

Special Edition

Successor Planning Part 11 (The Final Chapter)

This is the final article of the series on Successor Planning. During the last 10 weeks, I've discussed various aspects of;

- How to ease out of the business?
- How to establish a successor plan?
- I discussed selecting competent advisors.
- I discussed various ways to sell "the business".
- I discussed private annuities, buy/sell agreements.
- Various types of annuity trusts, and;
- I briefly "touched" on ESOP programs.

Additionally, I discussed selling to a third party and I outlined the types of buyers that are available in the marketplace. One of the things that I continued to stress on was; in order to sell your business;

- It must be properly priced.
- You can't let your emotions get in the way of the decision making process, and;
- It's extremely important to utilize someone that has extensive expertise in transportation, and the valuing of trucking/logistics companies in order to develop a successful exit strategy.

This week, I want to focus on the timing of the sale, placing a value on your business, and how to add value, prior to the sale, of a business.

Many times, during my career, I've received telephone calls stating;

- I would like to sell my company, but;
- The market is not "right" for me;
- My company is not performing as well as I would like.
- My equipment is "upside" down, and;
- Do I have any options?

There are always options and solutions to problems. One of the things you can't do is;

- You can't look back at the past.
- I've stated, that trucking companies do not sell (historically) for multiples of EBITDA (today), and;
- **Even a performing company that may sell for a multiple of EBITDA will not sell for 6 – 7 times EBITDA – that market does not exist; it's gone!**

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I also stated that;

- 60% - 70% of transportation Buyers are only willing to purchase specific assets;
- I've reviewed various purchasing formulas, and you can also access that information, in my various "video" podcasts and previous newsletters, but;
- **A deal can always be structured, if you're flexible.**

If you're an asset based trucking company, utilizing an asset sale formula, the following will take place;

- A Buyer will allow you to keep all cash and receivables, at date of closing.
- Any pre-paid deposits that can be utilized by the Buyer will be credited as they're utilized.
- Furniture fixtures and equipment, (if they're going to be purchased), will be purchased at "book value".
- Computer systems have very little value, unless state of the art.

In reference to tractors and trailers;

- The equipment market has deteriorated dramatically over the last several years, and;
- You don't have to be a PHD to understand the equipment market conditions.

However;

- Some transportation Buyers are still willing to purchase tractors and trailers, and/or;
- **They're willing to purchase trailers and lease tractors, until such time as you can sell them – it depends upon the buyer.**
- **If a Buyer is going to utilize the equipment, in his existing fleet, it's normally going to be purchased at "Orderly Liquidation" value.**
- Very seldom will equipment be purchased at fair market value (today).
- Fair market value is determined as the medium value between wholesale and retail.
- **Orderly liquidation is approximately 5% - 10% less than fair market value.**

Several years ago, when the equipment market was strong, Buyers would pay "fair market value" for equipment; however, that's not the situation today. In many instances, Sellers are "upside down" on their equipment. Does that mean that they can't sell their business? – **Absolutely not! What it does mean is;**

- **You can't expect a Buyer to solve your problem – it's your problem, but;**
- If you're creative, you might be able to become a fleet owner, on your equipment and structure a deal with a Buyer.
- **The Buyer will pay a percentage of the revenue for operating as a fleet owner, and;**
- **You will be able to continue to operate your equipment, while someone else is making the payments.**
- Then, as equity develops in that equipment, you're able to sell the equipment, at a profit, and the Buyer will replace your equipment in his fleet.

If you're with a financially stable Buyer, this is an excellent way to take a negative situation and turn it into a positive.

In reference to terminal properties, 9 out of 10 times, a Buyer is not going to want to purchase a terminal property. In most instances;

- They may lease the terminal property with an option, and;
- The lease will normally be 2 – 5 years – sometimes longer.

In reference to “sweat equity”, “Goodwill”, “customer base”; that depends on a number of issues. Many of those issues are directly driven based upon “bottom line” profitability;

- If a company is earning 2% or less to the bottom line, over the last several years;
- **The Seller is not taking out extraordinary earnings; that customer base is worth 2% of the revenue for a 2 year period.**

In most instances, the seller will receive 30% - 35% as a deposit, and;

- The balance in a negotiated payout between the Buyer and Seller.
- **If a selling company is earning 5% or more, and;**
- The company has historically generated these types of earnings, and;
- The revenue/profit has not significantly eroded (this year), then;
- **A Seller can expect to receive 1 ½ - 2 times average earnings, plus assets less debt.**

If you take that same scenario, and;

- The Seller takes extraordinary earnings out of the company.
- The Seller can possibly receive a multiple of EBITDA, and;
- That multiple of EBITDA may be 3 – 4 times earnings.

EBITDA is defined as Earnings Before Interest Taxes Depreciation and Amortization. As part of a sale process, **do not let someone else negotiate on your behalf.**

In other words;

- You need advisors to assist you through “the process”, but;
- **In all instances, you should deal directly with a Buyer.**
- **You want to develop a “rapport”.**
- **You want to feel comfortable** that, the Buyer has the same values and ethics that you do;
- The more that you interact, with a Buyer;
- The better chance you have to create a bonding relationship that may have a significant financial impact on the final offer.

