

Preparing to Sell your  
Full Service Auto Salvage yard

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So you are considering the sale of your yard? How will you go about getting it done?

This is Part 1 of a 4 part series

**Part 1 – Understanding the Market and Making a Game Plan**

Whether you hope to retire or just sell an asset, there are many steps in the process that will help you achieve the best results.

Understanding the mentality of the buyer is a good place to start. Do you have the type of yard that a chain would want as part of their network, or does it fill the needs of an operation that is already strong in the area? Maybe it is attractive to an individual or a couple who simply want to earn a good living.

Be brutally honest as to what type of yard you have, and compare this with the various types of buyers. This is important because you will want your presentation materials to answer their questions and draw them in to investigate further.

Some buyers may want your yard because it makes money. Others because it is in the right location. Others because it is an underperformer that they can buy at a lower rate and turn it around. All of them will want to look at the financials, so you must have them ready to send out upon request, once they have signed a confidentiality agreement.

When you approach a potential buyer, naturally they will want to know exactly what you're selling, and the price you're asking. This means that you will want to look at the various components of your company that have value, such as land, buildings, inventory, equipment, and profit. The buyer will have a professional evaluate any documents you provide, so it is in your best interest to have them presented professionally. This will increase your sales price. They need to be in

digital form so they can be sent out upon request, and shared with his partners or advisors. Otherwise, the buyer may lose interest.

Putting together marketing literature will also increase the value of your deal. It may be a flyer or a multipage description of the yard. The alternative is to tell a potential buyer just to come by the yard sometime and talk to you. That sounds okay, but it does not get the job done. Your potential buyer will benefit from seeing something immediately that tells them about the yard, as a way of getting to know it before they visit. This also needs to be available upon request.

Is your yard positioned to continue profitably for the next twenty years? If so, buyers will notice. What are the current trends in our industry, and are you a participant or a bystander? This could apply to best practices in dismantling, internet sales, brokering, etc. It appears, for instance, that networks of operators have come on the scene in the past few years. PRP is a network of 160 strong full service operators across the country. There is a network in Florida that is cropping up to broker and distribute (truck) parts among its members. There are other networks in place now and more coming. Strength in numbers is the fundamental advantage of LKQ, and others are now responding. How will potential buyers view your ability to continue to operate in this new world?

Does it make sense for you to meet with one of the handful of good salvage yard consultants we have in this industry? If you're not already speaking with them, they may be able to help you tune the performance of your yard so that you might achieve the best price. Some of them know how to utilize your yard management system to point out adjustments to make. They've helped hundreds of salvage operators become more profitable.

Decide early who will be your allies in selling the yard. Will you bring in your attorney, CPA, business broker, friend, or do it all yourself? Once you decide this, you can divide and conquer this project, with your team playing various roles.

What about confidentiality? Some yards are advertised in the classifieds. Is that okay for you, or would you prefer to sell the yard quietly? Most buyers need employees to continue the business, so this does not need to be bad news for the employees, so long as the new owner finds value in them. Still, that doesn't mean

you should or should not confide in them. You will likely have your reasons for deciding one way or the other.

Part 2 of the series will help you establish the sales price.

## **Part 2 – Establishing the Sales Price**

There are standard methods for valuing any business, whether an auto salvage yard, a muffler shop, or otherwise. These methods include valuation of the land, buildings, and improvements. There are industry-accepted parameters for the real estate that you can use, which must be followed to establish credibility with buyers for the deal overall. The tricky part is valuing the actual business component, which can be complex.

Buyers will punish sellers who cannot justify their asking price. Four siblings wanting \$4 million so that they each get \$1 million is obviously a joke. But a more likely problem would be asking for land and building prices that are inconsistent with the area, or inventory valued as if it is all going to sell eventually. It never does.

In our industry, the parts inventory must be looked at based on how long the parts have been sitting on the shelf. All three of the major yard management and inventory software systems (Car-Part, Hollander and Pinnacle) have the ability to provide the value of your parts based on how many days they've been sitting in the warehouse. Then, realistic discount factors need to be applied. Experienced yard operators know this.

