

PwC Deals

Drive your growth. Secure your future.

Global Automotive Deals Insights

Year-end 2018

Executive summary

Two thousand and eighteen was a record year for deal value in the global Automotive sector, with \$97.5 billion announced, doubling the previous year's value of \$48.4 billion. The year was driven by five megadeals accounting for 43% of total value as component suppliers continue to invest in key technologies of the future and further consolidate for scale. This year saw the most deals in excess of \$1 billion at 20 deals, more than double the average witnessed over the last three years. While macro factors could cause headwinds in the new year, the availability of capital and pace of change in the industry should lead to a strong M&A environment in 2019.



"New technologies and economies of scale drive automotive deals in 2018."

— Jeff Zaleski, Automotive Deals Partner, PwC

2018	2018 versus 2017	Q4 2018 versus Q3 2018
Total deal value \$97.5 billion	101%	67%
Total deal volume 903	1%	12%
Average deal size \$286.8 million	74%	94%

Trends and highlights

- Megadeals drove deal value in 2018. Deal value more than doubled to \$97.5 billion for the year, despite flat deal volume. There were five megadeals in 2018, all within the Parts and Components manufacturing sub-sector.
- Average disclosed deal size during the year was \$286.8 million, representing 74% growth over 2017 driven by megadeals and overall higher valuation multiples.
- Cross-border activity saw a slowdown in 2018 driven by increased trade tensions and less focus on geographic expansion versus product expansion and scale.
- Private equity invested heavily in Automotive in 2018, a sign there are opportunities to further drive value in the sector in the coming years.

Note: Deal value and average deal size is based on deals with disclosed value. Deal volume includes all deals with and without disclosed value.

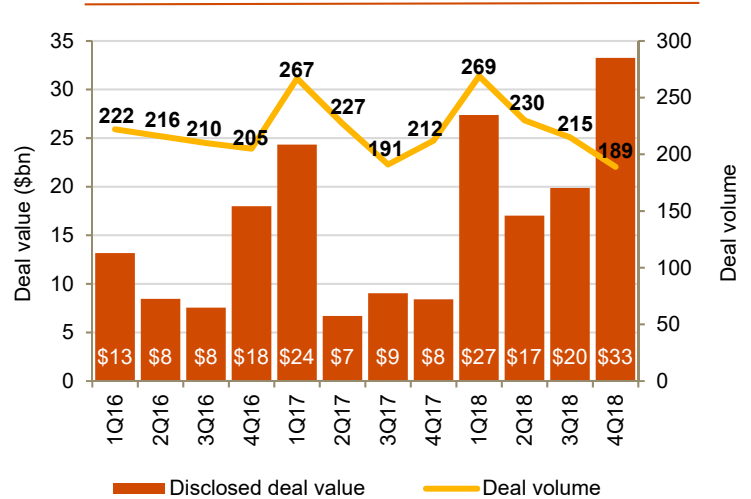
Highlights of 2018 deal activity

Deal value and volume overview

With \$97.5 billion of deal value in 2018, the sector witnessed a significant increase over 2017, although deal volume remained flat from the previous year. Deal value in Q4 2018 grew by 67% to \$33.2 billion due to two megadeals—the acquisition of Johnson Controls International PLC-Power Solutions Business by an investor group for \$13.2 billion, and Magneti Marelli SpA’s sale to CK Holdings Co. Ltd. for \$7.1 billion. Of the top ten deals, almost all were focused on product expansion (buyers better positioning themselves for the vehicles of the future) or driving economies of scale.

Although flat for the year, deal volume continued to decline in Q4 following the trend of the previous two quarters.

Total deal value (in \$ billion) and volume



Largest transaction

The largest deal of the year was an investor group’s acquisition of Johnson Controls International PLC-Power Solutions business for \$13.2 billion. The three largest transactions in 2018 had financial buyer support.

\$13.2 billion



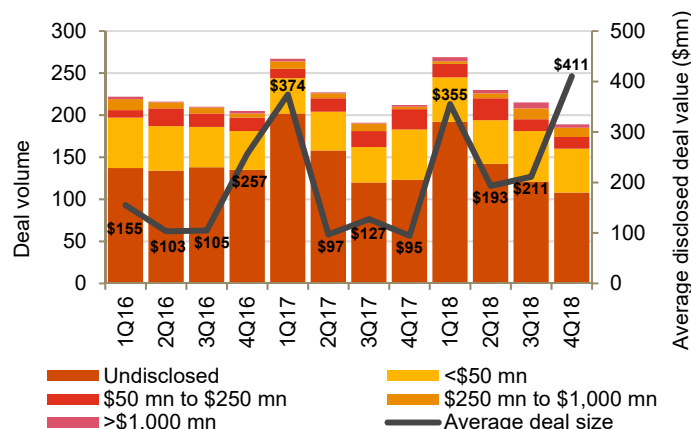
Megadeals (\$5 billion and over)

Five megadeals were announced this year with a collective deal value of \$42 billion and accounted for 43% of the total deal value. The last quarter had two megadeals which accounted for 61% of deal value in Q4. This represents a record number of megadeals for a sector that averages one or two per year.

