Automotive transactions and trends

Global automotive mergers and acquisitions review

2Q 2014 (April–June)

Robust global automotive deal activity in 2Q14

The first half of 2014 has been very positive for the global automotive sector with strong growth, particularly in developed markets and, as expected, companies announcing big-ticket M&A transactions. 2Q14 deal values were the third highest in the last eight quarters led by the suppliers and leasing sub-segments primarily in the Americas region. Private Equity (PE) funds continue to capitalize on the bull run in the stock markets to exit their automotive investments at substantial profits. Simultaneously, new PE players find value in acquiring stakes at current valuations, which underline the growth potential of the automotive sector. Interestingly, the Original Equipment Manufacturers (OEMs) sub-segment witnessed medium-sized strategic divestment deals in the Commercial Vehicles (CV) space in Turkey and China. Also noteworthy is the fleet and leasing sub-segment that has witnessed big-ticket Venture Capital (VC)/PE investments in innovative technology-based mobility companies, driving high valuations.

Looking ahead, transactions in the automotive sector should be driven by positive economic sentiment, enhanced credit availability, as well as increased confidence in the number and quality of opportunities and likelihood of deals closing.

<table>
<thead>
<tr>
<th>Market</th>
<th>Value (US$bn)</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>8.8</td>
<td>49</td>
</tr>
<tr>
<td>China</td>
<td>1.4</td>
<td>24</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.0</td>
<td>3</td>
</tr>
<tr>
<td>Germany</td>
<td>0.7</td>
<td>15</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.4</td>
<td>2</td>
</tr>
<tr>
<td>India</td>
<td>0.2</td>
<td>7</td>
</tr>
<tr>
<td>UK</td>
<td>0.1</td>
<td>14</td>
</tr>
<tr>
<td>Japan</td>
<td>0.1</td>
<td>13</td>
</tr>
<tr>
<td>Others</td>
<td>0.3</td>
<td>63</td>
</tr>
<tr>
<td>Total</td>
<td>13.0</td>
<td>190</td>
</tr>
</tbody>
</table>

Source: Dealogic

Mark Short
Global Automotive Industry Leader
Transaction Advisory Services
Automotive sub-sector transactions analysis and outlook

Car and truck manufacturers (OEMs)

2014 analysis

- OEM deal values exhibited a marginal decline of 5% y-o-y and a steep decline of 94% q-o-q (due to effect of VW/Scania and Fiat/Chrysler deals in 1Q14). Meanwhile, deal volumes declined 15% y-o-y and 35% q-o-q.
- Turkey, China and Russia were the largest acquiring countries with a 90% share by deal value – driven by medium-sized strategic divestments in the commercial vehicle space.
- Firms with diversified business interests have acquired these divested divisions to gain access to defense vehicle manufacturing and energy efficient vehicle manufacturing businesses.

Outlook

OEMs are expected to continue to adopt a cautious approach toward deal making, with a focus on restructuring of operations, generating synergy from past acquisitions, expanding the geographic footprint and gaining access to new technologies.

Parts and equipment manufacturers (suppliers)

2014 analysis

- Supplier deal values more than doubled y-o-y and increased by 23% q-o-q, driven by strategic secondary PE buyouts/exits in the Americas region. US, China and France were the largest acquiring countries with a 95% share in deal values, while the US, Brazil and China were the largest target nations with a 90% share.
- Blackstone's acquisition of Gates Global for US$5.4b, from Onex Corp and Canada Pension Plan Investment Board, was the largest PE buyout of an industrial company in the last four years.
- Michelin acquired Sascar Participações SA from the Latin American PE firm, GP Investments, to expand its presence in the professional truck fleets telematics market.

Outlook

Transaction activity in this segment is expected to be driven by strategic exits by PE firms amid strong stock market performance and suppliers' focus on increasing global presence, liquidation of non-strategic business divisions and gaining access to new safety and electronics technologies.

Car and truck sales and repair (retail and aftermarket)

2014 analysis

- Retail and aftermarket deal values were flat y-o-y, while declining by 68% q-o-q. As compared to this, deal volumes declined by 10% y-o-y, indicating a small increase in average deal size.
- UK, Japan and Malaysia were the largest target nations, accounting for two-thirds of deal values.
- This segment witnessed certain strategic PE investments/divestments for funding expansion plans and, in some cases, paving the way for IPOs.

Outlook

Companies need to enhance distribution networks in emerging markets, improve customer experience through digital marketing solutions and provide integrated connectivity services. In addition, PE investments are expected to drive retail and aftermarket segment deals.

OEM deal highlights

70% Contribution of top two deals in total deal value in the past year (3Q13–2Q14)
93% Completion percent of deals announced in the past year (3Q13–2Q14) based on deal values as compared to 82% by deal volumes

Supplier deal highlights

67% Share in deal values, second highest in last eight quarters
35% Completion percent of deals announced in the past year (3Q13–2Q14) based on deal values as compared to 85% by deal volumes

Retail and aftermarket deal highlights

73% Share of Asia-Pacific region in deal values in 1H14 (1Q14–2Q14), followed by 15% for EMEIA
92% Completion percent of deals announced in the past year (3Q13–2Q14) based on deal values as compared to 90% by deal volumes
Fleet and leasing
2Q 2014 analysis

- Fleet and leasing segment deal values grew by nine times y-o-y and four times q-o-q. As compared to this, deal volumes increased by 26% y-o-y, indicating a sharp increase in average deal size.
- US was the largest target nation, accounting for 95% of deal values.
- Element Financial completed a 100% acquisition of PHH Arval for US$1.4b to create a leading position in the North American fleet management market.
- This quarter witnessed big-ticket VC/PE investments of US$1.2b and US$250m in Uber Technologies and Lyft Inc, respectively. Uber’s valuations rose to an unprecedented US$18b, underlining investors’ confidence in companies riding the wave of the new collaboration economy.

Outlook
Transaction activity in this segment is expected to be driven by capital requirements of players to access new geographies and expand product offerings/solutions. Government and private sector initiatives to provide integrated personal mobility solutions are expected to drive consumer adoption and entry of new players.

Data source and industry scope
The analysis and perspectives in Automotive transactions and trends are based on global financial releases and Dealogic data. Automotive covers vehicle (car and truck) manufacturers, parts and equipment manufacturers, retail and distribution (vehicles and parts), and fleet and leasing (fleet management, rental, car sharing) companies. Deal activity and valuations may fluctuate slightly based on the final date of data collection and analysis by EY.

EY’s Capital Agenda – key considerations and implications

- Integrate government incentives, direct loans and guarantees in capital-raising strategies
- Refinance debt, equity and other obligations
- Execute “loan-to-own strategies” providing opportunities to raise capital
- Perform increased stress testing of investment business cases given the uncertain volume levels
- Select acquisition of market share, technologies or geographic coverage
- Perform mobility business readiness assessment and integration methodology, as well as revenue synergy analysis
- Balance cost reduction with sustainable process change
- Institutionalize and integrate working capital initiatives
- Divest carefully - implement risk management process around divesture cycle to maximize cash benefits
- Improve information flows to support enhanced visibility of liquidity and cash risks
- Enhance business modelling and cash forecasting systems and capabilities
- Maintain a dynamic business and product portfolio assessment process to support liquidity needs
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