

# SAA Update:

- Mergers and Acquisitions
- Price Fixing and Collusion

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# Update 1: Mergers & Acquisitions



# Fred Hubacker

EXECUTIVE DIRECTOR  
CONWAY MACKENZIE



## SOCIETY OF AUTOMOTIVE ANALYSTS

OCTOBER 26, 2011

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CONWAYMACKENZIE



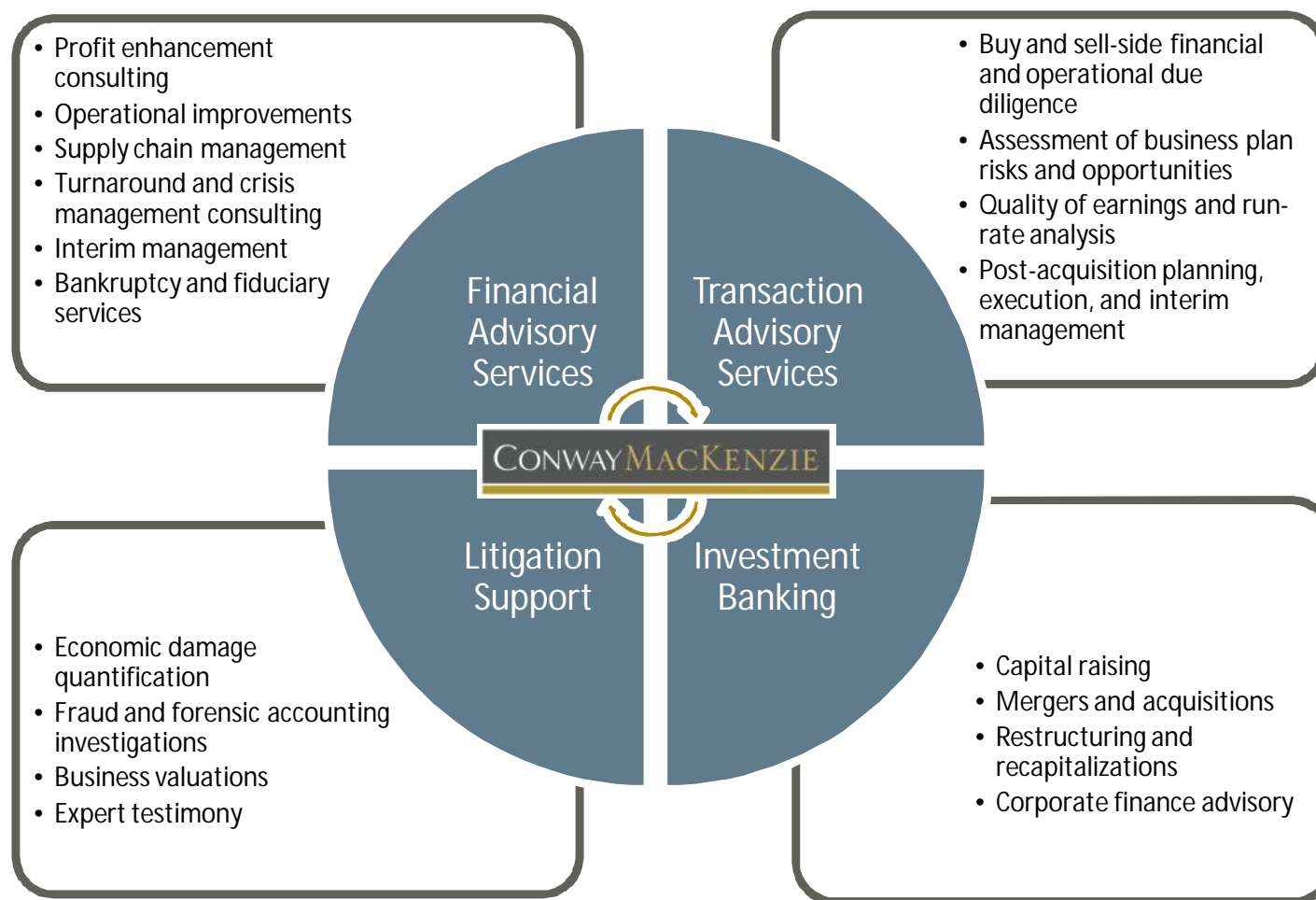
**Middle Market Advisory Firm:**

- ▶ Financial advisory services: restructuring, turnaround, customer and lender negotiations
- ▶ Transaction Advisory: Financial and operational due diligence (including lender due diligence)
- ▶ Operational performance improvements
  - ❑ Sourcing and Best Cost Country (BCC) advisory services
  - ❑ Footprint rationalization
- ▶ Capital advisory services
- ▶ Litigation support
- ▶ Interim management
  - ❑ Conway MacKenzie regularly assumes the role of financial advisor investment banker and interim manager, including CRO

**Staffing model based on small, senior based teams:**

- ▶ CPAs, former CFOs, CEOs, bankers, private equity managers
- ▶ Over 70 professionals across eight offices in the United States
- ▶ International partnership that provides representation in Europe

Aerospace  
Agribusiness  
Automotive  
Consumer Products  
Contracting  
Energy  
Entertainment  
Environmental  
Financial & Professional Services  
Food Services & Restaurants  
Healthcare  
Municipalities/School Districts  
Heavy Industry, Steel  
Manufacturing  
Packaging and Distribution  
Process Industries  
Pulp and Paper  
Research and Development  
Real Estate  
Retail  
Technology, Telecom  
Transportation



Conway MacKenzie has worked on hundreds of engagements in the automotive industry, working for a wide array of clients, including suppliers, OEM's, lenders and equity inventors.

## DELPHI

Conway MacKenzie acted as the financial advisor to one of the DIP lenders in regards to the recapitalization by Delphi Holdings LLP of substantially all of Delphi Corporation's global core businesses as part of the consummation of the Delphi Corporation Modified Plan of Reorganization.

## TOWER AUTOMOTIVE

Conway MacKenzie provided financial and operational due diligence services for creditors contemplating additional investments in the Company.

## Collins & Aikman

Conway MacKenzie provided operational due diligence services for a consortium of private equity funds contemplating investments in the Company.

## Plastech

Conway MacKenzie provided financial and restructuring services to the Company and negotiation of the sale process.

## HONDA

Conway MacKenzie provided operational advisory services to suppliers of the Company.

## DRIVE SOL

Conway MacKenzie provided financial and operational restructuring services to the Company.

## LAND-ROVER JAGUAR

Conway MacKenzie provided financial due diligence services for an investor related to the potential acquisition of the Companies.

## COOPER STANDARD AUTOMOTIVE

Conway MacKenzie provided financial and operational due diligence services for an investor interested in the Company.



Conway MacKenzie provided financial and operational advisory services to the Company including accommodation agreements and consensual balance sheet restructuring.



Conway MacKenzie acted as CRO and provided turnaround management and financial advisory services to the Company.



Conway MacKenzie provided financial advisory services to the senior lender and is monitoring liquidation of Old Carco assets.



Conway MacKenzie provided financial and operational advisory services to the Company regarding Far East sourcing.



Conway MacKenzie provided financial and operational due diligence services for creditors providing a revised DIP loan to the Company.



Conway MacKenzie provided financial and operational advisory services to the Company including footprint rationalization and debt for equity conversion.



Conway MacKenzie acted as financial advisor to the secured lender and negotiated a prepackaged sale through a 363 auction.



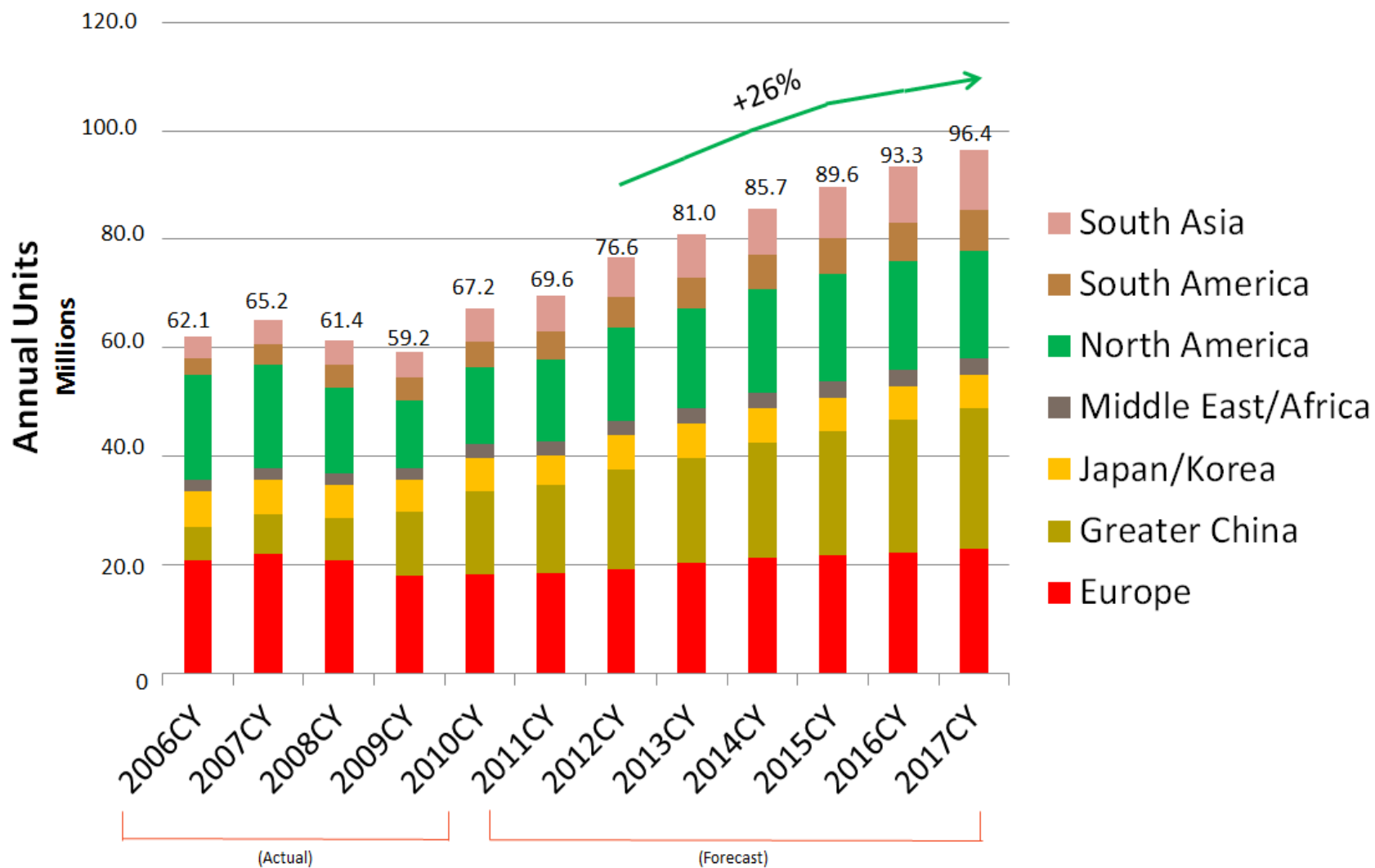
Conway Mackenzie acted as the financial advisor to the Company including accommodation agreements and business transfer.



