

# AUTOMOTIVE M&A PULSE

THIRD QUARTER 2019



# Q3'19

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## 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](http://www.pmcf.com).

### INVESTMENT BANKING SERVICES:

- Mergers & Acquisitions
- Carve-outs & Divestitures
- Strategic Assessments
- Readiness Reviews
- Capital Raising

# Automotive Coverage Team



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## RECENT PMCF & CFI AUTOMOTIVE TRANSACTIONS



# What We're Discussing with Clients



## Planning for a Slowdown

It's no secret that a slowdown is expected in the automotive industry. Guidance from industry-standard data providers indicates a projected overall decline in production volume continuing through 2020. Much can be done in advance of this slowdown to make sure you are well prepared to react appropriately and take advantage of a soft market:

- Understand how equipment-specific capacity will be impacted by the slow down. Start looking now for work that fits the capabilities of the equipment that could fill open hours – expand the focus of business development activities to adjacent markets if necessary
- Use the slow down as an opportunity to evaluate internal systems and opportunities for increased efficiencies. Additional training, continuing education, LEAN implementation and pursuing additional industry certifications are worthwhile endeavors that will increase employee engagement while strengthening operations
- Financial preparation – proactively communicate with financial partners (banks, investors, fellow shareholders) to avoid surprises and level-set expectations for financial performance and borrowing needs

A slowdown in production on the floor also presents opportunities to tackle operational initiatives that may have previously gone unaddressed due to full production schedules and demanding delivery requirements from customers. Initiatives include tidying up the shop (inventory organization, aging equipment / components, raw material staging areas, paint / lighting / safety), acquiring equipment / implementing new technologies at potentially discounted rates and opportunistically recruiting and onboarding talent that might not otherwise be available in a stronger market.

## Understanding Contribution Margin Dynamics

Automotive manufacturing lends itself to a high-fixed cost business model with improved economic efficiencies (and profits) enjoyed as increased volumes run through “the system.” As volumes increase, these fixed costs are eventually covered, with the contribution margin (revenue less material costs and outside processing expenses) of each additional manufactured unit essentially dropping directly to the bottom line. In planning for a slowdown in production volumes, it is critical to understand how contribution margin dynamics will impact profitability (and cash flow) when volumes decrease.

Examining contribution margin by program is a great place to start. Understanding which programs may have customer provided raw materials, contractual price downs and high levels of outside processing expenses (heat treating, coating, anodizing, paint) will help in mapping the impact of volume slowdowns to cash flow and inform any potential adjustments to fixed costs that may be necessary as volumes soften.

## Transaction and Value Planning

The projected softness in North American production volumes and the threat of a recession in 2020 has led to a slowdown in automotive transaction volumes as well as a pull back in valuations (see page 4 for additional detail). That being said, transactions continue to get done with valuations holding up for well-positioned companies looking to transact in the current climate. Differentiators for companies trading at the higher end of the valuation spectrum include having significant content on high-profile OEM platforms (presenting a re-sourcing challenge for the OEMs), the ability to tie part volumes to industry standard forecasting and planning databases, a well-developed medium and long term growth strategy and a favorable platform mix (SUVs, trucks and cross over vehicles).

PMCF, Plante Moran, Corporate Finance International and AutoForecast Solutions, LLC will be discussing the above (and more) in the upcoming Getting Deals Done seminar series (see page 7 for details).

# Q3 2019 Market Summary & Outlook

## YTD 2019 Automotive M&A Market Dynamics

Transaction activity through Q3 2019 saw an overall decline in deal volume (compared to activity through Q3 2018), continuing a trend that began in 2018. Despite the slowdown, automotive M&A continues to be a critical growth strategy with private equity and strategic investors alike.

As we move into the last quarter of 2019, automotive markets will face continued uncertainty with slowing global economic growth, tightening consumer credit markets, and declining consumer confidence and sentiment indices. This is reflected in projected automotive production volume data, with AutoForecast Solutions anticipating North American light vehicle production volumes decreasing from 17.6 million in 2018 to 16.9 million in 2019. The softening in production volume has impacted M&A activity, with deal volume declining since 2018 (with a significant decline in the YTD 2019 period compared to just a year before). Public equities for automotive suppliers also reflect these growing concerns, although YTD EV/EBITDA multiples have rebounded since Q4 2018 (largely driven by recoveries in Visteon Corporation and Adient plc).

