

MANAGEMENT SUMMARY

**Oliver Wyman study: “Mergers and Acquisitions in the Automotive Supply Industry”**

**Mergers pay off**

- **Globalization in the automobile market places increasing pressure on suppliers**
- **National and international mergers of automotive suppliers create above-average added value**
- **Clear strategies and effective integration management are key factors for success**

**Stock markets are reacting much more favorably to mergers and acquisitions (M&A) among automotive suppliers than to M&A in other industries. Shares in the automotive supply industry often rose the moment strategic corporate transactions were announced. This is true of both national and international mergers, as the Oliver Wyman study “Mergers and Acquisitions in the Automotive Supply Industry” shows. Tier 1 suppliers in particular should upshift with regard to M&A, as globalization forces auto manufacturers to raise the bar and pressures Tier 1 suppliers to quickly achieve critical mass. However, the M&A process also presents enormous challenges to auto suppliers. Clear strategies and efficient post-merger integration are prerequisites for a successful transaction.**

Mergers can help companies generate growth, increase their efficiency and competitiveness, and boost shareholder value. Many automotive suppliers have realized this in recent years and stepped up their M&A activities. This is supported by the fact that global deal volume has increased tenfold between 1990 and 2005.

Tier 1 suppliers are pursuing M&A to keep pace with a changing client structure. Globalization has caused the ranks of internationally active auto manufacturers to shrink from 32 in 1980 to just 14 in 2007. At the same time, manufacturers are aligning procurement as well as investment and personnel policy more closely with global benchmarks and cutting their direct supplier lists down to a select few systems suppliers. These suppliers must deliver ever-more-complex systems and modules and cover all applicable production facilities for their customers worldwide. Furthermore, trade liberalization and the rise of the Chinese economy has created a new competitive environment.

## **Stock prices soar**

However, skepticism is still the prevailing mood at many automotive suppliers. For them, the risks of M&A often outweigh the opportunities, because they have fewer financial, human, and logistical resources available to them than the manufacturers. Surveys show that only about 40 percent of all M&A decision makers feel that mergers increase the value of the company. Looking back on completed mergers, only 21 percent feel that M&A activity fulfilled its strategic goals.

However, the Oliver Wyman study “Mergers and Acquisitions in the Automotive Supply Industry,” which analyzes 192 mergers of Tier 1 suppliers between 1981 and 2004, paints a different picture. The analysis shows that automotive suppliers generated shareholder value with their M&A activities. The announcement of an M&A transaction led to an average statistically significant 1.6 percent rise in share price. The market capitalization increased by an average of USD 23.7 million. Other industries do not perform nearly as well under similar conditions. Share prices for banks, telecommunications providers, and energy suppliers remained flat during periods of M&A activity. Automotive suppliers also outperform other industries when it comes to international mergers as well. Despite the cultural and language issues inherent in such mergers, stock markets tend to react positively to international deals as well. Share prices rose an average of 1.8 percent for domestic transactions; for international and transcontinental M&A activities, average increases were 1.5 and 1.6 percent, respectively.

## **Optimal Integration**

There are many reasons for the special M&A successes of the automotive supply industry. The buyer and the takeover target usually have comparable business models and are of similar size. Consolidation among suppliers also reduces transaction costs for the manufacturer at the same time industry efficiency increases. This all encourages shareholders to look favorably upon the transaction.

Nonetheless, mergers and acquisitions are still very trying for automotive suppliers; in about 40 percent of the transactions analyzed in the Oliver Wyman study, share prices fell or remained unchanged. Clear strategies and consistent utilization of synergies are what make the difference. It is also important to consider and think through integration issues during the strategic negotiations before the final decision for the transaction is made. This speeds up post-merger integration and sets the stage for early successes that bolster employee morale and send positive signals to customers and shareholders.

## **Substantial growth potential**

The acquisition of German company Ymos Door Systems by the British company Wagon Industrial Holdings in 1998 is a good example of a successful automotive supplier merger. Both companies specialized in the production of automotive door systems. The primary M&A objective was to establish the new company as a leading technology partner for auto manufacturers. Ymos added top German OEMs to Wagon's customer portfolio, while Wagon used the merger to become the market leader for automotive door systems in Europe and position itself for additional acquisitions. The companies' similar technologies and production processes resulted in synergies that allowed their complementary abilities and customer bases to be skillfully utilized to advance specific expansion goals.

Stunning success stories like these should blunt the skepticism of suppliers who are under enormous pressure to globalize. The fact is that automotive suppliers can grow substantially through M&A if the target company is selected in a strategic fashion and effective integration management is applied. There's no question that M&A activity always entails some risk. However, leading suppliers

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can use M&A as a tool to further improve their strategic positioning and global competitiveness while simultaneously achieving their most important goal—increasing shareholder value over the long term.

