



Focus 2015

Automotive Sector Report

Professional Investment Banking for Mid-Market Companies



Osprey's transaction team consists of experienced senior-level Bay Street investment bankers and industry experts who have successfully completed numerous merger, acquisition and financing transactions in a wide variety of industries and markets.



Troy Ternowetsky | Partner

Mr. Ternowetsky is a Managing Partner at Osprey Capital Partners. Over his career he has led and executed over 100 investment banking assignments for Canadian and international clients. Centre to his experience is his work in the manufacturing and distribution sectors, where he has significant experience executing on assignments in areas such as the automotive, metal products, plastics, assembly and food, among others.

Prior to joining Osprey Capital, he co-founded a boutique investment banking firm and has spent over a decade in sales and marketing management in the medical device and pharmaceutical industries. In addition, Mr. Ternowetsky was a Director and CFO of an Ontario based manufacturer of plastic components and assemblies. He is a regular contributor of financial articles to Canadian business periodicals.

Mr. Ternowetsky holds a Bachelor of Science and a Master of Business Administration from the Ivey School of Business at The University of Western Ontario.



Dennis DesRosiers | Industry Lead

Since founding DesRosiers Automotive Consultants, Dennis has accumulated over 28 years of experience in the North American automotive industry.

Considered one of North America's premier automotive analysts, Dennis has become a leader in identifying industry trends and his insights have been sought out by industry executives and government policy makers. In 2012 he was awarded The Queen Elizabeth II Diamond Jubilee medal for his contribution to the automotive sector in Canada.

Dennis is currently a board member of AutoCanada Inc.; Canada's only publically traded dealer group and one of the top five dealer groups in the country. Dennis also continues to give back to his community and the automotive industry through substantial volunteer commitments at University and College committees, boards, and campaigns. Dennis has established endowments at both the University of Windsor and Georgian College which award eight scholarships annually.

Industry Opportunity: Macroeconomics

For the past 5 years, the North American Automotive Industry has been steadily recovering from the 2008 financial crisis and the ensuing recession. A number of macroeconomic and industry specific forces are expected to propel the overall Automotive Sector into record levels over the next several years.



North American GDP Growth: The US Department of Commerce reported annual 2.4% GDP growth from 2013 to 2014, which represents the best full year growth since 2010. Accelerated employment growth, increased wages and lower energy prices all point to the consensus that the economic momentum in the U.S. has returned, with expected GDP growth around 3.4% in 2015. For Canada, the 2015-2016 forecast for growth is expected to be stable in the short-term, leading to slight increases in employment and average earnings. Consensus estimates for the unemployment rate is 6.6% in 2015, down from 6.9% in 2014. Unemployment is expected to be at 6.5% in 2016. Overall, the average of private sector forecasts for GDP growth in Canada is expected to be flat over the short-term, at 2.3% in 2015 and 2.2% in 2016.



Low Energy Prices: The slump in energy prices that began in the third quarter of 2014 continues to boost economic growth via reduced costs for both businesses and consumers alike. Analysts estimate that a 10% drop in the price of oil is expected to lower gasoline prices by 7% while increasing US GDP by 0.15 ppts. Given that an annualized \$400 billion in gasoline and other fuels are purchased each year, a 7% price reduction represents a proportional \$29 billion increase in consumer purchasing power. Given an average drop of 40% in oil prices across 2015, US consumer purchasing power is expected to increase by an estimated \$115 billion while significantly reducing operating costs for businesses outside the oil and gas sector.



Low Interest Rates: Although interest rates remain close to historical lows, it is anticipated that rates will rise starting in late 2015 as the Federal Reserve tapers off its buying of treasuries and mortgage backed securities. Nevertheless, historically low rates will continue to stimulate economic activity through an increased availability of capital while maintaining robust valuation levels as companies seek to gain market share and develop niche expertise through increased M&A activity.

