

# 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

There were a lot of obstacles to deal flow in the 1st half of 2023 that we only now have clarity on now that the 2nd Quarter of 2023 is over. The economy was thought to be headed into a recession led by the Fed's efforts to tame inflation by steadily raising interest rates. And with the specter of a Congress and White House apparently at war over raising the debt ceiling, the odds of this recession happening sooner rather than later was real. A couple of bank failures notwithstanding, the economy stayed buoyant as consumers kept spending while inflation crept lower, and employers kept hiring at surprisingly strong levels.

Despite better-than-expected performance in the economy, interest rates remain high and financial buyers remain skittish. This will continue to hold down activity as we head into the third quarter of 2023. Corporate strategic buyers who have cash and understand from where they derive synergies will be the primary buyers in this market. In the lower end of the middle market where FOCUS operates, we expect to be transacting more with strategic buyers on smaller deals while only those platforms that are large and unique enough in the auto aftermarket will receive enough interest from private equity buyers to get a transaction completed before we head into the 2024 election year.

For potential sellers of businesses, all this points to having your act together if you decide to go to market now. With the higher cost of capital and less competitive activity than a few years back, it's not the kind of market where you can 'half-ass' it. Having a compelling story about your business and developing realistic projections based upon an achievable growth plan are required. Preparation will pay off. Winging it will have you spinning your wheels.



***We are attending SEMA 2023,  
October 30 - November 3!***

## MARKET INSIGHTS: GLOBAL AUTOMOTIVE DEAL VOLUME DECLINES, MACRO CHALLENGES CONTINUE

In the automotive aftermarket industry, deal volume has experienced a significant decline of 25% to approximately 350 deals for the year-to-date period in 2023. This downward trend is expected to persist in the second half of the year, as the industry grapples with ongoing macroeconomic challenges such as inflation, increased interest rates, and capital pressures. Similar to last year, dealmakers have demonstrated discipline in their capital allocation during the first half of 2023. The presence of inflation, high interest rates, and other macroeconomic factors has exerted additional pressure on dealmakers, necessitating strategic decision-making with little room for error.

In terms of quarterly performance, Q1 of 2023 mirrored the trends seen in Q4 of 2022, while Q2 of 2023 is showing signs of improvement, albeit at a slower pace compared to 2021. After a record-breaking year in 2021, M&A activity remained relatively high by historical standards during the first half of 2022. However, activity significantly decelerated during the latter half of the year, with larger deals experiencing a more pronounced decline compared to middle-market activity.

1. Stabilization of Deal Volume and Focus on Strong Assets
2. Embracing Technology for Long-Term Success
3. Positive Outlook for Sales Growth
4. Operating Cost Challenges

As the automotive aftermarket navigates through macroeconomic uncertainties, embracing technology and strategic decision-making will be essential for companies to thrive in this evolving market. Read more [here](#).

## AUTO PARTS RETAIL

In the ever-evolving automotive industry, the market for parts and accessories is constantly adapting to meet the changing demands of consumers. As we move further into 2023, it is crucial for businesses and investors to stay informed about the current outlook for mergers and acquisitions (M&A) in this sector.

