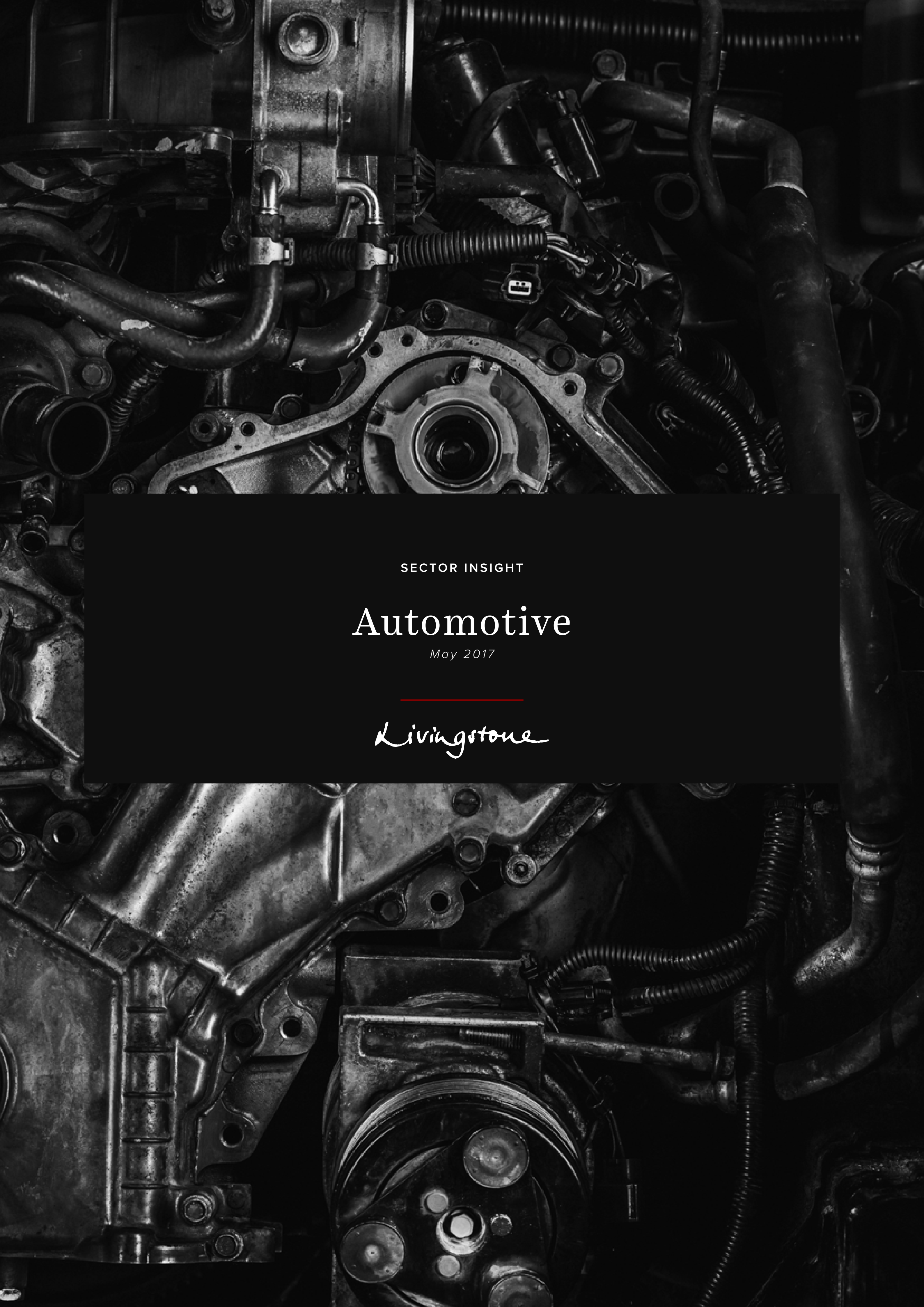

SECTOR INSIGHT

Automotive

May 2017

Livingstone

Not since the Model-T changed popular access to the car has the automotive sector experienced such fundamental changes. The idea of what a car is is changing as computing power and sensory capability grows, with self-parking vehicles wide-spread and general adoption of autonomous vehicles increasingly a ‘when’ not ‘if’. Cars are also increasingly networked devices, able to be reviewed and updated remotely with clear repercussions for upgrade cycles and the aftermarket.

Electric vehicles have made huge leaps forward in the last two years, not just via grand Tesla announcements and pure-play car formats but also across core public service vehicles, from buses to bin lorries. With each passing month the recharging infrastructure grows, frequently supported by local Government, and 2017 and 2018 promise several extensions in vehicle range for new electric and hybrid platforms.

Concurrently, we have largely adopted ride-sharing and, while Uber continues to battle regulations, no amount of taxi strikes or local regulators appears likely to reverse this social shift in vehicle use.

