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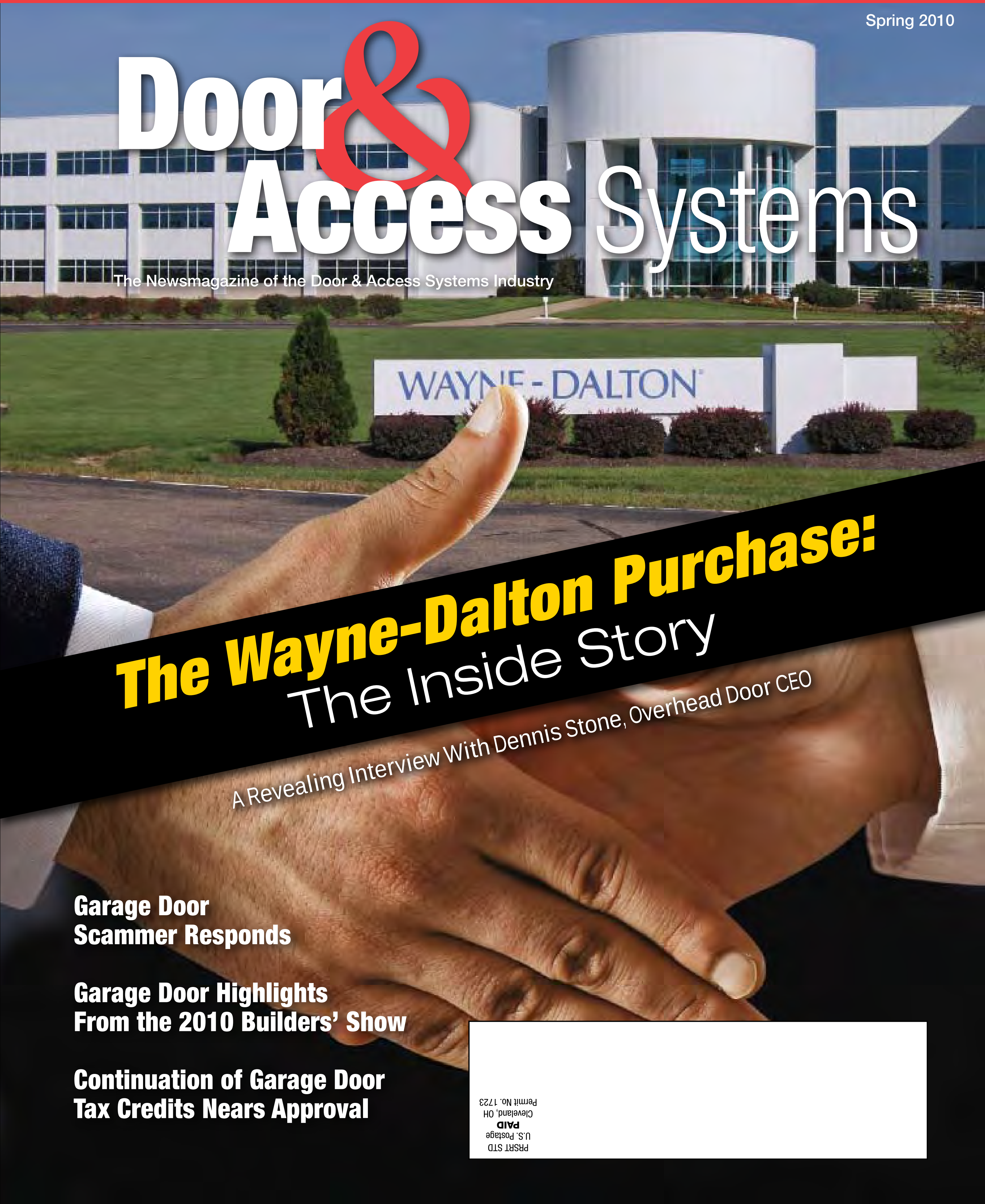

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The Wayne-Dalton Purchase: The Inside Story

A Revealing Interview With Dennis Stone, Overhead Door CEO

Editor's Note: From the perspective of industry history, Overhead Door's purchase of Wayne-Dalton is a real game-changer. It affects everyone in the industry. We've never seen such a large company buy out another major competitor in this industry.

