



# Automotive Industry

## ANNUAL UPDATE 2021

**Record-Breaking Automotive M&A  
Activity in 2021**

**Supply Chain Issues Persist**

**Buyer Demand & Access to Capital  
Driving 2022 Momentum**





# 2021 Market Summary & Outlook

## INTRODUCTION

There were 821 middle-market automotive M&A transactions in 2021, a 38% increase from 2020. Automotive M&A activity in Q4 2021 represented the highest quarterly total in the Stout database in a four-year period, with 249 automotive transactions in Q4 2021 — up 18% from Q4 2020.

COVID-related challenges caused softness in early 2020 M&A as OEMs, suppliers, and retailers adapted their businesses to the pandemic (e.g., temporary shutdowns, cost cutting, and government programs). M&A quickly picked up in the fourth quarter of 2020 and into 2021; however, macroeconomic headwinds plagued the industry with increasing commodity costs and supply chain disruptions.

The primary driver for a strong 2H'21 was the healthy performance of public markets, indicating higher confidence levels and sound fundamentals. Global M&A activity by private equity firms (both selling and buying) helped to lead the charge in 2021, with nearly 38% of transactions being sponsor backed.

Positive momentum continues into 2022, which is expected to be another strong year for M&A activity. There continues to be strong demand from both strategic and financial buyers despite the continuation of COVID-19 conditions and lingering supply chain constraints. Whether an automotive supplier finds itself in a healthy or challenged post-COVID environment, M&A and restructuring activity over the next 24 months could be imperative in positioning suppliers for longer-term success.

## KEY THEMES & MACRO TRENDS

- Five-year-high levels of M&A activity in 2021 by volume, and record levels of M&A by deal value
- The global shipping container shortage continues to stifle the supply chain
- Positive momentum heading into 2022, with strong buyer demand and access to capital
- Improved company performance in many automotive sectors despite increasing commodity costs and operational challenges
- Supply chain disruptions and shortages of semiconductor chips are not expected to be resolved in 2022, while demand for cars continues to increase
- M&A is expected to be both a catalyst and opportunity for organizations to right-size operations to meet new market demands of a post-pandemic and continuously evolving automotive sector

Source: S&P Capital IQ, Pitchbook

# 2021 Market Summary & Outlook (cont.)

## RECENT MACRO PERFORMANCE

The global economy has proven to be remarkably resilient even as COVID-19 cases have remained at elevated levels. Over the past year, the unemployment rate and unemployed persons measures fell by 2.8% and 4.5 million, respectively, as vaccines became widely available, and many in-person events resumed. Real U.S. GDP growth was strong in 2021 as the economy reached new all-time highs.

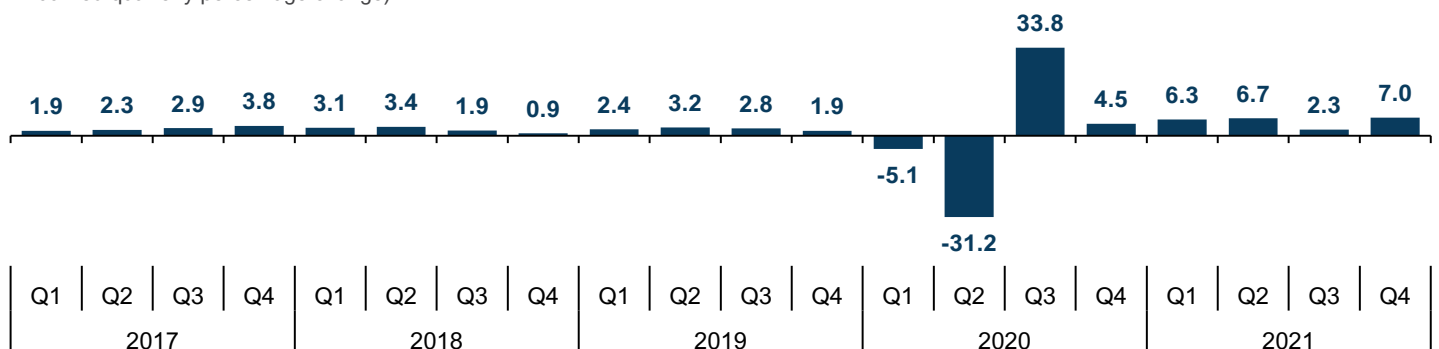
## AUTOMOTIVE SALES AND PRODUCTION

The automotive industry, which was ramping up production to meet post-pandemic demand, faced strong headwinds in the first half of 2021 due to various supply chain constraints. These supply issues hurt auto manufacturing, with GM, Ford, and other OEMs temporarily closing plants or reducing production. With new car output being hampered, inventories at dealerships have reached historic lows, and strong demand for new cars pushed prices to unprecedented levels.

