

Tire Distribution & Manufacturing Global Industry Review

The Merger & Acquisition Environment in 2014

Merger and acquisition (“M&A”) activity in the tire distribution, manufacturing and service segments in 2014, continued the strong momentum generated in 2013, and saw an estimated 45 transactions take place globally. **Retail distributors/automotive service providers** M&A and investment activity maintained a solid trend driven by strategic buyer consolidation and as anticipated in our 2013 report, saw significant new private equity investment in two middle market retailers (Mavis Discount Tire and Raben Tire). Activity in the **Wholesale** segment further consolidated the industry, much of which continues to be driven by ATD and its Canadian subsidiary TriCan. **OTR/commercial** sector M&A activity was light in 2014, however, there is increasing private equity interest in the sector which may lead to investment, acquisitions, and consolidation activity during 2015 and into 2016.

Retail Sector M&A Transactions - 2014				
Seller(s)	Buyer	Location	Month*	Market Segment
Raben Tire ⁽¹⁾	Palladium Equity Partners	USA	November	Tire Retail, Wholesale, & Commercial
Mavis Discount Tire ⁽²⁾	ONCAP/PenFund	USA	November	Tire Retailer and Wholesaler
Wood & Fullerton Inc. (9 stores)	Monro Muffler Brake Inc.	USA	October	Retail distribution and service
Tyres on the Drive Limited	True Capital Partners	UK	October	Online tire retail
Goodyear/Galaxy Auto (5 stores)	Heartland Tire	USA	September	Retail distribution and service
Terry-Haggerty Tire Co.	McCarthy Tire & Automotive Centers	USA	August	Commercial/Retail & Retread
Phillips Tire Co	American Tire Depot	USA	August	Retail distribution and service
Epperly Tire Co (4 stores)	Express Oil Change & Service Center	USA	August	Retail distribution and service
The Tyre Choice & Total Care (35 Stores)	Monro Muffler Brake Inc.	USA	July	Retail distribution and service
Massa Online SARL	ContiTrade France	France	July	Retail distribution
North Staffs Tyre and Battery Ltd.	Mr. Tyre Ltd.	UK	June	Retail distribution and service
America's Service Station (8 stores)	Meineke Car Care Centers Inc.	USA	June	Car Care/Service Stations
Kan Rock Tire & Auto Service (8 stores)	Monro Muffler Brake Inc.	USA	June	Retail distribution and service
Lentz USA Automotive Service (10 stores)	Monro Muffler Brake Inc.	USA	June	Retail distribution and service
Bald Tire & Auto	Monro Muffler Brake Inc.	USA	May	Retail distribution and service
Cowan Tire & Auto Service (1 store)	Clark Tire Co	USA	April	Retail distribution and service
Mountain View Tire (3 stores)	Clark Tire Co	USA	April	Retail distribution and service
Sullivan's Goodyear Tire Center (5 stores)	Wiygul Automotive Clinic	USA	March	Retail distribution and service
Merlin 200,000 Mile Shops	Meineke Car Care Centers Inc.	USA	February	Car Care/Service Stations
Tom's Tire (4 stores)	Goodyear Tire & Service	USA	January	Retail distribution and service
Aaron's Inc (Rimco Tire)	Rent-A-Wheel Inc.	USA	January	Retail tire sales and leasing

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* Transactions listed in order of most recent, by month

⁽¹⁾ Raben received an investment from Palladium - <http://www.tirebusiness.com/article/20141210/NEWS/141219985/n-y-equity-firm-buys-stake-in-raben-tire>

⁽²⁾ Mavis received an investment from ONCAP and PenFund - <https://www.pehub.com/canada/2014/11/03/penfund-commits-39-8-mln-to-oncaps-investment-mavis-discount-tire/>

Transaction activity within the retail tire and service sector has been primarily concentrated in the U.S., with light activity in the UK and France. **Monro Muffler Brake** remains the primary strategic consolidator in the retail sector, continuing an expansion via M&A strategy which saw the company pickup over 60 units in 2014 primarily in the markets of Florida (for the first time), Georgia, and Michigan. The Southeastern U.S. is receiving much attention across all tire distribution sectors at present, and we expect to see more interest and activity in the region throughout 2015.

After the unsuccessful 2013 acquisition attempt of Pep Boys by a private equity firm, at the time we anticipated that private equity would continue to target the retail sector for investment opportunities, and in 2014 this came to fruition for two of the middle market's leading, privately held brands.

