



SECTOR NEWSLETTER

Automotive

april 2016

Livingstone

Good times continue to roll for the Automotive industry

2015 was the best year in a decade for the UK automotive industry with a 3.9% increase in the number of cars manufactured.

1,587,677 cars rolled-off UK production lines, including eight brand new models, and British built cars are now being exported in record numbers to more than 100 countries. 2015 did bring challenges for some key export destinations such as China and Russia, however these were more than off-set by a boom in orders from other major markets - United States up 26.5%, Australia up 53.7% and Japan up 35.4%. This year has also started well, with the rolling 12 month total number of cars manufactured in UK now standing at 1,614,884 at February 2016 (a 6.0% increase on February 2015).

The UK Automotive sector now accounts for 800,000 jobs with more than 3,000 companies directly involved. Given the industry's success (particularly in comparison to stalling manufacturing in other sectors), the UK Government has made the Automotive industry a priority and is actively championing its cause. The Government has set-up an advisory group to help align research funding with industry challenges, regular trade delegations are conducted overseas and, for the longer-term, incentives for vocational apprenticeship schemes are being offered and there is an increasing focus on Science, Technology, Engineering, Mathematics ('STEM') subjects within the school curriculum.

“Our plans to rebalance the economy mean we have to continue to build on our great manufacturing strengths in the Midlands and the North of England, and work together to ensure that Britain continues to prosper as a global leader in car production”

GEORGE OSBORNE, CHANCELLOR OF THE EXCHEQUER

SKILL-BASE

The productivity of British automotive workers has increased by 40% since 2010, with each employee delivering £85k in added-value, the highest level in Europe, making the UK an excellent location to build cars. Aston Martin announced in January that its new DBX car will be built in Glamorgan, Wales (beating 20 other short-listed sites from around the world) and TVR announced in March that they will start building a new factory in Ebbw Vale, Wales next year. The relative lack of automotive manufacturing in Wales compared to the West Midlands should require both companies to invest heavily in training.

TECHNOLOGY

The Automotive sector is seeing a continuous move towards the adoption of autonomous safety technology ('AST') with half of all new cars in the UK now being sold with some sort of AST feature (e.g., adaptive cruise control, blind spot monitoring, autonomous emergency braking, etc.). This increased focus on safety innovation as well as advancements in in-car technologies, will lead to automotive companies acquiring relevant technology assets to gain a competitive advantage, reinvent their brands and ultimately protect market share. Examples of this are Continental's acquisition of Finland-based software provider, Elektrobit Automotive and VW's acquisition of Blackberry's automotive R&D centre in Germany.

EMISSIONS

Ever more stringent regulation around vehicle emissions means there is an increasing need for manufacturers to consider emission reducing or efficiency enhancing technologies.

The latest EU standard limiting emissions from cars, Euro-6, came into force for new cars on 1 September 2015. The latest standard reduces some pollutants by 96% compared to the 1992 limits, when Euro-1 came into force. The VW scandal has only served to strengthen this focus from both within and outside the industry and the manufacturers have to invest heavily in R&D in this strategically important area. For their key suppliers, acquiring a company with a proven technology in this field is an important tool at their disposal to help them stay ahead of their competitors. An example of this is Continental's acquisition of UK-based Zytec Automotive, an electric engines and hybrid technology specialist.

BREXIT

Mainland Europe is the UK automotive industry's largest export market, accounting for 1 in 2 cars sold. The economic recovery underway in Europe fuelled an 11.3% increase in British-made cars sold there in 2015.

Given the importance of the European market to the UK Automotive industry, 77% of the members of The Society of Motor Manufacturers & Traders ('SMMT') are in favour of remaining in the EU, according to a recent poll.

From the Automotive industry's perspective, another important factor to consider in the Brexit debate is the fact that virtually all British car marques are owned by foreign entities. While many of these companies are not entirely free to choose where to locate their manufacturing operations given British manufacturing is inherent in their brand value (e.g. Aston Martin, Rolls-Royce, Bentley, Jaguar Land Rover) this is not the case for the mainstream manufacturers and the benefit of the free movement of labour throughout the EU is a further consideration.

M&A

From an M&A perspective, the heavily fragmented UK Automotive supply chain is ripe for consolidation. Since the financial crisis, many automotive businesses have used the time wisely to restructure their operations and focus on their key strength; whether that is a niche service offering or proprietary engineering technology.

