



Bluebox[®] Industry report

Automotive

Developments in the Automotive Industry
November 2016 Edition

Introduction

Established in 2004, M&A Worldwide is a leading global alliance of mid-market merger & acquisition specialists. M&A Worldwide presently has 37 member firms operating in 37 different countries. All members are closely linked in a global alliance to advise clients on mergers, acquisitions, divestitures, joint ventures, capital raising, and other strategic partnerships. Collectively, the alliance closed 293 transactions in 2015.

M&A Worldwide **The Network for Mergers & Acquisitions**

M&A Worldwide's industry groups track activity and develop business opportunities within sectors and across borders. In the Automotive Industry Group, members are involved in buy and sell side mandates in such sectors as component suppliers; paint distributors; tire sales and service centers; and collision centers. As the auto industry in most regions is returning to or surpassing levels of automobile sales seen before the global recession, M&A Worldwide's Automotive Industry Group expects transaction activity to continue apace.

At M&A Worldwide, we have specialized M&A consultants in a variety of industries who like to share their knowledge and insights on different sectors. For more information about our industry teams and other industry reports, please visit www.m-a-worldwide.com



Global Automobile Production

In 2015, global production of cars was 68.5 million and commercial vehicles was 22.2 million, an overall increase of 1.1% over 2014.¹ OEM production is both concentrated and global. The top 15 countries produce 88% of the world’s cars, but regional differences in customer preferences, regulatory environments, and infrastructure ensure local and regional differences.² Top producing countries include China, the US, Germany, Japan, South Korea, and India.

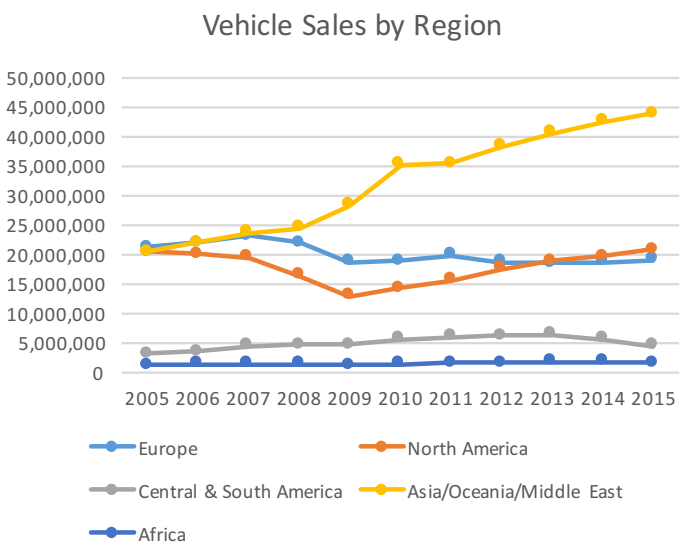
Global Sales

Of note is the changing trend in the emerging markets, especially China, that drove the steep upward curve of Asia/Pacific in the graph below but is now leveling. Total sales (passenger and commercial vehicles) globally in 2015 reached 89.7 million units, showing an increase of 2% from the prior year overall.

- North American sales grew 6.3% year-over-year, with the US coming in at 5.7% and Canada at 2.6%; Mexico