## CURRENT STATE OF THE AUTOMOTIVE INDUSTRY

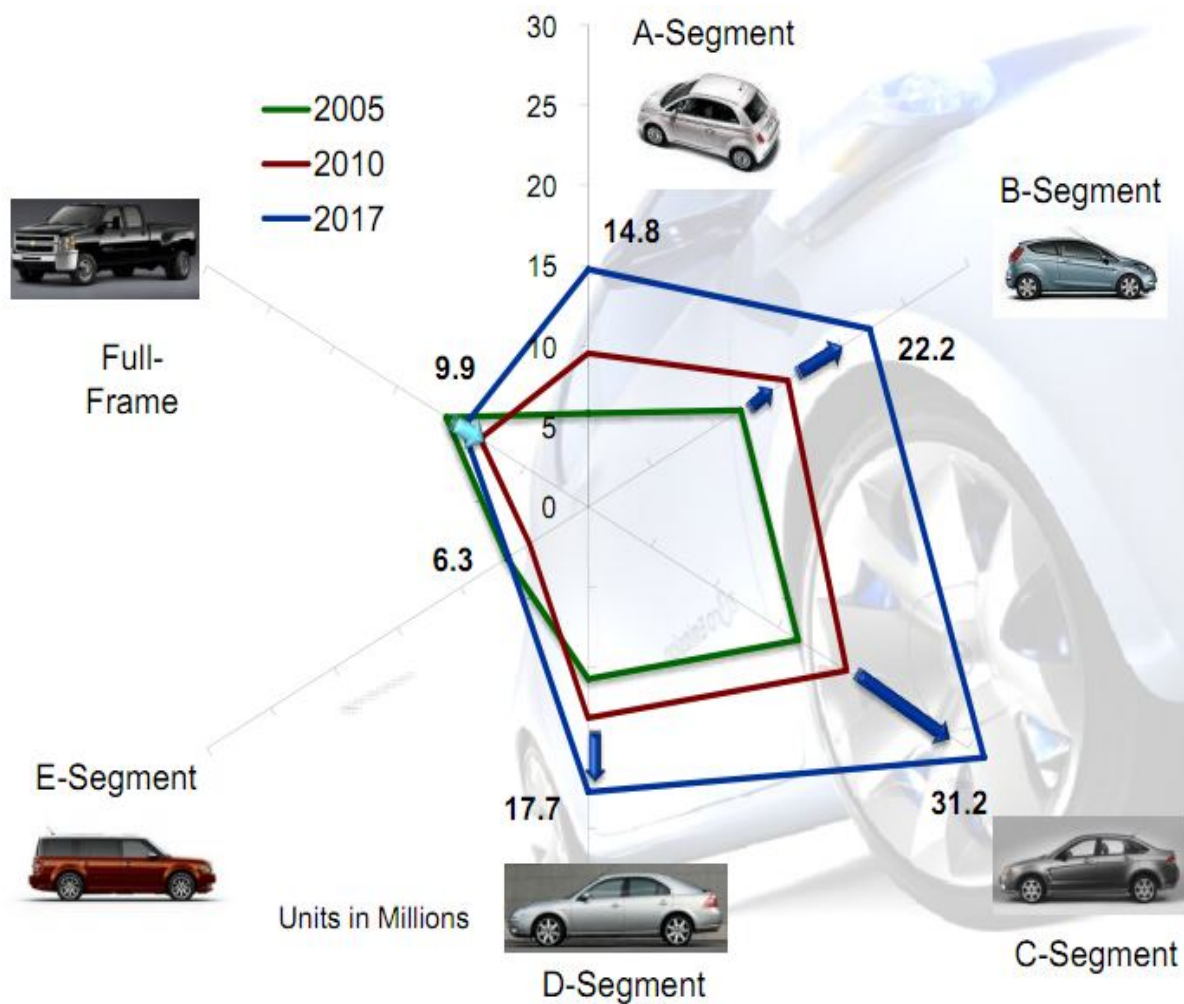
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Global light vehicle sales are forecast to steadily increase...



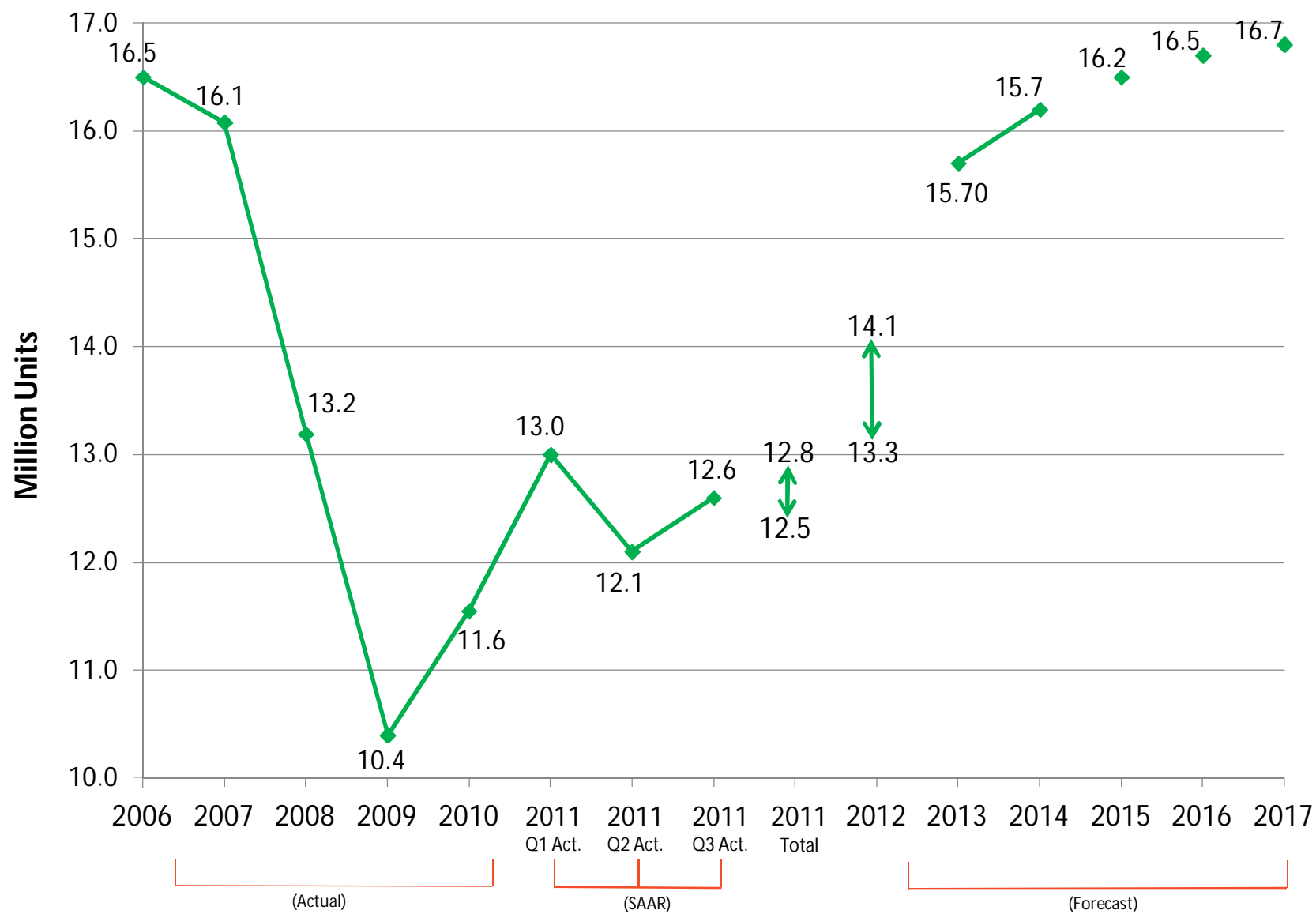
\* Source: IHS

A significant shift to smaller vehicles is underway...



