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M&A INTERNATIONAL INC.

Automotive M&A Outlook: Why Build When You Can Buy?

2012

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Executive Summary

Review of 2011

While 2011 began on a positive note for the automotive industry, macroeconomic and sovereign debt problems in the developed world quickly overshadowed the progress made in the first half of the year. In addition, growth in emerging markets decelerated, disappointing those who believed that these countries would successfully decouple from their western counterparts and report strong automobile sales. These demand headwinds coincided with natural disasters in Japan and Thailand that crippled production.

In spite of this bleak economic background, global automotive M&A activity remained resilient during 2011, mainly driven by the need for increased integration and technological synergies as well as inorganic geographical expansion to improve companies' positioning in key markets. We expect M&A in this space will continue to focus on these trends, allowing companies to acquire key competencies and new technologies as well as to expand their geographical footprint.

In 2011, Europe saw the most M&A activity followed by Asia and North America. At the country level, the US witnessed the most deal making, followed by China and Germany. Emerging markets showed heightened M&A activity, with three out of the four BRIC countries ranking among the top five M&A destinations. Deal making has also been very concentrated; these top five countries accounted for more than 53% of total transactions by volume during 2011.

Segment-wise, companies have particularly targeted strategic acquisitions in the seating and interior, and electrical and electronic equipment segments. Smart and environmentally friendly cars are gaining popularity. This has increased companies' interest in smart ignition, steering and handling systems, advanced safety features, efficient lighting and light vehicle technologies. Furthermore, M&A activity in the transmission and power train segment has also increased at both the cross-border and domestic levels as a result of the growing need for advanced electrical power trains.

In 2011, acquisitions of developed market players for their technology was the main motive driving M&A transactions (41% of the 654 deals during 2011 analyzed in our report), followed by the need to cut costs and expand geographically. With companies under pressure to reduce R&D expenses and incorporate global best practices, we expect that they will continue to see M&A as a cost-effective way to gain access to new technologies. Financially motivated transactions also represented a significant share of automotive sector M&A activity, comprising 18% of both cross-border and domestic deals in 2011.

Looking ahead to 2012

In 2012, developed European automotive markets are likely to suffer from weak sales due to the region's sovereign debt crisis while we believe that US demand growth will remain uncertain due to a number of outstanding questions about the strength of the economic recovery. Neither region is likely to see sales nor production figures reach 2007 levels in 2012, despite previous forecasts.

BRIC countries attract

"While slower emerging market growth may well prove problematic for the industry in 2012, its long-term outlook remains positive, with BRIC countries still being preferred M&A destinations. In particular, India and China remain among the fastest growing automotive markets worldwide, supported by strong long-term structural fundamentals."

S. Jack Campbell
Head of M&A International Inc.'s Automotive Group

Executive Summary

Opportunities ahead

"While financial buyers are likely to remain dormant in the near term due to the tight credit market and impracticality of raising large-scale finance, they will enjoy major opportunities for involvement in the medium term."

Tomer Segev
Automotive Specialist
M&A International Inc., Israel

In our view, there will be two principal drivers of global automotive sector M&A going forward. First, overcapacity in the BRIC countries may continue to increase, encouraging further industry consolidation to correct supply-demand imbalances. Second, manufacturers must improve their technology to meet emissions requirements and customer demands at an economic price. The easiest solution for many companies is to buy this new technology.

Additional drivers that are likely to underpin M&A include government legislation to create safer, cleaner transport; original equipment manufacturers' (OEMs) attempts to meet changing market requirements; and the industry's need to advance technology. Cash rich strategic buyers are also likely to act swiftly to exploit opportunities to inorganically increase their market share in high-growth markets. We forecast heightened M&A activity in China, India, Eastern Europe and Russia in 2012.

Automotive M&A Overview & Analysis — (Q1–Q4 2011)

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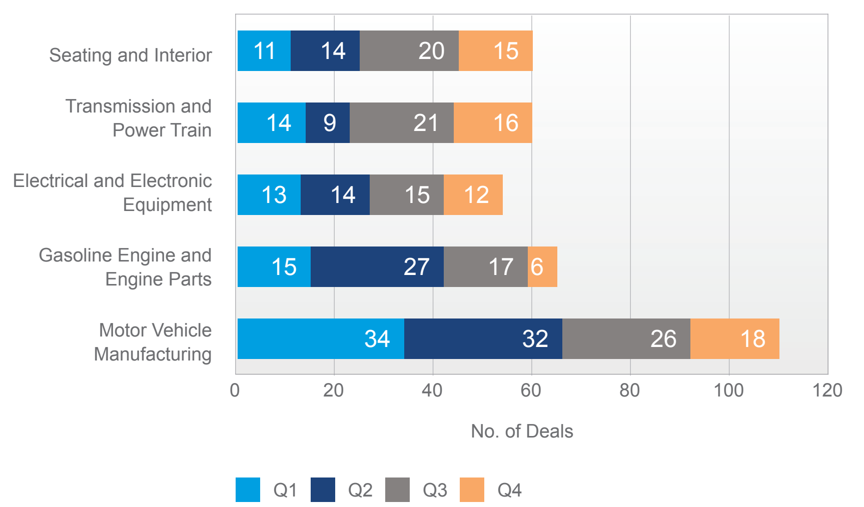
Analysis by Segment: Buying Instead of Building

During 2011, although the motor vehicle manufacturing segment saw the highest share of overall M&A activity (Figure 1), the segment reported a progressive decrease in the number of transactions during the year reflecting the fact that the segment is already well consolidated. Both domestic and cross-border transactions declined in the motor vehicle manufacturing segment in 2011.

During the last two quarters of 2011, significant M&A activity also occurred in the transmission and power train segment after recording lower numbers in the first two quarters. Domestic transactions remained steady throughout the year, while cross-border transactions peaked in Q3 before declining in Q4. We expect future M&A in this segment to focus on meeting companies' requirements for advanced electrical power trains and efficient transmission systems.

