

## Special Edition

### Creating The Dynamics Of A Sale

Last week I discussed that the economy was slowly rebounding and that we still had many financial stumbling blocks ahead of us. However, at the same time, I provided my observations on why people at specific times in their lives should sell. I also stated that any time a company is profitable they can sell their business regardless of market conditions.

In my newsletters, I explain the importance of understanding the financial market at the time that you want to sell your business. No matter what you get for your business, you'll always question whether it was the right time to sell your business or not; however, if you understand the dynamics of the financial community and you recognize that our economy is not going to rebound as quickly as we would like, you can still receive a fair rate of return for your business.

It's important that as you are reviewing the process of selling your business, you understand some of the obstacles;

Obstacle 1: Recognize that 60% to 70% of transportation sales (today) are asset sales.

- The seller will keep specific assets, which include cash and accounts receivable.
- Any pre-paid deposit that can be utilized by a Buyer, will be credited to the Seller as they are "earned".
- Any life insurance proceeds, 401k, profit sharing, etc. will be allowed to be kept by the Seller.
- Inventory furniture, fixtures and computers will normally be sold at book value or less.
- If you happen to own a terminal property, normally a Buyer will not purchase the terminal. However he/she may lease, with an option to buy or;
- In some instances, you may have to lease the terminal separately.

In reference to equipment, if you are an asset based carrier, 70% to 80% of the time your equipment will not have sufficient equity. Or in some cases you are "under water" on equipment values.

- We all know the equipment market is in the "toilet" and based upon current market conditions you would be lucky to receive orderly liquidation value.
- In many instances, trucking companies are still looking for customers to fill their trucks and they have trucks sitting idle.
- If you have negative equity in your equipment, then you need to create an alternative, so that you can still receive value for your business.

Equipment is an issue where you may need to become creative. You can sell your business and receive a value for the sale of your business, if you are willing to think outside of the box.

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Ahern & Associates, Ltd.

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**First thing you need to do:**

- **Determine the Orderly Liquidation value** of the tractors and trailers that you own (if any)
- **If you have any excess trailers and they are paid for – sell them** before you go to market.
- **If you have excess tractors that have equity – sell them,** before you go to market. (if possible)
- **Any tractors and trailers that have negative equity be prepared to be a “fleet owner”.**

**This creates an opportunity for you, as a seller, to receive value for your equipment, at a future date, while someone else is assisting you in servicing that debt.**

- **This allows a Buyer to purchase, your business, without substantially impacting his/her balance sheet, and;**
- **Although you may not like to do this, this is a way to take a negative and turn it into a positive.**

**In most fleet owner situations;**

- **You'll receive a specific percentage of the gross revenue, and;**
- **For that percentage of the gross revenue, you will be responsible for all equipment payments, maintenance costs, etc.**

**If you are not willing to consider this type of approach, assuming that you have negative equity in some of your equipment, then you need to be prepared to look at the overall “pool” of money** and if it's not enough, then you shouldn't sell. On the other hand, if the negative net equity offsets some of the other asset driven parts of your business, **then it still may make economic sense.**

**However, at the end of the day I always believe that;**

- **You need to start with a “pool” of money, and;**
- **Work backwards to achieve your goal!**

**Never demand a stock sale, because it's the “kiss of death”. You are eliminating 60% to 70% of the buyer market.**

- **Start with a “pool” of money.**
- **Then work backwards, and in most cases, if you are a larger company hire a tax attorney, not a CPA, but a tax attorney to help you structure a process that is going to offer less taxable consequence.**

**At the end of the day, it's not what you get but it's what you keep!**

**When preparing your company for a sale, (if you are an asset based company), you need to make sure that your tractor payments and trailer payments are in line with industry average.**

- **Tractor payments should be no more than \$1,500 to \$1,600 a month.**
- **Trailer payments should be in the vicinity of \$300 to \$400 a month (van).**

**If your payments are substantially higher than the above, you need to restructure the debt before you go to market for sale and/or you must be able to negotiate a large enough percentage of the revenue, to operate as a fleet owner to cover your expenses.**

**Assuming you have made the decision that you want to go forward, you now must prepare your company for sale. Part of preparing your company is to understand what is “sweat” equity or “Goodwill” worth.** Again, this is predicated on market conditions, at the time that you decide to sell your business.

**As a transportation analyst, I always tell my clients that Ahern does not create the market: the market creates itself and Ahern follows that market. As such, we are very cognizant of what trucking companies,** logistics companies and private equity firms are willing to pay, for a specific type of business, at a specific time period.

**In reference to private equity, they normally focus on (larger) non-asset based business models.**

- However, if you have assets and you have dedicated freight contracts (defined as written contracts 3-5yrs that pay all miles).
- **Some private equity firms and larger trucking companies would be interested in that business model.**

**However, on the other hand;**

- If you have assets, and;
- **You are a one-way haul carrier, then you need to focus on your customer concentration, your revenue per mile, your revenue for all miles, your fuel surcharge, etc.**

**Assuming that you have made the decision that you are going to sell your business and you want to maximize the value that you can receive for the sale, you need to be able to provide concise and detailed information to a potential Buyer. From a financial standpoint, you need to be able to provide;**

- **The last 3 years of financial information, including;**
  - a) Balance sheet, and;
  - b) Income statement.

**Additionally, you need to provide footnotes, with any explanations of loans outstanding, intercompany transactions, receivables, other than accounts receivables, etc.**

- If you are a smaller company, it is not required to have audited financial statements, but;
- You need to be able to provide as much credible information as possible.

**Additionally, if you are a Sub Chapter "S" Corporation or an LLC, you need to be able to provide to a Buyer, all non-recurring expenses. Non-recurring expenses are defined as;**

- "Slush" accounts.
- Operating expenses, that are not normal and customary to the business.
- Personal expenses, that you are running through the business, and;
- **Those need to be recast, for the last 3 years. Also make sure that you can provide a interim financial statement for the first quarter.**

**From an operational standpoint, it's extremely important you provide as much statistical and operational data as follows;**

- Loads per week.
- Revenue per load.
- Revenue per mile - loaded.
- Revenue per mile – all miles.
- Average fuel surcharge.
- Empty mile ratio.
- Customer base.
- Driver pay scale.

- Dispatch procedures.
- Marketing, sales and traffic lanes.
- Computer systems in use.
- Key personnel.
- Growth strategies.

**There will be appropriate times when to release this information, but again, this information has to be prepared.**

**Additionally, you should conduct a mock DOT compliance audit, before you ever begin the sales process. If you don't have the capabilities, you can hire a firm such as Ahern** or any other outside party, that will review your procedures for maintenance and updating files. **It's important that:**

- All driver qualification files are in order and all content and update procedures have been administered.
- There should be DOT accident records in files.
- Driver logs including preparations, hour of service, falsification, violations, etc.
- Vehicle maintenance records, including content and update procedures.
- Drugs/alcohol testing, including policy and procedures and documentations.
- Brake and annual inspection certificates.
- Post trip inspection records and proof of responsibility.

**Also, you need to be able to provide an overview of your management team:**

- How long have they been with the company?
- What value do they bring to a potential buyer?, and;
- You should also be able to share your vision, on how your company can obtain growth, if you were part of a larger business.

**Once you've been able to assimilate the above information, you are ready to begin the process. Next week, I will discuss the do's and don'ts of dealing with a perspective Buyer.**

## **QUOTE OF THE WEEK:**

**“Life is what you make it. Opportunities are always there. But if you snooze, you lose: and if you snore, you lose more.”** (Phyllis George)