Fireside Chat with Ben Hirsch, Campers Inn, Brad Stanek, Morgan Stanley, and Jesse Stopnitzky, Performance Brokerage Services

By Brad Stanek, Financial Advisor, CFP®

KEY TAKEAWAYS

- While we may not see a repeat of 2020-21 M&A conditions for a while, but demand (and valuations) for well-run dealerships remains high.
- Your dealership’s consistency of cash flow is one of the most important metrics buyers look for.
- Your brands, management team, location, customer base, market share, and even your state’s franchise law also factor into the value calculation.

While no one expected the good times of 2020-21 to last forever, profits and dealership transactions remain robust. That being said, there are clearly storm clouds on the horizon. At this inflection point, I thought now would be a good time to check-in with RV industry thought leaders to get their take on the current buy-sell climate.

CHANGING TIDE

It was surely easier to sell six to twelve months ago, commented **Ben Hirsch**, Chief Operating Officer of Campers Inn, the nation’s largest family-owned RV dealer group with 36 stores across the country. “We all drank the Kool-Aid to a certain extent and thought the good times would continue for a while,” observed Hirsch on a recent webinar we did together. “It was a very favorable time for sellers since sales and margins were so strong. Meanwhile, buyers and consolidators were producing lots of excess cash, so it was also a good environment to buy,” Hirsch added. “Now it’s been a return to more of a pre-pandemic normal.”

With that backdrop, Hirsch said he has two fundamental questions going forward:

1. What does the near-term future look like? What do margins look like? What is the go-forward rate on units? How does that affect the other departments and cash flows? “The more cash flow we have, the more we can buy. The less cash flow we have, the less we can buy,” observed Hirsch.

2. What is the realistic go-forward profitability? Hirsch said Campers Inn bases its acquisition appetite on go-forward profitability and he feels the go-forward over the next 12, 24 and 36 months is more cautious than it was a year ago.

Our co-panelist, **Jesse Stopnitzky**, Partner, Performance Brokerage Services, agrees with Hirsch that things seem to be returning to more “normal” levels, but it doesn’t mean transaction activity is in a slump. “Even though the 72 dealership transactions we consummated in 2021 was a record-breaking year for us, we're on pace to do over 100 transactions in 2022," remarked Stopnitzky, whose firm is the highest volume dealership brokerage firm in North America. "We don't expect the volume of transactions to slow down significantly."

Despite the cyclical nature of the industry, Stopnitzky believes well-run dealerships will remain highly marketable and highly sought after. "Regional dealer groups are still taking a close look at tuck-in opportunities, i.e., dealerships near their existing footprint where they can properly integrate and manage the acquisition and share the expenses across multiple rooftops," observed Stopnitzky adding that private equity groups and dealers from outside the RV industry are still calling him and circling the RV industry.

THE THREE NOTABLE SHIFTS IN THE MARKETPLACE

As market conditions change, Hirsch and Stopnitzky described three important trends they're seeing.

1. Decreased buyer pool. Many independent dealers are not in expansion mode right now since higher interest rates mean higher borrowing costs for making acquisitions. Many are just trying to stabilize their businesses considering margin compression and potential curtailments on top of lingering supply chain challenges, labor shortages, inflation, higher interest rates, and gas prices.

2. Increase in acquisition opportunities. Many owners had been riding the wave of COVID-era earnings and delaying a sale. The challenging retail environment has motivated them to explore an exit. With more acquisition candidates in the market, national and regional groups will remain highly active, but will be more selective in the markets and the candidates they pursue.

3. We've entered a wait-and-see period. With so much uncertainty facing the industry over the next six to twelve months, buyers are awaiting economic and political clarity. Just remember this is a regular occurrence in business cycles and certainly nothing new for the RV industry.

"Overall, we expect the market to soften a bit, but we still believe quality RV dealerships will remain highly marketable and sought after," related Stopnitzky.

PLENTY ON THE MARKET, PLUS GREENFIELD OPPORTUNITIES FOR BUYERS

From where I sit, however, even if you run a quality dealership, your multiple may be lower today than it was a year ago. That's because buyers can purchase other dealerships with less efficient cash flows at a discount. Now they may have too much inventory and are facing rising interest rates and potential curtailments. Those dealers are looking to exit at a price far less than what they would have accepted six to twelve months ago, but that reality is lowering overall multiples.

Also, there's a ceiling on what might be paid for your dealership if it costs less money for a potential acquirer to buy vacant land near you, break ground quickly, build up inventory and staff and get the brands it wants. You could quickly go from playing hard to get to having a competitor next door.

WHAT MAKES A DEALERSHIP AN ATTRACTIVE ACQUISITION?