Firstly, **Mavis Discount Tire** received an investment from **ONCAP** and **PenFund**, a group of Canadian private equity investment funds. While terms of the transaction were not disclosed, it is anticipated that Mavis' strategy of expansion via M&A and appropriate "greenfield" opportunities will continue and in all likelihood, accelerate. This tends to bode well and presents an opportunity for owners of small-to-medium size independent chains in the Northeast. Secondly, **Palladium Equity Partners** completed an investment in **Raben Tire**, one of the Midwest's leading diversified, family-owned tire businesses. Palladium's stated transaction rationale is to accelerate growth through strategic acquisitions, and thus provides similarly good opportunities for small-to-medium size independent chains in contiguous geographies (Missouri, Illinois, Indiana, and Kentucky) to Raben.

Wholesale Sector M&A Transactions - 2014				
Seller(s)	Buyer	Location	Month*	Market Segment
Goodyear (7 Mid-West Dist. Centers)	U.S. Autoforce, Inc.	USA	December	Wholesale tire distribution
Raben Tire	Palladium Equity Partners	USA	November	Tire Retail, Wholesale, & Commercial
Mavis Discount Tire	ONCAP/PenFund	USA	November	Tire Retailer and Wholesaler
Area Wholesale Tire Co.	K&M Tire	USA	September	Wholesale tire distribution
Wayne Tire & Wheel (OEM Dist. Div.)	Tredit Tire & Wheel Company, Inc.	USA	August	OEM distribution division
Trail Tire Distributors Ltd.	TriCan Tire Distributors Inc. ⁽¹⁾	Canada	June	Wholesale tire distribution
Regional Tire Distributors (Calgary)	TriCan Tire Distributors Inc.	Canada	June	Wholesale tire distribution
Regional Tire Distributors (Edmonton)	TriCan Tire Distributors Inc.	Canada	June	Wholesale tire distribution
Kirks Tire Ltd.	TriCan Tire Distributors Inc.	Canada	June	Wholesale tire distribution
Import Tire Co. (Distribution segment)	Nokian Tyres North America Inc.	USA	June	Wholesale tire distribution
Terry's Tire Town Holdings Inc.	American Tire Distributors ("ATD")	USA	February	Wholesale tire distribution
Mid-Tex Wholesale Tire	K&M Tire	USA	January	Wholesale tire distribution
Kings Road Tyres Group Ltd.	Shenyang Peace Radial ⁽²⁾	UK	January	Wholesale tire distribution
Hercules Tire & Rubber Co.	American Tire Distributors Holdings Inc.	USA	January	Tire purchasing, marketing, wholesale dist.
Aaron's Inc.'s Rimco assets	Nokian Tyres North America Inc.	USA	January	Wholesale tire distribution & service
Kipling Tire Co. Ltd.	TriCan Tire Distributors Inc.	Canada	January	Wholesale tire distribution

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⁽¹⁾ TriCan Tire Distributors is a subsidiary of American Tire Distributors Holdings, Inc. ("ATD")

⁽²⁾ Shenyang Peace Radial Tyre Manufacturing Co., Ltd.

Wholesale activity was driven by footprint and network expansion, and the provision of attractive and quickly achievable synergies available in wholesaler M&A. As expected, **Texas Pacific Group ("TPG")** portfolio company **American Tire Distributors ("ATD")**, dominated the headlines and continued expansion via M&A with several transactions of major significance in 2014. First up was the acquisition of **Hercules Tire & Rubber Co.** for \$311.5 million. The transaction is expected to strengthen distribution in the western U.S., as well as to obtain the Canadian export division, and add new brands to the portfolio. Next in line was the acquisition of **Terry's Tire Town**, which ATD acquired for \$345 million. Per ATD, the acquisition of Terry's will enhance its ability to serve tire and automotive service retailers in the New Jersey, Long Island and New England markets.

North of the border, ATD's Canadian subsidiary **TriCan Tire Distributors** made a total of four acquisitions in Western Canada – **Trail Tire Distributors, Regional Tire Distributors of Calgary and Edmonton, and Kirk's Tire** – for a combined sum of \$155 million.

In the middle market, **K&M Tire** further consolidated its presence in Texas with the acquisition of **Mid-Tex Wholesale Tire** in January, and **Area Wholesale Tire (Texas)** in September. K&M has spent time and resources laying the foundation to increase sales in the Texas market, having moved into a larger warehouse, increased tire inventory levels, along with hiring and training sales staff and drivers. The Area Wholesale transaction will bring K&M into the San Antonio market, a new market for K&M.

While it is no secret that the wholesale market will continue to undergo consolidation across North America, targets of size, attractiveness, and pure-play wholesalers are becoming scarce, given the consolidation having taken place to date.

