



# AUTOMOTIVE IQ

## Industry Insights for November 2019

Uncertainty is a proven deterrent to deal-making activity, and that has certainly been evidenced in the automotive sector as we approach the end of 2019. According to Thompson Reuters, through the first 9 months of 2019, the number of deals completed among global automotive companies totaled just under 200. This level of activity represents a drop of almost 25% compared to the same period in 2018. In what might be considered another indicator of risk averse behavior, the average deal size for transactions completed in 2019 through September also declined considerably, just over 30%, from the same period one year earlier. So, following a particularly robust level of deal activity in 2018, why the apparent pull-back in 2019?

- While the global economy continues to exhibit growth, that growth has been steadily slowing across global markets as 2019 has progressed. That dynamic has produced declines in automotive sales volumes in key markets, although the U.S. auto market continues to be resilient. Year to date vehicle sales in 2019 are down from prior year levels by 11% in China, 4% in Europe and just over 1% in the U.S., where gains in light truck and SUV sales have offset much of the sharper decline in passenger car sales.
- Sentiment among business leaders regarding the prospects for continued economic growth in 2020 reflects a growing sense of pessimism. Recent surveys have shown that business leaders are adopting an increasingly cautious view as we approach the end of 2019. Given the current political climate, and with the uncertainty of the 2020 elections looming, we expect to see corporate executives increasingly taking a "wait and see" approach as we move into next year. The softening level of

business investment activity has been largely offset by a relatively stable level of consumer spending and related sentiment, buoyed by favorable trends in job and income prospects, along with declining interest rates.

- Prolonged and mounting trade tension both with respect to Europe, and particularly, China has certainly had a dampening effect on economic activity. Given the interdependence and global nature of the automotive supply chain, no sector has been more impacted by tariffs and escalating trade tension than the automotive sector.

While these prevailing conditions have resulted in a pull-back in automotive deal activity in 2019 relative to lofty 2018 levels, we do not expect to see a precipitous decline in auto-related M&A volume as we move into 2020. Given mounting expectations that an impending economic correction will lead to some undetermined reduction in automobile sales activity, we believe it is unlikely that investors not currently operating in the sector will allocate meaningful capital to acquire automotive-related assets in the near term. On the other hand, strategic interest from industry participants with strong balance sheets and ample liquidity, while perhaps cautious and price sensitive, will be keen to pursue targets that fit key strategy themes. Evolving technology, particularly that which is related to drivetrain electrification and autonomous vehicles, will continue to be a dominant driver of M&A activity. Additionally, well-positioned buyers with defined strategic interests and a disciplined approach stand to realize significant benefits from the transaction opportunities sure to arise should more challenging economic conditions eventually prevail.

## Recent Deal Activity *Q2/Q3 2019*

April 16, 2019 – Private equity firm **GLIF Capital** announced the acquisition of Williamsburg, Michigan-based **Great Lakes Trim (GLT)**. GLT is a leading supplier of decorative automotive finishes, including door panels, arm rests, center consoles and seatback panels for automotive OEMs. GLIF leadership cited GLT's differentiated capabilities and overall customer service philosophy as drivers for the transaction. Financial terms were not disclosed.

April 23, 2019 – Indianapolis, Indiana-based **Allison Transmission** has acquired Troy, Michigan-based **AxleTech's Electric Vehicle Systems Division**. This transaction consisted exclusively of assets, intellectual property, products, and people specifically involved in AxleTech's advanced integrated electrification solutions. Allison Transmission leadership said the acquired assets will integrate well into its electrification strategy and support the company's vision of being the global leader in commercial-duty electric propulsion solutions. Terms of the transaction were not disclosed.

April 23, 2019 – Ann Arbor, Michigan based **Truck Hero** announced the acquisition of Oakville, Ontario-based **Backrack, LLC**, a leading North American manufacturer of heavy duty truck racks for pickup trucks. Truck Hero management cited complementary product offerings as the principal driver behind the acquisition. The transaction terms were not disclosed.

May 1, 2019 – **Fiat Chrysler Automobiles (FCA)** announced the acquisition of certain assets from Strathroy, Ontario-based **Vari-Form Holdings**. Vari-Form, an industry-leader in hydroforming, manufactures products that include front end structures, frame rails, box supports, roof rails and engine cradles. Financial terms of the transaction were not disclosed.

