BDO Driving Profits
NEWSLETTER

INSIGHTS FROM THE BDO AUTO DEALERSHIPS PRACTICE

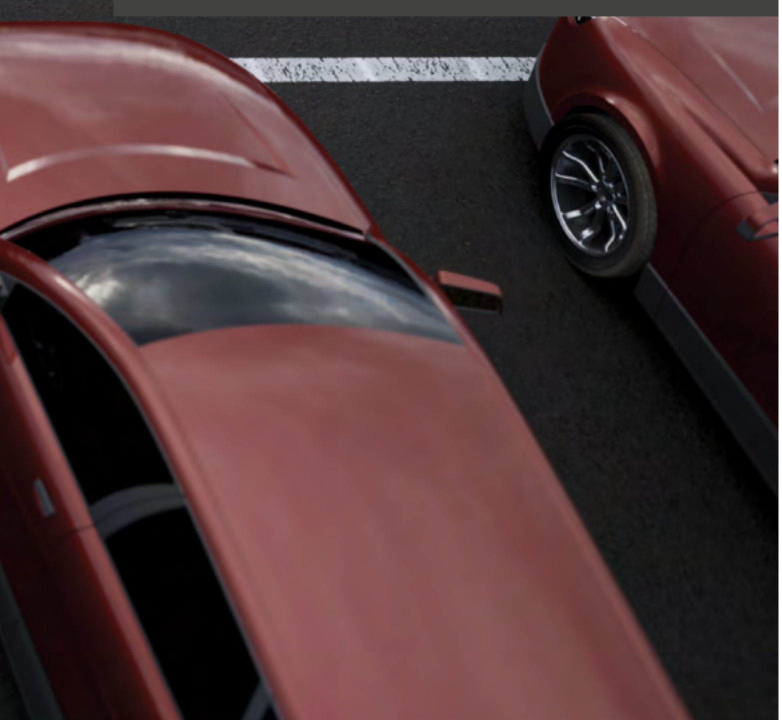
HOW TO PREPARE TO SELL YOUR DEALERSHIP

Juan Pena, Audit Director
Allen Westergard, Partner, Transaction Advisory Services

October 2021

BDO

If you are an owner contemplating selling one or more of your stores, there are several steps you should take first before you even pick up the phone to call a broker. Being prepared will ultimately make the transaction smoother. As a buyer of a dealership, you would have performed a very thorough due diligence before acquiring another store, but despite that, it's only after you take over operations that any weaknesses become apparent. The back-office accounting operations and the paper-flow at your dealership is one of those things that will stand out if your office manager or controller is not able to provide you a dealer financial statement within 5-7 business days after the end of the month.



The first phone call should be to your manufacturer's representative. Discussing the intention to sell with your manufacturer will make the dialog easier before a potential buyer is even found. Among the things that need to be discussed with your manufacturer include getting an understanding of the manufacturer's requirements to accept a potential buyer as a franchisee and the steps in the approval process and the timing (for example due to the holidays getting a transaction approved late in the year is very difficult). It' s not unusual for a manufacturer to provide a qualified buyer certain incentives such as favorable loan terms, or even a subsidy to purchase under certain circumstances.

The second phone call should be to your CPA to help you with putting together the financial information that the buyer will be looking for. If your accountant has not had experience with buy-sell transactions and dealership valuation work, you should find one that has had experience with dealership transactions. Likewise, having an attorney that has closed on dealership transactions will make the transaction much smoother.

Your CPA, broker and attorney will ask you for many records, so it is important to start assembling your records to be able to share them with these professionals. Typically, you will need to provide monthly dealer financial statements for the past two fiscal years, the most current year to date period, and the year-end accompanying schedules for all key accounts including receivables, inventory, warranties, etc. If you have audited or reviewed financial statements, you should have those available as well as tax returns for the business for the last 3 years.

The next thing will be to identify, with the help of your controller, office manager and general manager, items that are "one-time" or non-recurring income and expense items like manufacturer's facility incentives, litigation settlements, or gains from real estate or other assets. Additionally, if you have multiple stores and there are shared expenses between stores or a management fee from a management company that performs administrative tasks or has certain costs centralized (legal, insurance, etc.), you will need to explain how those amounts may impact the continuing operations of the store that is going to be sold.

