

RV TRADE DIGEST

YOUR SOURCE FOR MANAGEMENT, MARKETING & PRODUCT INFORMATION • AUGUST 2004



Leaving a Legacy

Selling a dealership to family or employees allows owners to enjoy watching it grow

Stepping aside with pride

Whether selling a dealership to family or employees, owners can receive a financial reward for their years of work while watching their legacy continue

By Greg Gerber

You've invested years of blood, sweat and tears building a profitable RV dealership. Now, you'd like to slow down, buy an RV yourself and enjoy the fruits of your labor. But how can you dispose of your business in a way that rewards you for your hard work in building it and ensures your legacy continues?

Some dealers are opting to sell their businesses to a national conglomerate, yet they're simply buying their jobs back in the process. Some dealers will sell their businesses to other people. But what if your business is too large? Can the new buyer come up with the money or afford to make the payments? Maybe you'd like to sell it to family members, but you don't want to destroy relationships in the process. Perhaps you'd like to reward the people who helped make your dealership so successful by selling the business directly to your employees.

Successfully selling your business may be one of the biggest decisions you ever make. Here's how two dealerships solved the issue. Brian Wilkins purchased the dealership from his father, Ron. Earl Stoltzfus created an employee stock ownership plan and sold part of the business to his staff.

Continuing the legacy

Brian Wilkins was 9 years old when he started working in his father's RV dealership putting away parts orders after school. By seventh grade, he was processing warranty claims. But after graduating from high school, he was enticed away from the dealership by the subtle security of a corporate CPA job.

"I realized being an accountant was a little too one-speed for me," he explained. "I liked the variety of challenges that were available running an RV dealership."

So, in April of 1995 he returned to the family business with the goal that one day he'd buy it. Last January, he bought the business outright and now owns 100 percent of the company's stock. Ron remains involved in the dealership as a consultant and will help out during shows and on busy weekends.

Before the sale was considered, the Wilkins turned to an outside consultant to structure the deal. "We wanted someone we both trusted, who was not biased and whom we knew would be fair to both sides," said Ron. "We settled on an accountant in our community because we both had a lot of faith in him."

The accountant knew what Ron needed to be happy and knew what financial resources Brian required to move the business forward. "Many times I've seen owners sell their

companies and get a lot of money out of the deal, but the second owner couldn't afford to run the business," Ron said.

Once the arbitrator was selected, the Wilkins hired an outside company to formally evaluate the dealership and determine a fair market price. Consultants completed an exhaustive review of the businesses financial records. They compared the Wilkins annual earnings to other dealers before settling on a range as to what they felt the business was worth.

By structuring the deal based on a formal valuation of the dealership, Ron prevented Brian from being socked with hefty gift taxes. "We learned the business had to be sold based on a fair valuation backed up by accurate data; otherwise, the IRS could consider the sale to be a gift," said Ron. "Hopefully, the valuation showed the IRS we arrived at a value based upon the judgement of an independent third party. The IRS can still question the price but by taking this step it is less likely."

Ron's deal was structured so he would get a certain income per month for 10 years in "retirement." Part of his income is derived from the sale of the business. Another part comes from leasing the property to Brian. A third part comes in the form of "consultant" pay."

Once the price was settled, the Wilkins hired an attorney to draw up the papers and transfer deeds. The contract included a rent agreement for the land, a non-compete clause and a consulting agreement. It was drafted so that much of the transaction could be expensed to the business for tax purposes.

With the contract inked, an employee meeting was scheduled in which the 40-plus staff members were told of the pending transfer of ownership. "It really didn't come as much of a surprise that I was taking over," said Brian. "Over the years, my Dad kept letting out my leash a little more to the point he was virtually removed from the day-to-day operation anyway."

No sibling rivalry

Although Brian has two brothers, neither of them were interested in working at or owning the dealership, Ron said. That worked out best for the family and the business.

"I've seen too many instances where someone sells his business to several of his children, but that just creates a situation where there are too many chiefs running the show," he explained. "It's not a true 50-50 partnership because one kid usually winds up doing 70 percent of the work, but all the profits have to be split evenly."

The last thing he — or Brian — wanted was a situation in which the family disintegrated over animosity surrounding the disposition or management of a business.

On the front cover: RV dealer Earl Stoltzfus, right, his team of employee-owners and their retail store.

“I’ve heard horror stories about families literally ripped apart due to bad feelings over the way a business was sold,” said Ron. “I know one business where the father isn’t allowed in the front door and another where grandparents can’t see their grandchildren.