May 10, 2019 – Ann Arbor, Michigan-based **Truck Hero** announced the acquisition of Buford, Georgia, based **Lund International Holding Company**, a portfolio company of Highlander Partners. Lund is a leading designer, manufacturer, and marketer of branded automotive accessories for a full assortment of passenger cars, light trucks, and SUVs, as well as the heavy truck category. Truck Hero leadership cited expansion within the vehicle accessory market with complementary products as key drivers for the acquisition. The transaction terms were not disclosed.

June 13, 2019 – Charlotte, Michigan-based **Spartan Motors, Inc. (NASDAQ: SPAR)**, a producer of specialty vehicles for the commercial and retail vehicle industries, as well as for the emergency response and recreational vehicle markets, announced its acquisition of the **assets of Montebello, California-based General Truck Body**. Spartan management cited the expansion of its truck body manufacturing operations into California, the enhancement of its refrigerated vehicle production capabilities, and the ability to offer customers access to additional truck and van body types as key drivers for the transaction. Terms of the transaction were not disclosed.

July 5, 2019 – Walker, Michigan-based **Challenge Manufacturing Company** has acquired the **Cusseta, Alabama metal fabrications operations of Bridgman, Michigan-based Great Lakes Metal Stamping (GLMS)**. The Cusseta operations of GLMS include approximately 65 employees, a 90,000-square-foot facility, eight press lines and support equipment. According to Challenge management, the acquisition will expand its geographic footprint into the southeast United States. Terms of the deal were not disclosed.

July 12, 2019 – New Boston, Michigan-based **Autokiniton US Holdings, Inc. (AGG)** completed its acquisition of Livonia, Michigan-based **Tower International, Inc. (NYSE: TOWR)**, a leading manufacturer of engineered automotive structural metal components and assemblies. AGG is a subsidiary of Autokiniton Global Group, LP, a portfolio company of KPS Capital Partners, LP. The all cash purchase price of \$900 million (inclusive of debt and pension-related liabilities) implies valuation multiples of 2018 full-year revenue and EBITDA of 0.57x and 5.1x, respectively.

August 16, 2019 – Sydney, Australia-based **Pacific Equity Partners** has acquired Bloomfield, Michigan-based **Horizon Global Corporation's Asia-Pacific operations** for USD \$233 million, subject to closing adjustments. Horizon is a leading global manufacturer of branded towing and trailering equipment. In 2018, the Asia-Pacific unit recorded sales and adjusted operating income of USD \$136 million and USD \$20 million, respectively.

August 20, 2019 – Plano, Texas-based **Sea Link International**, a portfolio company of New Water Capital LP, has acquired Macomb, Michigan-based **Hicks Plastics Company**, a provider of injection molded and metallized automotive forward lighting components. The acquisition is the fourth addition to New Water Capital's automotive lighting platform and further bolsters Sea Link's domestic manufacturing and assembly capabilities. Financial terms of the transaction were not disclosed.

August 26, 2019 – Maumee, Ohio-based **Dana Incorporated (NYSE: DAN)** completed the acquisition of Laval, Canada-based **Nordresa Motors, Inc.** Nordresa is an integration and application engineering expert for the development and commercialization of electric powertrains for commercial vehicles. Dana's leadership indicated Nordresa's proprietary battery-management system, electric powertrain controls and integration expertise would enhance Dana's capability to deliver complete electric powertrain systems. Terms of the transaction were not disclosed.

September 10, 2019 – Charlotte, Michigan-based **Spartan Motors, Inc. (NASDAQ: SPAR)**, a leader in specialty vehicle manufacturing and assembly for the commercial and retail vehicle industries announced the purchase of Carson, California-based **Royal Truck Body**, a leading designer, manufacturer, and installer of service truck bodies and accessories. Royal will join Spartan's Specialty Chassis and Vehicles business unit but will continue to market products under the Royal Truck Body name. The acquisition expands Spartan's footprint in the West Coast market and was a key driver behind the transaction. Financial terms of the transaction were not disclosed.

