Industry Specialists Discuss the Impact of COVID-19 on the Transportation Industry With Mark Furman and Richard Conroy of Beechwood Capital Advisors, LLC

May 18, 2020: Anthony J. Vizzoni Esq., Transportation Practice Leader of Becker LLC, interviewed fellow Industry Partners Mark Furman and Richard Conroy of Beechwood Capital Advisors, LLC about the hot topics they are consulting with as to their transportation clients about during the COVID-19 crisis.

Becker: Are you seeing deals already in your pipeline being put on hold, or are they advancing towards closing? What challenges are you facing? Which types of deals are moving forward and specifically what are your thoughts as to deals in the trucking and logistics industries

Beechwood: M&A Deals in our pipeline that were well into the due diligence process and are continuing to operate profitably are advancing towards closing with some minor delays mostly related to transitioning to working remotely.

Financing deals have been put on hold pending post-shutdown analyses. Uncertainties related to supply chains, logistics and the timing of starting up production balanced with sales have all impacted financings. Additionally, without exception, businesses are waiting for funds related to government sponsored programs to "settle" before exploring any additional financing needs or shortfalls.

That being said, businesses that were in high demand prior to the COVID-19 disruption such as SAAS and health care-oriented companies are still attractive to investors. Investors and PE funds see this period of time as a time to invest at attractive valuations.

We expect to see winners and losers in the trucking and logistics industry. We are already seeing a significant jump in the Amazon public valuation as increased sales based on online purchasing. In fact, Amazon has been so busy it announced it was hiring another 100,000 people. Walmart said it is adding 150,000 new employees through the end of May.

The trucking and logistics companies supporting the delivery and transportation of those products sold online and food logistics are doing well as stay at home budgets are focusing on food. The more challenging sectors are those businesses transporting oil and fuel as travel has decreased. Other at-risk businesses include those that deliver to retail in general and restaurants specifically. Big winners thus far are refrigerated and food haulers, construction, last-mile delivery and fleets hauling medical supplies.

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Becker: Which industries are "hot" now and which ones are not? What would you suggest that a company looking to sell in a not so hot industry do today if they want to go to market in the next year or so on a company sale?

Beechwood: Retail businesses that have been closed during state-wide mandatory stay at home orders are considered "non-starters" for financing purposes. Otherwise, businesses with a solid history and a path towards recovery once the economy opens will still be attractive for both financing and M&A but enhanced diligence will require better preparation pre-transaction financially, organizationally and structurally. Hot industries are food, health care, alcohol and medical & recreational cannabis.

We are currently speaking to a number of companies that would like to go to market despite the current economic impact of the pandemic. Several companies are doing well, or are otherwise stable, in the current environment. These companies will still be attractive to potential buyers who have funding to make acquisitions. Alternatively, they will be able to raise capital since investors still have capital to put to work and are looking to build and diversify their portfolios, terms notwithstanding.

One of the situations that has come to our attention is a company doing as much as $25MM in revenues per year. They have asked us to explore taking them to market because, as older owner/operators, they don't want to go through another business cycle or market disruption. While their business is down considerably due to government imposed lockdowns affecting their clients, their brand recognition and core market dominance is still present allowing for a quick rebound once the market turns. We are working with them and analyzing their backlog to revise their financial projections to take current market conditions into account.

We believe a sale for a transitional business such as this can be accomplished towards the latter part of 2020 and into early 2021. These businesses will be more valuable if they can demonstrate that many of their expenses are variable, can be reduced during downturns, and operate more efficiently in difficult times resulting in better bottom lines. Also, this time allows for companies that are not already doing so, to sure up their financial reporting and possibly move from compilations to reviewed or audited statements to provide more independence and objectivity when ultimately presenting financials to prospective buyers.

Becker: What is your view of financial buyers versus strategic buyers in this market?

Beechwood: In volatile and uncertain markets like the current environment, we see the following:

- Financial buyers look for bargains – they try to use market conditions to their advantage as pricing leverage.
- Strategic buyers look for opportunities – they see the current market as an opportunity to consolidate and acquire quality companies at attractive prices and are not as price sensitive as financial buyers as they can better mitigate risk and timing.

We are expecting more M&A in transportation and trucking by strategic buyers as they can build revenues by acquiring routes, customers and capacity at attractive multiples. We expect that PE funds will be less active in the space.

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Becker: What would you say to trucking and transportation company owners who are hesitant about entering into a sell-side engagement at this time? Give us a few quotes we can use.

Beechwood: It may sound obvious, but you cannot time the market. As indicated above, strategic buyers are actively looking to make acquisitions so, for companies that are seeking an exit for liquidity or to mitigate risk, entering into a sell-side engagement might be worthwhile. Additionally, the quantity of deals in the market will be reduced so companies have the ability to "stand out" to buyers where they might not have before. The crowding out effect is being reduced.

A key indicator is the freight spot market, which represents about 20% of the industry. Since the middle of March, the equilibrium has changed for the worse for truckers, according to DAT's latest numbers Dial-A-Truck ("DAT") load finder service]. Overall, the number of available loads posted were up 39.1% in March compared with March 2019 and the number of trucks looking for loads increased 6.3%. But the numbers totally flipped in the final weeks of March and the start of April. Compared with the March 23-29 period, spot load posts nosedived 38.7% while posts for trucks looking for loads increased 12.7%. "Demand has fallen off sharply after the initial wave of replenishment shipments.