Despite recent supply chain challenges temporarily impacting automotive sales and operational trends, the industry's long-term demand profile remains intact, with production levels expected to grow in 2022 and beyond.

## Real GDP Growth

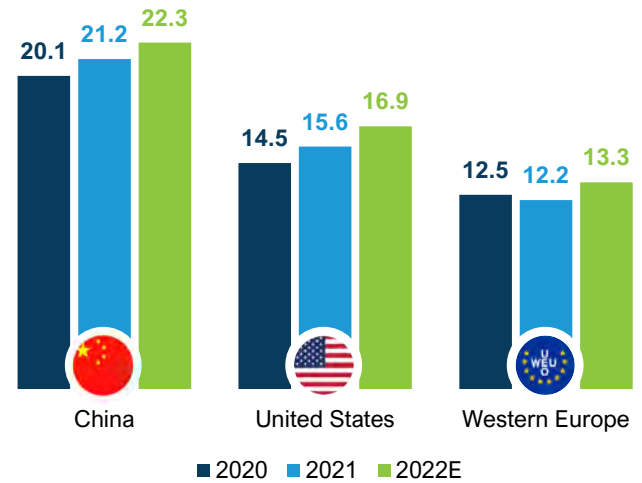
(Annualized quarterly percentage change)



Source: FRED Economic Data

## Global Passenger Car Sales

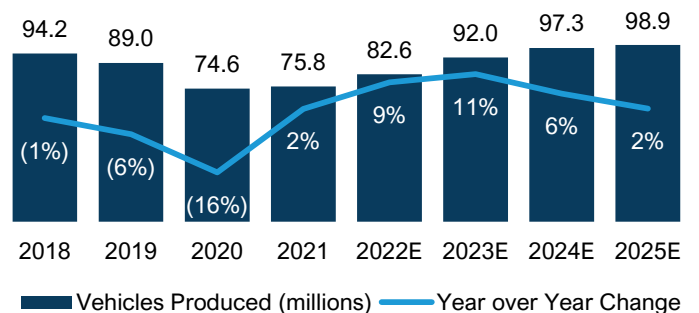
(sales in millions)



Source: IHS Markit

## Global Automotive Production

(units in millions)



Source: IHS Markit

# Automotive Supply Chain Disruptions

## MICROCHIP SHORTAGE

The automotive industry (accounting for ~10% of global semiconductor sales) was hit hardest by the semiconductor shortage. When auto sales began to rebound in the second half of 2020, supplies of automotive chips quickly began running low.

Chip manufacturers and auto suppliers are entering into long-term agreements and partnerships to improve order visibility and secure supply. With projected vehicular microchip content, automotive semiconductor supply continuity will remain a focus in the coming years.

## STEEL PRICING TRENDS

Over the past year, steel prices have surged in response to international supply chain disruptions as a result of the COVID pandemic, with a historic index high of 76.0 in August of 2021.

Rising domestic steel prices have pushed U.S. firms to import steel from overseas despite the 25%+ import tariffs and additional shipping costs.

Industry experts expect the steel price rally to lose steam in 2022 as steel mills add capacity and imports gradually reach U.S. shores.

## SHIPPING CONTAINER SHORTAGE

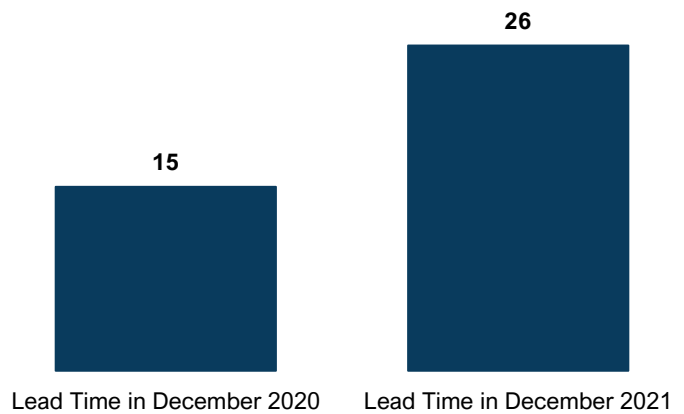
The increase in post-lockdown trade volumes choked up shipping terminals and led to congested sea routes, shipping delays, and stockpiling at ports.

China, which recovered first from the COVID-19 impact, started opening trade routes but then faced challenges in bringing empty containers back from Western countries still under lockdowns.

The auto industry continues to see delays sourcing raw materials and components, such as rubber, plastics, and seating foam, from Asian countries.

