



Optimize deals

# PwC deals

## Automotive M&A

### Deals insights – First half of 2016

#### Executive summary

Automotive M&A deal value for the first half of 2016 (H1 2016) was down 37%, significantly off the pace experienced in 2015. However, with 257 deals, volume was only down 7%.

Despite the overall decline in deal value for the first half of 2016, the overall strength of the automotive industry remains strong as global vehicle assembly is expected to grow at a CAGR of 3.3% through 2022. Several factors are impacting automotive deal volume including global economic factors, regional differences within the global industry, and an overall softening of the M&A markets (as seen across all sectors).

While 2016 was off to a slow start for M&A activity, compared to the record year of activity in 2015, a variety of factors indicate that this could be another strong year of M&A activity, especially in the U.S. Some positive factors impacting automotive M&A activity in 2016 include companies and private equity with large cash balances, continued pressure from shareholders and new competitors, and the increased pace of innovation.

In the first half of 2016, average global automotive deal size decreased 43% from \$449 million to \$254 million, primarily driven by a lower number of megadeals (six deals) compared to the first half of 2015 (seven deals). It is important to note that in 2015 the industry experienced historically high deal values with the largest deal being ZF Friedrichshafen AG's acquisition of TRW Automotive Holdings Corporate for \$12.5 billion. Excluding this transaction, deal value for the first half of 2016 is down only 1%.

#### Value by the numbers

**\$21.3B**

**37%**

Decrease in deal value versus H1 2015

#### Volume by the numbers

**257**

**7%**

Decrease in deal volume versus H1 2015

Source: Thomson Reuters

“ While automotive M&A activity is off to a slow start in 2016, we believe disruptive trends will continue to drive M&A headlines. The increased pace of investment around the Smart Car, electric and autonomous vehicles, and ride sharing will drive deal activity in the next 12 to 24 months. ”

– Jeff Zaleski,  
US Automotive Deals Leader

#### Key trends/highlights

- Six megadeals with a total aggregated disclosed value of \$11.6 billion, representing a 56% decrease in megadeals from the first half of 2015.
- The largest megadeal for the first half of 2016 was LP Group BV's acquisition of LeasePlan Corp NV for \$4.1 billion, which is one-third the size of the largest megadeal in 2015 of \$12.5 billion.
- Component suppliers deal volume remained flat at 85 deals in the first half of 2016.
- 50% of the top 10 deals targeted component suppliers.
- Financial buyers' share of global automotive M&A deal volume decreased to 29% compared to 31% in 2015.
- 84% of total deal volume was transacted locally within the same region, consistent with historical trends.
- Europe maintained its position as the most active region, transacting 103 deals.
- Predicted global automotive assembly growth of 3.3% CAGR between 2016 and 2022.



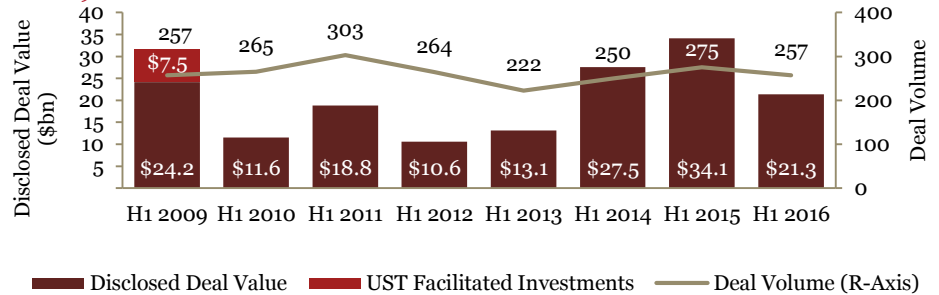


## Highlights of H1 2016 deal activity

### M&A market activity stalls

The first half of 2016 underperformed in relation to the first half of 2015, both in terms of deal value and deal volume. Total first half of 2016 transaction value of \$21.3 billion is down 37% from the first half of 2015. 257 deals were closed during the first half of 2016, down 7% from the first half of 2015, but up 3% from the first half of 2014.

