

CASH FLOW & THE CREDIT CRUNCH



WHAT YOUR LENDERS ARE LOOKING FOR AND HOW TO PREPARE YOURSELF

JOHN KOUNALIS & TOM OGRODOWSKI

AHAA SPRING MEETING

ROYAL SONESTA HARBOR COURT – BALTIMORE

WEDNESDAY 3 MAY 2023


TRANS LEASE, INC.[®]

BROTHERS
AUTO
TRANSPORT
WIND GAP, PA.

"Our trucks are driven by our customers"



AUTO HAULERS

ASSOCIATION

OF AMERICA

**“REVENUE IS VANITY...
MARGIN IS SANITY...
CASH IS KING.”**

Cash Flow = The ability of a corporation or a business to have enough cash on hand to cover short-term operations, buy assets such as equipment and machinery, or acquire other facilities.



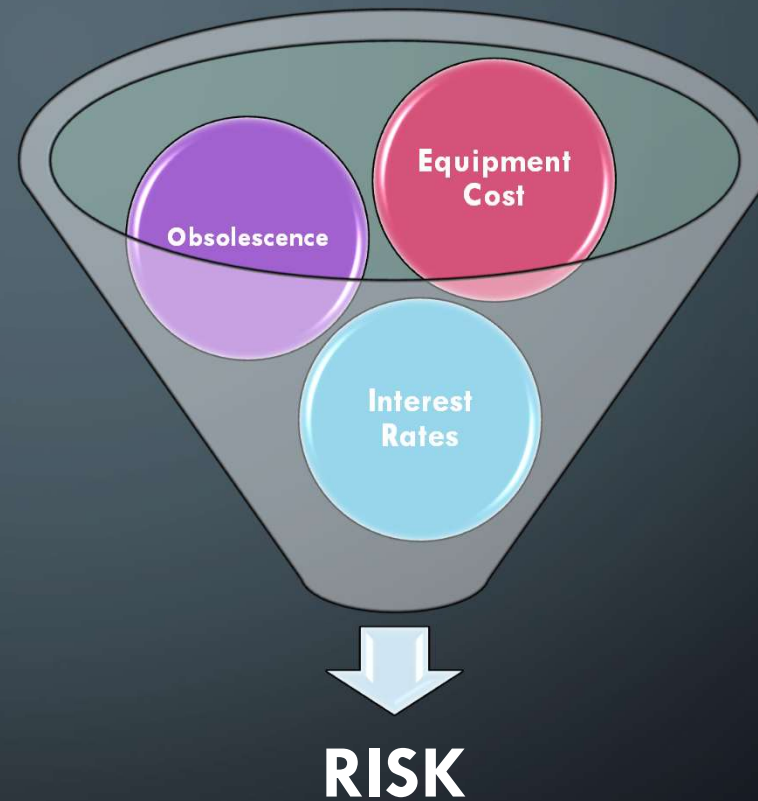
**More businesses fail for lack
of CASH FLOW
than for lack of profit.**

WHY ARE WE HAVING THIS DISCUSSION?



