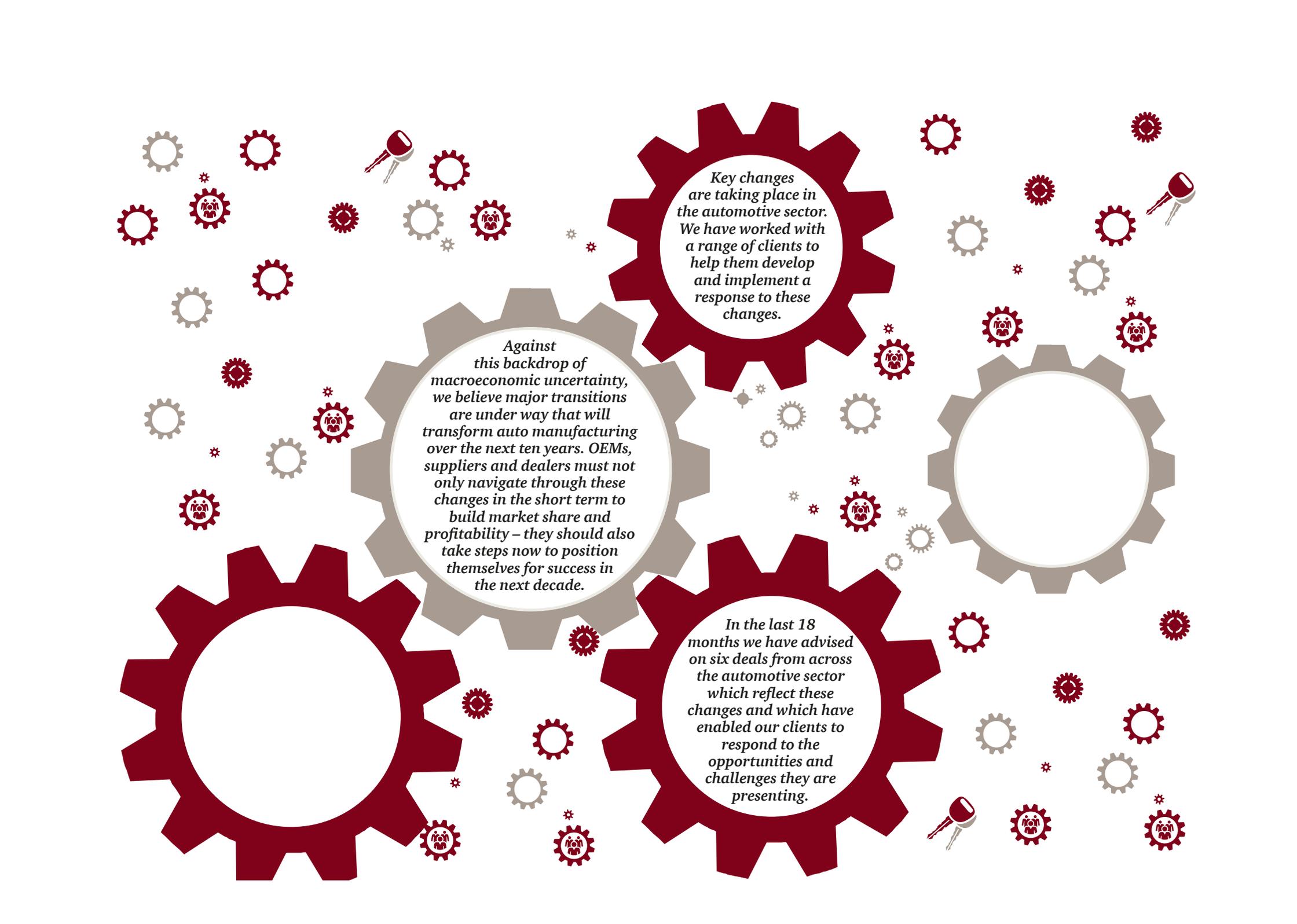


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# *PwC Midlands M&A Advisory*

## Spotlight on Automotive



The infographic features a central arrangement of four large gears. The top gear is dark red and contains text. The middle-left gear is grey and contains text. The bottom-right gear is dark red and contains text. The bottom-left gear is dark red and is empty. The background is white with scattered smaller gears in dark red and grey, and several keys in dark red and grey. The text is in a serif font, italicized.

