

SMARTER PERSPECTIVE: GLOBAL AUTOMOTIVE INDUSTRY

The Right Partner, Expertise and Local Relationships Critical to Success in Mexico

By Samuel Suchowiecky

Over my many years in law, real estate, finance and asset monetization I have been a part of numerous debates among colleagues regarding which of the vast complexities associated with starting up a large scale division or branch of a business in Mexico - particularly as an extension of a company based outside the country - is the most daunting. In these conversations, some will cite the process for registering property, while others will point to the requirements for obtaining credit and paying taxes in Mexico. As an attorney, I myself, often point to the complexity of protecting investors and enforcing contracts. To be sure, there are many hurdles to such an undertaking and each is, in and of itself, a challenge that requires applied expertise and time. Interestingly, however, for as much as this topic is discussed among entrepreneurs, accountants, lawyers, corporate executives and others, there is a corresponding topic that is rarely raised and I believe it warrants equal attention.

When a company determines that it is in its best interest to no longer maintain its physical presence in Mexico, what does that exit look like, how complex is that process, and what types of considerations and resources are required to do so efficiently and without unforeseen consequences? While companies often plan extensively to enter a foreign market, they are typically far less diligent in planning their exit strategy, particularly once they have been there for a number of years. With this in mind, I'd like to take this opportunity to share some of the details of an effort that our company,

Hilco Mexico, recently conducted on behalf of a high profile business in the global automotive market.

When a subsidiary of one of the largest auto parts wholesaler/retailers in the world decided to close its operations in Mexico and service its customers from the border states in early 2020, they chose to engage Hilco Global to assist them. Their decision was based in large part on our reputation as a worldwide leader in the strategic monetization of assets spanning virtually every industry, sector and asset class, including automotive. Our reputation within the market, itself, including the strength of our nationwide banking, business and government experience and relationships was also a key reason for our selection.

As is frequently the case, we were initially contacted in regard to what had been defined as a very specific need; in this case, the sale of the company's inventory valued at over \$15 Million at cost. However, during our initial diligence for the assignment, we were able to quickly determine that 1) the resources that the company really needed to ensure a successful transition by its intended target date, were likely far more extensive than what they had foreseen and 2) that much of the expertise and the partnerships/alliances that we have developed over our 25 year history in Mexico aligned quite well with those needs.

Part of what we always encourage companies facing any stage in their evolution to do is to take a step back

and look at their business from the outside in. Certainly, some companies are better equipped than others to make that happen. In either case, engaging third party experts can help facilitate that process, as it did here. By asking the right questions and really listening, we enabled our client to better understand the full scope of their own needs and the value that our informed perspective and experience could bring to the table for their exit efforts.

Like most undertakings of this nature, the challenges in this case were many and included, among other things, the closure of 25 stores, distribution centers and the company's corporate offices. One of the first things we had to concern ourselves with here was how to concentrate and control millions of SKUs coming into one location from across 11 cities throughout the country. In Mexico, this volume of merchandise has a high likelihood of either being lost or stolen at either the stores of origin, a distribution center, or en route. For this reason, in addition to orchestrating the logistics services framework associated with this massive effort, we also deployed highly trained security guards and supervisors in rotating shifts at every stage of the process to ensure the safety of the merchandise. These proactive steps enabled the client to significantly reduce their originally budgeted insurance and other related costs, as well as to empty all merchandise from stores and begin monetization activities within an accelerated 6-week period.

At this point, we began our efforts to sell all of the fixtures and furnishings remaining in the stores and addressed the sale of the client's fleet of 40 company vehicles. Here we presented three options for the client's consideration: 1) Sale of the vehicles at a fleet auction; 2) Hilco's outright purchase of the entire fleet (leveraging our own balance sheet strength) for the purposes of subsequent sale; or 3) Sale via Hilco's own popular monthly "Multibrand" auction through which we offer a wide range of vehicles, fixtures, machinery, equipment and other highly commercial assets for sale on a regular, monthly basis. The Client chose to leverage our Multibrand auction, and the full lot of vehicles was sold there that same month.