PERILOUS TIMES ARE UPON OUR INDUSTRY

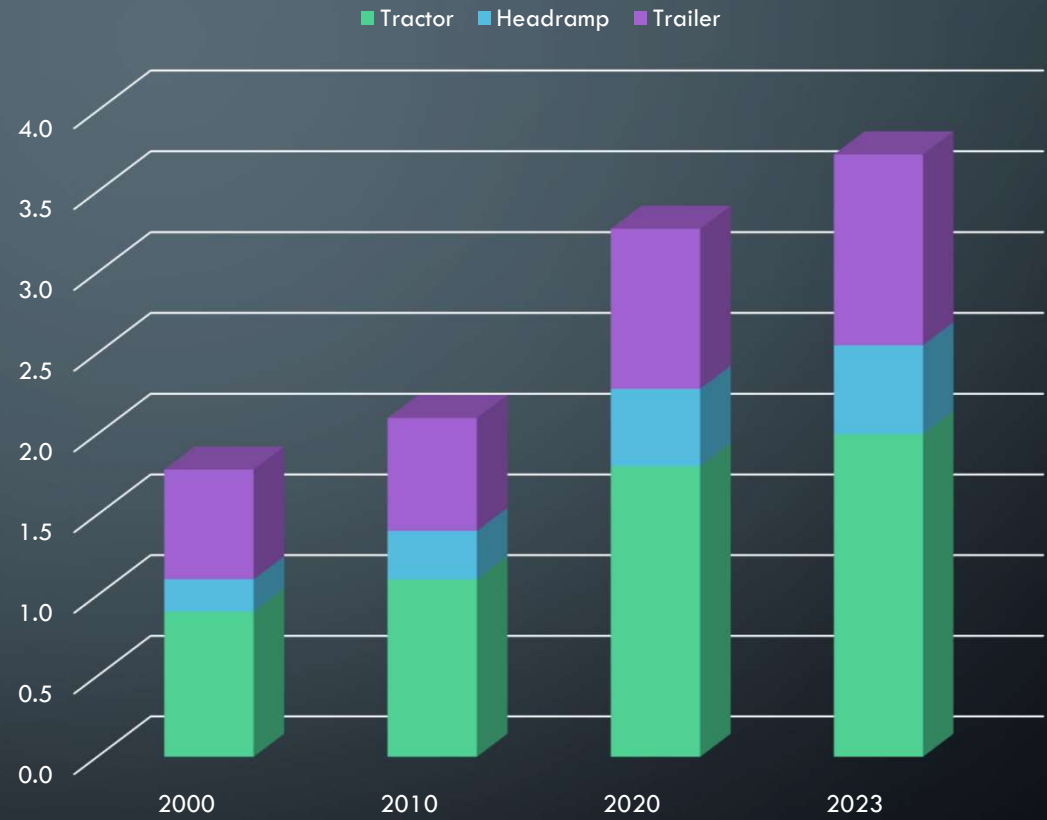
Historically, equipment purchases always involve risk. However, purchasing equipment in today's market is more complex due to forces beyond the carrier's ability to accurately forecast its operating position during the estimated useful life of the equipment purchased.



EQUIPMENT COST

- ❖ RAW MATERIALS
- ❖ ELECTRONIC COMPONENTS
- ❖ SKILLED LABOR
- ❖ ENERGY COSTS
- ❖ GOVERNMENT MANDATES

Indexed Cost: Stinger Steer Car Haul Equipment



OBSOLESCENCE



OPERATING HORIZON
=
ESTIMATED USEFUL LIFE

2023




- Electric Vehicles < 6% of total US automotive sales in 2022
- Commercial Fleets to 5% ZEV in 2024 per ACT -

2028

- Where will Electric Vehicles market share of total US automotive sales be?
- Commercial Fleets to surpass 20% to reach 25% by 2030 per ACT

