

PwC Deals

Global Automotive Deals Insights Q1 2018

In the driver's seat: Automotive M&A pushes forward in 2018

Executive summary

Global Automotive M&A activity was strong in the first quarter of 2018. Automotive M&A deal value is up 272% to \$29.8 billion when compared to Q4 2017. Volume is up 7% to 217 deals, and the average disclosed deal size increased 383% to \$445 million.

The increase in value and average deal size is primarily driven by two megadeals in Q1 2018 compared to zero in Q4 2017. The two megadeals were by Parts and Component Manufacturers accounting for \$20 billion of deal value, or 66% of all disclosed deal value in the quarter.

Asia and Oceania acquirers spent \$16.1 billion in Q1 2018, or 54% of disclosed deal value. The majority of deal activity were local deals. We did not see as much cross border activity as expected from the end of last quarter, and US deal announcements were relatively quiet. Given the impact of tax reform and a continued strong economy in the US, we expect US activity to pick up in the remainder of 2018. The automotive industry continues to be an attractive investment given strong unit demand for vehicles. According to PwC Autofacts, the industry is expected to grow at a 2.8% CAGR through 2024.

“Automotive activity increased in Q1 2018 as companies consider upcoming regulation changes and technology advances.”



Jeff Zaleski
Partner, US Automotive
Deals Leader
PwC

Trends and highlights

- Deal value in Q1 2018 was \$30 billion, almost four times the value of last quarter and 23% higher than Q1 2017.
- There were 217 deals this quarter, 19% lower than Q1 2017. However, the average disclosed deal size jumped 383% to \$445 million and is more than double the three-year historical average of \$192 million.
- Melrose Industries' \$11 billion announced acquisition of GKN Plc. was the largest deal this quarter and accounts for 37% of deal value in 2018 to date.
- The Asia & Oceania region continues to account for the largest share of deal value and volume, although Europe's share of target and acquirer value and volume is on the rise.

	2018 YTD versus 2017 YTD	Q1 2018 versus Q4 2017
Total deal value		
\$29.8B	23%	272%
Total deal volume		
217	19%	7%
Average deal size		
\$445M	19%	383%

Source: Thomson Reuters

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Deal activity

Automotive deal value surged in the first quarter of 2018. Almost \$30 billion in deal value was announced, more than double the three-year historical quarterly average of \$13.9 billion. M&A activity continues to be driven by technology and regulation driving higher transaction values. Disclosed transaction multiples for the automotive industry increased in Q1 2018, as compared to Q1 2016 and Q1 2017 respectively. EV / EBITDA multiples increased from 8.3x in Q1 2017 to 9.8x in Q1 2018, respectively, while the implied EV / Revenue multiples for automotive transactions announced stayed consistent at 1.0x over the same period.

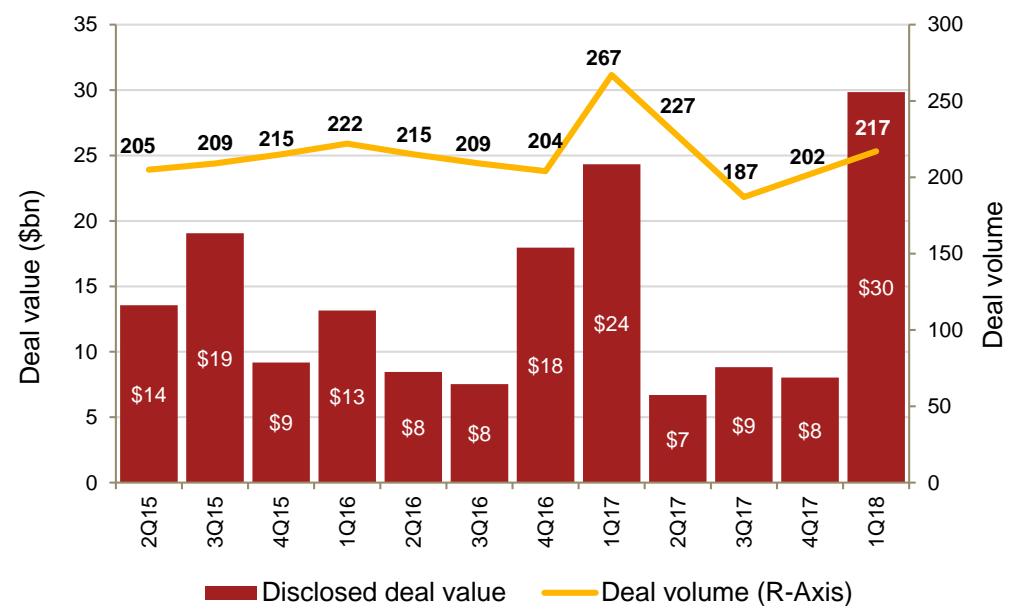
Largest transaction

In January, Melrose Industries announced an \$11 billion hostile takeover bid of British-based component manufacturer GKN Plc. The bid won the approval of 52% of GKN shareholders beating out a \$6.1 billion bid by Ohio-based parts and component supplier, Dana Inc.

