



**C L E P A**  
*European Association of  
Automotive Suppliers*

# Mastering challenges in the automotive aftermarket with private equity - EXCERPT -

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# PE are often seen as pure financial investor who increases the debts of the company and squeeze it – A common prejudice

## Private Equity (PE) investment cycle

### 6 EXIT

- > PE **sells the asset**, e.g. via IPO, Management buy-out or selling to another financial or strategic investor, supported by a due diligence
- > **Revenues** flow back into the fund and thus to the **investors**

### 5 HOLDING PERIOD

- > The asset will be managed to **increase its market value** e.g. management improvement, restructuring, change of product portfolio, "buy-and-build", etc.
- > Duration of holding period often linked to the runtime of the fund

### 4 DEAL

- > PE to estimate a fair **asset value** e.g. as a "**multiple**" of the EBIT/EBITDA
- > Value depending on several criteria, e.g. industry, market size, growth rates, product portfolio, margins, availability

### 1 FUNDRAISING

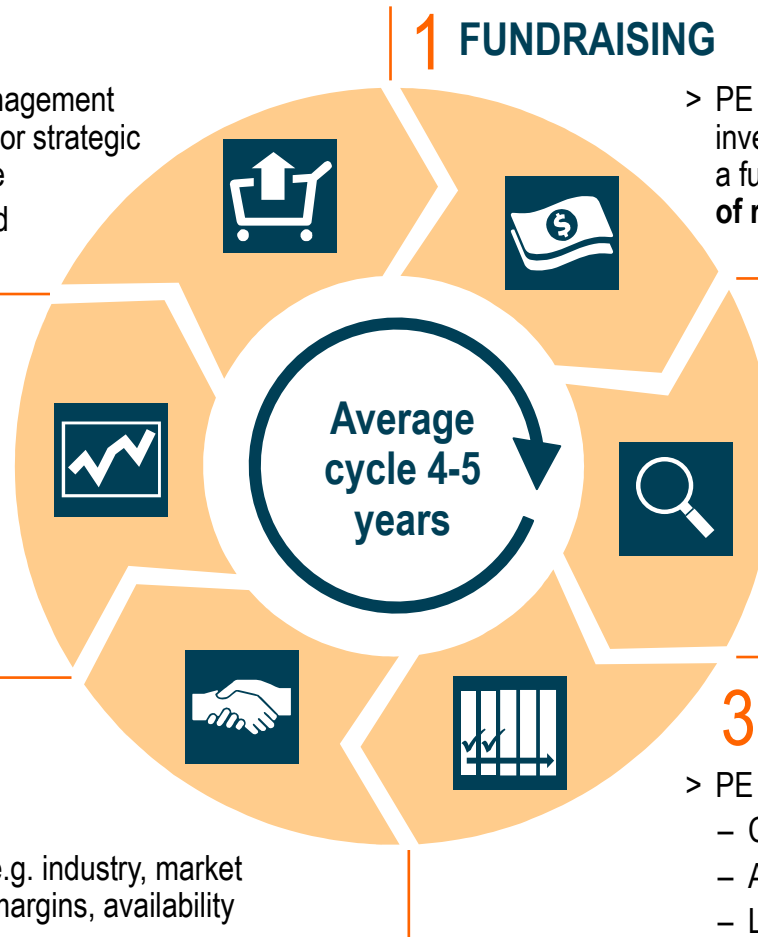
- > PE is **collecting funds**, e.g. from Institutional investors, privates, family offices) and opens a fund with the aim to realize a targeted **rate of return**

### 2 TARGET IDENTIFICATION

- > PE is looking for **investment opportunities** based on
  - Individual investment targets
  - Investment motivation (e.g. growth vs. consolidation)
  - Market segment

