

M&A INDUSTRY REPORT

AUTOMOTIVE AFTERMARKET

FOCUS Investment Banking is a leading middle-market investment bank with deep industry expertise, a nationwide footprint and a global reach.

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M&A INDUSTRY OUTLOOK

Headwinds in the economy slowed M&A activity in North America in the 1st quarter of 2023. According to MergerMarket, “Mergers and acquisitions totaled USD 300.2bn in 1Q23, a 44% drop compared to the same period last year. The number of transactions fell 24% to 3,026 over the same period.”

For quite some time, the auto aftermarket saw stratospheric activity. Consumers were flush with cash; low interest rates were allowing for higher valuations and the stock market was at an all-time high providing uplift. But it’s all come crashing down to earth. Consumers with old cars drive the aftermarket and with consumers feeling the double pinch of inflation and high credit card rates, and vehicles mileage lagging during Covid, this all translates into more caution with wallets and fewer parts that need to be replaced.

We’re seeing that the more discretionary the consumer purchase (think auto accessory not a brake job) the more likely the provider of that discretionary item will see sales softening. On average, top line revenues seem to be down by about 10%. This means profitability is lower and coupled with higher interest rates, this translates into valuations that are lower than the peak we saw in late 2020/early 2021.

In collision repair, M&A activity in 2023 is expected to be strong, despite rising interest rates, inflation, and technician shortages. The big five consolidators are still actively looking for good deals in a variety of markets. Additionally, there are many newcomers and groups looking to make their first platform investment in the collision repair space.

Demand from dealers looking for growth through acquisitions is expected to continue in 2023 after record numbers of deals were completed in 2021 and 2022. Automotive News annually tracks the Top 150 Largest Dealers and reported that the most significant changes in rankings occurred last year due to acquisitions. In fact, for the first time ever, Lithia replaced AutoNation at the #1 spot. Currently, the Top 150 Largest Dealer Groups accounted for almost 25% of total sales, compared to 19.1% just ten years ago. An aging dealer population and the desire to retire will likely continue to support favorable M&A activity for several years.

This report provides commentary by sector within the automotive aftermarket industry. A case study is included to illustrate the ROI FOCUS provided a tire specialist and repair center. Also included are relevant industry articles, podcast, blogs, past transactions and current deals in the market.