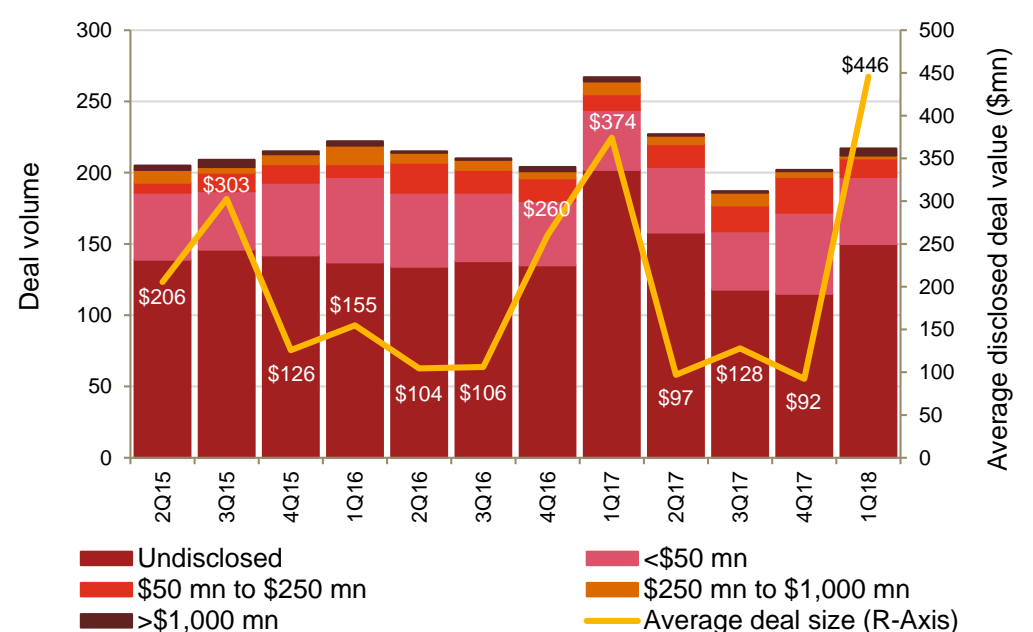
Megadeals*

There were two megadeals announced in Q1 2018. Melrose Industries' \$11 billion acquisition of GKN Plc. and Hyundai Glovis' \$8.8 billion acquisition of Hyundai Mobis stemming from regulatory reform in Korea. Other notable transactions include the \$4.5 billion sale of Beijing Electric Vehicle Co.

