

# Automotive Perspectives

PROFITABLE GROWTH AMID MAJOR INDUSTRY CHANGE

ACG | JUNE 18, 2015

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# Discussion Topics

- **Introductions**
- **Recent M&A activity in the Automotive Industry**
- **5 Key Megatrends Impacting the Automotive Industry**
- **Automotive Industry in Mexico**
  - **Key OEM Investments and Strategic Implications**
  - **Challenges Faced by Manufacturers in the Region**
- **Industry Drivers of Profitable Growth**
- **Framework for Achieving Profitable Growth**

# Automotive & Private Equity Practices

350+

Automotive Clients

2,000+

Manufacturing &  
Distribution Clients

200+

Private Equity Groups

300+

Portfolio Companies

85+

Years of Industry  
Experience

23

Offices

## Automotive Expertise

- ✎ Senior automotive professionals averaging 20+ years of industry experience
- ✎ Substantial international expansion expertise
- ✎ Access to specialized knowledge through the Plante Moran Supplier Intelligence Center™
- ✎ Deep industry involvement

## Comprehensive Services

- ✎ International Services
- ✎ Strategy and Operations
- ✎ IT Consulting
- ✎ Transaction Advisory Services
- ✎ Audit and Accounting
- ✎ Tax Compliance and Consulting
- ✎ Real Estate (Plante Moran CRESA)
- ✎ Investment Banking (P&M Corporate Finance)

# Automotive Strategy Leadership



## Daron Gifford

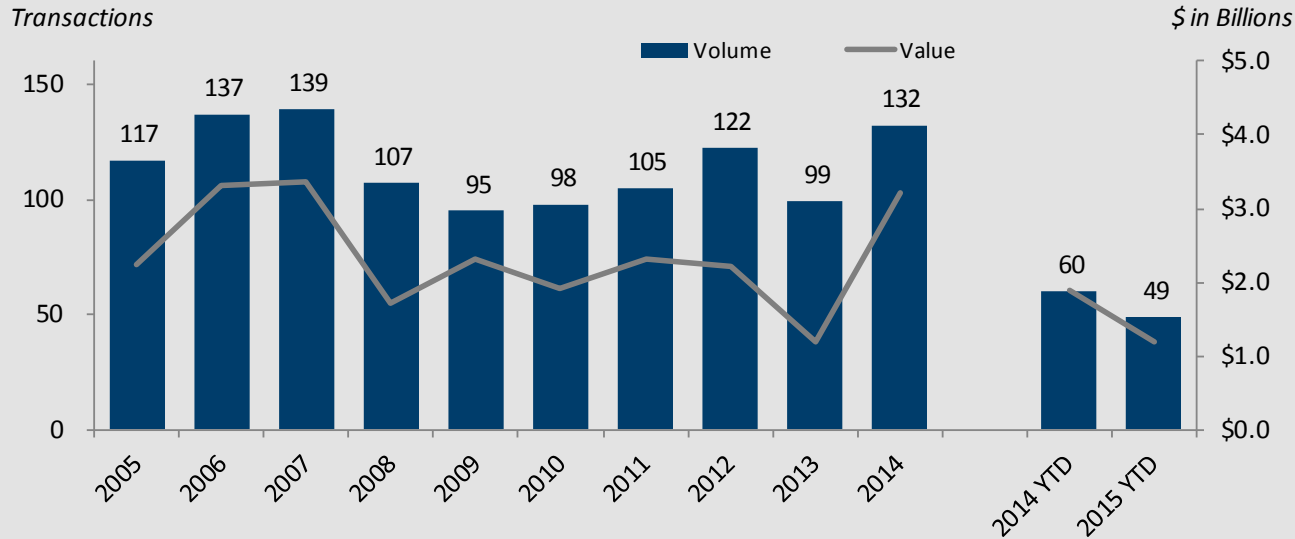
- Partner, Plante Moran strategy practice
- 37+ years working in the technology, manufacturing, and automotive industries; more than 28 years in management consulting
- Prior leadership positions in the management consulting practices of Deloitte, KPMG, and A.T. Kearney



## Ted Morgan

- Principal, Plante Moran strategy practice
- More than 16 years manufacturing experience with strategy, M&A, sales, product launch, and finance
- More than a decade spent working for Tier 1 and 2 automotive suppliers, including Magna International and Meridian Automotive Systems

# N.A. Auto Middle-Market M&A Activity



## Drivers of recent activity

- Production volume recovery
- Aging owners looking to exit
- Attractive values for well-performing companies
- Favorable access to capital

## 2014-2015 YTD assessment

- Growth trajectory is normalizing
- 2015 still reflects healthy deal environment

Note: Includes majority acquisitions of companies operating in the automobile and automobile components industry

