Who's Selling?

Getting out of Towing, Part 1

by George Metos

We have all witnessed towing companies getting bought up over the years. You may have wondered what was paid, and how your own business compares. You may have also wondered what you could do to make your own towing company more attractive to a buyer, whether you intend to sell in the near future or years down the road.

In the towing business, buyers are looking for several attributes:

- Profitability. You expected that one. This is universal in all business types. It is not mandatory though. If you have some of the other attributes, a deal could still be done.
- Contracts. Whether written or oral, your relationship with the highway patrol, police department, and private companies may provide reliable future revenue for the buyer. Being on rotation is not always easy to accomplish, and is looked upon as an accomplishment.
- Population. More people implies more cars, which implies more tows. There may be exceptions for the recovery business, where an owner may do a tidy business in locations where tractor-trailers often go off the road, whether it is near population or not. The same is true of roadside assistance companies where help in remote areas is a welcome sight to travelers. But otherwise, having a successful business near a good population is a plus.
- Real estate. Towing companies with their own real estate is positive to those buyers who believe they can make money in the business as well as benefit from the appreciation of the real estate. If they can operate a business in the path of progress (population growth), then they have established an excellent investment.
- Good reputation. With all of the positives mentioned above, a good reputation encourages the buyer to believe they can continue the business and grow. A bad reputation may be difficult to overcome, unless the name is changed. Deals with towers who have bad reputations still happen, but at a discount.
- Type. Buyers tend to acquire towing companies that operate in a segment that they are familiar with. A light-duty tower may be interested another towing company that also does primarily light-duty towing. Impound towers might like to acquire additional PPI towers, etc.
- Territory. Towers like to build within a region. We seldom see towers with facilities 500 miles away from one another.

The classic method of valuing companies is based on the value of the real estate plus profits times a multiple or assets and some goodwill, whichever is greater.

Owners will always get paid for their real estate, whether as sale or a lease. The values are typically fair market value, and in the case of a lease, the tenant may demand the right to buy the real estate years down the road, again typically at fair market value.

Profits vs. Assets

The more sophisticated part of the valuation is the profit vs. asset approach. Business brokers are trained to look for profit wherever it may be hiding in the company, such as depreciation, owner perks and other areas that are typical of towing companies. We might calculate an adjusted profit number such as Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) or free cash flow, depending on preference. This amount is multiplied by a factor based on the size of that profit number. The bigger the profit, the bigger the multiplier.

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Meanwhile, assets are based on the value of the resale fleet and any equipment. The depreciated value of the trucks, or how you show them on your balance sheet is of little concern. Buyers focus on the price they'd pay for a similar truck in a similar condition on the open market. There may also be some equipment, but in this industry, the assets are primarily trucks.

In the towing industry, a significant amount of capital is tied up in the fleet. If that fleet is not generating sufficient profit, then it stands to reason that a buyer may not be very attracted to the company.

There are many instances where the adjusted profit times a multiple was barely more than the assets, so the seller worries that the purchase price will not be much more than the liquidation value. Unless there are other attributes that attract the buyer and drive the price up, then the seller has a problem.

If a seller has some positive attributes, we may be able to add some goodwill to the sales price. Some call this blue sky or intangibles. Sometimes there are attributes that a buyer can exploit to a greater extent than the current owner, and it would be appropriate to increase the price accordingly.

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It is wise for owners of any company, whether in the towing industry or otherwise, to be aware of valuation methods and get a valuation checkup now and then. The information learned in the checkup can go a long way toward giving the owner ideas on how to steer the company over the years so that there is a happy conclusion to their career in the business.

Towers are notorious for paying more attention to preventive maintenance of their fleet than for the overall company! The smart operators make themselves aware of values, and it doesn't take all that much effort in the end.

About the author

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Getting out of Towing, Part 2

by George Metos

Tow companies with revenues under $1 million are typically sold to individuals, or mom-and-pop-type buyers. Towers with revenues between $1 million and $4 million usually sell to experienced towers looking for their second or third facility. Towers with revenues beyond this, many times, are absorbed into regional operators that have networks in a geographical area.

When an owner goes to market to sell the company, being aware of these buying tendencies helps shape the marketing effort.

Strong buyers may have the cash or will have easy access to it. For the rest, offering owner financing can resolve the cash issue. If you decide to go this route, you must be sure to get enough up front to make yourself happy, pay your expenses, then carry back a promissory note from the buyer for the balance. Buyers become borrowers, and must be carefully vetted of course.

During this process, you will need to do a gut check. By now, the asking price has been established, and you may have a better understanding of the remaining steps. Now is when you must fully commit or delay your big deal for another time. It could be time to wander in the forest, speak to your family and partners, and get to a place where you feel good with your decision.