## Automotive Supplier Trading Multiples

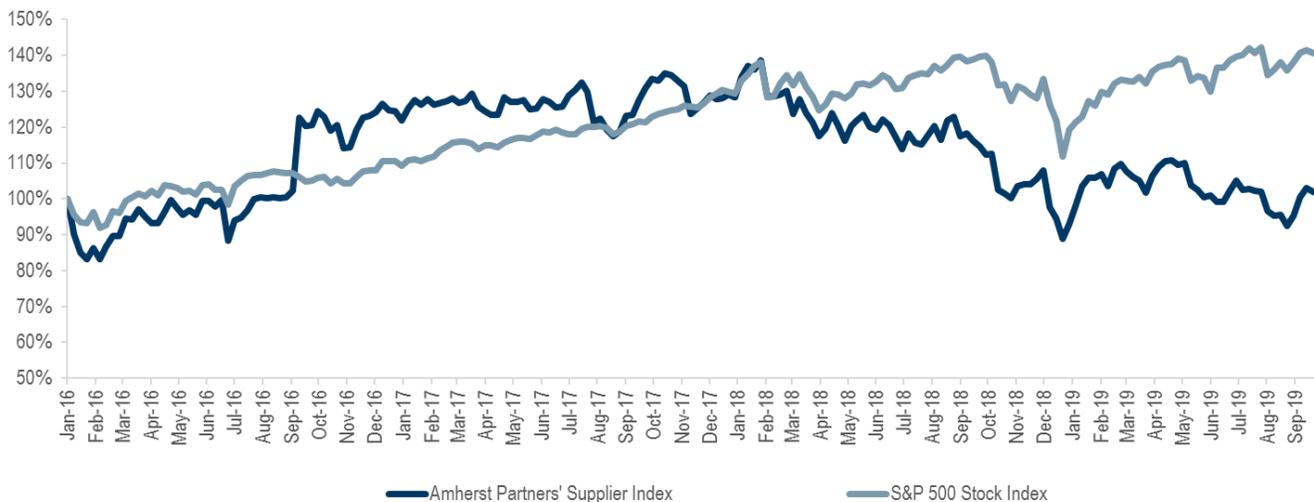
Company	09/30/19 Stock Price	Qtrly Price Change	Market Cap.	Total EV <sup>(1)</sup>	LTM		Gross Margin	EBITDA Margin	Net Debt/ EBITDA	Enterprise Value/LTM	
					Revenue	EBITDA				Revenue	EBITDA
<b>Automotive Suppliers</b>											
American Axle & Manufacturing Holdings,	\$8.22	(30%)	\$925	\$4,488	\$6,935	\$1,035	14%	15%	3.4x	0.6x	4.3x
BorgWarner Inc.	36.68	(11%)	7,575	9,166	10,169	1,605	21%	16%	0.9x	0.9x	5.7x
Cooper Tire & Rubber Company	26.12	(15%)	1,311	1,671	2,806	346	17%	12%	0.9x	0.6x	4.8x
Dana Incorporated	14.44	(26%)	2,078	4,740	8,420	935	14%	11%	2.6x	0.6x	5.1x
Gentex Corporation	27.54	13%	7,015	6,566	1,851	602	37%	33%	NM	3.5x	10.9x
Gentherm Incorporated	41.09	(0%)	1,355	1,442	1,009	137	28%	14%	0.6x	1.4x	10.5x
The Goodyear Tire & Rubber Company	14.41	(4%)	3,349	10,235	15,034	1,623	21%	11%	4.1x	0.7x	6.3x
Johnson Controls International plc	43.89	5%	34,924	39,610	31,877	4,761	30%	15%	0.8x	1.2x	8.3x
Lear Corporation	117.90	(13%)	7,197	9,016	20,002	2,012	11%	10%	0.7x	0.5x	4.5x
Meritor, Inc.	18.50	(21%)	1,528	2,212	4,440	469	15%	11%	1.4x	0.5x	4.7x
Modine Manufacturing Company	11.37	(21%)	577	1,075	2,176	180	16%	8%	2.7x	0.5x	6.0x
Shiloh Industries, Inc.	4.14	(19%)	98	336	1,096	64	8%	6%	3.7x	0.3x	5.3x
Standard Motor Products, Inc.	48.55	10%	1,084	1,238	1,133	139	29%	12%	1.1x	1.1x	8.9x
Stoneridge, Inc.	30.97	(1%)	848	921	860	97	28%	11%	0.8x	1.1x	9.5x
Superior Industries International, Inc.	2.89	(19%)	73	844	1,437	170	9%	12%	3.6x	0.6x	5.0x
Tenneco Inc.	12.52	20%	1,013	6,998	15,637	1,253	16%	8%	4.5x	0.4x	5.6x
<b>Median<sup>(2)</sup></b>							<b>17%</b>	<b>12%</b>	<b>1.4x</b>	<b>0.6x</b>	<b>5.6x</b>
<b>Mean</b>							<b>20%</b>	<b>13%</b>	<b>2.1x</b>	<b>0.9x</b>	<b>6.6x</b>

(1) EV ("Enterprise Value") is defined as market capitalization plus net debt, preferred equity and minority interest.

