

## If You Really Want Out Now

*How to sell a store in low market without losing your shirt*

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Ward's Dealer Business, Nov 1, 2009 12:00 PM

While a number of good dealers would like to exit the industry, the current market conditions are less than ideal. It may be at least two years before the dealership transactional market returns to acceptable levels.

So, dealers wishing to sell their businesses now should consider bringing on an operational partner and entering into a structured buyout of the dealership as a means of commanding a more attractive exit.

It would seem the “movers and shakers” of the dealership buy-sell arena are public companies and mega dealer groups. These segments have a presence, but the true volume of activity is among individual dealers and smaller dealer groups.

Like mega dealers and small dealers, public companies are still under economic pressure to conserve cash. Any acquisitions large groups enter into over the coming year will be from a position of strength in which they get preferential acquisition terms either from the sellers or the seller's financiers.

Any sellers who expect to receive a respectable price should not pin their hopes on selling to a public company unless they are willing to accept stock in exchange. Most dealers will remember how poorly many dealer fared when they decided to exchange their stores for stock when public groups hit the streets in the late 1990s.

The dealer transactional market will most likely not return to previous levels until single and smaller groups have the ability to reenter the market.

In many situations, smaller groups have the desire to strike at acquisition opportunities, but they are unable to arrange financing. The single greatest challenge the

dealership-acquisition markets face is the absence of viable and acceptable financing options.

While the big companies may have cash or credit lines, the smaller but more voluminous players are finding that blue sky, floor planning and real estate financing options are limited.

We have seen buy-sell transactions fall apart this year due to the prospective buyer's inability to obtain a flooring line.

The best prospect for a dealer to receive a respectable price in the current market is to enter into a structured buyout arrangement.

In essence, this is where the dealer will finance the prospective buyer. There are different approaches, but regardless of the situation, a dealer can use a structured buyout as a versatile exit strategy.

Keep in mind as a potential seller that is important to become an operational partner and not a creditor, similar to manufacturer dealer development programs. Becoming a creditor could limit your ability to intercede in the event that the buyer fails to fulfill financial requirements.

Depending on the type of structured buyout arrangement you enter, here are some key considerations that may apply:

Unlike traditional buy-sells that are asset based sales, structured buyouts primarily need to be conducted as stock purchase sales. While the purchase of stock is typically not advisable for a buyer, if the buyer needs the seller to provide financing, they will have little choice.

Unless the buyer is a trusted employee, the initial

capitalization of the buyer should be no less than half of the manufacturer's working capital requirement. Depending on the net worth of the entity, the initial ownership percentage will fluctuate based on that initial capitalization amount.

If the buyer is a third party, a formal valuation or due diligence by both parties will need to take place. This will establish an agreed-upon value for the stock of the company.

Future valuation of remaining company stock will need to be established. There are two approaches to that: 1) Fixed purchase price, in which a price is set and the buyer systematically repurchases stock based on that price. 2) Variable purchase price that is typically based on a pre-established blue-sky multiple applied to future performance.

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