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## The Automotive Industry Transition and the Role of M&A

Michigan Automotive Supplier Symposium

March 9, 2023



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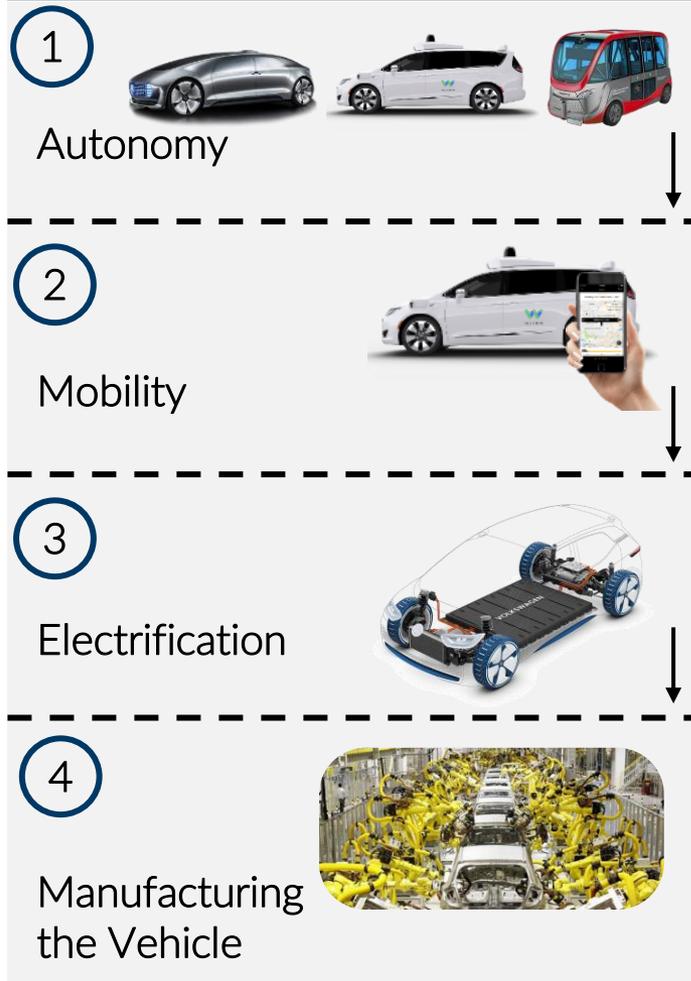
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**Section I**