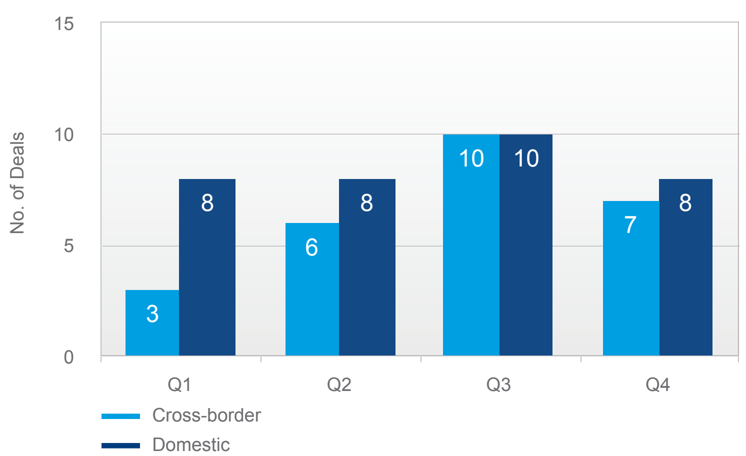
The seating and interior manufacturing segment reported a consistent increase in the number of M&A deals during the first three quarters of 2011 before falling in Q4, consistent with the fall in overall M&A activity (Q1: 11 deals; Q2: 14 deals; Q3: 20 deals; Q4: 15 deals). We attribute this fall in overall M&A activity during Q4 to be a direct result of the uncertainty caused by the Eurozone debt crisis and its impact on the global economy depressing the appetite for automotive deal making. However, both domestic and cross-border transactions showed steady increases in terms of the number of deals done during the first nine months (Figure 2). The largest transaction in the seating and interior segment was the acquisition of Peguform GmbH (Germany) by Motherson Sumi Systems Ltd. (India) for $100.5mn. Consumer demand for improved safety features, enhanced interior design and additional innovative features, including hidden airbag doors and knee airbags is forcing companies to either develop or acquire these technologies. Given the industry's current focus on ultra-light vehicles and cockpit design integration (incorporating necessary interior features), this trend is likely to continue.

Figure 1: Deals by segment – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Figure 2: Seating and interior segment deals (cross-border vs. domestic) – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

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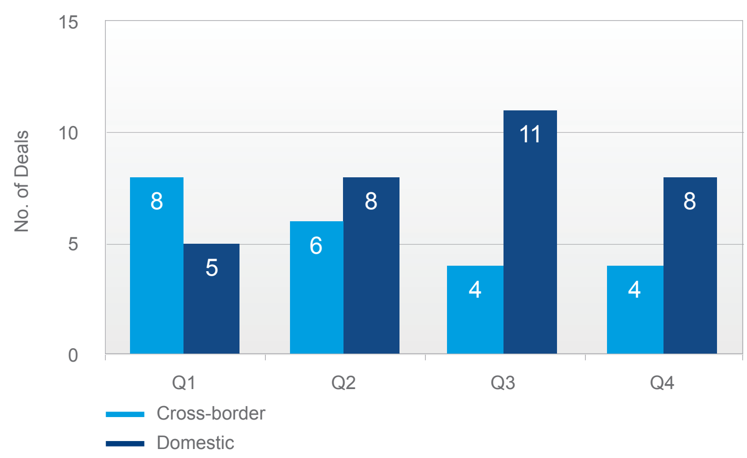
Similarly, there was a consistent increase in the number of transactions (Figure 3) in the electrical and electronic equipment segment during the first nine months of 2011 followed again by a marginal fall in the fourth quarter (Q1: 13 deals; Q2: 14 deals; Q3: 15 deals; Q4: 12 deals). The largest transactions announced in the electrical and electronic equipment segment during the period under review included the acquisition of Sensor-Dynamics (Austria) by Maxim Integrated Products (US) for $130.0mn, Shinwa International Holdings (Hong Kong) by JVC KENWOOD Corp. (Japan) for $45.5mn and PST Electronica S.A. (Brazil) by Stoneridge Inc. (US) for $45.1mn.

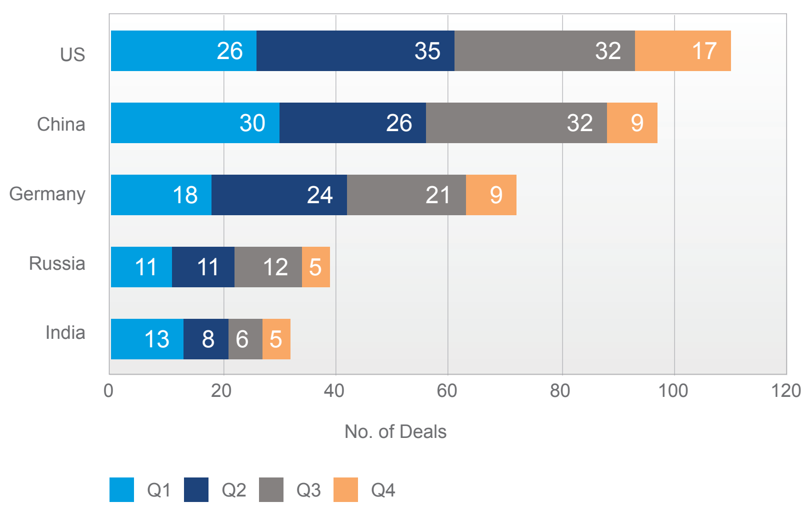
We expect further M&A activity to be driven by customer demand for increasingly innovative smart ignition, steering and handling systems; advanced safety features; and efficient lighting. This will likely take the form of OEMs targeting small companies in specialized areas to reduce technology improvement costs. Interestingly, the domestic transaction share of deals in the electrical and electronic equipment segment increased steadily during Q1 to Q3 2011 before declining marginally in Q4, consistent with the fall in overall deal activity. Throughout most of 2011, companies appeared to be more interested in consolidating their domestic market positions instead of embarking on international expansions.

Figure 3: Electrical and electronic equipment segment deals (cross-border vs. domestic) – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Figure 4: Deals by country – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Analysis by Region: Eurozone Worries Hamper Deal Activity… Go East

On a country basis, the share of transactions reported during 2011 was as follows: US (17%), China (15%), Germany (11%), Russia (6%), India (5%), Korea (5%) and Japan (4%) (Figure 4). Major deals included the acquisition of ITW-Finishing Group (US) by Graco Inc. (US) for $650.0mn, Shanghai Automotive Ind-Asts (China) by SAIC Motor Corp Ltd. (China) for $4.5bn, SIBUR - Russian Tyres (Russia) by Pirelli & C. S.p.A. (Italy) for $309.1mn and Mitsubishi Fuso Truck & Bus (Japan) by Daimler AG (Germany) for $377.3mn.

