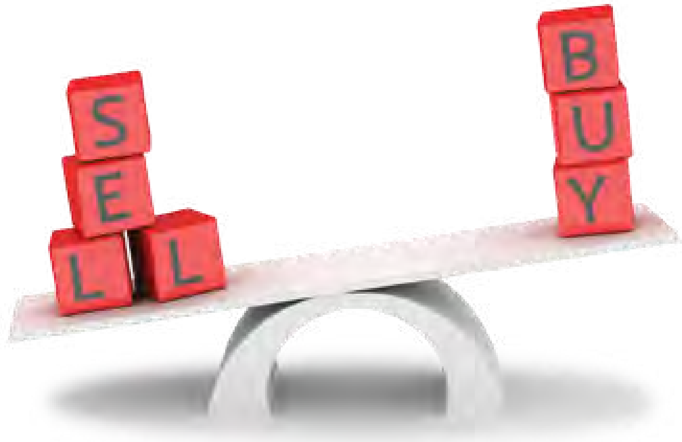

Sell, Divest and Unload

Retailers sell off underperforming stores and keep an eye toward the future.

BY JERRY SOVERINSKY

As fiscal years go, 2005 was a good one for Steve Broadus, owner of four PitStop Stores in LaSalle County, Illinois. Approached a couple of years earlier by a business broker who was informally asking whether his stores were for sale, Broadus declined, explaining he was perfectly happy as a second-generation petroleum supplier and store operator (his dad had been in the business for half a century, and he was nearing the 30-year mark).

Two years later, the broker called again. A buyer had expressed an interest in purchasing convenience stores. Did he know a willing seller?


FOR
SALE
SOLD

This second call — a broker with a genuine buyer — piqued Steve's interest. He considered business valuations at the time favorable to sellers, and he recognized the consolidation trend in the industry. Besides, there was no one in his family likely to extend the family business to a third generation, so he agreed to listen.

Six months later, Broadus had sold his four stores. Overall, it was a smooth process, and he received a price that surpassed his expectations. And most important, he received one check at closing for the full sale price — a clean sale.

Times Have Changed

No matter how attractive your business, willing buyers today face a number of financing hurdles, making cash-at-closing sales unlikely. And store valuations are down, so the idea of "sailing off into the sunset" the day after closing may need to be reimagined. Finally, depending on the size and attractiveness of your assets, most sellers should be prepared to endure nine- or even 12 months before a transition is final.

Despite a selling environment that might not be optimal from a historical perspective, if you find yourself wanting — or needing — to sell one or more stores today, there are a number of factors worth considering that will ensure an efficient sale process that yields maximum returns.

Me? Sell?

If you're a multi-store operator, industry experts insist that the decision to sell a convenience store is not a matter of *if* or *when*, but *how*. They explain that regular performance assessments necessitate ongoing sale considerations.

"Anybody who is not constantly culling low-performing stores is not doing justice to their bottom line and return on investment," said Terry Monroe, president and CEO of American Business Brokers, a company that specializes in putting convenience store buyers and sellers together. He offered this example:

"If you've got a store worth $600,000 and it's only generating $30,000 in net income — that's after applying administrative overhead — that's a 5 percent ROI," a best-case scenario for low-performing stores. "Why would you pull a minimal ROI when you could get rid of the underperforming asset and reinvest it and do what you do best — operate stores — and possibly even buy a better-performing store with your sale proceeds?"

The advice is not empty rhetoric, but a strategy adopted by key industry players. Indeed, doing what they do best is exactly what major oil companies have been doing for several years, which is why they have been divesting themselves of their retail stores in order to concentrate on higher profit-earning ventures like refining and exploration.

While your non-retailing options might not include oil exploration and refining, the oil companies' broad strategy of selling assets to strengthen profit margins can be applied to your business, no matter its size. But selling underperforming stores is not just a short-term business solution; it's one that prepares a business for long-term success.

Step One: What to Sell

"You want to dump your dogs," advised Mark Radosevich, president of PetroProperties and Finance, a company that specializes in mergers and acquisitions. According to Radosevich, those "dogs" represent up to 10 percent of a chain, and it's crucial to identify them early and weed them out.

"With a chain of stores, put them through a network study, ranking them from best to worst based on cash flow," Radosevich said. "[It's imperative to] assess the chain from [a] pragmatic, unbiased view, and sell the stores that have little viability. This optimizes the chain."

Step Two: Helping Hands

Brokers, Agents and Marketing Agencies (Oh, My!)

Once you've determined what to sell, your first inclination might be to seek the confidential ear of a competitor, supplier or other industry insider. Per-

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haps the relationship will create a less complex transaction, saving you the fees that brokers or marketing companies charge.

Such a strategy might present a sale that unfolds quickly, but the end result might not serve your best interests. "Seek the advice of a professional," said Tom Kelso, managing director and principal at Matrix Capital Markets Group Inc. "It's the biggest transaction you'll ever do, so get perspective from someone who knows the marketplace."

Assistance is available from a number of companies that specialize in complete liquidations, mergers and acquisitions, and real estate investment sales. And some offer additional specialization in coordinating financing—a significant consideration in today's economy.

Companies have different fee arrangements, some charging up front for marketing costs (if necessary), others a commission at closing.

Once engaged, those professionals will evaluate your business and scrutinize your financials, providing you a sense of what a sale might yield. More than likely, depending on your assets and time constraints, they'll advise you to take a deliberate, competitive approach.

"[B]y bypassing a structured, competitive sale process, [retailers] may be leaving considerable value on the table," said Spencer Cavalier, a vice president at Matrix in a July 2007 *NACS Magazine* article, "Driving Value Through Competition." He wrote: "At first glance, a logical buyer would be a strategic competitor . . . However, by running a competitive sale process, traditional and non-traditional purchasers [are] forced to compete for [your] company."

