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 PROPRIETARY

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## Lack of family succession plans could drive small tire retail shop consolidation

Analysis

18 APR 2017

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- Southeast seen as likely growth area
  - Monro Muffler Brake, Mavis Discount Tire will continue consolidating
  - International manufacturers eyeing cross-border distribution buys
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The rolling up of mom-and-pop tire retail outfits by traditional tire distributors will continue in 2017, said Steven Rathbone, managing director at **HT Capital Advisors**, and a sector advisor.

Many baby boomers that launched their retail businesses decades ago are now reaching retirement age, and not all of these owners have succession plans, making right now an ideal time to sell, added Rathbone.

Asked about specific targets, the advisor said “just about anybody” ranked between #11 and #90 on *Modern Tire Dealer’s* recent [Top 100 list](http://www.moderntiredealer.com/uploads/stats/MTDTop100.pdf) (<http://www.moderntiredealer.com/uploads/stats/MTDTop100.pdf>) of independent tire dealers — that is, operating independently from a manufacturer — could qualify. Most of the companies listed below the top 10 “drop off a cliff” in terms of size, as they are primarily small and regionally concentrated, he added. Among the family-owned names in this range are **Sullivan Tire & Auto Service**, based in Massachusetts, and **Kauffman Tire** out of Atlanta.

Rathbone named the Southeast in general as a thriving area, due to heavy population growth, where consolidation is likely to continue.

Another factor driving M&A is the significant benefit to buying a company outright compared to launching greenfield operations, both Rathbone and the sector advisor agreed. Rathbone said the real estate costs behind building new facilities are a burden, particularly in inner-city regions where regulations and other municipal complications come into play.

Both named Rochester, New York-based **Monro Muffler Brake** [NASDAQ:MNRO] and Millwood, New York-based, private equity-backed **Mavis Discount Tire** as groups that will continue to be active buyers in the space. The advisor also mentioned Philadelphia-based **The Pep Boys: Manny, Moe & Jack**, which was acquired by **Icahn Enterprises** [NASDAQ:IEP] in late 2015 for USD 1.03bn, as a logical buyer.

In the summer of 2015, Mavis, which received an investment from Canada-based **ONCAP Management Partners** and **Penfund** in late 2014, bought Somerset Tire Service, one of the largest recorded deals among independent tire dealerships. In 2016, Monro bought Clark Tire & Auto, a 26-store North Carolina business, as well as six small businesses with nine collective tire stores; these deals added USD 40m to Monro's annual sales.

Both of these players will keep seeking domestic tire retail groups, and will likely be attracted to those offering supplementary services such as tune-ups and oil changes, Rathbone said.

Other potential buyers of mom-and-pop tire retailers could include larger groups such as **Discount Tire**, based in Arizona, said the sector advisor. Florida-based **TBC Corp**, acquired by Japan-based tire manufacturer **Sumitomo Corp** [TYO:8053] for USD 1.1bn in 2005, but operating separately as a conglomerate of tire dealer brands, is another logical buyer, he added.

An October 2016 [report](#)

<http://www.tirebusiness.com/article/20161026/NEWS/161029966/discount-tire-widens-lead-over-tbc>) by *Tire Business*, however, noted that Discount Tire mostly grew last year by adding stores to its network, while TBC was mostly focused on "consolidating and upgrading its various retail brands".

## Industry valuations

The retail side of tires has seen relatively robust multiples, and companies with scale can sell for 10x-12x EBITDA, Rathbone and the sector advisor suggested. In the Pep Boys deal, news reports indicated the company was valued at an EBITDA multiple of 11.67x.

Acquisition multiples for smaller, mom and pop retail outfits are not generally known in the tire space, but the sector advisor estimated these could be snatched up for 5x-7x EBITDA. Rathbone narrowed the range somewhat to 5x-6x EBITDA, but added that larger family-owned groups could fetch higher multiples.

When Monro bought Curry's Auto Service, a 10-store group in Washington, DC, in 2013, Monro CEO John Van Heel estimated that his company typically pays around 7x-7.5x EBITDA for similar-sized operations.

Consolidators like Mavis and Monro already have strong brand names and are therefore not all that interested in the target's relationship with manufacturers, said the sector advisor. Typically, they are more focused on geographical growth through the ramp-up of targets, and turning "unsophisticated groups into sophisticated ones," he explained.

Meanwhile, this is a good time for private equity to ramp up M&A activity in the space, said Rathbone. He cited an HT Capital Advisors report that said private equity groups are "sitting on a large pool of capital not yet deployed" and "will increase investment activity," particularly toward businesses generating USD 100m or more in annual revenue.

One PE firm that has made acquisitions in the space is **Carousel Capital**, whose portfolio group **Express Oil Change & Service Center** bought Tire Engineers in 2013.

### Multinational groups seeking targets worldwide

The targets are also not limited to US companies. Earlier this year, Japan-based manufacturer **Sumitomo Rubber Industries** [TYO:5110] bought UK-based car tire distributor Micheldever for GBP 215m (USD 268.7m). In May 2016, Japan-based **Bridgestone** [TYO:5108] bought France-based car service retailer Speedy France, while France-based manufacturer **Michelin** [EPA:ML] bought Scotland-based e-retailer Blackcircles in 2015, for GBP 50m. These giants could make additional international retail purchases, in either Europe or the US, both said.

In late 2015, global giant Bridgestone nearly finalized an acquisition of Pep Boys, which would have expanded its global network by 800 locations, before Icahn Enterprises swept in. Icahn's rationale was mostly to bolt onto its earlier purchase of Auto Plus.

Both Rathbone and the advisor agreed that there are advantages and challenges to manufacturers acquiring distributors. Rathbone stressed that a manufacturer's purchase of a retailer gives it greater control over the supply chain, though it can start to compete with some of its own customers. The sector advisor added that the manufacturing company could end up buying a target that sells its competitor's goods, and that if tries to limit such sales, it could potentially undercut its own EBITDA. That said, the retail sector is overall predictable, counter-cyclical and generates a lot of cash, the advisor added.

Antitrust issues are not likely to arise from other acquisitions of tire retailers, both sources agreed. The advisor noted that even the largest independent tire retailer, Discount Tires, only runs 900 locations, a very tiny piece of the total market.

by Sam Weisberg

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Grade: Rumoured

#### BIDDERS

[Compagnie Generale des Etablissements](#)

[Michelin SA \(Michelin\)](#)

[Bridgestone Corporation](#)

[ONCAP Management Partners LP](#)

[Carousel Capital](#)

[TBC Corporation](#)

[Icahn Enterprises L.P.](#)

[Pep Boys - Manny, Moe & Jack](#)

[Monro Muffler Brake, Inc.](#)

[Sumitomo Rubber Industries, Ltd.](#)

[Discount Tire Co.](#)

[Mavis Tire Supply Corporation](#)

[Penfund](#)

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#### OTHERS

[Speedy France SAS](#)

[Sumitomo Corporation](#)

[Express Oil Change & Service Center](#)

[Blackcircles.com Limited](#)

[Micheldever Group Ltd.](#)

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#### TARGET

[Sullivan Tire & Auto Service](#)

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#### TARGET

[Kauffman Tire](#)

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#### Countries

France

Japan

USA

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#### States

Arizona (AZ)

Florida (FL)

Georgia (GA)

Massachusetts (MA)

New York (NY)

Pennsylvania (PA)

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#### Sectors

Automotive

Consumer: Retail

Services (other)

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#### Sub-Sectors

Automotive components

Other retailing of consumer products  
and services

Other services

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#### Topics

Analysis

Cross Border

Private equity related

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