Performance

BROKERAGE SERVICES

A ROADMAP TO BUYING OR SELLING AN RV DEALERSHIP

- 10 Steps to Selling Your Dealership
- Valuing Your Dealership
- Valuing the Goodwill
- Calculating Your Walk-Away Proceeds
- Buying an RV Dealership

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Performance Brokerage Services is North America's highest volume dealership brokerage firm, specializing in buy-sell activity for automotive, RV, motorcycle, commercial truck, and equipment dealerships. Family-owned and governed by an unwavering commitment to integrity and ethical conduct, the company benefits from over 25 years of experience, 700 dealerships sold, and a 90% closing rate. The firm is headquartered in California and supported by regional offices in Utah, Texas, Florida, New Jersey, and Virginia, offering clients national exposure with local representation.

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Disclaimer: This outline is intended for informational purposes only. It provides a general overview of the process of buying or selling a dealership, valuing a dealership's assets, calculating the goodwill portion, and calculating the walk-away proceeds. **This outline is not intended to serve as legal or accounting advice, nor to replace your advisors.**

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Introduction

A new franchise dealership is unlike most retail businesses: cash intensive, significant inventories, floorplans, segregated departments (sales, service, parts, finance, and insurance), and uniquely, a co-dependent relationship with multiple manufacturers or OEMs.

Buying or selling a dealership can be exceptionally rewarding and create a win-win for both buyer and seller. The process is complex, can be highly emotional, and is riddled with pitfalls and obstacles that can yield a less than desired outcome. The purchase or sale of a dealership should be handled with care by experienced professionals.

10 STEPS TO SELLING YOUR DEALERSHIP

Dealerships often represent the majority of one's net worth, and a sale will be the last opportunity for the assets to generate income. It may also represent a lifetime of dedication or a multi-generational family legacy.

The 10 steps outline a traditional asset sale and provide you with insight into the buy-sell process.

01

Assemble Your Selling Team

The first step is to surround yourself with a selling team that will maintain your confidentiality, protect your interests, manage the selling process, and ensure a successful outcome. Each advisor plays an essential role in managing and streamlining the process, while allowing you to focus on your day-to-day operations.

Buy-Sell Attorney

Handles the legal aspects of the sale, including but not limited to drafting the Definitive Purchase Agreements, incorporating customary warranties and representations, interfacing with the DMV, government agencies and the OEMs, addressing any outstanding liabilities, and limiting your exposure post-closing. It is beneficial that your attorney has buy-sell experience in the RV or automotive industries.

Accountant

Handles the accounting/bookkeeping, including but not limited to preparing the adjusted earnings, introducing creative structures to mitigate the tax consequences of the sale itself, calculating your post-closing "walk away" proceeds, assisting with the due diligence, and any other accounting and tax advice.

Financial Planner

Shows you a path to manage the proceeds post-sale and attain your financial goals. It may be advantageous to engage a planner earlier in the process to assist with allocation and/or deal structure.

Dealership Broker or Buy-Sell Advisor

Manages the sale process from beginning to end, including but not limited to guarding the confidentiality of your intent to sell, providing a valuation so that you may establish an asking price consistent with the market conditions, marketing the dealership for sale, drafting Letters of Intent, and helping you negotiate from a position of strength.

02

Information Gathering

The next step is to gather the information required for a buyer to effectively analyze the acquisition opportunity, build a pro forma and make an informed decision to proceed with an offer. The information typically expected includes:

Financial Data	Dealer operating statements, accountant-prepared statements, and adjustments to income.
Real Estate	Appraisals, leases, property layouts, environmental studies (Phase I & II), and property tax statements.
OEM Data	Sales & Service Agreements, franchise agreements, performance reports, primary market area, area of responsibility, etc.
Fixed Assets	Depreciation schedule or fixed asset list.
Organization	Description of employees, pay, benefits, union details if applicable, awards and recognitions, etc.
Long-Term Contracts	Long-term equipment leases, DMS and vendor contracts expected to be assumed. Be sure to review and understand your contracts, specifically your payment obligations, your right to terminate and your total exposure as these will become material items during negotiations.

