Exit strategies: Non-traditional buy-sell alternatives

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By Joseph S. Aboyoun, Esq.

The traditional buy-sell is not the only available exit structure for your dealership investment(s). In certain instances, it may not be the most desirable or optimal approach. Certainly, alternative structures should be considered if the buy-sell does not enhance or maximize your goals. Let's explore some of these options in this article and the reasons why one or more of these might be the better avenue for you.[1]

Sometimes, a straight buy-sell falls short of satisfying the objectives of your exit plan. The following are some prime examples:

- Your marketing (whether direct or through a broker) does not yield the desired blue sky amount or multiple.
- You are unable to obtain your targeted price for the dealership real estate or, if you desire to retain ownership, the desired rent factor.
- Your vision of your dealership's performance is positive and you desire to participate in future profits.

- You are just not ready to step away completely. You're simply looking to take some money off the table and reduce your risk.

With these goals in mind, the following might be considered:

- A so-called buy-in/buy-out deal with either an existing GM or a new potential partner.
- A partner deal with an equity fund or money partner.
- A reverse buy-sell where you acquire an additional franchise or dealership to bolster your position as an ultimate buy-out target.
    - A merger scenario here can possibly work as well.

<u>Buy-in / Buy-Out</u>

Your negotiation leverage as a seller increases exponentially if you are prepared to finance your buyer and even more so if you are willing to finance a partner, especially a new or minority partner. As such, in a buy-in/buy-out scenario, you can effectively dictate your blue sky price, as well as terms of the deal. It also enhances your chances of obtaining the optimal price for your real estate or rent factor, as the case may be. At the same time — and pending the complete buy-out of your equity position — you continue to enjoy the profitability of the store. You can also continue a compensation package (including benefits), whether in the form of straight salary or a management fee.

The following is an example of this structure:

- You bring in your GM as a 10% partner.
- The basic understanding is that the buy-out will cover 10 years. Each year, your ownership position is reduced, and the partner's position increased, by 10%. Therefore, in the first year, you still enjoy 90% of the profits.
- Of course, the price established for each equity purchase will be a blue sky amount set by you.
- While the GM must put some skin in the game (e.g., he must buy the initial 10% interest solely from his own funds), you agree to finance the subsequent purchases. You will also dictate the interest rate to be paid.
- You enter into a long-term lease with a rent factor favorable to you. If there is an option to purchase the real estate, that price will be favorable as well – e.g., the price will be based upon the fair market

value of the property at the time the option is exercised, except that there will be a floor amount that guarantees you the desired price.

- You also enter into an employment or management agreement which guarantees compensation (separate and apart from your profit participation), as well as significant benefits, such as health insurance, demos and dealer trips.

To be sure, whenever you maintain ownership, you retain exposure (e.g., personal guarantees). However, all in all this approach can achieve significant benefits in the right circumstances. Indeed, it can sometimes produce head-and-shoulders results, above the results achieved in a straight buy-sell.

Equity Deal

Many of the same results can be achieved in a partner deal with an equity fund or money partner. However, because of the financial strength of this type of partner, your leverage in negotiations regarding blue sky, the price for the real estate, and the like is usually diminished somewhat. Nevertheless, it is certainly a deal worthy of consideration. Plus, it ameliorates the concern about continued financial exposure.

One-Step Backwards, Two-Steps Forward

As experience teaches us, it is sometimes better to first travel in reverse to get to your destination. Perhaps, one of your roadblocks in your exit program is that your package (or platform) lacks a desirable franchise or lacks the right location. A perfect example of this scenario is that you own Land Rover, but lack Jaguar, or vice versa. Another is a Chrysler store without Jeep. Alternatively, you have the right franchise mix, but your location is subpar.

Such circumstances point to the desirability of acquiring another franchise or new property at the very same time you are looking to liquidate and retire. Of course, the possible scenarios and the price and terms must be carefully examined. One should not “jump out of the frying pan and into the fire” just to achieve an insignificant improvement in your marketing position. However, if the acquisition stands to significantly enhance your position, it should certainly be explored.

Some of these concerns might be alleviated by a merger scenario with the owner of the other franchise. This can be a complicated arrangement and should only be entertained if the logical result for both partners is a substantial increase in the amount to be realized from the ultimate buy-sell.

In the end, you may just decide to stay with the traditional buy-sell and accept the lower, but more predictable, result. However, there is no harm in considering these alternative structures if the upside potential is worthy of the effort and cost.

Joseph Aboyoun is a partner at Aboyoun & Heller, LLC in Pine Brook, N.J. He can be reached at 1-973-575-9600 or jaboyoun@aboylaw.com and www.aboyounheller.com