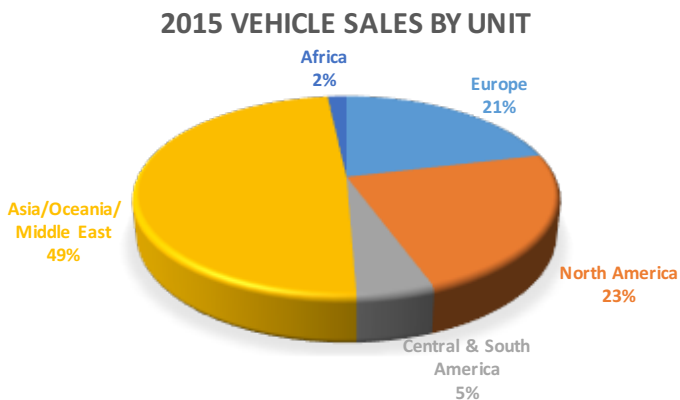
- was the growth leader with 19% growth over 2014, reaching nearly 1.4 million vehicles sold.
- The Asia/Oceania/Middle East market expanded 3.1% over 2014 levels, a notable slowdown from the double digit growth in 2009 and 2010 (16.4% and 24.5%, respectively) but nevertheless positive. India was a strong performer with sales of 3.4 million vehicles in 2015, up 7.8% from 2014. China’s growth is slowing (4.7% growth in 2015) but its sheer volume dominates the region, with sales of 24.6 million vehicles in 2015. Sales in Japan dropped 9.3% from 2014 to 2015, while South Korea showed growth of over 10%.
- The European market is continuing to work its way back to pre-recession levels, increasing 2.4% over 2014 to reach 19 million units. The Russian market continued to reflect the struggles of that region, with a decline of 44% from 2014 to 2015, on top of declines in 2013 and 2014 as well.
- Central and South America’s economic struggles show in the region’s sales drop from 2014 to 2015 of 19.8%. In Brazil, the largest market of the region, sales fell 26.6% from 2014 levels, to 2.6 million.⁴

Figure 1: Vehicle Sales 2005 – 2015³



Source OICA

Figure 2: 2015 Regional Sales



Source: OICA. Includes passenger and commercial vehicles

¹ OICA data, www.oica.net (Organisation Internationale des Constructeurs d’Automobiles)
² Sourced from www.marketrealist.com, Henry Kallstrom, “Why growth shifted in the global automotive industry,” 2/5/2015
³ OICA data
⁴ OICA data



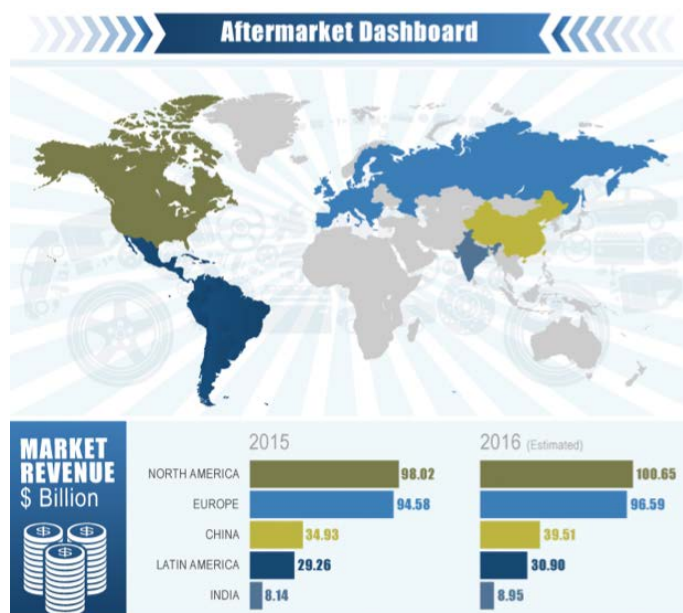
Driving the Aftermarket: Parts and Services

Since 2000, the rapid acceleration of production and sales in Asia reflects expanding car ownership in China, and a lesser extent India; though this trend is softening with the slowing of China's economic growth, the installed base of vehicles in China portends an active aftermarket opportunity in the years ahead.

Figure 3: Projected Vehicles in Operation: 2020⁵



Figure 4: Global Aftermarket Revenue⁶



On the Supplier Side: Value Add Shifting to Suppliers

Supplier influence has expanded in the last 10 to 15 years for several reasons, ranging from the global OEM expansion to the increasing complexity of vehicle components, particularly electronics and connectivity-related systems.

- As the OEMs established operations in-country to serve the dominant emerging markets of the first decade of the 21st century (BRIC), they often supported their key suppliers in setting up factories nearby to ensure reliable, high quality sourcing partners. Large suppliers became larger, leading to the term “mega-supplier” referring to the top 20 global suppliers like Johnson Controls and Bosch. These suppliers invest heavily in R&D and also manufacture systems for multiple of the large OEMs, increasing their competitive positioning relative to their customer base (the OEMs).
- OEMs are exploring alternative powertrain technologies, especially with regard to meeting emissions standards, and are relying on supplier knowledge and R&D capacity.⁷
- From danger-warning systems to traffic reporting to in-vehicle entertainment, connectivity is on the rise. Cars with network solutions (about 3% in 2012) are expected to increase 30%/year until 2020 until 22% of the global installed car base has these features.⁸ Supplier partnerships will be critical and preferred partners may drive a competitive advantage for OEMs.

