

# Powering ahead in the automotive industry

**SPOT ON** | AUTOMOTIVE OEM SUPPLIERS | APRIL 2020

## **MARKET TRENDS** (pg.2)

We look at how technology is changing expected growth across product segments and discuss strategies and alternatives OEM suppliers should consider.

## **VALUATION TRENDS** (pg.5)

A review of the latest valuation trends, broken down by segment.

## **M&A OVERVIEW** (pg.9)

We chart deal volume and cross-border M&A, and summarize notable transactions closed in 2019.

## **CASE STUDY** (pg.11)

How the technical film company Prochimir's sale to Bostik, a subsidiary of major French industrial group Arkema, will help the firm achieve its growth objectives.

## **MARKET TRENDS**

The global automotive market continued to face challenges in 2019. IHS estimates global light vehicle unit sales volume decreased to 89.5 million units in 2019, a 4.5% decline compared with 2018, and global light vehicle production declined 5.8%, to an estimated 88.7 million units. These reductions were due to a combination of slowing economies and tightening credit conditions in major regions, pending carbon dioxide (CO<sub>2</sub>) mandates for lower emissions in Europe, India and China, global trade tensions, and continued uncertainty about Brexit.

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“With accelerating change in the industry, now more than ever automotive suppliers will need to assess their market position and core capabilities in order to determine the optimal strategy for success.”

**MATT MUELLER**

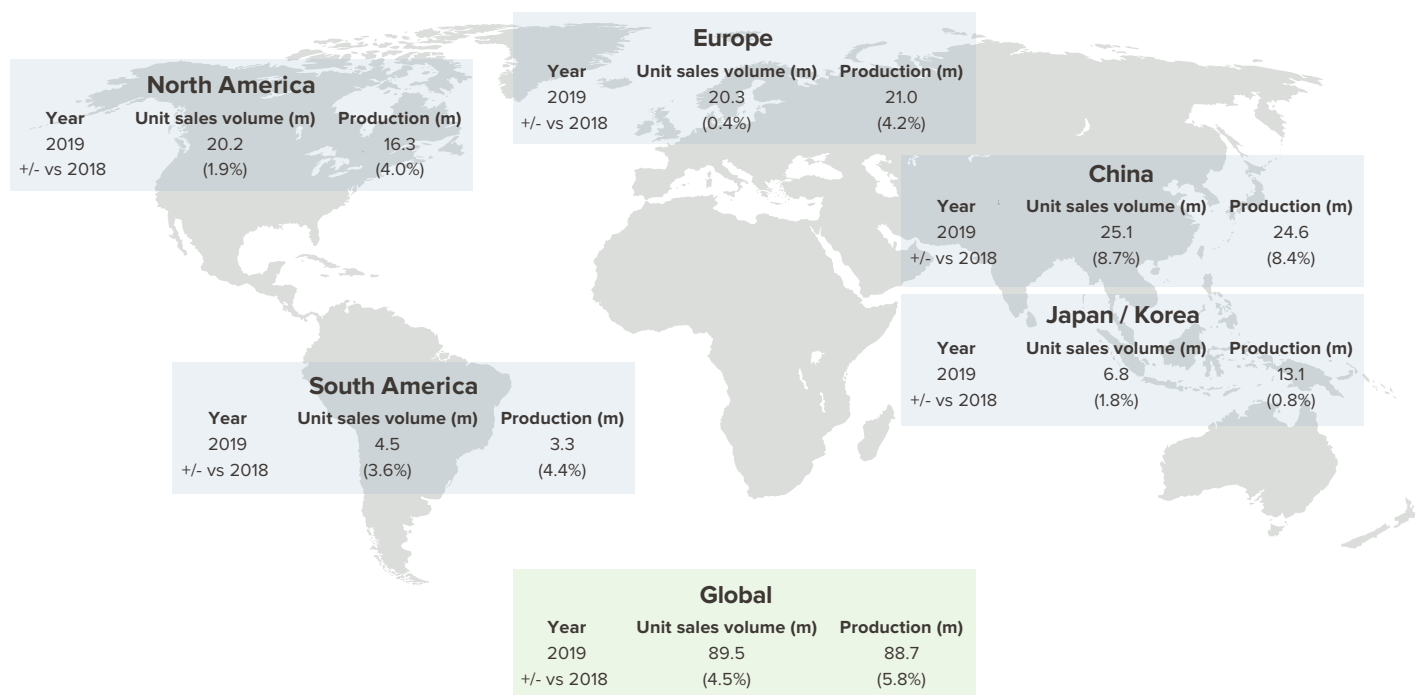
AUTOMOTIVE OEM SUPPLIER SPECIALIST  
OAKLINS





# Market trends

## Global light vehicle sales and production



Source: IHS Markit

Entering the year, IHS forecast global light vehicle demand to be 88.7 million units in 2020 (a decrease of 0.9% from 2019). However, with the continued spread of COVID-19, by late March IHS had reduced its 2020 global light vehicle sales forecast to 78.8 million units (a decrease of 12.0% from 2019).

