

Special Edition

MERGERS & ACQUISITIONS – Part 1

I've received a tremendous amount of telephone calls, over the last several weeks, from various companies, questioning the opportunity to sell their business.

As we all know, the trucking industry is not doing well.

- Shipper rates continue to decline;
- Payment from Shippers continue to create "cash flow" issues for Carriers, and;
- We still have a lack of capacity;

In other words, we have too many trucks, too many drivers, and not enough freight.

Some companies have indicated that:

- They believe that the economy will start improving next quarter;
- If the economy does, "turn the corner", then they believe they can "weather the storm".

All indications, from my research are that we are still in for some very difficult challenges.

- Un-employment is increasing;
- Foreclosures throughout the United States are increasing;
- Credit Card companies are now starting to feel the crisis, and;
- Banks are continuing to collapse, on a daily basis;

Although the stock market is re-bounding, the trucking industry is NOT.

My point, if you are waiting with anticipation, that the market is going to change in the next 12-18 months, my professional opinion is it is--- **NOT!** Therefore, you need to make a decision if you are ready to "exit" the business or continue the challenge.

There are 2 components, to any decision making process, when you decide it is time to let go.

- The 1st process is that you need to be mentally prepared;
- Part of the preparation is that you need to understand the components of the process, that you most deal with, because if you don't, then you will never be able to sell your business;
- The 2nd component is that your business has to be realistically priced, and in most instances, it is never going to reach your expectations, unless, someone has placed an improper value on your business.

THE AHERN ADVISORY

in this issue

Mergers & Acquisitions –
Part 1



Ahern & Associates, Ltd.

Accredited Member
National Bureau of Certified
Consultants Inc.

August 24, 2009

As human beings, we don't like to deal with issues that are sensitive, particularly when it involves selling a business.

- Selling your business is like planning your own funeral. **Who wants to do that!**
- It is like losing a child;
- It is very emotional;

The day you start your business, you should have an “exit” strategy, but most of us don't. Today, I want to focus on the psychological process, because if you can't get through the psychological process, then you are never going to be able to get through the sales process.

Rule 1: Recognize that if you sell your business, your life will forever change.

Rule 2: Don't expect a prospect that may purchase your company, to employ all your employees, and provide them a job. It is not realistic, it is not going to happen, and if you make these types of demands, you are not going to find anyone that is interested in purchasing your business.

Rule 3: If you have children in the business, make a decision, whether you want to pass the business onto them. Make a decision, based upon your desires, not theirs.

My point, as you are going through “your process”, you need to review your children's abilities, as employees, not as your children.

Many times, during my public speaking days, a prospective Seller would say to me:

- Selling a business would not be an emotional experience for me.
- Get me the money and I will be happy, but;
- That is the furthest thing, from the truth.

Selling a business never gets down to the just money. There are so many other issues that are involved:

- All owners want their legacy to continue in some shape or form;
- **When you sell a business, unless you have other businesses or activities to get involved in, you lose your identity; it is very emotional.**

In many instances, 3-6 months, after an owner has sold his/her business, he/she goes through depression, because they lost their purpose.

- When they get up each morning, they have nothing to do.
- You can only play so much golf;
- You can only travel so much, and;
- You can only bond with your family so much;

At the end of the day, you still have to have a purpose in life.

So, part of the sales process, is developing an “exit” strategy, and deciding what you want to do with your life when you sell your business. For many of us, that have owned a business for most of our adult life, this is a difficult process.

- You have struggled with the business;
- You have nurtured the business;
- Some feel that their employees are like family, yet;
- On the one hand, you want to provide financial security for your family;

Each person's decision making process is different. There is no magical formula that says what you should do or not do for your employees, however, whatever you decide to do for your employees it needs to be taken out of the proceeds of your sales price; it is not the Buyers' responsibility.

- **You can't rely on a Buyer to reward your employees for their loyalty to you;**
- **You can't expect/demand that an employer guarantee that he/she will employ all family members, and all employees that have been tenured with your company for 15-20 years, etc;**

It is not going to happen!

As part of your decision making process, it is important to understand that when you sell your business, it will never be the same. If you are a small business selling to a larger business, most employee overhead will be absorbed by the parent company, therefore, positions such as:

- Accounting;
- Billing;
- Collecting;
- Direction of D.O.T.;
- Insurance

Will be eliminated!

Dispatch, Sales, and in some instances Operations, may stay "intact". Unless, it is a strategic purchase in a different industry, your legacy will disappear. **In other words, it is the same analogy as when if you sell a house.**

- If you lived in a house for a long period of time, it has a lot of memories;
- When you decide to sell that house, and someone else purchases that house, it now becomes the property of the person that paid for the house.

Once you sell the house, and once the title has changed, you can't tell that individual what color to paint your house. The same applies to your business.

Therefore, the first part of "letting go" is to make sure that you are mentally prepared to do so.

- You have to have a purpose after retirement;
- Something to do when you retire;
- You have to recognize that in many instances, a substantial amount of employee overhead, will be eliminated and;
- If you have children in the business, you can't demand that a Buyer, continue to employ your children.

Once you have gone through this process, and you believe that you are mentally prepared to sell, then the next critical step is to have a 3rd party to place an accurate value on the potential selling price of your company, based upon market conditions, at the time that you want to sell.

Recently, a prospective Seller contacted me, and indicated:

- I would like to sell, but;
- It doesn't appear that the market will sustain a sell for my business at my expectation, therefore;
- I guess I have no other option, but to keep my business.

My answer was is if you have a performing company, and you are continuing to experience growth/profit, you can always sell your business, but your expectations have to be realistic. What has happened to our industry is that:

- The trucking industry purchase prices soared in 2006-2007;
- Our industry “mirrored” the housing industry, in reference to inflated values, but;
- That market will never return, not in our life time;

There are still a substantial amount of transactions, taking place, but it is not at 2006-2007 pricing levels. If you want to wait to sell your business, until we return to those years, you will never sell your business. Those are years that were highly unusual, and I haven’t experienced that type of “merger mania” in my entire professional career.

Next week, I will discuss “how to place a proper value on a company, based upon current market conditions”. I will also discuss “how to take a negative, and turn into a positive”, and I will discuss the “major stumbling blocks that prevent a sale”.

QUOTE OF THE WEEK: “The truth you believe and cling to makes you unavailable to hear anything new.”