*Key changes are taking place in the automotive sector. We have worked with a range of clients to help them develop and implement a response to these changes.*

*Against this backdrop of macroeconomic uncertainty, we believe major transitions are under way that will transform auto manufacturing over the next ten years. OEMs, suppliers and dealers must not only navigate through these changes in the short term to build market share and profitability – they should also take steps now to position themselves for success in the next decade.*

*In the last 18 months we have advised on six deals from across the automotive sector which reflect these changes and which have enabled our clients to respond to the opportunities and challenges they are presenting.*

## Our focus on the automotive sector

We've advised on six deals in the last 18 months which highlight the major changes taking place in automotive



### Cara Haffey

UK Head of Industrial  
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- Cara is the UK Corporate Finance Head of Industrial Products and has over ten years' deals experience in the sector
- Cara also leads the UK Automotive practice at PwC. This role includes maintaining regular contact with the leading players in the industry



### Darren Jukes

UK Industrial Products  
& Services Leader

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- Darren is UK Industrial Products and Services Leader
- Darren has over 18 years experience of advising clients on transactions across a broad range of industrial manufacturing sectors, including the automotive, aerospace, advanced materials, electronics and general industrial markets



### Neil Sumner

Director

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- Neil leads Midlands Corporate Finance Industrial Products and has over 10 years' deals experience including four years with IMI plc
- Neil has recently completed deals in the automotive and speciality products sectors with Prodrive, Worldmark and Caparo



### Tom Copeland

Assistant Director

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Email: tom.p.copeland@pwc.com

- Tom has worked at PwC in the Midlands for over nine years, advising on transactions for seven years and working with a variety of leading automotive clients
- Tom has experience in the automotive supply chain and has advised on a variety of transactions in the last 18 months, including the acquisition of Wild by Sertec, raising growth finance for Prodrive and supporting Penso with their strategic partnership with Cytec as well working on the Caparo administration

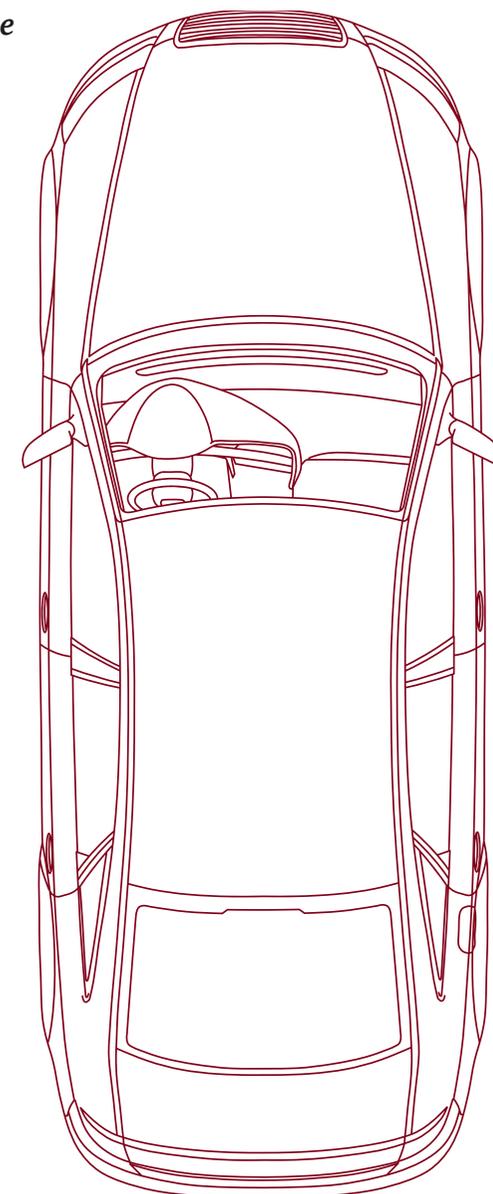


### James Stevens

Manager

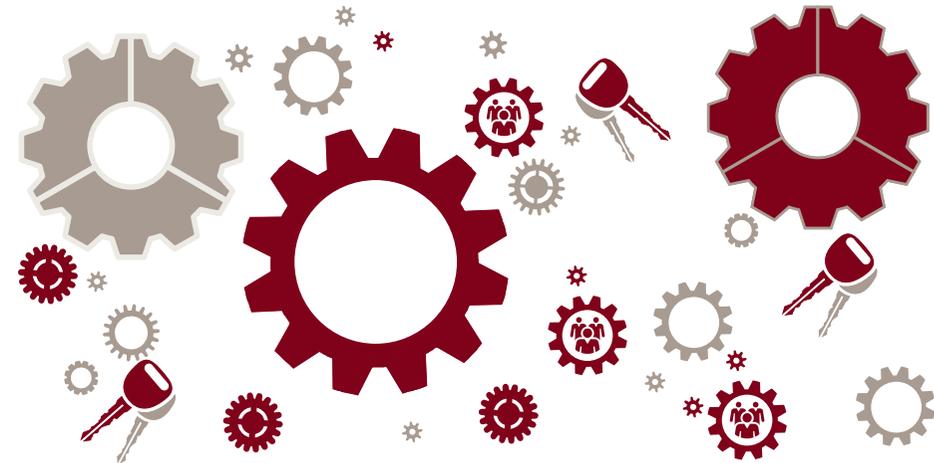
Mobile: +44 (0) 752 528 2327  
Email: james.a.stevens@pwc.com

