

Consolidation in the Global Automotive Supply Industry 2014

This study analyzes the global automotive supplier consolidation trends and assesses suppliers strategic and operational capabilities and financial performance. Take a closer look at the key underlying technology and business trends affecting automotive suppliers and driving consolidation.





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Automotive supplier M&A activity is likely to increase again; about 211 deals in 2014, a 13% increase over 2013.

Private equity activity is up, representing 22% of all deals in the last 12 month.

North American based supplier are again the strongest consolidators in 2014.

The vast majority of all deals in 2013 and 2014 are in Powertrain, Chassis and Exterior systems.

For the first time since 2011, automotive supplier Mergers & Acquisition (M&A) activity is expected to increase; based on data for the first six-months of 2014. PwC estimates about 211 deals for the year, which will be a 13% increase over 2013.

We attribute this uptick in supplier M&A activity to:

- Suppliers aligning with automotive original equipment manufacturers' (OEM) global platform strategies—the continued push toward global platforms is leaving smaller regional suppliers exposed, and thus looking to accelerate their global foot print growth.
- Automotive industry recovery in Europe—the improving vehicle assembly forecasts in Europe are providing additional confidence for large global suppliers and mid-sized European suppliers alike, fueling their appetite for acquisitions.
- The need for new and complementary technologies to address future automotive trends from “light-weighting,” and powertrain enhancements and “autonomous driving” to the “connected car”—the continued emphasis on emissions and fuel economy continues to define major segments of M&A activity and with a growing focus on driver connectivity, new, non-traditional players are now entering the automotive M&A space.

Bottom line, large global suppliers from North America and Europe are back at the buying front.

PwC's study identifies large global North American and European suppliers as the biggest consolidators in 2014. While the North American suppliers were among the largest consolidators already in the last three years, the re-emergence of the European suppliers as consolidators is a recent development. Also noteworthy is the increased involvement of Private Equity in the resurgence of automotive supplier consolidation with almost a quarter of all deals in 2014 involving Private Equity firms.

The majority of all automotive supplier acquisitions globally are targeting powertrain and chassis suppliers. There appears to also be increased interest in exterior suppliers and suppliers supporting the “connected car” developments.

We hope you will find this information helpful. Feel free to reach out to us to schedule a detailed private briefing, including benchmarking of auto suppliers relevant to you.

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Winners and losers

For the fourth year in a row, North American suppliers, especially those in the Global 100 (the largest suppliers by automotive revenue), are the strongest consolidators in 2014. European suppliers have recovered from the prolonged automotive recession in Europe and represent the second largest group of 2014 top consolidators. In fact, 47% of the top global consolidators are North American, 30% are European; the remaining are from China, Japan and

Korea. North American and European suppliers also are the main targets of acquisitions, representing 67% of all deals closed.

The findings reaffirm what many in the industry are observing with respect to significantly higher supplier profitability. Chinese and Japanese suppliers lead the pack, with 16% and 15% gains in earnings before interest, taxes, depreciation, and amortization (EBITDA) over 2012, respectively. Most regions can claim

double digit supplier EBITDA margin improvements. The suppliers who appear to have the most difficulty in 2013/14 are Indian and South Korean, with Indian suppliers still emerging from their own industry downturn showing a sales decline of 6% in 2013 (when converted to US currency) and Korean suppliers suffering from increased localization of both, Hyundai and General Motors from South Korea to North America and Europe.

Figure 1: Growth and profitability of the auto supply industry

	Sales**				EBITDA**					EBITDA as % of Sales 2012	EBITDA as % of Sales 2013
	Total 2012 (\$B)	Total 2013 (\$B)	'12 vs '13 Δ%	Count	Avg. 2013 (\$B)	Total 2012 (\$B)	Total 2013 (\$B)	'12 vs '13 Δ%	Avg. 2013 (\$B)		
Global 100*	855	896	4.8%	87	10.3	87.1	97.2	11.6%	1.1	10.2%	10.9%
Brazil	4	4	-1.4%	4	1.0	0.4	0.5	15.3%	0.1	9.8%	11.5%
China	40	48	17.9%	61	0.8	4.3	5.0	16.1%	0.1	10.7%	10.5%
Europe	341	359	5.3%	86	4.2	36.7	39.6	8.0%	0.5	10.7%	11.0%
India	22	21	-6.1%	53	0.4	2.6	2.6	-0.2%	0.1	11.8%	12.5%
Japan	371	385	3.8%	122	3.2	35.9	41.4	15.4%	0.3	9.7%	10.8%
N. America	271	281	3.6%	76	3.7	28.6	32.1	12.1%	0.4	10.6%	11.4%
S. Korea	107	114	5.8%	54	2.1	11.1	11.5	3.5%	0.2	10.4%	10.2%

