

Pre-Meeting Proceedings*

McVey, Pautsch, Fren & Barmel
Agricultural & Transportation
Infrastructure Issues in the 21st
Century

Transportation Research Forum

34th Annual Meeting



Editor:
Russell B. Capelle, Jr.

October 21-23, 1992
St. Louis, Missouri

*"The St. Louie Book"

**CHUMPS PLAYING STUD
THE INVESTMENT RECORD OF THE CONGLOMERATE
ACQUIRERS OF TRUCKING COMPANIES**

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SUMMARY OF PAPER

Since the 1960's sixty-four diversified companies have entered the trucking industry by acquisition of one or more existing carriers. Of these forty-two subsequently exited the industry. Only seven of the acquisition programs were judged to have generated investor returns equalling the cost of capital. Forty-four programs generated large losses.

The reasons for the poor return to the shareholders of the acquirers are: a.) the minor areas of value creation by the acquisition; b.) problems resulting from over-priced acquisitions and unrealistic assumptions; and, c.) the overall poor investment results realized by trucking investors due to the competitive nature of the industry.

CHUMPS PLAYING STUD
THE INVESTMENT RECORD OF THE CONGLOMERATE ACQUIRERS
OF TRUCKING COMPANIES

*But their name would be mud
Like a chump playing stud
If they lost that old ace in the hole!*

The Ace In The Hole
by James Dempsey and George Mitchell¹

Since the early 1960's there have been several waves of acquisition of motor carriers by companies outside the trucking industry. The first was during the "conglomerate era" of the 60's when diversified acquisition programs were popular in corporate board rooms and on Wall Street. The next phase occurred in the mid-to-late 70's when the high profits of some truckers drew interest. Finally, after the Motor Carrier Act of 1980, which essentially deregulated the industry, a third wave passed as outside investors sought to participate in what they saw as a profit opportunity. In all, I have been able to locate sixty-four companies, outside trucking, that acquired motor carriers.

There is no question that, in a wide majority of the cases, the attempts of diversified companies to successfully enter the trucking industry have been a dismal failure. In this paper we will explore trucking acquisition programs carried out since the early 1960's from four aspects:

- 1.) Who were the buyers? What companies were acquired? Are they still in operation? Are the buyers still active in trucking?
- 2.) Why did the buyers decide to acquire trucking companies?
- 3.) Is there any pattern of success or failure? Such a pattern could have occurred based on timing or by strategic rationale for the acquisition.
- 4.) Why did they succeed or fail and why was the overall result so adverse?

Of the sixty-four acquirers listed below, the author's experience included some type of contact relative to the acquisition/divestment activity with forty-two of the companies. It is not possible to get accurate information about why an acquisition program was really undertaken and especially about why it failed. Not only would people's employment be jeopardized but also financial liability might be incurred. It is just as useful, and probably more accurate, to lay out expert opinions about why the programs were undertaken and succeeded or failed. That is what is done in this paper.

Section 1.) Who were the buyers? What companies were acquired? Are they still in operation? Are the buyers still active in trucking?