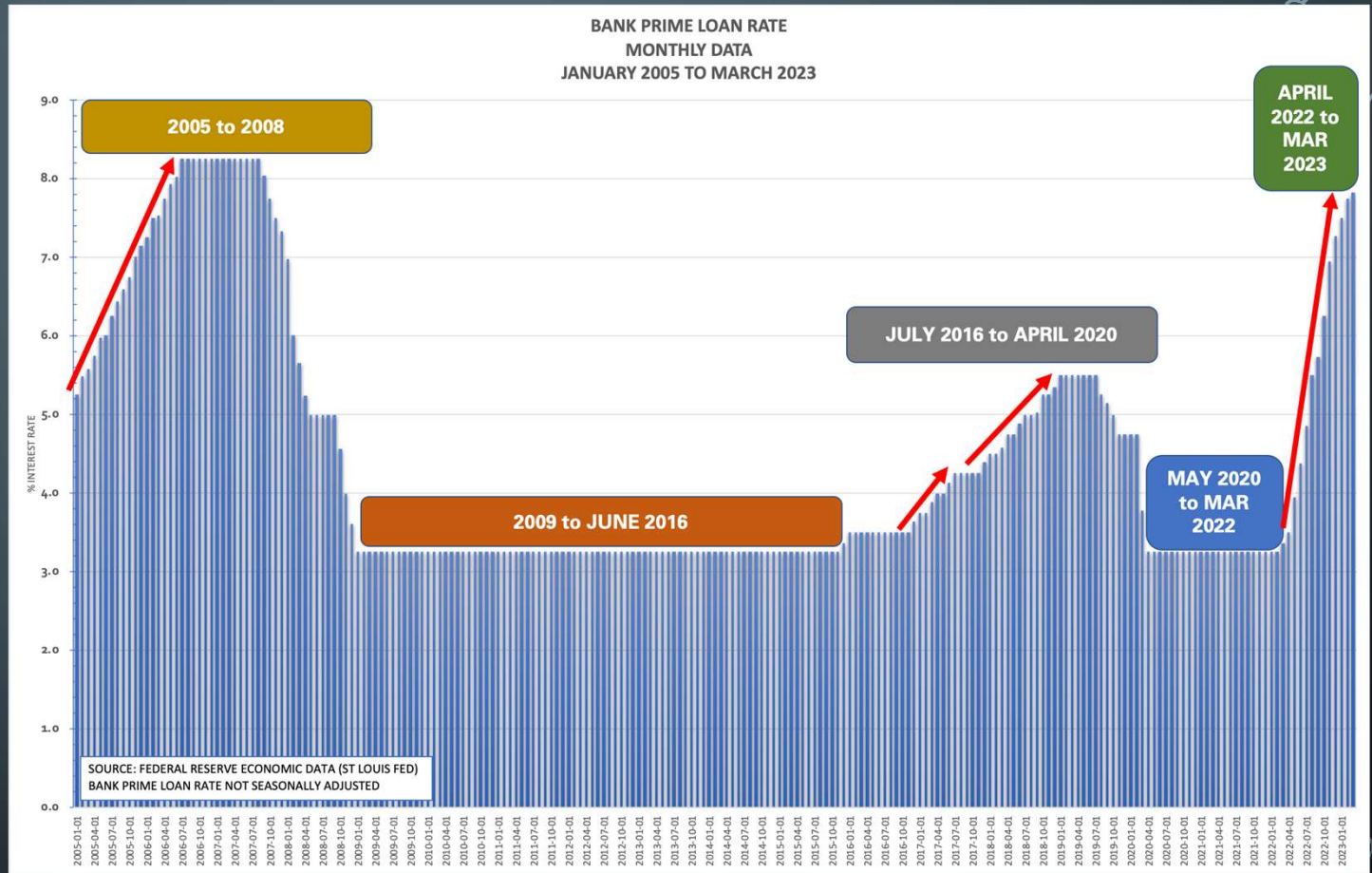
2033

- Where will Electric Vehicles market share of total US automotive sales be?
- Commercial Fleets to 50% ZEV in 2033 per ACT

-  NORMAL WEAR AND TEAR
-  CHANGES TO LOAD CHARACTERISTICS
-  GOVERNMENT MANDATES

THE COST OF MONEY

HAVE WE BEEN HERE BEFORE?



WHEN BANKERS & LENDERS LOOK AT YOU

YOU WANT THEM TO SEE THIS:



NOT THIS:



SO, WHAT DOES A BANKER OR LENDER LOOK FOR?

The 5 C's of Credit

CHARACTER

CAPACITY

CAPITAL

COLLATERAL

CONDITIONS

1. CHARACTER

Credit Scores 680+

- Paynet
- FICO

Timely Payments

- Debt
- Accounts Payable

Clean History

- No liens
- No judgements
- No bankruptcies
- Etc.

