

FIVE CASE STUDIES THAT WILL



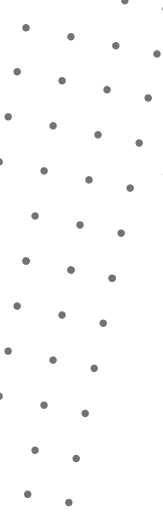
***PROTECT THE VALUE OF YOUR
TRUCKING COMPANY***

TENNEY
GROUP



**YOUR BUSINESS NEEDS A
COMPELLING GROWTH
STORY THAT CAPTURES THE
IMAGINATION OF A BUYER.**

— SPENCER TENNEY



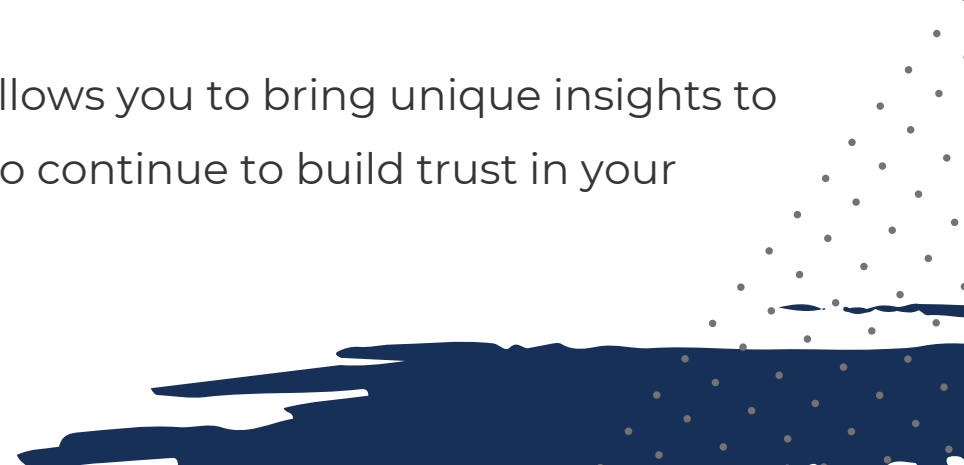
Tenney Group believes that educating our clients before and during the transaction process plays a pivotal role in building and protecting the personal wealth tied up in your trucking company.

This Owner's Guide is comprised of actual client experiences. It illustrates both pitfalls and best practices. Most of all, the case studies are designed to help owners protect what is often both the greatest and the most vulnerable financial asset in their lives.

Every trucking business owner will sell or transfer ownership to a family member at some point. The examples included in this publication are focused on trucking companies with revenues ranging from 15-300M, though trucking companies of all sizes can learn and apply the principles.

This is also for our network of industry experts who provide insurance, risk management, banking, law, and other specialized solutions to the trucking space.

We hope this content allows you to bring unique insights to your clients and a way to continue to build trust in your relationships.





CASE STUDY #1

TN TRUCKING COMPANY PUMPS BRAKES
BEFORE DOUBLING DOWN ON ACQUISITION





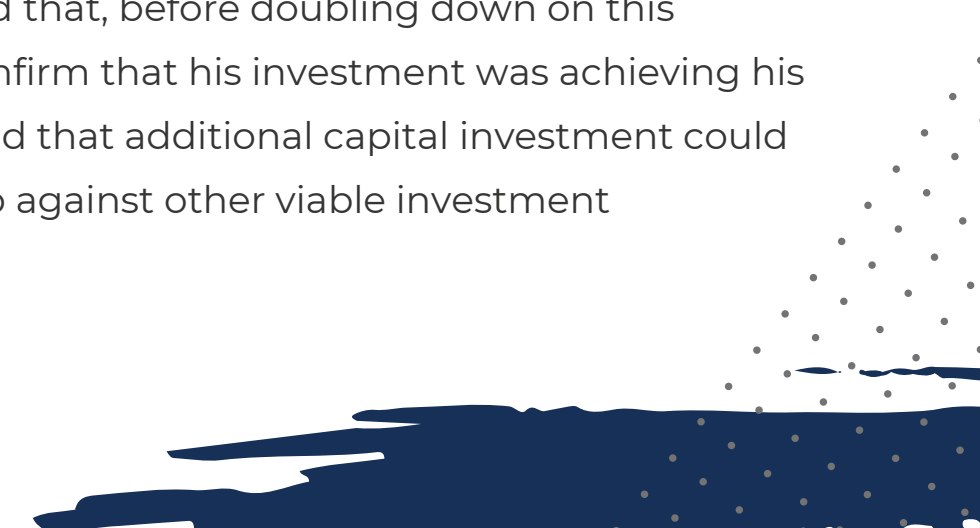
Considering how aggressively banks are lending money for transactions, many trucking companies are using every tool available in the capital markets, to strategically grow through acquisitions.