Many automotive suppliers have prospered as a result of the surge in demand for cars with the 'Made in Britain' stamp and have generally enjoyed growth in their top and bottom line. Differentiated suppliers are now increasingly attractive propositions for international corporates who are looking to acquire a specific world-class technology or simply develop a position in the £70bn UK Automotive sector.

As automotive manufacturers continue to move towards global production platforms, the need for suppliers to expand their global capabilities will lead to more M&A as parts manufacturers attempt to follow their customers evolving footprint. The global Tier One automotive suppliers are not overly well represented in the UK and so market-expansion strategies should consider the acquisition of a British supplier. Many global automotive suppliers, albeit traditionally cautious acquirers by nature due to the cyclical nature of the automotive sector, have yet to fully reactivate their M&A programmes since the financial crisis and are sitting on significant cash balances. Automotive M&A activity is currently focused on sensors, in-car communications and engine control systems.

The general softening of global stock markets in Q1 2016 has also impacted the trading multiples in the Automotive sector, however, transaction data for the European automotive sector for the last three years indicates multiples paid trending up, driven by the positive market dynamics (low interest rates, low oil price) and a more buoyant outlook – it is expected that an all-time record two million cars will be built annually in the UK by 2020.

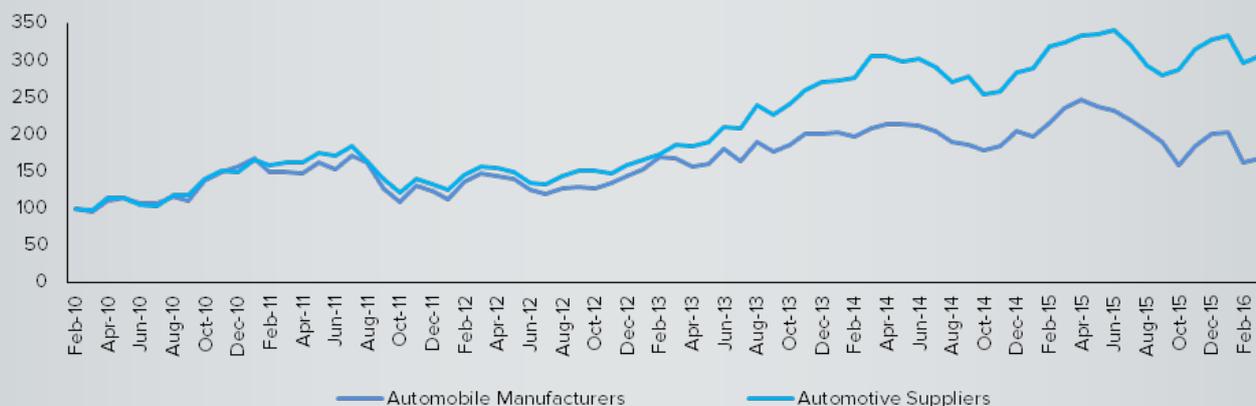
With a surfeit of private equity money awaiting deployment in the UK, Livingstone has seen renewed interest in automotive, advising on the capital raising for automotive painter Paintbox and reference fuels manufacturer Coryton Advanced Fuels in the last few months. Increased liquidity in the debt market, in particular the availability of senior debt, is key for private equity to enable them to compete with trade and drive their required return hurdles. There has been an improvement in terms of both availability and pricing of debt over the last 18 months.

The growing UK automotive supply sector presents ideal opportunities for these firms to deploy capital; numerous buy-and-build plays are on offer, as well as the chance to acquire truly world-leading businesses and companies operating in niche, high value-add segments.

Sources: SMMT, AA

Market Overview

EUROPEAN AUTOMOTIVE INDUSTRY INDEXED SHARE PRICES



Note: Constituents of each category are:

Automobile Manufacturers – Daimler; Volkswagen; BMW; Renault; Fiat Chrysler

Automotive Suppliers – Continental; Michelin; Valeo; Autoliv; GKN; Faurecia; Plastic Omnium; Nokian; Brembo; Cie Automotive; ElringKlinger