Continuing a trend from earlier in the year, credit markets have become increasingly tight for automotive transactions, particularly for lower middle market automotive suppliers. Total leverage (senior plus mezzanine debt) has been pushed down to 3.00x – 3.50x EBITDA for most deals under \$100M EV. There are outliers that have seen total leverage closer to 3.75x – 4.00x EBITDA, with commonalities of companies that have secured above-average leverage include a compelling growth plan, forecasts tied to industry data, and content on “blue-chip” OEM nameplates. Despite the headlines surrounding emerging mobility such as the speed of EV penetration, autonomous driving technology, and ridesharing, there is still ample demand for traditional automotive part suppliers.

Keys to securing optimal valuations in the current market include:

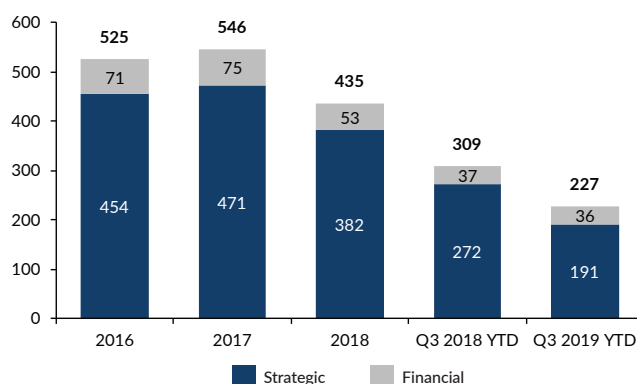
- Supplying attractive platforms (including SUVs, pickups, and crossovers)
- Robust systems and processes that support repeatability of margins
- Strong and deep management teams
- Actionable growth strategies that mitigate product, platform, and customer concentration exposure
- Detailed financial projections tied to industry standard forecasting and planning databases

## Automotive Market Trends & Outlook

The trade war between the US and China unofficially began in July 2018 when a 25% tariff on a number of imported Chinese products went in to effect. Since that time, a number of rounds of escalating and expanding tariffs have been threatened, imposed and rolled back on both sides. At the time of writing, the US and China have agreed to discuss a mutual phased roll-back of tariffs, without further comment on magnitude or timing.

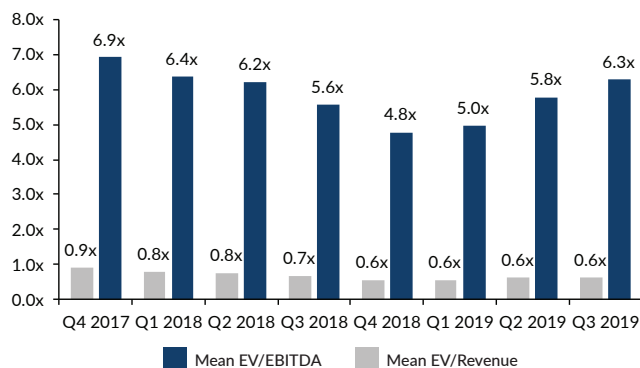
Though the beginning of a finalized trade deal appears to be on the horizon, the value of cross-border investments fell in 2019. U.S. and cross-border Chinese investments were valued at \$13 billion through August 2019, signifying a 49% drop from the same period in 2018. Government restrictions on Chinese investments in the U.S., combined with a recent slowdown in the Chinese automotive market are widely viewed as byproducts of the trade dispute and further contributed to the significant decline in Chinese cross-border investments in 2019.

AUTOMOTIVE DEALS BY YEAR



Source: Capital IQ, Proprietary Research

AUTOMOTIVE SUPPLIER TRADING MULTIPLES



Source: Capital IQ  
Quarterly figures based on the last trading day of each quarter shown