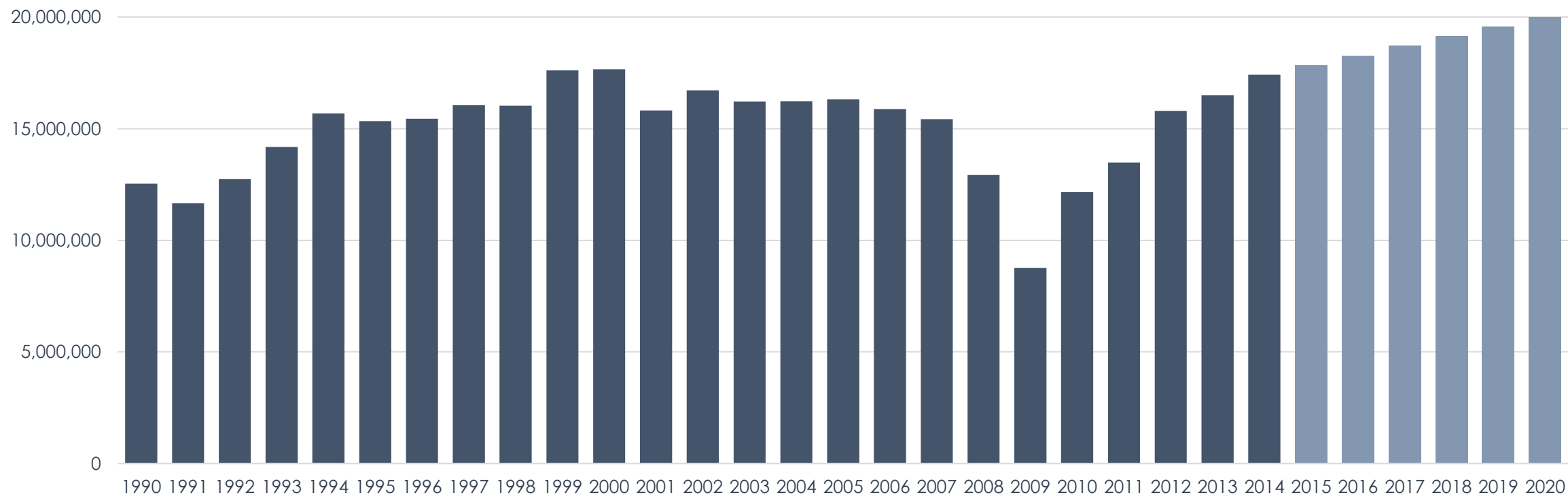


Favourable Exchange Rates: In addition to a stronger Canadian economy, the falling Canadian dollar (CAD) is expected to lift the country's auto sector as labour costs become more competitive in the global economy. All-in labour costs for the "Detroit Three" average at \$60 an hour, which is equivalent to \$48 USD when the CAD trades at 79 cents. At \$48 an hour, Canadian plant labour costs are also lower than Honda Motor Co. Ltd. and Toyota Motor Corp. factories in the US, based on research by the Center for Automotive Research. The combination of a recovering North American economy and competitive labour market in Canada provides a solid foundation for high growth in the country's automotive sector.

Industry Opportunity: Volume Growth

North American vehicle production reached a low of 8.7 million vehicles in 2009 but has since recovered to pre-recession levels of 17.4 million in 2014. According to DesRosiers Automotive Consultants, production is expected to reach record levels in 2015 as pent up demand drives annual production to an expected 20 million light vehicles by 2020.

North American Light Vehicle Sales (1990-2014)



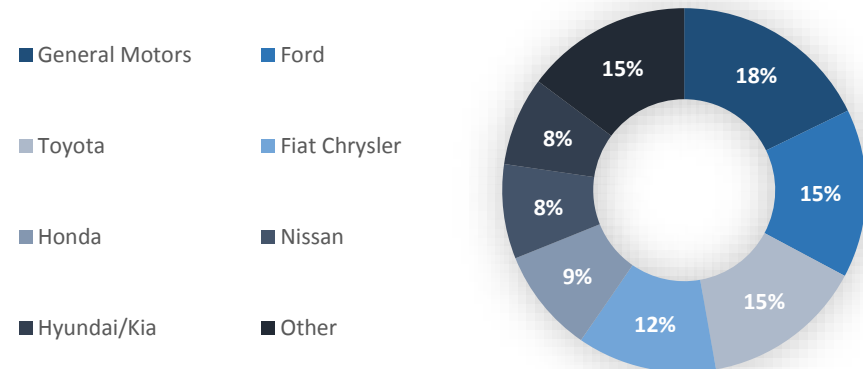
Source: WardsAuto, DesRosiers Automotive Report

Industry Opportunity: Automotive OEMs

A bullish North American automotive market driven by strong end-consumer demand stands to benefit local suppliers through a number of key trends: low import threat, growing competitive pressures among manufacturers for product differentiation, economies of scale and increasing global urbanization.