Your Dealership Broker will incorporate the materials to prepare a Confidential Information Memorandum. The goal is to showcase your dealership in the best light possible with an easy-to-read synopsis. It should provide enough data for a buyer to analyze the investment opportunity, while also withhold your private and proprietary information until the buyer shows an elevated level of interest.

The Memorandum will help to attract a larger buyer pool, plus regional and national dealership groups. Your Dealership Broker will setup a virtual data room where the information will be securely stored and made available to prospective buyers who have signed a Non-Disclosure Agreement.

03

Marketing Strategy

You and your Dealership Broker will develop a custom-tailored marketing strategy to maximize the likelihood of attaining your goals while minimizing your risks.

What are your goals? It is not always all about the money. Will the buyer maintain confidentiality? Negotiate in good faith? Survive the closing? Take care of your loyal employees? Continue to employ your family members? Carry on your legacy?

Greater exposure naturally yields more buyers, which will increase the likelihood of a sale, firm up the asking price and introduce a sense of urgency. However, if greater exposure raises your concern of a confidentiality breach, you may be better suited with a more tactical "private showing" approach.

04

Buyer Filtration

Unique to the industry is the requirement for OEM approval. The goal is to locate a buyer who meets your criteria and that of the OEM:

- **Pro Forma Buyer:** Makes an offer based on future potential, and not strictly past performance.
- **Financial Capacity:** Sufficient funds and financial wherewithal.
- **Debt to Equity Ratio:** OEMs and lenders will require a specific amount of cash in relation to the amount borrowed.
- **Confidentiality:** A buyer who appreciates the sensitivity to confidentiality.
- **Good Faith Negotiations:** A buyer that will not attempt to renegotiate or "re-trade" the deal when unforeseen issues inevitably arise.
- **Surviving the Closing:** Although the process is often emotional and coupled with doubt or second-guessing, a buyer who has strong motivation to accelerate the closing.
- **Business Acumen & Ethics:** Experience, character, etc.

05

Letter of Intent

An offer to purchase is usually in the form of a Letter of Intent ("LOI"). The purpose of the LOI is for buyer and seller to come to an agreement on the primary terms and conditions. It is ideal for the LOI to be detailed so it may serve as a framework for your Attorney to negotiate the Definitive Agreements. Although the LOI is non-binding, certain items included are binding like Confidentiality and Exclusivity.

The LOI will typically include, but not be limited to, the following items:

- **Goodwill:** Intangible assets, commonly referred to as "blue sky."
- **FF&E:** May be appraised, negotiated, or at net book value.
- **Inventories:** New vehicle, used vehicle, parts & accessories, miscellaneous.
- **Real Property & Improvements:** Purchased or leased.
- **Assumed Obligations:** DMS and other vendor contracts and leases.
- **Due Diligence:** A period of 30-60 days.
- **Deposit:** Often refundable until completion of due diligence period.
- **Confidentiality:** Negotiated terms will be kept confidential.
- **Exclusivity:** Seller shall not negotiate with parties other than the buyer.

Not all offers are equal, even if the goodwill is the same. It is important to conduct a total deal review, weighing all terms and conditions of the LOIs as well as the buyer profiles. One buyer may have a greater likelihood of surviving the closing, while one LOI may offer a unique term that better fits your goals.

For information on pricing and valuing the assets, refer to the section "Valuing Your Dealership".

06

Definitive Agreements

Upon full execution of the LOI, the period for Exclusivity will commence and you will be expected to continue negotiations with the selected buyer only.

Your Attorney (or buyer's attorney) will prepare the initial drafts of the Definitive Agreements, also referred to as an Asset Purchase Agreement ("APA") and Real Estate Purchase Agreement ("REPA"). These agreements and the terms included are definitive, binding and enforceable. A stock purchase is less common due to buyers' reluctance to assume liabilities.