### Stabilizing Revenue and Growth:

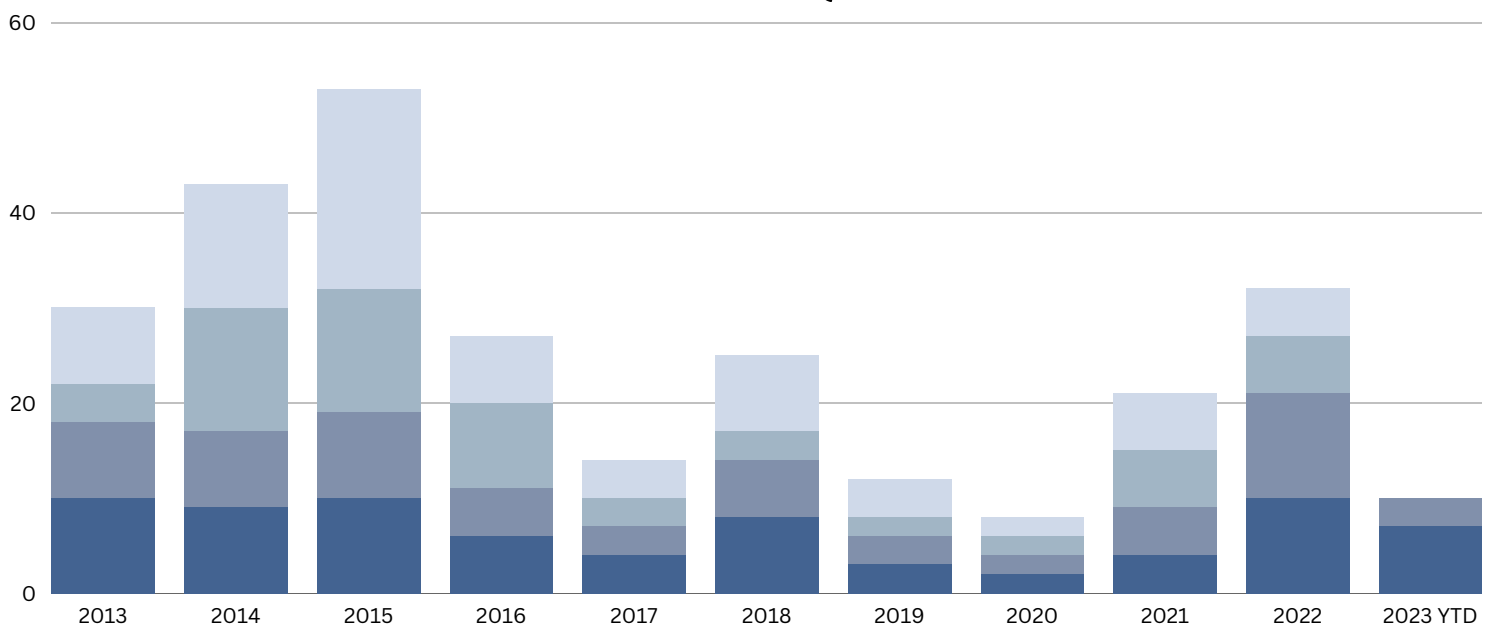
After a period of uncertainty and disruption caused by the COVID-19, with significant dips in revenue followed by massive growth, it appears that companies within the Parts & Accessories sector are gradually stabilizing their revenues and experiencing smoother growth trends. This growth is expected to build upon the baseline established in 2019, indicating a return to normalcy in the industry.

### Pivoting to Adjacent Categories:

One notable challenge faced by private equity platform companies is the struggle to find new assets for acquisition. **This scarcity of available targets has prompted many companies to consider a pivot towards adjacent categories that are rapidly gaining popularity.** These emerging categories present exciting opportunities for growth and expansion in the Parts & Accessories market.

Read more about adjacent categories [here](#).