5 mega-deals



Deals by disclosed value



Deals by disclosed value and average deal size

Average deal size in 2018 grew by 74% to \$286.8 million from \$164.9 million in 2017. Megadeals drove some of the increase, however, we continue to see high valuations across the sub-sectors. Excluding megadeals, average deal size increased 47% in 2018 to \$165.6 million.

The Q4 2018 average deal size of \$410.5 million was the highest in the past 12 quarters.

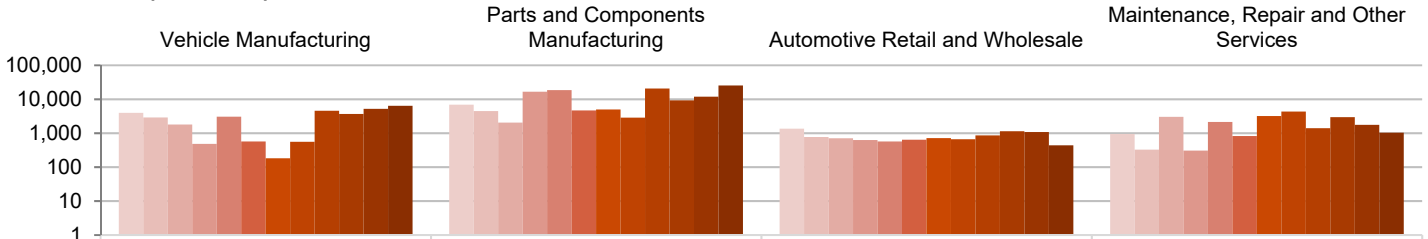
Source: Thomson Reuters and other publicly available sources; *Megadeals defined as deals with disclosed value equal to or greater than \$5 billion.

Highlights of 2018 deal activity, continued

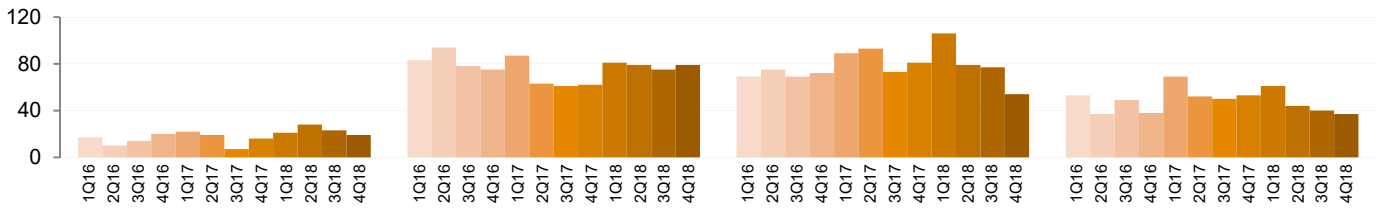
Sub-sector analysis

In 2018, the Parts and Components Manufacturing sub-sector dominated with a 69% share of deal value, followed by a 20% share from Vehicle Manufacturing. In volume terms, both Parts and Components Manufacturing and Automotive Retail and Wholesale contributed 35% each. The Parts and Component Manufacturing sub-sector led value growth in Q4 2018 with a 76% share as suppliers seek scale, product expansion, and strategic advantages in tomorrow's leading tech.

Deal value (\$ million)



