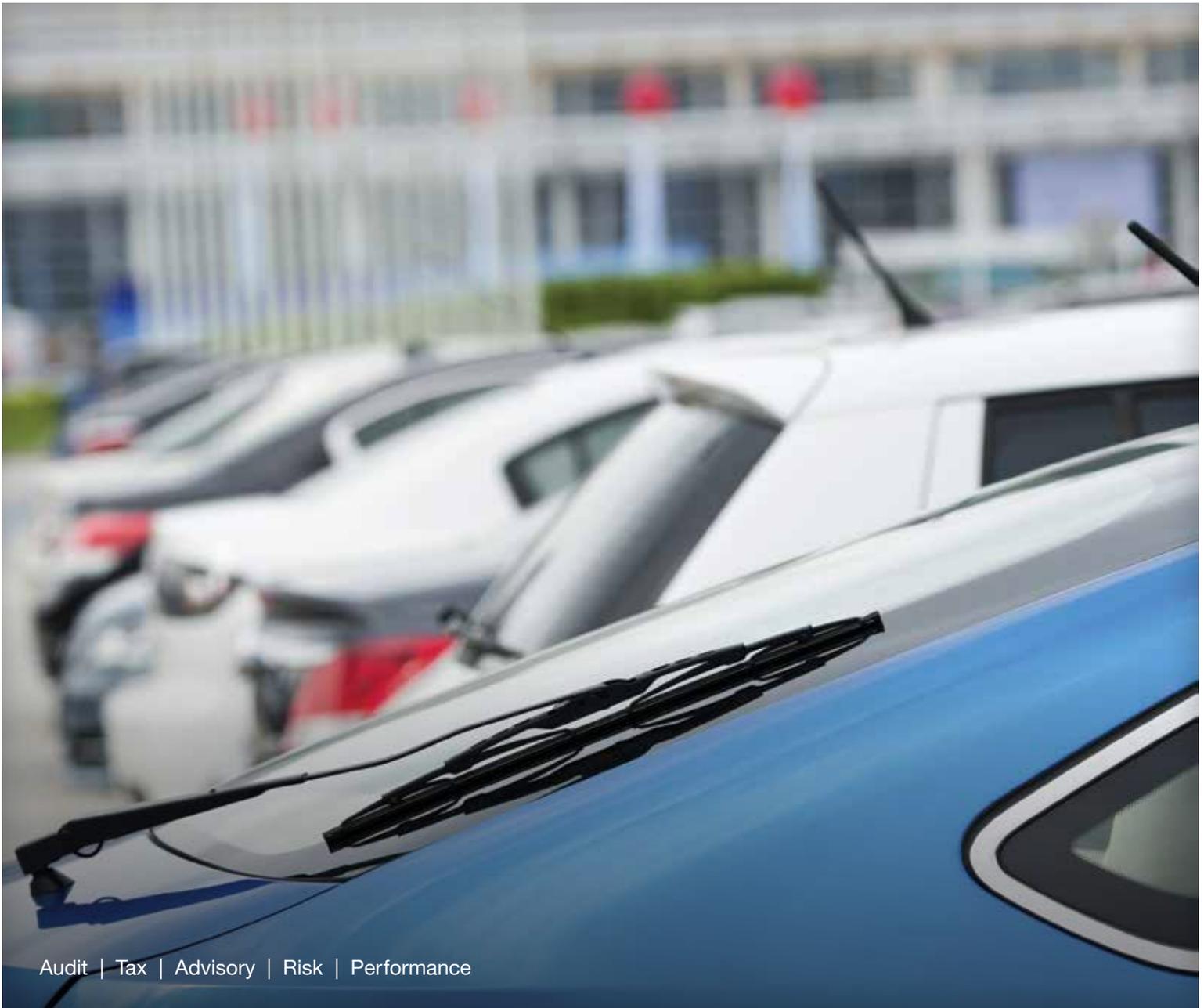


Preparing to Sell Your Dealership, Part 1

Planning a Graceful Exit

By Richard H. Kotzen, CPA



Over the past few years, a convergence of forces has led to a sharp increase in the number of auto dealerships changing hands. With increasing dealership profitability, a seasonally adjusted annual sales rate that continues to climb, and new buyers injecting fresh capital into the market, many longtime dealers are deciding that now could be an optimal time to sell to maximize value.