- James has over five years' experience at PwC, working with a range of private and public companies in Assurance and Corporate Finance
- Recent deals include the sale of MIRA (automotive testing and consultancy business) to HORIBA, the sale of Caparo out of administration and the disposal of certain assets out of Breedon Aggregates and Hope Construction Materials



## Our focus on the automotive sector

The transactions we have advised on span the whole automotive value chain and demonstrate the depth and breadth of our understanding of and focus on the sector



The form and structure of the transactions has varied enormously, depending on the strategic aims and ambitions of the shareholders...

### Acquisition support and debt advisory

Acquisition of

**WILD**

by

**SERTEC**

Purchaser advised by  
PwC

### Acquisition

Acquisition of

Millbrook

by

Spectris

Purchaser advised by  
PwC

### Sale to international corporate

Sale of

**MIRA**

to

**HORIBA**

Vendor advised by  
PwC

### Strategic investment

Sale of

**PENSO**

to

**CYTEC**

Vendor advised by  
PwC

### Capital raising

Capital raising for

**prodrive**

by

Business Growth Fund  
(BGF)

Vendor advised by  
PwC

### Sale of family business

Sale of

**GSFCAR PARTS**

to

**Parts Alliance**  
Quality Autoparts

Vendor advised by  
PwC



Investments to help fund growth



Re-financing to assist with cross-border acquisition



Searching for overseas acquisitions/JVs to implement expansion plans



Sale to an international trade buyer



Supporting private shareholders in de-risking their investments



Forming a strategic partnership through a sale of an equity interest

# Political changes and evolving megatrends are driving change in global automotive markets

## Worldwide



The worldwide automotive industry has been enjoying a period of strong growth and profitability. However, growth in most markets is expected to slow

Key challenges brought through quickly evolving political structures and technological developments will provide industry stakeholders with plenty of strategic challenges.

The drive for change has seen both increased investment from manufacturers and the supply chain in technology and the entrance of non-traditional tech companies through strategic partnerships or M&A activity.

**Global megatrends of accelerating urbanisation, demographic shifts and technological breakthroughs continue to drive the innovation agenda**

The future car will represent a step change in form and function compared to what is being offered today. Demographic changes and increased urbanisation are driving the need for manufacturers to respond to continually evolving customer needs.

Millennials are increasingly looking for instant access to an array of different technologies and are much less concerned about owning their own car. This shift will eventually develop into shared riding fleets and autonomous cars.

Technological innovation is accelerating, particularly with increased quality of connectivity, advancements in electric cars and the evolution of low cost sensors

which allow the car to be aware of its surroundings – eventually contributing to the refinement and use of the self driving vehicle on the road.

## Top 15 global automotive manufacturers in 2015

Rank	Country	Cars	Commercial vehicles	Total	% change
1	China	21,079,427	3,423,899	24,503,326	3.3%
2	USA	4,163,679	7,936,416	12,100,095	3.8%
3	Japan	7,830,722	1,447,516	9,278,238	-5.1%
4	Germany	5,707,938	325,226	6,033,164	2.1%
5	South Korea	4,135,108	420,849	4,555,957	0.7%
6	India	3,378,063	747,681	4,125,744	7.3%
7	Mexico	1,968,054	1,597,415	3,565,469	5.9%
8	Spain	2,218,980	514,221	2,733,201	13.7%
9	Brazil	2,018,954	410,509	2,429,463	-22.8%
10	Canada	888,565	1,394,909	2,283,474	-4.6%
11	France	1,553,800	416,200	1,970,000	8.2%
12	Thailand	772,250	1,143,170	1,915,420	1.9%
<b>13</b>	<b>UK</b>	<b>1,587,677</b>	<b>94,479</b>	<b>1,682,156</b>	<b>5.2%</b>
14	Russia	1,214,849	169,550	1,384,399	-26.6%
15	Turkey	791,027	567,769	1,358,796	16.1%

Source: SMMT

# Political changes and evolving megatrends are driving change in global automotive markets

## Europe



### Political changes and the ensuing uncertainty in world economies will have a future impact on growth in the automotive market

In the European automotive market, Brexit is likely to have an impact on the long term position of OEMs. Nissan's commitment to its Sunderland plant for the next generation Qashqai and X-Trail is a welcome boost to the industry. However, OEMs are waiting to understand what the implications are on currency, tariffs and the free movement of labour.

