Morgan Stanley

Shifting Gears: Planning for Powersports Exit & Succession in Today's Environment, Part 2

By Brad Stanek, Financial Advisor, CFP® and Paulina Matel, Financial Advisor, CFP®

Key Takeaways

- **Make sure you have a carefully written exit plan in place before going to market.**
- **Don't go to market without having up-to-date financial statements, operating statements and normalized earnings with appropriate adjustments and add-backs.**
- **In order to negotiate with savvy buyers, your advisory team should have buy-sell experience and familiarity with the powersports industry. Don't keep anything hidden from your team.**

In **Part 1** of this article, we discussed the economy's impact on buy-sell activity. We also discussed key considerations for determining value, the merits, and key differences of an internal transfer vs. selling to a third party. Here, we'll explore the wisdom of having a formal written plan, having an advisory team with industry experience, and how to avoid common mistakes when preparing for sale.

Dealers often ask us what they can do to protect their interests and get maximum value for their dealerships, even if they're years away from exiting. Two things come to mind:

1. Have a written exit plan in place well before you go to market, and

2. Have a strong advisory team with relevant industry experience.

Let's start with the **written plan.** This document is very important as it spells out your ideal exit plan and timeline, whether it's a third-party sale or an internal transfer. A good written plan will help you determine how much in proceeds you'll need to net after the sale, so you can live comfortably and not outlive your money. *We'll talk about your "walkaway" number in a minute.* The plan should help you uncover areas of your personal spending that can no longer be run through the business after selling, such as expenses you will now need to pay out of pocket, like vehicles, boats, club memberships, dining and entertainment.

Your plan should include a realistic "walkaway proceeds calculation" that takes into account not only what your dealership is worth, but how your corporate structure will impact the taxes you face after selling or transferring. The walkaway calculation should also account for transaction and advisory fees you are likely to face at the time of the sale. Meanwhile, the written plan should also reference any tax-saving and financial planning opportunities you can use to minimize your taxes and fees in the year of a sale. Most importantly, you want all of these details included in your plan well before you list your dealership for sale. That way, you'll be in better position to retain the wealth you worked so hard to build.

When it comes to the **advisory team**, make sure you surround yourself with a cohesive team and not a group of individual advisors each acting on their own. Additionally, you want to make sure your team of advisors has experience selling dealerships, has negotiated buy-sell agreements before, and is familiar with the powersports industry. Without that industry experience, you're at a significant disadvantage against most buyers who have many, many transactions under their belts. No matter how good your longtime attorney and CPA are, if they haven't done many dealership transactions, they'll miss important nuances in the industry, which could mean leaving money on the table. By knowing what's reasonable and customary in this powersports industry, you'll be well positioned to maximize your proceeds, minimize your taxes, and not leave money on the table as you navigate the exit process.

Common mistakes to avoid when preparing for sale

George Chaconas, Senior Partner for the Harley-Davidson & Powersports Division of Performance Brokerage Services, told us on a recent webinar we hosted that one of the most common errors that dealers make is not having clean, accurate, up-to-date financial statements and operating statements. Another mistake he sees is not normalizing their earnings through adjustments to rent, or salaries and add backs, since small to midsize businesses try to minimize their taxes by running a lot of personal items through their business. "We also see many sellers neglecting to do inventory every year and forgetting to update their depreciation schedules, whether they bought a new piece of equipment or got rid of a piece of equipment," noted Chaconas. "Finally, we see dealers forgetting to get their building, roof and HVAC inspected pre-sale," lamented Chaconas. He went on to add that overlooking these types of things can create a sense that there are other hidden issues and ultimately be more time consuming to remedy during the negotiation phase.

First impressions are often overlooked by owners. "When I pull into a dealership, is the signage up to date?" asked Chaconas. "Is there mold and rust visible? Do I see potholes in the parking lot? It's also about making sure you are staying on top of your pre-owned vehicles, as the price of pre-owned vehicles is coming down and we are seeing a lot of dealers under water," he added. "Be sure to get your aging inventory off of the floor. When you get into negotiations, you don't want to be caught off guard with your pre-owned vehicles not being worth as much as they were just 90 days ago." Chaconas went on to say that the seemingly minor details can significantly color a buyer's impression of the dealer's ability to run an efficient operation.

