

# *Art of the Deal*



Buying & Selling  
Vacation Rental  
Companies

*Presented by:*



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# *Deliverables*

- Introduction & Key Considerations
- Thought Process

## **SELL SIDE**

- What to know before you decide
- Preparing your company
- The deal itself

## **SUMMARY**

- Current deal metrics in today's world
- Do you need an Advisor

## **BUY SIDE**

- Thinking before acting
- What to know before you decide
- Preparing your company

# *Introduction*

- As the Merger & Acquisition activity heats up in the Vacation Rental Industry its important to understand your options and market terms.
- Buying a business is a complex process, and it can be confounding because of the interplay of business, legal, and people issues.
- It can, however, be a rewarding process if you have done your diligence and researched the business thoroughly.

# Key Considerations

## CONFIDENTIALLY

- Do not convey ANY information about your business until a duly signed CA or NDA is in force.

## TYPES OF PURCHASES

- Asset Purchase (buying the stuff)
- Stock Purchase (buying the LLC, Sub S...The Company)

## EBITDA

- Earnings Before Interest, Taxes (Income), Depreciation and Amortization
- Multiples of EBITDA

# Key Considerations

## DEAL STRUCTURE

- Cash at Closing
- Cash & Financing

## REPRESENTATION ("REPS") & WARRANTIES

- You own the stuff you are selling
- You didn't lie or purposely omit something
- You didn't inadvertently omit something
- You paid your taxes
- Properly funded Advance Deposit/Trust accounts
- Business has been operated in the normal course

## HOLDBACKS OR INDEMNIFICATION AMOUNTS

- Funds held back to make sure your Reps and Warranties are correct.

## TAX CONSIDERATIONS

- Corporate Tax
- Personal Tax
- Capital Gains Tax

## GETTING STARTED

- Preliminary Items
  - Is my business ready to sell?
    - Financial statements, Income Statement, Balance Sheet
    - Operational foundation
  - What is my business worth?
  - Consult a transaction Attorney or CPA
  - Is it better to do Asset vs Stock deal
  - What is the tax effect of transaction?
  - What's included?
    - Operating company
    - The assets: vehicles, equipment, et cetera
  - Personal guarantees on merchant accounts, leases, Notes, et cetera
  - Assignability: *Owner agreements? Leases? Other?*

# The Sell Side



## 10 tips to consider before selling your business

1. Hire a professional team.
2. In connection with family, talk to yours early on in the process.
3. Consider if you want to work after a sale and for how long.
4. Consider the best ownership structure.
5. Organize corporate documents, including financial records.
6. Decide how you will keep the process confidential.
7. Determine whether you want a partial or total exit.
8. Be realistic with your expectations of value and understand how a buyer will calculate it.
9. Identify your company's most attractive feature.
10. Be prepared for newfound liquidity.

ARTICLE LINK - <http://casselsalpeter.com/wp-content/uploads/2013/03/Cassel-Salpeter-Media-Clips-Miami-Herald-10-Tips-to-Consider-Before-Selling-Your-Business-2.19.2012.pdf>



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## PREPARING YOUR COMPANY

- Data
  - 3 Years financials by month
  - 3 Years tax returns
  - 3 Years company metrics (ADR, occupancy, unit count, et cetera)
  - Inventory of main assets
  - All agreements and contracts fully executed?
- Communication with stakeholders
- Assignability
- Onerous contract language or rough spots
- Process for due diligence



## THE DEAL ITSELF

- The process starts with an exhaustive review of the business
- Once a Offering Memorandum is created you are ready to disseminate to prospective buyers
- Only position the Offering Memorandum to QUALIFIED buyers
- 90% of the Transaction can be done electronically/offsite
- 60-90 days typically
- Tax / CPA Review
- Legal Review and Agreement Creation or Review
- Process
  - Initial Review
  - Letter of Intent (LOI) – usually non-binding
  - Due Diligence
  - Purchase and Sale Agreement Creation (PSA, SPA, et cetera)
  - Close – many times concurrently with PSA execution

