

Exit Process from the Buyer's Perspective, Part 2

More fireside chat with Ben Hirsch, Chief Operating Officer, Campers Innwalkaway proceeds

By Brad Stanek, CFP®, Financial Advisor, Family Wealth Director

Key Takeaways:

- The better prepared you are coming into negotiations; the more buyers will respect you and the better the deal you will receive.
- Start exit planning several years in advance. Make sure you have a team with transaction experience on your side.
- Don't overlook the tax implications of your corporate structure and how much you'll walk away with after taxes and transaction costs.

In **Part 1** of this fireside chat, we discussed the current buy-sell market, what makes a dealership attractive to buyers and how dealers can figure out what their dealership is really worth.

Here we will explore the importance of having a written exit plan, assembling an advisory team with transaction experience, making sure you know what your dealership is worth and how much you need to net after fees and taxes to make an exit worth it.

Having a written exit plan is critical. As mentioned in **Part 1** of this article, five out of six owners (83%) do not have a written exit plan. In addition to this, a study of Harvard Business School graduates found that the 3% of alums who had their specific career goals written down upon matriculating earned 10 times as much as the other 97% did a decade after graduating ¹. Bottom line: If your exit plan is only in your head, it's not likely to be a successful outcome. Don't let your exit plan be your best kept secret.

Notes:

¹ Source: <https://www.exitplanning.com/blog/6-dangers-not-having-exit-plan>

You need to start thinking carefully about your exit, ideally several years in advance, so can share your plans you're your advisors and team to align it with your goals.

What goes into your exit plan?

There is no one-size-fits-all exit plan for successful RV Dealers, but there are three components that every exit plan should address:

1. An independent opinion of value.
2. How much "walkaway" money you need to pocket after transaction fees and taxes.
3. Tax planning to minimize your tax hit after the sale.

It's also very important to assemble the right team to assist you with an exit well in advance. You need a CPA who has transaction experience, preferably in the RV or related industries. You also need a financial planner, business broker and deal attorney. In many cases, your longtime accountant, attorney, and banker will not have the requisite experience to assist you on a transaction of this magnitude. More on that in a minute.

I urge you not to start conversations with potential buyers until everything aligns with the numbers in your exit plan. Once you've done your homework, you can start conversations with suitors with utmost confidence. In today's market, you may have more than one offer on the table.

RV Dealer Resources

- Our firm offers free [exit planning resources for RVDA members](#). You will find guidance on building out a written plan, determining net proceeds, and what the investment plan should be post-sale to make your money last.
- Performance Brokerage Services provides a complimentary opinion of value so you will know approximately what your dealership is worth.
- Somerset CPAs and Advisors helps with net proceeds calculations, so you know what you'll take home with you after all transaction costs and taxes are accounted for.

How to prepare

Again, you can never start planning your exit too far in advance. For best results, start the process at least two or three years prior to your planned exit.

Ben Hirsch, Chief Operating Officer of Campers Inn, the nation's largest family-owned RV dealer group told me on a recent webcast we hosted together that consistency of earnings and operations is of paramount importance to buyers. "We'd rather see consistency of management team, number of units sold, market share, customer satisfaction, cash flow, etc., than huge spikes up and huge spikes down," asserted Hirsch. "You want to show buyers 'this package is going to continue to perform for you so you can maximize your sale potential,'" Hirsch added.

Other experts agreed. By preparing the business for sale properly, you are enhancing the marketability of the business and expanding the buyer pool, according to Jesse Stopnitzky, Partner, Performance Brokerage Services, the highest volume dealership brokerage firm in North America. “Buyers are more inclined to evaluate an acquisition that is well presented by experienced professionals and that offers buyers the opportunity to engage in a seamless transaction,” added Stopnitzky. “Overall, this will maximize the value of the business and increase the likelihood of a sale.”

Don't take your eyes off the road

Another thing critical for dealers to remember, especially if they are first-time sellers, is not to let a potential sale distract them from day-to-day responsibilities of running their business. That means growing the business in all departments and increasing vehicle sales. You don't want to be playing catchup if a sale ultimately doesn't go through or takes significantly longer than expected.

