

Transaction Services

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Automotive M&A Insights 2008



# Welcome



Paul G. Elie

Welcome to PricewaterhouseCoopers *Automotive M&A Insights*—an annual review of M&A activity and key trends within the global automotive industry.

The automotive industry is cyclical, a fact that was forgotten by many in the industry, especially after witnessing years of tremendous global growth. With recent double-digit volume declines in major markets and several global automakers struggling to maintain solvency, 2008 ushered in a downturn of a magnitude not seen by the industry for decades. This decline was also felt in the deal market, with overall global deal flow slowing and transacted deal value plummeting by the end of the year.

As we enter 2009, the duration and depth of this downturn remains uncertain. However, the availability of financing combined with a return of consumer confidence will likely be key preconditions for an upturn. In the interim, the automotive industry will require significant restructuring in order to adapt to current market conditions. M&A will undoubtedly play a key role as vehicle manufacturers (VMs), component suppliers and companies throughout the automotive value chain look to remove excess capacity, raise capital, and reposition their businesses. While the restructuring process will not be easy, more than likely it will force casualties among automotive companies, a restructured auto industry will be better prepared and positioned to profit from the next growth cycle.



Paul T. McCarthy

The lack of available credit defined the auto industry in 2008, with continued constraints in financing remaining the number one concern for both the industry as well as dealmakers. In the M&A space, increased distress and restructuring along with broad structural shifts have increased companies' needs and desires to execute transactions. Although, until access to capital returns, M&A activity is likely to remain depressed.

As always, this document is only an introduction to our thoughts on the automotive industry, in which PricewaterhouseCoopers is a leading participant. Our clients in the automotive and financial communities frequently seek our advice on potential transactions and the strategies underpinning deals. Your feedback is extremely valuable to us, and should you have any comments, questions or require further information, please do not hesitate to contact us.

Regards,

Handwritten signature of Paul G. Elie in black ink.

Paul G. Elie  
U.S. Automotive Transaction  
Services Leader

Handwritten signature of Paul T. McCarthy in black ink.

Paul T. McCarthy  
U.S. Automotive Transaction  
Services Strategy Leader

# Contents

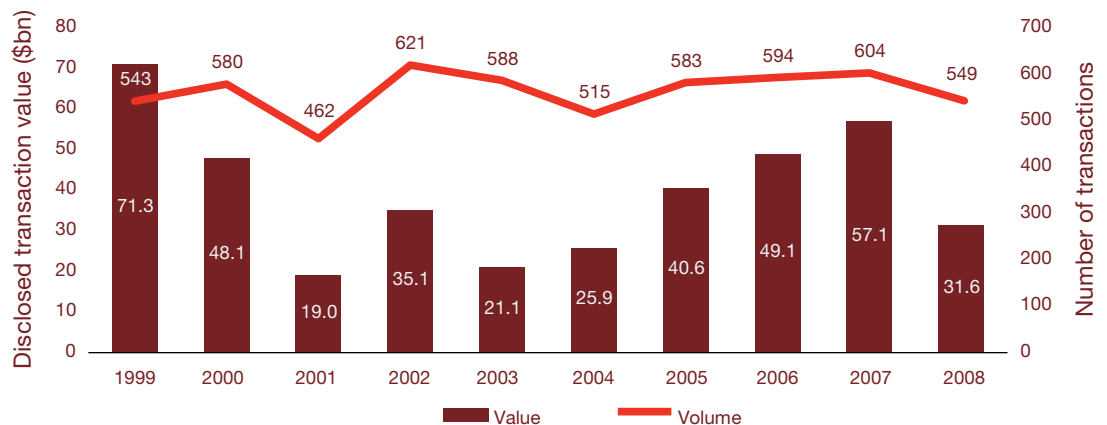
Global M&A trends	5
Sector in focus: component suppliers	11
Transaction activity by sector	14
Transaction activity by region	15
Outlook	19
PricewaterhouseCoopers Automotive Industry contacts	22

# Global M&A trends

## Volume slowed, value crashed

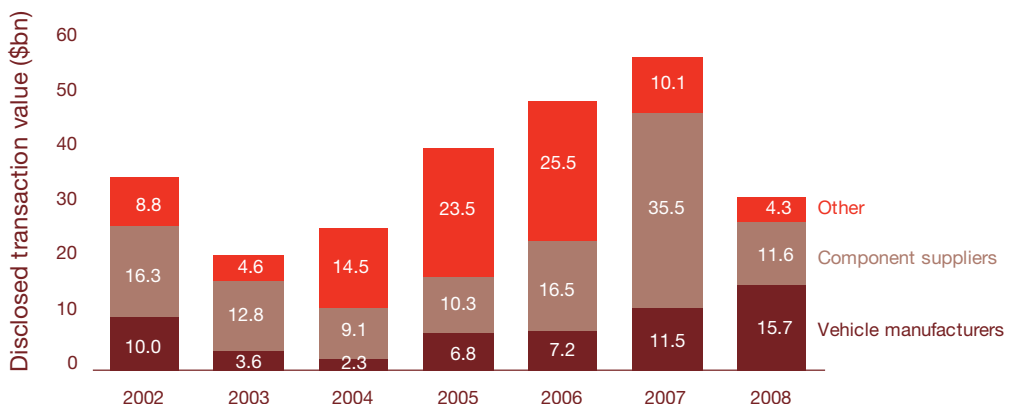
In 2008, the automotive industry suffered severe hardship and widespread uncertainty as a result of unavailable financing compounded by eroding consumer confidence and deteriorating macro-economic conditions. These combined factors ultimately led to significant worldwide volume declines and the near-bankruptcies of several major automakers and suppliers. The automotive deal market—which includes targets in the vehicle manufacturer, component supplier, retail, vehicle finance, leasing, rental and other related sectors—was not spared, as total disclosed deal value dropped dramatically to \$31.6 billion in 2008 from \$57.1 billion in 2007. Despite eroding conditions in the broader automotive market, deal volumes declined only moderately in 2008 to 549 transactions from 604 in 2007, buoyed slightly by ongoing restructuring and distressed dealmaking.