UK manufacturing output performed strongly in August (14 year high for August) and September 2016 partly driven by high export demand. However, the likely impact on several key components of the automotive industry, including CAPEX and R&D, hang in the balance while the consequences of Britain's departure are deliberated.

In 2016, the UK's largest export market was the EU, accounting for 57% of vehicle exports. Around 1.7 million light vehicles were produced in the UK in 2016 with around 70% of these exported\*.

There could also be a significant impact on imports into the UK from the EU which are around three times the value of current export levels.

Other politically impacted markets such as Brazil and Russia continue to lose ground whilst more established automotive markets such as the U.S. and China are forecast for continued growth, although at a lower rate than previous levels.

## UK



### Largest number of cars manufactured in UK in last decade although UK economic outlook and uncertainty created by Brexit could result in lower demand and slowdown of investment

More than 30 manufacturers build in excess of 70 models of vehicle in the UK supported by more than 2,000 component providers and some of the world's most skilled engineers. In 2016, more cars were manufactured in the UK than any other year since 2005. Over 75%\* of these cars were exported with Europe representing the strongest growth and largest export market. Challenges in both China and Russia led to a fall in demand in those markets.

JLR continues to deliver record sales growth with trusted suppliers at the heart of their supply chain growing alongside them. However, keeping pace with JLR's growth can be challenging and require considerable investment. We are also seeing suppliers evaluating ways to support JLR with their Nitra manufacturing plant (joint ventures, manufacturing facilities and strategic acquisitions all being on the agenda).

Meanwhile, Honda and Nissan have continued to heavily invest in the UK for the Civic and New Juke models respectively.

However, latest forecast data predicts a decline in demand for vehicles in the UK market in 2017, with the uncertainty caused by Brexit potentially impacting on manufacturers' future investment decisions.



# Lightweight technology

## Trends affecting the automotive industry

### Increasing regulatory requirements



New US CAFE standards  
**In 2016**

New regulations to ensure vehicles  
must now average

**34.1 miles per gallon**



## Increased regulatory requirements driving industry towards light weight or battery solutions

Tighter emissions regulations are rapidly coming into force across the world. These are becoming more expensive for OEMs to comply with, requiring higher volume to amortise increasing costs. Regulators are also mandating that more safety-related features, such as backup cameras, be included as standard equipment on new models, adding further to costs.

One way to meet the tighter standards is to reduce weight by substituting lighter materials.

This has driven a significant increase in investment in both the material development and the manufacturing processes surrounding these light weight solutions.

We have already seen a movement by OEMs from steel towards aluminium for structural body parts together with increasing use of plastic material. As technology advances, we are starting to see manufacturers significantly reduce cycle times for carbon fibre composite parts, providing them with the ability to mass manufacture structural components.

## Our recent deal experience

### Capital raising

Capital raising for

**prodrive**

by

Business Growth Fund  
(BGF)

Vendor advised by  
PwC

### Strategy behind the deal

Carbon fibre composites offer a lightweight solution for premium car manufacturers looking to reduce vehicle fuel consumption and emissions and to improve handling and aesthetics. In 2014, the global automotive composites market was valued at USD 3bn and is expected to increase to USD 7bn by 2022.

Both transactions are aimed to capitalise on this market opportunity. Prodrive received growth funding from The Business Growth Fund to support their growth plans. Meanwhile, Penso received strategic investment from Cytec (now part of the Solvay Group) to provide the ability to jointly tailor materials, design and manufacturing technologies to maximise composite parts' performance while minimising finished part cost.

### Strategic investment

Sale of

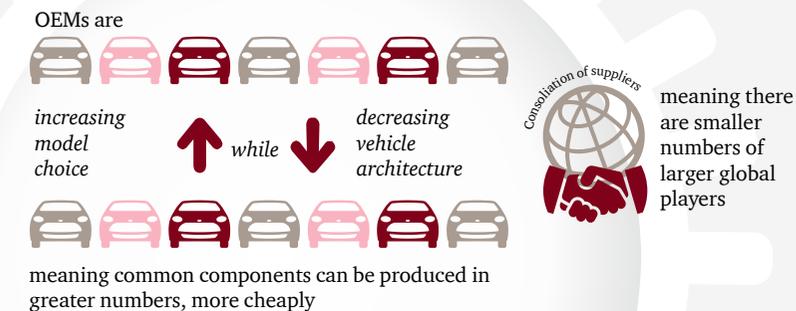
**PENSO**  
TECHNOLOGY - DRIVEN  
to  
**CYTEC**

Vendor advised by  
PwC

# Increased vehicle ranges driven by consolidation of vehicle platforms

## Trends affecting the automotive industry

### Next generation platforms and platform modularisation



## Next-generation platforms and platform modularisation resulting in an increase in common parts across a wider range of vehicles

Consumers appear to be rethinking their long love affair with individual vehicle brands and viewing cars more as transportation machines. Although this is not likely to have a major impact on sales volume, it is affecting how much people are willing to pay for automobiles. That willingness is also affected by the waning of product differentiation, due partly to a general increase in vehicle quality throughout the industry. Consumers are also demanding more sophisticated infotainment systems at a low price, and are expecting more high-end features to be standard.

