

## Thinking About Selling Your Equipment Dealership?

*Here's how to help minimize taxes and maximize your walkaway proceeds*

**By Brad Stanek, CFP®, Financial Advisor, Family Wealth Director & Paulina Matel, CFP®, Financial Advisor**

### Key Takeaways:

- Begin with the end in mind today. The sooner you start the exit conversation, the less likely you are to leave money on the table.
- Building the right team. Be sure your advisory deal team has transaction experience, preferably in your industry.
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- Determining the value of my business in a changing marketplace. e

Dealership values and transaction volumes are at an all-time high, according to **Pat Albero**, Partner, Commercial Truck & Equipment Division, with Performance Brokerage Services, Inc.

However, research shows seven out of eight (88%) owners who exit their businesses are not fully satisfied with the outcome of their deals. While that's a disappointing number, it's not surprising when you consider that according to the Exit Planning Institute's Owner Readiness Survey<sup>1</sup>:

- **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. The Following are ways to ensure you'll be in that top 12% of sellers who are pleased with the outcome of their deal.

In a recent webinar we did together, Albero said the same issues dealers have been facing throughout COVID have not changed. He feels the buy-sell activity "will accelerate in the coming months due to today's market conditions, whether it's inventory, allocation, or even personnel issues."

Albero's business partner, **Dan Argiro**, agreed that today's market has "accelerated the timetable" for some dealers who are thinking about an exit. "Before COVID, or even during COVID, those that were thinking: 'Hey, I'm going to do something in three to five years from now.' Well, that three to five years has turned into 12 months or less today," added Argiro, also a partner in Performance Brokerage Services's Commercial Truck & Equipment Division.

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<sup>1</sup> Exit Planning Institute. [Home - Exit Planning Institute \(exit-planning-institute.org\)](https://www.exitplanninginstitute.org). 1.24.2023.

Argiro said it typically takes four to six months for a transaction to close. In any market, the seller has options."

- The owner can sell entirely and walk away or stay on for a brief period.
- The owner can sell a minority stake to another dealer or an outside company and continue to run the business.
- The owner can sell a piece of the company to their management team and be less involved.

If you own the real estate, there are options here as well.

- You can sell the property and walk away.
- You can create a long-term annuity and capture the tax benefit you be open to a lease or a lease with the option to buy.
- Once negotiations start, it can be difficult to change course or get concessions from the buyer.

Many times in a transaction, it will depend on who you, as the seller, choose as the right buyer. The right buyer can accelerate your exit strategy or extend it. It's important to know, going into a transaction, what you are willing or not willing to do when it comes to the property and your transition of ownership to the buyer.

### **What is my dealership worth?**

That's the most frequent question dealers ask us.

Argiro said dealerships are typically valued using the following criteria:

1. Brands represented
2. Location of the dealership (s)
3. Past performance
4. Future potential
5. Ability to replicate profits
6. Tangible Assets
7. Real estate
8. Blue sky/goodwill (Intangible Assets)

The vast majority of dealerships are primarily sold via an **asset sale**; very few will sell as a **stock sale**.

How you value a dealership may sound simple, but it is a complex question. Values can vary greatly depending on where the dealership is located.

You could have two similar dealerships with the same brands, the same number of employees, and the same topline revenue, but if one is based in rural Nebraska and the other is based in metro Atlanta, they could be valued very differently.

### What can derail a deal?

No matter how interested a buyer is in your business, nothing's guaranteed until you officially cross the finish line. On a recent webinar, **Paulina Matel, CFP®**, Financial Advisor, Stanek-Haack Group at Morgan Stanley, shared three of the most common transactional potholes she sees:

**1. Gap between buyer and seller expectations.** Deals can stall when the price the seller has in mind is not aligned with what the buyer has in mind.

**2. Surprises.** That's a big one, said Matel. If a buyer discovers something negative in your business that you didn't tell them about – say an issue in your financial statements, your real estate or an employee matter -- it could create the perception that you're trying to hide something and are not acting in good faith. "In some cases, this lowers the purchase price of the business or can even break up the deal entirely," said Matel.

**3. Being unreasonable.** A seller can be perceived as unreasonable simply because he or she doesn't have much industry knowledge. "That's why it's so important to surround yourself with people who really understand what's customary for equipment dealers in a buy-sell transaction," said Matel.

### Not all earnings are created equal

Dealers are always asking what kind of multiple (of earnings) they can get for their business. Earnings usually have to be "recast" before we can assign a multiple. Earnings often should be expressed in terms of what a buyer would use if they are planning to buy you out.