## AUTO PARTS RETAIL TRANSACTIONS PER YEAR BY QUARTER

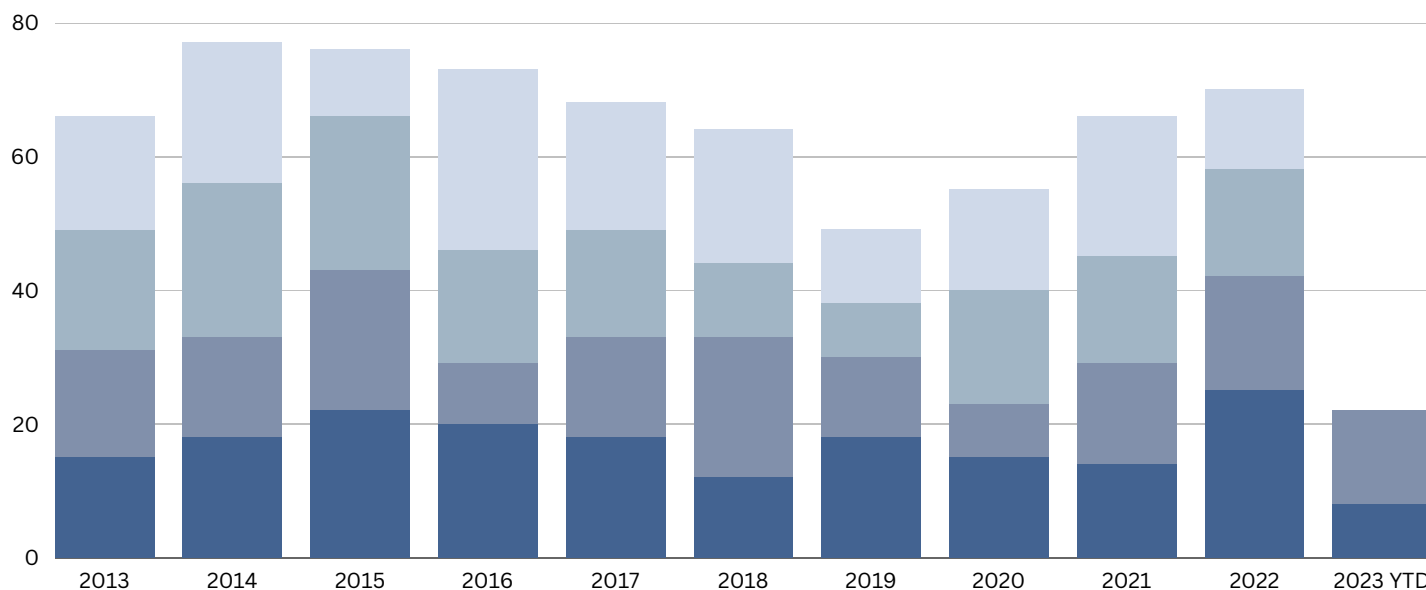


Source: CapitalIQ and FOCUS research

## AUTO PARTS & EQUIPMENT

Private equity interest in the automotive aftermarket, as well as in broader categories within it like distribution and manufacturing, remains robust. Additionally, certain strategic players, particularly within the paint and parts distribution spaces, continue to show acquisitive tendencies. While buyers are enticed by the recession-resilient nature of the collision repair industry, they approach potential deals cautiously due to prevalent challenges such as high working capital requirements, customer concentration, and vendor concentration, which give them pause when evaluating businesses entering the marketplace. The automotive equipment distribution sector is riding the wave of private equity's escalating interest in the automotive aftermarket, alongside the broader appeal of the distribution space. **With a keen eye on the market's resilience and steady demand for automotive equipment and tools, ever-increasing with constantly shifting OE demands on shops, private equity firms view this sector as a promising opportunity.** As a result, automotive equipment distributors find themselves at the center of competitive processes, attracting considerable attention from potential buyers eager to capitalize on the industry's growth prospects.

