

## Automotive Suppliers

### M&A and Financial Market Update

2019

## There are headwinds for Automotive Suppliers, but M&A is providing solutions

M&A activity dropped slightly YoY in 2018, due to an especially weak Q1, however deal making continues to be an important repositioning tool - to support global growth, improve product & technology portfolios (e.g. e-mobility solutions), and to consolidate what remains a widely fragmented market in certain segments (e.g. Interiors & Exteriors). Asian buyers from both emerging and developed markets have been an important source of deal-demand, acquiring to expand their global operations and to improve their product & technology offerings. More than ever, suppliers need to focus on what they do best, which is driving many to streamline operations and focus on their core business.

### Key insights:

- Our Automotive team has observed a slight decline in M&A activity<sup>1)</sup> among Automotive Suppliers in 2018 (-11% compared to 2017).
- Despite some large deals in the billions of Euros, most buyers were focused on small and mid-sized businesses: the average deal-value was €378m, while the average transaction multiple was 7.6x EBITDA.
- We are seeing the most buy-side demand for businesses that offer exclusive know-how, or that are plugged into 'the future of mobility'. Deals are also being used to streamline and optimize product & technology portfolios, and to access new customers and geographies.
- As in previous years, Europe remains the most popular region for acquirers, with around 39% of all reported M&A transactions, followed by Asia (30%) and North America (27%).
- Mounting challenges and an increasingly difficult global market environment are reflected in the modest valuation multiples. For listed suppliers, the average trading multiple was 4.7x EBITDA at the end of 2018, which is a decline of 29% compared to 2017 (6.6x EBITDA).
- Listed valuations vary widely, depending on the market segment. Electronics know-how is still at the top of buyers' shopping lists and is receiving valuation premiums of 21% compared to the sector average.



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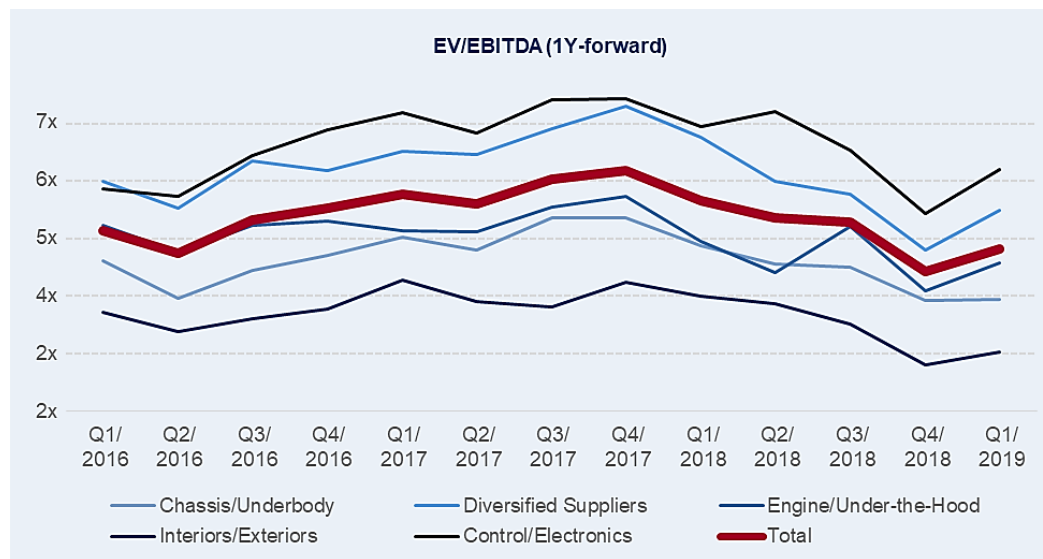
*"After several years of rising markets and steady growth, suppliers are being required to face the significant challenges of technological transformation. Companies of all sizes need to adjust their business profiles – either by acquiring to expand specific product & technology offerings, or by streamlining or divesting their traditional business segments."*

## Trading multiples at a glance

**At the end of 2018, listed Automotive Suppliers were being valued at 4.7x EBITDA, on average.**

After almost a decade of unprecedented growth, the automotive industry has reached a plateau. Moreover, there will be significant challenges ahead, as traditional revenues are at risk. Players face a slowing market (especially in China), deteriorating economic prospects and an uncertain

market for mobility. Also, suppliers are being viewed more critically by capital market investors. Consequently, valuations for listed peers decreased 29% in 2018 - the group was trading at 4.7x EBITDA at the end of 2018, as opposed to 6.6x EBITDA at the end of 2017.



Sources: S&P Capital IQ; Capitalmind Analysis

## Trading multiples by segment

Although the entire Automotive Suppliers sector has been affected by the general decline in valuations, multiples for listed Automotive Suppliers continue to vary greatly depending on the different product segments and technologies (See the

valuation tables below.) As in previous years, Electronics know-how is at the top of buyers' shopping lists and receiving attractive premiums, whereas other segments such as Interiors / Exteriors continue to lag behind their peers, mainly due to the low-margin environment.