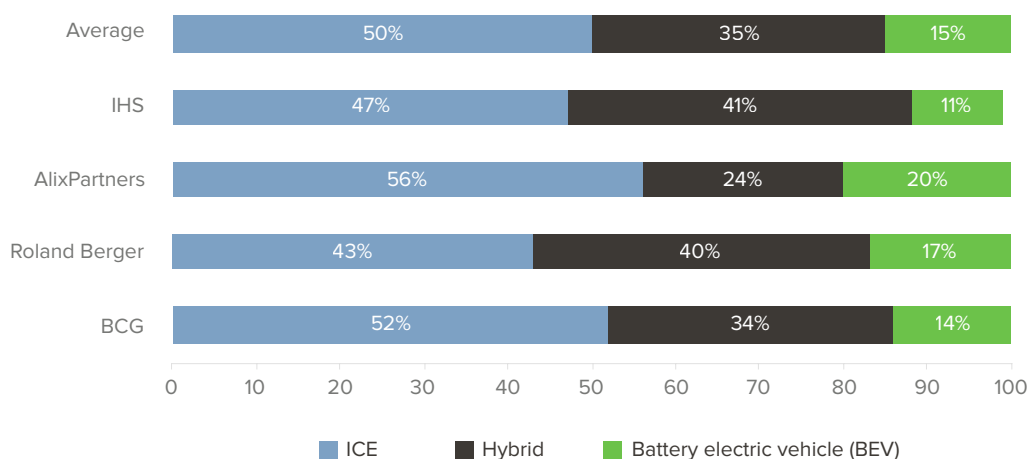
## FUTURE TRENDS AND STRATEGY

Investments in connected, autonomous, shared and electric (CASE) vehicle technologies are powering the evolution of the traditional automotive industry. While early predictions of the timeline for the industry to deliver Level 4 autonomous vehicles and technology were at best overly optimistic, significant investments are being made to develop these technologies. These investments have delivered Level 2 and 3 features that will continue to gain popularity with consumers and be included in a wider range of new vehicles.

Consumer preferences and regulatory requirements will also drive a near-term change in light vehicle propulsion systems. The current challenges to achieving wide adoption of electric vehicles are well known, including the cost of battery systems compared with traditional internal combustion technology, and concerns with limited charging infrastructure, battery range and charging times. Even with these challenges, the industry is rapidly working towards a future where electric powertrains are more prevalent. LMC Automotive reports that original

equipment manufacturers (OEMs) have announced more than US\$300 billion in investments in electrification, with additional investments planned by tier suppliers and for the required development of an electric charging infrastructure. In addition, OEMs have announced plans for more than 300 models with electrified powertrains. With this push to electrification, within 10 years it is expected that just 50% of light vehicles will be sold with internal combustion engines (ICEs), with another 35% utilizing a hybrid powertrain.

### 2030 powertrain mix forecasts



Source: Plastic Omnium Investory Day, 7 January 2020

**The dynamic changes in the automotive industry will require successful suppliers to assess their market position and core capabilities in order to determine the optimal strategy to maximize shareholder value.**

This analysis must include an evaluation of the long-term demand for the product segments served, their organization's ability to offer value-added manufacturing processes, product innovation or differentiation, and the firm's ability to access the capital required to support investments needed

for the company to have long-term success in its targeted segments.

Suppliers in high-growth segments will need to focus on maintaining technological and competitive advantages to remain at the forefront of key technologies driving the industry. Traditional suppliers in these segments will need to partner or acquire talent and capabilities to better compete with the disruptor companies that are new entrants to the automotive industry. The substantial growth potential of these segments, in a market with the overall size of the automotive industry, provides an attractive proposition to a wide range of investors and well-capitalized new market entrants.

