Having an M&A advisory firm act as an intermediary in a transaction increases the chances that a deal will be closed successfully.

Selling a car dealership is a complex process that’s fraught with risks. That’s why it’s prudent to consult with an experienced M&A advisor that can help sellers avoid mistakes that can cost them millions of dollars. Just how do M&A advisors add value to the sales process? And what criteria should sellers use to hire one? Read on as Alan Haig, the founder and president of Haig Partners, provides important insights.

Q: What do M&A advisors do? Are they involved in doing things that dealers can’t?

A: Selling a dealership can be a complicated process. A dealer I know once said, “Dealerships are sticky assets: hard to get and hard to get rid of.” Mistakes can cost millions of dollars, expose the seller to lawsuits and create lengthy delays. As a result, we feel that almost all sellers should use an M&A advisor.

There are different flavors of M&A advisors. Some work with smaller dealerships and attract buyers by “listing” them for sale on their websites or in ads. Since the deals are small, their services are limited and sometimes these firms receive commissions from both the buyer and seller. On the other end of the spectrum are full-service M&A advisors like our firm, which use an investment banking model for selling dealerships.

We spend a significant amount of time on each transaction and represent only one client in each transaction, so that we can devote a lot of focus on negotiating each deal. Most buyers will lean towards transactions that are easy to figure out. We do our work for them, increasing the odds that buyers will pay attention to our client’s dealerships compared to other acquisition opportunities that are in the market.

Q: What criteria should a dealer consider when hiring an M&A advisor?

A: First, I would want my advisor to have experience selling a dealership or group that is similar to mine. Some firms focus on smaller dealerships, often in rural areas. The M&A advisors that serve those dealers will know other dealers in the same area looking for those kinds of opportunities. Other firms like ours focus on higher valuation and dealership groups. We provide a very high level of service so that we can add significant value to the transaction. And we develop relationships with leading buyers from around the country so we can bring them into acquisition opportunities that fit their strategies.

Once you decide what type of advisor best fits your company, dealers should conduct research on the M&A advisors under consideration. Dealers can check out the reputation and effectiveness of an M&A advisory firm by asking CPAs and attorneys who work on buy-sells. Even better, a dealer can call the former clients of an M&A advisor as they can provide a firsthand report on whether it would be a good fit to work with a particular M&A advisor. At Haig Partners, we provide a list of every single client we have represented to those dealers considering retaining our firm. Former clients are our best source for new clients.

Finally, I would want to make sure that the M&A advisor solely represents my interests in a transaction. Some advisors take fees from both sides, which means they just want to get a deal done, and not necessarily the best deal for the seller.

Q: Can you cite a specific example where using an advisor made a significant difference for a dealer who initially planned to go solo?

A: We were contacted by a dealership group that had negotiated the purchase price for their company with a buyer and had signed a non-binding letter of intent (“LOI”). But after a few weeks they became concerned that they had undervalued their business. The owners asked us to try to renegotiate the price with the buyer.

We created a financial package that showed the buyer there was much more value at this group than what they had offered and that we were prepared to rematch the company when the LOI expired. Because they didn’t want to risk losing the deal to a competitor, they increased their blue-sky offer by 30% percent for an additional $16.5M in blue sky. While we usually don’t work with clients this way, it clearly illustrated the value that our knowledge, experience, and materials and process added to the transaction.

M&A advisors exist because we add value far in excess of our fees. Otherwise, our clients would not recommend us to their dealer friends, nor would other trusted advisors refer us to their clients.

Q: Are there circumstances where using an advisor isn’t a good idea or is unnecessary?

A: I believe an M&A advisor should be engaged for almost every sales transaction. Otherwise, a dealer might end up selling their business for less than the best possible price, or having a hard time finding a buyer altogether. We believe the majority of buy-sell transactions now involve an M&A advisor. Even large and sophisticated dealer groups employ M&A advisors to assist them with divestitures. Our firm, for instance, has represented 20 of the top 150 dealership groups. If the big guys are retaining M&A advisors, then smaller dealers with less experience and information will benefit as well. Dealerships have appreciated in value so much that they deserve proper representation.

ABOUT THE PANELIST

ALAN HAIG
President, Haig Partners

The team at Haig Partners has bought or sold more than 560 dealerships totaling over $8.5 billion in transaction value. They have represented 20 of the Top 150 dealership groups on the Automotive News Top 150 list, more than any other firm. Haig Partners has unmatched auto retail experience with backgrounds in executive leadership and corporate development roles for AutoNation, Asbury, Bank of America’s Dealer Financial Services team and DHG’s Dealership Practice. They author the Haig Report, the leading industry quarterly report that tracks trends in auto retail and their impact on dealership values, and are co-author of NADA’s Guide, “Buying and Selling a Dealership.” For more information, visit www.haigpartners.com.

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Having an M&A advisory firm act as an intermediary in a transaction increases the chances that a deal will be closed successfully.

By selecting just a handful of buyers who are most likely to purchase the dealership, our process yields the highest price with the most confidentiality.

We’re uniquely positioned to value dealerships because we’re in the market every day, talking to buyers, discussing values and handling negotiations.

Alan Haig