



Automotive industry update

KPMG Corporate Finance LLC insights

Q2 2019

Automotive spotlight: Strategic alliances



Strategic alliances in an evolving automotive industry

Within the automotive industry, OEMs and suppliers alike are actively considering a range of joint ventures, partnerships, and alliances in order to stay competitive as the automotive landscape evolves. Industry leaders have recognized that their existing capabilities are not evolving quickly enough to compete effectively with new market entrants from the technology sector.

Through strategic alliances, industry incumbents are able to shoulder the upfront costs of new technologies, including the data analytics, artificial intelligence, and advanced telematics necessary for self-driving cars.

A few notable partnerships include:

- BMW and Daimler have announced a partnership involving 1,200 technicians from the two companies to develop self-driving technologies
- Toyota and Subaru have agreed to co-develop battery-electric vehicles, leveraging technologies from both companies
- Ford has announced a \$500 million investment in Rivian. They will build a new electric vehicle on Rivian's platform. This follows Amazon's investment in Rivian earlier this year

While the proposed merger between FCA and Renault has been called off, it further illustrates the high value being placed on collaboration as a mechanism to compete in the future. However, it also demonstrates the complexities that come along with creating partnerships among established industry players – and historical competitors.

Creating successful alliances

To maximize the probability of success, it is critical to clearly define the strategic direction for an alliance, joint venture, or partnership at inception. The following steps can help establish a framework for the JV journey:

- **Define deal logic and strategic vision:** Assess the deal rationale for the partnership or alliance, identify any top-down non-negotiables, and set key objectives for the combined business
- **Set a clear win-win proposition:** Assess the market position of both partners, define the target client portfolio for the partnership or alliance, outline product channels, and assess overlap with the parent companies
- **Design target operating model:** Set design principles (e.g. relationship with parent companies, customer- vs. product-driven setup), and define high-level organization and leadership
- **Develop business plan and key metrics:** Agree on the key business plan metrics and structure (top down/bottoms up), define the initial business case as a basis for valuation, and assess potential synergies
- **Identify the integration & separation scope:** Assess the key challenges and risks, identify the Day 1 operational “must-haves”, and the requirements to fulfill statutory, legal, and regulatory obligations
- **Mobilize the venture:** Setup the alliance team, define roles and responsibilities, establish governance and decision-making bodies, identify resource requirements, and publish the kick-off plan

By following this blueprint, alliance partners can define shared goals, establish a common understanding of what the collaboration is intended to achieve, and develop an organizational structure that will lay a strong foundation for success.

Sources: Analyst reports, and other publicly available sources.

Automotive M&A synopsis and key takeaways

Automotive Q2 M&A synopsis

- **Slight decline in deals compared to Q1 2019.** The global automotive industry recorded 89 deals in Q2 2019, a slight decline over Q1 2019. Continuing trade tensions between U.S. and China and uncertainty over the Brexit deal have significantly influenced M&A activity in Q2 2019.
- **Acquisitions continue to remain a key growth strategy for auto OEMs and suppliers alike.** While alliances and partnerships are being considered as a potential alternative to full-scale mergers by major players, both acquisitions and partnerships seem to be driven by the desire to control costs and gain a stronghold in emerging technologies.
 - GM Cruise LLC, GM's self-driving car unit, received \$1.5 billion in investment from a group comprised of SoftBank Vision Fund, Honda, and funds advised by T. Rowe Price.
 - Lear Corporation acquired Xevo Inc., an automotive software supplier that develops solutions for cloud, car, and mobile devices, to broaden its connectivity portfolio.

Largest deal in Q2 2019



\$3.675 Billion
Deal Value

15.1x
EV / EBITDA

\$125 Million
of cost synergy*

LORD will significantly expand our materials science capabilities with complementary products, better positioning us to serve customers in growth industries and capitalize on emerging trends such as electrification and lightweighting. - Tom Williams, Chairman & CEO of Parker

* pre-tax run-rate cost synergies by FY 2023.

Key takeaways

Strategic alliances and collaborations shaping the automotive landscape

- Across the automotive industry, there is an increasing focus on collaboration as a mechanism to thrive in the future. While these collaborations bring about new complexities and challenges, they offer OEMs and suppliers a mechanism for shouldering the upfront cost of new technologies.
- A successful alliance requires more than cash and the willingness to be a partner. A well established framework that lays out the key objectives of collaboration is critical for the success of such partnerships.