EUROPEAN AUTOMOTIVE TRANSACTIONS

DATE	TARGET	ACTIVITY	ACQUIRER	ENTERPRISE VALUE £M	EBITDA X
Feb-16	Paintbox Group	Provider of painted exterior assemblies to luxury automotive marques	Business Growth Fund	n.a	n.a.
Jan-16	Novero GmbH	Manufacturer of vehicle communication, telematics and mobile device integration solution	Laird plc	47	7.7x
Dec-15	Automotive Components Europe S.A.	Producer of automotive and commercial vehicle casting components	Grupo Industrial Sattillo	69	9.1x
Nov-15	Stadco Limited	Manufacturer of automotive body panels for automakers	Magna International Inc.	n.a	n.a
Sep-15	Coryton Advanced Fuels	Develops bespoke and specialist testing fuels for the Automotive sector, as well as high performance fuels for the aviation and motorsport industries	Lyceum Capital	n.a.	n.a.
Jul-15	Elektrobit Automotive GmbH	Supplier of embedded software solutions and services for the automotive industry	Continental Aktiengesellschaft	436	26.8x
Jul-14	Electronic Motion Systems UK Ltd.	Manufacturer of control modules and systems for power conversion and electric motor drive markets	KSR International Company	n.a	n.a
Jun-15	Volvox Group (Leeds) Limited	Supplier of auto electrical products and industrial consumables	RG Industries LLP	n.a	n.a
May-15	Harris Performance Products Limited	Manufacture of road and racing motorcycle chassis and components	Royal Enfield Motors Limited	n.a	n.a
Dec-14	Prins Autogassystemen B.V.	Developer of alternative fuel systems and components for the automotive industry	Westport Innovations Inc.	10	17.4x
Sep-14	Faster SpA	Manufacturer of quick release couplings for automobiles and hydraulic power systems	Capvis Equity Partners AG	167	10.0x
Sep-14	Letrika d.d.	Automotive parts manufacturer	MAHLE GmbH	85	9.9x
Aug-14	Martinrea Honsel Germany	Manufacturer of light metal products for engine, transmission, suspension and body of the automotive industry	Martinrea International Inc.	128	11.7x
May-14	Autodata Ltd	Publisher and supplier of technical manuals for automotive professionals	Bowmark Capital LLP & Five Arrows	143	24.8x
May-14	Wunelli Limited	Telematics data services provider	LexisNexis Risk Solutions Inc.	25	16.3x
Apr-14	Zytek Automotive Limited	Suppliers of expertise in automotive control systems, powertrain management and hybrid-electric vehicles	Continental Aktiengesellschaft	n.a	n.a



Tesla on the Charge

As we write this, Tesla, after only two days, has taken almost \$10bn in pre-orders for the Model 3, equivalent to 276,000 units. The \$1,000 deposits alone have swelled the company's coppers by \$276m.

At this point it appears that bringing the pricing of Tesla to under £30,000 before subsidies has allowed the company to tap directly into the main automotive retail market in a phenomenon not seen since the model 'T'. However, the scale of orders presents a major supply chain issue for the manufacturer which will make meeting delivery times difficult from the outset. It is widely known Tesla has had problems with extended delays and recalls on its other platforms.

Historically the company has practiced significant vertical integration from the current building of its giant lithium ion battery factory in Nevada to its direct retail model.

However, the evident demand level and its international nature may require the company, which delivered less than 51,000 units in 2015, to look to new and existing supply chain partners to avoid missing out on this bonanza. It is not clear whether this capacity even currently exists and what can be co-opted from traditional automotive, the electronics industry and the energy sector to allow delivery anywhere near the 2017 target. What is clear is that Electric has come of age.

In the UK we expect to see this result in an acceleration of roll-out of electric car charging infrastructure. January already saw the Government announce funding for several cities across the UK to significantly expand the number of charging points but the Tesla success, combined with growth at other manufacturers, may finally be the tipping point to see private capital substantially deployed in this exciting space.



PICTURE: TESLA ROADSTER

TRANSACTION HIGHLIGHT

Paintbox Automotive

Livingstone's Industrial sector team has advised Paintbox Automotive, a world-class provider of painted exterior assemblies to the luxury automotive marques, on a significant investment by the Business Growth Fund ('BGF'), the provider of long-term growth capital for ambitious entrepreneurs running growing UK companies.

Paintbox is a Tier One supplier providing super-premium branded automotive manufacturers including Bentley, Rolls Royce, Jaguar Land Rover and Aston Martin with complete exterior bumper and trim assemblies in an unmatched range of technical finishes and colours on a just-in-time, just-in-sequence basis.

The business was founded by James Sharp and Karl Durham in 1989 to service the high-end motorsports market and has grown to over 300 staff, operating from two UK facilities in the Banbury and King's Norton and utilising state-of-the-art robotic painting technology to provide an unrivalled service to the most demanding luxury marques in the world.

