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Summary

- *Despite an increase in auto production and sales throughout North America, Canadian auto production has fallen by 7% during the first half of 2013*
- *Recovery of the US economy has helped vehicle sales in North America, vehicle sales are expected to reach post-recessionary highs by end of 2013*
- *Mexican auto industry is poised for growth. German and Japanese auto makers are looking to make a $10 billion dollar investment in new factories*
- *Future concerns in the industry surround capacity constraints – US and Mexico are increasing capacity to keep up with demand, whereas Canada is not*
- *OEM's will be looking to build stronger relationships with suppliers by using longer-term contracts – OEM's will be looking for discounts in the range of 1-3%*
- *Average disclosed deal size increased by 72% throughout the first half of 2013*
- *Only 2 large deals (>$1 billion) in the first half of 2013 - Small and mid-size deals continue to dominate the automotive M&A scene*
- *Automotive landscape in Asia is changing and it is providing opportunities for M&A activity*
- *M&A activity is expected to increase in the second half of 2013 – Resolution of sovereign debt issues in EU and a positive conclusion to US federal shutdown*
- *Indian, China, and Mexico should help spearhead global industry growth*
- *Investments in technology will likely emerge as a primary growth driver – Look to Nissan and Ford which have already begun making moves in this space*

Professional Investment Banking for Mid-Market Companies

AUTOMOTIVE Update

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MARKET OVERVIEW & ACTIVITY

Despite an increase in production and sales throughout North America, Canadian auto production has fallen by 7% during the first half of 2013. Globally, the light vehicle industry is up by 10.1% dating back to August 2012. However, Canadian light vehicle output is not contributing to this growth; it is expected to fall by 4-5% during 2013. This differs from what is being seen in both the US and Mexico markets, where output has been up by 6% and 5% respectively [i].

Currently, five automakers have plants located in Canada: Chrysler, Ford, GM, Honda and Toyota. Production has been down at GM, Toyota and Chrysler, the effect being a decline in the share of the North American light vehicle segment. However, there are some rational reasons for these declines. Toyota recently opened a new plant in the US to produce its Corolla, reverting back to the two-plant pre-recessionary model in North America.

Another factor is the type of vehicles being purchased by consumers. During the first half of 2013, pickups had the largest sales, reaching 22%, which many Canadian plants do not produce.

Finally, GM is trying to wind down its operations at its Oshawa plant. They are operating one shift, with production of many models being shifted to the US.

Overall, the resurgence of the US economy has helped vehicle sales in North America. Expectations are that sales will reach post-recessionary highs by the end of 2013.

However, Canada has been losing ground by not increasing its capacity, whereas the rest of North America has seen capacity increases in the US and Mexico, a trend which should continue with large investments being made by German and Japanese automakers [ii].

During the second quarter of 2013 the US economy provided consumers with some optimism. GDP increased by 2.5%, unemployment decreased and is now at its lowest point since December 2008, and inflation has remained low. These factors have helped contribute to consumer confidence which is now at record highs dating back to 2008 [iii].

Although these figures are positive, the remaining doubts surrounding the US government funding and debt ceiling issues are giving rise to some concern. These factors have the potential to negatively affect the pace of global economic growth and it is important for both consumers and businesses to pay close attention to these issues in the near future.

MARKET OVERVIEW & ACTIVITY

The Mexican auto industry is poised for growth. German and Japanese automakers are leading a $10 billion dollar investment in new factories. Toyota, BMW, and Daimler's Mercedes-Benz brand are planning $2 billion dollars worth of production deals in Mexico in the near future. Also, Nissan and VW are contemplating expanding their existing factories which could push the investment figure higher than $10 billion.

Mexico's low wages, strong supply base and assortment of free-trade agreements have helped to revitalize an industry which has been on a downward trajectory for quite some time. According to Auto News, Mexico is on the brink of becoming the China of the west.

Future issues for the global automotive industry surround capacity constraints. If North American vehicle production reaches 16 million units, spot shortages may affect all automakers into the second half of 2013 and throughout 2014.

According to Auto News, Chrysler has been having a difficult time meeting production quotas and in turn has made attempts to mitigate these risks by entering into longer term contracts with suppliers.