Global Automotive M&A Deal Volume and Value  
H1 2009 – H1 2016



Source: Thomson Reuters

### Largest transaction

LP Group BV's \$4.1 billion acquisition of LeasePlan Corp NV – a provider of car leasing services. This transaction accounted for approximately 19% of the total disclosed deal value in the first half of 2016.

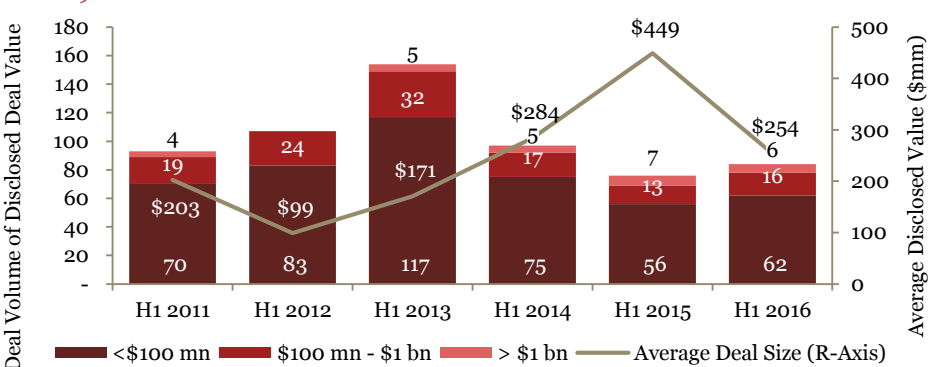


### Megadeals slow down

There were six transactions in H1 2016 exceeding \$1.0 billion (compared to seven in H1 2015 and five in H1 2014), making up 54% of total disclosed deal value.



Global Automotive M&A Deals by Disclosed Value  
H1 2009 – H1 2016

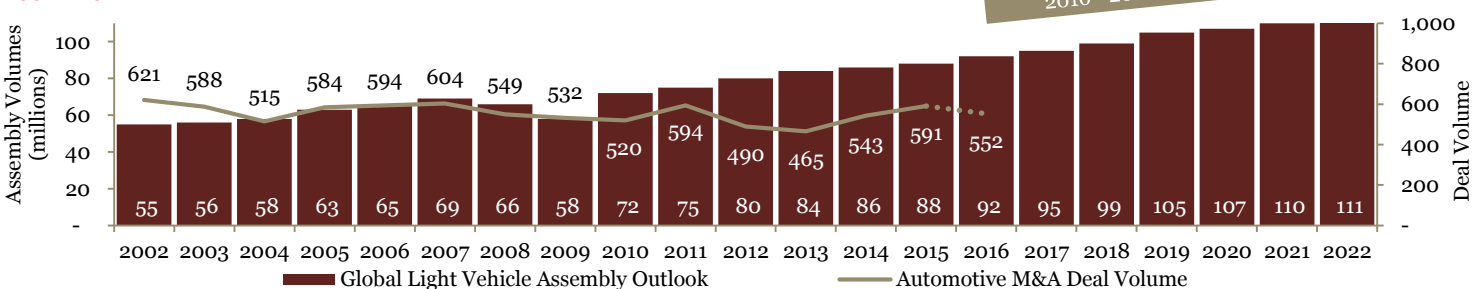


Source: Thomson Reuters

### Automotive assembly

According to PwC Autofacts, the industry is expected to add 19.6 million units of production between 2016 and 2022 for a compounded annual growth rate (CAGR) of 3.3%. Not surprisingly Asia-Pacific is driving much of this growth, making up 62% of the contribution to growth (CTG) in this time period. China alone is expected to add nearly 7.7 million units of assembly, making up 39% of this global growth. North American growth continues as well, with 11% CTG to the global topline. Much of this is due to the surge of capacity investment in Mexico that is already underway. The EU follows in terms of volume growth as the market continues to recover, reaching 20.3 million units. Given the current struggles, Eastern Europe is expected to rebound and grow by 1.5 million units by 2022, while increasingly open markets in the Middle East & Africa is expected to expand production by 1.2 million units by the end of the forecast window. Finally, South America regains some footing and surpasses the 4.0 million unit mark for annual production by 2022. While global assembly continues to grow at a modest pace, automotive companies will need to focus on finding a balance between reducing costs while maintaining expected quality.