ACQUIRING COMPANY AND INDUSTRY ²	ACQUIRED COMPANIES	INVESTMENT DISPOSITION
1. Allegheny Corp., Financial Services	Jones Motor	Unsuccessful-sold but survives
2. American Export Istbrantsen, Ocean Shipping	Eastern Express, RC Motor Lines	Merged, bankruptcy liquidation
3. American Natural Resources (acquired by Coastal Corp.), Gas Pipeline	Garrett Freight Lines, Associated Truck Line, Graves Truck Line, Centralia Cartage, Neuendorf Freight Line	Merged, operates over part of territory, very large persistent losses
4. ARA Services, Vending	Smith Transfer, Cooper Motor Lines	Smith bankrupt, Cooper sold
5. Banner Industries, Conglomerate	Commercial Motor Freight, Lovelace Trucking	Spinoff, later bankrupt
6. Brae Corporation, Leasing	Cargo Inc.	Closed
7. BET Group PLC, (formerly British Electric Traction) UK Conglomerate	DSI, Bralley-Willett, Indian River, Mercury, Ward	Successful
8. Burlington Northern, Railroad	Monkem, Stoops, Wingate, Taylor-Made, Monroe, Victory	Victory closed, remainder sold at a loss
9. Butler International, Aircraft Services	International Transport	Sold at a loss, still in operation
10. Continental Training Services, Truck Driver Training	Overland Express	Bankruptcy liquidation
11. Contrans Corporation, Trucking in Canada	Global Van Lines	Operating profitably
12. CSX Corporation-Baronial straw-man vehicle, Railroad and Ocean Shipping	Countrywide Trucking, Customized Transportation	Sold at a loss Operating profitably
13. Chromalloy American Corp., Conglomerate	McBrides Express, FMS Transportation, Kelmae Cartage	Companies have disappeared
14. Del Monte Corp. (acquired by RJ Reynolds Industries), Foods	Willis Shaw, Ida-Cal Trucking	Successful-later resold Unsuccessful-later resold
15. Freeman & Spogle, Leveraged Buyout Firm	St Johnsbury, Milne, Jones Truck Line	Bankruptcy liquidation of two, St. J survives in bankruptcy
16. Flying Tigers (acquired by Federal Express), Air Freight	Halls Motor Transport, Dohrn Transport, Warren Transport	Bankruptcy liquidation, Warren operating profitably
17. Fuqua Industries, Conglomerate	Interstate System	Bankrupt and liquidated
18. Gerber Products, Foods	CW Transport	Solvent liquidation
19. Gold Dome Savings, Leveraged Buyout Unit of S & L	Midwest Coast Transport	Operating profitably
20. Hanson PLC & Walter Kidde, Conglomerate	Tose-Fowler	Liquidated after shutdown
21. Investcorp Partners, Conglomerate	Burnham Service Corp, TW Owens	Unsuccessful, in operation
22. IU International, Conglomerate	Ryder Truck Lines & Pacific Intermountain Express Ligon Specialized Hauler, Poole Truck Line, Thurston Motor Lines C&H Transportation	long successful, spun-off, later bankrupt and liquidated successfully sold and still in operation sold, buyer liquidated sold, later liquidated
23. Jupiter Corporation, Conglomerate	Kenosha Auto Transport, Boat Transit, Dallas & Mavis	Losses-spinoff, Profitable but declining
24. Kelso Corporation, Leveraged Buyout Firm	Smizer Trucking, Arkansas Best Freight, Landstar System, Merchants Motor Lines	Successful-so far
25. Kohlberg Kravis Roberts, Leveraged Buyout Firm	Eagle Truck Line & FB Motor Lines	Bankruptcy-liquidation
26. Laidlaw Inc., Trucking in Canada	Boss-Linco	Spinoff, bankruptcy liquidation
27. Le Perq de Neufelize, Leveraged Buyout Firm,	Burlington Northern Motor Carriers	Operating, results uncertain

ACQUIRING COMPANY AND INDUSTRY ²	ACQUIRED COMPANIES	INVESTMENT DISPOSITION
28. Leaseway, Leasing,	Midwestern Express	Solvent liquidation
29. Leawood Group, Leveraged Buyout Firm,	Freightcor and Delaware Trucking	Out of business
30. Ling-Temco-Vought (and Saturn Industries), Conglomerate,	C & H Transportation	Spun-off to shareholders while still successful
31. Fall City Industries, Brewing,	Middlewest Freightways	Sold for nominal price
32. Minstar, Inc. & Irwin Jacobs, Conglomerate,	Bekins Van Lines	Restructured and shrunken but still in operation
33. National City Lines (acquired by Harold Simmons), Urban Transit,	DC International & TIME Freight Janesville Auto Transport Automobile Carriers, C & J Commercial Dealers Transit	Merged, later bankrupt Sold-successful Sold-successful Sold, shutdown
34. National Freight Consortium, Trucking in U. K.,	Allied Van Lines, Merchants Home Delivery	In operation-successful so far
35. NEOAX, Conglomerate,	IU International transport units	Sold trucking units
36. Noble Affiliates, Oil Exploration,	B.F. Walker Trucking	Sold in distress, closed
37. Norfolk Southern, Railroad,	North American Van Lines, Tran-Star Inc.	Operating, losses, half purchase price written-off
38. Novo Corporation, Conglomerate,	Boss-Linco,	Bankrupt and liquidated
39. Pakhoed of the Netherlands, Port Operator,	DSI Transport	Sold after short holding period
40. Pepsico, Inc., Foods,	North American Van Lines, National Trailer Convoy, National Refrigerated Transport, Leeway Freight System	Successfully operated and sold Sold-later bankrupt Losses but sold successfully Unsuccessful, sold, bankrupt
41. Republic Industries, Conglomerate,	Riss International	Bankrupt and liquidated
42. Rollins Leasing (now RLC, Inc.), Leasing,	Matlack, Inc.	Spun-off, losses
43. Ryder System, Leasing,	Interstate Contract Carrier, Western Exp, Tennessee Cartage, Eads Moving Brokers, American Traffic Coordinating, Transport Storage & Dist. Numerous auto hauler carriers	Unsuccessful solvent liquidations Sold with a dowry Sold or dissolved Successful
44. Saunders Leasing (acquired by Ryder System), Leasing,	Chem Haulers	Losses, later sold
45. Sherwin Williams, Paint Manufacturing,	Lyons Transportation	Bankruptcy liquidation after sale
46. Sun Oil, Integrated Oil Company,	St. Johnsbury, Milne & Jones, Standard Trucking Scheduled Truckways	Sold successfully Sold with a dowry Distressed sale, later bankrupt
47. Taggart Group, Leveraged Buyout Firm,	Pilot Freight Carriers (from TNT),	Later bankrupt and liquidated
48. Telecom Corp., Conglomerate,	Red Ball Express, ET & WNC Trucking & Spector Freight System	Merged, bankruptcy liquidation
49. Texas Gas Transmission, Pipeline,	Terminal Transport & All-American Freight, Midwest Coast Transport, Commercial Carriers	Merged, losses, spun-off, later a bankruptcy liquidation Spun-off, operates profitably Sold in deteriorated condition
50. Thomas Nationwide Transport, Trucking in Australia,	Acme Freight System, Pilot Freight System, Schusters Express, Robin Transport, Red Star Express, Holland Motor Express, Dugan Truck Line, Reddaways, Bestway, United Trucking, Big State	Solvent liquidation Sold with dowry-later liquidated Merged with Pilot Resold unsuccessfully Operates profitably, remaining group spunoff via IPO in 1992
51. TIC Industries, Leveraged Buyout Firm,	Chemical Express	Operating, Negative Net Worth