The convergence of all these technical developments and usage changes has brought major technology companies into automotive (and automotive into technology) helping to fuel a strong recovery in automotive sales. Advancing technical capability is becoming key to shortening the replacement cycle.

Keeping pace is a challenge but for the first time in decades automotive is recognised as a sector with significant opportunities both in technology development and also as a poster-child for Industry 4.0. Integrated supply chains and just-in-time, just-in-sequence are old news to a sector that, in the years before access to cheap sensors computerised the car, had to rely on manufacturing and supply chain efficiency for margin growth.

M&A volumes in automotive are at an all-time high and private equity investment is pouring into areas such as in-vehicle telematics, infotainment, diagnostic software, remote and wireless communications, fuel cell and electric vehicles and sensor integration. This has been skewed towards suppliers to the premium and super premium automotive sector, where these technologies are often showcased, but is increasingly flowing through to the broader market.

Automotive Technology

A closer look at what has taken place in the Automotive sector

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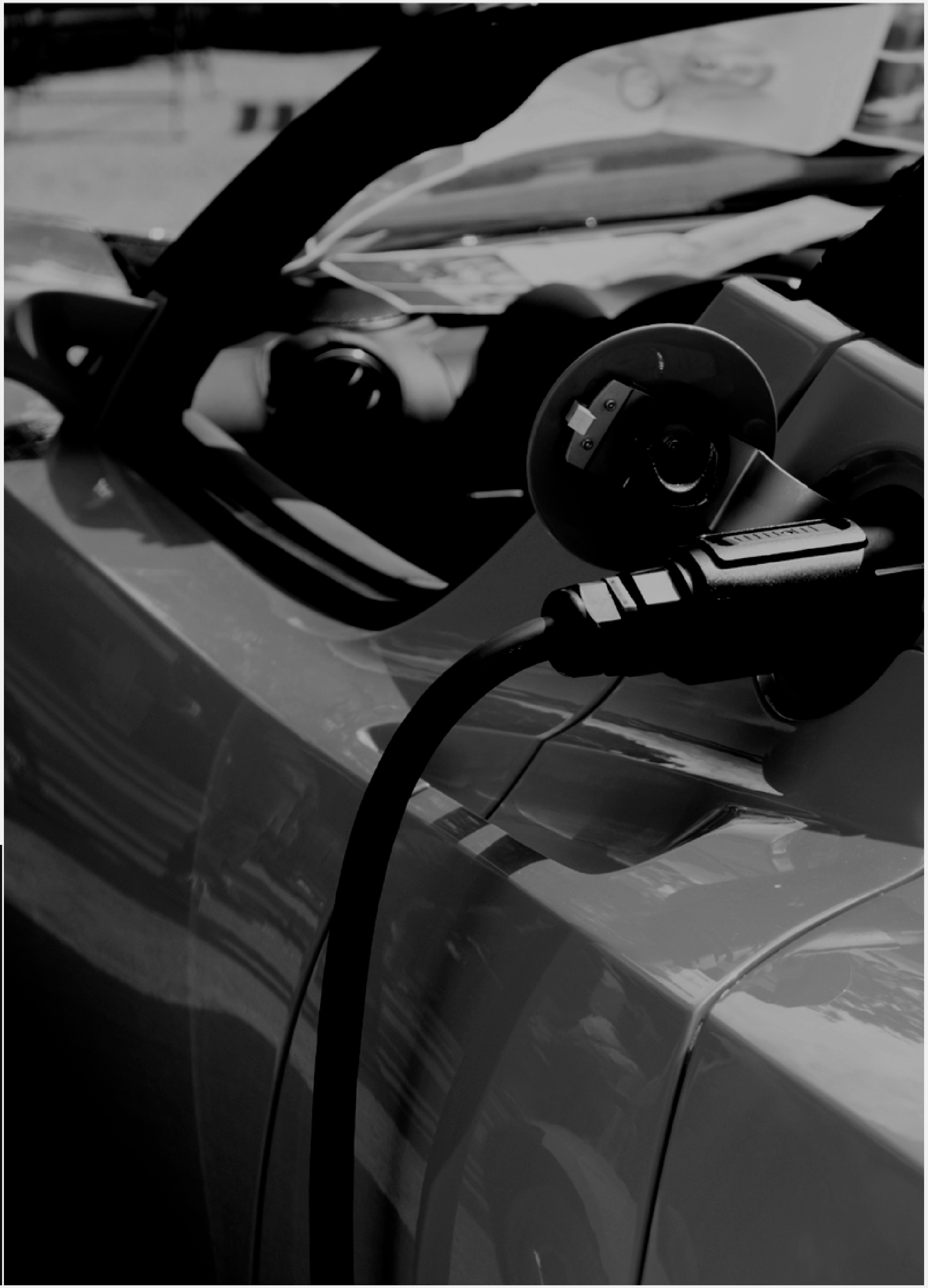
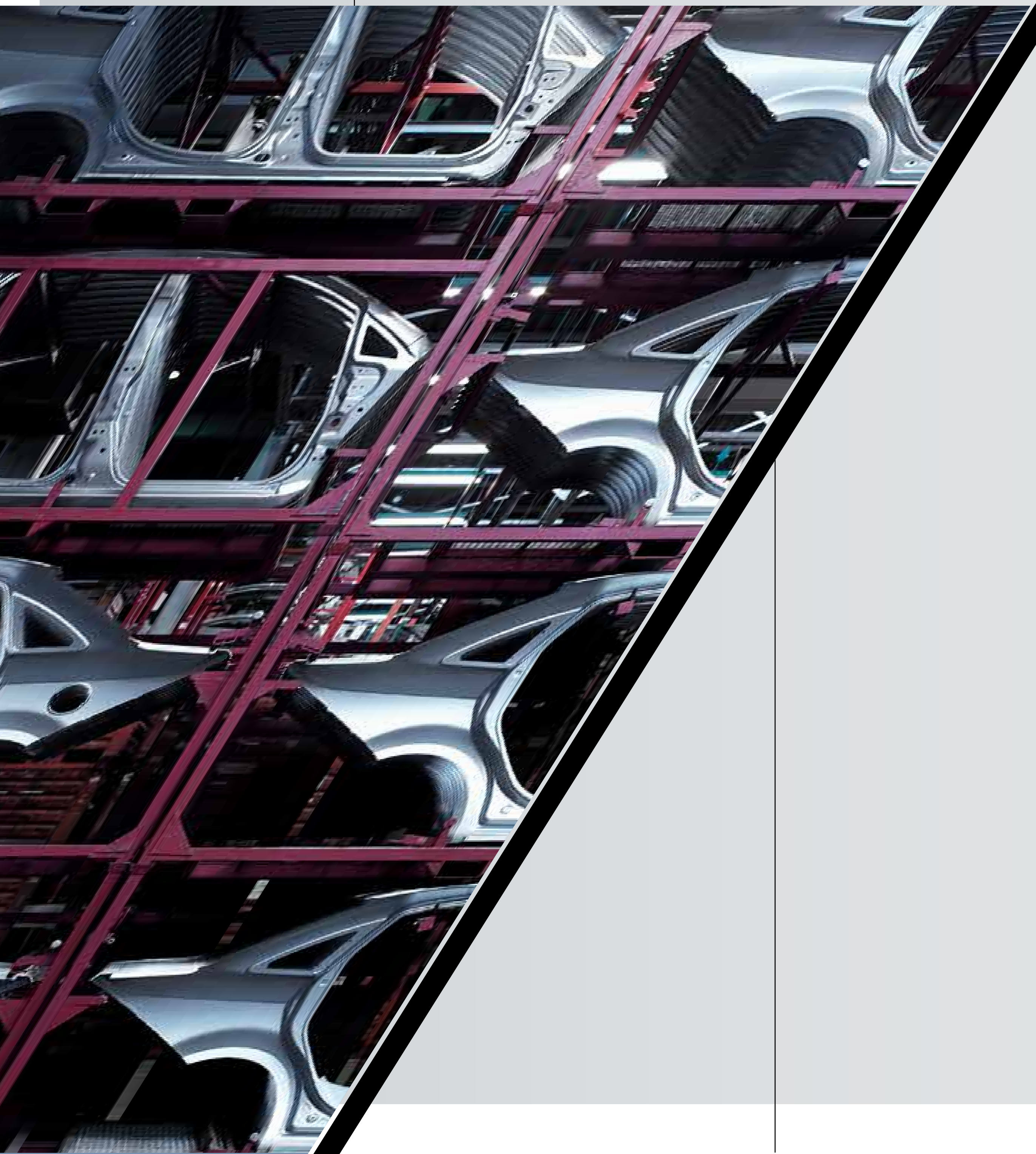


THE AUTOMOTIVE TRADING ENVIRONMENT



The last twelve months has been a vibrant period in UK and global automotive. The sector is experiencing strong, sustained volumes, with car registrations year to date up 6.2% and manufacturing production volumes up close to 8%, hitting a 17 year high. In fact 2016 represented the fifth successive year of car sales growth and the UK now buys more new cars than any other major European country.

With UK GDP growth at a better-than-expected 1.9% in 2016 and forecast for similar this year and continued access to cheap finance, the current trading environment is far better than could have been expected in April last year when the looming uncertainty of the June 2016 Brexit vote caused an slowdown in investment.