Valuation observations and sector performance

- Both OEM and supplier multiples have increased over the previous quarter
- Despite plateauing auto sales, investors are rewarding OEMs and suppliers for their strategic moves toward new technologies

At the end of Q2'19 the average EV / LTM EBITDA multiples were:

NA Auto Parts Manufacturers	7.0x
	+1.1x Q-o-Q
Global OEMs	9.8x
	+0.8x Q-o-Q

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Global M&A Transaction Advisor of the Year 2018



Consumer Discretionary Deal of the Year (Over \$100 MM) 2017

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

Sources: CapitalIQ, Analyst reports, and other publicly available sources.
Note: (1) Based on transaction records available in CapitalIQ.

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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	20,841	25,717	80.83	81.8%	14,380	7.5%	15.2%	11.8x	1.72x	10.5x
Magna International Inc.	CA	15,814	20,721	49.81	80.2%	40,626	5.6%	10.4%	4.9x	0.51x	5.2x
Lear Corporation	US	8,671	10,180	139.27	72.3%	20,575	(3.0%)	10.3%	4.8x	0.47x	4.7x
BorgWarner Inc.	US	8,701	10,502	41.98	89.4%	10,312	1.3%	16.3%	6.3x	1.01x	6.2x
Genex Corporation	US	6,290	5,890	24.61	98.4%	1,837	1.7%	32.8%	9.8x	3.10x	9.6x
Nesteer Automotive Group Limited	US	3,120	2,865	1.24	72.4%	3,912	0.9%	13.5%	5.4x	0.71x	4.4x
Dana Incorporated	US	2,870	5,435	19.94	91.5%	8,168	6.8%	11.0%	6.0x	0.59x	4.8x
Linamar Corporation	CA	2,441	4,035	37.37	73.0%	5,762	NM ⁽⁴⁾	NM ⁽⁴⁾	NM ⁽⁴⁾	0.65x	4.4x
Adient plc	IE	2,270	5,552	24.27	47.7%	17,025	1.4%	3.4%	9.6x	0.33x	6.3x
Delphi Technologies PLC	GB	1,759	3,327	20.00	43.1%	4,713	(5.3%)	13.4%	5.3x	0.71x	5.0x
Visteon Corporation	US	1,656	1,916	58.58	42.0%	2,907	(7.7%)	8.1%	8.2x	0.63x	6.8x
American Axle & Manufacturing	US	1,435	5,083	12.76	66.0%	7,131	0.8%	15.5%	4.6x	0.70x	4.2x
Gentherm Incorporated	US	1,409	1,484	41.83	83.2%	1,032	3.1%	13.4%	10.7x	1.42x	9.8x
Stoneridge, Inc.	US	905	964	31.55	86.3%	859	1.5%	11.3%	9.9x	1.14x	10.0x
Tenneco Inc. ⁽⁵⁾	US	897	6,827	11.09	23.1%	17,664	(0.6%)	NM	NM	0.38x	4.3x
Cooper-Standard Holdings Inc.	US	803	1,573	45.82	31.2%	3,542	(3.8%)	8.7%	5.1x	0.47x	5.0x
Martinrea International Inc.	CA	687	1,417	8.30	70.0%	2,785	1.9%	12.3%	4.2x	0.48x	3.6x
Tower International, Inc.	US	403	726	19.50	53.2%	1,543	19.4%	9.3%	5.1x	0.45x	4.2x
North American Auto Parts Manufacturers Mean					66.9%	1.9%	12.8%	7.0x	0.86x	6.1x	
North American Auto Parts Manufacturers Median					72.3%	1.4%	11.8%	5.7x	0.64x	5.0x	
Global OEMs											
Toyota Motor Corporation	JP	175,751	324,076	62.05	88.9%	272,770	0.9%	14.1%	8.4x	1.15x	9.8x
Volkswagen AG	DE	85,483	260,656	168.66	90.4%	266,704	3.3%	11.1%	8.8x	0.93x	6.6x
Daimler AG	DE	59,561	210,899	55.67	81.5%	187,738	1.9%	8.1%	13.9x	1.08x	10.6x
General Motors Company	US	54,651	149,213	38.53	92.8%	145,828	(0.5%)	8.2%	12.5x	1.01x	7.3x
BMW AG	DE	47,911	156,571	73.79	74.8%	109,177	1.2%	11.0%	13.1x	1.39x	10.9x
Honda Motor Co., Ltd.	JP	45,464	91,591	25.84	79.1%	143,386	(1.1%)	8.1%	7.8x	0.63x	7.7x
Ford Motor Company	US	40,813	173,993	10.23	90.9%	158,721	(1.3%)	8.0%	13.8x	1.20x	13.7x
Tesla, Inc.	US	39,818	51,755	223.46	57.7%	22,594	16.6%	8.0%	NM	1.96x	17.0x
Nissan Motor Co., Ltd.	JP	28,011	92,876	7.16	69.6%	104,451	(2.9%)	10.5%	8.5x	0.89x	13.3x
Fiat Chrysler Automobiles N.V.	GB	21,871	25,191	13.96	70.3%	122,291	(4.0%)	7.9%	2.6x	0.20x	1.8x
Renault SA	FR	16,846	60,169	62.92	70.0%	65,742	(1.3%)	10.1%	9.1x	0.93x	8.3x
Global OEMs Mean					78.7%	1.2%	9.5%	9.8x	1.03x	9.7x	
Global OEMs Median					79.1%	(0.5%)	8.2%	8.9x	1.01x	9.8x	

Source: CapitalIQ and company filings.