On the other hand, if you use a 3rd party to negotiate on your behalf, your best sales person has been eliminated? It is true, that some trucking and logistics companies utilize investment bankers. **However;**

- Investment bankers utilize “bid” packages and encourage multiple offers;
- They control the situation, and;
- A deal normally goes to the highest bidder. If there is a “bidder”, if not then the market knows you were trying to sell your business.

However, most privately owned companies, do much better by not putting their company out to “open bid”. If your company is priced realistically, it will sell;

- Do not allow your company to be “shot-gunned” to the market place.
- Concentrate on a buyer that most “mirrors your company.”
- **Once you start negotiations with a Buyer, don’t engage with other potential candidates;** it will cause you to lose focus on your business.

Putting booklets together are useless – don’t bother! Only provide enough information to create interest in the company.

If revenue is \$100MM and under, don’t bother putting together a fancy book;

- It will make you feel good!
- It will make somebody else, wealthy for writing the book;
- Ultimately, if you follow the information that I have provided, and you provide the proper statistical and financial information, you will be much more successful in achieving the sale of your business.

When you chose your “advisors”, it’s very important that you recognize that;

- This is your company.
- You’ve grown and nurtured your business.

Once you chose advisors, you need to let your advisors know what you want them to do for you.

- **They work for you; you don’t work for them.**
- **At the end of the day, the goal is to sell your business – it’s not up to them, to make a determination whether you want to accept a sales price or not.**
- **You need their input, but;**
- **At the end of the day, if you feel comfortable with a Buyer, it never really gets down to the “all mighty dollar”, it gets down to, having some form of your legacy continue.**

As part of a sales process, it’s also important to understand that;

- You need to be able to analyze your company’s strong and weak points.
- **Capitalize on the advantages your company offers a prospective Buyer.**

As I stated previously;

- If your company has negative equity in equipment, and/or;
- **Little equity in your equipment – be creative; you can lease the equipment and let someone else pay for the use of that equipment while you’re building equity.**
- Equipment is like any other investment; when the market is down; find a creative way to create future value.

Also, don’t dictate to a Buyer, who he/she must hire; That is improper justification. As an owner of a selling company;

- If you feel your employees are loyal, and;
- You feel they are directly responsible for the success of your company;
- **It’s your responsibility to take charge of those employees, not the Buyer.**

- It is not appropriate, nor is it in your best interest, to demand that a Buyer that employ your employees and take care of them because they were good to you – that is your responsibility.

An example:

- If you sell your house:
- You receive compensation for the sale of the house:
- **You certainly can't tell the new owner, what color to paint the house – it's the same for a business.**

If you have employees that are qualified, rest assured that they will have an opportunity to prove themselves. On the other hand, I stated from the beginning, that the day of acquisition when a trucking company is purchased, it needs to cash flow, service debt and have a return on earnings.

In reference to when to sell your business, there are always opinions as to when is the right time:

- Some experts state that the best time to sell your business is when the economy is strong.
- Some experts state not to try and sell a business when it is not at its business peak.
- Some experts believe the best time to sell a trucking business is when you're having a great year.

Those are all partial, factual statements. The reality of the situation is;

- If you have a good operating company.
- It historically has strong earnings.
- You have a good infrastructure and management team, then;
- **You can always sell your business regardless of the marketplace.**

The time to sell your business is when you are ready.

Is it true that most companies that were profitable should have sold 2 years ago? Possibly! But you're never going to witness that type of financial activity again. It was one of those very unusual circumstances, much like the days of Michael Milkin in the 1980's.

The real key to selling a transportation business, in any market is; don't set the pricing expectations too high, because when you do, you can "sit" in the marketplace for 1 – 2 years and never sell. A good rule of thumb to sell your business, assuming you have something to sell and assuming that you're flexible, is;

- **Your company should sell within 4 – 6 months, if marketed properly.**
- If you're a trucking company with revenues of \$25MM and under.
- **You should be able to close a transaction within 30 – 45 days after you've received a letter of intent.**
- In some instances, Ahern has closed transactions in less than 30 days.

As part of the process of timing a sale;

- Try to sell shortly before any major lease or critical contracts expire.
- **New owners don't like to renegotiate contracts midterm, after they have purchased a company.**

In closing, remember the Ahern “Golden Rules”:

- Be flexible.
- Be creative.
- Price your company realistically.
- Recognize that 60% - 70% of trucking transactions are asset sales, so don't demand a stock sale;
- Don't let someone else negotiate the sale of your business – let them guide you through the process, let them guide you as to what to release and when to release specific information, but you are your best sales person of your business.
- You are the person that understands your business better than anyone else – don't leave that up to someone that isn't as qualified as you.
- Utilize competent advisors. However;
- Tell your advisors what their responsibilities are, and don't let them overstep their responsibilities.

If you follow these rules, you will be successful; assuming you have something to sell.

QUOTE OF THE WEEK: “If your train is on the wrong track, every station you come to is the wrong station.”