ACQUIRING COMPANY AND INDUSTRY ²	ACQUIRED COMPANIES	INVESTMENT DISPOSITION
52. Transamerica Corp., Insurance and Leasing,	Schanno Trucking Forwarders Transport	Unsuccessful, sold Closed
53. Transport Development Group of the UK, Trucking	Willig Freight System, Market Transport & Willett Trucking	Marginal operations Sold back to former owners
54. Transport Investment Corp. Leveraged Buyout Firm,	Akers Motor Lines, Central Motor Lines	Out of business
55. Tri-Mac of Canada, Trucking in Canada,	Liquid Transporters, Universal Transport, Johnston's Fuel Liners, Les Calkins T'kg	Profitable
56. Two Trees Management, Leveraged Buyout Firm,	Builders Transport	Operating at a loss
57. Tyler Corp., Conglomerate,	C&H Transport, Thurston Motor Line	Successfully operated, later sold
58. Union Pacific, Railroad,	Overnite Transportation	High price-profitable operations
59. United Technology, Manufacturing Conglomerate,	Transport Motor Express	Solvent liquidation
60. U. S. Industries, Conglomerate,	C. I Whitten, B & P Motor Express, and M & M Trucking	Sold, later bankrupt, Whitten in operation others liquidated
61. Wedge Group, Leveraged Buyout Firm,	McLean Trucking and Delta California, Merchants Motor Lines	Both bankruptcy liquidations Resold, now profitable
62. Wesray Corp., Leveraged Buyout Firm,	Atlas Van Lines	Successfully resold
63. Wyle Laboratories, Conglomerate,	Mercury Tank Line	Later resold to management
64. Xtra, Inc. Leasing,	Mercury Motor Express	Liquidated in a shutdown

The total program involved sixty-four acquiring entities that took over more than 134 trucking companies. I use the term "more than" because some multiple company acquisitions have been combined into one. For example, Ryder Systems' acquisition of many auto haulers was considered one acquisition. Some truckers were passed from one acquiring company to another. For example, Boss-Linco was owned by Novo Corporation and Laidlaw, Inc. before it was spunoff and later went bankrupt. North American Van Lines was owned by Pepsico for over twenty years before being sold to Norfolk Southern whereupon it soon fell into a persistent loss situation.

Of the sixty four acquirers, only twenty-two still have some or all of the trucking operations they bought. Interestingly enough, the attrition rate has not been as high among the acquired companies; sixty-eight of the 134 acquired companies are still in operation although many of those are financially marginal.

There was a need to use some selectivity in determining what would be considered an acquisition by a conglomerate for purposes of this paper. Acquisitions by existing industry members were excluded. The key here is whether the company was a U.S. trucking company when it began the acquisition program. If it was, it was excluded. There is one possible exception to this convention, I have included Leaseway's acquisition of Midwestern Distribution even though Leaseway began business as an auto hauler. Likewise excluded acquisitions by individuals who were trucking industry operating executives. Also excluded are those transactions, sometimes termed acquisitions, that were really part of a

bankruptcy-liquidation process. In the regulated era it was frequently better to acquire a company when all that was wanted was its ICC-granted operating rights. These have not been considered acquisitions either.

Section 2.) Why did the buyers decide to acquire trucking companies?