Based on the number of M&A transactions, inbound US deals increased between Q1 and Q2 2011 before decreasing in Q3 and Q4 as worries about a stalling US economic recovery became more intense. Germany reported a sharp increase in the number of

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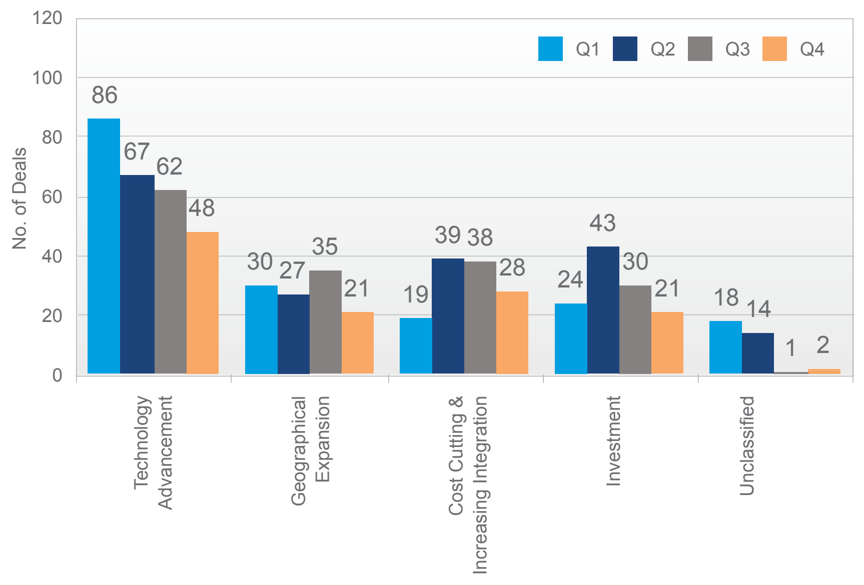
inbound cross-border deals in the second quarter before they decreased in Q3 and Q4. This trend is not surprising given that the second half of the year saw renewed sovereign debt concerns in the Eurozone (during 2011, European players executed over 51% of inbound German deals). At the same time, domestic transactions rose rapidly in the third quarter due to the perception that Germany was a safer harbor compared to its Eurozone neighbors. However, this changed in Q4 2011 as concerns began to mount over the resilience of the German economy.

Figure 5: Deals by motives – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

In the 27 EU member states, the passenger car market faced severe headwinds, falling by 1.2% YoY between January and October 2011. The sharpest declines in demand were reported in Spain (-19.7%), Italy (-10.8%) and the UK (-4.5%). In contrast, Germany posted a 10.0% increase. Not surprisingly, Germany also became the third largest venue for automotive sector M&A transactions. In our opinion, European companies are inexpensive, with present valuations depressed by adverse regional market conditions.

In contrast, the US automotive market remained strong with light vehicle sales rising by 10.1% YoY during the first 10 months of last year. Among emerging markets, Russia posted the strongest performance, reporting a 42.5% YoY increase in passenger vehicle sales and also recording the fourth highest number of M&A transactions. At the same time, China (with passenger vehicle sales rising 9.3% YoY) and India (5.5% YoY) also performed well, both ranking among the five largest destinations for automotive sector M&A transactions. However, the number of deals occurring in India continued to decline during Q1 to Q4 2011, consistent with the lackluster performance of the country's automotive market and broader economy relative to its emerging market peers.

In our opinion, corporate M&A activity involving companies in BRIC countries will remain high due to both an attractive cost advantage and large domestic consumer markets. In China, we believe that both global and domestic acquirors will continue to target firms in technologically complex segments, including transmission and power train parts manufacturing. We also expect the long-term growth potential in the Indian market to force global OEMs operating in India to pursue domestic M&A opportunities to secure a satisfactory supply chain for their local assembly lines. While M&A activity levels in Brazil lagged the market generally in 2011, we expect increased segment activity in the future based on regional expertise in technologies connected with non-traditional fuels, such as bio-diesel and ethanol.

Despite this general trend, nearly all outbound transactions by BRIC companies were directed towards increasing their international exposure by buying distressed assets in traditional markets, including the US and Europe. We believe that this trend will also continue in 2012.

M&A Strategies: Acquiring Technology and Cutting Costs

During 2011, acquisitions by automotive sector companies mainly involved advanced technology, which accounted for approximately 41% of total transactions. However, these deals decreased as economic conditions deteriorated due to the European sovereign debt crisis. A key example was the purchase of several assets belonging to SIBUR - Russian Tyres JSC (Russia) by Pirelli & Co. S.p.A. (Italy) and Russian Technologies State Corporation (Russia) for $309.1mn. We expect the acquisition of strategic and innovative technologies to remain a principal driver behind automotive sector acquisition strategies.

Another significant factor motivating M&A activity during the period under discussion involved increasing domestic and global market representation or "reach", a motive behind around 17% of transactions. Such a strategy better enables companies to grow alongside their customers in domestic markets, and

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accompany them as they expand internationally. An important example of a company performing M&A as an investment in new markets was the acquisition of MMC Automotores do Brasil SA (Brazil) by automotive manufacturer Mitsubishi Corp. (Japan).

As automotive demand slowed during the second half of last year, the motive for acquiring new companies increasingly shifted towards making cost reductions rather than investments in new, differentiated technology, with the number of transactions intended to reduce expenses and increase vertical integration higher in the second half of the year. In addition, depressed company valuations due to the European debt crisis enabled cash rich car manufacturers to incorporate improved integration in their cost control measures along with ongoing efforts to expand their product lineup.

Financially motivated transactions also represented a significant share of automotive sector M&A activity, comprising 18% of both cross-border and domestic deals. It accounted for the following shares of segment transactions: motor vehicle manufacturing (17%), gasoline engine and parts (10%), seating and interior (9%), and transmission and power train parts (9%). Significantly, our data also shows that the number of financially motivated deals increased in the second quarter to 43 from 24 in the first, before decreasing in the third (30) and fourth quarters (21). High value transactions include the acquisition by Unison Capital (US) of Asahi Tec Corp (Japan) for $342.0mn.

The need for advanced technology and cost cutting strategies will remain the main drivers behind automotive sector M&A in the near term. During the first half of 2012, we expect cash rich car manufacturers to capitalize on the depressed value of European assets to vertically integrate facilities.