## Automotive Semiconductor Lead Times

Lead Time in Weeks



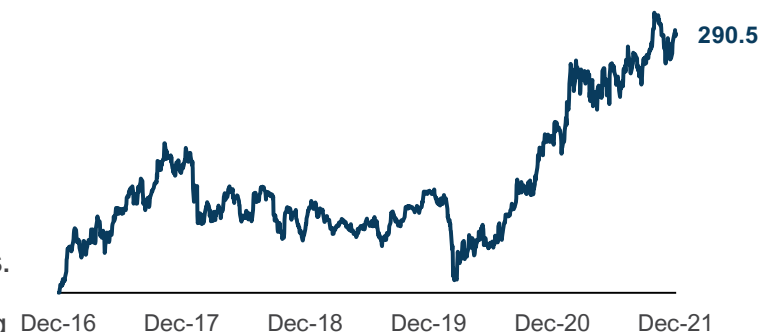
## Historic Steel Pricing Summary

(Indexed to 0.0 as of 12/31/2016)



## Shipping Container Leasing Index

(Indexed to 0.0 as of 12/31/2016)



Source: BloombergNEF, IHS Markit, S&P Capital IQ

# Electric Vehicle Outlook

## CHANGES TO SUPPLY CHAINS

EVs are less complex and less labor intensive than traditional combustion engine vehicles due to their lower number of components involved in production.

Most OEMs are building modular platforms to allow for maximum efficiency, as multiple models will be able to be built on the same line.

Electric vehicles also require less tooling and servicing than their combustion engine counterparts while simultaneously creating jobs in other areas such as energy, charging infrastructure, and digitalization.

Advanced features allowing for more updates and retrofitting could reduce overall annual demands, with less annual scrappage.

OEMs face many choices going forward regarding how to configure their supply chains, with many looking to further integrate with large-scale battery production as they transition towards the production of electric vehicles.

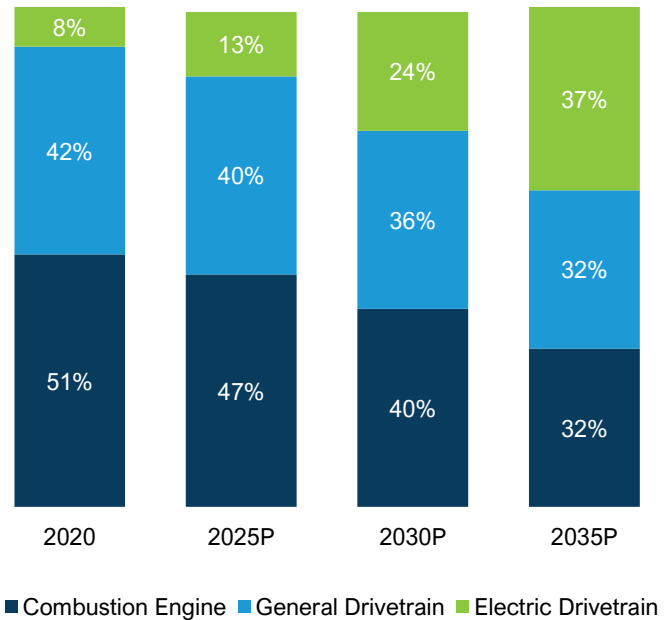
OEM Business Model	Sales	Design	Final Assembly	Body / Chassis	Drivetrain	Power Mgmt. System	Battery Pack	Major Components	Service
Vertically Integrated	In-house	In-house	In-house	In-house	In-house	In-house	Partner/ In-House	In-house / Outsource	In-house
Traditional	In-house	In-house	In-house	In-house	In-House / Outsource	In-house	Partner/ In-House	In-house / Outsource	In-house
Asset Light	In-house / outsource	In-house	Partner / Outsource	Partner / Outsource	Outsource	Outsource	Partner / Outsource	Outsource	Partner / Outsource
Niche	In-house	In-house	Partner / Outsource	Partner / Outsource	Outsource	Outsource	Outsource	Outsource	Partner / Outsource

Automakers are looking to secure future supply of their most costly and critical component in vehicle production, with market leaders like Tesla building gigafactories to keep up with the demand for battery packs for their vehicles.

Other OEMs have opted away from in-house production and toward partnerships and minority interests in battery companies to secure future supplies.