However, many automotive suppliers that participate in lower-growth segments will have relatively limited access to the capital needed for investments to update manufacturing processes or to develop capabilities that will be in line with future industry demand. Even prior to reductions due to COVID-19, private equity interest in automotive suppliers had diminished with declines in vehicle production volumes. Sources of credit were also more critical of the industry, as evidenced by Moody's maintaining a negative outlook on the automotive sector since early 2019.

## Expected segment growth versus light vehicle industry growth

Below industry-level growth	Industry-level growth	Above industry-level growth
Axles	Body and chassis	Batteries
Engine blocks	Interior	Displays
Fuel systems	Heating, ventilation and air conditioning (HVAC)	Electronics
Exhaust	Noise, vibration and harshness (NVH)	Safety
Pistons	Suspension	Sensors
Steering	Transmissions	Vehicle-to-everything (V2X) communication
	Wheels and tires	

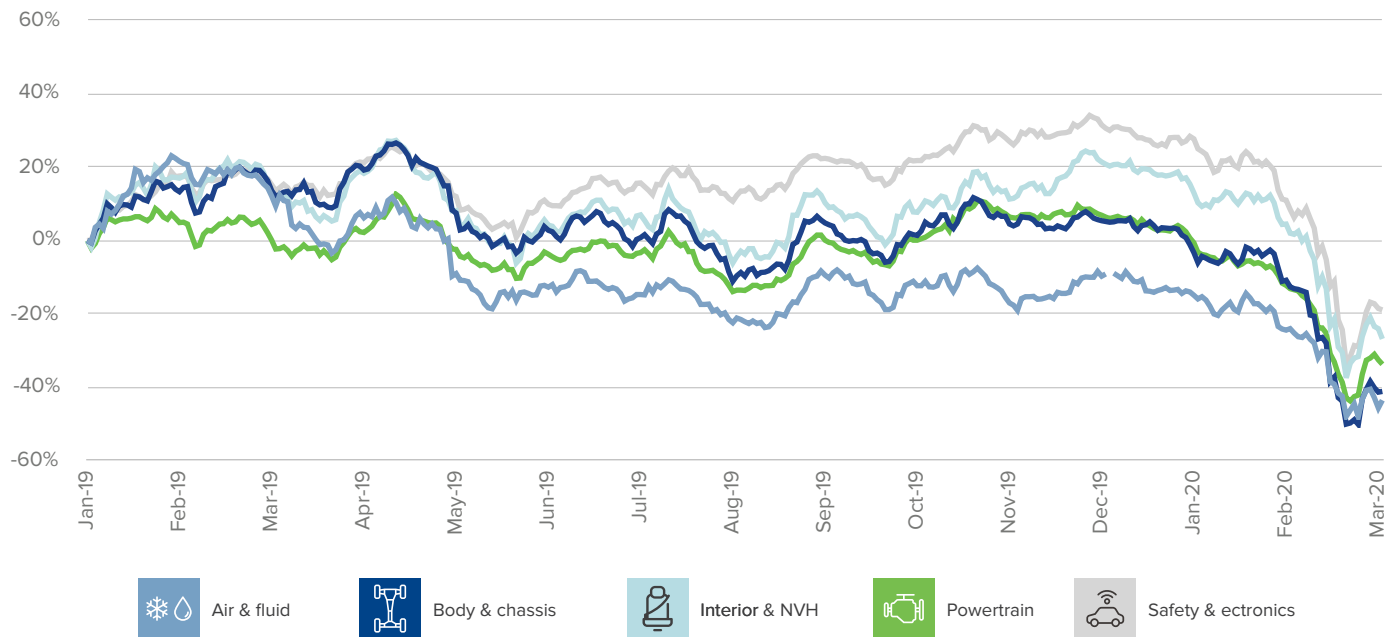
Source: Oaklins' estimates

Suppliers in segments with lower expected growth are likely to experience more intense competition and margin pressure due to shrinking volumes and trends towards product commoditization. Stakeholders in these suppliers should evaluate a range of alternatives to maximize competitiveness and their long-term value:

- Evaluate opportunities to optimize cost structure and productivity — pursuing operational improvements, increasing the use of automation and other cost-saving initiatives will improve efficiency, profit margins and decrease the use of working capital.
- Assess operations to determine true core competencies — sourcing functions or manufacturing processes where the supplier does not have a discernible competitive advantage should be outsourced, eliminating distractions and inefficiencies.
- Pursue acquisitions or mergers that diversify customer base, enhance process or product capabilities, control critical areas of supply, and increase scale and efficiency. Even in segments that are most at risk of secular decline, such as those related to ICEs, suppliers that can leverage scale and expert product or process capabilities are likely to enjoy successful and profitable operations for decades.
- For those suppliers that participate in multiple segments, divest non-core operations or those that serve less-attractive segments to industry consolidators or private equity. Redeploy the capital from these operations to maintain the essential competitive advantages needed for success in the higher-growth segments.
- Suppliers that do not have the desire or requisite capabilities to effect the change needed to position their businesses for long-term success should consider exiting. A sale to an industry consolidator or private equity firm with experience driving financial performance in challenging market segments would provide shareholders with proceeds that could instead be invested in other business ventures.

# Selected public company valuation trends

Index of performance by segment



Source: S&P Capital IQ as of 31 March 2020

## Air & fluid

Company	Country	Market cap	Enterprise value (US\$m)	Revenue	EBIT	EBITDA	Enterprise value	
							LTM EBITDA	NTM EBITDA
Tenneco Inc.	United States	292	6,006	17,450	612	1,270	4.1x	5.7x
Hanon Systems	South Korea	3,895	5,668	6,197	419	749	7.9x	7.2x
TI Fluid Systems plc	United Kingdom	952	1,933	3,828	285	425	4.5x	4.9x
Cooper-Standard Holdings Inc.	United States	173	725	3,108	40	192	3.1x	4.2x
							<b>Average</b>	<b>4.9x</b>
							<b>Median</b>	<b>5.3x</b>

Source: S&P Capital IQ as of 31 March 2020



## Body &amp; chassis

Company	Country	Market cap	Enterprise value (US\$m)	Revenue	EBIT	EBITDA	Enterprise value	
							LTM EBITDA	NTM EBITDA
Continental Aktiengesellschaft	Germany	14,420	19,648	49,914	1,518	4,077	4.7x	3.9x
Magna International Inc.	Canada	9,590	13,266	39,431	2,383	3,985	3.2x	4.2x
Gestamp Automoción, S.A.	Spain	1,468	5,110	10,322	557	1,020	4.7x	4.6x
NSK Ltd.	Japan	3,303	5,027	8,054	315	802	6.0x	6.5x
American Axle & Manufacturing Holdings, Inc.	United States	408	3,671	6,531	427	964	3.6x	4.9x
Dana Incorporated	United States	1,128	3,486	8,620	601	940	3.4x	4.4x
Compagnie Plastic Omnium SA	France	2,059	3,078	9,532	520	823	3.4x	3.1x
NHK Spring Co., Ltd.	Japan	1,555	1,523	6,082	139	375	3.9x	3.5x
Martinrea International Inc.	Canada	385	995	2,979	218	351	2.9x	3.8x
lochpe-Maxion S.A.	Brazil	324	857	2,492	155	249	4.4x	4.1x
Superior Industries International, Inc.	United States	30	757	1,372	69	162	4.6x	4.7x
F-Tech Inc.	Japan	74	579	2,065	45	153	3.8x	N/A
							<b>Average</b>	<b>4.0x</b>
							<b>Median</b>	<b>4.4x</b>
								<b>3.8x</b>
								<b>4.2x</b>



## Interiors &amp; NVH

Company	Country	Market cap	Enterprise value (US\$m)	Revenue	EBIT	EBITDA	Enterprise value	
							LTM EBITDA	NTM EBITDA
Faurecia S.E.	France	4,107	7,241	19,940	1,368	1,959	3.4x	3.1x
Lear Corporation	United States	4,913	6,542	19,810	1,263	1,773	3.3x	4.3x
Adient plc	Ireland	851	4,385	16,304	181	508	7.5x	7.1x
Toyoda Gosei Co., Ltd.	Japan	2,230	2,683	7,745	182	516	5.0x	3.9x
Toyota Boshoku Corporation	Japan	2,235	2,166	13,147	528	867	2.4x	2.6x
Sumitomo Riko Company Limited	Japan	564	1,399	4,245	95	384	3.6x	4.2x
Autoneum Holding AG	Switzerland	293	1,092	2,372	7	104	7.5x	6.9x
Grammer AG	Germany	259	723	2,237	120	177	4.1x	N/A
TS TECH Co., Ltd.	Japan	1,616	524	3,563	318	431	N/A	N/A
							<b>Average</b>	<b>4.6x</b>
							<b>Median</b>	<b>4.2x</b>
								<b>3.8x</b>
								<b>4.2x</b>