We will begin this analysis with what would appear to be an obvious and reasonable assumption; that the acquisitions were undertaken for the purpose of enhancing the shareholder value of the acquiring company. In the end could there be any other reason?

Those readers who have been part of top management, as the author has, know there are other reasons for acquisitions. The acquisitions are frequently pushed by brokers and investment bankers who do it for fees. Some managers want to expand the size of the business they are responsible for and thereby improve their chance of promotion. They then urge acquisitions which would fall within their responsibility. I am aware of an acquisition that was originated because one portion of a diversified business was becoming too dominant; the CEO feared that the board might elevate the head of that division over him. Therefore he acquired another company in a different business to expand his area of responsibility. Frequently the company's chief financial officer is the champion of the acquisition because his important role in it will improve chances of promotion over operating unit head rivals.

Acquisition programs are frequently undertaken because the business generates more cash than can be prudently reinvested in operating assets. If the company keeps the cash or pays down debt to very low levels, it can become the target of a hostile takeover. Rather than pay out the money to shareholders, which shrinks the business and has an unattractive income tax result for some shareholders, the company makes an acquisition. The recent example of Consolidated Freightways' disastrous acquisition of Emery Air Freight may fall in this category.

Nonetheless, whatever the real reason for the acquisition was, at some point it is probably measured against a standard of shareholder value enhancement. Without question the best way to analyze these acquisitions is against that standard. To help in this analysis I am relying greatly on the techniques developed by Alfred Rappaport as described in his excellent work Creating Shareholder Value.³ This book presents applications of the shareholder value approach to management planning and performance evaluation. While the work analyzes all types of business strategies and investments, it includes a separate chapter on mergers and acquisitions.⁴ We will come back to Rappaport's analysis techniques.

Trucking has always qualified as an interesting acquisition target because:

1. The industry is growing in size as a result of share gains from rail transportation, and is not exposed to foreign competition.

2. The trucking industry has always seemed to be concentrating, though this may have been largely been illusory. The apparent trend toward concentration interested potential acquirers who might benefit from the trend if they bought an ultimate survivor.

3. The industry is fragmented and the average size of company relatively small, so a significant position could be acquired at reasonable cost. On this basis many relatively small companies could be acquirers and the commitment of corporate capital put at risk kept to a reasonable level.

4. The apparent lack of broad business acumen of the trucking entrepreneurs struck the better educated professional managers of the acquirers as a potential upside. This also proved to be an illusion.

5. Despite poor overall margins and a high failure rate, trucking industry returns on capital have been acceptable. There have always been a goodly number of companies reporting outstanding financial returns. These became the acquisition targets.

3.) Are there any patterns of success or failure?

Assessing the success or failure of corporate acquisition programs by outsiders is difficult because the necessary financial information is not publicly available. One needs to know the total cash in, and cash out; this are almost never disclosed. In order to measure the success or failure of the acquisition programs in this environment of incomplete information, the companies have been exposed to both objective and subjective tests.

On the objective side, we sought to learn simply whether the acquiring company was still in the trucking business and whether the acquired company was still in operation. This survival record was then further analyzed by the decade in which the acquisition program was started.

On the subjective side, we broke the acquisition programs down into three categories by probable strategic rationale: 1.) conglomerate diversification; 2.) operational, innovation or synergy; and, 3.) financial, as in most leveraged buyouts. The success or failure of these was then measured in four different probable groupings of investor returns: 1.) very high return; 2.) probably returning costs of capital; 3.) may have returned some or all of investment; and 4.) probably lost most, all, or more than all of investment.

The use of the subjective estimates of investor return is

driven by the confidentiality of the financial return information. Even with the public companies, it is not possible to learn the real extent of the success or failure of the acquisition programs. If the management that made the acquisition remains in place, the programs are frequently made to look successful. If that management is changed, the truth frequently comes out. However, the industry practitioners have a very good idea of how successful the programs were from competitive interaction with the acquired companies and from the many informal sources of information. I am relying here heavily on my own knowledge and sources for much of the input to these subjective evaluations.

Analysis by decade program began: the following table breaks out the sixty four acquiring companies between still in and no longer in the business. They are further broken down by the decade in which they started their trucking acquisition program, the 60's, 70's, or 80's.

Decade Acquisition Program Began	Number of Acquiring Companies	Number Still in Trucking	Number Which Exited Trucking
60's	17	0	17
70's	21	7	14
80's	26	15	11
Total	64	22	42

The analysis merely shows that it takes some time for any activity as large as an acquisition program to work its way through the system. All of the seventeen acquiring companies of the 1960's have now left the industry. There is a footnote to this statistic. Ryder System owned general commodity and auto hauling companies in the 60's. The commodity carriers were sold in the mid 60's but they kept the auto haulers and even successfully acquired more. They later went back into commodity carriage with an acquisition program in the 80's that was a total failure.