Source: Automotive News, Credit Suisse Research

## EV Drivetrains Taking Share



Source: Kearney



# Automotive M&A Database Highlights

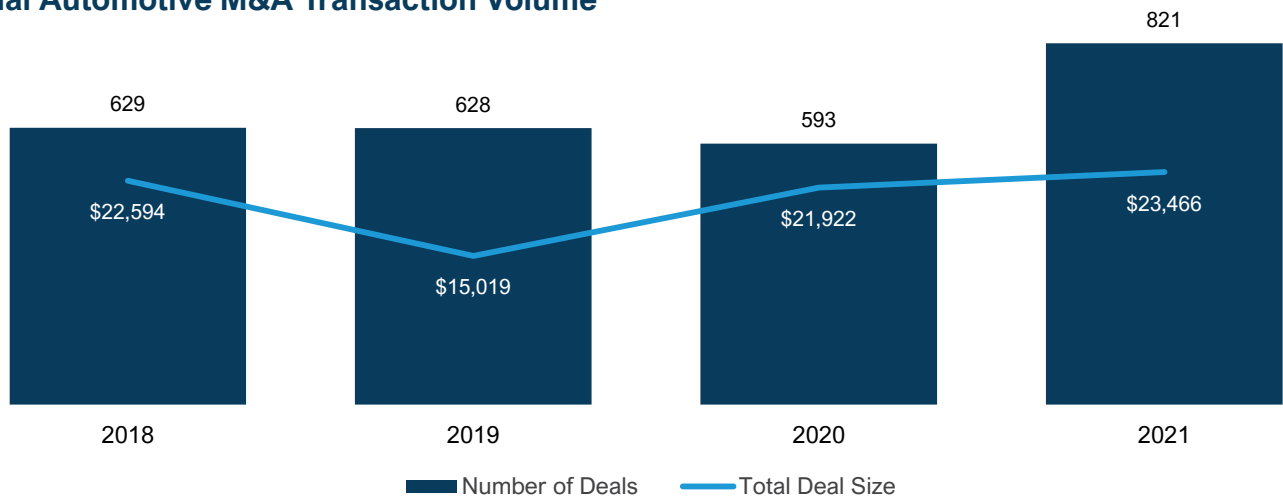
## Quarterly Automotive M&A Transaction Volume<sup>1</sup>



## AUTOMOTIVE MIDDLE-MARKET M&A TRENDS

Post-COVID shutdown M&A activity quickly picked up in late 2020; however, macroeconomic headwinds plagued the industry in early 2021 with increasing commodity costs and supply chain disruptions. With improving conditions in 2H'21, automotive M&A experienced significant levels of activity in late 2021, with 249 middle market deals announced in Q4'21, making it the most active quarter in the past four years. M&A is expected to be both a catalyst and an opportunity for organizations to right-size operations to meet new market demands of a post-pandemic and continuously evolving automotive sector.

## Annual Automotive M&A Transaction Volume<sup>1</sup>



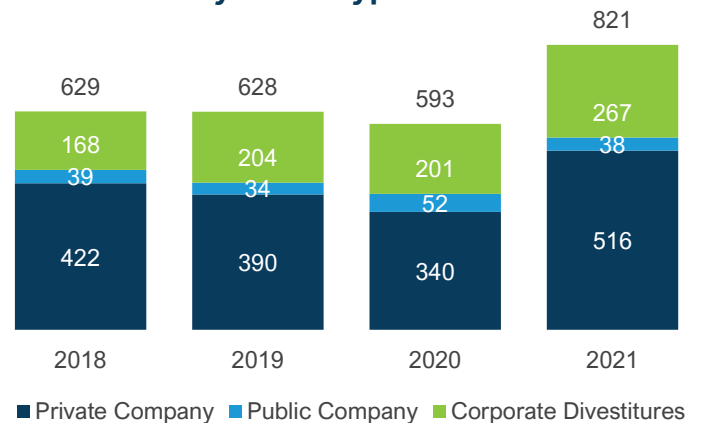
Source: S&P Capital IQ (1) Represents announced deals and closed deals – excludes deals with EV below \$50 million and above \$1 billion

# M&A Database Highlights (cont.)

## ACTIVITY BY SELLER TYPE

The increase in Automotive middle-market M&A activity from 2020 to 2021 was largely driven by private company transactions and corporate divestitures, which rose by 51% and 33%, respectively. The increase in M&A transactions by these types of entities is likely due to a sharp return in consumer confidence following 2020 and increased long-term visibility into the effects and risks of the COVID-19 pandemic.

