

Tire Distribution & Manufacturing Global Industry Review

The Merger & Acquisition Environment in 2015

Merger and acquisition (“M&A”) activity in the tire distribution, manufacturing and service segments in 2015 continued the strong momentum experienced in 2014, seeing an estimated 60 relevant transactions completed globally. Specific sector commentary and analysis follows:

Retail distributors/automotive service providers: M&A and investment activity maintained a solid trend as we anticipated in our 2014 report, with a continuation of strategic consolidation (see Icahn/Bridgestone/Pep Boys, and Monro’s addition of over 180 stores), private equity investment (see Mavis/STS), and investment in online retailers by industry titans Michelin and Bridgestone.

Wholesale: M&A was active, with the wholesale industry further consolidating but being driven less so by the giants, who have dominated the deal activity in prior years (see ATD), and more by regional and international players looking to expand and consolidate their distribution footprint (K&M, Omni United).

Commercial/OTR: sector M&A activity was stronger in 2015, with privately held regional players (see McCarthy, Pete’s, and Bauer Built) taking advantage of long-standing industry relationships to negotiate deals. Private equity investment was strong (see Raben/Palladium) and multi-nationals (see Trelleborg) consolidated and enhanced their global presence and service offerings.

Retail M&A Transactions - 2015

Seller(s)	Buyer	Location	Month*	Market Segment	# Locations
Pep Boys - Manny, Moe & Jack ⁽¹⁾	Icahn Enterprises	USA	December	Retail distribution/service	798
Atlantic Auto Sports	4 Wheel Parts	USA	December	Retail distribution/service	1
Tire Factory (<i>Albuquerque, NM unit</i>)	BBAC Group (<i>Big O Franchise</i>)	USA	December	Retail distribution/service	1
Al’s Automotive & Tire	Telle Tire & Auto Service	USA	November	Retail distribution/service	1
Reifencom	Apollo Tyres	Germany	November	Retail distribution/service	37
Big O (<i>Colorado stores - Brooks family</i>)	Golden West Tire/Southland Tire ⁽²⁾	USA	October	Retail distribution/service	9
TreadConnect Systems	Bridgestone Americas	USA	October	Software/online sales	-
Shelby’s Wheel and Tire Inc.	Raben Tire Co. Inc.	USA	August	Retail distribution/service	1
Lebzelter’s Total Car Care	Jack Williams Tire Co. Inc.	USA	August	Retail distribution/service	3
Big O (<i>interest in Missouri partnership</i>)	MFA Oil Co.	USA	August	Retail distribution/service	14
Somerset Tire Service, Inc.	Mavis Tire Supply Corporation	USA	August	Retail/wholesale dist/svc.	157 ⁽³⁾
Windsor Tire Co.	Monro Muffler Brake Inc.	USA	July	Retail distribution/service	4
Kost Tire & Auto Care ⁽⁴⁾	Monro Muffler Brake Inc.	USA	July	Retail distribution/service	27
MetCash Automotive Holdings Pty. Ltd	Burson Group Limited	Australia	June	Retail/wsale tires/parts	416
Trax Tires, Upton Tire, Savannah Tire/Brake	Express Oil Change & Tire Service	USA	May	Retail distribution/service	23
Car-X Tire & Auto	Monro Muffler Brake Inc.	USA	May	Retail distribution/service	146
Blackcircles.com Limited	Michelin SA (France)	UK	May	Internet retailer	-
Drake Tire & Auto	Telle Tire & Auto Service	USA	May	Retail distribution/service	1
Allopneus SAS ⁽⁵⁾	Michelin SA (France)	France	April	Internet retailer	-
Pittston Tire & Auto Service	Jack Williams Tire Co. Inc.	USA	April	Retail distribution/service	1
Martino Tire	Monro Muffler Brake Inc.	USA	February	Retail distribution/service	8
Pam’s Motor City	Private Investor	USA	January	Retail distribution/service	1
Gold Coast Tire & Auto Centers	Monro Muffler Brake Inc.	USA	January	Retail distribution/service	7

* Transactions listed in order of most recent, by month

(1) As of Dec 30, 2015, the board of directors at Pep Boys had approved the Icahn offer. The deal is expected to close in the first quarter of 2016.

