



How to Build Value in your Towing Company

Presented by George C. Metos
March 22-24, 2023

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About your Presenter

- **George C. Metos**
 - President of GM Consultants (a business brokerage)
 - Business Broker
 - Salt Lake City, Utah
- Currently representing owners of towing companies, auto recyclers and other light industrial companies in the sale of their business.
- Trade shows that I attend: national & some state level tow shows, Auto Recyclers of America and United Recyclers Groups shows.
- Twenty years in software development. Merged my company with a public company.

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Why does Company Value Matter?

- To know if you are making the right decisions in building wealth. By monitoring the value, an owner can tune their company for optimal performance.
- For settling accounts with shareholders or family members in case one or more are to be bought out.
- Bank loan purposes.
- We want to talk about the market, and the buyer attitudes, which we'll do once we have a basic understanding of determining the value of companies.

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How to Determine Value?



- The premise of this presentation is that by examining how towing companies are sold, we can learn from historical sales data.
- Just as home values are in part based on prior home sales, we can learn from prior sales of towing companies. An asset is only as valuable as the marketplace proves it to be.
- Knowing the valuation methods and what the market will bear can help those who want to sell as well as those who only want to monitor their progress.
- The approach of this presentation is to study valuation methods, and the current attitude of the buyers.

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The Two Basic Valuation Methods



A) Assets plus goodwill

- Assets in the towing industry are typically the fleet value. There is usually very little inventory in towing companies.
- Goodwill (synonymous with blue sky) is intangible, and is based on customer relationships, contracts, quality of driver pool, and general financial strength of the company.

B) Adjusted profit times a multiple

- The adjusted profit is not based on the net income shown on a tax return, because that doesn't tell the whole story.
- The multiple is based on the relative size of the profit.

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Best of the Two Methods



Method A)

- Fleet value of \$1.4m, adjusted profit of \$200k, goodwill of \$300k = **\$1.7m valuation**
- (profit is ignored)

Method B)

- Fleet value of \$1.4m, adjusted profit of \$800k
- Assume a multiple of 2.5
- $2.5 \times \$800k = \$2.0m$ valuation
- Higher than Method A, and seller gets the best of the two approaches
- The equipment is included in the sale at this price

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Leveraging your Equipment



In my experience selling towing companies, there appears to be a pattern regarding the financial value that the sellers have received. Let's briefly examine some actual deals that serve as examples to illustrate leverage.

- Great deal for the seller - \$11m purchase price for a HD towco with \$2.8m of adjusted profit and \$3.5m in equipment value.
- Good deal - \$4.7m purchase price for a HD/MD towco with \$1.7m of adjusted profit and \$3m in equipment value.
- Moderate deal - \$1.7 m purchase price for a LD/PPI towco with \$500k of adjusted profit and \$1.4m in equipment value.
- Disappointing deal - \$1.1m in purchase price for a LD/motor club towco with no profit and \$950k in equipment value.

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Comparison of Profit to Purchase Price



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Analysis



- Adjusted profit (or EBITDA) must be determined
- Buyers will pay on a profit or an asset method.
- The good and great deals are based on a multiple of adjusted profit.
- Moderate and disappointing deals are based equipment value and some blue sky (synonymous with goodwill). Selling on an asset basis is a sign that the company is not well developed yet.
- When the analysis is not to your liking, don't kill the messenger (me or your analyst). Sellers may as well know the likely buyer response before going to market.

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EBITDA Sample Calculation – P&L

2023

TOWING & RECOVERY MANAGEMENT

SUMMIT

Don't Stop

EBITDA Quick Calculation

Net Ordinary Income	610,804	
Addbacks		
Owner Compensation	300,000	Fair salary for owner of towco this size is \$150k
Rent	(80,000)	Fair market rent is \$200k, resulting in negative addback
Interest	37,159	Interest, depreciation and officer benefits are addbacks
Depreciation	435,687	
Owner Life & Health Insurance	42,838	
Adjusted EBITDA	1,346,488	35%

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Adjusted EBITDA Calculation

2023

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Tax Returns and P&Ls are the Source

2023

TOWING & RECOVERY MANAGEMENT

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Jan- Sep 2022

Very simplified P&L

Gross Profit	2,427,720	
Expenses		
General & Administrative	304,335	
Owner Compensation	450,000	High for one owner
Rent	120,000	Business owner also owns the real estate
Interest	37,159	
Depreciation	435,687	One year's worth of new truck purchases
Owner Life & Health Insurance	42,838	
Other Expenses	426,897	
Total Expenses	1,816,916	
Net Ordinary Income	610,804	16%

EBITDA Quick Calculation

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Form **1065**Department of the Treasury
Internal Revenue Service**U.S. Return of Partnership Income**

For calendar year 2021, or tax year beginning , 2021, ending , 20

► Go to www.irs.gov/Form1065 for instructions and the latest information.

