



2015 Annual Conference
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Selling Your Vacation
Rental Business for Profit

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Introduction

About Ben Edwards - As a respected and innovative industry leader, Ben Edwards has been positively affecting the real estate and vacation rental industries for over 15 years. From managing small resorts, to financial and operational auditing, to opening large scale resort developments, Edwards's unique background provides a multi-level approach to consulting, transaction and advisory services.

Introduction - continued

Edwards's experience includes:

- ▣ President, Vacation Rental Managers Association
- ▣ VP Business Development, Newman-Dailey Resort Properties, Inc.
- ▣ CFO/Owner, Sanctuary Vacation Rentals
- ▣ President of Weatherby Consulting, LLC
- ▣ Vice President, Royal Shell Vacations, 2,000+ properties
- ▣ HomeAway Advisory Board Committee
- ▣ Flip Key Advisory Board Committee
- ▣ President, Waterstone Resorts and Vacation Homes, 1,000+ properties
- ▣ Board of Directors, Florida Vacation Rental Managers Association
- ▣ GM, ResortQuest SW Florida, 2,400+ properties
- ▣ Board of Directors & Treasurer, VRMA, 6 years
- ▣ Advisory Board Member, Vacation Rental Expo

Session Focus

- This session is designed to provide more information about the preparing your vacation rental business for sale. This session will provide specific and tangible takeaways to ensure your business is presented for sale in a attractive and professional manner.
- Before we get started....

One Size does NOT Fit All

- Some of the suggestions made in this session may not fit the size and scope of your operation or your market.
- As such, please remember that the assumptions made throughout this session are designed to represent an average vacation rental company and general market conditions.
- We encourage you to speak up and share your experience, questions or point of view.

Let's get started

- A few questions that need to be asked and answered
- Before pursuing the sale of your business, what is your motivation for selling?
 - Retirement
 - Are you tired/Is it time
 - Personal/Other
 - Business upturn/Profit driven
 - Business downturn/Distressed Sale*

Let's get started - continued

- What's next, If you sell your business?
 - Are you looking to stay on with NewCo, Move on?
 - What changes if the business is sold
 - Vehicle(s)
 - Cell Phones
 - Health Insurance
 - Accounting for other businesses
 - Administrative support
 - Free coffee

Let's get started - continued

- As you embark on the sales process, you must commit to selling
 - All or Nothing
 - This is not something where you “test” the market
- Do you need to sell
 - Be honest with yourself
 - Is it time to sell
 - What are the costs to grow the business

Let's get started - continued

- Now that your “Ready” to sell...
 - Develop a plan, internally or with the help of a professional
 - Line out needs, wants and non-negotiable items
 - The establishment of plan will...
 - Identify key components of the contemplated transaction
 - Assist in setting proper expectations with company stakeholders

The Plan - Defined

■ The Plan

- What is the timeline/expected closing date
 - Before season/Subsequent to season
 - How does that effect the purchase price
- What is your business worth/an acceptable sale price?
 - Perform a valuation
 - Use an industry professional – Why?
 - Recognized valuation method
 - Multiple of earnings
 - Trailing 12 months – designed for high growth companies
 - Weighted Average Method of the trailing 36 months or last three full years

The Plan - Defined

- The Plan - continued
 - Who will drive the transaction?
 - Internal vs. External management?
 - Adjustments to Financial Statements and EBITDA
 - Access to market conditions
 - Emotion
 - Objective management
 - Expense

Preparing your Business for Sale

- ▣ Preparing your business for sale
 - ▣ The quality of your business will be determined by the following:
 - ▣ Reputation
 - ▣ Quality of earnings and the business
 - ▣ Management contract retention
 - ▣ Type of sale – Asset or Stock
 - ▣ Cash
 - ▣ Cash + Financing
 - ▣ Cash + Earn-out or Contingent Payments

Preparing your Business for Sale

- Reputation – In today's environment, the reputation of your company lives online. How would a potential buyer perceive your business? Are there any factors that would hamper a sale of your business?
 - Reputation
 - BBB Rating
 - Reviews
 - Ratings
 - Litigation
 - Governmental – Statutory or Municipality violations or reprimands
 - External factors
 - Governmental regulation
 - Material or adverse issues

Preparing your Business for Sale

■ Quality of Earnings

- Accounting systems and financial reports are only as reliable as the information and processes used to create them.