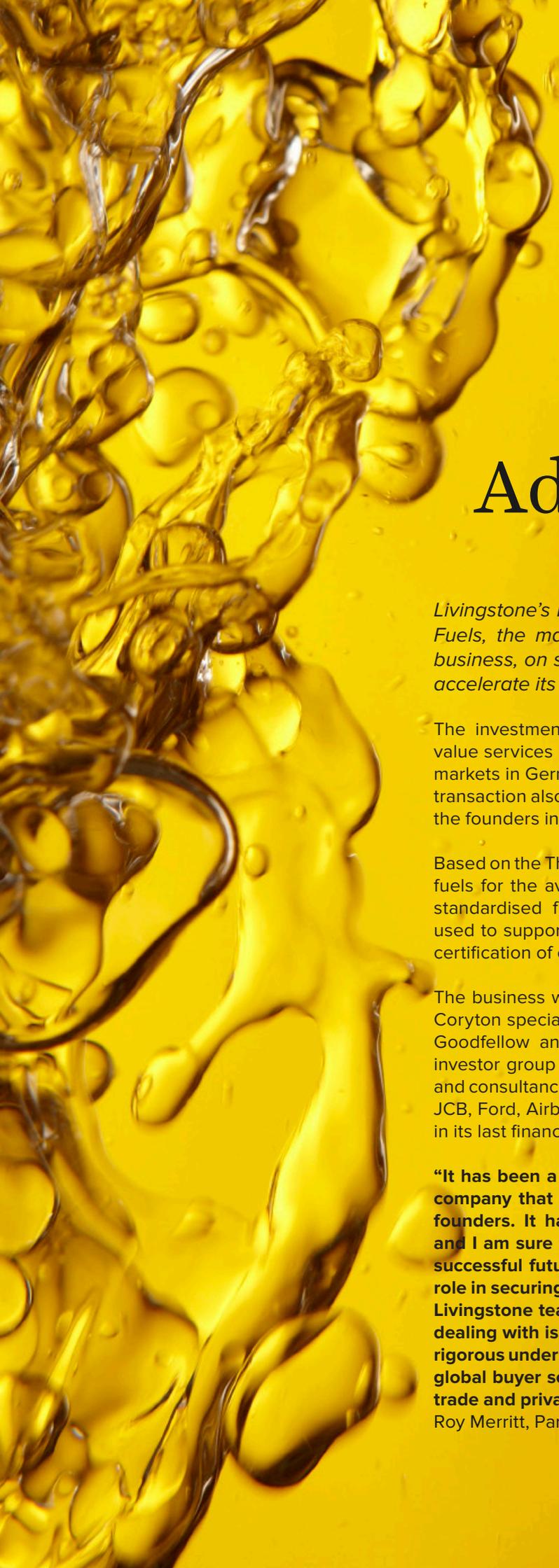
Demand for the Company's capabilities is such that Paintbox is now engaged in a major expansion of its robotic painting capabilities, an investment in UK advanced manufacturing that BGF is excited to be able to support.

"In BGF Livingstone found us the ideal partner and, with the strength of our pipeline, this investment will support the next step-change in our business. Livingstone's guidance and expertise, based on the understanding that they have gained from over a decade of working with us, has been essential to securing this important funding."

James Sharp, co-Founder, Paintbox

"Paintbox is the only business of its type, scale and competence in the UK, and is led by an incredibly talented and ambitious management team. We are delighted to be funding the building of the new production line in Birmingham, and to be supporting the longer term growth strategy of the business."