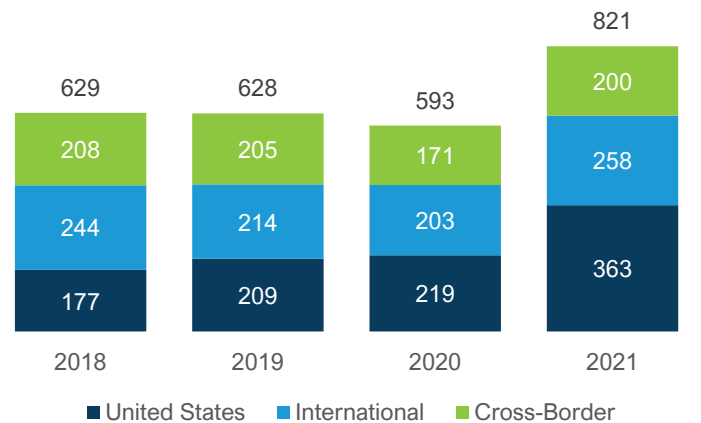
## M&A Volume by Seller Type



## ACTIVITY BY GEOGRAPHY

The United States experienced the largest growth in automotive M&A activity of all geographies during 2021, increasing by 65% year-over-year. Cross-border M&A activity increased by just 17%, as pandemic-related travel restrictions remained in place. As international travel restrictions continue to loosen, it is expected that cross-border M&A activity will increase at a faster rate than domestic M&A activity.

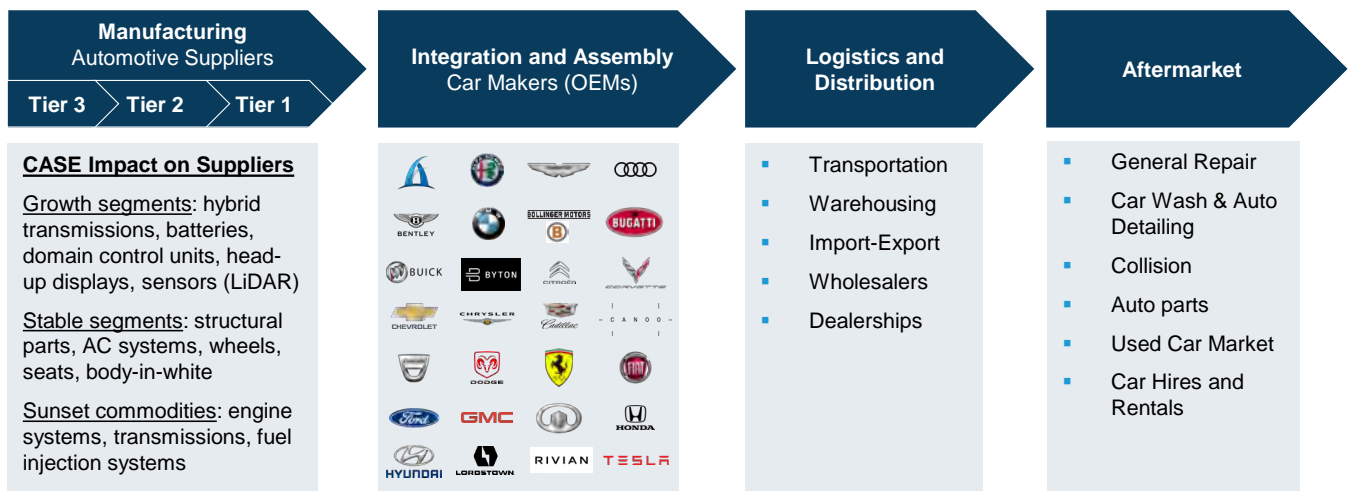
## M&A Volume by Geography



Source: S&P Capital IQ, IHS Markit

## M&A and AUTO SUPPLY CHAIN EVOLUTION

Over the next decade, the automotive industry will face a magnitude of change driven primarily by four mutually reinforcing trends: Connected, Autonomous, Shared, and Electric (“CASE”). M&A will become increasingly important to fill gaps in capabilities in order to allow suppliers to deliver complete and fully functional systems.