Note: Middle-market defined as transaction values between \$20MM - \$500MM

Source: Capital IQ, data as of June 1, 2015

# Global Automotive M&A Activity

## Recent Global Automotive M&A Transactions

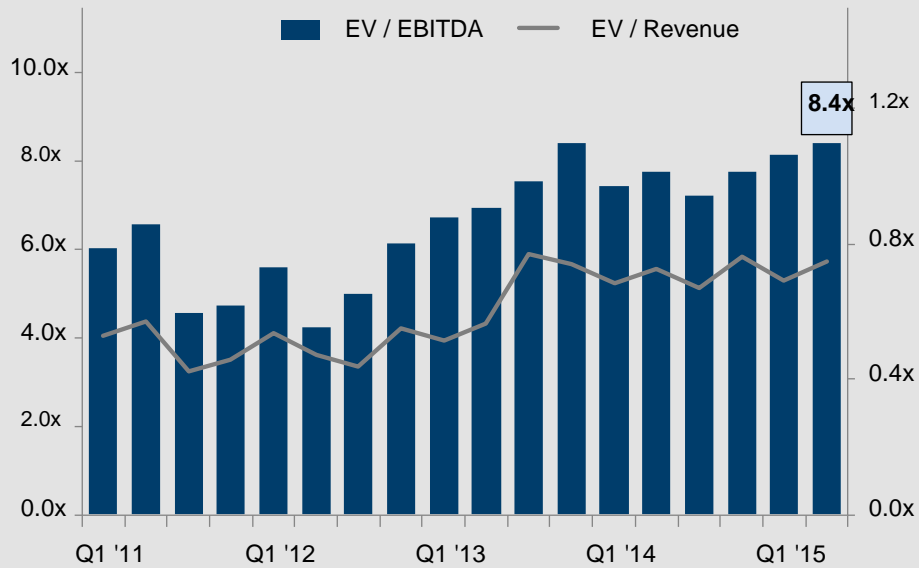
*\$ in Millions*

Announced Date	Target Name	Target Location	Acquirer Name	Implied	Implied	
				Enterprise Value	Enterprise Value / Revenue	EBITDA
Apr-15	Magna International Inc., Interiors Operations	Canada	Grupo Antolín-Irausa, S.A.	\$ 434	n/a	n/a
Apr-15	TRW Automotive Inc., Linkage and Suspension Business	Czech Republic	THK Co., Ltd.	400	n/a	n/a
Mar-15	Pirelli & C. SpA	Italy	China National Tire & Rubber Co.	10,210	1.50x	8.6x
Feb-15	Delphi Automotive PLC, Thermal Business	United Kingdom	MAHLE GmbH	727	0.45x	9.5x
Jan-15	TI Automotive Ltd.	United States	Bain Capital LLC	2,400	1.25x	6.0x
Dec-14	SHIROKI Corporation	Japan	Aisin Seiki Co., Ltd.	620	0.61x	10.4x
Dec-14	Halla Visteon Climate Control Corp.	South Korea	Hankook Tire Co. / Hahn & Co.	4,927	1.00x	10.2x
Aug-14	Eagle Ottawa, LLC	United States	Lear Corp.	850	n/a	n/a
Jul-14	Autocam Corporation, Inc.	United States	NN Inc.	331	1.33x	7.8x
Jul-14	TRW Automotive Holdings Corp.	United States	ZF Friedrichshafen AG	13,165	0.76x	6.9x
Jun-14	Letrika d.d.	Slovenia	MAHLE Holding Austria GmbH	200	0.63x	7.1x
<b>First Quartile</b>				<b>\$ 417</b>	<b>0.63x</b>	<b>7.1x</b>
<b>Median</b>				<b>727</b>	<b>0.88x</b>	<b>8.2x</b>
<b>Third Quartile</b>				<b>3,664</b>	<b>1.27x</b>	<b>9.7x</b>

Source: Capital IQ, company filings, news reports, PMCF research

# Global Automotive M&A Activity

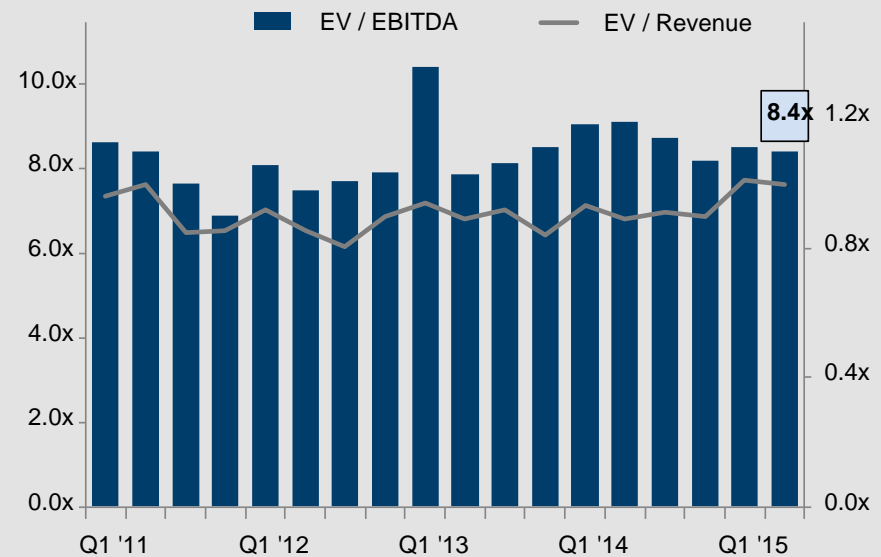
## Public Automotive Supplier Multiples



Index includes BorgWarner, Delphi, Denso Corp., Faurecia, Federal-Mogul, Johnson Controls, Lear Corp.,