Tim Whittard, Investor, BGF



TRANSACTION HIGHLIGHT

Coryton Advanced Fuels

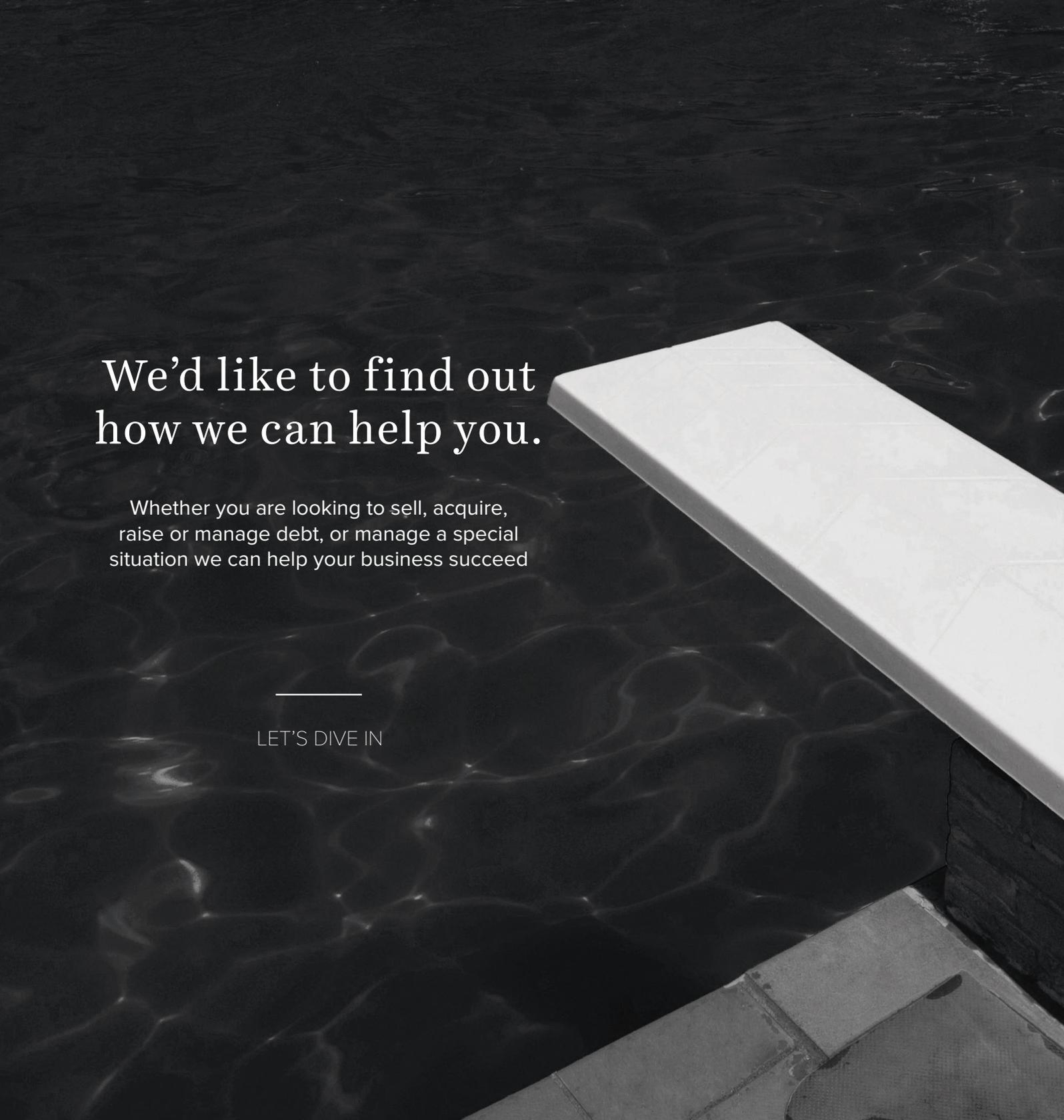
Livingstone's Industrial sector team has advised Coryton Advanced Fuels, the market-leading fuel blending and consultancy services business, on securing significant investment from Lyceum Capital to accelerate its international expansion.

The investment will enable the company to grow its range of added-value services and production capacity in the UK, develop existing export markets in Germany and expand into new markets in the US and Asia. The transaction also provides an exit for Oakfield Capital, who originally backed the founders in 2010.

Based on the Thames estuary in Essex, Coryton develops high performance fuels for the aviation and motorsport industries, as well as bespoke and standardised fuels for the Automotive sector, where its products are used to support research and development activities and the testing and certification of engines, lubricants and fuel additives.

The business was founded five years ago following the acquisition of the Coryton specialist fuels blending facility from BP plc by co-founders Craig Goodfellow and Diane Lance with support and financial backing from investor group Oakfield Capital. Since then, it has expanded its products and consultancy services, and built a portfolio of global customers including JCB, Ford, Airbus, Bentley and Jaguar Land Rover, reaching sales of £12m in its last financial year.

“It has been a great achievement to build Coryton into the exceptional company that it is today – testament to the solid grounds built by the founders. It has been a real pleasure to work with Craig and Diane, and I am sure that the next phase for the company will ensure a highly successful future for Coryton and its staff. Livingstone played a critical role in securing this excellent outcome for the Coryton shareholders. The Livingstone team were always on top of the detail and on the front foot dealing with issues when they arose. Their knowledge of the sector and rigorous understanding of the business allowed them to reach a genuinely global buyer set. They drove a very competitive process involving both trade and private equity bidders to achieve an outstanding result for us.”
Roy Merritt, Partner, Oakfield & outgoing Chairman, Coryton



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raise or manage debt, or manage a special
situation we can help your business succeed

LET'S DIVE IN

Livingstone is an international mid-market M&A and Debt Advisory firm, with offices in Beijing, Chicago, Düsseldorf, London, Los Angeles, Madrid and Stockholm. Its 100 staff complete 50 deals per annum.

