Automotive transactions and trends 2016

Global automotive mergers and acquisitions review

Produced by Global Markets – EY Knowledge
The global automotive industry is in a rapid state of change. An evolution of products and processes, people and places, software and services. The industry is likely to experience more change in the next decade than it has in the previous 50 years. Digitalization and innovation will drive this change. So too will relationships, whether they be with consumers or strategic partners. Success in this new age of automotive will rely heavily on the ability to adapt and adjust, quickly. To access the products, services and skillsets of tomorrow's automotive industry today.

While organic growth remains important, automotive companies continue to utilize M&A as a strategic tool to access the critical talent, intellectual property and innovation necessary to prosper in the reshaping automotive landscape. Smaller, smarter deals are likely to drive transaction activities.

Traditional deal challenges remain, but many others have emerged in this new environment. As sector convergence increases, the integration of assets outside a company's traditional core is far less straightforward, requiring customer-centric solutions. Additionally, the rise of nationalist politics adds a new layer of complexity to cross-border investment strategies and deal assessments.

Despite the challenges, automotive companies fully understand that improving their competitive edge requires a sharp focus on acquiring innovative assets that best position them for success in the new automotive ecosystem.
Executive summary

Disruptive trends continued to drive M&A in the automotive sector during 2016. With the industry transformation in mind, automotive companies took a cautious approach toward dealmaking the past 12 months, focusing on smaller and smart targets.

The average deal size stood at US$184.3 million in FY16.

*Year-over-Year (YOY)

Sub-sector insights

65.0%  
Share of component suppliers in the deal values in FY16  
Source: Dealogic

~26.1%  
YOY decline in retail deal values

Regional insights

Digital disruption and the blurring of sector lines have automotive companies planning for multiple possible futures – M&A plays a critical role as an important, transformative option for expanding on the core products and services of today – and accelerating the emerging businesses of tomorrow.
Executive summary

Despite strong deal fundamentals and a healthy deal environment, the rate of automotive transactions moderated in 2016, likely caused by Brexit, the US presidential election and weakening economic growth in China, among other factors.

Deal completion scenario* in the last two years

89.7%
Overall completion rate for deals announced in last nine quarters

77.1%
Average deals closed in the announced quarter, during 4Q14 to 4Q16

Continued confidence in the M&A market**

58%
of automotive executives expect to pursue acquisitions in the next 12 months

31%
of automotive executives expect the M&A market to improve in next 12 months, while an additional 63% expect a stable M&A market

62%
of automotive executives have a positive level of confidence with regard to the number of acquisition opportunities

The pace of investment in mobility, autonomous driving technologies and connected infotainment is accelerating. With the profit potential and growth opportunities within the new mobility landscape becoming more clear, both automotive and non-automotive companies are leveraging M&A or strategic partnerships to advance their market positioning, as evidenced by General Motors’ US$500 million Lyft investment and the US$8 billion Samsung-Harman international deal.

*Based on deal volumes.
** Insights from the latest Capital Confidence Barometer.
Source: Dealogic and Capital Confidence Barometer
Analysis by deal sizes

Middle-market transactions (those valued up to US$250m) continued to dominate acquisition plans. The number of upper-middle-market deals (those valued above US$250m and under US$1b) increased.

Deal volumes split by deal size, 4Q13–4Q16

Deal drivers

- Access to new customers, data
- Acquiring talent
- Access new technologies and intellectual property
- Move into new geographical markets

Tech companies such as Microsoft, Baidu, Alibaba, Google, IBM, Apple and CISCO, among others, are increasing collaboration with automotive players to develop next-generation technologies.

*Calculation based on deals with disclosed values.
Source: Dealogic
Cross-border deals in 2016

Cross-border acquisitions provide companies access to new markets, new business segments and new customers. However, these activities may be temporarily delayed due to recent events like the outcome of the US presidential election, Brexit and China’s new regulations on outbound foreign investment.

China is playing an increasing role in Asia-Pacific M&A activity, with their volume increasing from 120 deals in FY14 to 200 deals in FY16. China’s outbound M&A activity surged in 2015 and 2016 with an increase in pace and deal size. In addition, some of the largest domestic deals within Asia-Pacific during FY16 were announced by China, followed by Australia and Japan.

Where a company operates is as important as the segments in which it operates. Enterprises that undertake a robust portfolio review often move toward geographies that fill gaps or are ripe for disruption.

*The number in brackets represents the total number of deals in that country/region. Source: Dealogic*
Cross-border deals in 2016

Domestic and cross-border deals both remained strong during FY16. While smaller deals dominated the M&A landscape by volume, deals valued above US$250 million contributed more than 75% share to the total deal value for the same period.

