

# Automotive interiors

## M&A update



Autumn 2014

## Low level of consolidation within the automotive interior market is driving M&A activity

The recovery in demand for light vehicles is supporting growth in the automotive interior components market, which is forecast to reach over €120 billion by 2020. Interiors suppliers are using M&A to meet the demands created by changes in original equipment manufacturers' (OEM) supply chain strategies, expand geographically and access high growth opportunities. This is supporting a notable recovery in acquisition activity.

### Key findings from our research:

- Stable growth in demand for automotive interiors**  
The recovery in global light vehicle production is supporting growth in the global automotive interiors market, which is forecast to reach over €120 billion by 2020.
- Tier 1 suppliers using M&A to safeguard their position**  
Tier 1 suppliers are vertically integrating the interiors supply chain to ensure that they can meet the demands of OEMs, which are increasingly using modular platforms in lower cost manufacturing locations to build more models on the same platform.
- Emerging market suppliers actively participating in consolidation**  
Emerging market OEMs and Tier 1 suppliers are using acquisitions to consolidate the interiors sector both domestically and internationally. Acquisitions of European and US suppliers in particular are giving them access to technology and new markets.
- Smaller suppliers are strengthening their relationships with OEMs**  
Smaller suppliers focused on value-adding components are benefiting from shorter vehicle life cycles and high consumer expectations of interiors content, which mean that interiors are being refreshed more frequently. With some OEMs now using a component-based sourcing model, those suppliers able to meet the quality and volume demands are in a strong position to increase margins and attract interest from tier 1 suppliers.
- Private equity increasingly active**  
Private equity (PE) is becoming a key source of buyers in the sector. Specialist houses are pursuing platform acquisitions for 'buy and build' strategies. PE is also emerging as a buyer of assets from tier 1 suppliers which are refocusing their interiors businesses and divesting some assets.



“The automotive interior segment shows a significant need for consolidation due to fierce competition and increasing requirements for suppliers set by OEMs. The greatest need for action, but also opportunities, can be seen among medium-sized interior suppliers. We expect that there will be an increase in automotive interior M&A transactions over the next few years, especially in the area of mid-sized targets.”

Ervin Schellenberg, Managing Partner  
Ferdinand Robert Schulhauser, Associated Partner

Automotive industry exposed to positive long-term trends

## Rising global demand for vehicles fuelling growth in interiors components

The next five years will see a significant increase in the global demand for light vehicles, with sales expected to increase by almost 25% to reach 103 million units by 2019 (see Figure 1). Sales are supported by stable demand in the US and Europe and continued but slower growth in emerging markets, especially China.

The rising demand for small to mid size series and premium vehicles is supporting growth in the global automotive interiors market, which is forecast to reach over €120 billion by 2020 (see Figure 2). This market is diverse, encompassing a wide range of components including seats, upholstery, door trims, cockpit electronics and instrument panels, pedals, switches and electric motors.

### OEMs focusing on scale and speed

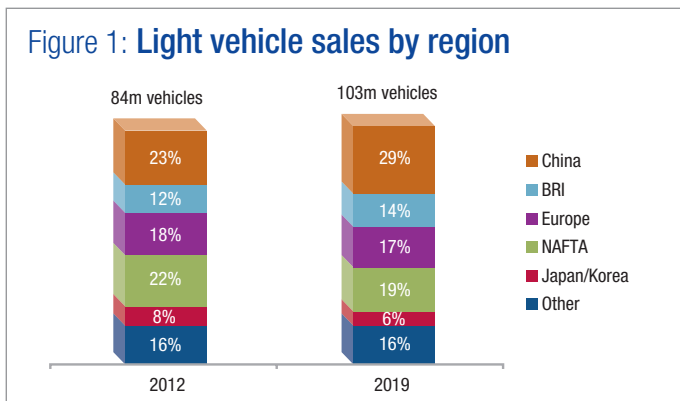
Despite the presence of a number of large global tier 1 players, the interiors market is still fragmented and includes a variety of manufacturers ranging from large multinational corporations to smaller privately owned companies. Strategic initiatives by OEMs to increase global market share, improve manufacturing efficiency and increase the use of value-adding interiors components is creating pressure on the supply chain, which is expected to be able to match the demands of OEMs.

### OEMs locating manufacturing near demand, suppliers are following

Emerging economies are now major production locations for most international OEMs, which are attracted to the lower production costs and consumer demand.