### Global automotive M&A activity, 1999-2008



Source: Thomson Reuters and other publicly available sources

### Global automotive M&A activity by sector, 2002-2008



Source: Thomson Reuters and other publicly available sources. Other includes retail, wholesale, aftermarket, rental/leasing and other related sectors.

## Top 10 deals by category

Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
<b>Vehicle Manufacturers</b>							
1	5,145	Volkswagen AG	Germany	Porsche Automobile Holding SE	Trade	Germany	12
2	4,378	Scania AB	Sweden	Volkswagen AG	Trade	Germany	17
3	2,300	Jaguar Cars Ltd & Land Rover	United Kingdom	Tata Motors Ltd.	Trade	India	100
4	1,166	OAO Avtovaz	Russian Fed	Renault SA	Trade	France	25
5	590	Ducati Motor Holding SpA	Italy	Performance Motorcycles SpA	Financial	Italy	71
6	336	Volvo AB-Indian Truck, Eicher CV Division	India	Volvo Eicher Commercial Vehicles Ltd.	Trade	India	100
7	306	Fuji Heavy Industries Ltd.	Japan	Toyota Motor Corp	Trade	Japan	8
8	285	Nanjing Automobile(Grp)Corp.	China	Shanghai Automotive Co Ltd.	Trade	China	100
9	250	Kamaz	Russian Fed	Daimler AG	Trade	Germany	10
10	127	Chrysler LLC—Tritec Motors plant	Brazil	Fiat Powertrain Tech Srl	Trade	Italy	100
<b>Components</b>							
1	3,201	Continental AG	Germany	Schaeffler Group KG	Trade	Germany	22
2	1,282	Speed SpA	Italy	Pirelli & Co SpA	Trade	Italy	100
3	900	Federal-Mogul Corp.	United States	Thornwood Associates LP	Financial	United States	50
4	805	Stabilus GmbH	Germany	Paine & Partners LLC	Financial	United States	100
5	750	Dana Corp.	United States	Centerbridge Capital Partners	Financial	United States	n/a
6	687	Mando Corp.	South Korea	Investor group led by Halla	Trade	South Korea	72
7	560	Global Motion Systems	United States	Kongsberg Automotive ASA	Trade	Norway	100
8	300	GST AutoLeather Inc.	United States	Advantage Partners LLP	Financial	Japan	100
9	280	Peguform GmbH	Germany	Polytec Holding AG	Trade	Austria	100
10	225	Dura Automotive Systems Inc.	United States	Creditor group	Financial	US/Europe	100
<b>Other</b>							
1	1,029	CSK Auto Inc.	United States	O'Reilly Automotive Inc.	Trade	United States	100
2	486	GE Capital Auto Lease PCL	Thailand	Bank of Ayudhya PCL	Financial	Thailand	100
3	447	Musa Motors	Russian Fed	Inchcape PLC	Trade	United Kingdom	75
4	299	Natl Au Bank-Coml Fleet Bus	Australia	Super Group Ltd.	Trade	South Africa	100
5	247	Kumho Rent-A-Car	South Korea	Korea Express Co Ltd.	Trade	South Korea	100
6	219	Penske Truck Leasing Co LP	United States	Penske Automotive Group Inc.	Trade	United States	9
7	145	Tiger Automotive	South Africa	Ethos Private Equity Ltd.	Financial	South Africa	100
8	144	Leasedrive Velo	United Kingdom	Investor group	Financial	United Kingdom	100
9	125	Purcell Tire & Rubber Company	United States	MBO Vehicle	Financial	United States	n/a
10	100	Lovato Gas SpA	Italy	Landi Renzo SpA	Trade	Italy	100

