

There are times, that I receive telephone calls from trucking and logistics companies stating;

- I received a call from a Private Equity firm.
- I understand they pay substantially higher than industry average, and;
- Can you provide me with a multiple of EBITDA that I should be requesting from the PE firm?

First of all; it's very important to understand that:

1. PE firms do not over pay for transactions, but they pay for value.
2. They look for strategic and platform opportunities, and;
3. They have a specific purpose and that's to buy at a fair price, and make a very sizeable return.

In many cases I'm asked; what does Private Equity mean? Private Equity consists of investors and funds that make investments directly into private companies, or they conduct buyouts of public companies that result in the delisting of the public entity. For practical purposes in trucking;

- PE is not looking for public companies (normally).
- PE is looking to;
 1. Leverage their strengths.
 2. Expand working capital to grow a business.
 3. Make acquisitions to enhance the growth of the business.
 4. Strengthen the balance sheet, and;
 5. Sell the business.

The next question; what is the holding period? Again, that depends on the Private Equity partner;

- Some PE firms would like to buy, build and sell within a 3 – 4 year period.
- Other PE firms would like to buy, build and sell within a 5 – 7 year period.
- There are very few PE investors that hold investments for more than 7 years.

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The size of PE has grown steadily over the years and became very active in 2006 in the trucking industry. Then, after the financial debacle; they disappeared and now they are back in full force. Will that last forever? No! **Is PE for everybody? No!** Is PE bad in our space? It depends on who the PE partner is. PE is no different than anyone in the trucking industry – **there are good firms, there are fair firms and there's the ugly.** PE is classified as;

- **Strategic Buyers** – looking for opportunities to grow and leverage already successful businesses, and;
- **Capacity Buyers** – which are looking to purchase struggling companies, improve their financial results and re-sell the business someplace “down the road”.

Do many PE firms look for small companies to purchase – no, not unless it's a “tuck-in” and not a platform. I believe that's an important distinction to make. **Every day I receive telephone calls from companies that say;**

- **I'm a \$20MM carrier/broker.**
- **I'm a \$40MM carrier/broker, and;**
- **A PE firm wants to purchase my firm and I will be their “platform” model.**
- **They want me to take a “position” on the new business and investment some of the sales price.**
- **They want me to do this, they want me to do that, and;**
- **That is not really a PE “play”.**

In most situations;

- **PE firms look for higher revenue thresholds;**
- **If they're looking at a \$20MM company, it's normally a “tuck in” to their existing platform model.**
- **In most instances, they want the seller to “roll” some equity back into the deal – in other words, they want you to “roll” a percentage of the agreed upon purchase price back into the deal, and;**
- **They want you to continue to stay in the business and help grow the business.**

Again, this is a general overview of what most PE firms look for. Each PE firm is different. However;

- **If you want to sell your business.**
- **You want to exit tomorrow, and;**
- **You want all your money up front – it's normally not going to happen – yes, there is always an exception to the rule!**

It's also important to understand there are various forms of PE. A PE investment is generally made by a PE firm, Venture Capital firm (or in some instances) what's called an Angel Investor;

- **Each of these categories of investors have a set of goals, preferences and investment strategies.**
- **Each provides working capital to a target company to foster expansion, new business development or (in some cases);**
- **Restructure the company's operation as well as the management team.**

Among the most common investment strategies in PE are;

1. **Leveraged buyouts.**
2. **Venture capital.**
3. **Growth capital.**

4. Distressed investments, and;
5. Mezzanine capital.

In a typical leveraged buyout transaction, the PE firm buys a majority control of the existing firm. This is entirely different than Venture Capital or Growth Capital Investment. Growth capital refers to an equity investment, most often when a PE firm will take a minority investment in a relatively safe company that's looking for working capital to expand or restructure operations, enter into new markets, or finance a major acquisition without a change of control of ownership of the business.

Companies that seek Growth Capital will often do so in order to finance a transformational event in their life cycle. The capital can be used to fund expansion, acquisitions or other investments. **Some owners feel that by selling a small portion of their company to PE, the owner can take some value and share the risk of growth with partners** that can provide the additional intellectual and capital needs to achieve the "next level".

There are other forms of Capital Investments that I will discuss over the next several weeks. There are guidelines that PE firms look for, and you have to understand their strategy before you proceed.

In closing, are we at 2005 and 2006 levels? No! That was a period when the largest buyout record was set and surpassed several times with 9 of the top 10 buyouts at the end of 2007 were announced in an 18 month window from the beginning of 2006 to the middle of 2007. **In 2006, Private Equity firms purchased 654 US companies for \$375 billion;**

- This represented 18 times the level of transactions closed in 2003.
- Additionally, US PE firms raised \$215.4 billion in investment commitments to 322 funds, which surpassed the previous record set in 2000.
- 2011 is an active year, but Private Equity is cautious because of the turmoil that occurred in 2007.
- **If you have a profitable business with a strong management team and target revenues of \$100MM and up, PE may be an option.**

QUOTE OF THE WEEK: "The greatest discovery of any generation is that a human being can alter his life by altering his attitude" (William James)