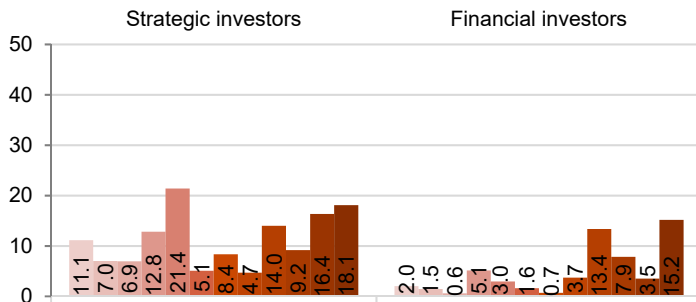
Deal volume



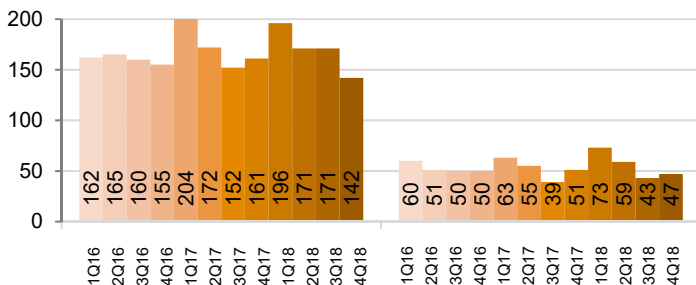
Financial vs. strategic investors

Strategic investors remain the driving force of deal activity and accounted for 59% share in value and 75% share in volume for 2018. However, financial buyers remain active and have proven willing to shell out large sums for attractive investments as evidenced by financial buyers taking part in the three largest transactions of the year.

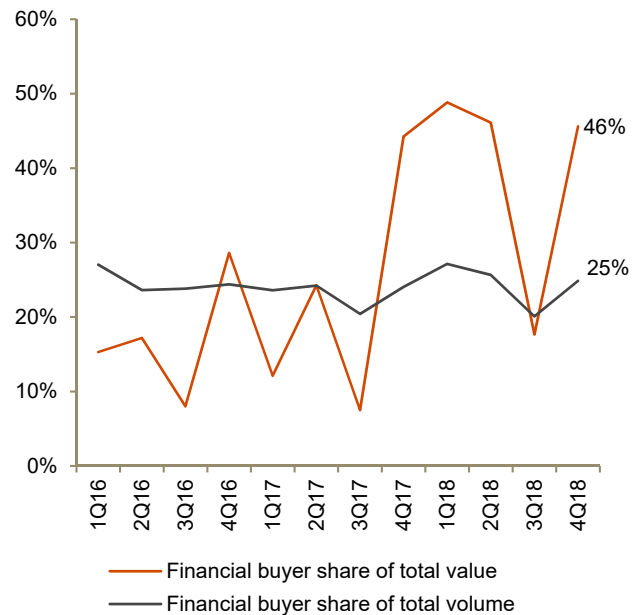
Deal value (\$ billion)



Deal volume



Financial investor share of M&A activity

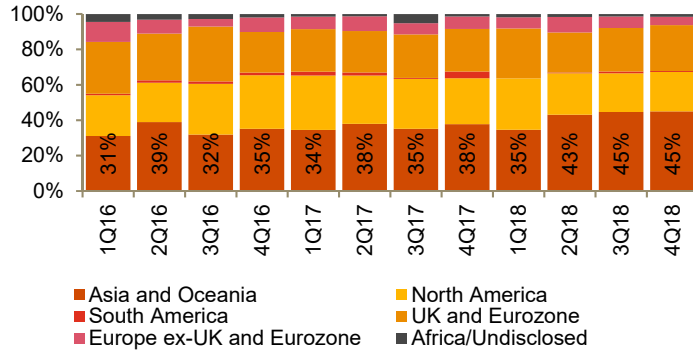


Regional deal trends in 2018

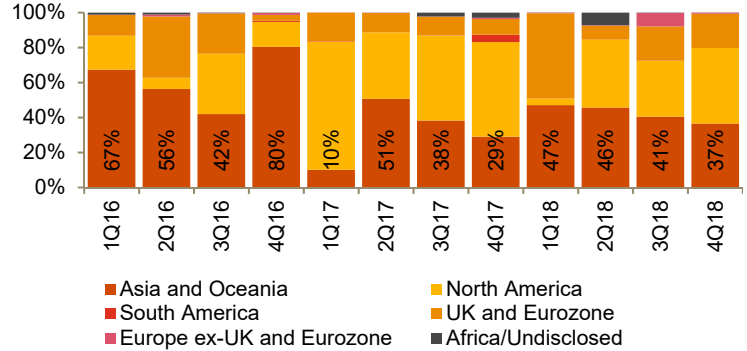
Regional analysis

Asia and Oceania was the most active acquirer region in 2018 with 42% share in deal value, followed by North America with 29% share. Acquirer volume was also led by Asia and Oceania with 41%, followed by 24% share of North America. Targets in both Asia and Oceania, and North America each contributed 34% of deal value. Cross-border deal volume grew 7% in Q4 countering the previous two quarters of double digit declines, however, local deals continue to drive M&A activity.

