Special Edition

How to Sell Your Company in a Down Market - Part 1

Over the last several months, I have consistently reviewed the conditions of the economy. I've indicated that;

- It's the worst I've experienced in my 37 of years of business.
- The federal budget deficit has reached $1.2 trillion this year prior to the stimulus package, and;
- For the trucking industry, Congress has done nothing.

In fact, one of my clients indicated that when he was in Washington, the lobbyist stated to him that he could spend 30 seconds telling how the stimulus package would affect the trucking industry, and he could spend hours on the affect it's going to have to the trucking industry. **I've continued to "hammer" the problems that are plaguing our industry, not to frighten anybody or not to be a pessimist,** but to open up everybody's eyes;

- We are in for some very tough times.
- We can't do things the way we used to.
- Freight is non-existent ,and;
- We must "think outside of the box" in order to preserve our legacy.

With that stated, I have received numerous telephone calls from clients and perspective clients stating that;

- They're confused on whether they should sell their business or not.
- Business brokers have contacted them telling them that it's a good time to sell.
- Yet they read my publication and I indicate that the time to sell was in 2006 and 2007, and;
- They're confused.

It's important to understand I am not a business broker, I am a financial analyst. What I have stated on numerous occasions is that;

- 2006 and 2007 was the time to sell and receive the highest rate of return for your business.
- You can still sell your business today, but;
- It's going to be at a lesser value.

That doesn't mean that you can't sell your business. That doesn't mean that you can't market your business, but it does mean that the way in which you sell your business and the way in which you structure the sale, will have a direct bearing on the return.

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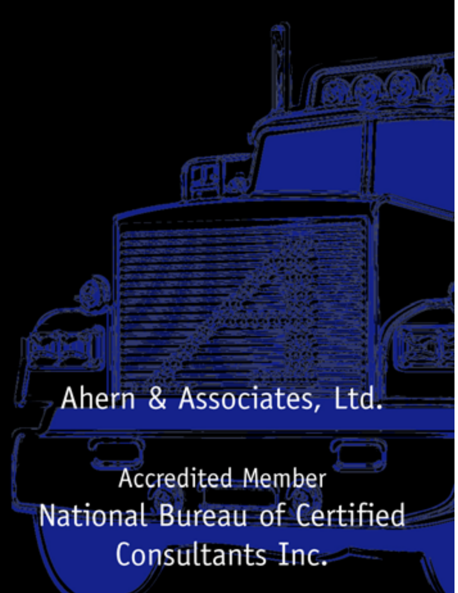

Ahern & Associates, Ltd.

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Over the next several weeks, I will discuss how you can sell a business in difficult times. For asset based companies, it will be a process that will involve retaining specific assets and leasing those assets

- It will be a process that you will receive payments over time in an earn out, but;
- It's a process that if and when the market turns, you can receive a higher rate of return.

It's important to understand that at the end of the day, when a buyer purchases a company, it must do 3 things instantaneously;

- Service debt.
- Cash flow, and;
- Have a return on earnings.

I'm amazed when I listen to "experts" stating that a company has to pay for itself in 3 – 5 years. I state; "get real" this is the trucking industry, this is a pennies business. This is a business where freight is non-existent; we need to be able to service debt and have a return to earnings in order to make the deal work. **Can a company, in today's environment, still generate value – yes!** Does a company in today's environment still have something to sell – maybe! Can a trucking company that has a lot of equipment and a lot of debt sell all the equipment on a sale – not normally!

- Does that mean that your company can not be sold – no!

What I'm simply stating is you need to adapt to the marketplace. It's extremely important to understand that;

- Ahern follows the market.
- The market does not follow Ahern.
- Therefore, predicated upon market conditions, dictates how to structure a deal that will have an economic return.

What does revenue sell for today? It depends on your customer base;

- If you're marginally profitable, or;
- You have operating losses, and;
- **You do not have substantial add backs, but you have a very good customer base, you might receive 2% of your revenue for a 12 – 24 month period plus assets less debt.**
- **Normally, 20% - 25% of the estimated goodwill purchase price** will be paid at closing;
- The balance will be paid over time.
- You will be able to keep your receivables.
- Pre-paid deposits.
- Cash.
- **Inventory, furniture and fixtures will be purchased at "book value", or in some instances, you will have to sell those assets on your own.**
- **The buyer will normally not purchase a terminal property.**
- In some cases, he might be willing to lease with an option to purchase, but;
- He will lease the property at current market values – if the property is in a desirable location and if it offers a strategic value to the buyer.

It's important to understand that as you're structuring a deal, you have to look at both sides of the opportunity;

- The industry recognizes it's in turmoil.
- The industry recognizes that financial institutions are collapsing.
- The industry recognizes that customers are the only asset that a trucking company has.

We all know that trucks and trailers have depreciated (dramatically) due to current market conditions. In many cases, a trucking company is "upside down on its equipment". That does not mean that you can not sell your business. **The difficult part of any process is how to take "hard assets" and structure them to make it part of the deal and there are ways to do that.**

For trucking companies that are suffering severe cash flow issues, can you still sell your company? – Maybe! But don't expect the buyer to bail you out of all problems that you created. **Part of the deal making process is to;**

- Review all the positive things about your company.
- The negative things about your company, and;
- Look for alternatives.

In some cases, companies can not sell because they don't have anything to sell. Does that mean they need to close their doors – no! There are other opportunities that you can utilize to;

- Strengthen your position in a down market.
- Improve cash flow, and;
- Reduce substantial overhead.

Next week, I will be discussing how to sell a trucking company with assets;

- How to structure the assets in reference to a sale.
- The alternatives available if a company doesn't feel comfortable with the options, and;
- Discuss employment contracts, which is a separate and distinct issue.

In other words, there are 2 parts to a sale:

1. The sale of the company including the assets less the liabilities, and;
2. An employment contract which includes a non-compete.

Many times, I hear from sellers that;

- Their accountant told them a non-compete is a separate negotiate item from a goodwill provision.
- **They should receive additional compensation for signing a non-compete,** and;
- **If you've been provided that advice, I will tell you it's not going to happen.**

A non-compete agreement is part of the deal;

- You're not paid separately for the non-compete;
- **You're required to sign a non-compete which becomes in effect after you've left employment of the acquiring company,** and;
- A normal non-compete provision is 3 years – 5 years.

That non-compete is included in the goodwill portion of the purchase price.

In my next issue I will focus on;

- The structure of a sale.
- The structure of deposing of assets.
- A letter of intent.
- A purchase agreement, and;
- An employment agreement.

QUOTE OF THE WEEK:

"Nothing is more powerful and liberating than knowledge".