



Automotive Industry Update

KPMG Corporate Finance LLC Insights

Q3 2019

Automotive Spotlight: Powertrain Consolidation

Challenges for traditional powertrain suppliers ahead

The long-anticipated shift to Electric Vehicles (EV) will increase pressure on a highly fragmented and stagnating global powertrain market, which has long been suspected as one of the potential casualties of the EV disruption. In the current market environment, this development is largely driven by rapidly expanding global regulations that target a reduction of CO₂ emissions caused by internal combustion engine (ICE) technology.

Powertrain components that will ultimately face declining volumes include, for example, internal combustion engine parts, transmissions, differentials, axles, and intake/exhaust systems. As volumes decline, competition for market share will intensify among the diversified landscape of powertrain component suppliers.

Revenues in the powertrain segment have been flat in recent years, and current forecasts project very limited growth through 2024. Pressure on global suppliers and their respective product margins will mount in response to industry trends and regulatory challenges, including the following:

- **Increasing fuel economy standards:** With stricter fuel economy standards enforced by CAFE (Corporate Average Fuel Economy), automakers are expected to further expand development of EV product lines
- **Regulatory focus on greenhouse gas reduction:** Reducing greenhouse gases is a priority for countries in the European Union who are aiming to curb sales of gas and diesel cars to reduce the carbon footprint
- **Expected EV market share increase:** As fuel taxes increase and the cost of battery technology declines, the total cost of EV ownership will become more competitive with ICE vehicles, and adoption of EVs will accelerate
- **Emergence of autonomous vehicles:** For high-mileage autonomous vehicles, OEMs are expected to opt for hybrid or fully electric powertrains rather than traditional ICE technology, especially for vehicles sold to fleet operators

Despite these mounting challenges, the powertrain sector remains highly fragmented. A consolidation among powertrain suppliers seems an inevitable outcome to compensate for the lack of growth prospects and to increase efficiency.

How powertrain suppliers can successfully leverage M&A in a changing market

Summarized below are some of the strategic benefits that could be realized as the result of M&A activity in this sector:

- **Cross-selling opportunities:** Companies with complementary products have an opportunity to sell across their customer bases, thus increasing the share of wallet with OEMs
- **Footprint consolidation:** Manufacturing resources can be realigned and optimized to take advantage of facilities in close proximity that produce similar parts
- **Procurement savings:** By consolidating the sourcing of raw materials, the combined organization's negotiating position will improve, and total procurement costs can be lowered
- **Research & Development alignment:** R&D cost redundancies can be eliminated and the level of collaboration on new product development can be increased
- **Manufacturing efficiencies and network optimization:** Identifying best practices and applying them across the combined organization can help improve KPIs and lower consolidated maintenance, repair, and overhaul spending
- **SG&A consolidation:** Combining back-office functions like human resources, finance, and sales can improve overhead cost ratios

While a long tail is expected for ICE-powered vehicles, proactive powertrain suppliers will pursue consolidation as a means to capture market share and protect margins as traditional product volumes decline.

In such an environment, the ability to effectively manage and execute transactions can turn into a key competitive advantage. This will require experienced capabilities to identify targets and coordinate acquisitions, as well as a strong network of advisors that can help swiftly assess acquisition targets and identify and understand the risks that might come along with a transaction.

M&A transactions – especially auction processes and distressed sale situations – require the ability to move at a fast pace. Having the right internal and external resources at hand when the opportunity arises might tip the scale on who will be able to benefit as consolidation in the powertrain sector progresses.

Automotive Industry M&A Synopsis and Key Takeaways

Automotive Market Synopsis

- The global automotive industry recorded 96 deals⁽¹⁾ in Q3 2019, a slight increase compared to Q2 2019 (+7)
- While the M&A market experienced a high level of activity, Q3 has seen a rise in auto companies teaming up via alliances, joint ventures, and partnerships to stay on top of the latest technological trends
- The urgency for transformation while controlling development costs, and the need to make bets on multiple products and services is a major driver for this development
 - Volkswagen Group expanded their alliance with Ford by investing \$1 billion in Argo AI, the autonomous vehicle technology platform. Volkswagen is also contributing its \$1.6 billion Autonomous Intelligent Driving company, valuing Argo at more than \$7 billion
 - Hyundai Motor Group and Aptiv PLC have entered into an agreement to set up a joint venture for an autonomous driving business, valued at a total of \$4 billion. The goal of the new venture will be to develop Level 4 and Level 5 production-ready self-driving systems for commercialization

Landmark M&A Deal in Q3 2019



\$1.05 Billion

Deal Value

0.7x

EV / Revenue (LTM)

7.7x

EV / EBITDA (LTM)

“The acquisition of Tower will significantly enhance AGG's position as a leading North American manufacturer of metal formed components for the automotive industry. The combination of these two companies creates synergistic value by lowering overall cost, significantly broadening our product offerings and diversifying our customer base.”