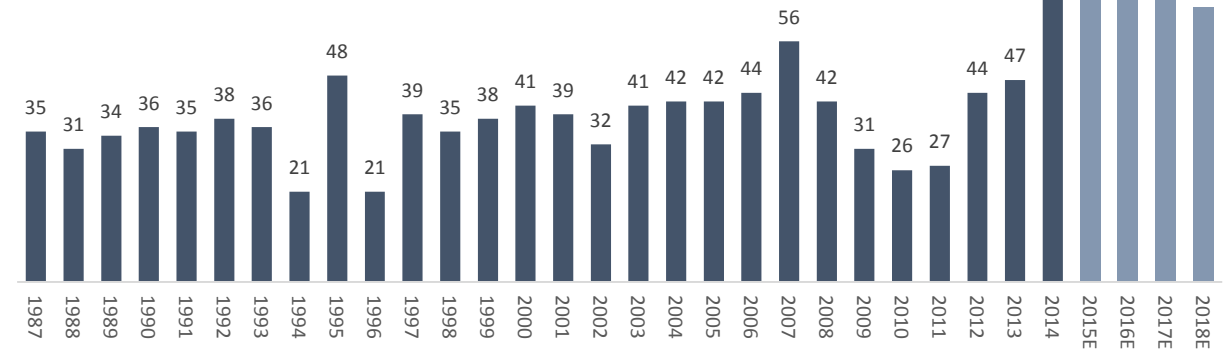
- **Low Import Threat:** Current vehicle production is evenly divided between the "Detroit Three" and global brands. While actual sales of import brands have increased, most are built in North America leading to a Production-to-Sales ratio exceeding 90%. This trend is reinforced by massive on-shore investments for production facilities from major foreign OEMs including Honda and BMW.
- **Economies of Scale:** For suppliers, economies of scale generate large marginal profits above production levels of 16 million. With estimated production levels of 17.1 total vehicles in 2014, these volumes will be further accelerated in the near term as OEMs ramp up production ahead of sales in order to aggressively capture market share through product differentiation strategies.
- **Manufacturer Competition:** Evolving consumer demand, coupled with technological advancement, has led to an increased focus on product differentiation through features such as infotainment systems and rear-view cameras. This has driven an increase in OE parts per vehicle by 32% since 2010 as manufacturers seek to compete beyond traditional features such as safety and quality. With record levels of new model launches, OEM competition for first mover advantages will lead to suppliers' top line growth through an expanded market.
- **Global Urbanization:** Urbanization across the globe is leading to higher vehicle exports from North American manufacturers. This trend has led to the growth of US auto exports, which reached a record of 2.1 million new vehicles exported in 2014. This represents an 8% increase over 2013 and a 73% rise since 2004.

US Automotive Market Share 2014



Source: AutoData Corp.