We all know that “turning” inventory is a key performance indicator. This is true for just about any business, from restaurants turning tables, to theatres turning movie goers, to auto salvage yards turning parts. You want parts to be on the shelf a short period of time, then you will restock, and you want that new inventory to be on the shelf a short period of time. The faster this happens, the more sales you will make with the cash invested, and the more valuable the company is. You would

much rather sell \$4m in parts annually from a warehouse with a \$2m wholesale value, than the other way around.

There is a sweet spot as to the size of your parts inventory compared to the sales it generates. Most buyers will examine this and you will either be rewarded or discounted by the performance of your yard. The strongest yards generate tremendous sales with the least amount of money tied up in the warehouse. Makes sense, right?

Equipment replacement value needs to be totaled up and listed as well. Buyers want to know the equipment that is necessary to keep the business going. Nobody cares what it cost new, and nobody cares what value your CPA calculates as undepreciated value left on the book. Replacement cost is all that matters to a buyer.

Profit is more than just net income. Your CPA or business broker can tell you what other expenses can be added back to improve the bottom line. If you have a very profitable yard, you can get a multiple of that profit toward your sales price. But you won't be able to count this profit and the equipment and inventory. It is one or the other, and this is the standard business valuation practice, again whether a salvage yard, muffler shop, or otherwise.

You've heard of a company selling for 3, 4, or 5 times earnings. This refers to the adjusted profit. The more advantages your company has, such as a prime location, the higher the multiple. If your business sells for 5 times earnings, the new buyer would have to work 5 years to pay for the business component of the deal.

Once the buyers absorb the information about the yard, they will calculate how long it takes them to recoup their investment. You'll want to know the answer to that beforehand. This helps you adjust your asking price to a realistic level. It is another moment to be brutally honest with yourself. No buyer wants to take ten years to pay off their investment. But if they pay it off in one or two years, you didn't ask enough for your company.

Remember, there are also individuals and couples who may be your target buyer. They may or may not have the sophistication to ask the questions that the chains will ask. However, they may just want to know they can make a good living. If

you've made enough good business decision that this yard can do that, maybe the issue is simply going to be whether the yard generates profit. They need to believe that with you gone, and them running the business, this profitable performance can be repeated.

When you have determined the sales price, know that you still have the option to decide whether now is the right 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. The process of making these valuation calculations may have been a learning process for you up to now, and you can see that another year of adjustments may be well worth the wait.

You may believe that your yard is not presentable. Or that your inventory does not turn fast enough. Or that you don't do enough brokering with other yards. 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.

Part 3 of the series will help you develop your marketing literature.

### **Part 3 – Developing the Marketing Literature**

How will you inform potential buyers about the particulars of your yard? If you simply have verbal conversations, you run the risk of giving several different stories, or leaving out details that could be vital to the buyer's decision. Besides, buyers want information that they can reread and share with their partners. It must therefore be in writing.

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 view your operation also as shoddy. Or worse, they may believe they can take advantage of you. Think about the literature you see when a home or a car is for sale. Literature for your business is just as important.

It is important to state the facts. There are many full service auto salvage and scrap yards available these days, mostly due to the difficulties in the industry. Buyers get approached all the time with offers. You'll want to compare favorably with them, and be truthful and fair at the same time.

Most people are visually oriented. Pictures that give a clear understanding of the facility can be very helpful. You'll want to tidy up the yard and warehouse first, and keep it clean until it is no longer yours. Show the sales counter and dismantling areas. Buyers want to know whether the operation is up to date, or if it needs work. Pictures are no substitute for a physical visit, but they are a good start.

Buyers also want to know that the ground is environmentally sound. Get your records together. If you don't have an environmental consultant, you may want to consider getting that going right away so that there is a bit of history by the time of the sale. Include some reference of your clean yard in the literature.