Of the twenty-six companies that entered in the 80's, eleven have already exited. They are: Brae Corporation, Burlington Northern, Continental Training Services, Hanson Trust PLC, Leawood Group, NEOAX Inc., Saunders Leasing, Sherwin Williams, Taggart Group, Transamerica Corporation, and Wesray Corporation.

Analysis by acquisition rationale: the acquisition programs of the buyers, as outlined above, fall into three logical groupings by probable strategic rationale: 1.) conglomerate diversification; 2.) operational, innovation or synergy; and, 3.)

financial, as in most leveraged buyouts. The following table breaks out the acquiring companies both by the decade their program began and the strategic rationale.

Decade Acquisition Program Began	Conglomerate Diversification	Operational, Innovation or Synergy	Leveraged Buyout
60's	14	3	0
70's	13	5	3
80's	6	9	11
Total	33	17	14

This comes out about as one would expect - conglomerate diversification declining and leveraged buyouts increasing with the passage of the years. Operational, innovative and synergistic reasons increased, especially after deregulation, as investors sought to take advantage of the open market opportunities.

Conglomerate Diversification: In the 1960's the conglomerate merger period was in full swing. The theory was that the diversification inherent in a conglomerate would provide a better shareholder return. This, of course, missed the fact that shareholders could achieve that result by simply diversifying their individual portfolios. It also missed the fact that the diverse mix of many businesses created a very difficult management task. Managers in those years thought their skills easily transferable and had much less recognition of the formidable barrier posed by corporate cultures. Peter Drucker had an interesting observation on this problem.

"Three out of four managers from outside do not prove out, partly because there is such a thing as corporate culture. I don't know anyone who could leave GE and be really successful at Westinghouse... The fellow who believes he is transferable is guaranteed to come a cropper. The fellow who says 'I have to learn' has a chance"⁵

The real reason for the many conglomerate mergers was not the given reason of diversification. Rather it was a stock price enhancement strategy called *buying earnings*. In that time, as now, the market pushed companies to increase earnings per share. If a company could make an acquisition at a price that represented a lower multiple of earnings than that at which its stock sold, it could increase earnings per share simply as a result of the merger, even in an all-stock deal. If the acquiring company used cash, and borrowed the money, earnings per share increased even more.

Back in the 1960's the market valued trucking companies at among the lowest price-earnings ratios on the stock exchanges. This made them particularly interesting to conglomerates seeking to *buy earnings*. The given reasons for the low earnings multiple

were the negative aspects of Teamster involvement and the regulated character of the industry. Little did they know how much industry profit margin would drop when deregulation occurred.

Conglomerate diversification has remained a popular reason for trucking acquisition. The industry is thought to be concentrating (and has been so since the 60's) and acquiring companies can benefit from the concentration. This assumes that they are one of the survivors which, more often than not, has not turned out to be the case.

Operational, Innovative or Synergistic Reasons: The percent of trucking acquisitions which have been motivated by operational, innovative or synergy reasons has been on the increase. Some examples of these were:

(A) Sherwin Williams' acquisition of Lyons Transportation in which the additional business from the paint manufacturer was probably the operational rationale for the merger. This additional business, like Lyons' existing freight volume, was transported at a loss. Lyons lost a great deal of the paint company's money, was sold and promptly filed a bankruptcy petition and was liquidated.

(B) American Natural Resources' (now Coastal Corp.) acquisition of a group of shorthaul LTL motor carriers. ANR planned an innovation, entry into the longhaul LTL business between the intra-regional truckers using rail piggyback. It did not work and losses that would have bankrupted a less substantial buyer were incurred.

(C) Ryder System's acquisition of a number of truckload carriers. The synergy from Ryder's equipment purchasing power and perceived maintenance acumen was the acquisition rationale. Whether that synergy existed at all is open to question. However, the operational decline that occurred after the entrepreneur owners left resulted in large losses and ultimately liquidation.

We will carefully analyze the situations in which operational, innovative or synergistic reasons may be valid.

Leveraged Buyout: Like every other industry in the country, the trucking business was impacted by the leveraged buyout craze of the 1980's. Trucking leveraged buyouts were hard to carry out before deregulation. The reason was that the ICC operating authority, an asset of great value and a primary determinant of profitability, was a very hard-to-leverage asset. Lenders are uncomfortable liening on intangible assets. That increased the equity needed to acquire a good trucker. Deregulation changed all that by wiping out the value of the ICC rights and reducing the price to the acquiring company closer to the amount of money that could be borrowed by pledging trucks, terminals, and accounts receivable. The sum of these assets' collateral value usually exceeds the fair market value of even a very profitable trucking

company. Until the Comptroller of the Currency reduced the banks' ability to finance *highly leveraged transactions*, leveraged buyouts were popular in trucking.