The Definitive Agreements will expand upon the LOI and typically include, but not be limited to, the following items:

- **Purchase Price Allocation:** Tangible and intangible assets, non-compete, real property, and inventories.
- **Indemnities:** Customer and creditor claims, environmental and hazardous conditions, payroll tax, sales tax, etc.
- **Representations and Warranties:** Financial statements, title, liens and condition of assets, litigation, employment matters, tax matters, etc.
- **Closing Conditions:** Financing, OEM approval, issuance of DMV license, etc.
- **Closing Date:** Targeted closing date to ensure expeditious performance.
- **Escrow Funds and Holdbacks:** Buyer may request a portion of funds held back in escrow to cover chargebacks or damages caused by untrue representations and warranties.
- **Termination or Failure to Close:** In the event of a breach, deposits may become non-refundable.
- **Schedules and Exhibits:** Excluded assets, employee charts, inventories, fixed assets, etc.

This process requires multiple rounds of back and forth between the attorneys to reach a fair and equitable outcome for both parties. The use of a more detailed LOI will reduce the risk of a deal stalling.

07

Due Diligence Period

The length of the period is negotiated and usually ranges from 30 to 60 days. You may elect to have the period begin upon full execution of the Definitive Agreements, or upon full execution of the LOI and to occur simultaneously to the negotiations of the Definitive Agreements.

This period is critically important to the success of a transaction. The buyer will be granted the right to inspect the books and records to verify financial representations, assets, inventories, real property and improvements, contracts to be assumed, etc.

It is also the stage when appraisals are ordered, public reports are pulled, and examinations are conducted. Items like real property appraisals, building inspection, fixed asset appraisals, inventory counts, title reports, Phase I and Phase II environmental studies, etc.

If it has not yet occurred, buyer will typically request an in-person meeting to discuss the operation in greater detail and to tour the dealership(s).

Once the buyer completes the due diligence and waives the due diligence contingency, you will notify the OEM of your intent to sell.

Although you have come to terms with the buyer, you should continue to run your dealership and maintain its performance. It can take another 60-90 days until you reach a successful closing and a downturn in performance might impact your sale or the purchase price. With good intent, continue to hire employees as needed (buyer is in need of good talent), do not defer maintenance and stay involved in the day-to-day operations.

08

OEM Approval

It is good practice for your Attorney to submit the APA and the REPA to the OEM(s) along with a cover letter authorizing the OEM(s) to communicate with the buyer.

Once buyer has received approval from the OEM(s), you may elect to make the announcement to the employees and introduce the buyer. This will help to quiet rumors, settle employee concerns, and ensure a smooth transition.

At this time, buyer should apply for DMV and other required licenses. In certain states, a bulk sale publication may be required.

April
May
June
July
August
April
June
10%
8%
7%
11%
35%
29%
4/3
4/10
4/12
4/14
TIME
AC

09

Closing

- **Inventories & Fixed Assets:** All need to be accounted for and valued. You may elect to hire professional services to assist with itemizing the parts and vehicles and appraising the fixed assets.
- **Employees:** Under an asset sale, all employees will be terminated by the seller and rehired by the buyer. Accrued vacation time and other benefits earned may need to be paid out.
- **Contracts:** Cancel terminable vendor contracts in advance and prepare assumable contracts for buyer. Your Attorney may also assist in terminating your OEM agreements, signing of the bill of sale, paying off debts, securing releases from labor and tax agencies, etc.
- **Excluded Assets:** The Definitive Agreements will specify any assets or inventories that will not be purchased. These items, personal and excluded, will need to be sold or removed from the dealership premises.
- **Closing Statement:** Your Attorney and Accountant will assist with the preparation of the closing statement to ensure it is consistent with the Definitive Agreements.
- **Wires and Escrow:** Buyer will wire funds into escrow, and escrow will disburse funds according to the closing statement.

