



Consider an Employee Stock Option Plan instead of selling your dealership

Posted By: Alysha Webb on: November 20, 2019 In: Contributors

By Joseph S. Aboyoun, Esq. and Sandy Cerami

In spite of what is reported by some, buy-sell activity is down. This trend, coupled with a decline in the SAAR and, most importantly, profitability, has a clear and negative impact on blue sky values. This is further exacerbated by the long-term uncertainty of the automotive retail space.

This is a time where dealers interested in pursuing an exit plan must look beyond a traditional buy-sell for other options. To be sure, a buy-sell is still a viable avenue for an exit. However, there are other strategies that might achieve a better result that should be explored.

One such vehicle is an Employee Stock Ownership Plan (ESOP). In fact, an ESOP has several added benefits that could make it a very desirable option. Over the years, there has been limited ESOP activity in the automotive space. However, its utilization should be seriously considered by dealers in conjunction with an exit strategy. It creates a path to access a value of the dealership's investments without ceding control to an outside entity or selling the dealership or group altogether.

The concept is sophisticated and requires proper professional guidance, but it opens so many other options for liquidity and advantageous tax benefits, because of the nature of the strategy and instruments employed to maximize the mutual benefits. For the principal owners, as well as the employees, this vehicle delivers real results like liquidity, employee engagement and retention, as well as a long-term vesting and value for employee "shareholders".

This is a rare feat to accomplish in a time when it seems that the current business climate can often drive owners and employees to seek zero-sum solutions and measures to tackle the challenge of balancing business performance with providing a winning, comprehensive long-term compensation and retention objectives.

Dealerships can employ an ESOP for a multitude of desired outcomes. Because it is a fresh concept for auto dealers, many are intimidated by the unknown, however ESOPs have been around for decades and are the single most popular employee ownership model in the entire country with more than 6,600 in existence currently.

ESOPs are not a solution to rescue failing enterprises. However, ESOPs are quite often employed to provide a liquidity and divestment opportunity for retiring or departing owners of profitable, closely held companies. The hidden value of the ESOP though, can often be unlocked and used to motivate and reward employees. Another great advantage is to borrow money for acquiring other disassociated, new assets in pretax dollars. In virtually every scenario, ESOPs act as a benefit for the employees, and does not represent an employee purchase of company stock or equity shares.

Lastly, employing a structured ESOP as a tactic to facilitate the funding of a generational buy-sell, as part of a larger, and at times, very complex estate planning strategy is very compelling. It affords plenty of flexibility and unlocks multiple levels of value within a family asset portfolio when properly implemented.

Regardless of your intentions, educating yourself about the potential benefits of an ESOP is at the very least a self-obligation so that you are aware of all of your options. There are a few very qualified experts on this topic, so our recommendation is to seek out a respected, trusted and most importantly, experienced investment firm to educate and guide you in your decision process. We suspect the more you understand the benefits, the more attractive the ESOP option will be for you, your family, your company and your employees!

There will, of course, be instances where ESOPs will not work or may not be desirable. There are other solutions that can and should be considered. One of these includes a sale of a portion of your ownership to select employees and/or outsiders in either a single or a series of transactions. This is the so-called buy-in/buy-out deal. Apart from the tax consequences, it can have many of the same benefits of an ESOP. It can also optimize blue sky value, rent factor, and desirable terms.

The traditional buy-sell is still the most likely exit strategy. However, ESOPs and buy-in/buy-outs are certainly worth a close look, especially in the challenging buy-sell

Joseph Aboyoun is a partner at Aboyoun Dobbs, LLC in Pine Brook, NJ. He can be reached at 1-973-575-9600 or jaboyoun@aboylaw.com.

Privacy - Terms

Sandy Cerami is a consultant who works directly in and with client dealerships in the areas of acquisition and disposition, profit & loss consulting, leadership & skills development, as well as being an industry recognized expert in the areas of sales, service, and organizational culture. He can be reached at 1-201-753-1234 or sandy@sandycerami.com.

Email this to a friend