Magna International, Visteon

## Public Automotive OEM Multiples

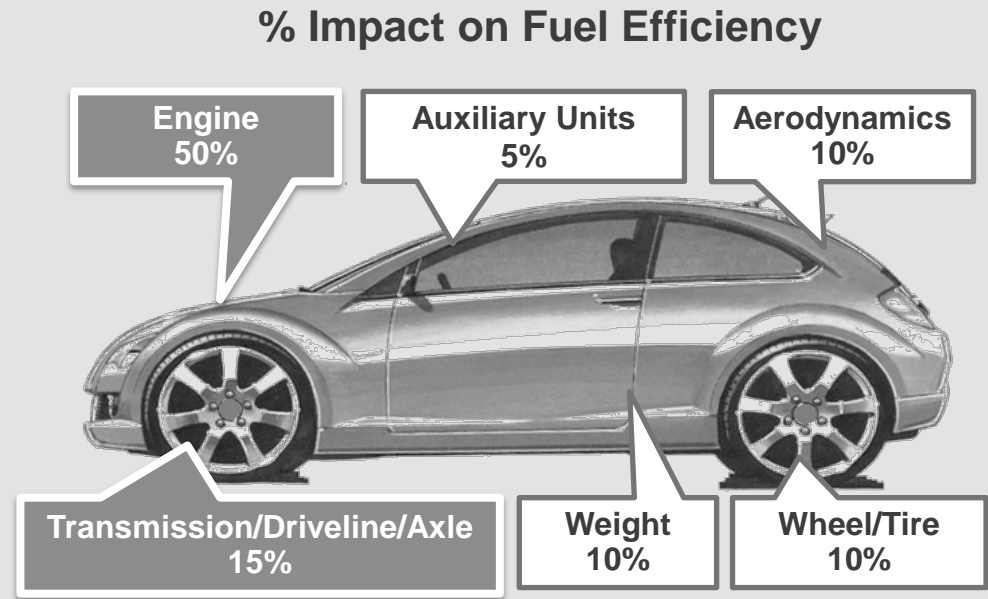


Index includes Ford, GM, Honda, Hyundai, Nissan, Toyota, Volkswagen

Source: Capital IQ, company filings, news reports, PMCF research

# Megatrends in the Automotive Industry

- Mass/weight reduction
- Fewer and combined vehicle architectures
- Mobility technology
- Next generation powertrains
- Targeted emerging market growth



**Technology innovation and related capital requirements will drive increasing partnerships, joint ventures, alliances, and consolidation in the automotive industry**



