

AHERN ADVISORY

Transportation News – Should I Sell?

Transportation owners concerned about the economy.

- Trucking executives who have mixed emotions on what they should do, and;
- Sellers that have high expectations of the value of their business.

The fundamental reasons to sell are;

1. Financial security.
2. Providing yourself an insurance policy for the unknown, and;
3. “Sleep” insurance.

“Baby boomers” have been hit the hardest with a substantial amount of their net worth de-valued, due to;

1. The housing market, and;
2. The stock market.

The financial debacle that’s taking place in the United States is also taking place throughout the world and that’s a very unsettling feeling;

- The government wants you to believe that unemployment is hovering around 9.2%, but don’t believe that.
- **Certain analysts believe it’s 18% or higher, when you factor in the people that quit looking for jobs and simply gave up, and;**
- Part time employment.

The point;

- With GDP growth in the proverbial “toilet”;
- Business spending very sluggish, and;
- Large corporations continuing to reduce overhead.

The near future is dismal. However, at the same time, if you want to sell your business; I’ve consistently said you have to be realistic in your goals and objectives. If you’re not, don’t waste your time.

If you are a seller that believes, that if you generate \$20MM - \$30MM of revenue;

- You expect to receive \$20MM - \$30MM for the sale of your business – don’t waste your time.

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in this issue

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I've heard all the stories how the next door neighbor hit a "home run"; how the next door neighbor got 10 times his EBITDA; how the next door neighbor did this and that and, once in a great while, something like that happens. However, the reality of the situation is;

- Those types of opportunities only come along once in a life time, and;
- 9 out of 10 times, the story has been so convoluted that the seller really didn't receive what everybody thinks he/she received.

I advise, daily, that; depending upon your age and your financial status, if you don't want to sell – hold on to your hats because it's going to be a bumpy ride!

- I'm not trying to tell anybody that they should sell if they're not ready, but;
- **I am advising people that there is a lot of money in the marketplace, currently.**
- It makes no logical sense that this kind of money, is available for transportation deals when the economy is in the toilet, and;
- **That money will evaporate and when it does, trucking company sales are going to be like the housing market; very stagnant and values will decrease.**

When I speak to various associations, I always receive several responses from people that say; we aren't in the Great Depression, we aren't in a great recession. Well then, where are we?

There is a money manager called Robert A. Wiedemer that predicted, in 2007, that's America's bubble economy was about to burst and soon after it did;

- Housing prices collapsed.
- The stock market collapsed, and;
- The Great Recession was born.

Last year, he warned about serious aftershocks and they struck the stock market last month, as the market plunged again, the US was downgraded in their credit rating and Europe's debt crisis escalated. What does this mean? It means that we have no viable long term solution to pay off the trillions of dollars in debt that the government has incurred;

- The inability of, not only the United States but governments in general, to solve their financial problems is/will impact our economy, and;
- The course of action by government to reduce debt, has undermined the confidence and certainty for businesses and the investment community.

As a result, major banks are reluctant to lend; many corporations are not hiring and consumers would rather rent a home than buy one, even with the low mortgage rates. Do any of you really believe that anything is going to change in the near future? I'm consistently asked; isn't the economic recovery process gaining some strength? **From my perspective – no!**

Many economists believe that;

- We're in a "suspended recession".
- The only reason we have a small increase in our Gross Domestic Product (GDP) is because of the US government's heavy borrowing and the Federal Reserve keeps printing money.

That's one of our fundamental problems. As the government is trying to solve their debt problems, they've indicated;

1. They're going to raise taxes, and;
2. They're going to do nothing within the government to reduce their overhead (nothing meaningful).

That's the reality of the economy, whether we like it or not. What went wrong is anybody's guess. However, the bottom line is;

- When you sell your business, you want to have a certain amount of security, so the longer you wait, the less likelihood you're going to have to protect your investment;
 1. Taxes are going to go up, and capital gains will impact what you keep, and;
 2. If the economy continues to struggle, your financial situation could change overnight.

It's important to understand that;

- Trucking is a cyclical business.
- It's a pennies business, and;
- It's a business in which 60% - 70% of your trucking companies are 1 – 99 trucks.
- Banks don't want to loan money to that 60% - 70% of the industry.

As we're trying to solve our monetary mess, what happens?

- Natural disasters;
- With natural disasters comes Federal Assistance.
- Depending who you talk to, the natural disasters from the last torrential rains are going to exceed \$7 billion – who is going to pay for those disasters? You and I! Obviously, these areas that were destroyed need assistance and it's our responsibility to help but; at what expense?

As you're going through your thought process, I always advise owners to make decisions based upon their individual, financial and personal goals;

- Don't let any one put you in a position to do something you don't want to do.
- Don't cave in to outside pressure, unless you believe it's in your best interest, but;
- Be realistic and look at the reality of the economy.

Is a \$10MM company worth \$10MM? Absolutely not. Is a \$50MM company worth \$50MM? Absolutely not! Is a private equity firm going to buy a larger company and over pay for it? Maybe, but there's a price that comes with that process.

I recently received an email from a good friend of mine;

- He owns a very profitable business;
- He indicated that he would like to sell his company for 7 times EBITDA because one of his friends received substantially more than that.
- He was basing his decision on what his friend said he received, not knowing the full circumstances of the deal.

Since I was familiar with the deal, it happened to be one of those unusual circumstances where;

- A larger company wanted to penetrate a specific market.
- It would add substantially to their overall profitability of their corporate structure immediately;
- Yes, they overpaid, but they did not pay 7 times EBITDA, and;
- This was an exception to the rule.

This particular company is very well managed. They have strong earnings, but they're not a strategic target.

In closing, I'm constantly asked why the value of the dollar continues to slide. Particularly since central banks around the world considered the US currency to be a dominant currency backed by the most powerful nation. Unfortunately;

- There has been a steady decline in the US dollar in relation to major currencies, over the past decade, which has caused concern in the world economy;
- The value of the dollar has dropped 9% in the past year, as of August 15, 2011, and;
- 38% since 2002 against the US dollar index.

What does that mean? It means that investors have rushed into super strong currencies, such as Swiss Francs, which was traded at record levels against the US dollar. In fact, it's up 33% over the past year. Unless we do something dramatic to reduce our debt and correct the high unemployment, the long term strength of our currency will surely continue to decline against most major countries in the future.

If you read any financial report you'll understand that even China, which is the largest foreign holder of US treasuries, has been diversifying away from the US and buying other nations debts, as well as gold.

As the rest of the world continues to seek such alternatives, the US dollar could weaken much faster than in the past decade. What does this have to do with trucking? Everything!

- If your business is a major portion of your retirement;
- If you're concerned about preserving your net worth, then;
- You have to be prepared to live with your decision.

It's a difficult process and it's a scary process to think that the strongest nation in the world has its challenges. However, if you're in your 50's and 60's and you truly believe it's going to take years for the US to dig out of their financial mess (and they will) then you need to make a decision that's in the best interest of you and your family. That's my point! We are the most powerful country in the nation; we have many freedoms that other countries don't have, but as the economy continues to be challenged, more and more of our choices are being eliminated due to government mandates.

I don't have a crystal ball and I cannot honestly tell any of you that, in 10 years, your business will have additional value because it probably will not.

QUOTE OF THE WEEK: **"In the business world, the rear view mirror is always clearer than the windshield"** (Warren Buffett)