



Automotive quarterly M&A Newsletter

Q2 2018



Key takeaways

Technological advancements are paving the way for new and improved products in the automotive seating ecosystem. Consumers' increasing desire for personalization, convenience, and aesthetics is driving seating suppliers to develop and introduce new design layouts in the coming years. The autonomous vehicles era, shifting the attention of the driver from road towards the interior of the vehicle, will see the advent of smart seating systems focusing on health and well-being of the passengers. Nonetheless, the new design layouts with their innovative functionalities must ensure passengers' safety at all times. These trends provide for many opportunities to increase content per vehicle ("CPV") for car seat manufacturers – the theme of our Q2 2018 Automotive Quarterly Newsletter:

Technological Advancements and Automotive Megatrends are Redefining the Automotive Seating Landscape

- Automotive seat design and comfort are becoming critical elements in the purchasing decision. The ability of seating suppliers to deliver on these demands will provide further opportunities to increase their top line
- Automotive lightweighting, autonomous driving, and individualization are significantly influencing the make up of future car seats

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Innovative Features and Functions are Creating the Smart Seats of the Future

- Advanced materials and other technologies are leading the way to innovative styling and features in seats including seat rotation, heated and ventilated seats, and sensors to enhance owners' travelling experience and sense of luxury
- “As we look ahead - even beyond the point of the autonomous car with these advanced features - it will change how the seat looks. A car will, therefore, become an extension of your living room.”*
Swamy Kotagiri, CTO of Magna International

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Valuation Observations and Sector Performance

- Auto supplier multiples have increased over the previous quarter while multiples for Global OEMs declined, bridging the valuation gap between the two groups
- | | | |
|---|------------------------------------|--------------------|
| At the end of Q2'18 the average EV / LTM EBITDA multiples were: | NA Auto Parts Manufacturers | 7.3x |
| | | +0.2x Q-o-Q |
| | Global OEMs | 8.4x |
| | | -0.8x Q-o-Q |

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Automotive M&A Activity

- The automotive supplier M&A market remained active in Q2 2018 with the U.S. leading the acquisition table in terms of deal volume
- Q2 2018 included a number of deals in the auto seating space. In one of the transactions, Ningbo Jifeng Auto Parts announced to acquire remaining 73.75% stake in Grammer AG, a German-based supplier of components for passenger car interiors and commercial vehicles seating systems, for \$638.2(1) million

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KPMG Corporate Finance ⁽¹⁾



America's M&A Transactions Advisory Services Firm of the Year - 2017



Consumer Discretionary Deal of the Year 2016

- In the global mid-market segment, KPMG was the #1 M&A advisor with the most transactions over the last 5 years

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¹ Refers to the global Corporate Finance practices of KPMG International's network of independent member firms.

Sources: Capital IQ, analyst reports, and other publicly available sources

Note: (1) Total cash consideration for acquiring 73.75% stake, EUR/USD – 1.175

Automotive seating

Automotive seating, being the component in closest contact with the driver and passenger, plays a crucial role in improving the driving experience. It has become a critical factor in customer loyalty⁽¹⁾. Ergonomically designed automotive seats provide comfort and maintain appropriate body posture. They're also important from a safety perspective as they provide adequate cushioning against the vibrations transmitted while driving. In addition, seats along with seat belts and airbags, protect passengers from collision.

The rapid evolution in the way automobiles are being built and driven is redefining the automotive seating landscape. The look and feel of vehicle seats is becoming a key differentiator in the automotive purchasing decision. The arrival of autonomous vehicles and shared mobility is set to further change the way passengers are seated, especially for the driver as the role shifts from an 'active driver' to a 'supervisor' and finally a passenger, making the automobile a mobile living space.

“Among new-vehicle shoppers, **18%** indicate they avoided a vehicle for purchase because of interior design.”

- J.D. Power 2016 U.S. Auto Avoider StudySM

Key Seat Components & Estimated Cost Structure

An automotive seat comprises of a number of individual components including seat frame, seat cover, foam pad, trim covers, accessories, and electronic and pneumatic systems.