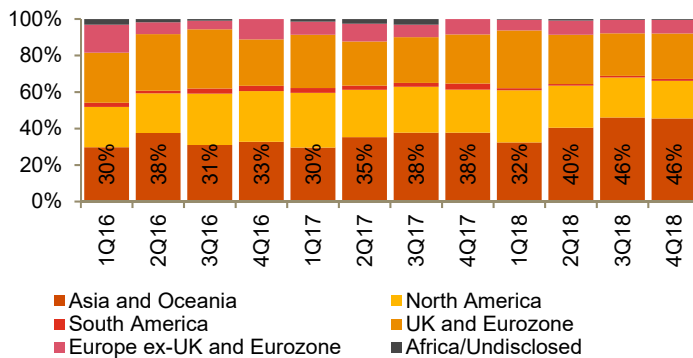
Share of deal volume by acquirer region



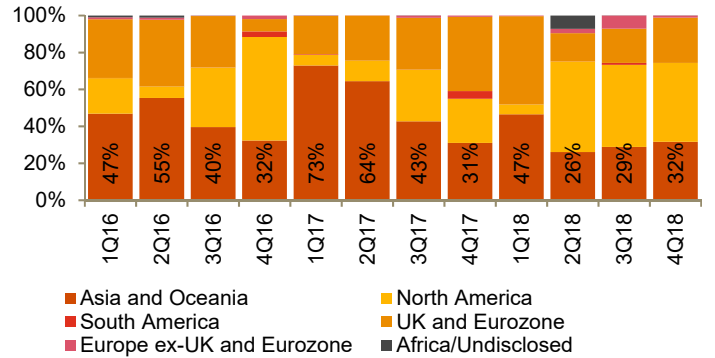
Share of deal value by acquirer region



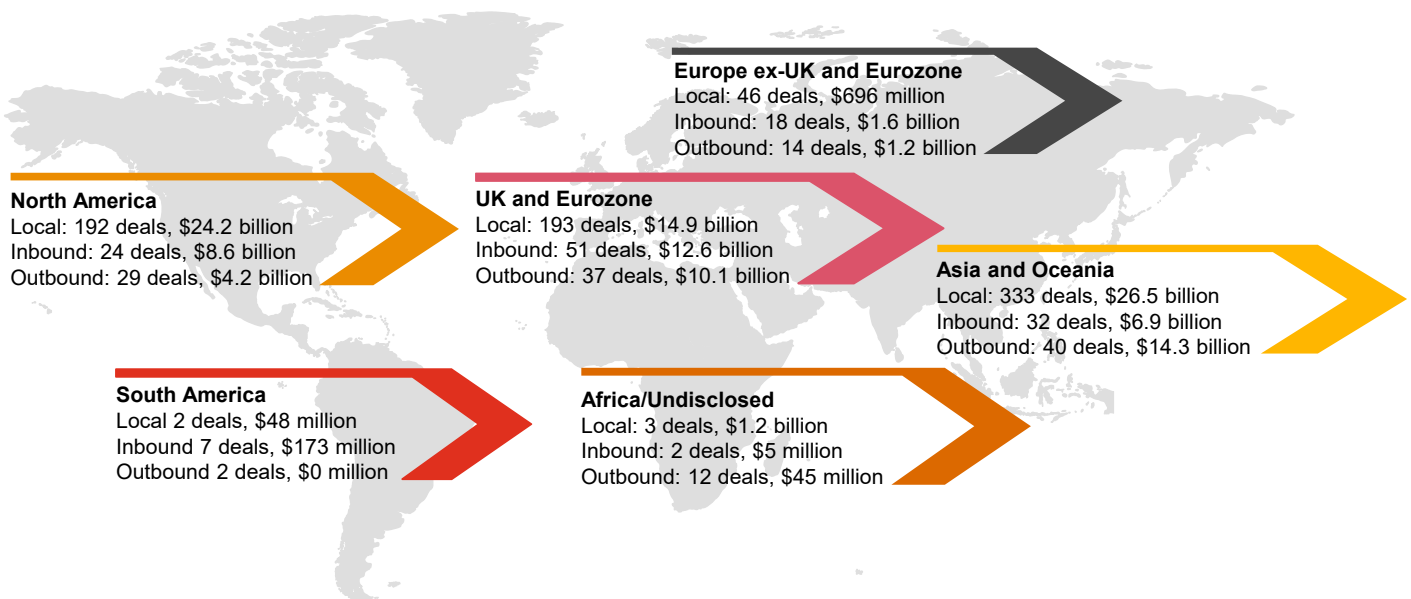
Share of deal volume by target region



Share of deal value by target region



Automotive deals by region



Automotive top deals 2018 and outlook

Key announced transactions (2018)