Global Light Vehicle Assembly Outlook  
2002 – 2022



Source: PwC Autofacts 2016 Q3 Release



## Key trends and insights

### Driving M&A activity: Emerging technologies and business models

Three disruptive forces will continue to drive automotive M&A headlines in 2016 and beyond:

#### Smart car

- ✓ The Smart Car is an automobile designed with direct access to the internet, enabling links to all other connected objects, including smartphones, tracking devices, and even home appliances. A wide range of startups are offering Smart Car capabilities around infotainment, driver safety, cybersecurity and other capabilities.
- ✓ M&A strategy, both for automotive and non-automotive companies, revolves around acquiring innovative capabilities offered by these startups. For instance, Verizon recently acquired Telogis, a cloud-based location intelligence platform provider, to gain a foothold in the Smart Car market.
- ✓ Other new entrants gaining traction in automotive includes Apple's CarPlay and Google's Android Auto which is forcing traditional automotive participants to think differently about their strategies.

#### Autonomous Vehicles (AV)

- ✓ The vigorous debate about exactly "when" fully autonomous vehicles will arrive should not blind us to the fact that autonomous driving is directly impacting M&A strategy today.
- ✓ General Motors' acquisition of Cruise Automation, a San Francisco-based developer of autonomous vehicle technology, is evidence of the investments the industry is making in redefining the future of personal mobility.
- ✓ Toyota Research Institute (TRI) has made an investment of \$1 billion in artificial intelligence (AI) to facilitate research automotive safety and other mobility products.

#### Ride sharing

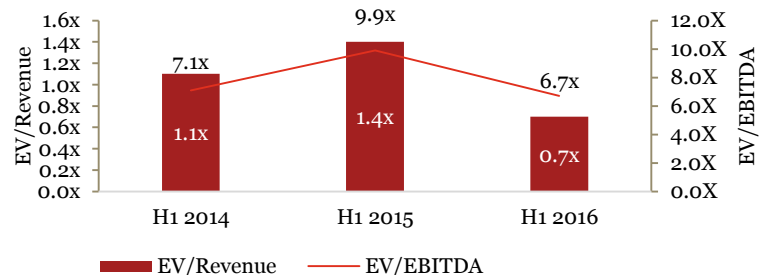
- ✓ Partnerships between traditional automotive vehicle manufacturers and new entrants are addressing changing consumer preferences around shared mobility.
- ✓ General Motors announced a \$500 million investment in Lyft, while Toyota announced a collaboration with Uber to create new leasing options that will facilitate the opportunity for car payments by Toyota car purchasers to be made through Uber driver earnings.
- ✓ Other new entrants in this space include Apple's announcement of a \$1 billion investment in Didi, China's largest ride-sharing company, in early May.

Source: Publicly available sources

### Transaction multiples

Transaction multiples decreased from the historical highs seen in H1 2015. The implied EV/revenue multiples for automotive transactions announced during H1 2016 decreased relative to H1 2015, from 1.4x to 0.7x, respectively. In the same regard, the implied earnings (EBITDA) multiples declined, from 9.9x in H1 2015 to 6.7x in H1 2016. These trends highlight that the decrease in deal value is a combination of declining deal activity and lower transaction multiples.

Transaction multiples (median)  
H1 2014 – H1 2016



Source: Capital IQ



## Key trends and insights

### Industry sub-sector (category) analysis

Deal value diminished in the first half of 2016 compared to the first half of 2015 across the industry sub-sector categories (component suppliers, vehicle manufacturers, and others) with the largest reduction (\$9.9 billion) being with component suppliers.

#### Component suppliers

This marks the first period of decreasing deal value for component suppliers since 2010. However, year over year, excluding the acquisition of TRW Automotive Holdings Corp by ZF Friedrichshafen AG, component suppliers deal value increased 34% (\$7.5 billion in H1 2015 to \$10.1 billion in H1 2016). Two of the six megadeals in the first half of 2016 were transacted amongst components suppliers. In terms of deal volume, components suppliers transacted 85 deals in the first half of 2016.