Source: Thomson Reuters and other publicly available sources

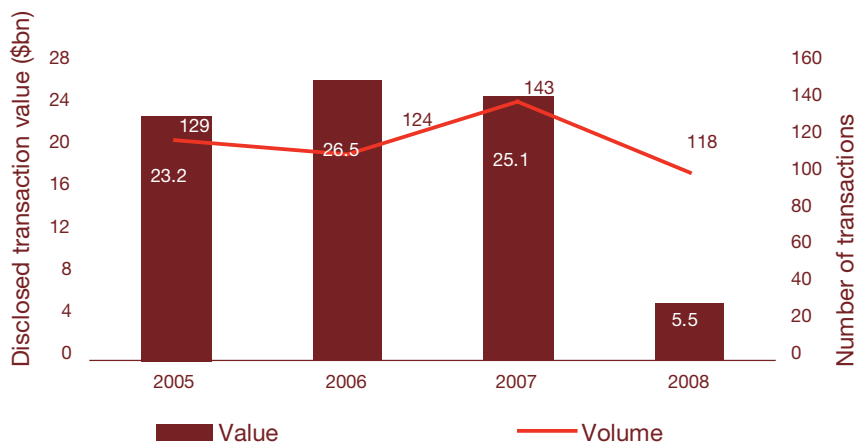
## Credit market weakness and economic uncertainty drove down deal values

Total disclosed deal value declined 45% from 2007 to 2008, while year-over-year deal volume dropped relatively modest 9%. This decline suggests that illiquidity in the credit markets and the resulting inability to finance transactions has forced certain acquirers to stay on the sidelines, or shift their focus toward executing smaller transactions. Additionally, the mega-deals that drove automotive deal value in 2007 were noticeably absent in 2008, with the top five transactions having a combined value of only \$16.3 billion in 2008 versus \$33.0 billion in 2007.

As 2008 came to a close, growing economic uncertainty and financial weaknesses in key markets imposed a “wait-and-see” mentality on the deal market. Many buyers appeared unwilling to pursue M&A transactions because the depth and duration of the downturn was not immediately clear. As a result, global automotive deal value finished 2008 trending significantly behind global cross-industry deal value, declining 45% versus 32% for cross-industry.<sup>1</sup> Automotive deal volume, however, remained in line with global cross-industry volume by declining at 9% versus 7% for cross-industry.

The clearest casualties of the past year, however, were financial buyers. Financial buyers were responsible for only 17% of global transacted disclosed value in 2008 versus 44% in 2007 and 54% in 2006. In the United States (US) in particular, financial buyers were largely inactive in the latter half of 2008, closing deals worth only \$271 million in value in the second half of the year versus \$2.5 billion in the first half of the year. Additionally, financial acquirers in North America closed only \$10 million worth of disclosed transactions in the fourth quarter of 2008 versus \$350 million in the fourth quarter of 2007 and \$15.5 billion in the fourth quarter of 2006.

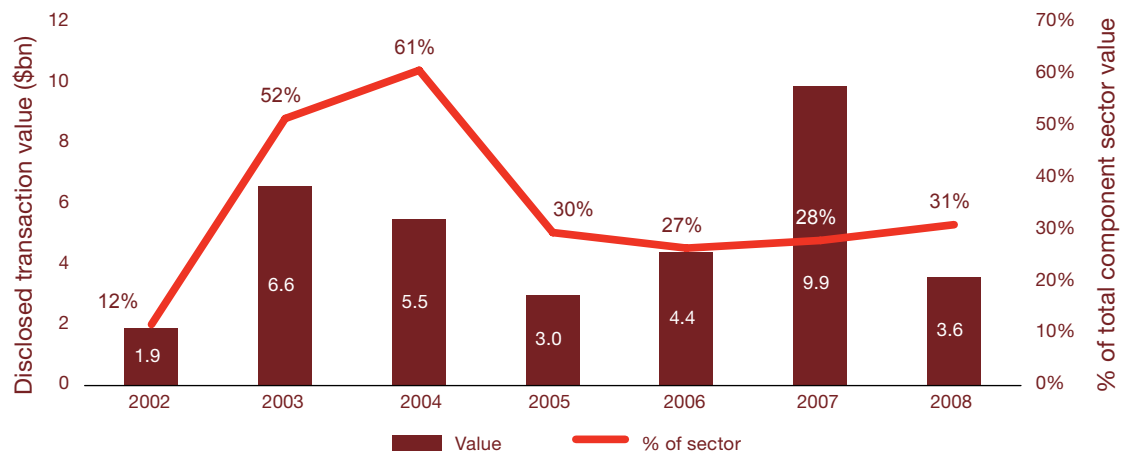
### Financial buyer global automotive M&A activity, 2005-2008



Source: Thomson Reuters and other publicly available sources

Global automotive M&A activity involving financial buyers declined significantly in 2008 from the levels experienced in 2007. Volume declined approximately 17% from 143 deals in 2007 to 118 deals in 2008 while total disclosed value declined approximately 78% from \$25.1 billion in 2007 to \$5.5 billion in 2008. The second half of 2008 saw a significant decrease in financial buyer investment in automotive markets with only \$700 million in transacted deal value closed in the second half of 2008 versus \$4.7 billion closed in the first half of 2008.

