

EXECUTIVE SUMMARIES

Find your footing in retail automotive's shifting buy-sell market 2

Situation:

► More auto dealers are thinking about exiting the industry due to advanced age, frustration with factory capital demands, and/or the increasing difficulty of remaining profitable. But finding buyers for a growing supply of dealerships on the block could be tough, especially since the public consolidators are pulling back from substantial acquisitions.

Solutions:

► Dealership financial advisor Sheldon Sandler says dealers will need to be more flexible, particularly with regard to real estate, when they plan their exit strategies.

► Selling your dealership operations and holding onto your property – perhaps through a sale/leaseback arrangement – may be the best solution.

► For big deals, private equity transactions may be the only exit opportunity – but be sure to find the right partner because they'll probably want to retain your management team.

► Familiarize yourself ahead of time with the tax and estate consequences of any deal.

Find your footing in retail automotive's shifting buy-sell market

By Jerilyn Klein Bier

Should I stay or should I go? Many dealers will be asking themselves that question in the New Year, contemplating an exit from an industry that is getting increasingly difficult to remain profitable in. Some will find out that they are indeed better off selling than owning. But if staying in is tough, getting out could prove to be even tougher.

After a dozen years of a sellers market that kicked off in 1996, the tides are changing. We're shifting into a buyers market – and it won't be too long before we see dealership supply outstrip demand.

That's the message we get from Sheldon Sandler, founder of Bel Air Partners, LLC, a financial advisory firm that over the past decade has assisted automobile dealers in the purchase or sale of 125+ franchises whose total transaction value exceeds \$1 billion.

"I think this is the tipping point,"

Sheldon, well-regarded for his Wall Street and automotive industry insights, tells *Car Dealer Insider*.

Don't panic yet

Fortunately, Sheldon doesn't expect gloom and doom for every seller.

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So long sellers market!

Surging supply

A growing number of aging dealers are considering their alternatives for exiting the auto retailing business. Younger dealers faced with big facility improvement demands from the factories are also asking themselves if they should sell. Challenges like margin erosion, stiff competition, overproduction, and economic and political uncertainties have them wondering if making such improvements will ever pay off for them from an investment perspective. Looming capital gains increases also have more dealers thinking about getting out sooner rather than later.

Shrinking demand

Public consolidators, hampered by sliding stock prices and stiff framework agreements from the factories, have been

pulling back from substantial acquisitions. Private equity buyers are showing interest – but they're pretty picky and generally unloved by the factories so don't expect an easy time. They'll also generally want you to stay involved with managing operations and often have just a 5- to 10-year holding period in mind.

Seller survival tactics

Selling dealers should be flexible, particularly with their real estate. Selling your operations but holding onto your property will make the most sense in some cases. Have a weaker dealership? You may find a better non-dealership alternative use for your property. Seeking a private equity suitor? Find a partner you think you can have an ongoing relationship with since they don't plan to manage your business.

Source: Sheldon Sandler, Bel Air Partners

“In the right locations, with adequate real estate, the thirst for top five brands (BMW, Mercedes, Toyota, Honda and Lexus) remains very strong,” Sheldon recently told dealer members of the New Jersey Coalition of Automotive Retailers (NJ CAR). In fact, “we’re seeing real high prices for very desirable deals,” he tells *CDI*.

Sheldon says he’s also now seeing more interest for high line dealerships – particularly BMW, Mercedes and Lexus – beyond the Sunbelt, such as in the right markets in the Northeast and the Midwest.

In general, though, dealers – particularly larger auto groups and those with domestic franchises in over-dealer markets – will have to be more flexible and creative when planning their exit strategies. Not only are an increasing number of sales imminent, the buyer profile is also changing (see “So long sellers market!”)

Public pull-back

Although the public consolidators have snapped up hundreds of auto dealerships in recent years, don’t count on them to come knocking on your door with a really appealing offer – even if you have a great dealership.

The low multiples their stocks are trading at don’t give them much room to buy good private deals and they have to answer to Wall Street, says Sheldon. (*Editor’s note: Consolidators AutoNation, Lithia Motors, Asbury Automotive Group, Sonic Automotive, and the Penske Automotive Group were all trading near their 52-week lows at press time.*)

“It has to be really juicy for them to pay that kind of money to buy better dealerships,” says Sheldon. They’re also facing tough framework agreements – documents between the factory and the Publics which spell out, among other things, benchmark performance the Publics must achieve before they may acquire additional stores, he says.

For big deals, private equity transactions may be the only exit opportunity, says Sheldon – but that too has

its challenges. Successful transactions depend very much on pairing up with the right partner since they’ll generally want your management to stay involved. Private equity also typically looks for fairly substantial cash flow and a sizeable deal.

“If you don’t have \$500 million in revenue or \$10 million in pretax profits, private equity probably won’t be interested in you,” says Sheldon.

Think strategically

So what’s a dealer with selling aspirations to do?

For starters, Sheldon suggests evaluating with your lawyer, accountant, and financial consultant if it makes sense to sell your dealership operations and perhaps continue to own the real estate to generate rental income that can help you maintain your lifestyle.

Sheldon was recently involved in a deal where his private dealer client did a sale-leaseback transaction with a public consolidator. His client sold his dealership and real estate to the consolidator, which paid to put up a new building. The consolidator, who didn’t want the hassle of owning the real estate, then sold the property back to his client, which took out a mortgage and now collects lease payments from the consolidator.

“It was a sweet deal for the client,” says Sheldon.

The client sold the business at a high price and gets a nice profit on the real estate (the lease payments exceed its mortgage payments.)

Some of his other suggestions for selling dealers: set a realistic preemptive bid price (don’t overprice); don’t get trapped with one buyer; know tax and estate consequences ahead of time; highlight growth opportunities; and build confidence and eliminate uncertainty with clearly displayed financials that include audits, benchmarks to show upside, and normalized adjusted results. ❖

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