Pressured by both consumer preference for more segmented vehicles and the need to reduce costs for competitive and regulatory reasons, OEMs are adding to the number of models they offer and at the same time reducing the number of vehicle architectures on which they are built, drastically improving product commonality.

Volkswagen, the first major OEM to embrace the strategy, is moving toward four modular platforms. GM is going from 30 core and regional platforms in 2010 to 26 in 2015, and has announced plans to move to four flexible platforms by 2025. Toyota, Ford, JLR and other OEMs are following a similar approach. The resulting complexity increases costs somewhat, but the additional expense is outweighed by savings from the sharing of common components between cars and platforms, and increased volume.

The adoption of these next-generation common platforms will also lead to a consolidation of suppliers that will result in a smaller number of large, global players. Those suppliers that are able to secure a high volume of common parts on the lead vehicle for each platform are able to have a high chance of securing common parts on all future vehicles on that platform.

## Our recent deal experience



### Strategy behind the deal

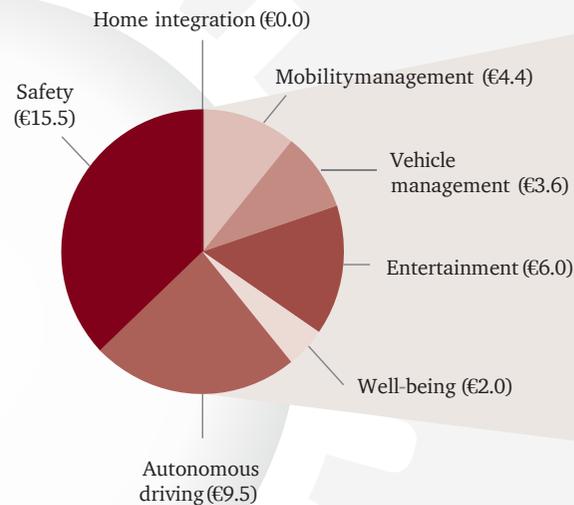
Sertec provide lower body pressing and assembly structures. Successful players in the supply chain are securing the common parts on lead vehicles for new platforms which positions them well to continue to supply those parts for all vehicles from that platform.

The acquisition of WILD represents a transformational opportunity through enhancing its product capabilities, customer portfolio and providing an international platform at the heart of the European automotive hub.

# Perspective on Automotive

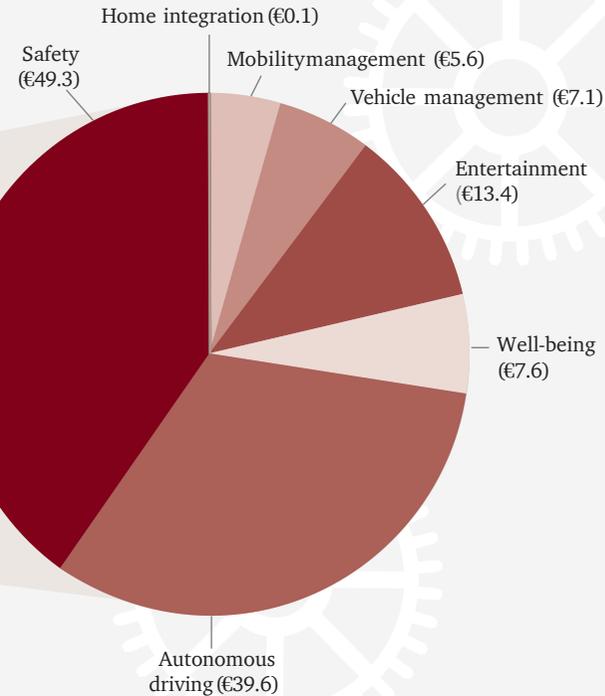
## 2016 Market potential in billions of euros

Total: €40.3 billion



## 2021 Market potential in billions of euros

Total: €122.6 billion



Note: Totals may not reflect sums due to rounding. Passenger vehicles only, excluding light commercial vehicles.

Source: Strategy&

The car is increasingly connected with smartphones, sensors, actuators and other intelligent devices within the 'Internet of Things'. By 2020, an estimated 50 billion devices are expected to be connected to the Internet, ten times the installed base of personal computers.

