

Saltchuk Resources & Interstate Distributor: In for the long haul

Interstate Distributor Co. was in trouble. The Parkland-based nationwide trucking company was suffering during the Great Recession, which meant lower volume and lower rates. Add high fuel prices and a private domestic concern within the family ownership group.



J.D. Donaldson, Interstate Distributor Co.'s orientation manager, teaches a refresher class on how to install chains on a tractor trailer at the company's Parkland headquarters Wednesday, May 4, 2011. Saltchuk has agreed to buy Interstate and retain the management group. Joe Barrentine/Staff photographer

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Suitors lingered. The company laid off 20 percent of nondriver staff.

On any given day, Interstate counts 2,000 company trucks on the road across the country. The company employs 300 people – including office staff, mechanics and local drivers – based at its Parkland office. Add 140 long-haul drivers, plus 160 drivers based elsewhere in Washington, plus hundreds more nationwide.

Rumors flew. The company was being sold to Chinese investors. The trucks would all be painted. After 78 years, say goodbye.

Employees were beginning to choose sides – and lifeboats.

MORE ABOUT INTERSTATE DISTRIBUTOR CO.

Headquarters: Parkland.

What: Nationwide trucking network.

Employees: 2,500.

Founded: 1933 by Bob McLean.

Previous ownership: Family owned.

Terminals and maintenance facilities: Washington, Oregon, California, Tennessee, New Mexico, Ohio.

Clients: Include Michaels, Kohl's, Payless Shoe Source, Sony, Best Buy, Lowe's.

News: Interstate is being sold to Seattle holding company Saltchuk Resources.

Price: More than \$100 million.



Saltchuk Resources Inc. holding company President Tim Engle, Interstate Distributor Co. CEO George Payne and Saltchuk Chairman Mark Tabbutt, from left, pose at the Parkland area headquarters for Interstate recently. Saltchuk is buying Interstate.

“The final challenge was shareholder needs. That’s what precipitated looking for new partners,” said Interstate President and CEO George Payne several days ago.

The company was founded in 1933 and had remained under family ownership.

“Less than a year ago, we started looking at different sources of capital,” Payne said. “In order to maintain the market position we had, and to grow, it was important to look beyond regular sources.”

The owners wanted the company to remain whole. They sought a deal where the culture – of mutual support and respect, says Payne – would survive.

Early this year, Saltchuk Resources Inc. appeared.

Saltchuk is a large but little-known Seattle-based holding company that owns Foss Maritime, TOTE, Ilahie Holdings (which owns Tacoma’s Russell Building), plus shipping, air cargo and property interests across half the globe.

“Saltchuk was the only company that asked about safety, and we could tell this was a different company. They were interested in our employees, our family,” said Renee Trueblood, Interstate senior vice president and corporate counsel. “We had met with more than a dozen suitors.”

According to Mark Tabbutt, Saltchuk chairman: “We probably get contacted by businesses three times a week, to see if we want to buy them.”

DEALS PROPOSED

Tabbutt said Saltchuk evaluates such offers by applying a basic set of criteria.

First, the company being offered should have strong management that intends to stay with the company after a change in ownership.

Also, said Tabbutt, Saltchuk expects “the service the company provides will be needed 50 years from now.”

Also, the company should be involved in areas where Saltchuk has expertise.

“We like moving freight,” said Tabbutt.

“No passengers,” said Tim Engle, Saltchuk president.

“We’ll never be in health care or IT,” said Tabbutt.

The company is most likely to entertain prospects that offer opportunities in familiar disciplines. TOTE moves cargo to Alaska. Foss provides services within ports and on the open sea. Aloha Air Cargo moves goods in Hawaii. Thus does the list of Saltchuk companies continue from West Africa to the Caribbean, across the Americas and around the Pacific Rim.

When Saltchuk began considering adding Interstate Distributor’s Lower-48 trucking network to the corporate family, Tabbutt said, calls went out to Tacoma’s TOTE.

"We were told that TOTE felt Interstate had a strong reputation," he said.

A NORTHWEST DUO

Tabbutt and Engle both profess serious South Sound roots.

Before going to Whitman College and the University of Puget Sound School of Law, Tabbutt attended Capital High in Olympia – and delivered *The Olympian*.

