

AUTOMOTIVE M&A PULSE

FIRST QUARTER 2020



Q1'20

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Automotive Coverage Team

ABOUT PMCF

P&M Corporate Finance (“PMCF”), a U.S. registered broker/dealer, is an investment bank focused exclusively on middle market transactions with professionals in Chicago, Detroit, Denver, and across the globe through Corporate Finance International™ affiliates. Offering a depth of advisory services, PMCF helps clients worldwide meet their sale, acquisition, financing, and strategic growth objectives. Additional information on PMCF can be found by visiting our website, www.pmcf.com.

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- Readiness Reviews
- Capital Raising



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RECENT PMCF & CFI AUTOMOTIVE TRANSACTIONS

 has been acquired by 	 has received an investment from 	 has been acquired by 	 has been acquired by 	TFP Invest and GKM Invest sold to 	 Karl Scharrenbroich has been acquired by
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What We're Discussing with Clients

As of the date of this writing, a number of major North American OEMs have targeted the re-opening of their production facilities by mid-May. Drawing on best practices used in overseas facilities in COVID-impacted countries that have re-opened, adjustments to everything from the size of the production crew to employee spacing and PPE requirements to additional time needed for cleaning and sanitizing between shifts will be the new normal for the foreseeable future.

In an April 30th webinar, Ford executives announced that its assembly facilities won't restart until Michigan's stay-at-home order has expired given the extensive supply base located in the state. With manufacturing restrictions lifted in Michigan as of May 11, OEMs are planning to re-start by May 18th and are communicating protocols with their suppliers, with Ford indicating they have 1-2 days of working stock on hand from when plants were abruptly shut in March.

While the above has wide ranging implications for the supply chain, planning appropriately for the startup will benefit all suppliers regardless of size, location or key OEM customer. The following are items to focus on while planning for the startup:

Managing Cash and Working Capital

As operations quickly ramp after an extended shutdown, managing cash and working capital will be critical to ensure operations continue uninterrupted and short term financial obligations can be met. The purchase of raw materials, payroll and benefits expense as well as facility overhead will all start to accelerate prior to the receipt of payments from customers. Having a firm understanding of the projected timing of cash inflows and outflows is critical to planning for capital requirements. Key areas of focus include:

- Accounts receivable – is A/R being managed properly? Have customers changed their payment practices? Are any customers at risk of declaring bankruptcy? Were POs properly invoiced? Closely tracking the status of receivables will help eliminate surprises and ensure liquidity needs are met
- Inventory – material purchases required to satisfy near-term demand may be required in advance of the receipt of payments from customers. In the absence of safety stock, a significant purchase of raw materials may be required to satisfy the immediate return of customer demand
- Accounts payable – while extending payment terms to customers may seem like an easy lever to pull to ease the burden on working capital, it's important to consider how that action might negatively impact suppliers' liquidity issues, and perhaps more importantly, affect your relationship in the future. Consider your supplier to also be your partner and work with your partners to establish terms that are reasonable for all parties involved

The above (and more) is effectively managed through a 13-week cash flow model – a tool that is fundamental to identifying liquidity needs over the upcoming 90 days. The 13-week model provides a granular analysis of cash coming in and cash going out and is an objective report that should be utilized by leadership teams as a short-term playbook to prepare contingency plans. As cash pinch-points are identified, changes to the operating model (including examining fixed and variable costs) can be made in the short term. These cash flow dips can be proactively communicated with vendors (if payments will be delayed) or lenders (covenants potentially tripped) in an effort to work collectively on a solution (overadvance waivers).