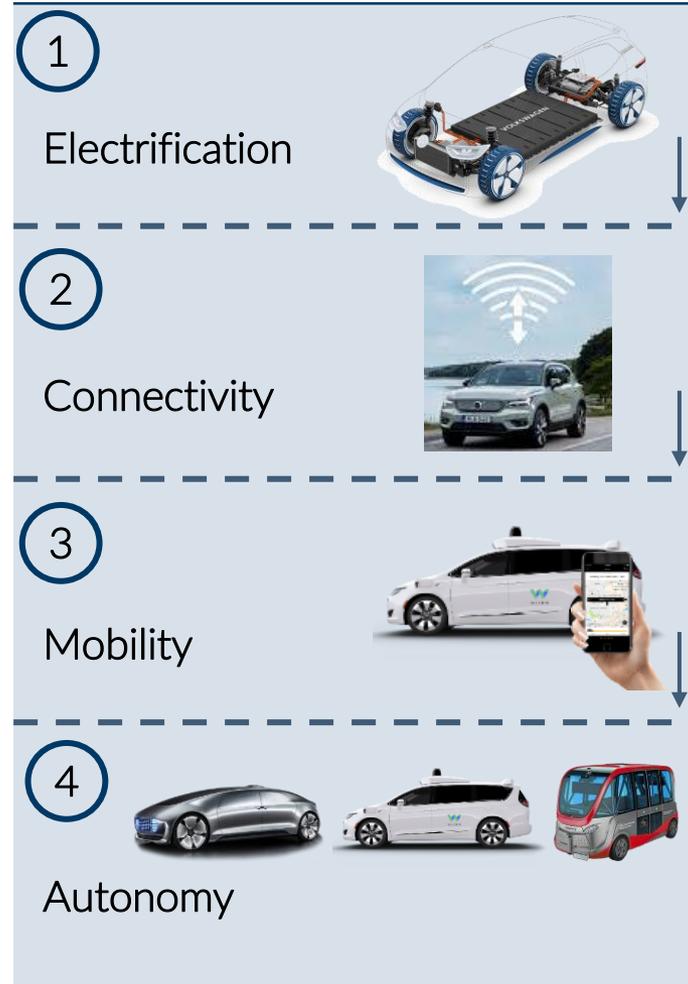
The Automotive Industry in  
Transition

# Future Mobility - A Lot has Changed in 5 Years

2018



2023



5

Manufacturing the Vehicle



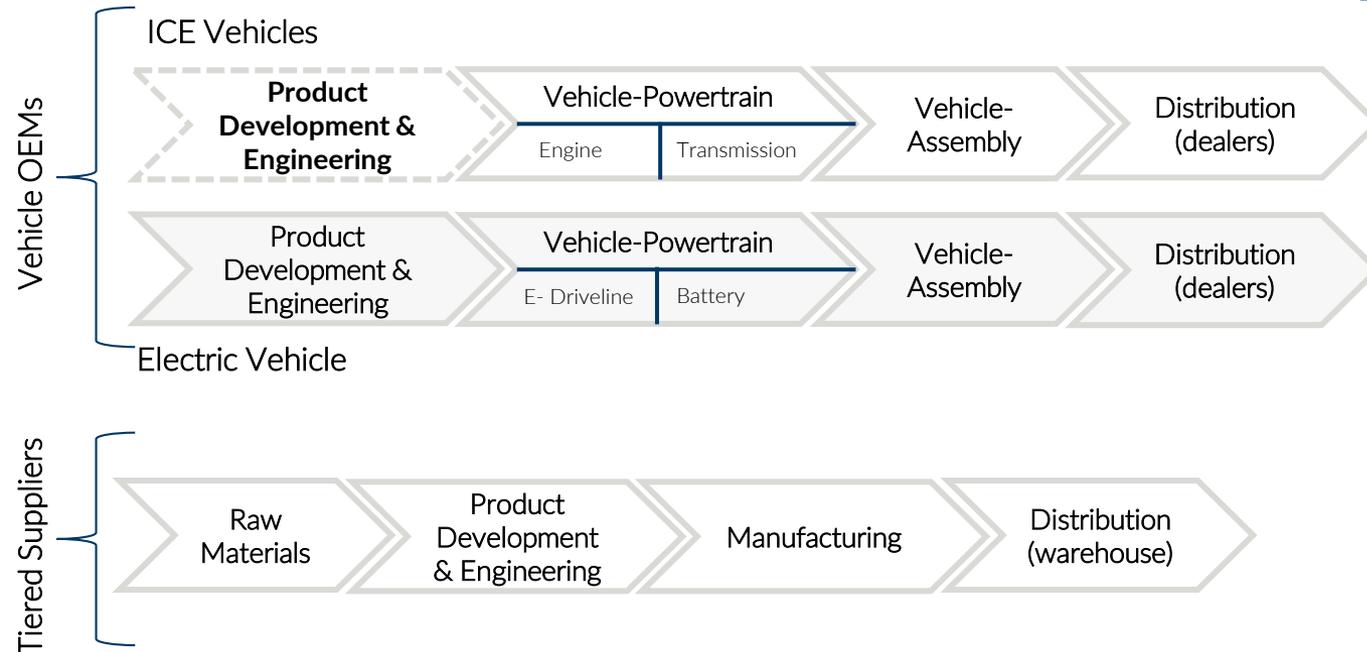
# Automotive Manufacturing Value Chain

## EV Transition Opportunities Across the Entire Vehicle

- The Automotive manufacturing value chain is comprised of complex requirements from OEM vehicle manufacturing (ICEs and EVs) and tiered Suppliers ... growing more rapidly due to technology capabilities

### Electric Vehicle/AV Impacts

- Product Development & Engineering focused on EV technologies—reduced development for ICE vehicles
- Retrofit of current facilities (engine, transmission, assembly, dealerships)
- Greenfield construction of new required facilities (engine, transmission, assembly)
- Transition in distribution model from dealerships to direct to consumer
- Creation of new Supply Chains
- Nearshoring / Geographic Shift
- Impact of IRA on USMCA investment decisions/business cases



### Battery Supply Chain



# Vehicle Technology - Electrification

## Radical Powertrain Shift in Supplier Components for EVs

- Electrification direction will impact how vehicles are manufactured and financial investments into new electrified components required from the supply base

### ICE Powertrain Components



### EV Powertrain Components



# Propulsion Technologies

## Revenue Content will Change Dramatically

- Suppliers must understand the impact on their own components and systems to sustain their future revenue streams

### Estimated Component Value per Vehicle

(\$ Thousands)

Vehicle System	ICE	BEV	% Change ICE to BEV
Electric Motor and Gearbox	\$0.0	\$1.4	100%
Power electronics	\$0.0	\$1.8	100%
Battery Pack	\$0.0	\$11.0	100%
Electrical and Electronics	\$3.0	\$4.3	43%
Climate control and thermal management	\$1.1	\$1.5	41%
Body & Structural	\$4.1	\$4.9	20%
Interior	\$1.9	\$1.9	0%
Axles, Driveshafts & Components	\$1.3	\$1.0	-25%
Exhaust	\$0.4	\$0.0	-100%
Fuel Systems	\$0.5	\$0.0	-100%
Transmission	\$2.1	\$0.0	-100%
Engine	\$4.2	\$0.0	-100%
Other	\$3.6	\$4.2	16%
<b>Total</b>	<b>\$22.1</b>	<b>\$31.9</b>	<b>43.9%</b>

### Commentary

Shifts to EV technologies will provide opportunities and change:

- New component opportunities for Electric Motors and Gearbox, Power electronics, and Battery packs
- Declining market opportunities for Engines, Transmissions, Fuel systems and Exhaust
- Shifting customized component needs for Electrical & electronics, Climate control, Thermal management, Body & structural, Interior, Axles/drive

Overtime EV value per vehicle will fall as:

- Increased production volumes provide economies of scale (1.7M BEV built in 2019 vs 7.7M in 2022)
- Proliferation of EVs models into mass market applications and lower price points
- Expansion of capable supply base and increased competitive bidding processes
- Technology innovations (i.e. battery chemistries, manufacturing processes)

ICE costs will rise as market share and volumes decline

*\*Note: EV cost estimates impacted by lower initial volumes, and expected to reach cost parity with ICE by 2025-2027*