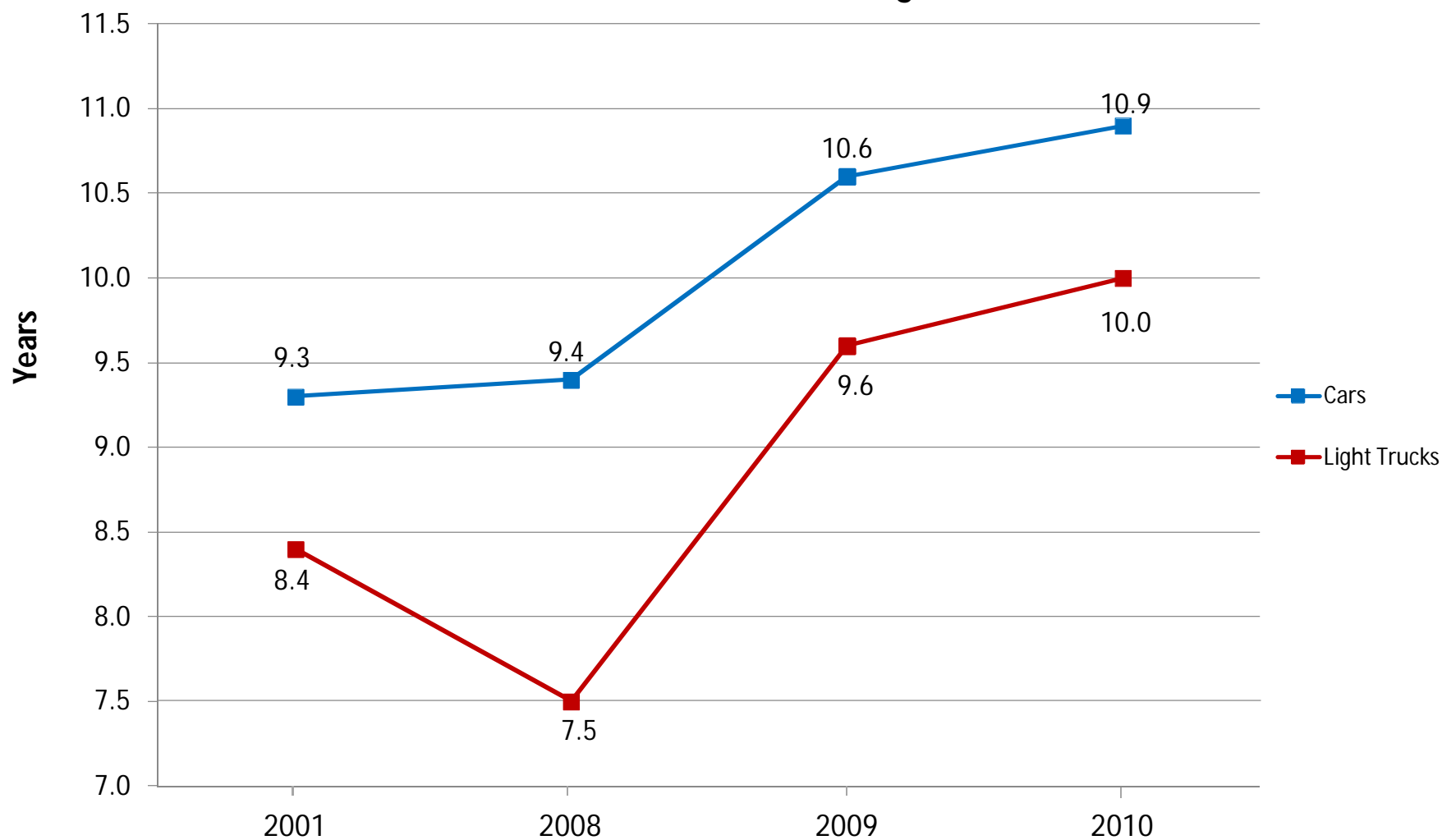
\* Source: IHS

Sales in the United States have shown a modest recovery...



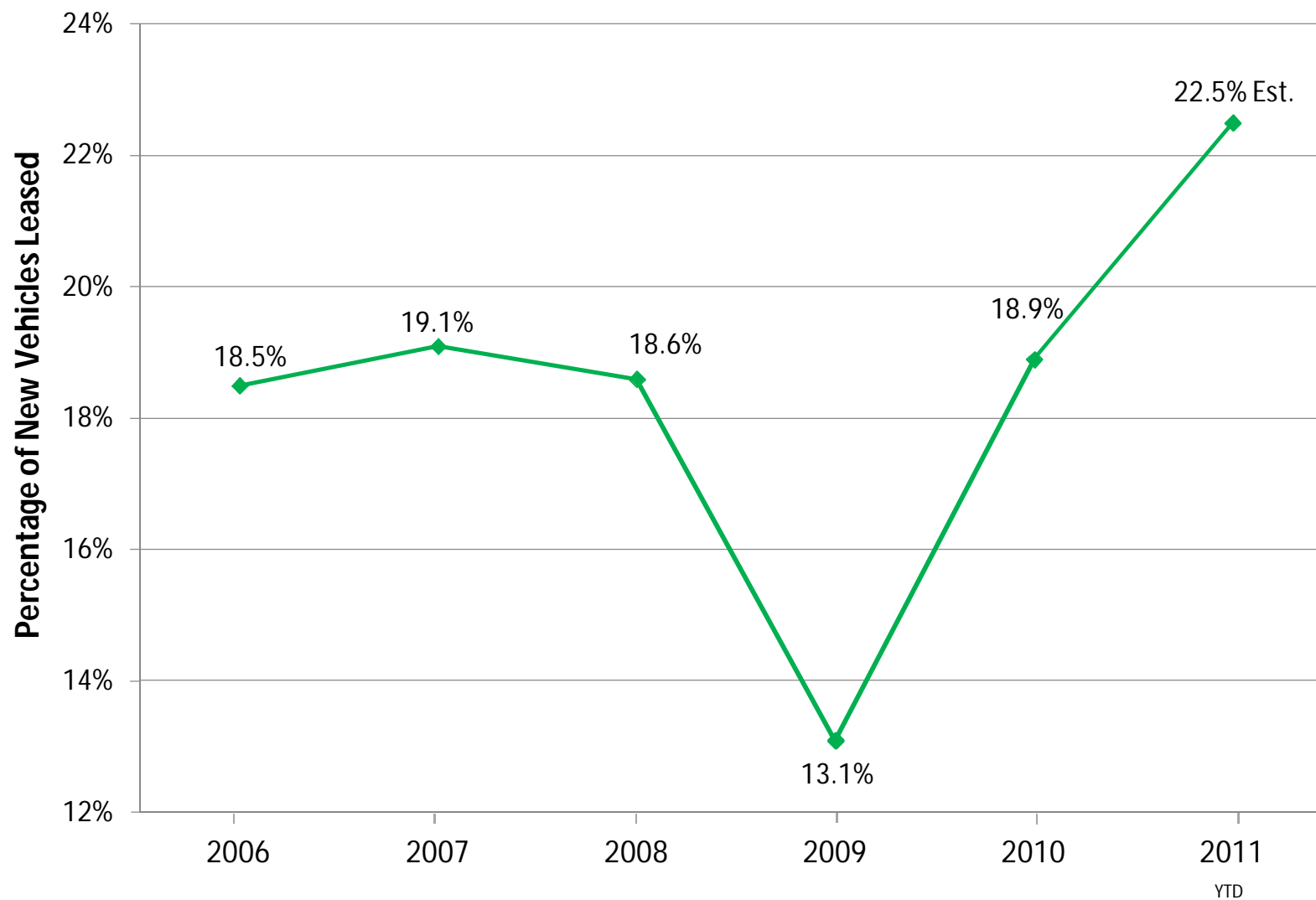


## Vehicles Continue To Age...



\* Source: NADA

## Leasing Availability Returns...



\* Source: Polk 2006-2010

## **Detroit 3 Profits Have Rebounded Significantly From the Mid to Late 2000 Decade Levels:**

### ► External Factors

- ❑ Overall improvements to the economy that have resulted in somewhat lower unemployment levels, higher consumer confidence, and real economic growth
- ❑ An increase in demand resulting from vehicle aging as the replacement cycle kicks in, particularly in light pickups
- ❑ Improved availability of credit as evidenced by higher vehicle leasing activity
- ❑ Higher used car prices resulting in better trades and customer willingness to purchase new vehicles

### ► Internal Factors

- ❑ Substantial reductions in fixed cost levels resulting from new labor contract terms, elimination of excess capacity, elimination of brands, restructuring and refinancing of debt, and moving post retirement health care to the UAW
- ❑ Significant reductions in vehicle incentives by better matching vehicle production with vehicle demand resulting in higher transaction prices
- ❑ Increased platform sharing and shortened vehicle development times resulting in accelerated and more frequent product introductions
- ❑ Profits from operations in the Far East and in South America are contributing significantly
- ❑ Focused approach to branding and marketing with emphasis on technological features
- ❑ Designing and building cars and trucks that consumers actually want to own and drive; particularly in the small and mid-size segments

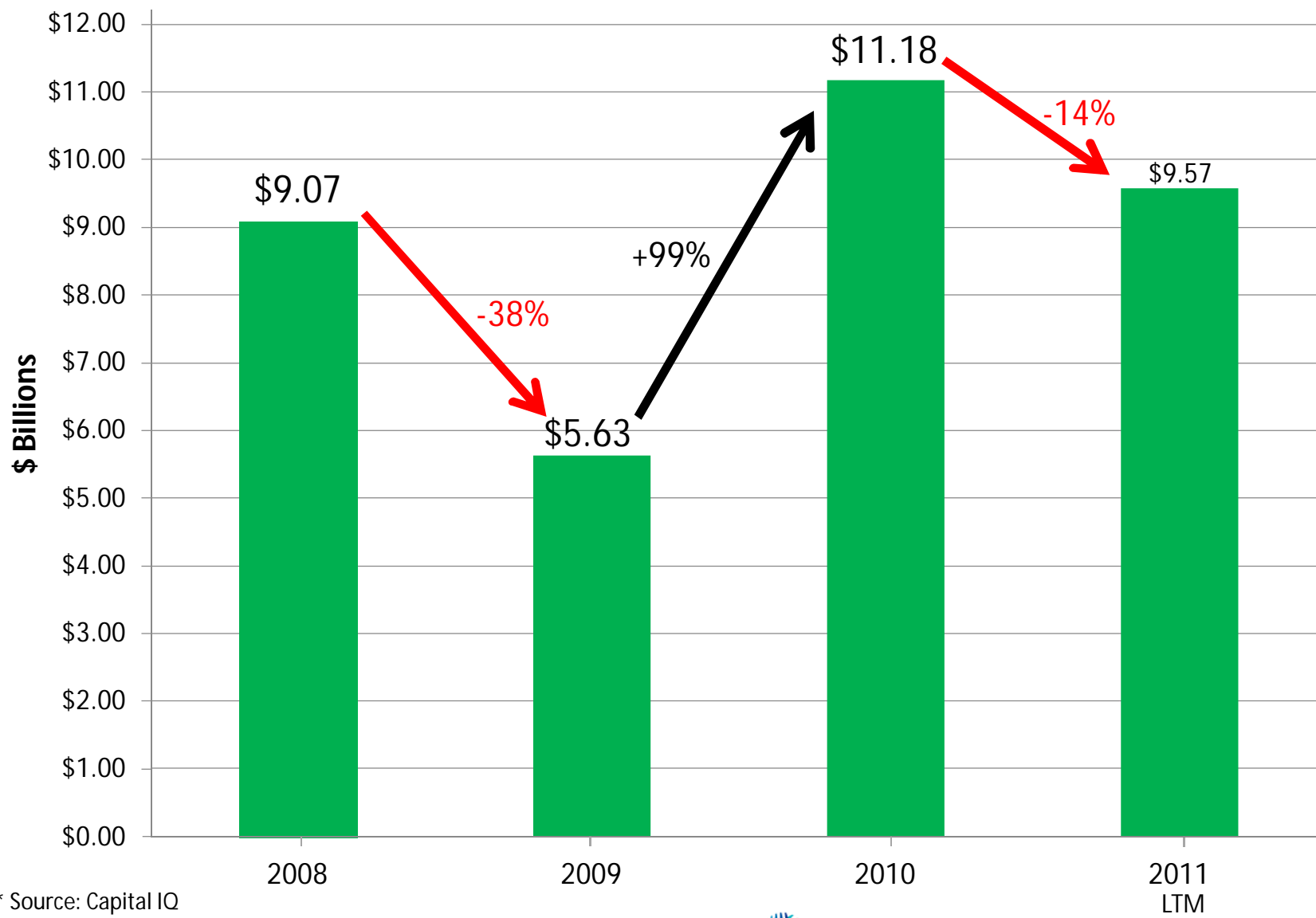
**Outlook:**

- ▶ United States vehicle sales have rebounded significantly from the depths of 2009/10 but are still well below recent historical levels
- ▶ Vehicle aging, scrap rates and population growth will drive further increases in the level of new vehicle sales, but at a slower rate of increase
- ▶ Global vehicle development demands a comprehensive approach to supporting vehicle programs – purchasing, development and production locations
- ▶ Profitability for the OEMs and the major auto suppliers are at record absolute levels due largely to dramatic cost reductions by the industry coupled with modest volume increases
- ▶ All major OEMs are true global enterprises and are requiring global capabilities and global investments from the major Tier 1 suppliers
- ▶ A dramatic shift in both the OEMs' approach to vehicle platform development processes and vehicle segments is taking place
- ▶ Shortened cadence with fewer global divergences allows for efficient intra-platform technology/system rollout
- ▶ Although substantial risks to the industry exist, further real growth is likely



