Automotive M&A Insights
Mid-Year 2014

In this issue

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Welcome

We are pleased to present Automotive M&A Insights: Mid-Year 2014, PwC's review of mergers and acquisitions (M&A) activity and key trends impacting the global automotive industry.

In this edition, we look at:

- The status of global automotive deal activity amongst vehicle manufacturers, suppliers, financiers, and other related sectors
- Key trends that impacted the deal market
- Transaction activity by sector and region
- Our perspective on the journey to the future

This latest edition of Automotive M&A Insights is meant to serve only as a preface to the insights and observations that we can provide to drive successful transactions. M&A leaders in the automotive and financial sectors frequently turn to us for advice on potential transactions and the strategies underpinning those deals. Your feedback is important to us, and we welcome the opportunity to provide you with a deeper look into any of these trends that may be of benefit to your organization.

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Automotive

Key trends at a glance

Global automotive deal volume grew by
13%
closing **250**
deals in H1 2014 compared to H1 2013

$27.5 billion
in global automotive deal value
highest ***in 7 years***

Average global automotive deal size of
$284 million

Predicted global automotive assembly growth
4%
2020
2014
CAGR

Amount by which North America automotive activity rose
60%

North American automotive assembly units forecast for 2014
16.9 **million units**

H1 2014 *largest automotive deal:*
$9.1 billion

Financial buyers share of global automotive M&A activity increased to ***26%***

COMPONENT SUPPLIERS deal value soared to
$10.1 billion
and **4th** consecutive increase

Global cross-sector M&A volume increased
2x
H1 2014 compared to H1 2013

60%
TOP 10 DEALS
WERE IN **US** ASSETS

5 ***megadeals***
in the first half of 2014
with a total aggregated disclosed value of
$20.9 billion

Source: Thomson Reuters and other publicly available resources.

First half review

H1 2014

180 days—250 deals—
$27.5 billion total aggregate disclosed value

The big picture: Green lights on the road to the future

After an imposing first half of 2014 (H1 2014), PwC continues to maintain a positive outlook for Automotive M&A going forward.

The numbers tell the story…

Deal volume: Global cross-sector M&A volume increased 6% in the first half of 2014 compared to 2013. In comparison, global Automotive deal volume climbed to 250—an increase of 13%.

Deal value: H1 2014 saw global Automotive deal value soar to its highest level in the last seven years, building to an astounding $27.5 billion—a massive increase of 110% over the first half of 2013. While lagging behind Automotive, cross-sector deal value increased 3% in that same timeframe.

Deal size: The deal-size numbers are equally promising in terms of future growth. Globally, average Automotive deal size increased by a rousing 66%, primarily driven by megadeals:

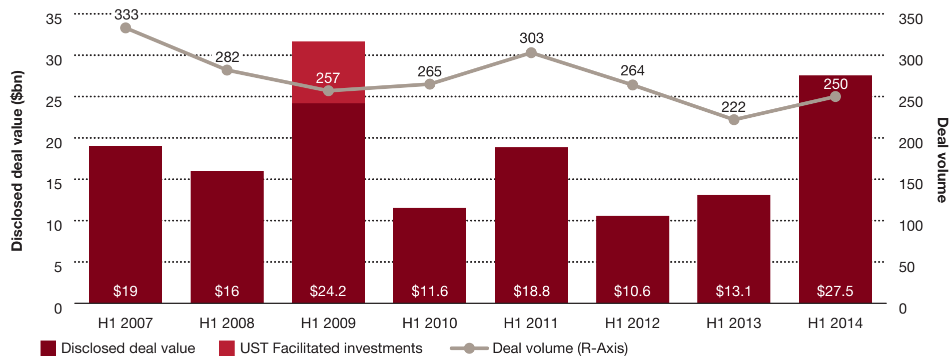
- Volkswagen acquisition of Scania—$9.1 billion
- Blackstone acquisition of Gates Corporation—$5.4 billion
- Fiat North America purchase of remaining shares in Chrysler Group LLC—$2.9 billion

Global automotive—Zoom zoom

After two straight years of decline in Automotive M&A, things are now looking up. Deal volume rose by 13% in the first half of 2014. With 250 deals closing at a total disclosed value of approximately $27.5 billion, the industry saw its highest value of deals transacted during the review period. This increase was primarily driven by megadeals that culminated in a total aggregated disclosed value of $20.9 billion.

