

Special Edition

Creating the Dynamics of a Sale- Part 2

Last week, I discussed beginning the process of selling a business. I indicated, that:

- You need to be properly prepared, and;
- I outlined the type of information that is necessary to provide to a Buyer.

I stated, that:

- If you are an asset based business, equipment payments need to be in line with industry average, and;
- If you are non-asset based business, it is necessary to prepare as much statistical data, as well as gross profit margins, before you begin the process of trying to sell the business.

Assuming that you still want to sell, you then have to understand the dynamics of what your company is worth in today's marketplace; and also how you can create more value.

- These processes are necessary, before you ever begin to go to "market".
- As part of the process, you also have to have competent advisors.

Assistance can be in the form of:

- An investment banker.
- A business broker, and/or;
- A transportation Analyst, such as Ahern.

Each advisor provides their own unique service but a Seller must feel comfortable with "their approach".

If you are going to utilize an Investment banker, that is normally for larger companies.

- Larger companies defined as \$250MM+ revenue.
- The company must have a strong EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and;
- The company must demonstrate growth with a solid management team.

When utilizing an Investment banking firm.

- They will take your company, package it, and put it out to bid.
- They create value through a "bid process".

The problem with that is that once a company goes to market, everyone knows that you're for sale.

- It makes employees feel un-easy, and;
- In some instances, it makes customers, feel un-easy.

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Ahern & Associates, Ltd.

Accredited Member
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However, it is a choice that you have to make. On the other hand, if you are a smaller company, then you have the option of utilizing a business broker- (which Ahern is not) or a Transportation Analyst, such as Ahern.

The difference is basic.

- A business broker gets involved in the entire transaction.
- They assist in contract negotiations
- Due diligence and deal directly with the Buyer on a Seller's behalf, but;
- **They may also “shotgun” your company, to numerous competitors, creating concern among customers and employees.**

It is my opinion something gets lost when you utilize this approach.

- If you have a willing Buyer and Seller; (my opinion) you want them to work together and get to know each other.
- You want them to “touch and feel each other” to make sure they feel comfortable.
- You want them (both) to make sure they have the same moral and ethical values, and;
- **You want to ensure that your competitors do not know you are for sale.**

Who better to sell your company “profile” than your?

- A Buyer knows what he/she wants;
- They provide specific criteria to their “source”.
- **It is up to you, based upon information that is relayed to you, to create that value.**

When Ahern begins the process, in introducing a Seller to a client; Ahern already has a “stable” of qualified Buyers.

- All of our fees are paid by the Buyer;
- **Ahern's Buyers provide Ahern a specific criteria, of what they are looking for; what type of rate of return they anticipate, and if the sale is to be a capacity or a strategic purchase.**
- **The Buyer also desires anonymity until the deal closes. Ahern only introduces a Seller to one client at a time.**

When Ahern begins a Buyer search:

- We are not looking for companies that are for sale;
- We are looking for companies that are looking for an “exit” strategy, but don't know how to get there, and;
- **Based upon what the Seller's desires are, Ahern makes a determination if it “fits” our client's needs.**
- **At that point in time, if our client is interested in having a conversation with the Seller, we put both of them together, and let them interact.**
- After a telephone conversation, if the conversation goes well;
- The NDAs will be executed (non disclosure agreement)
- Ahern will assist in moving the information flow, but;
- **The Buyer and Seller will do their own contract negotiations and due diligence together.**

At the same time, Ahern provides a range of values for the Seller, at no cost. It is important that your expectations are met. If your expectations are higher than the market is willing to pay for current value, then you should not go to the marketplace.

Many times a Seller hires Ahern to create more value, and in that situation:

- Ahern will visit the Seller “on-site”;
- **We will review all facets of the “operations”, including:**
- Their people; rating structure, fuel surcharge, dispatching, maintenance, trucking utilization, empty miles, etc.
- Their information systems, and;
- **We will “tweak” all areas to create additional value.**

Once that is accomplished, then the Seller goes to market, and if Ahern is successful in selling the business, to an Ahern client, we refund the consulting fees to the Seller at time of closing.

As I stated, previously, 60%-70% of all transportation sales are asset sales;

- **Don’t demand a stock sale, or you will be eliminating 60%-70% of the market;**
- **Start with a “pool” of money, and work backwards;**
- **Recognize that you will receive a certain value for your customer base, “Goodwill”, and infrastructure;**
- **You will be required to liquidate your balance sheet; and whatever the liquidation value is it is yours to keep.**

If you are a non-asset based company, and you have had historically strong EBITDA earnings, you can expect to receive 3 to 4 times EBITDA, plus your liquidated balance sheet. (Companies over \$100MM of revenue and a very strong EBITDA may possibly obtain 5 times EBITDA- but it is rare today)

It is important to understand that when you liquidate your balance sheet, if you are sold to a Private Equity Firm, they require a certain amount of working capital left in the business after the sale.

If you sell to a traditional trucking or logistics Buyer, they may pay 1 to 2 times average earnings plus assets less debt; for a historically profitable company.

If you want to stay with the company, and go forward, then a separate employment agreement is negotiated with a salary and bonus based upon results.

If you are a larger business, and you want to maximize your value;

- You may need to review, (initially) a Private Equity fund Buyer;
- Each Private Equity Firm is different;
- Each has their own “threshold”;
- **But, there are ways to create more value, working with a Private Equity Firm, if you are willing to stay with the company, for an additional 5-7 years, and;**
- You are willing to “roll” equity back into the deal.

Over the next several weeks, I will discuss creating more value, and also what information needs to be released and in what stages.

QUOTE OF THE WEEK: “Anything that happens enough times to irritate you will happen at least once more.” (Tom Parkins)