This transaction raises questions that we've never had to think about. To get some insight into this historic acquisition, we sat down with Dennis Stone, president and CEO of Overhead Door, at the International Builders' Show in Las Vegas and talked freely for an hour and a half. We asked some direct questions, but he was refreshingly open and frank.

Read on. You'll see what I mean.

Dennis Stone, *Overhead Door CEO*

The Sanwa release said the purchase of Wayne-Dalton was motivated by its corporate strategy for "global deployment" and "to become the No.1 global manufacturer for movable building materials." Is it more accurate to talk about this purchase as a Sanwa-driven purchase than an Overhead Door-driven purchase? Who was really driving this purchase?

Stone: We were. Overhead Door drove this deal, start to finish. But we couldn't have done it without Sanwa's support and obviously their board of directors had to approve it.

Did the down economy create an opportune time to make this purchase?

Stone: Yes, it did. When we began looking for acquisitions in 2008, we were looking at acquisitions that were only 25 percent of the size of what we actually did. When the economic downturn deepened, it allowed us to elevate our sights and go for a larger acquisition.

In this economy, both companies have become quite lean. We both had to do some very tough things to fight through this downturn. But more importantly, I think the prospects for a long, slow recovery helped motivate them to say yes.

Plus, we did the deal with the yen instead of the dollar. Financing the deal through Japan, in yen rather than in dollars, helped make the purchase more affordable.

It was almost like all the stars were aligned. When you combine the strength of the yen, Sanwa's desire for acquisition, our desire for acquisition, and the down economy, it just all worked out very well … for both companies.

How did the acquisition process start? Whose idea was this?

Stone: Back in 2008, we reorganized the company so that we could pursue a newly developed acquisition strategy. We brought in some new executives with prior acquisition experience. But we weren't thinking of acquisitions this large.

In November of 2008, we were sitting in a strategic meeting, and I was listening to everyone's rationale on some of the deals we had on the table. At that point I was not convinced that the current deals were the best ones for us. Someone noticed my hesitation and they asked me, "Dennis, what do you want to do?"

And I said, "The company we really need is Wayne-Dalton." Paul Lehmann, our CFO, said,

“Before, we were fierce competitors, but now that we’re together, it’s like we’ve known each other forever.”

“Well, let’s call them.”

Chuck Miller, one of our business development people, knows Willis Mullet. Chuck literally left the meeting and called Willis.

Willis called back and said, “Let me think about it.” Then he called a couple days later and said, “Let’s get together.”

Frankly, I didn’t think they’d be for sale. And, if they were, I didn’t think we’d have an opportunity to pursue them. But this is where preparation meets opportunity. I believe it was a win-win situation. I think both parties feel good about the deal.

Mixing these two corporate cultures had to be a challenge. How did that go?

Stone: In September 2009, after we first announced the deal, we started having top-to-top meetings. We put the top people at the two companies together and started planning how we’re going to integrate the two.

It’s unbelievable how well the two cultures have mixed. Before, we were fierce competitors, but now that we’re together, it’s like we’ve known each other forever.

Our CFO keeps reminding me that he’s done a lot of deals, and they don’t usually go this well. He said not to expect this with any future deals; this isn’t normal.

Will Willis Mullet have a continuing role in the company?

Stone: I’ve already spent some time talking to Willis about products and markets. So we’re still connected and working together, but he’s not working for us.

Willis has other business interests and is still operating a start-up business from our Pensacola plant. We are providing some administrative support for him. So he will be in that facility for at least a couple years.

I’ve gotten to know Willis and Bert Bennett fairly well, and respect what they accomplished building Wayne-Dalton into what it is today. They’ve been the drivers behind a lot of innovation and technology. They’re both very unassuming people and very good at what they do.

What are the plans for Bert Bennett?

Stone: Bert has a consulting agreement with us for the next three years. And I’ll be talking to him about strategy as we work on our three-year plan. I do plan to use him; he has a wealth of knowledge about this industry and about business in general.

I see that you’ve already made several key restructuring changes.

Stone: We made some quick moves at the very beginning to restructure the corporate leadership.

Jeff Franklin, our senior VP of sales (formerly with Wayne-Dalton), will be running the Wayne-Dalton brand and channels. This includes our national builder program and all of the 80 company-owned sales center locations for the combined company and international operations.

