

No smoke or mirrors

How did we get to where we are today? The 2009 Facts Section tells you who, what, when, where and why. And it's not all doom and gloom

Never have the final dollar numbers been so misleading. Seven of the top 11 tire manufacturers were up in global tire sales in 2008, Bridgestone Corp. by more than 7% and Continental AG by 6.8%.

In the United States, consumer tire sales, again in dollars, were up 3.5%, while commercial tire sales held their own (see Chart 1). What recession?

But tire unit sales were down across the board, both globally and domestically, as demand dropped sharply in the second half. Three major factors help explain the seeming contradictions:

- strength of the dollar,
- price increases, and
- product mix.

The exchange rate, representing a weak U.S. dollar, skewed tire sales for the better. Japanese companies were particularly affected because the yen dropped 19.2% in relation to the dollar over the course of the year.

European and Korean companies also were helped by the exchange rate, but not to the same extent, because the euro and the Korean won grew comparatively stronger in the last 12 months.

Tire manufacturers raised prices in three

| | |
|--------------------|----------------|
| Passenger tires: | \$19.4 billion |
| Light truck tires: | \$4.3 billion |
| Truck tires: | \$5.4 billion |
| Farm tires: | \$590 million |
| OTR tires: | \$570 million |

waves in 2008. The business environment didn't allow all the increases to stick, but the ones that did helped defray the cost of rising raw material prices. At the retail level, the result was an average tire price increase of 9%.

Domestic manufacturers have put more emphasis on their ultra-high performance, touring and winter tire offerings the last few years. By focusing on the production of higher-value tires, and leaving low-cost radial production to overseas manufacturers, tire companies not only increase sales, but also improve profitability.

The value of product mix cannot be overstated. Following the introduction of "a richer product mix" and price increases in 2007, Goodyear Tire & Rubber Co. claimed its revenue per tire grew 8%.

In summary, all is not as it appears, at least without the proper analysis. That is the goal of our 43rd annual *Facts Issue*: to give you the numbers, and the facts behind them. No smoke, no mirrors, just the truth. — Bob Ulrich

All figures in the 14-page Facts Section are Modern Tire Dealer figures unless otherwise noted.



DOMESTIC TIRE SHIPMENTS

Participants in the U.S. tire industry were looking forward to a big year in 2008. Shipments were projected to be up in all tire categories.

That was especially good news for the original equipment suppliers, who were coming off a down year. Continued growth in the replacement consumer market seemed a given.

None of it happened. Through the first nine months of the year, shipments were down in all areas. And then the bottom fell out.

Name any category, and it suffered a double-digit percentage decrease in the last three months when compared to the fourth quarter of 2007. The result was a trying year for manufacturers and dealers alike. Here are the numbers, based on Chart 2:

| | <i>Replacement</i> | <i>OE</i> |
|--------------|--------------------|------------|
| Passenger: | down 3.4% | down 14.1% |
| Light truck: | down 13.1% | down 30.6% |
| Truck: | down 7.1% | down 14.0% |

Overall, replacement consumer (passenger and light truck) tire shipments decreased nearly 5%, from 240.7 million units to 229 million. Demand was down, in part because gasoline prices were high and people weren't driving as much.

The price of gas averaged \$3.50 a gallon over the course of the year, often passing the \$4 mark. Prices were highest in Chicago, San Francisco and Los Angeles. The rise in gas prices coincided with the rise in the cost of oil; in July, oil was selling for \$147 a barrel.

By the end of the year, however, oil was selling for close to \$40 a barrel, and the average gas price hovered around \$3 a gallon — about the same price at which it started the year.

Diesel gas prices followed a similar path, although according to Wright Express Corp. (www.wrightexpress.com), diesel prices averaged about 16% higher than gas prices nationwide.

Vehicle miles finished the year down from the previous year for the second year in a row. In 2007, Americans drove nearly 3 trillion miles, down 10 billion from 2006.