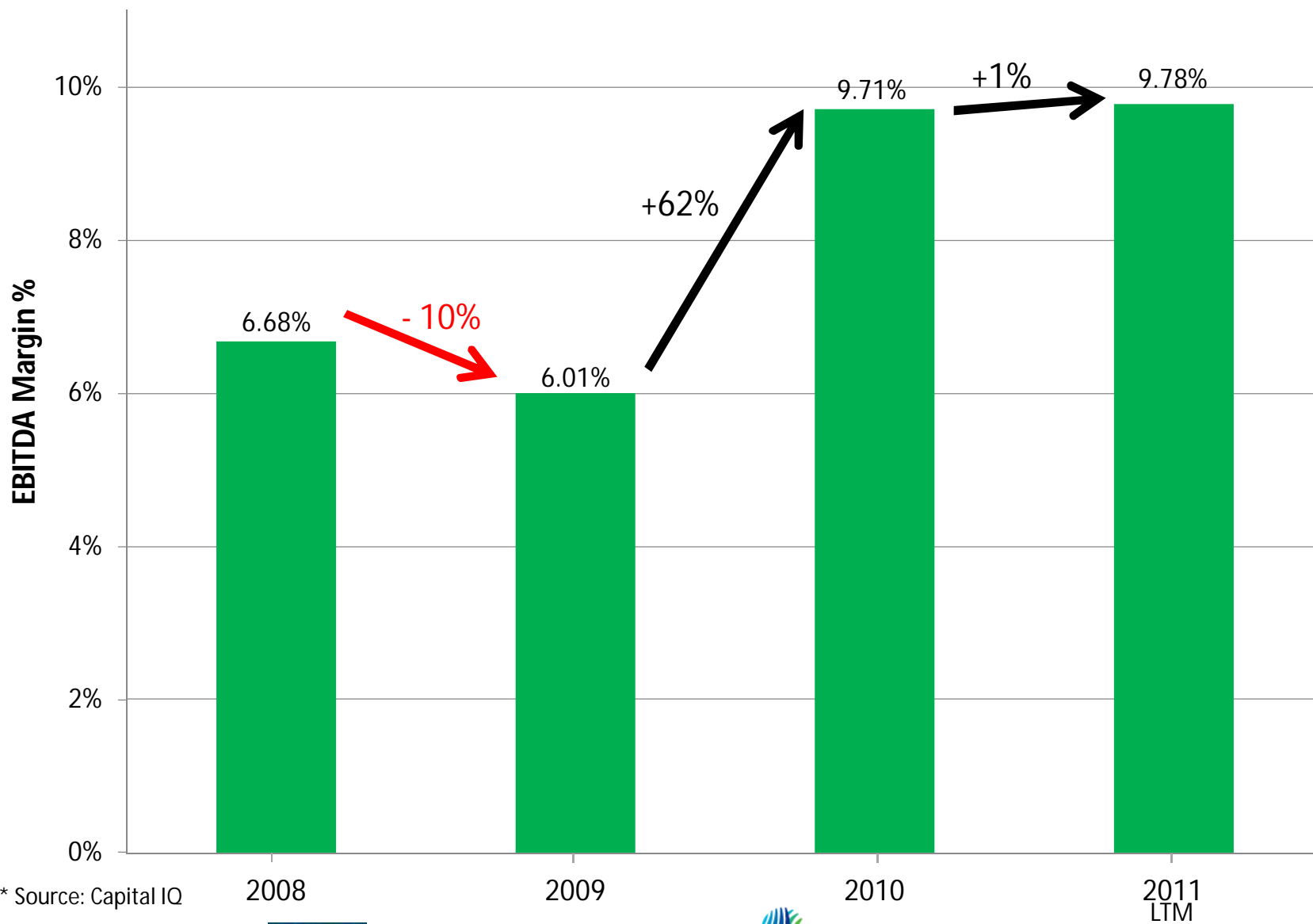
## AUTOMOTIVE SUPPLIER OUTLOOK

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\* Source: Capital IQ

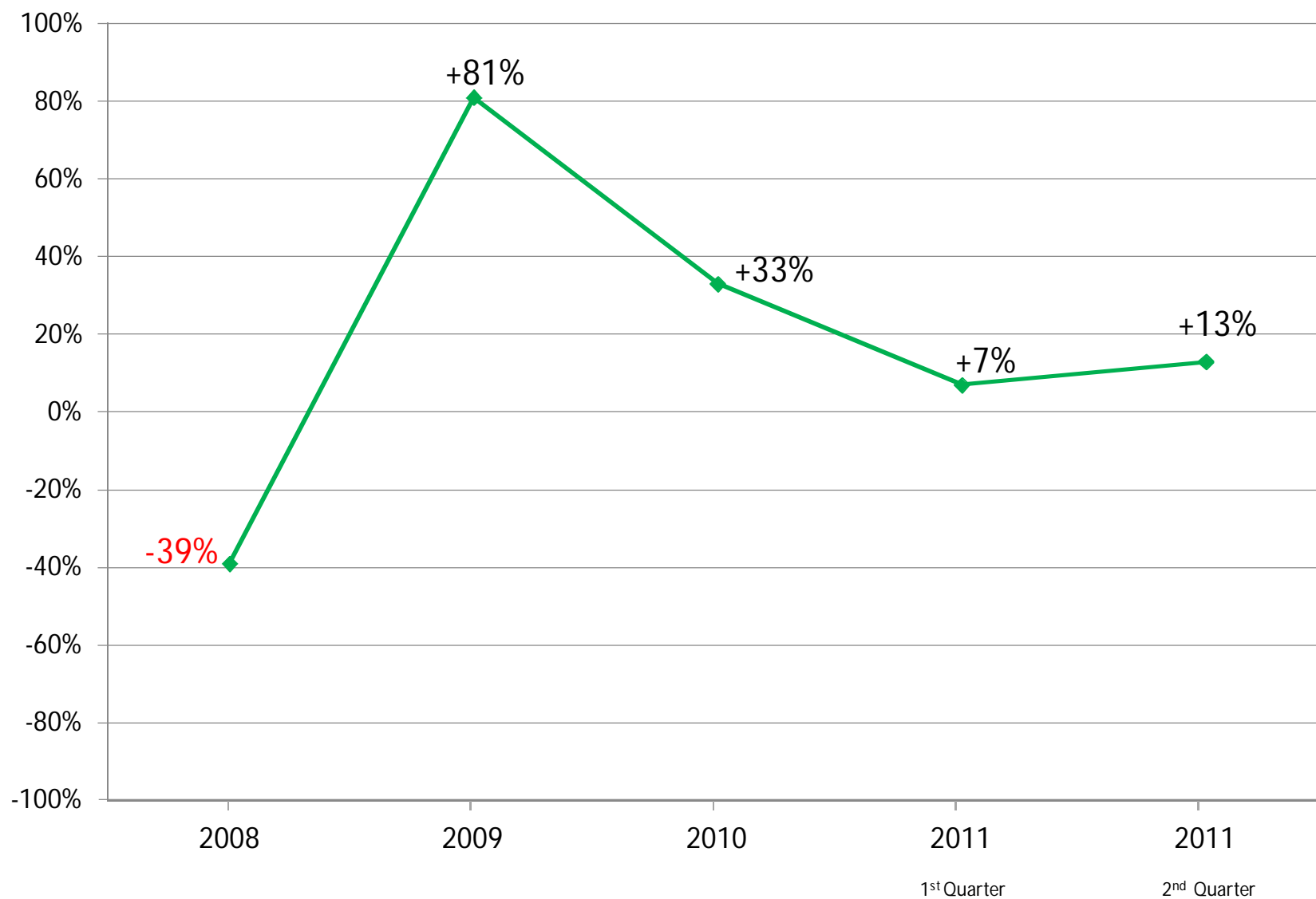




\* Source: Capital IQ



## Total Shareholder Return – Top Global Suppliers

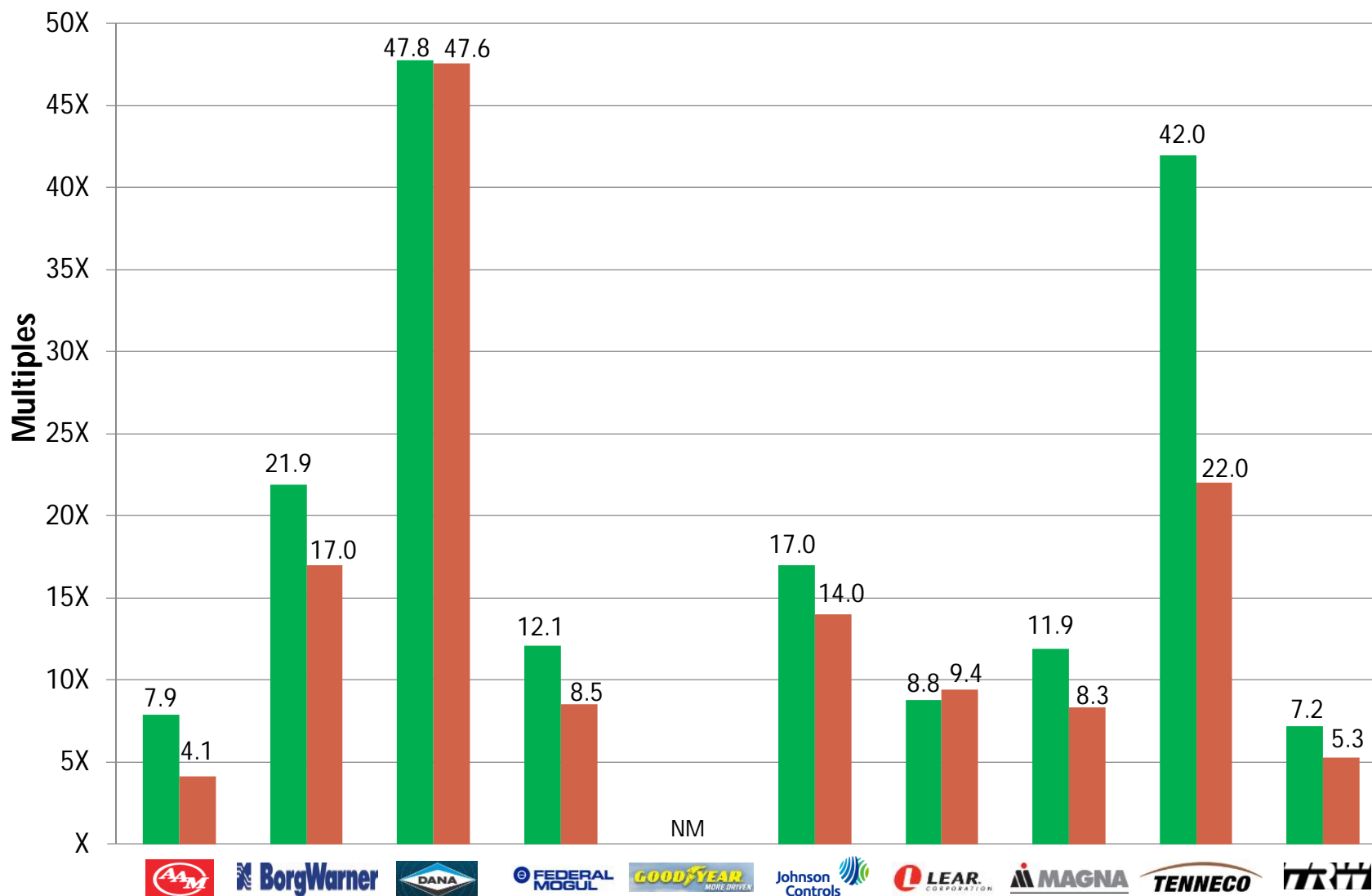


\* Source: Automotive News/PWC



## Price/Earnings Multiples

12/31/10 10/17/11



\* Source: Automotive News/PWC

**Risks:**

- ▶ A host of macro-economic, natural disaster and political risks exist for the industry
  - ❑ Oil prices (gasoline and petro chemical products)
  - ❑ Middle East turmoil (consumer confidence and oil supply)
  - ❑ Washington budget battles (uncertainty and credit risks)
  - ❑ Japan disaster (availability of product and extended production disruptions, Asian OEM strategy for recovering market share)
  - ❑ Commodity prices (steel, aluminum and resins)
  - ❑ Increased government regulations (EPA, NHTSA, and fuel economy)
- ▶ Rapid production increases necessitating new fixed cost investments or, stalled growth resulting in excess capacity from recent investments
- ▶ OEM efforts to continue reducing the number of Tier 1 suppliers
- ▶ OEM's aggressively chasing market share growth thereby creating additional pricing and margin pressures on suppliers

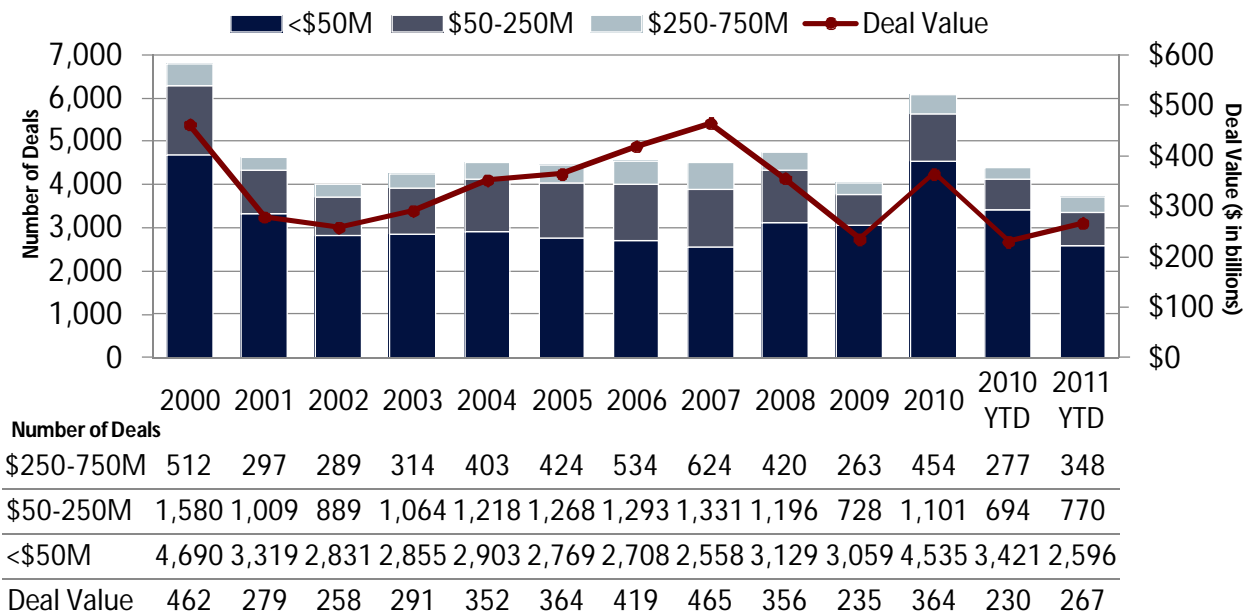
## CONWAY MACKENZIE

- ▶ Despite a small decline in middle market M&A activity during the month of September, 2011 (when compared to September 2010), dollar volume continued to increase
  - ▣ The number of transactions declined slightly from 528 transactions in September 2010 to 513 transactions in September 2011
  - ▣ Deal values increased 12.5% to approximately \$36 billion
