



# Automotive Quarterly M&A Newsletter

Q4 2019

# Growing Consumer Preference for Larger Cars

Over the last decade, the U.S. automotive industry has witnessed a secular shift toward pickup trucks, sport utility vehicles (SUVs) and crossovers (CUVs), at the expense of sedans. The share of light truck sales as a percentage of total vehicle sales increased from 53% in 2014 to 72% in 2019. And there are signs that SUVs and crossovers are gaining market share elsewhere in the world, too. According to estimates, the number of SUVs on the road globally grew from 35 million in 2010 to over 200 million in 2018, representing 60% of the increase in the global car fleet over the 8-year period.<sup>(1)</sup>

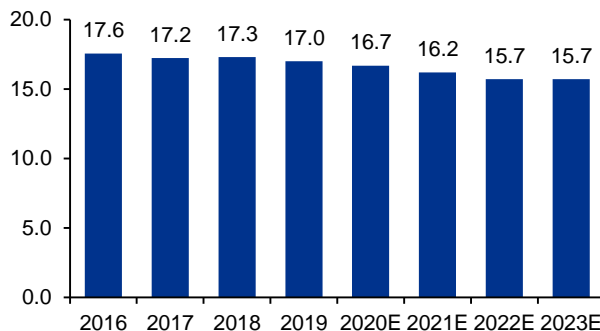
This change in consumer preferences is driven by factors such as lower gas prices, a strong economy, and improvements in the design of SUVs, as well as increasing fuel efficiency. Especially as the retail gasoline prices in the U.S. dropped from \$4.14 a gallon in 2008 to below \$3.00 in 2014,<sup>(2)</sup> fuel efficiency became less critical in the consumer’s vehicle purchase decision. In addition, the segment has benefited from the introduction of CUVs, which combine the sport-utility body style with the frame of a passenger car, offering a smoother, quieter ride with better fuel efficiency than truck-based SUVs. CUVs are attracting drivers of sedans seeking increased interior space, higher ground clearance and all-wheel drive features, and SUV and pickup truck drivers seeking more affordable and efficient vehicles.

Increasingly stringent fuel efficiency regulations across the globe pose challenges for auto manufacturers. As a result, they are investing heavily in electrification technologies and new crossover models, as CUVs often have slightly lower fuel economies than sedans. However, the recent move by the Trump administration to roll back the Obama administration’s fuel efficiency standards in the U.S. may provide relief to manufacturers by reducing future efficiency improvement requirements.

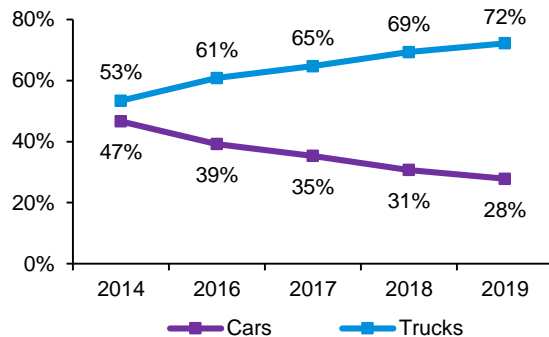
Top Selling Vehicles in U.S. (by units) <sup>(3)</sup>				
2019 Rank	Vehicle	Type	2019 Sales	2018 Rank
1	Ford F-Series	Truck	896,526	1
2	RAM	Truck	633,694	3
3	Chevy Silverado	Truck	575,600	2
4	Toyota RAV4	CUV	448,071	4
5	Honda CRV	CUV	384,168	6
6	Nissan Rogue	CUV	350,447	5
7	Chevrolet Equinox	CUV	346,048	8
8	Toyota Camry	Sedan	343,439	7
9	Honda Civic	Sedan	325,760	9
10	Toyota Corolla	Sedan	303,732	10

