

Tire Distribution & Manufacturing Global Industry Review

The Merger & Acquisition Environment – 2016 Report

Our anticipation of a continued active trend in merger and acquisition (“M&A”) activity in the tire distribution, manufacturing and service segments in 2016 played out as the year unfolded. In 2016, close to 60 relevant transactions were completed globally. Specific sectors performed in-line with the trends identified at the conclusion of 2015, and as summarized below:

Retail & Automotive Service Providers: M&A transaction volume maintained the forecasted steady pace with a continuation of domestic strategic consolidation (Monro and TBC in the US, Bridgestone in Europe, and Micheldever in the UK), and private equity investment (Driven Brands). While transaction volume was up, total retail units changing hands were down significantly year over year, primarily due to 2015 including certain large acquisitions (i.e. Pep Boys acquisition by Icahn) in contrast to the smaller transactions completed during 2016.

Wholesale: in our 1H16 report we observed a slow-down in wholesale M&A activity, which came to a near stall during the second half giving us a year with fewer wholesale transactions than seen in recent years (page 3). Wholesale consolidation is at present being driven less by the large acquirers, which have dominated deal activity in recent years, and more by regional and international players expanding and consolidating distribution footprints in the USA (Omni United) and abroad. We expect the large consolidators to return to M&A as a key avenue of growth given the appropriate opportunities being presented in 2017 and onward.

Commercial/OTR: readers will note our view on the Commercial/OTR sector as highly fertile ground for consolidation. Commercial M&A activity gained pace in 2016 as anticipated (page 4). We again observe privately held regional players (Pomp’s, Purcell, Belle Tire, and Service Tire Truck Centers) capitalizing on long-standing industry relationships to make deals, large global companies (Continental), manufacturers (Camso and Trelleborg), and even retailers (Monro) making acquisitions in the sector. TravelCenters of America (which operates TA and Petro Stopping Centers) moved into tire sales and service through the formation of TA Truck Service Commercial Tire Network during 2016. TA claims to be the largest independent commercial tire dealer in the US with 243 truck service facilities. Absent this year from the Commercial sector was private equity investment, but given the number of opportunities we anticipate that it is a matter of time before another commercial business of scale is acquired by private equity and utilized as a platform for regional consolidation.

Macro trends and events in 2016 saw an uncertain and volatile first half, followed by a second half recovery and stock market surge; an election which consumed far more energy than it otherwise may have if times were “normal”; enormous amounts of liquidity chasing deals across all sectors; continued low interest rates (which, of late, have been on their way up – a key factor to watch in 2017 as it will in some way impact deal activity as well as deal pricing); and ever present large industry participants actively pursuing growth and expansion via M&A in a low organic growth environment. We hope that the uncertainty surrounding the political environment is a headwind now behind us.



Steven Rathbone
Managing Director

HT Capital Advisors, LLC
437 Madison Avenue
New York, NY 10022
Direct: 212-759-9150
Mobile: 347-297-0823
srathbone@htcapital.com