### Financial buyer M&A activity in the component suppliers sector, 2002–2008



Source: Thomson Reuters and other publicly available sources

### Top 10 deals by financial buyers

Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
<b>Financial</b>							
1	900	Federal-Mogul Corp.	United States	Thornwood Associates LP	Financial	United States	50
2	805	Stabilus GmbH	Germany	Paine & Partners LLC	Financial	United States	100
3	750	Dana Corp.	United States	Centerbridge Capital Partners	Financial	United States	n/a
4	590	Ducati Motor Holding SpA	Italy	Performance Motorcycles SpA	Financial	Italy	71
5	486	GE Capital Auto Lease PCL	Thailand	Bank of Ayudhya PCL	Financial	Thailand	100
6	300	GST AutoLeather Inc.	United States	Advantage Partners LLP	Financial	Japan	100
7	225	Dura Automotive Systems Inc.	United States	Creditor group	Financial	United States/ Europe	100
8	184	Guerra-Trailers Business	Brazil	Axxon Group	Financial	Brazil	100
9	177	Plastech (underhood and interiors units)	United States	JCIM LLC	Financial	United States	n/a
10	145	Tiger Automotive	South Africa	Ethos Private Equity Ltd.	Financial	South Africa	100

Source: Thomson Reuters and other publicly available sources

Despite the absence of mega-deals and continued weakness in the credit markets, several large transactions contributed substantially to total deal value in 2008. There were 13 completed deals valued at over \$500 million that combined to account for 72% of the total disclosed deal value. While these deals accounted for a substantial portion of overall deal value, the value and volume of potential transactions that were not completed due to economic conditions and limited access to credit may be more indicative of the current state of the deal market.

### **Strategic and distressed M&A helped sustain volume through early part of downturn**

In spite of the general turmoil in the automotive industry and a significant decrease in disclosed deal value, dealmaking did not stop in 2008. Global deal volume fell less than 3% short of the 10-year annual average of 564 transactions. While momentum from the deal boom of 2007 contributed to deal activity in the first half of 2008, with several closed deals agreed in 2007, this boom “hangover” was certainly not the sole driver behind sustained automotive M&A activity. Strategic and distressed buyers played a larger role in deal activity this year. Nine of the top 10 transactions in 2008 were executed by trade or financial buyers specializing in distressed-asset situations, versus only five in 2007.

Corporate buyers with strong cash positions took advantage of lower transaction multiples and reduced bidding competition from financial buyers to execute strategic acquisitions in 2008. The larger of these deals were concentrated in Europe and appeared to have been driven by consolidation and market expansion strategies. Examples include Schaeffler’s continued investment in Continental AG (\$3.2 billion of which was enacted in 2008, raising Schaeffler’s stake from 8% to 30%), Volkswagen AG’s acquisition of a majority stake in Scania (\$4.4 billion), Tata Motors’ purchase of Jaguar Land Rover (\$2.3 billion) and Renault’s purchase of OAO Avtovaz (\$1.2 billion).

Porsche continued where it left off in 2007, in pursuit of a controlling stake in Volkswagen AG (VW AG) by acquiring a further 12% holding in the company for approximately \$5.2 billion.<sup>2</sup> This transaction, which was the largest closed deal in 2008, brought Porsche’s holdings in VW AG to 43%, with options to purchase up to 74%. Subsequently, on the second trading day of 2009 Porsche acquired a further 8% of VW AG to bring its holding to a majority position of 51%.

In addition to strategic acquisitions, distressed asset transactions have increasingly proven attractive to financial buyers specializing in distressed situations, such as Thornwood and Centerbridge, as well as strategic players looking to take advantage of seemingly attractive valuations. There is no doubt that the industry’s difficulties led to strong distressed deal flow—a trend that will likely continue. 2008 disclosed deal value was dominated by trade players, with financial buyers focusing on distressed asset investing accounting for approximately one third of global financial buyer deal value and 74% of US financial buyer deal value.

The majority of these distressed transactions were closed in the North American supplier sector, reflecting continued distress of the Detroit 3 VMs and their suppliers. Examples include bankruptcy resulting in a change of control for Federal-Mogul, Dana and Dura, as well as asset sell-offs by Delphi, Remy and Plastech. These may very well prove to be just the beginning of what could be a swell of other distressed transactions to come. There is seeming potential for this North American trend to spread globally as both VMs and suppliers continued to struggle to deal with overcapacity, weak demand and limited credit availability in the beginning of 2009.

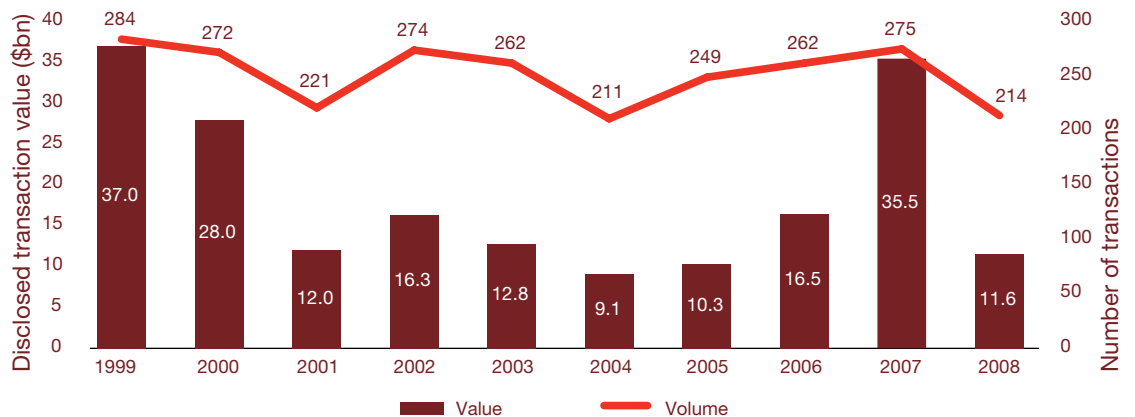
As uncertainty continues to be a near-term certainty in the global automotive industry, the lower deal values and volumes as seen in 2008 may only be the first signs of further deceleration in the deal market. The return of liquidity and credit in the global financial markets will be a critical leading indicator of the returning health of the deal market. Whereas transacted volume may remain relatively stable, disclosed value will likely remain low or continue to decline for the near-term.