This drop in demand will put a number of trucking companies at risk and drive consolidation in the transportation industry. We expect to see a significant amount of M&A as strategic buyers buy up struggling competitors. PE funds will look at investing in those sectors that have significant upside.

Becker: We have seen much government financial assistance available to businesses as a result of the COVID-19 pandemic – are there finance opportunities out there that you are able to provide clients at this time?

Beechwood: As indicated above, traditional sources of capital, such as banks, are focusing on protecting their existing portfolios and are taking a more "wait and see" approach but alternative sources of capital see opportunity. They are selective and more return oriented than traditional sources but can provide liquidity above and beyond PPP/EIDL Loans. To provide companies visibility to this less traditional capital market, Beechwood has established a no-risk, no-cost method of introducing companies to capital providers to broaden their financing exposure and only gets compensated should an actual financing occur.

The trucking industry didn't push for specific relief in the Federal CARES Act, (Coronavirus Aid, Relief, and Economic Security), however many, many trucking companies have been applying for the SBA (Small Business Administration) program or are preparing to access the Exchange Stabilization Fund or other tax credits; but it may not be enough as businesses, eventually, prepare to start turning the key on re-starting the economy. The transportation industry is already lobbying with many supporters in Congress to make sure that these programs are expanded, and truckers have access to liquidity.

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***Becker:** We are all hearing about the anticipated waves of bankruptcy filings to come as the effects of the COVID-19 crisis surge across the country. We have seen opportunities for our clients in the trucking and transportation industries as they purchase assets through bankruptcy sales, at times at significant discounts and with no exposure to debtor-related liabilities under court orders selling assets free and clear of liens. I know you have been through many due diligence exercises with your clients assessing purchases of businesses and assets through the bankruptcy process. Can you provide some insight on that front? Specifically, what do you think are the "big ticket" areas of concern that our clients need to be aware of in completing their due diligence in making a bid to purchase assets through the bankruptcy process?*

Beechwood: On a fundamental level, we all know that bankruptcy results when liabilities exceed assets and the business can't support its debt obligations. While the bankruptcy process itself addresses creditor issues, its focus is not necessarily on the viability of the underlying business which is important from a purchaser perspective. As such, bidders for assets through bankruptcy must still focus their diligence on the underlying viability and sustainability of the core business and not get lured into a purchase by the temptation of purchasing assets at a discount. All too often we have seen perceived discounts quickly erode due to either deteriorating market conditions and/or operational issues masked by bankruptcy.

We are seeing strong companies using bankruptcy as an opportunity to purchase customer lists and equipment from weaker competitors. Bankruptcy is seen as a particularly safe way of purchasing assets since other liabilities are not assumed in the purchase. Since taking market share from competitors is often difficult using a traditional sales process, strong competitors will take advantage of a consolidating market to build market share. In particular, transportation acquirers will want to give close review to make sure that the customer list is still valid and make an evaluation whether the customers will continue to be in business. Our experience is that equipment purchases out of bankruptcy also need to closely be reviewed since the equipment is often poorly maintained and may not be worth what buyers pay for them.

Since bidders are not shielded from over-paying for assets just because they are purchasing assets out of bankruptcy, we work with buyers to evaluate all aspects of the business including system integration, logistics, personnel coordination, overlapping operations and resource allocation in order to mitigate risks that might otherwise be overlooked by bidding on perceived discounted assets.

About the Authors:

About Mark Furman: Mr. Furman, Partner, has over 35 years of experience providing corporate finance and investment banking services to clients with an emphasis on mergers and acquisitions (M&A) and financing. Mr. Furman has completed successful transactions, valued at over $2 billion, dating back to the 1980's. Prior to joining Beechwood Capital Advisors in March 2019, Mr. Furman was a Vice President in the Media Group of The Chase Manhattan Bank and participated in over $1.5 billion in total structured debt and equity transactions while at Chase.

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About Richard Conroy: Mr. Conroy is a partner at Beechwood Capital Advisors. He has over 30 years of experience in investment and commercial banking as well as consulting. He has led and executed numerous and complex leveraged transactions. Mr. Conroy has provided debt and investment banking services to public, private, domestic and international corporations in consumer products, energy, food and beverage, infrastructure, manufacturing, medical, mining and minerals, retail, transportation and warehousing. Mr. Conroy has been involved in debt and capital raising transactions representing total consideration in excess of $25 billion.

About Anthony J. Vizzoni, Esq.:

Anthony is Chair of the Firm's Business Services Group, Co-Chair of the Firm's Transportation Group, and a member of the Firm. He primarily focuses his practice on corporate transactional matters, trucking, transportation and logistics, complex financing transactions and commercial real estate. Mr. Vizzoni has over 30 years' experience in the practice of law and the area of financing.
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About Becker LLC:

Becker LLC is a premier mid-market firm with offices in New York, New Jersey, Philadelphia and California. The firm provides the complete spectrum of legal services from litigation, transactional, labor and employment, and bankruptcy law counseling, to intellectual property, real estate and construction law related advice. Our size and regional footprint allows us to provide sophisticated services in a manner not only focused on results, but also on our client's return on their investment.

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