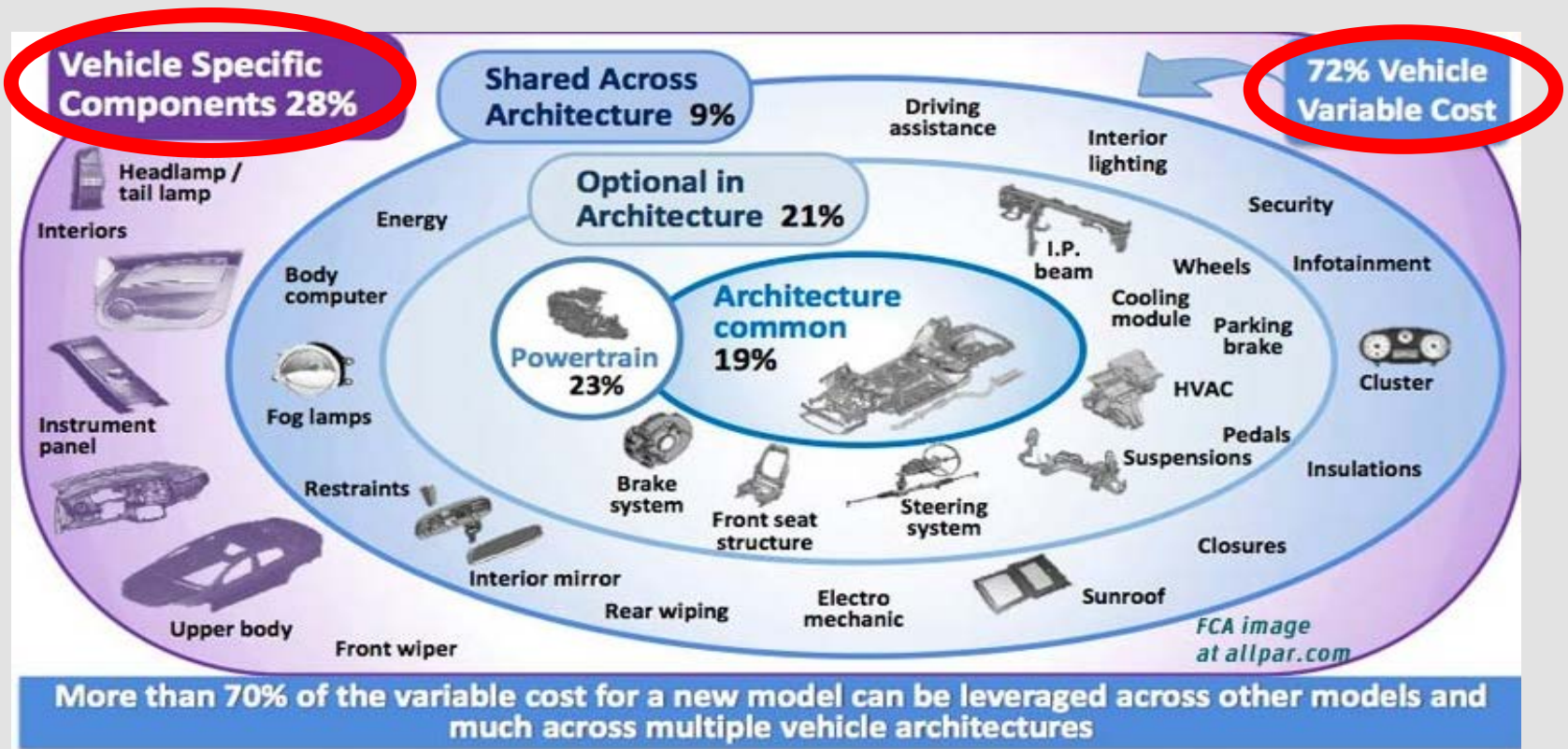
# Mass/Weight Reduction

Material	Material Comparison To Steel		Percent Of Vehicle Weight		
	Cost as a Multiple of Steel	Weight as Percentage of Steel	Current	Projected 2030	
Steel	1.0x	100%	52%	13%	} 51%
HSS/AHSS	1.1-1.5x	80%	15%	38%	
Carbon Fiber	5-10x	50%	>1%	5%	} 28.5%
Composites/Plastics	1-2x	80%	9%	11.5%	
Aluminum	1.3-1.5x	60%	5%	12%	
Other	-	-	19%	20.5%	

Source: McKinsey/Plante Moran



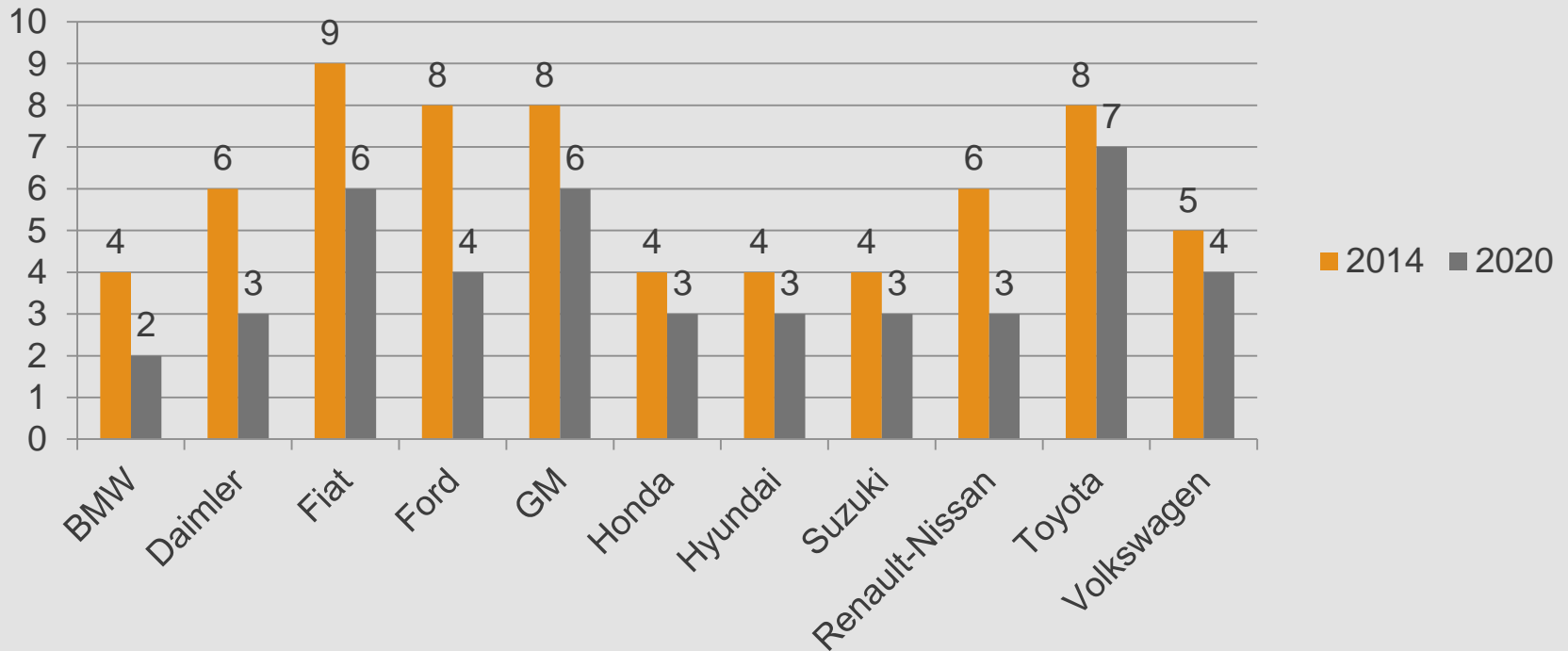
# Fewer and Combined Vehicle Architectures