10

Post-Closing

Congratulations! You have sold your dealership and you may finally exhale. However, there are still a few items that require your attention post-closing. These may include satisfying accounts payable, collecting receivables, managing the service and F&I chargebacks, and relocating business records that need to be maintained as per applicable laws.

VALUING YOUR DEALERSHIP

The definition of FMV according to the Internal Revenue Service (Revenue Ruling 59-60), states:

"The price at which a property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts."

In the small business environment, and specifically in the Recreational Vehicle and Automotive industries, the leading three methods for valuations are as follows:

- **Asset-Based Approach:** The net worth of a business is defined as the value of its assets minus the value of its liabilities. This method is based on the principle of replacement, assuming buyers will not pay more for assets than the cost of acquiring similar assets. However, this method does not take into consideration the goodwill portion of the dealership.
- **Earning Value Approach:** The value lies in the business' ability to produce income and cash flow in the future. The most common approach is the Capitalization of Earnings: expected cash flow is based on past earnings, adjusted for any unusual income or expenses, and multiplied by a capitalization factor.
- **Market Value Approach:** The attempt to compare to similar businesses that recently sold. However, this method requires a high volume of data to be valid, absent for RV dealerships. It also assumes the value would not exceed that of a similar business.

Each method has its advantages and flaws, and therefore, a combination of these methods is used to determine value. Discounts must also be applied for lack of control, synergies, and marketability.

As the RV industry continues to experience greater levels of consolidation, as well as sophistication from buyers, the methods for negotiating certain items in the buy-sell have become widely accepted.

New Vehicle Inventory

New, unlicensed, and undamaged current year and prior year models at invoice and adjusted for (1) added/removed equipment and accessories done in a normal course of business, (2) advertising and floorplan credits, holdbacks, rebates, discounts, and other incentives received, (3) excess mileage with a threshold defined in the APA.

For aged inventory, a curtailment or discount could be applied, typically between 5%-20% depending on age.

Used Vehicle Inventory

Negotiated on an individual basis typically using a recognized publication as a value guide, including adjustments for reconditioning and added/removed equipment and accessories. Units whose value cannot be agreed upon will be retained by the seller. Thus, it is recommended that you discuss the used vehicles with the buyer earlier in the process so that you may have time to sell some of those vehicles. Service loaners and company vehicles are treated as used vehicles.

Fixed Assets

There are 3 approaches to valuing the furniture, fixtures, and equipment ("FF&E"), any of which is acceptable in the marketplace.

> 1. **Net Book Value ("NBV"):** Calculated as original cost minus accumulated depreciation.
> 2. **Negotiated Value:** Requires buyer's and seller's knowledge about values and a physical inspection of the assets.
> 3. **Appraisal:** Prepared by a fixed asset appraiser specializing in automotive.

An appraisal often yields the highest value (1) when appraised as installed for continuous use, (2) since assets may have been subjected to an accelerated depreciation, and (3) since even assets with a NBV of $0 may still have some useful value. Special tools are often included in FF&E.

If land, buildings, and leaseholds are recorded on the balance sheet, they should be ignored when determining the value of Fixed Assets, as their values will be factored into the real estate appraisal.

Parts & Accessories Inventory

Counted at closing to reflect cost minus discounts and adjusted for age and obsolescence. Further defined by returnable, unopened, undamaged, and having shown a sale in a specified number of months prior to the closing. Obsolete parts may be negotiated at a discount or excluded from the sale.

Supplies & Miscellaneous Inventories

Office supplies, gas, oil, grease, tires, etc. Counted at closing and purchased at net cost.

Work in Process

Purchased at net cost including labor and parts, without duplication for parts included in inventory, and excluding repair orders deemed as uncollectible.

Non-Compete Agreement

You may be asked to sign a Non-Compete Agreement. A portion of the goodwill will be assigned to this non-compete covenant. At the time of this publication, the covenant is taxed as ordinary income, while goodwill is taxed as capital gains.