Conceptually, eliminating competitors, creating synergies, and building value are benefits available through acquisitions. However, many trucking companies can limit what they will be able to accomplish through acquisitions if their approach to the process contains unknowns.

A Tennessee trucking company owner recently provided a great model for other acquirers to follow. The owner was someone new to trucking but not new to acquisitions. He had purchased the business about three years prior to contacting Tenney Group. His business strategy included growth through acquisitions.

However, he was reluctant to engage in discussions with known acquisition opportunities in the region, until he first assessed the performance of his existing investment in trucking. He felt ill-equipped to approach other companies about a possible transaction without being in command of his own company's value.

The owner also recognized that, before doubling down on this industry, he needed to confirm that his investment was achieving his expected rate of return and that additional capital investment could be justified, when lined up against other viable investment alternatives.





Upon obtaining a business valuation and reviewing the results, the business owner was able to approach the acquisition process from an entirely new perspective.



The owner confirmed that he had increased the value of the business and he was achieving an acceptable rate of return on his investment - though, like many owners, there was room for improvement.



The information and valuation methodology applied to his own business would significantly influence how he approached other acquisition candidates.



The conclusions gave him new tools to approach other companies with confidence while clearly understanding the line for overpaying.



He identified a few specific areas for potential business value enhancements.



The owner re-engineered his acquisition target profile to focus on companies that could directly address the areas of his business, currently limiting business value.



The owner was able to position himself as a buyer who can efficiently make offers and protect the seller's time. *Sometimes demonstrating efficiency and respect to the seller is the edge needed to separate ones self from other buyers and to ultimately get the deal – even when another buyer may be able to offer more on paper.





Conclusion:

Pump the brakes.

Because this owner paused and equipped himself with the right information prior to doubling down on trucking, he has since acquired two competitors and dramatically increased the value of his business.

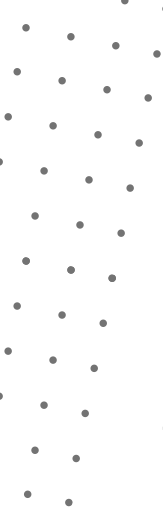
He has also avoided wasted time by quickly passing on acquisition prospects that did not fit his objectives. Following the model provided by this owner can be a powerful value-building tool for all trucking business owners.



CASE STUDY #2

PROFITABLE FAMILY-OWNED TRANSPORT
COMPANY SUDDENLY EXITS. WHY?