### AUTO PARTS & EQUIPMENT TRANSACTIONS PER YEAR BY QUARTER

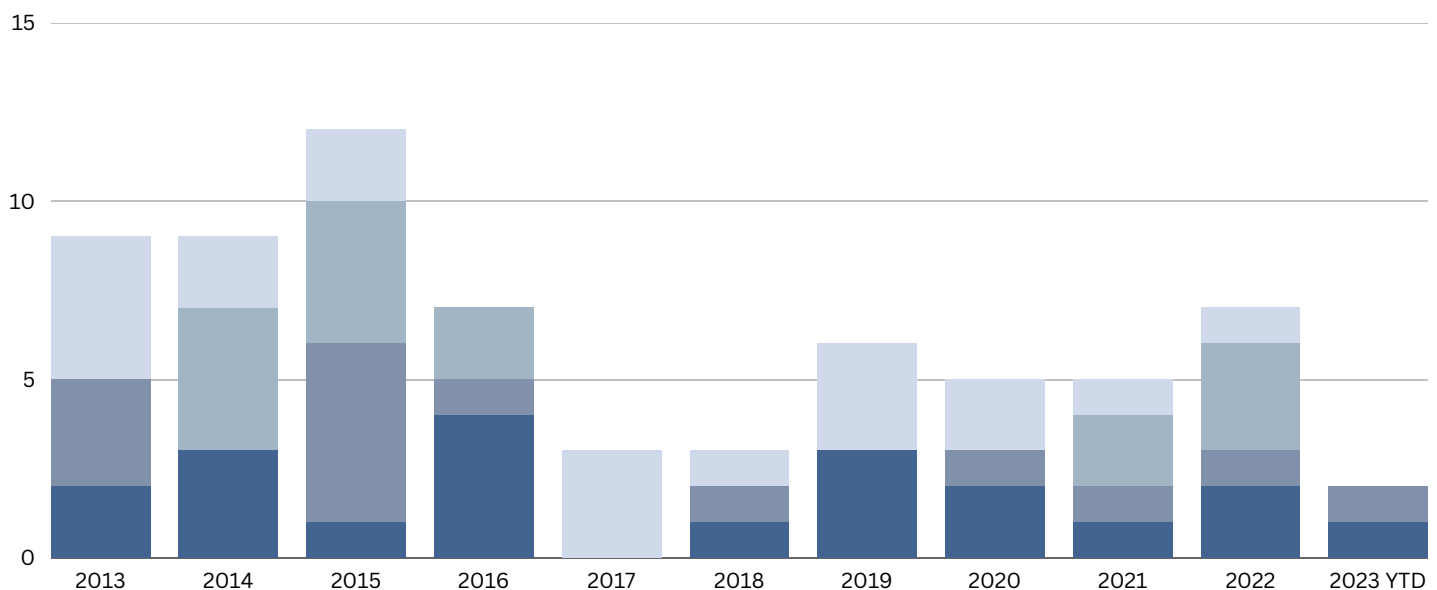


Source: CapitalIQ and FOCUS research

## COLLISION

In the collision repair industry, we are witnessing sustained interest from buyers, although there has been a slight decrease in transaction frequency in Q2. Platform-level collision investments continue to attract significant attention from both strategic players and private equity buyers. However, the scarcity lies in finding sellers willing to part with their businesses. Regional MSOs recognize the potential for further growth and understand the M&A landscape, which presents them with a clear pathway to higher valuations through additional acquisitions. Consequently, they are being selective in their decision to exit. On the other hand, for single shop owners, the market appears to be experiencing a softening trend. While exceptional shops in premium markets will always find compelling exit opportunities, the intense bidding wars for other businesses seem to be subsiding. Interestingly, valuations for single shops have not suffered, to this point, from the decreasingly competitive bidding process. **Expect the M&A market for collision repair centers at all levels to remain competitive due to the business' recession-resilient nature and continuous new entries into the marketplace.**