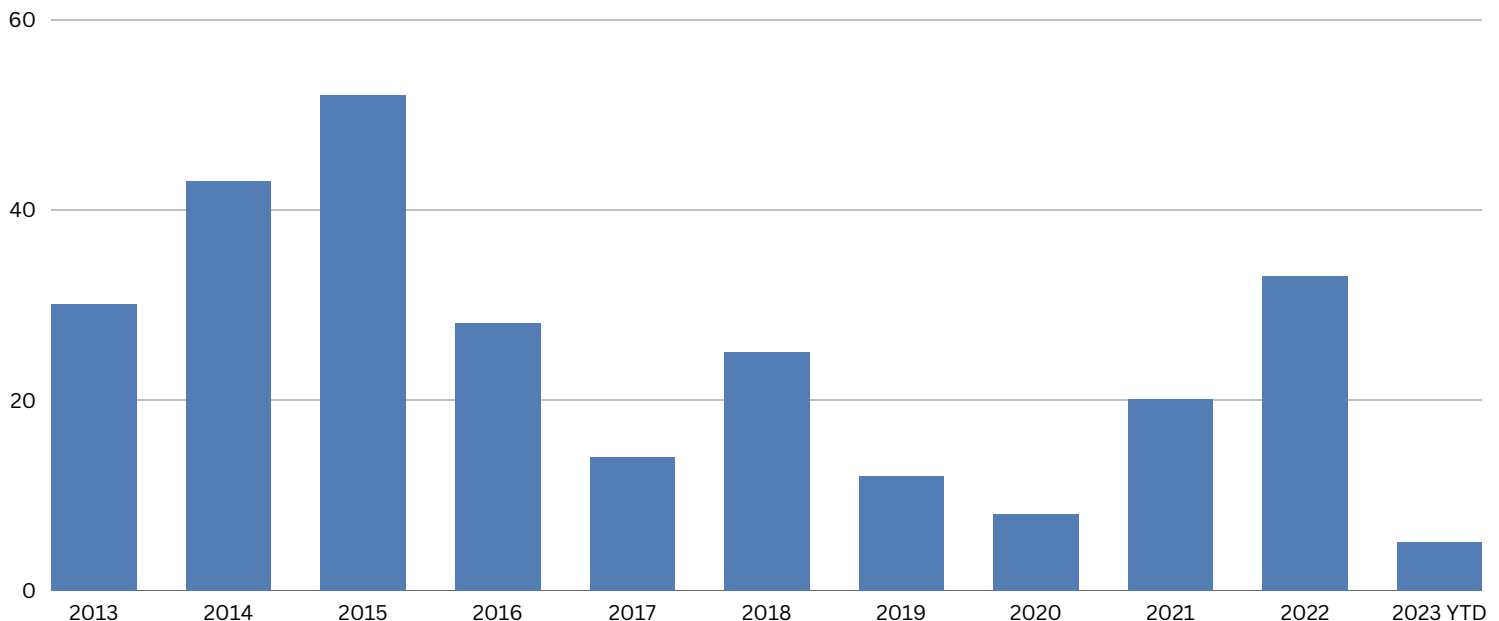
AUTO PARTS RETAIL

Manufacturing is increasing due to expected growth in the industry, especially with new types of vehicles being introduced by all brands. The biggest areas of interest we are seeing in electrical systems, transmission systems and interior and exterior cosmetic products. Due to the influx of new vehicles being brought to market, and the increasing demand for EVs, we are expecting an increased need for parts and accessories for these vehicles.

Innovation and disruption are creating demand for aftermarket parts both in discretionary and essential products. We expect to see growth in steering, suspension, brakes, wheels and tires while areas such as exhaust, fluids and oils continue their downward trend.

The transition of automobiles into computers is changing auto parts and accessories as well, Vehicles are integrating advanced software, computers and internet connectivity to prepare for a digitized world, and manufacturers are creating new products to complement these new advanced automobiles.

