

AUTOMOTIVE INDUSTRY M&A REVIEW

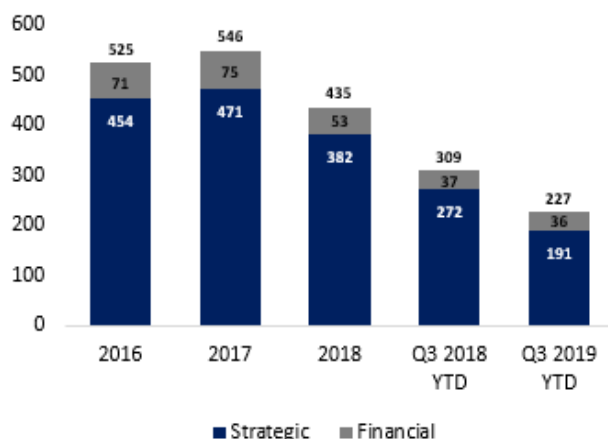
WINTER 2019/2020

The current trade tensions in China are expected to significantly impact the automotive market both globally and domestically. This is directly reflected by a noticeable decline in transaction volume, dropping roughly 20% from 2017 to 2018 when tensions began to ramp up and 26% from Q3 2018 YTD to Q3 2019 YTD.

There was a noticeable spike in original equipment manufacturer (“OEM”) transaction value exiting 2018 into 2019, with multiples rising approximately 33% from Q4 to Q1. In wake of trade negotiations with China, financial and strategic buyers are willing to pay premiums on part manufacturers and suppliers, knowing that demand for more affordable parts will not teeter off to the same extent as overall sales should these negotiations turn south. This premium was also driven by increased interest in emerging markets like electrical vehicles and autonomous driving technology, with publicly traded OEMs placing a large focus in these areas.

Under current market conditions, several factors remain key in securing optimal valuations; including maintaining a strong and deep management team, implementing actionable growth strategies that mitigate product and customer concentration, and supplementation of attractive platforms like SUVs, pickups and crossovers.

Global Automotive Deals by Year



Source: CapIQ

Global Automotive Parts Transaction Multiples (EV/EBITDA)



Source: Deloitte

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FIRM OVERVIEW:

Carleton McKenna & Co. is a boutique, independent investment banking firm providing M&A Advisory, Capital Raise Advisory, and Strategic and Financial Planning Advisory services. Our experienced professionals maintain a client-focused and entrepreneurial approach which enables us to maximize outcomes by being creative for our clients. Our professionals have over three decades of experience partnering with public and private companies led by strong, entrepreneurial management teams.

Using this expertise, Carleton McKenna & Co. specializes in providing sell-side and buy-side M&A Advisory services to small- to mid-cap clients which have closely-held businesses, portfolio companies of financial sponsor firms, and divisions or subsidiaries of public companies.

Carleton McKenna & Co. has deep experience in the niche manufacturing, specialty chemicals and materials, business services, consumer products and healthcare markets.

Private Equity Interest in Automotive Parts

Financial buyers (typically private equity sponsors) are also active in the automotive parts industry. Although the majority of transactions are by strategic buyers, financial buyers should not be overlooked in the M&A process. Across the U.S., private equity groups are looking to put meaningful capital to work and are aggressively seeking middle-market transactions.

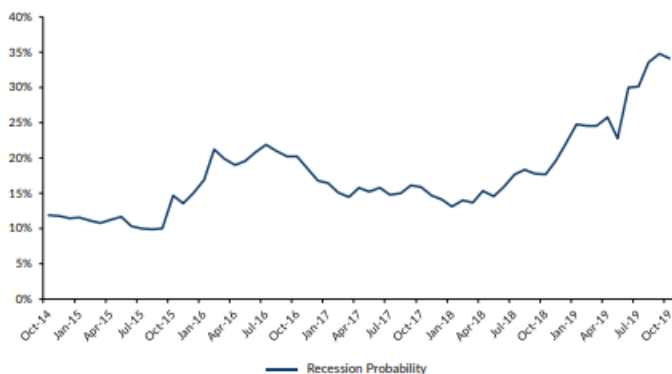
According to reported private equity transactions, financials buyers are willing to pay 7.0x to 9.0x EBITDA multiples for the right platform acquisition. Larger multiples are generally ascribed to larger transactions, typically over \$50 million in Total Enterprise Value (“TEV”) with high potential for revenue growth.