- ▶ Middle market deal activity declined in terms of quantity of deals, but overall value increased for the YTD period ending September 30, 2011 when compared to the same period in the prior year
  - ▣ Total number of deals declined 15% from 4,392 to 3,714
  - ▣ Transaction value increased 16% from \$230 million to \$267 million, driven by an increase in larger deals and a decline in smaller transactions

*Disclosed middle market Metal and Steel transaction dollar volume is up over 17% year-to-date 2011 as compared to the same period last year*

*Dollar volume for all disclosed M&A transactions in the Auto and Truck sector year-to-date 2011 is over 76% greater than the same period last year*

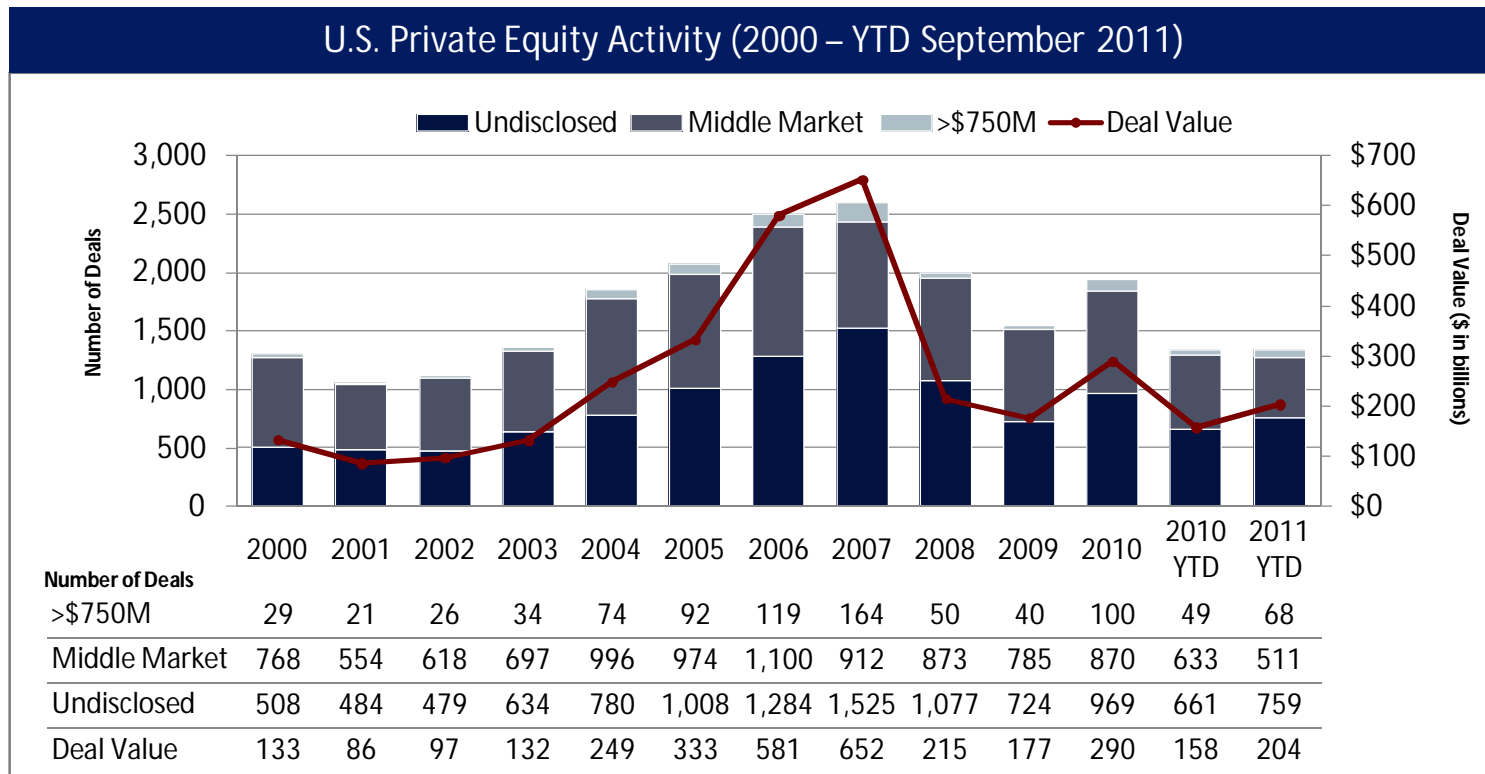
## U.S. Middle Market M&amp;A Activity (2000 – YTD September 2011)



Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

## CONWAY MACKENZIE

- ▶ The number of private equity transactions through September 2011 YTD remained close to the level realized over the same period in the prior year, although total deal values increased modestly
  - ▢ Deal volume barely decreased from 1,343 to 1,338 transactions, or -0.4%
  - ▢ Total dollar volume increased by 29% from \$158 billion to \$204 billion
- ▶ Ample liquidity is still on the sidelines, but making its way into the market at a more rapid pace than 2009 and the first half of 2010
- ▶ Although not shown below, equity contributions for sponsor-led transactions continued to decline off peak levels reached during the second quarter of 2009 (50% in Q4'10 versus 59% in Q2'09)



Sources: Dealogic and William Blair & Company, L.L.C. Mergers and Acquisitions market analysis.