AUTO PARTS RETAIL TRANSACTIONS PER YEAR

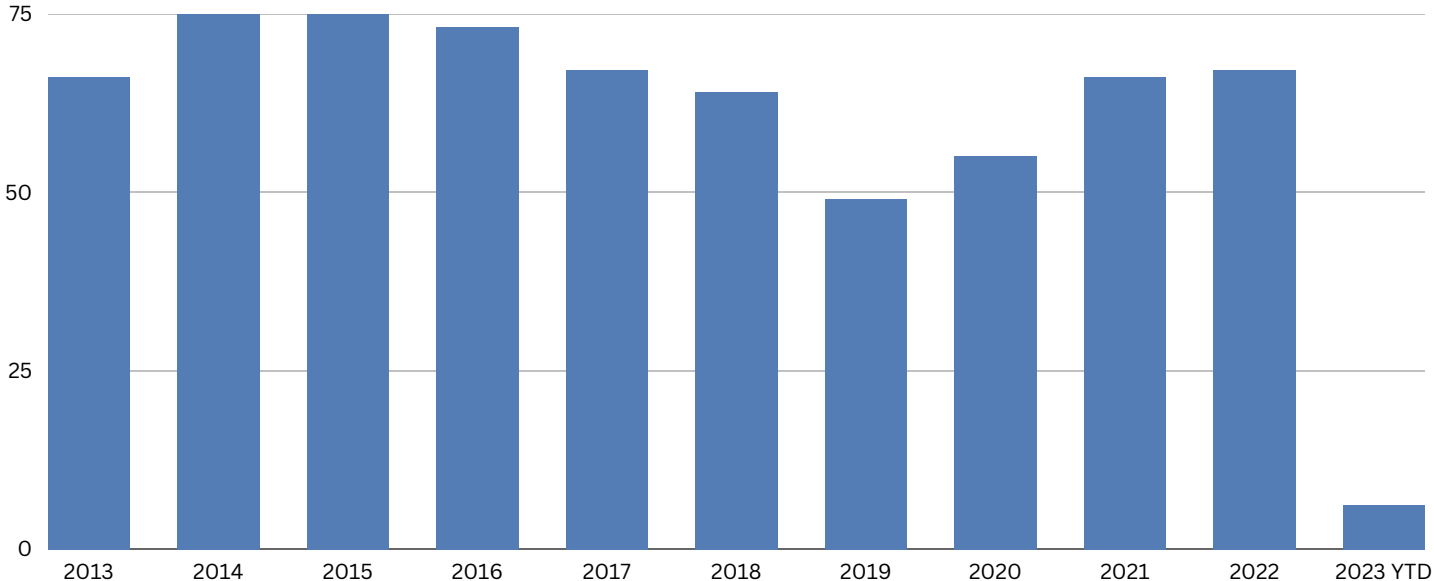


Source: CapitalIQ and FOCUS research

AUTO PARTS & EQUIPMENT

Distribution businesses within the collision repair ecosystem- including those focused on paint, parts, equipment, and beyond- continue to be sought-after by private equity and strategic buyers. These businesses are seeing high levels of interest in the marketplace and compelling multiples. Much like the California gold rush of the 1800s, there seems to be an attractiveness in selling shovels to the “gold miners” of collision repair.