OMB No. 1545-0123

2021

A Principal business activity	Type or Print	Name of partnership The Best Towing Company	D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see instructions. 1234 Main Street	E Date business started
C Business code number		City or town, state or province, country, and ZIP or foreign postal code Anywhere, USA	F Total assets (see instructions) \$

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return**H** Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ►**I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ►**J** Check if Schedules C and M-3 are attached ☐**K** Check if partnership: (1) ☐ Aggregated activities for section 465 at-risk purposes (2) ☐ Grouped activities for section 469 passive activity purposes**Caution:** Include **only** trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

Income	1a Gross receipts or sales	1a		
	b Returns and allowances	1b		
	c Balance. Subtract line 1b from line 1a		1c	3,831,404
	2 Cost of goods sold (attach Form 1125-A)		2	1,403,744
	3 Gross profit. Subtract line 2 from line 1c		3	2,427,720
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)		4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))		5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)		6	
7 Other income (loss) (attach statement)		7		
8 Total income (loss). Combine lines 3 through 7		8		
Deductions (see instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)		9	
	10 Guaranteed payments to partners		10	450,000
	11 Repairs and maintenance		11	
	12 Bad debts		12	
	13 Rent		13	120,000
	14 Taxes and licenses		14	
	15 Interest (see instructions)		15	37,159
	16a Depreciation (if required, attach Form 4562)	16a		
	b Less depreciation reported on Form 1125-A and elsewhere on return	16b	16c	435,887
	17 Depletion (Do not deduct oil and gas depletion.)		17	
	18 Retirement plans, etc.		18	
19 Employee benefit programs See Schedule 1		19		
20 Other deductions (attach statement)		20	409,735	
21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20		21	1,816,916	
22 Ordinary business income (loss). Subtract line 21 from line 8		22	610,804	
Tax and Payment	23 Interest due under the look-back method—completed long-term contracts (attach Form 8897)		23	
	24 Interest due under the look-back method—income forecast method (attach Form 8866)		24	
	25 BBA AAR imputed underpayment (see instructions)		25	
	26 Other taxes (see instructions)		26	
	27 Total balance due. Add lines 23 through 26		27	
	28 Payment (see instructions)		28	
	29 Amount owed. If line 28 is smaller than line 27, enter amount owed		29	
	30 Overpayment. If line 28 is larger than line 27, enter overpayment		30	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.

May the IRS discuss this return with the preparer shown below?
☐ Yes ☐ No

EBITDA Multipliers



- Most companies are sold on a multiple of 2-4 times ebitda, or sold based on assets (truck equipment) plus goodwill.
- Higher ebitda implies a stronger company, having made lots of good decisions and accumulated lots of beneficial contracts or relationships. Therefore, buyers are willing to pay higher multiples.
- Capex affects multiples. For industries that have to reserve a portion of their profits for equipment, as in towing, buyers will pay a slightly lower multiple of ebitda. In other words, high capex (capital expenditures) will lower the multiplier.

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Goodwill (or Blue Sky)



- This is the intangible value of a company
- Goodwill could be based on favorable contracts or rotations, commercial relationships, specialized skills, a well-trained and deep staff, particularly drivers, and prospects for continued success.
- There is no formula for calculating goodwill. It takes judgement of the factors above, and anticipating how buyers will react.
- If a buyer will have a difficult time replicating your company, then goodwill would be higher than a company that is easy to replicate.

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Working Capital



- Sometimes called operating capital
- These are funds that many buyers expect to be left for them to operate the company after closing. They don't want to raise funds or take out a loan on top of the funds they raised or borrowed to buy the actual company.
- It is fundamentally a money grab, but "resistance is futile".
- Classic definition is the average of the last 12 months of current assets minus current liabilities. Many times this is simply Accounts Receivable minus Accounts Payable.
- Nerd alert: a company that pays their bills more quickly than they get paid by customers will be penalized by this formula, but we can make special accommodations.

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Real Estate



- If the towco operator owns the real estate, then he/she has the option of leasing or selling outright.
- A right of first refusal for the tenant to buy the real estate is the minimum expectation.
- Many times, a lease with an option to buy years down the road is established.
- If the operator leases the property, it is wise to know whether the landlord will lease to a well-qualified buyer of the company.
- In rare occasions, an operator may own land that has become more valuable for another purpose than towing. An appraisal and calculation of market rate rents can be made to determine if this is the case.
- It is important to determine in advance if there are any issues with zoning, environmental, easements and clear title.

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To Improve Profits (therefore Value)



- The consultants here at the Summit are likely the best resource.
- I'm not the operations guy, but I can tell you how buyers react.
- Peer groups have worked very well in other industries. I don't hear enough about them in towing, but there are a few.
- Continually monitor company metrics and stay up on current issues in towing, just as you would your personal health.