When it comes to acquisitions, Hirsch said Campers Inn looks for many things beyond the income statement. It looks at the people, the culture, the brands, the customer base, the physical facilities, and the price. "We prefer highway locations to those off the beaten path. Does it have marquee brands? How strong is the management team and will they stay onboard post-sale? Some owners actually stay on with us for many years after the sale because they want the benefits that a larger group like ours offers," noted Hirsch. "That's worth a lot to us because the management team is remaining whole. There's a lot more risk for us when 10 of the dealership's 20 employees are family members who are all planning to sail off into the sunset."

Sometimes it makes more sense to do a greenfield site than to make an acquisition in a highly desirable market. "Can we buy it at a price that makes sense or are the sellers asking so much that we're better off finding a piece of open land on the highway and building our own facility there?" asked Hirsch.

Stopnitzky said that since the RV industry's franchise laws and dealer agreements are not as strong as they are in other industries like automotive, the relative ease of doing greenfielding can suppress multiples for the long-term. "If you want to buy a Chevrolet dealership in California, you have to go through the existing owner; you can't just build one next door," said Stopnitzky. "it would be nice to see stronger franchise laws and dealer agreements for our industry to ensure better values for RV dealers who have built great businesses over decades and generations".

DETERMINING MY DEALERSHIP'S WORTH

Many factors go into a dealership's value. The financial statements – especially cash flow – are certainly important, but intangibles carry significant weight. Stopnitzky said that if your state's franchise law is unusually strong and you have several marquee brands, those factors will play into the dealership's value. Hirsch agreed. "As a consolidator, we actually want franchise value too, because it's security for us going into that market. It tells us we're not just buying air; we're buying real value."

On the financial side, Hirsch said his organization utilizes several forecasting models, but it all comes down to their confidence in the dealership's ***consistency of cash flows*** going forward. The management team, brands, customer base, market share, dealership structure and rent all play into that cash flow projections, noted Hirsch. "Then we make all sorts of adjustments based on how consistent (or inconsistent) we think those cash flows will be into the foreseeable future. It's simple but complicated all at the same time," Hirsch concluded.

In addition to consistency of cash flow, Stopnitzky said **the buyer's desired return on investment (ROI)** is also key. Stopnitzky said buyers review three to four years of financial data and apply a multiple of earnings – say 2x to 4x – based on a host of tangible and intangible variables. "It's critical to consider how the earnings are defined based on the adjustments Ben mentioned and how much weight is applied to the averages and which types of assets and value components are included in the multiple," said Stopnitzky. "Some buyers calculate a multiple for goodwill and others may include FF&E, parts and accessories, etc. Our firm believes you can't just look backward at the dealer's track record. It has to be a combination of your historical adjusted earnings as well as the buyer's pro forma earnings projections and the buyer's desired ROI," added Stopnitzky, explaining that buyers will use a dealer's historic earnings to build a proforma and "back themselves" into an offer that satisfies their investment criteria.

"As brokers, our job is to find a unique buyer who has a special motivation to acquire your business and who can find a path to higher pro forma projections and thus offer you a higher purchase price," said Stopnitzky.

RECASTING EARNINGS AND DE-RISKING YOUR BUSINESS

Personally, I've found that many potential sellers need to get a better handle on the concept of recasting, which helps determine a dealership's true earnings. It's very important to understand that the earnings you have on your P&L may not necessarily be the earnings that a buyer is reviewing. For example, suppose I'm the GM of my dealership and pay myself an above average market wage – say $300,000 a year. If a buyer can replace me with a GM at a more standard $150,000 a year, they've just added $150,000 to their bottom line. That's where an "opinion of value" from an experienced broker who knows the RV industry can be very helpful.

In Part 2 of this article, I will discuss wealth and tax planning, and corporate structuring to minimize how much you pay Uncle Sam post-sale. I'll also talk about the right types of professionals to have on your advisory team pre-and post-exit, how far in advance to start planning your exit and key steps to take.

The Exit Planning Institute's Owner Readiness Survey found that seven out of eight (88%) owners who exit their businesses were not fully satisfied with the outcome of their deals. While that's disappointing it's not surprising considering that:

- ***98% of owners are not sure what the value of their business is.***
- ***83% of owners do not have a written exit plan or process.***
- ***78% have not set up a formal advisory team to help plan their exit.***

Your life's work is too important to leave to chance. You owe it to yourself, your family and your team to be in that top 12% of sellers who are pleased with the outcome of their deal.

Conclusion

We have helped a great many of your industry peers. We're also happy to provide RVDA members with a complimentary **Second Opinion** (i.e., Total Wealth Analysis) about your business.

About the author

Brad Stanek, CFP® is a Senior Vice President of The Stanek-Haack Group at Morgan Stanley in Chicago, IL brad.stanek@ms.com | 312-648-3381