**Automotive M&A:**

- ▶ Automotive M&A volume has continued to be primarily driven by strategic buyers looking to expand their global presence and enhance their technological capabilities;
- ▶ Activity has been strongest in the middle market while the lower middle market transactions activity continues to be impaired by less access to capital;
- ▶ Financial sponsors are ramping up their activity on both the buy side and sell side – sometimes within the same transaction, e.g. Littlejohn acquisition of Henniges from Wynnchurch;
- ▶ There continues to be activity in the distressed end of the market, particularly where troubled Tier II suppliers can provide customer diversification and geographic opportunities to larger buyers;
- ▶ Increased activity among European and Asian buyers for North American automotive supplier assets (e.g. PCM/Nexteer, Kirchhoff/Van-Rob, Sodectia/AZ Automotive, PKC Group/AEES);
- ▶ Expect to see volume of transaction activity buoyed by a number of automotive supplier assets that have been in portfolios of financial sponsors beyond typical investment horizons; TI Automotive, Cooper Standard; Mark IV Industries and JL French.

**Conclusions:**

- ▶ Suppliers at all Tier levels involved in electronics, safety related components, fuel economy (including weight reduction) and emissions have favorable conditions for success
- ▶ Trading multiples for the major suppliers have increased substantially in the past 12-18 months, until recent uncertainty in the equity markets and resulting equity markets reductions. Attractiveness of auto suppliers to buyers may accelerate, particularly as various funds seek to monetize their investments.
- ▶ OEMs are more reliant on supplier technologies/processes – switching costs are higher
- ▶ Supplier consolidations will accelerate as regionally capable Tier 2 and 3 suppliers are acquired by global suppliers for strategic reasons. Several major suppliers have stated publically they are aggressively seeking acquisitions
- ▶ Successful suppliers need to continue to diversify their customer base and aggressively pursue opportunities in the BRIC and Asian regions
- ▶ While OEM price pressures have abated somewhat, suppliers need to continue to drive costs out of their operations
- ▶ Pressure to 'go global' will intensify through the decade as regulations converge, competition strengthens and technology spreads over more volume
- ▶ Strategies to globalize include: contract manufacturing, global consortiums, joint ventures and wholly owned subsidiaries. Approach depends upon risk tolerance, technology requirements and available capital/human resources

# Chas Chandler

PARTNER

AMHERST PARTNERS





# Rajiv Jetli

PRINCIPAL

PWC'S PRTM MANAGEMENT CONSULTANTS



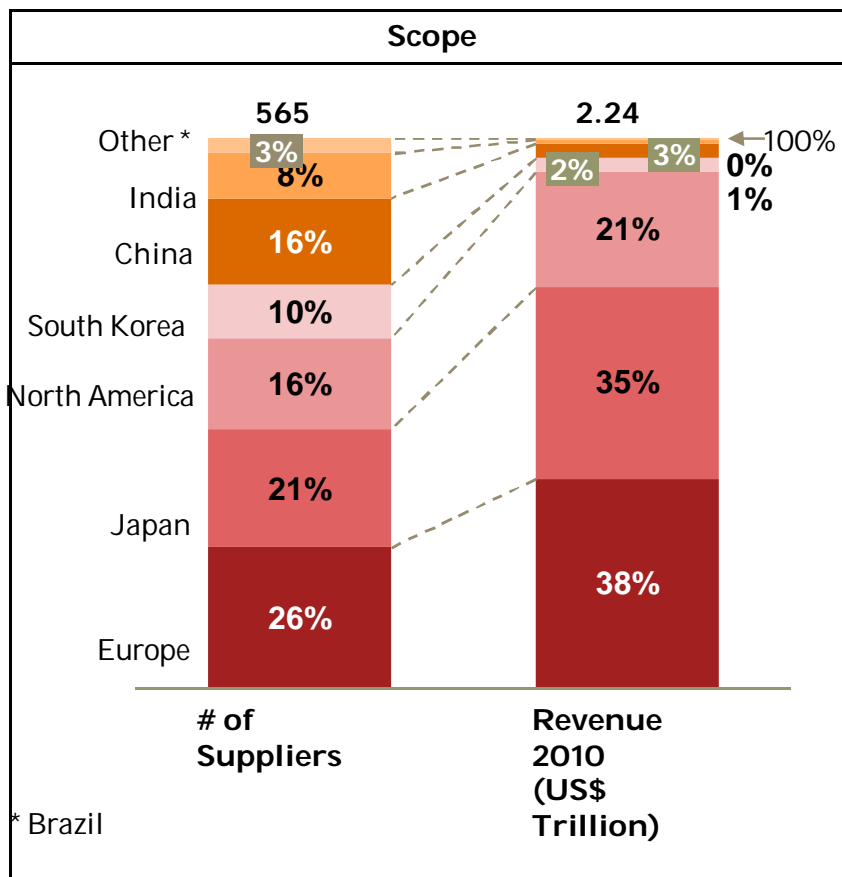
[www.pwc.com](http://www.pwc.com)

# ***Automotive Supply Industry M&A Activity – 2011 Status***

**Prepared for SAA Breakfast Meeting**

**October 26, 2011**

## *PwC's PRTM management consulting conducts an annual study on M&A trends in the global automotive supply industry*



Objectives
<p>The key objectives of this supplier M&amp;A study are to:</p> <ul style="list-style-type: none"> <li>Identify suppliers... <ul style="list-style-type: none"> <li>With desire and means to buy other suppliers</li> <li>That are likely to divest parts of their portfolio</li> <li>That are potentially in a distressed situation</li> </ul> </li> <li>Assess likely consolidation scenarios by automotive subsystem</li> </ul>

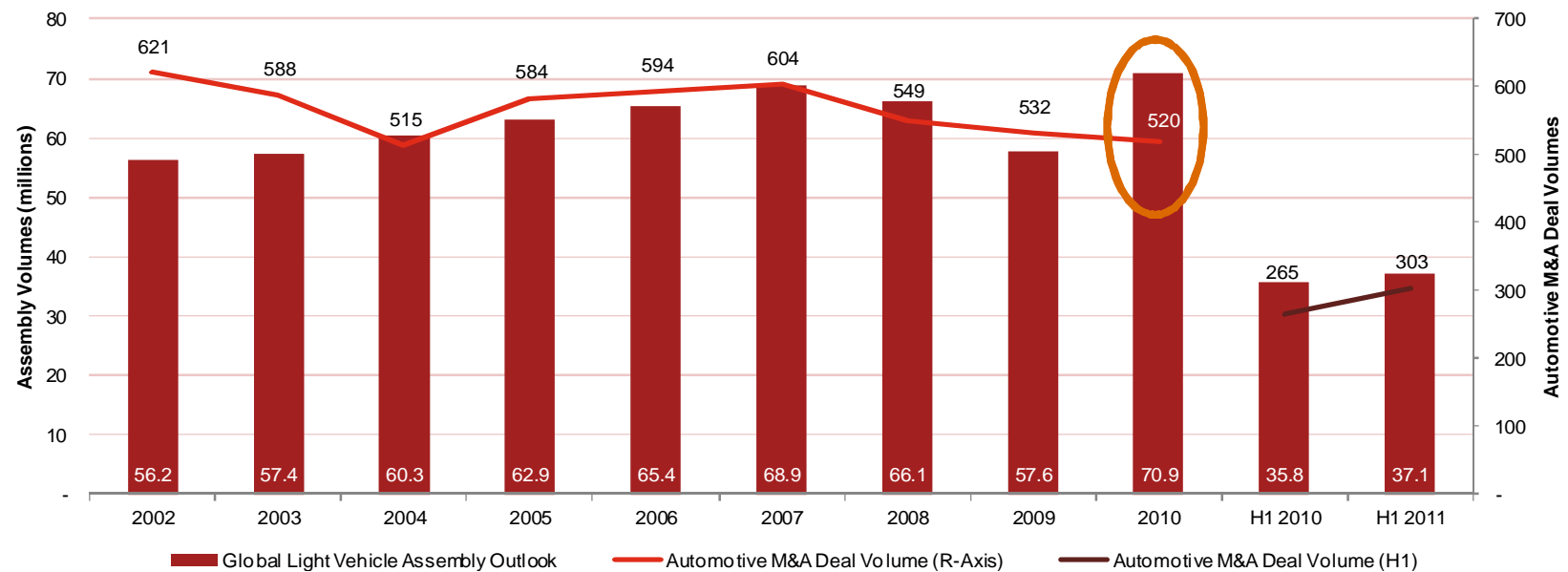
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## ***Key findings of the 2011 study***

1. In 2010 M&A deal volume remained low, despite a unit volume recovery; during H1 2011 activity has increased, but deal sizes remains small relative to 2007 and 2009
2. Global 100 Suppliers, especially the ones from North America, have once again become the strongest consolidators
3. Most distressed suppliers in 2010 are smaller European companies, with six of the top 10 deals of the last 12 month targeted at German suppliers
4. Three of the Global 100 Suppliers are now Chinese; Chinese Supplier's EBITDA grew 40% CAGR over the past 5 years
5. The strongest M&A Activity in 2011 is again expected to be in the Chassis and Powertrain subsystems

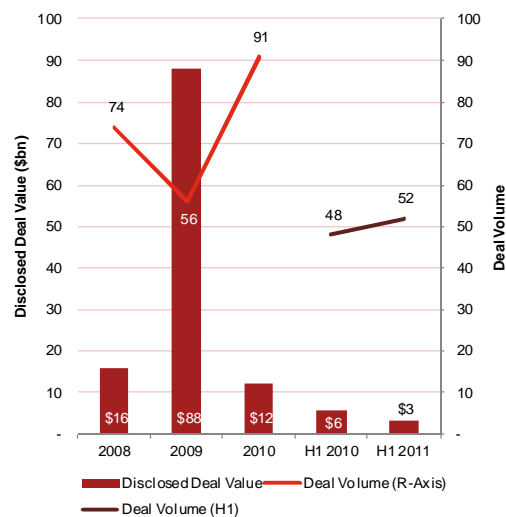
## *In 2010 deal volumes failed to match the recovery of light vehicle assembly volumes*