# Strategic Directions Impacting both OEMs and Suppliers

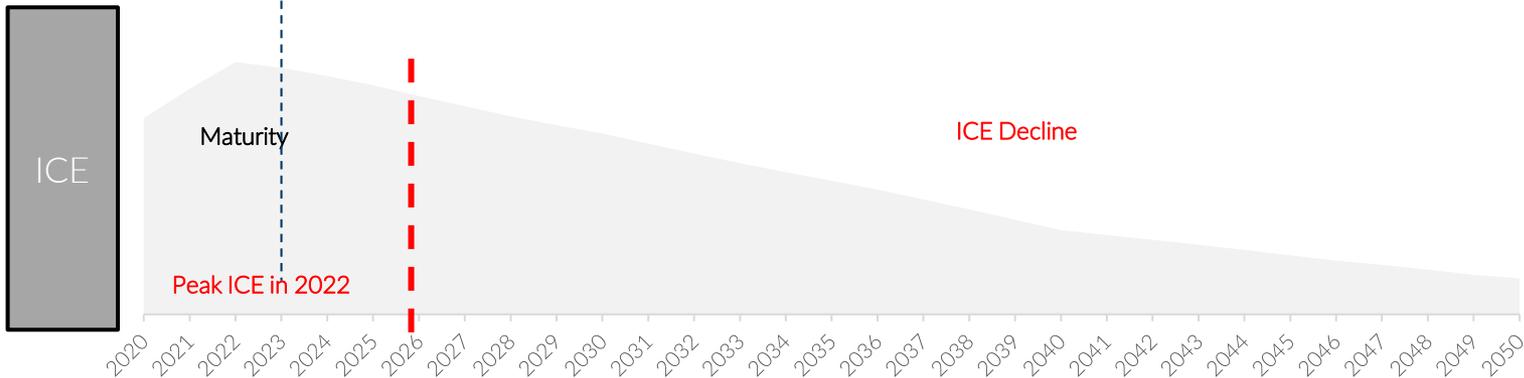
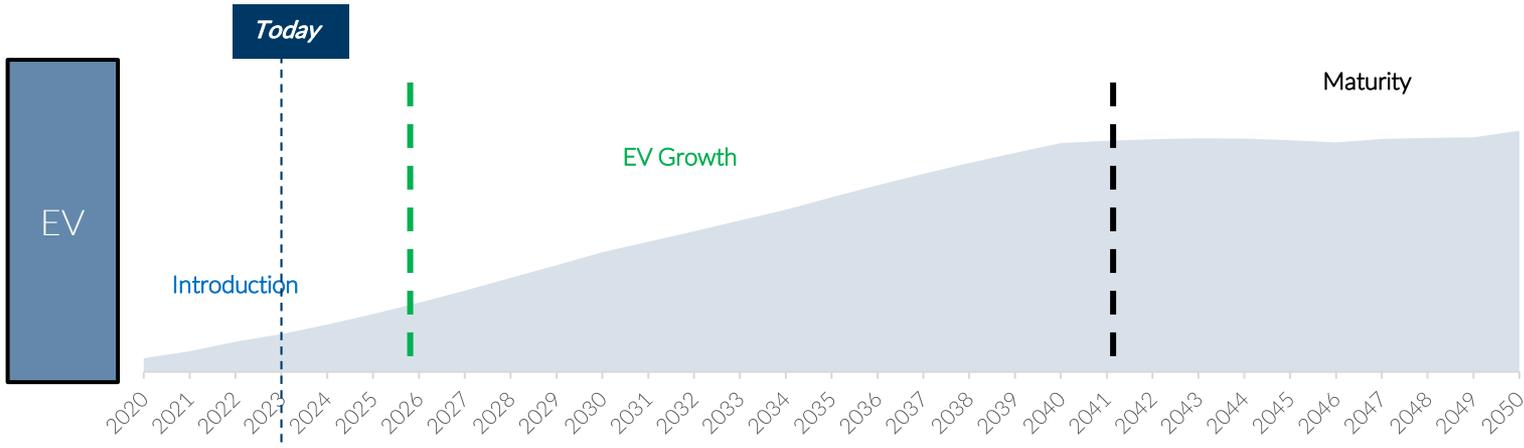
## North American Business Models in transition

- Suppliers will have critical strategic investment decisions to make over the next 2-3 years. The next decade will bring dramatic product shifts toward Electric Vehicles, while ICE products will begin to decline dramatically

### Strategic Considerations

- Product strategy & roadmap
- Organic and M&A growth strategies
- Capability gaps
- Viability of EV startups and partners
- Capex decisions

- Product divestitures and operations restructuring
- Consolidation and roll-up
- Operating profit reinvestment strategies
- Pricing strategies



**Section II**

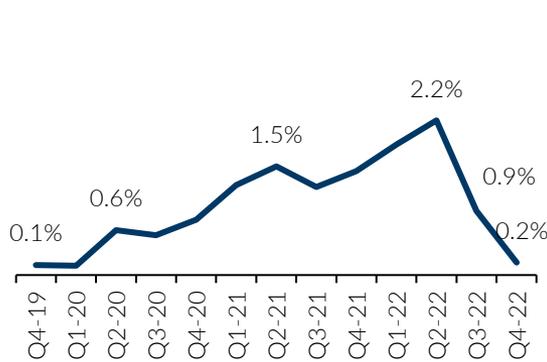
Market Overview

# Current Economic Snapshot

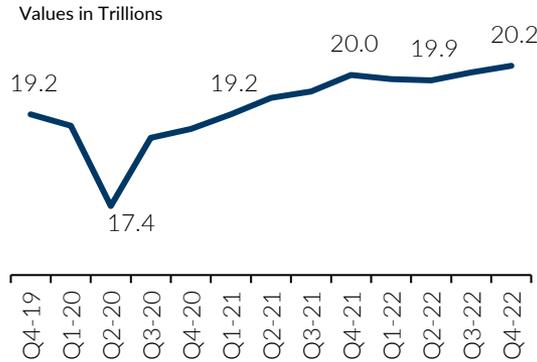
The health of the overall economy remains strong with record low unemployment, consumer spending continuing to grow, and growing overall GDP through Q4-22. Monetary policy driven interest rate hikes appear to be taking effect with inflation starting to slow.

