STATESMAN CORPORATE FINANCE

Statesman Overview

Sell-Side Advisory | Buy-Side Advisory | Recapitalizations | Management Buyouts | Employee Stock Ownership | Valuation Assessments

M&A Advisory Overview

Founded in 1995, Statesman has established itself as one of the country's leading investment bank firms serving middle market business owners.

•Offices in **Houston** and **Austin, Texas.** Personnel in **Dallas.**

•3 Principals and over 30 total personnel

•**FINRA licensed broker dealer**

Clients

- Privately held companies
- Family businesses
- Management buy-outs
- Corporate divestitures
- ESOPs

Industries

- Consumer
- Industrial
- Manufacturing
- Business services
- Technology
- Healthcare

Transaction Sizes

- $3+ million EBITDA
- $15 - $200 million EV

Complimentary to Statesman's leading middle-market investment banking and M&A Advisory Services offering is a robust consultancy practice specializing in *due diligence, field exams, appraisals, loan underwriting and packaging services* and completing over 500 separate transactions per year on behalf of banks and other institutional credit providers throughout Texas and surrounding states.

Statesman Representative M&A Transactions

Beasley Tire Service Inc.
Houston, TX
secures senior debt financing from
Comerica Bank
Houston, TX

ProSource Builder Supply, Ltd.
Houston, TX
has been acquired by
Stock Building Supply
OTC:Wosly
Raleigh, NC

Action Gypsum Supply
Houston, TX
acquired a majority interest of
Argos Material Distribution
Chino, CA

CSZ Cincinnati Sub-Zero
Cincinnati, OH
a Gentherm Company
Gentherm (NASDAQ: THRM)
has been acquired by
weisstechnik® a schunk company
Heuchelheim, Germany

Shamrock Steel Sales, Inc.
Odessa, TX
has been acquired by
Triple-S Steel Supply Co.
Houston, TX

GTi
Stafford, TX
has acquired
Precision-Hayes International
Sugar Land & Seagoville, TX
a subsidiary of Actuant Corporation (NYSE: ATU)
Menomonee Falls, WI

bike barn
Houston, TX
has been acquired by
Private Investment Group
Houston, TX

Gulf Electroquip Electric Motors and Generators
Houston, TX
Heartland Power Investment Group, LLC, an affiliate of Gulf Electroquip, Ltd. has acquired
Hyundai Ideal Electric Co.
Mansfield, OH

Tire Wholesaling Industry Overview

Key Statistics Snapshot

Revenue	Annual Growth 14-19	Annual Growth 19-24
$46.3B	3.0%	1.8%
Profit	**Wages**	**Businesses**
$1.1B	$2.2B	3,379

Key External Drivers

- Total vehicle miles
- Number of motor vehicle registrations
- Per capita disposable income
- New car sales
- World price of rubber

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Light
Revenue Volatility	Medium	Technology Change	Medium
Capital Intensity	Medium	Barriers to Entry	Low
Industry Assistance	None	Industry Globalization	Low
Concentration Level	Low	Competition Level	High

Executive Summary

The Tire Wholesaling industry, made up of merchant distributors of used and new tires and tubes, has grown over the five years to 2019. Rising income levels and lower tire prices have lifted demand for tires, which has bolstered industry revenue. Over the past five years, per capita disposable income has steadily increased, encouraging consumer tire purchases. Additionally, the world price of rubber, which is the major input for tire manufacturers, was remarkably low until 2017, generally to the benefit of wholesalers, which received lower prices from manufacturers. As a result, industry revenue is expected to grow at an annualized rate of 3.0% to $46.3 billion over the five years to 2019, strengthened by an expanding automotive sector and growing consumer demand for replacement tires.

Despite positive economic conditions, external competition has threatened tire wholesalers over the past five years. Tire manufacturers can provide low-cost tires to retailers directly by integrating the wholesale process, whereas wholesalers need to nurture long-standing business relationships with both retailers and manufacturers to secure revenue. Furthermore, these relationships are often not secured by long-term contractual obligations, giving retailers the option to change suppliers. Nevertheless, tire manufacturers often lack the product ranges, distribution networks and efficient delivery capabilities of wholesalers with established operations and product variety. Overall, industry revenue is expected to grow 1.9% in 2019 as competitive advantages continue to benefit wholesalers in spite of rebounding rubber prices.