“I absolutely wanted to avoid that type of situation because, when you think about it, we’re still a family business and all the money is in one pocket,” he said. “When the business is sold, you just don’t quit working. I still care about it.”

Working your way up

The key factor in ensuring a smooth transition was the fact that Brian worked virtually every job in the dealership, except fixing RVs, before becoming the owner, said Ron. To put a “family member in charge of the business too soon or for the owner to hang on too long after the sale can have adverse effects on the staff and the family relationship, he explained.

“My father, who started the business in 1936, phased me in to the business in pretty much the same way,” Ron added. “He gave me new responsibilities and then stepped back a little more. He allowed me to make my own mistakes, but he was always there to offer advice if I needed it.”

Brian agreed having a well-rounded approach to working the dealership has primed him to be a good owner. He knows what it takes to get the job done correctly the first time because he’s done it himself. “Over the years, it got to the point that Dad and I needed to discuss things less and less. I was able to do more things on my own without feeling a need to get his OK before making a decision,” he said.

People are comfortable with Brian and he has a lot of respect among employees because they’ve worked right next to him for years. “It’s not like I’d be running someone else’s place wanting to change everything once I got full control of the business,” he explained. “If I was going to change anything, I’d be changing policies I, myself, put into place.”

Setting up an ESOP — the easy way!

Earl Stoltzfus and his wife, Ginny, started their dealership in West Chester, Pa., in 1967. Today it employs 70 people and enjoys more than \$30 million in annual sales. That all changed in 2002 when Stoltzfus took the bold first step of turning over his business to his employees. He created an employee stock ownership plan, or ESOP.

“I started looking into proper estate planning to protect the company,” Stoltzfus said. “In the process I developed a retirement plan and wound up doing a great thing for the employees who have been loyal to the company and helped it grow into what it is today.”

When it comes to retirement, small business owners have it tough, he said. “A banker or engineer employed by a company simply retires when he wants to stop working. I can’t do that without hurting a lot of families and employees” he added.

Stoltzfus said there were several excellent reasons for developing an ESOP. First, it ensures the business will continue after the day he eventually opts to walk away. Second, it was good for tax purposes in that the ESOP loan is deductible. Third, it provided another stream of income for his employees, who are like family members to him.

The dealership’s ESOP is leveraged in that shares become available as the loan is paid down. Individual shares are

allocated to employees every year based on their income from the previous year. Employees become eligible to participate in the ESOP after they have been with the company for one year and they’re fully vested after seven years.

Employees can’t get any money from the ESOP until they reach age 65. But, at that time, they can elect a lump sum or extend payments over a few years for better tax purposes.

The same laws governing 401-K plans also govern ESOPs. “ESOPs are complicated, as is everything regulated by the government. They must be legitimate business transfers, not gadgets set up to trick employees or to evade taxes,” said Stoltzfus. “But the regulation is good for employees. ESOPs are government protected so an Enron type accounting scandal can’t develop.”

Get advice first

The key to setting up a successful ESOP is to get advice early in the process. Stoltzfus recommends other dealers contact the **ESOP Association**, an independent organization representing employee-owned businesses and their staffs. Their website at www.esopassociation.org contains lots of resource information. The association also sponsors informational meetings and seminars around the country.

“I read a lot of books. The two best ones I found were “*Selling to an ESOP*” and “*ESOP Valuation*,” he said. “I spent

Stoltzfus shares the quiet joy in knowing that he, too, has provided his employees with an opportunity to share in the American dream.

a year researching ESOPs and looking for the right company to set up the program.”

In fact, Stoltzfus spent nearly \$100,000 on a valuation report and legal fees to set up the deal. He interviewed four law firms before selecting **SES Advisors** to set up the ESOP and **Value Management Company** to do the valuation. Value Management followed a process very similar to a firm going public. They crunched the dealership’s numbers and searched for comparable figures from similarly sized dealerships. Then the company established a figure they thought Stoltzfus RV and Marine could sell for on the open market.

Not everyone needs to spend \$100,000 to create an ESOP, Stoltzfus cautions. His transaction was complicated because the dealership was part of a two-dealership family business Stoltzfus owned with his brother. The ESOP transaction separated the two businesses and allowed Earl to buy out his brother’s portion of the West Chester dealership.

