

# Automotive Suppliers

M&A & Financial Market Update

Q4 2016



## Automotive Suppliers finish the year in style

Deal-flow remained strong in Q4, as strategic investors acquired technology leaders to support future mobility solutions, and Private Equity (PE) targeted buy-and-build platforms and related bolt-on acquisitions. A broad range of automotive assets (and segments) have been bid up, and listed multiples finished 2016 at the highs. The M&A environment remains extremely bullish for Auto Suppliers – we expect more of the same in 2017.

### ■ M&A activity remains elevated:

The M&A market for Automotive Suppliers did not slow down in Q4, with 47 reported transactions, compared to 49 in Q3, and 42 in Q2. The average deal-value was €128m in Q4, compared to €240m in Q3, and €124m in Q2.

### ■ The ‘car of the future’ is supporting deal-flow:

Being tooled-up to supply the cars of the future is a must for suppliers, and those who lack the capabilities (namely, software and electronics solutions) are using corporate transactions to fill the void. It's working the other way too, with leading technology companies using M&A to enter the Automotive Suppliers market: Samsung Electronics announced in Q4 that it would acquire the US car infotainment and audio company Harman.

### ■ Transactions are being designed to meet shifting OEM requirements:

This is particularly true for larger suppliers, who are using M&A to align their product & technology portfolios to future mobility solutions – e.g. electronic drives. It also explains why ElringKlinger (GER) announced it would acquire a strategic interest in the engineering company Hofer (GER), which has leading-edge expertise in powertrains.

### ■ PE is eager to launch buy-and-build platforms:

As seen in Q3, PE firms returned to the buy-side. Astute financial investors recognize the sector's favorable growth prospects and the advantages of greater market concentration. The clear standout deal in Q4 was KKR's announcement that it would acquire Calsonic Kansei from its majority shareholder Nissan – this will be KKR's biggest ever deal in Japan.

### ■ Valuations for listed players rose again in Q4:

Valuations for listed peers increased by 11% in Q4 – the group is currently trading at 7.3x EBITDA, on average, as opposed to 6.6x EBITDA in Q3, 5.9x EBITDA in Q2, and 6.4x EBITDA in Q1.



*“The need for technology and innovation is supercharging the M&A market for Auto Suppliers. Both PE and trade buyers are fully engaged, as well as players from the software and electronics industries, who are ideally positioned to create the ‘car of the future’. Growth prospects are attractive, and all the ingredients are in place for another leg up in valuations.”*

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Trading multiples by segment

**Listed valuations for Automotive Suppliers jumped strongly in Q4 – multiples were 7.3x EBITDA, on average – a rise of 11% on Q3.**

**Chassis / Underbody: 7.1x EBITDA (Q3: 6.1x EBITDA)**

Chassis/Underbody	EV	Sales CAGR 2012 / 2015	EBITDA margin 2015	EV / Sales			EV / EBITDA			EV / EBIT		
				2015	2016e	2017e	2015	2016e	2017e	2015	2016e	2017e
Akebono Brake Industry Co., Ltd.	1,262	1.1%	5.7%	0.6x	0.6x	0.6x	11.2x	-	10.0x	-	-	-
American Axle & Manufacturing Holdings, Inc.	2,293	17.4%	14.2%	0.6x	0.6x	0.5x	4.5x	3.9x	3.6x	7.0x	6.0x	6.1x
Brembo S.p.A.	4,203	14.1%	16.3%	2.0x	1.8x	1.7x	12.4x	9.7x	9.2x	17.2x	13.0x	12.6x
Dana Incorporated	3,457	0.6%	10.2%	0.6x	0.6x	0.6x	6.1x	5.6x	5.3x	8.5x	7.9x	7.5x
Georg Fischer AG	3,654	2.8%	11.0%	1.1x	1.0x	1.0x	9.9x	8.9x	8.5x	14.3x	12.5x	11.8x
GKN plc	7,653	7.0%	11.0%	0.8x	0.7x	0.7x	7.1x	6.7x	6.1x	11.3x	8.9x	7.9x
Martinrea International Inc.	1,005	5.1%	7.9%	0.4x	0.4x	0.4x	5.0x	4.2x	3.8x	8.5x	7.2x	6.1x
NHK Spring Co., Ltd.	2,138	5.2%	8.9%	0.5x	0.4x	0.4x	5.1x	4.6x	4.4x	8.6x	7.7x	7.5x
NSK Ltd.	4,889	4.3%	13.9%	0.6x	0.6x	0.7x	4.6x	4.6x	5.5x	6.5x	6.6x	9.1x
Progress Werk Oberkirch AG	247	3.9%	10.1%	0.6x	0.6x	0.6x	6.1x	5.4x	5.0x	15.5x	12.1x	10.8x
SAF-Holland S.A.	734	7.3%	9.7%	0.7x	0.7x	0.7x	7.1x	6.9x	6.5x	8.9x	8.1x	7.9x
Stabilus S.A.	1,614	11.3%	14.1%	2.6x	2.2x	1.8x	-	12.3x	9.7x	-	18.0x	12.9x
Tower International, Inc.	915	7.2%	8.6%	0.5x	0.5x	0.5x	5.9x	4.8x	4.3x	11.3x	8.1x	6.9x
<b>High</b>	<b>7,653</b>	<b>17.4%</b>	<b>16.3%</b>	<b>2.6x</b>	<b>2.2x</b>	<b>1.8x</b>	<b>12.4x</b>	<b>12.3x</b>	<b>10.0x</b>	<b>17.2x</b>	<b>18.0x</b>	<b>12.9x</b>
<b>Average</b>	<b>2,620</b>	<b>6.7%</b>	<b>10.9%</b>	<b>0.9x</b>	<b>0.8x</b>	<b>0.8x</b>	<b>7.1x</b>	<b>6.5x</b>	<b>6.3x</b>	<b>10.7x</b>	<b>9.7x</b>	<b>8.9x</b>
<b>Mean</b>	<b>2,138</b>	<b>5.2%</b>	<b>10.2%</b>	<b>0.6x</b>	<b>0.6x</b>	<b>0.6x</b>	<b>6.1x</b>	<b>5.5x</b>	<b>5.5x</b>	<b>8.9x</b>	<b>8.1x</b>	<b>7.9x</b>
<b>Low</b>	<b>247</b>	<b>0.6%</b>	<b>5.7%</b>	<b>0.4x</b>	<b>0.4x</b>	<b>0.4x</b>	<b>4.5x</b>	<b>3.9x</b>	<b>3.6x</b>	<b>6.5x</b>	<b>6.0x</b>	<b>6.1x</b>