Greater internet use has also improved industry operations. The internet enables wholesalers to communicate with retailers more efficiently, which streamlines sales and inventory functions. Consequently, internet use has reduced the amount of labor required to wholesale tires. This strategy has helped larger industry operators decrease operational costs and avoid the rising wage costs affecting much of the industry. Furthermore, wholesalers are helping to improve the online presence of independent tire dealers, empowering dealers to reach a broader market of consumers and boosting wholesale revenue as a result. These factors, combined with expected improvement in consumer confidence and spending, bode well for the industry. As these trends continue, IBISWorld expects revenue to rise at an annualized rate of 1.8% to $50.6 billion over the five years to 2024.

Source: IBISWorld

Tire Wholesaling Industry Overview

Industry Performance Indicators

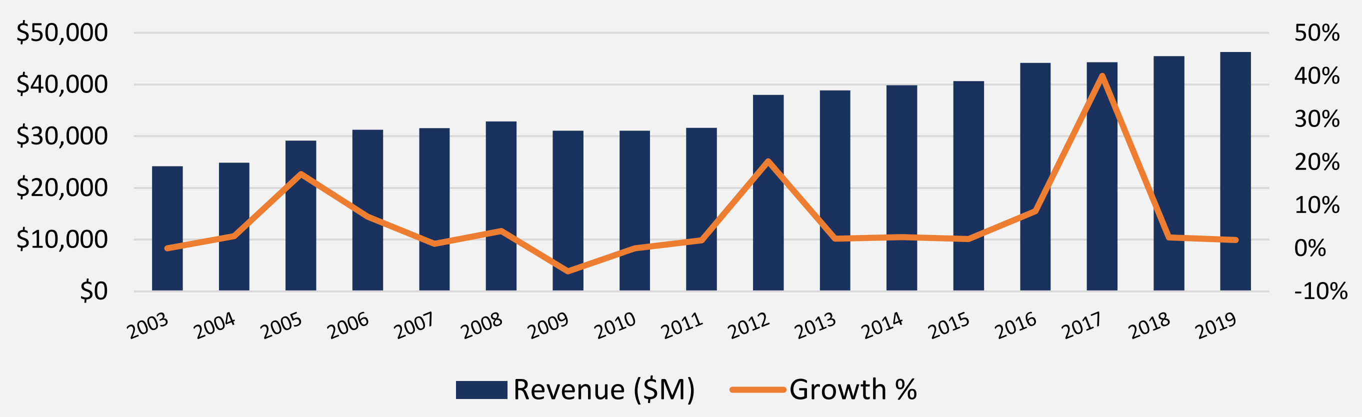
- **Total vehicle miles**
  - The number of miles driven is a strong indicator of tire wear. The higher the figure, the more likely it is that tires need to be replaced. Retailers will turn to wholesalers to supply more tires when demand is high. Total vehicle miles are expected to increase in 2019.
- **Number of motor vehicle registrations**
  - The total number of motor vehicle registrations is a strong indicator of total number of vehicles on the road. The higher the number of registrations, the higher the number of replacement tires that consumers will need. The number of motor vehicle registrations is expected to increase in 2019.
- **Per capita disposable income**
  - Per capita disposable income levels directly affect consumers' decisions to purchase replacement tires. The lower the level of per capita disposable income, the less likely consumers are to invest in replacement tires. Per capita disposable income is expected to increase in 2019, representing a potential opportunity for the industry.
- **New car sales**
  - The sale of new cars is indicative of the number of passenger tire consumers. As the number of cars on the road increases, the number of potential consumers of tires rises. The number of new car sales is expected to decrease in 2019, posing a potential threat to the industry.
- **World price of rubber**
  - The price of rubber has been volatile recently, creating revenue and profit volatility for industry operators. The higher the price of rubber, the more likely that tire manufacturers will raise costs for wholesalers. The world price of rubber is expected to decline in 2019.