Global Light Vehicle Assembly Outlook

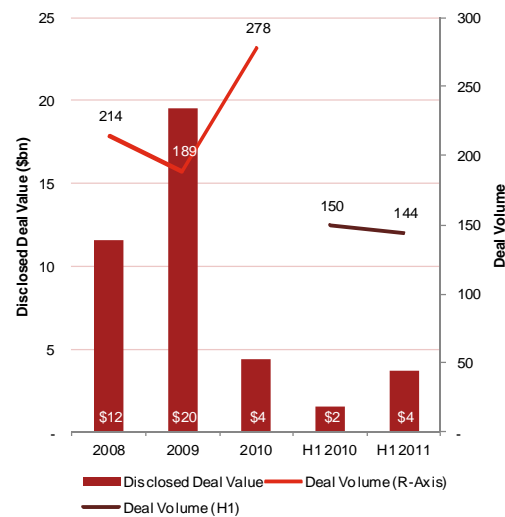


## *In H1 2011, deal volumes have seen a significant recovery, specially in the aftermarket segment*

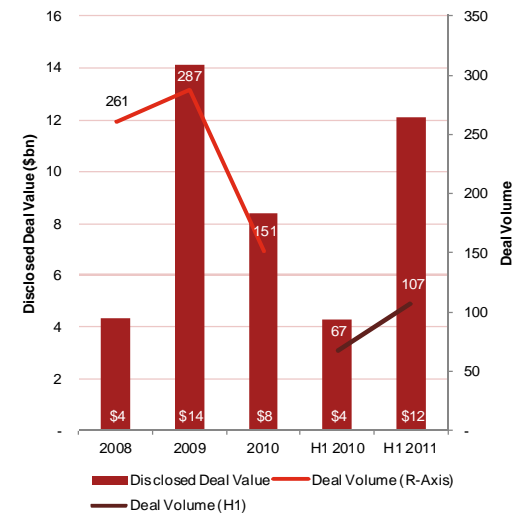
Vehicle Manufacturers M&A Activity



Component Suppliers M&A Activity



Others M&A Activity



In 2010, vehicle manufacturer and component supplier categories experienced higher levels of activity, as companies sought to:

- divest non-core assets
- bolster core competencies, and
- engage new markets or customers

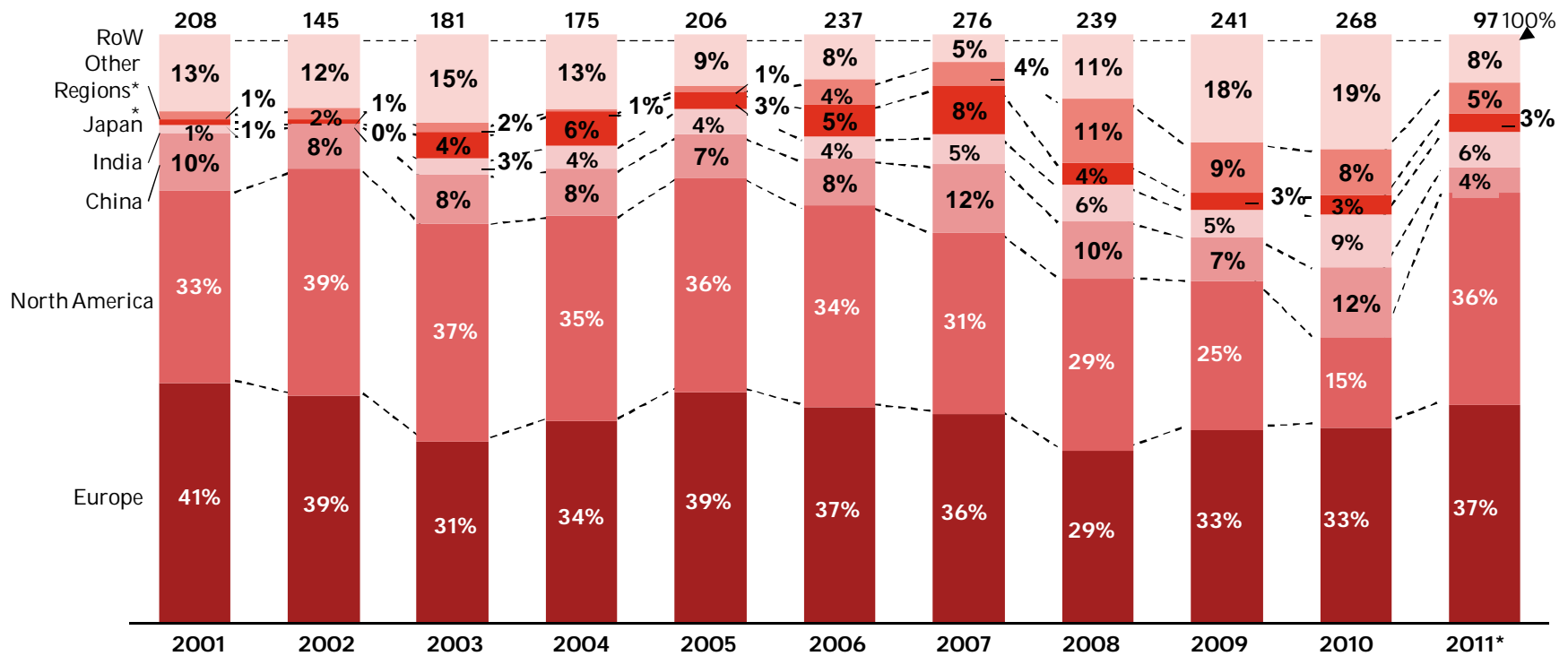
\*Note: The type of deals included in the 'Others' category are as follows: retail, aftermarket, rental/leasing and wholesale, etc

***North American Auto Suppliers, particularly the ones in the Global 100, are the strongest potential buyers in 2011***

	# of Companies	Buyer score	Divest score	Potential distress score
Brazil	16	5.0	5.9	6.0
China	89	5.5	5.5	5.3
Europe	145	5.2	6.0	6.1
India	46	5.0	5.5	5.6
Japan	121	5.4	5.8	5.8
North America	93	5.6	6.0	5.8
S. Korea	55	4.4	5.9	6.1
<i>Global 100*</i>	100	6.5	6.8	6.1
<i>Global 100 Europe</i>	37	6.3	6.7	6.3
<i>Global 100 North America</i>	28	6.6	6.9	6.0
<b>Total (Average of All)</b>	<b>565</b>	<b>5.2</b>	<b>5.8</b>	<b>5.8</b>
Strongest in Category	Least Strength in Category			

## North American suppliers have significantly increased their acquisition activities

Number of Supplier M&A Deals by Region (HQ of Acquirer Company, in %), 2001 – 2011

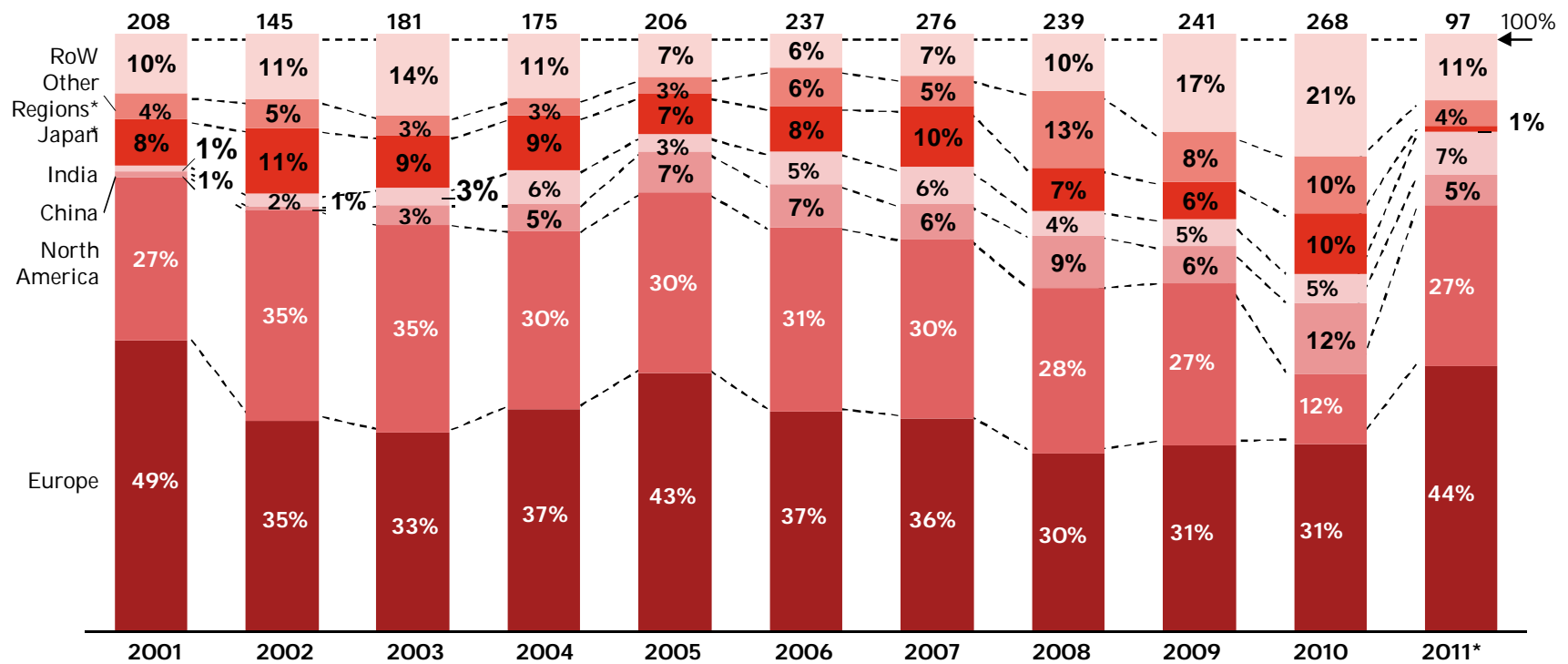


\*\* Brazil and South Korea \* January-May 2011

Source: Thomson M&A, CapIQ, PwC Analysis

## By far the most 2011 acquisition targets were in Europe

Number of Supplier M&A Deals by Region (HQ of Target Company, in %), 2001 – 2011



\*\* Brazil and South Korea \*January-May 2011

Source: Thomson M&A, CapIQ, PwC Analysis

Automotive Supply Industry M&A Activity – 2011 Status

10/26/2011

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## Significant supplier EBITDA improvement from 2009 to 2010, with China showing highest growth

