



## Big Trends in Big Tires Attract Sterling Buyouts Newsletter

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Emerging economies overseas needing big tires for their farming and building equipment is the trend, and it's pulling supply away from North America and Europe, where there's also a big demand.

Sterling Investment Partners wants to be the one to fill the void.

Sterling broke new ground recently, making its first minority investment in its more than a dozen-year history, with the \$40 million check it wrote to GPX International Tire Corp. The equity came out of both Sterling Investment Partners I and II. GPX makes specialty tires for construction, agricultural vehicles and other off-road applications.

Boston-based GPX is a recently formed company—a combination of Dynamic Tire Corp. of Toronto and Galaxy Tire & Wheel—which combined to create a profitable \$300-million-in-sales company.

Galaxy had been looking for a financial partner in the merger and talked it over with Sterling. "They weren't looking to sell a majority interest in the company," said Douglas Newhouse, the Sterling managing partner on the deal. A majority stake "just wasn't available." Management retained the vast majority of their stock, but the stake Sterling has is substantial, said Newhouse.

"Normally we are focused on majority ownership positions, but our investment is through convertible preferred stock which gives protection to our equity ownership," said Newhouse. "We have meaningful representation on the company's board of directors and we are extremely comfortable with the alignment of interests we have with the management team."

Newhouse explained, "What's hard in minority investment and why people don't want to do it is because that alignment of interests does not take place."

Newhouse said one of the reasons he liked the deal was the sourcing—there was no auction and Sterling had known management of family-owned Galaxy for 15 years.

"The company is moving from its family ownership structure to an institutionally financed organization. In that context we envision there will be follow-on equity financings," said Newhouse.

Sterling is looking at a series of smaller companies for growth opportunities. GPX's growth from a manufacturing standpoint will be in Asia, where it has most of its manufacturing facilities already. GPX also has manufacturing operations in Serbia.

This marks the fifth deal where Sterling has invested in a U.S.-based company with assets in Asia going back to 1993. Newhouse said a major part of the attraction to GPX was the fact that it has already moved its manufacturing overseas, where there are cheaper cost structures. Other companies it has bought with Asian assets have made electronics components and plastic injection molding.

Newhouse said that supply lags demand in the big tire industry because on-road tire makers don't consider their off-road businesses core and so have to some extent neglected them. Meanwhile, emerging market economies building their infrastructure are sucking the supply of these tires away, leaving less for North America and western Europe, where demand remains strong, said Newhouse