Total deal value and volume



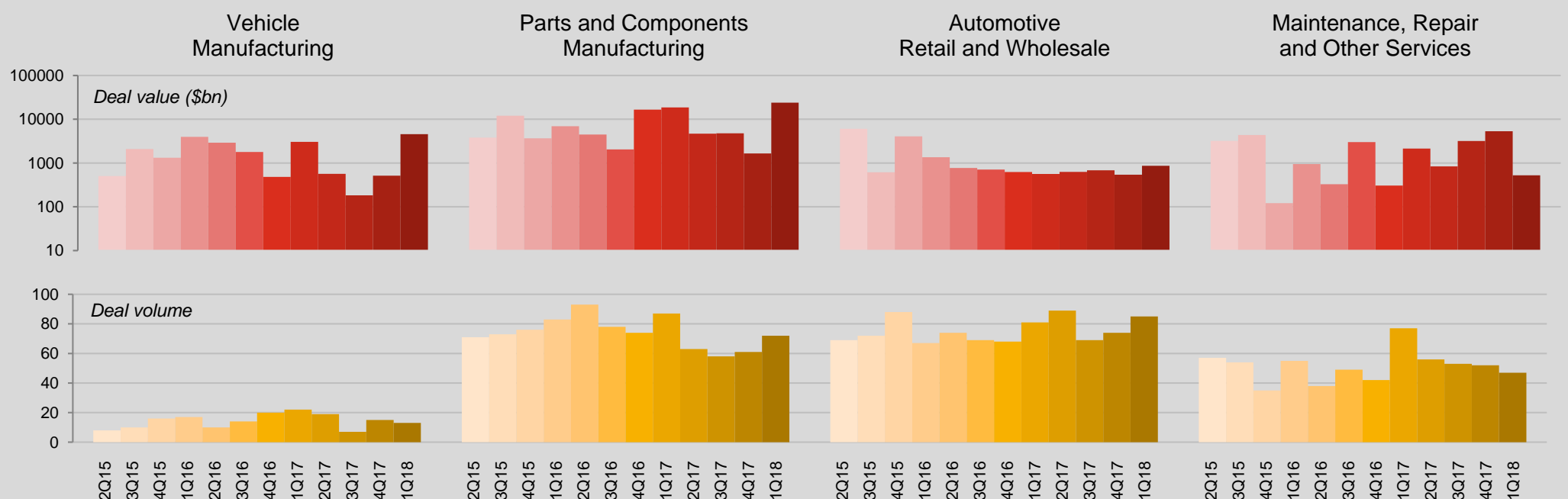
Deals by disclosed value



Source: Thomson Reuters and other publicly available sources

Sector category analysis

Both megadeals and six of the top 10 deals were transacted by the Parts & Components Manufacturing category, which contributed to 80% of global automotive deal value this quarter. Vehicle Manufacturing saw deal value jump to a three-year high of \$4.6 billion on the back of Chengdu Qianfeng Electronics' \$4.5 billion acquisition of Beijing Electric Vehicle Co, the largest auto-tech deal so far in 2018. These gains were partially offset by a decrease in Maintenance, Repair and Other Services, which saw a 57% decrease in activity from rental and fleet management companies (14 deals in Q4 2017 versus six deals in Q1 2018).



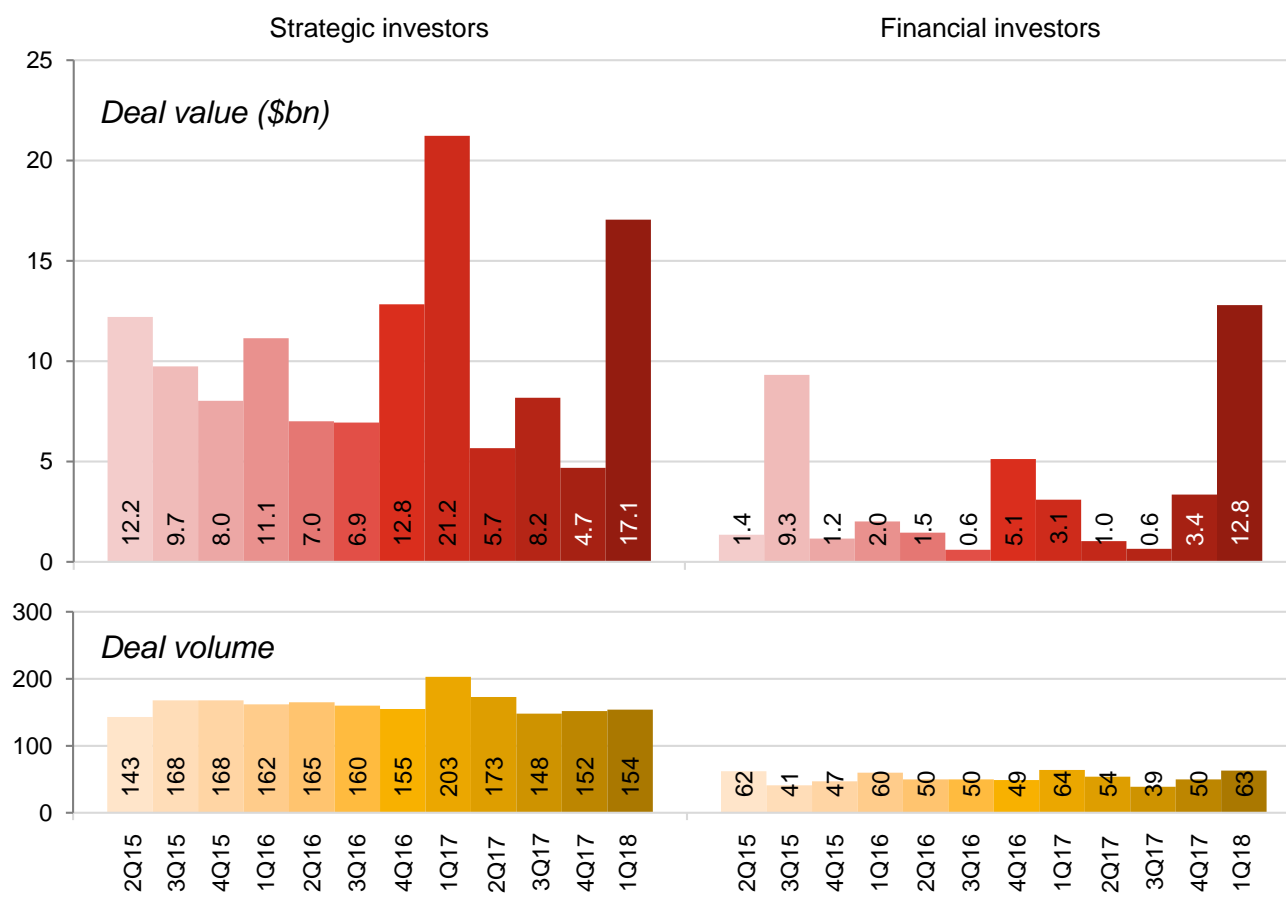
Source: Thomson Reuters and other publicly available sources