# The Buy Side

## THINKING BEFORE ACTING

- What Type of Growth am I Ready For?
  - Infrastructure in place.
  - Do I have the resources financially?
    - Seasonal Bleed Issues?
- Culture clashes?
- Similar inventory?
- Any additional costs?
  - Costs rather than synergies

## WHAT TO KNOW BEFORE YOU DECIDE

- In what structure should I buy the company?
  - Separate LLC, within the company, et cetera??
- 18 month to 24 month cash flow analysis.
- Is it better to tuck-in, or find a new market.
  - Tuck-in – how many of the sellers units don't like me???
- Do I have a good attorney to draft documents?
  - Nothing is more important than a good Merger & Acquisition attorney!!!

## NEXT LEVEL DIGGING

- Length of time units on the sellers program
- How much the seller owner is involved in the day-to-day
  - Can you live/grow without them, even if they stay on.
- Company metrics chart over time
  - Unit count (not net), ADR, Occupancy, Same Store Revenues
- Name equity of the selling company
  - Aston Hotels example
- Key staff longevity and what they want to so post closing.
- Can I acquire as a stock deal if I want to?

## NEXT LEVEL DIGGING [continued]

- Add Backs
  - Definition – items in your P&L's that are personal or relate directly to owner compensation.
    - Ex. Owner salary, car leases, country club memberships, football tickets, housekeepers cleaning personal residence....
  - How much really goes away??

# The Buy Side

## PREPARING YOUR COMPANY

- Make sure you have a Transition Plan
  - Procedural (insurance, software, accounting, et cetera)
  - Human (accepting employees into new culture, et cetera)
  - You must have a point person.
- Prepare for emotions.
- Software integration issues and other hidden costs.
  - Do you have bandwidth?
  - Transfer or termination fees on seller side.

## TYPICAL DEAL METRICS TODAY

- 3-5 Times Trailing Twelve Month Adjusted EBITDA
  - Adjusted for all “Owner Expenses”
  - Slightly Less Multiple if Real Estate Brokerage a significant Portion
- Varies by
  - Length of time owner contracts are with the Seller
  - Assets included
  - Time of Year Acquisition Takes Place (Before or After Season)
  - Ease of Purchase
    - Assignment issues
    - Litigation issues
    - Growth potential – Infrastructure for future growth
  - How Much Seller “Has their Act Together”

## TYPICAL DEAL METRICS TODAY [continued]

- 50% all cash/50% seller financing a portion
- 50% of Time the Seller Stays Around for 1-2 Years
- Key Management almost always kept around
- More than one qualified Buyer looking at any given time.



# Current Deals ~ Example

<b>Gross Revenue</b>	<b>\$1,000,000</b>	
<b>Cost of Goods Sold</b>	<b><u>-\$650,000</u></b>	← AKA: Operating Expenses
<b>Gross Operating Profit</b>	<b>\$350,000</b>	← AKA: Net Revenue
<b>G&amp;A Expenses</b>	<b>-\$75,000</b>	
<b>Interest</b>	<b>-\$12,000</b>	
<b>Owner Compensation</b>	<b>-\$50,000</b>	
<b>Depreciation</b>	<b><u>-\$6,500</u></b>	
<b>Total Net Income</b>	<b>\$206,500</b>	
<b>Add Back:</b>		
<b>Interest</b>	<b>\$12,000</b>	
<b>Owner Compensation</b>	<b>\$50,000</b>	← Assumes Owner Not Working Directly in the Company
<b>Depreciation</b>	<b><u>\$6,500</u></b>	
<b>EBITDA</b>	<b>\$275,000</b>	
<b>x 4 Multiple</b>	<b>4</b>	
<b>Purchase Price</b>	<b>\$1,100,000</b>	

## DO YOU NEED AN ADVISOR?

- Positives
  - Removes the emotions & keeps the deal on task
  - Makes Sure Little Things Don't Fall through the Cracks
  - Provides market perspective to ensure fair practices
  - Keeps Buyer Confidential until later in process
  - If larger company involved, puts you on level playing field
  - Access to Buyers/Sellers, National Market
- Negatives
  - Costs Money (% of Deal + expenses)

# Questions?

*Thank You!*



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