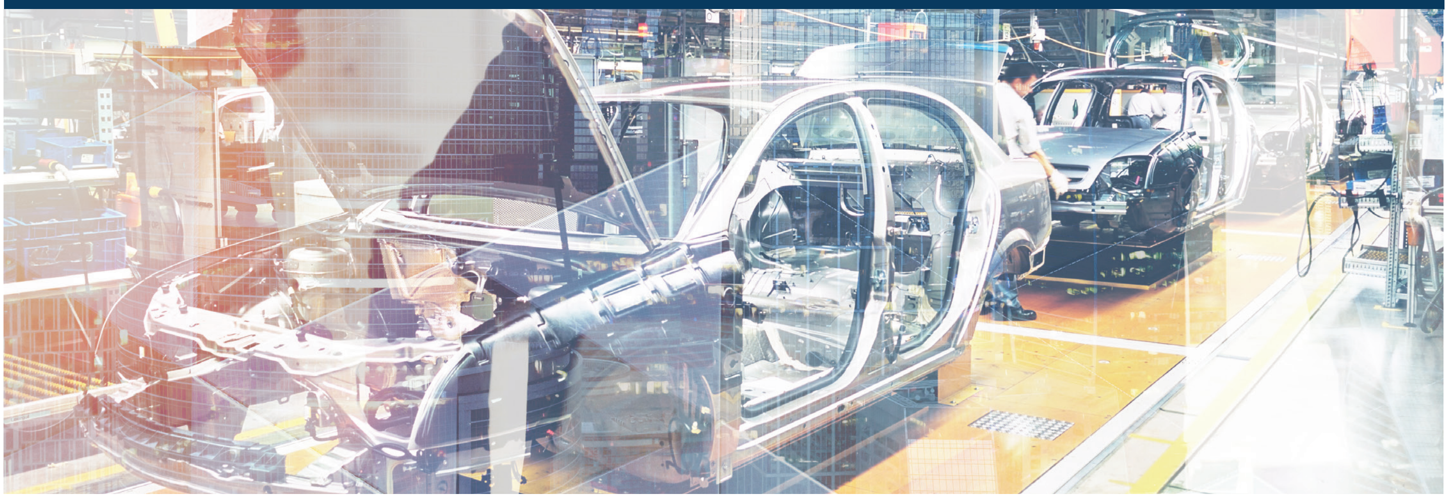
PMCF | INVESTMENT BANKING

AUTOMOTIVE M&A PULSE

FIRST QUARTER 2019



Q1'19

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ABOUT PMCF

P&M Corporate Finance ("PMCF"), a U.S. registered broker/dealer, is an investment bank focused exclusively on middle market transactions with professionals in Chicago, Detroit, Denver, and across the globe through Corporate Finance International™ affiliates. Offering a depth of advisory services, PMCF helps clients worldwide meet their sale, acquisition, financing, and strategic growth objectives. Additional information on PMCF can be found by visiting our website, www.pmcf.com.

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SELECT 2019 PMCF AUTOMOTIVE TRANSACTIONS

Hosco / Classic Precision / IDS Integrated Dispense Solutions
has been acquired by
Carlisle Fluid Technologies

Peterson Spring / PAC RacingSprings.com
has been acquired by
MiddleGround Capital

Great Lakes Trim
has been acquired by
GLT GLIF, Inc.

What We're Discussing with Clients

Criticality of Program Launch Execution

A major milestone for any automotive supplier is the award and launch of a new program, particularly when supplying components to a new OEM platform. It is vital that such launches go smoothly, and when launching during an M&A transaction, success is even more critical. Actual performance vs. financial projections during a program launch will drive buyer confidence in the projections and have a significant influence on valuation.

Having advised many clients through an M&A transaction while launching new programs, we have seen a number of strategies and approaches common in planning and executing successful new program launches. First, obstacles are inevitable – expect challenges along the way. Building cushion for unexpected changes in your financial projections will help minimize the impact on the value of the business when challenges like equipment delays, throughput inefficiencies and changes in customer demand occur. Second, the realities of a tight labor market need to be effectively addressed. A solid plan to attract, train and retain skilled labor is critical to maintaining efficient, on-schedule production and delivery. Likewise, integrating automation into new manufacturing cells will help reduce direct labor costs as well as reduce and improve the consistency of cycle times, assisting in fine-tuning the accuracy of production volume forecasting.