Through the first 10 months of 2008 compared to the same period in 2007, miles traveled were down every month, 89.2 billion miles in total. Prior to 2007, miles traveled had gone up every year since 1980.

Even consumer tire import growth slowed. After increasing at an 11.5% rate the last two years, domestic passenger tire imports increased only 4.7%, to an estimated 116 million units, in 2008. It was enough, however, to represent nearly half (48.5%) of the total replacement and OE passenger units shipped in the U.S. (In 2007, imports represented 46% of the total.)

Radial and bias light truck tire imports were down about 14.5%, to 20.5 million units. Medium and heavy truck tire imports were down 13.5%, to 9.5 million units.

The dramatic increase in Chinese tire imports over the years continued (see Chart 3). That was particularly evident on the consumer tire side, where Chinese imports represented almost 34% of the total passenger tire imports, and 38.5% of the light truck tire imports. Truck tire imports from China, although they represented 36.8% of the total truck tire imports, were down 16%.

Chinese imports as a percent of U.S. tire shipments

| | <i>2008</i> | <i>2007</i> | <i>2006</i> |
|--------------|-------------|-------------|-------------|
| Passenger: | 16.3% | 13.0% | 8.5% |
| Light truck: | 23.0% | 18.6% | 14.6% |
| Truck: | 18.6% | 20.2% | 20.0% |

Excluding China, passenger tire imports were down less than 1%, while light truck tire shipments were down 23% overall — despite a 20% increase in LT bias tire imports to more than 1 million units.

Consumer tire imports from South Korea were flat, although passenger tire shipments

Chart 2
UNITS SHIPPED
(in millions)

| PASSENGER TIRE | | |
|-------------------------|-------------|------|
| Year | Replacement | OE |
| 2008 | 198.0 | 41.2 |
| 2007 | 205.0 | 48.0 |
| 2006 | 199.1 | 49.0 |
| 2005 | 205.8 | 53.0 |
| 2004 | 199.4 | 53.0 |
| LIGHT TRUCK TIRE | | |
| 2008 | 31.0 | 3.4 |
| 2007 | 35.7 | 4.9 |
| 2006 | 35.0 | 5.2 |
| 2005 | 36.6 | 7.0 |
| 2004 | 36.5 | 7.9 |
| MEDIUM/HEAVY TRUCK TIRE | | |
| 2008 | 15.5 | 4.3 |
| 2007 | 16.7 | 5.0 |
| 2006 | 17.6 | 7.1 |
| 2005 | 17.8 | 6.6 |
| 2004 | 16.5 | 5.8 |

Chart 3
U.S. CONSUMER TIRE
IMPORTS FROM CHINA
(in millions)

| Year | Units | Yr./yr. change |
|------|-------|----------------|
| 2008 | 46.9 | 15.8% |
| 2007 | 40.5 | 50% |
| 2006 | 27.0 | 28% |
| 2005 | 21.0 | 44% |
| 2004 | 14.6 | 36% |