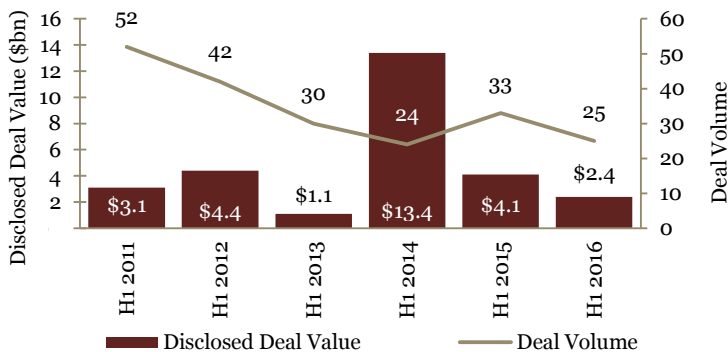
#### Vehicle manufacturers

Deal value among vehicle manufacturers decreased by 42% in the first half of 2016, the lowest level since 2013. The downward trend in deal value is partly driven by having only one megadeal (\$1.0 billion) within the category in the first half of 2016, compared to two megadeals in the first half of 2015 (\$2.4 billion). Additionally, deal volume reversed gains achieved in the first half of 2015, returning to levels experienced in the first half of 2014.

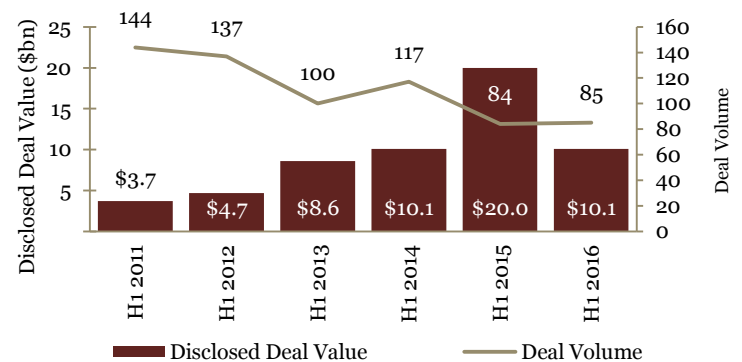
#### Others

The Others category includes retail/dealership, aftermarket, rental/leasing and wholesale. Despite a year-over-year decrease in deal volume and value, the Others category continues to show resilience as it recovers from historical lows experienced during the peak of the recession. Deal value decreased by 11%, which is primarily due to a decrease in deal volume (7.5%). The largest deal (in terms of value) and two other megadeals transacted in the first half of 2016 were within the Others category.

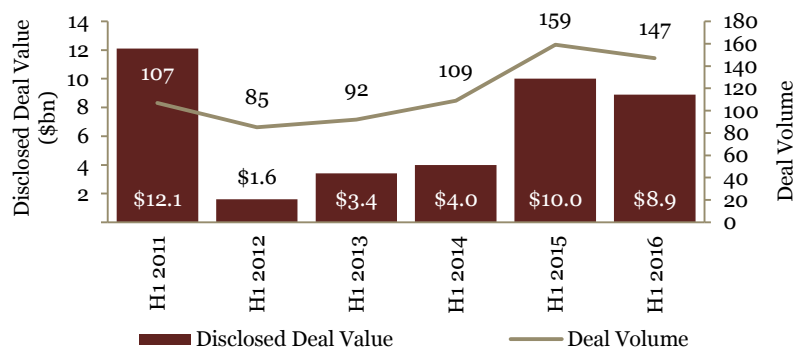
Vehicle Manufacturers M&A Activity  
H1 2011 – H1 2016