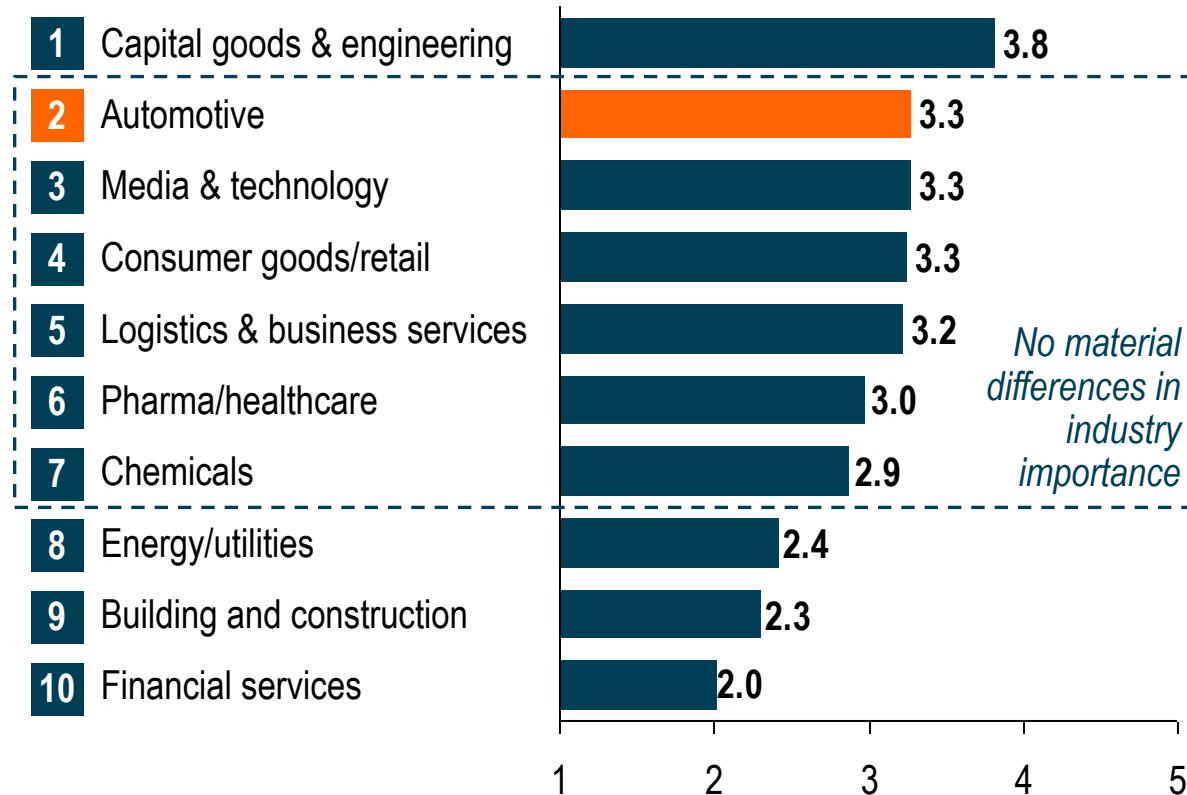
### 3 DUE DILIGENCE (DD)

- > PE to **evaluate the target** supported by:
  - Consultants (Commercial DD)
  - Auditors (Financial DD, Tax)
  - Law firms, banks (Transaction, financing)



# Automotive is one of the most important industries for private equity companies in the SME segment

Ranking of industries by expected importance [1-5] – Example Germany








Importance of industry (1 = low, 5 = high)

- > Industries with a **high importance** for private equity companies targeting SMEs are traditional German strongholds in capital goods & engineering and **automotive**, followed by media & technology and consumer goods/ retail
- > It does not only represent a German trend but also a **European wide trend** where the Automotive industry is of high importance of PE companies