Deal volume split by deal type*, FY12-16

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Cross-border</th>
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<tbody>
<tr>
<td>2012</td>
<td>375</td>
<td>27%</td>
</tr>
<tr>
<td>2013</td>
<td>299</td>
<td>29%</td>
</tr>
<tr>
<td>2014</td>
<td>361</td>
<td>23%</td>
</tr>
<tr>
<td>2015</td>
<td>369</td>
<td>28%</td>
</tr>
<tr>
<td>2016</td>
<td>407</td>
<td>26%</td>
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</table>

Number of deals by value category*, FY16

<table>
<thead>
<tr>
<th>Value Category</th>
<th>Domestic</th>
<th>Cross-border</th>
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</thead>
<tbody>
<tr>
<td>US$&lt;100</td>
<td>238</td>
<td>14.7</td>
</tr>
<tr>
<td>US$100-250</td>
<td>35</td>
<td>1.7</td>
</tr>
<tr>
<td>US$&gt;250</td>
<td>30</td>
<td>5.5</td>
</tr>
</tbody>
</table>

*Represent deals with disclosed values.
Source: Dealogic

Key drivers for cross-border deals

- Leverage cost base/economies of scale
- Access strategic proprietary assets and low labor cost
- Gradual easing of FDI and related regulatory processes
- Growing domestic demand for global products in emerging markets

With global growth moderating and uneven, cross-border M&A strategies are driven by companies seeking pockets of growth abroad. Steady cross-border acquisition activities highlight the increasing interconnectedness within the global economy.
Transaction drivers for the automotive value chain

- Restructuring of underperforming operations
- Optimizing costs and achieving operational efficiencies
- Accessing emergent technologies and innovation, such as self-driving cars and light-weighting
- Re-engineering operations and infrastructure, and making selective growth investments
- Securing private equity/activist investments for business expansion/restructuring
- Increasing investors’ confidence in tech-based mobility providers driven by the new collaboration economy
- Establishing distribution network in domestic markets
- Enhancing core business model and services
- Enabling integrated service offerings

- Geographic diversification to manage regional demand volatility
- Expanding or rationalizing product portfolio to maximize return on capital
- Access to new customer segments, products and industrial solutions

Key M&A drivers in 2016
Automotive sub-sector transaction trends and drivers
**Vehicle manufacturers (OEMs) transactions**

The growing number of autonomous driving, connectivity and powertrain technologies acquisitions highlights the importance of leadership positioning among passenger vehicle manufacturers in the burgeoning mobility landscape.

2016 deals were driven by autonomous driving, connectivity and alternate powertrain technologies. OEMs continue to accelerate the pace of their engagement with tech companies, both large and small.

Deal volume increased by ~28% YOY to reach US$12.3 billion.

Deal volumes decline by 16% YOY.

China, Japan and US were the largest acquirer countries, with a combined 91% share in deal value and 56% share in deal volume.

**Deal indicators**

- 68% Share of the top five deals in FY16 in total deal values
- 76% Completion rate of deals announced in 2H16 based on deal volumes
- 70% Completion rate of deals announced in 4Q16 based on deal volumes

*The Porsche-Scania deal contributed more than 60% to the total deal value during 1Q14.*

Source: Dealogic
Parts and equipment (supplier) transactions

With Samsung’s acquisition of Harman, a “new market entrant” booked the largest deal in the supplier space.

2016 deals were driven by self-driving revolution, control of multipart modules and interior business consolidation.

Deal values declined by 4% YOY to US$31.8 billion, while deal volumes increased by 3% YOY.

China, the US and Japan emerged as the largest acquirer countries, with 83% share in deal value.

China, the US and Germany were the largest target nations, accounting for more than 53% share by deal volume.

Deal indicators:

- 45% Share of the top five deals in FY16 in total deal values
- 72% Completion rate of deals announced in 2H16 based on deal volumes
- 63% Completion rate of deals announced in 4Q16 based on deal volumes

M&A strategy outlook

To keep up with advances in self-driving cars, infotainment and powertrains.

Wave of consolidation and access to the all-important interface between driver and vehicle.

Gaining access to new safety and electronics technologies.

Source: Dealogic
Retail and aftermarket transactions

Consolidation was an ongoing theme within the retail and aftermarket sub-sector in 2016. The parts and service retail business, while not glamorous, has tremendous upside potential, especially when considering continued vehicle sales growth globally.

2016 deals were driven by enabling integrated service offering and expansion of network.

Deal values declined by 26% YOY in FY16. However, deal volume increased by 5% YOY.

China, the UK and the US emerged as the largest acquirer nations, with a share of 64% in deal value.