*Global 100 Companies Also Counted in Regional Numbers

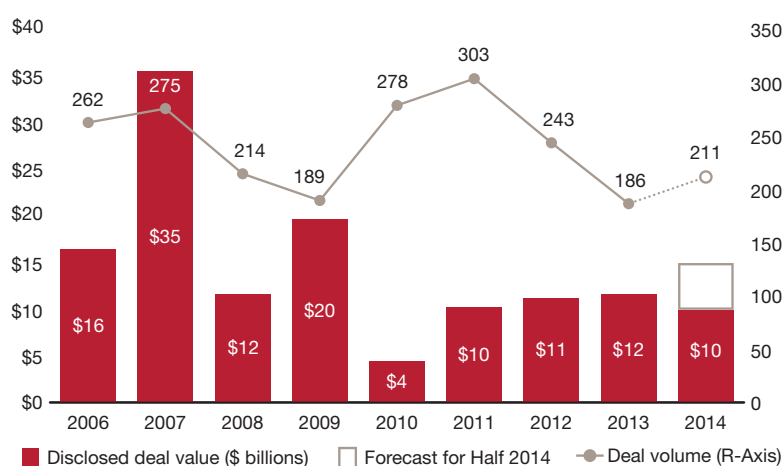
**Financial figures include revenue resulting from automotive sales only

Source: CapIQ, Publicly available financial data, PwC Analysis

The deal count

Automotive supplier M&A activity is showing strength for the first time since 2011. While the number of deals is expected to reach 211, deal values remain low. Excluding the significantly sized Gates acquisition that closed in July of 2014, the average deal size has dropped slightly since 2013 from \$65 million to \$58 million. However, due to the increased auto M&A activity, for 2014 PwC anticipates a total deal value of \$15 billion which is 25% higher than last year.

Figure 2: Component suppliers M&A activity (only closed deals, by year closed) 2006-2014YTD



Source: Thompson Reuters and other publicly available sources

Who's buying?

North American suppliers overtook European suppliers for the first time since 2008 in the amount of deals initiated. 32% of all transactions were initiated by North American companies, overtaking European suppliers, who dropped from 35% last year to 30% of all deals this year. Chinese firms surprisingly slowed down their buying activities in 2014, dropping from 10% of deals down to 5%.

Korean buyers are showing an increased appetite for automotive acquisitions and represent 9% of all 2014 deals (6% in 2013).