# Macroeconomic Trends & Signals

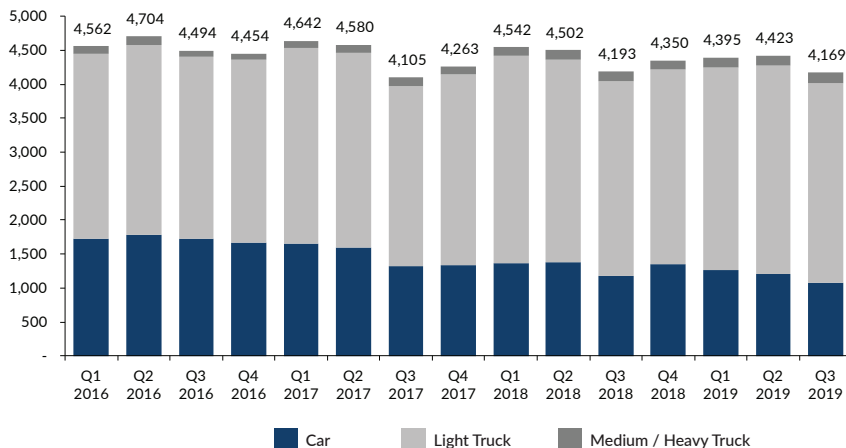
## WALL STREET JOURNAL ECONOMIC SURVEY - RECESSION PROBABILITY



Source: Wall Street Journal Survey of Economists

- Economists surveyed by the Wall Street Journal in October 2019 indicate a 34% chance of U.S. recession within the next twelve months
- Recession probability has increased from 18% in October 2018. Since the last quarterly update, recession probability has risen from 26%
- Reasons cited for increased concerns include escalating trade tensions with China, an inverted U.S. Treasury yield curve, and most recently, contraction in U.S. manufacturing activity evidenced by a decrease in the U.S. Manufacturing PMI since January 2019

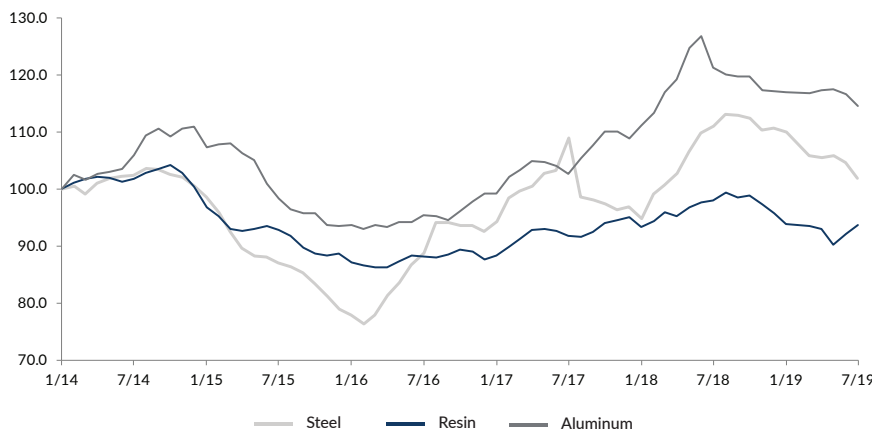
## QUARTERLY VEHICLE PRODUCTION VOLUMES - NORTH AMERICA



Source: AutoForecast Solutions

- North American vehicle production in 2018 reached 17.6 million, flat from 2017 production levels
- Q3 2019 volumes were essentially flat vs. Q3 2018 volumes, with YTD 2019 volumes through Q3 down ~2% vs. the same period in 2018. Stagnant growth is largely attributed to sharp vehicle price increases, increased interest rates, and an abundance of attractive used car options

## RAW MATERIAL PRICING INDICES



Source: Federal Reserve Bank of St. Louis  
Note: Indices anchored at 100.0 on Jan 2014

- Raw material prices continue to hover near six year highs as automotive manufacturers wrestle with volatile costs of steel, aluminum, copper, and plastics
- These materials have seen some relief since price indices peaked a year ago, though outlook remains uncertain with ongoing trade wars between the U.S. and China

# Automotive M&A Activity

## SELECT AUTOMOTIVE TRANSACTIONS

(\$ in Millions)

Announced Date	Target	Buyer	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Aug-19	Hicks Plastics Company, Inc.	New Water Capital, L.P.	n/a	n/a	n/a
Aug-19	Fiber Solutions Segment of Jason Industries, Inc.	Motus LLC	85.0	0.6x	n/a
Jun-19	Assets of General Truck Body	Spartan Motors, Inc.	n/a	n/a	n/a
Jun-19	TOTAL SEAL, Inc.	Promus Equity Partners, LLC	n/a	n/a	n/a
May-19	Concours Mold Inc.	Crestview Partners, L.P.	n/a	n/a	n/a
May-19	Prestolite E-propulsion Systems (beijing) Limited	Dana Incorporated	94.4	4.0x	n/a
May-19	Assets of Vari-Form Holding US Corp.	FCA Canada Inc.	62.0	n/a	n/a
Apr-19	Electric Vehicle Systems Division of AxleTech	Allison Transmission Holdings, Inc.	123.0	n/a	n/a
Feb-19	Assets of Rinehart Motion Systems LLC and AM Racing Inc. (nka:Cascadia Motion LLC)	BorgWarner Inc.	15.0	n/a	n/a
Jan-19	UQM Technologies, Inc.	Danfoss Power Solutions (US) Company	99.9	6.2x	n/a

