



Mr. Larry Seawell

The partnership with FdG provides Hercules Tire International, the US-based tyre wholesale major, with a solid financial foundation and a springboard for further developing its product offering and distribution platforms worldwide

Hercules on an expansion spree

Things are going pretty strong and encouraging for Hercules Tire International, the Findlay, US-based private brand marketer and wholesale distributor, which is now growing with a rejuvenated vigour after the New York-based private investment firm, FdG Associates L.L.C and its senior management stepped in as its major shareholder, last year.

Jubilant about FdG's entry into Hercules' business, the company's president and CEO Mr Larry Seawell says: "We think we have found the right partner. In fact we picked a company that's very similar in business strategy and thought process to Hercules."

On the routine level, not much has changed for

the Findlay-based private brand marketer and wholesale distributor, save for a quarterly board meeting with FdG and monthly board calls. "They allow management to run the business," Mr Seawell says and adds, "but they're a very strong financial partner and are there to support us in anything we want to do that will make the business go forward. So we think it's the best of both worlds."

Far East foray

Just how has the support from FdG helped Hercules' endeavours?

Mr Seawell's was a quick response: "We have tremendous opportunity in the Far East with our supplier base. We asked (FdG) to come with us on

a trip to meet our suppliers, and talk about the company and give our Far East suppliers a good feeling about the transition," to new ownership that was consummated May 11, 2005, for an undisclosed amount.

"They hopped on a plane and flew to China with us, going from supplier to supplier, talking about the new company, management and where we're going in the future. We left that trip with a very comfortable supplier base. So those kind of things are very good for the company."

Hercules has "been on the ground in China for more than 15 years." Mr. Seawell pointed out. "Our strategy is to try and pick suppliers and put ourselves in where they have real strengths. There's a lot of risk going to China if you don't know what you're doing, but fortunately, we've been there a long time."

The company has an office and warehouse in China and a core group of about seven different manufacturers there "so we think we have the quality and logistical edge," he added.

FdG also has been very supportive with the purse, providing capital to allow Hercules to boost its budget for tyres, moulds and other expenditure. "We introduced four major product lines in the last

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year or so," Mr. Seawell said, "and have other things on the books to make our private brand programme stronger, and they're continuing to support us with the mould budget as well as showing interest in strong inventory balances. (FdG) is just a very supportive group that wants to see the business do well."

The FdG entry

Some 250 possible suitors came in when Hercules started scouting for suitors for business partnership more than a year ago. While potential partners included some large wholesalers, in the end no tyre-related firms were in the running when the company settled on its chosen few and, finally, FdG., former Hercules President and COO Craig Anderson said.

Until that transaction, Hercules had been run by a board of 33 shareholder-owners and often was faced with the differing objectives that emanate from such a divergent group, Mr. Anderson admitted.

Prior to FdG becoming Hercules' majority shareholder, Mr. Seawell had said the deal hinged on instructions from Hercules shareholders that "they were looking for liquidity and also a strong financial partner who would provide a strong tyre programme going forward."

Hercules was started in 1952 by a group of 21 retirees "to provide consistent high quality products to independent dealers and rereaders. Brands handled by the company include its Hercules, Merit and Signet private labels and nearly 20 major and associate brand tyres and tyre-related products.

The structural changes

With the acquisition and reorganisation, Hercules went from five operating divisions to three, following the sale last year of its manufacturing division – which Mr. Seawell called a "distraction." The firm's TDW and Private Brand Tire divisions combined to become Hercules USA; Hercules Canada and Hercules International remain separate divisions.

All three units have divisional presidents reporting to Mr. Seawell, who said the new arrangement is "a very streamlined, single organization." "We're now in a position where, if we have good ideas and want to move forward, instead of a co-op owning the company and a board made up of co-op members, we now have a supportive business partner so management can take those ideas forward."

The fresh spell of growth

Since the buyout, Hercules has seen growth in every division. In 2004 the company had a revenue of \$340 million through just its tyre business sales, excluding manufacturing. That number grew to \$382 million last year in the midst of the sale of its manufacturing unit and acquisition by FdG. This year, revenue is up by 15 per cent, he said adding, "cash flow also is expanding". And he terms it as "quality growth", with both the top and bottom lines growing.

