



Automotive Quarterly M&A Newsletter

Q2 2020

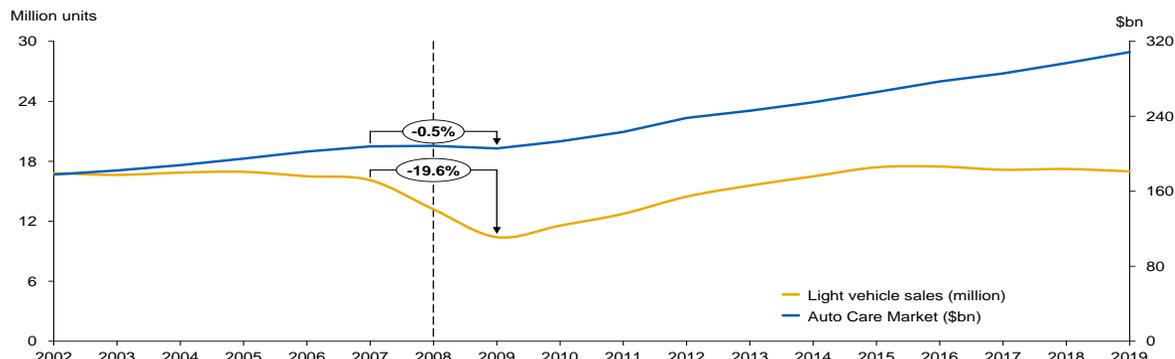


Automotive Aftermarket

Automotive Aftermarket - A More Stable Sector?

Automotive aftermarket products and services are often considered less susceptible to cyclicalty as the sector has generally performed better than OE parts suppliers during an economic downturn. Irrespective of economic conditions, car owners still need to keep their vehicles running – which has fueled demand for the aftermarket. Steady long-term consumer demand and a fragmented population of parts and services suppliers have provided an attractive environment for M&A activity in the aftermarket sector.

U.S. Light Vehicle Sales (million units)⁽¹⁾ and Auto Care Industry (\$bn)⁽²⁾, 2002-2019, million



Note: Aftermarket size includes DIFM and DIY sales of auto parts and services including tires, trim automotive aftermarket, specialty equipment products, and collision repair body parts

The COVID-19 Related Downturn is Different

In the current environment, people are leaving their cars in the garage. Government mandated stay-home orders, a shift to work-from-home, and fewer shopping trips have resulted in a reduced level of vehicle miles traveled (VMT). This abrupt change in consumer behavior has taken a much heavier toll on aftermarket sales than previous downturns, as replacement demand caused by wear-and-tear came to a near halt – despite higher spending on DIY repairs during the lock-down. KPMG estimates overall aftermarket revenues to decline by approximately 13% this year from 2019 levels.⁽³⁾

The Impact on VMT will be Powerful and Enduring

An analysis of VMT conducted by KPMG suggests that some changes we are experiencing as part of the response to COVID-19 are here to stay. A more permanent shift to work-from-home and online shopping could reduce VMT by as much as 10% or 270 billion miles per year. This decline will impact demand for aftermarket parts but affect certain aftermarket sub-segments differently. For example, demand for wear-and-tear products is a function of miles driven, and fewer miles will directly reduce demand for products such as brake pads and tires. On the other hand, parts like batteries will have an even shorter life if unused for an extended period, or if used more often for shorter trips in a work-from-home environment.⁽⁴⁾

Surge in Vehicles Reaching the Aftermarket Sweet Spot

Another key dynamic in the aftermarket segment results from the expected rise in vehicles reaching the historical replacement age of 6 to 11 years. Sales volumes reached record levels and stayed at around 17 million per year during the period from 2015-2019 – vintage years that will hit the “sweet spot” starting in 2021. At the same time, there has been a considerable shift toward higher-priced light trucks and SUVs. Owners of these vehicles are more likely to prefer branded aftermarket parts. These parts offer a favorable price-to-value proposition as compared to more expensive OE parts, which are often required by warranty or lease agreements in the first years of vehicle ownership. They also outperform cheaper, often imported white label parts, better aligning the vehicle’s remaining life with the expected life of the replacement part.