Overview

In 2011, buyers were most motivated by a desire to increase technological expertise, with automobile manufacturers announcing several significant initiatives to develop their respective next generation vehicles. However, buyer preferences, which are still heavily leaning towards traditional offerings, will determine the long-term evolution and mass market outlook for these next generation vehicles and corresponding M&A activity. Manufacturers would need to meet consumer preferences for a more economical, environmentally friendly alternative that still has many similarities to the performance of traditional cars.

Keep pace

"Stakeholders throughout the industry are being affected by rapid changes in the automotive ecosystem, including the operating environment, customer preferences, competition and supply chain. An effective response to the challenges of the next decade requires car companies to identify ways in which they can keep pace with faster industry developments, including responding effectively to opportunities and challenges."

Adse de Kock
Automotive Specialist
M&A International Inc., Netherlands
President of the non-executive board of Broekhuis

With technological innovations causing many key changes in business conditions, OEMs and suppliers are seeking to increase their level of cooperation. OEMs are now more willing to share platforms with competitors to decrease R&D costs, focus on flexible production, reduce risks and decrease time to market. Significant progress has also been made towards turning the concept of an electric vehicle into a mass market product. Both parties (OEMs and suppliers) are likely to cooperate more aggressively going forward, including helping prepare standards for emerging technologies, such as common protocols for in-vehicle connectivity and a single battery charging infrastructure for electric cars.

Significantly, the most popular M&A targets for global automotive companies include the electrical and electronic equipment, and seating and interiors segments. Car companies have bought electrical and electronic equipment segment companies as a result of increased manufacturing of next generation vehicles. This process will only accelerate going forward as electrical vehicles become more ubiquitous. Similarly, companies manufacturing interiors, seating and bodies have also been able to collaborate in pursuit of alternative materials (such as thermoplastics, polyurethane foam, lacquers, foils, elastomers and silicones) providing them with more flexibility. The need to increase technological competence and reduce costs will continue to drive international automotive manufacturer M&A strategies.

Electrical and Electronic Equipment Manufacturing: A Smart Revolution

Recently, several companies have announced important initiatives to advance automotive technology. Smart and environmentally friendly cars are gaining popularity, fueling companies' interest in these technologies. The evolution of smart

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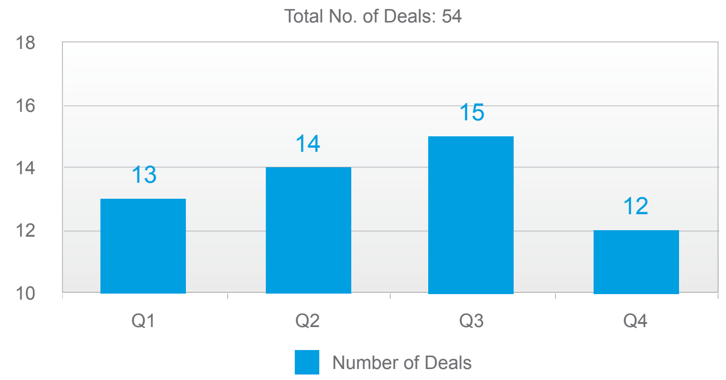
ignition, steering and handling systems, advanced safety features and efficient lighting increases the number of electrical and electronic components in each car. This has partly underpinned the increase in the number of transactions involving electrical and electronics equipment manufacturers during the first three quarters of 2011 (Figure 6).

Automotive electronics suppliers are now increasingly focusing on understanding end user requirements to more accurately forecast future order volumes for new functions and special features. In recent years, electrical and electronic equipment manufacturing companies have increasingly broadened their focus from basic applications (including infotainment, displays and comfort applications) to those with direct driver benefits, including active suspension, ABS (Anti-Lock Braking System) and ESP (Electronic Stability Program) as well as adaptive steering, intelligent headlights, active safety and other driver assistance applications.

During 2011, key industry players also focused on further developing vehicle lighting technology. Recently, the lighting market has attracted significant interest due to its high potential for CO2 abatement and its many new entrants. The usage of LEDs (light emitting diode) within the automotive sector is increasing, mainly due to red LED applications, including indicators and brake lights. LEDs are used increasingly in DRLs (daytime running lamps), which are mandated for new car production in the EU as from 2011–2012. Indeed, they are now used by OEMs to increase design competitiveness. Moreover, manufacturers are also designing LED lighting for the headlamp market, although technology barriers remain in this area due to the high cost of LEDs for applications involving ultra-high brightness. Given its increasing popularity and future relevance, companies are also expected to collaborate to reduce R&D and manufacturing expenses for LED technology. In February 2011, Turkish family-owned Bayraktarlar Holding acquired Odelo, a German vehicle

Figure 6: Electrical and electronics equipment segment M&A transactions – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

lighting company. Bayraktarlar is seeking to expand its international operations and strengthen its market share in the European automotive lighting segment.

Perfect match

"Odelo's high quality and innovative product portfolio, its strong technology base and extensive client relations are a perfect match for our existing automotive business. We will be working as partners and will ensure that this acquisition will create value for our clients worldwide."

Ahmet Bayraktar
Vice President, Bayraktarlar Holding

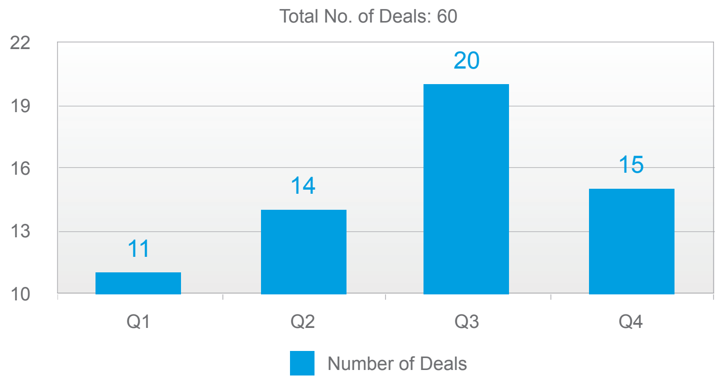
Furthermore, the continued development of the electrical vehicle market has created additional M&A opportunities in other sectors. In particular, the need for advanced electrical power trains and efficient batteries is compelling companies to collaborate to create a potential mass market electric vehicle. Global electrical and electronics equipment manufacturers are expected to pursue more aggressive M&A strategies to meet the following challenges:

Increasing complexity: Electrical and electronic devices are becoming more complex. To compete under such conditions, including manufacturing highly advanced products, car manufacturers must seek to integrate research and production capabilities within the framework of partnership agreements which enable companies to construct technologically advanced products at a competitive price.