George Thanopoulos, CEO of AGG

Key Takeaways

Rapidly Evolving Automotive Ecosystem Signaling Consolidation Among the Powertrain Component Suppliers

- As electric vehicles continue to gain momentum, growth prospects for ICE powertrain suppliers appear to be limited. Pressure on these suppliers will continue to increase with unfavorable industry trends and regulatory challenges ahead, further eroding profit margins in a highly competitive and fragmented market
- Consolidation among powertrain suppliers appears necessary in order to compensate for lack of growth opportunities and to increase efficiency
- Having a well-developed M&A strategy and experienced M&A resources at the ready will be vitally important to powertrain suppliers as the sector consolidates

Valuation Observations and Sector Performance

- Supplier multiples in North America remained stable over the previous quarter, while OEM multiples slightly increased
- The stock market performance was generally positive, but earnings forecasts are trending down

At the end of Q3'19 the average EV / LTM EBITDA multiples were:

NA Auto Parts Manufacturers	6.1x +0.0x Q-o-Q
Global OEMs	10.1x +0.4x Q-o-Q

KPMG Corporate Finance



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, the Corporate Finance practices of KPMG International's member firms are 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.

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	22,396	27,200	87.42	95.5%	14,323	3.0%	15.0%	12.7x	1.80x	10.7x
Magna International Inc.	CA	16,657	21,616	53.34	92.8%	40,472	2.2%	10.2%	5.2x	0.53x	5.3x
BorgWarner Inc.	US	7,575	9,166	36.68	81.9%	10,169	(3.0%)	15.8%	5.7x	0.90x	5.6x
Lear Corporation	US	7,197	9,016	117.90	73.7%	20,002	(7.7%)	10.1%	4.5x	0.44x	4.6x
Genlex Corporation	US	7,015	6,566	27.54	96.9%	1,851	1.8%	32.5%	10.9x	3.39x	10.5x
Visteon Corporation	US	2,307	2,558	82.54	85.9%	2,882	(8.0%)	6.8%	13.0x	0.84x	9.0x
Adient plc	IE	2,150	5,292	22.96	57.5%	16,750	(3.0%)	3.2%	10.0x	0.32x	6.2x
Linamar Corporation	CA	2,123	3,595	32.53	64.3%	5,833	NM ⁽⁴⁾	14.5%	4.2x	0.61x	4.2x
Dana Incorporated	US	2,078	4,740	14.44	68.9%	8,420	7.1%	11.1%	5.1x	0.53x	4.4x
Nexteer Automotive Group Limited	US	2,069	1,929	0.83	50.0%	3,697	(6.4%)	12.4%	4.2x	0.51x	3.2x
Gentherm Incorporated	US	1,355	1,442	41.09	86.9%	1,009	(1.5%)	13.6%	10.5x	1.41x	9.4x
Delphi Technologies PLC	GB	1,167	2,794	13.40	42.4%	4,602	(8.4%)	12.9%	4.7x	0.63x	4.5x
Tenneco Inc. ⁽⁵⁾	US	1,013	6,998	12.52	28.9%	17,550	(1.9%)	NM	NM	0.40x	4.3x
American Axle & Manufacturing	US	925	4,488	8.22	44.4%	6,935	(3.9%)	14.9%	4.3x	0.64x	4.0x
Stoneridge, Inc.	US	848	921	30.97	89.9%	860	0.3%	11.3%	9.5x	1.09x	9.3x
Martinrea International Inc.	CA	714	1,404	8.63	73.6%	2,866	4.1%	12.1%	4.0x	0.49x	3.6x
Cooper-Standard Holdings Inc.	US	691	1,291	40.88	33.6%	3,378	(8.8%)	7.6%	5.0x	0.43x	4.2x
North American Auto Parts Manufacturers Mean					68.6%		(2.1%)	12.7%	7.1x	0.88x	6.1x
North American Auto Parts Manufacturers Median					73.6%		(2.4%)	12.3%	5.1x	0.61x	4.6x
Global OEMs											
Toyota Motor Corporation	JP	186,192	321,834	66.76	96.3%	283,055	(0.0%)	14.1%	8.1x	1.15x	10.6x
Volkswagen AG	DE	85,832	262,129	170.17	95.2%	274,999	4.1%	10.9%	8.8x	0.96x	6.6x
General Motors Company	US	53,511	145,257	37.48	89.5%	145,128	(1.6%)	9.4%	10.6x	1.00x	6.2x
Daimler AG	DE	53,218	202,634	49.74	76.0%	192,500	2.6%	5.8%	18.1x	1.07x	11.4x
Honda Motor Co., Ltd.	JP	45,573	90,856	25.89	79.9%	147,152	(2.8%)	7.8%	8.0x	0.64x	6.6x
BMW AG	DE	45,516	151,348	70.43	81.3%	111,515	1.3%	10.4%	13.1x	1.35x	10.7x
Tesla, Inc.	US	43,146	53,948	240.87	63.5%	24,941	14.6%	9.4%	NM	2.03x	17.6x
Ford Motor Company	US	36,547	169,467	9.16	86.7%	158,654	(2.6%)	7.6%	14.0x	1.17x	13.5x
Nissan Motor Co., Ltd.	JP	24,403	88,133	6.24	63.4%	104,190	(6.9%)	5.2%	16.2x	0.86x	17.2x
Fiat Chrysler Automobiles N.V.	GB	20,290	19,432	12.95	75.0%	122,998	(4.9%)	8.0%	2.0x	0.16x	1.4x
Renault SA	FR	15,375	60,527	57.42	70.2%	63,168	(2.8%)	10.2%	9.4x	0.98x	8.9x
Global OEMs Mean					79.7%		0.1%	9.0%	10.8x	1.03x	10.1x
Global OEMs Median					79.9%		(1.6%)	9.4%	10.0x	1.00x	10.6x