Note: Footnotes listed on page 8

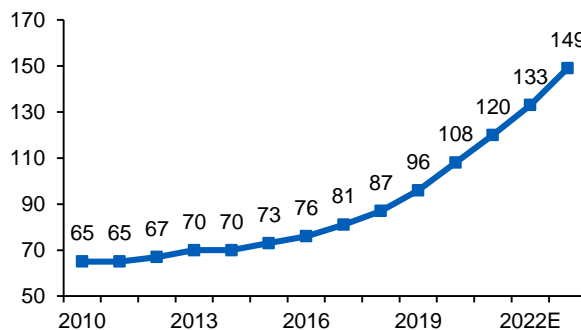
U.S. Annual Light Vehicle Sales (millions)<sup>(4)</sup>



U.S. Market Share, by Segment<sup>(5)</sup>



Number of Crossover Models in the U.S.<sup>(6)</sup>



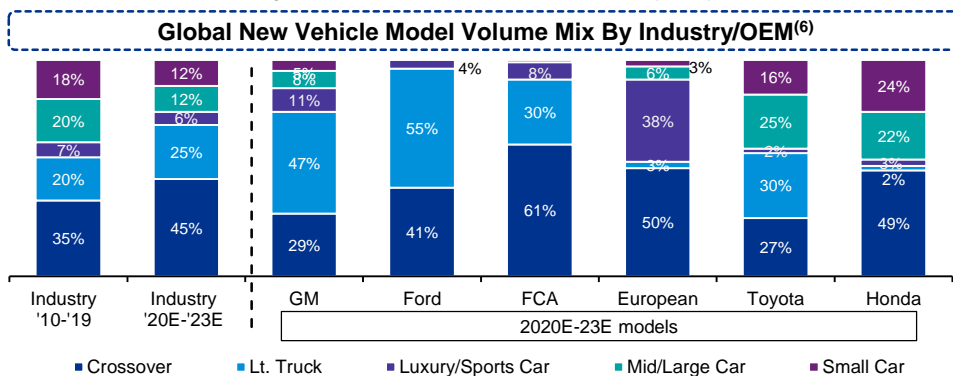
“All five vehicle types are at or near record low CO<sub>2</sub> emissions and record high fuel economy and have steadily improved in recent years. However, the market shift towards SUVs and away from sedans/wagons has offset some of the fleetwide benefits that otherwise would have been achieved from the increased fuel economy within each vehicle type.”<sup>(7)</sup>

# Automakers are Realigning Their Product Mix

## The Changing Landscape

While U.S. auto sales continue to remain stable, the market is witnessing divergent trends in passenger cars and light truck segments, driven by shifting consumer preferences from sedans to SUVs and CUVs. More than 17.0 million light vehicles were sold in the U.S. in 2019, the fifth consecutive year when sales exceeded 17 million units. However, small and mid-sized car sales fell for the seventh consecutive year, while CUVs continued to grow, reaching an all-time high with a market share of 41%.<sup>(5)</sup> As the market is expected to witness soft demand in the next few years, new model launches and an optimal product mix will be critical for automakers to protect market share and grow the top line. In the U.S., manufacturers will continue to rely on the truck segment, including pickups, CUVs, and SUVs, which is expected to continue to dominate the market. However, as the segment becomes crowded, profitability may decline.

While FCA halted the production of sedans in the U.S. in 2017, the other two Detroit manufacturers, Ford and GM have announced plant closures and discontinuation of their sedan models by 2023. With the large domestic manufacturers focusing on light trucks, foreign brands like Honda and Toyota are likely to take a larger share of sedan sales in the U.S.



*Despite significant differences in terms of new model launches across manufacturers, the product mix of all major global manufacturers is moving towards Crossovers and light trucks.*

## Electrification of SUVs

The shifting consumer preference for large vehicles, coupled with long-term emission regulations, has caused automakers to focus strongly on electric trucks and SUVs in the next few years. The market has witnessed a flurry of recent announcements of electric SUVs, including new models, as well as electrified versions of their popular nameplates. Automakers have pledged more than \$225 billion toward their electrification strategies by 2023.<sup>(8)</sup> Success in the electric light truck/SUV category is critical for automakers, as these models are more profitable as compared to lower margin sedans, helping them to better absorb high battery costs. These models may also increase EV adoption by increasing the options available to consumers in terms of vehicle selection. Battery-electric SUVs as a percentage of total SUVs will grow from 1% in 2015 to 35% by 2025.<sup>(9)</sup> However, range, infrastructure, and cost still pose significant challenges.