Source: S&amp;P Capital IQ as of 31 March 2020

## Selected public company valuation trends



### Powertrain

Company	Country	Market cap	Enterprise value (US\$m)	Revenue	EBIT	EBITDA	Enterprise value	
							LTM EBITDA	NTM EBITDA
DENSO Corporation	Japan	25,140	24,572	48,567	2,246	5,056	4.8x	6.1x
Aisin Seiki Co., Ltd.	Japan	6,672	14,815	35,900	1,124	3,424	4.2x	6.3x
Valeo SA	France	4,006	8,419	21,857	1,139	2,141	4.3x	3.4x
Schaeffler AG	Germany	4,062	7,054	16,190	1,303	2,297	3.1x	3.8x
BorgWarner Inc.	United States	5,037	6,388	10,168	1,206	1,645	3.7x	4.5x
CIE Automotive, S.A.	Spain	1,993	4,291	3,884	489	654	6.4x	6.2x
JTEKT Corporation	Japan	2,343	4,190	13,492	432	1,100	3.7x	4.5x
Linamar Corporation	Canada	1,335	2,449	5,718	513	818	3.3x	4.1x
Delphi Technologies PLC	United Kingdom	693	2,252	4,361	252	456	4.5x	5.5x
Nemak, S. A. B. de C. V.	Mexico	523	1,496	4,102	311	569	3.1x	3.3x
Garrett Motion Inc.	Switzerland	214	1,476	3,248	456	529	2.7x	4.3x
ElringKlinger AG	Germany	272	1,063	1,896	20	127	8.0x	6.2x
Ryobi Limited	Japan	399	842	2,029	78	219	3.8x	3.9x
EXEDY Corporation	Japan	697	790	2,479	168	340	2.3x	2.3x
Tupy S.A.	Brazil	365	499	1,285	116	191	3.3x	3.9x
							<b>Average</b>	<b>4.1x</b>
							<b>Median</b>	<b>4.6x</b>
								<b>3.7x</b>
								<b>4.3x</b>



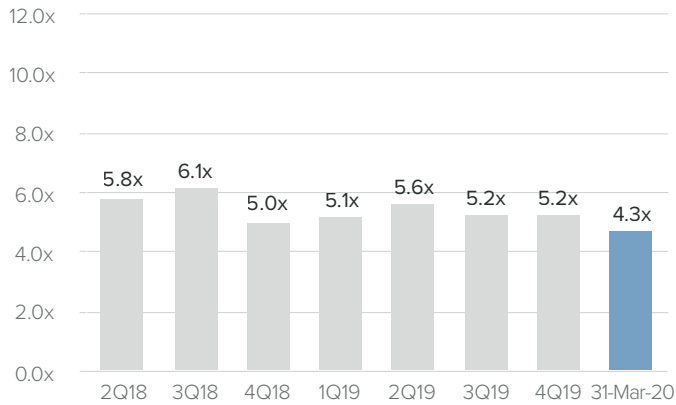
### Safety & electronics

Company	Country	Market cap	Enterprise value (US\$m)	Revenue	EBIT	EBITDA	Enterprise value	
							LTM EBITDA	NTM EBITDA
Aptiv PLC	Ireland	12,567	17,134	14,357	1,408	2,114	7.6x	8.2x
Sumitomo Electric Industries, Ltd.	Japan	8,248	14,297	29,005	1,247	2,688	5.0x	5.0x
Hyundai Mobis Co.,Ltd	South Korea	12,992	6,387	32,957	2,044	2,755	N/A	2.5x
Autoliv, Inc.	Sweden	4,017	5,837	8,548	974	1,324	4.2x	6.0x
Gentex Corporation	United States	5,568	5,133	1,859	489	593	8.7x	8.8x
Koito Manufacturing Co., Ltd.	Japan	5,460	3,496	7,571	836	1,154	3.0x	3.1x
Brembo S.p.A.	Italy	2,418	2,834	2,946	341	524	5.1x	5.8x
Mando Corporation	South Korea	797	1,980	5,181	187	448	4.7x	4.7x
Mitsuba Corporation	Japan	175	1,587	2,916	85	235	6.5x	N/A
Visteon Corporation	United States	1,344	1,547	2,945	115	201	6.3x	8.9x
Gentherm Incorporated	United States	1,030	1,072	972	97	139	7.2x	7.3x
Stoneridge, Inc.	United States	459	541	834	47	78	6.3x	7.7x
							<b>Average</b>	<b>5.9x</b>
							<b>Median</b>	<b>6.2x</b>
								<b>6.3x</b>
								<b>6.0x</b>

