



Automotive Quarterly M&A Newsletter

Q4 2021



Noise, Vibration & Harshness (NVH) (1/2)

Recent M&A Trends

As the semiconductor shortage continues to impact the automotive industry, several leading car makers have been forced to close production lines temporarily.

The auto chip shortage, which stemmed from chip makers reallocating capacity to high-growth consumer electronics markets during the lockdown, is expected to extend to CY2022. Initially impacted by the resurgence of COVID-19 in Southeast Asia – a key area for microchip testing, assembly, and packaging – chip manufacturers still struggle to catch up to the robust demand from the automotive market due to long lead times for capacity expansion. As a result, the chip shortage continues to slow down the recovery in the auto industry.

Amid low inventories of new vehicles at car dealerships, more people are buying used cars, resulting in a significant price surge. IHS Markit is expecting a subdued auto production well into 2022. On the back of 2.60 million units of global output lost in Q2'21 and 3.45 million in Q3'21, IHS has now revised its estimates from ~1.57 million to ~1.67 million units to be lost in Q4'21 industry-wide.

In addition to the economic consequences of COVID-19 and inflated raw material prices, NVH automotive suppliers are facing many unique challenges. The evolving landscape, primarily driven by vehicle electrification and the trend toward lightweighting, requires consistent improvements and adaptation to new materials and technologies. While pressure to innovate is increasing, vehicle production is expected to remain below 2019 levels, making acquisitions the primary source to improve economies of scale. The highly fragmented NVH market will offer opportunities for industry consolidators that seek to gain scale and acquire new capabilities, but strategic investors can expect to heavily compete with financial sponsors, as their interest in the automotive sector is on the rise.

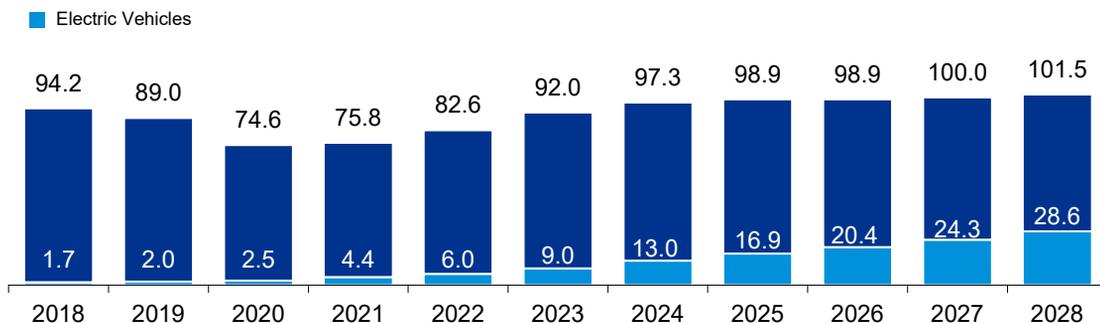
Critical Transaction Considerations in NVH M&A

➤ Shift To Electric-Powered Vehicles

The ongoing industry shift from internal combustion engines (ICEs) to battery-powered vehicles has resulted in new opportunities for in-cabin improvements, including refining the acoustics of an automobile. Since electric vehicles (EVs) do not have traditional engine noise that masks squeaks and rattles, sounds produced by the road and mechanical components make their way into the vehicle's cabin. Additionally, EVs open up new application areas for the treatment and insulation of bothersome high-frequency noise generated from the electric motor. With self-driving cars on the horizon, it will be imperative to reduce cabin noise as time spent in the car will begin to shift toward other productive and leisure activities requiring a low-noise environment.

According to IHS Markit, EVs will account for 28% of globally produced vehicles by 2028. With more EV-focused companies entering the market, suppliers need to examine their NVH offerings and address the specific acoustic requirements of EV OEMs. Suppliers that serve thriving EV platforms will be able to achieve higher growth rates and therefore be more attractive to potential suitors.