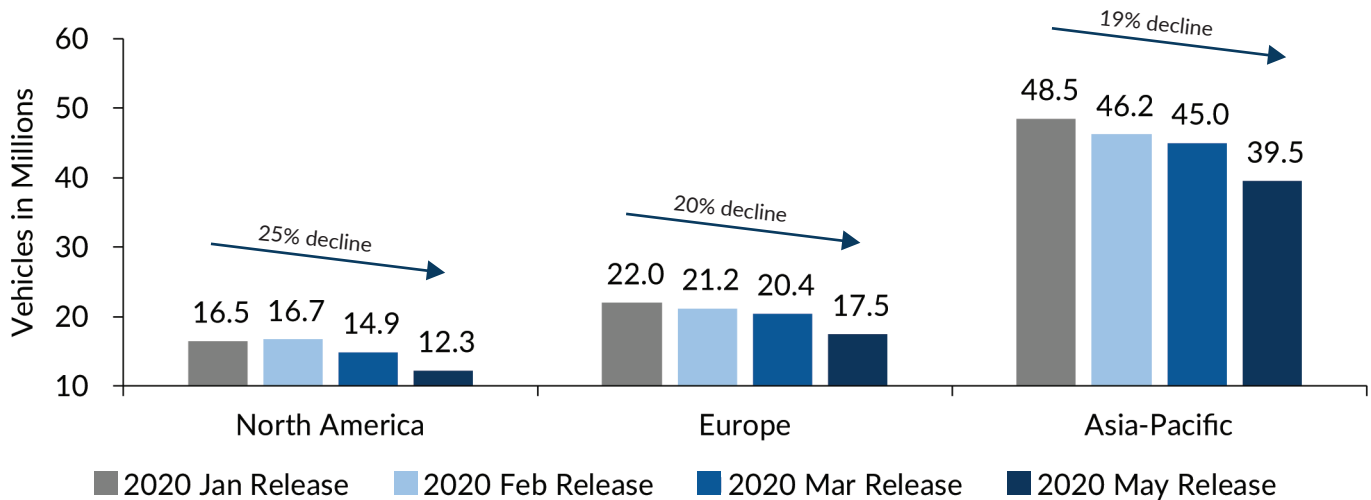
Consistent, Direct Communication with Stakeholders

Having an open line of direct, fact-based communication with key stakeholder groups is critical to avoiding surprises and working on collaborative solutions as challenges arise during the re-opening of production facilities. This process needs to be a two-way street. The first step is identifying these stakeholders – company staff, customers, suppliers and financing partners are all essential partners to maintain operations and each have their own needs in times of crisis. All company communication should disseminate from the highest level of the organization (CEO or President). The following are key items for communication with each key stakeholder group:

- Company staff – timing of re-openings of facilities and steps taken to ensure safety.
- Customers – understand changes in expected demand and production schedule. Liquidity challenges may delay payments and there may be a need to revisit payment terms with key customers.
- Suppliers – inquire about any potential interruption in the supply of key raw materials. This may also be an opportunity to revisit pricing and payment terms.
- Financing partners – communicating cash flow needs for key vendor payments, securing principal deferrals or the potential for covenant violations tied to the shutdowns.

COVID Impact on Global Light Vehicle Production⁽¹⁾

REGIONAL 2020 LIGHT VEHICLE PRODUCTION VOLUME OUTLOOK (BY MONTH)

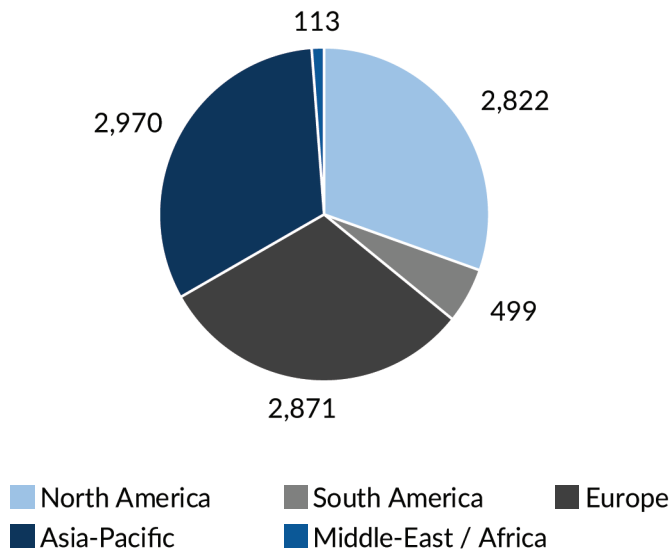


Source: AutoForecast Solutions, LLC

- As of May 5th, AutoForecast Solutions, LLC (“AFS”) projects global 2020 light vehicle production to total 73.5 million units (compared to a pre-COVID 2020 forecast of 89.6 million units). This 16.1 million loss in production volume represents an 18% drop vs. the pre-COVID outlook
- The above volume estimates represent a combination of lost production volume due to plant closures, supply chain disruption, potential labor issues and a softening of consumer demand