# Sector in focus: component suppliers

## Sector in focus: Component suppliers

Typically, the component supplier sector is among the most active sectors in the automotive deal market. With the absence of mega-deals that drove supplier M&A activity in past years, 2008 disclosed deal value receded 67% to \$11.6 billion in 2008, versus \$35.5 billion in 2007. Similarly, deal volume declined 22% to 214 deals in 2008 from 275 in 2007, which is well below the 2000-2007 average of 253 per year. As a result, component supplier deals accounted for only 37% of overall transacted deal value in 2008, versus 62% in 2007. With high levels of unpredictability affecting all aspects of the automotive industry, activity in the component supplier deal market could prove a key harbinger of the future health of automotive M&A.

## Automotive component supplier M&A activity, 1999–2008



Source: Thomson Reuters and other publicly available sources

The high-level drivers behind supplier deal-flow in 2008 centered around ongoing sector rationalization as well as extraordinary issues predicated by financial and economic unease. Issues such as overcapacity, volatile input prices and emerging market competition were key factors in 2008 that will continue to influence supplier strategy and induce a steady flow of supplier assets available for sale. Global VM distress, inaccessible financing, and market and customer risk further dampened supplier M&A activity in 2008. Though supplier sector distress has historically attracted opportunistic investors, the broad uncertainty around automotive VM solvency, government involvement in the auto industry, and a potential reshaping of the global supplier sector have given these players reason to pause.

VM government “bailouts” and fiscal stimuli in North America, Asia and Europe may not prove to be an immediate solution to supplier distress. Additionally, the supplier sector may not see significant upside from these measures until comprehensive restructuring activities at the VM level have been concluded and a firm bottom to unit sales volumes has been determined.

As a direct result of this stress and uncertainty, momentum in the component supplier deal market slowed in volume terms toward the second half of 2008, from 119 in the first half of 2008 to 95 transactions in second half of 2008. In North America specifically, these forces have combined to practically halt the supplier deal market with only \$550 million in disclosed deal value closed in the second half of 2008, versus \$2.9 billion in the first half of 2008.

## **Top component supplier deals and trends**

- The majority of large deals closed in 2008, were by acquirers focused on either strategic or distressed transactions. Large strategic transactions were driven by consolidation strategies and primarily concentrated in Europe. Large distressed asset transactions were generally concentrated in North America and tied to the US supplier sector. Examples include: Thornwood-Federal-Mogul, Centerbridge-Dana, and Platinum Equity-Delphi Steering.
- While a slowdown in supplier M&A activity has been evident in overall volume and value terms, the long-term trend of strategic consolidation among global suppliers has nonetheless continued. Examples include Schaeffler’s increased stake in Continental AG, Polytec’s acquisition of the Peguform Group and Kongsberg’s acquisition of Teleflex Global Motion Systems.
- In light of the deal market weakness experienced in 2008, distressed asset investment in the supplier sector has contributed significantly to overall automotive M&A deal value. Additionally, assets and businesses of distressed companies have increasingly contributed to deal flow as suppliers work to raise cash (i.e. assets of Plastech, Delphi, and Remy).

- Uncertainty in the automotive market coupled with the limited availability of financing has forced acquirers to make their strategic M&A decisions with due caution. Understanding potential cash requirements, market demands, and other business risks associated with target companies under various recession scenarios highlights the importance of a robust and thorough due diligence process. In addition to competitive positioning, acquirers must also understand other operating fundamentals including real cost base, manufacturing footprint and capacity optimization. Perhaps even more important, acquirers in the automotive industry must focus on the broader automotive market and understand potential normalized demand scenarios that may return in a cyclical upswing.
- Of note: two of the largest deals in 2008 involved re-acquisition of companies sold during previous liquidity crises from financial buyers. These were Pirelli's acquisition of a full stake in parent holding company Speed SpA from a consortium of banks including Lehman Brothers and J.P. Morgan, and the Halla-led consortium's acquisition of Mando from a J.P. Morgan subsidiary.