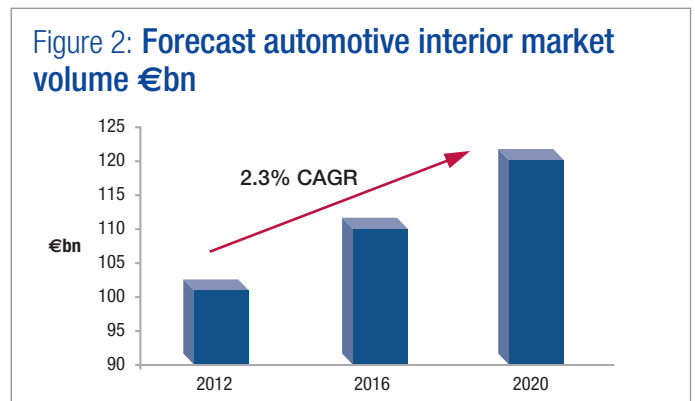
- To protect against supply chain disruption, tier 1 suppliers are required to establish assembly plants and manufacturing capabilities close to their OEM customers' production plants. For example, Audi's new US\$1.3 billion assembly plant in Mexico already hosts seven suppliers in its 'just in sequence' suppliers' park.
- Tier 1 suppliers are also increasing market share by establishing joint ventures with local OEMs. French supplier Faurecia has formed a joint venture with China's Changan Automobile Group to produce interior components that will supply Changan's joint ventures with Ford Motor and PSA/Peugeot-Citroen.
- Tier 2 suppliers are establishing significant capabilities in emerging market locations to support their existing tier 1 customers as well as supply local OEMs. For example, in 2013 US-based body cloth specialist Sage Automotive Interiors established a joint venture with Chinese supplier Wuhan Boqi to expand into the Asian market.

Figure 1: Light vehicle sales by region



Source: IHS

Figure 2: Forecast automotive interior market volume €bn



Source: GRAF LAMDSORFF & COMPHENIE

## OEMs use of global modular platforms is accelerating

**OEMs are reducing their manufacturing complexity with a large number developing modular assembly capabilities that enable the production of vehicles of different lengths, widths and wheelbase on the same platform. This allows OEMs to increase the number of models and derivatives produced on fewer platforms (see Figure 3).**

- The shift to modular platforms is influencing the purchasing strategies of OEMs and leading to the rationalisation of their supplier base as preferred suppliers are awarded larger contracts.

- The commonality of certain interior components means that there is a significant growth opportunity for those suppliers able to meet the quality standards and volume requirements of the preferred suppliers to OEMs. For example, German seating specialist Grammer has estimated that the scheduled product launches by OEMs for 2014 represent lifetime revenues of €1.2 billion.
- Suppliers are making investments to ensure they can meet OEMs requirements. UK-based Cab Automotive has made a significant investment in equipment to guarantee it can meet the quality and volume to supply arm rests for the new BMW Mini.

Increasing technical and supply chain demands by OEMs

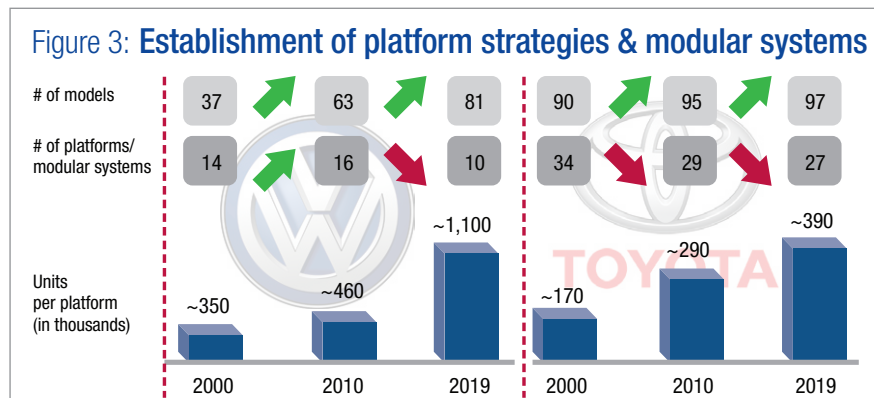
## Component-based sourcing supports rising margins

**Shorter vehicle life cycles mean that interiors are being refreshed more frequently (see Figure 4). Interiors are key differentiators, enabling OEMs to tailor vehicles to local preferences, create brand value through the use of highly visible components and increase margins. Consumers will pay for value-added features, especially in markets like China where around 50% of cars sold include leather and premium customers prefer fully featured models.**