### Engine / Under-the-Hood: 4.1x EBITDA

Engine/Under-the-Hood	EV (in €m)	Sales CAGR		EBITDA margin			EV / Sales			EV / EBITDA			EV / EBIT	
		2016 / 2019e	2018 / 2019e	2018	2019e	2020e	2018	2019e	2020e	2018	2019e	2020e	2018	2019e
Aisan Industry Co., Ltd.	378	1.0	9.5	9.8	9.7	0.2x	0.2x	0.2x	2.5x	2.2x	2.1x	5.3x	5.0x	4.6x
BorgWarner Inc.	7,896	3.6	16.6	16.8	16.7	0.9x	0.8x	0.8x	5.2x	4.9x	4.7x	7.0x	6.6x	6.3x
ElringKlinger AG	1,198	4.3	12.2	13.0	13.2	0.7x	0.7x	0.6x	5.8x	5.2x	4.9x	11.1x	9.7x	9.1x
EXEDY Corporation	1,124	3.8	14.5	14.5	14.9	0.5x	0.5x	0.5x	3.6x	3.3x	3.0x	6.2x	5.4x	5.0x
Hanon Systems	4,134	6.7	11.3	12.0	12.6	0.9x	0.8x	0.7x	7.9x	6.3x	5.5x	12.8x	10.0x	8.6x
JTEKT Corporation	4,673	2.5	9.9	9.6	9.8	0.4x	0.4x	0.4x	4.3x	4.2x	3.9x	7.5x	7.5x	7.0x
Keihin Corporation	927	1.6	13.3	12.3	12.9	0.3x	0.3x	0.3x	2.6x	2.7x	2.5x	4.2x	4.6x	4.2x
Linamar Corporation	3,276	7.2	15.4	15.6	15.5	0.7x	0.6x	0.6x	4.3x	4.0x	3.9x	6.3x	5.8x	5.6x
Nemak, S. A. B. de C. V.	3,143	5.2	15.5	15.7	15.8	0.8x	0.7x	0.7x	4.9x	4.7x	4.4x	9.2x	8.5x	7.8x
Rheinmetall AG	3,959	5.7	11.9	11.5	11.7	0.6x	0.6x	0.6x	5.4x	5.2x	4.8x	8.6x	8.0x	7.2x
Ryobi Limited	1,061	2.3	11.8	12.3	12.7	0.6x	0.5x	0.5x	4.8x	4.1x	3.8x	10.6x	7.4x	6.9x
Tenneco Inc.	3,129	25.1	8.9	10.0	10.3	0.3x	0.2x	0.2x	3.4x	2.0x	1.8x	4.9x	3.1x	3.0x
High	7,896	25.1	16.6	16.8	16.7	0.9x	0.8x	0.8x	7.9x	6.3x	5.5x	12.8x	10.0x	9.1x
Average	2,908	5.7	12.6	12.8	13.0	0.6x	0.5x	0.5x	4.6x	4.1x	3.8x	7.8x	6.8x	6.3x
Mean	3,136	4.1	12.1	12.3	12.8	0.6x	0.5x	0.5x	4.6x	4.1x	3.9x	7.3x	7.0x	6.6x
Low	378	1.0	8.9	9.6	9.7	0.2x	0.2x	0.2x	2.5x	2.0x	1.8x	4.2x	3.1x	3.0x

Sources: S&P Capital IQ as of 30/12/2018; Capitalmind Analysis

### Selected credentials deals in the Automotive sector

 <p>&amp; the management sold to</p>	 <p>POWER TRANSMISSION sold to its management via a MBO backed by / ETI</p>	 <p>BLUMENBECKER sold HUBMEISTER® to part of Group</p>	 <p>alpha acquired EURO PART</p>	 <p>sold to</p>	 <p>completed a fundraising underwritten by CITA</p>
<p>Painting of automotive parts</p>	<p>Axles for railways, metros and military vehicles</p>	<p>Aerial work platforms</p>	<p>Independent aftermarket spare parts</p>	<p>Axles for railways, metros and military vehicles</p>	<p>Automotive fluids and performance fuels</p>
 <p>FIELDS GROUP sold to</p>	 <p>completed a fundraising underwritten by &amp; historical shareholders including</p>	 <p>KB Components acquired LUNKETEL</p>	 <p>Sava sold Savatech CGSO</p>	 <p>completed a MBO with the support of KBC</p>	 <p>was acquired by the management supported by and</p>
<p>Electrical connectors, cable &amp; wire harnessing</p>	<p>Axles for railways, metros and military vehicles</p>	<p>Plastic components</p>	<p>Industrial rubber</p>	<p>System critical electronics</p>	<p>Industrial painting</p>

If you would like to discuss this report in more detail or opportunities for your business, please get in touch



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