Many advantages to ESOPs

Owners selling their companies to ESOPs actually tap into some of the most lucrative tax advantages on the books today. First, owners don’t pay capital gains taxes when selling to an ESOP provided the gains are put into a “qualified replacement property,” such as stocks of U.S. corporations.

For example, a business valued at \$1 million 30 years ago that sells for \$30 million today would have to pay capital gains taxes on the \$29 million gain — an amount equal to early

\$4.4 million. The dealer can avoid paying capital gains taxes by selling to an ESOP and investing the \$29 million in a stock fund.

Having an employee-owned company greatly improves workplace stability, he explained. “You have much less turnover when employees own their business. Plus I think you get better quality work and better customer service because employees take on the perspective of an owner,” he added.

In setting up the sale, Stoltzfus sold half the company to employees and took out a loan on their behalf — they didn’t pay a dime. As the loan is paid down, shares are allocated to a kitty. As employees get vested, shares are reallocated from the kitty to personal accounts.

Federal laws limit repayment of the loan to an amount equal to 25 percent of the company’s total eligible employee payroll. Part-time workers aren’t eligible and neither are people who have been with the company less than a year.

Stoltzfus’ total payroll last year was \$2.6 million of which \$2.3 million was paid to eligible employees. That means the maximum deductible ESOP loan payment for the year could be \$575,000, or 25 percent of \$2.3 million.

If the dealership enjoys a profitable year, the company has the option to pay dividends to the staff. If the business loses money, employees share part of the risk. And if the company is sold, everyone is automatically vested.

That’s what happened a few months ago when **Lazydays RV SuperCenter** in Seffner, Fla., was sold to a private investment firm. Lazydays founder Don Wallace had created an ESOP in 1995. The sale in late May resulted in 700 employees sharing \$29 million — an average of \$41,428 per employee.

ESOP shares are allocated based on an employee’s share of the annual payroll, a figure determined by the amount of income reported by the company on Form W-2 at the end of the year.

Using the previous example, if an employee made \$40,000 a year, he would account for 1.74 percent of the dealership’s eligible \$2.3 million payroll. Consequently, he would be allocated shares valued at 1.74 percent of the \$575,000 allocated into the ESOP account — or \$10,062 in share value.

“There is quite an incentive to be a team player and run a good company,” said Stoltzfus. “If everybody does their jobs right and we grow the company as efficiently as possible, then the value of the shares goes up.”

The company completing the valuation determined the number of shares the dealership would initially offer. Individual share price was determined by dividing total shares by \$3.25 million (half the value of the company at that time). As the initial loan gets paid off, profit or loss is added to or subtracted from the fund pool.

An incredible gift

After setting up the plan, Stoltzfus called an employee meeting to announce what he had done. “Some couldn’t believe it while others were skeptical and wondered what’s the catch,” he said.

But there was no catch. Stoltzfus had provided his loyal employees with a tremendous financial gift. The average employee would



Technician Jay Deming gets down and dirty to diagnose a particularly pesky problem in the service center at Wilkins RV.

receive a nearly \$10,000 annual addition to their retirement account. And it didn’t cost them anything nor did they have to do anything to receive it other than work hard at their jobs.

“Employees have taken more of an ownership role in the company which has been enhanced as time goes by,” Stoltzfus added. “Now if they see someone stealing or cutting corners, they know it affects everyone on staff. It’s no longer a matter of what such and such an action will cost the company. Now it’s how much will it cost all of us.”

Not only has productivity improved, but all employees are more in tune with efficiency in looking for ways to get the job done faster or better at less cost. Still, the dealership’s customer satisfaction index (CSI) numbers remain very high every month.

The dealership enjoyed a lot of growth before the ESOP, but how much difference has the ESOP made? “From 2001 to 2002, we grew 22 percent. From 2002 to 2003, we grew 20 percent and so far this year, we are up 15 percent,” said Stoltzfus.

The management structure of the dealership has not changed. Stoltzfus is still the president and will be for several more years. It is still managed by committee to a limited extent with the parts, service, sales, rental and business managers sharing key decision-making responsibilities.

When Lazydays announced the \$29 million gift to its employees, Wallace noted that day was one of the happiest in his life. “For years, I have looked forward to rewarding the people who made Lazydays what I consider to be one of the best companies in the world,” he said.

Stoltzfus shares the quiet joy in knowing that he, too, has provided his employees with an opportunity to share in the American dream. ■



SES | ADVISORS

www.sesadvisors.com

866.316.ESOP