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value*	Category
11/13/18	Johnson Controls International PLC-Power Solutions Business	United States	Investor Group	Canada	Pending	13,244	Parts and Components Manufacturing
01/12/18	GKN PLC	United Kingdom	Melrose Industries PLC	United Kingdom	Completed	11,016	Parts and Components Manufacturing
10/22/18	Magneti Marelli SpA	Italy	CK Holdings Co. Ltd.	Japan	Pending	7,138	Parts and Components Manufacturing
04/10/18	Federal-Mogul Holdings Corp.	United States	Tenneco Inc.	United States	Completed	5,400	Parts and Components Manufacturing
03/07/18	Bhushan Steel Ltd.	India	Bamnival Steel Ltd.	India	Completed	5,216	Parts and Components Manufacturing
01/22/18	Beijing Electric Vehicle Co. Ltd.	China	Chengdu Qianfeng Electronics Co. Ltd.	China	Completed	4,508	Vehicle Manufacturing
10/11/18	BMW Brilliance Automotive Ltd.	China	BMW Holdings BV	Netherlands	Pending	4,189	Vehicle Manufacturing
07/26/18	Aleris Corporation	United States	Novelis Inc.	United States	Pending	2,600	Parts and Components Manufacturing
09/18/18	Erwin Hymer Group SE	Germany	Thor Industries Inc.	United States	Pending	2,561	Vehicle Manufacturing
05/31/18	GM Cruise Holdings LLC	United States	Softbank Vision Fund LP	Japan	Pending	2,250	Vehicle Manufacturing

Source: Thomson Reuters and other publicly available sources;

*In Million USD

Automotive sector outlook

The Automotive sector has seen significant growth over the last ten years since the great recession. Two thousand and eighteen was a record year for deal value despite flat deal volume. As we enter 2019, markets face significant headwinds including slowing growth, rising interest rates, cross-border trade concerns, and volatile financial markets. Despite these headwinds, we believe 2019 will see strong activity and value. Why are we so positive?

The Automotive sector is experiencing significant shifts in technologies, whether it is electric, light weighting, connectivity, autonomous, or other trends. Companies will continue to look to M&A, including partnerships and joint ventures, to address product expansion needs to meet these shifting trends.

Industry consolidation continues to be a key strategy to reduce cost and drive increased shareholder value. The sector remains fragmented, and there continues to be opportunities for consolidation in order to drive economies of scale.

Automotive growth forecasts and capabilities differ significantly between geographic regions. Emerging market participants will continue to look at acquisitions in mature markets for technologies and capabilities. Mature market participants will look to emerging markets for growth.

Capital continues to be available; financial buyers have significant dry powder and corporate balance sheets are strong (compared to historical periods when the sector faced potential slowdown). Despite rising interest rates, it certainly appears banks will take a moderate approach to raising rates and tightening liquidity.

Although our outlook is positive, automotive companies need to remain diligent in evaluating the strategic and synergistic value of acquisitions, partnerships, and ventures. Additionally, companies should evaluate their portfolios and look to divestitures in order to release value and create additional capital to deploy.

About PwC Deals

Jeff Zaleski

Partner, US Automotive Deals
Leader

313-394-3525

jeffrey.e.zaleski@pwc.com

Gonzalo Nespolo

Director, Automotive Deals
313-394-6169

gonzalo.m.nespolo@pwc.com

Chris Sutton

Senior Associate, Automotive Deals
313-394-3166

christopher.m.sutton@pwc.com

For a deeper discussion on deal considerations, please contact one of our practice leaders or your local Deals partner:

Felix Kuhnert

Partner, Global & European
Automotive Leader

+49 711-25034-3309

felix.kuhnert@pwc.com

Wilson Liu

Partner, China Automotive Leader
+86 20-3819-2278

w.liu@cn.pwc.com

Ramesh Telang

Partner, US Automotive Leader
313-394-6738

ramesh.d.telang@pwc.com

For media inquiries

Carey Bodenheimer

Director, External
Communications

Los Angeles

213-830-8387

carey.a.bodenheimer@pwc.com

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, the smartest deal makers 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 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine automotive industry skills with local market knowledge virtually anywhere 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 extract peak 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 www.pwc.com/us/deals or www.pwc.com/us.

About the data

The information presented in this report is an analysis of deals in the global automotive industry. Deal information was sourced from Thomson Reuters and includes deals for which targets fall into Thomson Reuters' Automotive mid-industry. Certain adjustments have been made to the information to exclude transactions which are not specific to automotive or incorporate relevant transactions that were omitted from the SIC 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, 2016 and December 31, 2018, with a deal status of completed, partially completed, pending, pending regulatory and pending completion, 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.