The UK, the US and Canada were the largest target nations, accounting for more than 53% share by deal volume.

Deal indicators:
- 54% Share of the top five deals in FY16 in total deal values
- 88% Completion rate of deals announced in 2H16 based on deal volumes
- 83% Completion rate of deals announced in 4Q16 based on deal volumes

Source: Dealogic
Fleet and rental transactions

Transaction activities were moderate during 2016. However, with the expansion of mobility services such as ride-hailing, fleet and rental businesses could be strategic targets for new and existing transportation providers in the future.

FY16 deal activity focused on partnerships between OEMs and new entrants to address the changing consumer preferences around shared mobility.

Deal values declined by 72%, whereas deal volumes declined by 3% YOY, indicating a steep fall in the average deal values.

China, the US and France were the largest acquirer nations, contributing 62% share in deal value.

The US, the UK and France were the largest target nations, contributing more than 38% share by deal volume.

Deal indicators

- **54%** Share of the top five deals in FY16 in total deal values
- **90%** Completion rate of deals announced in 2H16 based on deal volumes
- **83%** Completion rate of deals announced in 4Q16 based on deal volumes

Source: Dealogic
Investing in mobility

Automotive companies are seeking leadership positions in the fast-evolving transportation landscape; M&A, strategic partnerships, collaboration complement in-house initiatives.

Active acquirers:
OEMs, suppliers and technology companies

- Audi, BMW (venture arm BMW i ventures), and Daimler have the highest number of acquisitions and collaborations among traditional automotive companies.
- Samsung, Siemens and Didi are leading non-automotive investors in mobility. Advancements in autonomous driving, connected vehicle, infotainment and GPS/mapping solutions are driving supplier investment activities.
- Recent high-value deals: Samsung-Harman (US$8 billion), Siemens-Mentor Graphics (US$4.5 billion) and the Uber-Otto acquisition (US$680 million).

Top target nations:
US, China, Germany

- OEMs and suppliers have been actively increasing investments in technology start-ups, particularly in the US, where OEMs are in an ongoing battle (among themselves and other tech giants - Apple, Google, etc.) for new talent, IP and breakthrough technologies.
- Germany is also an active region, with Daimler, Volkswagen, BMW, as well as large tier-1 suppliers, seeking innovation and talent.
- China has a growing presence in mobility M&A activities, including the blockbuster Uber-Didi merger (resulting in a ride-hailing service valued at US$35 billion).

Since 2012, more than US$22 billion in deals have been finalized in the automotive-mobility space

Rapid growth in autonomous and connected vehicle technologies has yielded investments of US$14 billion in the last five years

When considering deals by region, the US has been the most active market, with deal values reaching over US$15 billion*

The US had the highest number of deals, 27, with a lot of American automotive players investing in start-ups working in the autonomous and connected tech space

*US$8 billion attributed to Samsung-Harman deal
Capital and M&A outlook

Insights from the Automotive Capital Confidence Barometer

Digital and innovation drive M&A market

1. Global economic confidence challenged by volatility in currencies, commodities and other capital markets
   - 70% Respondents view the economy as either stable or modestly improving

2. Digitalization and sector convergence are likely prominent boardroom focus points
   - 34% Respondents indicating the impact of digital technology on business model as most prominent boardroom discussion point

3. Acquiring talents and access to new customers, data fuel cross-sector M&A
   - 55% Respondents cited acquiring talent as the main driver for acquisition outside of automotive sector

4. M&A strategy focused on cross-border acquisitions
   - 42% Respondents planning acquisitions outside their immediate region

31% Respondents cited access to new customers, details and databases as drivers for acquisition outside of automotive sector

58% Respondents planning domestic or intra-regional acquisitions in the next 12 months

Respondents cited geopolitical instability as the greatest business risk

49% Respondents indicating sector convergence/increased competition from other sectors as 2nd most prominent boardroom discussion point
EY’s Capital Agenda – key considerations and implications

Do you have the right capital structure to meet your strategic priorities?
- 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

What is the best way for your company to grow and is it aligned to core business?
- Assess investment opportunities and risks associated with new segments and business models
- Use need-based and strategic alliances, JVs and acquisition to gain technology and geographic coverage
- Build flexibility in emerging market investments

How can you improve the performance of your assets?
- 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
- Benchmark leading-class performance and pursue targeted change

What steps can you take to maximize your portfolio’s performance?
- Improve information flows to support enhanced visibility of liquidity and cash risks
- Enhance business modeling and cash forecasting systems and capabilities
- Maintain a dynamic business and product portfolio assessment process to support liquidity needs
- Evaluate effectiveness of currency and raw material hedging strategies
For a conversation about your capital strategy, please contact us:

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