Automotive Aftermarket Amid Economic Downturn

M&A Market Impact

In the context of an M&A transaction, valuing aftermarket companies based on financial performance during the pandemic will not be meaningful. Financial results from this period will not accurately represent the underlying business's earning power – and buyers mostly agree. Where disagreement is most likely to prevail is the expected path to recovery. From a seller's perspective, using past performance before the current environment as a reference point might be an obvious and convenient choice. Still, it would neglect the heightened level of uncertainty and the more fundamental changes resulting from COVID-19 that a buyer will have to face. These diverging viewpoints will make it more challenging to find common ground when negotiating a transaction.

Bridging The Financial Performance Gap

Financial projections will be subject to increased scrutiny by investors to ensure that they are reflective of trends revealed during or resulting from the crisis. Some of the critical factors that M&A market participants will focus on to assess value for automotive aftermarket businesses will include the following:

Impact of Reduced VMT on the Product Portfolio

Robust financial projections will require realistic assumptions on wear-and-tear characteristics of the aftermarket product portfolio and how replacement demand is impacted as VMT changes. This level of detail will allow for meaningful discussions regarding how the new reality will impact consumer trends and the target company's financials, in a scenario where VMT will potentially take several years before it returns to levels seen in 2019.

Operational Flexibility to Handle Demand Swings

The COVID-19 situation revealed the benefits of a flexible cost structure. With the possibility of more lock-downs, supply chain disruption, and economic uncertainty, companies with a proven ability to quickly adjust their cost structures will be viewed more favorably. Likewise, the flexibility to rapidly ramp up production while maintaining a low cost and capex profile will be essential to address the upcoming demand from the wave of cars hitting the replacement sweet spot of 6 to 11 years.

Price-to-Value Positioning

Product positioning in the branded aftermarket segment, where the perceived value per dollar spent outranks OE parts, but which outperforms cheaper, often imported white label parts in terms of performance and longevity, will provide the best market exposure in the upcoming surge of "sweet spot" vehicles from the 2015-2019 vintage.

Exposure to Light Truck and SUV Segment

The extent of exposure to the light truck and SUV segment has been a major determinant of success for OEMs and suppliers over the last years when its market share reached new highs. As these vehicles hit the sweet spot replacement age, aftermarket companies with a product portfolio geared toward the light truck segment will be best positioned to take advantage of an aftermarket sales rebound.

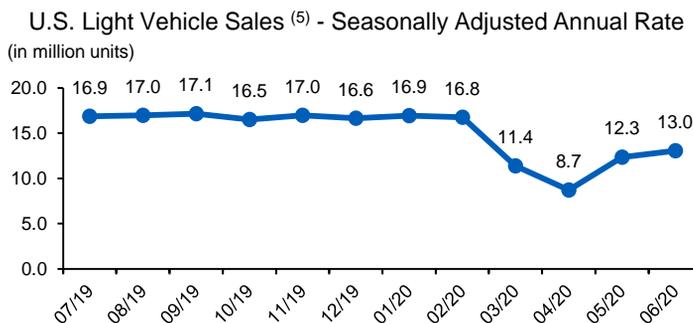
Sales Channel Focus on E-commerce

Surging online sales and direct access to a loyal customer base have proven to be critical success factors during the pandemic. This trend is expected to accelerate rather than reverse in a post-pandemic world, and will therefore require a thorough analysis of the online sales strategy and how rising online sales affect margins and other sales channels.