In fact, the UK continued to see robust inward investment in H2, particularly from the major OEM's but there are some clouds on the horizon. Inflation rising to 2.3% will see increased demand for wage inflation, which hit 2.6% in Q4 2016 and put pressure on interest rates, which will inevitably roll-on to the cost of vehicle finance for both consumer and business fleet customers.

In particular, PCP lending against cars rose 12% to £31.6bn in 2016, with nine out of ten private cars now bought under PCP. In this environment it is crucial that the UK build its automotive export market so that the impact of tightening consumer credit can be managed.

UK automotive exports rose 13% in the year to February (while the domestic market actually declined by 7%) but we are also a major market for German luxury brands, so automotive tariffs will feature heavily in trade discussion between the UK and the EU over the next two years.

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SNAPSHOT

Car registrations year to date up 6.2%

Uncertainty of the June 2016 Brexit vote caused a slowing down in investment

PCP lending against cars rose 12% to £31.6bn in 2016

Increased demand for wage inflation, which hit 2.6% in Q4 2016

Important trade discussion between the UK and the EU over the next two years

automotive sector m&a

The global automotive market has seen a number of important transactions announced in the last 12 months: Most significant has been PSA Peugeot-Citroen's politicised approach to acquire Adam Opel and Vauxhall Motors from GM, a transaction with the potential to significantly change the European Automotive map. Other important European transactions include another Chinese acquirer, Fuxin Dare, buying leading automotive acoustics systems provider Carcoustics of Germany for £222m; Borg Automotive's £126m sale to Schouw; Freudenberg buying 50% of Vibracoustic from Trelleborg for £585m; Plastic Omnium buying Faurecia's exteriors business for £526m last summer and Lear acquiring Grupo Antolin's automotive seating business. Meanwhile, globally KKR's giant £3.5bn approach for Calsonic Kansei of Japan went largely unreported outside Japan. We have witnessed a spate of transactions driven by the accelerating adoption of electric and hybrid vehicles. These areas have seen significant interest from private equity with Proterra Inc, a hybrid and electric bus manufacturer receiving £114m from a group of US investors led by Kleiner Perkins Caufield and GM Ventures and Chinese electric car developer NIO receiving £493m from investors including Baidu Inc., Tencent and Warburg Pincus.

Other emerging and new technologies are also seeing M&A. Larger deals in the last year include Chinese intelligent vehicle manufacturer Zhiche Youxing Technology being acquired for £483m in November, composites manufacturer Continental Structural Plastics acquired by Teijin of Japan for £622m and Swiss automotive software business Autoforms bought for £541m. Within the ride sharing market we have also seen a group of investors, again led by KKR, acquiring a £484m stake in US no.2 platform Lyft Inc. Below this level, there have been significant development capital investments in electric vehicle, autonomous vehicle and particularly in software to accommodate diagnostics, sensors and changing usage trends.

In the UK, Automotive-related M&A has been dominated by the aftermarket with the most notable transactions being Sumitomo's acquisition of tyre distributor and garage operator Micheldever Tyre Services, Alliance Automotive £120m acquisitions of the parts business of Lookers Plc and Solera's £340m purchase of leading automotive aftermarket software provider Autodata.