This article, the first in a series, will look at some of the necessary preparatory steps owners should take before putting a dealership or dealership group up for sale. Future articles will examine tools and techniques for keeping the deal on track, as well as critical documentation and pricing questions.

Mental Preparation

Before entering the sales arena, dealership owners should ask themselves some hard questions, beginning with the most basic question: “Are we truly prepared to sell?” Making the mental commitment to a sale is a process, not an event. It can take time to prepare properly and become comfortable with the sales track process. Several factors must be considered, including:

- **Personal impact on the dealer.** How will the dealer selling his or her dealership make the transition from being sole owner or majority shareholder to his or her new position as either a minority shareholder or a retired dealer? For a traditional dealer who has spent decades in the automotive industry, such a change can be difficult.
- **Financial impact on the dealer.** The seller must be satisfied that a proposed sale will generate sufficient return to finance a new endeavor or will be adequate to sustain a comfortable retirement. There are also estate planning and tax consequences to consider. (A later article in this series will look more closely at tax issues and tax mitigation strategies.)
- **Impact on family members.** Spouses, children, or siblings often are active in family owned businesses, so an ownership change will have an obvious effect on them. Even family members who are not directly involved still will be affected when a dealer retires or moves on to another business.

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Strategic Issues

One group of stakeholders with a clear interest in the sale of a dealership or dealership group is the original equipment manufacturers (OEMs) who are represented. The legal and contractual issues involved in dealership franchises are complex and will require considerable attention and professional expertise as the process unfolds.

At the early stages, however, the more fundamental concern is simply whether OEMs will be supportive of the transaction. The more OEMs represented in the dealer group, the higher the probability of encountering OEM approval, legal, or contractual issues. Savvy owners will begin sounding out their OEMs early. Waiting until the deal is well underway often can lead to OEMs resisting the sale, which can greatly complicate transactions or, in some cases, derail them altogether due to contractual delays and other franchise issues. Initiating dialogue with the OEMs can be beneficial, provided confidentiality concerns are kept in mind.

Other factors, such as size and complexity, also will affect the deal strategy. A large-scale deal involving three or more dealerships inherently is more complicated and time-consuming than the sale of a single-point dealership. Other strategic concerns include the ownership or leasing of real estate and other related assets, such as reinsurance or leasing companies.

Assessing the Buyer

One of the most significant variables in a sale of dealerships is the type of potential buyer. For example, a traditional dealer-to-dealer sale or a sale to a publicly traded automotive consolidator will follow a different path from the track of a deal with one of the new classes of nontraditional buyers who have emerged in recent years. These nontraditional buyers include private equity groups, family funds, and investors from other industries who are seeking to diversify their holdings.

Because nontraditional buyers do not have a history in the industry, such buyers often do not fully understand the complexities of the business or the manufacturer-dealer relationship. OEMs may be resistant to nontraditional buyers for various sets of issues, although nontraditional buyers are adjusting to gain OEMs' approval so deals can be consummated.

Such complications mean that the approval process can be more protracted. This increases the risk that deals might be delayed or derailed due to more complex OEM approval issues.

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Assembling the Team

The decision to sell is often an individual choice, but the actual process of selling is a team effort. A selling dealer must assemble and motivate a team of key players made up of both internal resources and outside professionals.

The internal team comprises all those with ownership interests, along with the executive team, including the chief operating officer, CFO, and controller, as well as interested family members. Any of these internal stakeholders who are not fully onboard and supportive of the transaction should be excluded, as maintaining the buyer's confidence is critical to a successful transaction.

This internal team is supported by the professional team, which may include the broker the owner engages to market the dealership and help manage the sale, as well as the owner's CPA, attorney, and other consultants. Ideally, the professional support team will have been involved in previous transactions of comparable size and complexity and will have experience with the type of prospective buyer who is being contemplated. Lack of proper preparation can lead to a painful and costly failed deal.

With the necessary preparatory steps underway and both the buyer's and seller's teams assembled, the next challenge is keeping the deal on track and maintaining momentum toward a successful conclusion. This next step will be the subject of the next article in this series.