In the table below you will note that the survival rate of the leveraged buyout acquisitions is better than that of the operational strategic rationale group. Their financial performance was probably, on average, better than of either of the other strategic rationale groups. This is surprising because the debt-loaded balance sheets that the LBO acquirees after acquisition definitely exposes them to higher risk of failure. The other categories had balance sheets that were often stronger after acquisition than before. We will explore this more fully below as well.

An analysis of success or failure of programs by strategic rationale follows. These were divided into four different probable groupings of investor returns: very high return, probably returning costs of capital, may have returned some or all of investment, and probably lost most, all, or more than all of investment.

To be considered a very high return, the return on total capital would have to have been excellent and the company would have to have built up a formidable competitive strength. The competitive strength is need to pose a barrier to competition and assure future excellent returns. I do not believe any of the acquisition programs meets this test, although the BET-United Transport program has a chance.

The "returning costs of capital" group should be considered successful, at least up until now. They could be doing better than just a cost of capital return, but the uncertainties of the incomplete financial information limit more expansive terms.

The "some return of investment" category might also be called the "question mark" group. It is made up of companies that are currently performing acceptably, or completed programs that did not collapse, but do not look like a clear success. For example, Wesray's acquisition (and subsequent divestiture) of Atlas Van Lines. Atlas is performing well, and I suspect Bill Simon and Ray Chambers who controlled Wesray may have made some money when they "flipped" Atlas. But there is no way to know; they may have lost money. Certainly it was no big deal.

The "very large loss" group is the easiest to track. But even in this group some may have gotten part of their money back. I am sure many of the acquiring companies lost more than the initial acquisition price.

The following is a compilation of programs by decade and probable financial result:

Result of Acquisition Program	Number of Programs	60's Decade Programs	70's Decade Programs	80's Decade Programs
Very High Return	0	0	0	0
Returning Costs of Capital	7	1	2	4
Return Some of Investment	13	5	4	4
Very Large Loss	44	11	15	18

The analysis does not tell us very much. The returning cost of capital category of the 60's and 70's was made up of two successful sellers, LTV and Tyler, and one that held on, Tri-Mac. The following analysis breaks down the deals by return and acquisition rationale.

Result of Acquisition Program	Number of Programs	Conglomerate Diversification	Operational, Innovation or Synergy	Leveraged Buyout
Very High Return	0	0	0	0
Returning Costs of Capital	7	4	1	2
Return Some of Investment	13	9	2	2
Very Large Loss	44	20	14	10
Total	64	33	17	14

What stands out in this analysis is the very poor results of the Operational, Innovation or Synergy category. Logic might draw one to conclude that this should be the most successful group, yet it is clearly the least successful. The one "Returning Costs of Capital" deal in this group is National Freight Consortium and that is more due to good luck in buying Merchant's Home Delivery than any strategic success. They are far from out of the woods on their Allied Van Lines acquisition. The two "Return Some of Investment" deals in this category are CSX and TNT. CSX has since abandoned the strategy that caused them to acquire trucking companies, but batted one-for-two by getting Customized Transportation while striking out on Countrywide. TNT, after years of consistent, costly failure in trucking seems to have gotten their act together. They made a very propitious sale via public offering of their regional carrier group.

4.) Why did they succeed or fail and why was the overall result so adverse?

At this point I would like to return to the work of Alfred Rappaport as described in his book Creating Shareholder Value. Rappaport's technique is described by him as follows:

"To estimate the value-creating potential of an acquisition to

the buying company's shareholders, assessments must be made of the stand-alone value of the seller, the value of the acquisition benefits, and the price required to gain control of the seller. The respective roles of the above factors in the value creation framework can be gleaned from the following three fundamental equations.

(1) Value created by acquisition = Value of combined company - (Stand alone value of buyer + Stand alone value of seller).

(2) Maximum acceptable price to pay seller = Stand alone value of seller + Value created by acquisition.

(3) Value created for buyer = Maximum acceptable price to pay seller - Price required to gain control of seller."⁶

For the purpose of our after-the-fact analysis, we can truncate the three into one equation stated as follows:

Value created for buyer = (Stand alone value of seller + Value created by acquisition) - Price required to gain control of seller.

Rappaport considers the value created by the acquisition to be crucial to the derivation of any shareholder value.