## Economic Indicators (1) (2) (3)

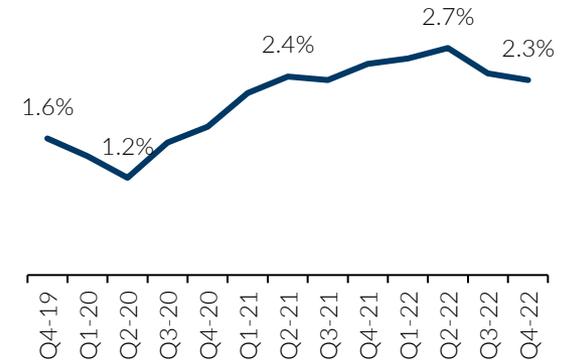
### INTEREST RATES : 10-YEAR TREASURY



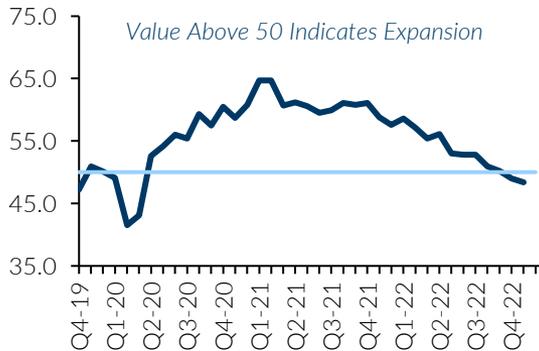
### GROSS DOMESTIC PRODUCT



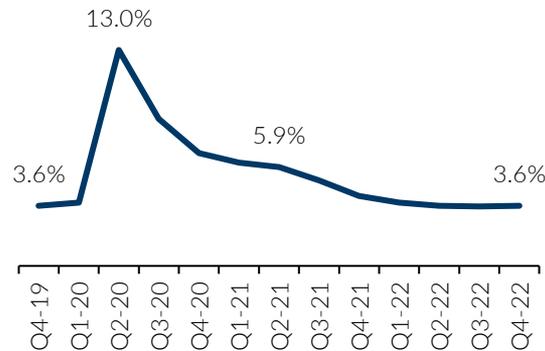
### INFLATION RATE



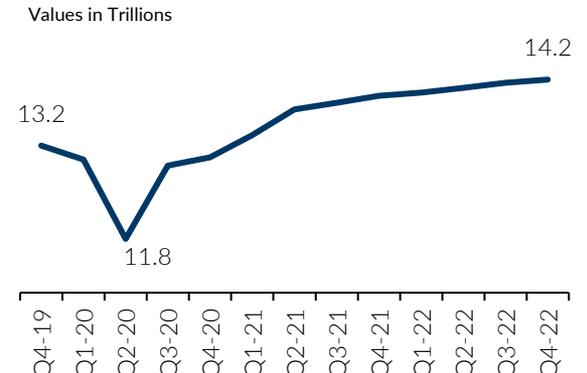
### MANUFACTURING PMI



### UNEMPLOYMENT RATE



### CONSUMER SPENDING

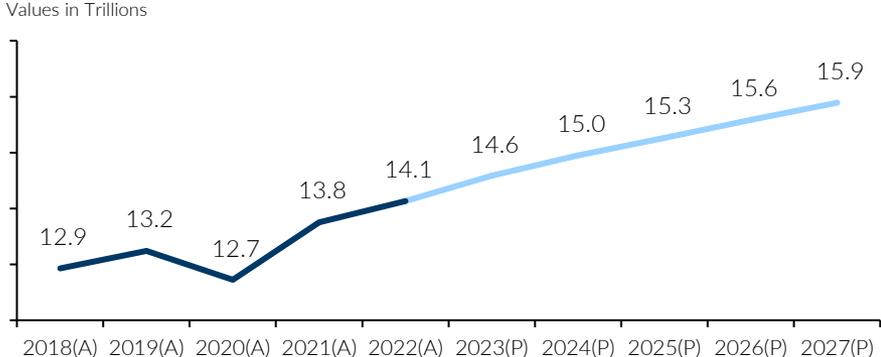


# Economic Outlook

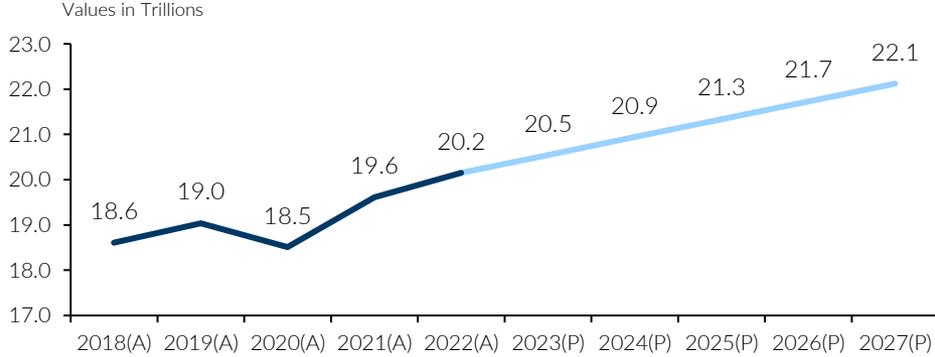
U.S. economic growth is expected to continue growing at a similar pace to 2022. Globally, economists are expecting 2023 growth to slow to 1.7% from 3.0% six months ago due to geopolitical tensions. <sup>(1)</sup>