(2) Golden West Tire and Southland Tire are Big O franchisees, and combined form the largest Big O franchisee.

(3) STS also operates 6 wholesale locations

(4) Acquisition of 27 stores in central NY and PA only

(5) Michelin acquired a 40% stake

Several large transactions dominated the retail sector in 2015. In October, **Bridgestone Americas** entered into a definitive agreement to acquire **Pep Boys** – the oft sought after retailer who had previously been courted by would-be buyers. The acquisition of the Pep Boys network of 800 retail locations was to accelerate the global growth strategy of Bridgestone Corporation's existing nationwide network of 2,200 tire and automotive service centers. Not to be outdone, **Carl Icahn** lodged a competing bid which saw Bridgestone up its offer to \$947 million for the Pep Boys business. After a back-and-forth bidding contest, as of December 30th the Pep Boys board has approved an enhanced Icahn offer, valuing Pep Boys at \$1.03 billion. Icahn plans on combining Pep Boys with his recently acquired Auto Plus chain, increasing Icahn's consolidated US automotive footprint. It is reported that Pep Boys will pay a break fee of \$39.5 million to Bridgestone.

We believe that **Michelin's** two European acquisitions in the online tire retail sector – **Blackcircles.com** and a 40% stake in **Allopeus** highlights a new area of retail interest that will continue to expand in 2016. Additionally, **Bridgestone** acquired **TireConnect Systems**, and **Goodyear** also kicked off its online retail business. With a rapidly growing number of tires being bought online by consumers; plus a wealth of data available on tire quality, pricing, comparisons, and reviews simplifying purchases, the online channel will likely continue to grow. Upstream participants such as manufacturers, OEMs, and certain wholesalers are taking advantage of every opportunity to further entrench themselves downstream via online direct sales, getting closer to the customer. Tire companies with an established and proven online business should remain aware of further activity and interest from the larger players looking to enter the online retail space.

Monro Muffler & Brake put in a very solid year in M&A, making five separate acquisitions representing more than 180 retail units. Monro's largest acquisition of 2015, Car-X, puts it into three new markets – Iowa, Minnesota, and Texas – while strengthening the geographic footprint in the Midwest/Upper Midwest.

Our view is retail consolidation will not slow down anytime soon. If you are an owner in the retail sector and are currently pondering exit or transition options, 2016 may be a good year to crystallize these plans.