Moving forward, OEM's will be in favour of building longer lasting relationships with suppliers, choosing to forgo bidding wars to get the lowest price in exchange for longer term contracts. In return for longer contracts, OEM's will be seeking some price cuts in the range of 1-3%, larger parts makers such as Magna and Dana should benefit, while smaller parts makers may require larger discounts if they wish to secure contracts [iv].

MERGERS & ACQUISITIONS ENVIRONMENT

Macroeconomic events developing in Europe and the United States have resulted in global M&A deal value increasing, despite a decline in deal volume.

During the first half of 2013 there were 222 deals closed with a disclosed value of $13.1 billion, a value increase of 24%, as compared to the first half of 2012 where we saw 264 deals completed for a total disclosed value of $10.6 billion. The average disclosed deal size increased by 72% in the first half of 2013, up by $171 million.

During the first half of 2013 there were only two large deals (>$1 billion), giving evidence to the fact that small and mid-size deals continue to dictate the global automotive M&A scene [v].

MERGERS & ACQUISITIONS ENVIRONMENT

An increase in unit production throughout Western Europe signals the beginning of a slow economic recovery. Firms operating in Europe will continue to rely on credit markets, as the results there will be closely linked to sales growth. M&A activity has increased in the region, a reversal from the previous downward trend [vi]. Consolidation amongst distressed suppliers has facilitated this movement and is likely to continue into the second half of 2013.

Mid year results show that North America transacted 50% more deals with international acquirers as compared to the midyear results in 2012. North America was the second-largest target region throughout the first half of 2013 and this trend is likely to continue as localization of vehicle assembly continues to increase [vii].

The automotive landscape in Asia has changed. Even though the region transacted the largest volume and value of outbound deals during the first six months of 2013, its share of volume actually decreased from 32% in 2012 to 23% in 2013. The reason for this was a lack of M&A activity involving Asian vehicle manufacturers.

The Asian market can be divided into two separate segments: Developed and Developing countries. In analyzing both these segments, one can see that the Developed markets: Japan, South Korea, and Australia, are losing production to former export markets.

As OEM's in the US and EU continue to localize production, these markets will be less likely to engage in M&A activity. Developing countries, China and India, are where we should focus. Recent investments in capacity and capital in the regions will spearhead global growth prospects moving forward [viii].

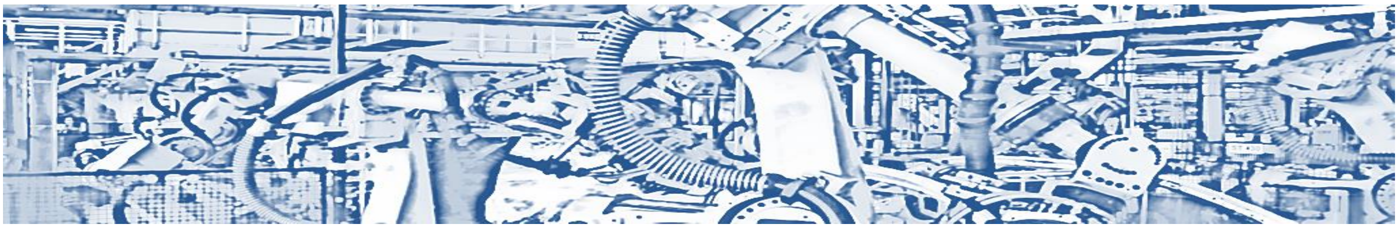
It is expected that M&A deal activity will increase in the second half of 2013. The resolution of sovereign debt issues in European Union member states as well as a positive conclusion to the federal shutdown and debt ceiling crisis in the United States will help to facilitate this change.

Further, continued contribution from markets such as China, India and Mexico will reinforce this argument as long as the former are able to return to trend line growth and the latter continues to develop.

Also, it is important that companies continue to introduce innovative features for their vehicles. Investments in new technologies will likely emerge as a primary growth driver for the industry [ix]. For instance, Nissan recently announced that it will be the first OEM to offer the Apple iTunes Radio in several of its vehicles. Rollout of this new technology should begin in 2014 [x]. Ford has also made an effort by recently acquiring a software company called Livio in order to help connect with the younger market segments [xi].

MARKET OVERVIEW & ACTIVITY

Since our previous report, automotive OEMs are trading at higher EBITDA multiples, up from 6.8 to 7.4 times. Similarly, our sample of Tier One component manufacturers have continued the trend and are trading at an average of 6.1 times EBITDA compared to June 2012 of 4.2 times. OEMs have seen an increase in their average EBITDA margin of 4.7% to 11% and P/E multiples have gone up 2.6 to 13.4 times. Component manufacturers have an EBITDA margin of 11% and have experienced a lower average P/E multiple of 13.1 times.