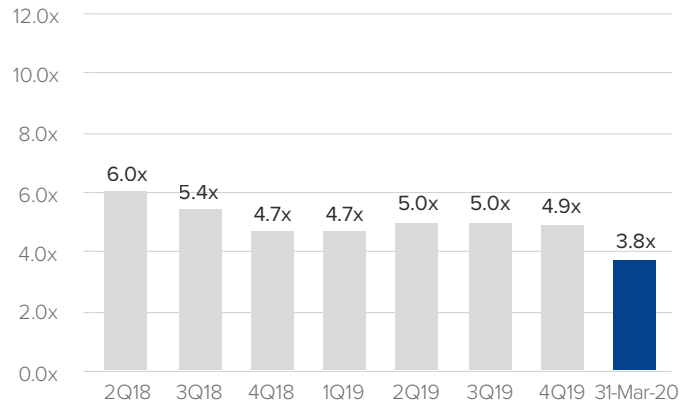
Source: S&P Capital IQ as of 31 March 2020

## EV/EBITDA valuation trends by segment

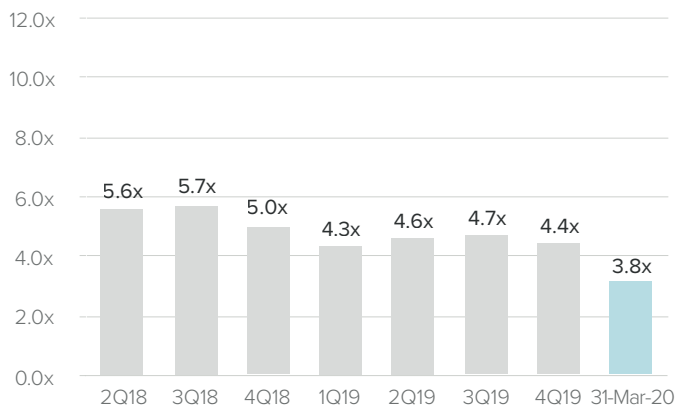
### Air & fluid



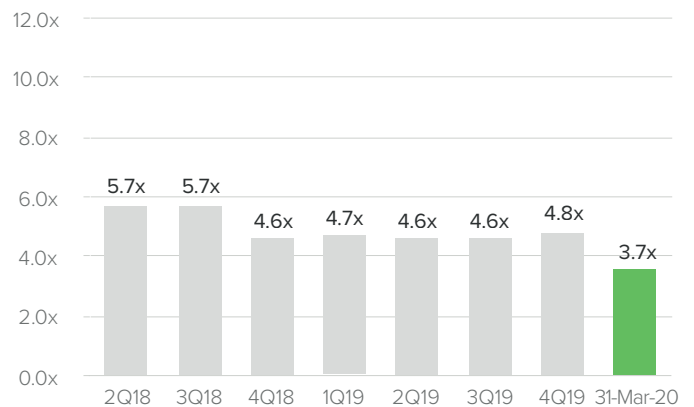
### Body & chassis



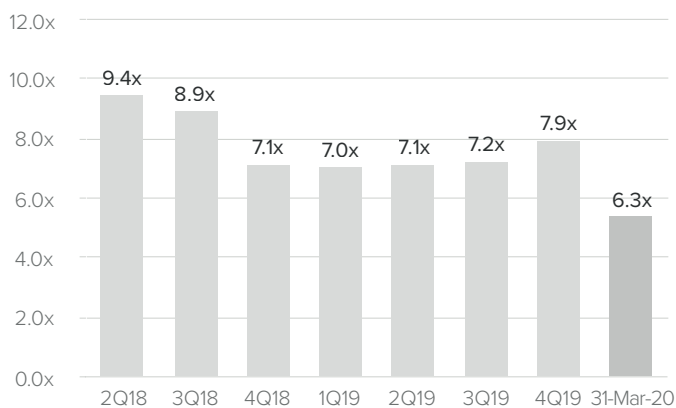
### Interiors & NVH



### Powertrain



### Safety & electronics

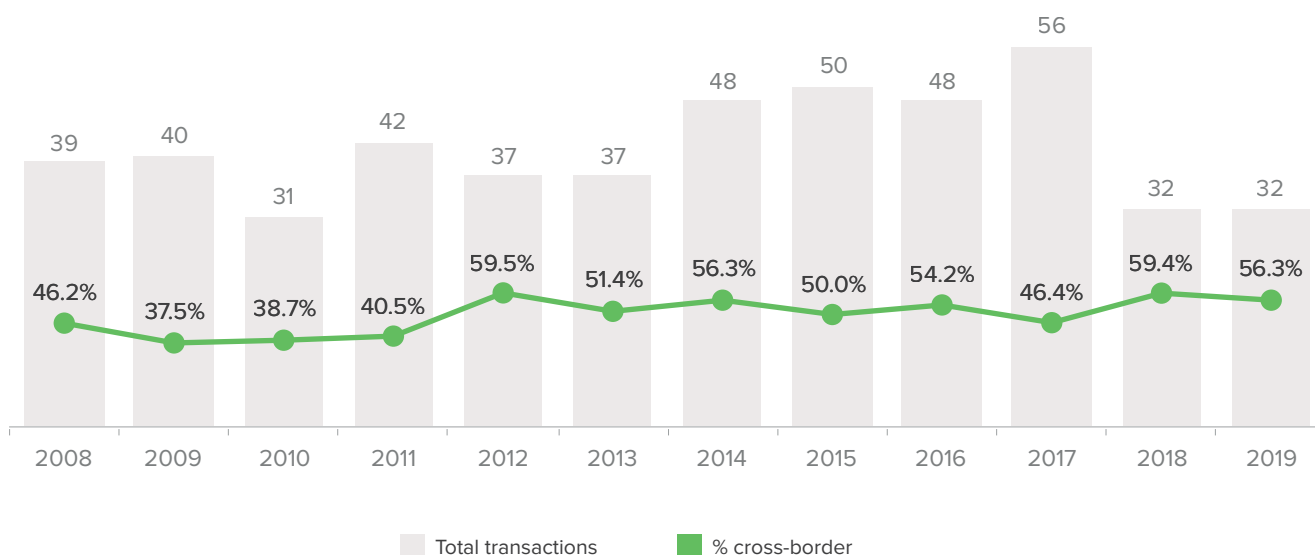


The disruption to global light vehicle production caused by COVID-19 related plant shutdowns, combined uncertain future consumer confidence and purchasing demand, has resulted in valuations at levels not seen since the financial crisis of the late 2000s.

Source: S&P Capital IQ. Valuation in each quarter represents the average EV/LTM EBITDA multiple during the quarter noted.