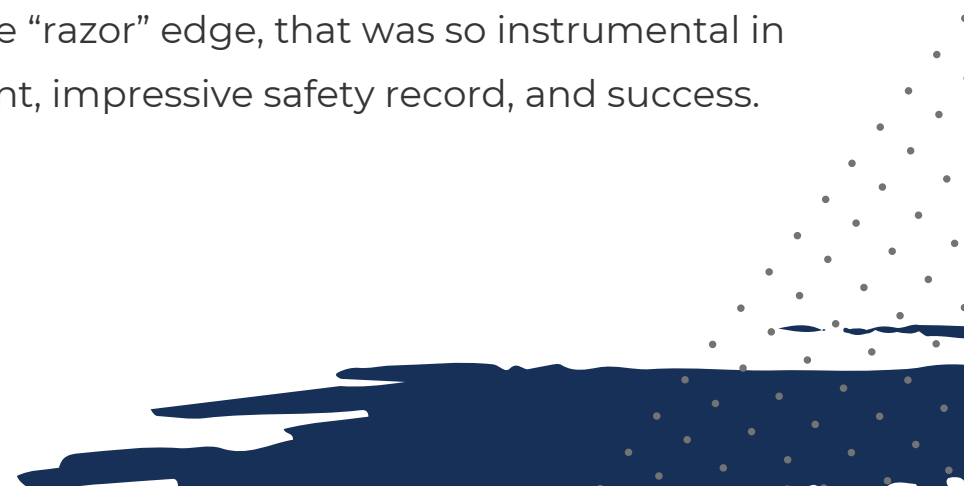
Why would an owner, less than 55 years old, sell a highly profitable business that is currently allowing him to enjoy a very comfortable lifestyle and income?

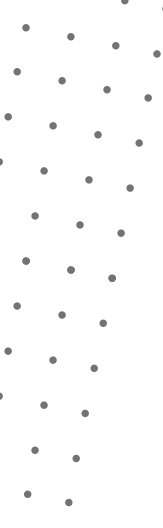
This is the question recently asked as part of serving a client in a buy-side advisory role. This is what we learned after digging into the situation.

1. Through examining the history of the prospective acquisition candidate, we learned that, over a 15-year period, the owner had been relentless in his effort to build systems and processes that consistently delivered profits and a safe, quality service to his customers.

2. As profits grew, so did the opportunities to hire staff and an experienced management team to take the business to the next level. Eventually, the owner was able to displace himself and dramatically transform his personal lifestyle. This was a well-deserved change of pace. He stayed engaged but allowed his leadership team to step up and perform most of the heavy lifting.

3. Over time, the company continued to deliver profits and attract good people. However, he began to sense that the culture of the company may be losing the “razor” edge, that was so instrumental in the company’s development, impressive safety record, and success.





4. Then, earlier this year, the business experienced a major incident that resulted in the death of one of his most experienced and beloved drivers. The owner felt responsible. He felt like, if he had still been engaged like he was just 3-5 years ago, that driver would still be alive.

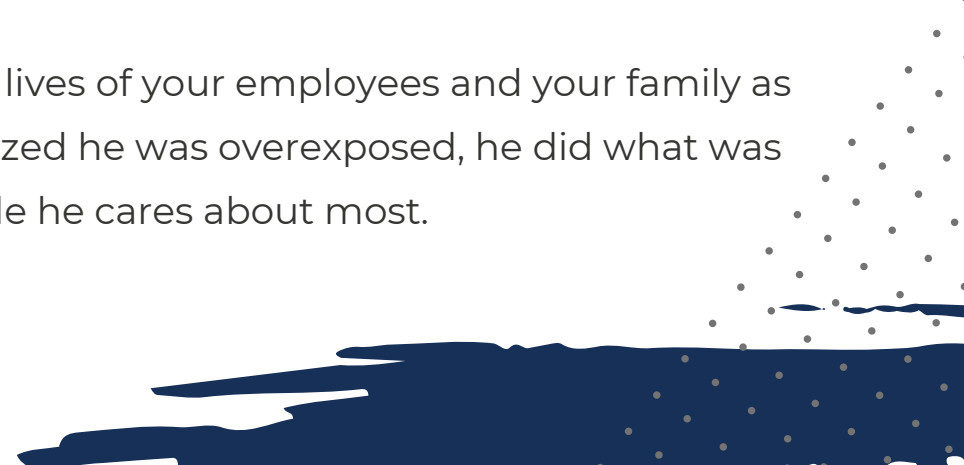
5. He attempted to reengage into his old role in the business. The problem was that he had lost the passion. The fire was no longer there to do what was required to perform at a high level in this business, while maintaining the necessary safety standards. On top of that, a mountain of stress fell on his shoulders, and he stopped sleeping for months. Each night he worried for his drivers and for others on the road.