### COLLISION TRANSACTIONS PER YEAR BY QUARTER



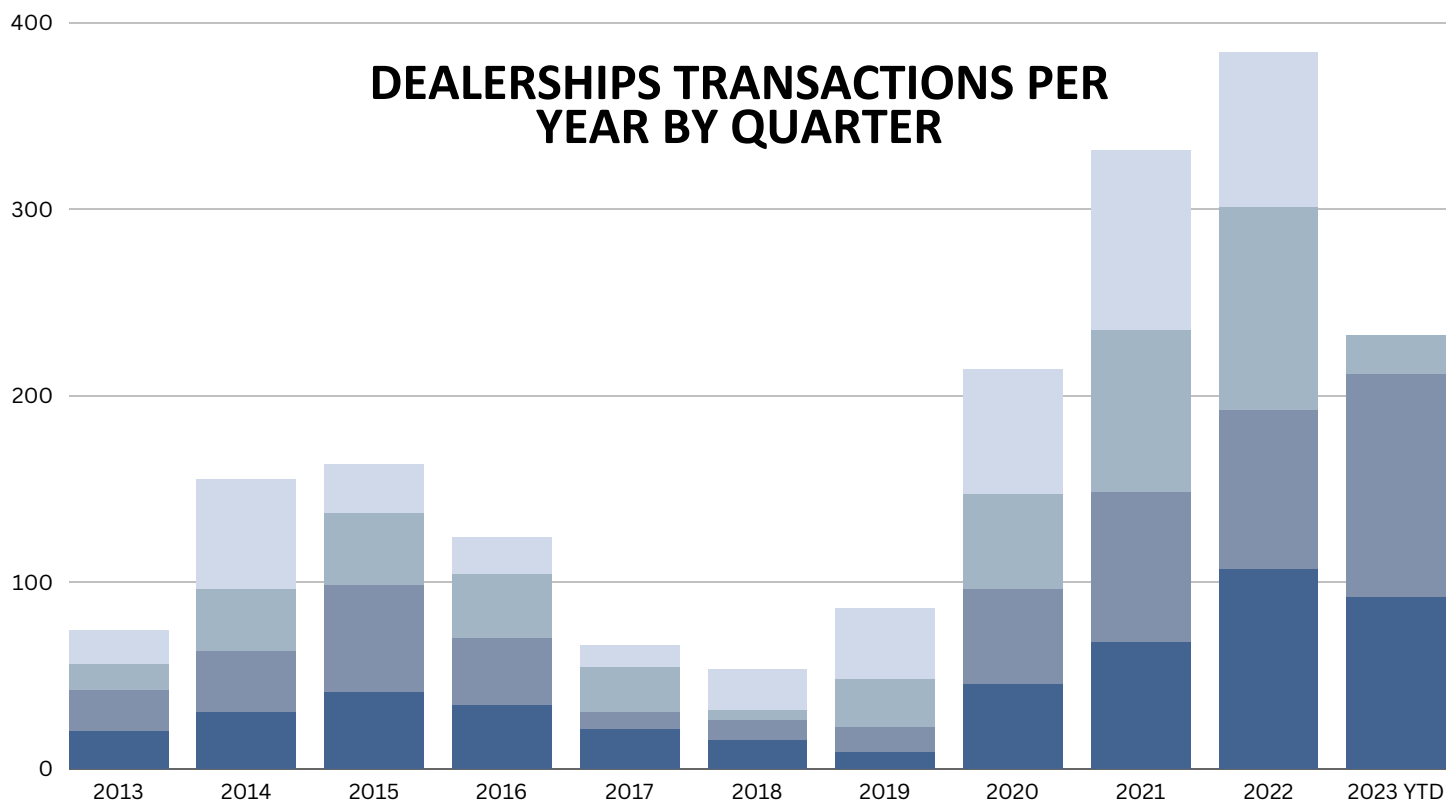
Source: CapitalIQ and FOCUS research

## DEALERSHIPS

Profits are beginning to slip, because of lower margins on new and used vehicles while expenses are rising. That said, although results for Q1 2023 were down compared to Q1 2022, most dealers remain significantly better off than Q1 of 2019.

M&A activity is slowing although large dealer groups and the public companies remain on the hunt for good opportunities. Profits remain high and there is plenty of cash and credit available, despite higher interest rates. Dealers remain extremely optimistic about the future of the industry and are willing to continue to grow and invest in their businesses.

**Average estimated Blue-Sky values remain fairly stable. Although profits have slipped during Q1, valuations have not been materially impacted.** We believe that buyers have already considered this possibility during their evaluation of the dealership and have predicted more stabilized earnings over the last several years and going forward.