ESTIMATED LOST PRODUCTION VOLUME BY REGION

Lost Production Volume (in 000's)



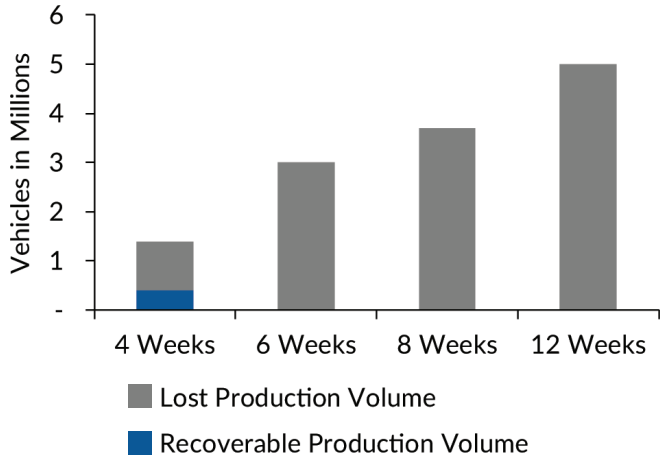
Source: AutoForecast Solutions, LLC

- AFS estimates that every OEM assembly plant globally will post at least a four-week shutdown (with most regions experiencing a much longer shuttering), a combination of full day closures, the elimination of overtime, and a reduction in shifts
- Of the projected 16.1 million unit reduction, 9.3 million units are attributable to production shut-downs, with the impact to North American volumes representing ~2.8 million units according to AFS
- On FCA's quarterly earnings conference call, CEO Mike Manley stated, “We expect all plants in North America to restart the week of May 18, with the exception of Belvedere, which will open by June 1.” Manley, along with leadership from Ford and GM, developed a task force that has spent the last six weeks searching for opportunities to safely resume production.

(1) The volume data presented is provided by AFS and based on their detailed global automotive production outlook published on May 5th 2020. This forecast is updated on a monthly basis.

COVID Impact on North American Light Vehicle Production⁽¹⁾

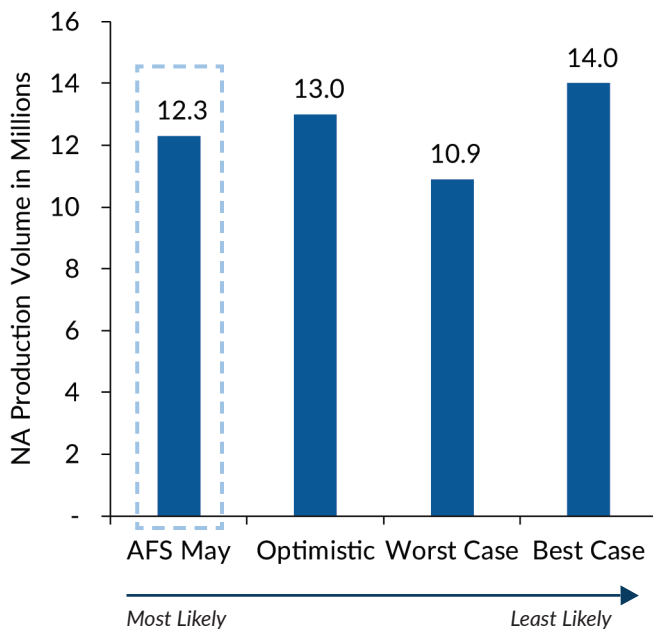
ESTIMATED LIGHT VEHICLE PRODUCTION VOLUME IMPACT SCENARIOS (IN MILLIONS)