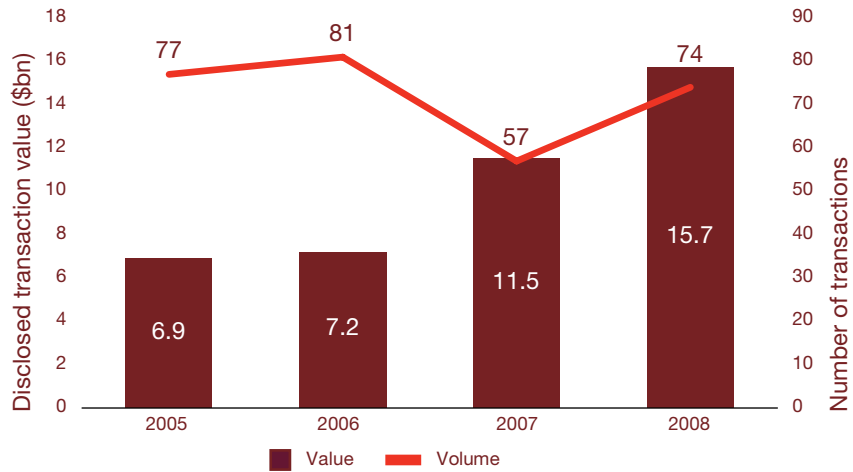
Secular trends will continue to contribute to deal flow throughout 2009. Ongoing regulatory and legislative mandates on reducing vehicle emissions and increasing fuel economy will likely drive growth by an increase in alternative powertrain-oriented M&A activity as automotive companies look to improve their positioning by taking advantage of this trend. With a handful of startup companies making advances in electric vehicle technology, a high potential exists for established automakers to purchase new technology through M&A activity.

This trend not only represents a potential boost to the deal market, but also signals a fundamental shift in the historical technology development model within the automotive industry. Whereas automotive technology has traditionally been developed in-house at substantial VM expense, the increasing importance of alternative powertrain technology has made small companies relevant to large auto manufacturers as strategic acquisitions. Key transactions in 2008, include Continental AG's acquisition of a minority stake in electric vehicle design and development group Zyteq, and Magna Electronics' acquisition of BluWav Systems—a developer and supplier of hybrid technologies.

Ongoing industry trends and near-term instability continue to reshape the component supplier category landscape. Companies must strive to address the fundamental problems that have and continue to plague the sector, which include: the need for rationalization, consolidation and the elimination of excess capacity in order to create suppliers with necessary concentration of scale and expertise. These necessities will likely continue to drive deal flow as players attempt to address global competition and R&D sluggishness as well as, actively seek out sustainable investment models. While distressed transactions and further consolidation will contribute to supplier deal activity in 2009, the slowing deal market will likely be felt in the early part of the year as economic and automotive sector weakness propagates into the broader global economy.