Current Performance

Over the five years to 2019, the Tire Wholesaling industry has experienced revenue growth. Establishments engaged in merchant wholesale distribution of tires or tire tubes have benefited from several positive factors. For example, vehicle registrations have continued to increase, prompting automakers to increase demand for upstream supplies, including tires. Additionally, consumers have been more likely to replace their existing tires due to favorable economic conditions such as rising disposable income levels, stimulating demand. These broad trends have benefited tire wholesalers during the five-year period to 2019.

In addition to consolidating internal operations, wholesalers have **acquired other players** in an attempt to capitalize on existing business lines to increase revenue. This strategy is based on local distributors' ability to expand their pre-established retailer relationships by acquiring other companies' distribution networks. New wholesale-to-retail relationships are often hard to come by, as many retailers have partnered with the same distributors since opening. As a result, companies are using acquisitions to extend their reach into regions where their presence is weak. The recent merger between Tire Centers LLC and TBC Corporation is a strong example of this. High acquisition activity has expanded wholesalers' ability to increase revenue.

Revenue Growth NAICS: 42313: Tire Wholesalers



Source: IBISWorld

Tire Wholesaling Industry Overview

Industry Outlook

Consumers are expected to have more disposable income to spend over the next five years, which will heighten demand for industry products. Per capita disposable income is expected to increase an annualized 1.5% over the five years to 2024, which is anticipated to provide a stable basis for industry revenue growth.

Mixed story for profit

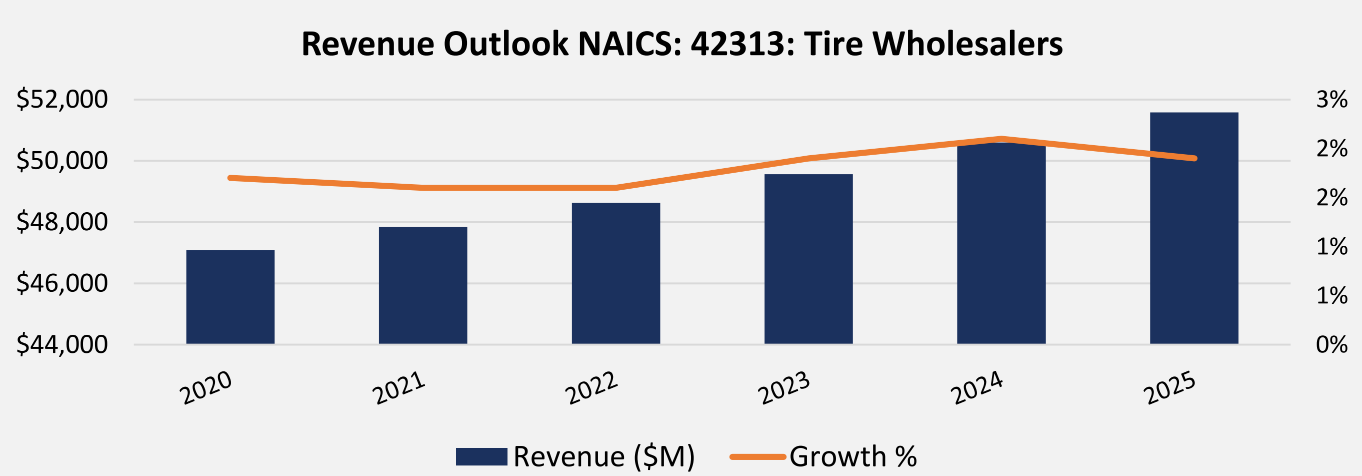
The Tire Wholesaling industry is anticipated to encounter obstacles that will likely inhibit profit growth prospects. Competition is expected to grow both externally from tire manufacturers and internally from new or innovating wholesalers, which will likely put downward pressure on industry profit. Strong price competition and increased spending on network expansion or integration will likely both contribute to stagnant profit margins during the five-year outlook period.