The connected car is more than a package of new automotive technologies and features – it is a disruptive development that will change traditional industry structures and bring with it new business models as OEMs and traditional suppliers are able to put a premium on innovation. Software breakthroughs are becoming as critical as hardware innovation and competition is increasingly coming from non-

traditional players. Ever more vital software content has also accelerated the pace of change in products and features. Whereas the time frame for new vehicle launches is typically three to four years, the cycle for new software iterations, often driven by interactivity with mobile devices, is measured in months.

Today, the cost of electronics and software content in autos is circa 35 percent lower than it was a decade ago. Importantly, electronic systems continue to contribute more than 90 percent of innovations and new features. By 2020, it is expected that the value of digital products will increase to 50% of new premium cars (2015: 35%).

## Perspective on Automotive

All major OEMs are targeting traditional product areas such as quality and safety; connecting the car through infotainment and telematics provides a way for OEMs and suppliers to differentiate their products. A recent Consumer Reports survey found that infotainment equipment was the most troublesome feature in 2014 vehicles, suggesting a powerful upside for companies that can devise superior systems. Telematics features, including semiautonomous driving aids such as automatic parallel parking and lane-keeping assistance as well as sensor-based reporting on car maintenance and usage, also present the chance to forge a closer, longer-term relationship with customers and increase margins.

A cocktail of rapid advancements in connected and autonomous driving technologies, increasing regulation and a squeeze on emissions brings with it intense scrutiny on auto OEMs and suppliers, as seen with the fall-out of the VW scandal. A logical progression for the industry will be to move towards increased testing both in-house and independently in order to deliver on the quality demanded by customers and safety standards enshrined in automotive regulation.

## Our recent deal experience

### Sale to international corporate

Sale of



Vendor advised by  
PwC

### Strategy behind the deal

HORIBA acquires UK based company MIRA Ltd. to expand vehicle development and testing business, and contribute to development of next-generation mobility such as autonomous vehicles.

### Acquisition

Acquisition of

Millbrook

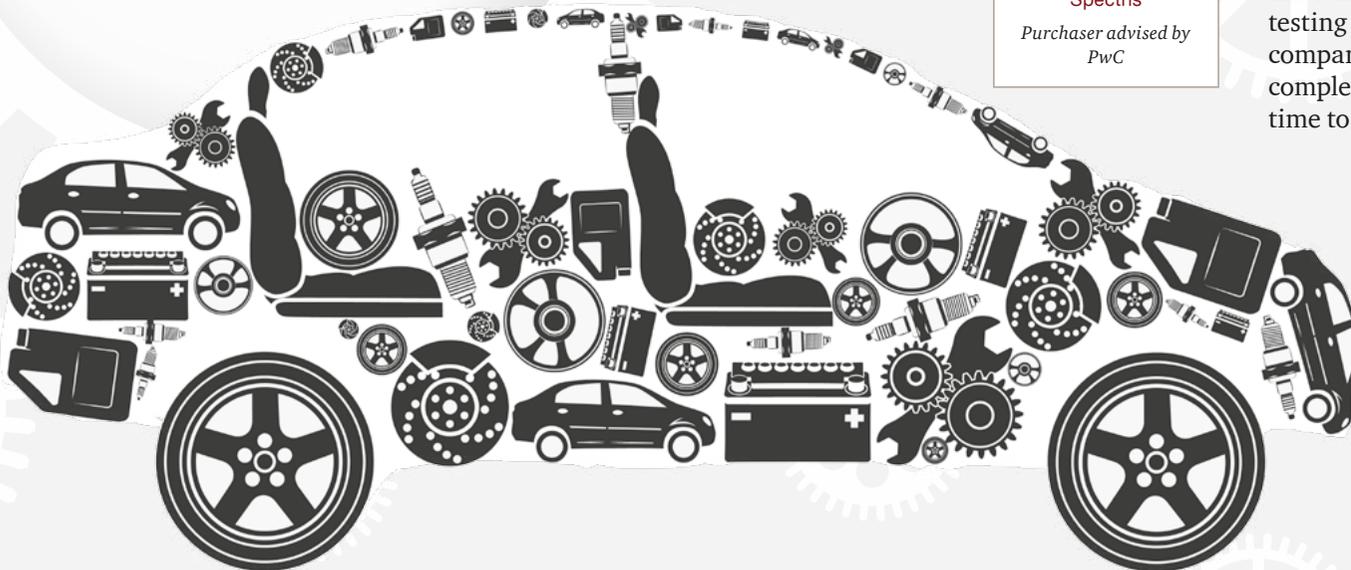
by

Spectris

Purchaser advised by  
PwC

### Strategy behind the deal

The acquisition of Millbrook is highly strategic to Spectris, providing its customers with differentiated solutions that incorporate a combination of hardware, software and services. Supported by Spectris' global reach and expertise, the combination of Millbrook's service excellence and the testing equipment and software in other Spectris operating companies will help customers address the increasing complexities involved in product testing whilst reducing the time to market for new products.