Commercial/OTR Sector M&A Transactions - 2014				
Seller(s)	Buyer	Location	Month*	Market Segment
Raben Tire	Palladium Equity Partners	USA	November	Tire Retail, Wholesale, & Commercial
Recamax Reifen G.m.b.H.	Marangoni Group	Germany	October	Supply of OTR and remoulded tires
Terry-Haggerty Tire Co	McCarthy Tire & Automotive Centers	USA	August	Commercial/Retail & Retread
Terry's Tire Town (commercial facilities)	Best-One Tire	USA	August	Commercial Service & Retread
Kauffman Tire (commercial operation)	Bob Sumerel Tire Co.	USA	May	Commercial tire distributor and services
Cherokee Industrial Tires, Inc.	Camoplast Solideal Inc.	USA	January	Supply/installation of material handling tires

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M&A activity within the Commercial/OTR segment was slow in 2014, but we believe 2015 will be the year in which this section of the market begins to receive attention from a broader pool of investors and consolidators. With **Raben Tire** being a significant commercial/OTR player in the Midwest, and having recently been a recipient of private equity investment in the company, we see this as a driver of consolidation, and a potential catalyst for other private equity firms to invest in a commercial/OTR “platform”.

On the strategic front, **Bob Sumerel Tire Co.** acquired **Kauffman Tire's Commercial Operations** in Ohio, with the intention of adding to its geographical footprint already in place for certain fleets located in Kentucky, Ohio, Western Pennsylvania, Indiana and West Virginia. **Camoplast Solideal Inc.'s** acquisition of **Cherokee Industrial Tire** has allowed a reinforcement of Camoplast Solideal's materials-handling service network and strengthens the chain between tire manufacturing, distribution and service.

Manufacturing Sector M&A Transactions - 2014				
Seller(s)	Buyer	Location	Month*	Market Segment
Cooper Chengshan - CCT (65% Stake)	Chengshan Group Co. Ltd.	China	October	Design, development and manufacture of tires
Fuji Seiko Co., Ltd., Kameyama Plant	The Yokohama Rubber Company, Ltd	Japan	August	Tire manufacturing plant
Aeolus Tyre	China National Tire and Rubber	China	June	R&D, manufacture, resale of tires
Western States Manufacturing Co	Elgi Rubber Co.	USA	June	Tire repair and related products
Rainbow Tire	East Bay Tire Co	USA	April	Retread plant
Forte Rubber International, Inc.	Sailun Group Co. Ltd	Canada	April	Tire manufacturing
Carlisle Tire & Wheel	American Industrial Partners	USA	January	Manufacturer of specialty tires, wheels and industrial belts

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M&A activity in the Manufacturing sector is again quite international in nature, with a mix of foreign, domestic, and cross-border transactions taking place. Diversification and the acquisition of rubber and plastics technologies remain common drivers behind the majority of deals taking place. Drivers also include buyers expanding their product portfolio; strengthening of networks and supply chains; and geographical diversification.

Domestically, **Elgi Rubber Co. LLC**, the Luling, TX based subsidiary of India's Elgi Rubber International Limited, has acquired **Western States Manufacturing Co.** and now has added several hundred points of additional distribution throughout North America. Also in the U.S., private equity group **American Industrial Partners ("AIP")** closed on the acquisition of Carlisle's tire and wheel division (**Carlisle Transportation Products, or "CTP")** for \$375 million in cash. AIP is a middle market private equity firm that invests in North American industrial businesses serving domestic and global markets. CTP will continue to focus on improving its market position, improving operations and expanding sales to global customers.

In Conclusion

Given continued strong M&A activity throughout 2014, and barring any significant macro events that would have a downside bias, we expect 2015 to follow suit and likewise be a strong year for M&A in the industry globally. We see certain specific trends either continuing or developing, as outlined below:

- Exit opportunities for **sellers of private businesses** have reached a point of significant attractiveness. The combination of strategic acquirers buying, building, and consolidating; private equity investment in highly established companies such as Raben Tire and Mavis Discount Tire spanning the retail, wholesale, and commercial sectors; the potential for new investment and consolidation in the commercial/OTR sector; continued low interest rates; all combined with a generally better business environment, bode well for private company owners considering a sale or partial sale of their business.
- Established and respected **Private Equity** groups including Palladium Equity Partners, ONCAP, and American Industrial Partners have made significant investments in the sector during 2014. We expect private equity to be equally or more active during 2015, with additional platform acquisitions/investments being made, the possible targeting and subsequent roll-up of the commercial tire sector, and numerous bolt-on acquisitions across the entire industry from invested firms.
- **Public companies** have maintained and have seen increases to relatively rich earnings multiples. **Monro Muffler Brake** is currently trading at around 15x EBITDA, making mid-sized acquisitions highly accretive and in general, an attractive way to grow.

If you have questions about this information or would like to have a confidential discussion about your business and how HT Capital Advisors might be of assistance, please contact:

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