"Because the price of the acquisition is set in a highly competitive market for companies, the buyer's value creation potential will depend importantly on the distinctive benefits of the merger. If the benefits are not distinctive, then other prospective buyers with similar economic prospects will bid up the price to a level at which value creation potential is likely to be modest or even negative."⁷

To go back to the words of the old song that makes up part of the title of this paper:

*"There's con-men and there's boosters, There's card-men and crap shooters,
They congregate around the Metropole, They wear flashy ties and collars,
But the way they get their dollars, They have all got an ace stuck in the hole."*

Rappaport's value created by the acquisition is that "Ace in the Hole." Without an ace in the hole, value is not likely to be created for shareholders.

The value created by the acquisition is broken it down by Rappaport into three principal categories: operating, financial, and tax.⁸ In trucking acquisitions there can indeed be significant potential merger benefits in the financial area. The tax area of potential merger benefit is not important in trucking acquisitions. The operational benefits are illusory or non-existent and there can and frequently are significant operational

drawbacks in a trucking acquisition.

Some examples of financial merger benefits are the following:

(A) Stronger financial condition. This reflects itself in all the normal ways plus some that might even be considered operational. Besides the lower borrowing costs and reduced risk of failure that come from a stronger balance sheet, the customer "comfort" that comes from a strong financial condition is a plus. Customers do not like to entrust their freight to a motor carrier that is thinly capitalized. If they take the time to obtain and analyze the carrier's balance sheet, they may be reluctant to do business with it. Not only are they at risk for freight in the system at close-down and unpaid cargo claims, shippers using a failing carrier have other greater risks. Bankruptcy trustees have recently been suing and collecting for "rate errors." These are almost always the result of the carrier not properly filing with the ICC a discount it had agreed to give the shipper. A bankruptcy trustee has also been successful in at least one suit where it alleged that the shipper put the carrier out of business. The author considered it a frivolous suit by the trustee, but the court did not and the trustee won a big award.

(B) Self-insurance. One of the significant scale economies that exist in trucking is the ability to obtain some form of self insurance. Whether through true self-insurance, fronting, or just higher risk retention levels, there is a real cost reduction potential. The reasons are implicit in the way insurance companies are regulated by the states and the inefficient manner in which they conduct their business.

(C) Lower borrowing costs from better financial skills. Some good things have been done by the treasury departments of large companies that owned motor carriers. These include tax-exempt terminal financings, lower cost short term borrowing schemes, and complicated lease financings.

(D) Better management information. Frequently the financial personnel in small companies are not up to speed on the ways information to aid management decision making can be captured or developed. The large company's more skilled financial personnel can do this for the small company.

Operational savings from conglomerate acquisitions of motor carriers have rarely been realized. One might expect volume purchasing, at least, would be a benefit. Unfortunately, this has probably resulted in higher costs more often than lower. The supplier markets serving motor carriers are highly competitive. The size of trucking company necessary to realize most benefits of buying power is relatively small.

The cultural changes necessarily imposed by conglomerate acquisition has frequently been a serious problem for the acquired carrier. The big company people start solving perceived

problems faced by the carrier before they fully understand them. Many, perhaps most, of the big company people have not been in businesses nearly as competitive as trucking. They frequently do not understand the intense cost control efforts required. The pricing in trucking has many elements not found in other industries. Pricing mistakes have frequently occurred after conglomerate acquisition. One pricing mistake alone can, and has, killed a truck line.

Why did the acquisitions fail? I would group the reasons for failures into the following categories:

PRIMARY REASON FOR ACQUISITION PROGRAM FAILURE	NUMBER OF FAILED PROGRAMS
1. Acquiring company could not manage the business, its actions weakened the existing management of the acquired company.	22
2. Ill-conceived strategy on the part of the acquiring company or strategic blunders after the acquisition.	15
3. Over-leveraged acquisition-acquired company could not service existing and acquisition debt and still remain competitive.	3
4. Acquisition price so high financial success not possible.	4
Total very large loss acquisitions	44

Frequently the root cause of the failure is imbedded in an overly inflated acquisition price. This finds its way into all of the conditions listed above. Overpriced acquisitions can have the following results:

(A) There was too much leverage because the price was too high. The high price could be justified only by some strategy that called for a high growth rate which overextended management resources or capital, or was simply wrong.

(B) The price did not take account of the costs of a strategic repositioning which the acquiring company was unwilling to undertake.

(C) The management of the acquired company had committed to unrealistic growth objectives during the acquisition process to help justify the high price. Failure to meet the commitment brought on management turmoil, etc.

(D) The buyers forecast of future earnings and cash flow was too optimistic and justified too high a price. This can be due to incomplete knowledge, undisclosed problems and incomplete due diligence, or frequently, underestimated future capital expenditure requirements.

Too high a price works its damage in many ways. A conservative price fosters success.

What did the few acquirers who were successful do

differently than the others? I think the success stories all begin with acquiring a good company at a realistic price. If the acquirer did that they have a chance. They then had to do two other things:

1. Put the right management in place and let them do their job.
2. Be willing to resell the company when the right opportunity presented itself.