Mechanism and frames 30%	Covers and accessories 40%	JIT 15%	Other seat components 15%
<ul style="list-style-type: none"> Electric Motors Recliners Height Adjusters Tracks 	<ul style="list-style-type: none"> Foam Pads Armrests Trim Covers Pneumatic Headrest Systems 	<ul style="list-style-type: none"> Electronic Assembly and delivery of the Complete Seat Controllers 	<ul style="list-style-type: none"> Airbag Wiring Harness Occupant Detection

Source: Lear Corporation, Cowen & Company. Note: Component cost as a percentage of overall seat cost.

Significant Opportunities in the Automotive Seating Market

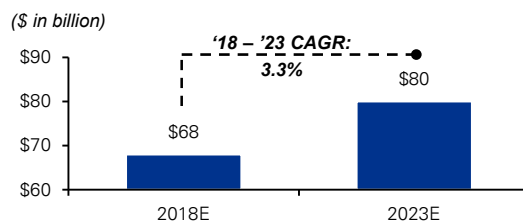
The Automotive Seating market is forecast to grow at a CAGR of 3.3% from 2018 to 2023, outpacing global light vehicle production growth with a CAGR of 2.0% over the same period (IHS Market). While the market is primarily driven by automotive production volumes, it is set to benefit from incremental CPV resulting from a shift toward SUVs / crossover models and utilization of light-weight materials.

Incremental CPV Opportunities from Additional Features

Feature	Incremental CPV
Seat Adjustability – Power vs Manual	~\$150
Surface Materials – Leather vs Cloth	~\$200
Heating and Cooling Features	~\$100
Shift to higher content SUV/CUV	~\$500 - \$1,500
Innovation and New Technology	~\$250 - \$1,500

Source: Cowen & Company Equity Research Report dt. 04/26/18 for Lear Corp.

Global Automotive Seating Market Size



Source: Cowen & Company

Megatrends Impacting the Automotive Seating Business

Lightweighting

OEMs' efforts towards producing lightweight vehicles is also driving innovations in automotive interiors, including seating. Seats constitute 50-60% of a car's interior mass, and up to 6% the car's overall mass. Seating, thus, has garnered attention from OEMs as well as suppliers, as a means to help reduce overall vehicle weight. The growing role of electronics in seats is adding to the weight of already heavy car seats, posing challenges for suppliers to introduce new features while maintaining the weight. Lighter seats will also help offset heavier EV batteries, improving range and favoring their deployment.

Note: (1) J.D. Power 2016 Seat Quality and Satisfaction StudySM

Autonomous Driving and Individualization

The advent of autonomous driving is set to result in a radical change to the interior of a car, creating possibilities for a vehicle to operate as a place for work, communication, entertainment, and relaxation. This opens up a world of opportunities and challenges for the seating suppliers to cater to the rising demand for greater functionality and features.

Rising consumer awareness and living standards in developing nations also bring along the need for customization and personalized appearance. In addition, ride sharing concepts may also require individualized seating configurations depending on the intended use of the vehicle.

Automotive seating (continued)

Seat Features and Functions Expected in Future Cars

Adoption of Lightweighting Materials



The seat frame occupies the largest fraction of the total seat's mass, followed by the power adjustment equipment (found more commonly in the luxury segment). These components provide great opportunities for the automotive seating suppliers to achieve their weight reduction strategies. Current trends in weight reduction of seats include system integration as well as the use of lightweight frame materials. Major seating suppliers have already adopted the use of aluminum alongside steel in the manufacturing of seat frames.

High costs of advanced construction materials in the form of high strength steel, magnesium, carbon fiber reinforced plastic (CFRP) and composites, currently prevent their use in mass market vehicles. Magnesium alloy seat frames, for example, have the potential for a 25% weight reduction over previously used steel structures. Multi-material design strategies along with the reduction in manufacturing costs of magnesium and CFRP would lead to their extensive use in future seating structures, with an estimated weight saving of 15-20 kg by 2025.

Rotating Seats



Fully autonomous vehicles are expected to come with seat rotation and foldable seats as standard feature across all categories of vehicles. Rotating and reclining seats will help achieve the mobile living room atmosphere with foldable seat features to serve as table trays or foot support. This will also require additional safety in terms of built-in airbags and seatbelts to protect the passenger in these new seating positions.