*Megadeals are defined as deals with disclosed value equal to or greater than \$5 billion USD.

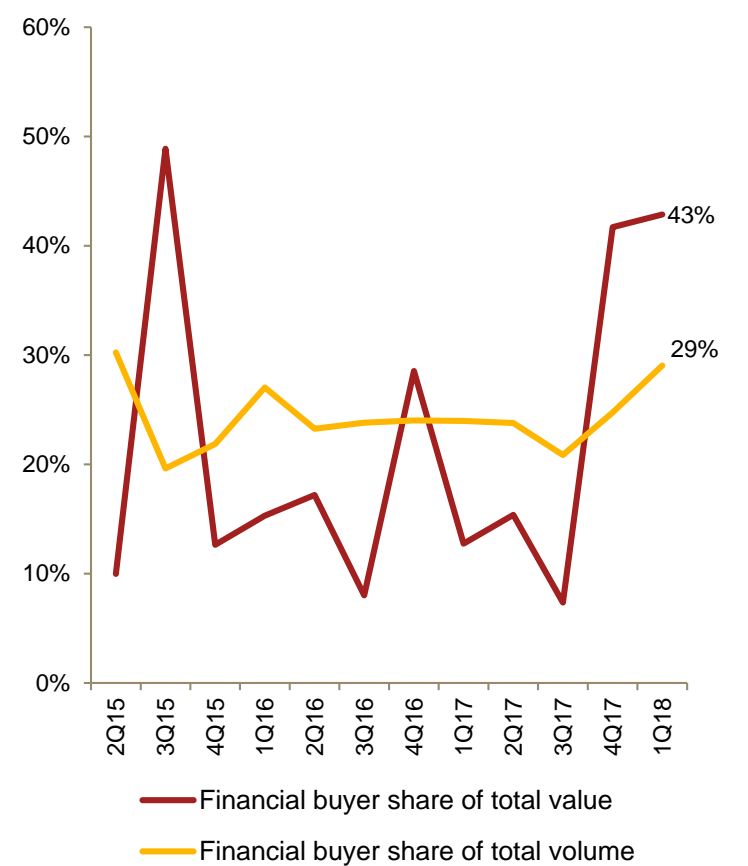
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Financial vs. strategic investors

Strategic investors continue to drive the majority share of deal activity in the sector transacting 57% percent of deal value and 71% of volume this quarter. Even so, Financial buyers' share of total value and volume remains robust given dry powder available for investment being at all time highs. Over the last two quarters, financial buyers' share of total value has averaged 43%, significantly higher than the three-year average of 25%.



