

SBM Case Study: HH Auto Wheel & Trim



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Hubcap Haven Auto Wheel & Trim ("HH") is a Minneapolis-based business that sells a huge selection of OEM auto wheel products - hubcaps, rims and more. It's a candy store for the car enthusiast looking for just the right wheel accessories and a handy resource for the car owner who needs to replace a damaged hubcap. HH opened in 1971 as a traditional brick and mortar business under the name Hubcap Haven and Wheels, but the company embraced the internet revolution and established an online presence in 1996 and has since transitioned into a purely E-Commerce concern.

The move to E-Commerce grew their business, but with increased success came an increased workload, which is when they began to feel that they'd reached the limits of what they could do on their own. Eventually, the owners decided to sell HH - but they didn't plan to leave it. The owners chose a recapitalization ("recap") over a straightforward sale. A recap freed HH's original owners to reap an immediate reward from the partial sale of their interest, while allowing them to retain partial ownership, stay involved and benefit from the company's anticipated growth.

HH's owners needed a strategic partner who could bring financial, operational and management expertise to their E-Commerce company. They also needed buyers who would mesh well with their team and their vision for HH's future. John Wallace, one of HH's co-owners, said that when he began searching for a firm to broker this complex sale, a family friend recommended SealedBid Marketing, Inc. "A long-term friend of my father...knew (SealedBid Founding Officer) Jerry (Clark), had done a number of deals with Jerry and he recommended Jerry to me."

“long history in the industry”

SealedBid was engaged to facilitate HH's recap

sale, and SealedBid's Transaction Team began to collect information to prepare the company for market. A recapitalization is more complex than an ordinary sale to begin with, but the sale of HH was also complicated by the fact that HH's financial information was not easily gathered.

Wallace recalls: “The bookkeeping and financials were being done by an accounting firm that was really not set up to pull together numbers the way we were looking for them. Jerry, (SealedBid Vice President) Blake (Johnson) and (SealedBid's Financial Analyst) Larry (Lundgren) spent countless hours going through our financials, trying to understand them and trying to present them in a way that made sense to people.” In addition, the SealedBid Transaction Team created marketing materials for HH, researched potential buyers and moved into the marketing campaign phase. They sent direct mail to prospects, followed up by phone and email blasts. They scheduled conference calls and meetings.

Wallace adds: “They packaged it all up to tell the story really well and walked me through all the steps of what it was going to take. They didn't expect me to know it all, and they prepared me as much as they could when we'd meet with prospective buyers.”

But in the end, Wallace says that it was SealedBid's long history in the industry and their extensive

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network that helped locate the right partners for HH. “Jerry and his team have so much expertise, not only in this kind of sale, but their history of knowing people. They ended up finding our eventual

partners through a friend of a friend, or a business acquaintance through a business acquaintance.” The HH owners finally inked the recap sale with a father-son team. “The father...has years of executive experience with General Mills,” Wallace notes. “He was the CTO and EVP of Operations and R&D at General Mills for years, and he's seen how you grow a big business, how you manage a big business. He's very good with numbers. The son is very good at managing people...He worked for Microsoft and did a lot of things with Best Buy that are similar to the goals that we have. I felt they could plug into our company pretty easily,” Wallace adds.



“couldn’t have done it without them”

He concludes:
“From SealedBid’s

perspective, this was not an easy deal for them to get done...I’m sure that if we were a manufacturing company with \$5 million in assets, it’s a lot easier to sell a company like that. Our assets are our knowledge and our website. Jerry...and his team...did a great job of finding a buyer who could understand what we were trying to accomplish. They were great throughout the whole process. I couldn’t have done it without them.”

Craig Darcy is the Managing Partner of J2911 Solutions Inc., financial partners that purchased HH, along with his father Randy. The SealedBid Transaction Team met with the two men, but Darcy says that in general, the idea of a partnership didn’t appeal to him. “Typically, as a private equity owner, I’d look for companies where I’d have the vast majority of the company, if not all. Very rarely would I ever get into a partnership situation, because they can be a lot more difficult to manage. Typically, you don’t know if the other owners are going to hang on to their portion of it, so that’s not usually what we’re looking for.

“But after meeting John and the other owners, their idea that they wanted to hang onto a chunk of ownership and continue to run the business, and get it to the next level, the group of guys were better than I had ever met. It was just a solid fit, and SealedBid knew that...we’d be a good fit on a personal level.”

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Darcy says that HH’s cash flow and customer-friendly E-Commerce platform were also factors in his decision to purchase the company. “(HH) was a cash rich company with

a payment flow that was really in the benefit of the distributor...to have the ability to know demand before purchasing product was very enticing to me.”

“Those were other attractive business components, (but) the thing that absolutely pushed the business deal over the edge for me, in terms of wanting to enter into a partnership, was the people.” Still, Darcy notes that the skill and dedication and constant involvement of the SealedBid Transaction Team was instrumental to the deal.



“connect all the dots”

(SealedBid was) able to walk us through the business, and they knew almost as much about this business, financially speaking, as the HH owners did. So as we...did our research on the company, (SealedBid was)...just a massive help.”

Darcy says that SealedBid also made helpful suggestions about potential growth opportunities for HH. “They had done quite a bit of research on the industry as a whole. (SealedBid was) able to put together a package and helped facilitate a discussion about the potential other opportunities, other acquisitions, other avenues for partnerships that could eventually grow the core business. That was a massive help, and...had SealedBid not had that expertise, it would have been tough for us to come together with HH.”

Now Darcy says that he's pleased with the way the purchase off HH has worked out. “It's been better than we anticipated. We thought it would be good, we thought there would probably be some things we'd missed, kind of 'ahas' that usually happen in deals like this, but there really haven't been. We've been able to grow the company significantly...the team as a whole has really come together to make that happen.

“The thing I'm most happy with is how HH's skills and talents and knowledge that were expressed during the negotiations...turned out to be exactly that. There was not a lot of fluff in there; it was very honest information, so what we thought we were entering into, ended up being exactly what we were entering into.”

Darcy concludes: “It was a great experience and Jerry and Blake did an awesome job for us. Calling them a broker doesn't cut it. They truly facilitated the deal from start to end. They were willing to sit in all the meetings and connect all the dots where they needed to be connected. They do what needs to be done.”

“Jerry and his crew were able to gather up all of that financial information and put it in a useable format.

SealedBid is an M&A firm focused on lower mid-market companies with revenues ranging from \$2 million to over \$50 million.

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