**Engine / Under-the-hood: 7.2x EBITDA (Q3: 6.3x EBITDA)**

Engine/Under-the-Hood	EV	Sales CAGR 2012 / 2015	EBITDA margin 2015	EV / Sales			EV / EBITDA			EV / EBIT		
				2015	2016e	2017e	2015	2016e	2017e	2015	2016e	2017e
BorgWarner Inc.	10,130	10.7%	17.0%	1.4x	1.2x	1.1x	8.1x	7.1x	6.8x	10.6x	9.6x	9.0x
EringKlinger AG	1,610	10.2%	13.8%	1.1x	1.0x	1.0x	7.8x	7.1x	6.3x	12.5x	12.0x	10.3x
EXEDY Corporation	1,449	2.6%	12.6%	0.7x	0.7x	0.7x	5.8x	5.1x	4.6x	10.4x	9.6x	8.6x
Federal-Mogul Holdings Corporation	4,243	11.8%	7.8%	0.6x	0.6x	0.6x	8.0x	6.1x	5.7x	19.7x	-	-
JTEKT Corporation	6,780	3.2%	9.7%	0.6x	0.6x	0.6x	6.7x	6.1x	6.4x	11.8x	10.7x	11.9x
Linamar Corporation	3,565	11.8%	16.6%	1.0x	0.8x	0.8x	6.3x	4.8x	4.7x	9.2x	7.3x	6.9x
Rheinmetall AG	3,254	3.3%	8.3%	0.6x	0.6x	0.6x	7.6x	5.9x	5.3x	12.9x	9.6x	8.3x
Twintec AG	31	(2.9)%	n.a.	1.1x	0.8x	0.6x	-	-	-	-	-	-
<b>High</b>	<b>10,130</b>	<b>11.8%</b>	<b>17.0%</b>	<b>1.4x</b>	<b>1.2x</b>	<b>1.1x</b>	<b>8.1x</b>	<b>7.1x</b>	<b>6.8x</b>	<b>19.7x</b>	<b>12.0x</b>	<b>11.9x</b>
<b>Average</b>	<b>3,883</b>	<b>6.3%</b>	<b>12.2%</b>	<b>0.9x</b>	<b>0.8x</b>	<b>0.7x</b>	<b>7.2x</b>	<b>6.0x</b>	<b>5.7x</b>	<b>12.4x</b>	<b>9.8x</b>	<b>9.2x</b>
<b>Mean</b>	<b>3,410</b>	<b>6.7%</b>	<b>12.6%</b>	<b>0.9x</b>	<b>0.7x</b>	<b>0.7x</b>	<b>7.6x</b>	<b>6.1x</b>	<b>5.7x</b>	<b>11.8x</b>	<b>9.6x</b>	<b>8.8x</b>
<b>Low</b>	<b>31</b>	<b>(2.9)%</b>	<b>7.8%</b>	<b>0.6x</b>	<b>0.6x</b>	<b>0.6x</b>	<b>5.8x</b>	<b>4.8x</b>	<b>4.6x</b>	<b>9.2x</b>	<b>7.3x</b>	<b>6.9x</b>