## *We build long term relationships, working closely with our clients to understand their future strategy...*



“ We have worked with PwC over the last four years and they have built a good understanding of our business and future strategy. This has allowed PwC to input and challenge our strategy along the way and pro-actively identify relevant opportunities in the market. We were delighted to work with PwC on a transformational acquisition for our business. We were impressed with their ability to quickly unlock the transaction and the relentless drive/hands on support in delivering this strategic opportunity. The transaction was complex involving an international acquisition and refinancing of our Group (including an overseas debt raise). PwC not only delivered on a suitable financing structure for the transaction but also met our longer term objective of introducing our first syndicated lending partner. Overall, PwC did a fantastic job, showing great commitment throughout and were a pleasure to work with. ”

**Grant Adams**  
Sertec CEO and Shareholder



“ The sale of MIRA Limited was an extremely challenging task. Whilst the business represented an iconic UK brand in the automotive world, the challenge lay in the complexity of the key stakeholders – namely the pension schemes and the diverse nature of the underlying business. PwC worked closely with management to navigate through the complex situation and helped to deliver an outstanding result for the stakeholders. The PwC team were a pleasure to work with and fully committed to delivering a great result for all the stakeholders. ”

**George Gillespie**  
Horiba MIRA CEO

## *...ensuring we are best placed to help identify opportunities and deliver relevant insight*

“ *The advice we received from the PwC team along with their commitment to delivering the transaction were key to the successful outcome we achieved. I would have no hesitation in engaging them again for a similar exercise.* ”

**David Richards**  
*Prodrive, Founder shareholder*

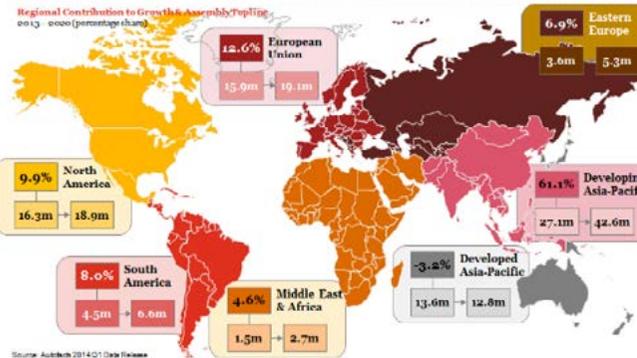


“ *The team had excellent levels of energy and commitment which helped drive the transaction to a successful completion. You provided great support and were always available to talk through any of my concerns and provide thoughtful advice and recommendations. I would recommend working with PwC and given your detailed understanding of our business, I hope to continue working with you in the future. PwC did a fantastic job, well done and thank you.* ”

**Jevon Thurston-Thorpe**  
*Penso, Shareholder*

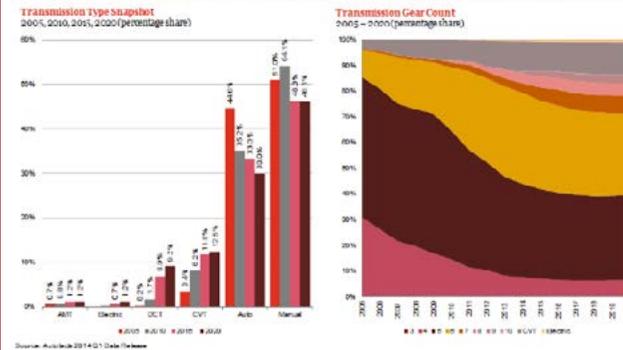
### Regional outlook

With the exception of Developed Asia-Pacific, mature markets have stabilised and are expected to provide meaningful contribution growth numbers during the forecast window. Emerging markets, and in particular Developing Asia-Pacific, will continue to drive volumes as both local market demand and export opportunities increase.



### Powertrain - Transmission outlook

The development and rollout of increasingly efficient gearboxes is expected to play a significant role in meeting global emission standards. Mature markets in particular are expected to see a noticeable uptick in 7, 8, 9 and 10-speed transmissions throughout the forecast window, with CVTs receiving increased demand as well.