Source: AutoForecast Solutions, LLC

- The adjacent chart represents recoverable and lost production volume given different scenarios of the longevity of OEM production facility shutdowns.
- Current AFS estimates reflect a 10-week North American shutdown, resulting in projected vehicle production of 12.3 million units in 2020. The pre-COVID estimate for North American light vehicle production volume was 16.5 million.
- AFS estimates production facility closures will account for 2.8 million of the 4.2 million decline in projected production volume, and should be viewed as a one-time event.
- The additional reduction of 1.4 million units is the result of an anticipated softening in consumer demand, increasing inventories and related macro-economic challenges. Annualizing this shortfall over the remaining calendar year (8 months) results in a 2.1 million impact, ~12% of the pre-COVID estimate and in-line with planning models many suppliers had been running.

2020 NORTH AMERICAN PRODUCTION VOLUME SCENARIOS AND OUTCOME PROBABILITY



Source: AutoForecast Solutions, LLC

- The adjacent chart illustrates a range of 2020 North American production volume outcomes, organized by probability.
- Per AFS, the most likely outcome for North American production in 2020 is 12.3 million units
- Factors influencing the handicapping of outcome scenarios include:
 - The speed at which production rates ramp once plants re-open
 - The degree to which supply chains are disrupted
 - The extent to which stimulus packages and dealer incentives offset weakening consumer confidence levels
 - The severity of a COVID relapse and the associated disruption to production schedules

(1) The volume data presented is provided by AFS and based on their detailed global automotive production outlook published on May 5th 2020. This forecast is updated on a monthly basis.

Automotive M&A Activity

SELECT AUTOMOTIVE TRANSACTIONS

(\$ in Millions)

Announced Date	Target	Buyer	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Pending	Adient plc (Automotive fabrics manufacturing and lamination business)	Sage Automotive Interiors	175.0	0.7x	8.8x
Pending	Donaldson Company Inc. (Exhaust and Emissions Business)	Nelson Global Products, Inc.	n/a	n/a	n/a
Pending	Innovative XCcessories & Services LLC	Clearlake Capital Group	n/a	n/a	n/a
Apr-20	Zbroz Racing, LLC	ReadyLIFT Suspension, Inc. (ClearLake Capital Group)	n/a	n/a	n/a
Mar-20	Traverse City Products	Colfax Creek Capital	n/a	n/a	n/a
Feb-20	Futuris Automotive (Automotive Interior Trims and NVH Business)	Supreme Feltol (Thailand) Company Limited	n/a	n/a	n/a
Feb-20	Competition Cams Inc.	Industrial Opportunity Partners	n/a	n/a	n/a
Feb-20	Vehicle Safety Holding Corp.	VOXX International Corporation	16.5	n/a	n/a
Feb-20	Spartan Motors USA (Emergency Vehicle Business)	REV Group, Inc.	55.0	0.2x	n/a
Jan-20	Clearwater Lights	Simpson Performance Products, Inc.	n/a	n/a	n/a
Jan-20	Premier Manufacturing Company	Spray Control Systems, Inc.	n/a	n/a	n/a
Jan-20	Enthusiast Auto Holdings, LLC	Cortec Group, Inc.	n/a	n/a	n/a
Dec-19	TransAxle LLC	Crossplane Capital	n/a	n/a	n/a

KEY DEAL HIGHLIGHTS

Platform Investment

Colfax Creek Capital acquires Traverse City Products

March 2020 - Based in Traverse City, MI, Traverse City Products, Inc. ("TCP") is a premier supplier of custom roll formed and stamped metal products with particular expertise in manufacturing glass hardware components including window sashes, lift plates, sunroof reinforcements and decorative trim. Based in Birmingham, Michigan, and founded by Jason Duzan, Colfax is a private investment firm that takes a long-term approach to investing in smaller, middle market companies. Colfax invests in consumer product, service and industrial companies.

Herman Thomas, President and Founder of TCP, remarked, "For nearly 40 years, we have worked to build a business based on exceptional quality and supported by a great management team. In recent years, we guided the current management team to develop the expertise to position the business for the next owner. We believe Colfax and Jason is the best partner to work with the team and take TCP to the next level."