Background of Principals

- Routine Background checks
- Recent news stories
- Social media

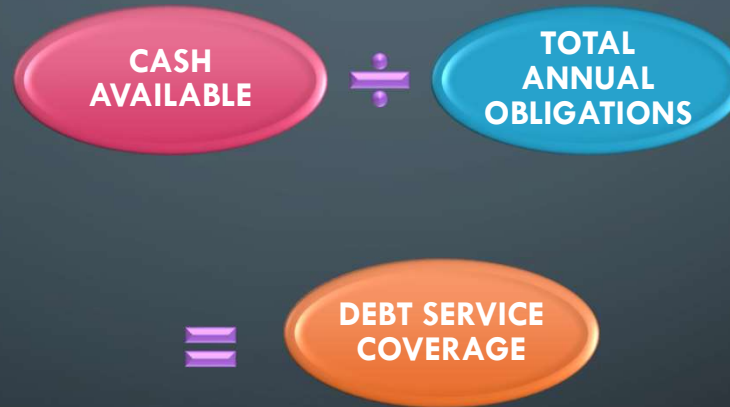
2. CAPACITY

CAPACITY = THE BORROWER'S ABILITY TO REPAY THE LOAN

CASH AVAILABLE

	NET INCOME
+	DEPRECIATION & AMORTIZATION (NON-CASH EXPENSES)
+	INTEREST
=	TOTAL
-	DISTRIBUTIONS
=	CASH AVAILABLE

DEBT SERVICE COVERAGE RATIO



TOTAL ANNUAL OBLIGATIONS

	CURRENT PORTION OF LONG TERM DEBT
+	INTEREST
+	NEW DEAL ANNUAL PAYMENT
=	TOTAL ANNUAL OBLIGATIONS

TARGET =
1.20x

3. CAPITAL

Balance Sheet

- Current Assets
- Equipment
- Debt
- Equity

Equity

- Income
- Investment

Debt to Equity Ratio

- More or Less than 5x?
- Equipment
- Term
- Other.

4. Collateral

How many transporters in operation?

Is the purchase growth or replacement?

Is there cash or a trade as down payment?

5. CONDITIONS

Competition

Revenue Concentration

Geographical Territories

Work References

Industry Concerns

CALCULATING CASH FLOW MADE EASY

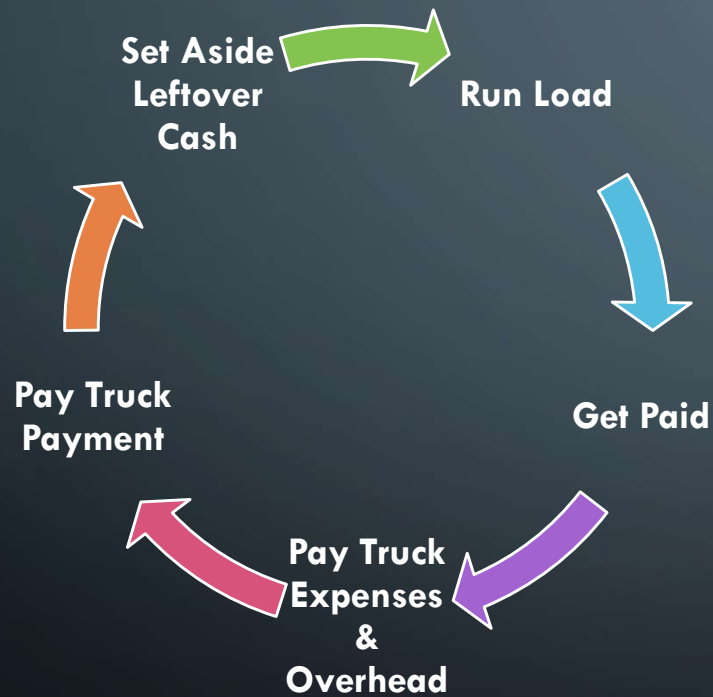
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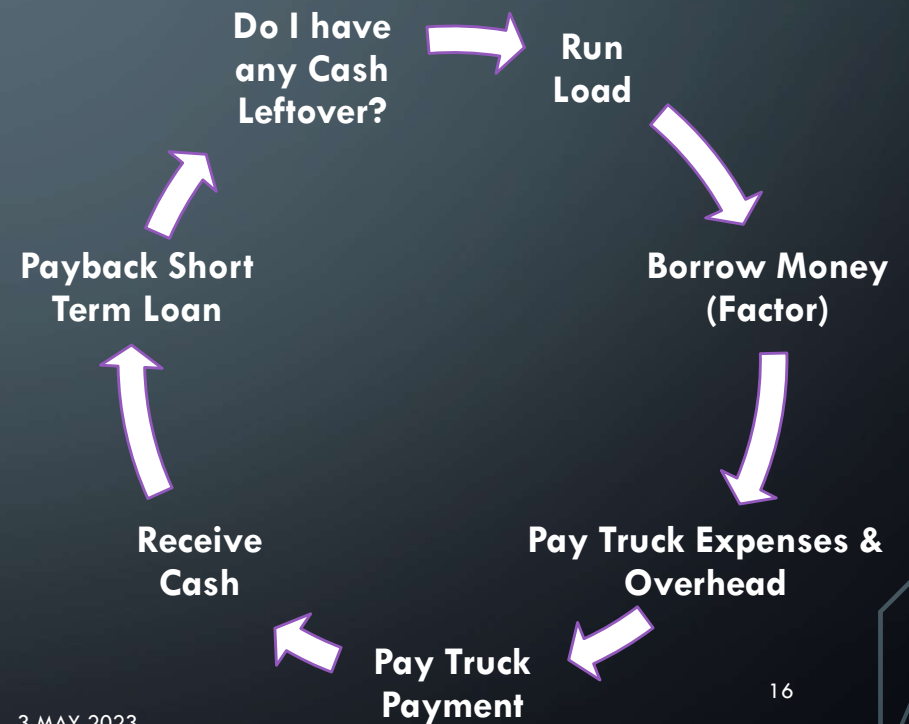
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WHAT IS THE CAR HAUL CASH CYCLE?