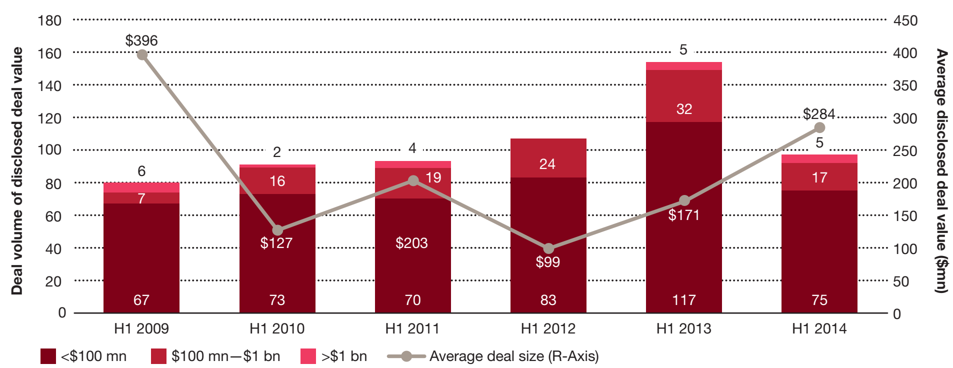
In the first half of 2014, the average global auto deal size increased 66%, rising from $171 million to $284 million. Even with 57 fewer disclosed deals in the first half of 2014 than there were during the first half of 2013—97 versus 154 in H1 2013—the number of megadeals stayed consistent at five. Clearly, larger megadeals continue to lead to a significant increase in overall average deal value in the first half of 2014 just as they did in 2013. Global Automotive is now enjoying the highest average disclosed deal value that it has seen since 2009.

Global Automotive M&A Deal Volume and Value
H1 2007–H1 2014



Source: Thomson Reuters and other publicly available resources

Global Auto M&A Deals by Disclosed Value
H1 2009–H1 2014



Source: Thomson Reuters and other publicly available resources

Top 10 deals

Top 10 transactions—H1 2014

	Date effective	Target name	Target region	Acquiror name	Acquiror region	% of Shares acquired	Value of transaction ($m)	Buyer type	Category
1	05 Jun 2014	Scania AB	Europe	Volkswagen AG	Europe	37	9,056	TRADE	VM
2	03 Jul 2014	Gates Corporation	US	Blackstone	US	100	5,400	TRADE	Comp
3	21 Jan 2014	Chrysler Group LLC	US	Fiat North America LLC	US	41	2,862	TRADE	VM
4	02 Jan 2014	General Parts International Inc	US	Advance Auto Parts Inc	US	100	2,040	TRADE	Other
5	26 Feb 2014	ThyssenKrupp Steel USA LLC	US	Investor Group	Asia	100	1,550	FIN	Comp
6	18 Jun 2014	OAO Avtovaz	Europe	Alliance Rostec Auto BV	Europe	75	750	FIN	VM
7	31 Mar 2014	Honda elesys Co Ltd	Asia	Nidec Corp	Asia	100	500	TRADE	Comp
8	6 Jan 2014	Keystone Automotive Operations Inc	US	LKQ Corp	US	100	450	TRADE	Other
9	14 Apr 2014	Terry's Tire Town Holdings Inc	US	American Tire Distributors Inc	US	100	365	TRADE	Other
10	20 May 2014	BMC Sanayi ve Ticaret AS	Europe	Es Mali Yatirim ve Danismanlik AS	Europe	100	356	FIN	VM

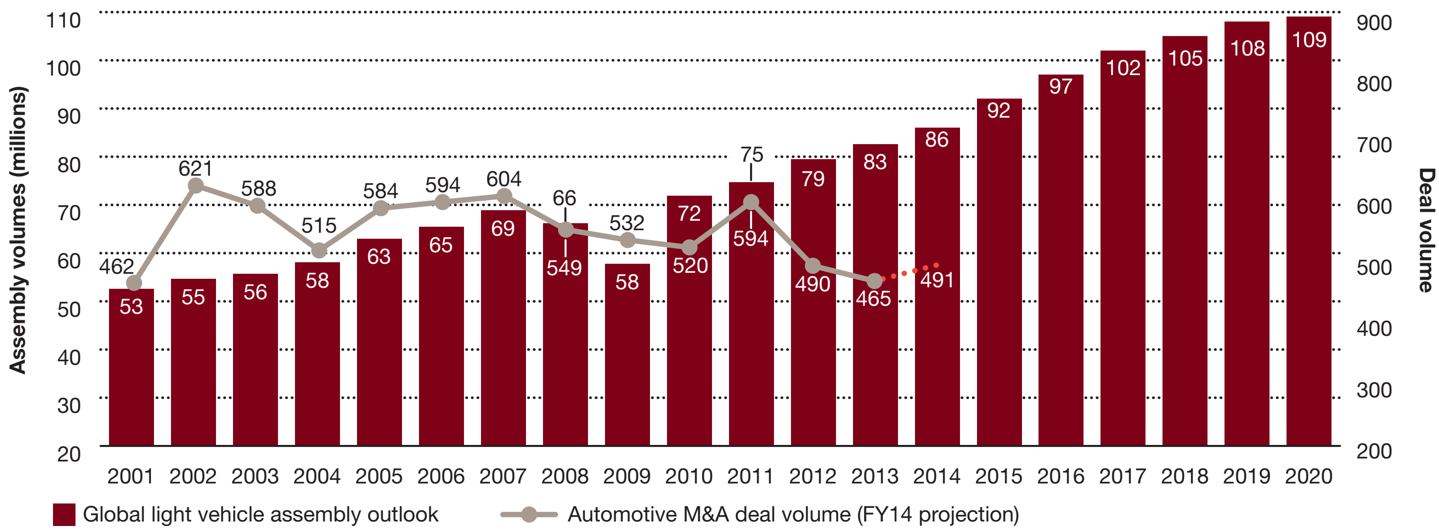
Source: Thomson Reuters and other publicly available resources

