

A close-up, low-angle shot of a blue car's front wheel and tire. The car's body is a vibrant blue, and the wheel is a multi-spoke alloy design. The background is dark with some blurred light streaks.

**SA**

Schwartz  
Advisors

M&A – are you ready?

# Topics for today

1. Overview of Mergers & Acquisition (M&A) activity in the aftermarket
2. M&A creates opportunities
3. Case studies

***The main message today is be prepared and be ready. You will have to address M&A issues eventually – if you haven't already.***

# M&A activity in the auto aftermarket

- M&A is a fact of life in the aftermarket
- M&A is also a fact of life in the broader economy
- Private equity firms (PEs) like the aftermarket.
  - ▶ Approximately **140** PE owned aftermarket companies
- M&A activity by aftermarket companies (strategic buyers)
  - ▶ Approximately **80%** of transactions involved strategic buyers
  - ▶ Of acquisitions by strategic buyers, almost **1/2** were strategic buyers that were backed by PE firms

# 160+

aftermarket transactions in the aftermarket in North America and Europe in 2017

# 2017

M&A activity represents **LARGEST** number of deals on record

# M&A Themes – Growth, Consolidation, Technology

- **Who?**
  - Suppliers, WDs, PEs, and other aftermarket companies
  - Foreign companies looking at the U.S. aftermarket
- **What is driving interest in the aftermarket**
  - Stable growth
  - Consolidation opportunities
  - WD and service segments
  - Technology
- **Why are these trends impacting the market?**
  - VIO continues to grow, an indicator of future growth for the aftermarket
  - Consolidation to get economies of scale
  - Technology creates new investment opportunities



# M&A creates opportunities. Are you ready?

- What are your goals & objectives?
- What are the M&A trends in your part of the aftermarket?
- What makes the most sense for you and your business? Are you a buyer, seller or are you going to continue to run your business?
- What every business owner needs to know about M&A – even if you don't plan on selling your business



# Competition

- Your competitors are probably thinking about MA&
- You need to know who is buying, who is selling, and how that impacts your business
- If you are a WD, supplier or in any part of the service industry, M&A impacts your business
- Are your suppliers still providing same levels of service?
- If you are in the aftermarket, you probably have been affected by M&A.





# You can't take it with you

- All business owners will “exit” from the business – it’s inevitable
- Best time to be thinking about M&A is before you have to make a decision
- Optimize transaction value on your terms when you are ready to sell your business

# The big picture

- You have poured blood, sweat and tears into building a successful business and you're making a decent living
- You love your family, but none of them will run the business going forward
- You have this itch to move on, take on a new challenge, or just take a break
- You know how to run your business. But how do you get smart about the potential of selling it?





# Well, here is the scoop...

- Your business is probably worth a nice chunk of change
- Figuring out what it's worth and who might buy it is very doable
- The buyer you sell to will be your decision, and you'll have at least some say-so in the future of your management and employees

*How do you figure out what your options are? We suggest 3 steps in considering how to move forward with a possible sale.*

# Step 1 – The Numbers. It All Starts Here

- Often business owners are nervous about this first step being too complicated
- We have spent a lot of time with owners walking through these basic steps that will help answer the question, “What’s it worth?”
  - Three years of financial statements
  - Appropriate adjustments to financials to show true profitability
  - Reasonable three to five years of projections



# Step 2 – What Makes Your Business Valuable

- Think about the pieces of your business that make it valuable to a buyer
  - You – will you continue to work in the business after a sale?
  - Management Team and Employees – make sure they stick around
  - Loyal Customer List
  - Key Suppliers
  - Physical Assets and Facilities
  - Trademarks, other Intellectual Property



## Step 3 – Legal Business Structure

- Business structure can have a significant impact on the value of your company
- For example, your legal structure (corporation, partnership, LLC, etc.) will help determine what the form of a transaction might be and, very importantly, will help you and your CPA work on the best tax treatment to get you the most after-tax proceeds.



# What's the Bottom Line?

- Figuring out what your business is worth and sizing up your options for the future is doable
- As we said earlier, it's not rocket science, but it does take some thought and effort
- You have the ability to choose a path that works best for yourself, your family and your employees
- Owners who have invested time doing the homework are always glad they did



# Other considerations



Other considerations before you think about selling your business

- Getting ready for possible M&A – personal estate planning
- Are you ready to sell? Is this right time? Know what you are going to do after you sell your business
- What are companies selling for – *not what you want to sell your business for, what are actual valuation trends*
- Who are the buyers?

