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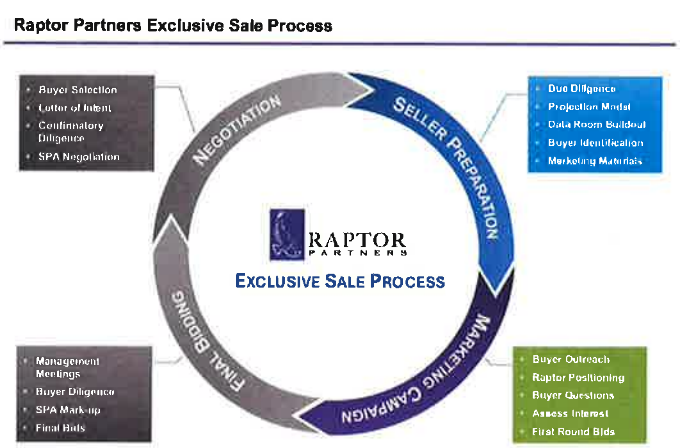

Selling Your Service Center
What to Do When it's Time to Go

By Dan Markham on Apr 7, 2025

MCN Editor Dan Markham

Selling the service center that has been in the family for generations is not easy but it can be rewarding if proper care and diligence is taken.

It is a decision many family-owned service centers will arrive at some day. When is the time to exit the industry?

For some, it's as simple as turning the proverbial keys over to a son or daughter, the next generation having spent time learning the business from the bottom up and eager to usher in a new chapter of entrepreneurship.

But not everyone has that option. For some, it may be there is no next generation, the line of succession stalling out with the present ownership group. For others, the next generation has no interest in joining the family business, finding their path in law or medicine or working as an influencer, whatever that entails. Still others may have options for succession, but feel now is the time to cash in on a lifetime of hard work.

And with the Baby Boomer generation reaching, and surpassing, the typical retirement age, there are plenty of companies out there looking to do just that.

"People call it the 'Silver Tsunami,'" says Michael Mufson, managing partners of Mufson Howe Hunter. "So many service centers might have been in the family two or three generations, but the kids don't want it and the family needs a liquidity event."

For these individuals, selling the service center is the logical choice. But just because it's logical doesn't make it easy.

Turning over leadership of the company that you or your father or your grandfather built can be fraught with baggage. But it's also the last opportunity to maximize the value generated through years of hard work and battling through the boom and bust world of metals distribution. Getting the most of that final transaction demands following a process that's much different than the one it took to grow your business, but every bit as challenging.

Fortunately, for them, there exist a healthy network of potential buyers, typically larger versions of themselves. Acquiring is a preferred method of growth among North America's biggest service centers.

"In this industry, you have to grow. Your costs are increasing and your prices typically don't increase as fast as your cost," Mufson says. "You have to make it up in size and economies of scale. Acquisitions are the easy way to do it."

Peter Scott, founder of Headwalll Partners, says the stagnant nature of the service center space makes growth through acquisition the logical solution. Simply by maintaining market share, participants in fields such as tech or healthcare can expand through the annual expansion of those segments. But the North American steel industry has been a 100 million-ton business for decades.

"It's a highly competitive marketplace, there are a lot of [service centers]. But there isn't any fundamental growth. You could add capacity, but you still have to 'steal' that customer in order to fill up your facility," he says. "So the way to grow your business meaningfully is through acquisitions. Most of the larger service centers have figured that out."

MCN spoke to a group of investment bankers such as Mufson and Scott, all of whom cater to the industrial space, to get insight on the do's and don'ts of selling your business.

Before the Sale

Getting ready to turn over your business begins well before the figurative 'For Sale' goes up in the window. In fact, to maximize your return you should start thinking about your exit strategy years in advance.

Though this is not always possible, as some sales may be forced upon a company, extensive planning will help family owners get the most out of the transaction. It may also help the sellers time the transaction to a better environment, one where earnings are up and buyers have cash.

"One of the first mistakes people make is they wait until dad dies, they have a big tax bill and their hand is forced. They have to go out and sell the business because they have to pay their taxes on the wealth transfer of the estate," says Scott. "Someone else is making decisions for them on the timing of the sale of the business."

Dan Sullivan, founder of Montrose Advisors, agrees. "It's best to sell when you don't have to is a broad way of looking at things."

Avoiding that requires planning. It starts with getting your financials in order. "Each year, everyone wants more and more data," says Craig Wolfanger, founder and president of Raptor Partners LLC. "You call sell a business without it, but you won't maximize your value. If you haven't done an audit or reviewed financial statement, you start a year before [the sale process begins]."