“Focus on fixed operations and keep growing your management team,” advised Stopnitzky. “Try to secure additional brands if they become available in your market area. Maximize earnings and consistent performance because those earnings will become part of your three-to-five-year average earnings calculation.” Also make sure your CPA reviews your financial statements carefully to give buyers extra confidence in your numbers.

Personally, I have found that if your dealership meets most criteria for a national or regional buyer, but is limited by acreage, facility space or service capacity, you can try to find ways to resolve those areas and position the business for future growth. Buyers are looking for high quality, turnkey operations in which they can simply add to what you've already built in, so they can take your dealership to the next level of growth.

Corporate structure

In my experience, it's very important for dealers to think about their corporate structure early in the process. I still see many dealerships structured as C-Corporations which means you get taxed twice when you're in exit mode. First, your earnings are taxed at the company level, and then taxed again when you take money out of the company and put it in your personal account.

A great offer on the surface may end up being subpar after taxes and other terms and conditions are factored in. I've seen this happen more often than it should. If you're a C-Corp, it takes five years to convert to another entity such as an S-Corp to receive the full benefits of only being taxed once. I recommend that you start that conversation with your CPA as soon as possible if you're thinking of selling within five years.

Real world example

On the aforementioned webcast I did with Ben and Jesse, an attendee wanted to know if he was risking his exit potential if he didn't take advantage of today's high multiples while the "getting is still good." The attendee ran a high-performing 50-year-old independently owned dealership with solid, loyal staff and management. He wasn't interested in selling today, but he didn't want to risk "getting caught out in the cold" and wondered if there would still be demand for small to midsize independent dealerships.

Hirsch said independent dealerships like the one above have one distinct advantage over consolidators like Campers Inn: they can have a personal relationship with each customer. He said that's something that multi-store groups and consolidators like his company would never be able to do. "There's something to be said about a customer meeting directly with the person who owns the dealership, shaking their hand and buying directly from them. I also think manufacturers like having a diverse dealer body," Hirsch added.

Stopnitzky agreed. "There will always be an opportunity for independently owned dealers to showcase that personal touch and family warmth. This industry has always been built around families and there will always be a place for that approach."

Desirability of Canadian vs. US dealerships

Another attendee who ran a Canadian dealership asked if dealerships north of the border could expect the same multiples and deal terms that comparable dealerships in the U.S. receive.

According to Stopnitzky, Canadian dealers don't always feel like they're being represented well among manufacturers and can't always get the inventory that they want. Hirsch said the risk can be higher for U.S. buyers when looking into Canadian dealerships because they often don't know market as well, and there's also currency risk.

What's next for our industry?

From where I sit, business has been exceptionally good the past several years, but storm clouds are on the horizon. We have inflation, ongoing Fed interest rate hikes, higher fuel prices and a possible recession looming. Many of you saw the 2023 forecasts for unit sales were recently reduced to at 324,300, which is down from 493,000 in 2022. It's premature to say we're heading into a crisis, but you need to plan your next moves carefully².

You might be interested to know that the word "crisis" in Chinese is a combination of the character for "danger" and the character for "opportunity."

Certainly, there is potential danger ahead. As mentioned earlier, five out of six dealers don't have a written exit plan, and according to research from the Exit Planning Institute, 98% of business owners don't know the value of their business and four out of five (78%) don't have a formal team in place to

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² Source: <https://www.ibj.com/articles/rv-industry-sees-fewer-shipments-as-normalization>

help them plan their exit. That's why most owners who end up selling (88%) say they aren't satisfied with the outcome³. But there's also tremendous opportunity.

By starting your exit planning early, having a written plan in place, assembling the right team to advise you on the transaction and having a sound understanding of what your dealership is worth – and how much walkaway money you need to fund your retirement -- you can greatly shift the odds in your favor. Your life's work is too important to leave to chance.

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

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³ Source - The 2013 State of Owner Readiness, The Exit Planning Institute

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