⁵ Frost & Sullivan. Sourced from presentation by Tenneco at the Deutsche Bank Global Auto Industry Conference, January 2016

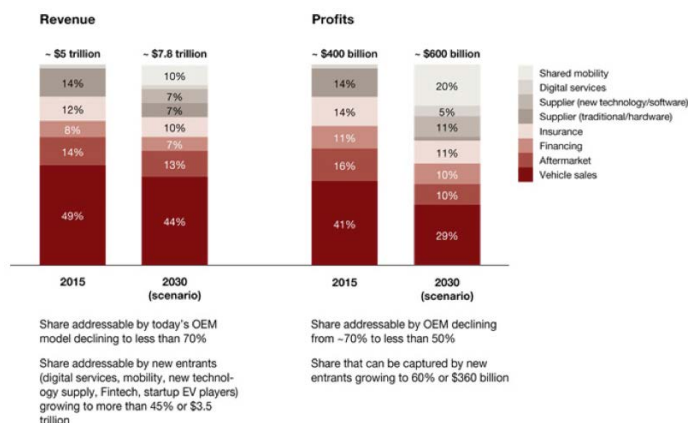
⁶ Frost & Sullivan: “2016 Outlook of the Global Automotive Aftermarket,” 2/11/2016

⁷ McKinsey & Company Advanced Industries, “The Road to 2020 and beyond: What’s driving the global automotive industry?” August 2013

⁸ McKinsey & Company Advanced Industries, “The Road to 2020 and beyond: What’s driving the global automotive industry?” August 2013



Figure 5: Value Shifts in the Auto Industry⁹



Note: Non-consolidated view; supplier value pools not eliminated from vehicle/aftermarket revenues to show full industry value pools.
Source: IHS; Autodata; Frost & Sullivan; KPMG; HBR; Bain; McKinsey; NHTSA; Technavio; National Automobile Dealers Association; OEM reports; Capgemini; Thomson Reuters; Gartner; Oxford Economics; Strategy& analysis
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The graphic above indicates how the proportion of revenue and profits captured by OEMs is expected to continue to decline over time. Sophisticated suppliers, who are currently investing in R&D to gain advantage in the hardware, software, and connectivity services associated with new vehicles, are capturing an increasing slice of the revenue and more importantly profits in this market.

Spotlight on India

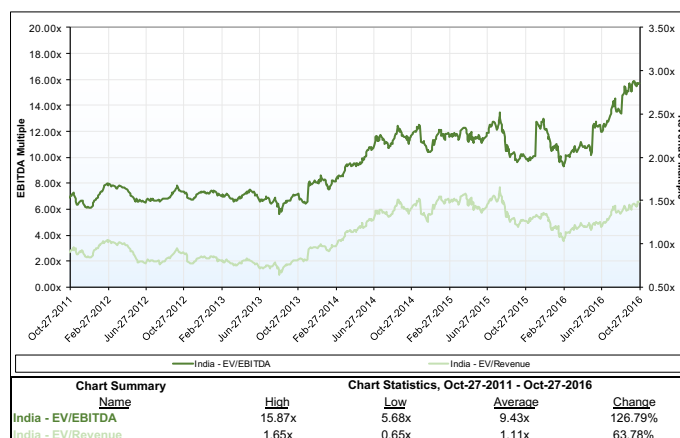
The top twenty automotive supply companies in India performed well over the last five years. The market-weighted index gained 126% on EBITDA multiples and 63% on revenue multiples, the strongest performance of any of the regions tracked for EBITDA multiple increases. The group ranges from very large players like Motherson Sumi Systems and Amtek Auto to smaller players like Gabriel India (suspension systems) and Steel Strips Wheels. See Figure 6.

