In 2013, automotive players adopted a cautious approach toward inorganic growth and focused on optimizing product portfolios and internal business structures. Meanwhile, 1Q14 has started on a positive note with deal values hitting a two-year high on the back of big-ticket investments by European automakers and suppliers in increasing their stakes in JVs and subsidiaries to realize complete synergy benefits from combined businesses.

The automotive companies that responded swiftly to the weak economic climate by focusing internally are now in a better position to capitalize on growth as economic conditions improve. These companies are focusing on investing in new geographies or markets, especially emerging or high-growth developed markets, and exploiting existing technologies. While at the same time, some European automakers are still struggling with mounting losses and have resorted to rescue capital investments by local governments and other international shareholders. Financially strong automotive suppliers continue to acquire business units on sale to expand their presence in high-growth segments and markets.

Looking ahead, transactions expectations in the automotive sector continue to rise driven by positive economic sentiment, enhanced credit availability as well as increased confidence in the number of opportunities, quality of opportunities and likelihood of deals closing. BRIC is expected to continue being the top choice for acquisition capital deployment with a focus on gaining market share.
Automotive sub-sector transactions analysis and outlook

Car and truck manufacturers (OEMs)

1Q14 analysis

- OEM deal values grew 3 times y-o-y and 14 times q-o-q driven by the big-ticket deals from European automakers aimed at improving operational efficiency and synergy benefits with complete integration of subsidiary businesses.
- Meanwhile, deal values increased by 27% y-o-y and 75% q-o-q, indicating a substantial jump in average deal size.
- Germany, Italy and China were the largest acquirer countries with a 93% share in deal values.

OEMs deal highlights

| Contribution of top two deals in total deal value in last one year (2Q13-1Q14) | 70% |
| Completion % of deals announced in last one year (2013-1Q14) based on deal volumes as compared to only 40% by deal values | 87% |

Outlook

OEMs are expected to adopt a cautious approach toward deal making with a focus on restructuring of operations, synergy savings generation, expansion of geographic footprint and getting access to energy efficient technology.

Parts and equipment manufacturers (Suppliers)

1Q14 analysis

- Supplier deal values grew 2.3 times y-o-y and 55% q-o-q on the back of continued portfolio rationalization by large suppliers in the US and Europe. These divested business units were acquired by suppliers looking to expand presence in new geographies or related business lines.
- UK, Germany and the US were the largest acquirer countries with a 92% share in deal values, while Germany and the US were the largest target nations with a 92% share.

Supplier deal highlights

| Increase in global supplier deal values during the last one year (2013-1Q14) as compared to 2Q12-1Q13 | 2X |
| Completion % of deals announced in last one year (2013-1Q14) based on deal volumes as compared to only 38% by deal values | 89% |

Outlook

Supplier transaction activity is expected to be focused on the scaling-up of 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)

1Q14 analysis

- Retail and aftermarket deal values increased by 30% y-o-y, while it declined by 22% q-o-q. As compared to this, deal volumes declined by 10% y-o-y, indicating an increase in average deal size.
- Transaction activity was driven by the need to provide consolidation and expansion of distribution networks in emerging markets, enabling integrated services in the digital marketing field, and private equity (PE) investments.
- China was the largest target nation accounting for around two-thirds of deal values.

Retail and aftermarket deal highlights

| Share of Asia-Pacific region in deal values in 1Q14 as compared to 65% in 1Q13 and 17% in 4Q13 | 80% |
| Completion % of deals announced in last one year (2013-1Q14) based on deal volumes as compared to only 80% by deal values | 94% |

Outlook

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

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 + trucks) manufacturers, parts and equipment manufacturers, and retail and distribution (vehicles + parts) companies. Deal activity and valuations may fluctuate slightly based on the final date of data collection and analysis by EY.
About the barometer

EY’s Global Capital Confidence Barometer is a regular survey of senior executives from large companies around the world conducted by the Economist Intelligence Unit (EIU). The respondent community comprises an independent EIU panel of senior executives and select EY clients and contacts. Our ninth (CCB) provides a snapshot of our findings, gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agenda.

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
- Balance cost reduction with sustainable process change
- Institutionalize and integrate working capital initiatives
- Divest carefully - implement risk management process around divestiture 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
- 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

Economic outlook
Confidence in economy rises to a two-year high

- 58% of respondents view the economy as improving as compared to 52% a year ago

Business growth outlook
Balanced focus on growth and cost reduction

- 45% of respondents have a primary focus on cost reduction and operational efficiency over the next 12 months

Access to capital
Credit availability expected to remain strong

- 88% of respondents consider credit availability as stable or improving (highest in two years)

M&A
Global deal volumes expected to improve

- 60% of respondents expect global M&A volumes to improve in the next 12 months

- 61% of respondents cite gaining share in new and existing markets to be a primary focus of acquisition capital
For a conversation about your capital strategy, please contact us:

Mike Hanley
Global Automotive Leader
+1 313 628 8260
michael.hanley02@ey.com

Mark Short
Global Automotive Industry Leader
Transaction Advisory Services
+1 313 628 8760
mark.short@ey.com

Jim Carter
Americas Automotive Industry Leader
Transaction Advisory Services
+1 313 628 8690
jim.carter@ey.com

Stephan Hellmann
Partner, Transaction Advisory Services
+ 49 6196 996 25030
stephan.hellmann@de.ey.com

Tony Tsang
Far East and Oceania Automotive Industry Leader
Transaction Advisory Services
+86 21 2228 2358
tony.tsang@cn.ey.com

Peter Wesp
Partner, Transaction Advisory Services
+49 61 96996 27282
peter.wesp@jp.ey.com

Anil Valsan
Global Automotive Lead Analyst
+44 20 7951 6879
avalсан@uk.ey.com

Regan Grant
Global Automotive Marketing Leader
+1 313 628 8974
regan.grant@ey.com

Acknowledgements

Special thanks to EY Knowledge automotive analysts Abhishek Gupta and Bhaskar Mazumdar for the analysis and compilation of this study.