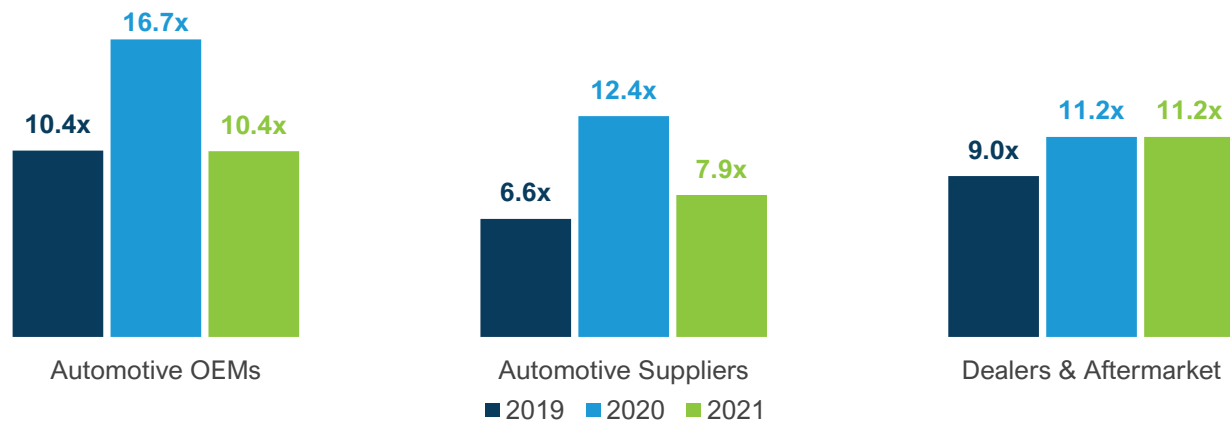
# Automotive Market Trends

## VALUATION METRICS

The U.S. stock market extended its bull run in 2021, building on momentum from the historic rebound seen in the last three quarters of 2020 and accommodative monetary policy. For the full year of 2021, the Dow, S&P 500, and Nasdaq were up 18.7%, 26.9%, and 21.4%, respectively.

Public trading multiples have returned to more normalized levels in 2021 after spiking in 2020 due to COVID and supply-chain related issues temporarily burdening profitability, with valuations at the time anticipating a market recovery.

### Subsector Average EBITDA Multiples



Source: S&P Capital IQ

## RECENT AUTOMOTIVE INDUSTRY TRANSACTION HIGHLIGHTS

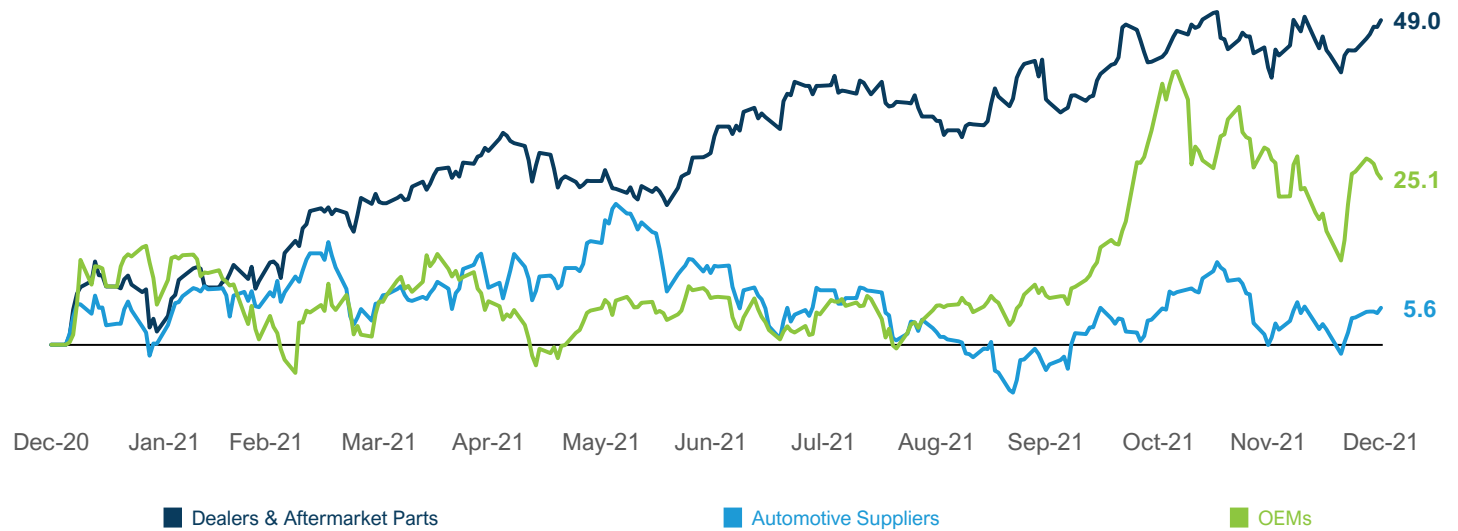
Date	Target (Ownership)	Subsector	Acquiror (Ownership)
12/15/21	Muerdter Metall & Kunststoffverarbeitung	Metal Working	Xandor Automotive
11/17/21	BOS GmbH & Co.	Metal Working	Orlando Management
11/16/21	Spectra Premium Industries	Plastics Manufacturer	Turnsire Capital Partners
11/3/21	Aurora Innovation	Technology Enabler	Reinvent Technology Partners
11/1/21	Bugatti Automobiles	Automotive OEMs	Rimac Automobili
10/08/21	Lydall	Plastics Manufacturer	Unifax (Clearlake Capital Group)
09/14/21	Minghua USA, Inc	Plastics Manufacturer	Plasman US Holdco
09/01/21	Fiju Corporation	Automotive Supplier	The Japan Wool Textile
08/14/21	HELLA GmbH & Co. KGaA	Automotive Supplier	Faurecia S.E. (TNXTPA)
06/30/21	STS Group	Plastics Manufacturer	Adler Pelzer