# Other considerations



What do you want in a deal?

- Stay on with the business after the sale, or leave the business?
- Do you own real estate, and will you lease it back to the new owner?
- Sell for all cash, or retain a stake in the business?
- Jobs for key employees?
- Non-compete

# M&A (like making sausages) – it isn't always pretty



- Even friendly buyers can be demanding and will look for angles to reduce offer price
- Selling a business can be a big distraction
- Selling a business can be an emotional roller coaster so be prepared
- NDA, IOI, LOI, APA, VDR....a lot of acronyms
- Managing the process



# Are you looking to make acquisitions?

- Who will you be competing against for acquisitions?
- How will you fund an acquisition?
- Be specific about what you want to buy – and why?
- Betting the farm, or buying for “smart growth”?



# Run your business better

- Regardless of whether you are a seller, buyer, or neither, M&A activity can force you to run your business better
- Take a realistic “outside – in” look at your business
- Acquisitions by competitors can create opportunities for you. Are you ready?

# Case study 1 “Prepared and ready to go”

## Situation

- WD tried to sell business without help from advisors and failed
- Spent over a year talking to a competitor about buying their business, never got a firm offer, gave away a lot of confidential information...a big distraction

## What did the WD do?

- Focused on re-building their business, got their house in order, did what they do best – sell auto parts!
- Hired right group of advisors to guide the eventual sale process

## Outcome

- “Best fit” buyers were approached when business owner was ready to re-consider selling
- During sale process the advisors managed all aspects of the transaction
- Final sale price exceeded expectations

## Lesson learned

- Be prepared, be ready, hire the right advisors



# Case study 2 “Not sure if I want to sell”

## Situation

- Specialty WD thought he was ready to sell, went through an exhaustive sale process
- Received a firm Letter of Intent from a good buyer

## What did the WD do?

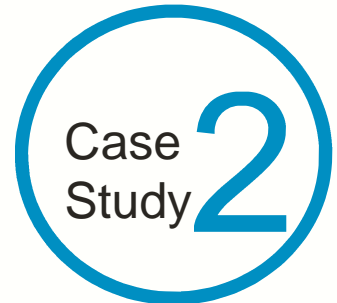
- Turned the offer down at the last minute

## Outcome

- The business owner was really not ready to sell. Too many issues had not been adequately thought through.

## Lesson learned

- Deal did not get done, but the business owner was ready a few years later and committed to selling his business



# Case study 3 “Let’s go”

## Situation

- Specialty business, family owned, made firm decision to sell and got their house in order
- Financials, documentation, contracts and all other materials were ready before any discussions help with buyers

## What did the family do

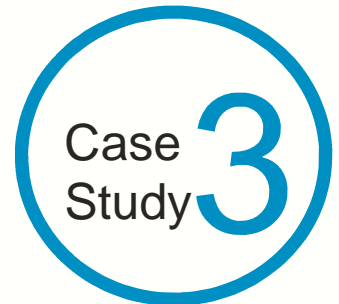
- The family was ready for the sale process, the business was ready to present to buyers and they family know what they wanted

## Outcome

- Final sale price exceeded expectations

## Lesson learned

- Be prepared, be ready, know the market conditions



# Summary points from today

- M&A is a fact of life in the aftermarket. Be prepared to take advantage of the trends and opportunities created, even if you are not going to participate in M&A.
- If you are a seller:
  - Know how to value your business
  - Know what buyers are paying
  - Do the homework required to optimize valuation
  - Get ready for a disruptive sale process
- If you are a buyer:
  - Be prepared and ready to strike
- Regardless, run your business to take advantage of opportunities in the market place

# About Schwartz Advisors

- M&A Advisor and consulting firm to the aftermarket
- Team of SA partners comes from the industry
- Experience running aftermarket companies in all segments
- A lot of experience in M&A in the aftermarket





Rick Schwartz  
CEO, Managing Partner  
[rschwartz@schwartzadvisors.com](mailto:rschwartz@schwartzadvisors.com)

[www.schwartzadvisors.com](http://www.schwartzadvisors.com)