Financial investor share of M&A activity

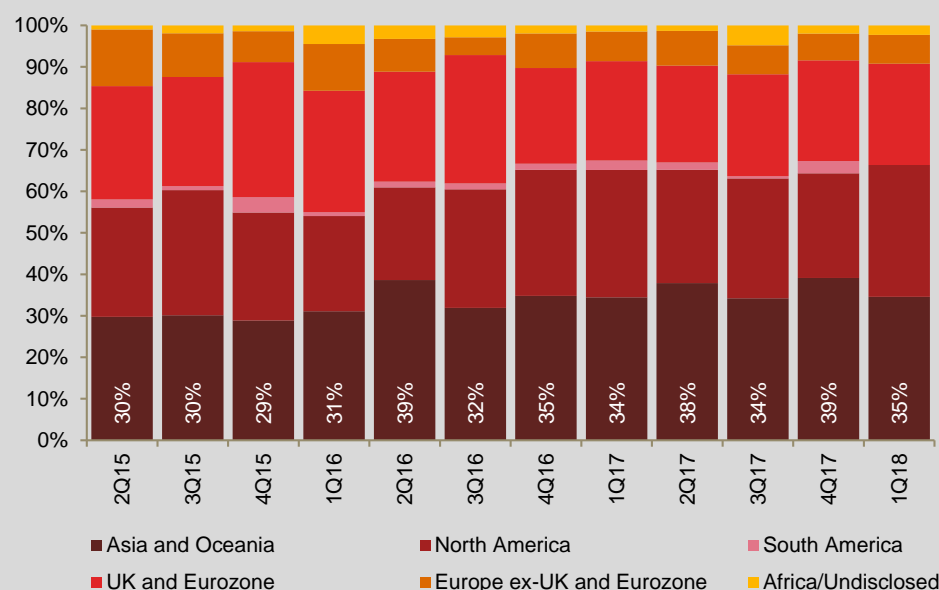


Source: Thomson Reuters and other publicly available sources

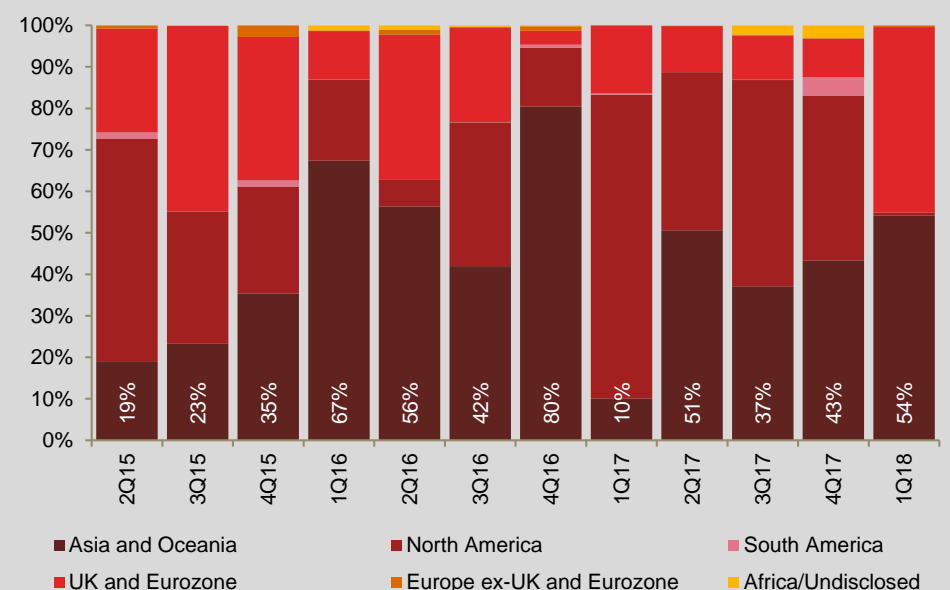
Regional analysis

The Asia and Oceania region remains the most active acquirer by volume, followed closely by North America and the UK and Eurozone. Share of deal volume in the Asia and Oceania and North American regions are trending slightly higher both by Target and Acquirer, especially as Asian Vehicle Manufacturers look to invest in auto-tech similar to their North American and European counterparts. We also note a large swing in domestic transaction value this quarter as 90% of deal value was traded within country borders, compared to a three-year average of 63%.