# Automotive Subsector Performance

## Subsector Indices — LTM Stock Price Performance

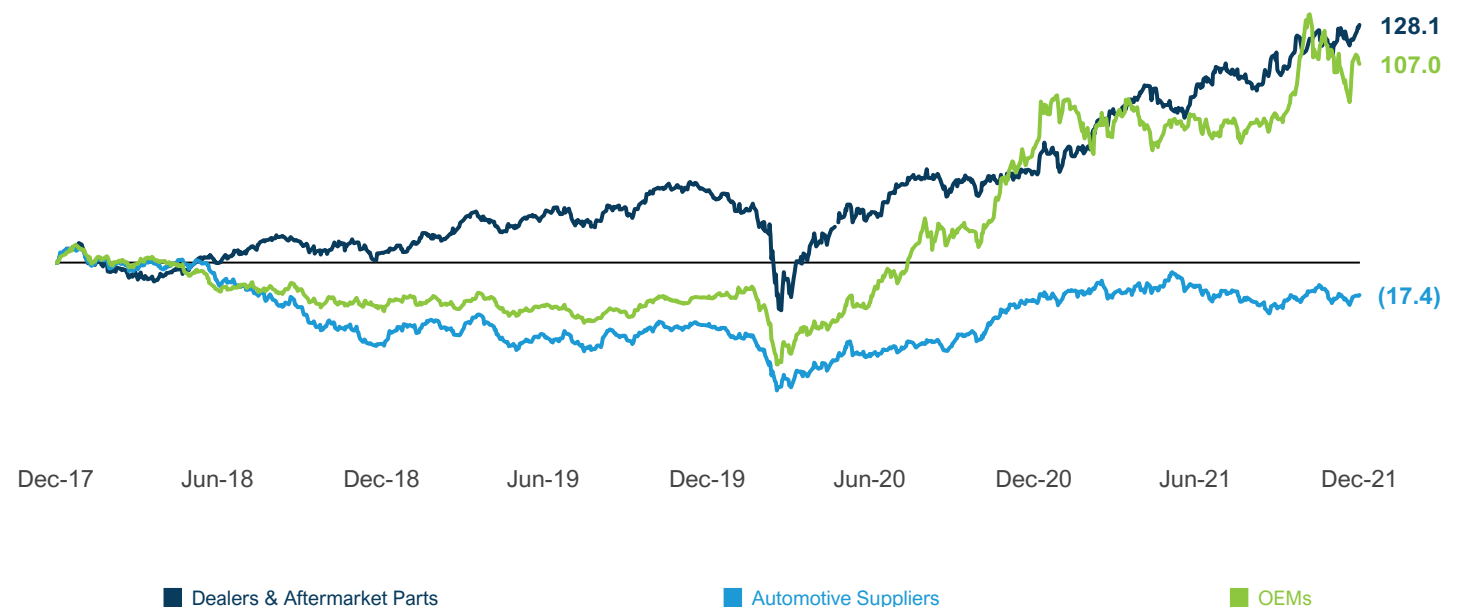
(Indexed to 0.0 as of 12/31/2020)



Source: S&P Capital IQ

## Subsector Indices — L5Y Stock Price Performance

(Indexed to 0.0 as of 12/31/2016)