# Emerging market suppliers are looking to strengthen their technology capabilities and overseas presence

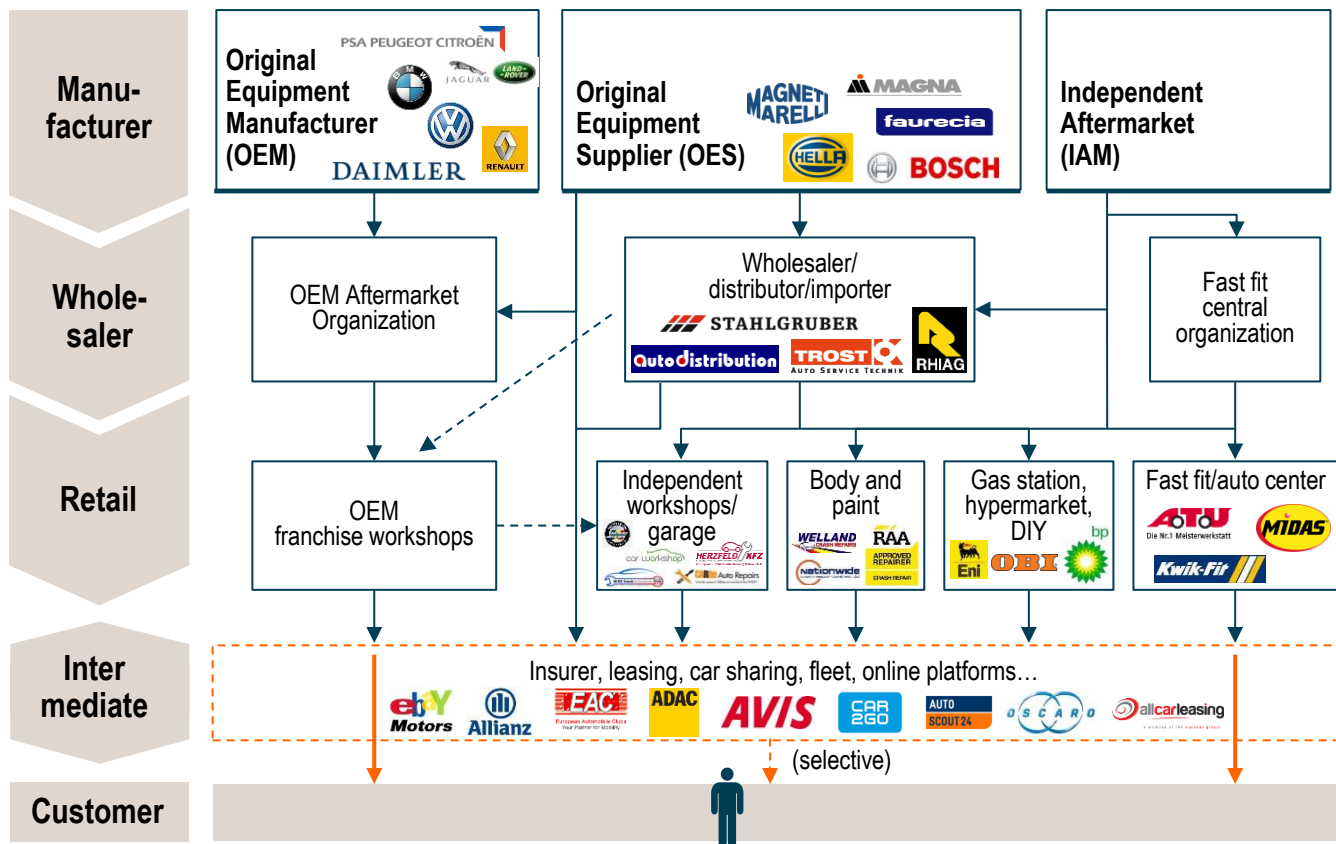
Overview of recent M&A deals in the automotive supplier industry