Conversely, wholesalers are automating many costly business processes through use of the internet. They can now automate sales functions and reach retailers in a new, effective way. As well as the ability to save on operational costs, wholesalers are expected to integrate inventory management and online presences to streamline administrative functions. Wholesalers will continue to help retailers reach customers by boosting their internet presence, enabling retailers to build a digital sales network.

Acquisition slowdown

The acquisition activity that characterized the past five years is beginning to slow down. Industry operators are realizing that, despite their ability to capitalize on new distribution networks and relationships with retailers, these acquired relationships do not guarantee long-term profitability. Most relationships between wholesalers and retailers do not involve long-term contracts and are highly price-sensitive. Acquisitions typically increase short-term revenue but do not guarantee sales in the long term due to the price-competitive nature of the industry. Additionally, existing relationships are often stronger than newly acquired relationships. In response, some wholesalers are building networks from the ground up via technological innovation and online sales instead of buying existing networks. With stronger business relationships, wholesalers will likely be able to capitalize on long-term revenue gains and increase profitability.

Acquisition slowdown will also affect employment and establishment numbers. As acquisitions taper off, employment is projected to increase as wholesalers seek to expand the size of their networks, which will require more labor. A growing number of establishments in the industry results in rising anticipated employment figures. Nevertheless, employment growth will be limited by the trend of wholesalers automating inventory management and sales processes. Ultimately, employment growth is expected to mirror establishment growth. Industry employment is expected to increase at an annualized rate of 2.0% to 47,684 workers over the five years to 2024, while the number of industry establishments is anticipated to rise an annualized 1.8% to 5,200 during the same period. Slowing acquisition activity, along with increasing industry revenue, will continue to push industry operators to expand existing operations and encourage new market entrants.



Source: IBISWorld

Tire Wholesaling Industry Overview

Industry Life Cycle: *Mature*

The Tire Wholesaling industry is in the mature stage of its life cycle. The Tire Wholesaling industry is in the mature phase of its life cycle. Industry value added, a measure of the industry's contribution to the overall economy, is expected to grow at an annualized rate of 1.9% over the 10 years to 2024. The industry's service is well-established, and it has not experienced substantial technological change. Moreover, the industry is experiencing consolidation.

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- **Industry value added is forecasted to grow slowly**
- **Innovation mainly occurs through internet distribution channels**
- **The market is saturated with companies that provide the same products and services**

Chart 2

Products and Services Segmentation (2019)

Chart 1

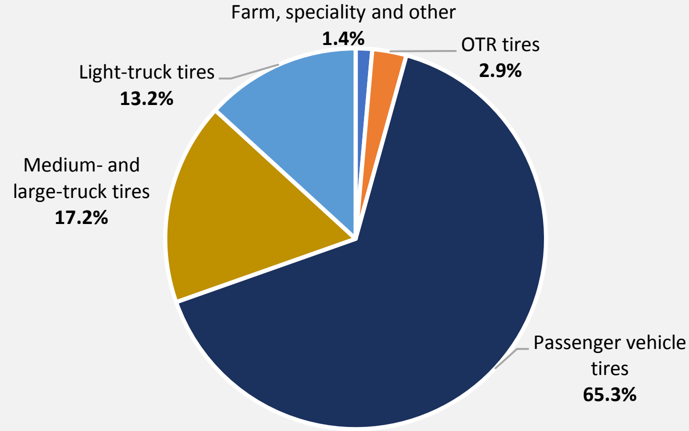


Chart 1: This pie chart shows the size of the products or services that industry operators sell. It is based on the proportion of revenue each product or service segment contributes to total industry revenue.

The Tire Wholesaling industry's products can be broken down into five different segments: passenger vehicle tires; light truck tires; medium- and large-truck tires; farm tires and other types of tires, including specialty off-road (OTR) tires.

Passenger tires account for an estimated 65.3% of industry revenue, making up the largest product segment in the Tire Wholesaling industry. Consumer tastes have shifted toward more environmentally friendly cars during the five-year period to 2019, in which total revenue from passenger tires increase.