Retail M&A Transactions - 2016

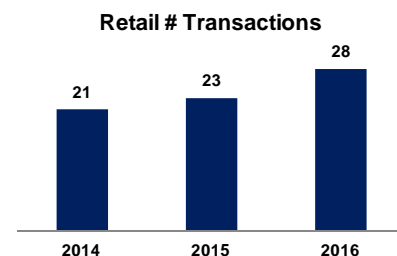
Seller(s)	Buyer	Location	Month ⁽¹⁾	Market Segment	# Locations
Express Lube, Inc.	Driven Brands	USA	December	Maintenance services	30
Wayside Auto Services Inc.	Sullivan Tire Co. Inc.	USA	November	Retail distribution/services	1
Vroom Auto Care; One Midas Location	TBC Corp.	USA	November	Retail distribution/services	2
Treadmark Tyres Limited	Micheldever Tyre Services	UK	October	Retail distribution/services	1
Radial Llantas S.A. de C.V.	Marubeni Corp.	Mexico	October	Retail distribution/services	66
Lube Stop	Driven Brands	USA	September	Maintenance services	51
Clark Tire & Auto, Inc.	Monro Muffler Brake Inc.	USA	August	Retail/commercial/wholesale	26 ⁽²⁾
Britannia Tyres	Exhaust Tyres and Batteries	UK	August	Retail distribution/services	5
Denton Tyre Centre	Micheldever Tyre Services	UK	July	Retail distribution/services	3
P&R Autocentres Limited	Micheldever Tyre Services	UK	July	Retail distribution/services	1
Autopar Inc.	Monro Muffler Brake Inc.	USA	July	Retail distribution/services	1
Excel Auto & Tire	Monro Muffler Brake Inc.	USA	July	Retail distribution/services	3
Pioneer Tire Pros	Monro Muffler Brake Inc.	USA	July	Retail distribution/services	1
Express Tire Centers LLC	Monro Muffler Brake Inc.	USA	July	Retail distribution/services	2
Harlow Tire Co.	Monro Muffler Brake Inc.	USA	July	Retail distribution/services	1
KwikFitTire & Service Inc.	Monro Muffler Brake Inc.	USA	July	Retail distribution/services	1
Delta Tire & Wheel	TBC Corp.	USA	June	Retail distribution/services	2
Hook Tire & Service, Inc.	TBC Corp.	USA	May	Retail distribution/services	3
Speedy France S.A.S.	Bridgestone EMEA	France	May	Retail distribution/services	477 ⁽³⁾
10th March Group Limited	Micheldever Tyre Services	UK	May	Retail distribution/services	5
Bell Silencer Services	Micheldever Tyre Services	UK	May	Tires, fitting and exhausts	1
Sprint Auto Parts Pty Ltd	Burson Group	Australia	May	Retail distribution/services	40
McGee Tire Stores, Inc.	Monro Muffler Brake, Inc.	USA	March	Retail/commercial tire sales	30
Take 5 Oil Change	Driven Brands	USA	March	Maintenance services	65
Collision Cure Body Werks	Gerber Collision & Glass	USA	March	Retail distribution/services	6
Kingshurst Automotive	Easy Tyre & Autocentres	UK	March	Retail distribution/services	19
TW Tyres Autocentre Limited	Micheldever Tyre Services	UK	February	Retail distribution/services	1
Wayne's Tire & Autorepair	American Tire Depot	USA	February	Retail distribution/services	5

(1) Transactions in all tables are listed by most recent transaction, by month.

(2) Acquisition of Speedy France SAS, the franchisor.

(3) Several of Clark's 24 units are mix use including commercial, wholesale, and retread in addition to the retail business

The retail sector presents countless opportunities for continued consolidation whether the target is a small, medium sized, or large network – domestic or outside of the US. Acquisition/consolidation activity will continue, and opportunities for sellers and buyers will remain – as organic growth in retail is constrained by physical factors including real estate, and synergies sought by acquirers are real and achievable.



Consolidation will continue to be driven by large and mid-sized retailers filling in geographic gaps, retirement of small and medium sized retail chain owners, and major manufacturers and global corporations looking to increase access to customers direct via the retail footprint or e-commerce channel.

Monro Muffler Brake, Inc.

- Enjoyed a busy year with the acquisition of **McGee Tire Stores, Inc.** a 30 store retail and commercial (including retread) chain headquartered in Lakeland, FL; the acquisition of **Clark Tire & Auto, Inc.** a 24 unit retail, commercial, retread and wholesale group headquartered in Hickory, NC; plus the acquisition of **six separate retail chains/individual units** (see table above) in various locations.
- Monro added approximately 65 locations during 2016 via acquisition, representing over \$100 million in total revenue. Monro also entered the commercial tire business in 2016, which Monro sees as a complement to the retail business.

Bridgestone EMEA

- Expanded its retail footprint significantly in Europe in May, by acquiring **Speedy France**, the franchisor of 477 Speedy locations throughout the country generating approximately \$190 million in revenue. Bridgestone is continuing to pursue a strategy of increasing direct access to end-users.

Driven Brands

- **Roark Capital** backed **Driven Brands** made multiple acquisitions in 2016 including **Take 5 Oil Change** (New Orleans, LA), **Lube Stop** (Berea, OH), and **Express Lube, Inc.** (San Antonio, TX), adding around 145 locations to Driven Brands' growing Quick Lube division.

TBC Corp.

- Expanded the retail footprint by seven units across three acquisitions – **Hook Tire & Service** (NC), **Delta Tire & Wheel** (TX), and **Vroom Auto Care**, plus a former **Midas location** (FL). Each store will be operated under TBC's NTB Tire & Service Centers brand going forward.
- TBC facilitated the retirement of several small business owners with the above mentioned transactions.

