



# VIEWPOINT

by Michael A. Papile

## Should You Sell or Outsource In-House Transportation Assets?

**M**any companies with in-house transportation capabilities in place to support core operations often explore outsourcing to cut costs and liberate capital. Shareholders of these companies – whether public or private – are often better served by viewing these assets as a standalone business for an eventual spin-off or sale as a going concern.

Whether to sell, spin off, or outsource transportation capabilities can be decided only after a rigorous evaluation of the operation's value and earnings potential.

Typically, companies explore transportation outsourcing to liberate capital and reduce overhead. They hand over such operations to providers that have more purchasing power for equipment, more efficient fleet maintenance, and more effective fleet utilization. Examples of such outsourcing arrangements include full-service truck leasing, dedicated contract carriage, or a third-party logistics contract.

If the in-house capabilities are extensive, however, with a solid infrastructure or sophisticated technology, and the potential (or current ability) to serve outside customers, they may constitute more than just a sound back-office function. Instead, they may be an effective,

viable, standalone transportation management or third-party logistics business that can be sold to a strategic or financial buyer, or spun off as a separate operation.

Spinning off the assets into a separate entity could be a feasible strategy, especially if the parent company or shareholders have no need for the liquidity that a sale would generate. It could also be a viable intermediate strategy prior to a sale if the operations have sophisticated capabilities, but perhaps lack outside customers or cash flows that are independent of the parent company.

### A SELLER'S MARKET

Currently, there is a deep universe of transportation and logistics asset buyers. Potential strategic acquirers include regional or national motor freight carriers and truck leasing companies that are looking to broaden their logistics capabilities, expand geographic markets, or diversify their customer base.

Numerous financial buyers have targeted the logistics sector for investment and may support a management-led buyout or acquisition of the assets as an add-on to an existing investment in the sector.

When evaluating the sale of such assets, potential sellers should consider

the following seven factors:

**1. Hard assets.** The market price of trucks, trailers, containers, or distribution facilities is only a start when assessing value and may not accurately reflect the operation's earnings potential. Determine actual or potential cash flows.

**2. Scalable technology.** An operation with substantial hard assets but little scalable technology may not be worth much more than the value of the underlying assets. Potential buyers may be more attracted to asset-light operations with unique capabilities and scalable technologies that can be leveraged to grow the business.

**3. Actual cash flow.** If the operation is run as a profit center, and serves outside clients to fill backhaul or other capacity, actual reported cash flows might be a suitable basis for measuring value. If outside revenue is nominal, however, or if the internal rates charged within the company are below market, the business' true cash flow potential may be understated.

**4. Service agreements.** Pro forma cash flows should consider not only the operating efficiencies and revenue synergies an acquirer might achieve, but also the terms of any long-term service agreement between the buyer and seller. How favorable these terms are to

**If your in-house transportation capabilities are extensive, with a solid infrastructure and the ability to serve outside customers, it may make sense to sell them to a strategic or financial buyer.**

the seller has a direct relationship to the sale's valuation – the higher the rates charged, the greater the value.

**5. Growth potential.** While it is unlikely that the seller will realize a valuation reflecting the full benefit of any upside potential in pro forma cash flows, the financial implications of these potential benefits should be the cornerstone of any negotiating strategy with the acquirer.

**6. Complementary capability.** Unless a technology or capability is considered to be truly complementary, it is unlikely

that a third-party logistics provider will pay a significant premium for similar capabilities. They will more likely view the transaction as a traditional outsourcing deal.

**7. Earnings potential.** The most important factor for an acquirer is the operation's earnings potential. A strong management team, favorable terms for any service agreement with the seller, and potential to cultivate additional customers are all evidence of high value potential.

Today's mergers and acquisitions market supports strong demand for truck-

ing, transportation management, and logistics assets. Creating a viable stand-alone business out of an existing internal transportation operation offers an excellent opportunity for a company to free up capital and reduce costs while enhancing shareholder value.

Your company should take a good hard look at whether it has the right capabilities for this kind of transaction. If it does, you can explore whether selling your transportation assets is an appropriate move for your company and its shareholders. ■

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