New Model Launches in the US by Year

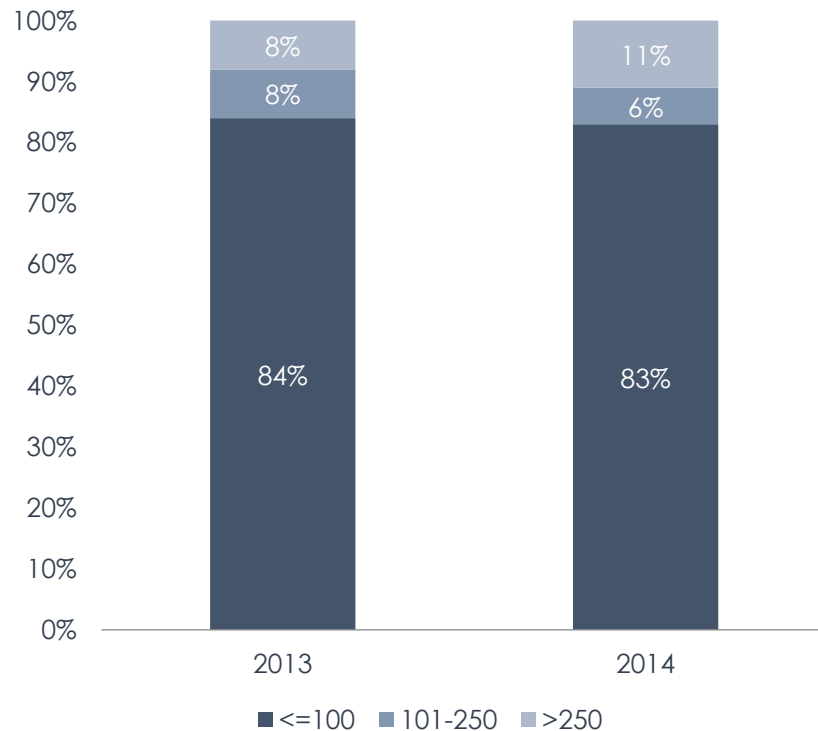


Source: DesRosiers Automotive Report

As a result of these factors, the pent-up demand created by delayed large ticket purchases during the economic recession will generate value across the entire supplier chain. Local suppliers, including Tier 2 & 3 are positioned to reap immense benefits from the shifting automotive market.

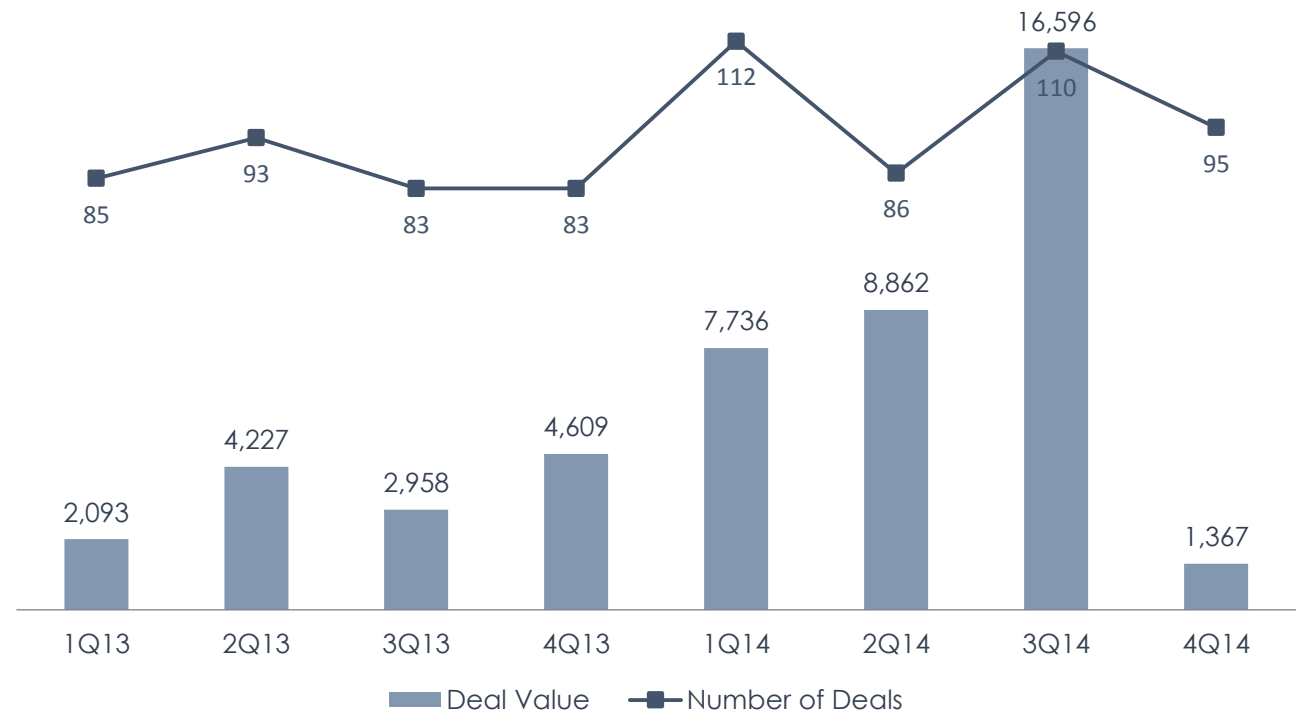
Acquisitive appetite in the automotive sector has climbed along with increased access to debt financing opportunities. The majority of deals continue to be concentrated in the low- to middle- market segment, with transactions valued up to \$250 million, as acquisitive companies shift their focus to M&A to strengthen core businesses, acquire market share, and develop niche capabilities. For automotive parts and equipment suppliers, consolidation was spurred by economies of scale and portfolio & geographic expansion opportunities.