## KEY DEAL HIGHLIGHTS

### Garmat USA



### MPE Partners acquires Garmat USA

**July 2019** - Headquartered in Englewood, Colorado, Garmat USA is a market leading manufacturer and designer of highly engineered paint booths, finishing solutions and related accessories for the automotive collision repair and industrial coating industries. Based in Cleveland, Ohio and Boston, Massachusetts, MPE Partners is a private equity firm focused on investments in lower-middle market companies primarily in the high-value manufacturing and commercial & industrial services industries

Johan Huwaert, CEO of Garmat, commented, "It is an exciting time in the collision repair industry, and we thought it was the right time to bring in a partner with the resources and experience to help us enhance our position as the innovation leader in our industry. MPE's operating executive resources and their long track record of partnering with entrepreneur-led businesses make them a great partner for Garmat USA."

### Peterson American Corporation



### MiddleGround Capital acquires Peterson American Corporation

**April 2019** - Headquartered in Southfield, MI with facilities throughout North America and the United Kingdom, Peterson American Corporation, through its Peterson Spring and PAC Racing brands, is a leading designer and manufacturer of precision formed metal parts for mission critical automotive applications. MiddleGround Capital is a newly-formed private equity firm that makes control equity investments in lower middle market North American companies in the B2B industrial and specialty distribution sectors.

"We are honored to continue the legacy that the Peterson family began over 100 years ago," said John Stewart, co-founder of MiddleGround. "Companies like Peterson have historically invested in North American manufacturing and have provided critical manufacturing jobs that have benefited the US economy and supported their local communities. Our investment in Peterson seeks to build upon the company's strong foundation and position the company for growth while ensuring manufacturing employment opportunities for generations to come."

# GETTING AUTOMOTIVE

## DEALS DONE

### Executing Automotive M&A Transactions in a Challenging Environment

You're invited to spend time with our industry experts in Detroit, Grand Rapids, and Chicago as they provide insight into the global automotive merger and acquisition and supplier markets.

#### Birmingham, Michigan

Tuesday, Nov. 19, 2019  
3:00 – 6:30 p.m. EST  
The Townsend Hotel

#### Grand Rapids, Michigan

Wednesday, Nov. 20, 2019  
3:00 – 6:30 p.m. EST  
Amway Grand Plaza

#### Chicago, Illinois

Thursday, Nov. 21, 2019  
3:00 – 6:30 p.m. CST  
Marriott O'Hare

#### Our Distinguished Panelists Will Discuss

- Global volume trends and expectations for the coming year, presented by AutoForecast Solutions
- Current turmoil in China, slowing sales in Korea and Japan, outlook for the region, and implications for outbound investment to Europe and North America
- European activity and trends including discussion on Brexit, the drive to EV and the impact of slowing economic growth on the supply community as well as opportunities in Central and Eastern Europe
- Unique diligence considerations for international transactions including cultural customs and business practices, trade and tariff considerations and managing a foreign employee base
- US predictions and opportunities including who is active in the market and why, what it takes to get a deal done, what segments are popular, and advice to our clients

#### Registration

3:00 – 3:30 p.m.

#### Panel Discussion

3:30 – 5:00 p.m.

#### Networking & Cocktails

5:00 – 6:30 p.m.

[CLICK HERE TO REGISTER](#)



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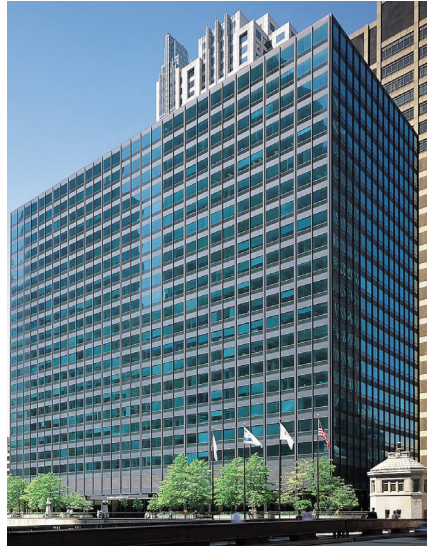
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