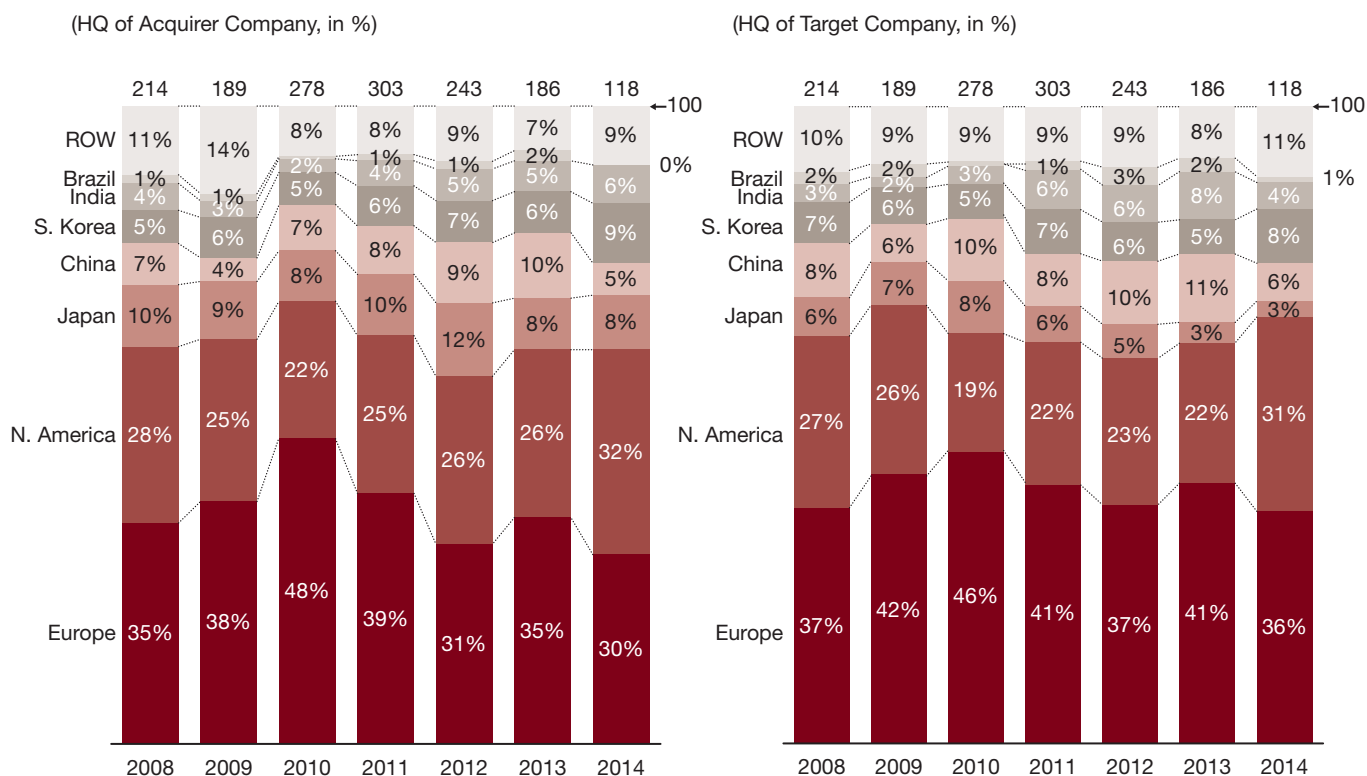
Private Equity activity also is up, representing 22% of all deals in the past 12 months. In fact, four of the largest ten automotive supplier deals globally were initiated by Private Equity firms. Of all the Private Equity deals completed over the past 12 months, the distribution by region is very similar to the overall distribution with European targets representing 38%, North American targets at 31% followed by Korea at 14% and China at 10%.

Who's being bought?

While European based automotive suppliers continue to be the main targets of acquisitions, with 36% of all deals in 2014, suppliers headquartered in North America saw a dramatic increase in their share of the M&A space; increasing from 22% of all targets in 2013 to 31% in 2014.

Chinese suppliers were less often pursued in the first six months of 2014 than in 2013 which, we believe, is a temporary phenomenon.

Figure 3: Number of supplier M&A deals by region 2008-2014 YTD (Only closed deals, by year closed)