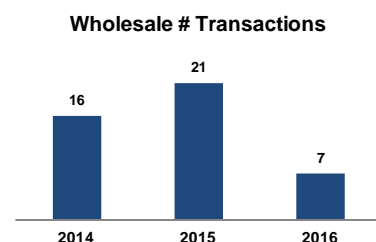
Micheldever Tyre Service

- Hampshire, United Kingdom based **Micheldever** is one of the United Kingdom's largest retail and wholesale tire companies. Backed by London private equity firm **Graphite Capital**, Micheldever continues to be the most active retail consolidator in the UK with six acquisitions consisting of 12 units in 2016.⁽¹⁾
- Since the 2006 buy-out by Graphite, Micheldever has completed 26 acquisitions and has grown its retail chain to 98 units – 83 of which have been acquired since the buy-out.

(1) In January and prior to the publication of this report, Micheldever announced that it will be acquired by Sumitomo Rubber.

Wholesale M&A Transactions - 2016				
Seller(s)	Buyer	Location	Month	Market Segment
Dealer Tire Canada U.L.C.	Groupe Touchette, Inc.	Canada	July	Wholesale tire distribution
STARCO A/S	Bohnenkamp AG	Denmark	July	Wholesale tire distribution
A to Z Tire & Battery Inc.	Omni United Pte. Ltd.	USA	June	Wholesale/OTR tire distribution
Franco Gomme	Fintyre	Italy	May	Wholesale tire distribution
Pneurama SA	Groupe Bernard Hayot SAS	Morocco	May	Wholesale tire distribution
Reifen Logistik 24 GmbH	Honold Logistik Gruppe GmbH & Co.	Germany	March	Wholesale tire distribution
Premier Tire Terminal Inc.	U.S. Auto Force	USA	February	Wholesale tire distribution

Wholesale transactions will continue to be pursued as acquirers look to build scale, bring efficiency to distribution, enhance networks, seek purchasing synergies and cost rationalizations, and maximize service. Domestically, while a number of sizable, privately owned wholesalers have been acquired in recent years, there remains several high volume, high quality targets which may expect to receive interest in coming months.



Omni United

- Singapore based **Omni United** made its second US acquisition within a year, acquiring **A to Z Tire & Battery, Inc.** an Amarillo, TX based wholesaler comprising 21 distribution locations.
- Omni now has 29 warehouses in the US, and will further expand distribution of its Radar Tires and Timberland Tires brands domestically via its enhanced distribution network.

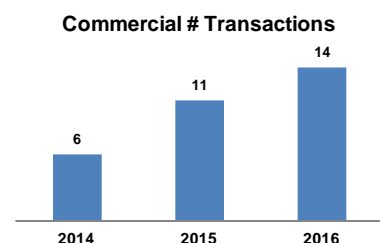
Fintyre

- **Fintyre Group**, Italy's leading aftermarket tire distributor, acquired **Franco Gomme**, a wholesale distributor operating six warehouses and serving around 8,000 customers in central and northern Italy. Combined company-wide revenue was anticipated to exceed €400 million in 2016.

Commercial/OTR M&A Transactions - 2016				
Seller(s)	Buyer	Location	Month	Market Segment
OBO Tyres	Magna Tyres Group	Netherlands	December	Commercial, OTR, retread services
CrossMidwest Tire Co.	Pomp's Tire Service Inc.	USA	December	Commercial, OTR, retread services
Leffler Industrial Tire & Rubber Track, Inc.	Global Rubber Industries Pvt. Ltd.	USA	November	Commercial, OTR
Kentucky Industrial Tire, Inc.	Global Rubber Industries Pvt. Ltd.	USA	November	Commercial, OTR
International Tyre & Wheel Solutions Ltd.	Trelleborg Wheel Systems Uk Ltd.	UK	September	Supplier of solid OTR tires
Clark Tire & Auto Inc.	Monro Muffler Brake Inc.	USA	August	Retail/commercial/wholesale
Tredroc Tire Services	Belle Tire Distributors	USA	August	Commercial, OTR, retread services
Phelps Tire	Purcell Tire & Service Center	USA	July	Commercial, OTR, retread services
B.V. Environmental Ltd.	Continental U.K. Group Holdings Limited	UK	July	Commercial, OTR, retread services
Klinge & Co Pty Ltd (tire services business)	Kal Tire	Australia	June	Commercial, OTR tire services
McGee Tire Stores, Inc.	Monro Muffler Brake, Inc.	USA	March	Retail/commercial tire sales
Brahler's Truckers Supply Inc.	Continental/Best Drive LLC	USA	February	Commercial, OTR, retread services
Southern Industrial Tyres Ltd.	Camso Ltd.	UK	February	Commercial and OTR tire sales
All Time Tire Service, Inc.	Service Tire Truck Centers	USA	January	Commercial and OTR tire sales