Deal Volumes by Size (in US\$ millions)



Source: E&Y Automotive Transactions and Trends 2014

Automotive Suppliers Deal Value and Number of Deals



Source: Dealogic

Large automotive suppliers are seeking rollup opportunities and to develop niche offerings leading to high volumes of small cap M&A.

Date	Target	Target Description	Acquirer	Transaction Size (\$mm)
21-Apr-14	Annex Manufacturing	Manufacturer of climate control products for the automotive markets	Standard Motor Products Inc. (NYSE:SMP)	11.5
6-Jan-14	Pensacola Fuel Injection, Inc.	Manufacturer and distributor of diesel injectors, pumps, and turbochargers	Standard Motor Products Inc. (NYSE: SMP)	12
20-Oct-14	Dhybrid Systems, LLC	Manufacturer of fuel systems and components	Worthington Industries, Inc. (NYSE:WOR)	15
24-Jun-14	Kecy Corporation	Designer and manufacturer of automotive metal parts	ARC Metal Stamping, LLC	21
30-May-14	Pro-Cut International	Manufacturer of on-car brake lathes, adapters, and accessories	Snap-on Incorporated (NYSE: SNA)	42
30-Jun-14	Cooper-Standard Holdings Inc.	Manufacturer of exhaust recirculation modules, coolant pumps and valves	Halla Visteon Climate Control Corp (KOSE:A018880)	46
13-Oct-14	Autoform Tool & Manufacturing Inc.	Manufacturer of rails, fuel senders, and direct injection components	Park-Ohio Holdings Corp.	49
1-Oct-14	Radar Industries, Inc.	Designer and manufacturer of stampings and assemblies	Shiloh Industries (NASDAQGS:SHLO)	58
26-May-14	Stoneridge, Inc. (NYSE:SRI)	Assembler of instrument panels	Motherson Sumi Systems	65.7
16-Sep-14	Gaurdian Automotive Products, Inc.	Manufacturer of automotive glass	Carlex Glass Company	87
21-Jan-14	Valeo Sylvania, LLC	Designer and manufacturer of automotive lighting systems	Siemens AG (DB:SIE)	104
11-Sep-14	MEDCO	Wholesaler of automotive aftermarket tools and suppliers	United Stationers (NASDAQ:USTR)	130
22-Jan-14	Affinia Group	Manufacturer of chassis products	Federal-Mogul Corporation (NASDAQGS:FDML)	150
5-Nov-14	Q-Holding Company	Manufacturer of highly engineered, precision moulded rubber and silicone components	3i	160