Source: FCA

# Fewer and Combined Vehicle Architectures

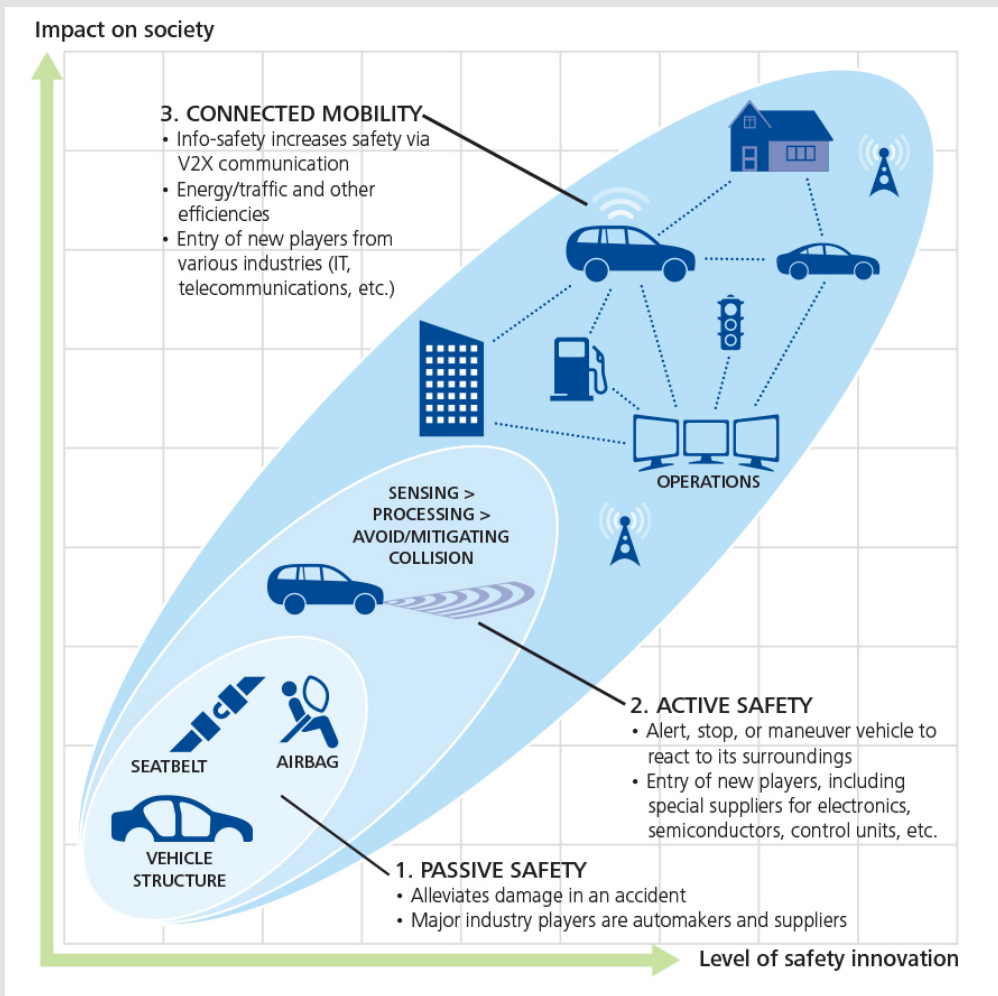
## Number of Platforms to Support 80% of Volume



OEM	BMW	Daimler	FCA	Ford	GM	Honda	Hyundai	Suzuki	RNA	Toyota	VW
Total Platforms	8	16	23	19	25	9	13	11	18	28	21

Source: IHS

# Mobility Technology



## Past: Passive Safety

- Designed to reduce damage in accidents
- Included seatbelts, improved vehicle architectures, airbags, etc.

## Present: Active Safety

- Sensor technology that helps the driver with awareness of surroundings
- Includes forward collision warnings, adaptive cruise control, lane departure warning, etc.