We focus on five core industries, with dedicated teams across our offices serving the Business Services, Consumer, Healthcare, Industrial and Media & Technology sectors, drawing from our experience of closing over 750 transactions.

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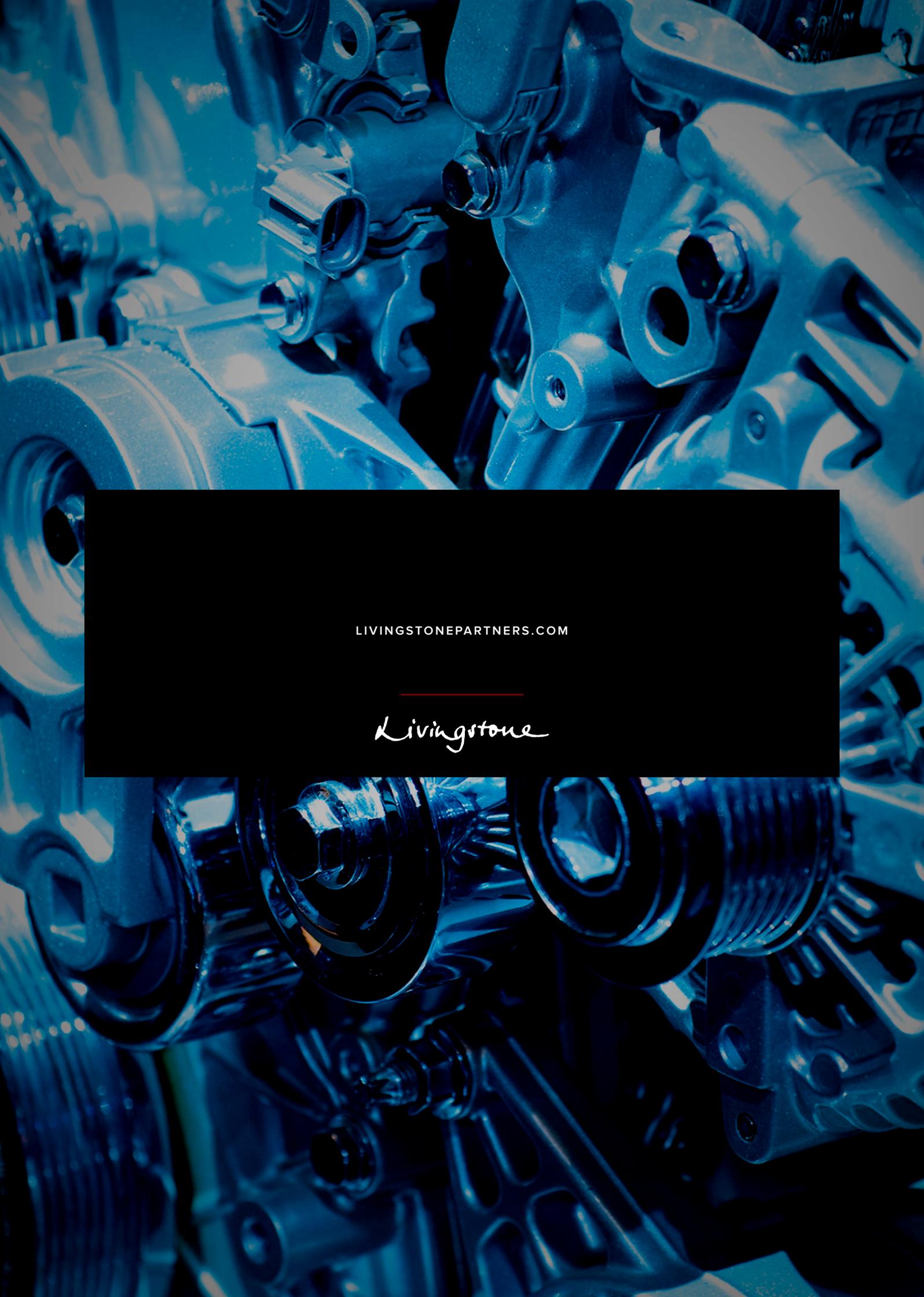
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LOS ANGELES

LIVINGSTONE SURFS UP, APRIL 2016

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