SELECTION

<u>ACQUIRER (ORIGIN)</u>		<u>TARGET</u>	<u>SEGMENT</u>	<u>YEAR</u>
TMT		Boge	Plastic components	2014
AVIC		Hilite	Engine & Transmission products	2014
Ningbo Huaxiang		HIB Trim Parts	Decorative interior trim	2013
Amtek		Neumayer Tekfor	Machined metal parts	2013
Chinese investors consortium		iee	Safety sensors	2013
Bohong		Wecast Industries	Castings (focus: exhaust manifolds)	2012
Hebei Lingyun Industrial		Kiekert	Hatches and actuators	2012
Citic		KSM Castings	Light metal castings	2011
Ningbo Huaxiang		Sellner	Decorative interior trim	2011
Samvardhana Motherson Group		Peguform	Plastic parts & modules	2011
Joyson Holding		Preh	Electronics/switches	2011
BHAP		Inalfa	Roof systems	2011
CQLT		Saargummi	Rubber sealings	2011

# The aftermarket value chain is highly complex with a big range of different participants – underlying trends will partly change the game

## Distribution channels in the automotive aftermarket

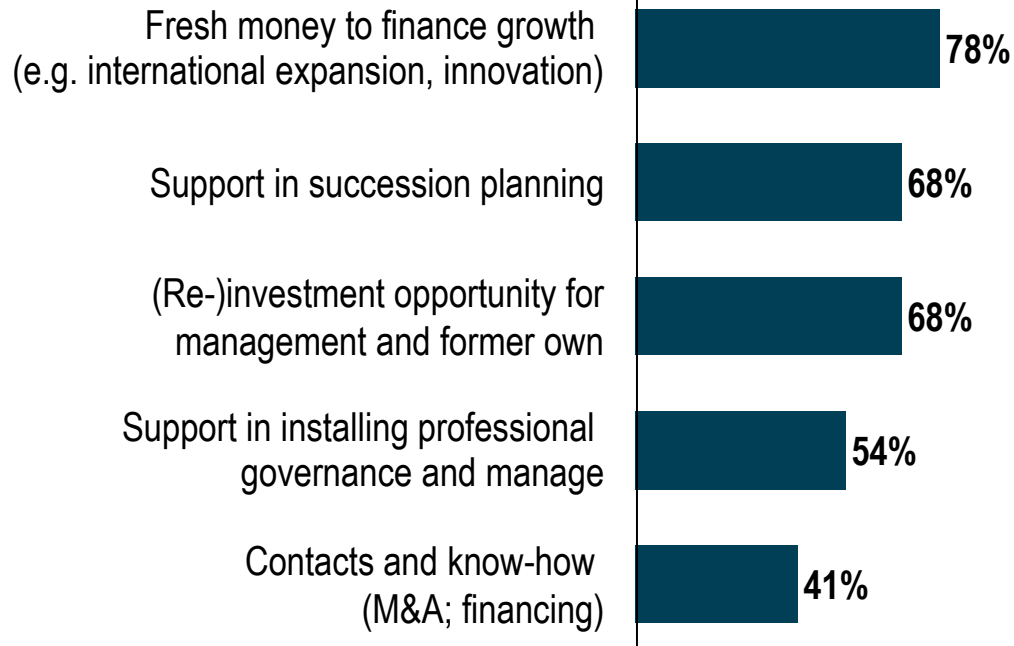


- > Automotive aftermarket has **increased** its attractiveness for **PE investments**
- > Complex market structure approached by
  - **Horizontal** integration, e.g. Stahlgruber + PV Automotive (2013)
  - **Vertical** integration, e.g. HELLA owns wholesaler in Nordic countries (e.g. Hellanor, FTZ)
- > PE are expected to **increase their activities** within the aftermarket in the near future

# Private equity companies are expected to provide growth financing and support in succession planning and professionalization

Expectations towards private equity companies [%] – Example Germany

## Expectations of SMEs towards PE investors



## Relevance for automotive parts...

...supplier

...wholesaler

✓ ✓ ✓

✓

✓

✓ ✓ ✓

✓ ✓ ✓

✓

✓

✓ ✓ ✓

✓ ✓

✓ ✓

■ % of respondents (50 responses from private equity companies)

✓✓✓ High relevance

✓✓ Medium relevance

✓ Low relevance

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Let's think:  
act!