Finally, the credibility and visibility of production volumes are critical, particularly when it comes to due diligence. Tying projection volumes to third-party industry data sources, where possible, is strongly recommended. Tier II suppliers may find this difficult, but specific inquiries with customers and focused data mining through industry resources has proven very helpful.

Planning for End of Production

With the introduction of new platforms by OEMs, many long-running nameplates are being discontinued. If unprepared, the end of a long-running program can result in a significant drop in a supplier's financial forecast.

Production and financial planning requires staying up-to-date on production outlook, both in terms of the specific platforms using the supplied products and the prospects for re-awards from manufacturers. This is essential for creating a business development strategy in the event a program will end, and not be re-awarded. Having a firm grasp on the resulting open capacity and the types of products best suited for the idled equipment is paramount, as a focused strategy concentrating on "best fit" products will help to minimize production downtime and the resulting impact on financial performance and business value.

Approaches to Recruiting and Retaining Skilled Labor

In today's ultra-competitive labor market for skilled manufacturing workers, establishing a competitive wage and benefits package is necessary to attract and retain top talent. You should have a clear picture of "market" compensation, including how your organization compares to other top employers in the area competing for talent from the same labor pool; industry associations and local economic development organizations can be excellent sources for this type of insight on wage ranges and benefits package data.

Getting creative beyond simply increasing wages across the board can help your company stand out from the crowd and attract and retain top talent. Linking advancements in job skills to compensation increases and advancements in title is an excellent way to build employee loyalty and create a growth-focused environment that encourages employee development. In-house training programs and co-op programs with local high schools and vocational schools can help attract workers at a young age and provide a pool of developable talent.

More traditional benefits-enhancing tactics are also effective in attracting and retaining talent. Broadening vacation day accrual and family leave policies, enhancing health care coverage and matching contributions for 401(k) programs can be cost-effective ways to differentiate in the market.

Q1 2019 Market Summary & Outlook

2018 Automotive M&A Market Dynamics

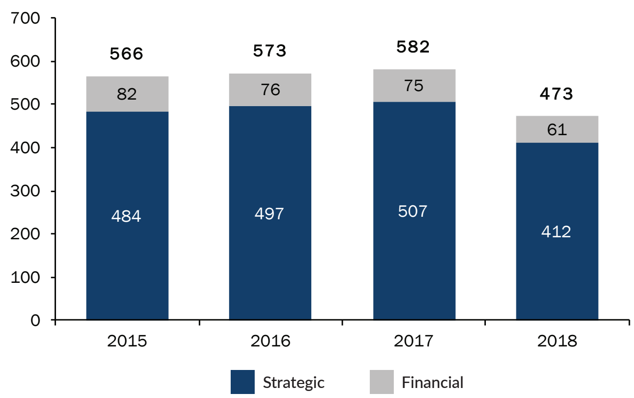
2018 saw an overall decline in deal volume following three years of gains, but transaction activity remains healthy relative to historic levels. Announcements of OEM assembly plant closings and the significant exit from passenger vehicles by Ford and GM has impacted transaction activity. The ultimate impact has been a bifurcating of the market – little interest/demand for suppliers poorly positioned for these dynamics, and continued traction for companies supplying pick ups/SUV's/CUV's with strong visibility on forward program volumes. Activity among strategic buyers remains comparatively strong, with the shift in market focus driving appetites for future-focused technologies and component suppliers pursuing customer, geographic and supply control expansion. Financial buyer activity has softened slightly, not unusual given the stage of the current automotive cycle.

At the lower end of the middle market, there has been a tightening by banks, with leverage on automotive transactions under $50 million being pushed down to 3.0-3.5 times EBITDA. This is likely a contributor to the slowdown in financial buyer activity, but is not impacting transaction structure – substantially all transactions are cash at close.