## Economic Indicators Forecast <sup>(2)</sup> <sup>(3)</sup>

### CONSUMER SPENDING



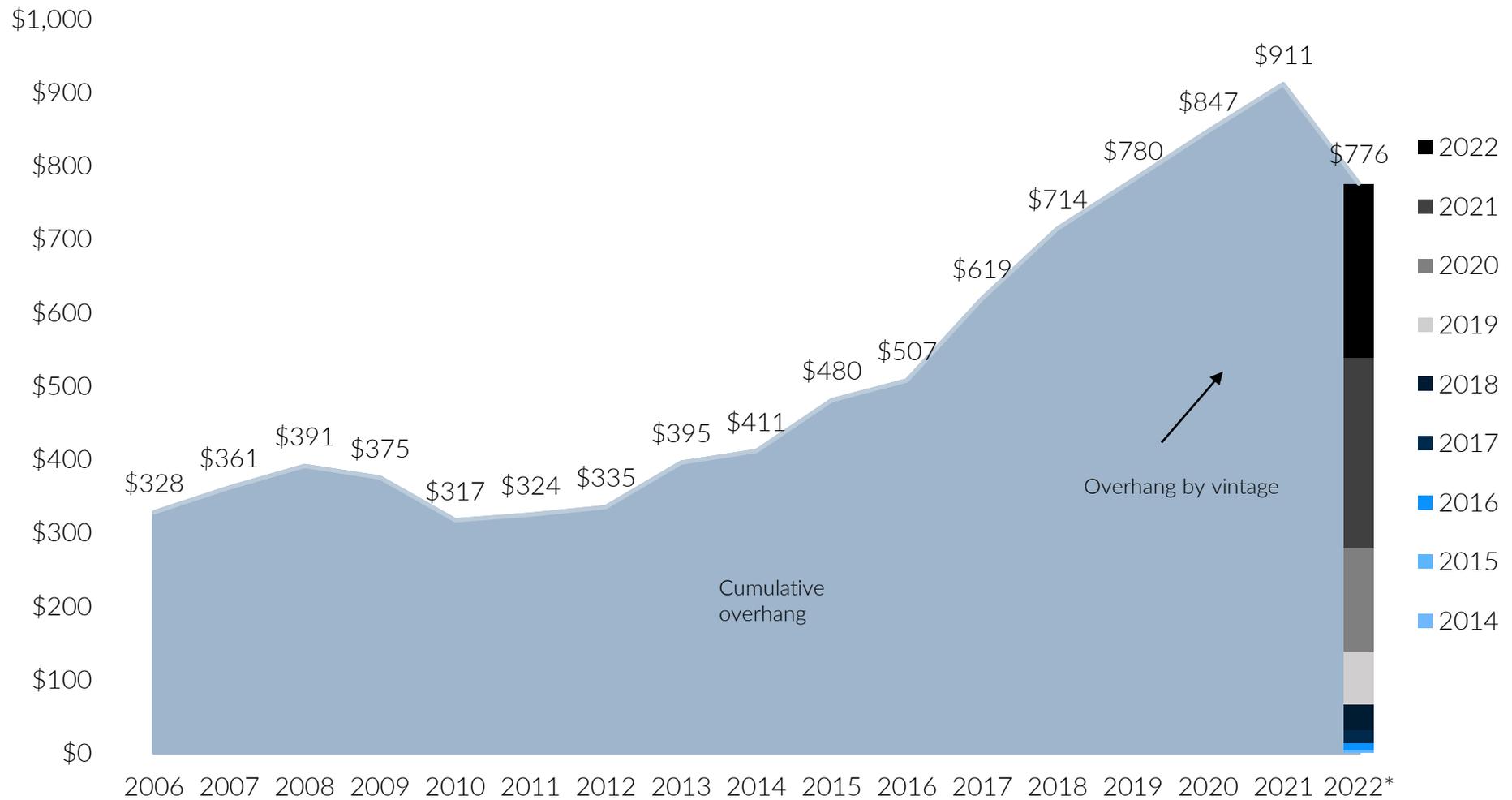
### GROSS DOMESTIC PRODUCT



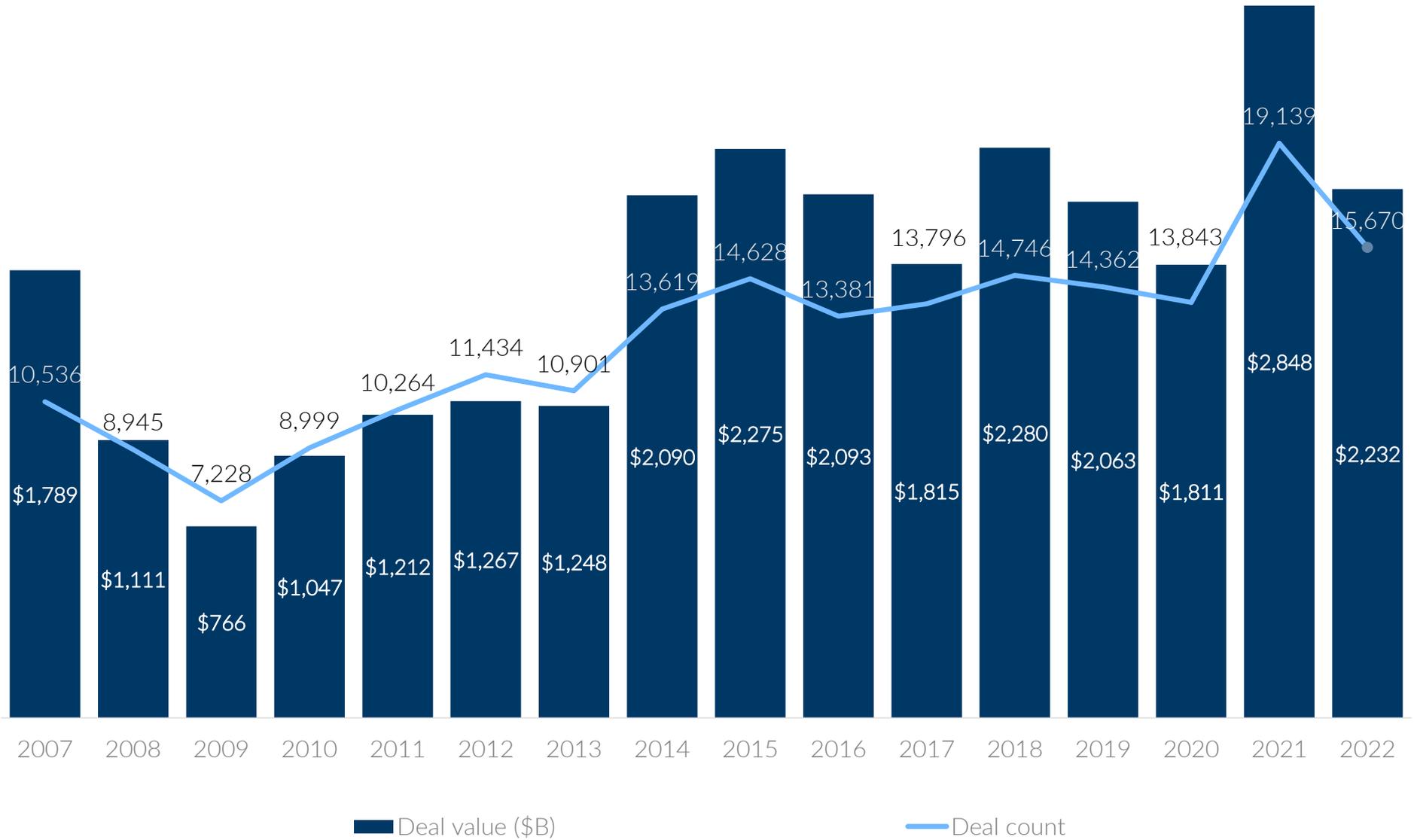