¹ Joint venture

The Commercial sector, in our view, has excellent prospects to see larger, platform acquisitions as well as an abundance of consolidation opportunities in 2017. We expect the volume of transactions to maintain upward momentum. Commercial business owners should see a steadily expanding market for their businesses if contemplating a sale this year.



Continental

- In February, **BestDrive LLC** (a subsidiary of **Continental Tire the Americas LLC**) acquired **Brahler's Truckers Supply, Inc.** a seven service location commercial tire and retreading company based in Jacksonville, IL. The acquisition strengthens BestDrive's position in serving the Midwest region.
- In July, **Continental U.K. Group Holdings Limited** acquired **B.V. Environmental (Bandvulc)**, one of the United Kingdom's leading fleet management service providers and independent truck tire retreaders. On the back of a 25 year relationship with Continental, the deal strengthens Continental's position in the UK and Irish market, and will give the Bandvulc subsidiary access to Continental's global network of customers and fleet services.

Monro Muffler Brake, Inc.

- As part of the **McGee Tire Stores** and **Clark Tire & Auto** acquisitions, Monro entered the commercial tire service market in the southeast and mid Atlantic in March. Monro anticipates the commercial acquisitions to be complementary to its retail business, and when combined with overall scale will lead to significant savings on material costs.
- Monro has broadened its acquisition target pool given its entrance to the commercial market, and can pursue pure retail, retail-commercial mix, or even commercial businesses going forward should the target geography and transaction align with the Monro network and strategy.

Purcell Tire & Service Center

- **Purcell Tire** completed the acquisition of **Phelps Tire**, a Seattle based commercial/retail dealer and retreader with five locations in Washington and three in Alaska. The acquisition opens up the Pacific Northwest market for Purcell, and expands the commercial and retread footprint.
- Purcell Tire now operates 50 commercial locations and five retread plants nationally.

Pomp's Tire Service, Inc.

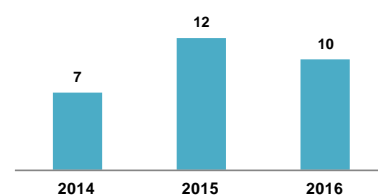
- **Pomp's** acquired **Cross-Midwest Tire Co.**, a Kansas City, KS based commercial dealership and retreader with 12 commercial locations through IL, KS, and MO. Pomp's expands its footprint with the acquisition, with no Cross-Midwest locations overlapping with Pomp's network of 79 locations.
- Pomp's retains its position as one of the largest commercial dealers and retreaders in the country with sales approaching \$500 million annually. This transaction as well as the Purcell/Phelps transaction supports our view on the value of long term industry relationships creating excellent M&A opportunities.

Manufacturer M&A Transactions - 2016				
Seller(s)	Buyer	Location	Month	Market Segment
Salvadori S.r.l.	Technical Rubber Co. Inc.	Italy	November	Tire, retread & industrial rubber repair prod.
Hoosier Racing Tire Corp.	Continental Tire the Americas LLC	USA	October	Manufacturer of car and truck tires
Lavorin Pneus e Camaras	Michelin Group	Brazil	August	Manufacturer of bicycle and motorcycle tires
Rimstock PLC	Current Capital LLC	UK	June	Manufacturer of alloy wheels
Aeolus Tyre (80% Stake - passenger tire unit)	Pirelli Tyre S.p.A.	China	June	Manufacturer of passenger tires
Qingdao Yellowsea Rubber Co. Ltd	Aeolus Tyre Co. Ltd.	China	June	Manufacturer of truck/bus tires
Double Happiness Tyre Industrial Co. Ltd	Aeolus Tyre Co. Ltd.	China	June	Manufacturer of truck/bus tires
Bridgestone Firestone Venezolana C.A.	Corimon CA	Venezuela	May	Manufacturer of car and truck tires
Alliance Tire Group	The Yokohama Rubber Co., Ltd.	USA	March	Manufacturer of specialty tires
Qingdao Ge Rui Da Rubber Co. Ltd ⁽¹⁾	Cooper Tire & Rubber Company	China	January	Manufacturer of truck and bus radial tires