Other Assets & Liabilities

All other assets & liabilities remain your property. Assets may include cash on-hand, accounts receivable, contracts in transit, etc. Liabilities may include accounts payable, floorplan, bank notes, long-term notes, etc. As for receivables, buyer may agree to collect and forward any amounts owed to you post-closing. Liabiliies will need to be satisfied at closing. Should you have any long-term notes that are payable to you, or to an affiliated company, these notes will be satisfied when you unwind the corporation.

Real Property & Improvements

The purchase price is typically determined by an appraisal. To ensure fair-market-value ("FMV"), it is common that buyer and seller each order an appraisal. As a general practice, if the appraisals are within 5%, the two appraisals may be averaged to determine FMV. If the divergence is greater than 5%, then the two appraisers will hire a third appraiser, and the two appraisals which are closest in value will be averaged to determine FMV.

For buyer to secure financing, lender will require a lender-ordered appraisal, often by an MAI appraiser.

The real property & improvements may be leased, subleased, or assumed. A lease stipulates the duties of each party to effect and maintain the Lease Agreement. It includes landlord and tenant responsibilities, initial rent amount and subsequent increases, a security deposit, guarantees, rent due date, consequences for breach of contract, duration of the lease and options to renew, etc.

If CAP-X investments are required to either meet the OEM's image requirements or the operating company's brand/image, this could have a negative impact on the goodwill value.

Environmental studies (Phase I & Phase II) should be ordered to assure that no environmental issues exist. The lender will also require the studies for financing purposes. A clean report will also protect you from liabilities after the sale.

VALUING THE GOODWILL

The crux of the value calculation. Determining the goodwill portion of a dealership is as much an art as it is a science. The goodwill of a dealership is often calculated as a multiple of the historical adjusted earnings and of buyer's pro forma.

Adjusted Earnings

To arrive at your adjusted earnings, take your pre-tax net profit and apply adjustments that are commonly found on a dealership operating statement. These adjustments are also referred to as "add-backs" or "discretionary expenses". An offer is usually contingent upon verification and acceptance of the adjustments.

- **Owner's/Dealer's Salary:** Should only be added back if the dealership has an active General Manager. However, any excess salary (above market rate for a General Manager) can be added back.
- **Excess Family Salaries**: Consider your family members' roles in the day-to-day operations, and the market rate for a similar hire.
- **Management Fees:** If the dealership is part of a larger organization, the dealership may pay a fee to a management company for centralized services. Although this may be added back, a portion may be required to replace essential functions.
- **Travel & Entertainment:** Only adjust that which is discretionary and not required in ordinary course of business.
- **Contributions:** Consider if the nature of the contribution generates business, such as supporting local businesses, charitable events, schools and sporting sponsorships, etc.
- **Other Interest:** Since flooring is an essential part of the business, only interest other than flooring can be considered an adjustment.
- **Fair-Market-Value Rent:** Since real estate must generate a reasonable return on asset, rent should be adjusted to reflect the fair-market-value. If you intend to lease the property for an amount greater than your current occupancy rate, then the delta must be factored.
- **One-Time Expenses:** A settlement of a lawsuit, stock or equity purchase/buy-out, an equipment purchase or service expansion that was expensed as opposed to depreciated or amortized, etc.
- **Depreciation and Amortization:** Illustrates cash flow and consistent with the generally accepted principle of EBITDA.
- **LIFO Reserve:** The delta of the accumulated LIFO Reserve from one year to the next.

For a comprehensive list of possible adjustments, refer to "Examples of Adjustments to Income & Expenses".

Examples of Adjustments to Income & Expenses

Advertising

Adjusted only if the company will not be required to maintain this level of spending in the future.

Automobile

A discretionary item unless it will be retained by the seller.

Bad Debt

Adjusted depending on circumstances.

Business Gifts

Not necessary to the successful operation of the dealership.

Business Sale or Asset Sale

A one-time business or asset sale should be adjusted accordingly.