Automotive assembly—Pedal to the metal

As detailed earlier, Assembly is on a roll. Despite economic volatility, political uncertainty and an unprecedented number of vehicle recalls dominating headlines, sales and vehicle assembly continue to grow. PwC's Autofacts notes that the industry's near-term future has never looked brighter, and we attribute this to both expansion in developing Asia and to sales in Europe and North America. The industry is expected to add 23.5 million units of production between 2014 and 2020, for a compounded annual growth rate (CAGR) of 4%.

The only bump in the road has been global vehicle recalls that continues to mount and could easily surpass the 100 million-unit mark by year-end. In the US alone, more than 37 million vehicles have been recalled through the first half of 2014. However, on a bright side, heavy capacity investment in North America continues, with the region forecasted to reach light vehicle assembly of 16.9 million units in 2014—up 4.5% year-over-year with the potential to reach 20 million units by the end of the decade. Moreover, the European Union is beginning to hit its stride as a long-awaited recovery takes hold with 2014 Assembly predicted to reach 16.8 million units, a 5.4% jump over 2013.

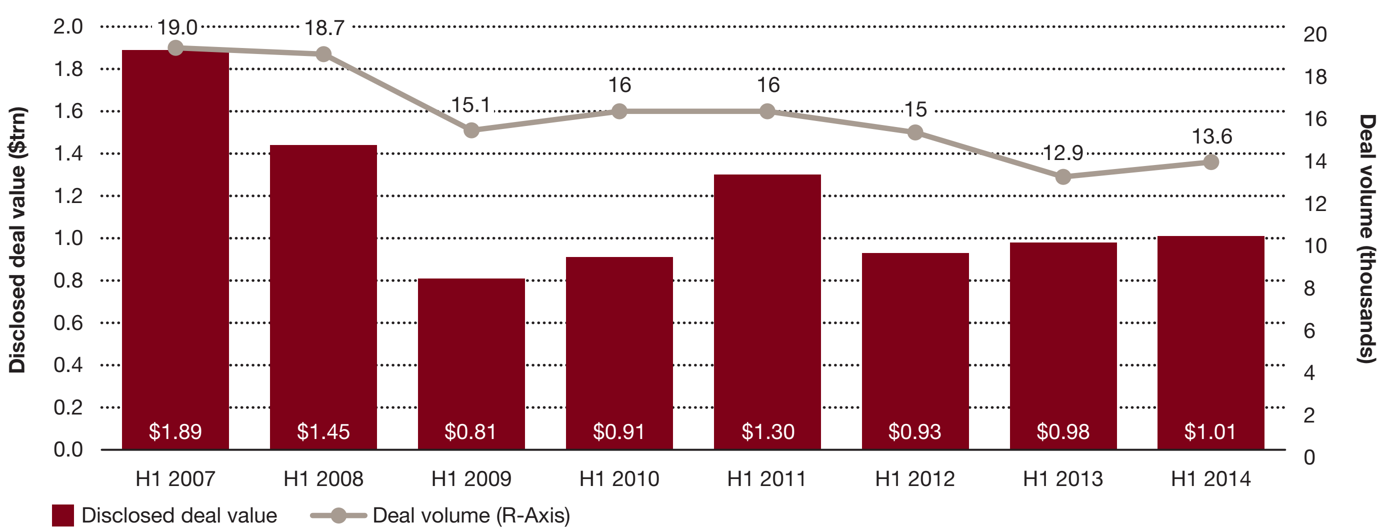
Global Light Vehicle Assembly Outlook
2001–2020



Cross-sector M&A

As evidenced in the chart below, recent global cross-sector M&A is trending upward, though not near 2007 or 2008 levels. In the first half of 2014, compared to that same timeframe in 2013, both deal volume and value increased by 6% and 3% respectively.