### Selected Upcoming BEV Models (CUV/SUV/Pickups)<sup>(10)</sup>

Vehicle	Launch	Pot. Range (miles)	Starting Price
Ford Mustang Mach-E	Late 2020	230-300	\$43,895
Tesla Model Y	2020	230-300	\$39,000
BMW iX3	2020-2021	~250	TBA
VW ID.4	Late 2020	~250	TBA
Bollinger B1 SUV	Late 2020	~200	\$125,000
Rivian R1S SUV	2020 / 2021	~400	\$72,500
Tesla Cybertruck	2021 / 2022	~250	\$39,900

Note: Footnotes listed on page 8

### Tesla's Model Y Product Launch

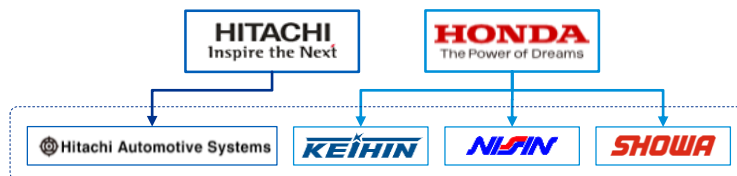
*Tesla is expected to launch its affordable e-SUV, Model Y, in 2020. The Model Y is based on the same platform as the Model 3 and shares approximately 75% of its parts, including its basic chassis.<sup>(11)</sup> This will allow Tesla to realize significant economies of scale. Tesla is pricing its Model Y starting at \$48,000 for the Long Range and \$61,000 for the Performance model. A mid-range version at \$39,000 will follow in 2021.<sup>(12)</sup> Given that Tesla is the most recognized EV brand, the Model Y has the potential to dominate the e-Crossover segment.*

# Automotive Industry M&A Synopsis and Key Takeaways

## Automotive M&A Market Synopsis

- The global automotive industry recorded 102 deals in Q4<sup>(13)</sup>, becoming the quarter with the highest M&A activity in 2019
- The automotive parts and equipment segment also witnessed an increase on a Q-o-Q basis to record 80 transactions<sup>#</sup> in Q4 2019
- OEMs and suppliers are increasingly looking to create combinations among themselves to create competitive technologies and solutions, establish a global customer base, and achieve economies of scale

### Landmark M&A Deal in Q4 2019



Hitachi and Honda Motor announced the merger of four auto parts subsidiaries to strengthen development and distribution of global and competitive solutions in the CASE\* area. Prior to the merger Honda will make Keihin, Nissin, and Showa its wholly-owned subsidiaries. Hitachi Automotive Systems will emerge as the ultimate surviving company with Hitachi holding 66.6% stake and Honda taking the rest.

*“Through this new partnership, we will contribute to the expansion of the joy of transportation of customers around the world and to the development of the personal mobility industry.”*

- Noriya Kaihara, Managing Officer, Honda Motor<sup>(14)</sup>

\* Automotive Megatrends of Connected, Autonomous, Shared, and Electric vehicles.

## Key Takeaways

### Consumers Growing Preference for Large Cars is Leading Manufactures to Rethink Their Product Mix

- Over the last decade, consumer preferences, especially in the U.S., have shifted towards larger vehicles, which has resulted in light trucks gaining significant market share
- Automakers are responding by shifting their focus from sedans to Sport- and Crossover-Utility vehicles
- A Convergence of EVs and SUVs has given birth to a new e-SUV subsegment, with every major automaker coming to market with new models in the near-term

*“SUVs are the growth engine behind the global auto market and we think there is little chance of this trend reversing.”*

Jeff Schuster, President of Americas and Global Vehicle Forecasting at LMC Automotive<sup>(15)</sup>

*“If you really want people to pay attention to electrics, you need to be playing where they’re interested.”*