Component Suppliers M&A Activity  
H1 2011 – H1 2016



Others M&A Activity  
H1 2011 – H1 2016





## Key trends and insights

### Financial vs. trade buyers

#### Financial buyers

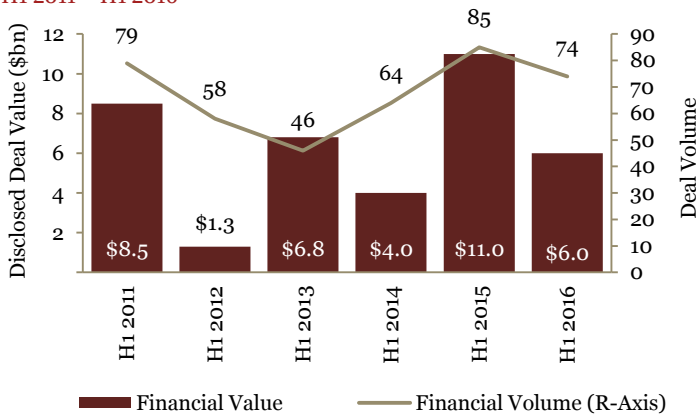
Financial buyers saw decreases in both deal value and deal volume in the first half of 2016, down 45% and 13% as compared to the first half of 2015, respectively. The decrease in deal value is primarily driven by having only one megadeal transacted by financial buyers in the first half of 2016 at a total value of \$4.1 billion. In comparison, four megadeals were backed by financial buyers in the first half of 2015 with a total value of \$7.9 billion.

Overall, financial buyers' share of M&A activity dropped slightly from the first half of 2015 to 29% of total deal volume. However, this is still the second highest volume share in the last five years.

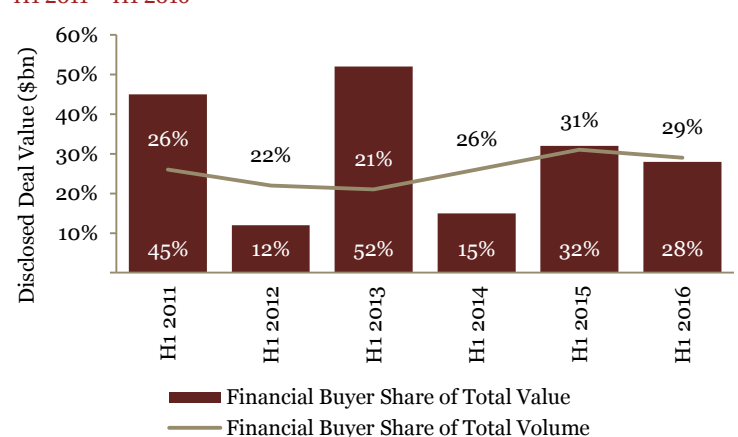
#### Trade buyers

Deal value and deal volume decreased for trade buyers for the first half of 2016 as compared to the first half of 2015. Volume decreased 4% and value dropped 34%. The strong results in past years by trade buyers were significantly driven by large megadeals, as the three trade megadeals for 2015 were valued at a total of \$18.7 billion. However, in the first half of 2016, the five megadeals for trade buyers totaled only \$7.5 billion.

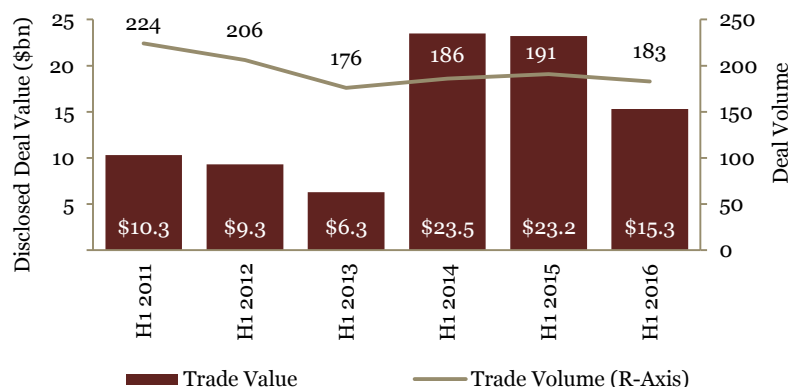
Financial Buyer M&A Activity  
H1 2011 – H1 2016



Financial Buyer Share of M&A Activity  
H1 2011 – H1 2016



Trade Buyers M&A Activity  
H1 2011 – H1 2016





## Key trends and insights

### Regional analysis

Local deals (transactions by targets and acquirors within the same borders) dominated the M&A landscape again in the first half of 2016, as 84% of the total deal volume was within the same region (referred to as local deals). 75% of deal value (or \$16.1 billion) was attributable to these local deals.