End Market Expansion

Nelson Global Products acquires Donaldson's Exhaust and Emission Business

February 2020 (Announced) - Nelson Global Products Inc. ("Nelson"), a global leader in the design and manufacture of thermal management, acoustic, air and fluid mechanics, and structural solutions has signed a binding offer to purchase Donaldson Company Inc.'s Exhaust and Emissions ("E&E") business. Donaldson's E&E business serves the off-highway, on-highway, and industrial markets in the United States and Europe.

"This acquisition will strengthen Nelson's position in the global on-highway, off-highway and industrial markets as a comprehensive emission systems supplier, enhancing the value we provide our customers," stated Steve Scgalski, Chief Executive Officer of Nelson.

Strategic Planning for a Sale

The Importance of Planning

Organizations that incorporate a long-term view on exit planning are more likely to achieve higher shareholder returns from the sale of the business. Although short-term actions may have an impact, many issues cannot be addressed with “running fixes” while a transaction is in process. The identification, resolution (or mitigation) of potential issues in advance of a transaction is critical to a successful outcome. While the current state of the automotive and M&A markets is challenging, now is a great time to plan and prepare for a transaction in the future.

We guide our clients through this preparation phase with a Readiness Review™, which typically occurs 12-36 months before a planned liquidity event to ensure companies are ready for a transaction. The Readiness Review allows business owners to objectively assess operations, manage operating and positioning risks, and evaluate how well the company is positioned for the rigors of a transaction, all under the umbrella of what it means relative to value.

What is a Readiness Review™ and Why is it Important?

The Readiness Review encompasses a thorough understanding of the shareholders' liquidity objectives in combination with a detailed review of the company's operations, organizational structure, strategic plans, and product, customer, and financial profile. Our analysis includes observations on value as well as identification of key metrics that can impact value based on a buyer's perception of risk. Upon the completion of the Readiness Review process, the PMCF team delivers a formal report that includes:

- Preliminary Positioning Assessment (e.g. preliminary company positioning, industry snapshot / analysis, key compelling positioning attributes, and areas for further assessment)
- Comprehensive Valuation Summary (e.g. historical and projected financial summary, valuation methodologies, preliminary valuation range, and sensitivity analyses)
- Strategic Recommendations and Planning Objectives - this section typically reviews 8-12 risk positioning characteristics that will be critical to a buyer's evaluation, determines the current status of each item, and summarizes potential tactics to address any gap between the current and desired situation.

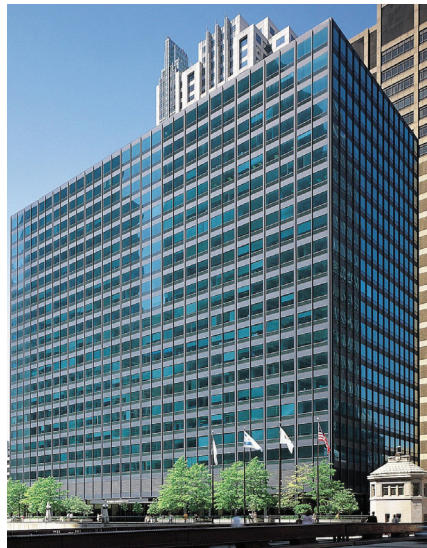
We also establish future recurring planning discussions (e.g. every 3-6 months) to examine progress towards the company's goals - all with a focus on the end liquidity objective.

Why is it Important for a Company to have a “Readiness Review?”

1. Prepares a company for the scrutiny of sophisticated capital investors
2. Helps ownership and management identify the value attributes and constraints of the business
3. Provides ownership with an understanding of perceived value considerations in the eyes of investors
4. Affords a company the opportunity to address shortfalls and enhance the value in advance of a capital transaction
5. Helps align corporate strategy with organizational, personal financial, tax, and wealth transfer planning
6. Helps shareholders/management understand how various business strategies can impact future value
7. Resolves potential deal obstacles to ensure a smooth diligence process and higher likelihood of deal success



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2019 M&A ADVISORS AWARD FINALIST
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