Medium- and large-truck tires are anticipated to represent 17.2% of industry revenue, making it the second-largest product segment for industry operators. This segment accounts for tires on vehicles that typically move freight or heavy materials, such as dump or semi-trucks.

Light-truck tires account for the third-largest product segment, with 13.2% of industry revenue. Light-truck tires are used for pick-up trucks, SUVs, mini-vans and regular size vans.

OTR tires are most commonly used with construction equipment and other heavy-duty equipment. Constructed specifically to be durable and carry heavy loads, revenue from OTR tire sales are expected to account for 2.9% of industry revenue. This product segment is growing in share of industry revenue as consumer confidence and demand from construction are both increasing.

Chart 2: This chart shows where the industry lies within the three key life cycle stages, growth, maturity or decline, by plotting the relationship between the industry's change in contribution to the economy and the percentage change in the number of industry establishments.

Source: IBISWorld

North American M&A Snapshot

North American M&A Activity

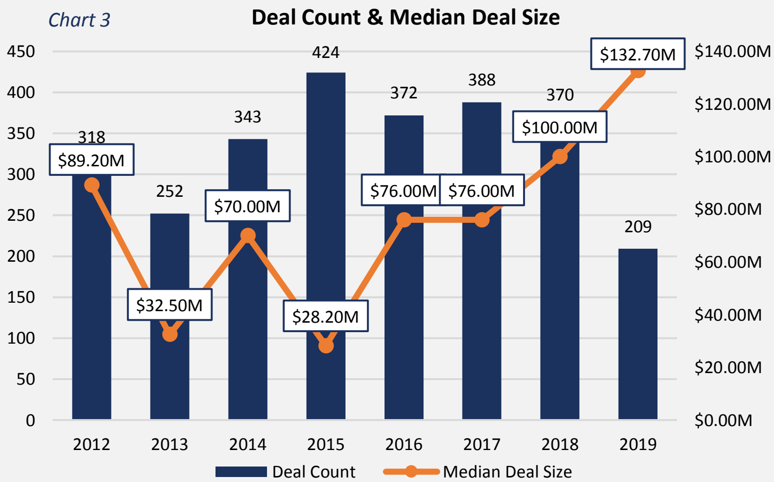
North American M&A activity has continued apace in 2019, with 4,754 deals worth $849.7 billion closing in the first half of 2019.

This protracted period of heightened M&A activity is likely persisting in response to slowing global growth and a roaring US stock market. Many corporate executives are worried about a coming economic downturn and are positioning their companies to weather the storm, turning to M&A to shore up profit margins and compete more effectively.

As the median M&A deal size has risen, so too have acquisition multiples. After two successive years in which the median multiple declined, 2019 is pushing higher. As of 1H 2019, the median EV/EBITDA multiple for M&A transactions sits at 10.2x, matching the highest value in over a decade. These elevated multiples are the result of a confluence of factors including low financing costs and larger deals.

In fact, not only are borrowing costs historically low—with the Fed likely to slash rates by 25 basis points in 2019 —high-yield bonds are trading at negative interest rates in some parts of the world. PitchBook expects interest rates to remain low and augment persistently high acquisition multiples as central banks around the world become increasingly dovish and longer-term rates remain depressed.

Chart 3



Source: PitchBook Data, Inc.

Chart 3: Displays the historical deal count and median deal size ($ millions) in the U.S. This includes all buyout types and M&A/control transactions for the Automotive and Road industries with the keywords: tires and wheels.