## **Conclusions on mergers and acquisitions in the automotive supply industry**

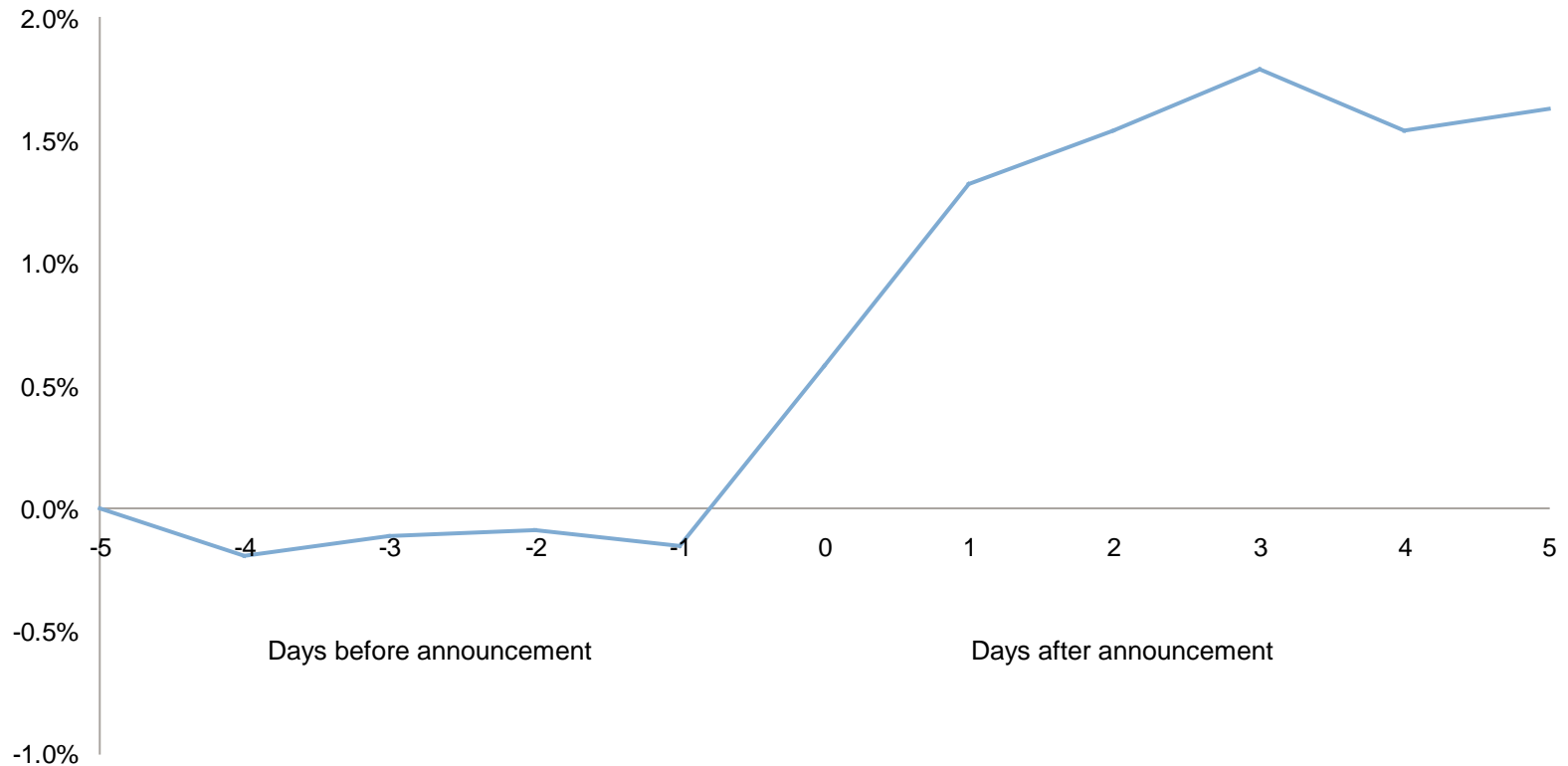
- 1. For automotive suppliers, corporate acquisitions are an effective means to become larger and more competitive. However, they require exacting strategic management and are not without risk.**
- 2. Suppliers are coming under increasing pressure to enter into national and international mergers and acquisitions to adjust to changing regulations in the worldwide automobile market.**
- 3. Compared to other industries, M&A transactions among automotive suppliers have a much higher success rate. The fact that many of these transactions involve companies of similar size with comparable business models is part of the reason for this.**
- 4. The mere announcement of M&A activity results in above-average jumps in share price for automotive suppliers. Stock markets react just as positively to international and transcontinental mergers and acquisitions as they do to domestic M&A.**
- 5. Along with a strategically chosen target company and clear strategies, effective post-merger integration is a major prerequisite to achieve maximum success with the transaction.**

### **Oliver Wyman study: “Mergers and Acquisitions in the Automotive Supply Industry”**

The current Oliver Wyman study analyzes 192 corporate mergers of Tier 1 suppliers with a transaction volume of more than 50 million US dollars that occurred between 1981 and 2004. The takeover candidates included 45 listed and 38 non-listed companies and 109 divisions of corporate groups. The average purchaser equity as a percentage of the transaction value was 37.5 percent. The share price movements analyzed for this study were adjusted for capital-related and market-related fluctuations to exclude any unusual effects.