Global cross-sector M&A deal volume & value
H1 2007–H1 2014



Source: Thomson Reuters and other publicly available sources

Insights into regions

The big picture

Across all regions, local deals dominated the M&A landscape with 92% of deal value (or $25.3 billion) being transacted by targets and acquirers within the same borders. Much of the movement in share of deal volume and value was between North America and Europe, while Asia remained relatively flat. European and North American assets experienced the greatest benefit from the mega deals transacted in the first half of 2014, with all five deals being either with an European or United States target and/or acquirer.

North America

In North America, activity was the most robust region in the first half of 2014. Its share of deal volume by acquirer and target region—32% and 34% respectively—was the highest over the review period. Compared to the first half of 2013, target deal value in the region grew by a rousing 135%, while target deal volume increased by 60.4%. This strong growth spotlights the ongoing improvement in the economic landscape within the United States, and evidences companies' willingness to return to the M&A markets to seize strategic and growth opportunities.

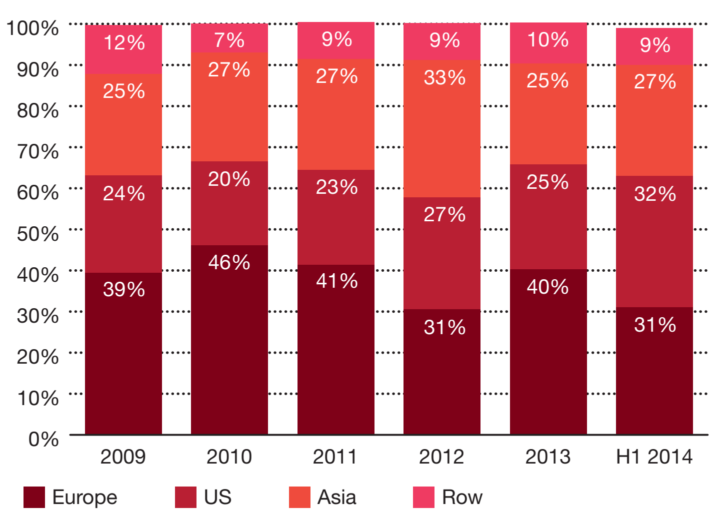
Europe

While North America has experienced a significant increase thus far in 2014, European assets have remained relatively steady with what we saw in 2013. The European region was responsible for 38% of deal value by acquirer region as compared to 12% in the first half of 2013, showing positive growth in larger-size deals and continued interest in assets that have been suppressed by the poor economic environment.

Asia

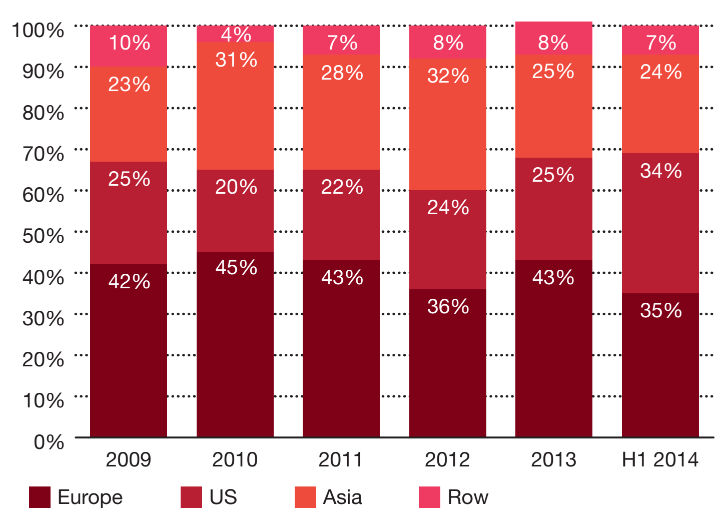
At approximately 25%, Asian assets' share of deal volume—both by target and acquirer—remained flat, while deal value decreased significantly in the first half of 2014. We attribute this primarily to mega deals having being focused for the most part in Europe and United States. Indeed, only two of the top 10 deals transacted in the first half of 2014 were transacted by an Asian acquirer.