Source: Capital IQ (as of September 30, 2019)

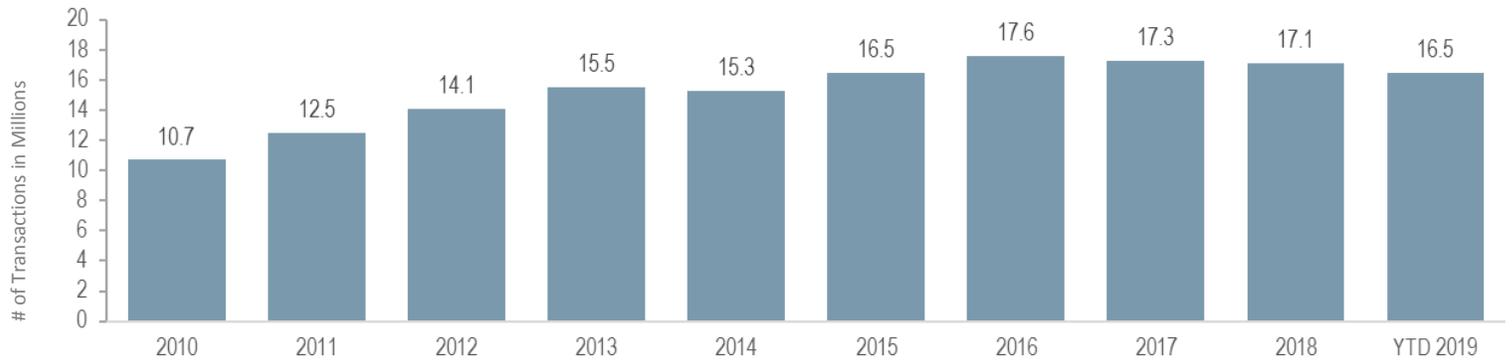
(2) Median and mean values exclude all non-meaningful values.

## AmherstPartners Automotive Supplier Index



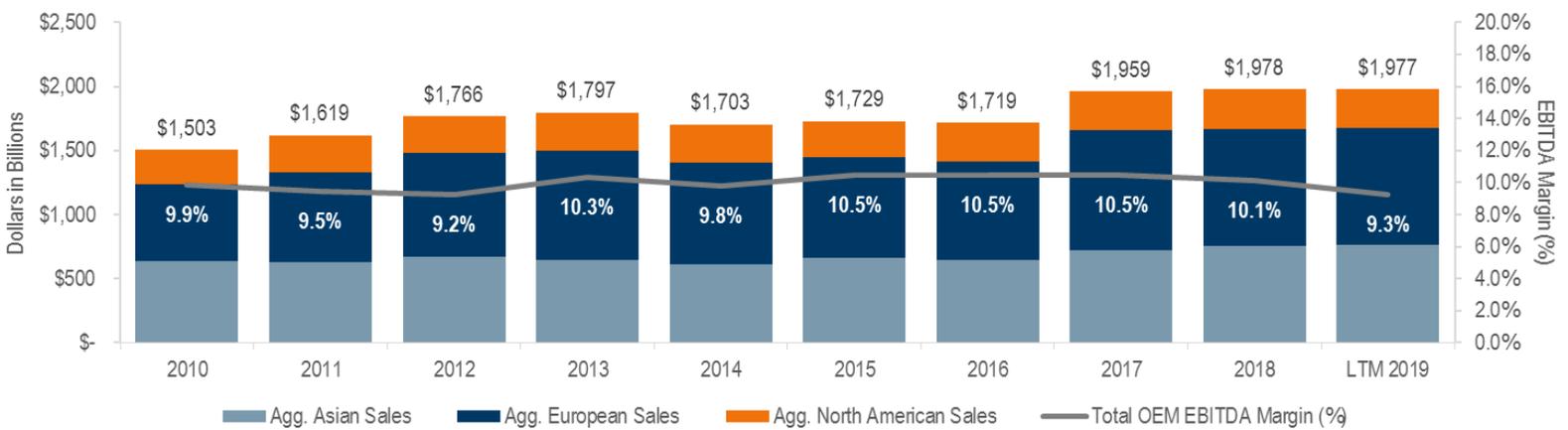
Source: Capital IQ as of September 30, 2019