Increasing global EV market penetration over the years (million units)



Source: IHS Markit – September 2021

Noise, Vibration & Harshness (NVH) (2/2)

Critical Transaction Considerations in NVH M&A (Contd.)

➤ *Innovation Driven by Lightweighting Trends*

Suppliers face constant pressure to develop innovative NVH offerings that enhance product performance to meet increasingly complex requirements. In addition to vehicle electrification, lightweighting in support of increased fuel efficiency is constantly changing NVH requirements in vehicles. OEMs and NVH suppliers are focusing on developing capabilities that provide the dual advantage of maintaining quieter cabins while also lowering weight and fuel consumption. For example, in June 2020, Nissan developed an advanced acoustic barrier material that is 75% lighter than conventional sound insulation materials. Companies with the ability to develop and efficiently manufacture advanced lightweighting products are able to achieve superior pricing and increase profitability. However, only if these innovations are aligned with and developed in close cooperation with OEMs can suppliers expect to realize a premium pricing and a return-on-investment required to support the research & development process.

➤ *Efficient Material Processing*

With material costs being the main cost driver in the NVH sector, reducing scrap is a major driver of profitability. The NVH manufacturing process generates large amounts of scrap from cut-outs for specific corners and areas of the vehicle. Given the narrow margins in the NVH sector, the scrap generated needs to be minimized and ideally fed back into the production cycle. To improve material processing efficiency and achieve cost benefits, larger suppliers have started investing in expanding their recycling capacity and setting up closed-loop recycling systems – a process by which scrap is fed back into the production process indefinitely without losing its properties. While cost improvements are the main driver for suppliers to invest in these closed-loop recycling systems, an eco-friendly production process also helps address current sustainability trends. OEMs are likely still hesitant to pay a premium for sustainably sourced/recycled material. However, suppliers that have already invested in these capabilities are set to benefit as the sustainability trend further gains traction.

➤ *Customer Concentration*

NVH component suppliers typically engage in contracts directly with OEMs or large Tier-1 suppliers. Within the heavily consolidated automotive industry, this often leads to a customer base tilted toward a few players, resulting in customer concentration. As a result, OEMs have significant negotiating power over NVH suppliers.

A high degree of customer concentration is viewed critically by investors, especially financial investors, due to the risk of potentially losing a large contract or customer. However, the underlying dependency is often mutual, as OEMs/Tier 1s cannot suddenly change suppliers without risking massive disruptions to their own operations. A detailed analysis of the supplier-customer relationship can help investors better assess the supplier's risk profile, including length and depth of the relationship, potential alternatives, and financial structure of the contract(s), to name a few.

➤ *Industry Diversification*

The automotive industry is one of the largest end markets for NVH material manufacturers. Consequently, the industry exposure of NVH suppliers is heavily geared toward automotive end markets. Given the automotive industry's inherent cyclical nature, this naturally leads to higher sales and cash flow volatility. Exposure to other industry sectors, including aircrafts, space-crafts, consumer electronics, and industrial machinery, can lower concentration risks and significantly increase the attractiveness of a business in the eyes of investors.

Automotive Industry M&A Synopsis and Key Takeaways

Landmark M&A Announcement

Unifrax, a Portfolio Company of Clearlake Capital, Acquired Lydall, a Provider of Engineered Products for Assistance In Noise and Heat Abatement Within the Transportation and Industrial Sectors

Enterprise Value (EV)	EV / Revenue	EV / EBITDA
\$1,357 million	1.72x	15.3x

On June 21, 2021, Unifrax announced an agreement to acquire Lydall in a transaction with a total enterprise value of approximately \$1,357 million. Lydall's acquisition will expand Unifrax's product portfolio to include thermal-acoustical solutions, performance materials, and technical nonwovens.