Share of Deal Volume by Acquiror Region
2009–H1 2014



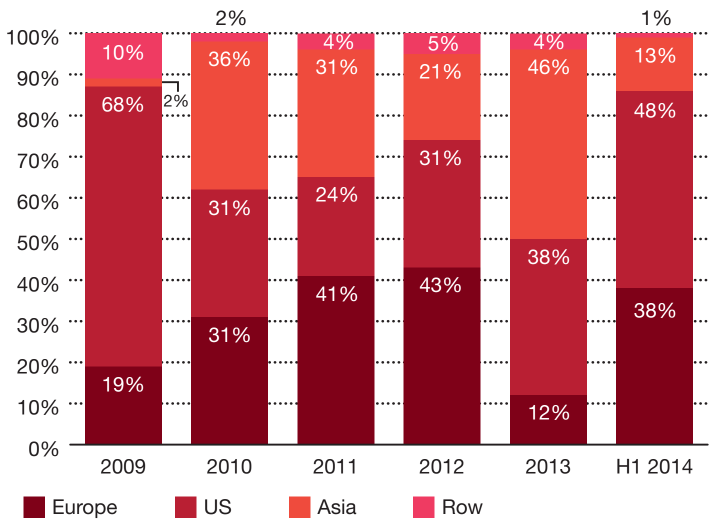
Source: Thomson Reuters and other publicly available sources

Share of Deal Volume by Target Region
2009–H1 2014



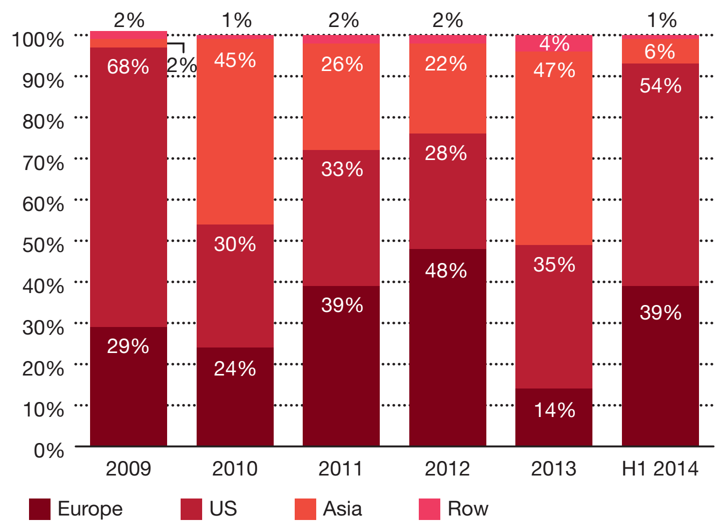
Source: Thomson Reuters and other publicly available sources