Wholesale M&A Transactions - 2015				
Seller(s)	Buyer	Location	Month*	Market Segment
Colorado Components	Wheel Pros, LLC	USA	December	Wholesale/Manufacturer of wheels and tires
Interstate Tire Distributor	Omni United Lte. Ltd.	USA	October	Wholesale tire distribution
Midwest Tire & Muffler, Inc.	K&M Tire Inc.	USA	October	Wholesale tire distribution
Somerset Tire Service, Inc.	Mavis Tire Supply Corporation	USA	August	Retail/wholesale distribution/service ⁽¹⁾
South Dade Automotive	U.S. AutoForce, Inc.	USA	August	Wholesale tire distribution
Mityre Australia Pty Ltd	MITAS a.s.	Australia	August	Wholesale tire distribution
FinTyre	BlueGem Capital Partners	Italy	July	Wholesale tire distribution
Meyer Lissendorf	Michelin SA (France)	Germany	July	Wholesale tire distribution
Euromontyres	Group Andres	Spain	July	Wholesale tire distribution
Kelle Oil Co.	K&M Tire Inc.	USA	July	Wholesale tire distribution
Albert Tire LLC	American Tire Distributors Holdings	USA	July	Wholesale tire distribution
Alencon Pneus	Continental Aktiengesellschaft	France	June	Wholesale tire distribution
MetCash Automotive Holdings Pty. Ltd	Burson Group Limited	Australia	June	Retail/wholesale tires and parts
Countrywide Tire & Rubber Co.	Chad Isaacs (Private Investor)	USA	April	Wholesale tire, tubes and wheel distribution
Del-Nat Tire Corp. (Memphis warehouse)	Horizon Tire	USA	April	Wholesale tire distribution
Armstrong Tyres	Trelleborg Wheel Systems	Australia	March	Wholesale/OTR tire distribution
Capital Factory Original Wheels	1-800 EveryRim	USA	March	Wheel distribution
Watts Aviation	Desser Tire & Rubber Co. LLC.	UK	March	Aircraft tire distribution
American Tire Distributors, Inc. (48% Stake)	Ares Management, L.P.	USA	February	Wholesale tire distribution
Del-Nat Tire Corp.	TBC Corporation, Inc.	USA	January	Wholesale distribution/private label
Integra Tire & Auto Centres Canada Ltd.	TriCan Tire Distributors Inc.	Canada	January	Wholesale tire distribution

* Transactions listed in order of most recent, by month

(1) STS also operates 157 retail locations

In a relatively quiet year for M&A by **ATD's** prior year benchmarks, the Company managed to complete two meaningful transactions – **Integra Tire & Auto Centers** in Canada, and **Albert Tire** of New Jersey. Upon

completion of the Albert Tire transaction, ATD's network of distribution centers ("DCs") now encompasses 113 DCs in 45 states, plus 27 DCs in eight Canadian provinces. Early in the year, **Ares Management** acquired an approximately 48% stake (Source: Bloomberg) in ATD from former majority shareholder **Texas Pacific Group**. Ares continues to pursue a longstanding strategy of acquiring strong franchises with proven management teams and helping them realize their full potential.

Australian transactions featured prominently in the wholesale sector during 2015, with two cross-border and one domestic transaction taking place. No strangers to the Australian market, **Trelleborg** and **MITAS** each completed an inbound acquisition of companies with which they had a previously high level of familiarity. **Mityre Australia Pty Ltd.** has been an importer of the MITAS tire brand since 2001. The acquisition of Mityre gives MITAS the opportunity to increase market share and improve logistics, marketing and customer service down under. Trelleborg acquired **Armstrong Tyres** in March, a service and distribution company of agricultural tires. Trelleborg made the acquisition in-line with its strategy of pursuing local presence combined with global reach. After its subsequent acquisition of CGS (MITAS' parent company) in November, Trelleborg now holds a significant market position in Australia.

K&M Tire continued its United States acquisition activity with the acquisition of two companies – **Midwest Tire & Muffler**, and **Kelle Oil Co.** The acquisition of Kelle gives K&M the opportunity to expand and add to its customer base in Kansas and Oklahoma. The Midwest Tire & Muffler acquisition includes a warehouse consolidation, and the addition of two South Dakota warehouses bringing K&M's DC count to 20, covering the Midwest, Great Lakes, and South Central regions of the US.

Commercial/OTR M&A Transactions - 2015

Seller(s)	Buyer	Location	Month*	Market Segment
Norwich Tire	Pete's Tire Barns	USA	November	Commercial & OTR tire service provider
A.R.S. spol S.r.o.	Bridgestone Corp.	Slovak Rp.	November	Commercial dealership/retread plant
Coogle Tire Service	Raben Holdings LLC	USA	July	Commercial tire and service provider
Hill Tire Co.	Continental/BestDrive	USA	July	Commercial tire, retread, service provider
Ragan Tire Group L.L.C.	McCarthy Tire Service	USA	June	OTR retreading service provider
Hartman Fleet Services, Inc.	McCarthy Tire Service	USA	June	Mechanical, fleet services
Central Tire & Tread	Bauer Built	USA	June	Commercial dealership
Commercial Truck Tire Center, Inc.	McCarthy Tire Service	USA	May	Commercial dealership
Armstrong Tyres Pty Ltd.	Trelleborg Wheel Systems	Australia	April	Wholesale/OTR distribution
Mygrant's Tire Co. Inc.	Best-One/Zurcher	USA	February	Commercial/Ag/OTR distribution
D.G. Manutention Services SAS	Trelleborg Wheel Systems	France	February	Industrial tire distribution