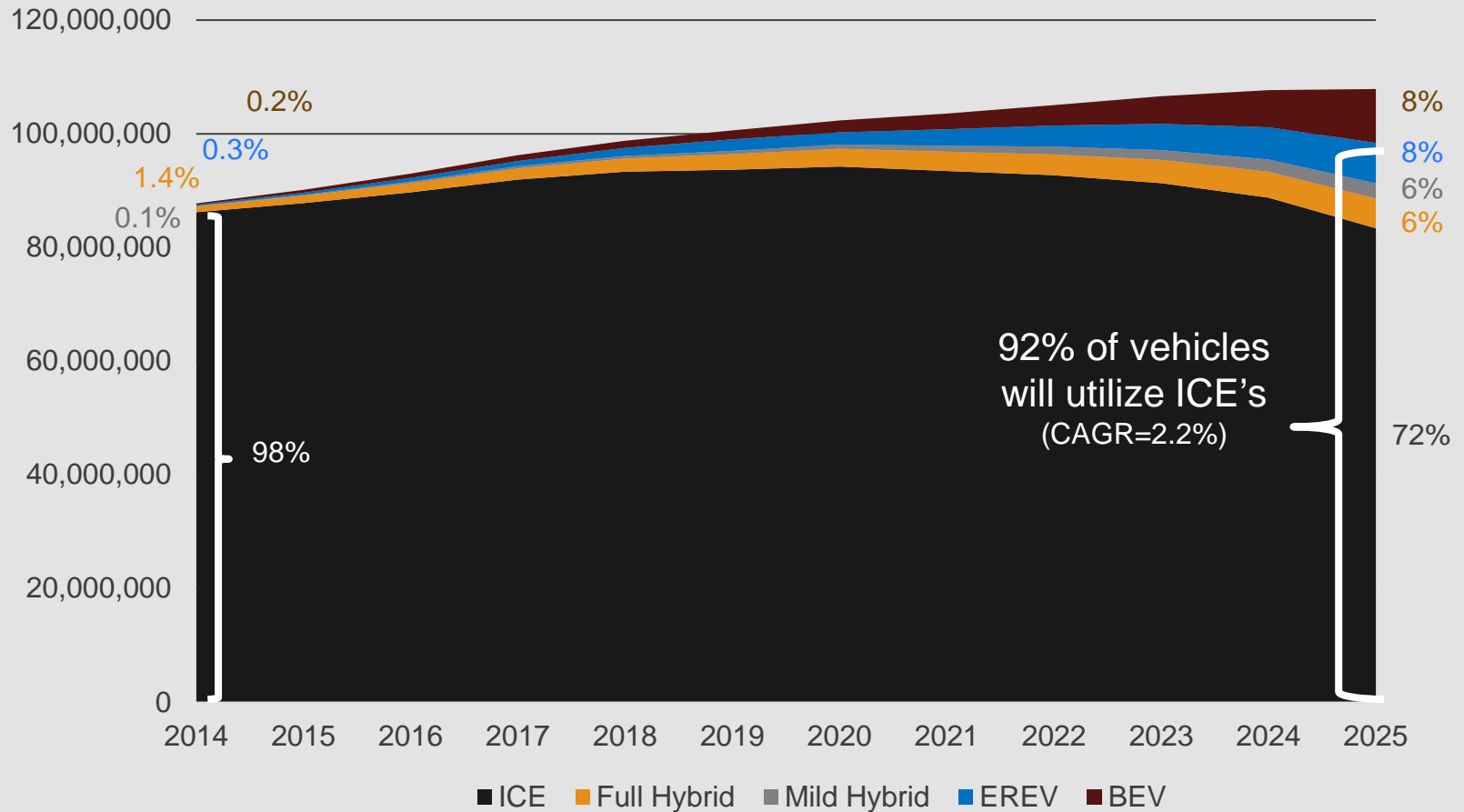
## Future: Connected Mobility

- Vehicles will be able to communicate with each other to optimize traffic and reduce collisions, vehicle autonomy

Source: Deloitte/Plante Moran

# Next Generation Powertrains

Projected Global Volumes in Units



Source: Plante Moran/IHS



# Targeted Emerging Market Growth

	2013 Auto Production *	2019 Auto Production *	Increase in Unit Production 2013-2019	2013 GDP (\$ in billions)	Annual % GDP Growth (2014-2019)
China	22,117	30,598	8,481	9,240	5.9%
Brazil	3,740	4,557	817	2,245	2.9%
India	3,881	6,442	2,561	1,876	4.8%
Mexico	3,052	4,469	1,417	1,260	2.9%
Russia	2,175	2,728	553	2,096	1.8%
Indonesia	1,208	1,734	526	868	5.1%
Turkey	1,125	1,368	243	820	1.9%
Thailand	2,410	3,064	654	387	4.1%
Czech Republic	1,085	1,127	42	198	1.7%
Argentina	780	1,009	229	612	3.0%
Slovakia	823	932	109	96	3.1%
S. Africa	545	620	75	350	1.9%