REASON FOR ACQUISITION SUCCESS	SUCCESSFUL BUYERS
Intelligent strategy, good management performance	BET, NFC, Tri-Mac
LBO acquisition, management retained with ownership stake	Gold Dome, Kelso
Company bought at right price, resold on a favorable basis	LTV, Tyler

For example, consider the successful BET Group program. They have not yet sold anything and the details of the prices they paid are not available. But look at what they did right. They bought only non-union companies. They acquired only liquid bulk haulers, and have built a formidable scale position in this segment of the industry. Liquid bulk transport is largely still unionized, so BET has a labor cost advantage over most competitors. They retained most of the management and recruited one of the best younger trucking senior managers as their CEO. They have kept a stable management situation.

A different success formula might be that of Tyler. It really fell into its first trucking acquisition, C & H Transportation. They let the company run itself as long as it was successful. They made an intelligent second buy in Thurston. However, when both started to slip after deregulation, they quickly sold for cash. Both of their companies should have been all right. But Tyler concluded, correctly I believe, that it was better to take the money and run. They are glad they did because both C & H and Thurston ultimately went out of business.

International Acquisition Programs: Eleven of the sixty-four acquisition programs were carried out by companies based outside the United States; of these, four were British, three Canadian, two Middle East, one Dutch and one Australian. Of the eleven, seven are still in business. There are some good reasons why a foreign party might want to acquire in the U.S. trucking industry. For them it is a much better tactic than start-up.

Michael E. Porter, in The Competitive Advantage of Nations⁹ states there can be two reasons for foreign acquisitions. First, to gain access to a foreign market or to selective skills. Second, to gain access to a highly favorable national *diamond*. A *diamond* is an industry in which a nation has achieved international success¹⁰. It is a concept which is integral to Porter's thesis of the factors driving the competitive advantage of nations.

The good reasons Porter has outlined do not seem to be important to the motivation of the foreign companies that acquired trucking companies. The foreign buyers were either parties that were just following a diversification strategy or thought they had better transport operating techniques.

In my opinion trucking is a *diamond* U. S. industry. The reason is that our freight markets are open and our freight rates the lowest in the world. Our highway freight rates were even lower than Mexico and Thailand and only one-half to one-third of those in Europe. This gives our products a meaningful international competitive advantage. Yet the Canadians, Brits, and Australians, who have much higher freight rates, thought they could bring their allegedly superior operating practices here. I wonder how they expected to make money.

The foreign buyers have missed the opportunity that actually exists and meets one of Porter's criteria, entering a market. The ocean shipping companies should, long ago, have acquired a U. S. general commodity carrier and offered single line service on international freight, especially LTL shipments. There has been some single line full container service, but its competitive advantage minimal. The real money is in the LTL and no one has tried it in years. I think that was what Jakob Istbrantsen had in mind when his American Export Istbrantsen Line acquired Eastern Express and R C Motor Lines back in the 60's. But his ideas got far ahead of his management and financial resources; he went bankrupt without ever putting together a single line service on international freight.

Conclusion: There seems to be an inverse correlation between the degree of buyer management involvement in the acquired carrier and the ultimate success of the program. The buyers that bought successful truckers and left the existing managements in place seemed to do better than those who made changes. That perhaps is why the acquisitions that were driven by an operational, innovative or synergistic strategy did not, on average, fare well. By definition, they required management involvement by the buyer.

In my TRF paper last year I concluded that "Trucking is an industry that is just not well suited to public ownership. The largest trucker, and arguably best transportation company in the World, United Parcel Service, is owned by its managers. That is probably the right formula for all of trucking."¹¹

The seven companies that had programs that are returning their cost of capital all left management in place. Two of them gave management a significant ownership stake. Potential acquirers, like all investors, must recognize that trucking is not an attractive industry to which to commit funds. Acquirers who think they have something to add to the acquired company should be particularly careful. This is the type that fared poorest in the past.

NOTES AND REFERENCES

1. James Dempsey and George Mitchell, The Ace in the Hole, copyright 1909 by the Mitchell Music Pub. Co.
2. Sources, the personal files of the author and the files of Transport Topics, National Newspaper of the Trucking Industry, published by the American Trucking Associations, Inc. Alexandria VA. Attempts by the author to get a complete list, using on-line searching and other search techniques have been frustrated by to large number of small control transfer transactions that took place over this period. Most of these were not within the scope of this work. Therefore, the author respectfully requests readers who believe other transactions may qualify, corrections are called for, or has other suggestions to contact the author at P.O. Box 40001, Philadelphia PA 19106, Tel: 215-925-9997, Fax 215-925-9984.
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