Chart 4
2008 U.S. REPLACEMENT CONSUMER TIRE BRAND SHARES

| PASSENGER TIRE (Based on 198 million units) | | LIGHT TRUCK TIRE (Based on 31 million units) | |
|--|------------|---|------------|
| Brand | % of total | Brand | % of total |
| Goodyear | 14.5% | Goodyear | 12.0% |
| Michelin | 8.0% | BFGoodrich | 9.0% |
| Bridgestone | 7.5% | Bridgestone | 8.0% |
| Firestone | 7.5% | Michelin | 7.0% |
| BFGoodrich | 5.0% | Cooper | 6.0% |
| Cooper | 4.5% | Firestone | 6.0% |
| Hankook | 4.0% | Multi-Mile | 5.0% |
| General | 3.5% | Toyo | 4.0% |
| Uniroyal | 3.5% | General | 3.5% |
| Kumho | 3.0% | Uniroyal | 3.0% |
| Toyo | 2.5% | Yokohama | 3.0% |
| Yokohama | 2.5% | Cordovan | 2.5% |
| Continental | 2.0% | Hankook | 2.5% |
| Dayton | 2.0% | Kelly | 2.5% |
| Dunlop | 2.0% | Kumho | 2.5% |
| Falken | 2.0% | Mastercraft | 2.0% |
| Hercules | 2.0% | Continental | 1.5% |
| Multi-Mile | 2.0% | Dayton | 1.5% |
| Sigma | 2.0% | Hercules | 1.5% |
| Cordovan | 1.5% | Pirelli | 1.5% |
| Mastercraft | 1.5% | Big O | 1.0% |
| Big O | 1.0% | Delta | 1.0% |
| Delta | 1.0% | Dunlop | 1.0% |
| Douglas | 1.0% | Laramie | 1.0% |
| Fuzion | 1.0% | Sears | 1.0% |
| Kelly | 1.0% | Sigma | 1.0% |
| Nitto | 1.0% | Others | 11.0% |
| Pirelli | 1.0% | * Because numbers are rounded to the nearest one-half percent, the total may not equal 100%. Brands must have at least 1% of the market in shipment numbers to be listed at 1%. | |
| Sears | 1.0% | | |
| Sumitomo | 1.0% | | |
| Others | 11.0% | | |

RMA membership

The Rubber Manufacturers Association membership roster includes 11 tire manufacturers among its 88 members. They are: Bridgestone Americas Inc., Continental Tire North America Inc., Cooper Tire & Rubber Co., Falken Tire Corp., Goodyear Tire & Rubber Co., Hankook Tire America Corp., Kumho Tire U.S.A. Inc., Michelin North America Inc., Pirelli Tire North America, Toyo Tire (U.S.A.) Corp. and Yokohama Tire Corp. Hercules Tire & Rubber Co. also is a member.

were up 2.6%, Consumer imports from Japan and Canada were down 7.7% and 13.4%, respectively. Tire imports from Thailand, however, were way up, especially in the passenger segment (75.9%).

Winter tires: up 23%

A record 5.3 million winter tires were shipped in the U.S. in 2008, as the year was bookended by harsh winters. The 23% increase in shipments over 2007 was the high point for any domestic segment. Groupe Michelin estimates that world-wide, winter tire sales will increase through 2012, especially in Europe, but also in the U.S. and Canada.

The replacement passenger tire segment hit the hardest was the all-season market. In 2007, some 151.6 million all-season tires were shipped in the U.S.; in 2008, the number dropped to 145 million, a decrease of 4.2%.

Combined, the high performance (down 7.6%) and ultra-high performance (up 3.6%) tire markets were down 3.2%, a little less than the replacement market in general.

Replacement passenger tire market breakdown

(in millions of units)

| Segment | 2008 | 2007 | % change |
|-------------------|-------|-------|-----------|
| All-season: | 145.2 | 151.6 | down 4.2% |
| High performance: | 27.7 | 30.0 | down 7.6% |
| UHP: | 19.8 | 19.1 | up 3.6% |
| Winter: | 5.3 | 4.3 | up 23.2% |
| Total: | 198 | 205 | down 3.4% |

Broad-line and touring tires are included in the all-season segment.

RMA predictions for 2008

Based on projections by the Rubber Manufacturers Association (RMA), replacement passenger, light truck and truck tire shipments in the U.S. were down by nearly 4.8% in 2008 compared to the previous year. The drop in OE shipments was much steeper: 17.3%. Overall, domestic tire shipments were down 7%.

The slowing economy, high energy costs and a decline in miles driven were cited as reasons for the estimated 12.4 million unit decrease in replacement shipments. Passenger tire shipments were down 2.9%, to 198 million units, while LT tire shipments decreased 15.2%, to 29 million units.

Medium and heavy truck tire shipments, which include wide-base tires, were down an estimated 6.6% to 15.4 million units.