## U.S. Light Vehicle Sales



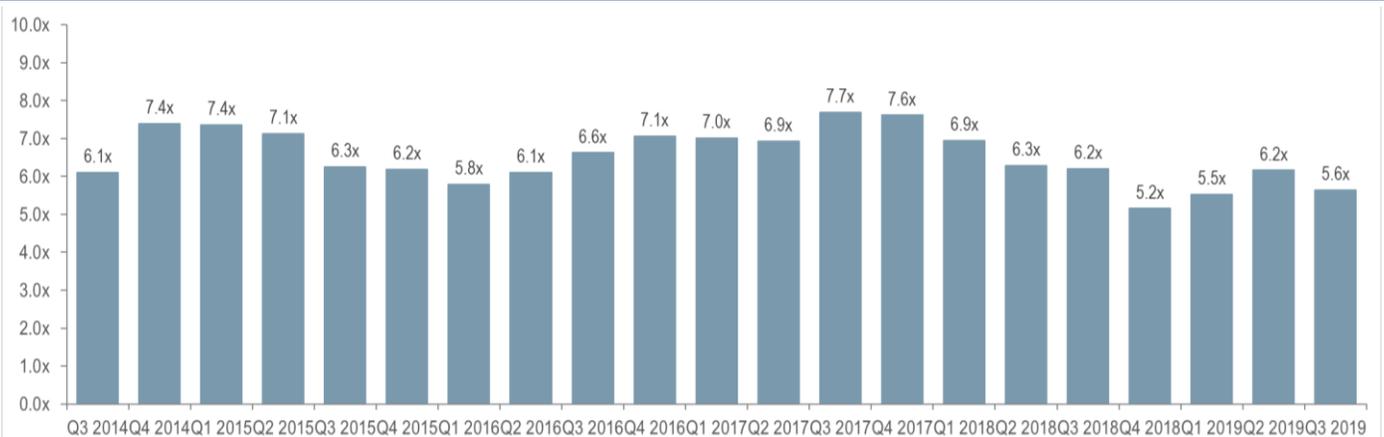
Source: U.S. Bureau of Economic Analysis