There has been a return to stronger pricing pressure on suppliers from OEMs and upper Tiers, potentially eroding margins for suppliers who cannot compensate with automation and higher manufacturing efficiencies. These factors have contributed to an erosion in public equity valuations; mean EBITDA to Enterprise Value multiples for automotive suppliers declined from 6.9x to 4.8x from December 2017 to December 2018.

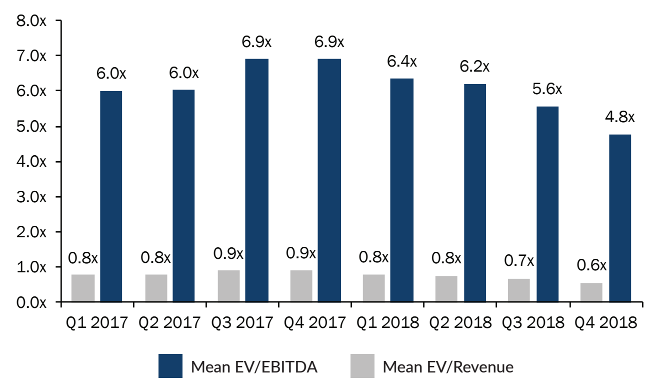
Nevertheless, significant transactions continue to get done with suppliers that have strong customer relationships, favorable LTAs and attractive manufacturing competencies. The key takeaway from the current environment is that it is more critical than ever to plan thoroughly for the transaction process and to position the business effectively to the right strategic or financial buyers to achieve the most favorable outcome. On page 7 of this report, we discuss key considerations in planning for a sale process to maximize the results of a successful M&A transaction.

AUTOMOTIVE DEALS BY YEAR



Source: Capital IQ, Proprietary Research

AUTOMOTIVE SUPPLIER TRADING MULTIPLES



Source: Capital IQ
Quarterly figures based on the last trading day of each quarter shown

Automotive Market Trends & Outlook

The China-U.S. trade war is viewed by many M&A professionals as the biggest concern for transaction activity in 2019, and the automotive sector may be particularly at risk, as Chinese companies have long had an appetite for buying U.S.-based suppliers. Although interest is still high, Chinese firms have become limited in their abilities to invest in the U.S., and a recent cooling of the automotive market in China - generally regarded as another side effect of the trade war - may have dampened enthusiasm to some degree as well.

Although foreign investment in the U.S. overall has not suffered as much as once feared due to the political environment, deals between U.S. and Chinese companies have all but evaporated. From a record high of $55.3 billion in 2016, transaction values fell to $8.7 billion in 2017, and to just below $3 billion in 2018. CFIUS reviews are impacting technology related transactions, while, in our experience, many Chinese buyers have indicated they are unable to pursue US-based transactions while the trade dispute continues.

Many U.S. suppliers have been negatively affected by tariffs imposed on materials sourced from China and Europe. In addition, a move by many distributors and mills to eliminate surcharges and increase base prices caused disruption in commodity price agreements. This double whammy impacted the EBITDA of many US suppliers and has been a point of negotiation on several of our recent transactions. Our clients have begun receiving tariff exemption waivers. In addition, to the credit of all, the industry has demonstrated surprising flexibility in re-working commodity price agreements to deal with this recent disruption. While a factor in transaction activity to date, we expect tariffs and surcharge/base price changes to diminish in importance prospectively.