Darren Palmer, Global Product Director, Ford Motor<sup>(16)</sup>

### Valuation Observations and Sector Performance

- While valuation multiples have increased for suppliers over the previous quarter, they have remained at par for the OEMs
- Despite plateauing auto sales, investors are rewarding OEMs and suppliers for their strategic moves toward new technologies

At the end of Q4'19 the average EV / LTM EBITDA multiples were:

NA Auto Parts Manufacturers	7.5x 0.5x Q-o-Q
Select OEMs	3.9x At par with Q3'19

### KPMG Corporate Finance



**Industrials Deal of the Year 2019 (\$100m-\$1bn)**

- 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

Note: Footnotes listed on page 8

# 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) <sup>(1)(2)</sup>	Share Price <sup>(3)</sup>	% 52 Wk High	Revenue	Revenue Growth	EBITDA % <sup>(4)</sup>	LTM EBITDA <sup>(4)</sup>	NTM Revenue	NTM EBITDA <sup>(4)</sup>
<b>North American Auto Parts Manufacturers</b>											
Aptiv PLC	IE	24,245	28,924	94.97	95.9%	14,397	1.1%	15.0%	13.4x	1.95x	11.8x
Magna International Inc.	CA	16,793	21,728	54.89	93.5%	40,173	(0.5%)	10.1%	5.4x	0.55x	5.6x
BorgWarner Inc.	US	8,958	10,325	43.38	93.1%	10,183	(3.4%)	15.8%	6.4x	1.02x	6.3x
Lear Corporation	US	8,296	10,167	137.20	85.8%	19,935	(7.6%)	9.9%	5.2x	0.51x	5.6x
Genlex Corporation	US	7,331	6,865	28.98	97.4%	1,868	1.5%	32.3%	11.4x	3.57x	11.1x
Dana Incorporated	US	2,619	5,150	18.20	86.8%	8,606	7.5%	11.0%	5.5x	0.61x	5.1x
Linamar Corporation	CA	2,471	3,969	37.88	91.6%	5,690	NM <sup>(5)</sup>	14.4%	4.8x	0.70x	5.0x
Visteon Corporation	US	2,422	2,644	86.59	81.7%	2,932	(3.9%)	6.5%	13.8x	0.85x	9.1x
Nexteer Automotive Group Limited	US	2,273	2,132	0.91	54.6%	3,697	(6.4%)	12.4%	4.6x	0.57x	3.7x
Adient plc	IE	1,989	5,183	21.25	80.5%	16,526	(5.2%)	2.4%	12.9x	0.33x	6.1x
Gentherm Incorporated	US	1,453	1,520	44.39	97.5%	987	(6.0%)	14.4%	10.7x	1.52x	10.5x
American Axle & Manufacturing	US	1,210	4,664	10.76	62.6%	6,795	(7.0%)	15.0%	4.6x	0.75x	4.8x
Delphi Technologies PLC	GB	1,104	2,754	12.83	47.8%	4,476	(10.0%)	12.3%	5.0x	0.66x	5.4x
Tenneco Inc.	US	1,060	6,914	13.10	35.1%	17,585	NM <sup>(6)</sup>	8.0%	4.9x	0.41x	4.9x
Martinrea International Inc.	CA	913	1,609	11.03	97.0%	2,925	7.1%	12.0%	4.6x	0.55x	3.9x
Stoneridge, Inc.	US	803	881	29.32	85.1%	855	(0.9%)	10.9%	9.5x	1.08x	9.3x
Cooper-Standard Holdings Inc.	US	558	1,149	33.16	42.6%	3,246	(12.2%)	7.0%	5.0x	0.39x	5.3x
<b>North American Auto Parts Manufacturers Mean</b>					<b>78.2%</b>		<b>(3.1%)</b>	<b>12.3%</b>	<b>7.5x</b>	<b>0.94x</b>	<b>6.7x</b>
<b>North American Auto Parts Manufacturers Median</b>					<b>85.8%</b>		<b>(3.9%)</b>	<b>12.0%</b>	<b>5.4x</b>	<b>0.66x</b>	<b>5.6x</b>
<b>Select OEMs</b>											
Volkswagen AG	DE	98,155	72,834	197.78	93.9%	278,184	5.8%	10.8%	2.4x	0.26x	1.8x
Tesla, Inc.	US	75,402	86,142	418.33	96.1%	24,420	13.9%	8.9%	NM	3.04x	NM
Daimler AG	DE	59,273	73,245	55.40	82.3%	193,276	3.2%	6.1%	6.2x	0.38x	4.2x
BMW AG	DE	52,878	115,571	82.08	93.4%	112,166	3.8%	11.0%	9.4x	1.01x	7.5x
General Motors Company	US	52,293	49,899	36.60	87.4%	144,810	(7.6%)	9.4%	3.7x	0.36x	2.3x
Ford Motor Company	US	36,874	29,451	9.30	88.1%	157,978	(3.1%)	7.4%	2.5x	0.21x	2.8x
Fiat Chrysler Automobiles N.V.	GB	23,209	21,967	14.81	86.2%	117,565	(6.4%)	8.7%	2.2x	0.18x	1.6x
Renault SA	FR	12,674	6,277	47.33	65.7%	62,296	(4.1%)	10.2%	1.0x	0.10x	1.0x
<b>Select OEMs Mean</b>					<b>86.6%</b>		<b>0.7%</b>	<b>9.1%</b>	<b>3.9x</b>	<b>0.69x</b>	<b>3.0x</b>
<b>Select OEMs Median</b>					<b>87.7%</b>		<b>0.1%</b>	<b>9.2%</b>	<b>2.5x</b>	<b>0.31x</b>	<b>2.3x</b>