**Diversified: 6.7x EBITDA (Q3: 7.4x EBITDA)**

Diversified Suppliers	EV	Sales CAGR 2012 / 2015	EBITDA margin 2015	EV / Sales			EV / EBITDA			EV / EBIT		
				2015	2016e	2017e	2015	2016e	2017e	2015	2016e	2017e
Aisin Seiki Co., Ltd.	16,531	3.1%	11.0%	0.7x	0.7x	0.6x	6.5x	5.7x	5.1x	12.9x	12.1x	10.2x
Cie Automotive, S.A.	3,207	16.9%	14.6%	1.2x	1.1x	1.0x	8.4x	7.6x	6.5x	12.2x	10.9x	9.2x
Continental Aktiengesellschaft	40,919	6.2%	15.3%	1.0x	1.0x	1.0x	6.8x	6.7x	6.0x	9.6x	9.7x	8.4x
Delphi Automotive PLC	21,162	5.9%	16.4%	1.5x	1.4x	1.3x	9.2x	7.8x	7.4x	11.7x	10.2x	9.6x
DENSO Corporation	31,715	5.2%	12.8%	0.9x	0.9x	0.9x	7.4x	7.0x	7.2x	12.3x	12.0x	13.0x
Johnson Controls International plc	53,131	1.8%	8.9%	1.6x	1.6x	1.8x	-	13.0x	11.7x	24.2x	17.8x	15.4x
Magna International Inc.	19,345	8.2%	10.1%	0.7x	0.6x	0.5x	6.5x	5.3x	4.9x	9.0x	7.6x	7.1x
Meritor, Inc.	1,852	(2.7)%	8.0%	0.6x	0.6x	0.6x	7.4x	6.4x	6.4x	9.6x	9.0x	9.2x
Schaeffler AG	12,356	-	17.9%	0.9x	0.9x	0.9x	5.2x	5.0x	4.8x	7.3x	7.4x	7.0x
SHOWA Corporation	476	1.7%	9.8%	0.2x	0.2x	0.2x	2.4x	2.3x	-	3.6x	3.6x	-
Toyota Gosei Co., Ltd.	3,025	7.1%	11.1%	0.5x	0.5x	0.5x	4.8x	4.6x	4.6x	9.4x	9.2x	9.8x
Trelleborg AB	6,498	3.0%	15.9%	2.4x	2.3x	2.0x	-	13.8x	11.3x	18.8x	17.8x	14.6x
Valeo SA	14,066	7.3%	10.7%	1.0x	0.9x	0.8x	9.0x	6.7x	6.0x	13.5x	11.0x	9.7x
<b>High</b>	<b>53,131</b>	<b>16.9%</b>	<b>17.9%</b>	<b>2.4x</b>	<b>2.3x</b>	<b>2.0x</b>	<b>9.2x</b>	<b>13.8x</b>	<b>11.7x</b>	<b>24.2x</b>	<b>17.8x</b>	<b>15.4x</b>
<b>Average</b>	<b>17,253</b>	<b>5.3%</b>	<b>12.5%</b>	<b>1.0x</b>	<b>1.0x</b>	<b>0.9x</b>	<b>6.7x</b>	<b>7.1x</b>	<b>6.8x</b>	<b>11.8x</b>	<b>10.6x</b>	<b>10.3x</b>
<b>Mean</b>	<b>14,066</b>	<b>5.5%</b>	<b>11.1%</b>	<b>0.9x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>6.8x</b>	<b>6.7x</b>	<b>6.2x</b>	<b>11.7x</b>	<b>10.2x</b>	<b>9.7x</b>
<b>Low</b>	<b>476</b>	<b>(2.7)%</b>	<b>8.0%</b>	<b>0.2x</b>	<b>0.2x</b>	<b>0.2x</b>	<b>2.4x</b>	<b>2.3x</b>	<b>4.6x</b>	<b>3.6x</b>	<b>3.6x</b>	<b>7.0x</b>

## About Capitalmind

European corporate finance advisory, founded in 1999 – advising companies, corporates and PE investors on buying and selling businesses, MBO's, growth capital and debt finance. We are a leader in the mid-cap space in the German, French, Benelux and Nordic markets (200+ deals in the last five years), with access to strategic and financial players beyond Europe via our partnership with Mergers Alliance – 400+ professionals worldwide.

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Robert's career started in the automotive industry and includes longstanding operational and strategic experience at Daimler AG - most recently as Head of Product and Strategy at Mercedes-Benz Luxembourg. Robert also worked as a senior management consultant focused on the Automotive Suppliers before joining Capitalmind's German office in Wiesbaden as Partner in 2014.



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## Our recent Automotive deals

 <b>CIE Automotive</b> acquired 15 assets for €936m Forgings	 <b>KBComponents</b> VALUE THROUGH INNOVATION acquired  Plastic components	 <b>SPPP</b> completed a fundraising underwritten by  Surface treatment & coating	 MBO of <b>C-MAC</b> with  Radiators	 <b>CARRARO</b> sold  to  Small gear manufacturing	 <b>TAIKI-SHA LTD.</b> acquired 51% stake in  Turnkey coating systems
 <b>GERDAU</b> sold  to  Gearbox, transmission & bearings	 <b>EGCO</b> acquired  Safety & amber warning products	 <b>THEBE</b> INVESTMENT CORPORATION acquired Unico – V tech From  Brake fluids and anti-freeze liquids	 <b>PREMIUM</b> sold automotive gear manufacturing division to  Gearboxes	 <b>allenford</b> sold to  UK's leading Ford franchise dealer	  Sold <b>TEXELIS</b> POWER TRANSMISSION to  Military & rail axles and drivelines

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