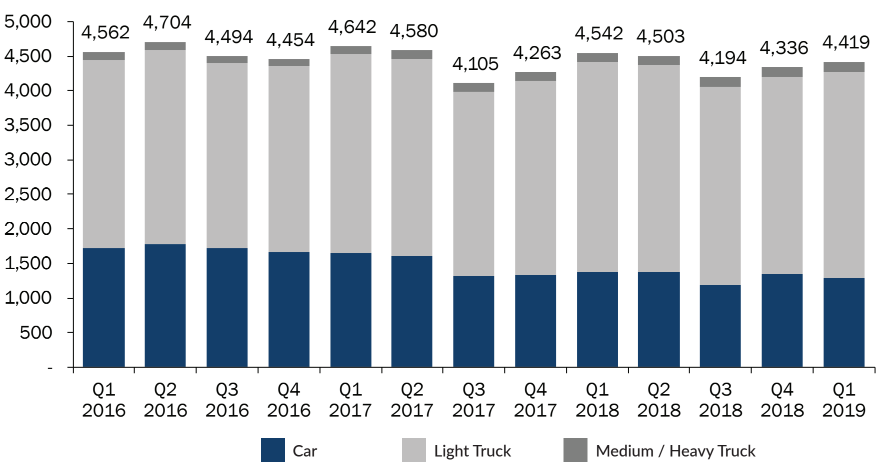
Macroeconomic Trends & Signals

WALL STREET JOURNAL ECONOMIC SURVEY – RECESSION PROBABILITY

Source: Wall Street Journal Survey of Economists

- Economists surveyed by the Wall Street Journal in April 2019 indicate a 25% chance of U.S. recession within the next twelve months.
- Recession probability has increased from 15% in April 2018, and is at the highest level since October 2011.
- Reasons cited for increased concern include trade tensions with China, rising interest rates, a sharp stock market selloff last year, and a recent yield curve inversion.

QUARTERLY VEHICLE PRODUCTION VOLUMES – NORTH AMERICA



Source: Ward's Automotive

- North American vehicle production in 2018 reached 17.6 million, flat from 2017 production levels.
- Q1 2019 saw a 1.9% increase in volumes from Q4 2018, driven by increased domestic sourcing, an increasing production mix of trucks and consumers benefiting from 2018 tax cuts.
- However, Q1 2019 volumes decreased by 2.7% from the same period in 2018, driven by rising fuel prices in the second half of 2018 and rising interest rates.

RAW MATERIAL PRICING INDICES

Source: Federal Reserve Bank of St. Louis
Note: Indices anchored at 100.0 on Jan 2014

- Raw material prices are hovering near a six year high as automotive manufacturers wrestle with volatile costs of steel, aluminum, copper, and plastics.
- Automakers buy most of their steel in North America, but certain types — such as stainless and electrical steel — are imports subject to the 25 percent U.S. tariff.
- Resin prices rose throughout the first half of 2018 as feedstock costs jumped, but have since returned to levels seen at the beginning of the year.

Automotive M&A Activity

SELECT AUTOMOTIVE TRANSACTIONS

($ in Millions)

Announced Date	Target	Buyer	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Dec-18	Grand Traverse Plastics Corp.	Covington Capital	n/a	n/a	n/a
Dec-18	Constellium-UACJ ABS, LLC	Constellium N.V.	204.1	n/a	n/a
Nov-18	Agility Fuel Solutions LLC	Hexagon Composites ASA	248.4	n/a	n/a
Oct-18	Carver Industries, Inc.	Covercraft Industries, LLC / Century Park Capital Partners	n/a	n/a	n/a
Oct-18	Ventech, LLC	Michigan Capital Partners LP	n/a	n/a	n/a
Oct-18	Dill Air Controls Products, LLC	Shanghai Baolong Automotive Corporation	227.9	2.9x	n/a
Sep-18	Roof Systems Business of Inteva Products Inc.	CIE Automotive, S.A.	727.9	n/a	n/a
May-18	Toledo Molding & Die, Inc.	Grammer AG	271.0	0.9x	n/a
May-18	Aftermarket Division of Cloyes Gear & Products, Inc.	Hidden Harbor Capital Partners, LLC	50.0	n/a	n/a
Mar-18	Wheel Pros, LLC	Clearlake Capital Group, L.P.; Clearlake Capital Partners V	n/a	n/a	n/a
Feb-18	Car Sun Visor Related Assets	Zhoushan Yinmei Automotive Interior Co., Ltd.	147.0	n/a	n/a