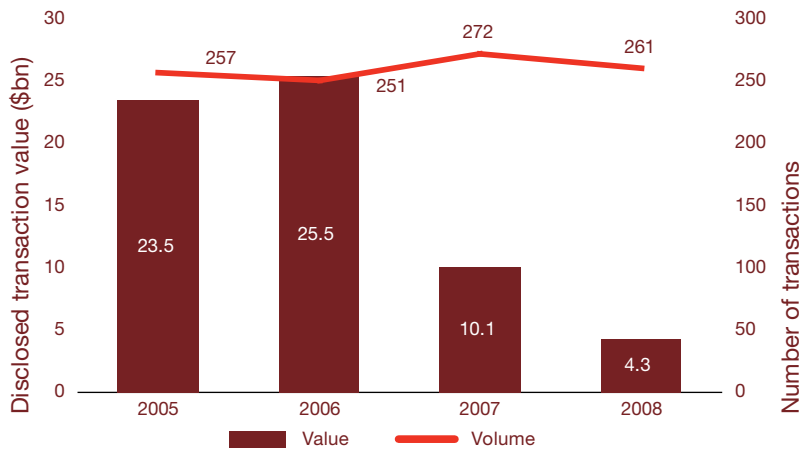
# Transaction activity by sector

## Automotive vehicle manufacturers M&A activity, 2005–2008



Source: Thomson Reuters and other publicly available sources

## Retail, aftermarket, rental/leasing and wholesale automotive M&A activity, 2005–2008



Source: Thomson Reuters and other publicly available sources

# Transaction activity by region

## Top 10 deals by region

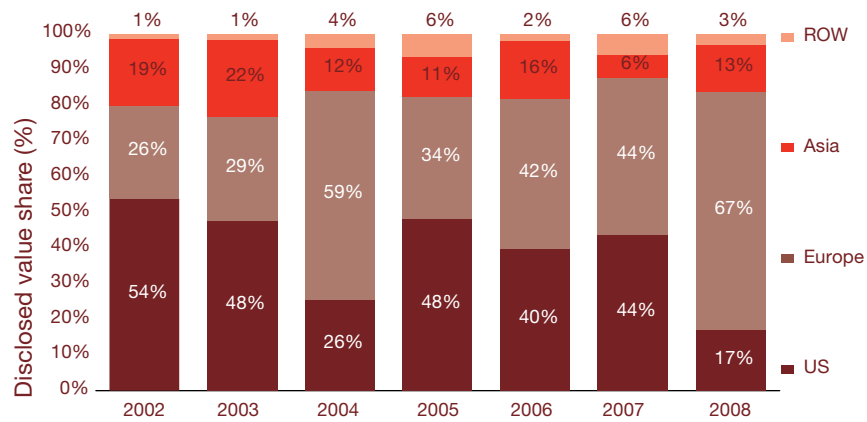
Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
<b>Asia</b>							
1	687	Mando Corp.	South Korea	Investor group led by Halla	Trade	South Korea	72
2	486	GE Capital Auto Lease PCL	Thailand	Bank of Ayudhya PCL	Financial	Thailand	100
3	336	Volvo AB-Indian Truck, Eicher CV Division	India	Volvo Eicher Commercial Vehicles Ltd.	Trade	India	100
4	306	Fuji Heavy Industries Ltd.	Japan	Toyota Motor Corp.	Trade	Japan	8
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7	247	Kumho Rent-A-Car	South Korea	Korea Express Co Ltd.	Trade	South Korea	100
8	127	Shanghai Diesel Engine Co Ltd.	China	Shanghai Automotive Co Ltd.	Trade	China	50
9	97	Kuozui Motors Ltd.	Taiwan	Hotai Motor Company Ltd.	Trade	Taiwan	16
10	90	Chongqing Lifan Ind (Grp) Co Ltd.	China	AIG	Financial	United States	14
<b>Europe</b>							
1	5,145	Volkswagen AG	Germany	Porsche Automobile Holding SE	Trade	Germany	12
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3	3,201	Continental AG	Germany	Schaeffler Group KG	Trade	Germany	22
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8	590	Ducati Motor Holding SpA	Italy	Performance Motorcycles SpA	Financial	Italy	71
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<b>US</b>							
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7	219	Penske Truck Leasing Co LP	United States	Penske Automotive Group Inc.	Trade	United States	9
8	177	Plastech (underhood and interiors units)	United States	JCIM LLC	Financial	United States	n/a
9	129	Chrysler LLC—Jeep Wrangler	United States	KUKA AG	Trade	Germany	100
10	125	Purcell Tire & Rubber Company	United States	MBO Vehicle	Financial	United States	n/a

Source: Thomson Reuters and other publicly available sources

Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
<b>RoW</b>							
1	184	Guerra-Trailers Business	Brazil	Axxon Group	Financial	Brazil	100
2	174	Ballard Power Systems—Automotive Fuel Cell Assets	Canada	Daimler AG & Ford	Trade	United States	100
3	145	Tiger Automotive	South Africa	Ethos Private Equity Ltd.	Financial	South Africa	100
4	127	Chrysler LLC—Tritec Motors plant	Brazil	Fiat Powertrain Tech Srl	Trade	Italy	100
5	68	Compania Hulera Tornel SA	Mexico	JK Tyres & Industries Ltd.	Trade	India	100

Source: Thomson Reuters and other publicly available sources

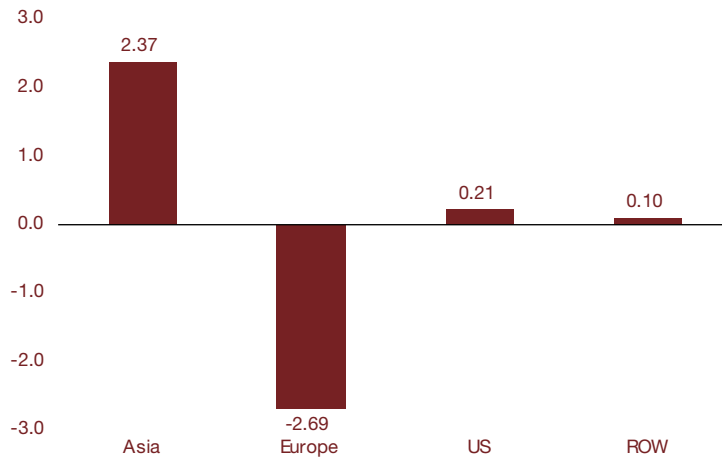
### Automotive transaction value share by target region, 2002–2008



Source: Thomson Reuters and other publicly available sources

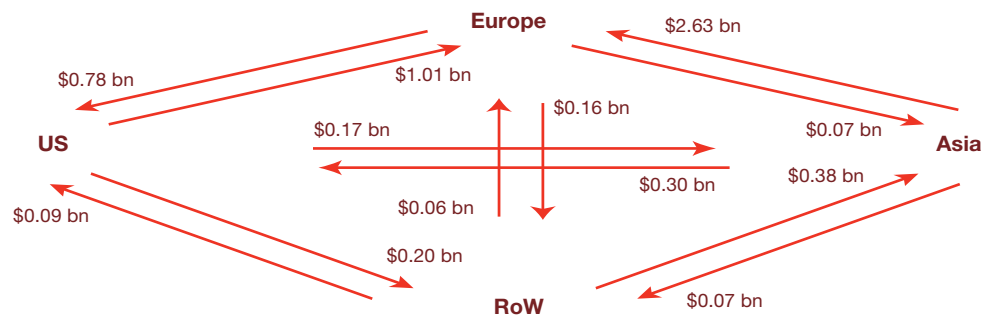
## Net deal flow by region, 2008

Disclosed net transaction value (\$bn)



Source: Thomson Reuters and other publicly available sources

## Net deal flow by region, 2008



Source: Thomson Reuters and other publicly available sources

# Outlook

“If you’re going through hell, keep going.”