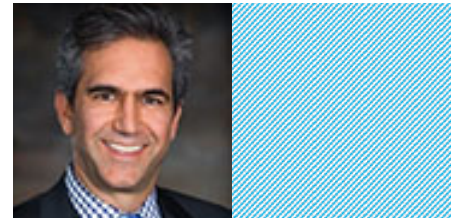
After our team completed the painstaking step of grouping the consolidated store inventory by category, the process of selling the massive quantity of palletized items began. Here, we reached out through targeted marketing campaigns to wholesalers, distributors, and even the client's own main competitors to invite them to participate in the liquidation sale. As a result of this extensive effort, several private treaty offers were received. Each was then evaluated and presented to our client. Some participants, hoping to be the sole bidder and purchaser of a given lot at its opening price, remained on the sidelines until the auction, itself. The grand auction took place in early August and over the course of two days, nearly 700 distinct wholesale lots were offered and sold by our team.

As I mentioned at the start, companies are rarely equipped to consider, let alone manage, all of the moving pieces associated with an effort such as this. Furthermore, even though our client, itself, was exiting the market, it was leaving behind employees. This required not only accounting work to wrap up relationships with departing staff but also the continuation of payroll processing, the management of taxes within the country and designation of an entity to "hold" those employees and own the employer/employee relationship on behalf of the

company moving forward. For each of the above and more, we were able to leverage our own resources and our extensive network of trusted service providers across the country to enable our client's successful exit from Mexico within its desired timeframe prior the final quarter of 2020.

Whether your company or a company in your portfolio is looking to enter, exit, transact business or monetize assets in Mexico, Hilco Mexico is here to help and we encourage you to reach out to us. From negotiating on your/their behalf with lessors, to servicing and collecting on accounts receivable, managing restructures and sourcing new funding for operations, rendering outsourcing and payroll services that include calculating labor liabilities, negotiating with employees or unions, monetizing inventory and other assets, and acting as formal liquidators for your company or Mexican subsidiary- we have the proven experience and trusted relationships to get the job done right. As those who know me well have heard me say many times, Hilco Global in Mexico has the both the "know-how" and the "know-who" required in this unique market to deliver a successful outcome for your business.

Hilco Global Mexico is part of Hilco Global, a privately held diversified financial services company and the world's preeminent authority on maximizing the value of assets for both healthy and distressed companies. Hilco Global operates as a holding company comprised of over twenty specialized business units that work to help companies understand the value of their assets and then monetize that value. Hilco Global has a 30-year track record of acting as an advisor, agent, investor and/or principal in any transaction. Hilco Global works to deliver the best possible result by aligning interests with clients and providing them strategic insight, advice, and, in many instances, the capital required to complete the deal. Hilco Global is based in Northbrook, Illinois and has 600 professionals operating on five continents.



SAMUEL SUCHOWIECKY IS CEO OF HILCO GLOBAL MEXICO

Samuel oversees all aspects of the company's efforts with corporate, banking and investment clients across the delivery of Valuation, Monetization, Advisory and Liquidation services for both tangible and intangible assets. Samuel also heads any investment decisions when Hilco Global Mexico invests in asset backed opportunities of a diverse nature. He is a recognized authority in assisting both healthy and distressed companies along with their constituencies to derive maximum value from their assets.

Following several years as an accomplished associate of the Kuri Breña, Sánchez Ugarte y Aznar law firm, Samuel was invited to co-lead a major real estate group. He later founded Hipotecaria Vértice, a specialized non-bank bank that originated and serviced mainly mortgage and construction loans in Mexico. Samuel is a founding partner of Cole Group, which currently operates more than 50 boutiques and more than 120 stores in Mexico. He has been an investor, board member and director of numerous projects and has developed and sold more than 4,500 homes in all market segments. He also has extensive experience in both administrative and budgetary management of various projects.

Samuel graduated from University of Boston Law School and has been a member of the California State Bar since 1992. He earned his Bachelor of Arts in Economics and Sociology from the University of Texas at Austin. Contact Samuel at sams@hilcoglobalmx or +52 (55) 5980-8220.