Auto Sales in India

Vehicle sales in India continue to accelerate, reaching 3.5 million in 2015, an increase of 7.8% over 2014. The auto components industry, supplying OEMs and their partners as well as a growing aftermarket, is estimated at USD\$39 billion; growth is expected at 8 – 10% in 2017 – 2018.¹¹

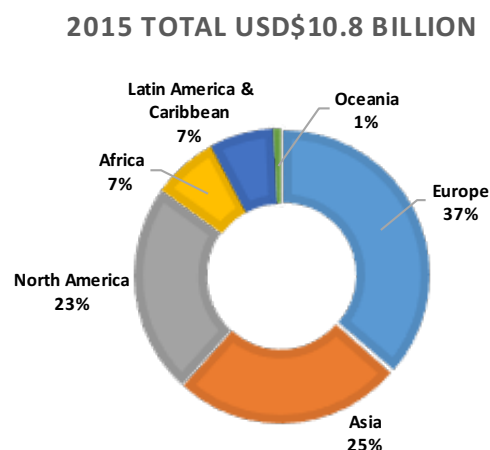
An estimated \$10.8 billion is for the export market. See Figure 7.

Figure 6: Top 20 Indian Auto Suppliers, Five-Year Revenue and EBITDA Multiples¹⁰



Data sourced from Capital IQ

Figure 7: Exports of Indian Auto Components, by Value to Region



Data from ACMA and TechSci Research, cited by IBEF at www.ibef.org

⁹ "Connected Car Report 2016: Opportunities, risk, and turmoil on the road to autonomous vehicles," Strategy& (from PwC), 9/28/2016

¹⁰ Market weighted index

¹¹ Auto Components Industry in India," India Brand Equity Foundation, www.ibef.org. Updated October 2016



Foreign direct investment has supported this growth, with \$15 billion of investment coming into India for the automobile industry from 2000 – March 2016. Major investments in the auto component sector included:

- Mercedes Benz India Pvt Ltd set up India's largest spare parts warehouse in Pune
- Honda plans to increase supply and target exporting of auto components worth \$224 million from India to its international operations
- Magna International has started production at two facilities in Gujarat's Sanand, supplying Ford Motor Co. in India
- Bosch Ltd has opened a new factory near Bengaluru
- Michelin has announced plans to increase production of truck and bus tires at its Indian facility by 45%¹²

TRANSACTION SPOTLIGHT

Target: Bill Forge Private Limited

Acquirer: Mahindra CIE Automotive Limited (BSE:532756)

Status: Announced.

Date: 9/12/2016

Mahindra CIE Automotive, one of India's largest parts suppliers agreed to purchase Bill Forge for USD\$198 million in a mix of cash and stock, representing multiple of 2.4X revenue and 11.8X EBITDA.

Bill Forge manufactures a variety of cold, warm, hot forged and machined components for the automotive and non-automotive sectors at its six locations in India; it has numerous global OEMs and Tier 1 suppliers as customers.

Transaction data sourced from Capital IQ.

¹² "Auto Components Industry in India," India Brand Equity Foundation, www.ibef.org. Updated October 2016

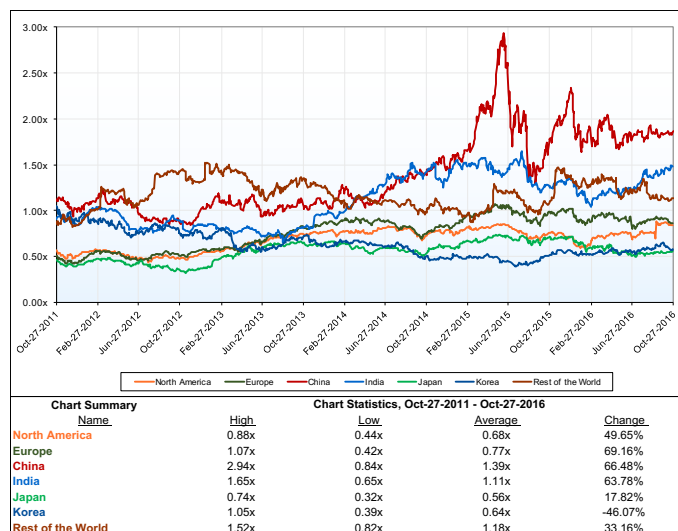
Public Company Comparables: Supplying the OEMs and Aftermarket

Over the last five years, a review of the top 20 publicly traded component supplier companies in several regions and countries indicated increases in EBITDA multiples everywhere except Korea. China and India in particular showed remarkable increases in average multiples of over 100% for the period; China's volatility was also notable. All indices shown here are market-weighted.

