



**Entrepreneurial View**  
**Volume 1, Issue 1**  
**May, 2008**

- This Issue:*
- *Industry Insight: Freight Trucking*
  - *Who's Buying Now?*
  - *Meet and Greet: John Barnes*

**“Who’s buying now?”**

**What your M&A advisors should be telling you about the economy and your operations**

By: Bill McAfee, President and Chief Investment Officer

At some point, every business owner looks at leaving. Most will at least consider selling the company to another firm. As the economy slows, the options for a short-term exit diminish. What should business owners do now?

Over the three years leading up to July of 2007, activity related to transfer of privately –held businesses increased substantially. The ability to obtain financing made transactions relatively easy to accomplish and business owners were generally able to find good terms for exiting without too much effort. Prices for business were climbing relative to the profits those companies produced. Now, according to Mergerstat, 34 out of 49 industries have lower merger activity than in the previous year. The slowdown in the economy and the tightening of lending standards are largely to blame.

Because most mergers are financed using some form of bank debt, the “credit crunch” slows down activity for “financial buyers” such as private equity and buyout funds. These buyers had been willing to pay higher prices for companies because of the relative ease of credit and this drove merger activity in the recent years.

Now business owners will need to become attractive to “strategic buyers,” or those buyers for whom there is a benefit by consolidating the business into existing operations. Until the last three years, these buyers had traditionally paid higher prices than financial buyers because of the synergies created, known as “economies of scale.” Interestingly, now those strategic buyers are generally well-positioned because many of them have larger stockpiles of cash on their balance sheets, and will look to buy revenue to grow in a slower economy where it is harder to sell more products and services.

Business owners will have to operate companies in a way that makes them attractive to strategic buyers. The best way to do this is to operate as if the business had to go on by itself for another 20 years. Building systems in the company, using capital efficiently and carefully tracking the value as the company grows will ensure a successful exit at a better price.

For more information on how to grow, track and transfer the value of your company, please visit [www.whmca.com](http://www.whmca.com).

**Industry Insight: General Freight Trucking**

By: Matt Morley, Research Analyst

The trucking industry carries 70% of freight value in the U.S., with the highest concentration of trucking companies located in the Southeast (~28%). As the cost of drivers and fuel climbs higher, and with the economy in a potentially recessionary downturn, trucking companies face increasing challenges to their top and bottom lines. The vulnerability of the trucking industry in economic downturns is well known and well documented, but the services it offers are irreplaceable to its three core sectors of clientele: manufacturing, construction, and retail. Knowing that the industry itself will survive and continue to thrive with the eventual return of a healthy economy, a more pertinent question at this point is: What makes a trucking company successful in times of slow or negative growth? The short answer is that companies that provide consistent, high-quality service at rates near or below the industry average will succeed. This argument makes sense, but its implementation is far from simple. The highly competitive nature of the industry and the extent to which external challenges put pressure on individual companies must be taken into consideration. At this point in time, the issues most affecting the ability of trucking companies to lower costs and provide reliable, high-quality service are the rising cost of fuel, an over-supply of trucking establishments, and a continuing shortage of drivers.

Trucking companies compete in two broad areas. They strive to lower costs for themselves and their clients, and they work to build and maintain reputations for being reliable in providing high-quality service. Companies are continuously pressured to lower rates as the industry is flooded with new fleets due to low barriers of entry. With 14.7% of revenue generated by the four top trucking companies, sales are highly dispersed compared to the railroad industry, in which the top four companies bring in 84% of revenue. 70% of companies in the industry employ ten people or less, and with so many small companies competing for limited demand, pricing pressures are intense.

From internal competition, to fuel costs, to the shortage of drivers, the business of trucking is a challenging one, but the industry will continue to see growth as the economy turns around. Trucking companies that not only provide low-cost, but also high reliability will turn the corner coming out of the slow down to find more loyal customers and a larger market share.

**Meet & Greet: John Barnes**  
**Financial Analysis Director**

John Barnes is the Financial Analysis Director for WHM Capital Advisors. John focuses on the day-to-day analysis work of the firm, and oversees implementation of clients’ financial strategies. He also has duties in portfolio management, quantitative analysis, and business valuation.

John works with individual clients and business owners to help them implement their overall financial strategies, benchmark business value and its drivers over time, and optimize their investment portfolios to meet the clients’ objectives.

John began his career at Wachovia Bank, N.A. where he held the title of Vice President . During his time there he held several management positions and prior to leaving was part of a process team overseeing Securities Operations with Wachovia Securities, LLC.

John is a graduate of the University of North Carolina at Chapel Hill. He is active in his community and serves on the local board of Young Life. John and his wife, Jennifer live in Columbia, South Carolina with their two children.

**WHM Capital Advisors, LLC is a financial advisory and wealth strategies firm headquartered in Columbia, South Carolina, which specializes in valuing companies, designing exit strategies and managing portfolios for business owners.**