## Global OEM Aggregate Sales and EBITDA Margin



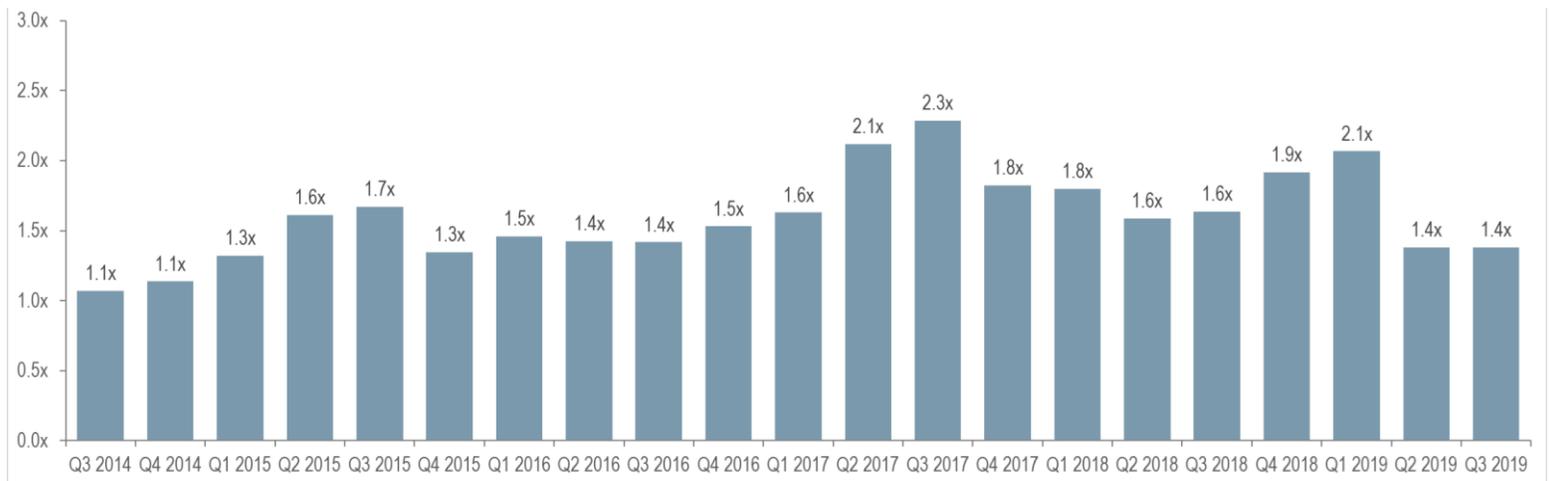
Source: Capital IQ

## Supplier Index - Median Enterprise Value / LTM EBITDA



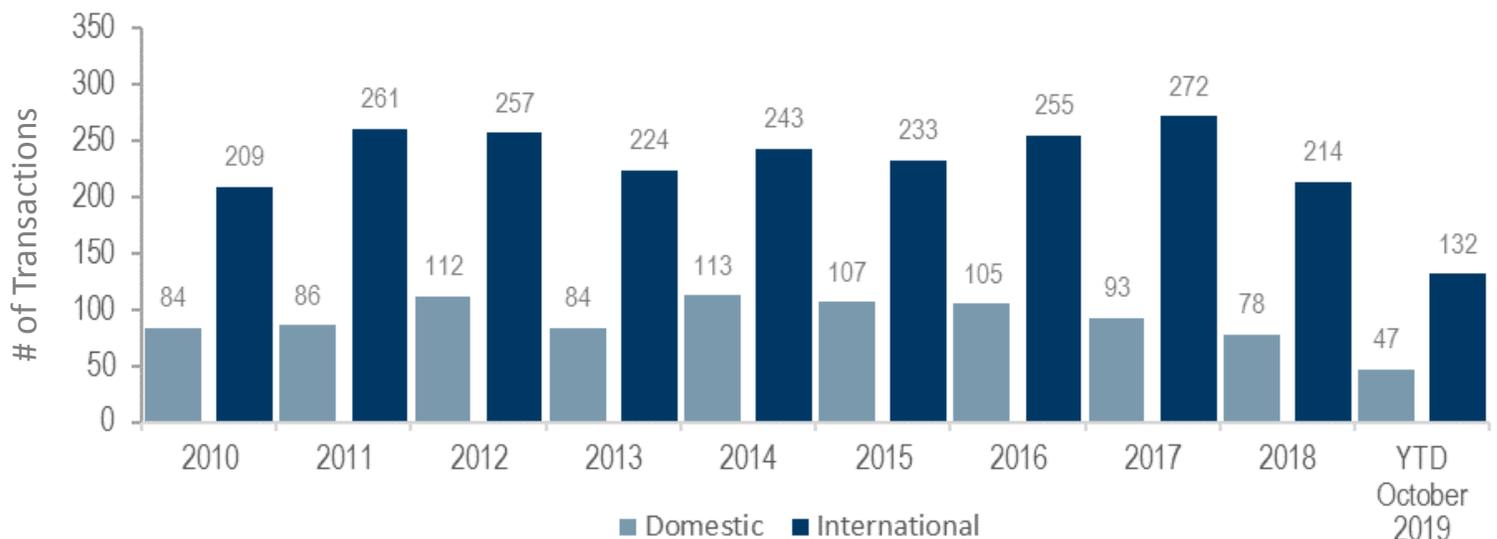
Source: Capital IQ

## Supplier Index - Median Net Debt / LTM EBITDA



Source: Capital IQ

## Global Automotive M&A Activity



Source: Capital IQ

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### Our Services

- Merger & Acquisition Advisory
- Capital Raising
- Restructuring Advisory
- Management Consulting

## IMAP

As a partner in IMAP, Amherst maintains a well-established network of international offices in over 35 countries. In 2018, IMAP advisers completed 208 global transactions, worth over \$10 billion. Through our IMAP partners, Amherst benefits by having seasoned deal professionals on the ground across the globe, with firsthand knowledge of the local cultural and business environment.

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