Source: CapitalIQ and company filings.

All figures in USD, where applicable, converted at rates as of December 31, 2019.

- (1) Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents as of closing price December 31, 2019.
- (2) Enterprise Value for OEMs calculated by excluding the debt for Company's Finance division
- (3) Closing share prices as of December 31, 2019.
- (4) EBITDA equals Earnings before Interest Expense, Income Taxes, Depreciation and Amortization.
- (5) Y-o-Y LTM revenue growth is not comparable due to acquisition of MacDon in February 2018.
- (6) Y-o-Y LTM revenue growth is not comparable due to acquisition of Federal Mogul in October 2018.

## Select Q4 2019 M&amp;A Transactions

Date Closed	Target	Buyer	Implied Enterprise Value (\$ mm)	Implied EV/LTM Revenue	Implied EV/LTM EBITDA
Pending	<b>Teksid Foundaries Business of Fiat Chrysler Automobiles N.V.</b>	Tupy S.A.	\$232.9	-	-
Pending	<b>Tekfor Spa</b>	Mutares SE & Co. KGaA	-	-	-
Pending	<b>Structural Components for Passenger Cars operations of Metalsa S.A.</b>	Martinrea International Inc.	\$19.6	-	-
Pending	<b>Nakata Automotiva S.A.</b>	Fras-le S.A.	\$109.2	-	-
Pending	<b>CITIC Dicastal Co., Ltd.</b>	Aluminum Alliances Limited	\$1,385.1	-	-
Pending	<b>German business of MITEC Automotive AG</b>	American Axle & Manufacturing Holdings, Inc. (AAM)	-	-	-
Pending	<b>Veoneer Nissin Brake Systems Japan Co., Ltd.</b>	Honda Motor Co., Ltd.; Nissin Kogyo Co., Ltd.	\$205.4	0.73x	-
Pending	<b>Veoneer-Nissin Brake Systems (Zhongshan) Co., Ltd.</b>	Honda Motor Co., Ltd.; Nissin Kogyo Co., Ltd.	\$135.6	1.08x	-
Pending <sup>(1)</sup>	<b>Keihin Corporation</b>	Honda Motor Co., Ltd. / Hitachi Automotive Systems	\$1,665.9	0.54x	5.0x
	<b>SHOWA Corporation</b>		\$1,328.4	0.52x	3.7x
	<b>Nissin Kogyo Co., Ltd.</b>		\$1,217.3	0.71x	5.3x
Pending	<b>Kendrick Plastics</b>	Green Light Growth Partners LLC	-	-	-
Pending	<b>SAS Autosystemtechnik GmbH &amp; Co.KG</b>	Faurecia S.E.	-	-	-
Pending	<b>Beijing Tianyuan Aote Rubber and Plastic Co., Ltd.</b>	Changzhou Tenglong Auto Parts Co., Ltd.	\$71.7	1.21x	5.9x
12/16/19	<b>U.S. Iron Casting Operations of AAM</b>	Gamut Capital Management, L.P.	\$245.0	0.31x	-
12/12/19	<b>DELVIS GmbH</b>	Minda Industries Limited	\$23.4	0.78x	-
12/09/19	<b>MTA S.p.A.</b>	Chequers Capital	-	-	-
11/27/19	<b>Vauste Spain SL</b>	DSA Investments	-	-	-
11/01/19	<b>Grupo Hispamoldes</b>	Quarza Inversiones	-	-	-
10/17/19	<b>Marion Industries Inc.</b>	Piston Automotive, LLC	-	-	-
10/11/19	<b>VT2i SAS</b>	BNP Paribas Developpement SA, SCR	-	-	-


















