Mastering challenges in the automotive aftermarket with private equity

- EXCERPT -

Philipp Grosse Kleimann
Senior Partner

Roland Berger
Strategy Consultants

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Private Equity (PE) investment cycle

1. **FUNDRAISING**
   - PE is collecting funds, e.g. from Institutional investors, privates, family offices) and opens a fund with the aim to realize a targeted rate of return.

2. **TARGET IDENTIFICATION**
   - PE is looking for investment opportunities based on:
     - Individual investment targets
     - Investment motivation (e.g. growth vs. consolidation)
     - Market segment

3. **DUE DILIGENCE (DD)**
   - PE to evaluate the target supported by:
     - Consultants (Commercial DD)
     - Auditors (Financial DD, Tax)
     - Law firms, banks (Transaction, financing)

4. **DEAL**
   - PE to estimate a fair asset value e.g. as a "multiple" of the EBIT/EBITDA
   - Value depending on several criteria, e.g. industry, market size, growth rates, product portfolio, margins, availability

5. **HOLDING PERIOD**
   - The asset will be managed to increase its market value e.g. management improvement, restructuring, change of product portfolio, "buy-and-build", etc.
   - Duration of holding period often linked to the runtime of the fond.

6. **EXIT**
   - PE sells the asset, e.g. via IPO, Management buy-out or selling to another financial or strategic investor, supported by a due diligence.
   - Revenues flow back into the fund and thus to the investors.

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PE are often seen as pure financial investor who increases the debts of the company and squeeze it – A common prejudice.

Source: Roland Berger
Automotive is one of the most important industries for private equity companies in the SME segment

Ranking of industries by expected importance [1-5] – Example Germany

1. Capital goods & engineering: 3.8
2. Automotive: 3.3
3. Media & technology: 3.3
4. Consumer goods/retail: 3.3
5. Logistics & business services: 3.2
6. Pharma/healthcare: 3.0
7. Chemicals: 2.9
8. Energy/utilities: 2.4
9. Building and construction: 2.3
10. Financial services: 2.0

> Industries with a high importance for private equity companies targeting SMEs are traditional German strongholds in capital goods & engineering and automotive, followed by media & technology and consumer goods/retail

> It does not only represent a German trend but also a European wide trend where the Automotive industry is of high importance of PE companies

Source: Roland Berger
Emerging market suppliers are looking to strengthen their technology capabilities and overseas presence

Overview of recent M&A deals in the automotive supplier industry

<table>
<thead>
<tr>
<th>ACQUIRER (ORIGIN)</th>
<th>TARGET</th>
<th>SEGMENT</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>TMT</td>
<td>Boge</td>
<td>Plastic components</td>
<td>2014</td>
</tr>
<tr>
<td>AVIC</td>
<td>Hilite</td>
<td>Engine &amp; Transmission products</td>
<td>2014</td>
</tr>
<tr>
<td>Ningbo Huaxiang</td>
<td>HIB Trim Parts</td>
<td>Decorative interior trim</td>
<td>2013</td>
</tr>
<tr>
<td>Amtek</td>
<td>Neumayer Tekfor</td>
<td>Machined metal parts</td>
<td>2013</td>
</tr>
<tr>
<td>Chinese investors consortium</td>
<td>iee</td>
<td>Safety sensors</td>
<td>2013</td>
</tr>
<tr>
<td>Bohong</td>
<td>Wescast Industries</td>
<td>Castings (focus: exhaust manifolds)</td>
<td>2012</td>
</tr>
<tr>
<td>Hebei Lingyun Industrial</td>
<td>Kiekert</td>
<td>Hatches and actuators</td>
<td>2012</td>
</tr>
<tr>
<td>Citic</td>
<td>KSM Castings</td>
<td>Light metal castings</td>
<td>2011</td>
</tr>
<tr>
<td>Ningbo Huaxiang</td>
<td>Sellner</td>
<td>Decorative interior trim</td>
<td>2011</td>
</tr>
<tr>
<td>Samvardhana Motherson Group</td>
<td>Peguform</td>
<td>Plastic parts &amp; modules</td>
<td>2011</td>
</tr>
<tr>
<td>Joyson Holding</td>
<td>Preh</td>
<td>Electronics/switches</td>
<td>2011</td>
</tr>
<tr>
<td>BHAP</td>
<td>Inalfa</td>
<td>Roof systems</td>
<td>2011</td>
</tr>
<tr>
<td>CQLT</td>
<td>Saargummi</td>
<td>Rubber sealings</td>
<td>2011</td>
</tr>
</tbody>
</table>

Source: Thomson; Merger Market; press research; Roland Berger/Lazard
The aftermarket value chain is highly complex with a big range of different participants – underlying trends will partly change the game.

Distribution channels in the automotive aftermarket

- **Manufacturer**
  - Original Equipment Manufacturer (OEM)

- **Wholesaler**
  - Wholesaler/distributor/importer
  - OEM Aftermarket Organization
  - OEM franchise workshops

- **Retail**
  - Independent workshops/garage
  - Body and paint
  - Gas station, hypermarket, DIY

- **Intermediate**
  - Insurer, leasing, car sharing, fleet, online platforms...
  - Fast fit/auto center

- **Customer**

> **Automotive aftermarket has increased** its attractiveness for PE investments

> **Complex market structure** approached by
  - **Horizontal** integration, e.g. Stahlgruber + PV Automotive (2013)
  - **Vertical** integration, e.g. HELLA owns wholesaler in Nordic countries (e.g. Hellanor, FTZ)

> **PE are expected to increase their activities** within the aftermarket in the near future

Source: Roland Berger
Private equity companies are expected to provide growth financing and support in succession planning and professionalization.

Expectations towards private equity companies [%] – Example Germany

**Expectations of SMEs towards PE investors**

<table>
<thead>
<tr>
<th>Expectation</th>
<th>% of respondents</th>
<th>Relevance for automotive parts…</th>
<th>...supplier</th>
<th>...wholesaler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh money to finance growth (e.g. international expansion, innovation)</td>
<td>78%</td>
<td>✅ ✅ ✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>Support in succession planning</td>
<td>68%</td>
<td>✅</td>
<td>✅</td>
<td>✅ ✅ ✅ ✅</td>
</tr>
<tr>
<td>(Re-)investment opportunity for management and former own</td>
<td>68%</td>
<td>✅ ✅ ✅</td>
<td></td>
<td>✅</td>
</tr>
<tr>
<td>Support in installing professional governance and manage</td>
<td>54%</td>
<td>✅</td>
<td>✅</td>
<td>✅ ✅ ✅ ✅</td>
</tr>
<tr>
<td>Contacts and know-how (M&amp;A; financing)</td>
<td>41%</td>
<td>✅ ✅</td>
<td>✅ ✅</td>
<td>✅ ✅</td>
</tr>
</tbody>
</table>

% of respondents (50 responses from private equity companies)

Source: Roland Berger

Relevance for automotive parts:  
- High relevance ✅ ✅ ✅  
- Medium relevance ✅ ✅  
- Low relevance ✅
Let's think: act!