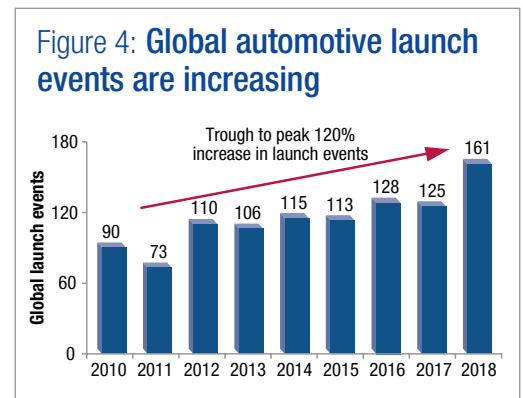
- Many OEMs now prefer to lead the design process for interiors components and specify the use of certain components from particular suppliers rather than receive finished interiors.

- At the same time, interior features like seats are becoming more complex with a greater number of features often available in medium, as well as premium, series vehicles. As such, component-based sourcing provides tier 2 and smaller suppliers with some leverage with OEMs and therefore an opportunity to increase margins.
- The design, specification and supply of components typically carries superior margins to assembly (~10% versus ~2%). To protect margins, tier 1 suppliers are increasing the vertical integration of their component capability by acquiring smaller often private suppliers with component expertise.

Consumers have high expectations of interiors content



Source: RBSC; Lazard



Source: IHS

Emerging markets suppliers are highly active acquirers

### Emerging markets supply chain looking overseas to enhance capabilities

**Emerging markets OEMs and suppliers often struggle to compete against the quality and appeal of foreign brands. They are keen to access US and Europe-based technical expertise to enable them to increase market share in their domestic markets and overseas.**

■ OEMs and larger suppliers are using strategic alliances, joint ventures and acquisitions of overseas suppliers to gain design, technical and manufacturing expertise. They are an important source of investment for smaller North American and European suppliers keen to increase capacity and access growing markets.

## Market leaders continuing to consolidate the supply chain

**2014 has seen a significant increase in the pace of deal activity with large suppliers using strategic acquisitions to expand market share in existing and**

**new markets, broaden relationships with OEM customers and enhance their offering.**

### Protect margins and OEM relationships through vertical integration

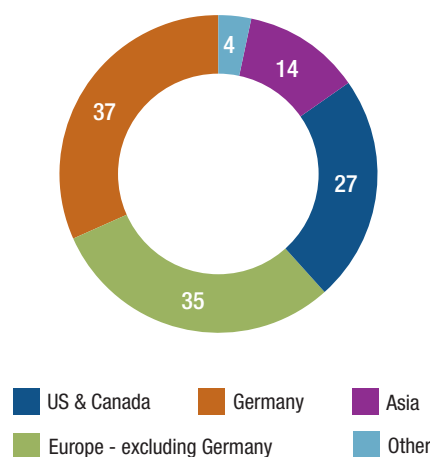
Acquisitions are being driven by Tier 1 suppliers reacting to component-level sourcing by OEMs. These suppliers are targeting firms that are exposed to high value materials and technology.

OEM directed sourcing, as well as increase Lear's exposure to China.

■ US-based Lear's recent US\$850 million (6x EBITDA) acquisition of Canada's Eagle Ottawa, the world's largest manufacturer of automotive leather, will help to reduce the impact of

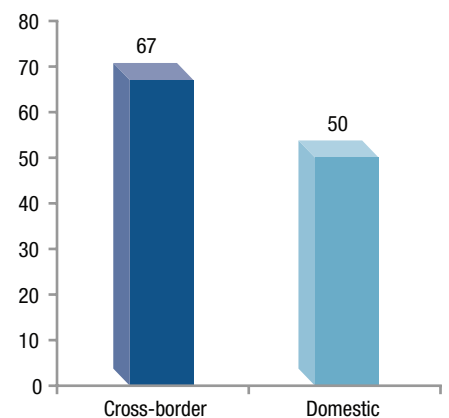
■ Some suppliers with assembly expertise have acquired component production capabilities and capacity. US-based Johnson Controls is the most high profile example, investing US\$1.2 billion to acquire seat fabric (Michel Thierry) and metal components and structures expertise (C Rob Hammerstein Group, Keiper and Recaro Automotive).