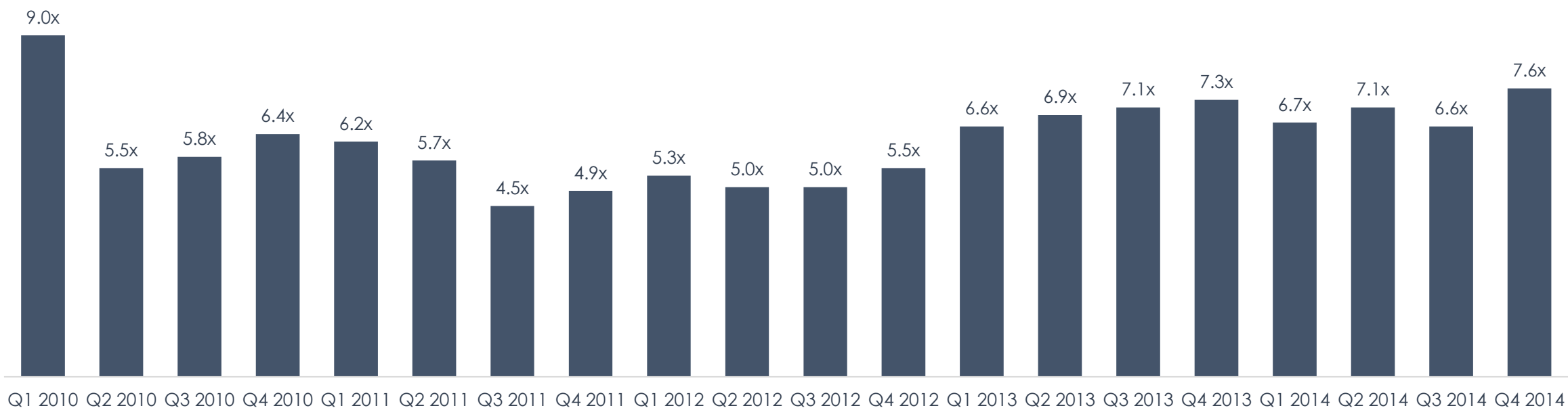
Source: Amherst Partners Automotive IQ

North American Automotive Multiples

In the U.S., the median EV/EBITDA multiple for automotive suppliers across 2014 was 7.0x, which was slightly above the average of 6.9x in 2013. With significant profitability increases for most suppliers and continued recovery in the sector as a whole, automotive M&A activity is expected to continue rising. However, transaction size and valuations are expected to remain steady with modest increases as most of the consolidation is expected to occur at the smaller and less consolidated Powertrain and Chassis systems subsectors.

Global private equity activity has also been up 22% over 2014 as groups seek to capitalize on expected industry growth, especially at the supplier level. Over the same period, North America saw a significant increase in private investment as their share of the M&A space, measured by the number of acquisition targets, grew from 22% to 31%.

U.S. Automotive Supplier Median EV/EBITDA Multiples



Source: S&P Capital IQ

Automotive Valuations

Since 2013, automotive OEMs are trading at higher EV/EBITDA multiples, up from 7.4x to 9.8x. Similarly, the sample of Tier One suppliers have continued to trend and are trading at an average of 7.7x EV/EBITDA compared to 2013 of 6.1x. Both OEM and supplier EBITDA margins have remained consistent at an average of 11% compared to 2013, however PE multiples have gone up for both groups as a result of positive growth expectations. P/E multiples rose from 13.4x in 2013 to 14.6x for OEMs and from 13.1x to 15.2x for suppliers.

Overall, public comparables speak to a more bullish outlook by investors as valuations rise ahead of expected earnings growth. This sentiment is consistent with rising multiples in precedent transactions and the general strengthening of the automotive industry as a whole.

Company	Date Reported	Market Cap	Enterprise Value	EV/Sales	EV/EBITDA	EBITDA Margin	P/E
OEM							
Daimler	3/31/2015	103,502	208,080	1.4	12.1	12%	11.7
Fiat	3/31/2015	21,036	45,358	0.4	4.7	9%	21.8
Ford	3/31/2015	63,979	183,870	1.3	12.1	11%	20.5
GM	4/23/2015	57,346	112,528	0.7	11.0	7%	12.3
Honda	4/28/2015	65,971	113,106	1.1	8.5	12%	13.9
Toyota	5/8/2015	242,729	396,459	1.7	11.4	15%	12.6
VW	4/29/2015	122,959	297,036	1.3	9.0	14%	9.5
Average		96,789	193,777	1.1	9.8	11%	14.6
Supplier							
Martinrea	5/5/2015	851	1,367	0.5	6.2	7%	11.0
Magna	3/27/2015	21,402	21,771	0.6	6.3	9%	11.4
Linamar	5/6/2015	4,492	4,901	1.3	8.0	17%	15.3
Continental AG	5/7/2015	47,541	57,811	1.4	9.8	15%	17.2
Cooper-Standard	5/8/2015	1,090	1,883	0.6	6.2	10%	24.1
Tower	5/7/2015	589	1,044	0.5	4.9	10%	28.0
Tenneco	4/27/2015	3,592	4,655	0.6	5.9	9%	16.2
Stoneridge	5/7/2015	327	493	0.8	3.7	13%	N/A
Lear Corp	4/24/2015	8,865	10,873	0.6	7.7	8%	13.1
ITT	5/1/2015	3,627	3,567	1.4	13.6	10%	19.7
Harman	4/30/2015	9,296	9,777	1.7	17.4	11%	29.1
Goodyear	4/29/2015	7,649	13,837	0.8	5.6	9%	3.0
American Axle	5/1/2015	1,820	3,672	1.0	6.8	14%	11.3
Dana	4/23/2015	3,542	4,920	0.8	6.5	11%	9.3
Aisin Seiki	4/28/2015	13,347	18,638	0.8	6.9	11%	5.8
Denso	4/28/2015	40,069	40,021	1.1	8.2	14%	13.1
Average		10,506	12,452	0.9	7.7	11%	15.2