Performance Comparison

While both groups show increased revenue multiples across the five year period, the group of 45 smaller public companies clearly made greater gains. However, it is worth noting that in addition to the size of the companies being different the regional spread is also quite different. The global "mega-suppliers" are all North American, European, or Japanese, with the exception of one Chinese and one South Korean company. The smaller company group, which include 45 companies with revenues ranging from USD\$50 to \$200 million, has proportionally much stronger representation from emerging markets, particularly India and China, which experienced higher valuations and growth than did the developed markets.

Figure 8: Global Regions and Sub-regions, EV/REVENUE, 2011 to Present



Data sourced from Capital IQ



Figure 9: Top 20 Global Suppliers and Small-Midmarket Suppliers



Data sourced from Capital IQ

Tires and Aftermarket

The supplier groups charted above do not include tire manufacturers or suppliers primarily focused on the aftermarket, which have been tracked separately. This aftermarket group (10 companies), reflects the overall higher valuations placed on these suppliers, averaging 0.67X revenue multiple over the period and currently at 1.4X. The tire group (20 companies), showed an average revenue multiple of 0.82X over the period and a current multiple of 0.98X. Both indices gained over the last five years: 32.8% for the aftermarket group and 45.6% for the tire group.

Transaction Summary in Auto Components, Q3 2016

There were 103 M&A transactions tracked in S&P/Capital IQ for the third quarter of 2016, either announced or closed. China had the most targets (27 or 26.2%), with the US and Germany next at 13 and 12, respectively. Korea was not far behind with 10 and India had six. Of the total, almost 1/3 were cross-border transactions. See Figure 10.

Figure 10: Transactional Relationships

DOMESTIC VS. CROSS-BORDER M&A ACTIVITY: Q3 2016

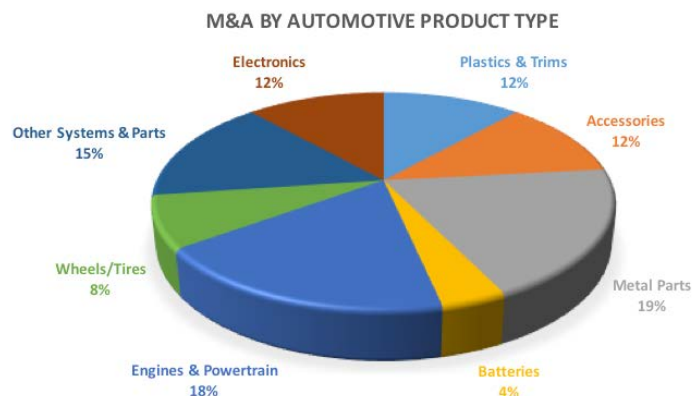


Data sourced from Capital IQ



The lines of business, within the auto component supplier category, were broadly represented:

Figure 11: Target Companies Lines of Business, Q3 2016



Data sourced from Capital IQ

Selected Transactions, Q3 2016

Date	Buyer	Target	Business Description (Target)	Product Type	Enterprise Value (\$, mm)	Revenue Multiple (x)
09/30/2016	Zhejiang Unifull Industrial Fibre Co., Ltd. (China)	Jiangsu Zhihang New Energy Co., Ltd. (China)	Researches, develops, designs, and manufactures automobile batteries.	Batteries	\$151.4	N/A
09/27/2016	Daido Metal Co. Ltd. (Japan)	Iino Holdings Co., Ltd. (Japan)	Manufactures, presses, machines, casts, forges, and forms automotive engine and transmission parts.	Metal Parts	\$99.5	1.52x
09/28/2016	Piston Automotive, LLC (USA)	Irvin Automotive Products, Inc. (USA)	Manufactures interior trim products for automotive OEMs worldwide. The company's products include seat covers, headrests, cargo shades, armrests, and sun visors for automotive applications.	Plastics & Trims	\$175.0	0.35x
09/15/2016	Ashok Leyland Limited (India)	Hinduja Foundries Limited (India)	Manufactures and sells grey iron and aluminum gravity die-castings primarily in India. Offers die-castings for automobiles, compressors, industrial engines, power generators, tractors, and construction vehicles.	Metal Parts	\$220.0	2.5x
08/05/2016	Star Capital SGR S.p.A. (Italy)	GLM S.r.l. (Italy)	Manufactures steel, stainless steel, and aluminum components used in exhaust systems for trucks, cars, motorcycles, and off-road vehicles.	Metal Parts	N/A	N/A
08/08/2016	IA, Inc. (South Korea)	Hivron Co., Ltd. (South Korea)	Manufactures automotive electronics that include alternator regulators, voltage regulators, rectifier alternators, automotive sensors, and power drivers for hybrid cars.	Electronics	\$37.1	1.7x
08/02/2016	ZF Friedrichshafen AG (Germany)	Ibeo Automotive Systems GmbH (Germany)	Manufactures laser sensors and sensor products used for radar in the automotive sector.	Electronics	N/A	N/A
07/04/2016	Continental U.K. Group Holdings Limited (subsidiary of Continental Aktiengesellschaft) (UK)	B.V. Environmental Ltd. (UK)	Manufactures commercial retreads tires.	Wheels/Tires	N/A	N/A

Source: Capital IQ



Mandates and Tombstones

MAWW members have active assignments in the automotive industry, the following is a partial list of current mandates:

Country	M&A WW Member & Contact	Mandate Type	Description
India	Corporate Catalyst Mohit Jain mohit.jain@cci.in	Buy Side	To acquire a manufacturing company in the lighting space specializing in commercial, industrial and/or off-road vehicle lighting; or a manufacturer of gear shift levers. Client seeks targets with USD \$10 - \$100 in revenue, located in Europe, U.S. or South America.
USA	Focus Investment Banking Doug Rodgers doug.rodgers@focusbankers.com	Buy Side	To acquire a manufacturer of non woven materials for automotive applications including headliners, trunk liners, accoustic and thermal insulation, seat, floor and door cushion.
Germany	Active M&A Experts Gerhard Abel abel@active-ma.com	Sell Side	To sell a manufacturer of automotive interior parts, located in Germany.
USA	Focus Investment Banking Rick Thomas rick.thomas@focusbankers.com	Sell Side	To Sell 2 Automotive Paint Distributors located in the US
USA	Focus Investment Banking Rick Thomas rick.thomas@focusbankers.com	Sell Side	To Sell 6 Automotive Collision Repair businesses located in the US



M&A Worldwide Selected Transactions in Automotive Industry

All members are closely linked in a global alliance, and we have advised leading global automotive companies.

Collectively, we closed 293 transactions in 2015.

This announcement appears as a matter of record only.



has been acquired by

BMW Motorrad

Financial Advisor to the Seller



This announcement appears as a matter of record only.

ARSON

has bought stake in



PEARL STREAM

Financial Advisor to the Seller



This announcement appears as a matter of record only.



has been acquired by

PRIV.EQ.FUND

Financial Advisor to the Seller



This announcement appears as a matter of record only.



has been acquired by



Financial Advisor to the Buyer



This announcement appears as a matter of record only.

Italpresse & Gauss Companies

has been acquired by

FOUNDRY TECHNOLOGY

Financial Advisor to the Seller



This announcement appears as a matter of record only.



Wholesale Improvement for

HONDA

Financial Advisor to HONDA



This announcement appears as a matter of record only.



Strategic Advisory & Fund Raising for

ISOTTA FRASCHINI

Financial Advisor to ISOTTA FRASCHINI



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Corporate Advisory for

SAINT JEAN INDUSTRIES

Financial Advisor to SAINT JEAN INDUSTRIES



This announcement appears as a matter of record only.

Conducted MBO for

Non Brand Garage Workshop

Financial Advisor to the MBO candidate



This announcement appears as a matter of record only.



has been acquired by



Financial Advisor to the Buyer



This announcement appears as a matter of record only.



has been acquired by



Financial Advisor to the Seller



This announcement appears as a matter of record only.

100% Sale of Project for

ASA

Financial Advisor to ASA



This announcement appears as a matter of record only.