* Transactions listed in order of most recent, by month

The Commercial/OTR sector saw higher activity in 2015, with the majority of transactions being completed by solid and long-established regional US buyers. Wilkes-Barre, PA based **McCarthy Tire** made three acquisitions – **Commercial Truck Tire Center Inc** (Syracuse, NY), filling a gap in McCarthy's I-90 coverage; **Ragan Tire Group** (Concord, NC), enabling McCarthy to consolidate four existing Ragan locations in NC, pickup three new locations in South Carolina, plus one new location in Georgia; and **Hartman Fleet Services**, a Manassas, VA based provider of mechanical, and fleet maintenance/repair services. McCarthy now operates 49 service facilities in nine states, and continues to grow its reputation as one of the top family-owned businesses in the Commercial/OTR industry, as well as a willing and able buyer of strategic assets.

Bauer Built added to its Nebraska network by acquiring **Central Tire and Tread**, a single location dealership which gives Bauer Built its sixth location in NE, and consolidates its position on I-80. **Palladium Equity Partners**-backed **Raben Tire** acquired **Coogle Tire Service**, a single location dealer in Indiana specializing in farm tires. **Pete's Tire Barn** acquired **Norwich Tire** in Norwich, CT enabling Pete's to expand sales and service in the surrounding region. Pete's plans on combining Norwich Tire with its existing location in North Franklin, CT in early 2016, by moving into a new state-of-the-art facility.

Continental continued to grow its strategic **BestDrive** division with the acquisition of **Hill Tire Co.**, founded almost 40 years ago near Atlanta, GA. The acquisition substantially increases BestDrive's commercial tire presence in the Southeast, as well as retread capacity via the addition of two locations. Clif Armstrong, Managing Director of BestDrive, says "Our goal at BestDrive is to be the leading commercial tire and service provider delivering the lowest overall driving cost for our customers." Look for Continental to continue to pursue strategic acquisitions in growing its BestDrive division.

Commercial/OTR business owners should expect to receive more interest in their businesses in 2016, as a diverse buyer base continues to seek acquisitions in the sector, providing liquidity opportunities for sellers.

Manufacturer M&A Transactions - 2015				
Seller(s)	Buyer	Location	Month*	Market Segment
Standard Tyres Group	Trelleborg AB	Brazil	December	Industrial Tire manufacturer
Colorado Components	Wheel Pros, LLC	USA	November	Wholesale/Manufacturer of wheels and tires
CGS Holding a.s. (Mitas a.s.)	Trelleborg AB	Czech.	November	Ag and industrial tire manufacturer
Gianetti Ruote S.r.l.	Accuride Corporation/CLN Group	Italy	November	Steel wheel manufacturer
HiPer Technology	Weld	USA	October	ATV wheel manufacturer
Kesoram Industries (Tire and tube plant, Haridwar)	JK Tyre & Industries Ltd.	India	September	Tire and tube manufacturing plant
Marathon Industries	The Carlstar Group LLC	USA	July	Manufacturer of solid and flat-free tires
Hill Tire Co.	Continental/BestDrive	USA	July	Commercial tire, retread, service provider
Ragan Tire Group L.L.C.	McCarthy Tire Service	USA	June	OTR retreading service provider
BBS GmbH	Nice Holdings	Germany	June	High performance wheel manufacturer
Pirelli & C.S.p.A	China National Tire & Rubber Co. ⁽¹⁾	Italy	Apr/Oct	Designer, developer and manufacturer
Rodaco Argentina S.A.	Camoplast Solideal, Inc.	Argentina	February	Industrial Tire manufacturer

* Transactions listed in order of most recent, by month

1) Subsidiary of China National Chemical Corp. Chemchina had acquired 87% of Pirelli outstanding shares at time of print.