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What Buyers Look for in a Towco



- Profit – and EBITDA is the best way to communicate it
- Trained drivers. We all know this is an issue nationwide.
- Contracts and relationships, whether municipalities, law enforcement, DOT, or commercial accounts.
- Competitive pay and sometimes benefits.
- Buyers typically have a favorite type of towing: LD, Private Property Impound, Roadside, HD, Recovery, Transport, etc. Some look purely for profit, but most want to continue operating the type that they know.
- Expectation of continued success, whatever that might mean in your situation (employees, rates, competition, etc.)

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What's Selling these Days?



- HD/Recovery is favored by the big buyers, due to high barriers to entry (expensive equipment), driver skill requirements, customers travel from one location to another.
- Some Private Property networks are growing. Typically difficult for most operators to warm up to. But someone must do it, and three sources of revenue help (tow, storage, auction).
- LD and Roadside Assistance networks in metro areas are popular.

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Preparing for a Sale



- Financial analysis and summary of tax returns and P&L statements.
 - See next slide for an example of a well-detailed P&L that indicates the revenue from various aspects of towing
- Analysis of equipment value, contracts and relationships, employees.
- Decision on asking price, which requires EBITDA calculations over several years.
- Development of a presentation package. Buyers will be frustrated if this is not prepared in advance. Just like selling anything.

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Well-detailed Towco P&L



Income	
AFTER HOURS CHARGE	76,234
AIR CUSHION RECOVERY	14,084
BOAT SERVICE CALL	4,855
CLEAN UP	66,134
EXTRA MAN	48,064
FLAT TIRE CHANGE	15,686
FLATBED TRUCK	116,334
FUEL SURCHARGE	136,020
HEAVY DUTY TOWING	1,887,348
HEAVY DUTY RECOVERY	183,343
INSIDE STORAGE	14,986
JUMP START	9,833
LOBBY SERVICE	156,333
MEDIUM DUTY TOWING	4,832
ROTATOR	486,906
SERVICE CALL	16,343
SPECIAL EQUIPMENT	51,659
STANDBY TIME	19,020
STORAGE	305,344
TOLL CHARGES	70,383
TOWING PARTS	48,033
TRACTOR	96,010
Total Income from Towing Services	3,831,464

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Income

AFTER HOURS CHARGE	76,234
AIR CUSHION RECOVERY	14,084
BOOT SERVICE CALL	4,855
CLEAN UP	66,134
EXTRA MAN	48,684
FLAT TIRE CHANGE	15,686
FLATBED TRUCK	116,334
FUEL SURCHARGE	135,030
HEAVY DUTY TOWING	1,887,348
HEAVY DUTY RECOVERY	183,343
INSIDE STORAGE	14,986
JUMP START	9,833
LOWBOY SERVICE	156,333
MEDIUM DUTY TOWING	4,832
ROTATOR	486,906
SERVICE CALL	18,343
SPECIAL EQUIPMENT	51,699
STANDBY TIME	19,030
STORAGE	309,344
TOLL CHARGES	70,383
TOWING PARTS	46,033
TRACTOR	96,010
Total Income from Towing Services	3,831,464

Types of Towco Buyers



- Rookies – they should start with a small operation, whether they have a lot of money or not.
- Local towers – want to expand their territory.
- Regional power – multistate. Knowledgeable, but sometimes dangerous in terms of confidentiality, and may believe they can build instead of buy.
- Investment firms – they are beginning to take interest in towing.

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Investment Groups



- They may go by several names: Private Equity Groups, Family Offices, Investment Bankers, and private investors.
- Favor towing because it is an essential service, cannot be automated or in danger of foreign competition.
- Like that the industry is fragmented. Compare LKQ to Guardian and United Road Towing.
- Prefer owners to roll equity forward (keep stock in newco) and continue to build. Can make money on initial and follow-on sale.
- Here to stay. Could be great for the strong operators who want to grow. Make no mistake...they will grow as a force in towing.

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The Sales Process



- Advertising can be tricky. It can alert your competition. Still, some risks must be taken.
- Personally, I like making outbound calls to known buyers in addition to discrete advertising.
- NDAs are only as valuable as the integrity of the person signing it.
- Eventually a Letter of Intent
- Due diligence commences, to validate your information
- Keep operating as if no sale is imminent

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Final Agreements



- After the LOI and due diligence process.
- Asset Purchase Agreement (APA) – describes what is being acquired, and the pertinent terms. Fairly sophisticated agreement, drafted by buyer's or seller's attorney.
- Non-compete agreement for the seller
- Real estate lease or sale
- Closing is usually virtual. Funds are transferred.
- Seller may stay on for a transitional period, or long term.

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Stay Informed !



- Information is power.
- Consolidation is happening, and will not stop any time soon. Be aware of how it may affect your business.
- Being informed is your best strategy. By being here, you are participating in knowledge sharing.
- Similar to preventive maintenance of your equipment, monitoring company value preserves what may be your biggest asset.

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Thanks for Participating



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