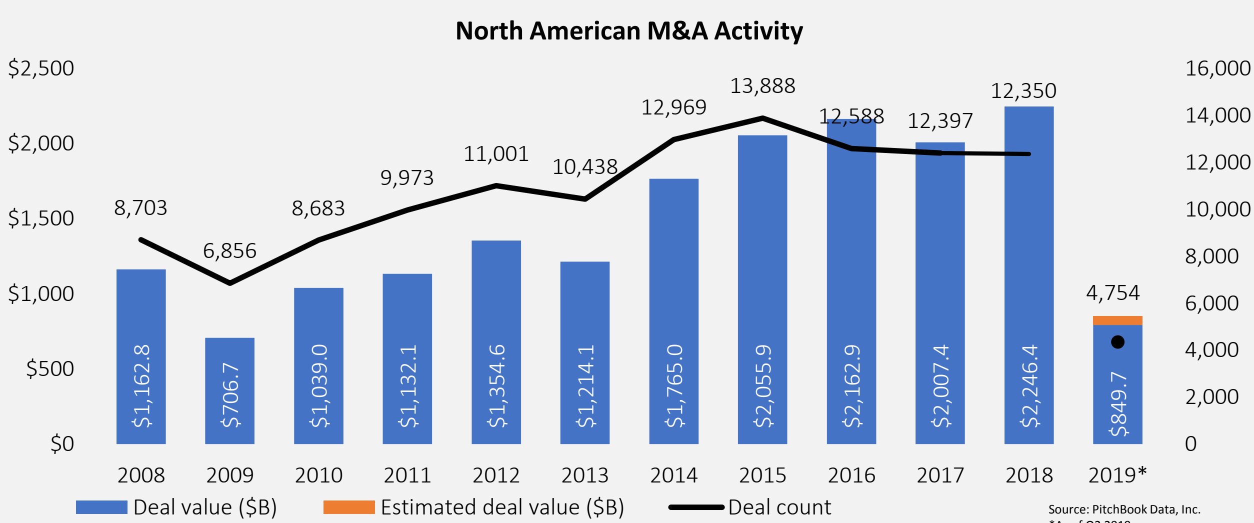
NAICS Code: 42312 Motor Vehicle Supplies and New Parts Wholesalers

Chart 4

TEV Range	Revenues $	TEV/EBITDA	# of Deals
10 – 25	18.4	5.1x	3
25 – 50	58.5	6.2x	7
50 – 250	111.0	7.7x	8
Total	**75.2**	**6.7x**	**18**

Source: GF Data Inc.

Chart 4: Displays the valuation data on private equity sponsored middle market transactions for NAICS 42312: Motor Vehicle Supplies and New Parts Merchant Wholesalers. *Total enterprise value ("TEV"): Overall economic value of a company.*



Source: PitchBook Data, Inc.
*As of Q2 2019

Automotive Parts (Tire Wholesaling) M&A Snapshot

Notable Acquisitions

Company Name: OTR Wheel Engineering
Deal Date: July 2, 2019
Investor(s): Owner Resource Group / Dellin Investments/ PNC Erieview Capital
Deal Type: Buyout/LBO

Company Name: MHT Luxury Wheels
Deal Date: May 17, 2019
Investor(s): Clearlake Capital Group / Wheel Pros
Deal Type: Buyout/LBO, Add-on

Company Name: Vintage Wheel Works
Deal Date: January 8, 2019
Investor(s): Irving Place Capital / Coker Tire
Deal Type: Buyout/LBO, Add-on

Company Name: Tires Plus
Deal Date: November 1, 2018
Investor(s): Prep Property Group
Deal Type: Merger/Acquisition, Corporate Divestiture

Company Name: Ramona Tire
Deal Date: October 26, 2018
Investor(s): Greenbriar Equity Group / BRAKEmax Care Centers
Deal Type: Buyout/LBO, Add-on

Company Name: SimpleTire
Deal Date: May 9, 2018
Investor(s): Dealer Tire
Deal Type: Buyout/LBO, Add-on

Company Name: Dekalb Tire
Deal Date: May 7, 2018
Investor(s): Golden Gate Capital / Mavis Tire
Deal Type: Merger/Acquisition

Company Name: Mavis Tire
Deal Date: March 29, 2018
Investor(s): Onex / Express Oil
Deal Type: Merger/Acquisition

Company Name: TBC Corporation
Deal Date: January 8, 2018
Investor(s): Groupe Michelin
Deal Type: Merger/Acquisition, Corporate Divestiture

Company Name: Sandone Tire
Deal Date: May 4, 2017
Investor(s): McCarthy Tire
Deal Type: Merger/Acquisition

Source: Pitchbook Data, Inc.