Market Capitalization and EV reported in millions of USD
Source: Company Filings

Osprey Capital Overview

Comprised of 16 professionals across Canada, Osprey Capital Partners Inc. is a leading independent investment banking firm that provides a wide range of financial services to the middle market including the automotive industry.

Osprey Capital delivers a level of expertise and attention to middle market companies, that traditionally has only been available to those engaged in larger transactions.

- Independent privately owned investment dealer founded in 1998
- OSC registered Exempt Market Dealer
- Mid-market Focus, private & public transactions
- Agents and advisors for all types of mergers, acquisitions, as well as equity & debt financing
- Offices in Toronto, Winnipeg, Calgary, Nova Scotia and British Columbia

Osprey's national platform and access to a broad global network of relationships, enables our team to develop creative and differentiated strategies, while delivering access to a broad base of capital and opportunities.

Experienced Professionals

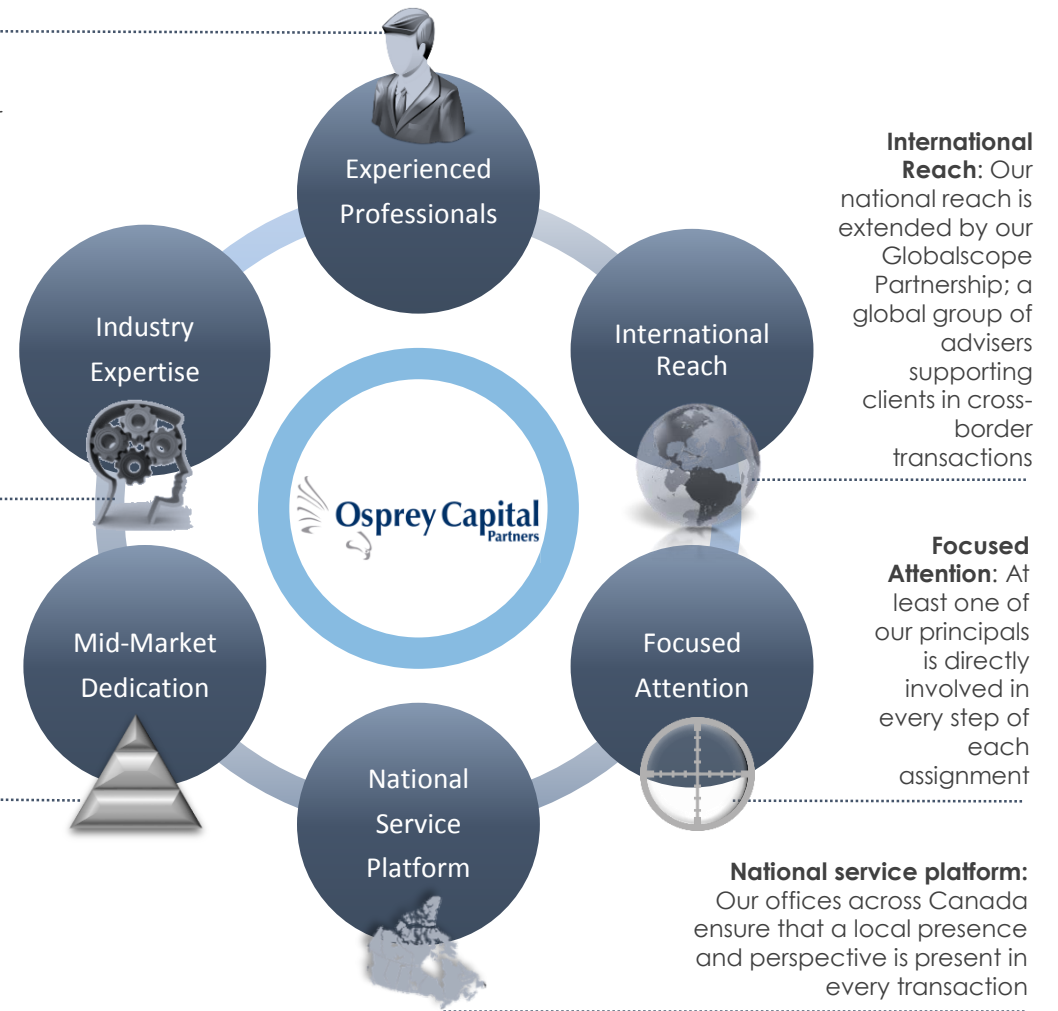
Experienced Professionals: Our principals consist of senior level investment bankers with international sales capability

