

MANAGEMENT SUMMARY

Oliver Wyman study on M&A in the automotive supplier industry **The dawn of a new era**

- **M&A business is slowly picking up speed despite recent bumps in the market**
- **The one-time seller's market is now a real buyer's market**
- **Financial investors are still shying away from deals**
- **Growth strategists from the Far East are fueling competition**

The transaction market in Europe's automotive supplier industry has undergone a metamorphosis since the financial crisis: a huge number of companies are supposed to be put up for sale, but financial investors, in particular, are hesitant to go shopping for them. As a result, investors operating in a systematic manner have an opportunity to sweep in and acquire eye-catching companies at steeply discounted prices. At the same time, pending sales will stoke competition in many supplier segments. These are a few of the conclusions reached by the new Oliver Wyman study "The New Wave of Acquisitions in the Automotive Supplier Industry."

In spite of the turbulence that has been shaking capital markets in recent weeks, trends in the automotive industry continue to point toward further growth over both the mid- and long term. Market experts predict that the number of vehicles produced around the world will climb to about 104 million by 2015 (2010: 72 million), a level that would amount to an annual growth rate of 7 percent. The accelerant fueling this growth is largely being supplied by such new markets as China and India. By 2015, both countries will be the driving forces behind about 34 percent of global car sales. Amid this fundamentally upbeat outlook for the industry, M&A activities in the supplier industry are gaining momentum once again after floundering in the wake of the financial crisis. After hitting a record high of about 150 transactions in the European and North American supplier industries in 2007, the market went into hibernation in 2009 and stayed there until recently. The result: a massive M&A backlog.

Changed market

Compared with its precrisis appearance, the transaction market has taken on a completely new look. The one-time seller's market has turned into a buyer's market. Since 2000, financial investors, in particular, have had a strong craving for automotive suppliers. These companies had the reputation of being solid, easily plannable investments in a thriving, stable industry, and potential buyers were drawn, magnet-like, to them. Following the typical holding period, investments in automotive suppliers could be passed on smoothly and profitably to strategic or other financial investors. In the wake of the Lehman bankruptcy, however, the automotive industry experienced an unparalleled setback, and many suppliers saw their sales plummet by up to 30 percent. Those investor-held companies that managed to pull through the crisis were able, at best, to barely stay in the black during it. Given their precipitous drop in value, they became toxic and could not be sold. As a result, sellers in the financial community were forced to put a number of divestiture decisions on ice.

Many opportunities, few takers

Now that the climate in the industry has brightened once again, a true flood of investment opportunities in the automotive supplier industry appears to be building. The new Oliver Wyman study found that more than 20 percent of about 800 European automotive suppliers that have more than €50 million in annual revenue are held by financial investors. A number of these approximately 160 automotive suppliers will be put up for sale by their current owners in the next 24 months. This will throw them into a battle for fresh capital.

The reason for this development is clear: the high level of company-investment opportunities will be greeted by a rapidly falling number of potential buyers. Many financial investors are now shying away from investments in the automotive supplier industry. The economy-triggered volatility that shook the entire automotive sector in 2008 and 2009 remains a painful memory and has created a feeling of wariness regarding initial acquisitions of supplier companies. In the last three years, a large number of financial investors have been burned in the supplier industry. Today, many of them categorically reject the idea of pumping fresh money into the segment.

New wave of consolidation

The hesitancy of financial investors to put down their money is not only being felt in the acquisition market, but is also having a major impact on the automotive suppliers themselves. The Oliver Wyman study found that industry companies will be the primary M&A players in the future and will become the drivers of market consolidation in the process. Solidly financed suppliers with clearly defined growth strategies will acquire new customers, new sales regions and, in particular, new products and technologies in an effort to enhance their portfolios. The focus here will also be on key e-mobility technologies.

Furthermore, industry companies in growth markets, particularly in the Far East, have their sights firmly set on acquiring leading suppliers in Europe. Their aim: to gain access to innovative technologies and Western customers, particularly those of premium OEMs, and to profitably apply this input in their own domestic markets. Such transactions have already been consummated in recent months. In one of these deals, the European private-equity firm Cognetas recently sold KSM Castings, a maker of aluminum rims that is based in Hildesheim, Germany, to the Chinese company CITIC Dicastal Wheel Manufacturing. At roughly the same time, Motherson Sumi, an Indian company that specializes in mirror systems and vehicle wiring, acquired Peguform, a company based in the southwestern German town of Bötzingen. Before this deal was completed, Joyson, a private auto-electronics company in China, obtained the German supplier Preh, a company based in Bad Neustadt, Germany, that had been held by a private-equity firm.

Time is short

As a result of the excessive number of available companies coming onto the market, interested buyers will have their pick of the crop and be able to exert strong pressure to the price. For this reason, financial investors must direct the future sales process at target buyers in particular and offer them a clear strategic perspective. After all, time is running out. Companies that wait too long run the risk of being left out in the cold by strategic, capital-packing investors and by private-equity firms still interested in making a deal because they will have already made their acquisitions. Should this occur, there will be no other recourse than to actively manage the investment. Portfolio companies must be systematically enhanced in order to hit the yield targets in several years. Artful financial investors have structured their funds in such a way that divestiture timeframes can be flexibly modified and that value-appreciation hypotheses can be revised in a changed market climate. A company's short-term lack of appeal can also be an opportunity to reexamine the business model, to acquire businesses in the supplier segment or

in a related industry and to continue to create value. As a result, the suppliers held by financial investors would emerge as growth strategists.