Share of deal volume by acquirer region



Share of deal value by acquirer region

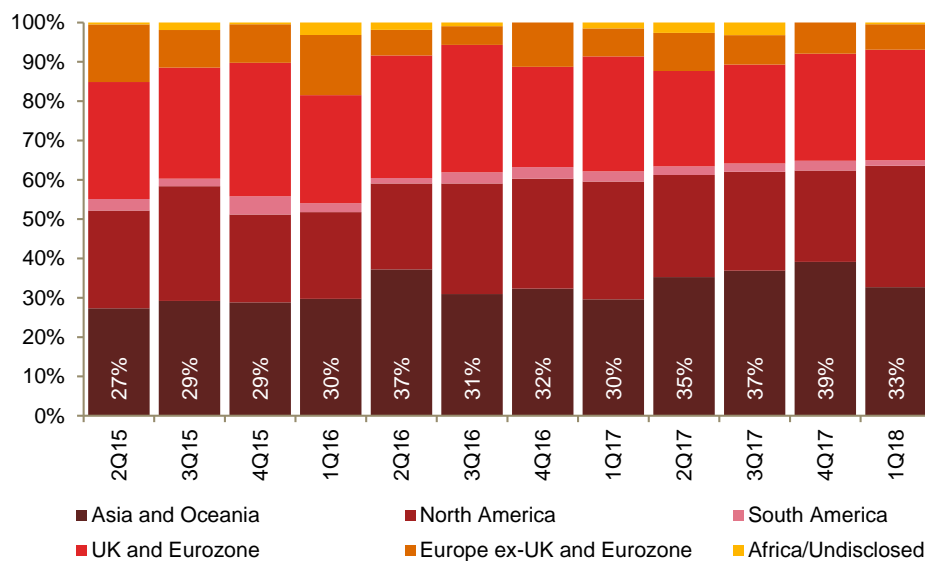


Source: Thomson Reuters and other publicly available sources

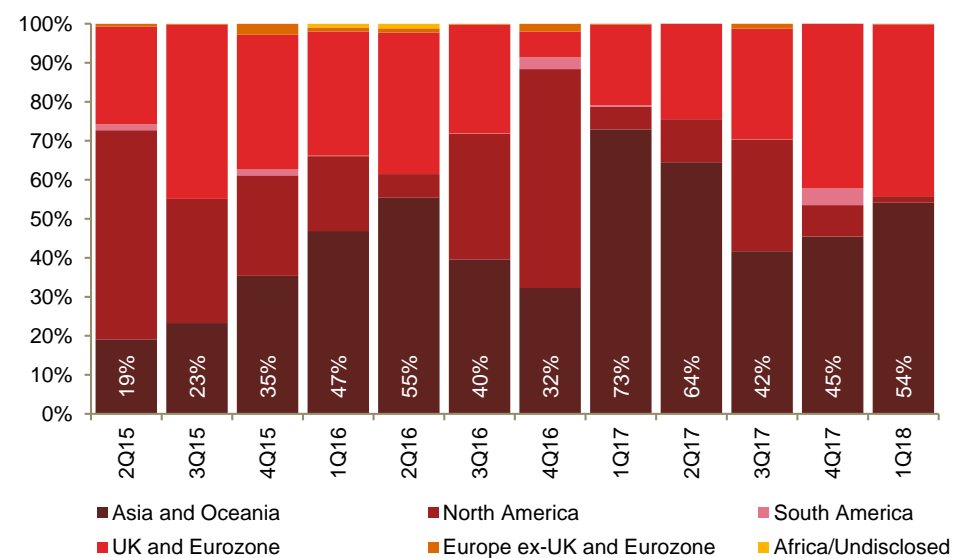
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Regional analysis (continued)