Higher cost pressure: Currently, the automotive sector is rapidly expanding, particularly in emerging markets, requiring continuous product improvements to match consumer expectations. Western OEMs already face intense competition from local small car manufacturers. Cost pressures faced by western suppliers could result in significant inbound M&A activity involving emerging economies. At the same time, OEMs and electronic and electrical equipment suppliers in such countries will continue to target opportunities in Europe and North America to maintain technological competitiveness. In addition, we expect companies to seek to increase the availability of advanced features, including electrically adjustable seats and headlights that automatically adjust to driving direction, which were initially available only as special features. Companies are now looking to offer these features in less expensive vehicles.

Changing consumer trends: Previously, new features were driven more by the availability of technology than by customer preferences. However, this is changing. Consumers are demanding an improved interface between driver/passenger and their car as well as better safety features. We believe that this will likely underpin M&A activity going forward.

Figure 7: Seating and interiors segment M&A transactions – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Motor Vehicle Seating and Interiors: Meeting Global Standards

Historically, the seating and interiors segment has attracted less market attention. However, this clearly changed in 2011, with the number of deals within the segment showing rapid growth during Q1–Q3 2011 before declining in Q4, consistent with the overall fall in both economic and M&A activity (Figure 7). Customers require spacious, strong, light and luxurious interiors. OEMs have focused their M&A strategies on delivering such features.

Players must also concentrate on providing important safety features located in interior panels, including increasingly popular hidden airbag doors and knee airbags. Such features represent powerful marketing tools for OEMs as buyers regard safety as a main priority. We expect significant segment restructuring going forward aimed at meeting these requirements.

A significant market opportunity also exists in increasing cockpit design integration. It currently comprises several diverse components. During 2011, approximately 18% of all deals within the seating and interiors segment were directed towards increasing integration levels and cost cutting. We expect this segment to continue to see strong M&A activity.

In developing markets such as China and India, the automobile market is developing very rapidly, with prices decreasing, improving the affordability of cars. Consequently, elevated activity levels have been seen in all associated segments. In these regions, local OEMs are taking urgent steps to upgrade their interiors (and safeguard their competitiveness) bringing them in line with those offered by established OEMs already building cars in these developing markets. M&A between seating and interior manufacturers in emerging countries are expected to follow the demand for higher quality products as both local middle class aspirations increase and more expensive products become readily available. In 2011, for example, Motherson Sumi Ltd., an India-based interior manufacturer, acquired an 80% stake in Peguform, a German manufacturer of cockpits and dashboards servicing premium clients including Volkswagen, BMW and Daimler, to increase its own forward integration and improve its product lines to match Peguform's global offerings.

Increasingly, seating and interior covers are becoming premium products, with companies seeking substitutes for high-cost leather. Their challenge is to develop attractive and realistic simulated materials, a prerequisite likely to drive further M&A activity as companies aim to share R&D expenses in pursuit of higher quality products. Currently, car manufacturers enjoy a wide choice, with newer materials including thermoplastics, polyurethane foam, lacquers, foils, elastomers and silicones providing necessary flexibility. However, due to ongoing demands from increasingly sophisticated car buyers, future materials must offer improved functionality, while being light, cheap and made from environmentally sustainable components.

More recently, expertise in seating and interiors has become a key competitive driver for OEMs worldwide. Total expenditure on vehicle interiors has increased substantially as a percentage of total automotive spending. We believe that M&A activity within this segment will continue to expand in the near term.

M&A Between the Developed and Developing World: It Takes Two to Tango

Brazil, Russia, India and China's (BRIC) strong economic and automotive sector growth have made them leading targets for M&A activity in the automotive space.

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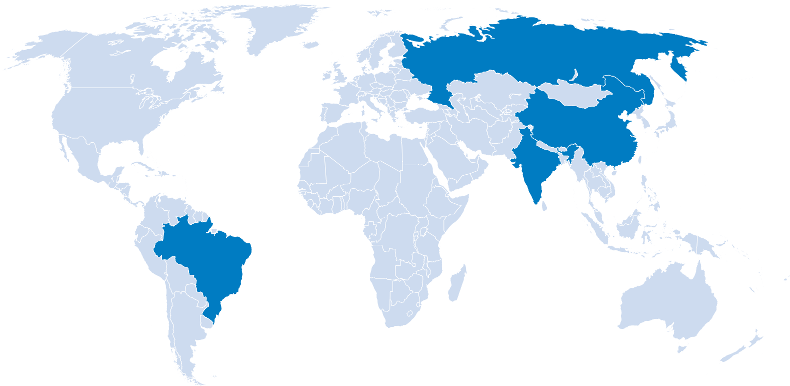
During 2011, China, Russia and India were among the five most important countries for automotive industry buyers (Figure 9). In particular, China reported high levels of activity throughout most of 2011, particularly among companies seeking to acquire local operations due to the country's low costs and high technology products.

Outbound M&A also remains strong, with companies in emerging countries taking aggressive steps to establish brands in developed countries. During 2011, both Indian and Chinese car manufacturers made several bids to acquire distressed assets in Europe and the US. For example, China-based Joyson Automotive acquired Preh GmbH, a German company, to expand its geographic footprint. Indian companies have also bought several European companies manufacturing power trains (India-based Premium Transmission Ltd. acquired German Rexnord Stephan GmbH & Co. KG) and car interiors (India's Motherson Sumi Systems Ltd. acquired Germany-based Peguform GmbH). These moves form part of a clear strategy by BRIC companies, particularly Chinese, to access technical expertise developed in Europe and the US to apply in vehicle manufacturing in their own domestic markets and, at the same time, to establish a foothold in western markets.

While historically India has generally been regarded as a labor arbitrage opportunity, its emergent middle class, higher consumer spending and rising demand for light vehicles have increased its attractiveness for automotive companies. The country has already reported a greater percentage share of cross-border transactions (47% vs. 23% in China during 2011), a development expected to continue as global manufacturers seek to leverage an increasingly valuable market.