THEORY



REALITY



CASH FLOW RATIO

A company's cash flow ratio shows its ability to meet its financial obligations through the cash generated by the business.



A ratio equal to or more than one means that the company is in good financial health and has the ability to meet its financial obligations through the cash generated by operating activities.



A ratio of less than one is an indicator that the company has too much debt or has poor cash generation and may indicate that the company will have difficulties continuing unless a change is made.

FORMULAS

$$\text{NET INCOME} + \text{DEPRECIATION EXPENSE} + \text{INTEREST EXPENSE} = \text{CASH FLOW}$$

$$\text{INTEREST EXPENSE} + \text{CURRENT MATURITIES} = \text{FIXED CHARGES}$$

$$\frac{\text{CASH FLOW}}{\text{FIXED CHARGES}} = \text{CASH FLOW RATIO}$$

CASH FLOW FORMULA

$$\text{NET INCOME} + \text{DEPRECIATION EXPENSE} + \text{INTEREST EXPENSE} = \text{CASH FLOW}$$

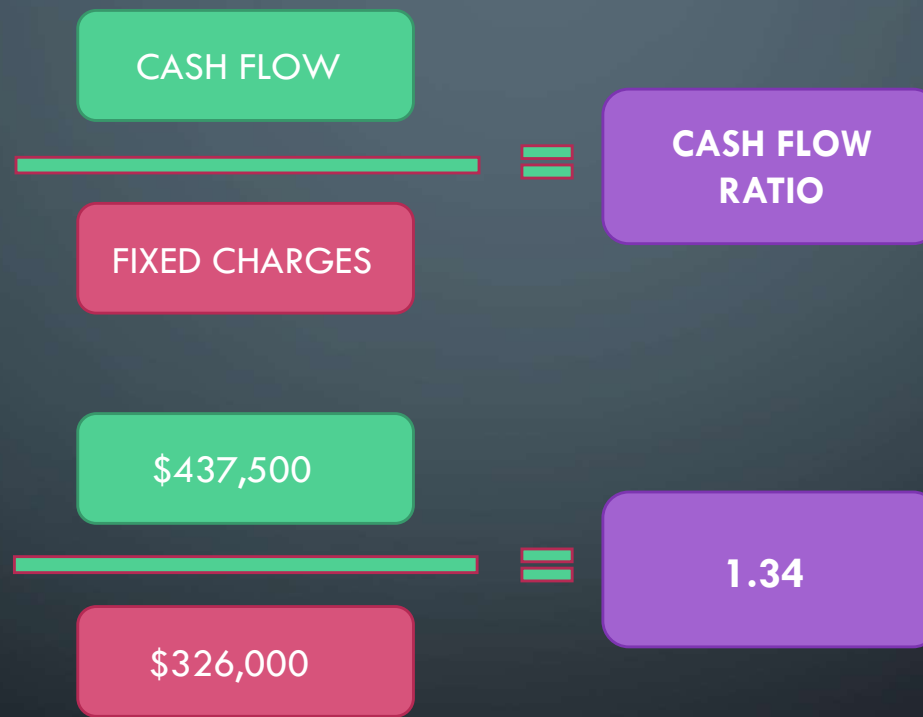
$$\$129,500 + \$200,000 + \$108,000 = \$437,500$$