	Sales						EBITDA						EBITDA as % of Sales 2009	EBITDA as % of Sales 2010
	CAGR 2006- 2010 %	Total 2009 (\$B)	Total 2010 (\$B)	Δ%	Count **	Avg. 2010 (\$B)	CAGR 2006- 2010 %	Total 2009 (\$B)	Total 2010 (\$B)	Δ%	Count *	Avg. 2010 (\$B)		
Global 100*	4%	1,587	1,899	20%	100	19.4	7%	130	214	65%	89	2.4	8.6%	14.2%
Brazil	16%	2	3	60%	4	0.7	19%	0.3	0.4	55%	4	0.1	15.1%	23.4%
China	20%	43	57	31%	65	0.9	40%	3.2	4.7	48%	51	0.1	14.6%	14.3%
Europe	4%	752	857	14%	118	7.4	7%	57.1	100.6	76%	65	1.5	8.8%	15.5%
India	19%	14	18	29%	36	0.5	15%	3.1	3.4	10%	41	0.1	13.6%	15.1%
Japan	7%	617	779	26%	120	6.5	10%	53.4	80.9	52%	119	0.7	8.8%	13.3%
North America	0%	394	472	20%	72	6.5	-1%	30.8	51.8	68%	61	0.8	8.0%	13.4%
S. Korea	11%	42	55	31%	54	1.0	18%	4.9	6.5	31%	54	0.1	11.9%	15.6%

\*Global 100 Companies Also Counted in Regional Numbers

\*\*For companies with 2009 and 2010 data

## *Electrical subsystem grew the most, while Exterior and Body had the greatest EBITDA improvement*

	Sales					EBITDA					EBITDA as	EBITDA as
	Total 2009 (\$B)*	Total 2010 (\$B)*	Δ (%)	Count**	Avg. 2010 (\$B)	Total 2009 (\$B)*	Total 2010 (\$B)*	Δ (%)	Count**	Avg. 2010 (\$B)	% of Sales 2009	% of Sales 2010
<b>Powertrain</b>	190	229	21%	93	2.47	17	27	56%	93	0.29	9%	12%
<b>Chassis</b>	298	360	21%	102	3.53	29	42	46%	102	0.41	10%	12%
<b>Exterior</b>	138	170	23%	34	5.00	15	30	99%	34	0.88	11%	18%
<b>Interior</b>	118	140	19%	42	3.34	9	14	61%	42	0.33	7%	10%
<b>Electrical</b>	202	256	27%	42	6.10	15	24	62%	42	0.58	7%	10%
<b>Body</b>	61	72	18%	21	3.45	4	7	101%	21	0.35	6%	10%
<b>Diversified</b>	311	375	21%	38	9.87	25	42	71%	38	1.11	8%	11%
<b>Raw Materials</b>	360	420	17%	10	42.04	35	54	55%	10	5.43	10%	13%
<b>Grand Total</b>	1,726	2,086	21%	388	5.38	151	247	63%	388	0.64	9%	12%

\* Includes both auto and non-auto sales

\*\* For companies with 2008 and 2009 data

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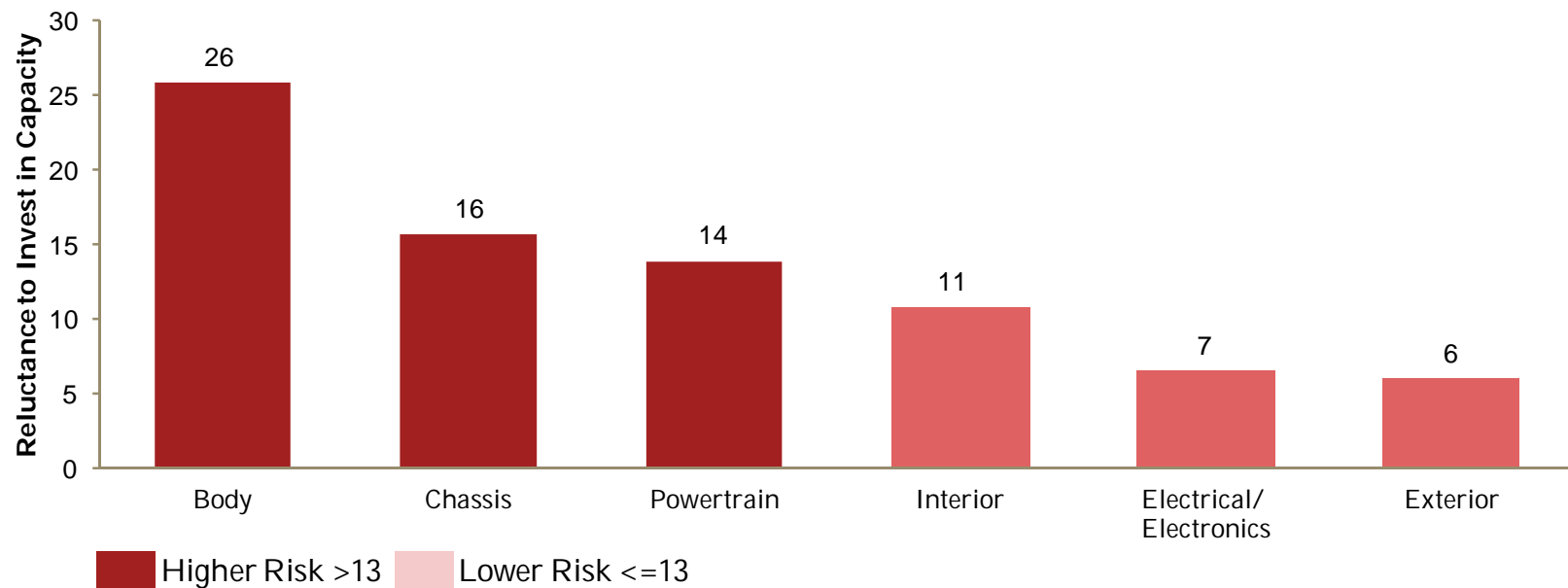
## ***Supplier reluctance to invest in capacity is generally higher in Body and lower in Electrical and Exterior***

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### **Supplier reluctance to invest in capacity**

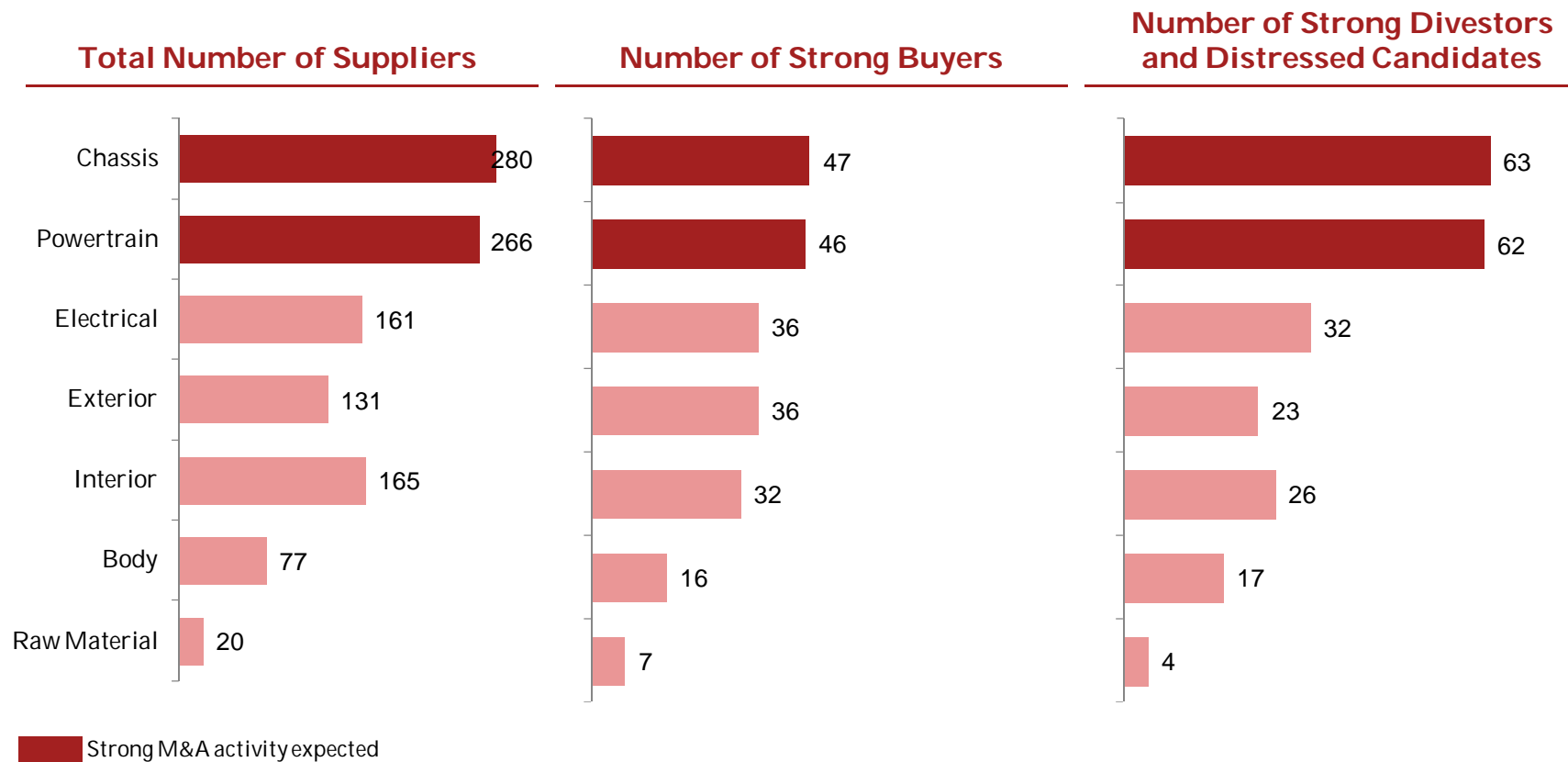
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Source: PwC analysis

## ***Strong M&A activity expected in Chassis and Powertrain subsystems***



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## ***Auto suppliers must adapt in order to swing from surviving to thriving***

### **With a rapid rise of auto sales and production in China, suppliers will have to ...**

- Accept that in the era of global architectures and global platforms, being a domestic European or US supplier is no longer a recipe for success
- Learn how to compete in China for business with global Joint Venture OEMs as well as rapidly consolidating Domestic mega vehicle manufacturers designated as consolidators
- Evaluate product offerings to meet the needs of the next generation of Chinese customers
- Right-size capacity in high cost, stagnating markets and make it more flexible to adjust for shifts in vehicle segment and brand preference
- Increase capacity in China for sales to global and domestic car companies, as well as for global production where it makes sense
- Develop process and systems to connect customer demand to all supply tiers to coordinate global supply-chains and collaborate with OEMs

### **Capacity expansions in Europe and the US are particularly tricky ...**

- The US market is growing again and short on supplier capacity for certain commodities, but demand fluctuates due to customer preference shifts in vehicle segments, brands and nameplates
- The Japanese tsunami related capacity outages open opportunity for a larger production shift

The background of the slide features a blurred image of a financial chart, likely a stock price or index over time, with a grid of horizontal and vertical lines. A solid blue gradient overlay covers the left and central portions of the image, while the right side remains a lighter, warm brownish-orange color. The text 'Q&A' is centered in the blue area.

Q&A