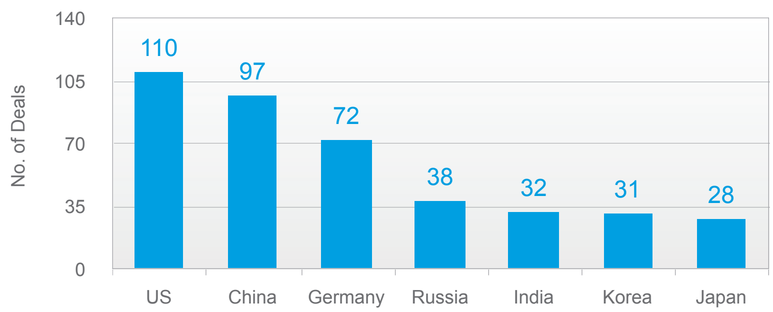
In Russia, car manufacturers and suppliers have also sought to localize and expand operations, establish a global presence

Figure 8: M&A activity – Brazil, Russia, India and China are clearly in the driver's seat



Source: Copal Analysis

Figure 9: Favorite destinations for automotive M&A activity – 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Focus on technology

"We expect future M&A activity in China to remain technology-focused as the rapidly evolving Chinese automobile industry increasingly develops high quality, technologically advanced vehicles. We expect technically complex segments including transmission and power trains, steering and suspensions to remain targets for domestic and global acquirors."

Adrian Bradbury
Automotive Specialist
M&A International Inc., China

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and increase local content, driving organic growth. Although Brazil, the world's fourth largest economy, lags its developing peers based on current levels of automotive M&A activity, it has well-established traditional expertise in non-traditional fuels (a key industry development priority), indicating significant potential going forward.

Cross-Border vs. Domestic Deals: Bargain Basement Prices

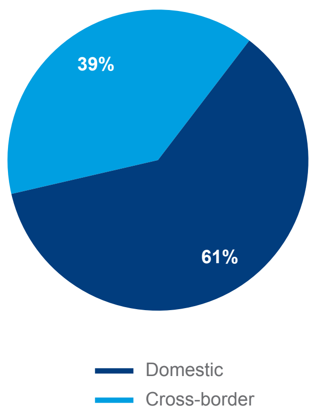
The automotive industry has been "global" for a considerable period of time. Historically, cross-border deals have been closely correlated with overall automotive M&A levels. Companies initiate international acquisitions mainly to:

- Access new customers
- Acquire new technology or production capabilities as well as cut costs, and/or increase product value
- Increase their valued supplier status, growing with customers in existing markets and following them into newer ones

Cross-border transactions comprised 39% of total deals reported during 2011 (Figure 10). During the same period, the North American automotive industry focused on rightsizing and restructuring operations, with only 36% of regional buyers involved in international acquisitions. In contrast, their European counterparts were very active in cross-border deals, with approximately 50% of European buyers taking part in cross-border transactions.

Due to the European sovereign debt crisis, we forecast accelerated inbound regional M&A activity. Both US and Asian companies seeking acquisitions in Europe may expedite their timetables over the next 12 months as a result of a weak currency and depressed share prices.

Figure 10: Cross-border vs. domestic deals in 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Close to home

"Most European cross-border deals were regional. Companies often view proximate cross-border investments as relatively less risky than those that are more remote geographically. However, we have been seeing an increasing number of acquisitions by Asian buyers recently."

Michael Thiele
Automotive Specialist
M&A International Inc., Germany

Bargains in Europe

"Globally, buyers are well-positioned to acquire bargain-priced European investments. Key regional characteristics include historically low valuations and a relatively soft currency."

Gianni Casanova
Automotive Specialist
M&A International Inc., Brazil

Going forward, we believe that Japanese car manufacturers could pursue more aggressive acquisition strategies as the local industry recovers and as the result of a strong yen. The local currency rose 10% during the second half of last year against a benchmark currency basket including the euro. Recent natural disasters, including the Japanese earthquake and tsunami and the Thai floods, resulted in a reduction in automotive inventories globally (both vehicles and parts). These disasters have served as eye openers for automotive companies, that are now evaluating their production footprint and aim to put in place infrastructure and processes to respond to future supply chain disruptions. One way of mitigating such logistical issues would be to diversify operations by conducting M&A in non-core markets.

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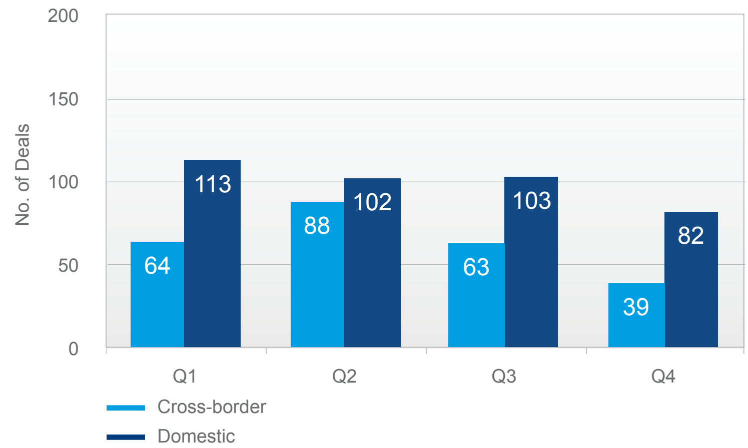
During 2011, emerging market companies were less aggressive concerning cross-border deals than their US and European counterparts. Going forward, we expect increased cross-border activity as companies based in both China and India pursue global expansion plans, requiring them to secure access to top quality products and technology. They will do so using cross-border M&A transactions to improve products and market positions, and to become more attractive to OEMs as future business partners.

Figure 11: Quarterly distribution of cross-border and domestic deals – 2011



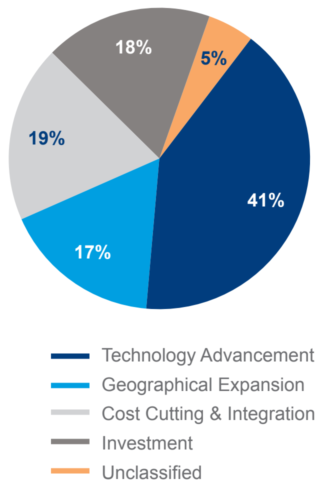
Source: Copal Analysis, Capital IQ, Thomson One Banker

Cost vs. Technology: What's Driving Automotive M&A?

During the first half of 2011, car manufacturers reported positive demand numbers. These figures subsequently worsened as a result of the European debt crisis and concerns over the pace of the US economic recovery. M&A trends largely paralleled the changes in aggregate demand. Most transactions during 2011 were used to acquire advanced technology (Figure 12). However, this obscures two salient trends: when demand was increasing, companies aimed to improve products by conducting M&A.