\$ in millions		Average				
TEV Range	TEV	Revenue \$	TTM Revenue Growth %	EBITDA Margin %	TEV/Revenue	TEV/EBITDA
\$10 - \$25	\$17.8	\$16.3	8.9%	17.0%	1.3x	7.8x
\$50 - \$250	\$74.0	\$53.2	10.4%	16.0%	1.4x	9.0x

Source: GF Data

Relevant Market Trends

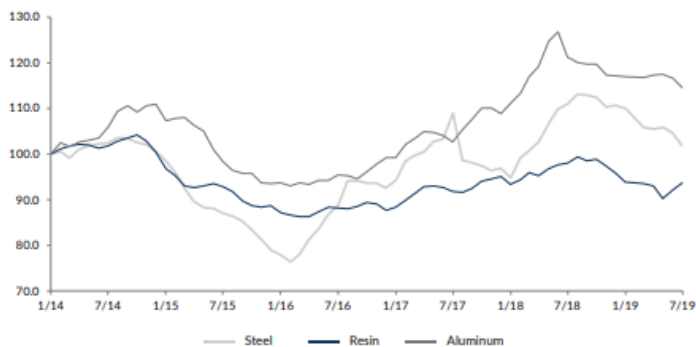
Recession Probability



Source: WSJ Survey of Economists

Reliance on the automotive industry as a whole introduces cyclical risk within the industry. As of October 2019, economists surveyed by the Wall Street Journal indicate a 34% chance of recession within the next twelve months, up from the prior year’s 18% probability. Probability has also risen from 26% from the previous quarter. Reasons cited for concern include the escalating trade tensions with China and the recent contraction of U.S. manufacturing activity evidenced by a decrease in the U.S Manufacturing PMI since January 2019.

Raw Material Pricing Indices



Source: Federal Reserve Bank of Cleveland

Raw material prices are continuing to hover near six-year highs, leaving OEMs to wrestle with cost volatility of steel, aluminum, copper, and plastics. The outlook for these materials remain uncertain because of the ongoing trade tensions with China despite experiencing some relief since price indices peaked in July of 2018.

Select Automotive OEM and Aftermarket M&A Transactions

Date	Target	Buyer	Target Description
Jan-19	Quaprotec USA	Faist Alucast	Manufacturer and supplier of automotive parts
Jan-19	Remy Power Products	BBB Industries	Manufacturer of automotive parts
March-19	PartsPoint Group	Genuine Parts Corporation	Distributor of automotive parts and accessories
April-19	Excel Automotive Group	SanCorp Ltd.	Distributor of automotive parts
April-19	Orleans Auto Supply	Genuine Parts Corporation	Supplier of automotive parts
May-19	Penny Pincher Auto Parts	The Parts Authority	Provider of automotive parts and repair services
June-19	Mapremex	CIE Automotive	Manufacturer of automotive parts
Sept-19	SeaTac Parts	Transtar Industries	Distributor of automotive parts
Oct-19	Hibar Systems	Tesla	Manufacturer of electric automotive parts
Oct-19	Poppe Automotive Warehouse	XL Parts	Distributor of automotive parts
Oct-19	Chassis Brakes International	Hitachi Automotive	Manufacturer of automotive parts
Dec-19	Total Automotive Warehouse	The Parts Authority	Distributor of automotive parts

Source: PitchBook, CapIQ, Deloitte

Public Comparable Companies Trading Statistics by Sector - Q2 2019

Industries	Median (\$M)			LTM		NTM	
	Market Cap	EV	EBITDA Margin	EV/Revenue	EV/EBITDA	EV/Revenue	EV/EBITDA
Automotive OEM	\$27,935	\$57,402	7.7%	1.2x	8.6x	1.1x	7.5x
Automotive Aftermarket	\$3,663	\$4,309	11.7%	1.6x	11.2x	1.5x	10.6x
Automotive Sales	\$3,032	\$6,376	3.1%	0.5x	10.0x	0.5x	9.6x
Diversified	\$8,515	\$9,499	12.4%	0.7x	5.5x	0.7x	5.0x
Mean	\$10,786	\$19,307	8.7%	1.0x	8.8x	1.0x	8.2x
Median	\$6,089	\$7,938	9.7%	1.0x	9.3x	0.9x	8.6x

Source: Deloitte