Research

If you're still in the game, it is time to research anything else that might affect the sale. Can a new buyer get the licenses or permits that they want? They'll ask if the licenses or permits to run a towing operation are grandfathered with the real estate, conforming or special use. It is vital that you know the answer.

It is tricky, because the operator may be able to continue business as usual, but cannot get a permit to expand a building. City planners tend to want to push towing companies out of populated areas, and they do this by way of zoning and permit control. Sellers should also determine in advance how the rotation contract could migrate to the new buyer. Every jurisdiction has its own way.

Once the information is collected, some marketing materials can be developed. Your objective is to create a compelling story as to why someone would pay good money to trade places with you. When a connection is made, the serious buyer will demand information immediately. If it takes too long to supply, or the story is not compelling, the buyer is lost.

Get a Commitment

A buyer must be interested in both the real estate and the business in order to proceed (although some buyers have been known to buy a business to move it). Opinions regarding the real estate can be formed once the buyer sees the facility and does some research on value.

Smart sellers make sure that the operation, including the fleet, is in good shape for an inspection. The buyer will envision physical changes to the real estate to fit their model, and the associated costs to make those changes. Either they like that vision and proceed, or they will fade away.

The buyer will examine the business separately from the real estate, wanting to know how you're currently operating, and how that might be different from their own model. Maybe they will want to build upon your business, make changes, or they may have entirely different business plans. The prospective buyer will be thinking of this and much more.

Showing them the appropriate

information that helps them with that vision is key. If the information is not believable, or is delivered as a jumble of papers or a piece at a time, you may lose the sale.

The financial information must be provided carefully and professionally. They've signed a confidentiality agreement by now, but it still requires mutual trust to proceed. (There are many buyers who don't get financial information from me even with a signed confidentiality agreement if I don't get a good read on their sincerity to buy.)

Sometimes sellers are reluctant to disclose their financial information if the business is not doing well. It usually is better to disclose and count on the buyer's confidence in their own skills to make the business profitable. A confident buyer is a good buyer. Telling a prospective buyer that you do not have financials available sends a very bad signal; your honesty may even come into question. Of course, the deal is then lost.

Now is not the time to be a difficult seller. Have your information laid out in advance, and anticipate every question that you can. Always give consistent and honest answers and be able to prove the value.

Now is when you must fully commit or delay your big deal for another time.

You'll know that you're making tangible progress when you receive a term sheet or Letter of Intent that informally lays out the deal. You will want your attorney's input at this point; don't sign anything that you might regret. It will usually be non-binding so that the parties can continue their evaluation before signing final documents.

It is now time to test your negotiating chops. You have a buyer who could potentially be very sincere now, and rejecting any of their deal points requires some tact and skill. It is very easy at this point to send the potential buyer running away from the deal by being unreasonable or failing to give on issues of little consequence. You do have some negotiating strength, and should be rewarded fairly. After all, the buyer has made a significant move by making you a written offer.

Due Diligence

As in buying a house, there is a period of inspection prior to closing. We call this the due diligence period. In towing, there are some very important issues to be evaluated during the due diligence process. These are real estate inspections, environmental analysis, demographic and competitive analyses, zoning and permitting, rotation questions, company leadership, financial analysis, etc. This is in addition to your due diligence in confirming that the buyer has the financial strength to close.

There is a tendency for sellers to

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get complacent and relax during due diligence. They let down their guard. They might not believe that they must continue to operate with the same enthusiasm as before, or take on the difficult employee or customer issues, etc. They might figure that they're selling the business and they can let the buyer handle these issues, so they start their retirement early.

You'll need to motivate yourself to press onward. Closing deals in this industry inevitably takes longer than expected, and there is always a chance that it will fall through. If you've diminished the value of your business, and it does not sell, then you may have a hard time motivating yourself again. Continuing the hard work for the final mile is the best way to make the time pass quickly, while maintaining the value of your business. Don't let the buyer sense an opportunity to trim the price.

> **City planners tend to want to push towing companies out of populated areas, and they do this by way of zoning and permit control.**

The operators whom I respect the most are the ones who continue to innovate after a term sheet is signed, even knowing that they might sell soon. They continue to make smart decisions that will drive sales and profit, regardless of whether they end up selling or not. If the deal closes, they may be able to increase the purchase price, or at least have the comfort of knowing that they left the business in great shape for the buyer. If the deal does not close, then you can see how this hard working and positive attitude will be to your benefit.

During the due diligence phase, the final purchase agreements are being drawn up by the attorneys. It is a big undertaking to ensure that the real estate and business asset deals are properly described, including any issues pertaining to the environment, employees, customers, equipment, rotation contracts, liabilities, non-competition, tax implications, etc.

So many deals fail in this phase. This is when an objectionable issue may be discovered, or the buyer gets cold feet. With proper preparation, you will have considered the "gotchas" and are prepared. Turn over the keys at closing and get ready for your next adventure.

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