That growth pattern extends to Hercules' warehouses too. This year its Belleville, Ontario, distribution centre was expanded. The company added a new facility in Moncton, New Brunswick, moved to new corporate office in Findlay and set up shop in a new, larger warehouse complex in San Antonio. Last year it grew its Union City and

Houston facilities and opened a warehouse in Chicago.

Latin American expansion

Hercules recently opened its Latin American Sales office, which operates from its facility in Miami, Florida. This is a clear expansion of the company's South Florida initiative that began with the acquisition of Tire Distributors Inc (TDI), USA last year.

Mr Luis Torres, Managing Director for the Latin America expansion says: "The Miami office and warehouse facility is strategically located to service our growing customer base in Central and South America with a broad range of quality products. We can give our valuable customers a one-stop shopping experience to fulfil all of their tyre requirements."

Mr "Rocky" McDonough and Mr Tony Lugiyo, who joined the Hercules family from TDI will continue to support export sales initiatives in the region.

"Combining the resources of TDI and Hercules has given us the opportunity to position Hercules as a leading distributor of private brands into Latin America while capitalising on an expanded product offering from Hercules", said Lugiyo.

"Hercules' continued expansion into Latin America is supported by a strong logistical infrastructure and 135,000 sq. ft. of tyre warehouse space in South Florida", said Mr McDonough.

"We targeted the southeast due to significant opportunities for growth in the local market, as well as the solid operating platform it provides to expand our sales and distribution capabilities into Latin America", said Mr Seawell.

On the company's present team at the apex Mr Seawell said, "We have a great management team. I don't do it. It's a team; the whole feeling of Hercules is very, very upbeat and positive. This is a company where, whether you're an employee, customer or a supplier, we have a lot of momentum, a lot of aggressive people".

The company's old headquarters in Findlay "had a lot of carbon black" in its veins and was long overdue for relocation. Mr. Seawell said the new headquarters is close to the company's 400,000 sq ft warehouse now.

Organic and inorganic growth

"If we were to do an acquisition or a substantial initiative that took us way up in sales, FdG indicated their support would be available," Mr Seawell said. It was only a few months ago that the acquisition of TDI was made to stretch its range in the US

southeast and more heavily into Latin America.

On the acquisition front, Hercules continues to "look at everything in the market place that's available". Mr. Seawell says he uses three criteria when considering a purchase:

- Look at every opportunity; but
- Maintain our strategic focus and
- Maintain a very disciplined pricing model.

While admitting that acquisitions are of course a lot less predictable than greenfield operations, Mr. Seawell says "we'll see both organic and inorganic growth in our future."

As welcome as the influx of initial capitalisation from FdG was, it didn't over-leverage Hercules, Mr Seawell points out. "So it gives us plenty of room on our operating line to support our growth without additional capital being required at this time because our cash flow is so strong. We're funding our growth through our cash flow," he explained.

Customer reaction

Since FdG stepped into the picture, Mr. Seawell said the reaction from Hercules' dealer-customers has "really been positive".

"One of the things we talked about before the deal was whether the previous owners/dealer group would support the 'new' company."

"Our business in the private brands area is growing, our warehousing and export businesses, too. We have growth across all business segments. I think our previous owners – we call them dealers – find we're still investing in new products, in our brands. They realise we're still a strong company in logistics and supply, the basics a customer needs. We're trying to be a better supplier every day," Mr Seawell said.

Bright days ahead

The company's strength – and core strategy – is tyre wholesaling. He said Hercules will continue to invest in its brands, expand its supply platform and "continue growing sales in a quality way".

On the atmosphere around the office after the reorganisation of the company, Mr. Seawell said "It's like a breath of fresh air here. Momentum and excitement are good. You have to give people room to grow, and we've got employees on the fire and all pulling in the same direction."

Mr. Seawell has been with Hercules almost a dozen years. Though he began on the financial side as CFO, he acknowledged he's "very much enjoying his role now as CEO." ■