1) 65% interest, closed in December 2016

The pace of manufacturer transactions slowed slightly in 2016, yet the sector continues to consolidate with specialty manufacturers being acquired by large, global players such as Yokohama, Continental, and Michelin. At the time of publication, we note that Kumho Tire is currently on the market and is anticipating final bids in January – a sign that momentum will continue into the new year for manufacturer transactions.

Manufacturing # Transactions



Yokohama

- In March, **The Yokohama Rubber Co. Ltd.** acquired **Alliance Tire Group** for \$1.2 billion. The deal forms part of Yokohama's plans to expand its commercial tire business. At the time of the transaction, Yokohama did not manufacture or sell tires for agricultural or forest machinery. Demand for agricultural tires is expected to increase in coming years.

Continental

- Continental acquired **Hoosier Racing Tire Corp.** (Lakeville, IN) in October. Hoosier is a manufacturer of tires with racing applications globally. Continental broadens its tire portfolio in the fields of motorsports and ultra high performance tires with the transaction, which comes on the back of a seven year partnership with Hoosier.

Trends to Watch in 2017

Business conditions going into 2017 provide the foundation for a year which should see steady to growing M&A transaction volume in the industry globally.

With the US presidential election out of the way, the related uncertainty which was a factor in 2016 should hopefully abate by the second quarter of 2017 once the Trump administration settles in. The macro picture, while still complex, is presently less threatening than it was as of January 2016 with equity markets having rebounded, and commodity prices (albeit unevenly) coming along for the ride to a degree. The Chinese economy still remains somewhat of a question mark, as does softness in developed economies outside of the US (Australia, Canada, the EU). The political divisions and likely transitions (look to Brexit and upcoming French and German elections in 2017) taking place across the globe should be observed carefully this year also, as there will no doubt be knock-on effects to business depending on the outcomes.

In regards to the M&A environment, we see specific trends either continuing or developing, as outlined below:

- Commercial/OTR sector transaction activity continues to gain momentum. The quality and scale of privately held companies in the Commercial sector, combined with market fragmentation represent both platform acquisition and consolidation, buy-and-build opportunities for private equity and strategic buyers alike. We expect this sector to continue to consolidate in 2017 and anticipate acquisitions of significance (new private equity platforms and/or large, sizable buy-outs) taking place this year.
- With Pep Boys being acquired at an EBITDA multiple⁽¹⁾ north of 15x one year ago, and Monro Muffler Brake currently trading at around 14x EBITDA, large acquirers in the retail sector have significant headroom to make highly accretive acquisitions. While smaller, private companies with normal margins will not trade near these levels on a stand-alone basis in an M&A transaction, it nonetheless makes acquisitions an attractive way to pursue growth for the large buyers and thus presents significant opportunity for sellers.
- Exit opportunities for owners of private businesses remain in a sweet spot. Buyers are catering to most situations, including a broad spectrum of seller goals, company sizes/structures, as well as both strong or sub-optimally performing businesses, with consideration given to value and structural parameters.
- Private Equity, sitting on a large pool of capital not yet deployed, will increase investment activity. Businesses generating \$100 million revenue or higher are likely to have been “marked” by the private equity community as an investment candidate. Businesses in the \$50 - \$100 million revenue range may also be seen as platform investments especially if there are numerous geographically contiguous bolt-on opportunities within the market footprint or on the periphery; or, as attractive add-on investments.

(1) Based on the trailing 12 month EBITDA at the time of acquisition.

If you have questions about this publication or wish to have a confidential discussion about your business, please contact:

Steven Rathbone
Managing Director

HT Capital Advisors, LLC
437 Madison Avenue, Suite 19D
New York, NY 10022
Direct: 212-759-9150
Mobile: 347-297-0823
srathbone@htcapital.com

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