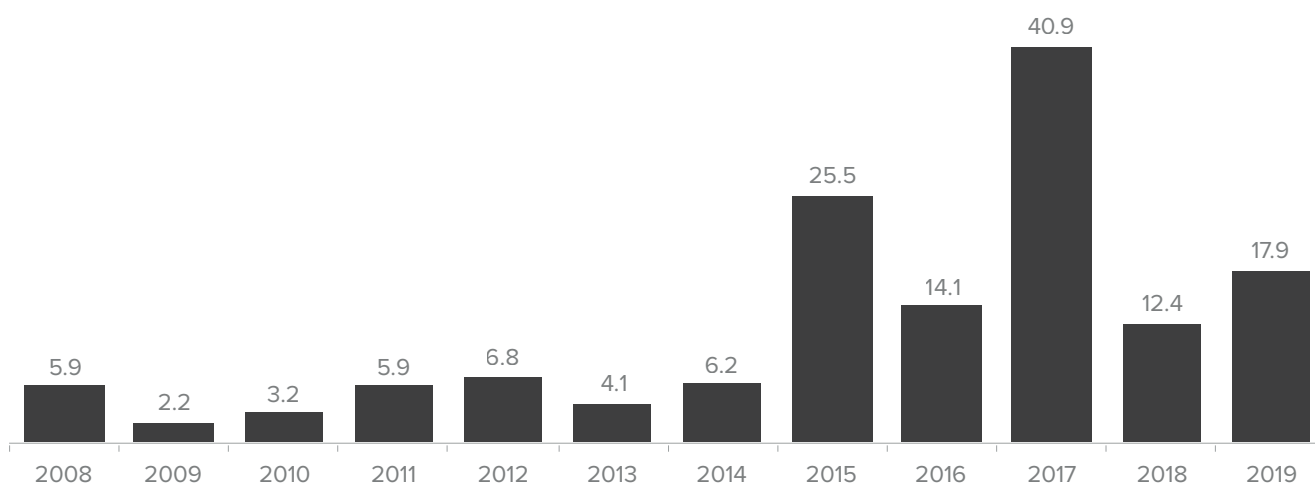
# M&A overview

## Deal volume & % cross-border








Source: Mergermarket, disclosed transactions only

## Deal value (in US\$ billions)



Source: Mergermarket, disclosed transactions only

# M&A activity

Date	Target	Target description	Acquiror	Country (US\$m)	Valuation (US\$m)
31-Oct-19	OMRON Corporation (automotive electronics components business)	Distributes electronic and electromechanical components for motor vehicles	Nidec Corporation		890
30-Sep-19	Tower International	Manufactures structural metal components and assemblies for motor vehicles	Autokiniton Global Group (KPS Capital Partners)		853
30-Aug-19	Janesville Fiber Solutions	Produces acoustical and thermal fiber insulation	Motus Integrated Technologies (Atlas Holdings)		85
29-Jul-19	AxleTech	Manufactures axles, axle components brakes and aftermarket parts for commercial vehicles	Meritor		175
7-May-19	Inteva Products (Roof System Division)	Manufactures and provides of roof systems and solutions for automobiles	CIE Automotive		755
2-May-19	Magneti Marelli	Manufactures carburetors, fuel injector pumps and similar products for automobiles	Calsonic Kansei (Kohlberg Kravis Roberts)		7,125
1-Apr-19	Cooper-Standard Automotive (anti-vibration system business)	Manufactures and develops anti-vibration systems for vehicles	Continental		266
1-Mar-19	Tower International (European operations)	Manufactures automotive structural metal components and assemblies	Financiere Snop Dunois		290
1-Mar-19	Oerlikon (drive systems segment)	Manufactures gears, shifting solutions, planetary drives, and innovative solutions for hybrids and e-drives	Dana Incorporated		605
15-Jan-19	SME S.p.A.	Manufactures electronic controllers and related products for applications in battery-powered vehicles	Dana Incorporated		88



## Case study

### THE MANAGEMENT OF PROCHIMIR SAS AND CM-CIC INVESTISSEMENT HAVE SOLD THE COMPANY TO BOSTIK, A SUBSIDIARY OF ARKEMA.

Prochimir specializes in the development, design, production and distribution of technical films, primarily to the automotive industry.

The company's excellence relies on three pillars: the expertise of its research and development (R&D) team in the formulation and extrusion of specific resins, the control and optimization of multilayer extrusion, and the open communication with its customers' technical teams. Prochimir's films provide technical features, such as sealing, sound insulation, vapor permeability and waterproofness. With 65 employees, the firm's exports represent over 75% of its turnover.

Arkema is a global manufacturer in specialty chemicals and advanced materials, with three business segments: high-performance materials, industrial specialties and coating solutions. Its brands are ranked among the leaders in the markets they serve. Reporting annual sales of US\$9.6 billion in 2018, the group employs around 20,000 people worldwide and operates in some 55 countries.

CM-CIC Investissement is the equity financing arm of Crédit Mutuel Alliance Fédérale. The firm supports businesses at all stages of their development and offers a wide range of services, including minority investments in technology-venture-capital deals, leveraged buy-outs of majority stakes and growth-capital transactions.

Oaklins' team in France assisted the sellers in this transaction.

“Throughout the process we have benefited from the professionalism, commitment and efficiency of the Oaklins team. Proud of the progress we have made, we are now happy to join the Arkema Group. This major French industrial group will provide us with the necessary support to pursue our growth.”

**VIANNEY LESCROART**  
PRESIDENT  
PROCHIMIR SAS

# Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

## OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy-side and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Automotive OEM suppliers are one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the automotive OEM supplier sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for automotive OEM supplier companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

### ✉ MATT MUELLER

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Matt leads Oaklins' automotive OEM suppliers team. He is also a managing director at Citizens Capital Markets, Inc., Oaklins' member firm in Cleveland. Matt has advised numerous automotive OEM suppliers, including Creative Foam Corporation, Vita Nonwovens, Stoneridge and Myers Industries.



Oaklins is the world's most experienced mid-market M&A advisor, with over 850 professionals globally and dedicated industry teams in more than 45 countries. We have closed 1,700 transactions in the past five years.

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