Evaluate your staff, are there any employees that are being paid higher than average salaries (family members, long-tenured employees, high performers). Your buyer will ask for a listing of employees and their position, pay, etc., being ready to answer this question will make the due diligence part of the transaction go smoothly.

All these non-recurring charges, allocations and other items must be identified to arrive at the true operating income of the store. This analysis is often used to calculate the portion of the sales price known as “blue-sky” or goodwill. While there are factors other than earnings that factor into the blue-sky amount, blue-sky is almost always a number that is a function of normalized earnings.

Along with determining the operating income and the blue-sky, other factors must be considered that will affect what you will ultimately pocket when you sell the dealership’s assets. Among the factors to consider are the impact of recapturing the LIFO reserve, depreciation recapture and other taxes that eat into your net cash to be received upon closing such as bulk sales tax.

Another area that is very often not given sufficient attention is your fixed assets and leasehold improvements. Having a physical inventory performed by an independent third party and tagging the assets can make the transaction go smoother.

TAX CONSIDERATIONS

Please note, buyer and seller must agree on the allocation of the purchase price among the various asset classes included in the transaction. The allocation of the purchase price between asset categories will ultimately dictate how much of the overall gain is ordinary versus capital for the seller, as well as the timing of the write-off of the assets purchased for tax purposes for the buyer. Therefore, it is extremely important for both parties to consider the tax implications of this allocation. Both buyer and seller must include a Form 8594 (Asset Acquisition Statement) with their respective tax returns and both versions should agree. This ensures the tax treatment of the transaction is handled consistently by both sides.

Additionally, you want to be sure you and your tax advisor have taken the tax basis of your ownership interest into consideration when determining the overall tax strategy. What you want to try to avoid is recognizing capital gain from the sale of goodwill and real estate in one year and having a capital loss from basis in excess of proceeds in a future year when the company is formally liquidated. Proper planning will help maximize the ability to recognize both the capital gain from the transaction and the capital loss upon liquidation within the same year. It is imperative you discuss this with your tax advisor to ensure a proper plan is in place.

Once you’ve identified a buyer and a deal is imminent, the work doesn’t stop there, as the closing of the transaction approaches, there are several steps you will need to take to make the closing and the transition smoother including:

Plan your communications with employees. There will understandably be apprehension about a change in ownership, get a step ahead of that by informing the employees once a deal has been reached.

Keep an eye on your vehicle inventory levels and start adjusting as needed.

Make sure that your accounting office is keeping up with posting of deals, a clean inventory schedule is easier to deal with as the status of which cars are being sold and which are still on the lot will be easier to track during the closing.

Have your back-office verify that it has MSO for all new vehicles and titles for all used vehicles, with any exceptions noted with the status on obtaining the title (or MSO).

A parts inventory will have to be performed. Prepare your parts department for the inventory count by segregating any parts that will not be part of the purchase such as obsolete parts.

As it’s often said, the devil is in the details. With proper planning and having the right professional team in place, you will have a smooth transaction. There are many other considerations as a seller that you need to consider, such as putting a price on your dealership based on the attributes that make your store unique, so make sure to talk to your trusted business advisors before closing the deal.

CONTACT:

MEGAN CONDON, CPA
Tax Partner, Auto Dealerships Practice Co-Leader
206-382-7825
mcondon@bdo.com

JORDAN ARGIZ, CPA
Audit Partner, Auto Dealerships Practice Co-Leader
305-503-1039
jargiz@bdo.com

JUAN PENA, CPA, CGMA
Audit Director
305-377-9212
jpena@bdo.com

ALLEN WESTERGARD
Partner, Transaction Advisory Services
214-243-2914
awestergard@bdo.com

ABOUT BDO'S AUTO DEALERSHIPS PRACTICE

BDO is a valued business advisor for auto dealerships, bringing a wealth of experience on traditional and emerging accounting, tax, and advisory issues. The firm's Auto Dealerships industry practice works with a variety of companies across the dealership sector, including automotive, motorcycle, marine, RV, rental equipment and more. We help dealerships of all sizes achieve their desired business outcomes.

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 70 offices and over 750 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 91,000 people working out of more than 1,650 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.