6. Eventually, he realized that the only way to protect the safety of his people, his wealth in the business, and his long-term health, was to pass the torch to someone else who was prepared to do what he was no longer able or willing to do.

Takeaway:

The trucking industry is a high-stakes, high-risk business. If you lose your edge to compete at the highest level, you often invite exponentially more risks into your life.

These risks can disrupt the lives of your employees and your family as well. When this owner realized he was overexposed, he did what was right for him and the people he cares about most.

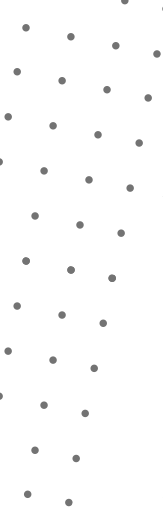




CASE STUDY #3

SIMILAR TRANSPORT COMPANIES ATTRACT
OFFERS \$3.25M APART – WHY?





As part of a buy-side advisory assignment, Tenney Group assisted a client in presenting offers to purchase two companies. The companies both had \$20M in annual sales, provided the same transportation services, and produced \$4M of EBITDA. Our client offered Target A \$3.25 million more than Target B, a company that was essentially the same on paper. Why?

Three Factors:

Target A had been growing steadily at 15% per year, for the past three years. Additionally, the company had a plan in place to continue that growth strategy through diversifying service offerings and through an important strategic alliance. Target B's growth was flat, and there was no plan in place to change that.

Target A had a diverse customer base where no client was responsible for more than 10% of the total revenue. Target B, on the other hand, had 40% of the revenue in the top account and 75% of the total revenue in the top 5 accounts. The high degree of customer concentration presented more risks to the buyer.

Target A had an experienced management team that my buyer believed would be a valuable asset in ensuring the existing growth strategy was executed. He also believed the team allowed him to fill some leadership holes in his existing management team. Target B had a management team, but each member was given little authority by the owner and as a result, was ineffective. Our client perceived a high level of dependence on the owner which, again, presented more risk from an acquisition standpoint.





Recap:

What can owners take away from this case study?

If you don't want to leave money on the table, your business needs a compelling growth story that captures the imagination of a buyer. Secondly, develop new business in a way that reduces client concentration.

If you double your business but the source of revenue is from an existing customer, you may not be increasing the value of your business in a meaningful way.

Lastly, build leaders in your organization and give them authority to build value. Letting go now will allow you to attract a much higher sale price when you are ready to let go of the business.





CASE STUDY #4

BUYER ESCAPES BAD DEAL THANKS
TO UNINFORMED SELLER





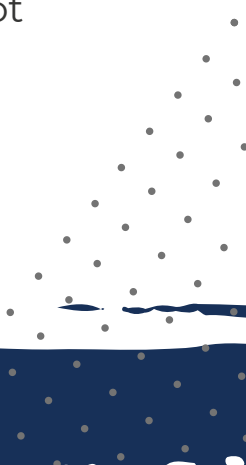
A diversified trucking company in South Carolina requested help from Tenney Group to acquire a competitor that had become a nuisance. Tenney Group looked into the situation. The acquirer, "Bill", indicated that he and the seller had discussed the possibility of a buyout for several years. Until recently, it never really went anywhere. Bill, at his wit's end, shared that two weeks ago he hastily made a formal offer to the seller to entice him to get him out of the industry.

Without carefully considering the offer, the seller rejected Bill's proposal and demanded more money. **At this point, the buyer shared that he felt like he was out of options.**

This is very common in our industry. Buyers and sellers in a competitive market commonly recognize the potential upsides of a transaction together. When it comes time to get their transaction goals in alignment, that's when deals die.

What is interesting about Bill's situation, is that he actually submitted a formal offer to the seller. Many potential buyers and sellers never get this far...or as we say in the transaction world, "never even get on the dance floor."