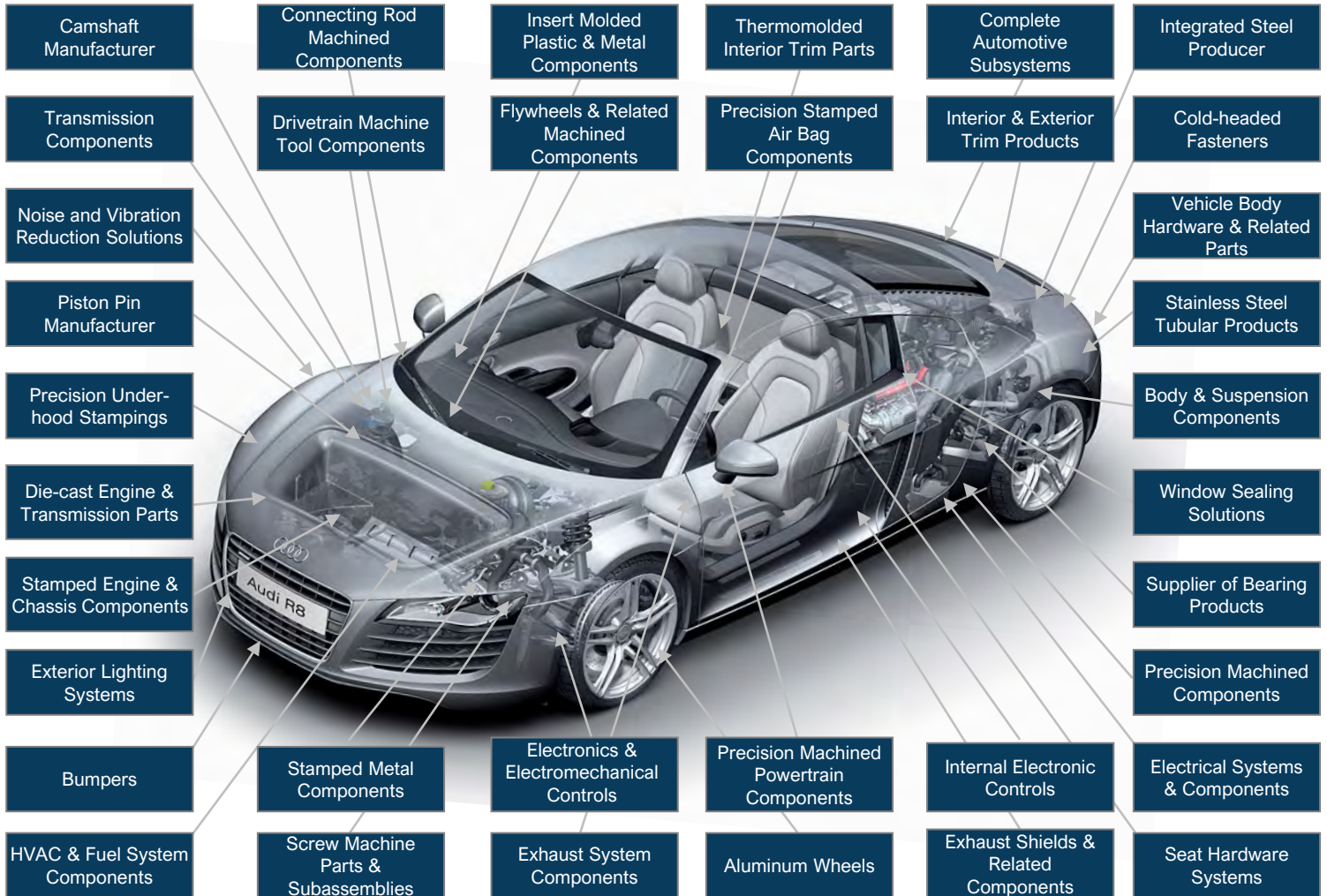


Source: S&P Capital IQ

# Expansive Experience in Automotive

## REPRESENTATIVE STOUT AUTOMOTIVE ENGAGEMENTS

Having completed in excess of 150 recent automotive-related engagements, Stout and its professionals have advised companies supplying essentially every automotive component across the supply chain.




## RECENT CASE STUDY


Stout announced that its client, Tire Rack, has been acquired by Discount Tire, the largest independent tire retailer in the U.S. The transaction closed on December 31, 2021.

Founded in 1973, Tire Rack owns and operates tires and wheel distribution centers across eight states, offering tires and wheels, brakes, suspension systems, lighting products, wipers, lug nuts, tire pressure monitoring systems, and more.

Stout Managing Director Steven Rathbone led the transaction.



has been acquired by




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SELL-SIDE ADVISOR

# Stout Automotive Investment Banking Team

## ABOUT

For more than 30 years, Stout has exclusively focused on serving the unique M&A transaction advisory needs of middle-market clients. Our firm is a trusted advisor to leading organizations due to our deep industry knowledge, senior-level attention, process expertise, and relentless focus on delivering unparalleled results.

The Stout Automotive team has deep experience and expertise across numerous industry subsectors, processes, and end markets.

## FOCUS AREAS


### Processes

- Manufacturing
- Tools & Die Casting
- Plastics & Materials
- Tires
- Automotive Accessories
- Light Vehicles
- Heavy Truck
- Automotive Repair


### Industry Participants

- OEMs
- Suppliers
- Dealers & Aftermarket
- On- & Off-Highway
- Specialty Vehicles
- Tooling


## SELECT STOUT TRANSACTIONS




has been acquired by



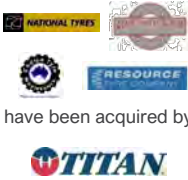
SELL-SIDE ADVISOR




has been acquired by




BUY-SIDE ADVISOR




have been acquired by



SELL-SIDE ADVISOR



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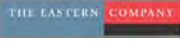
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A portfolio company of




has been acquired by




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has been acquired by



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has been acquired by



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## ABOUT STOUT INVESTMENT BANKING

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