Source: CapitalIQ, Mergermarket and press releases.

Note: (1) Prior to carrying out the planned merger between Hitachi Automotive Systems and Honda Motor subsidiaries, Honda Motor will conduct recommended tender offers to make Keihin, Showa and Nissin Kogyo wholly owned subsidiaries. Honda Motor currently holds a 41.35% stake in Keihin, a 33.50% stake in Showa, and a 34.86% stake in Nissin Kogyo.

# KPMG Corporate Finance

Leading Advisor to the Automotive Sector<sup>(1)</sup>

## Select Transactions <sup>(1)</sup>

  <p>KPMG Corporate Finance</p> <p>acted as sole financial advisor to Bosch GmbH on the sale of Unipoint to Victory Industrial Corporation</p>	  <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 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 89 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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Sources:

- (1) International Energy Agency, Growing preference for SUVs challenges emissions reductions in passenger car market, by Laura Cozzi (October 15, 2019).
- (2) U.S. Energy Information Administration, January 2020 Monthly Energy Review – All Grades of Gasoline, U.S. City Average Retail Price (January 28, 2020).
- (3) Reuters, Top 20 vehicles sold in the United States in 2019 (January 6, 2020).
- (4) HSBC Global Research, Global Autos – Market nonchalant about 2020-22 risks at 9.5x PE (December 12, 2019).
- (5) Deutsche Bank Research, 2019 Auto Sales Review (January 8, 2020).
- (6) BofA Merrill Lynch Global Research, Car Wars 2020-2023 ... The Rise (and Fall) of the Crossover? (May 10, 2019).
- (7) EPA, The 2018 EPA Automotive Trends Report; Greenhouse Gas Emissions, Fuel Economy, and Technology since 1975 (March 2019).
- (8) The Wall Street Journal, Auto Makers See SUVs, Trucks Charging Electric-Vehicle Sales, by Ben Foldy (January 11, 2020).
- (9) LMC Automotive presentation at the 10<sup>th</sup> Aftermarket Conference in Istanbul, by Jonathan Poskitt (May 2019).
- (10) Barclays Research, Get ready for the Electric Urban Assault Vehicle (December 20, 2019); Press releases.
- (11) Digital Trends, Can electric cars be S3XY? Tesla says yes with the new Model Y crossover, by Ronan Glon (March 14, 2019).
- (12) Tesla webpage (accessed January 21, 2020).
- (13) Based on transaction records available from CapitalIQ as of January 15, 2020.
- (14) Honda Press Release, Notice regarding the Management Integration of Hitachi Automotive Systems, Ltd., Keihin Corporation, Showa Corporation, and Nissin Kogyo Co., Ltd. (October 30, 2019).
- (15) Quartz, By 2020, SUVs could make up 50% of US car sales, by Jill Petzinger (July 31, 2018).
- (16) The Wall Street Journal, Auto Makers See SUVs, Trucks Charging Electric-Vehicle Sales, by Ben Foldy (January 11, 2020).

## Important Disclosures

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