Figure 5: Number of deals by location of target



Source: Capital IQ

Figure 6: Global automotive interiors deals cross-border vs domestic



Source: Capital IQ

## The need to access growing markets is driving international acquisitions

The need to increase market share in high margin interior components which increase the content per vehicle is also driving acquisitions. Acquirers from across all regions are achieving this by targeting businesses with complementary technologies, high growth components and access to strategically important markets.

- Grammer's 2012 acquisition of Czech Republic-based Nectec Automotive, which holds patents for crash active headrest technologies, strengthens its headrest offering. Grammer also acquired a 50% stake held by Nectec in a joint venture with Chinese international OEM supplier NingBo Jifeng, thereby accelerating its expansion in China.
- Canada-based Exco Technologies' US\$17 million (4x EBITDA) acquisition of Automotive Leather Company (ALC) will enable it to take advantage of the rising demand for leather (forecast to increase by 70% over the next five years) and increases its access to BMW, ALC accounts for around 25% of the OEM's European leather requirement.

- The acquisition of family-owned German interior components manufacturer KTS by Japan's NIFCO facilitates its international growth ambitions whilst giving NIFCO access to major European OEMs.

## Emerging markets-based suppliers need to access technology

Acquisitions are the fastest way for emerging markets manufacturers to strengthen their technical expertise. As such, they are often prepared to pay premium valuations for the most attractive assets.

- In addition to joint ventures in their domestic market, Chinese manufacturers and suppliers are now highly acquisitive overseas. Ningbo Huaxiang, which supplies the Chinese joint ventures of VW, General Motors and Ford Motor, has acquired a number of suppliers including Germany's HIB Trim Part Solutions for €34 million and stakes in electronic products supplier Helbako and Northern Engraving, a US supplier of decorative trim.

Competition from emerging market suppliers is increasing

## In focus: The connected car

**In-vehicle connectivity is a key growth area for OEMs as they look to meet rising consumer expectations for enhanced safety and infotainment features, as well as demand from OEMs for increased data capture to improve maintenance.**

### New market entrants

With the cockpit electronics and connected services markets expected to be worth US\$50 billion by 2018, mobile telecoms operators, electronics manufacturers and software developers including Google, Apple, AT&T and Vodafone are partnering with OEMs to develop technologies such as infotainment platforms and autonomous driving systems.

### Impact on supply chain

The combination of increased connectivity and location data and the use of third party applications and web services is bringing new providers into the supply chain. There is a significant opportunity for

smaller innovative businesses to play an important role in providing key cockpit electronics products and software to OEMs, traditional automotive suppliers and larger new market entrants.

### Acquisitions

Acquisitions of infotainment specialists include Ford's acquisition of Livio, a platform for in-car entertainment and navigation apps and Nasdaq-listed Nuance Communications' acquisition of Tweddle Connect, which aggregates third party content and enables drivers to interact via voice control while behind the wheel.

Deals involving telematics providers include Vodafone Plc's acquisition of Italy's Cobra Automotive Technologies, which provides OEMs with vehicle tracking services, for €135 million and Telit Communications Plc's acquisition of Nasdaq-listed NXP's ATOP business, which provides OEMs with an emergency call function but can also upload software upgrades.

PE activity is increasing

## PE is becoming an important buyer

**PE firms in Germany, the UK and US are playing a much larger role in automotive components due to the success of OEMs in these locations.**

- PE is pursuing a buy and build strategy around platform investments in niche areas such as lighting. US-based Trive Capital's 2014 investment in interior lighting specialist AGM Automotive is supporting further international expansion, as demonstrated by the recent acquisition of Chicago Miniature Lighting, which provides lighting systems to OEMs and Tier 1 suppliers.
- PE is also acquiring assets from corporates which have taken a strategic decision to divest certain assets. Visteon sold its interiors business to Cerbeus Capital Management in order to focus on its

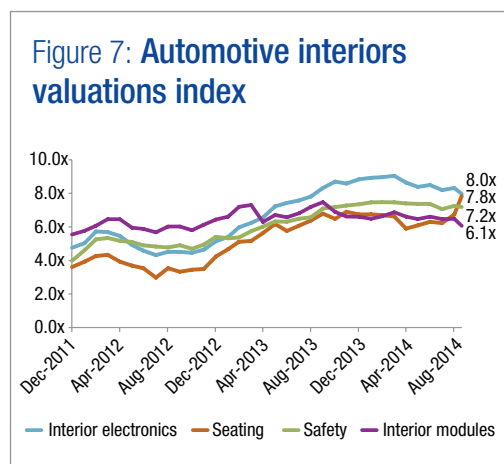
cockpit electronic businesses. Johnson Controls divested its headliner and sun visor business to Atlas Holdings-backed Motus Integrated Technologies, enabling it to focus on higher margin interiors components like seating.