Share of Disclosed Deal Value by Acquiror Region
2009–H1 2014

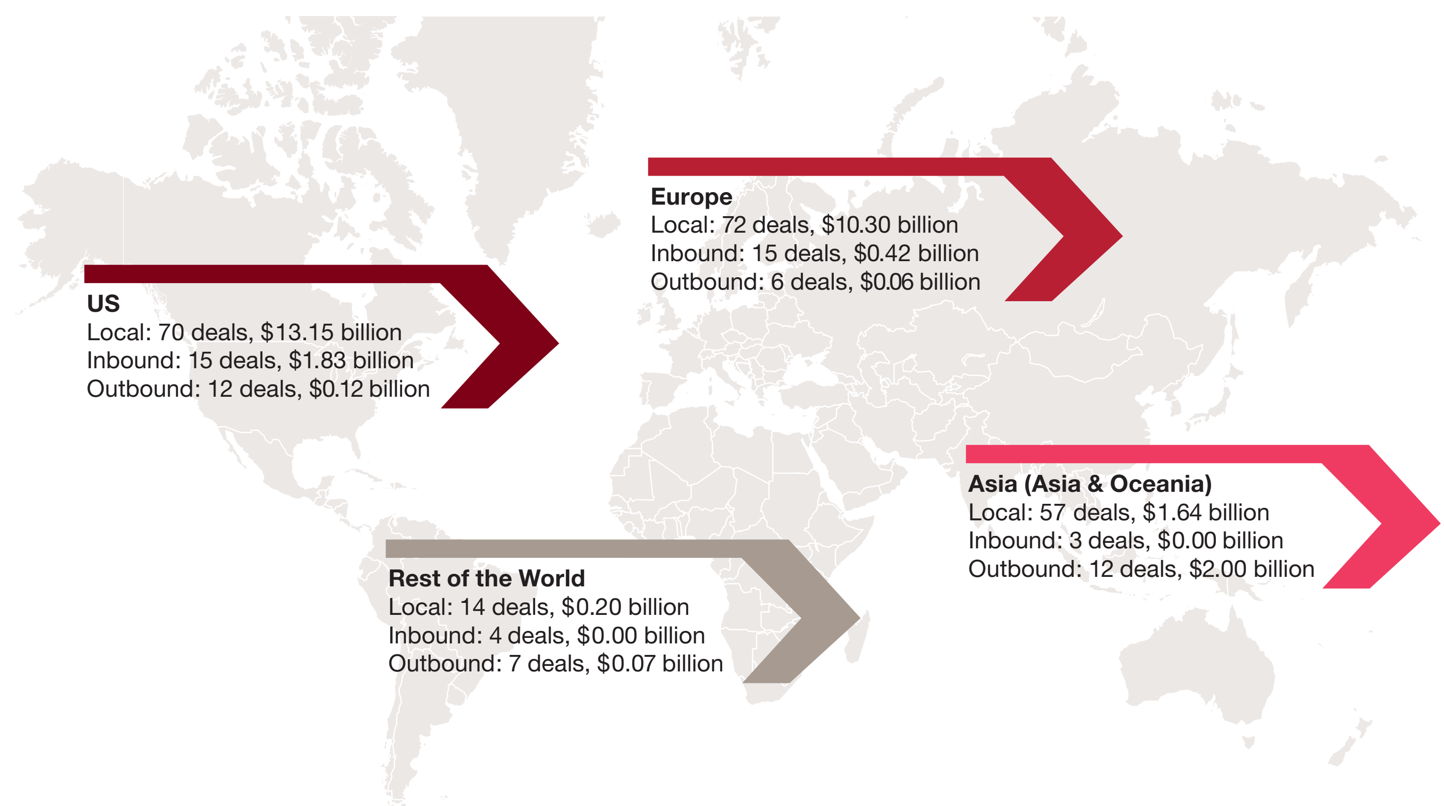


Source: Thomson Reuters and other publicly available sources

Share of Disclosed Deal Value by target Region
2009–H1 2014



Source: Thomson Reuters and other publicly available sources



Source: Thomson Reuters and other publicly available sources

Analyzing industry segments

The big picture

Deal value accelerated in the first half of 2014 compared to that same timeframe in 2013—increasing significantly in all categories.

Vehicle Manufacturers—green light, red light

Vehicle Manufacturers led the pack with the largest increase ($12.3 billion), which we see as having been primarily driven by two mega deals with a total aggregate disclosed value of $11.9 billion; Conversely, vehicle manufacturers' deal volume decreased by 20%, marking the third consecutive period of declining volumes for the segment.

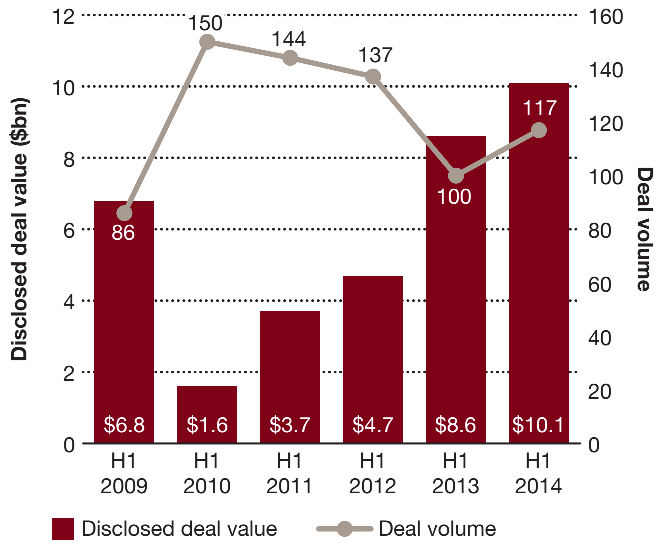
Components Suppliers—green lights all the way

After three periods of decline in a row, Components Suppliers saw deal volume rise from 100 deals in the first half of 2013 to 117 deals in the first half of 2014, representing an increase of 17%. Continuing on a roll, deal value amongst Component Suppliers increased for the fourth straight period, fueled by the Blackstone acquisition of Gates Corporation for $5.4 billion. Moreover, Component Suppliers' deal volume has increased along with deal value, showing not only gains to the market due to the Gates mega-deal, but also smaller deals.

Others—turning the corner

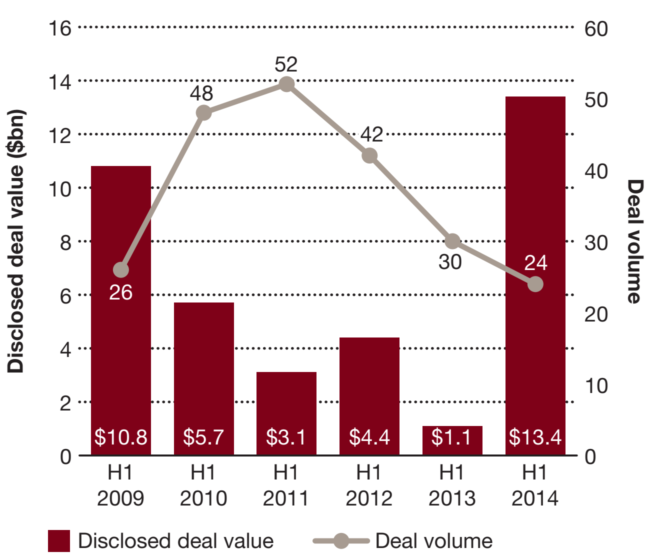
After significant declines during the peak of the recession, the Others category—including retail/dealership, aftermarket, rental/leasing and wholesale, etc.—is starting to recover. The segment transacted 109 deals in the first half of 2014, representing an 18.5% increase over the same period last year.