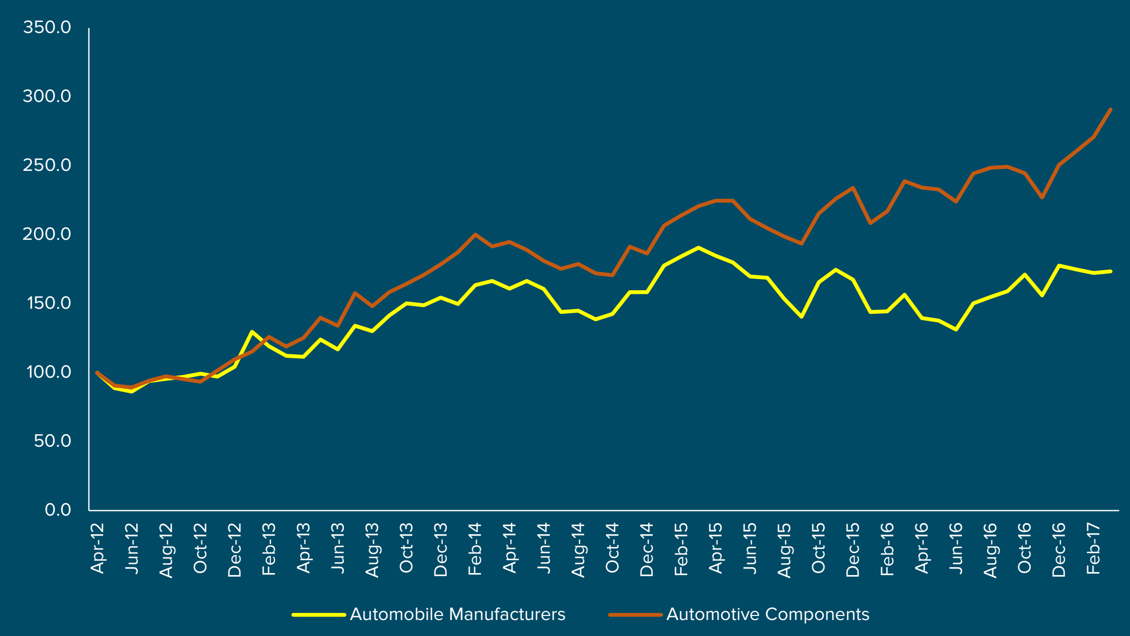
automotive sector valuation

The most significant recent development has been Tesla overtaking GM as the world's most valuable automotive OEM despite having a fraction if its market share and continuing to be loss-making (versus GM's strong recent profit performance). Despite this, the sector has generally benefitted from improving investor sentiment over the last two years with valuations among component manufacturers now 3x those seen in 2012.

Comparable Transactions

DATE	TARGET	ACTIVITY	BUYER	EV	EBITDA X
Pending	Adam Opel AG; Vauxhall Motors Limited	Vehicle manufacturer	PSA Peugeot-Citroen SA	801	n.d
Pending	S.N.G. Barratt Group Limited	Manufacturer of automobiles vehicle parts	Management Vehicle	12	n.d
Pending	Micheldever Tyre Services Limited	Tires supplier	Sumitomo Rubber Industries, Limited	215	11.9x
Jan-17	Autodata Limited	Supplier of technical information and knowledge solutions	Solera Holdings Inc.	340	n.d
Jan-17	Covpress Limited	Manufacturer of vehicle pressings and assemblies	Liberty House Limited	n.d	n.d
Dec-16	SB Components (International) Limited	Manufacturer and supplier of automotive components	Elaghmore Partners LLP	n.d	n.d
Dec-16	Concept Group International Limited	Designer and manufacturer of concept cars	Envisage Group Limited	n.d	n.d
Nov-16	Lookers plc (Parts Business)	Distributor of automotive parts	Alliance Automotive Group	120	8.2x
Nov-16	Ferrabyrne Limited	Manufacturer of rubber to metal bonded components	YFM Equity Partners Limited	4	n.d
Oct-16	SPAW Engineering Limited	Manufacturer of turbo charger components	Shield Group	n.d	n.d
Oct-16	Andrew Page Limited	Distributor of vehicle components	Euro Car Parts Limited	n.d	n.d
Sep-16	BRP Composites Limited	Automotive parts manufacturer	Tritech Group Limited	n.d	n.d
Aug-16	AWC Industries Limited	Manufacturer of technical components and assemblies	Sertec Group Limited	n.d	n.d
Jun-16	Retlan Manufacturing Limited	Manufacture and sale of commercial trailers	CIMC Vehicle (Group) Co. Limited	92	6.7x
Jun-16	Rimstock plc	Manufacturer of cast and forged aluminium automotive wheels	Current Capital LLC; Safanad Limited	n.d	n.d
May-16	A Smith Gt Bentley Limited	Manufacturer of trucks and trailers	Beijing Institute of Space Launch Technology	n.d	n.d

