

AUTOMOTIVE SECTOR UPDATE Q3-2024

M&A Environment – Global/Germany

October 2024

Preview

European auto suppliers – headwind decreasing, challenges remain

Light vehicle production (LVP) volume

2024 Forecast

- ▶ Global LVP 2024 is expected to decline by 1.9% y/y to 88.8m units mainly driven by inventory de-stocking

2025 Outlook

- ▶ Global LVP will expand by 2.4% y/y to 90.9m unit
 - Vehicle price decreases and a related push to BEVs in Europe (OEMs to meet fleet CO₂ reduction levels) support production volume
 - LVP volume of Western OEMs is positively impacted by new platform and model launches

EU tariffs on Chinese BEVs imports finally in place since Oct. 2024

- ▶ LVP volumes above might be too optimistic given the newly adopted EU tariff scheme which adds between 7.8% (Tesla Shanghai) to 35.3% (SAIC) to the existing 10% tariff on Chinese BEVs exports into EU
- ▶ German OEM's BEV exports from China into EU take a tariff burden of 20.7% going forward
- ▶ Chinese OEM's BEV market share in the EU is only ca. 1% (YTD2024), while a 50%+ tariff would be needed to keep Chinese OEMs outside of the EU

Operating margin upside

Operating costs relief

- ▶ A general relief in raw materials, energy, transport & logistics, and R&D is observed which will help to improve suppliers' operating margins
- ▶ Wage inflation remains an issue, but with an easing trend into 2025
- ▶ In context of the upcoming wave of new OEM platforms and new model launches, R&D expenses have most likely peaked at suppliers' level and will decline from 2025 onwards

Debt and interest relief

- ▶ Debt levels should have seen their peak in 2023/24 and interest rates have begun to erode already
- ▶ Net income will benefit over proportionately from interest rate cuts

Restructuring benefits to unfold

- ▶ (Large cap) European auto suppliers have adjusted capacities to plateauing LV production units
- ▶ By nature, it takes some time until restructuring efforts finally convert into savings which are expected to unfold from 2025 onwards

Structural challenges

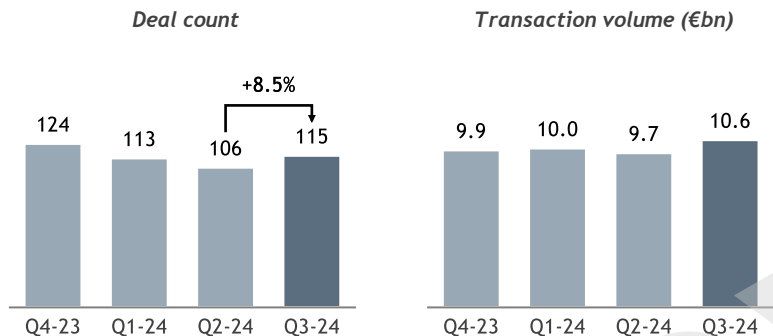
(Large cap) European auto suppliers, in contrast to auto OEMs, have done significant capacity adjustments to respond to plateauing European LV production. While large caps may get along with the new flattish European volume reality given a more global and balanced customer portfolio, small and mid-cap suppliers increasingly struggle with lower European LVP volumes going forward while at the same time Chinese OEMs increasingly take market share in Europe



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Executive summary – Q3-2024

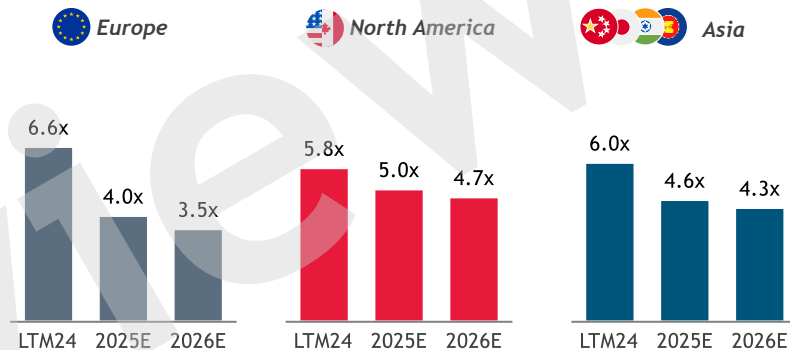
Global sector M&A summary



Commentary

- ▶ Compared to the previous quarter, a modest increase in transaction count (+8.5%, mainly EU deals) and transaction volume is observed
- ▶ Q3-24 has seen a few interesting M&A landmark transactions such as **Luxshare's** acquisition of a majority share in **LEONI** (EV €1bn) as well as multiple share purchase offers made by **ABC Technologies** to acquire all outstanding shares of **TI Fluid Systems** (EV €2bn, EV/Sales 0.6x, EV/EBITDA 6.6x)
- ▶ In Q3-2024, ten transactions targeting German auto suppliers, which is slightly above the 5Y-average of eight transactions per quarter took place

Implied EV/EBITDA(x) trading multiples



Commentary

- ▶ Implied EV/EBITDA 25E trading multiples of the European and North American auto supplier universe have slightly expanded compared to BDO's Q2-2024 sector update
- ▶ EBITDA 25E margin forecasts remain in line with Q2-2024
- ▶ EBITDA multiple spread between auto suppliers in Europe and North America remains at ~1x EV/EBITDA in favor of North American peers which translates into an EBITDA multiple premium of +25% for 25E and +34% for 26E vs. European stock-listed suppliers

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