### NATIONAL AVERAGE MINIMUM WAGE



# Deployable Capital – US PE Dry Powder by Age Bucket (\$B)

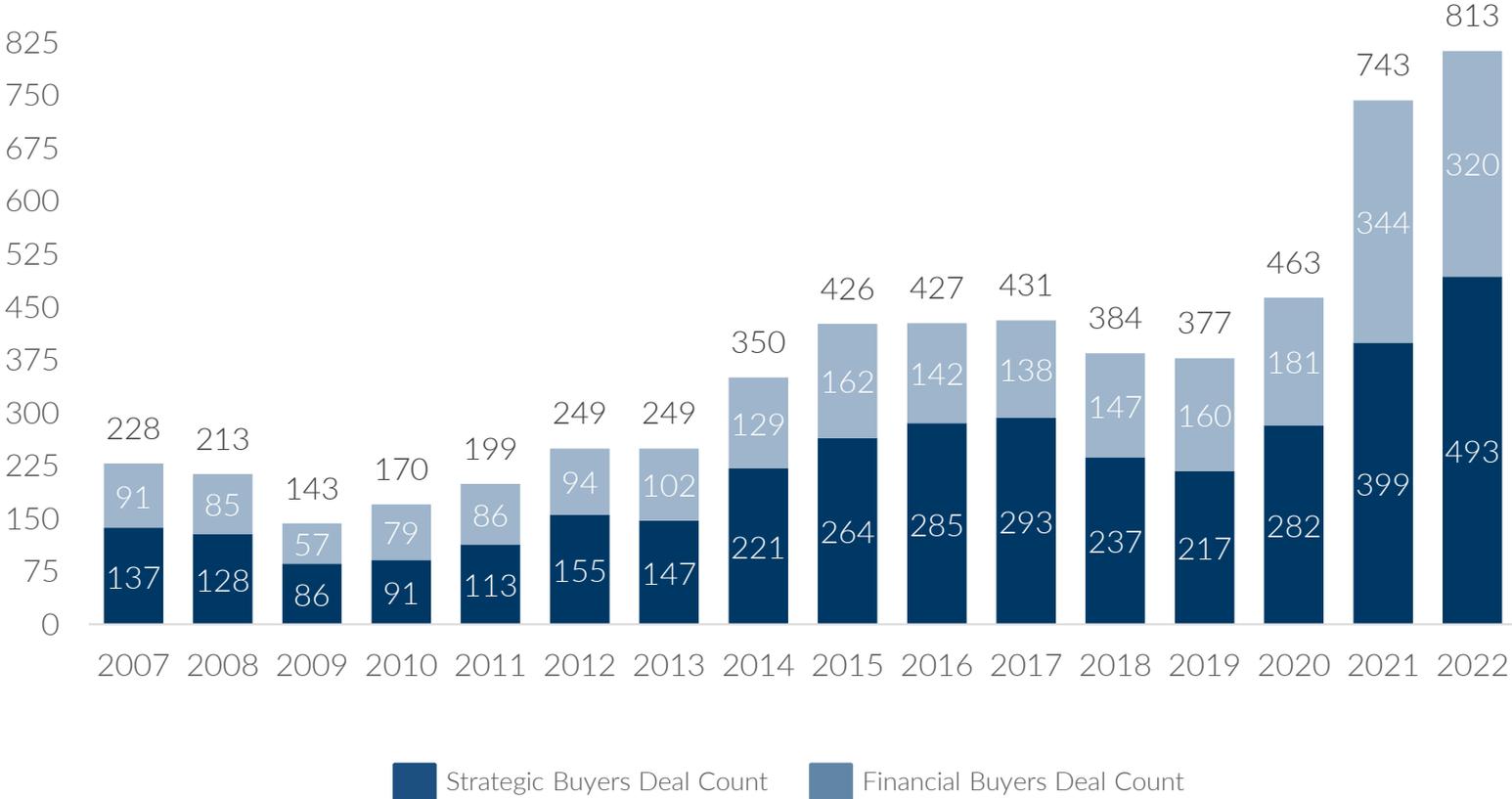


# United States M&A Activity by Year



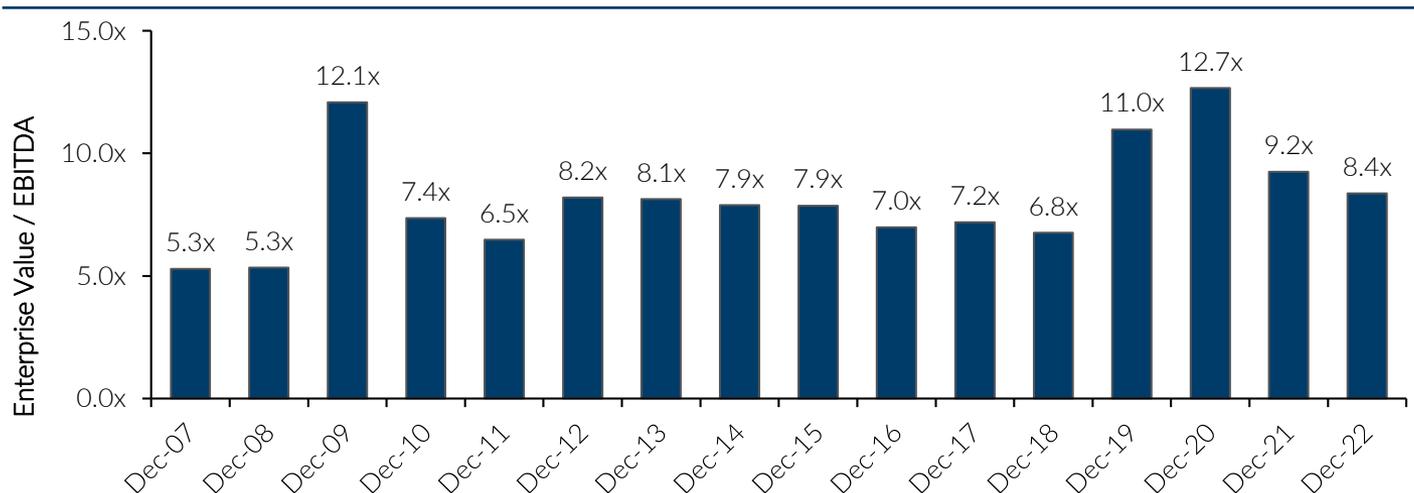
# North American Automotive M&A Activity