AUTO PARTS & EQUIPMENT TRANSACTIONS PER YEAR



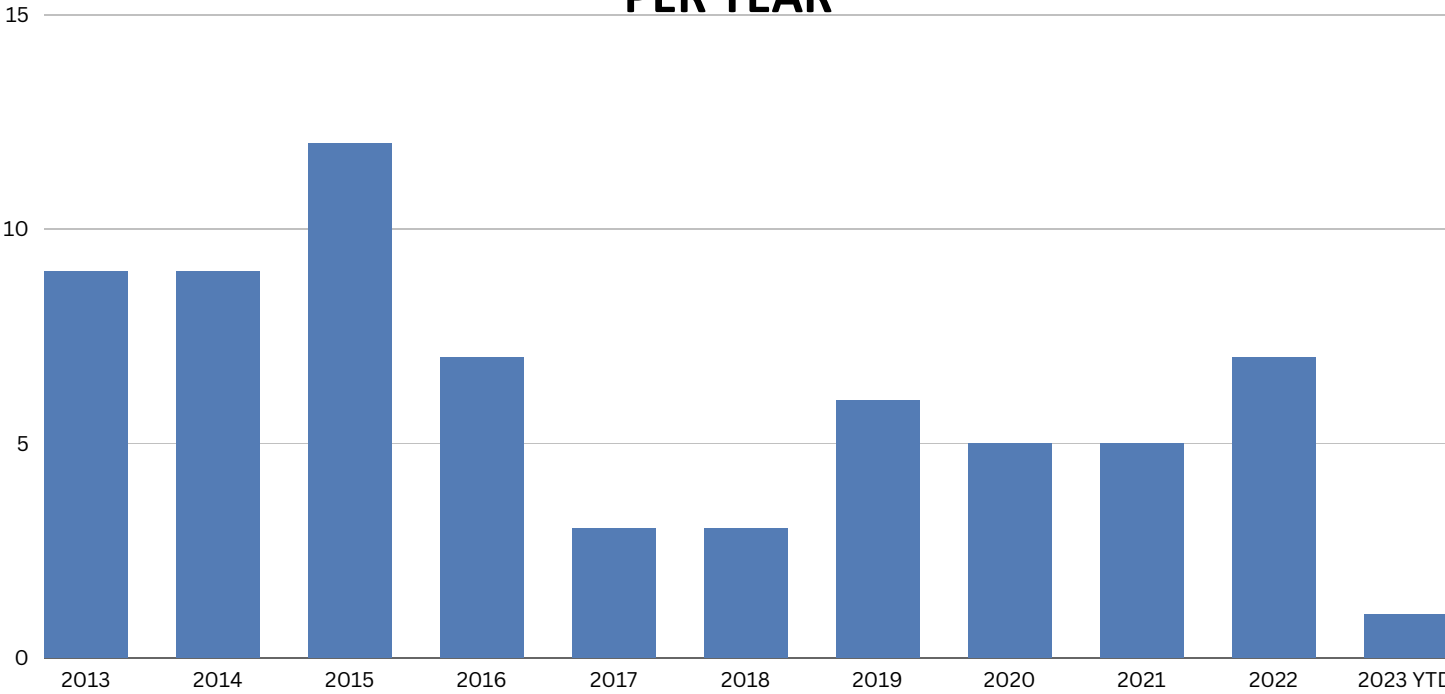
Source: CapitalIQ and FOCUS research

COLLISION

The Collision Repair Industry will continue to experience many of the challenges it faced last year including parts and material shortages, staffing shortages, increased vehicle complexity, greater consumer demand for digital interaction and continued consolidation

Miles driven are increasing toward pre pandemic levels and reported accidents along with it. This coupled with staffing shortages has many shops well beyond their capacity. In fact, according to surveys from CRASH Network, more than 85% of shops are scheduling new work two weeks or more into the future.

COLLISION TRANSACTIONS PER YEAR



Sources:

- 1. A Look Ahead: 2023 Collision Repair Industry Trends | CCC Intelligent Solutions (cccis.com)
- 2. Things to Watch for in the Collision Industry for 2023 - Greg Horn - PartsTrader

