

## Valuing Your Yard

The typical reasons that owners sell their automotive recycling facilities are either retirement or to cash in on their good efforts. Regardless of the reason, there are many steps in the process that will help you achieve the best results.

What's selling these days? Profitable full-service yards, self-service yards in populated areas, catalytic converter collectors, and larger scrap yards. "Junk" yards are just not selling unless they are in a strategically valuable location. With metal pricing depressed as it is now, scrap yards are not selling like they used to, but they will come back.

There are a few important steps to prepare for a sale.

Researching the sales that have been transacted in the past few years can yield valuable information regarding sales price, the motivation of the buyers, and the business models that are attracting buyers. Talking to sellers or consultants are good sources of this information.

Just as you would clean up a car or house for sale, cleaning up the yard makes sense for maximal value.

Determine whether your county or city wants a recycling facility in this location long term. A good test is to ask about a building permit. If the planning department intends to turn the area into retail, or something else in mind in their master plan, you'll find out quickly that they will not give you a building permit. If this is the case, it will be very difficult for an experienced buyer to become interested in buying this yard because they'll want to make improvements, and expect to be in operation for many years.

Have your permits in order. I have seen a few situations where the yard owner was not permitted to dismantle vehicles, or collect scrap, or even operate certain equipment on site. A conservative buyer will insist that permits be in order in advance, so that they have an easier time inheriting them by way of a transfer.

We all know that environmental issues are tricky in this industry. Hiring a reputable environmental consulting company years prior to the sale, and having their records available is the best scenario. If there is any remediation required, it is best for you to do that long before you sell. You'll also want expert legal advice as to how to limit your liability after the sale.

Get your financials in order, and have them reviewed by a professional. Experienced buyers are tough critics, and it is best to be fully prepared for them. Know your metrics, and be able to talk about car buying practices, customer buying patterns, car rotations, the relationship with your shredder, etc. The more answers you have for potential buyers, the sooner they will get to the decision point.

You should now be able to establish a sales price. There are standard methods for valuing any business, whether a recycling facility or otherwise. These methods include valuation of the real estate, buildings, and yard improvements. There is not a lot of mystery about these areas. The tricky part is valuing the actual business component, which is much more complex. A consultant would be able to tell you whether the sales price is realistic. Buyers will punish sellers who cannot justify their asking price. Four brothers wanting \$4 million so that they each get \$1 million is obviously a joke. But a more likely problem is a valuation that indicates land or improvements at values that are inconsistent with the area.

At this point, you still have the option to decide whether now is the time to sell. Your valuation calculations may tell you that this is the right time, or it may tell you that you should continue to work the yard to improve the numbers. Sometimes the valuation process can be educational for yard owners, pinpointing where their value comes from. For instance, cost cutting procedures and a couple of years of intense parts selling, or intelligent car buying could yield much improved profits. And profits are a major contributor to value. Bear in mind that profits that are not reported are typically ignored by buyers, and particularly by their bankers.

Consulting with a financial specialist is important now. Just a few key observations by such a professional can help to minimize the tax consequences of the sale. Maybe the advice is to insist that the purchase allocate certain funds to real estate versus inventory, or to take payments in stages to stay within certain marginal tax

brackets, or possibly to divide ownership among family members. A financial specialist may be able to foresee structures that you and I can only imagine. In any case, it is worth investigating.

A comprehensive marketing package is the best way to convey the information about your yard. This is comprised of financial information, discussion of the business, pictures, and deal terms. It does not need to be slick or expensive, but if it is shoddy, then odds are that the buyers will believe they can take advantage of you. It is important to state the facts. Buyers get approached all the time with offers, and they know when a yard is being represented fairly versus hyped beyond its true value.

Decide who will do the selling. It could be you the owner, a family member, your attorney, or a business broker. You may be the most informed about the yard, of course, but you may be an emotional negotiator and become impatient easily. A trusted family member could be a good choice if he/she has the right skills of presentation and negotiation. Attorneys tend to be too stiff and conservative, but some of them have quite a lot of talent. A business broker will typically stick to the important points, remaining unemotional, and their presence tells potential buyers that you are talking to all viable buyers. In any case, deciding who will sell the yard is key.

Some owners are very open with their employees and may tell them about the plans to sell the operation. Others are concerned about losing the better employees, who don't want to see a change in ownership. This is a very personal decision for the owner.

Let's assume you've accomplished these steps and more, and are now ready to go fishing for a buyer. Advertising has not seemed to help many sellers in the recycling industry. There are only a few dozen serious buyers of recycling yards out there, and they tend not to skim the classifieds looking for yards. Making a strong pitch to these buyers directly is your best course of action. And of course the decision makers are your target.

One of the more difficult aspects of the marketing process is deciding which companies to approach and when. There are buyers who may seem likely to be interested, and there may be long shots. Knowing just why a buyer might be

interested is tricky, and I'm always keen to hear what their business development plans are, whether they own a couple of yards or whether they are a chain.

Talking to them in the right order is key. A shotgun approach tends to lead to problems, because the first one who wants to get serious may request a period of exclusive negotiation. You may not want to grant this if you still have not heard from potential buyers that you are hoping will make the best offer. But you run the risk of annoying that first potential buyer and losing them. Sometimes the battles among regional and national players is valuable information that should be considered. Personally, I much prefer an approach that is carefully orchestrated so that your chances of maximum value is optimized.

You can imagine how the process goes. Potential buyers are contacted, presentations are made, and a fraction of them are interested enough to visit the yard. Honest feedback from potential buyers ought to affect your presentation, your valuation, and your materials. Use this to refine the process.

Along the way, patience is the watch word. If you want to sell from a position of strength, you will continue to operate the yard as you always have. This is good for your emotional well-being as well as indicate confidence to potential buyers. They can smell fear, and this may cost you dearly. If you badger these potential buyers, they will think less of you as well as the yard. Remember how certain salesmen or buyers have hounded you, and how that affected your view of them. Badgering will not speed up the process, but will cost you money. Admittedly, this takes patience.

Let's fast forward to the point of serious dialog with a potential buyer. This is a good time for your financial specialist to be re-engaged in the process to shape the structure of your deal to your advantage. If they come in too late, you will offend the buyers, who will rightfully accuse you of changing the deal.

There will be a contract of course. The vast majority of acquisitions of yards are based on the sale of the assets, such as the real estate, improvements, equipment and profit. Rarely is the actual company stock purchased because the buyer does not want to inherit the liabilities of the company.

Some yard owners want to retain income by leasing the property to the buyer. This may be intended to benefit the yard owners deep into retirement, or benefit their family members. And buyers are many times happy to oblige because it allows them to leverage their cash. The buyers do need the right to buy the real estate outright eventually, otherwise they would be unwilling to sink hundreds of thousands or millions of dollars into the facility to make it even more profitable.

Expect to sign a non-compete agreement, based on a radius around the yard location. The parameters of this non-compete are negotiable.

There will be a closing date set, just as there is in the sale of a home.

What you do beyond that point is up to you !

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