Preston Bowen, our senior VP of sales and marketing, will continue what he was doing with our Ribbon distributors, Genie wholesale distributors, national commercial

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accounts program, and retail. Plus, Preston will be responsible for marketing and product management for all three brands.

Let's talk about dealer response. I've talked to a number of dealers who have a lot of concerns, suspicion, and doubts about the deal.

Stone: I understand why they might have some anxiety. I think it will help if we get out and communicate our message with the dealers and distributors.

When we were going through the deal, Bert Bennett told me, "Dealers will hear what you have to say, but they're going to watch your feet." Dealers are just going to have to watch our feet. I think our theory is sound, and I think it will work.

The Ribbon distributors and the Wayne-Dalton dealers operate differently and have different strategies. Each approach has its advantages, and we don't want to change that. When conflicts occur, we'll do what we can do to solve them. But we might end up concluding that that's the nature of competition.

The big question dealers are asking is: Will Wayne-Dalton dealers have access to Overhead Door products (and vice versa)?

Stone: My background is in distribution, so I have an idea of how this might play out on a dealer level. It doesn't make any sense to me to try to put these two channels together. If we really tried that, we'd lose market share and that is not what we desire. They need to continue to be separate channels with separate brands.

Your press announcements talk about the benefits of the deal for the installing dealer. I've talked to a few dealers who don't see any benefits. What are they missing?

Stone: One benefit will be on the materials side, in procurement. We've essentially doubled the amount of source materials we purchase. We want to leverage these purchases in an attempt to make us more competitive in the future. We want to partner with our vendors to help us find creative ways to reduce the material cost of our product while keeping the same quality.

But the benefits will be more than that. We can combine our back-office support to provide better service and eventually better ways to transact business. Additionally, we can leverage our plant network to improve service, lead times, and possibly be more competitive with

"Bert Bennett told me, 'Dealers will hear what you have to say, but they're going to watch your feet.'"

our freight costs over time.

I don't want to leave out the fact that this acquisition strengthens our financial position. From this, we should be able to strengthen our channel partners and continue to be a viable company for the foreseeable future.

Your announcement says, "Combined, the company will have more efficient, strategically located production facilities." But you've also told dealers, "All products will continue to be manufactured and shipped from the same plants that produced them prior to the acquisition." If manufacturing and shipping continue as usual, in what way will efficiencies be gained?

Stone: Manufacturing and shipping will continue as usual until we figure out the right strategy that works for our plant network.

Wayne-Dalton makes some products that Overhead Door currently buys from other vendors, such as trim, stop molding, and a few others. So we can gain some efficiencies there.

The best scenario is to take both companies' volumes and put a plant in each region to make as much of its own product as we can to service that region. This reduces the need to cross-dock our own products, which is not the most efficient way to get doors to the market.

So, the idea is that regional plants would help reduce freight costs?

Stone: Yes. This would improve our inbound and outbound freight costs, our service level, and our speed of delivery. We now have enough plants to make it work. So we have a lot of work to do to maximize logistics and develop the right strategic formula. And this is the time to do it.

Freight is a big part of the total cost. We hope that we're setting up our plant network so that we can have the most efficient delivery system from a freight standpoint.

If we can do all these things, we will help our dealers become more competitive in the marketplace. So that's the philosophy. I think a lot of this is within our control, and we can get it done.

In my opinion, the most difficult part of this is going to be managing that channel conflict. Our distributors and dealers were competitors before this acquisition, and they're still going to be competitors. They will now be looking back to the corporation to help them.

And that's our biggest challenge. But we wouldn't have done this deal if we thought we couldn't manage it.

It seems that you clearly want all Overhead and Wayne-Dalton dealers to do well. You don't want any dealer to get left behind.

Stone: Exactly. That's why our biggest challenge is in the field. The two companies are working just fine together. The real issues will come out of the field.

Our distributors and dealers haven't had the advantage of going through 12 months of seeing how this will fit. Internally, it took a while to get our heads around this. And now, externally, it will take a while for our distributors to do the same.

If I were a dealer looking at this acquisition, I'd be saying, "I'd rather be on the combined company's side rather than trying to work against them." I'd also be saying, "How can they help me be a better company and compete better in the marketplace? And if they can do that, I want to be on their team." That's really our goal.