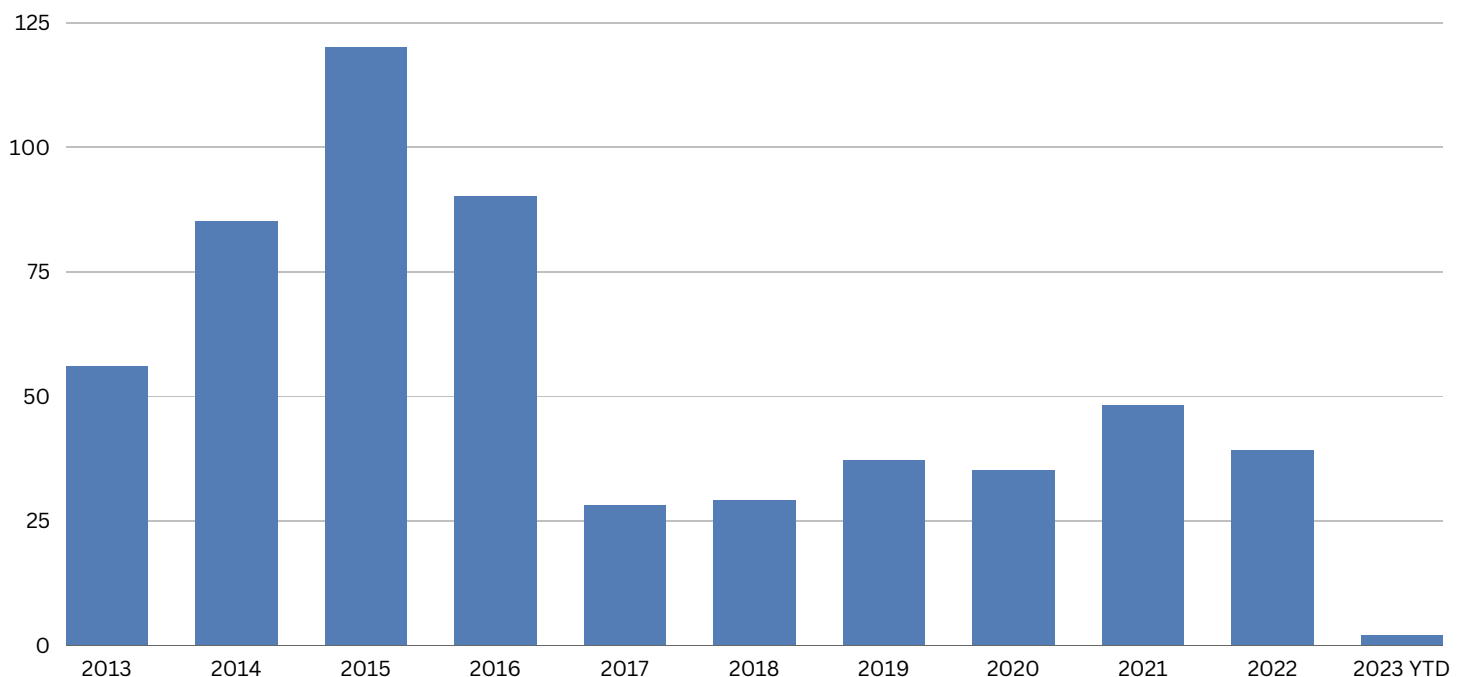
Source: CapitalIQ and FOCUS research

DEALERSHIPS

This year, the automotive industry is expected to continue recovering from some of the strong headwinds faced in 2022. In new car sales auto sales are forecasted to increase by 1 million units over 2022, to 14.8 million units, as supply chain issues begin subsiding.

In EVs, interest and demand for EVs will continue to strengthen forcing OEMs to broaden their product offerings while charging infrastructure lags. Regulatory changes introduced by the Inflation Reduction Act require some components and manufacturing to take place in the US to receive the maximum income tax credit. Although the details have not been finalized, many manufacturers are worrying about whether they will be able to accommodate the required changes quickly enough to give them a competitive advantage.

DEALERSHIP TRANSACTIONS PER YEAR



Source: CapitalIQ and FOCUS research

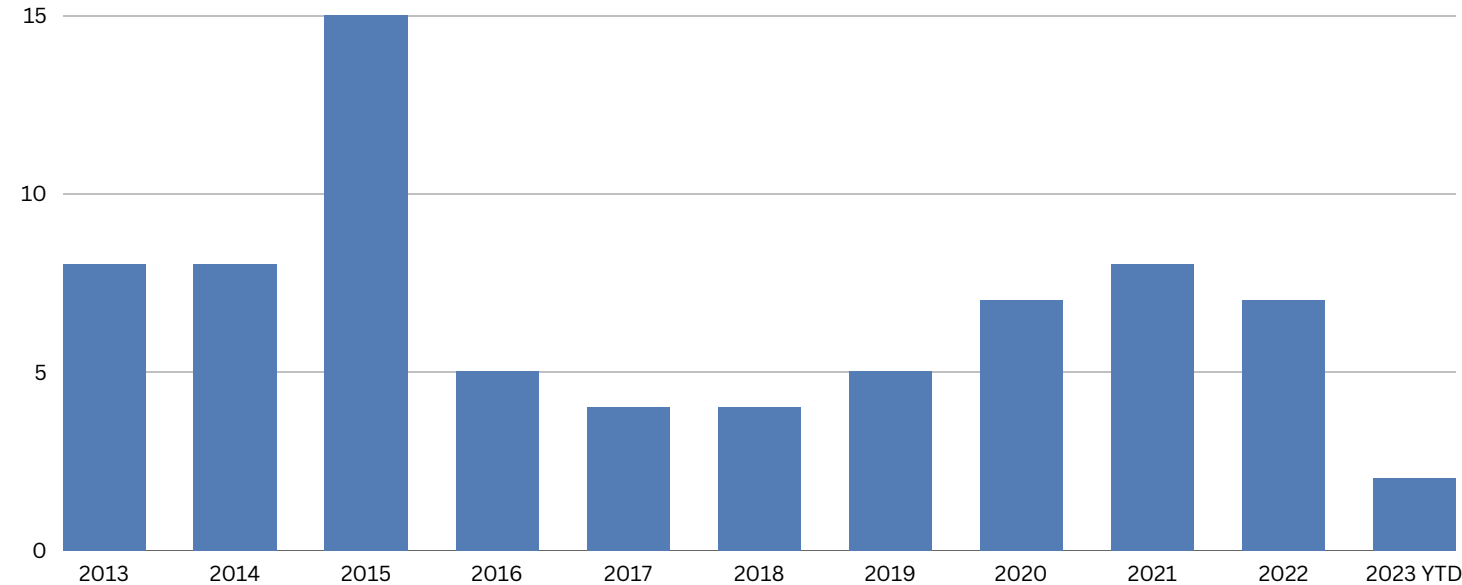
TIRE & SERVICE RETAIL

The tire & service retail business will keep growing over the next five years, albeit at a slow pace. Once we're through this period of economic uncertainty, as long as the Congress does not destroy the economy over the debt ceiling, rebounding consumer spending and increased annual miles driven will lift revenue. As the U.S. fleet increasingly leans into electric vehicles, tire replacement on these heavier vehicles will happen more frequently for replacement niche tires that are more expensive.