Albert del Pilar, managing director of ButcherJoseph and Co., describes this process as "holding a mirror up to your business.

These are the expectations the buyers have in the due diligence process. These are the strategic characteristics they're looking for and for which they're willing to pay."

There are a number of areas companies can work on in the pre-sale portion of the process, says Vince Pappalardo managing director of Brown Gibbons Lang & Company. "Make sure your strategy is sound, your revenue is sticky. Make sure your expenses are tied up nice. If there are idle assets or stuff on the balance sheet that shouldn't be there, get rid of it."

Another key element is to have a management team in place. A service center sale is different than other kinds of transactions in that the acquirer is almost always looking to buy not just the equipment and inventory, but also keep the decision makers who have made that business profitable.

"There are different philosophies among buyers as to the level of independence they want to give the companies they acquire, but it's never 'subsume this business into mine,'" says Sullivan. "They'll have different reporting requirements, changes to safety practices and a different emphasis on inventories, but everybody needs the management team who knows the customer base and knows how to run the business."
Sometimes the owner may stay on, or it could be a trusted team of executives under him or her. But a seamless transition, one where trusted personnel are still in place, is imperative.

"The first question a buyer is going to have is who is going to run this business when you're gone," says Bill Sales of Heritage Group, a banking partnership founded by several former service center executives. As a former Reliance executive, Sales was often on the other side of the equation.

"You really want to have management continuity," says Wolfanger. "You want a general manager who is the next in line to run the operation. It's something you may need to think about a couple of years in advance."

Additionally, you will also want to make sure all of your existing shareholders are on the same page. "If you have multiple shareholders, particularly shareholders who aren't actively involved in the business, you need to have a buttoned-up shareholder agreement in place," says Heritage Group's Bert Tenenbaum. The last thing you want is to get into the process and find certain shareholders have changed their minds or their expectations are different than yours."

Finally, companies should understand what they want to get out of a sale. "What I often tell families is they need to determine their goals. What are they hoping to accomplish. And that's different for different companies," says Scott.

And del Pilar says those objectives need to be prioritized. "In the context of a sale, what do you want to get out of it. And which one of those objectives are most important? If you have three things you want to get, and you only get two of three, would you be willing to close? Is the third that important in the grand scheme? You need to set that list of priorities and what you want to hold fast to and what you're willing to give in on."

The Sale Begins

Perhaps it's a little self-serving to point out, but one of the first things companies should do at the start of the sales process is to surround themselves with trusted and knowledgeable advisors, the bankers say. Going it alone is not recommended.

These teams can include CPAs, M&A attorneys and the bankers themselves. Existing accountants or lawyers can play a role in the process, but may not be suited to the unique challenges that arise in completing a business sale.

"What I tell people is running your business is very different than selling it. The process is complicated and time consuming and will distract you from your own business," says Sullivan. "There are 50 different things that are going to happen in the process. If you haven't thought them through in advance and know how to set a timeline, you're going to get overwhelmed."

Heritage Group's John Montgomery says one of the worst mistakes companies can make is doing it themselves. And he speaks from some experience, as his family sold the

Independence Tube business to Nucor years ago without seeking outside assistance. "We're talking about smart individuals with a high degree of business acumen. But they're not set up to run a process like this. And it takes their focus off the business."

All of the men agree that continuing to focus on the day to day is critical. For one, there's no guarantee of success. "Run your business as you would every single day," says Tenenbaum. "Sometimes these things don't come to a happy conclusion. You might still have your business six or nine months from now."

Keep in mind, however, that there will be additional demands on the seller, even with the banker taking on a heavy load. "You can't shy away from it. You will be working a lot," says Hubert De La Vauvre, director of BGL's metals and advanced metals manufacturing investment banking team.

Often, those who go it alone do so with a buyer in mind. There are risks to that approach. For starters, it simply limits your potential to maximize value. "If you have an auction, the more people there are with a paddle in hand, the higher the price. The banker creates competition among the buyers and makes sure they play off one another," Scott says.

That's just one role the bankers play in the process. The most notable functions they perform are truly preparing the business for sale by ensuring the seller performs all the necessary due diligence, delivering the optimal business case to the large buyer community and serving as the negotiator between the ultimate buyer and the seller.

Having overseen countless transactions, the advisors will know what the buying community is looking for. "One of the key ingredients is our understanding of the buyers' perspective. We know all of the important questions you want to be able to answer. And we not only can position your strengths, but also if you have weaknesses, we know how you position that in a way that will be most positively viewed by the buyer," says Wolfanger.