Component Suppliers M&A Activity
2009–H1 2014



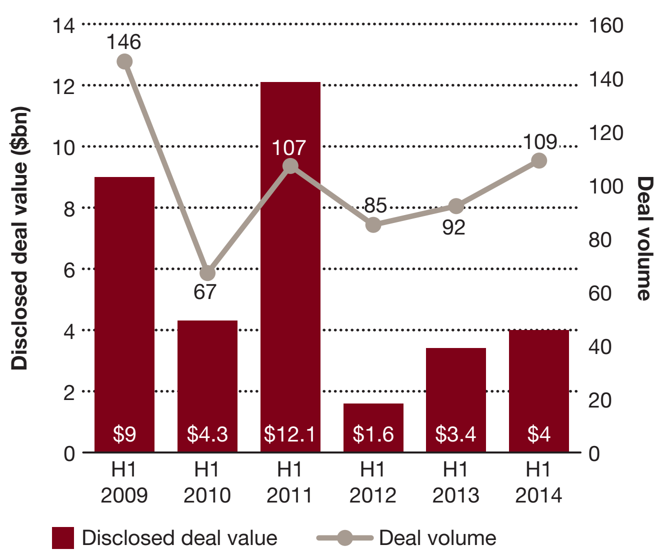
Source: Thomson Reuters and other publicly available sources

Vehicle Manufacturers M&A Activity
2009–H1 2014



Source: Thomson Reuters and other publicly available sources

Others M&A Activity
2009–H1 2014



Source: Thomson Reuters and other publicly available sources

Who's buying: Financial versus Trade Buyers

The big picture

The first half of 2014 saw both Financial and Trade buyers take off in terms of deal volume, but when it came to deal value, Financial buyers shifted gears.

Financial buyers—Green light, red light

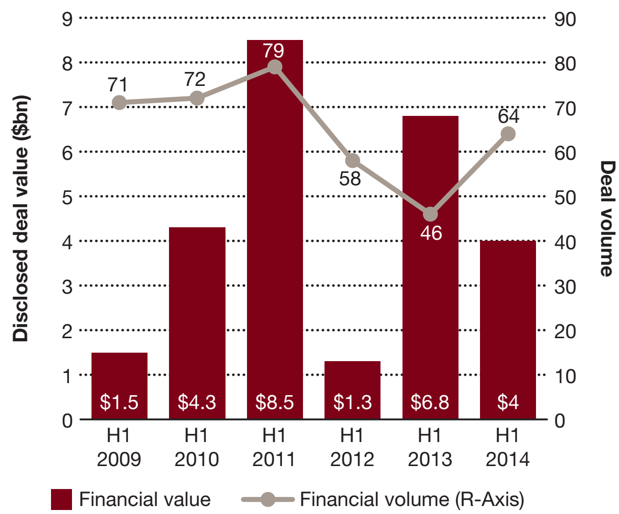
The first half of 2014 saw Financial buyers' M&A activity increased by 39% over that same period in 2013, with its share of deal volume climbing to 26%—a figure more in line with 2010 and 2011 levels. This rise to 26% represents the first increase in four years, and 26% is more in line with 2010 and 2011 levels. Financial buyers have shown a shift to Component Suppliers, targeting candidates in Asia over other regions.

On the down side, the first half of 2014 saw deal value amongst Financial buyers decrease by 41%, but this was no surprise, in that the first half of 2013 encompassed Carlyle's acquisition of DuPont Coatings—the largest transaction in 2013.