As demand slowed, the motive for acquiring new companies switched away from high technology investments to reducing costs (Figure 13). Depressed company valuations enabled cash rich car manufacturers to include improved integration in their cost reduction measures along with product line expansion. Still, emerging economy companies, particularly from India and China, have continued to target companies likely to help advance the technical sophistication of their product offerings. For example, several Chinese automotive manufacturers have secured deals with domestic and European companies to access advanced technology. In particular, Chinese car producer Beijing Automotive Industry Corp (BAIC) acquired all equipment and core technologies of Weigl Transmission Plant AB, a Swedish gearbox manufacturer, for $42.8m. As a result, BAIC has become the first car producer in China to hold intellectual property rights for long-torque transmissions. BAIC intends to use technologically advanced components in their self-developed cars, SUVs and commercial vehicles.

Figure 12: Motives for automotive M&A in 2011



Source: Copal Analysis, Capital IQ, Thomson One Banker

Control cost and expenses

"Economies of scale from vast production volumes may not suffice as a cost control measure. However, acquiring best practices together with advanced technology will help companies control expenses by sharing R&D capabilities."

Ralph M. Della Ratta, Jr.
Automotive Specialist
M&A International Inc., USA

Automotive M&A: Hot Areas

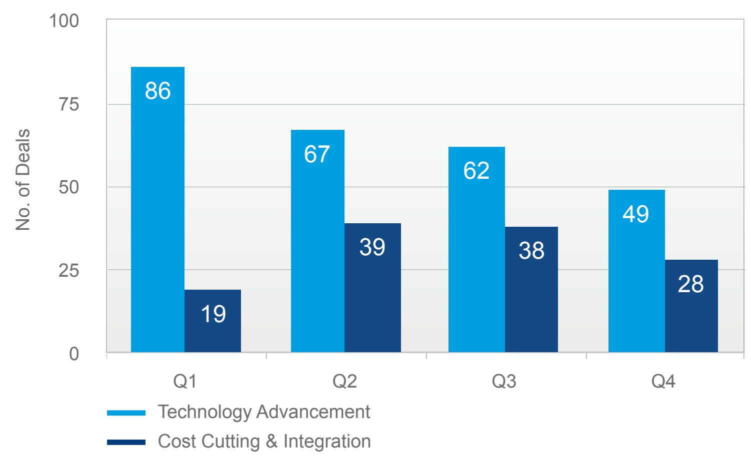
Going forward, acquiring the latest technology and attempting to cut costs will remain the main drivers behind car manufacturers' acquisition strategies worldwide. Moreover, while financial buyers are likely to remain dormant in the near term due to the tight credit market and impracticality of raising large-scale finance, they will enjoy major opportunities for involvement in the medium term. In fact, private equity investors are expressing significant interest in pro-environment technologies

M&A activity to increase

"As market conditions improve, automotive sector M&A activity will increase. We see several strategic buyers with sufficient financial resources to execute deals awaiting better market conditions. Current levels of unutilized capital held by private equity funds will also boost financial buyer activity in automotive M&A."

W. Gregory Robertson
Automotive Specialist
M&A International Inc., USA

Figure 13: Cost vs. technology: what's driving automotive M&A? (2011)



Source: Copal Analysis, Capital IQ, Thomson One Banker

Conclusion and Outlook

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We expect automotive M&A activity to improve in 2012. Potential headwinds include a prolonged European debt crisis and monetary tightening in emerging economies such as India and China. However, interest rates are believed to have peaked in such countries, with potential reductions likely in the near term. We believe that the following trends will underpin the automotive M&A market in the coming year:

- Increasing exposure to growth-oriented market trends and innovation including vehicle and power train electrification, better interiors, advanced lighting and CO^2 reduction

- Emerging market players positioning to actively participate in industry consolidation both domestically and internationally. Rapid growth in the automotive manufacturing sector in high growth countries will stimulate M&A activity in 2012. Emerging market car producers and suppliers are increasing international investments as they expand into new markets or seek to acquire new technology. Such buyers are more likely to target European and US companies for their technology through M&A activity.

- The number of megadeals is unlikely to increase at least during the first half of this year. However, long-term conditions favor the execution of such transactions with the automotive industry about to experience a structural change in the electrical vehicle segment, which will attract an increasing amount of R&D spending. As a result, it should experience larger deals over the next three years. Once a megadeal occurs in a given sector, it is likely to have a domino effect, producing further large transactions in competitive response.

- With valuations low, corporate cash balances high and tax changes likely to accelerate deal momentum, the M&A outlook for the next 12 months is generally positive.

- While the European debt crisis could adversely affect activity during the first half of 2012, as it did during the second half of 2011, we believe that M&A will increase later in the year.

- Global light automotive assembly volumes have increased substantially in the past and are expected to expand rapidly in the near term. Historically, assembly growth rates are closely correlated with deal activity levels. Although currently below expected levels, these are projected to increase in the near term.

About M&A International Inc.

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M&A International Inc.'s members actively represent buyers and sellers in the automotive M&A market as well as those seeking to raise private equity and debt capital. We possess significant automotive sector expertise, industry relationships and experience in successfully executing complex transactions on behalf of our clients.

