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## **There's More than One Way to Sell Your Business**

**By Henry Schmitt**

**30-year tire industry veteran**

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I'm a veteran Michelin guy. After spending 33 years on product research and development, and the commercial tire business, I shifted gears last year and made the switch to investment banking. Since I helped build Michelin's retread business from the ground up, I have a soft spot for business owners in that space and meet with them often in my current role. I see the retreading business through a whole new lens and am especially ready to help retreaders and commercial tire dealers through the unforeseen journey ahead as a result of the global pandemic.

Until March, our economy was strong with mergers and acquisitions activity on the rise. Now these transactions are likely to accelerate and I don't want to see independent companies miss out by undervaluing their operations or overlooking financing options. The reality is that the playing field gets more level every day, and companies can no longer compete only on quality and service. They have to grow – which means independents have leverage, and options.

### **What to Know Before You Sell**

It's important for any prospective seller to know the value of the organization and what their long-term objectives might be.

Much of the M&A activity in recent years has been through one-on-one negotiations between dealers. That method doesn't optimize value for the sellers, especially since valuation methodologies are left to officers and accountants of the buying and selling dealers. One of the reasons I joined Skyway Capital is their experience and expertise in maximizing value for owners. We have access to deep expertise, extensive relationships and thorough comparables analysis both within and outside the commercial tire industry.

### **You Have Options**

There will be new opportunities for healthy businesses to acquire smaller companies facing difficulties in the post-pandemic economy. Or, you may be poised to sell your healthy business to retire but are concerned it may be undervalued due to the current economic conditions. Conversely, your business may be struggling as a result of the pandemic. A good investment banking firm that understands your industry can help you with restructuring plans to survive the downturn. If your business has remained stable through the turbulence, the investment banker has access to investors eager to take a stake or buy profitable companies at a good premium.

Investment banking firms can also bring alternative options to dealers that can't be found through traditional bank financing. For example, the following are some common scenarios in the industry right now.

#### **Scenario A: Acquisition**

Say Company X is a \$40-million tire business, and the patriarch of its competitor in a neighboring state, Company Y, is retiring. X wants to acquire Y to expand its footprint, but X doesn't fit the profile for traditional financing. An investment banking firm can find Company X access to capital beyond what banks can offer, in order to close on that acquisition.

#### **Scenario B: Phased sell-out (Plan to be acquired but not right away)**

In a situation like this, Company A CEO may be close to retiring and wants to put some money away to secure a comfortable nest egg. But, he/she still enjoys the business and wants to be active for now. Through an investment banking firm's network of business investors, the firm can offer the owner transaction structures that allow for the sale of a percentage of the business while maintaining the CEO's active stake in the upside of future business growth. When that happens, the CEO sells a percentage and invests that money for eventual retirement. The private equity group that backed the company typically wants to infuse more money to increase growth (acquisitions or expansion), so it can sell the business for much more than it invested. Ultimately, everybody wins – the private equity helped grow the business for a larger upside on the sale of the remainder of the business.

#### **Scenario C: 100% Takeover (Let's sell it all right now)**

If an owner's goals are to hand over the keys and walk away, it's important to know that as well. A good investment banker will explore the owner's goals beforehand and tailor marketing efforts accordingly, so that in this scenario, the banker is pitching only buyers that would be a good fit for a total takeover of the business.

#### **A Storied History in Our Country**

The North American tire industry has seen major changes in the last 20 years. After World War II, many commercial tire businesses were established as family-run operations, many also invested in retreading operations. Until 1998, independent retreading suppliers represented 80% of the market share. But once the 'big three' tire manufacturers got into the game, that dramatically shifted – and by 2008, the 'big three' controlled 96% of the retreading business. That, in turn, influenced how independent dealers sold new tire brands. The distribution alignment driven by the big tire manufacturers via retreading also contributed to consolidation in the dealer network.

Now the independents that are left, who are still running great businesses, could be very desirable acquisition targets for the right buyer. Often, these businesses are in the hands of the third generation's tenure and the family structure may have run its course. Many principals are no longer in it for the long haul, and want to focus on other pursuits and may be looking for options. And ultimately, the folks who built the business should have options when they choose to leave it.

If you'd like more information, please don't hesitate to visit [www.skywaycapitalmarkets.com](http://www.skywaycapitalmarkets.com) or give us a call.

***About Henry Schmitt:***

*Henry Schmitt started at Michelin in 1983 as a tire design engineer. In his three decades with the company, he held a number of positions, mainly in the research & development space. In 1997, he was asked to join a six-person exploratory team to look into Michelin entering the commercial retreading business in North America, a project that would become Michelin Retread Technologies, Inc (MRTI) and launch the first franchised retread plant in late 1998. Henry continued with MRTI, eventually serving as president from 2008-2013.*

*In Henry's last three years with Michelin (2013-2016), he served as manufacturing and technical director for Michelin Tweel Technologies, the group that developed, produced, and commercialized the world's first airless radial tire.*

*Henry is now a Managing Director with Skyway Capital Markets, where he focuses on the commercial tire market, light manufacturing, and other middle market industrial businesses, assisting companies with M&A activities, financing growth, and market consolidation on the buy or sell side.*