The real bloodbath occurred at the OE level. The RMA's Tire Market Analysis Committee estimated decreases in passenger (15.6%), LT (34.1%) and truck (17.4%) tire shipments.

BRAND SHARE IN THE U.S.

There were more than 150 different consumer tire brands sold in the aftermarket last year. Supply wasn't a problem; a lack of demand by car, light truck and SUV owners and vehicle manufacturers was. The imbalance forced a number of domestic companies to reduce their tire production (see "Plant capacities," pages 38-39).

Replacement consumer market share

While the overall market was down, Chinese imports to the U.S. increased. That was reflected in the 2008 consumer tire market share numbers (see Chart 4).

Most of the flagship brands held their own because they don't compete against low-cost radials. Associate and private brands lost market share, but some companies

with production bases in China still benefited.

The following American manufacturers and marketers have passenger and/or light truck tire plants in China: American Kenda Rubber Ind. Co. Ltd., Bridgestone Americas Inc., Cooper Tire & Rubber Co., GITI Tire (USA) Ltd., Goodyear Tire & Rubber Co., Hankook Tire America Corp., Kumho Tire U.S.A. Inc., Maxxis International-U.S.A., Nexen Tire America Inc., Pirelli & Cie SpA, Sumitomo Corp. of America, Tireco Inc., Toyo Tire (U.S.A.) Corp. and Yokohama Tire Corp.

Michelin North America Inc. also has consumer tire capacity in China. However, its production is targeted for the Chinese marketplace.

In 2008, major brands raised their domestic brand share at the expense of both associate and private brands (see Chart 5):

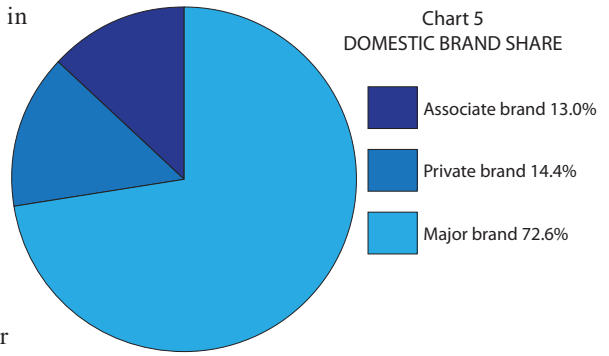
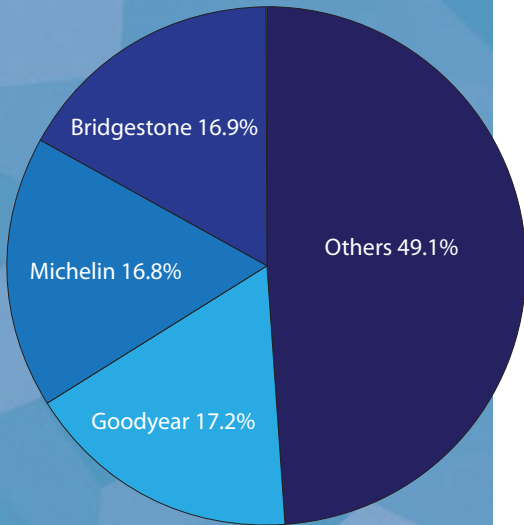


Chart 6
2008 U.S. CONSUMER TIRE MARKET SHARE



| Brand category | 2008 | 2007 | 2006 |
|------------------|-------|-------|-------|
| Major brand: | 72.6% | 71.6% | 73.0% |
| Private brand: | 14.4% | 14.8% | 17.0% |
| Associate brand: | 13.0% | 13.6% | 10.0% |

TBC Corp. and Treadways Corp., although run as separate units, are owned by Sumitomo Corp. of America, the largest wholly-owned subsidiary of Sumitomo Corp. Together, they account for 9% of the private brands marketed in the U.S., TBC (7%) with its Multi-Mile, Cordovan, Sigma and Big O brands, and Treadways (2%) with its Laramie, Eldorado, Jetzon and Telstar brands.