Compensation of Officers

Salary, management fees, excess salary, etc. Must also be adjusted to reflect fair market compensation for a replacement employee to carry on the functions performed by the officers.

Consulting Expense

Discretionary if not ongoing.

Contributions

Adjusted to zero depending on the nature of this expense and if not necessary to the successful operation of the dealership. Consider if the contributions are essential to generating business.

Depreciation

In keeping with EBITDA, depreciation expense is added back to profit.

Amortization

In keeping with EBITDA, amortization expense is added back to profit.

Dues & Subscriptions

May contain some discretionary expenses.

Employee Benefits

Discretionary if the elimination will not adversely impact the business and/or employees.

Insurance-Health and Life

Expense that may be discretionary.

Interest and Bank Charges

Expense that may be discretionary if not related to flooring.

Legal and Professional

Expense that may be discretionary if it is more than typical. (Commingle fees, lawsuits, etc.)

Examples of Adjustments to Income & Expenses

Other Income

Income that is generated by the dealership activity and does not hit the statement.

Penalties

Discretionary expense.

Pension/Profit Sharing

May be discretionary.

Pension Plan

May be discretionary.

Rent

Needs to be adjusted upwards or downwards to reflect fair market value.

Repair and Maintenance

May be adjusted to reflect items like a one-time expenditure.

Taxes and Licenses

May contain some discretionary expenses.

Travel, Meals and Entertainment

Expense items that are discretionary and not related to business.

The Intangibles

Determining the goodwill value requires judgement on a variety of intangible factors including the following:

- The history, quality, and reputation of your dealership(s).
- The financial condition, strength, or health of your balance sheet.
- The historical earnings, future outlook, and uncaptured potential of the dealership.
- Franchise strength, popularity, desirability, and support from the OEM.
- Your Dealer Exclusive Territory, market size, and the quality of your competition.
- The availability to purchase the real property, its size, value and required remodeling.
- The outlook of global and US economies, and the RV industry in particular.

Different buyers will assign different values to your dealership based in part on desirability, synergies, required rate of return, risk threshold, and confidence in the sustainability of the operation.

Consider how the following **3 key factors** may have a significant impact on your dealership's value:

1. Marketability & Desirability

The ability to generate interest and attract attention from buyers.

- **Buyer Pool:** How large of a buyer pool can be generated and which types of buyers can be attracted?
- **Geography:** Strength of your market, business climate in your state, specific location of the dealership, etc.
- **Franchise:** Current strength of your franchise, new product launches, support from the OEM, etc.

These are only a few variables that may impact the marketability along with the quality and stability of earnings, growth potential, liquidity of the assets, etc.

2. Pro Forma

Buyer's confidence in maintaining or improving the current performance and capturing the potential.

- **Sales Effectiveness:** Current sales vs. allocation or OEM expectation.
- **National Benchmarks:** Key performance indicators such as percentage of gross-to-sales, percentage of net-to-sales, percentage of rent-to-gross, service absorption, F&I per copy, new-to-used ratio, CSI & NPS, etc.
- **New Opportunities:** Add new franchises, rental or fleet services, service expansion, etc.

Buyer will use your financial statements to prepare a pro forma with projected income, expense structure, and a reasonable rate of growth.

Although there is no hard rule, it is common that a buyer will analyze 3 years of past performance, applying either a straight or weighted average, to build a pro forma for the next 3-5 years.

3. Buyer's Desired ROI

Buyers typically look for a 20% minimum return on investment, depending on the risk associated with the investment. Although dealerships are cash intensive, they are a familiar place for an existing dealer to park the cash and generate a much greater return than currently available through traditional investment platforms.

Multiples Based on Tiers of Performance

Since the intangibles of a dealership cannot be easily quantified, it is our strong opinion that a dealership's value cannot be determined by a multiple of earnings only, but rather a combination of historical adjusted earnings, buyer's pro forma, and desired ROI.

We are comfortable stating that the goodwill value may be broken down into tiers based on the dealership's performance, providing that the intangibles previously listed are factored.