Source: CapitalIQ and FOCUS research



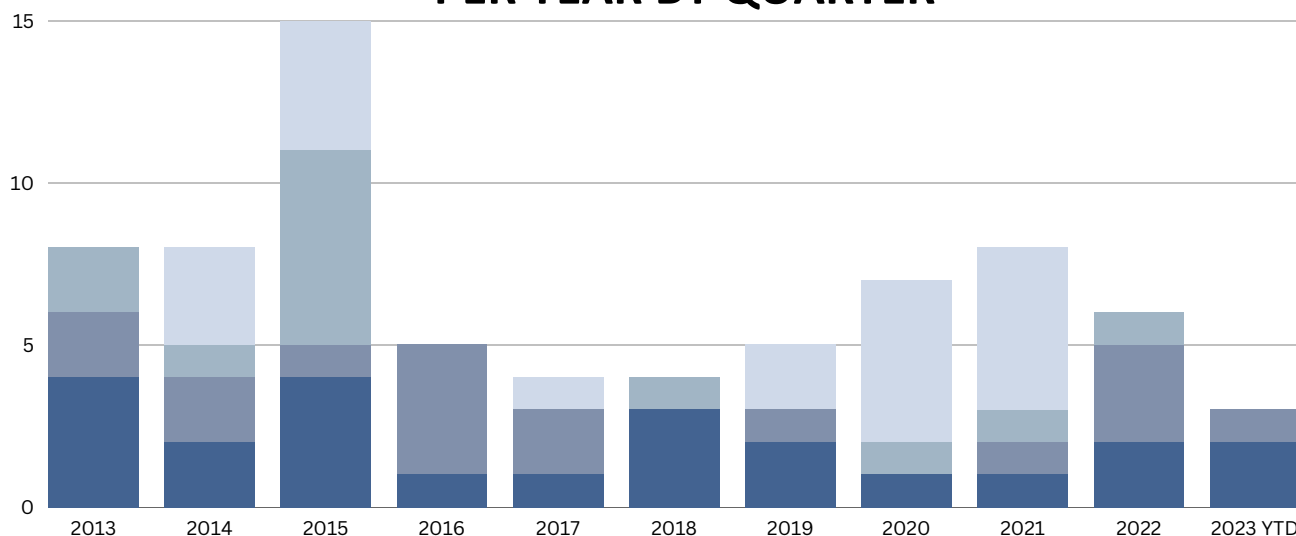
## TIRE & SERVICE RETAIL

The big news last quarter was Mavis' acquisition of all of the remaining NTB stores across the country as well as the Florida-based Tire Kingdom Stores from TBC Corporation. It was widely expected within the industry that TBC was looking to divest its remaining company owned outlets to focus on franchising (Midas, Big O Tires) and since Mavis was the last buyer of some NTB stores, it was assumed by all that they were the front runner. One must expect that Mavis has some absorbing and right-sizing to do now within their 2,000-store network before they make their next financial move.

While that was going on in retail, the wholesale tire market continued to see some activity primarily with Turbo Tires of California acquiring Tire Wholesalers Inc. a Michigan-based tire distributor. **We expect to see more activity out of Turbo Tire as they are backed by an acquisitive private equity group and many of their larger competitors are on the sidelines as they already have national footprints.**

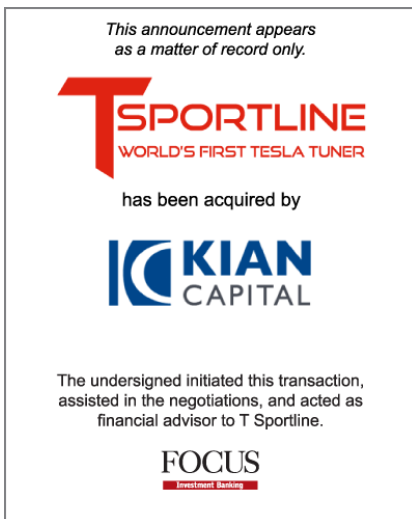
In the commercial tires segment, FOCUS closed a transaction on the last day of the 2nd Quarter by selling three highly complementary commercial tire businesses in California's Central Valley to Southern Tire Mart. The transaction was several years in the making and will position Southern Tire Mart to dominate California's I-5 commercial truck tire and farm tire corridor. All of the major tire companies are looking to consolidate their commercial tire dealer base so this remains an area of high interest within FOCUS' automotive aftermarket practice.

### TIRE & SERVICE RETAIL TRANSACTIONS PER YEAR BY QUARTER



Source: CapitalIQ and FOCUS research

## CASE STUDY: FOCUS & PRIVATE EQUITY GROUPS



FOCUS assisted T Sportline, an automotive parts online retailer for EV cars, to find an investor which would be able to continue the growth trajectory the Company embarked upon prior to the sale. A number of potential financial investors were looking for investments with revenues greater than \$15M, which was slightly higher than current T Sportline's revenues; this limited the number of LOI's received. However, FOCUS was able to identify the right partner who saw the potential of the Company and had experience with scaling e-commerce automotive products. A deal was brokered which satisfied all parties involved and provides T Sportline the platform for future growth and success.

***T Sportline is an emerging and recognizable leader in the rapidly growing EV market***

### COMPANY OVERVIEW

- T Sportline is a designer, marketer, and e-commerce retailer of premium branded aftermarket parts and accessories designed specifically for electric vehicles, with a focus on Tesla
- The Company provides a suite of Tesla-specific wheels and tires, customized exterior body parts, upgrade interior trim parts and accessories and offers customization services
- T Sportline was founded in 2013 and was a first-mover in the Tesla aftermarket. The Company has built a loyal and growing social media following
- The Company has created a sister website, EV Sportline, where it focuses on other leading EVs including Rivian
- Kian Capital acquired controlling interest from the two co-founders, Jon Pek and Elie Rothstein, each of whom rolled a significant minority interest and remain involved in daily operations
- T Sportline is actively seeking acquisitions in the EV space



## INDUSTRY INSIGHTS BY OUR BANKERS

### EVs: Opportunities Outweigh Challenges for Collision Repair Shops

Written by: Cole Strandberg

As the automotive industry continues to shift towards electric vehicles (EVs), collision repair businesses have a significant opportunity to stand out by investing in the training and equipment necessary to repair EVs properly. Read more [here](#).