Hercules Tire & Rubber Co. holds 2.5% of the private brand market with its Hercules, Merit and Signet lines. Del-Nat Tire Corp. accounts for 1.5% of the replacement market with its Delta, National and Akuret brands.

OE market share

The automotive industry in North America is in disarray, which has had a negative effect on both its original equipment and aftermarket suppliers.

Although light vehicle manufacturing has been decreasing steadily for the last three years, production dropped only 4.3% from 2005 to 2007, according to CSM Worldwide's "Automotive Production Barometer" (www.csmauto.com). In 2008, however, it dropped an additional 15.2%, to 12.8 million units. The U.S. and Canada represent close to 83% of the total, or nearly 10.7 million units.

Here are MTD's 2008 market share estimates by vehicle make in the U.S. and Canada (with 2007 share in parentheses):

| | |
|-------------------------------|----------------------|
| General Motors: 27.2% (28.8%) | Honda: 12.8% (10.6%) |
| Ford: 18.1% (19.1%) | Nissan: 5.3% (5.3%) |
| Chrysler: 15.2% (16.6%) | Hyundai: 2.3% (1.9%) |
| Toyota: 13.4% (12.5%) | Others: 5.7% (5.2%) |

"Others" includes BMW (1.6%), Mercedes-Benz (1.5%), Mazda, Subaru, Mitsubishi and Suzuki.

Light vehicle sales in the U.S. and Canada also declined dramatically in 2008. Data published by the National Automobile Dealers Association (NADA) indicates unit sales in the U.S. have been trending downward, from 16.9 million in 2005 to 16.5 million in 2006 and 16.1 million in 2007. Last year, the number of units sold bottomed out at close to 14 million.

CSM Worldwide says light vehicle sales in North America will begin to recover in

Chart 7
U.S./CANADIAN OE CONSUMER
TIRE MARKET SHARE
(excluding imported vehicles)

| Brand | 2008 | 2007 |
|-------------|-------|-------|
| Goodyear | 31.2% | 31.6% |
| Michelin | 19.0% | 17.0% |
| Bridgestone | 15.3% | 16.9% |
| Continental | 10.0% | 12.6% |
| Firestone | 6.7% | 3.1% |
| BFGoodrich | 5.9% | 5.9% |
| Hankook | 3.3% | 3.6% |
| General | 3.2% | 4.3% |
| Pirelli | 2.7% | 2.4% |
| Dunlop | 1.2% | 1.2% |
| Other* | 1.5% | 1.4% |

* "Other" includes Kumho (Chrysler, Hyundai), Toyo (Toyota), Uniroyal (GM) and Yokohama (Chrysler, Mitsubishi).

Chart 8
2008 OE BRAND SHARES: GM
 (U.S./Canada light vehicles,
 excluding imports)

| Brand | 2008 | 2007 |
|-------------|------|------|
| Goodyear | 38% | 40% |
| Bridgestone | 18% | 26% |
| Firestone | 13% | 4% |
| Continental | 8% | 10% |
| General | 6% | 7% |
| Michelin | 6% | 3% |
| Hankook | 5% | 4% |
| BFGoodrich | 3% | 3% |
| Pirelli | 2% | 1% |
| Uniroyal | 1% | 2% |

Chart 9
2008 BRANDS LISTED BY OUTLETS
 (Total outlets: 4,759)

| Rank by dealers | Dealers/ outlets |
|-----------------|---------------------|
| 1. Michelin | 74/3,665 |
| 2. Goodyear | 71/3,525 |
| 3. BFGoodrich | 61/3,210 |
| 4. Dunlop | 52/2,969 |
| 5. Bridgestone | 46/2,344 |
| 6. Firestone | 44/1,667 |
| 7. Continental | 42/2,826 |
| 8. General | 37/2,518 |
| 9. Yokohama | 34/2,412 |
| 10. Uniroyal | 34/2,366 |
| 11. Kelly | 33/1,062 |
| 12. Toyo | 29/1,295 |
| 13. Cooper | 27/1,387 |
| 14. Pirelli | 24/2,337 |
| 15. Hankook | 22/1,687 |
| 16. Kumho | 19/1,303 |
| 17. Dayton | 16/427 |
| 18. Republic | 15//343 |
| 19. Falken | 13/1,734 |
| 20. Mastercraft | 9/189 |

