

# AHERN ADVISORY

## Economic Consideration

### For many years I have written articles on:

- How to sell a transportation business.
- How to evaluate a business, and;
- How important it is to be realistic, based upon market conditions.

I've also stated that, before you decide to put your business up for sale, you must understand the conditions of the economy, when you are entering the marketplace. For many of you that consistently read my newsletter; you know that;

- The trucking industry experienced merger mania from 2006 to the beginning of 2008.
- Private equity "came into our space".
- Wall Street thought they understood the trucking industry.
- Many private equity firms started buying transportation companies and provided equity participation with promises of large rates of return, and;
- For several years, it was like the 1980's of Michael Milkin.

### Then, all of a sudden, the economy collapsed:

- Some private equity firms leveraged their deals with too much debt.
- The corresponding effect was that these firms couldn't service their debt, and;
- The debt had to be renegotiated or the companies collapsed.

Subsequently thereafter, we experienced the Great Recession. However, interestingly enough, even though;

- The economy is still historically at the lowest level since the Great Depression; and;
- The economy continues to be sluggish, there is a great demand for trucking and logistics companies and there is an ample supply of buyers. **If, (once again), your company is properly priced.**

This year, Ahern has already been involved in numerous transactions and there appears to be no end to our buyer's appetites. However, there is always a lull before the storm and opportunities will not last forever.

Each time I'm involved with one of my clients purchasing a business, there is an initial feeling of Euphoria from the seller. Unfortunately, it's a short term Euphoria;

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Ahern & Associates, Ltd.

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July 20, 2011

- They're initially ecstatic.
- **They have money in the bank; financial security.**
- **They don't have to worry about the stress of the business, and;**
- The first several months are filled with excitement, Euphoria, a peaceful existence; but then reality sets in. **They recognize that, no matter how much financial security they have, they need to have a purpose.**

**Part of their dilemma began when they recognized that:**

- They couldn't play golf every day for the rest of their life.
- They couldn't go boating every day for the rest of their life.
- They couldn't be with their grandchildren every day for the rest of their life, and;
- They couldn't go traveling for the rest of their life.

**In other words, they recognized that must have something to do; a purpose.**

**We all know that trucking is a very frustrating business;**

- It's a cyclical business.
- It's a business that is continually filled with challenges.
- There are many costs that you can't control, and;
- **With the economy sputtering and the driver shortage becoming a reality, we start to sense that maybe our time is here.**

**I've said time and time again; if you have something to sell, sell it now!** However, what I am also saying is that; too many times I hear a seller state; "once I sell, I want to leave", but they're not prepared to leave.

**It's important to understand that none of us know how long we're going to be on this earth.** We're not going to take all of our assets with us when our time comes. **However, at the same time, what you want to do, when you sell your business, is balance your life;**

- You want to have the ability to get away from the office when you want.
- **You want the ability to earn a living, without having risk, and;**
- That should be the fundamental reason why you want to sell.

**9 out of 10 times, a seller is not emotionally prepared for the challenges that are about to occur.**

**Several months ago, I wrote several articles on mental preparation** and I said it's the most crucial step in preparing your company and yourself for a sale. **I asked you to go through a process because we all have a misconception that;**

- We build a business.
- We obtain a certain age.
- We retire and go off into the "sunset", living happily ever after.

- Our financial position is secured and for the rest of our lives, we play golf, we go to social events, we take trips, we enjoy the grandchildren and we do whatever we want, whenever we want – sounds great. Unfortunately, not reality!

The reality is very hard to sell a business; it's very emotional. I've stated, on many occasions, it's like planning your own funeral because our business is much a part of our life as breathing. You have established many relationships and when you sell your business, a major portion of that goes away.

Additionally, there is something else I've noticed; with many people that retire. If they don't have a purpose and they don't keep their mind active, regardless of their physical age, their mental age changes dramatically. I don't know how many times I've spoken to a seller 2 or 3 years later that is "enjoying retirement" and there is just something missing in the conversation. They're totally out of the loop on every day events.

When you own a transportation business and your family's financial livelihood is the business; and that business represents your retirement, you do (at some point in time), want to sell the business. However, you have to have something else to keep your mind active. You have to be able to have a continual purpose, in your life, for you to be satisfied emotionally and that is the first step in preparing your company for sale – emotional preparation.

Once you have mentally prepared yourself to sell your business, you must begin the process of financially preparing the business for sale. This is a very difficult process because, in many instances, you've sacrificed and put your own life on hold to build the business. However, sometimes, it hasn't created the value that you anticipated and when reality sets in, it has a direct effect on your emotional process as you come to grips with the value of the business at the time you're ready to exit the business. Part of the process that I deal with, in selling companies, is to show owners how to create shareholder value, based not only on earnings, but on;

- Intellectual capacity, and;
- Customer opportunities.

I stress to sellers that they need to be creative and they need to understand that there are certain portions of a sale in which they will receive cash at closing. There are other portions of the sale where they will not receive all of their funds (at closing); that's normally the goodwill, or what I refer to as "sweat equity" of the business; that's paid out over time. It's an intangible value of what the business is worth at the time you decide to sell your company.

When a buyer reviews a company, they look at;

- Historical profit performance.
- Length of time in business.
- Type of operation (van, flatbed, refrigerated, intermodal, etc).
- Intellectual capital, and;
- Customer relationships.

Buyers also review reporting processes to see how they can enhance the position of the target company, the day of acquisition. In many situations, the most difficult part is placing a value on the goodwill of the business; it's fairly easy to;

- Determine the value of hard assets, but;
- The second part of the process is placing a realistic value on the intangible value of your business; the goodwill.

In order to determine the intangible value, there are 3 parts to this process;

- Part 1 is your operating ratio and pretax earnings for the last 3 years.
- Part 2 is defining any extraordinary expenses that have been taken out of the business that can be utilized for add backs that increase the overall financial picture of your business.

**This is crucial.** I'm not talking about what a buyer is going to save when he acquires your business by reducing overhead. **However, what I am referring to is what you extract out of the company other than salary, such as;**

- Bonuses.
- Dividend distributions.
- Expense accounts/car allowances.
- House payments, and/or
- Family members that are on the payroll but are not actually working at the business, and;
- Benefits such as 401K, life insurance policies, etc.

**Part 3 – is defining your intellectual talent as well as any intellectual property.**

**In closing, many of you have asked when and where our next transportation conference** is going to take place. A press release is going out later this week. **The conference is entitled Ahern/Benesch Conference on Transportation.**

**J.W. Marriott Hotel and Resort**  
Friday, September 23, 2011  
10:00am – 4:00pm  
Chicago, Illinois

**The topics covered will include:**

- Mergers/Acquisitions
- CSA/Hours of Service.
- Independent Contractor Update.
- Regulatory Compliance issues.
- Recapitalization and re-structuring in the world of transportation and logistics

**Some of the top Chief Operating Officers, investment bankers and private equity executives** will be our guest speakers. **More will follow in the next several weeks.**

**Next week, I'm going to discuss the intangibles that can increase the value of your business..**

**QUOTE OF THE WEEK:**

**“Nothing is more powerful and liberating than knowledge”** (Author: William H. Gray, III)