

# AUTOMOTIVE SECTOR UPDATE Q2-2024

M&A Environment – Global/Germany

August 2024

Preview

# European auto suppliers – on the highway to better times?

Chinese auto OEMs maybe constructive to European auto suppliers, but probably not for all of them

## *EU automotive suppliers' shares trade at depressed levels*

- ▶ Suppliers suffer from higher labour intensity and wage cost inflation while passthrough to OEMs is complicated given carmakers themselves face wage inflation pressure
- ▶ Financial leverage raised concerns over resilience of FCF generation abilities beyond working capital effects
- ▶ Fears over Chinese OEMs to disrupt traditional supply chains

## *... although business environment is intact*

- ▶ Global LVP volume 2023 was up by +10% (yoy) and increased by +20% versus trough level
- ▶ Cost inflation eases and interest rates moderate
- ▶ Operating margins tend to recover

## *Catalysts to M&A activity upside & share price appreciation*

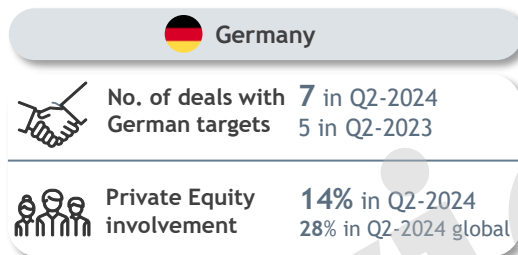
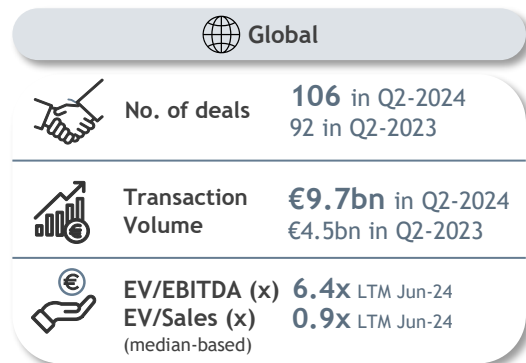
- ▶ Easing wage cost inflation will lead to self-help margin improvements
- ▶ Decreasing interest rates will help on financing costs and reduce fears on financial leverage
- ▶ Production outlook for 2024 is (too) low based on recent S&P forecast cut to negative 1.1% growth vs. 2023
- ▶ Restructuring efforts drive margin upside
- ▶ China OEM exposure might be the main key to success as Chinese OEMs plan to land with factories in overseas

## *EU suppliers' Chinese OEM exposure: a way forward for EU suppliers – but not for all*

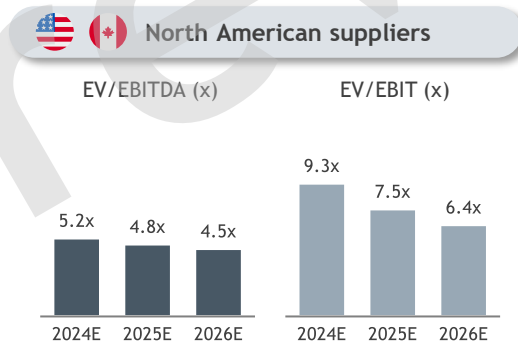
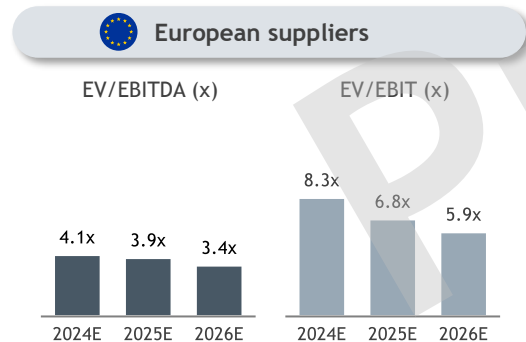
- ▶ Historically, EU suppliers benefited from the expansion of EU & US OEMs into China
- ▶ Now, this support reverses with Chinese OEMs not only taking local market share but also expanding globally – especially into EU and South America
- ▶ Thus, relationships to Chinese OEMs become increasingly important to European suppliers
- ▶ Exposure to Chinese OEMs is a welcome insulation from global market share shifts
- ▶ European suppliers can offer Chinese OEMs benefits of localised scale, quality and safety – essentials for a successful European expansion strategy
- ▶ **While Chinese OEMs continue to take market shares in China, Europe and South America, the critical question is: Do EU suppliers have the necessary cost footprint to earn a place in the supply chain of Chinese OEMs as they localise in Europe?**

# Executive summary – Automotive Suppliers Q2-2024

## M&A sentiment – the “big picture”



## Trading multiples\* – selection



## Selected deal highlights

– 31<sup>st</sup> May 2024 –

### Renault Group and Geely form Joint Venture HORSE Powertrain Limited

► Renault Group and Geely announce the creation of HORSE Powertrain Limited with each Group holding a 50% stake in the new Company. HORSE offers state-of-the-art powertrain solutions for ICE, Hybrid and Electric Vehicles applications. The Company is expected to reach approx. €15bn in revenues and produce ~5m powertrain units p.a.



– 2<sup>nd</sup> May 2024 –

### Aurelius to acquire Dayco’s propulsion solutions business

► Aurelius Private Equity Mid-Market announced the acquisition of Dayco Propulsion Solutions from Dayco Group (Hidden Harbor Capital backed). The transaction emphasizes Aurelius growing focus on North America. Dayco Propulsion Solutions has more than \$450m in revenue and a full order book above \$2bn



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