S. Jack Campbell

Head of M&A International Inc.'s
Automotive Group
jackc@masiltd.com

Representative Transactions

Major Automotive M&A Transactions

Date Announced	Target	Acquiror	Deal Synopsis	Value ($mn)
December 2011	Asahi Tec Corp. (Japan)	Unison Capital (Japan)	The Japanese private equity firm acquired a stake in Asahi Tec to leverage its presence in high growth markets, while Asahi Tec aims to step up its efforts to expand its operations in China and Thailand once it moves under the umbrella of Unison Capital.	342.0
November 2011	PST Eletrônica S.A. (Brazil)	Stoneridge Inc. (US)	The acquisition of PST Eletrônica will allow Stonebridge to accelerate its efforts to expand globally and strengthen its reach in the South American market in 2012 and beyond.	45.1
October 2011	Hayes Lemmerz International Inc. (Brazil)	Iochpe-Maxion S.A. (Brazil)	This transaction will give Iochpe the ability to partner with customers who require technologically advanced products.	759.1
October 2011	Grupo Galaz S.A. de C.V. (Mexico)	Iochpe-Maxion S.A. (Brazil)	The acquisition of Grupo Galaz will strengthen Iochpe's presence in Mexico and will help it better cater to its customers in the region. The acquisition is also in line with the company's inorganic growth strategy.	196.8
July 2011	Peguform GmbH (Germany)	Motherson Sumi Systems Ltd. (India)	The acquisition of Peguform will serve to further bolster Motherson Sumi's existing presence in Europe. The acquisition will also help Motherson to expand its reach to complement Peguform's offerings globally. In addition, the acquisition will also help the company increase its content supplied per car as many of Peguform's clients are also clients of SMR (the company it acquired in 2009).	100.5
July 2011	SensorDynamics AG (Austria)	Maxim Integrated Products Inc. (US)	This acquisition enables Maxim to accelerate expansion in both new and existing markets. Maxim also plans to leverage SensorDynamics' numerous original patents for MEMS sensor technology.	130.0
July 2011	SIBUR - Russian Tyres (Russia)	Pirelli & C. S.p.A. (Italy)	The deal aims to significantly accelerate Pirelli's push into the Russian market. It also allows the company to participate in the rationalization and consolidation of the Russian tyre market and to take advantage of possible opportunities linked to the acquisition of plants already equipped with good technology.	309.1
July 2011	Rexnord Stephan GmbH & Co. KG (German)	Premium Transmission Ltd. (India)	The acquisition of Stephan is a key step forward in Premium Transmission's strategy to build a global gear business. The acquisition is expected to help the Company significantly grow its business by offering customers flexibility in the design and supply of a wider range of products and services.	NA
June 2011	Shinwa International Holdings Limited (Hong Kong)	VC KENWOOD Corporation (Japan)	JVC KENWOOD acquired a 51% stake in Hong Kong-based car electronics parts manufacturer Shinwa International Holdings Ltd to tap into the rising Chinese automotive demand. The acquisition will help the Company expand its product line as well as geographical reach.	45.5

Representative Transactions

Date Announced	Target	Acquiror	Deal Synopsis	Value ($mn)
April 2011	Preh GmbH (Germany)	Joyson Automotive Electronic (China)	This acquisition, which brings along with it Preh's technical know-how, will help Joyson in offering premium quality products in its existing market, including cost-efficient driver controls and sensor systems for car interiors.	NA
April 2011	ITW-Finishing Group (US)	Graco Inc. (US)	ITW's finishing businesses offer a variety of premium worldwide brands, which collectively represent a very valuable asset. The acquisition of these assets allows Graco to optimize its long-term growth and profitability.	650.0
April 2011	Shanghai Automotive Ind-Asts (China)	SAIC Motor Corp Ltd. (China)	The acquisition of the assets of Shanghai Automotive will help SAIC cement its position as a leader in the Chinese automotive market.	4,500.0
February 2011	TVS Automobile Solutions (India)	Kitara Capital (Oman)	The acquisition gives Kitara Capital an opportunity to invest in a high growth market such as India and, at the same time, helps TVS expand its services in India and neighboring countries.	16.6
February 2011	Odelo GmbH (Germany)	Bayraktarlar Holding AS (Turkey)	Turkish family-owned Bayraktarlar Holding acquired Odelo, a German vehicle lighting company, emphasizing the potential to transform the automotive lighting segment going forward. Bayraktarlar is seeking to expand its international operations and strengthen its European automotive lighting supplier market share.	NA
February 2011	TZOV HBM Kabel Corp. (Ukraine)	PKC Group Oyj (Finland)	This acquisition by PKC Group provides it with a strategically important footprint in new markets as well as benefits of scale and increased credibility.	27.8
February 2011	Weigl Transmission Plant AB (Sweden)	Beijing Automotive Industry Corp. (BAIC) (China)	After this acquisition, BAIC has become the first car producer in China to hold intellectual property rights for long-torque transmissions. Consequently, BAIC intends to use technologically advanced components in their self-developed cars, SUVs and commercial vehicles.	42.8
January 2011	Mitsubishi Fuso Truck & Bus (Japan)	Daimler AG (Germany)	Daimler has increased its stake in Japan-based Mitsubishi Fuso Truck & Bus to support growth and business expansion as the global commercial vehicle market continues its recovery from the economic crisis.	377.3
January 2011	MMC Automotores do Brasil S/A (Brazil)	Mitsubishi Corp. (Japan)	The acquisition is part of the company's strategy to increase its production in high growth areas. Mitsubishi aims to expand in Brazil, with annual production capacity of four-wheel-drive vehicles and other cars expected to be doubled to at least 100,000 units.	NA

Representative Transactions

Transactions Closed by Members of M&A International Inc.

colauto

has been acquired by

Sika

Automotive Components
Advisor to seller
Brazil/Switzerland

Private shareholders of Diagnos.co.uk Limited have sold

autologic

to

Diagnos Holding Ltd.

Software
Advisor to seller
United Kingdom

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gaenslen völter

has been acquired by

HANSE INDUSTRIEKAPITAL

Automotive Components
Advisor to seller
Germany

GALSAN

has sold its shares in Schoeller Arca Systems Turkey to

Schoeller Arca Systems

Automotive Components
Advisor to seller
Turkey/Germany

GREENKOTE

has sold its German manufacturing plant to

Impreglon

Other Industrials and Capital Goods
Advisor to seller
United States/Germany

Philips High Tech Plastics Optics

has been acquired by

Triumph Pan-Pacific Capital Ltd

Electrical Equipment and Components
Advisor to seller
Netherlands/China

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prevent.
Materials. Seats. Interior.

has sold its subsidiary Prevent Glass to

ICI International Corporate Investments

Automotives and Aftermarket
Advisor to seller
Germany/France

PROLIANCE

has sold its European subsidiary to

BANCO

Automotive Components
Advisor to seller
Netherlands/India

Rosti

has been acquired by

Helvoet

Precision Instruments
Advisor to seller
Sweden/Netherlands

Rubber Resources

has been acquired by

ELGI

Diversified Manufacturing
Advisor to seller
Netherlands/India

Private shareholders of

TKW

have sold 100% of their shares to

DZ Equity Partner

and

addfinity

Automotive Components
Advisor to seller
Germany

UNITEK
Sealing Solutions

has been acquired by

JÄGER
Automobil-Technik Produktion

Automotive Components
Advisor to seller
United States/Germany

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Automotive Specialists

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Established in 1985, M&A International Inc. offers the unparalleled, global resources of over 600 M&A professionals operating in every major financial center of the world. We are closely linked and together we advise our clients on acquisitions, divestitures and financing. We have closed over 1,400 transactions totaling more than US$85 billion in transaction value in the past five years.

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