Winston Churchill

The M&A outlook for 2009 is at best uncertain, as a result of the interdependence between deal activity and financial, macroeconomic and industry factors. Structural and technological shifts throughout the VM and supplier tiers along with an uncertain market and economic outlook to set the stage for an active deal market. M&A will likely serve as a key means for players to survive the economic downturn and position themselves for shifting trends. However, constrained access to affordable financing and downside risk may limit the volume of deals closed in 2009 and beyond. This paradox illustrates that while the fundamental drivers to execute deals remain—and in fact may have become more acute under current conditions—the capital and necessary risk tolerance may not.

Although uncertainty reigns given the current state of the automotive deal market and the patterns that have emerged in 2008, we believe the following nine trends will occur in 2009 and beyond:

1. Deal market activity will likely begin very slowly—increasing only if credit becomes available.
2. Deal flow from distressed situations will likely continue as the global recession, automotive industry distress, and positive restructuring efforts lead to more automotive assets being put up for sale. However, the availability of buyers, along with their risk tolerance in a volatile market, will ultimately determine whether this deal flow develops into a distressed M&A investment trend.
3. Traditionally structured M&A transactions may be challenging to complete due to current and projected credit conditions. This will result in more innovative and non-conventional deal structures becoming increasingly prevalent—particularly in the supply base and distribution areas. These structures, including debt purchases/loan-to-own, private investment in public entity (PIPE), and seller-financing, have proven to be creative means to gaining controlling stakes without highly-leveraged financing. In the current conditions, non-cash or minimal cash transactions are becoming increasingly popular as companies try to leverage such unconventional assets as intellectual property, market access, or production and distribution networks in order to complete deals.
4. “Mergers of necessity” may become even more prevalent as companies look to align with stronger players. As long as the global economic crisis continues, cash and solvency will be the clear focuses of most companies; forcing strategic mergers that ensure survival as well as accelerating divestitures and spin-offs in an effort to raise capital.

5. The VM consolidation trend is back, and may well prompt broader market consolidation than what was seen in the late 1990s. In the first month of 2009, Porsche acquired a majority stake in VW AG; Fiat and Chrysler discussed a strategic agreement; and Ford and GM continue to explore options for divesting Volvo, Hummer and Saab. These deals more than likely represent early examples of this consolidation trend, which has been echoed by many industry executives, including Fiat's Sergio Marchionne who stated, "Independence in this business is no longer sustainable. I cannot continue to work on cars on my own."<sup>3</sup> If this wave of VM consolidation is similar to those in the past, a cascade of supplier M&A and market entries may very well follow as the value chain attempts to realign with new opportunities that are presented by a VM merger or alliance.
6. Market conditions permitting, interested buyers still exist—in both the strategic and financial industry. Though the credit crunch has significantly depressed financial buyer activity in automotive industry, their interest in the industry remains strong. With as much as \$1 trillion in "dry powder" on standby<sup>4</sup> financial buyers may look to use non-conventional deal structures in order to deploy this capital. Correspondingly, on the trade buyer side, companies in emerging markets are still looking for access to technology, new markets, and brands. Finally, mature market companies still need to expand their footprint in international growth markets, and M&A activity will be instrumental in achieving all of these objectives.
7. Perhaps even more important for the automotive industry at large are the structural and underlying shifts that are taking place as a result from more stringent environmental regulations along with changing consumer preferences. CO<sub>2</sub> and fuel economy regulations will continue to force the industry to shift accordingly, and M&A will likely play a significant role. Existing players must position themselves to take better advantage of these trends and technology acquisition may well prove to be a large deal driver.
8. Governments' traditional role as of "lender of last resort" has recently been extended outside their traditional role of backstopping commercial banks. Through these efforts, governments may acquire equity positions or debt that is convertible into equity as a means to prop-up their domestic VMs and component suppliers. As a direct stakeholder, governments will have increasingly more influence over potential deals and could drive changes in control if they begin to unwind these temporary positions.
9. Finally, and perhaps counter-intuitively, transactions during downturns have historically yielded better returns, as valuations are extremely low. Therefore, the strong and successful companies of tomorrow may very well be forged through M&A activity during the current economic downturn.

While it will likely be difficult to close deals in the current economic environment, M&A is a tool that if used properly, could help resolve some of the industry's current difficulties. Consolidation and portfolio adjustments may help companies survive the near-term cyclical crisis, as well as deal with structural problems such as excess capacity, increasing development costs, insufficient profitability, and pricing power. As the industry undergoes historic change and restructuring, the deal market can play an important and central role across the value chain. How companies approach industry shifts in relation to M&A will strongly influence their positioning and profitability in the years to come. We must hope that credit and market conditions allow this important tool to remain available during these trying times, as M&A will be necessary to help our industry move toward a more sustainable future.

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<sup>1</sup> Thomson Reuters

<sup>2</sup> J.P. Morgan European Equity Research estimate

<sup>3</sup> Luca Ciferri, "Marchionne: The party is over", *Automotive News Europe*, December 8, 2008

<sup>4</sup> Preqin, January 15, 2009

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