#### U.S.

Share of deal volume and value by U.S. acquirors increased to 30% and 20%, respectively, as compared to 28% and 13%, respectively, for 2015. The share of deal volume where U.S. companies were the target remained consistent with 2015 at 27%. Conversely, the share of deal value related to U.S. targets dropped to 28% as compared to 49% in 2015, which was primarily driven by ZF Friedrichshafen AG's acquisition of TRW Automotive Holding Corp.

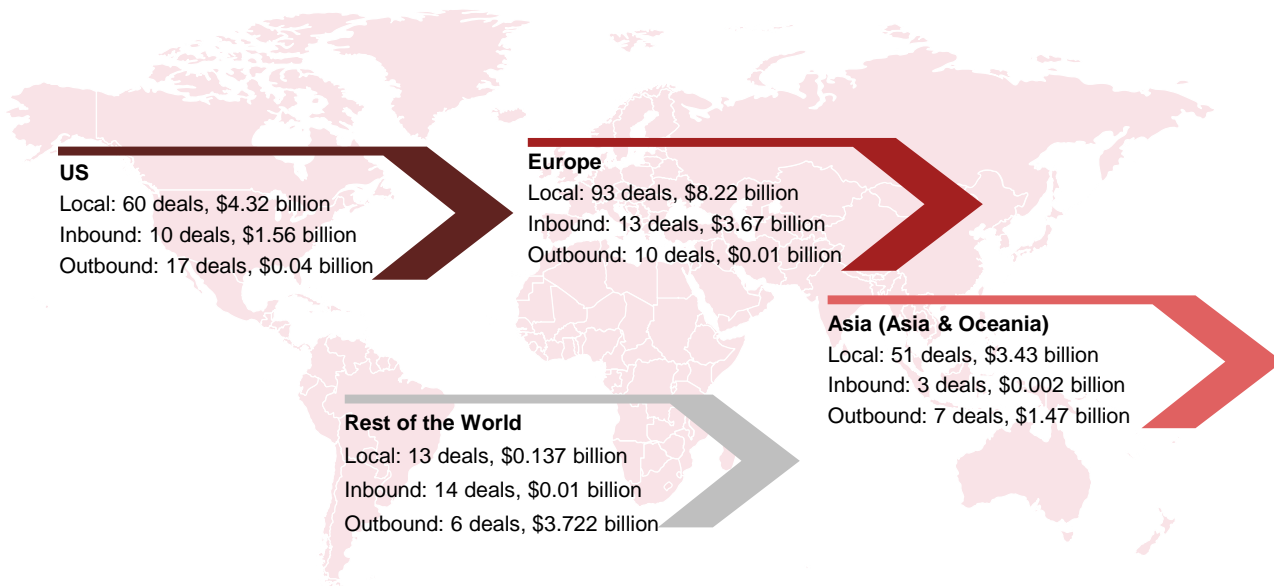
#### Europe

Europe held the majority share of the deal volume and value for the first half of 2016. European assets experienced the greatest benefit from the megadeals transacted during the period, with four of the six deals being with an European target and three of six megadeals being with an European acquiror. European deal value by target region increased more than twofold to its highest since 2008 at 56% for the first half of 2016. On the contrary, the share of deal value by European acquirors decreased by seven basis points and volume by European acquirors decreased slightly compared to 2015.

As the world continues to react to the United Kingdom's (UK) vote to leave the EU on June 23, it's important to note that, at this point, there are many more questions than answers. However, the likely impact on several key components of the automotive industry hang in the balance, including Capex, R&D and Talent Acquisition. The UK produced nearly 1.7 million light vehicles in 2015, of which, a vast majority of these units are exported. The UK's largest export market was the EU, accounting for 57% of vehicle exports.

#### Asia

While both the share of deal volume which targeted Asian assets and share of deal volume by Asian acquirors increased slightly for the first half of 2016, the share of deal value by both Asian target and acquiror fell in the first half of 2016 compared to 2015.







