

Ready to go global? Opportunities for Turkish Automotive Suppliers in Germany, Russia and China



Germany: Market Access via acquisition or cooperation?

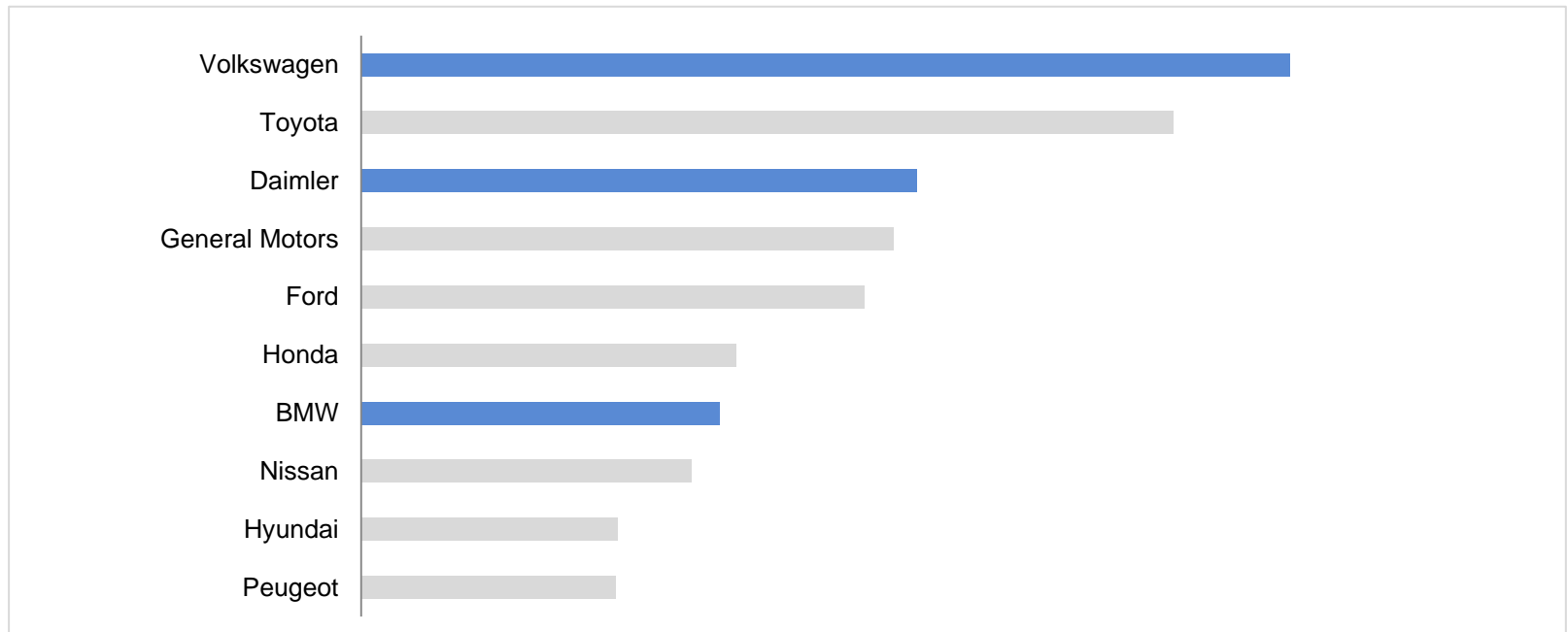
Topics

- A. Introduction
- B. Overview
- C. The Standard M&A Process
- D. Distressed M&A Process
- E. Investing in an insolvent company

A. Introduction (1)

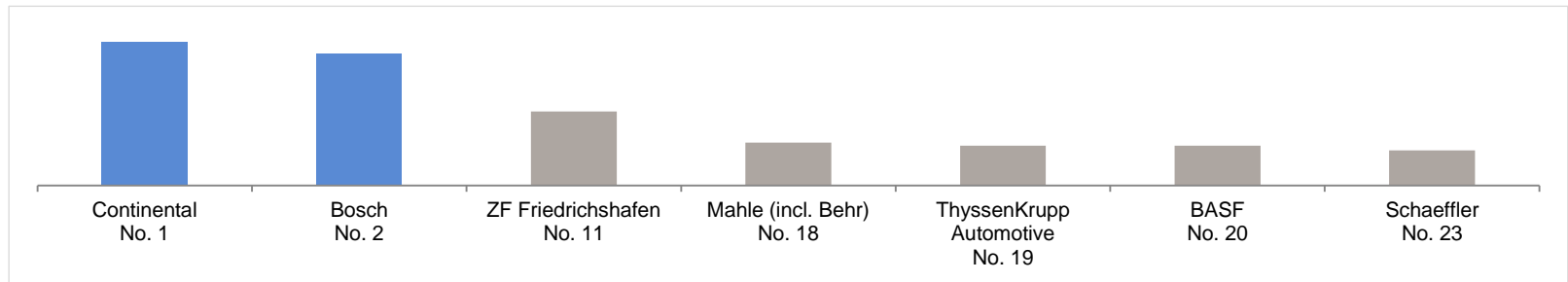
1. Why investing in the German Automotive Supply Sector?