***DISCLAIMER:* The following Multiple of Earnings table provides examples as generalizations only and should not be relied upon. It ignores franchises and brands altogether, and makes the following assumptions:**

- 3 years of consistent, adjusted, and normalized earnings.
- Performing at or near its potential.
- 20%-25% gross to sales.
- 4%-8% net to sales.
- Real estate is offered for sale and minimal CAP-X investment is required.
- All other performance benchmarks and variables that may impact value are inline.

Total Dealership Sales	Multiple of Earnings
Less than $5M	Reasonable Franchise Value
$6M to $10M	Up to 2.5x
$11M to $20M	2.25x to 3.25x
$21M to $30M	2.5x to 3.5x (4x if unique)
$31M to $50M	3.5x to 4.5x (5x if unique)
Greater than $50M	Premium

Considering the basic principles of supply and demand, premier opportunities and highly desired franchises command a premium as they are rarely available for acquisition. Alternatively, smaller operations and widespread franchises might command a lesser multiple as they could be viewed as more available.

The higher and more stable the earnings, the less risk associated with the investment. This assurance could yield a higher multiple.

If the buyer applies more weight to a pro forma than to historical earnings, then the offer may represent a greater multiple of earnings for you.

CALCULATING YOUR WALK-AWAY PROCEEDS

Factoring all the value components of a sale and across various purchase scenarios, calculate your post-closing walk-away proceeds to ensure that the net amount successfully accomplishes your goals.

A. Net Worth on the Balance Sheet	**$**
B. Real Property Equity (Purchase Price Minus Mortgage Balance)	**$**
1. Fixed Assets Adjustment (Purchase Price Minus NBV)	$
2. Goodwill & Other Intangible Assets	$
3. LIFO Reserve Account	$
4. Notes Owed to Owners & Shareholders	$
C. Total Additions (Items 1 through 4)	**$**
5. Land (If recorded on the Balance Sheet)	$
6. Building and Improvements (at NBV if on the Balance Sheet)	$
7. Unamortized Goodwill	$
8. Assets Not Related to the Business	$
9. Parts & Accessories Obsolescence	$
10. Used Vehicle Adjustment (NBV vs. Purchase Price)	$
11. Bad Debt	$
12. LIFO Reserve Tax Obligation (Approximately 40% of Reserve)	$
13. Fees to Your Selling Team (Legal, Accounting & Broker)	$
D. Total Deductions (Items 5 through 13)	**$**
Walk-Away Proceeds (A Plus B Plus C Minus D)	**$**

BUYING AN RV DEALERSHIP

It is an exciting time in the RV industry. Due in part to the pandemic of 2020, the average dealership's profitability skyrocketed, and the number of first-time RV renters and buyers reached an all-time high. Acquisitions by public companies and national retailers are driving buy-sell activity to unprecedented levels. Even the manufacturers or OEMs are experiencing a consolidation of their own.

The acquisition of an RV dealership can yield a highly desired return on investment, either as a first-time buyer or as an addition to your existing portfolio.

To prepare for a purchase, begin by assembling your buying team and identifying your buying criteria consistent with your financial capabilities and desired return on investment.

Assemble Your Buying Team

Your Buying Team should be comprised of a buy-sell attorney, accountant, financial lender, and dealership broker or buy-sell advisor. You may also consider engaging an experienced operator if you are a first-time buyer or intend to be an absentee owner. Your Buying Team will be instrumental in ensuring a successful transaction.

Capital & Financing

Your accountant will help you prepare a budget and a business plan to be provided to your financial lender. The OEMs may source the cash invested. Certain assets and inventories of the business are financeable depending on the requirements of the lender and the OEM. Those assets and inventories will include:

- **New Vehicle Inventory:** 100% financed through a short-term loan secured by the new vehicle, also referred to as a "floorplan".
- **Used Vehicle Inventory:** Many dealers prefer to limit the used vehicle floorplan. If financed, a bank will typically require a minimum of 25% equity.
- **Fixed Assets:** Up to 50% financed and collateralized by the assets.
- **Real Property:** Up to 80% financed and collateralized by the real property.
- **Goodwill:** Up to 50% financed, although the OEM may have requirements that impact the amount of goodwill that can be financed.
- **Working Capital:** Partially financeable, depending on your overall financial strength. Working capital requirements will vary for each OEM.