## Top 20 automotive transactions, 2016

	Date effective	Target name	Target region	Acquiror name	Acquiror region	% of share acquired	Value of transaction (\$mil)	Buyer type	Category
1	3/21/2016	LeasePlan Corp NV	Europe	LP Group BV	Europe	100	4,065	FIN	Other
2	1/4/2016	GETRAG GmbH & Cie KG	Europe	Magna International Inc	ROW	100	2,666	TRADE	Comp
3	6/21/2016	Baoxin Auto Group Ltd	Asia	China Grand Automotive Services (Hong Kong) Ltd	Asia	75	1,483	TRADE	Other
4	5/31/2016	CGS Holding AS	Europe	Trelleborg AB	Europe	100	1,249	TRADE	Comp
5	3/18/2016	Rhino HoldCo Ltd	Europe	LKQ Italia Srl	Europe	100	1,135	TRADE	Other
6	5/13/2016	Cruise Automation Inc	US	General Motors Co	US	100	1,000*	TRADE	VM
7	2/5/2016	Gestamp Automocion SL	Europe	Corporacion Gestamp SL	Europe	35	980	TRADE	Comp
8	2/25/2016	Montupet SA	Europe	Linamar Corp	ROW	100	960	TRADE	Comp
9	6/2/2016	Key Safety Systems Inc	US	Ningbo Joyson Electronic Corp	Asia	100	920	TRADE	Comp
10	2/4/2016	The PEP Boys-Manny Moe & Jack	US	Icahn Enterprises LP	US	88	894	FIN	Other
11	1/15/2016	Huayu Automotive Sys Co Ltd	Asia	SAIC Motor Corp Ltd	Asia	9	727	TRADE	Comp
12	4/21/2016	Pittsburgh Glass Works LLC	US	LKQ Corp	US	100	635	TRADE	Comp
13	3/31/2016	Various component suppliers	US	Autoliv AB	US	100	542	TRADE	Comp
14	1/4/2016	Lyft Inc.	US	General Motors Co	US	n.a	500	TRADE	VM
15	2/5/2016	Various component suppliers	US	Haosheng Investment Co Ltd	Asia	100	491	FIN	Comp
16	2/20/2016	Jiangsu Joylong Auto Co Ltd	Asia	Jiangxi Special Electric Motor Co Ltd	Asia	67	340	TRADE	VM
17	5/3/2016	Parcours SAS	Europe	ALD Automotive Ltd	Europe	100	334	TRADE	Other
18	5/24/2016	Gett, Inc.	Europe	Volkswagen Group	Europe	n.a	300	TRADE	VM
19	4/1/2016	Shiroki Corp	Asia	Aisin Seiki Co Ltd	Asia	100	298	TRADE	Comp
20	4/1/2016	Brasher's Auto-Auctions(8)	US	ADESA Inc	US	100	283	TRADE	Other

Source: Thomson Reuters

Note: Deals included in this chart are those that have disclosed value.

\*Represents an estimated deal value based on publicly available information.

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Deals practice**

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, smart deal makers also look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise automotive companies and automotive-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine automotive industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you increase value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process, we can help.

For more information about M&A and related services in the global automotive industry, please visit <http://www.pwc.com/optimizeddeals> or <http://www.pwc.com/us/automotive>

**About the data**

The information presented in this report is an analysis of deals in the global automotive industry where the target company, the target ultimate parent company, the acquiring company, or the acquiring ultimate parent company was located in the United States of America. Deal information was sourced from Thomson Reuters and includes deals for which targets have a target mid industry code that falls into one of the following mid industry groups: vehicle manufacturer, component supplier, and Other. Certain adjustments have been made to the information to exclude transactions which are not specific to the automotive or incorporate relevant transactions that were omitted from the indicated mid industry codes.

This analysis includes all individual mergers, acquisitions, and divestitures for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2014 and March 31, 2016, with a deal status of completed, partially completed, pending, pending regulatory, or unconditional (i.e. initial conditions set forth by the buyer have been met but deal has not been withdrawn and excludes all rumors and seeking buyers). Additionally, transactions that are spin-offs through distribution to existing shareholders are included.

Percentages and values are rounded to the nearest whole number which may result in minor differences when summing totals. All dollar amounts are expressed in U.S. dollars, unless otherwise noted.

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