\*Vehicle production in thousands of units

Source: World Bank, IHS

# OEM's Heavy Investments in Mexico

**GM to double Mexico production capacity, invest \$3.6B in plants**  
*-Automotive News*

**America's car capital will soon be ... Mexico**  
*-Forbes*

**Ford Picks Mexico for \$2.5 billion engine investment**  
*- Detroit Free Press*

**Automaker Kia to build \$1 billion assembly plant in Mexico**  
*-Automotive News*

**BMW to invest \$1 billion in new plant in Mexico**  
*-Automotive News*



# Evolution of Vehicles Produced in Mexico

**Nissan Sentra**



**Mercury Milan**



**Pontiac Aztec**



**Audi Q5**



**Dodge Ram**



**BMW 3-Series\***



2005

Current

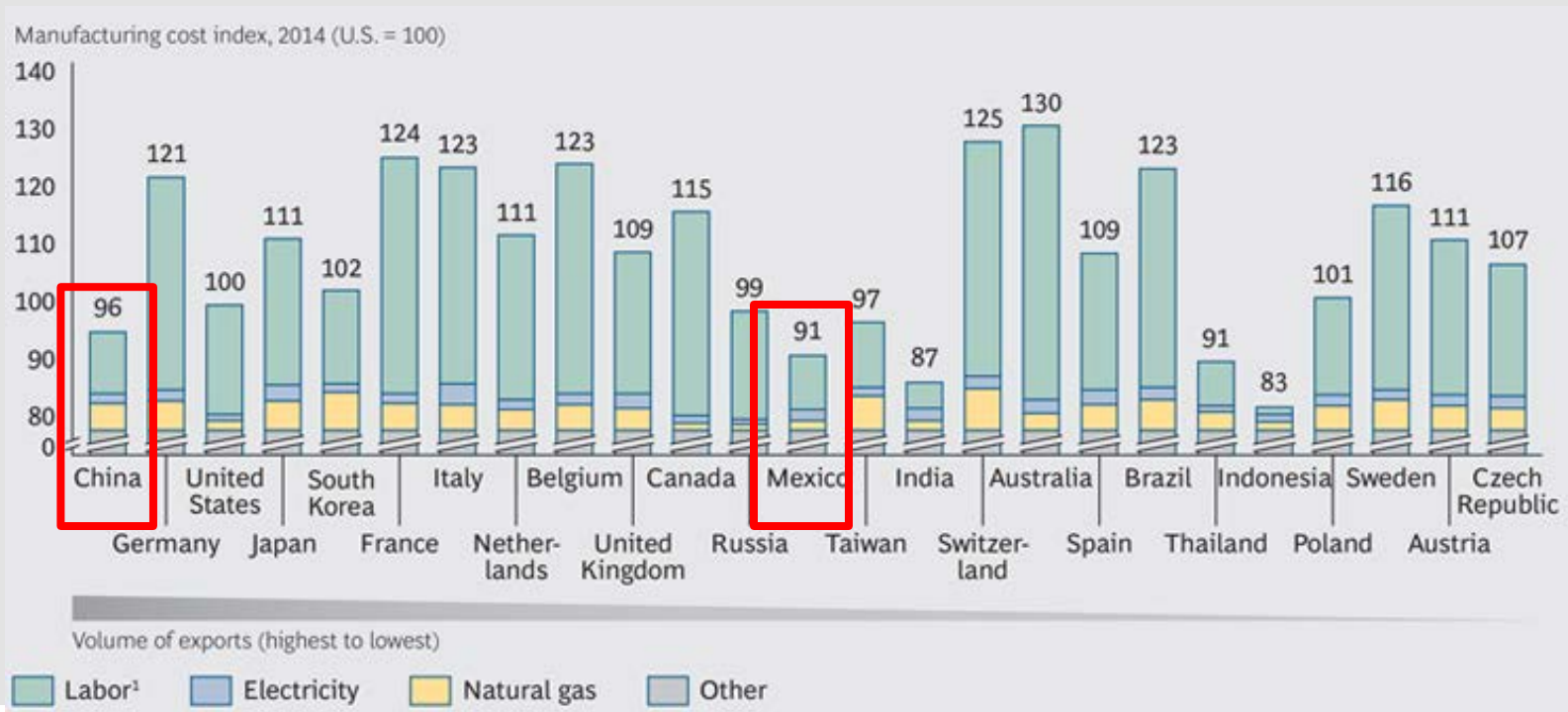
\* Production to begin in 2018





# Mexico – A Leader in Low-Cost Manufacturing

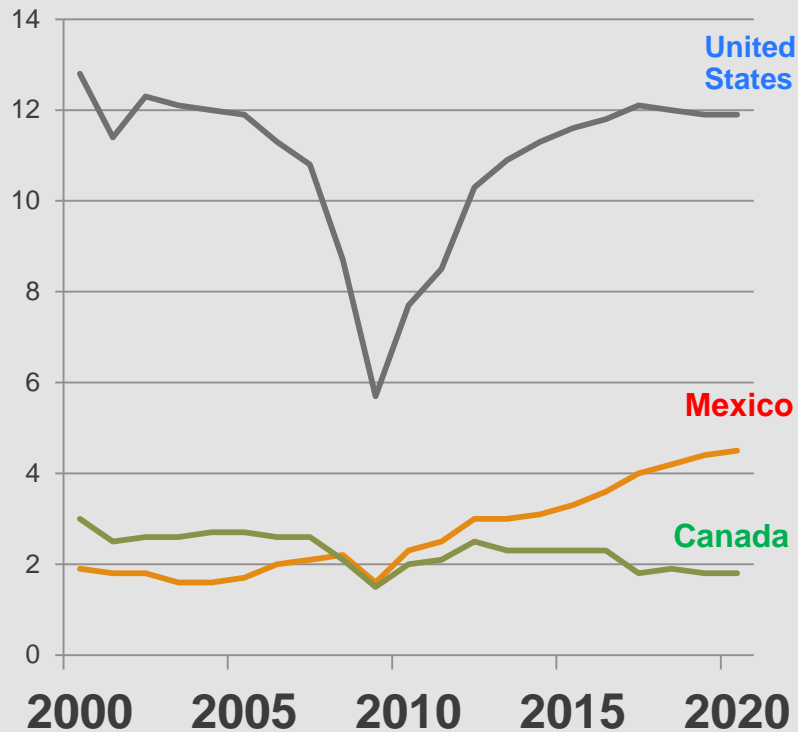
- ⑩ Analysis of top 25 exporting economies from 2004-2014 considered labor costs (adjusted for worker productivity), energy cost, and currency fluctuation
- ⑩ Mexico showed greatest improvement among all 25 economies driven by:
  - ⑩ Competitive labor: Modest wage increases with significant productivity gains
  - ⑩ Energy costs: Decreasing natural gas costs with continued government support
  - Currency: Stable Peso compared to the U.S. dollar



Source: BCG

# Mexico's Favorable Long-Term Outlook

## North American Vehicle Production



Total units (millions)