Chaconas' colleague, Courtney Bernhard, also a Partner at Performance Brokerage Services, said another misstep dealers often make is terminating franchise agreements during the sale offering. She said this oversight stems from the COVID years when dealers brought in extra lines to offset inventory shortages from their major lines. "Remember, those franchises were contributing to your top line sales during the COVID years," noted Bernhard. "When a buyer is assessing your numbers and sees those franchises still listed on your website, they'll be under the assumption that those franchises are going with the sale. But if you've terminated those franchises without disclosing to the buyer or your advisory team, that can pose an issue because you never really know you know which franchise of buyer values most. It is imperative to have full transparency through all phases of the transaction, Bernhard cautioned.

Advance planning is essential

A common misstep made by dealers is not preparing proactively for a sale. Oftentimes they aren't thinking of selling when a buyer calls them out of the blue with a seemingly attractive offer. Before they know it, the deal is moving forward quickly, and important things are being overlooked. As the 5Ps adage goes: "Prior Planning Prevents Poor Performance." If you get an intriguing offer unexpectedly, there's no reason why you can't step back and let the buyer know you're interested, but that you need to review the deal with your advisory team and that you'll get back to them shortly. The more planning you have done in advance, the better position in which you'll be.

Before going to market, it's very important to think carefully about what you want to do with your life post-sale. What kind of travel do you want to do? What do you want to do for the most important people in your life and the causes you believe in? You'll want to be crystal clear about how much you'll need to net from the sale of your dealership after fees and transaction costs to support your ideal lifestyle without worrying about running out of money. Only then can you determine if the offer you're getting is enough.

Research shows five out of six business owners (83%) don't have a written exit plan in place and four out of five (78%) don't have a formal advisory team to help them plan their exits. Are you surprised that seven out of eight owners (88%) are not fully satisfied with their deals?

Advance planning is key

Bernhard said she and her colleagues are getting deluged with calls from dealers thinking about selling lately – owners who initiated conversations with her team several years ago. At the time, they were "making so much money and having so much fun, they wanted to keep riding the prosperity wave," Bernhard noted. But now times are different, and revenue is dropping just as significantly as it spiked during COVID. "We're not just seeing a softening of the market, but there are more challenges with OEM approvals," related Bernhard. "Manufacturers are getting pickier about dealers not meeting certain goals – targets which often in the past, weren't clearly defined," she observed. "These are things we often don't learn about until we're in the thick of negotiations. As a dealer, you need to be as open and honest as possible with your advisors before going to market."

Bernhard said more and more exits are being driven by the health concerns of Boomer dealers or the health of a key family member slated to take over the dealership. "Health issues also need to be discussed before going to market, even though these conversations won't be shared with buyers. We have to know all the factors at play, before getting into negotiations," she added.

Paulina Matel, CFP®, Financial Advisor with the Stanek-Haack Group at Morgan Stanley, explained on a recent webinar that planning for an exit or a succession plan can be very daunting. “Valuing your business is about more than just listing your business for sale,” she said. “It’s a highly emotional decision that also comes down to understanding complex financial, tax, legal and operating decisions. It's also about planning for illness, burnout, death and even divorce,” Matel said. “Maximizing the value of your dealership is just the start. You must know when the time is right for you and your family to exit, so you can live a lifestyle beyond what you even thought was possible,” she added.

It's starts with planning your exit years in advance of when you think the time will be right.

- Are you wondering how your corporate structure could impact the taxation of your dealership upon sale?
- Are you wondering how to set up an internal succession plan that would allow you to retire or move on to your next passion project?
- Are you curious to know how potential buyers would value your dealership based on your most recent financials?

We can help answer those questions with a complimentary **30-minute consultation** to discuss your options with Stanek-Haack Group or Performance Brokerage.

Brad Stanek, CFP® *is an Executive Director of The Stanek-Haack Group at Morgan Stanley in Chicago, IL*
brad.stanek@ms.com | 312-648-3381

Paulina Matel, CFP® *is a Financial Advisor with The Stanek-Haack Group at Morgan Stanley in Chicago, IL*
paulina.matel@ms.com | 312-648-3533

227 W Monroe St Ste 3400
Morgan Stanley Wealth Management
Chicago, IL 60606
United States Of America
(312) 648-3600