Automotive Share Price Tracker

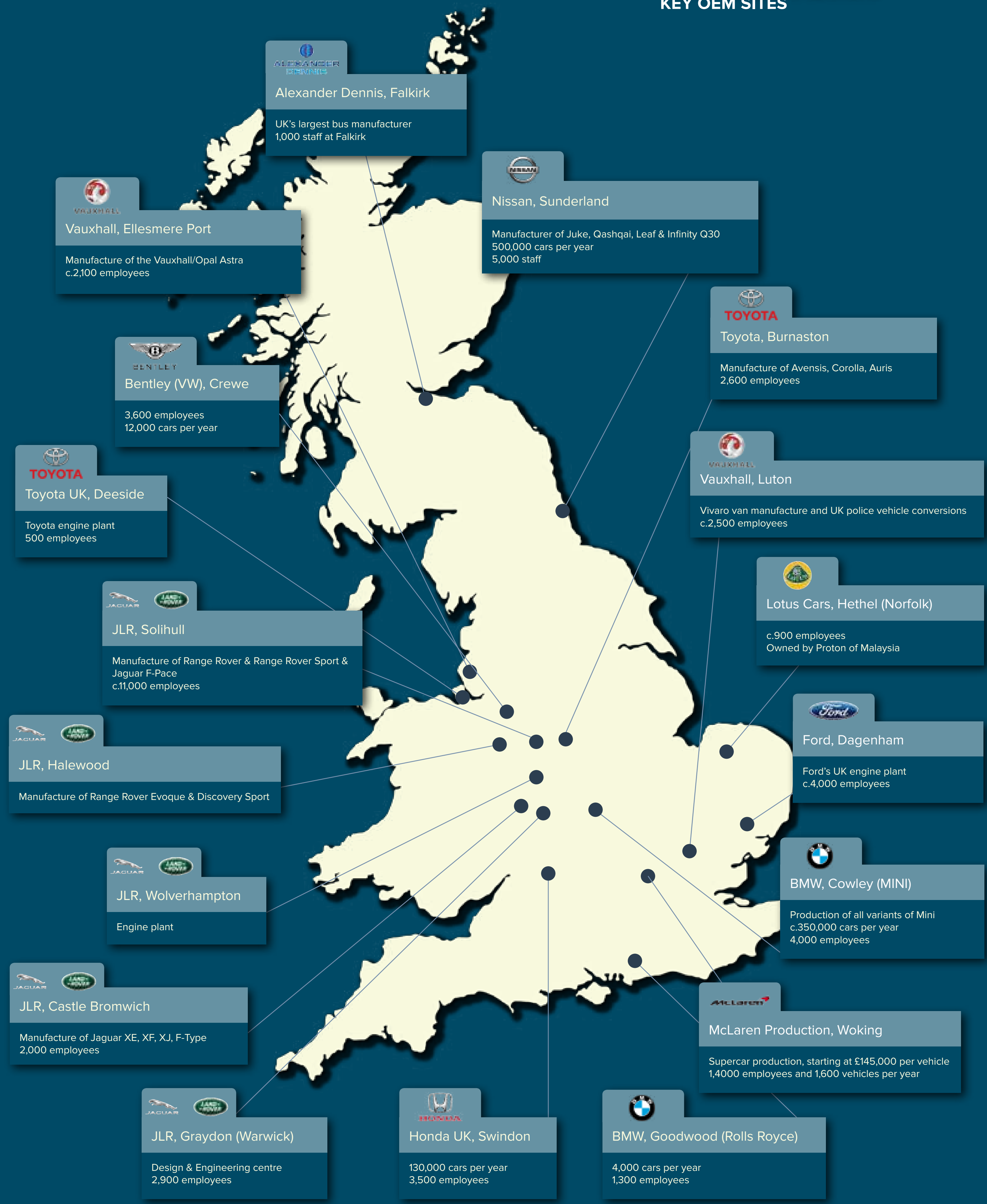


Note: Constituents of each category are: Automobile Manufacturers – Daimler; Volkswagen; BMW; Renault; Fiat Chrysler Automotive Suppliers – Continental; Michelin; Valeo; Autoliv; GKN; Faurecia; Plastic Omnium; Nokian; Brembo; Cie Automotive

Source: CapitalIQ, Livingstone analysis

AUTOMOTIVE MAP OF BRITAIN:

KEY OEM SITES



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Comparable Companies

COMPANY	Market Capitalisation	Net Debt	Enterprise Value	TTM	Current	TTM	Current	TTM	Current
	VALUES (£M)			REVENUE MULTIPLE		EBITDA MULTIPLE		EBIT MULTIPLE	
European Automobile Manufacturers									
Daimler AG	62,569	85,017	148,228	1.1x	1.1x	10.0x	8.9x	13.2x	12.6x
Volkswagen Aktiengesellschaft	62,760	103,802	166,305	0.9x	0.9x	7.0x	6.1x	10.6x	12.4x
Bayerische Motoren Werke Aktiengesellschaft	48,365	70,536	118,816	1.5x	1.4x	10.5x	9.7x	14.4x	14.0x
Renault SA	20,671	26,590	47,276	1.1x	1.0x	8.0x	8.9x	11.4x	16.5x
Fiat Chrysler Automobiles N.V.	12,688	5,452	18,274	0.2x	0.2x	2.1x	1.6x	3.7x	3.2x
AVERAGE				**1.0x**	**0.9x**	**7.5x**	**7.1x**	**10.7x**	**11.8x**
MEDIAN				**1.1x**	**1.0x**	**8.0x**	**8.9x**	**11.4x**	**12.6x**
European Automobile Component Manufacturers									
Continental Aktiengesellschaft	34,298	2,433	37,116	1.1x	1.0x	7.1x	6.3x	10.1x	8.9x
Compagnie Générale des Etablissements Michelin	18,103	945	19,084	1.1x	1.0x	5.7x	5.2x	8.8x	7.9x
Valeo SA	13,205	472	13,876	1.0x	0.9x	8.6x	6.6x	12.3x	11.0x
Autoliv, Inc.	5,633	257	6,073	0.8x	0.8x	6.2x	6.1x	8.9x	8.8x
GKN plc	6,280	704	7,019	0.8x	0.7x	6.8x	6.3x	10.5x	8.2x
Faurecia S.A.	5,169	294	5,645	0.4x	0.4x	4.8x	3.8x	6.7x	6.2x
Compagnie Plastic Omnium SA	4,499	786	5,302	1.1x	0.9x	8.7x	6.5x	11.7x	10.4x
Nokian Renkaat Oyj	4,488	(249)	4,240	3.6x	3.2x	12.1x	11.0x	15.9x	14.0x
Brembo S.p.A.	4,020	168	4,208	2.1x	2.0x	11.7x	10.6x	15.5x	14.5x
CIE Automotive, S.A.	2,080	735	3,238	1.3x	1.2x	9.2x	7.8x	13.3x	11.0x
AVERAGE				**1.3x**	**1.2x**	**8.1x**	**7.0x**	**11.4x**	**10.1x**
MEDIAN				**1.1x**	**0.9x**	**7.8x**	**6.4x**	**11.1x**	**9.6x**