Also, if you're selling an active site, you'll want a company that ensures confidentiality, so that operations remain unaffected, protecting both you and the buyer.

"It's very important that the sale be kept quiet, for both employees and operations," Broadus said. "That takes a lot of work. You've got to make sure that contact is made after-hours and out of the office..."

How Many Attorneys Does It Take to Sell a C-Store?

Throughout the sale process, you'll want to engage legal counsel experienced in business sale transactions. The specialization will help ease your sale through inevitable glitches.

"This is not meant to be a criticism against the attorney you have used for a number of years," writes Monroe in his e-book, *The Art of Buying and Selling a Convenience Store*. "Chances are, this is the only time you will sell your business, so make sure you get it done right."

However, the advice is not without caveats. "I'll never again use a large law firm," said Angus Hines, who sold 53 convenience stores and truck stops in 2005 in Virginia, paying $350,000 in legal fees. "We paid 28 different individuals' time in the law firm we used. They kicked things around so much...I would have hired a smaller firm if I had to do it again, someone who would have used more paralegals for some of the smaller work."

Taxing Issues

While you're shopping for legal counsel, engage an accountant or financial advisor at the onset of the sale process. Significant tax implications could effect

Selling Tips From a Retailer

John Steele sold eight of his nine Virginia-based Little Sue stores with the help of Matrix in January 2008. He offers these tips and caveats to prospective sellers:

- **Be realistic about the value of your chain.**
- **Be able to provide "squeaky-clean" financials.**
- **Anticipate that due diligence will feel like a colonoscopy.**
- **Be prepared to furnish documents on "virtually anything."**
- **Be prepared to compromise.**
- **Anticipate delays.**
- **Cooperate — remember that the buyer has a need to know and is not the enemy.**

your sale, and your goal should be to proceed in a way that minimizes your tax exposure.

Tax considerations will be integral in the structuring of your sale, and since many sellers today are expected to finance a portion of the sale, you'll want to consult experts who sort out the financial implications.

The financial advisor may suggest (if you're not looking for an exit strategy) a sale-leaseback arrangement, an increasingly popular vehicle for companies, especially with access to capital being tight.

With all of these issues affecting the sale, the importance of outside assistance should be clear. "In this environment, nothing is getting easier," said Brad Baskin, an associate with Marcus & Millichap, which specializes in single tenant triple net property sales in the convenience retailing industry. "[But] it's all the more reason why a seller needs to engage a team to help them approach the market and maximize what they've got to get through a transaction. If you're doing it in-house...you might be saving commission, but that's it."

Step Three: A Delayed Exit

Whether working alone or with an intermediary, once you agree on a price for your assets and start marketing, a number of factors will affect the timing and complexity of your transaction.

Location, Location, Location

A basic tenet of business success, location plays an even more significant role in today's economic climate. "I would say that the West Coast is stronger [for c-store sales] than anywhere else right now," Baskin said. "In the northeast, you've got strength there, too, and [stores] still fly off the shelves. [But] the Midwest is hurting more than those other areas."

But regional specificity is not the only location factor. There's also the proximity of your assets to other properties that are on the market.

"In markets with divestitures, the major oil companies' assets are the most attractive, and it would be more difficult to get attention in those markets," Kelso said. "For instance, in the mid-Atlantic and Northeast, ExxonMobil is offering a lot of properties. But in the Southeast where there are no Exxon properties, there is a shortage of units in the marketplace."

Cash Is King

Once you find an interested purchaser, your work is just beginning. Today's economic climate makes closing the deal an art, not a certainty.

"We're not going to get the easy money we used to get from the corporate lenders," Monroe said. "Sellers may need to carry back 10 or 15 percent as a second mortgage."

While such a scenario is less than ideal, there can be financial advantages, according to Monroe: "Say there's a jobber who's selling a $1 million store that nets $50,000 a year. He has a buyer who will give him 20 percent down, and he agrees to finance the balance, 1.5 points above prime with a 3-year balloon, along with a 10-year fuel purchase agreement. This is profitable for the jobber [seller]: He may owe, say, $400,000 at 5 percent, but he's financed $800,000 at 8 percent. That's $44,000 on interest he's making a year ($64,000 to $20,000). But he's also got that fuel deal, which could bring another $10,000 a year. That's $54,000 profit a year, more than he was making while operating the store."

Collectively, financing challenges can also lead to a lengthier sale process, so sellers need to be patient as the transaction unfolds.

Finally and most important — it relates to "sailing off into the sunset" — understand that today's economic climate requires an adjustment of your assets' bottom line.

"One result of the current economic situation is that single-unit buyers have become very selective in the sites that they are buying," said Radosevich in a May 2009 paper, *A Growth and Financing View of 2009*. "This has forced many sellers to moderate their expectation of the proceeds from a sale..."

Planning Ahead

For any business owner, selling assets is an ongoing business concern, whether to strengthen a balance sheet or to implement an exit strategy. But despite an economy fraught with transactional hurdles, the outlook is not as discouraging as the headlines suggest.

"A sale process may take a little longer than it used to, but not substantially longer," Kelso said. "I would say that right now, overall, prices are very good and certainly not consistent with what you see in other parts of the economy. Prices are lower than they were one or two years ago, but not seven or eight years ago."

And regardless of whether you intend to sell now or in the near future, retailers say that it's best to always keep that option in mind as you go about your day-to-day operations.

"Get your books in order now," Broadus said, "even if you think you won't sell for two or three years [or more]. The number one thing, you're going to need to show strong financial information that's easily digested. That will get you the best price." NACS

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