Before going to Seattle University and the University of Washington, where he earned an MBA, Engle attended Clover Park High School – and delivered *The News Tribune*.

Tabbutt, Engle and Saltchuk's chief financial officer visited Interstate's Parkland headquarters on March 9.

"They had met enough of our checklist," Engle said.

The three executives toured the offices and kicked some tires.

Then they did what any truly local business executives would do.

They drove to Fife, stopped at Pick Quick Drive-In, bought some burgers and sat in the parking lot to discuss what they'd seen.

"We talked about the safety culture," said Tabbutt. "Also, they treated their employees well. George's (Payne, Interstate president and CEO) son was working on the inside of a truck. It was the kind of company where they would bring their own children to work."

"It was also the cleanliness of the operation," said Engle.

"We always talk about that," said Tabbutt. "What did the parts department look like?"

"The parts were readily available. That struck us," said Engle. "There was a sense of pride in one's workplace. To take pride in that really spoke to the commitment."

Also, as these things happen, Engle went shopping at a Seattle Petco store – where he saw a driver unloading an Interstate truck.

Safety cones were set onto the parking lot. The driver was wearing a safety vest.

"What impressed me was the professionalism," Engle said. "It was the way the brand was seen in the eyes of the public. The pride he had – you can't manufacture that."

"Unanimously, we liked what we saw and heard," said Tabbutt. "We decided to give it a great deal of effort."

"We look at the management team," said Engle. "We need to have faith and trust."

What he heard during the visit with Interstate executives, he said, "was the way they followed up on each other's questions. This was a team."

DECISIONS

Tabbutt and Engle – and Interstate executives – knew they would need to move quickly. It was common knowledge in the trucking industry that Interstate was for sale – which meant there could have been a migration of clients, contractors and key employees.

"We didn't want to lose good people who were afraid they would lose their jobs," said Interstate head George Payne.

Adding to the pressure on Saltchuk, other buyers were showing interest.

"There was more than one interested party," said Payne. "There were two equity investors close to the end, also a handful of other financial opportunities."

"I think what we talked about was how much to bring, not how much we can earn. That's kind of a secondary step," said Tabbutt. "In our experience, we don't do well with sellers who are solely focused on the money that will go into their pockets."

Interstate had engaged Seattle boutique investment bank Cascadia Capital LLC to handle the deal, to negotiate between Saltchuk and the family ownership group.

“Price came into it, also the ability to look at the business holistically,” said Payne. “It had to be good for employees.”

“We were making a decision like we were going to own this business for forever,” said Tabbutt.

On March 28, Saltchuk had an agreement stating it was the sole suitor.

The price of the acquisition – “more than \$100 million,” said Tabbutt – includes cash for the owners and Saltchuk’s assumption of Interstate debt.

The deal closed late last week, and final signatures will be exchanged Tuesday.

Along with the payment to the owners, Saltchuk will be making an investment in the company.

“The capital infusion beyond the purchase price is significant,” Tabbutt said.

For example, the average age of tractors in the Interstate’s fleet is 4.9 years.

“Our goal is to get that below 2.5 years,” Tabbutt said.

The average cost of a new tractor is \$115,000.

“It’s the beginning of a new era for Interstate, one that will allow us to continue to do business

consistent with the legacy Bob McLean established in the early years, and at the same time to allow us to continue to build the business model,” said Payne.

In a March 31 letter to employees, Trueblood outlined the deal and said that upon closing “additional cash will be made available to buy new tractors, bring back contract carriers and further strengthen cash flow and liquidity. We do not anticipate any changes in the daily operations at IDC.”

Saltchuk echoes the optimism at Interstate.

“For our operation, it puts another leg to the stool,” said Engle. “We haven’t even begun to see what the synergy will be with our companies.”

He begins a list by naming TOTE, which ships cargo to Alaska from the Port of Tacoma; and Delta Western, which markets and distributes petroleum products in Alaska; and Sea Star Lines, a Florida-based shipper providing service from the East Coast to Puerto Rico, U.S. Virgin Islands and Tortola.

“There are a host of opportunities that our operations guys are excited about,” Engle said.

“The senior management team has more than 100 years of experience in the trucking industry,” said Tabbutt.

“We look forward to them educating us.