For example: if you own your dealership as well as the real estate it sits on, you're probably paying yourself rent from one entity to the next. You might choose to pay yourself significantly less (or more) market value rent. If paying below market rent, the buyer will come in and purchase the business while leasing the real estate back to you. They expect the business to pay market value in rent. If you've been paying yourself below-market rent, the operations of your business will be showing a lower rent expense than what the new buyer will be facing. Thus, your earnings will show up higher than what the buyer is going to see, and they need to be recast. Same goes for your salary. If you're paying yourself significantly above (or below) what the new buyer will be paying your replacement to run your dealership, your salary might have to be recast based on the going rate for your position in your part of the country. We've

found that recasting earnings significantly reduces the gap between what owners feel their business is worth and what a rational buyer is likely to offer.

## INGREDIENTS FOR A SUCCESSFUL DEAL

Dealers frequently ask us about the ingredients to a successful transaction. Below are six key points that make up a successful transaction.

**1. Having multiple buyers. One buyer is typically no buyer.** When you only have only one buyer, the odds of closing a good deal are not in your favor, explained Albero. “That’s why we work so hard to bring multiple qualified buyers to the table for our clients. Having multiple buyers and multiple offers to choose from increases the likelihood of a successful transaction and a satisfied buyer and seller.”

**2. Having the right advisory team.** Not only do you need a comprehensive wealth manager, transactional attorney, CPA, and buy-sell advisor or broker, but everyone on your team should also have proven buy-sell transaction experience. Albero said it’s common for family-owned dealerships to use the same attorney for 30 years. He or she might be a skilled lawyer from a great firm, “but if they don’t have buy-sell experience, they can inadvertently derail a deal,” said Albero. Personally, we’ve found that our happiest clients are the ones who put the right advisory team in place. They all have buy-sell experience with specific knowledge of the industry. An advisory team that has experience in selling a manufacturing company or a non-OEM retail business will not know the details of selling a franchised dealership that demands OEM approval for buyers. What’s reasonable and customary in one industry can be very different from what’s reasonable and customary in another.

**3. Setting a proper valuation** (i.e., opinion of value) on the business. Sellers must fully understand the “walkaway” money that the family will be receiving at closing pre- and post-tax, said Matel.

**4. Preparing for the next chapter in your life.** One of the most important conversations we have with sellers is the “what happens next” discussion. After so many years of getting up, going to work, and taking care of your family and your employees, it can be a huge change, and dealers often struggle with the loss of identity and a sense of purpose. It’s a red flag when an owner answers the “what happens next” question with “I’ll figure it out when we get there.” It can be a real shock to their system, said Argiro. It’s never too early to start the planning process. “The sooner you start the conversation and assemble your team (preferably several years in advance), the less the chance you have of leaving money on the table or walking away unsatisfied,” he added.

**5. Not overlooking day-to-day operations.** Many dealers get so consumed by the transaction process that they forget about the day-to-day operations of the business. The average

transaction takes about four to six months. You don't want to be making up for lost time or picking up the slack if your deal ultimately doesn't close. Bottom line: Run the business like it's not for sale, and don't take your foot off the gas until you have officially across the finish line.

**6. Having accurate, well-organized financial documents in advance.** Having well-organized, important documents that are readily accessible during the process will increase your chances of a successful transaction. The buyer will see your efficiency and organization as a bonus, which creates less work for them during a transition. This will help maximize the value of your business, as reflected in the offers from multiple buyers. The opposite can happen as well. If you're scrambling around trying to find important documents during the negotiating process, things could appear to be disorganized and inefficient in the eyes of the buyer. It's natural for buyers to assume you run your business in a haphazard way, too. That can negatively impact the price they offer you for your business.

### Starting the exit planning process

Taking the first step is often the hardest. We recommend getting educated about the buy-sell process before you do anything else. It's the last chance for your family to earn money from your business. We recommend starting with the end goal in mind by really taking the time to understand your financial goals. They should be written down and very clear. You and your advisors should complete a detailed financial analysis of your situation so you know what your business may be worth and if that amount will be enough for you to maintain your lifestyle in retirement. If you haven't gone through an exit before, you can take advantage of the **30-minute consultation** with the industry professionals mentioned in this article.

We also caution you about obsessing about your likely sale price or multiple. It's more important to focus on the sell-ability of your business, and especially on your "walkaway" number, i.e., what you're likely to net on the sale after taxes and deal expenses. As Albergo said, the better informed you are along the way, the better the outcome for you, your family, and your employees.

As we remind our clients, the initial discovery meeting will help you get a handle on where you are today and what a successful sale might contribute to your financial and life goals. From there, we can identify any gaps you may have between where you are now and where you want to be. As the Cheshire cat said in *Alice in Wonderland*: "If you don't know where you're going, any road will get you there." You always want to be negotiating from a position of strength. That comes from having clarity.

### Conclusion

Again, we have helped many of your industry peers with what we call the **Second Opinion Service** (i.e. Total Wealth Analysis). We also offer a **complimentary value opinion**. Take a moment to review it and let me know what you think.

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