"The Unifrax-Lydall combination creates a one-of-a-kind specialty materials platform capable of driving transformative impact in the spaces we all care about, areas including fossil fuel reduction, improved energy storage, and cleaner air. With our expanded portfolio and nearly doubled global footprint, we are poised to deliver even more cutting-edge, market-leading products and innovation to customers around the world. We're just getting started, and we're excited about the opportunities ahead." - **John Dandolph, President & Chief Executive Officer of the Combined Entity**

Key Takeaways

The highly fragmented NVH market will attract interest from industry consolidators looking to gain scale and acquire capabilities to address ongoing trends, as well as from financial sponsors seeking to invest in the automotive sector

- The rise of EVs, which lack the noise masking effect of traditional ICEs, presents new challenges for NVH management. Additionally, high-frequency tonal motor noise is offering new opportunities for suppliers to provide EV-specific solutions and thereby achieve higher growth rates
- With lightweighting being a significant industry driver, NVH suppliers are under constant pressure to meet mounting demand from OEMs for solutions that ensure quieter cabins while also lowering weight and fuel consumption
- Due to thin margins in the NVH industry, minimizing scrap is a major driver of profitability. To achieve cost benefits, suppliers are investing in recycling capabilities. This, in turn, would also help address current sustainability trends
- NVH providers typically contract directly with OEMs or Tier-1 suppliers. This leads to higher customer concentration as the automotive industry, one of the largest end markets, is heavily consolidated. While the underlying dependency is often mutual, venturing into other sectors can help reduce concentration risks

Valuation Observations and Sector Performance

■ The valuation multiples for NVH and diversified auto parts suppliers have slightly decreased over the previous quarter	At the end of Q4'21 the average EV / LTM	NVH Suppliers	6.2x
	EBITDA multiples were:	Diversified Automotive	8.1x
			(0.1x) Q-o-Q
			(0.3x) Q-o-Q

KPMG Corporate Finance



Middle Market Investment Bank of the Year 2021

- Global M&A Network awarded KPMG Corporate Finance as "Investment Bank of the Year 2021" under the global outstanding mid-market firm segment, along with various cross border deals and industry specific awards



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

Select Public NVH Companies

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⁾
NVH Suppliers											
Autoneum Holding AG	CH	863	1,546	186.15	84.4%	2,055	1.5%	8.3%	9.1x	0.78x	7.3x
ErlingKlinger AG	DE	801	1,301	12.64	61.1%	1,935	15.2%	14.3%	4.7x	0.67x	5.1x
Nichias Corporation	JP	1,598	1,362	24.09	89.8%	1,887	6.7%	15.0%	4.8x	0.73x	4.8x
Unique Fabricating, Inc.	US	23	81	1.96	26.1%	131	8.2%	0.3%	NM	0.58x	11.6x
NVH Suppliers Mean					65.4%	7.9%	9.5%	6.2x	0.69x	7.2x	
NVH Suppliers Median					72.8%	7.5%	11.3%	4.8x	0.70x	6.2x	
Diversified Automotive											
Compagnie Plastic Omnium SA	FR	3,776	4,950	26.00	66.0%	9,362	9.9%	3.8%	13.9x	0.55x	5.0x
Continental Aktiengesellschaft	DE	21,179	26,520	105.89	70.2%	46,301	18.2%	13.9%	4.1x	0.66x	4.9x
Cooper-Standard Holdings Inc.	US	381	1,268	22.41	46.8%	2,426	0.9%	1.8%	NM	0.49x	12.8x
Dana Incorporated	US	3,291	5,965	22.82	80.2%	8,780	25.7%	9.2%	7.4x	0.63x	6.4x
Faurecia S.E.	FR	6,410	10,577	47.57	82.4%	19,388	9.9%	9.0%	6.1x	0.54x	3.8x
Martinrea International Inc.	CA	730	1,558	9.09	70.7%	3,007	18.0%	8.8%	5.9x	0.53x	5.3x
Sumitomo Corporation	JP	18,460	44,363	14.77	99.2%	45,188	4.8%	6.8%	14.5x	0.98x	11.5x
Tenneco Inc.	US	928	5,891	11.30	49.7%	18,296	23.0%	6.9%	4.7x	0.32x	4.4x
Diversified Automotive Mean					70.6%	13.8%	7.5%	8.1x	0.59x	6.8x	
Diversified Automotive Median					70.4%	13.9%	7.8%	6.1x	0.55x	5.2x	

Sources: CapitalIQ and company filings.