Growth on the horizon

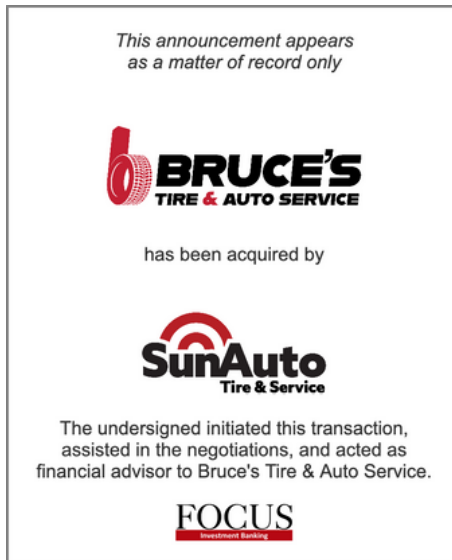
We foresee continued growth as the US fleet continues to age, the total population of vehicles grows past 300 million in use, and the annual miles driven ticks up again. All of these are drivers of repair and maintenance items like oil changes, tune-ups, A/C and manufacturer recommended maintenance. Nevertheless, tire dealers would be wise to start focusing on tires, wheels and undercar services while investing in new technologies to become expert at servicing the vehicles of the future.

TIRE & SERVICE TRANSACTIONS PER YEAR



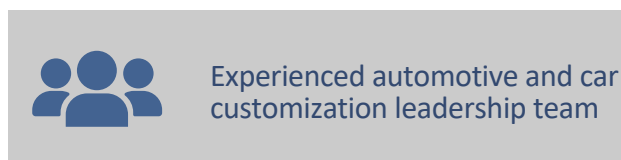
Source: CapitalIQ and FOCUS research

CASE STUDY



FOCUS assisted Bruce's Tire, a tire specialist and repair center, to find an investor which would be able to continue the growth trajectory the Company embarked upon prior to the sale. The challenge in this instance was that about half of Bruce's Tire revenue was derived from business fleets for landscapers, delivery companies, plumbing companies and the like. Many acquirers wrongly consider this to be 'commercial businesses and not 'retail'. By showing that profit margins were acceptable, customer retention was better and marketing costs were lower, FOCUS was able to convince Sun Auto that Bruce's Tire was the right platform to expand into the Northern California market. Acquisition opportunities are a huge part of Sun Auto's growth strategy. This acquisition expands Sun Auto to more than 350 locations. Bruce's Tire is a successful brand which will help strengthen its identity as a reliable company in automotive care.

Deal Key Figures



INDUSTRY INSIGHTS BY OUR BANKERS

It's a Mixed Outlook for Automotive Aftermarket M&A in 2023

Written by: **Giorgio Andonian**

Uncertainty breeds caution. This is an understatement when it comes to mergers and acquisitions in the automotive aftermarket for 2023. The outlook for M&A activity in the auto aftermarket industry for 2023 is cautious but promising. The wild card will be the US economy and whether or not we see a deep recession. Read more [here](#).



The internal combustion engine still has lots left in the tank

Written by: **Giorgio Andonian**



Internal combustion engines (ICEs) have been around for more than 100 years, and despite a surge of competition from electric vehicles (EVs), they are still highly relevant and will likely remain so for a long time to come. Read more [here](#).

How the Founders of GCR Hit on a Winning Formula

Written by: **Michael McGregor**

The “GCR” in GCR Tires & Service did not always stand for “genuine, complete and reliable.” GCR, which is owned by Bridgestone Americas Inc., was founded by three experienced tire industry operators who had all worked for the Firestone Tire & Rubber Co. in the 1960s. Read more [here](#).