- The improving operating environment means that more PE assets are coming to market. Clearlake Capital Group is nearing a deal to acquire fabric supplier Sage Automotive Interiors from Gores Group in a deal valued at some US\$275 million, Germany's ICS Partners has sold Innovative Components Technologies Group to Dongkook of Korea and US-based Amphenol has acquired sensor specialist Casco Automotive Group from The Jordan Company for US\$450 million (10x EBITDA).

## Valuations

**Using the valuations of quoted automotive interiors suppliers as a proxy for sentiment towards the whole sector, Figure 7 shows that the higher margin, electronics specialists have the highest rating (8.0x EBITDA multiple), benefiting from demand for high value-adding interior components.**

- The global economic recovery and improving consumer confidence are underpinning the gradual recovery in demand for light vehicles in key end markets. As such, valuations will continue to rise over the short to medium term.



“As global demand for light vehicles recovers and market leaders pursue acquisitions, sellers have a choice between selling to a strategic buyer willing to pay a premium or retain a level of ownership and sell to private equity and delay the full realisation of their stake.”

Mark Bond, Managing Partner  
NorthStar Corporate Finance

Source: Capital IQ

# Outlook for M&A

Positive outlook for M&A

**M&A activity will continue to intensify for the next few years given all the factors outlined above.**

**In particular, we expect to see:**

- Further consolidation as well-capitalised Tier 1 and 2 suppliers continue to vertically integrate and expand geographically by targeting mid-sized companies.
- Acquisitions by the largest suppliers are likely to focus on Tier 2 and 3 suppliers in order to strengthen technology as well as to control an increasing

proportion of the interiors value chain.

- Continued cross-border automotive acquisitions with a greater proportion involving parties outside the established European markets. Asian OEMs and suppliers will continue to target European and US companies to acquire new technology or expand into new markets.
- The recovery in demand for light vehicles will support increasing interest from PE in high quality assets.

Figure 8: Selected Deals

Date	Target	Country	Description	Acquirer	Country	Deal value (€m)
Aug-14	Eagle Ottawa, LLC	USA	Automotive upholstery and interior leather solutions	Lear Corporation	USA	645.6
Aug-14	F.S. Fehrer GmbH & Co. KG	Germany	Manufacturer of automotive components	AUNDE Achter & Ebels GmbH	Germany	nd
Aug-14	SeaTcon AG	Germany	Manufacturer of car seats, seat covers and car accessories	Inter Groclin Auto SA	Poland	nd
May-14	Chicago Miniature Lighting LLC	USA	Miniature and LED lighting solutions	AGM Automotive, Incorporated	USA	nd
May-14	Johnson Controls, Inc.; Yanfeng Automotive Trim Systems Co., Ltd.	China	Joint venture between interiors assets of Yanfeng Automotive Trim and interiors Unit of Johnson Controls, Inc.	Yanfeng Automotive Trim Systems Co., Ltd.\ Johnson Controls, Inc.	China	nd
May-14	Key Safety Systems, Inc. (67.5% Stake)	USA	Manufacturer of automotive safety-critical components	FountainVest Partners	China	773.5
May-14	Visteon Corporation	USA	US-based automotive interiors business of Visteon	Cerberus Capital Management, L.P.	USA	nd
Apr-14	AGM Automotive	USA	Automotive interior trim, lighting and electrical components	Trive Capital	USA	43.4
Mar-14	I.M.Kelly Automotive Ltd	UK	Interior components for the automotive industries	ECA nv/sa	Belgium	
Mar-14	Jason Incorporated	USA	Auxiliary equipment for motor vehicle and industrial products	Quinpario Acquisition Corp.	USA	407.3
Feb-14	Johnson Controls, Inc.	USA	Headliner and sun visor business	Motus Integrated Technologies	USA	
Dec-13	Automotive Leather Company Group (Pty) Ltd.	South Africa	Manufacturer of automotive leather interior trim components	Exco Technologies Limited	Canada	17.9
Sep-13	Sittab AB	Sweden	Sweden based seat accessories maker	Addtech AB	Sweden	nd
Jul-13	Futuris Automotive Interiors Pty Ltd.	Australia	Designs and manufactures automotive interior solutions	Clearlake Capital Group, L.P.	USA	51.3
May-13	HP Pelzer Holding GmbH (48% Stake)	Germany	Develops custom-made acoustic solutions and trim parts	Adler Group	Italy	nd
Apr-13	HIB-Trim Part Solutions Bruchsal GmbH	Germany	Manufacturer and distributor of trim parts	Ningbo Huaxiang Electronic Co Ltd	China	36.7
Jan-13	DAGRO Gera GmbH (74% Stake)	Germany	Manufacturer of leather interior fittings	Eissmann Automotive Deutschland GmbH	Germany	nd
Dec-12	nectec Automotive s.r.o.	Czech Rep.	Seating technique and passive protection in automobiles	Grammer AG	Germany	nd
Jul-12	Mirror Controls International B.V.	Netherlands	Rearview mirror glass actuators and mirror powerfold actuators	Egeria BV	Netherlands	167.3
Jul-12	R-TEK Ltd. (50% Stake)	UK	Supplies interior automotive components	Kasai Kogyo Co Ltd	Japan	48.2
May-12	Preh GmbH	Germany	Interior control systems, sensor systems, electronic control units	Ningbo Joyson Electronic Corp.	China	293.0
Apr-12	Guilford Mills Inc.	USA	Engineered fabrics for automotive, technical and apparel applications	Lear Corporation	USA	203.3
Jan-12	Northern Automotive Systems Ltd	UK	Engineer of decorative trim products, principally for automotives	Lawrence Automotive Holdings Ltd	UK	nd