Trade buyers—green lights ahead

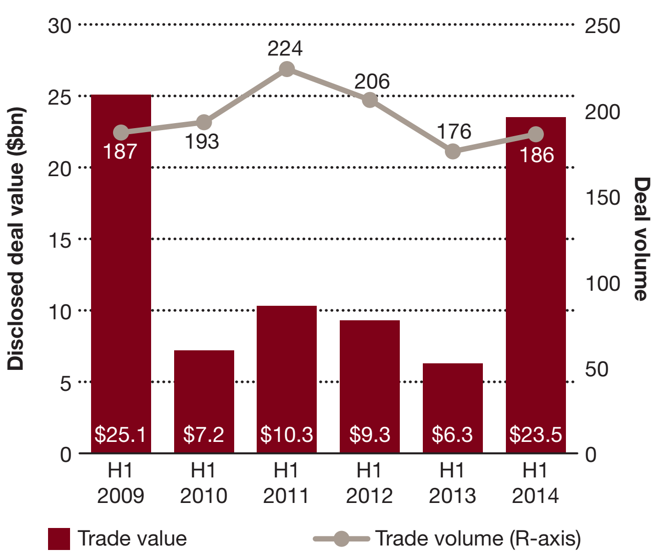
For Trade buyers, deal value increased exponentially in the first half of 2014, with the value of initiated deals surging threefold compared to first half 2013. As we see it, much of this increase stems from the Fiat & Volkswagen acquisition of Vehicle Manufacturers Chrysler and Scania, respectively, as well as the Blackstone acquisition of component supplier Gates Corporation.

Financial Buyer M&A Activity
2009–H1 2014



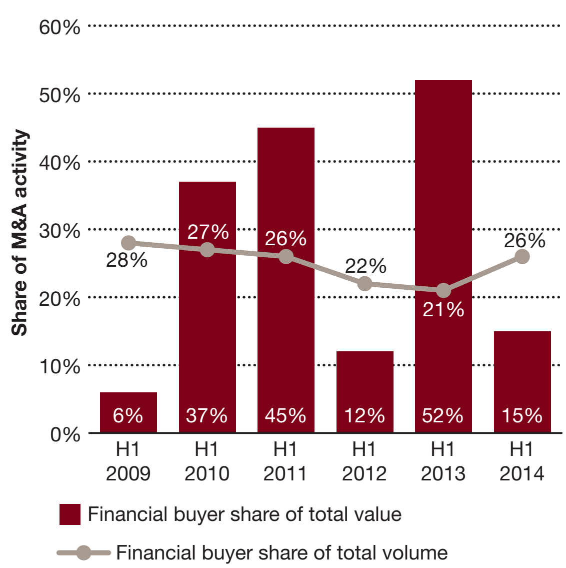
Source: Thomson Reuters and other publicly available sources

Trade Buyers M&A Activity
2009–H1 2014



Source: Thomson Reuters and other publicly available sources

Financial Buyer Share of M&A Activity
2009–H1 2014



Source: Thomson Reuters and other publicly available sources

The Road Ahead

A positive outlook for Automotive M&A

While the industry as a whole has faced challenging times over the past several years, the markets seem to have finally pulled themselves out of the worst economic downturn in recent history.

Given the robust Automotive Assembly outlook, PwC expects the M&A markets to continue to stay strong as companies continue to use M&A to improve technology, grow customer base, and expand geographic footprint.

Green lights on the road to the "ultimate connected car"

Over the long term, we see M&A playing an increasingly vital role in the development and integration of new technologies into vehicles to improve safety, fuel efficiency and connectivity.

While we anticipate "all systems go" for a steady rollout of innovative new technologies over the next several years, clearly the timing and degree of growth in the global automotive markets will depend on the future state of the economic climate around the world.

We predict that these factors will likely spark automotive M&A growth going forward:

On the road to prosperity—Fueling future growth

- ***High levels of liquidity on corporate balance sheets***
- ***Strategic initiatives to expand market share and grow customer, technology and product portfolios***
- ***Resolution of the EU's sovereign debt issues of member states***
- ***Strong economic recovery and pent-up demand in developed countries such as the US***
- ***Resumption of trend line economic growth in China and India***

Contact us

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PwC's global automotive practice leverages its extensive experience in the industry to help companies solve complex business challenges with efficiency and quality. One of PwC's global automotive practice's key competitive advantages is Autofacts®, a team of automotive industry specialists dedicated to ongoing analysis of sector trends. Autofacts provides our team of more than 4,800 automotive professionals and our clients with data and analysis to assess implications, make recommendations, and support decisions to compete in the global marketplace.

About the Transaction Services Practice

The PwC's Transaction Services practice provides due diligence on both the buy and sell side of a deal, along with advice on M&A strategy, valuation, accounting, financial reporting, and capital raising. For companies in distressed situations, we advise on crisis avoidance, financial and operational restructuring and bankruptcy. With approximately 1,000 deal professionals in 16 cities in the US and over 6,000 deal professionals in over 90 countries, experienced teams are deployed with deep industry and local market knowledge, and technical experience tailored to each client's situation. Our field-proven, globally consistent, controlled deal process helps clients decrease minimize their risks, progress with the right deals, and capture value both at the deal table and after the deal closes.

"PwC was recognized as having the largest Transaction Advisory Services Practice by revenue. PwC was also named a "Vanguard" firm and recognized by Kennedy as having the highest breadth and depth of service capabilities".

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All dollar amounts are expressed in US dollars, unless otherwise noted.