Customization



With the increase in average time spent by a person in autonomous vehicles, seating suppliers are expected to see a rising demand for customization and personalized features in terms of power seats, premium (leather) seats, integration of multimedia, vents, lights, storage, phone/laptop charging, etc.

Health and Well-Being



Rapid adoption of electronics in automobiles and the use of sensors and actuators is enabling the interaction of all components of a vehicle. The smart seat of the future will help extract information such as blood pressure, temperature, respiration, and weight with a high degree of reliability.

This allows for an increased emphasis on comfort and well-being of the passenger with features such as adjustable lumbar support, in-seat climate control systems, memory mechanisms, sensor-based detection of stress levels, and massage functions.

Thrive, Survive, or Dive

Automotive megatrends have a significant impact on the seating sector, leading to a continuous evolution of products and higher CPV opportunities for suppliers with value-add comfort and safety features.

Thrive by Investing in New Technologies and Partnerships

The rapid adoption of advanced automotive technologies is leading to a significant transformation in automotive seat product offerings. Innovation and investments in new technologies will provide manufacturers with venues to differentiate themselves, but as functionalities increase, partnerships will play a vital role to combine various technologies in one seat.

Survive

The shift toward emerging and advanced technologies is steadfast and accelerating, but many of the seat innovations can only be found in premium vehicles. For many of the consumers in countries such as China and India, where the rising middle class buys their first car, the car seats will be basic. So established companies hesitating with investments in innovation should focus on cost competitive car seats / components in growth regions, or will face headwinds in the more mature and established markets.

Do Nothing and Dive

While other automotive sub-segments (e.g., powertrain) have been far more affected by accelerating technological change, automotive seating has remained relatively unchanged for decades. However, in this environment of increasing technological advancement, automotive seating suppliers that do not innovate their product offerings will likely achieve undesirable results over the next 10 years.