### Car jacking and car hacking

In-vehicle security emerges as connectivity evolves

TECHNOLOGICAL ADVANCES WITH TELEMATICS AND INFOTAINMENT HAVE RESULTED IN ENORMOUS AMOUNTS OF SOFTWARE AND ELECTRONICS—MANY OF WHICH ARE NOW STANDARD FEATURES. AS CARS FIND THEIR WAY INTO THE INFORMATION AGE, HOW SHOULD OEMS ADDRESS AUTOMOTIVE CYBER RISKS?

**Automobile hot spots**  
Car starter apps via smart phones, touch-screen climate control, tire pressure monitoring systems...the modern automobile has never provided more electronic features. With GM's

More >

Examples of in-vehicle electronic control units (ECUs)



# Automotive

## Key trends at a glance



### Demand Outlook - Large divergence

Amongst the top 10 brands from a sales volume perspective expanding, front drive models. While a few of the other top the strongest performance with Dacia up 22.8%. Mazda up



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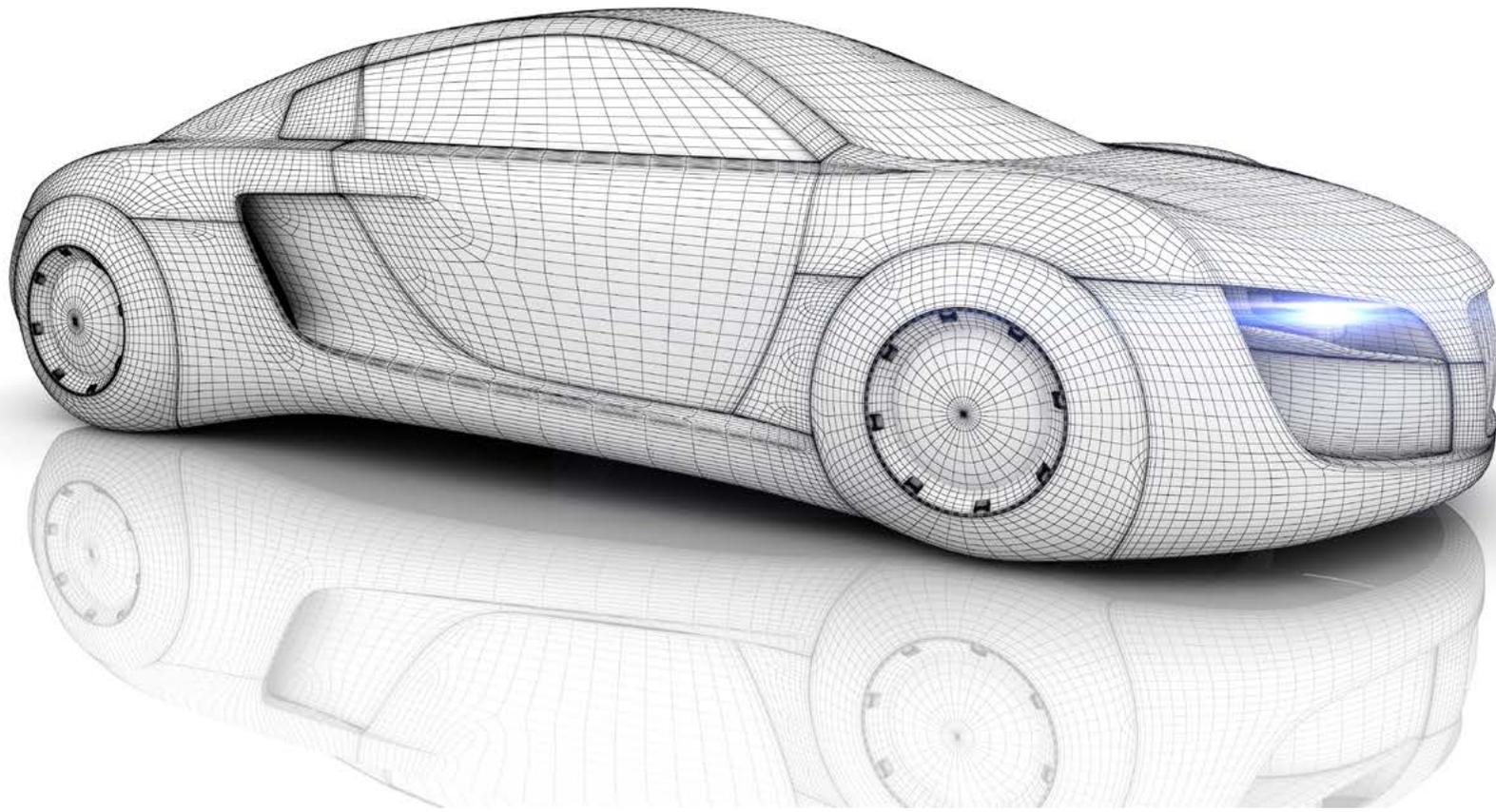
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