Share of disclosed deal volume by target region

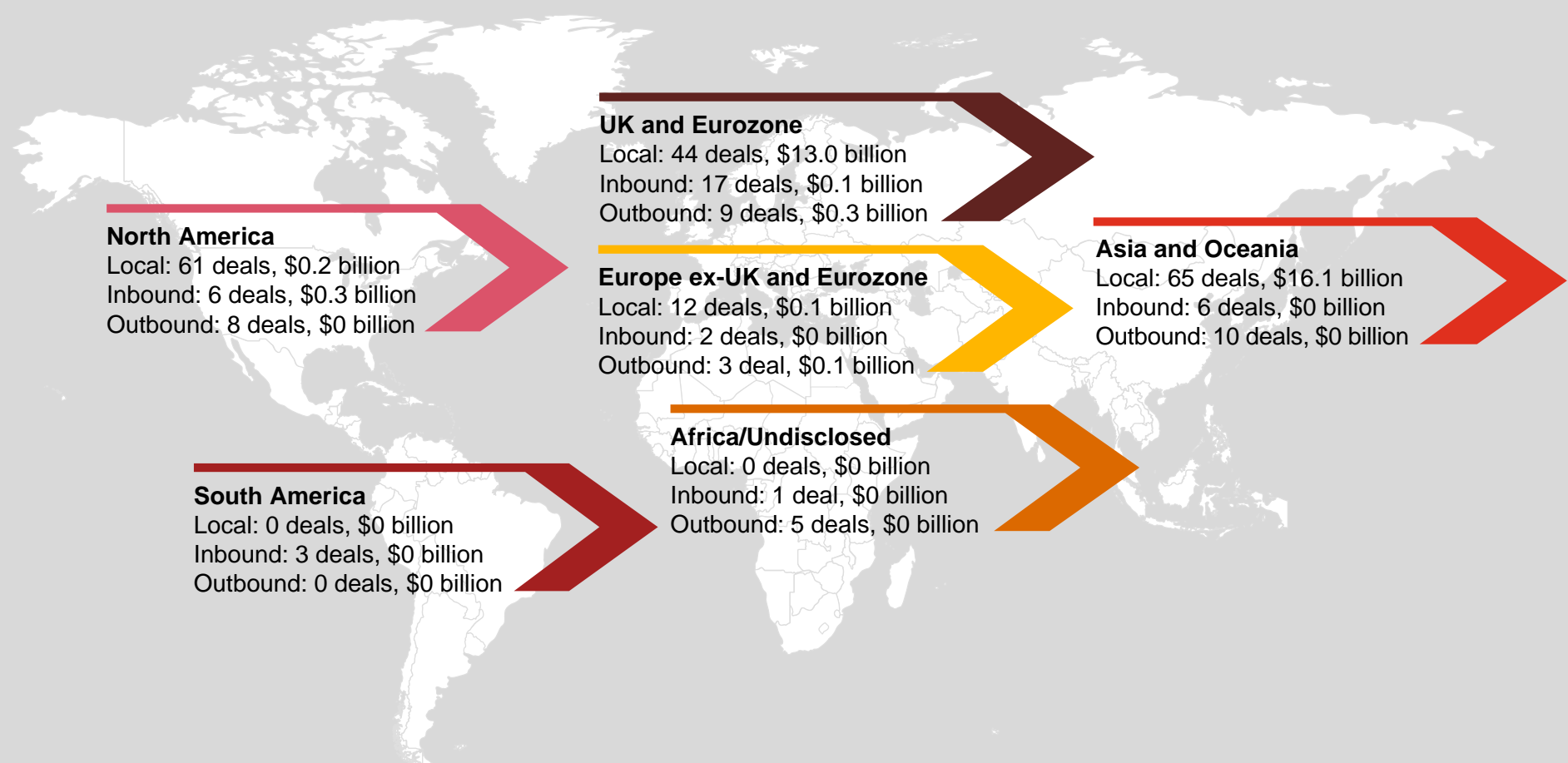


Share of disclosed deal value by target region



Source: Thomson Reuters and other publicly available sources

Automotive deals by region



Source: Thomson Reuters and other publicly available sources

Automotive deals outlook

Vehicle manufacturers, component manufacturers, and technology companies continue to invest in mobility platforms bringing with it changes to business models and products. Financial buyers and venture capital continue to chase yield through tech-oriented companies and start-ups looking to provide solutions to the emerging auto-tech scene. In the remainder of 2018, we expect continued investments in alternative powertrains, connected car technologies, artificial intelligence and predictive analytics, along with light-weighting composites to ensure vehicles meet emissions targets as embedded technology add weight to vehicle platforms.

Given the global nature of this industry, we expect continued focus on cross-border activity buoyed by a potential increase in Europe and the US.

Despite tightening of monetary policy and turbulent trade discussions, we expect to see increased activity in the US as a result of benefits from tax reform. In the meantime, Asian buyers will continue to be active given further consolidation opportunities, market growth, and regulation driving the need for automotive technologies and M&A.

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Top 10 Automotive deals 2018

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
01/12/18	GKN PLC	United Kingdom	Melrose Industries PLC	United Kingdom	Pending	11,016	Parts and Components Manufacturing
03/28/18	Hyundai Mobis Co. Ltd.- Module & AS Parts Business	South Korea	Hyundai Glovis Co. Ltd.	South Korea	Pending	8,776	Parts and Components Manufacturing
01/22/18	Beijing Electric Vehicle Co. Ltd.	China	Chengdu Qianfeng Electronics Co. Ltd.	China	Pending	4,508	Vehicle Manufacturing
03/19/18	Fenner PLC	United Kingdom	Compagnie Generale des Etablissements Michelin SCA	France	Pending	1,669	Parts and Components Manufacturing
01/13/18	Tri-Ring Group Co. Ltd.	China	Investor Group	China	Pending	1,083	Parts and Components Manufacturing
03/02/18	Kumho Tire Co. Inc.	South Korea	Colour Minerals Pty Ltd.	Australia	Pending	597	Parts and Components Manufacturing
03/26/18	Grupo Rudelman	Costa Rica	Inchcape PLC	United Kingdom	Completed	284	Maintenance, Repair and Other Services
02/28/18	Japan Automobile Auction Inc	Japan	USS Co. Ltd.	Japan	Pending	183	Automotive Retail and Wholesale
02/28/18	Zhoushan Yinmei Automobile Interior Co. Ltd.	China	Investor Group	China	Pending	166	Parts and Components Manufacturing
03/09/18	MBM Resources Bhd	Malaysia	UMW Holdings Bhd	Malaysia	Intended	128	Automotive Retail and Wholesale