Let's come back to products. Some dealers are skeptical about how you can actually keep products separate. How do you plan to do this?

Stone: We are committed to providing differentiated products where it matters in the marketplace to the different channels. The strategy for differentiated products is to have the selected products to be similar in design yet have enough differences so that the product is

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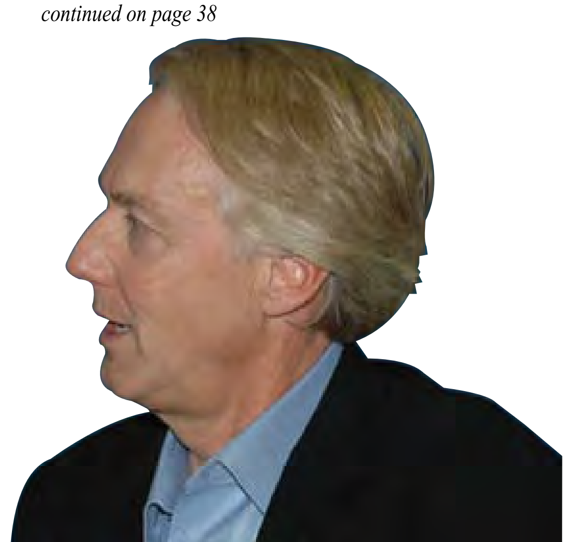

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unique for each brand.

This will help us be more cost-effective in delivering products, yet give brand differences for distributors and dealers. Our job is to protect each brand and the distributors' and dealers' service revenue in the marketplace.

So, you're looking at offering some products to both channels.

Stone: We're studying whether our pro dealer and distributor channel would be willing to share certain products that could help them be more competitive. We need to study this, but we're looking at some very low-end and very high-end products that might be shared.

On the very low end, we're looking at pan doors that no one makes a lot of money on. By producing higher volume, we believe we can become more cost effective and help both channels be more competitive.

The majority of the line needs to be different. That's the current thinking. But again, we need to discuss this with our distributors and dealers to see how we can make it work.

Your announcement says the purchase allows you to "drive investment in sales, marketing, customer service, and research and development." But won't the purchase create some significant financial challenges for some time, thus limiting your ability to invest?

Stone: The direct answer is no. Sanwa is a strong company with long relationships with their banks in Japan. They had nearly enough cash on their books to do the deal outright, but we chose a combined cash and leverage-financed deal.

So their debt load is not that significant. There's even room to buy more companies. I do know companies that are loaded with debt, but we're nowhere close to that.

There was a time, not too long ago, when Overhead was deep in debt.

Stone: That's true. When I got here, Overhead Door had $240 million in debt. But we've turned that around. We have a healthy balance sheet, and if you include our cash on hand and Sanwa's financing support on the Wayne-Dalton deal, we are nearly debt free today.

"Their debt load is not that significant. There's even room to buy more companies."

We're really coming into our own right now. We've worked extremely hard to get to this point. We've seen that progress internally, and we hope that people externally will begin to see it, too.

Sanwa has let us reinvest in the business. They want to see revenue and profit growth. In order to do that, we need to invest. We started investing in product development a few years ago, and we believe it will start paying off in 2010 and 2011.

There's been a major momentum shift in this company today. I call it a new era. This acquisition creates a new era for this organization, not only for this company but also for the industry.

The industry? How do you see this acquisition helping the industry?

Stone: I believe it can strengthen the industry. When things started turning down, we hired a consulting group to analyze what's really happening in the industry. More specifically, we wanted to know more about the health of this industry. One thing we suspected and confirmed is that there's too much manufacturing capacity.

From 2004 to 2006, the industry hit the peak of the largest construction boom in the nation's history. Yet, in the garage door industry, virtually none of the major door manufacturers were making double-digit profits. The excess capacity creates inefficiencies, which create excess costs.

That's why we thought it was time to look at acquisitions. If the industry can only make single-digit profits during a peak, then even when the economy normalizes, this industry will not make the necessary profits it needs for investing. This means less investment in factory automation, fewer new products, less marketing spend, less innovation, etc. This weakens the industry and makes it vulnerable.

We think this industry can get to the point where all the surviving manufacturers are more successful. This will fuel more investments, innovation, and new products. And that's good for the industry, it's good for dealers, and it's good for the consumer. ■

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