

Automotive Interiors & Exteriors Sector and M&A Report

2018

Consolidation continues for Automotive Interiors & Exteriors

Automotive Interiors & Exteriors continues to benefit from strong industry trends, such as greater emphasis on vehicle differentiation and the integration of additional features. The global market is forecasted to grow by CAGR of 3.3%, reaching €316bn by 2020.

Consolidation continues to race along in the Interiors & Exteriors segment of the Automotive Suppliers market, driven by divestitures from conglomerates who are choosing to focus on more profitable 'core' activities. Strategic investors (primarily specialists) are seizing on the opportunity for ('bolt-on') acquisitions - to enhance and to diversify their product and customer portfolios, and to expand international footprints.

Key insights:

- The global market for Interiors & Exteriors was worth 277bn in 2016, and is forecast to grow by a CAGR of 3.3% between now and 2020, when it will be worth 316bn. Europe is home to most of the largest and most influential tier 1 suppliers - e.g. Faurecia (FRA), Plastic Omnium (FRA), International Automotive Components (LUX) and Grupo Antolin (ESP).
- There are four key growth drivers: an increase in global vehicle production; higher demand for premium vehicles; a greater emphasis on vehicle differentiation (using diverse Interiors & Exteriors designs and systems); and the integration of additional features such as 'human machine interfaces' (HMI) and other smart electronic devices.
- Listed Interiors & Exteriors players are currently valued at 5.0x EBITDA, on average, while the five-year average is 4.7x EBITDA. This represents a significant discount compared to the rest of the Automotive Suppliers due to their lower average margins & earnings.
- The M&A market is seeing large diversified conglomerates such as Visteon (US) and Magna (CAN) divest their Interiors & Exteriors business units to focus on more profitable 'core' activities. On the other hand, emerging specialists such as Grupo Antolin (ESP), Motherson Sumi and Yanfeng Automotive Interiors (CHI) are using M&A to break into Interiors & Exteriors' top ranks - these consolidation plays are being undertaken with the expectation of higher margins & earnings down the road.
- In 2017, consolidation among automotive seating suppliers continued apace: we saw Lear acquire Grupo Antolin's automotive seating business, and Adient acquire the US-based Futuris Group.



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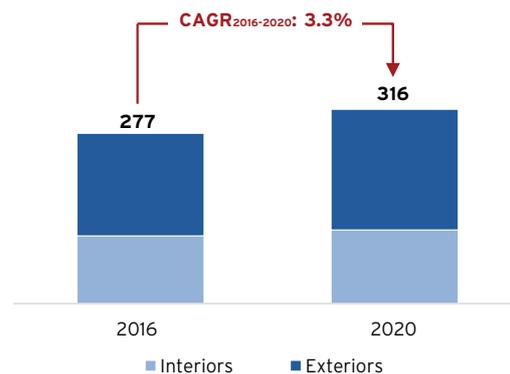
"Interiors & Exteriors continue to be a hot area for M&A among Automotive Suppliers - over the last 12 months, we saw some spectacular deals in the seating suppliers segment. Looking forward, we expect deal activity to remain high in 2018, thanks to the favorable market outlook, fragmented competitive landscape and wide availability of interested strategic and PE investors."

Market outlook

The global market for Interiors & Exteriors is expanding at a very constructive CAGR₂₀₁₆₋₂₀₂₀ of 3.3%.

- The global market for Interiors⁹⁾ & Exteriors is currently worth €277bn.
- Global demand for Interiors & Exteriors components is expanding by a CAGR of 3.3%₂₀₁₆₋₂₀₂₀, reaching €316bn by 2020.
- Mature markets in Europe, North America, Japan and South Korea represent the bulk of the Interiors & Exteriors market. Their contribution to global Interiors & Exteriors demand currently stands at 75%. Meanwhile Europe leads the group, with 30% of global demand, boosted by its outsized share of the premium vehicles market - i.e. pricier Interiors & Exteriors components.

Global Interiors & Exteriors Demand (in €bn.)



- Looking forward, Asia (particularly China) will be an important source of new demand for Interiors & Exteriors. This is due in large part to growth in vehicles (including premium), but also because these Asian customers are demanding more features and equipment be installed in their vehicles.

Sector trends

Growth is being fueled by demand for premium vehicles, evolving technical specifications, and shifting consumer & OEM demands.

Growth in vehicle production

A steady rise in global vehicle production is supporting long-term demand for Automotive Interiors & Exteriors

- Global passenger car & light vehicle production is forecast to increase by a CAGR of 2.3% between 2015 and 2023, reaching 107 million units by 2023
- Major growth regions in EM include: Middle East/Africa (CAGR: 6.9%), South-East Asia (CAGR: 3.3%), and China (CAGR: 3.7%)

Demand for premium

Growing demand for premium cars will continue to turbo-boost valuations for Interiors & Exteriors suppliers

- Global premium car sales are expected to outperform the overall market - e.g. the shift towards premium products in China
- Growing value of Interiors & Exteriors, which has resulted from a rise in demand for premium vehicles and superior equipment

Innovation will drive margins

Margins are expected to improve as OEMs seek more product innovations to support vehicle differentiation

- OEMs are developing modular assembly capabilities that enable more flexible production of vehicles on the same platform. Interiors & Exteriors is playing an increasingly important role in product differentiation
- The trend towards small & mid sized series will boost growth and margins

Autonomous driving

The longer-term move towards autonomous driving will open up opportunities in entirely new product segments

- The 'cars of the future' will widen the traditional transportation brief by offering a place for passengers to relax, work and communicate
- OEMs are looking to design entirely new interior architectures. Suppliers need to expand their capabilities by increasing and enhancing product ranges

Sources: IHS; Capitalmind Analysis; ⁹⁾ including all visible and palpable components; excluding electronics, infotainment systems, fasteners and acoustic components

Selection of our deals in Automotive

alpha
acquired
EURO PART

Independent aftermarket spare parts

Texelis
sold to

Axles for railways, metros and military vehicles

SPPP
completed a fundraising underwritten by

Automotive fluids and performance fuels

FIELDS GROUP
sold to
Maehler Kaeege
Reflex & Allen

Electrical connectors, cable & wire harnessing

TEXELIS
completed a fundraising underwritten by
bpi france
& historical shareholders including

Axles for railways, metros and military vehicles

KB Components
acquired
LUNKETEL

Plastic components

HG HELIOS Group
was sold to
RIH
supported by
FRANKLIN TEMPLETON INVESTMENTS
G.S.O. CAPITAL PARTNERS

Paint coatings

Sava
sold to
Savatech
CGSO

Industrial rubber

CMAC MicroTechnology
completed a MBO with the support of
KBC

System critical electronics

SPPP
was acquired by the management supported by
BNP PARIBAS PRIVATE EQUITY
and
fmea

Industrial painting

Strategic review and shareholders exit
HG HELIOS Group

Paint coatings

Sava
restructured €300m of debt with
NLB ABANKA
UniCredit
Raiffeisen BANK

Industrial rubber

If you would like to discuss this report in more detail or opportunities for your business, please get in touch



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