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Selling the Dealership, Part 3: How Do You Close the Deal?

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In the midst of a strong market for dealership sales, more owners are weighing the sale of their businesses. Once they make the decision to sell, determine the sales price, and assemble the necessary professional assistance, it's time to move forward with marketing and sale of the business.

That means finding the right buyer and closing the deal promptly. This final stage typically involves several steps.

Preparing marketing materials

To identify the best potential buyers who might have an interest, a dealer must develop materials that provide those individuals with sufficient information to determine if they should make an offer to purchase. A dealer usually will first create a "teaser sheet," which is a very basic summary that describes the opportunity without making it possible to identify the seller. For example, the teaser might tout the opportunity to purchase a Toyota dealership in central Texas with X volume of new and used sales per month.

A buyer who expresses interest will be required to execute a nondisclosure agreement (NDA) to receive more information on the target.

When the NDA is executed and returned, the seller will furnish a more detailed prospectus. Generally, the prospectus – sometimes referred to as "the Book" – summarizes all of the information that was considered in the determination of the dealership's value

Production of the Book requires the collection of a significant amount of data, including:

- Financial statements for at least the preceding three years
- The volume of vehicles sold
- Summary of fixed operations
- The add-back schedule
- Customer service index ratings from the manufacturer
- A real estate appraisal
- Human resource information, including both pay policies and information on high-level managers

The dealer likely will need to bring some high-level managers into his or her confidence during this stage so they can assist in gathering the necessary data. The professional team working on the sale (such as CPAs, brokers, and attorneys) also will be helpful in gathering and assembling the data in a manner that puts the dealership in the best light.

Identifying potential qualified buyers

Armed with the appropriate marketing materials, the broker will work with the dealer to ascertain those parties that the dealer believes would make good strategic buyers and have an interest in the dealership. The broker, CPA, and attorney probably will know other potential qualified buyers. The initial distribution of the teaser sheet should be limited, though, going to only the top five or so potential buyers.

What makes a qualified buyer? The most important qualifications of a qualified buyer are the abilities to pay and to secure manufacturer approval. Most dealers also want to sell to reputable buyers who will carry on the tradition they have built. In addition to how a buyer will conduct the business, a dealer should consider the buyer's reputation for closing deals quickly – avoiding those with a history of dragging their feet, trying to renegotiate at the 11th hour, or simply not completing deals.

The dealer normally will control the list of potential buyers. If a dealer wants to exclude certain buyers for whatever reasons, he or she can do so.

It is always good to have two or three potential qualified buyers. This not only is helpful in maximizing sales price but also provides a competitive price check on the dealer's own idea of the value of the business.

Moving from letter of intent to purchase agreement

Assuming the process has run properly, it will lead to a letter of intent (LOI) from a buyer, which lists important sales agreement terms such as the purchase price and payment terms. If the transaction will be an asset sale (as most are today), the LOI also will describe how the assets are to be valued. It will contain various contingencies as well, including being subject to manufacturer approval, environmental inspections, and due diligence.

Often, some of these post-LOI activities are not initiated until the purchase agreement is drafted and agreed upon. But, because the majority of transactions are structured as asset sales and most of the asset valuation methods are now standardized, the length of time to go from LOI to purchase agreement is relatively quick.

The rigor and amount of due diligence will depend on the amount of preparation done beforehand, the quality of books and records, and the seller response time. The typical due diligence period will run 60 days, and the results could prompt further negotiation, which might drive down the initial agreed-upon purchase price.

Beyond the dollars and cents

Although the final process involves several steps, the result is a successful sales closing. It's important to remember, though, that even the smoothest sales process can be a very gut-wrenching experience for the selling dealer, peppered with numerous ups and downs and twists and turns.

Learn more

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