Top 10 Automotive deals 2017

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
03/13/17	Mobileye NV	Israel	Intel	United States	Completed	15,387	Parts and Components Manufacturing
12/11/17	Stahlgruber GmbH	Germany	LKQ Corp.	United States	Pending	2,089	Maintenance, Repair and Other Services
09/25/17	Alliance Automotive Group SAS	France	Genuine Parts Co.	United States	Completed	2,000	Maintenance, Repair and Other Services
06/26/17	Takata Corp-Business	Japan	Key Safety Systems Inc.	United States	Pending	1,573	Parts and Components Manufacturing
02/14/17	Adam Opel AG	Germany	Peugeot SA	France	Completed	1,210	Vehicle Manufacturing
02/10/17	Argo AI	United States	Ford Motor Company	United States	Pending	1,000	Vehicle Manufacturing
03/06/17	GMAC UK PLC	United Kingdom	Investor Group	France	Completed	956	Maintenance, Repair and Other Services
01/30/17	Zenith Vehicle Contracts Group Ltd	United Kingdom	Bridgepoint Advisers Ltd.	United Kingdom	Pending	942	Maintenance, Repair and Other Services
11/27/17	eHi Car Services Ltd.	China	Goliath Advisors Ltd.	China	Pending	934	Maintenance, Repair and Other Services
07/27/17	Alpine Electronics Inc.	Japan	Alps Electric Co. Ltd.	Japan	Pending	795	Parts and Components Manufacturing

Top 10 Automotive deals 2016

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
11/14/16	Harman International Industries Inc.	United States	Samsung Electronics Co. Ltd.	South Korea	Completed	8,041	Parts and Components Manufacturing
11/22/16	Calsonic Kansei Corp.	Japan	CK Holdings Co. Ltd.	Japan	Completed	4,404	Parts and Components Manufacturing
01/29/16	Daihatsu Motor Co. Ltd.	Japan	Toyota Motor Corp.	Japan	Completed	3,132	Vehicle Manufacturing
05/12/16	Mitsubishi Motors Corp.	Japan	Nissan Motor Co. Ltd.	Japan	Completed	2,189	Vehicle Manufacturing
11/03/16	Metaldyne Performance Group Inc.	United States	American Axle & Manufacturing Holdings Inc.	United States	Completed	1,512	Parts and Components Manufacturing
07/01/16	Athlon Car Lease International BV	Netherlands	Mercedes-Benz Financial Services Nederland BV	Netherlands	Completed	1,221	Maintenance, Repair and Other Services
03/25/16	Alliance Tire Group BV	Netherlands	Yokohama Rubber Co. Ltd.	Japan	Completed	1,179	Parts and Components Manufacturing
03/10/16	Punch PowerTrain NV	Belgium	Yinyi Group Co. Ltd.	China	Completed	1,100	Parts and Components Manufacturing
02/05/16	Gestamp Automocion SA	Spain	Acek Desarrollo y Gestion Industrial SL	Spain	Completed	980	Parts and Components Manufacturing
06/02/16	FTE Automotive GmbH	Germany	Valeo SA	France	Completed	917	Parts and Components Manufacturing

Source: Thomson Reuters and other publicly available sources

¹ In Million USD

About PwC's Deals Practice

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise automotive companies and automotive-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine automotive industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process, we can help.

For more information about M&A and related services in the global automotive industry, please visit www.pwc.com/us/deals or www.pwc.com/us

About the data

The information presented in this report is an analysis of deals in the global automotive industry. Deal information was sourced from Thomson Reuters and includes deals for which targets fall into Thomson Reuters' automotive mid-industry. Certain adjustments have been made to the information to exclude transactions which are not specific to automotive or incorporate relevant transactions that were omitted from the SIC industry codes.

This analysis includes all individual mergers, acquisitions, and divestitures for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between April 1, 2015 and March 31, 2018, with a deal status of completed, partially completed, pending, pending regulatory and pending completion, and excludes all rumors and seeking buyers. Additionally, transactions that are spin-offs through distribution to existing shareholders are included.

Percentages and values are rounded to the nearest whole number which may result in minor differences when summing totals.