The attorneys and bankers for the buyer will want to know that the salvage yard is permitted to operate in this location. Your yard may be in a zone that permits salvage yards, or you may have a "conditional use permit". Investigate them at the city or county offices with a professional to ensure that you know the answers to the tough questions from buyers before they come up. Make a statement about your zoning in the literature.

Describe what is included in this deal for the price that you are asking, such as the number of acres, number of cars, equipment, improvements, square footages, etc. Some buyers want to know if you're willing to provide seller financing. It is totally your decision of course. Know that well financed buyers don't care about this, whereas a buyer who requires seller financing needs to be thoroughly investigated.

This is also the time to let buyers know whether you are selling or leasing the land. Again, it is your choice. You may be surprised that many of the large companies actually prefer to lease the land, with an option to buy it outright later. This may work to your advantage during the term of the lease, but like any contractual situation, you must be comfortable with the tenant, and get good legal advice as to the risks versus the rewards.

You may take the opportunity to spell out the asking price and give financial information. Or you may decide to write this document in a way that requires a non-disclosure for those additional details. You want to convey enough information to get potential buyers interested, but not so much that you're disclosing too much before you know the buyer is serious. Some buyers want to know if you're willing to provide seller financing. It is totally your decision of course. Know that well financed buyers don't care about this, whereas a buyer who requires seller financing needs to be thoroughly investigated. This is also the time to let buyers know whether you are selling or leasing the land. Again, it is your choice. You may be surprised that many of the large companies actually prefer to lease the land, with an option to buy it outright later. This may work to your advantage during the term of the lease, but like any contractual situation, you must be comfortable with the tenant, and get good legal advice as to the risks versus the rewards.

Of course you would include your contact information. You would want to place this information within the main document so that potential buyers don't have to dig it up from a prior email or phone records.

Part 4 of the series will focus on the act of selling the yard

## **Part 4 – Selling the Yard**

The person you've decided to do the selling must get prepared. 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. You may also be busy running the operation, and cannot be distracted. A trusted family member could be a good choice if he/she has the right skills of presentation and negotiation. Attorneys tend to be stiff and conservative, but some of them have quite a lot of talent. A business broker has the advantage of having the perspective of knowing many similar businesses, and by hiring one you're telling potential buyers that you are serious. Potential buyers also tend to be willing to point out what they don't like about a deal to a business broker. In any case, deciding who will sell the yard is important.

Let's assume you've accomplished these steps and more, and are now ready to go looking for a buyer. 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.

Will you approach them on the phone? Let's hope they're easier to reach on the phone than the typical auto salvage yard owners! Will you approach them at the national ARA show, or a regional ARA show? In person is always beneficial, but it may take far too long to reach all potential buyers. How would you approach the individual or couple who would work the yard themselves? How can you generate enough potential buyers to give yourself a realistic chance of selling the yard?

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 knowing the



battles among regional and national players is valuable information that should be considered. It is tricky, and knowing as much as possible about these buyers is essential.

You can imagine how the process goes. Potential buyers are contacted, confidentiality agreements are signed, presentations are made using your marketing materials and phone skills, 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 sense weakness, and this may cost you dearly. Low inventory is easy to spot, and buyers will wonder if they'll have to invest into additional inventory in addition to the purchase price. 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.

Eventually you may get 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. This is especially true for taxes. If the deal changes late in the game because you got your professional advice late, you will offend the buyers, who will rightfully accuse you of changing the deal.

There will be a purchase contract of course. The vast majority of acquisitions of yards are based on the sale of the assets, such as the real estate, inventory and equipment, or profits. Rarely is the company stock purchased because the buyer does not want to inherit the liabilities of the company. This is the phase where your attorney will be very active.

Some yard owners want to retain long term income by leasing the property to the buyer. This would be an annuity for the seller, or benefit their family members. Just be careful about environmental contamination done by the tenant. Buyers are many times happy to lease because it allows them to leverage their cash for inventory or another yard.

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. Any debts will be paid off at closing. Equipment and inventory will be legally transferred from seller to buyer.

Then you can go play, or do it all over again !

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