■ VR Accounting 101

- Ensure proper accounting setup
- Chart of accounts setup and nomenclature
- Reservation system coding and setup
- Proper accounting system coding
- Consistency in coding

Preparing your Business for Sale

- Quality of Earnings – continued
 - Once you've developed consistent, reliable and accurate financial reports
 - Balance Sheet
 - Presentation and Formatting
 - Advance deposits as a current liability
 - Restricted cash
 - Note Sample Balance Sheet
 - Income Statement
 - Presentation and Formatting
 - Add backs
 - Adjustment to EBITDA
 - Note Sample Income Statement

Preparing your Business for Sale

- Quality of Earnings – continued
 - The ultimate measure of a Vacation Rental business is its **Adjusted EBITDA**
 - Foundation for purchase price
 - This will make or break a transaction
 - Proper accounting treatment is key
 - Are your results presented correctly and can you support your adjustments with proper source documents
 - When adjusting EBITDA, a single dollar lost can cost \$3 to \$5 dollars in the sales price of your business
- Qualitative components of the business

Preparing your Business for Sale

■ Rental Management Contracts

- Profitable – Does your company have the right mix of properties on the RM program
- Services – Are you required to perform certain services
- Standardized – Are your RMA's clean or littered with "one-off's"
- Growth – Is your unit count increasing or declining
- Retention – What is the average life of a unit
- Assignability – Do your rental management agreements with an assignability provision? Is it silent? Are you required to gain consent?

Preparing your Business for Sale

■ Transaction Types

- Most qualified transactions are bought or sold on a multiple of Adjusted EBITDA
- Typical deal metrics are 3 to 5 times Adjusted EBITDA
- Be wary of straight-line contract rates, aggressive tactics, % of gross payouts or earn-out contingencies
- Generally speaking, if you are required to bear the risk subsequent to closing, it is better to retain 100% ownership and continue running the business unless certain payout minimums are identified or payments are guaranteed
- There are numerous buyers in the market, local, regional and national

Once prepared

- Next steps
 - Buyers package is created
 - To include summary level information and key attributes
 - Prospective buyers are identified
 - High-level discussions are had with prospective buyers to determine qualification
 - If qualified, prospective Non-disclosure Agreements are disseminated
 - The selling entity should remain silent in these documents until received by the seller for entity input and counter-execution
 - Once a fully executed NDA is completed the buyers package is disseminated
 - Ancillary requests should be expected but reviewed individually for reasonableness
 - Its important NOT to get into Due Diligence at this stage

Once prepared

- Next steps – continued
 - Proper presentation within the buyers package and a reasonable sales price should illicit an offer
 - A Letter of Intent (LOI) is a non-binding document that outlines the key points of a contemplated transaction
 - A good LOI clearly articulates
 - Timing – The diligence period and closing
 - Purchase price payment
 - Any conditions precedent to closing
 - Once an LOI is fully executed, key management or senior personnel should be brought into the loop, as their help will be needed during the diligence phase

Due Diligence

■ The Diligence Phase

- Generally speaking, diligence should last no more than 60 days
 - All reasonable requests are in play
 - This phase in the transaction can be difficult and taxing
- The Purchase Agreement should be memorialized and negotiated during this time period as well
- Advisors, Accountants and Attorneys (AA&A) are needed throughout this process for a few of the following reasons:
 - To ensure market rate terms are negotiated
 - To determine future tax liability
 - To establish a legal and binding contract
- Finding AA&A with Vacation Rental experience is paramount

Closing

■ Closing

- Depending on the type of transaction, asset or stock sale, numerous closing schedules are required near or at the day of closing.
- Agreement of purchase price allocations are important, but not mandatory
 - Place the value on contracts, as opposed to asset to avoid Section 1245 Depreciation Recapture
- Note hold backs and understand them acutely
- Closings generally take place remotely and funds are wired the day of closing

Conclusion

- In conclusion
 - There are numerous buyers out there
 - This is a great time to sell, but also a great time to buy
 - Follow a formal process
 - Be reasonable
 - Don't fall for gimmicks
 - Discuss opportunities with an Advisor, Accountant and/or an Attorney
 - Please feel free to leave me a business card or send me an email for a copy of this presentation and supporting schedules

Thank You – VRMA

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