Selected public automotive OEM and parts manufacturers

Selected Automotive Comps											
Company	HQ Country	Market Data				LTM Financials			Valuation Multiples - Enterprise Value To:		
		Market Cap (\$mm)	Enterprise Value (\$mm) ⁽¹⁾	Share Price ⁽²⁾	% 52 Wk High	Revenue	Revenue Growth	EBITDA % ⁽³⁾	LTM EBITDA ⁽³⁾	NTM Revenue	NTM EBITDA ⁽³⁾
North American Auto Parts Manufacturers											
Aptiv PLC	IE	24,261	27,370	91.63	87.3%	13,371	10.9%	16.2%	12.6x	1.89x	11.0x
Magna International Inc.	CA	20,415	23,705	58.13	87.8%	40,838	7.9%	10.4%	5.6x	0.56x	5.0x
Lear Corporation	US	12,323	13,342	185.81	90.0%	21,202	8.5%	10.4%	6.1x	0.60x	5.7x
BorgWarner Inc.	US	9,068	11,089	43.16	74.1%	10,177	11.2%	16.6%	6.6x	1.00x	6.0x
Gentex Corporation	US	6,304	5,678	23.02	90.6%	1,807	6.3%	34.3%	9.2x	2.92x	8.4x
Adient plc	IE	4,593	8,283	49.19	56.9%	16,786	6.7%	6.0%	8.2x	0.48x	5.9x
Delphi Technologies PLC	GB	4,036	5,413	45.46	75.3%	4,977	6.2%	16.4%	6.6x	1.05x	6.5x
Visteon Corporation	US	3,818	3,786	129.24	91.9%	3,150	2.8%	9.3%	12.9x	1.15x	9.9x
Nexteer Automotive Group Limited	US	3,704	3,633	1.48	56.9%	3,878	3.5%	14.1%	6.7x	0.91x	5.4x
Dana Incorporated	US	2,937	4,598	20.19	57.2%	7,646	11.7%	10.8%	5.6x	0.56x	4.6x
Linamar Corporation	CA	2,872	4,515	43.95	71.7%	5,261	15.9%	15.7%	5.5x	0.76x	4.6x
Cooper-Standard Holdings Inc.	US	2,361	2,729	130.67	92.0%	3,683	2.1%	12.4%	6.0x	0.74x	5.7x
Tenneco Inc.	US	2,261	3,567	43.96	67.0%	9,556	9.2%	7.6%	4.9x	0.35x	3.8x
American Axle & Manufacturing	US	1,737	5,416	15.56	76.8%	7,075	14.6%	16.8%	4.6x	0.76x	4.3x
Gentherm Incorporated	US	1,446	1,485	39.30	96.3%	998	8.7%	13.2%	11.3x	1.37x	9.3x
Stoneridge, Inc.	US	1,001	1,066	35.14	93.2%	846	6.4%	11.5%	10.9x	1.21x	9.2x
Martinrea International Inc.	CA	931	1,384	10.72	80.6%	2,833	(0.3%)	11.3%	4.3x	0.49x	4.1x
Tower International, Inc.	US	655	970	31.80	92.0%	2,054	8.8%	10.1%	4.7x	0.44x	4.2x
North American Auto Parts Manufacturers Mean					79.9%		7.8%	13.5%	7.3x	0.96x	6.3x
North American Auto Parts Manufacturers Median					83.9%		8.2%	12.0%	6.3x	0.76x	5.7x
Global OEMs											
Toyota Motor Corporation	JP	188,166	326,658	64.69	91.9%	276,630	0.3%	14.1%	8.4x	1.23x	10.3x
Volkswagen AG	DE	82,967	242,040	165.93	73.9%	286,698	4.4%	10.8%	7.8x	0.85x	6.1x
Daimler AG	DE	68,814	192,216	64.32	72.1%	203,934	3.6%	10.6%	8.9x	0.96x	8.3x
BMW AG	DE	59,089	152,255	90.79	80.2%	120,052	0.9%	13.6%	9.4x	1.30x	8.9x
Tesla, Inc.	US	58,231	69,405	342.95	88.0%	12,471	66.2%	(2.2%)	NM	3.15x	NM
General Motors Company	US	55,532	139,254	39.40	84.3%	144,421	8.5%	14.9%	6.5x	0.96x	7.0x
Honda Motor Co., Ltd.	JP	52,018	93,789	29.35	78.4%	144,637	1.8%	9.1%	7.1x	0.66x	7.8x
Ford Motor Company	US	44,113	174,984	11.07	82.1%	159,589	1.2%	8.2%	13.3x	1.20x	13.8x
Nissan Motor Co., Ltd.	JP	38,031	99,708	9.73	90.1%	112,529	(1.0%)	8.1%	11.0x	0.93x	11.6x
Fiat Chrysler Automobiles N.V.	GB	29,551	34,795	19.06	80.9%	135,634	3.5%	10.4%	2.5x	0.26x	2.1x
Renault SA	FR	22,820	64,099	84.97	72.3%	70,569	2.9%	10.2%	8.9x	0.90x	7.9x
Global OEMs Mean					81.3%		8.4%	9.8%	8.4x	1.13x	8.4x
Global OEMs Median					80.9%		2.9%	10.4%	8.6x	0.96x	8.1x

Source: CapitalIQ and company filings.

All figures in USD, where applicable, converted at rates as of June 30, 2018.

(1) Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents as of closing price June 30, 2018.

(2) Closing share prices as of June 30, 2018.

(3) EBITDA equals Earnings before Interest Expense, Income Taxes, Depreciation and Amortization.

