Automotive Industry M&A Synopsis and Key Takeaways

Automotive M&A Market Synopsis

- The global automotive industry recorded 71 M&A deals in the second quarter of 2020, a 4% decline on a Q-o-Q basis and 13% decline on a Y-o-Y basis
- The automotive parts and equipment segment recorded 52 M&A deals in Q2 2020, a decline of 9% on a Q-o-Q basis, and 24% on a Y-o-Y basis. The drop in majority stake transactions was much steeper, witnessing 21% decline on a Q-o-Q basis and 31% on a Y-o-Y basis
- While the current circumstances and resulting lock-downs continue to disrupt automotive production and M&A activity, the sector consolidation is expected to accelerate in the coming months and years, as the industry is likely to face overcapacities and cost pressure



The COVID-19 outbreak resulted in a sharp decline in light vehicle sales. Automotive companies shifted their capital allocation toward protecting the balance sheet, de-emphasizing M&A. As a consequence, main drivers for transactions in Q2 2020 were distressed situations involving financial buyers or focused on areas and geographies less impacted by the health crisis

Key Takeaways

The Aftermarket, a Recession Resilient Part of the Auto Industry, Might See a Lasting Impact from COVID-19

- The automotive aftermarket is affected more substantially in the current downturn. Lasting changes in consumer behavior due to COVID-19 are reducing vehicles miles traveled, a key driver for aftermarket demand
- On the other hand, the aftermarket is set to benefit from a wave of cars hitting the sweet spot replacement age starting in 2021, as a result of the strong light vehicles sales in the years 2015-2019
- Both factors will change deal dynamics, as buyers and sellers need to focus on new consumer behaviors impacting the financial performance of aftermarket companies over the next years

Valuation Observations and Sector Performance

- The valuation multiples, for both auto parts suppliers and OEMs, have increased over the previous quarter
- Supportive policies and the hope of a quick economic recovery has helped the market bounce back, despite depressed earnings

At the end of Q2'20 the average EV / LTM EBITDA multiples were:

NA Auto Parts Manufacturers **6.9x**
↑ 1.7x Q-o-Q

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: M&A deal volume is based on M&A transaction records available in CapitalIQ (including both majority and minority stakes).

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⁾⁽²⁾	Share Price ⁽³⁾	% 52 Wk High	Revenue	Revenue Growth	EBITDA % ⁽⁴⁾	LTM EBITDA ⁽⁴⁾	NTM Revenue	NTM EBITDA ⁽⁴⁾
North American Auto Parts Manufacturers											
Adient plc	IE	1,541	5,175	16.42	56.1%	15,587	(8.4%)	3.8%	8.8x	0.40x	8.4x
American Axle & Manufacturing	US	859	3,969	7.60	59.7%	6,155	(13.7%)	15.1%	4.3x	0.90x	8.1x
Aptiv PLC	IE	21,040	25,792	77.92	78.7%	14,008	(2.6%)	14.4%	12.8x	2.12x	17.9x
BorgWarner Inc.	US	7,317	8,506	35.30	75.8%	9,881	(4.2%)	16.1%	5.3x	1.04x	7.2x
Cooper-Standard Holdings Inc.	US	224	859	13.25	26.1%	2,885	(18.4%)	4.7%	6.3x	0.37x	18.5x
Dana Incorporated	US	1,761	4,224	12.19	60.8%	8,383	2.6%	10.6%	4.7x	0.64x	7.7x
Delphi Technologies PLC	GB	1,227	2,841	14.21	72.4%	4,155	(11.8%)	10.3%	6.6x	0.83x	8.8x
Gentex Corporation	US	6,310	5,978	25.77	82.4%	1,844	0.4%	31.2%	10.4x	3.59x	12.0x
Gentherm Incorporated	US	1,268	1,295	38.90	77.9%	942	(9.5%)	14.5%	9.5x	1.64x	16.1x
Lear Corporation	US	6,532	8,199	109.02	76.0%	19,108	(7.1%)	8.7%	4.9x	0.51x	8.2x
Linamar Corporation	CA	1,763	2,895	26.98	73.7%	4,933	(9.2%)	14.1%	4.2x	0.70x	6.4x
Magna International Inc.	CA	13,268	17,493	44.45	80.3%	37,497	(7.7%)	9.8%	4.8x	0.57x	8.2x
Martinrea International Inc.	CA	604	1,292	7.56	69.7%	2,620	(0.2%)	11.3%	4.4x	0.57x	5.7x
Nexteer Automotive Group Limited	US	1,721	1,527	0.69	51.3%	3,576	(8.6%)	11.8%	3.6x	0.48x	3.5x
Stoneridge, Inc.	US	558	658	20.66	60.0%	799	(6.9%)	8.6%	9.5x	1.17x	NM
Tenneco Inc.	US	614	6,196	7.56	46.4%	16,802	NM ⁽⁵⁾	7.0%	5.3x	0.45x	8.8x
Visteon Corporation	US	1,906	2,145	68.50	64.6%	2,851	(1.9%)	6.7%	11.2x	0.82x	14.0x
North American Auto Parts Manufacturers Mean					65.4%	(6.7%)	11.7%	6.9x	0.99x	10.0x	
North American Auto Parts Manufacturers Median					69.7%	(7.4%)	10.6%	5.3x	0.70x	8.3x	