FIXED CHARGES FORMULA

$$\text{INTEREST EXPENSE} + \text{CURRENT MATURITIES} = \text{FIXED CHARGES}$$

$$\$108,000 + \$218,000 = \$326,000$$

CASH FLOW RATIO FORMULA





OTHER HELPFUL FINANCIAL RATIOS

- DEBT TO EQUITY
- RETURN ON ASSETS

DEBT TO EQUITY

- DEBT IS A MULTIPLIER
 - CARRIES RISK
- USE DEBT TO AMPLIFY RESULTS
- DEBT TO EQUITY MEASURES OVERALL LEVERAGE
- HOW MUCH IS TOO MUCH?

BASIC FORMULA

LONG TERM
DEBT



AVERAGE OWNER'S EQUITY

DEBT TO EQUITY

4.6

LONG TERM
DEBT

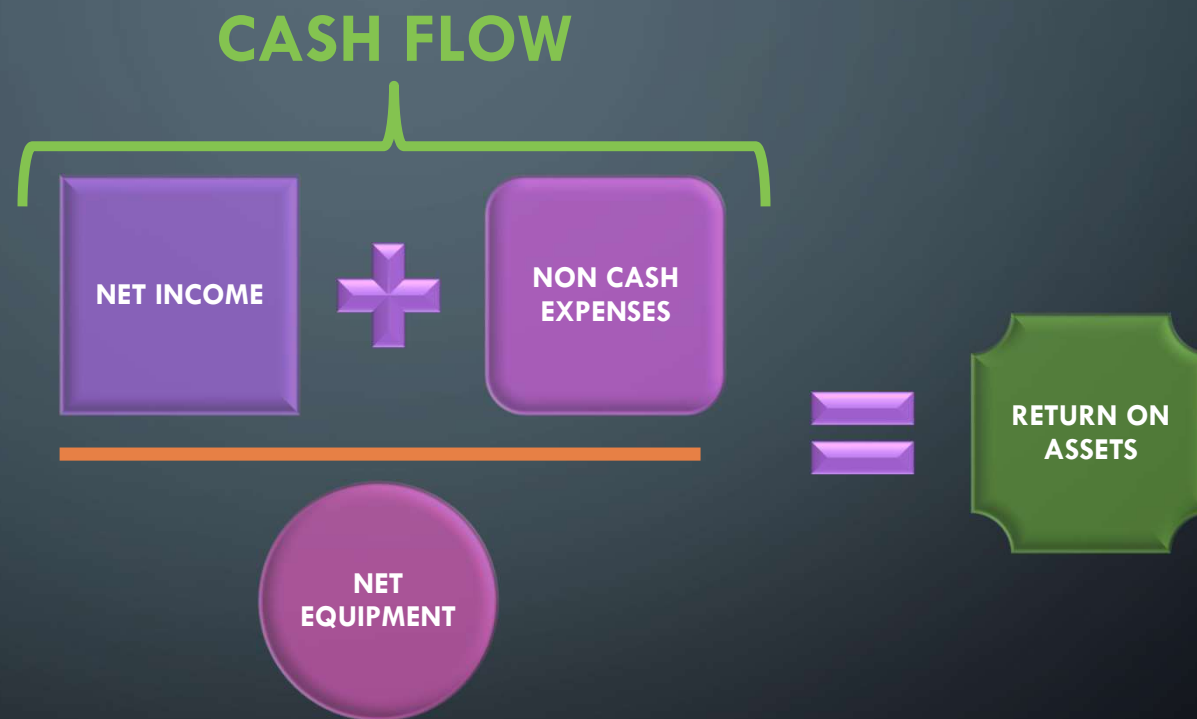
\$1,582,000



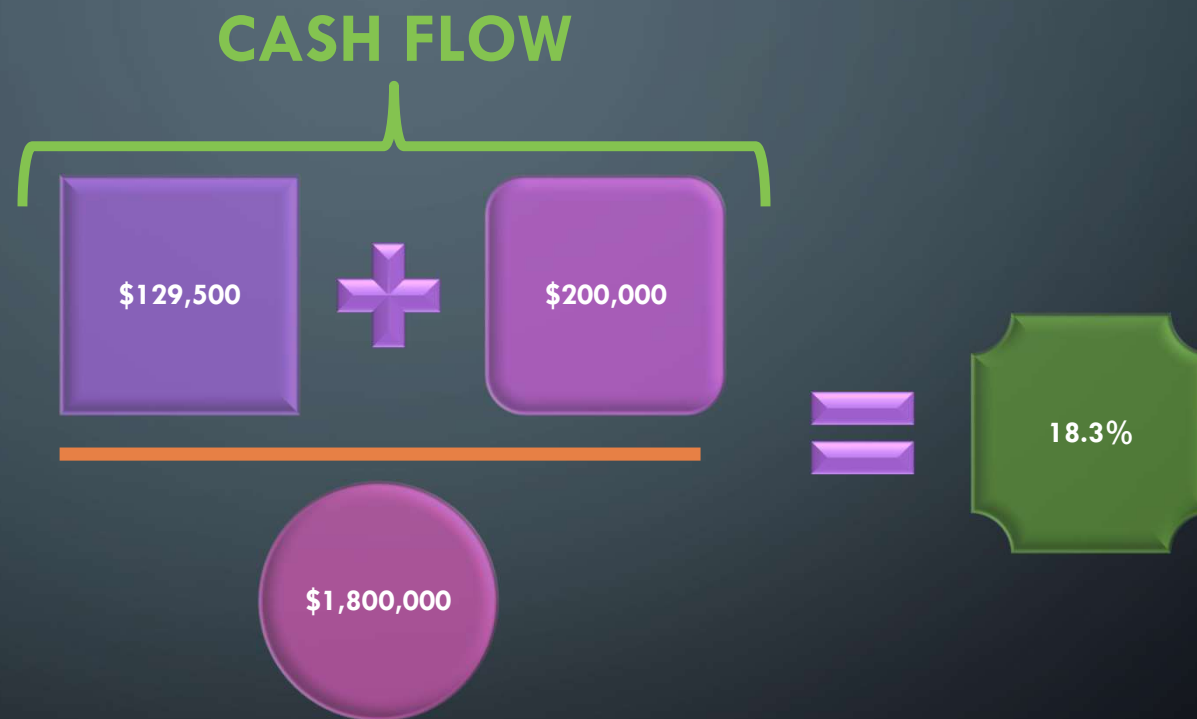
AVERAGE OWNER'S EQUITY

$(\$229,500 + \$459,000) / 2$
\$344,250

RETURN ON ASSETS



RETURN ON ASSETS



RETURN ON ASSET RATIOS

- IN GENERAL, A RETURN ON ASSET RATIO SHOULD BE GREATER THAN YOUR COST OF CAPITAL (USE THE RATE YOU PAY FOR YOUR MONEY AS A GUIDE)
- **HOWEVER**, AN EXCELLENT RETURN ON ASSET RATIO CAN BE NEGATIVELY OFFSET BY AN AGING FLEET, MEANING YOUR ASSETS MAY NOT BE HIGHLY VALUED IN A TRANSACTION

SUMMARY

- INVESTING IN EQUIPMENT IS RISKIER IN TODAY'S MARKET
 - The normal questions are still there: How many? What kind? Cost and Capital Requirement
 - It's the nature & pace of change over the operating horizon along with the size of the investment required, that's different
 - The crystal ball is much fuzzier today, leading to uncertainty and increased risk
- UNDERSTANDING YOUR CASH FLOW IS AS IMPORTANT AS EVER
- KNOWING YOUR NUMBERS GIVES YOUR LENDING INSTITUTIONS MORE CONFIDENCE IN YOUR ABILITY TO SERVICE THE DEBT YOU PURCHASE



ANY QUESTIONS?