



Selling Your Business in a Post-Pandemic World



Ben Edwards, Weatherby Consulting, LLC

About Ben Edwards

- 20 years in the Vacation Rental Management Industry
- Owned and/or Operated more than 13 vacation rental companies
- Operated in more than 200 different resort destinations
- Operated companies as large as 2,400 properties
- Involved in 100+ different purchase/sale transactions
- VRMA, Past President, Board Member
- Owner, Sanctuary Vacation Rentals, Monterey, CA
- Owner, Cinnamon Shore, Port Aransas, TX
- Owner, ND Long-Term, Destin, FL
- Owner, Weatherby Consulting, LLC

Introduction

- PRE-COVID 19
 - Vacation Rentals - Mainstream Lodging Accommodations
 - 100,000+ Companies worldwide
 - 20,000+ in the US
 - Business Growth was on the rise
 - No barrier to entry
 - Revenue Growth was a Given
 - Growth in Occupancy and Rate

Introduction (continued)

- Purchase / Sale Transactions Slowing Slightly
 - Not due to lack of interest
 - Businesses were doing well / strong earnings
- Underlying Fundamentals
 - Relatively stable ventures
 - Room to grow
 - Ability to grow quickly
 - Transactions and transitions are more efficient
 - Sizable returns
 - Return of 20% - 25% of each dollar invested
 - Business combinations create increased margins

Introduction (continued)

- Current Environment & Post-Pandemic
 - Everything has changed
 - The Vultures are Circling
 - All inquiries should be approached with Professional Skepticism
 - A Rising Tide will lift all Boats, but receding Tide tends to Beach the heaviest Boats first!
 - If solicited directly, your business is perceived as vulnerable
 - Pause for concern
 - Moving forward will require diligent review and consideration
 - Consider the fact that your business will not be the same for the next 12 to 24 months
 - You may have no Other Option
- If you are considering an Exit, consider these Pitfalls:

Pitfall # 1

- How to Respond to Interest in Your Business
 - Treat any/all initial interest in a business-like manner
 - Do not over share or pre-negotiate
 - Everything you have is FOR SALE, if you'd like to speak more seriously, let's execute a Non-disclosure Agreement
 - Aggressive Solicitation Tactics are Unprofessional
- Engage with Qualified Parties
 - Every VRM has received the same solicitation letter/telephone call
 - Engage with a party that wants your business, not just a business
- Utilize an Advisor at the Onset
 - Increased Value
 - Successful Closing
 - Qualified Seller
 - Avoid Misrepresentation

Pitfall # 2

- Do Not Pass Go, Do Not Collect \$200 Without Having Executed a....
 - **NON-DISCLOSURE AGREEMENT**
- Key term
 - During the term of this Agreement and for a period of three (3) years after the expiration or termination of this Agreement for any reason, the Receiving Party agrees that it shall not: (a) induce any Property Owner, currently under rental management contract with the Disclosing Party, to patronize the Receiving Party; (b) request or advise any Property Owner of the Disclosing Party to withdraw, curtail, discuss the contemplated transaction or cancel such business with the Disclosing Party; (c) disclose to any other person, partnership, corporation or association, the names or addresses of any of the Property Owners of the Disclosing Party; (d) induce or attempt to induce any employee or agent of the Disclosing Party to leave the employ of the Disclosing Party, or hire any such employee, agent or in any business or capacity; or (e) make any statement disparaging the other party, any member, principal, officer, director, shareholder, employee or agent thereof, to any person, firm, corporation or other business organization whatsoever.

Pitfall # 3

- Know the Value of Your Business
- Value is Both
 - Quantitative
 - Growth & Adjusted Earnings
 - Qualitative
 - Reputation, Organization and Owner Relationships
- Understand the Valuation Process
 - Multiple of Adjusted Earnings ranging from 3x – 5x
- If the Valuation Process is Not Clear
 - How do you increase value throughout the process
- Buyers cannot have it both ways
 - Reduced earnings and a market multiple
 - Stable earnings and lower multiple
- Use the Trailing 12 months, excluding March 2020 (Mar 2019 – Feb 2020)

Pitfall # 4

- Understand the Transaction Process
 - Clear/Regimented
- Variable Risk is NOT an option
- Having a COM or Buyers Package is Key
- Sanitize all information prior to dissemination
 - Prior to an executed Letter of Intent, details should be avoided
 - Owner Names, Property Names/Information
 - No detailed payroll information
- Only Send Enough Information to generate an Offer
- Offers/Letter of Intent Should be Reviewed by an Attorney
- Offers Should Remain Static
 - Only material changes should be renegotiated

Pitfall # 5

- Insufficient Preparation/Lack of Planning
 - Lack of Preparation is a very common mistake
 - Preparing your business for sale leads to:
 - Increased Value
 - Successful Closing
 - As you prepare, consider the following:
 - Assignment Clause
 - Financial Statements / Reduced Earnings / Purchase Price Variance
 - Life after the Sale
 - Buildings, Leases
 - Section 1245 Depreciation Recapture
 - Transition

■ Pitfall # 6

- Every Seller Wants Cash at Closing
 - The Majority of Transactions Include Owner Financing, expect lower than normal Cash at Closing
- Before Extending Credit, Consider the Following:
 - Is the Buyer Credit Worthy
 - Does the Buyer Understand the Business
 - Is a Corp Guarantee from Buyer Worth Anything
 - Will You as a Seller be in First Place?
- Sellers Should Obtain the Following:
 - Assignment & Assumption
 - Promissory Note, Guarantee, Security Interest
 - File UCC 1
- **Having an Advisor and Attorney with VR Experience is Paramount**

■ Pitfall # 7

- If Your Transaction becomes Too Risky
 - **Don't Close the Deal**
- Increased Risk could be defined as follows:
 - Purchase Price Payments tied to Gross Rental Revenue
 - Purchase Price Payments Tied to Contract Retention
 - Note Buyer Operating Style
 - Will the Buyer Hire ALL of Sellers Employees
 - Owner notification prior to Purchase Agreement Execution/\$\$\$ Transfer
 - Unwillingness to prioritize Security Interest
 - Has the Buyer been Fair & Reasonable

■ Conclusion

- Utilize an Advisor
- Confidentiality/Non-Solicitation
- Know your Value
- Understand the Process
- Prepare/Plan
- Financing & Guarantees
- Risk

Weatherby Consulting - Suite of Services

1

Consulting

- VR/Profitability Consulting
- Operational reviews

2

Transaction Advisory Services

- Purchase & Sale of VR Companies

3

Accounting Services

- Full service
- Financial Statements
- Consulting

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