Source: Thomson Reuters, PwC Analysis

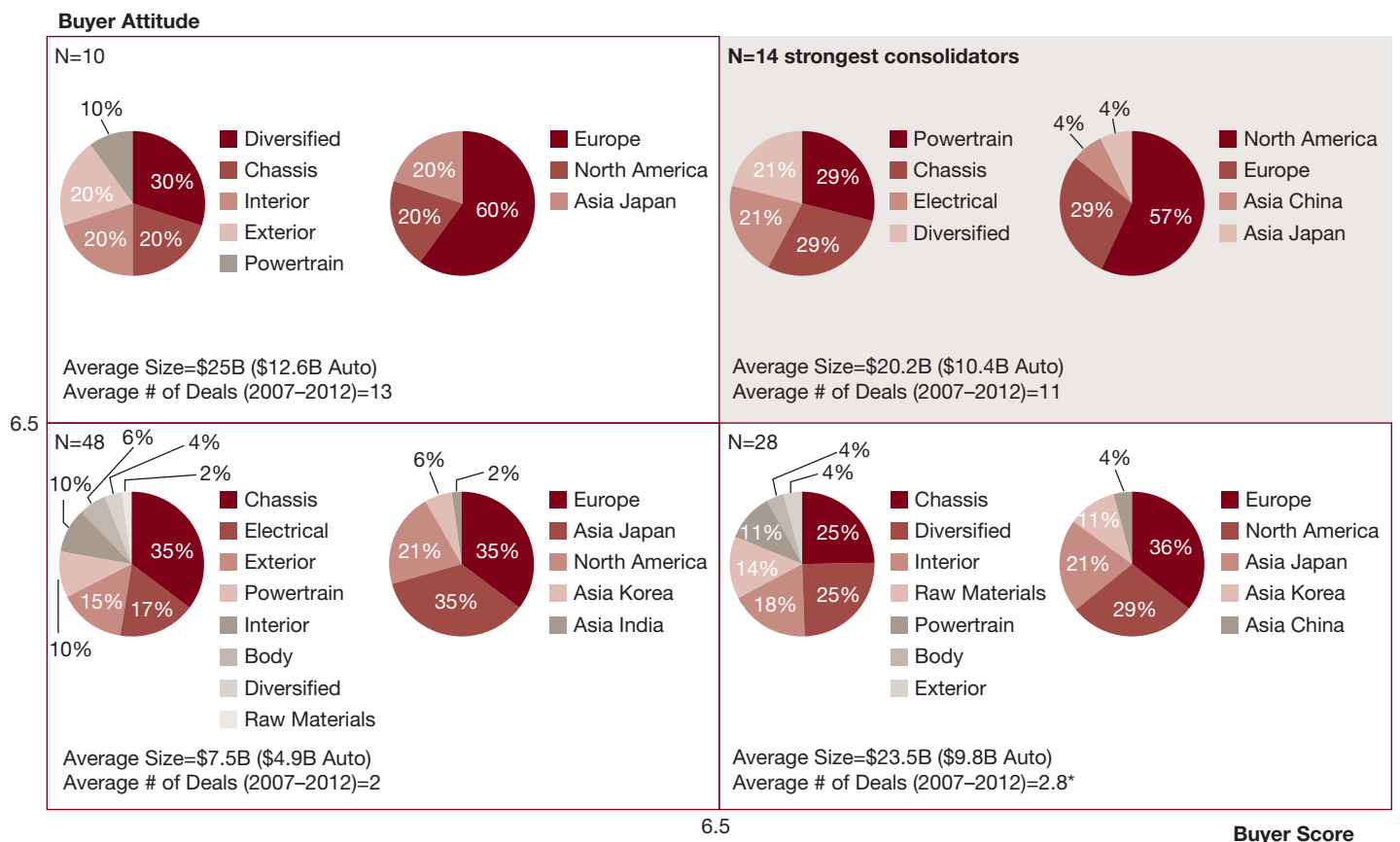
Which technologies are popular — a look at M&A activity by vehicle system

Similar to 2013 and consistent with the previous three years, the majority of all deals in 2014 are in Powertrain and Chassis systems, with an unexpected, yet notable uptick in Exterior systems, particularly in North America. Over the past 12 months, 46% of all automotive deals globally were in Chassis and Powertrain systems, down slightly from 53% in 2013 but still representing the lion's share of deals. Exterior suppliers are becoming more popular targets growing from 8% to 10% of all automotive supplier deals globally, and even 15% in North America.

Emissions and fuel economy regulations continue to be the primary driver for this focus on powertrain and chassis systems with many of the deals centered around companies that focus on subsystems which directly impact emissions and/or fuel economy (including some hybrid and electric technologies) such as fuel system, cooling system and transmission components.

Further, we found increased M&A activity in the “connected car” space, which offers traditional suppliers of consumer electronics an opportunity to engage with OEMs, a trend that is starting to transform the automotive supply base. “Connected car” technologies include a wide array of electrical and electromechanical subsystems such as infotainment, driver assist and driver information systems just to name a few.

Figure 4: Geographic and system analysis of top consolidators



Source: PwC Analysis
Scores are calculated using PwC's proprietary scoring model and represent a company's ability to acquire (buyer score) and propensity to acquire (buyer attitude score)

Recall activities impact the global automotive supply base

More than 35 million vehicles have been affected by North American recalls in 2014, which is a higher level than in any of the past 20 years. This is partly due to the well reported recall of GM vehicles related to faulty ignition switches, but also due to the heightened sensitivity that OEMs currently display related to product quality in safety related systems.