- 3 of the 10 largest automobile manufacturers are based in Germany:
 - **Volkswagen** (including Audi and Porsche) (No. 1), **Daimler** (No. 3), **BMW** (No. 7)



A. Introduction (2)

- Many of the world's largest automotive suppliers are based in Germany:
 - No. 1 (**Continental**) and No. 2 (**Bosch**)
 - In total 7 out of the Top 25 are German



- In addition, there is a large number of small to midsize 1st and 2nd tier suppliers
- Direct access to OEMs and market leading technology and know-how

A. Introduction (3)

2. Possible Investment Options

- **Green Field Investment:** Setting up your own subsidiary from scratch
- **Joint Venture:** Forming a new entity with an established local player
- **Acquisition:** Buying an existing company

B. Overview: Investing through Acquisition

1. Investment Considerations

- 1st tier / 2nd tier
- Same product classes vs. new products
- Size of target
- Family owned vs. private equity owned
- Participation in auction process

2. Types of targets in terms of financial situation

- Healthy, well performing
- Distressed
- Insolvent

C. The Standard M&A Process

1. Strategic and Preparatory Questions

- a) Type of process: auction vs. exclusive discussions
- b) Team:
 - M&A advisors
 - Legal / Tax advisors
 - Accounting / Financial advisors
 - Technical advisors
 - Industry experts

C. The Standard M&A Process

2. Process and Documentation

a) Due Diligence

- Electronic data room vs. on-site
- Scope of due diligence
 - Financial and accounting
 - Technical
 - Legal, IP and Tax
 - Commercial

b) Typical content of offer letter:

- Acquisition structure: share deal vs. asset deal
- Purchase price (including adjustment mechanisms and earn outs)
- Timetable
- Financing (equity vs. bank loans): purchase price, working capital and future investments

C. The Standard M&A Process

3. Negotiation and Completion of the Transaction

a) Important fields of negotiation:

- Purchase price and adjustment mechanisms
- Reps and warranties and liability caps
- Limitation periods

b) Signing and Closing

- usually Closing subject to the fulfilment of Closing Conditions as agreed by the parties

D. Acquiring of a distressed (not yet insolvent) company

1. Background

- Owners often put up their companies for sale in a crisis in order to avoid insolvency and get at least some purchase price
- In many cases, sales processes in such situations will not be successful

2. Key issues

- Due diligence: comprehensive risk assessment
- Often full refinancing required
- Protection against risk of future insolvency
- Securing continued customer support
- Unrealistic purchase expectations

E. Investing in an insolvent company

1. Preferred market access route for numerous investors from emerging markets

Examples:

- NBHX (China) acquired business of Sellner Group
- Amtek (India) acquired business of Neumayer Tekfor
- Ruia Group (India) acquired business of Meteor Gummiwerke K. H. Baedje GmbH & Co. KG
- Dongkook Industrial (Korea) acquired business of Innovative Components Technologies GmbH
- Kirovsky Zavod OJSC (Russia) acquired business of Göppel Bus GmbH
- Bayraktarlar Holding (Turkey) acquired business of Odelo GmbH

E. Investing in an insolvent company

2. Key advantages

- Low purchase price
- Limited competition
- Possibility to engage closely with customers
- Acquisition by way of asset deal allows to leave existing financial risks behind
- Insolvency law offers specific restructuring possibilities and facilitates head count adjustments

E. Investing in an insolvent company

3. Challenges

- Thorough due diligence important to detect potential risks; insolvency administrators will not give representations and warranties
- Restructuring experience required
- Financing: new working capital financing to be established; often investment backlog requires substantial additional funds
- Trade agreement negotiations with customers

M&A across Europe – our CMS M&A Study



- 6th annual study
- Evaluation of over 2000 deals between 2007 – 2013 (more than 300 in 2013)
- Insight into provisions of M&A agreements and comparison across the EU and with the US

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