Pappalardo says the sellers won't be able to hide any issues. "Everything comes out. The buyer will find it. It's a matter of making them understand the opportunity rather than just thinking of it as a lot of work."

In the service center space, the buyers will typically be larger service centers, the companies that make up MCN's Top 50. They have both the wherewithal and the strategy of growth through acquisition that positions them as the most likely acquirers.

"There is some private equity buying, but for the most part these are big private family businesses and the publics," says Mufson. "Because a steel service center is considered a commodity business, the PE world, which is the predominant source of capital for a lot of investments, has not been active."

In either case, the sellers can have faith that the process will be run above board and honorably.

"One of the wonderful things about this industry is the buyers are honest. They do what they say they're going to do. They aren't corporate raiders. They aren't looking to pick something apart for the assets," Sullivan says. "Certainly not the strategic buyers and the vast majority of private buyers are not as well."

Even so, there exists an information asymmetry in any such deal, another reason why experienced professionals are necessary to help the process. The largest service center companies are acquiring assets every year, having built up a wealth of knowledge about the process along the way. Mom and pop are only going to sell the family business once. Having someone who knows the industry, and what motivates the buyers, helps level the negotiating field.

The process doesn't end when a single buyer has been found. That acquirer, likely an experienced hand in the space, will begin demanding more and more data and ask more and more questions. "The buyer goes through a detailed due diligence exercise, which we've already done with the client so they can withstand that," says Mufson.

The banker can act as an important go-between, which is particularly important since when the deal is finally closed, the parties will be expected to begin working with one another. "We're the gatekeepers. We'll take the first crack at delivering that information and answering that question related to the data," says del Pilar. "We help the management team continue to do their day job."

But their experience also allows them to pick up on the little things as well. Scott provides a simple example that demonstrates one way experienced counsel can help drive value by helping a company clean up its balance sheet.

"You may have 10 family members who are on the payroll, but maybe not doing all that much. We can add back their salaries to your EBITDA to get a higher price because the buyer won't be employing those 10 family members."

And Pappalardo notes that when a seller tours a facility, every flaw will be noticed, so having the warehouse in top running order is a must. That extends from having the lines up and running to cleaning up clutter from the floors. "I've told people, 'Spend $25 grand and get some new lights. You'll see better, people will clean up and the buyers will see that.' They're looking with fresh eyes."

Sullivan concurs. "Have your equipment in good shape. It doesn't have to be brand new, but in well-maintained condition. Having a well-organized, well-lit facility that has clear lines of sight is important, one devoid of tripping hazards. Nobody expects to eat off the floor of a service center, but the organization and safety do project a message of professionalism and a management team that has its hands on the wheel."

And even though bankers will help the seller get the best deal, the buyers frequently prefer transactions when they're involved. "The process is going to go faster. They know the initial diligence will be done," Sullivan says. "They would rather get the deal done faster and pay a little more than allow it to drag out for one or two years and miss other opportunities."

Though proper preparation will limit their number, the sale will almost certainly not proceed without some hiccups. "You can expect some unanticipated condition that seemingly comes out of left field. It isn't necessarily related to the buyer – it could be regulatory, it could be environmental – but it absolutely has to be addressed before closing," says del Pilar. "If you prepare for that, you will have less of an emotional reaction and it won't contribute to deal fatigue."

And De La Vauvre says one of the key mistakes made by sellers is getting too emotional, an understandable but not helpful reaction. "If you're going to start the process, you have to let it run. If things don't go the way everybody wants, we can have a conversation, but try to take as much of the emotion out as you can. That clouds your judgement, especially late in the process."

Ultimately, finding the right partner is often a question of cultural fit, with the seller comfortable the management and ethics of the acquirer will do right by the company that has often been in the family of the owner for generations and still carries that name above door.

Montgomery says companies should ask themselves, "'What does success look like in the transaction?' In my experience, it's practical things in economics and the matters of the heart and cultural fit. It boils down to those two things."

At the same time, sellers should never take their eye off the big prize. "So much of it is fit and feeling good about the people [you're selling to]," says Mufson. "But it comes down to, you have to get a good price and everything falls into place."

Heritage Group's Doug Kravet agrees. "All of the non-financial considerations come into play – family legacy, opportunities for advancement for employees, what's the culture like after the transaction. All of those things are critical and they do play into the decision making process. But at the end of the day, you have to remember this is a financial transaction and the financial return is important to everybody."