All figures in USD, where applicable, converted at rates as of June 30, 2019.

- (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, 2019.
- (2) Closing share prices as of June 30, 2019.
- (3) EBITDA equals Earnings before Interest Expense, Income Taxes, Depreciation and Amortization.
- (4) Y-o-Y LTM revenue growth is not comparable due to acquisition of MacDon in February 2018. Pro forma LTM EBITDA figures are not available.
- (5) LTM revenue and revenue growth figures are on a pro forma basis for Tenneco's acquisition of Federal-Mogul. Pro forma LTM EBITDA figures are not available.

Select Q2 2019 M&A transactions

Date Closed	Target	Buyer	Implied Enterprise Value (\$ mm)	Implied EV/LTM Revenue	Implied EV/LTM EBITDA
Pending	FORMECAL S.L.	Amper, S.A.	\$8.5	-	-
Pending	OMRON Automotive Electronics Co. Ltd.	Nidec Corporation	-	-	-
Pending	Maquinados de Precisión de México S. de R.L de C.V. / Cortes de Precisión de Mexico S. de R.L de C.V.	CIE Automotive, S.A.	\$65.5	-	3.6x
Pending	Chassis Brakes International	Hitachi Automotive Systems	\$659.1	0.70x	11.8x
Pending	Prestolite E-propulsion Systems (Beijing) Limited (50%)	Dana Incorporated	\$95.2	4.01x	-
Pending	Lord Corporation	Parker-Hannifin Corporation	\$3,675.0	3.4x	15.1x
Pending	AxleTech	Meritor, Inc.	\$175.0	0.71x	-
06/26/19	Powerflow Inc./Solutions Plastik	Adell Corporation	-	-	-
06/18/19	ALRO NV	GIMV NV	-	-	-
06/07/19	TOTAL SEAL, Inc.	Promus Equity Partners, LLC	-	-	-
06/04/19	Softopper, LLC	Bestop Inc.	-	-	-
05/30/19	Protean Holdings Corp.	Virtue Surge Limited	-	-	-
05/30/19	Concours Mold Inc.	Crestview Partners, L.P.	-	-	-
05/16/19	Randy's Ring & Pinion, Inc.	Tailwind Capital Group, LLC	-	-	-
04/17/19	Xevo Inc.	Lear Corporation	\$320.0	-	-
04/16/19	AxleTech (Electric Vehicle Systems Division)	Allison Transmission Holdings, Inc.	\$123.0	-	-
04/09/19	PurePOWER Technologies, LLC	Stanadyne Corporation	-	-	-
04/04/19	Excel Automotive Group	Sancorp Ltd	-	-	-
02/28/19	Great Lakes Trim, Inc.	GLIF Capital	-	-	-











Source: CapitalIQ, Mergermarket and press releases.

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KPMG Corporate Finance LLC

leading advisor to the automotive sector⁽¹⁾

Select transactions ⁽¹⁾

 <p>PRECICAST</p> <p>KPMG Corporate Finance LLC</p> <p>acted as financial advisor to Precicast Industrial SA in the disposal of the company to GF Automotive, a division of Georg Fischer AG.</p>	   <p>KPMG Corporate Finance LLC</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 LLC</p> <p>acted as financial advisor on the sale of Covpress International Ltd to Shandong Youngtai Corp Ltd</p>	  <p>KPMG Corporate Finance LLC</p> <p>acted as financial advisor to VITEC, LLC in its sale to a confidential acquirer</p>
   <p>KPMG Corporate Finance LLC</p> <p>acted as financial advisor to TriVero Group on raising acquisition financing for the purchase of BTM Company</p>	   <p>KPMG Corporate Finance LLC</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 LLC</p> <p>acted as financial advisor to Fleetwood Metal Industries on its sale to Milestone Partners</p>	  <p>KPMG Corporate Finance LLC</p> <p>acted as financial and tax advisor to FinnvedenBulten AB on the disposal of Finnveden Metal Structures AB to Shiloh Industries</p>

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

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