Source: CapitalIQ and company filings.

All figures in USD, where applicable, converted at rates as of June 30, 2020.

- (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, 2020.
- (2) Enterprise Value for OEMs calculated by excluding the debt for Company's Finance division
- (3) Closing share prices as of June 30, 2020.
- (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 Federal Mogul in October 2018.

Select Q2 2020 M&A Transactions

Date Closed	Target	Buyer	Implied Enterprise Value (\$ mm)	Implied EV/LTM Revenue	Implied EV/LTM EBITDA
Pending	SaarOTEC	ErMa-Tec GmbH	-	-	-
Pending	Dura Automotive Systems (European Subsidiaries and Assets)	DE Buyer LLC (Lender Group)	\$50.0	-	-
Pending	China XD Plastics Company Limited	Faith Dawn Limited	\$1,081.6	0.70x	8.2x
Pending	First Sensor AG	TE Connectivity Ltd.	\$403.3	2.30x	33.5x
07/01/20 [#]	Cooper-Standard Automotive, Inc (Sealing and rubber fluid transfer systems businesses in Europe and India)	Mutares AG	-	-	-
07/01/20 [#]	RECTICEL Automobilsysteme GmbH	Admetos GmbH	-	-	-
06/30/20	Lisi Automotive Mohr + Friedrich GmbH	ZerobaseInvest Holding GmbH	-	-	-
6/19/20	Techniplas LLC	The Jordan Company, L.P.	-	-	-
06/04/20	Original One Parts, LLC	Kinderhook Industries, LLC	-	-	-
05/11/20	Costruzione Emiliana Ingranaggi SpA	Alto Partners	\$81.2	1.21x	5.6x
05/06/20	Cal-Tex Protective Coatings, Inc.	Yorkville Advisors Global LP	-	-	-
04/17/20	Metalcaucho	BBB Industries	-	-	-
04/09/20	Adam's Polishes, Inc.	Recochem Inc.	-	-	-
04/08/20	engineering technologie marketing gmbh	Callista Private Equity	-	-	-

[#] Deals announced in Q2 2020.

Source: CapitalIQ, Mergermarket and press releases.

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KPMG Corporate Finance

Leading Advisor to the Automotive Sector^(*)

Select Transactions ^(*)

  <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>

() 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 147 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) LMC Auto
- (2) Auto Care Factbook 2021
- (3) Stop-start: Auto aftermarket sales have stalled because of COVID19 but a demand surge in on the horizon, KPMG 2020
- (4) Automotive's new reality: Fewer trips, fewer miles, fewer cars?, KPMG 2020
- (5) Federal Reserve Bank of St. Louis – Economic Research, US Light Vehicle Sales, webpage accessed on July 28, 2020

Important Disclosures

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