Industry Expertise

Industry Expertise: Osprey partners with industry experts including Dennis DesRosiers to deliver in-depth analysis

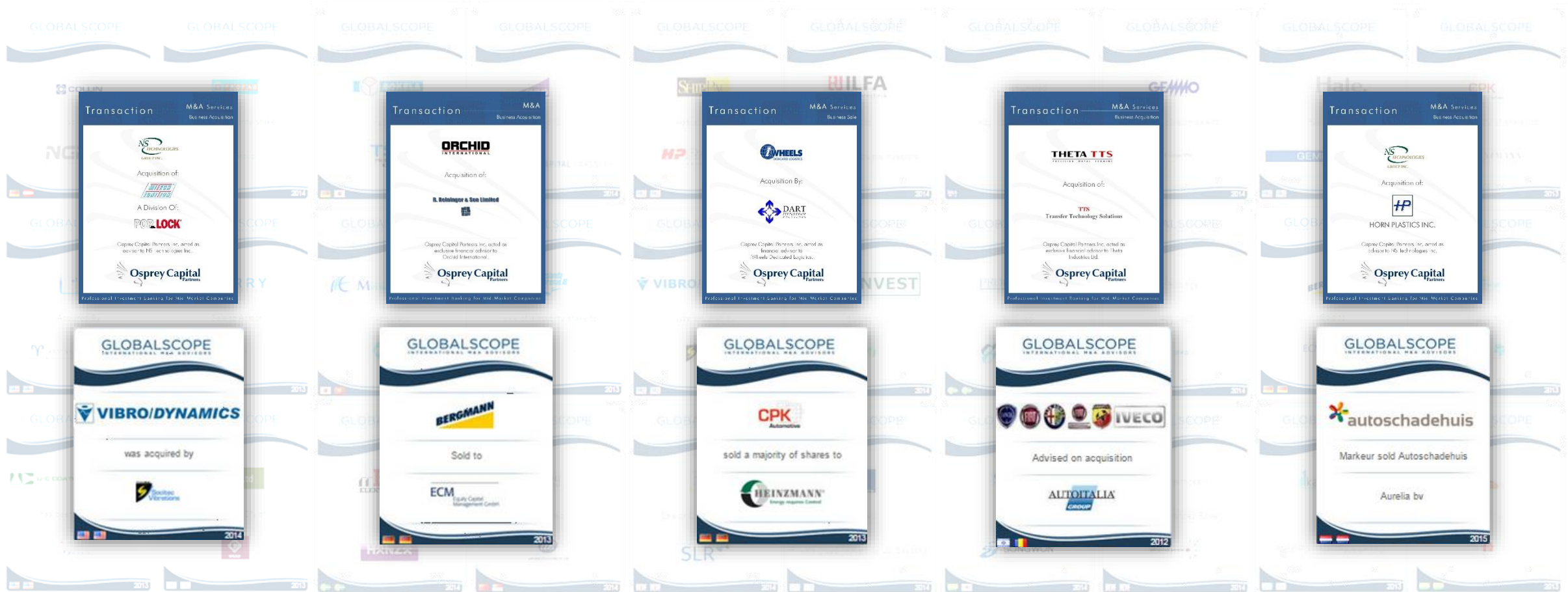
Mid-Market Dedication

Mid-Market Dedication: Core business is serving clients with transactions between \$5 - \$50M



Proven Success

Osprey's expertise within the automotive industry is founded on a long track record of successful transactions. In addition, we draw on the vast experience contributed by our Globalscope Partners to deliver a global perspective on local transactions, allowing us to offer the best value for our clients. The following highlights just a few of the many transactions completed by Osprey and our Globalscope Partners.





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