Since 2010, airbags represent the largest cause of recalls, even more than ignition switches. Approximately 11.4 million vehicles were recalled for airbag related issues between 2013 and 2014, which could impact profitability for these suppliers in the years to come.

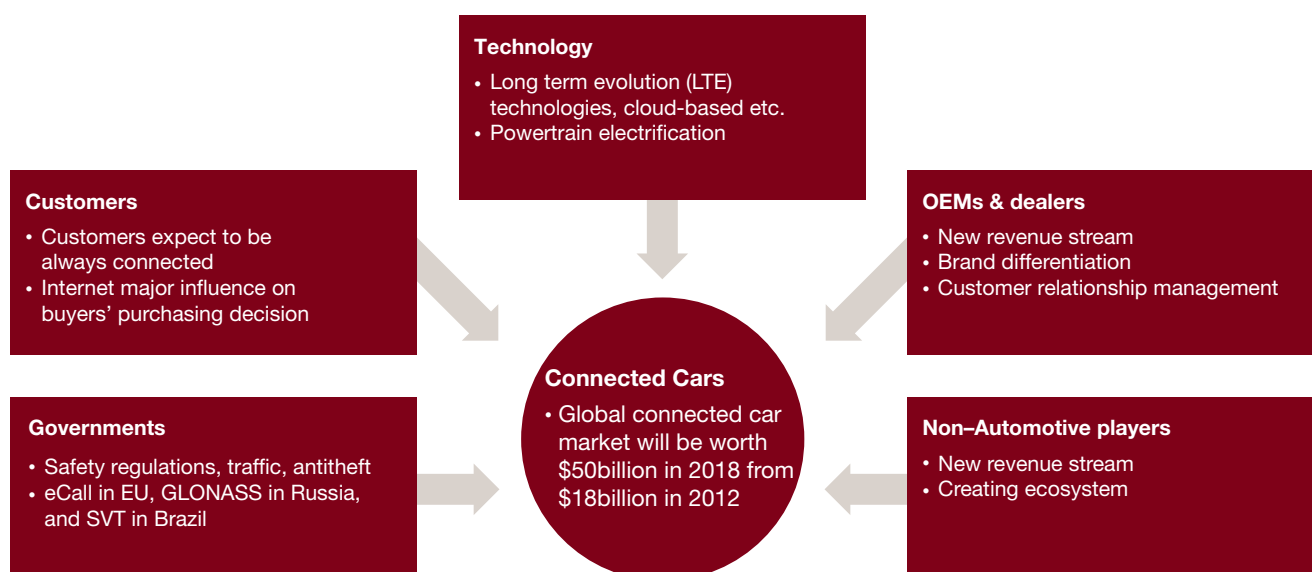
If the trend of high volume recalls continues in the future, we expect OEMs to accelerate and expand cost sharing with their supply base. This could have significant financial implications for suppliers of airbags, ignition, steering, and speed control subsystems going forward.

The global “connected car” market is expected to be worth approximately \$50 billion by 2018, up from \$18 billion in 2012, according to another PwC study "In the fast lane: The bright future of connected cars", originally published by Booz & Company.

Three notable M&A trends over the past 12 months in this space are:

- Traditional OEM suppliers buying high-tech ventures to enter or solidify their position in this part of the automotive value chain
- Non-traditional automotive supply tech giants emerging in the vehicle space to increase their product offerings through joint ventures
- OEMs trying to acquire new technologies, i.e. Ford acquiring Livio

Figure 5: Traditional suppliers of consumer electronics are now engaging with OEMs and transforming the automotive supply base



Our view of the road ahead

Supplier profitability is powered up—driving global M&A

Automotive supply industry increases M&A clock speed. For the first time since 2011, auto supplier M&A activity is increasing. While average deal value remains in the same range as before at around \$50 million per transaction, PwC expects a year-end total deal value of about \$15 billion USD, which will be 25% higher than 2013. With significant profitability increases for most suppliers, a solid vehicle production recovery in Europe and continued growth in most other key automotive regions, especially China, we see suppliers continuing to utilize M&A to bolster business opportunities.

Going global, going high-tech. With OEMs continuing to increase the use of global platforms, smaller suppliers need to become more global in order to be able to support the launch of these global platforms on up to five continents simultaneously. Further, emissions and fuel economy regulations around the world are driving advancements in conventional powertrain technology (i.e., direct injection), new powertrain technologies (i.e., batteries), exhaust control, and light weighting that suppliers will need to strategically analyze and prepare for in their strategic planning. Adding opportunities around the “connected car” to the mix makes the playing field for automotive suppliers even more complex.