Source: The Modern Tire Dealer 100, 2008

2010 “as credit frees up and consumers, who had been avoiding replacing their vehicles, re-enter the market.” The company forecasts sales of 14.1 million vehicles in 2009 and 16.2 million in 2010.

Goodyear is the clear winner at OE (see Chart 7 on page 26). It supplies the most tires to both General Motors (see Chart 8) and Chrysler, and with the Dunlop brand has market share of 32.4%.

The company was quick to downplay its OE dominance when Standard & Poors’ Ratings Services recently downgraded the credit ratings for 14 auto industry-related companies, including Goodyear.

“There are fundamental differences between our business and the companies whose businesses are heavily tied to the Michigan-based auto manufacturers,” said Darren Wells, Goodyear’s executive vice president

and chief financial officer. “Of approximately \$20 billion in total sales in 2007, less than 8% was with the global operations of the three Michigan-based auto makers. This number will be lower given weak OE volumes in 2008.

“Our OE customers are important to us, but more than 80% of our sales are to the replacement market for consumers who already have vehicles.

Brands among the MTD 100

There were 67 different consumer tire brands listed in the “MTD 100,” *Modern Tire Dealer’s* annual list of the top independent tire store chains in the U.S. That was down from 75 last year, although there were 106 dealers in the 2007 list due to a 10-way tie for 97th place.

In 2007, foreign imports made up 29% of the brands listed. This year, they made up 37%:

| Brand category | Number/percent of total |
|-------------------|-------------------------|
| Major brands: | 13 (20%) |
| Private brands: | 15 (22%) |
| Associate brands: | 14 (21%) |
| Foreign imports: | 25 (37%) |

The average number of brands per dealer was 8.4, a conservative estimate because many also listed “other.” The top 25 dealers averaged 10 brands each.

The *MTD 100* represented 4,759 outlets, or 16.4% of the independent tire dealerships in the U.S. Apples to apples, there were 6.3% more outlets in the 2008 list than in 2007. Between the two of them, Discount Tire Co. Inc., with 698 outlets at the time, and Tire Kingdom Inc., with 678, accounted for 29% of the total outlets.

Michelin was listed by the most dealers in the top 100 — 74%, representing 3,665 outlets. Goodyear was second, listed by 71% of the dealers, or 3,525 outlets.

Even without taking into account the extra dealerships in 2007, most of the brands listed in Chart 9 gained outlets in 2008. The Cooper (listed by 27% of the dealers) and Goodyear brands were up 11.7% and 10.1%, respectively. Continental, sold by 42% of the dealers, increased its store penetration by 9.6%.

More Top 100 dealers were based in California, 14, than any other state. Ohio was the next closest at seven, followed by Pennsylvania with six. Florida, Missouri, Nebraska, New York and North Carolina each had five dealerships, while Arizona and Illinois was represented by four each.

There were no dealers among the top 100 based in Alaska, Arkansas, Delaware, Hawaii, Kansas, Maryland, New Mexico, Oklahoma, Rhode Island, South Carolina, Vermont and Wyoming.

Good buy for the consumer

In Tampa, Fla., at year’s end, a 2008 Ford Explorer Sport Trac XLT 4x2, complete with 16-inch aluminum wheels and “free” air conditioning, was selling for \$16,995. (The P235/70R16 tires alone were a \$640 value.) The manufacturer’s suggested retail price was \$25,000.

The Ford dealership selling the light truck required both \$1,999 down — trade equity qualified as a down payment — and approved credit. According to the ad, however, “All credit situations will be approved!”