Year	Total units (millions)
2000	17.7
2005	16.3
2010	12.0
2015	17.2
2020	18.2

- ⑩ Seventh largest producer of automobiles in the world
- ⑩ Future growth driven by:
  - ⑩ Continued growth in North America
  - ⑩ Favorable trade agreements with 42 countries
- ⑩ Mexican government support
  - ⑩ Significant incentives at the state level
  - ⑩ Continued funding to improve infrastructure
  - ⑩ Workforce development programs

Source: IHS

# Challenges in the Region

Challenge	Description
Availability of Labor	<ul style="list-style-type: none"><li>• Difficulty finding and retaining local management teams</li><li>• High attrition rates within hourly work force</li></ul>
Supplier Infrastructure	<ul style="list-style-type: none"><li>• Downstream suppliers are slow to set up operations</li><li>• Difficulties to obtain capital for smaller domestic and international manufacturers (mostly Tier 2 and 3 suppliers)</li></ul>
Changes in Tax Policy	<ul style="list-style-type: none"><li>• Companies struggle to keep up with the changing tax landscape (recent VAT and transfer pricing changes)</li></ul>
Safety & Security	<ul style="list-style-type: none"><li>• Safety conditions for business travelers, despite recent improvements</li><li>• Use common sense approach</li></ul>

# Success Drivers for Automotive Industry



- **Manufacturing launch efficiency** will be critical each year. As the number of vehicle introductions increase each year, the importance to OEM sales grows, leading to more extensive supplier technical support



- **Fewer and combined vehicle architectures** will drive up production volumes for suppliers, but reduce the number of suppliers. Investing in targeted vehicle platforms will be critical to long-term growth



- **Commercial relationships** must be more effective and efficient, especially in engineering and technical support, pricing and costing transparency, warranty responsibility, transportation, and delivery

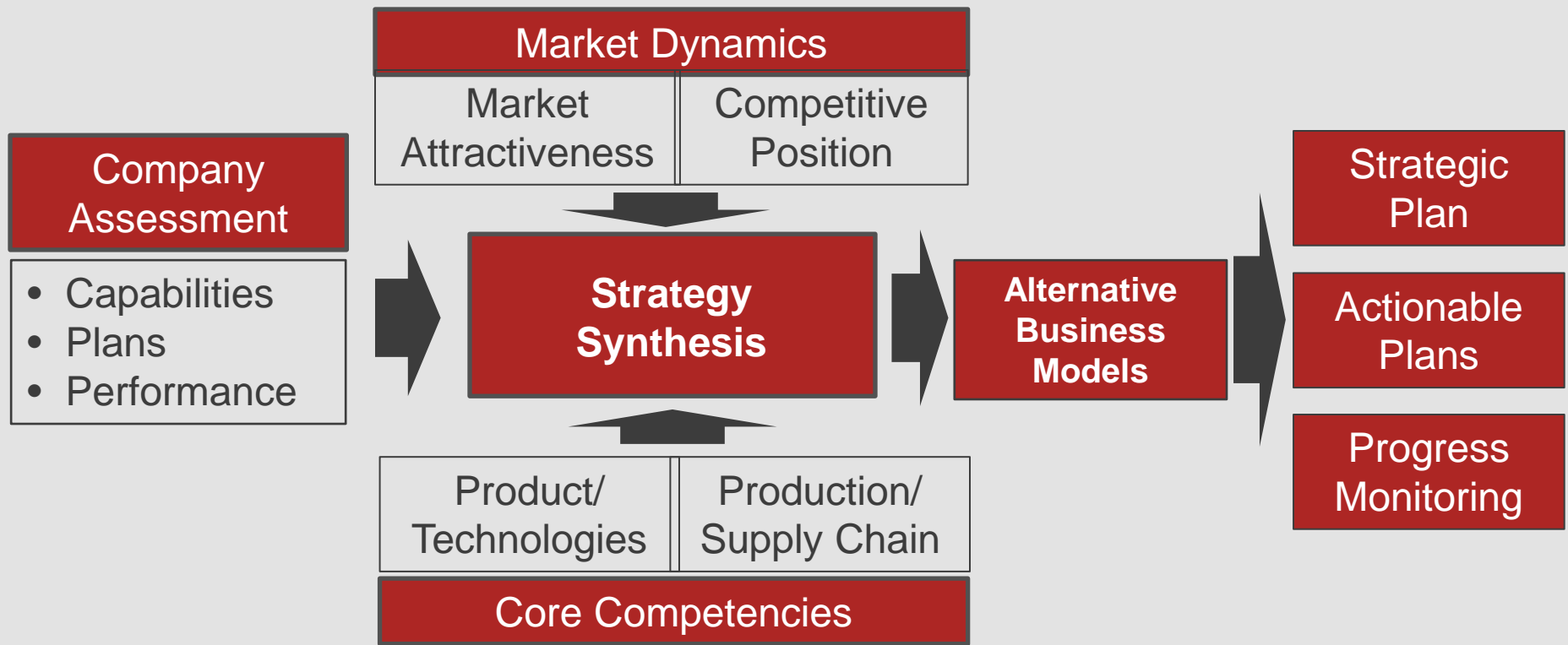


- **Innovation and technology** will dramatically change the automobile. Supplier products and technical knowledge can add critical value to the OEM



- **Focus on the labor force** by implementing programs to facilitate development of employees and collaboration between executive and local management teams

# Framework to Achieve Profitable Growth



# Automotive Strategy Leadership



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