Source: CapitalIQ and company filings.

All figures in USD, where applicable, converted at rates as of September 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 September 30, 2019.
- (2) Closing share prices as of September 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.
- (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 Q3 2019 M&A Transactions

Date Closed	Target	Buyer	Implied Enterprise Value (\$ mm)	Implied EV/LTM Revenue	Implied EV/LTM EBITDA
Pending	Somaschini S.p.A.	CIE Automotive, S.A.	\$88.0	1.1x	5.0x
Pending	U.S. Iron Casting Operations of American Axle	Gamut Capital Management, L.P.	\$245.0	0.31x	-
Pending	Mast Kunststoffe GmbH & Co.KG	Precision Motors Deutsche Minebea GmbH	-	-	-
Pending	STP Schmiedetechnik Plettenberg GmbH & Co. KG	Zhejiang Shuanghuan Driveline Co.,Ltd.	-	-	-
Pending	Toyo Seimitsu Industry Co., Ltd.	JTEKT Corporation	-	-	-
Pending	YUTAKA SEIMITSU KOGYO, LTD.	JTEKT Corporation	-	-	-
Pending	ASAMA GIKEN CO., LTD.	Sumitomo Corporation	-	-	-
09/30/19	Tower International, Inc.	Autokiniton US Holdings, Inc.	\$1,050.3	0.70x	7.7x
09/23/19	Safim SpA	DexKo Global, Inc.	-	-	-
09/09/19	Walker Die Casting, Inc./C&R Tool and Engineering, Inc.	Allison Transmission Holdings, Inc.	\$103.0	-	-
09/04/19	Mühlhoff Umformtechnik GmbH	Fidelium Partners	-	-	-
09/02/19	Seoyon Electronics Co., Ltd.	Mobase Co., Ltd.	\$279.3	0.43x	8.5x
08/30/19	Fiber Solutions Segment of Jason Industries, Inc.	Motus LLC	\$85.0	0.59x	-
08/26/19	Nordresa, Inc.	Dana Incorporated	-	-	-
08/20/19	Hicks Plastics Company, Inc.	Sea Link International, Inc.	-	-	-
07/18/19	Coindu - Componentes para a Industria Automovel, S.A.	Richina Capital Partners Ltd.	-	-	-


















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>KPMG Corporate Finance</p> <p>acted as financial and debt adviser and provider of tax and financial due diligence services to Orafol Europe on the acquisition of Kay Automotive Graphics Group</p>	   <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 Convest 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>

(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 88 automotive components and retail 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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