# Announcing a merger in the automotive supply industry leads to a rise in share prices

**Return patterns after M&A announcements in the automotive supply industry**  
Cumulative average deal-related returns for acquirers, 192 transactions

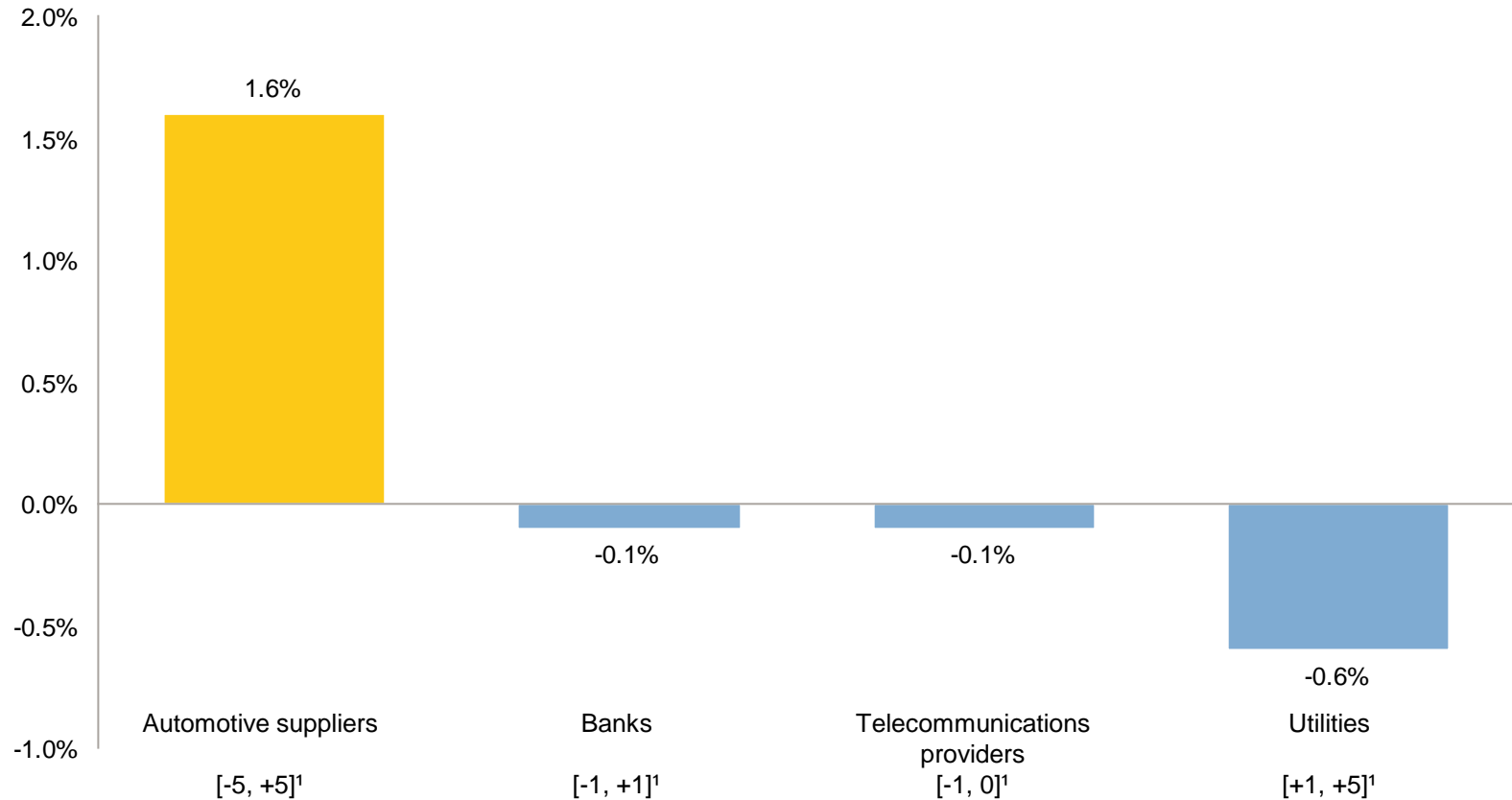


Source: Oliver Wyman study of "Mergers and Acquisitions in the Automotive Supply Industry"