Staying committed to your budget will increase your likelihood of an approval by the lender and OEMs and will also reduce your risk of becoming undercapitalized.

Develop Your Buying Criteria

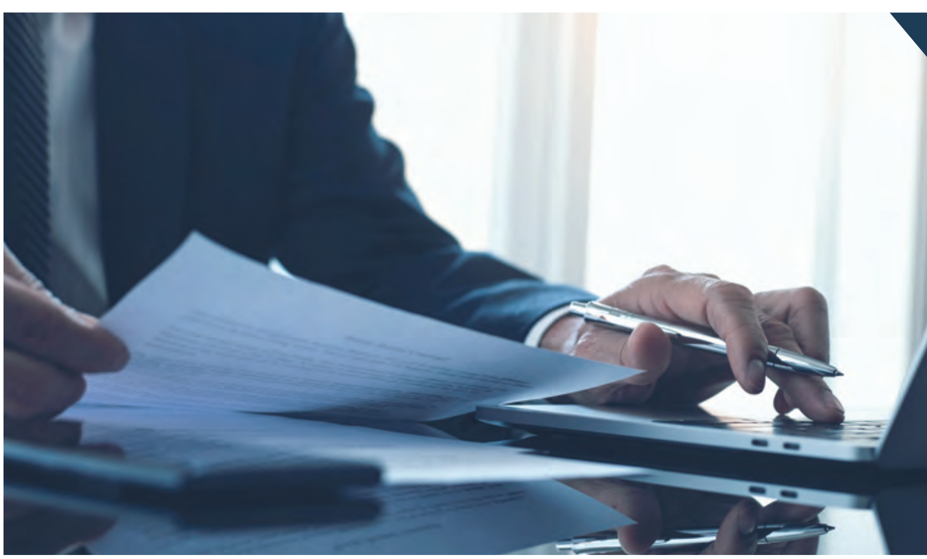
There are many variables that make up a dealership profile. Consider your motivation for a purchase as this may help you finetune your buying criteria.

- **New Units Sold:** Study the various manufacturers, franchises, vehicle classes, and the difference between towable and motorized units.
- **Performance Thresholds:** To determine the size of a dealership for acquisition, establish your thresholds on items like sales, gross profit, net profit, fixed operations gross profit, number of units sold, new to used ratio, etc. Look for any unusual performance benchmarks that might not be sustainable or replicable.
- **Performer or Underperformer:** A well-performing dealership with a consistent track record reduces the risk associated with the investment. However, if you have the skillset to turn around an underperformer, you can expect a greater return on investment (assuming the purchase price was based on historical earnings and not pro forma).
- **Location:** Regions, States, or specific markets. Metro, fringe metro or rural. Population, demographics, accessibility, highway visibility, competition, etc.
- **Real Property:** Most buyers prefer to buy the real property. However, if you are short the funds required for a purchase or if a gap exists between you and the seller for the goodwill portion, the rental income provided to a seller in a lease may offer a path to securing the deal.

It is important to remain patient during the exploration process. Unlike real estate, there is no Multiple Listing Service of dealerships available for sale. It can take months for the right opportunity to be presented to you, and it can be another 3-4 months until closing.

Prepare Your Pro Forma

Once you have identified an acquisition opportunity, you should prepare a pro forma using realistic projections. Your pro forma will be essential in securing financing and will be required for OEM approval. It will also allow you to make an educated and justifiable offer to purchase the dealership.



For more information on the process of a dealership purchase/ sale, refer to the section "10 Steps to Selling Your Dealership".

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