Source: Mergermarket, Livingstone analysis

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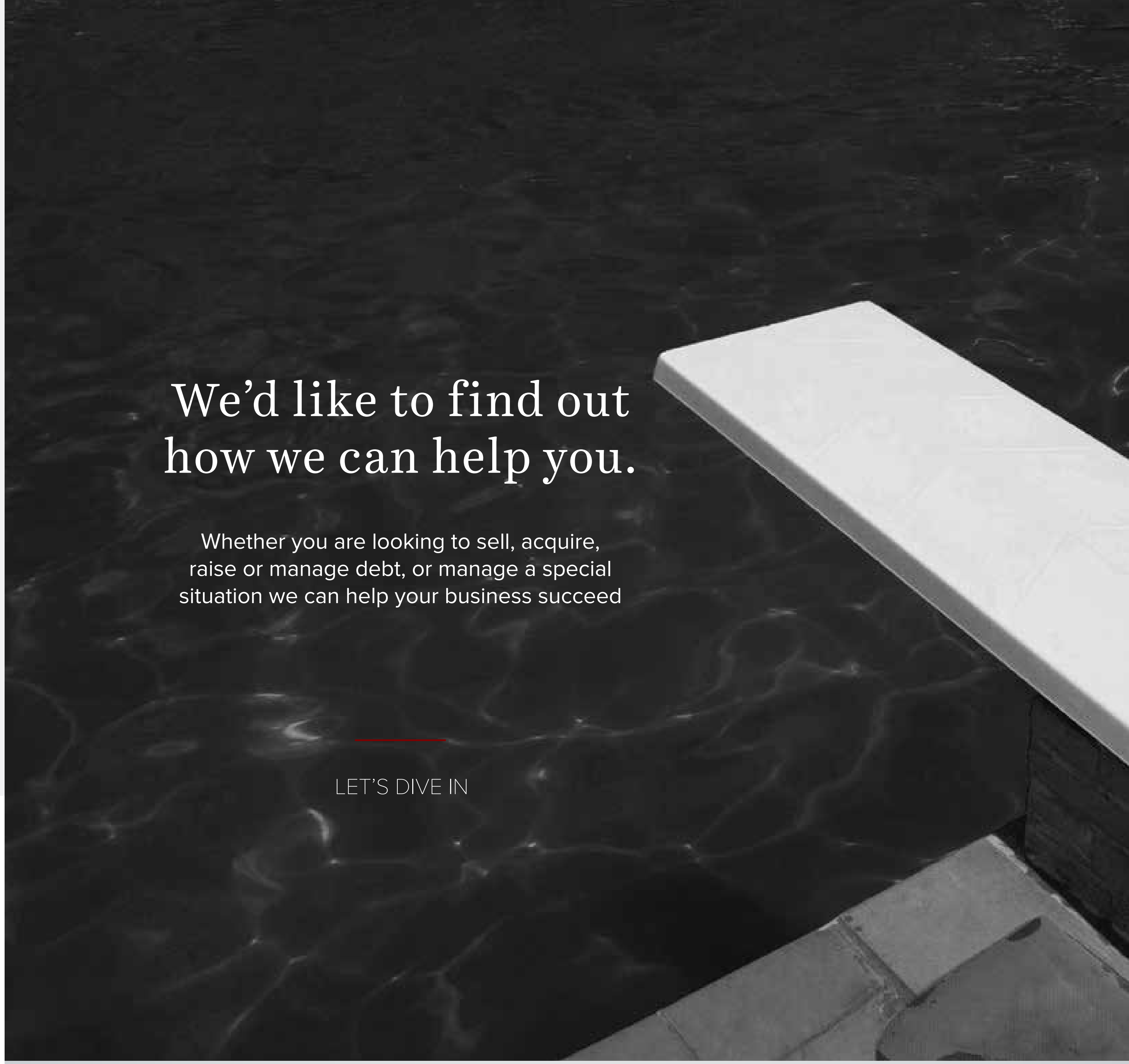
SELECTED TRANSACTIONS