Truck Repair Center

has been acquired

Financial Advisor to the Seller



This announcement appears as a matter of record only.

Conducted valuation for



Financial Advisor to the Valuation



This announcement appears as a matter of record only.

Dealer Light Vehicle

has been acquired

Financial Advisor to the Seller



This announcement appears as a matter of record only.



has been acquired

Financial Advisor to the Seller





M&A Worldwide Selected Transactions in Automotive Industry

This announcement appears as a matter of record only.  HUTCHINSON has been acquired by NICHIRIN Financial Advisor to the Buyer 	This announcement appears as a matter of record only. Conducted various M&A transactions for TEXTRON Financial Advisor to TEXTRON 	This announcement appears as a matter of record only. Conducted various M&A transactions for  IAC International Automotive Companies Financial Advisor to IAC 	This announcement appears as a matter of record only. Manufacturer of Trailers for The Professional Market has been sold to PE Financial Advisor to the Seller 	This announcement appears as a matter of record only.  Painter Supply has been acquired by  UNI-SELECT® Financial Advisor to Painter Supply Company, Inc. 
This announcement appears as a matter of record only.  TAKATA shared deal with  BAE SYSTEMS INSPIRED WORK Financial Advisor to TAKATA 	This announcement appears as a matter of record only.  Kirmac Automotive Collision Systems (US) Inc. has sold certain assets to Financial Advisor to Thoroughbred Collision Centers, Inc. 	This announcement appears as a matter of record only.  B&R BODY SHOP We Are Going to Make 1 Great Agent has been acquired by  CALIBER COLLISION Financial Advisor to B&R Body Shop 	This announcement appears as a matter of record only.  ECONO LUBE N' TUNE & BRAKES Your Premier Automotive Maintenance Center has been acquired by  meineke car care center Financial Advisor to Econo Lube N' Tune, Inc. 	This announcement appears as a matter of record only. Manufacture of Automotive Parts has been acquired (Note: did not come to a LOI phase) Financial Advisor to the Buyer 
This announcement appears as a matter of record only.  DEUTSCHE PRIVATE EQUITY shared deal with  BU Drive Financial Advisor to DPE 	This announcement appears as a matter of record only.  FREUDENBERG INNOVATING TOGETHER Buy-out of the Joint Venture partner  SIGMA vibroacoustic Financial Advisor to SIGMA 	This announcement appears as a matter of record only.  Freudenberg NOK Buy-out of the Joint Venture partner  SIGMA vibroacoustic Financial Advisor to Sigma Freudenberg NOK 	This announcement appears as a matter of record only.  JX JX Nippon Oil & Gas Exploration joint venture with  TIDE WATER OIL CO. (INDIA) LTD. Financial Advisor to JX Nippon 	This announcement appears as a matter of record only.  GLADWIN PAINT Gladwin Paint has been acquired by  FINISHMASTER Financial Advisor to Gladwin Paint 
This announcement appears as a matter of record only.  Mister Car Washes has been three car washes and for express lubes from Orman LLC Representative to Orman LLC. 	This announcement appears as a matter of record only. A. Fanticola Companies, Inc. Oil Express, Inc. Lube Acquisition, Inc. has been acquired by Heartland Automotive Services, Inc. Financial Advisor to Fanticola and affiliates. 	This announcement appears as a matter of record only. Aquia Auto Parts Company, Inc. Dba Refinish Solutions has been acquired by  FINISHMASTER Financial Advisor to Aquia Auto Parts Company, Inc. 	This announcement appears as a matter of record only.  KEENAN AUTO BODY has been acquired by  Aqua AUTO BODY & GLASS Financial Advisor to Keenan Auto Body, Inc. 	This announcement appears as a matter of record only. Advised TOWER AUTOMOTIVE on its divestiture of manufacturing assets and restructuring of operation in China Financial Advisor to Tower Automotive 

Team & Contact

The M&A Worldwide Automotive team includes



“With professionals in offices around the world, our M&A Worldwide Automotive Group provides investment banking services and in-depth transaction expertise to the automotive industry globally.”

Sang Kang

Chairman of M&A
Worldwide Automotive Group

Director of Morgen Evan
Advisory Services, Ltd. -
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