## Compared to other industries, automotive suppliers generate above-average value with their M&A activities

### Shareholder value creation by industry

Cummulative average deal-related returns of acquirers, time windows in brackets

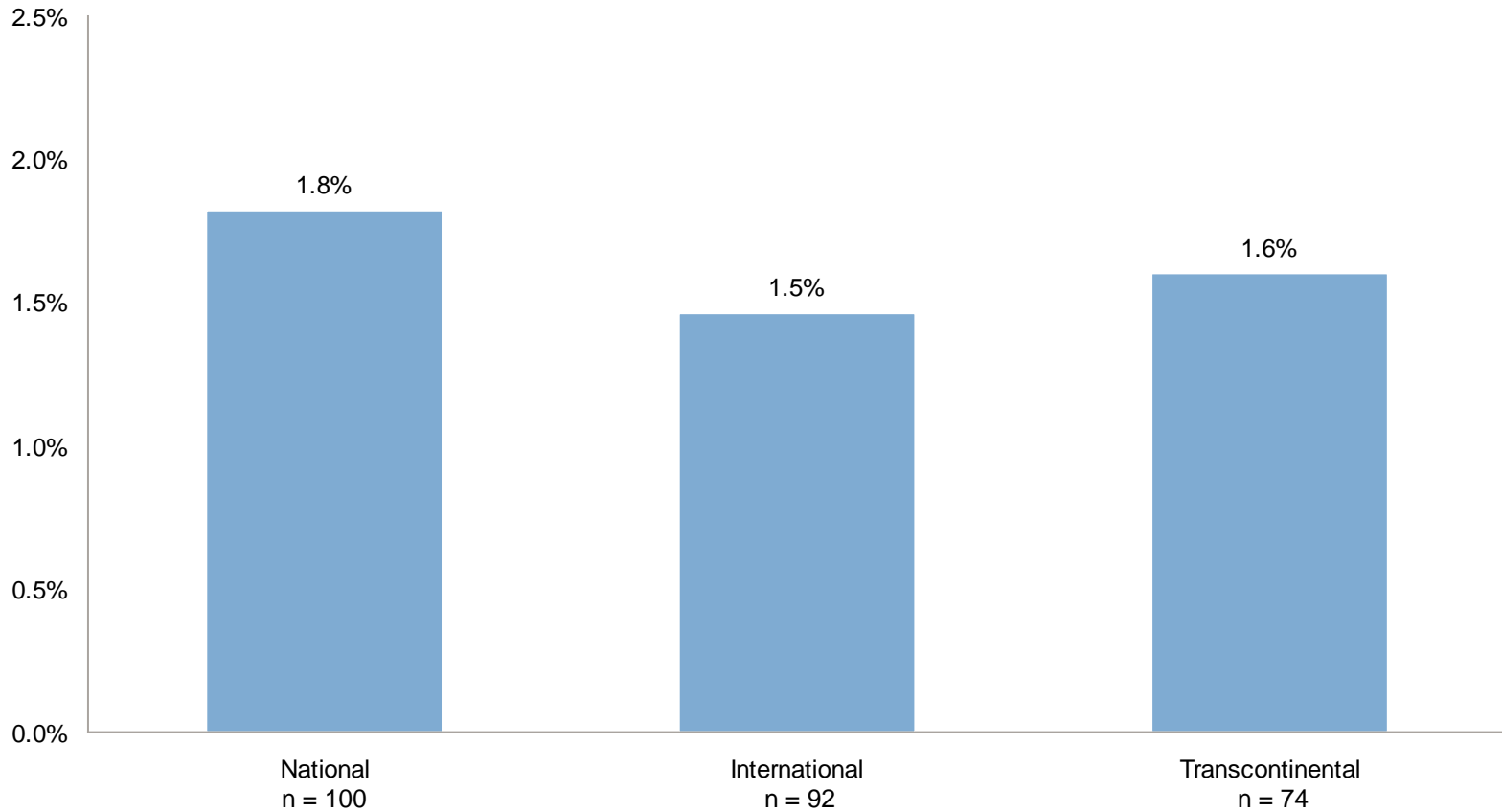


<sup>1</sup> Observed time window in days before [-] and after [+] the transaction was announced

Source: Oliver Wyman study of "Mergers and Acquisitions in the Automotive Supply Industry"

# Stock markets react positively to national and international transactions in the automotive supply industry

## Shareholder value creation in national and international deals Cumulative average deal-related returns of acquirers



Source: Oliver Wyman study of "Mergers and Acquisitions in the Automotive Supply Industry"  
The study analyzes 192 corporate mergers of Tier 1 suppliers. 100 transactions were national, 92 international and 74 of these transcontinental.