In a relatively busy year for M&A in Manufacturing deals, the spotlight was primarily on China National Tire & Rubber Co.'s over 8 billion € (enterprise value) acquisition of Pirelli – one of the world's most renowned tire manufacturers and brands. Combining to form a global manufacturing leader with a market share approaching 10% (Source: UBS). The deal will provide ChemChina access to technology to make premium tires which can be sold at higher margins, and will provide a big boost to Pirelli in accessing the Chinese market and competing against larger European competitors Michelin and Continental.

American Industrial Partners ("AIP") backed manufacturer, **The Carlstar Group**, acquired **Marathon Industries** (Kent, WA) – a manufacturer and marketer of solid polyurethane tires, flat-free Universal Fit® tires, pneumatic tires and tire sealant. The transaction further cements Carlstar as a leader in the specialty tire market, and broadens its product portfolio. Look for Carlstar to continue M&A activity, with the capital backing and support from AIP.

Trelleborg continued a very busy year for M&A by signing an agreement to acquire **CGS Holdings** (parent company of **MITAS**), a Czech based agricultural, industrial, and specialty tire manufacturer. With the acquisition, Trelleborg continues to establish itself as a global leader in agricultural tires and reinforces its leading position in industrial tires. Trelleborg Wheel Systems will almost double its revenues, broaden its geographical reach and add new positions in complementary tire niches.

Trends to Watch in 2016

Given increased M&A activity in 2015, and provided significant macro events that would have a downside bias can remain somewhat under control, we expect 2016 to follow suit and likewise to be a strong year for M&A in the industry globally.

However, the macro picture is becoming more and more complex, and we recommend that the following events and areas are watched carefully and with caution: the rocky start to 2016 with the decline of global equity markets; the rapidly declining price of oil and commodities; the Chinese economy; softness and/or recessionary environments in developed countries outside of the US (ie: Australia, Canada, Western Europe); continued and worsening recessionary conditions in emerging economies (ie: Brazil); general unrest in certain areas globally (the Middle East).

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

- Exit opportunities for **sellers of private businesses** continue to remain attractive (most notably in the US), and the exit options have broadened given that an expanding universe of buyers are engaging in M&A activity – large strategic buyers, mid-market family owned/private companies with a regional scope, and private equity. Regardless of a seller's goals, there may well be a buyer type to cater to most situations, giving consideration to value and structural parameters.
- **Private Equity** remains active in both building their portfolio investments (see TPG/Ares, Palladium Equity, American Industrial Partners, and ONEX) and continues to pursue platform acquisitions/investments. If your business is in the \$100 million revenue range or above, it is likely you have been "marked" by the private equity community as a platform investment. Businesses in the \$50 - \$100 million revenue range likewise may be highly attractive add-on investments or potentially smaller platforms.
- We see interest in the **Commercial/OTR tire sector** growing given the quality, range, and size of privately held companies in this sector; and the market fragmentation representing consolidation opportunities. A theme to follow for all Commercial/OTR tire business owners.
- **Public companies** have maintained relatively rich earnings multiples. Monro Muffler Brake is currently trading at around 15x EBITDA (around the same level at this time last year); the Pep Boys acquisition is currently pressing close to 16x EBITDA. While it is highly unlikely that smaller, private companies will trade near these levels on a stand-alone basis in an M&A transaction, with the large players trading at such high multiples, it makes acquisitions highly accretive and an attractive way to pursue growth.

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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