Automotive

TATA TECHNOLOGIES	paintbox	CORYTON advanced fuels
has acquired design and engineering consultancy focused on the automotive industry	world-class provider of painted exterior assemblies has secured investment from	leading provider of high performance and bespoke fuels has been sold to
escenda	bgf	LYCEUM CAPITAL
voestalpine / Kibbow	apt HILLER GROUP	KRA K.R. Abraham & Co.
leading manufacturer of formed sheet metal parts for automotive prototypes and small series for OEMs has been sold to	majority stake in the leading manufacturer of quality aluminium extrusion profiles has been sold to	diversified holding company serving the auto sector has acquired
PhotonAG industrial laser applications	SEDANT	



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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 850 transactions.

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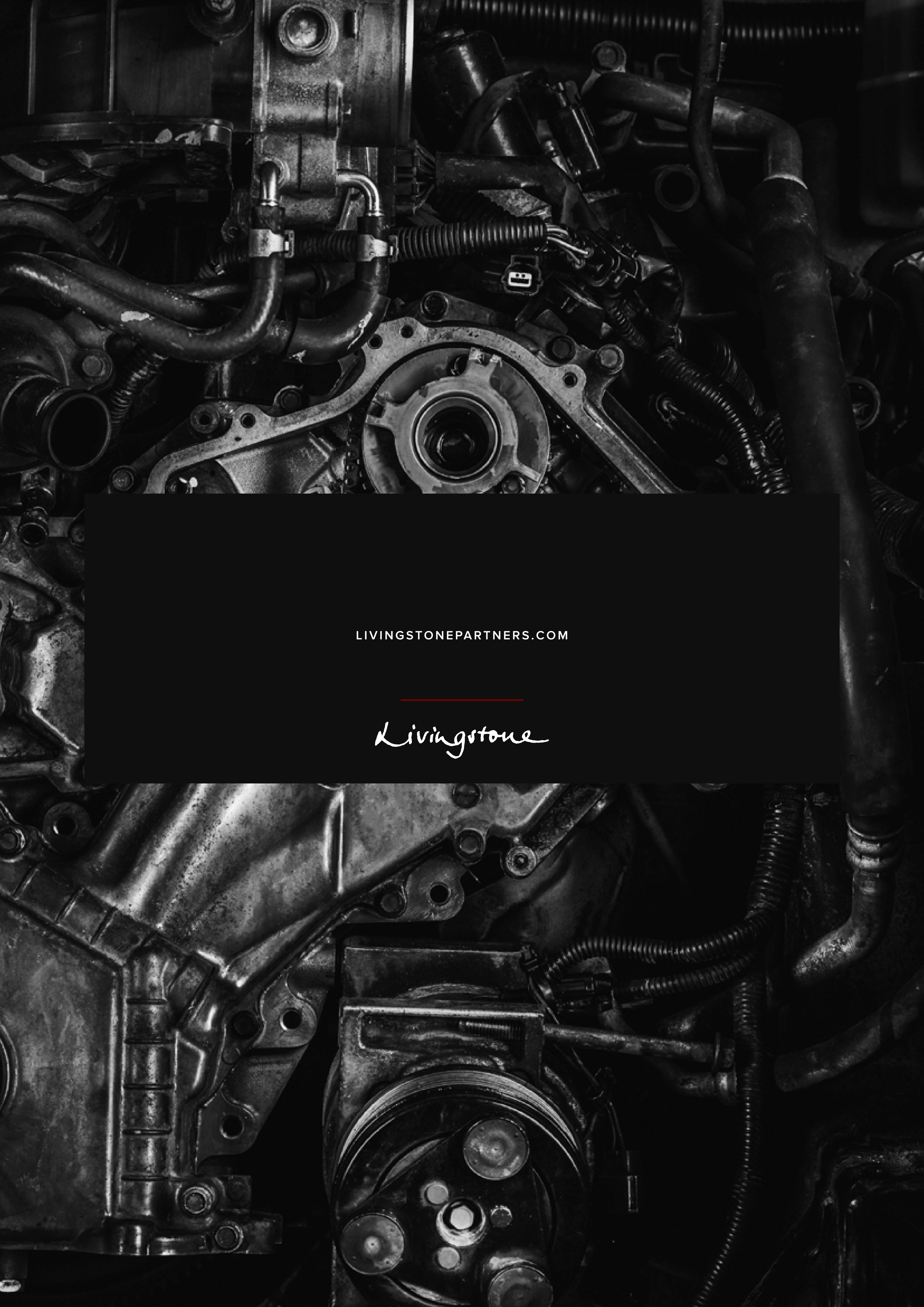

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