Leading segments. As anticipated, we saw a lot of supplier M&A transactions in Powertrain and Chassis systems and this is likely to continue throughout 2014/15, as these systems are less consolidated and subject to continued innovation. New in 2014, is the increased M&A activity in Exterior systems. We attribute this partly to the inclusion of additional electronics and safety content (i.e., exterior rearview mirrors with safety warning systems) which will likely drive continued growth in this area. Further, “connected car” and “autonomous driving” opportunities likely will open up new revenue streams for suppliers and OEMs alike, inviting both, traditional and non-traditional automotive suppliers. As consumers demand even more electronic and infotainment features, we are likely to see M&A growth in this newly chartered territory; many established suppliers are still lagging these capabilities and may not have the resources to grow them organically.

North American suppliers ripe for buying and selling. For the fourth year in a row, select North American suppliers in the Global 100 are anticipated to be among the biggest consolidators; 11 out of the top 23 consolidators are North American suppliers. Smaller North American suppliers also were targeted the most for acquisitions in the last 12 months.



It's a seller's market when it comes to Private Equity. With 22% of all deals being Private Equity driven over the past 12 months, it's clear that the industry is likely viewed as having strong growth and return opportunities. Strong suppliers, plenty of excess capital and strong negotiating positions are driving EBITDA multiples higher than they have been in years and success stories abound within Private Equity circles that will likely continue to hook the middle market players.

China continues to rev up for future growth. Chinese suppliers are continuing to invest most in CAPEX and grew the fastest in 2013 with 18%. Their growth was double that of the Chinese automotive OEMs, indicating that Chinese suppliers are gaining share of the global supply landscape. Chinese suppliers also increased profitability the most, with 16% EBITDA growth. While the automotive supply industry in China reduced its M&A activity in 2013, it is still very fragmented and has only forged a limited number of large multi-billion dollar suppliers. We will likely see the Chinese suppliers playing a far bigger role in driving both, the local consolidation, as well as engaging in global deals in the years to come.

Recovery of the European auto industry is taking shape. We continue to expect the European automotive industry to gain momentum leading into 2015 and beyond. European suppliers are looking much stronger in 2014, driven by a significant uptick in their domestic markets. Vehicle production in Europe is anticipated to grow by at least 20% over the next five years, driven by both, an aging vehicle park and localization efforts of Asian OEMs in Europe.

Our methodology

Consolidation in the Global Automotive Supply Industry, in its seventh consecutive year, is based on financial, operational, and strategic data collected by a global team of PwC automotive specialists representing all of the major automotive markets.

We looked at the top 100 global automotive suppliers in depth as well as 708 additional suppliers from key regions, such as Brazil, China, Europe, India, Japan, North America, South Korea and South-East Asia. Suppliers included in the study are Tier 1, Tier 2, Tier 3 and Raw Material suppliers. Relying on data from public information sources and proprietary research, including interviews with industry observers, select suppliers and OEMs, our team runs a model that utilizes more than 30 variables, weighted appropriately for each category. The variables assess suppliers' strategic positioning, financial performance and operational capabilities across eight categories:

- **Size and criticality**
- **Capital structure and health**
- **Segment commodity structure**
- **Business health**
- **Business flexibility**
- **Customer base**
- **Ownership structure and management**
- **Acquisition history**

Scores were then developed to reflect each supplier's vulnerability to acquisition or breakup, and its likelihood of acquiring part or all of other companies. Although many of the companies covered in the study are privately held, we gathered sufficient data to score 80% of all suppliers in the study.



PwC's automotive practice

Our global automotive practice leverages its extensive experience in the industry to help companies solve complex business challenges with efficiency and quality. One of our practice's key competitive advantages is PwC's Automotive Management Consulting team of global industry specialists with unique expertise in automotive product development, manufacturing, supply chain and sourcing. The Automotive Management Consulting team, which conducted the underlying research for this study, provides our team of more than 4,800 automotive professionals and our clients with insights and analyses to assess implications, make recommendations, and support decisions to effectively compete in the global marketplace.

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