All figures in USD, where applicable, converted at rates as of December 31, 2021.

- (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, 2021.
- (2) Closing share prices as of December 31, 2021.
- (3) EBITDA equals Earnings before Interest Expense, Income Taxes, Depreciation and Amortization.

Select Recent NVH M&A Transactions

Date Closed	Target	Buyer	Enterprise Value (\$ mm)	EV / Revenue	EV / EBITDA
10/08/21	Lydall	Unifrax (Clearlake Capital Group)	\$1,356.9	1.72x	15.3x
09/01/21	Fuji Corporation	The Japan Wool Textile	\$22.5	0.12x	NM
06/30/21	STS Group	Adler Pelzer	\$73.7	0.26x	4.2x
03/31/21	Fritz Nauer AG	Recticel Flexible Foams	\$295.8	0.91x	NA
08/30/19	Fiber Solutions Division of Jason Industries	Motus Integrated Technology	\$85.0	0.59x	NA
10/29/19	LORD Corporation	Parker-Hannifin	\$3,675.0	3.64x	16.5x
09/12/18	Uniseal	LG Chem	\$133.0	2.25x	NA
Mean				1.36x	12.0x
Median				0.91x	15.3x

Sources: CapitalIQ and press releases.

Select Recent NVH M&A Transactions (without multiples)

Date Closed	Target	Buyer	Enterprise Value (\$ mm)
08/20/21	Faurecia Acoustics and Soft Trim Business	Adler Pelzer	-
02/04/21	CTA Acoustics	Trèves Group; Kotobukiya Fronte	-
03/08/21	Paragon Union Berhad	AKK Capital (Koon Hoi Chun)	\$14.0
12/15/20	FAIST Anlagenbau	Paguasca	-
11/19/20	Aetna Felt Corporation	Creative Foam (Industrial Opportunity Partners)	-
02/29/20	Dynamat	Gladstone Investment	-
10/30/20	Acoustics Division of STS Group	Adler Pelzer	-
07/01/20	Eurofoam	Greiner Group	-
02/05/20	Automotive Interior Trims and NVH Business of Futuris Automotive	Supreme Group	-
11/05/19	Flow Dry Technology	Filtration Group (Madison Industries)	-
10/03/19	Damping Technologies	Graham Partners	-
05/28/19	Pritex	Compagnie de Saint-Gobain	-
03/31/19	Material Sciences Corporation	Sky Island Capital	-
04/03/19	Enbi Global	Watermill Management Company	-
04/01/19	Anti-Vibration Systems Business / Sujun Cooper Standard	ContiTech USA	\$265.5
09/17/18	Acoustic & Insulation Techniques	Talde Private Equity	-
08/29/18	Applied Acoustics International	Vistech Manufacturing Solution	-
07/07/18	Rockfibras do Brasil	Saint-Gobain do Brasil	-

Sources: CapitalIQ and press releases.

KPMG Corporate Finance

Leading Advisor to the Automotive Sector⁽¹⁾

Select Transactions ⁽¹⁾

  <p>Deal Advisory</p> <p>acted as exclusive financial advisor to the insolvency administrator of FINOBA Automotive GmbH on its sale to Hanomag Aluminium Solutions GmbH</p>	  <p>KPMG Corporate Finance</p> <p>acted as sole financial advisor to Unipoint to Victory Industrial Corporation</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 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>

(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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End Notes

Sources:

- (1) IHS Markit
- (2) Capital IQ
- (3) Multiple Broker Reports