## Strategic vs Financial Buyer M&A Transactions

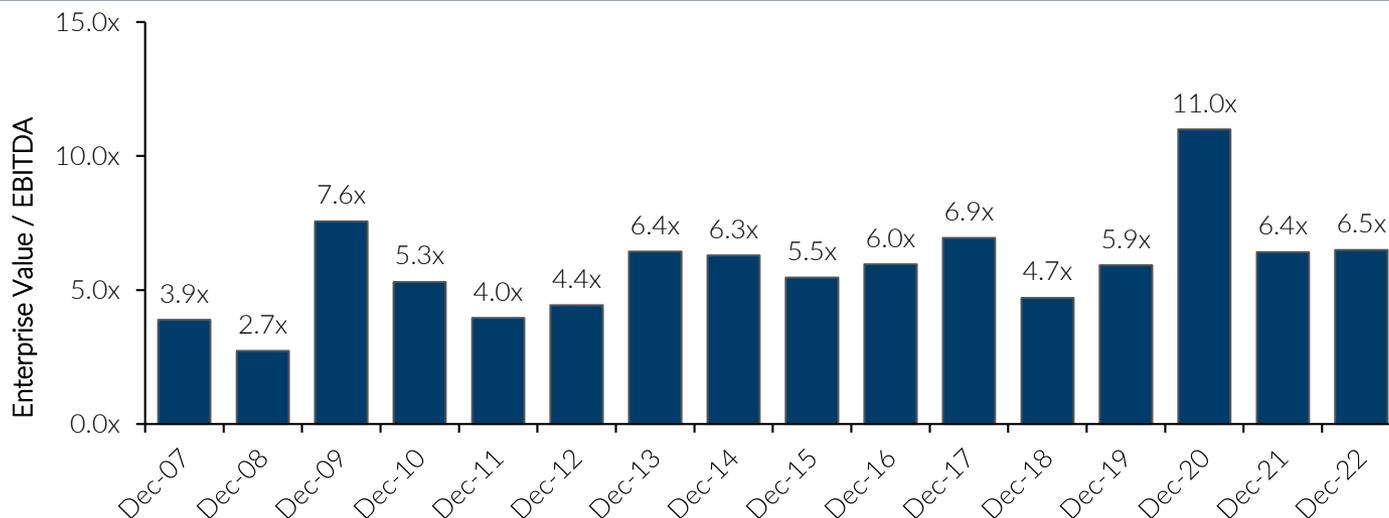


# Automotive Public Equity Performance

## Publicly Traded Automotive OEM's Index (Avg.)



## Publicly Traded Automotive Component Suppliers Index (Avg.)



**Section III**

The Role of M&A

# Assessing the Market Landscape

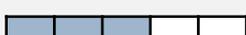
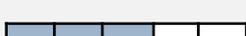
## Positive Market Attributes

- + **Next Generation Technology**
  - The shift from ICE components to EV specific technology is happening, eliminating or reclassifying demand for many types of products and services
- + **Technology Applications and Resources**
  - The investment in people and automation equipment to enhance quality and improve efficiency enables companies to differentiate themselves and better position them for growth
- + **Value-added Manufacturing / Distributing**
  - Unique skill sets (material competencies, manufacturing, software or processes, etc.)
- + **Strong Balance Sheet and / or Financially Stable**
  - Companies that are financially sound drive customer entrenchment by being able to “weather the storm” without any OE intervention
- + **North American Manufacturing Capabilities and Capacity**
  - In the wake of supply chain challenges associated with the pandemic and geopolitical forces at play, localized or on-shore supply has become more imperative
- + **Low-Cost Geographic Footprint**
  - The ability to capitalize on new pipeline opportunities in thriving markets due to strategically located facilities

## Market Challenges

- **Small Car Production**
  - With a growing consumer demand for SUV / CUV's, companies that lack products / services for these popular programs lose out on the growth from demand
- **ICE Powertrain Pigeonhole**
  - A product portfolio that has no exposure to EV and/or HEV programs is limited to growth in its potential growth opportunities
- **Concentrated Customer Base**
  - A lack of a diverse customer base is viewed negatively, particularly as OEMs look to consolidate suppliers, alter supplier qualification requirements, and geographically shift production lines
- **Lack of Production Visibility**
  - Small suppliers who didn't perform well during COVID-19 elevated awareness of supply chain weaknesses among OEMs, propelling supplier consolidation
- **Asia-centric Manufacturing**
  - North American OEMs have begun assessing global supply chains for duplicity, as on-shoring has accelerated
- **Off-balance sheet liabilities**
  - Common with unfunded union pensions / multi-employer pensions

# Understanding the Options

	Disruption	Sophistication	Speed	Hurdles	Advantages	
Strategic		 Look for Corp. Dev.		<ul style="list-style-type: none"> <li>- Outside funding</li> <li>- Distractions</li> <li>- Commitment</li> </ul>	<ul style="list-style-type: none"> <li>- Have management in place</li> <li>- Ready access to market</li> </ul>	
P E	Buyout			<ul style="list-style-type: none"> <li>- LP is an expert</li> <li>- Not operators</li> <li>- Horizon</li> </ul>	<ul style="list-style-type: none"> <li>- Could be good partner</li> <li>- Financial engineers</li> <li>- 2<sup>nd</sup> bite of the apple</li> </ul>	
	Growth (Minority / Majority)			<ul style="list-style-type: none"> <li>- LP is an expert</li> <li>- Not operators</li> <li>- Horizon</li> </ul>	<ul style="list-style-type: none"> <li>- Can be minority</li> <li>- Non-control</li> </ul>	
	Search				<ul style="list-style-type: none"> <li>- Lack of Experience</li> <li>- Seller financed</li> </ul>	<ul style="list-style-type: none"> <li>- More sophisticated entering the market</li> </ul>
	Fund-less		 Varies, depends on group		<ul style="list-style-type: none"> <li>- Finding financing</li> <li>- Incentive to close</li> </ul>	<ul style="list-style-type: none"> <li>- Spending their own money</li> <li>- First to be made whole</li> </ul>
Family Office				<ul style="list-style-type: none"> <li>- Exact match only</li> <li>- No need to deploy \$</li> <li>- Less interest in add-ons</li> </ul>	<ul style="list-style-type: none"> <li>- Hands off</li> <li>- Longer hold time</li> <li>- Patient money</li> </ul>	
Banks (Regulated)				<ul style="list-style-type: none"> <li>- Regulatory constraints</li> <li>- 3x EBITDA max</li> <li>- Covenant heavy</li> </ul>	<ul style="list-style-type: none"> <li>- Cheapest debt</li> </ul>	
Private Debt				<ul style="list-style-type: none"> <li>- More expensive</li> <li>- Seeks BOD seat</li> <li>- More risky</li> </ul>	<ul style="list-style-type: none"> <li>- Covenant light</li> <li>- More creative</li> </ul>	

# Level-Setting for a Transaction

## Establish the Ideal Transaction Attributes

### Partner or Exit

- Owner proclivity

### Capital Availability

- Support organic and inorganic growth

### Legacy & Culture

- Level of importance

### Management Team

- Exit? Further growth opportunities? Aligned incentives?

### Structure

- Roll forward equity, incentive pools, equity types, escrow, etc.