Giorgio Andonian
Managing Director



Michael McGregor
Managing Director



Nancy Rolland
Managing Director

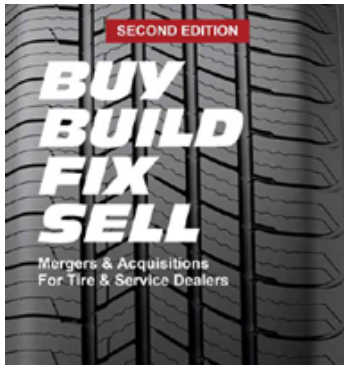


Cole Strandberg
Principal

INDUSTRY INSIGHTS BY OUR BANKERS

2nd Edition: Buy, Build, Fix, Sell

Written by: Michael McGregor



The new edition, written to help tire & service dealers build better businesses, explores a broader range of topics covering retail, wholesale and commercial businesses, how to operate smarter, turnaround tips and everything about buying and selling businesses. Purchase the book [here](#).

How to Operate a Successful Family Business

Written by: Nancy Rolland

Running a family business can be a unique and fulfilling experience – if you are reading this as a family business owner you are already know that! Successfully navigating the intricacies of working with family members while also ensuring the business is profitable and sustainable can be challenging but also rewarding. Read more [here](#).



The Collision Vision Podcast


Hosted by: Cole Strandberg




Watch host Cole Strandberg explain why The Collision Vision will be your new favorite podcast. Each episode will feature an industry thought leader, business owner or collision pro diving deep into their knowledge of what it takes to be successful. Podcasts will talk about trends, culture, growth and scalability, to give actionable insights into how to elevate your business. This podcast will enlighten, engage and entertain while covering the full scope of the current state of the industry---and where it is headed. Listen [here](#).

RECENT TRANSACTIONS


This announcement appears as a matter of record only.



has been acquired by



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Brothers Mail Order Industries.



This announcement appears as a matter of record only.



has been acquired by



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Syrena Collision Center Inc.



This announcement appears as a matter of record only.




has been acquired by




The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Capital Paint and Refinish, LLC.




This announcement appears as a matter of record only.




has been acquired by



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to T Sportline.



This announcement appears as a matter of record only.



have been acquired by



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to C&R Tire, S&S Tire & Auto, and Community Tire Pros & Auto Repair.




This announcement appears as a matter of record only.




has been acquired by




The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Guaranty RV Super Centers.




This announcement appears as a matter of record only.



MAHANSARIA TYRES PVT LTD has acquired



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Mahansaria Tyres Private Limited.



This announcement appears as a matter of record only.




has been acquired by




The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Performance Collision Centers.




This announcement appears as a matter of record only.



has been acquired by



The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Bruce's Tire & Auto Service.



IN THE MARKET

Spectacle

High volume, automotive glass business based in the southeast available for purchase. Strong management team in place with outstanding sales team and back-office support.

Collision

We have several clients interested in selling their shops on the East Coast, which include locations in Florida, Pennsylvania, Illinois, and Maryland.

Dealership

Current opportunities available for purchase include a domestic dealership in the Pacific Northwest and two (2) multi-location, high volume, used dealers in Texas and Florida.

Houndstooth

Project Houndstooth has become a cornerstone in the collision equipment distribution industry representing top brands with exclusive distribution rights in key territories. Project Houndstooth has long-standing relationships with all the top MSOs that operate in the Company's distribution geography.

Tarzan

Project Tarzan's mission is to build the highest quality wheels today's cars, trucks and off-road vehicles. The company distributes products through its intricate dealer network across the United States.

Smokey

Project Smokey is an exceptional investment opportunity in a tire wholesaler with the mindset of a SERVICE company dedicated to customer satisfaction and the delivery of added value services.

Wheeler

Project Wheeler is a highly profitable privately held wheel company with decades of experience and a leading provider of custom wheels for cars, trucks, trailers, golf cart and UTV/ATV's.

To learn more about the FOCUS Automotive Aftermarket team click [here](#).

OUR TEAM



Michael McGregor
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