Turbulence on the horizon

In addition to the financial investors active in the supplier industry, European automotive suppliers themselves are also feeling pressure to act. Any company that intends to be a major force in the sector's upcoming consolidation must energetically exploit the emerging M&A opportunities. The aim should be to gain a hold on the most appealing companies, which can then be used to quickly form a bridgehead leading to related business areas or new regions. But the job of integrating market players that are virtually the same size is hardly an easy one. Many suppliers are novices here.

The onrushing wave of acquisitions heralds turbulent times for the automotive supplier industry. The glut of M&A deals among financial investors and the hunger of international growth strategists will definitely produce new ownership structures in years to come. At the same time, the aggressive approach that the new owners in all branch segments will apply in their drive to increase sales and market share will significantly heat up competition. In some segments, the structure of the automotive supplier industry will change in fundamental ways. The growth strategists will create new balances of power and will intensify price and cost pressure. This will paint many suppliers into a corner and further impede future investments in internationalization and e-mobility.

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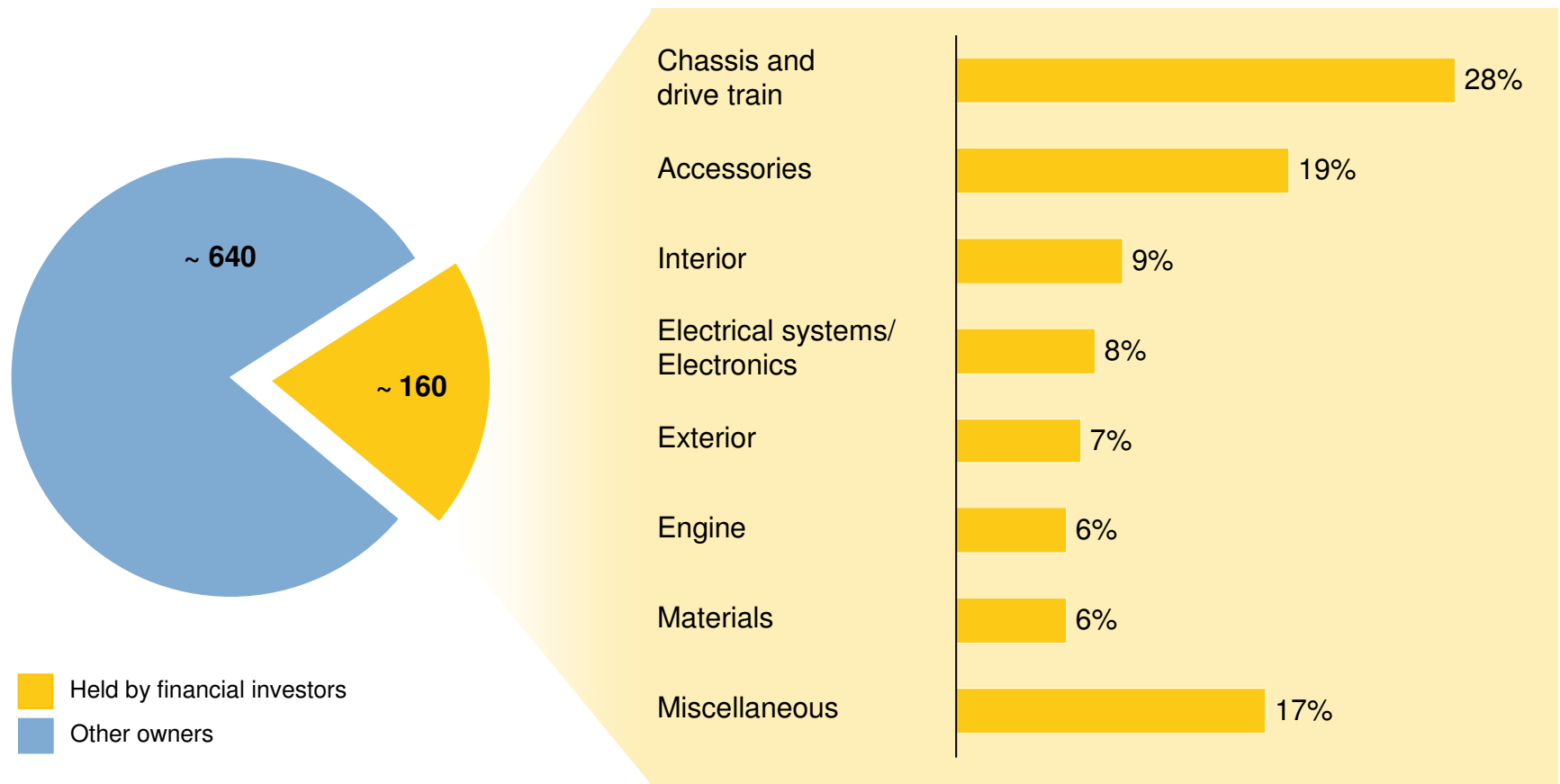
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About one-fifth of the approximately 800 European suppliers are now owned by financial investors who have placed their money in all segments.

European automotive suppliers according to ownership structure and segment
> €50 million in annual revenue



Quelle: Oliver Wyman Automotive Supplier Database