KEY DEAL HIGHLIGHTS

North American Expansion

LISI Automotive
acquires Hi-Vol Products LLC

On September 14, 2018, LISI Automotive announced the acquisition of Hi-Vol Products LLC, a subsidiary of private equity-owned Arch Global Precision. LISI Automotive is part of the publicly traded LISI Group of France, which manufactures components for the aerospace, automotive and medical device markets; the Group has annual revenues in excess of $500 million and employs more than 4,000 workers. Hi-Vol Products, which posted $40 million in revenues in 2017 and employs 130 people, manufactures mechanical safety components for the automotive industry. The deal was considered a signal of continued foreign interest in U.S. automotive investments and LISI's objective to expand its European and Asian growth to the United States. "With Hi-Vol Products, LISI Automotive strengthens its global position in mechanical safety components. The two Livonia sites will reinforce the LISI Automotive Safety Mechanical Components Business Group, already present in Europe, China and Mexico. This acquisition will allow us to accelerate our development in the United States and benefit from a strong technical base in North America," LISI Automotive CEO François Liotard said in a statement.

Platform Investment

Kensington Capital Partners
acquires Kenona Industries

Canada's Kensington Capital Partners, a leading alternative asset investor with more than $1.3 billion in private equity, VC and alternative asset investments, acquired U.S.-based Kenona Industries in an $85-million deal announced on May 14, 2018. Kenona Industries is a major Tier I supplier of precision machined steering, powertrain and exhaust components; its parts are found in more than 6 million of the 17 million U.S. vehicles built annually, encompassing 45 different nameplates in 2017. "We are impressed with the strong management team at Kenona and are excited by the growth prospects of the company," Senior VP Martin Kent of Kensington commented. "The company has a strong culture of innovation and operational excellence. We are looking forward to working with the management team to continue to grow the business."

Strategic Planning for Sale

Developing a Strategic Plan

The economy is relatively healthy, but history has taught us that growth cycles don't last forever. It's not if there will be an economic downturn — it's when. Knowing that there's a cyclical pattern to many markets, savvy owners and executives will figure out how to take advantage of business cycles to create a continuing growth trajectory and boost profitability. In the context of planning for a transaction and "telling your story" to potential buyers, having a thoughtful and supportable growth plan is critical to securing maximum value in the market.

Companies that withstand the ups and downs of the economy share several qualities that consistently drive value. These companies offer compelling products and services, from both the strategic and customer perspectives. They have healthy equity positions and strong balance sheets. They maintain a flexible cost structure. And they plan ahead to identify new opportunities and can quickly deploy resources to seize those opportunities.

The main enabler for all of the above? High-level planning that informs strategic directions. It should be noted that this planning should consider historical cycles (ignoring the precipitous drop in 2009).

Build and Analyze a Dynamic Financial Model

To begin planning ahead, glance backward. Consider how previous recessions affected your company and your customer base. How much did revenue decline? How much were your margins compressed? How long did the effects last — were they short and sharp, or longer and more gradual?

A key tool for planning is an assumption-driven integrated financial model that includes a forecasted income statement, balance sheet and cash flow statement. Running different scenarios in the model to see the effects on cash flow of changes in fixed and variable costs, revenue, pricing, margins, and other parameters will be useful in informing strategic planning decisions including equipment purchases, staffing strategies and expansion plans.

The above analysis is exactly what sophisticated strategic and financial buyers will do when assessing your business – understanding the potential outputs prior to initiating a sale process is critical to achieving an optimal outcome.

Dig Deeper for Growth Opportunities

The above analysis is critical for understanding future cash flows and profitability under different scenarios, but a holistic examination of the operations is required to tactically plan how to pivot in different market conditions. Understanding open machine capacity across the equipment portfolio and the opportunities this creates to take work to fill open machine hours is critical. Be sure to not just assess capacity at the machine level, but also the mix of open machine hours and what mix of processes will be required to deliver finished parts. Understanding the above well in advance of starting a sale process will help craft the story communicated to potential buyers, and allow you the opportunity to put strategies in place to combat potential softness in the market.

With the many distractions middle-market executives face, it's hard to know where to focus your efforts in an up market or slowdown. Asking hard questions and putting the company through its financial paces can point you to the right strategic initiatives to solidify profits and cash flow, and develop the data and narrative to best position your business for a successful outcome in a transaction process.

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