When we explored the details of the company he was pursuing and of the offer he submitted, it was clear that Bill dodged a bullet. Not only was he grossly overvaluing the target company, he was unknowingly jeopardizing the future of the business he currently owned. The cash flow of his current business could, in no way, support the debt service associated with his acquisition proposal.



When the Tenney Group asked Bill how he came up with his valuation of the target company, he replied, “it just seemed like a fair offer”. Tenney Group assessed that the offer was 35% over fair market value. Fortunately, Bill escaped a bad deal because the seller soundly rejected his offer before investigating the true quality of the offer or the fair market value of his own business.

4 TAKEAWAYS BUYERS AND SELLERS CAN LEARN FROM BILL’S STORY:

1. Because Bill did not make an offer that was rooted in fair market trucking business value, he almost made an irreversibly bad financial decision that could have permanently affected his life. Securing a valuation on the target acquisition prior to submitting an offer could have protected him from considerable financial risks.
2. Because his initial offer was so high, he eliminated the ability to continue discussions with the seller. He left no place for the purchase discussion to go. A more thoughtful and strategic approach to the acquisition could have changed everything. *It will be very difficult for Bill to go back to the seller and restart the transaction discussion in a more realistic place.
3. Because the seller refused to get a third party’s perspective on the quality of the offer, he missed an amazing opportunity. Securing a valuation prior to responding to the offer would have provided him clear evidence and support to accept it. Now, that offer will probably never be on the table again.



4. Because the seller chose not to seek assistance, he, too, eliminated options for finding a solution to get a deal done, with a highly motivated strategic buyer – even if a highly aggressive offer does not address his wish list.

Tenney Group often says, “Finding the buyer is the easy part. What happens after that is when the real work begins”. Buyers and sellers have very different ideas about business value and very different goals that have to be addressed through a transaction.

Buyers and sellers, particularly ones who know each other, can dramatically improve the probability of working out a deal together and accomplishing their respective goals by

1. securing a valuation on the target business and
2. involving a third-party intermediary/merger & acquisition advisor to help all parties accomplish as many of their respective goals as possible, through a deal.





CASE STUDY #5

TRUCKING OWNER PLANS EXIT,
WEIGHS KEY FACTORS

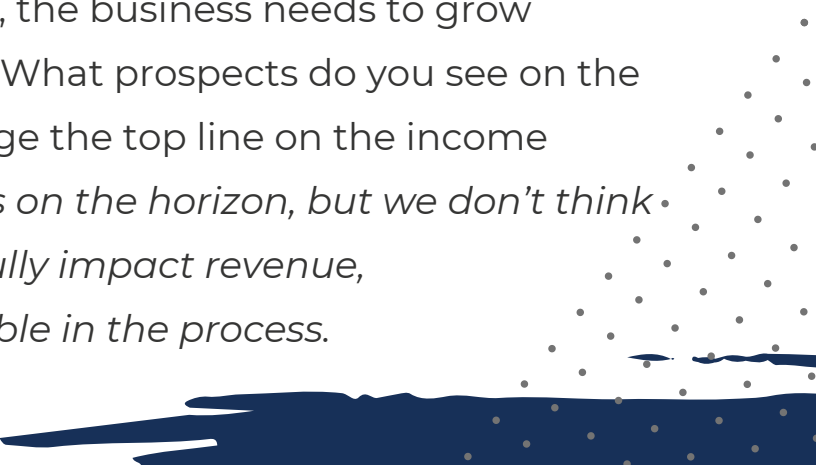




Following the presentation of a Transvaluation report created by the Tenney Group, the owner of a trucking company discussed the potential tax implications of a sale with his accountant. Ultimately, the owner determined two things.

First, he understood and trusted the conclusions from Tenney Group's report concerning his transportation company's value.

