

ATD's Stuart Schuette: Tire distributor 'strong' despite recent setbacks

Business

HUNTERSVILLE, N.C.

Contrary to the rumors, predictions and downgrades, American Tire Distributors Inc. (ATD) is moving in one direction — forward.

That's the assessment of Stuart Schuette, CEO of ATD, the largest tire distributor in North America with estimated sales of \$5.2 billion in 2017, in an exclusive interview with Tire Business.

Mr. Schuette said his company is “strong” and continues to generate cash that will enable it to continue working with its partners, despite the recent news that Moody's Investors Service downgraded ATD's bond ratings based largely on an anticipated “material loss of business” resulting from Goodyear's decision to stop distributing its products through ATD.

“The downgrades don't change that,” Mr. Schuette said. “We have strong cash flow and liquidity.”

Sales of Goodyear tires represented 5 million units of more than 40 million units sold by ATD in fiscal 2017, according to Mr. Schuette, a little more than 12 percent of ATD's unit sales. Mr. Schuette said sales of Goodyear units increased from 2013-16 but fell in 2017, “consistent with Goodyear's market share overall.”

He said that ATD believes customers value its role in helping them achieve success.

“These strong relationships can't be measured in raw numbers, but we believe they will pave the way for continued success for all concerned,” Mr. Schuette said.

“Bottom line is: It is our goal to continue to be North America's largest independent supplier of tires to the replacement tire market. Nothing changes that. Period.”

Though the year has yet to reach its halfway point, 2018 has proved to be quite disruptive for the tire industry. It started in early January, when Michelin North America Inc. (MNA) and Sumitomo Corp. of Americas (SCOA) agreed to form a 50-50 joint venture, National Tire Wholesale (NTW). By combining Michelin's wholesale distribution operation (85 TCI locations) with SCOA's TBC Corp.'s wholesale business (59 Carroll Tire locations), NTW is set to become the second-largest U.S. tire wholesaler.

A little more than three months later, Bridgestone Americas Inc. and Goodyear announced plans to combine their respective U.S. wholesale tire distribution operations into a 50-50 joint venture, called TireHub L.L.C., that will operate through 80-plus distribution centers nationwide. The move combined Goodyear's company-owned wholesale distribution network with Bridgestone's Tire Wholesale Warehouse (TWW) subsidiary.

Mr. Schuette, ATD's CEO since January 2016, said he wasn't informed of the decision until both Tier 1 tire makers broke the news at the end of business, April 16.

“Before this, we had only heard various, unsubstantiated rumors,” he said. “Some of the rumors were comical at times. That's why we don't spend a lot of time on rumors. We want our associates and ATD focused on what we need to do to succeed

for our customers and go from there.”

Three days later, Goodyear told ATD of its intention to terminate its relationship with the tire distributor at a future date.

“We went back to work on things we can control and know if we do those well, good things happen,” Mr. Schuette said.

A month after the TireHub announcement, Moody's delivered another blow to ATD, telling investors that “the magnitude of the associated earnings and cash flow decline will compound an already levered financial risk profile, rendering a pre-emptive debt restructuring increasingly likely, in our estimation.”

But according to Mr. Schuette, that hardly has been the case. He described the first four months of the year as ATD's “best period of sales performance in 2018 since recent announcements.”

Unit sales have increased 3 percent in the first quarter over the same period of 2017, “outperforming the industry.” That includes a 3.6 percent sales increase in April, and ATD is on pace to exceed that in May.

Mr. Schuette attributes that surge to ATD's sales and customer service teams recently transitioning to an online program that he said provides customers a better digital experience.

ATD employs more than 2,500 associates who operate a fleet of 1,500 trucks, servicing more than 80,000 customers through 146 locations, Mr. Schuette said, making 18,000 deliveries a day.

“Think about that,” he said. “That's 750 deliveries per hour each day — I'd say that's hustling to take care of the customer.... While we're proud of our achievements, we're not resting on our laurels. It will only get better.”

He said ATD will continue to introduce more digital tools into the marketplace “because innovation is a continuous journey. It adds value to the customer experience, and that comes back to us in a very good way.”

Mr. Schuette said ATD has no intention of selling any part of its business, such as Tire Pros or its Hercules Tire brand, in order to raise capital.

So how does ATD expect to fill the void soon to be created by Goodyear's departure?

Mr. Schuette said that involves a continued focus on its customers as ATD transforms its business.

“It's a great time to be a part of ATD — and I say that with the enthusiasm of knowing the success story that this company has been for more than 80 years,” he said. “We intend to work hard on growing the business of those manufacturers that have chosen to do business with us.

At this point, all other manufacturers, including Bridgestone and Michelin, are continuing their relationship with ATD.

“As you would expect, we are having discussions with all of our manufacturing partners,” Mr. Schuette said. “While we won't get into the specifics of those

conversations, what we can tell you is that nothing has changed related to our ongoing business relationships.”

Mr. Schuette said ATD's goal is to do things for its manufacturers and customers that other distributors don't do.

“We're here to provide real differentiation as commoditization makes an attempt to creep into the marketplace,” he said. “We continue to receive significant support from our manufacturer partners and customers. To us, it's all about keeping the power of choice alive.

Mr. Schuette said he has been overwhelmed and humbled by the “tremendous” support ATD has received from dealers, both in person and in comments left online.

“Two words stand out in several of them — 'friends' and 'family' — when these folks refer to their relationship with ATD,” Mr. Schuette said. “It's gratifying to know that this is how we're seen. It means so much to know how well we're regarded.

“Our success is based on our customers' success — and all of us at ATD remain dedicated to their success.”

Mr. Schuette said ATD's goal for the next six months is to become an intelligent digital distributor for retailers and manufacturers, connecting consumers to dealers, creating an “efficient digital ecosystem.”

The firm plans to accomplish that by:

- Investing in knowledge;

- Monitoring the market;
- Leveraging exceptional commercial capabilities;
- Boosting manufacturing technology; and
- Embedding technology to create competitive advantages in the long term.

“We're excited about the future, particularly in the area of digital technology,” Mr. Schuette said. “As we look ahead, we'll be driving game-changing innovation. ATD is — and will continue to be — the leader in the replacement tire business because of our commitment to focusing on innovation to deliver the very best experience for our customers.

“We know we can achieve that through the continued dedication of our associates. We can't wait for tomorrow.

ATD, he said, is stronger today than it was a year ago.

“And we'll be stronger a year from now than we are today,” he said. “ATD embarked on a journey of transformation 20 months ago. We're leading change in the industry and will continue to do so. I have no reason to be anything but optimistic as we continue on this journey.

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