### Transaction Type

### Tax Treatment



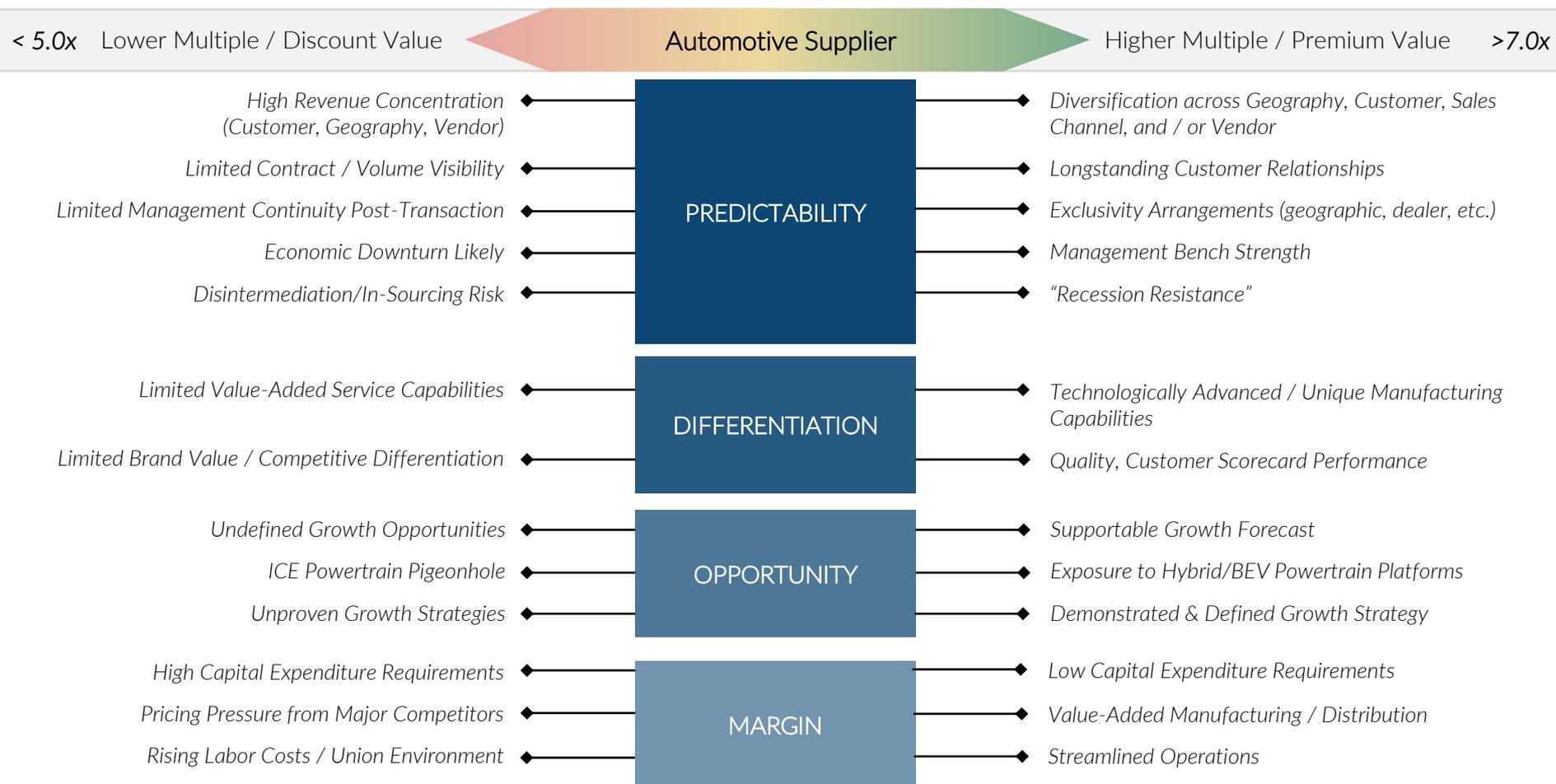
## Due Diligence

- Refinement of ideal investor profile
  - PE or strategic
  - Cultural aspects
  - Management and team
  - Partner with or replacement of seller
- Build a prospective investor list of candidates that have the attributes that meet the profile
- Background research on each prospective investor to ensure vision and culture alignment
- Seller diligence and vet prospective investors
  - Past investment success/failure
  - Past CEO interviews
- Maintain competitive structure for optimal enterprise value



# How Value is Determined in an M&A Transaction

*The market derives value primarily based on cash flow and risk, which is grounded in an assessment of company-specific characteristics as well as the ability to provide support on select operational / financial dimensions*



# Sale Process Timing

TYPICALLY 6 - 9 MONTHS  
 (Tailored to company-specific goals, objectives, situation)

	Month								
	1	2	3	4	5	6	7	8	9
<b>Transaction Preparation</b>	[Gantt bar spanning months 1-2]								
Send Information Request List & compile information	[Gantt bar]								
PMCF due diligence, drafting of marketing materials, populate data room	[Gantt bar]								
Create & finalize buyers list, segmenting into tiers	[Gantt bar]								
Testing market for response to messaging, positioning and value	[Gantt bar]								
Client review and finalization of CIM and all buyers	[Gantt bar]								
<b>Phase I Marketing</b>	[Gantt bar spanning months 3-4]								
Engage targeted buyers via outreach campaign			[Gantt bar]						
Discussions with buyers, solicit non-binding IOI's			[Gantt bar]						
Select Phase II buyers from management presentations			[Gantt bar]						
Management presentation scheduling & preparation			[Gantt bar]						
<b>Phase II Marketing</b>	[Gantt bar spanning months 4-5]								
Management presentations				[Gantt bar]					
Pre-LOI due diligence via virtual data room				[Gantt bar]					
Draft of Purchase Agreement, negotiate Letters of Intent and selection of buyers				[Gantt bar]					
Open full virtual data room				[Gantt bar]					
<b>Due Diligence &amp; Closing</b>	[Gantt bar spanning months 7-9]								
Buyers conduct detailed due diligence via data room, meetings, site visits, etc.							[Gantt bar]		
Purchase Agreement Distribution and Negotiations							[Gantt bar]		
<b>Finalize Definitive Agreement &amp; Close Transaction</b>									[★]

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**Q&A**



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