Vehicle Manufacturer	Date Reported	Market Cap	Enterprise Value	EV/Sales	EV/EBITDA	EBITDA Margin	P/E
Daimler	6/30/2013	$49602 M	$97387 M	0.85x	6.58x	13%	7.12x
Fiat	6/30/2013	$8809 M	$19043 M	0.23x	2.47x	9%	29.35x
Ford	6/30/2013	$63179 M	$157674 M	1.11x	11.33x	10%	10.25x
GM	6/30/2013	$55561 M	$62612 M	0.41x	3.35x	12%	11.90x
Honda	3/31/2013	$6439628 M	$10127688 M	1.03x	8.92x	11%	17.45x
Nissan	6/30/2013	$4543319 M	$9018775 M	0.93x	7.67x	12%	11.95x
Toyota	6/30/2013	$20653505 M	$33841036 M	1.48x	12.21x	12%	15.38x
VW	6/30/2013	$44235 M	$140259 M	0.72x	6.93x	10%	3.99x
OEM Average				**0.84x**	**7.43x**	**11%**	**13.42x**

Vehicle Manufacturer	Date Reported	Market Cap	Enterprise Value	EV/Sales	EV/EBITDA	EBITDA Margin	P/E
Martinrea	6/30/2013	$920 M	$1330 M	0.44x	6.16x	7%	12.36x
Magna	6/30/2013	$17457 M	$16542 M	0.50x	4.25x	12%	11.52x
Linamar	6/30/2013	$1909 M	$2501 M	0.76x	7.01x	11%	10.96x
Continental AG	6/30/2013	$20540 M	$26937 M	0.82x	4.06x	20%	10.16x
Cooper-Standard	6/30/2013	$611 M	$1134 M	0.39x	3.60x	11%	11.31x
Dana	6/30/2013	$4081 M	$3949 M	0.58x	3.94x	15%	14.82x
Aisin Seiki	3/31/2013	$1016627 M	$1081772 M	0.43x	3.75x	11%	12.55x
American Axle	6/30/2013	$1433 M	$2900 M	0.97x	6.05x	16%	4.09x
Denso	6/30/2013	$4124187 M	$4013395 M	1.09x	8.56x	13%	17.03x
Goodyear	6/30/2013	$3763 M	$7649 M	0.38x	4.10x	9%	12.44x
Harman	6/30/2013	$3907 M	$3743 M	0.87x	12.09x	7%	18.50x
ITT	6/30/2013	$2694 M	$2467 M	1.06x	11.25x	9%	18.15x
Lear Corporation	6/29/2013	$4876 M	$5091 M	0.33x	5.29x	6%	4.72x
Stoneridge	6/30/2013	$318 M	$481 M	0.52x	6.69x	8%	24.77x
Superior Industries	6/30/2013	$472 M	$309 M	0.38x	5.39x	7%	16.24x
Tenneco	6/30/2013	$2786 M	$3829 M	0.51x	6.03x	8%	10.04x
Tower	6/30/2013	$404 M	$888 M	0.43x	4.96x	9%	N/A
Parts Maker Average				**0.62x**	**6.07x**	**11%**	**13.10x**

About Us

Founded in 1998, Osprey Capital has become one of Canada's leading independent mid-market investment banking and financial advisory firms with offices in Toronto, Winnipeg, Calgary, British Columbia and Nova Scotia. Our Partners have extensive investment banking experience, with many having worked at some of North America's preeminent financial institutions. Osprey Capital has completed numerous Financing and M&A transactions for companies in the middle market.

i. TD Economics. "Explaining the Decline in Canadian Auto Production in 2013". August 2013.
ii. TD
iii. R.L. Polk & Co. "Automotive Industry Dashboard" October 2013.
iv. Auto News. "Spot Shortages of Parts Looming for 2014". October 2013.
v. Pricewaterhousecoopers (PwC). "Automotive M&A Mid-year 2013". September 2013.
vi. PwC
vii. PwC
viii. PwC
ix. PwC
x. Automotive Industry Dashboard
xi. Automotive Industry Dashboard

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