Second, he still believed that, after Uncle Sam took his piece of the pie, he and his wife would be about 2 million dollars short of their retirement funding goal. **The Tenney Group team understood his rationale but began asking questions.**

1. How old are you and your wife? *60 and 61*
 2. What is your health situation, energy, and enthusiasm for continuing to reinvest in the business? *We have no major health issues. We like the industry and will likely miss it when we sell, but we are getting more concerned about financial security.*
 3. What percent of your total retirement funding will likely come from your future business sale? *60-70%.*
 4. To "net" another 2 million dollars, the business needs to grow considerably over the next 5 years. What prospects do you see on the horizon that could materially change the top line on the income statement? *We have opportunities on the horizon, but we don't think there is a path that will meaningfully impact revenue, without getting really uncomfortable in the process.*
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5. What tax treatment did your accountant apply to our estimated proceeds analysis (support doc for the TransValuation, which outlines the most likely deal structure and what would happen at the closing table)? *He described it as the worst-case scenario...no creative transaction tax strategy at all.*

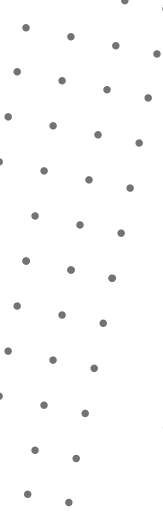
This scenario is very common for transportation owners. If a 40-year-old sees this information, his response is pretty simple “I’ll keep on trucking”.

The sixty-year-old owner is not quite so cavalier. Capital for funding transportation business purchases is more available now than at any time since 2007. Interest rates are expected to increase at a modest clip in the coming years.

Does this mean it is the perfect time to sell? Not necessarily. Lending environments are cyclical. It just means that the owner has more tools in today’s deal environment to work to execute his exit strategy and ensure financial security for his family. Owners may need to recommit themselves to the business for another 5-7 years, for a similar lending cycle to come around.

What did the seller decide to do?

1. After seeking counsel from his wealth advisor, he determined that he wasn’t comfortable doubling down on a stock that already made up 70% of his future retirement funds. He did not feel that was an appropriate strategy for his age (60) and current appetite for risk.



2. Instead, he chose to allow Tenney Group to help him execute an exit strategy that offered him a much better chance of extracting as much “net” proceeds as possible, with far less risk.

This is what the plan entails:



Use the current capital market conditions and low interest rates to support the highest possible sale price.



Develop a comprehensive tax strategy, to dramatically limit “Uncle Sam’s” impact at the closing table.



Work in cooperation with the owner’s wealth advisor, to ensure the proceeds from the sale are placed in the appropriate investment vehicles that allow the owner to diversify/reduce risk, while also producing a modest return.

This three-pronged approach provides the owner a very realistic path to achieving his exit strategy goals, while ensuring that the owner doesn’t take any unnecessary financial risks at this critical stage in his life.

AFTER SEEKING COUNSEL FROM HIS WEALTH ADVISOR, HE DETERMINED THAT HE WASN’T COMFORTABLE DOUBLING DOWN ON A STOCK THAT ALREADY MADE UP 70% OF HIS FUTURE RETIREMENT FUNDS.



FINAL THOUGHTS

On behalf of the Tenney Group, thank you for reading “5 Case Studies That Will Protect The Value Of Your Trucking Company.” This investment of your time will serve you well.

Having owned several of my own transportation businesses, I know how hard you work, and I understand how critically important it is to protect the value you are building in your trucking business. I also understand that the trucking industry is not like other industries. That’s why we are here.

To the family-owned trucking businesses looking toward an unclear future, I want you to know I understand many of the issues that are weighing heavy on you right now.

My son and I were once business partners. He purchased my shares in 2018. We have lived out many of the decisions you are wrestling with every day. Together, along with our talented team, we are in a unique position to help bring clarity and stability to your family’s trucking business and the wealth tied up in it. It would be our privilege to start a conversation.

To our friends and fellow industry experts in trucking, thank you for doing what you do and for serving our shared clients so well. If you are not actively playing a role in our “Business Value Protection Program” we extend to our clients, let’s connect and explore how to make that happen.

Thank you again and enjoy this fine day.



Charles Tenney

Charles Tenney

Founder, Tenney Group

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