### What's With All These C-Corps?

Written by: Michael McGregor



There really is no good reason for most small, privately held tire dealers to be organized as C-corporations anymore. The problem with this in M&A is that most buyers want to purchase a seller's assets so they can be marked up and depreciated or amortized, plus buyers don't want to unknowingly buy hidden liabilities they might incur when buying stock. Read more [here](#).

### Building Your Business Around Great Partners

Written by: Nancy Rolland

So, you've decided to take control of your future and start your own business. Many entrepreneurs I meet tell me that they kind of just fell into it, for the love of the work and/or the industry. Building your business requires having many good professional partners, like a Certified Public Accountant (CPA), local banker, attorney, and landlord. Read more [here](#).



**Giorgio Andonian**  
Managing Director



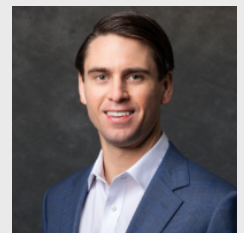
**Michael McGregor**  
Managing Director



**Nancy Rolland**  
Managing Director



**Cole Strandberg**  
Principal

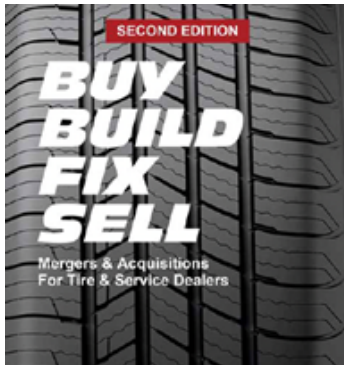


**Chandler Kohn**  
Principal

## 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](#).

**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](#).



**TBC's Strategic Shift: Embracing Franchising for Growth**

**Written by: Giorgio Andonian**



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](#).

## RECENT TRANSACTIONS & TESTIMONIALS

*This announcement appears  
as a matter of record only.*

**BROTHERS**  
Your #1 Source for 1947-1967 Chevy & GMC Truck Restoration

has been acquired by

**Holley**

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

FOCUS  
Investment Banking

### Jim Flanders, Co-Founder of BROTHERS

The team at FOCUS was so helpful and ready and willing to do whatever it took to get things done throughout this transaction. As my first, and possibly my last business sale, I appreciated the way they worked with me and my team at BROTHERS to make sure we were informed and involved with all aspects of the process.

*This announcement appears  
as a matter of record only.*

**GUARANTY**  
RV SUPER CENTERS

has been acquired by

**BISH'S**  
WHERE MEMORIES BEGIN  
RV

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

FOCUS  
Investment Banking

### Shannon Nill, Owner, Guaranty RV

We really appreciate the FOCUS team for assisting us with finding an excellent partner to carry on the Nill family legacy. They repeatedly demonstrated sound guidance and were great partners for the family.

*This announcement appears  
as a matter of record only.*

**PERFORMANCE**  
COLLISION CENTERS

has been acquired by

**CC CLASSIC COLLISION**

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

FOCUS  
Investment Banking

### Lance LeHew, Founder, Performance Collision Centers

I chose the team at FOCUS due to their unmatched experience in leading successful collision repair transactions, deep industry knowledge, and strong relationships with potential acquirers

## RECENT TRANSACTIONS & TESTIMONIALS

*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.




### Rob Slagle, General Manager of S&S Tire

The FOCUS Investment Banking team was able to combine what seemed to be three very complicated deals into one rather simple transaction. Despite being close friends with the other two business owners, I'm not sure we could have pulled this off without the expertise of the FOCUS Team.


*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.



### Richard Howard, Owner, Bruce's Tire & Service

We've known the team at FOCUS for some time, as they have represented some of our best friends in the tire business with their exits. It was an easy decision to hire them when we made the decision to sell.

*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 Syrena Collision Center Inc.




*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 Advanced Collision, LLC.



## OUR TEAM



**Michael McGregor**  
Managing Director



**Nancy Rolland**  
Managing Director



**Giorgio Andonian**  
Managing Director



**Cole Strandberg**  
Principal



**Mike Levasseur**  
Senior Advisor



**Rick Thomas**  
CEO



**Chandler Kohn**  
Principal



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