Source: Capital IQ

## Selected Mergers Alliance Deals



**CIE  
Automotive**

Worldwide  
acquisition program  
with a value of €936m





Arrangement of a  
multi-bank syndicate  
to secure credit facilities




**Savatech**

Sold to  
CGSO





**C-MAC**  
MicroTechnology

Sold to  
KBC




## Contacts Specialist advice on call...

For information on sector trends and M&A Automotive Parts



**Ervin Schellenberg**

Partner, Germany

Telephone: +49 611 205 48 10  
Email: schellenberg@equitygate.de



**Bart Jonkman**

Managing Partner, Netherlands

Telephone: +31 73 623 8774  
Email: bart.jonkman@capitalmind.com



**Massimiliano Brion**

Partner, Italy

Telephone: +39 02 92 88 04 00  
Email: massimiliano.brion@ethicacf.com



**Michel Degryck**

Partner, France

Telephone: +91 33 148 246 299  
Email: michel.degryck@capitalmind.com



**Len Laporta**

Managing Director, USA

Telephone: +1 203-451-7799  
Email: llaporta@headwatersmb.com



**Leonardo Antunes**

Managing Director, Brazil

Telephone: +55 21 2543 3117  
Email: lantunes@brocap.com



**Geoffrey Morphy**

Managing Director, Canada

Telephone: +1 416 496 3508  
Email: gmorphy@farberfinancial.com



**Tomoki Tanaka**

Executive Officer, Japan

Telephone: +81 3 6895 5521  
Email: tanaka.tomoki@ibs-sec.com



**Keith Pickering**

Partner, United Kingdom

Telephone: +44 115 957 8230  
Email: keithpickering@catalystcf.co.uk



**Gopal Agrawal**

Partner, India

Telephone: +91 22 6634 6666  
Email: gopal@singhi.com



**Hans Bayer**

Partner, Russia

Telephone: + 49 711 259 8549  
Email: hans.bayer@nscf.de



**Igor Gorostiaga**

Partner, Spain

Telephone: + 34 944 352 311  
Email: igorostiaga@norgestion.com



**Piotr Olejniczak**

Director, Poland

Telephone: +48 22 236 9200  
Email: olejniczak@ipopema.pl



**Fausto Garcia**

Partner, Mexico

Telephone: +52 55 5203 4430  
Email: faustogarcia@fga.com.mx



**Jonathan Fisher**

Director, South Africa

Telephone: +27 11 268 6231  
Email: jfisher@bridgecapital.co.za



**Jim Vorapon Ponvanit**

Managing Director, Thailand

Telephone: +66 2664 9100  
Email: ponvanit@khronosadvisory.com

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With a dedicated Automotive team, the Mergers Alliance partners are expertly placed to offer advice. In particular, we offer:

- Advise on structuring and completing deals in the Automotive market
- Identifying acquisition opportunities in emerging markets
- Information on sector trends and valuations
- Access to corporate decision makers and owners