Select Q2 2018 M&A transactions

Date closed	Target	Buyer	Implied Enterprise Value (\$ mm)	Implied EV/LTM Revenue	Implied EV/LTM EBITDA
Pending	Olsa S.p.A	Magna International Inc.	\$270.4	-	-
Pending	Grammer AG	Ningbo Jifeng Auto Parts Co., Ltd.	\$1,013.5	0.5x	7.4x
Pending	Toledo Molding & Die, Inc.	Grammer AG	\$271.0	0.9x	-
Pending	L & W, Inc.	Autokinton Global Group, LP	-	-	-
Pending	Federal-Mogul LLC	Tenneco Inc.	\$5,400.0	0.7x	7.2x
Pending	Reydel Automotive France SAS	Samvardhana Motherson Automotive Systems Group B.V.	\$201.0	0.2x	3.0x
Pending	U-Bolts Business of Frauenthal Holding AG	Hendrickson USA, L.L.C.	-	-	-
Pending	ZKW Holding GmbH	LG Corp.	\$1,681.2	1.1x	-
Pending	Asahi Tec Corporation	Topy Industries, Limited	-	-	-
06/29/18	Efficient Energy Systems Business of AeroVironment, Inc.	Webasto Charging Systems, Inc.	\$38.5	-	-
06/22/18	TM4, Inc.	Dana Incorporated	\$225.0	-	-
06/19/18	DV8 Offroad	Drake Automotive Group, Inc.	-	-	-
06/14/18	KUM	Aptiv PLC	\$554.3	-	-
06/01/18	Pontiac Coil, Inc.	Sumida Corporation	\$55.0	-	-
06/01/18	L'Orange GmbH (nka:Woodward L'Orange)	Woodward Aken GmbH	\$859.5	-	-
05/17/18	EMOSS Mobile Systems B.V.	PCL (International) Holding B.V.	\$17.0	2.4x	-
05/13/18	Alex Products, Inc.	North American Stamping Group, LLC	-	-	-
05/11/18	Proforged LLC	Drake Automotive Group, Inc.	-	-	-
05/11/18	Automotive Parts Business (80.1%) of LS Mtron Ltd.	Cooper-Standard Holdings Inc.	-	-	-
04/13/18	Southern Comfort Conversions, Inc.	Kinderhook Industries	-	-	-
04/10/18	Wheel Pros Holdings, LLC	Clearlake Capital Group	-	-	-
04/04/18	Aftermarket Division of Cloyes Gear & Products, Inc.	Chongqing Boao Industrial Co., Ltd	\$50.0	-	-

KPMG corporate finance ⁽¹⁾

Leading Advisor to the automotive sector

Select Transactions

  <p>KPMG Corporate Finance</p> <p>acted as buy-side financial advisor to Piston Group on the acquisition of Irvin Automotive Products from Takata</p>	  <p>KPMG Corporate Finance</p> <p>acted as financial advisor on the sale of Covpress International Ltd to Shandong Youngtai Corp Ltd</p>	  <p>KPMG Corporate Finance</p> <p>acted as financial advisor to VITEC, LLC in its sale to a confidential acquirer</p>	  <p>KPMG Corporate Finance</p> <p>acted as financial advisor to TriVero Group on raising acquisition financing for the purchase of BTM Company</p>
  <p>KPMG Corporate Finance</p> <p>acted as financial advisor to Comvest Partners in the sale of Chicago Miniature Lighting to AGM Automotive Partners</p>	  <p>KPMG Corporate Finance</p> <p>acted as financial advisor to Fleetwood Metal Industries on its sale to Milestone Partners</p>	  <p>KPMG Corporate Finance</p> <p>acted as financial and tax advisor to FinnvedenBulten AB on the disposal of Finnveden Metal Structures AB to Shiloh Industries</p>	  <p>KPMG Corporate Finance</p> <p>acted as financial advisor to C2i in connection with the disposal of majority stake to Korean conglomerate LG Hausys</p>

(1) Represents the Corporate Finance practices of KPMG International's network of independent member firms

Global Coverage. Industry Knowledge. Middle-Market Focus.

The Corporate Finance practices of KPMG International's network of independent member firms (KPMG) have been ranked collectively as a leading global mid-market advisor based on total deal volume, according to Thomson Reuters SDC. KPMG firms operate in 155 countries with over 2,600 investment banking professionals who are able to meet the needs of clients across the globe. With over 4,000 professionals, the global automotive sector and practices of KPMG International's network of independent member firms is one of the leading professional service providers for the automotive industry (KPMG). We have closed 104 automotive supplier and parts transactions over the last five years, sometimes under challenging circumstances and often involving buyers from around the globe. We have the resources and stamina to bring every transaction to a successful conclusion.

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