DACH

Auto-parts deals motor on as sector transforms

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The DACH region in 2017 recorded its highest volume of private-equity-backed buyouts in the auto-parts sub-sector since 2005, with eight transactions. These deals also had a higher aggregate value than any other post-crisis year at €1.4bn.

Additionally, the new year has picked up where the last left off, with both HIG Europe and Towerbrook Capital closing high-profile transactions in the sector this January. HIG bought machined metal parts supplier Beinbauer Group in a secondary buyout from Orlando Management, and Towerbrook carved out the retractable electrical towbar division of Bosal International for €250m.

This trend could be seen as surprising given the auto industry as a whole faces some big challenges, with margins and valuations under stress. A report on the global automotive supplier industry produced by consultancy Roland Berger highlighted four overarching trends that will continue to cause disturbance in all supplier domains: mobility, autonomous driving, digitalisation and electrification.

Roland Berger's Christof Huth has identified a catalyst behind the increased sector dealflow: "[There has been extensive] portfolio management by large German supplier groups, which need to invest in electric vehicles and autonomous driving, and are selling off non-core assets to fund this." This goes part of the way to explaining the surge, as three of the eight deals in 2017 were carve-outs.

However, Huth's colleague Felix Mogge clarifies that these businesses are not necessarily the most attractive to private equity firms: "I would expect this to continue, but would not necessarily expect more private equity funds to invest in these assets, because these are generally not the ones with the most strongly forward-looking business perspectives on their own. Many of them are acquired by industrial buyers from China."

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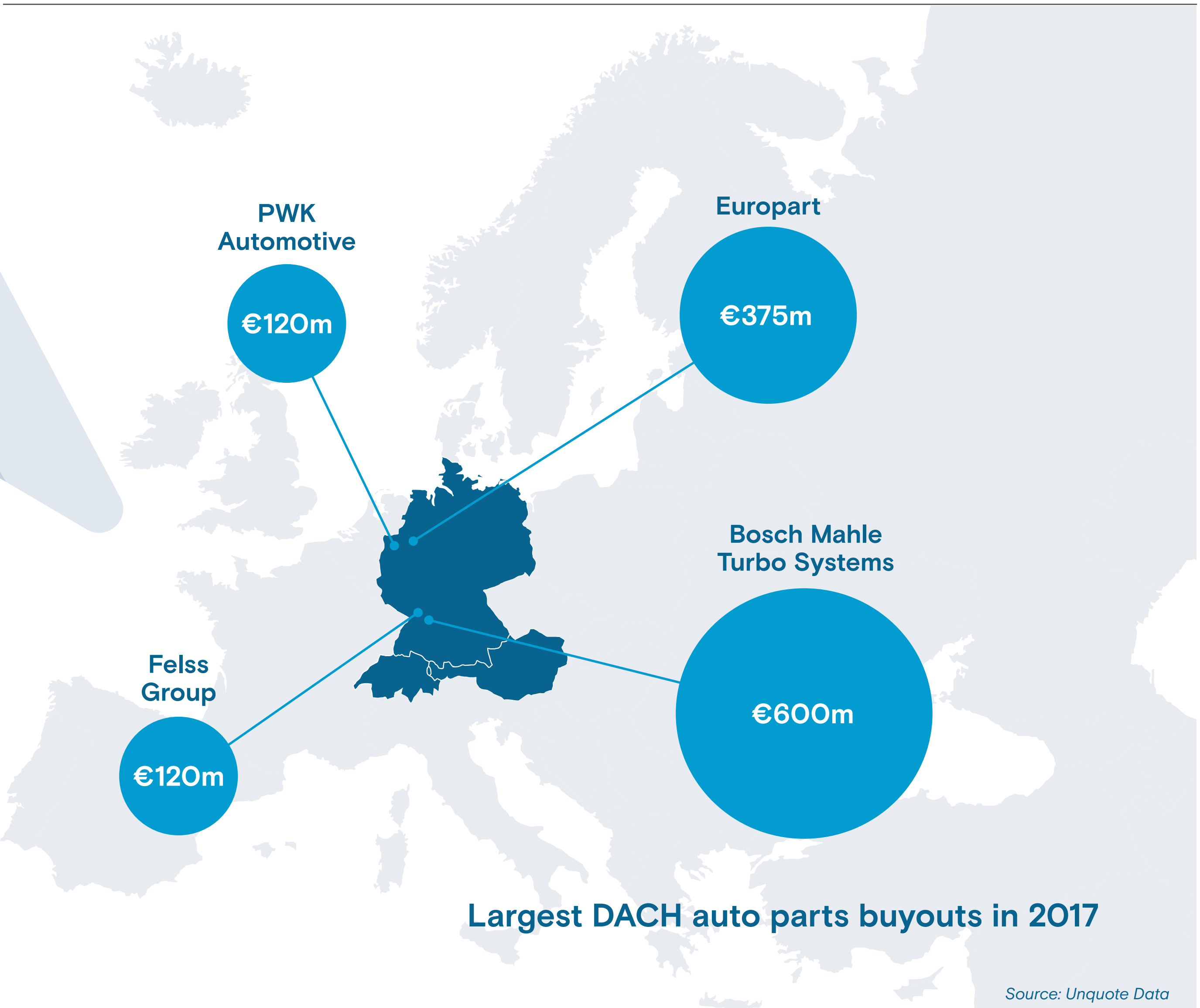
> *Christof Huth, Roland Berger*

Next generation

Instead, Mogge highlights areas that he believes will be of more interest than traditional parts suppliers: "Private equity funds will be interested in downstream activities, such as services. An example is 3i getting into Formel D, a service offering that is growing on the back of increased outsourcing; and on top of penetration gains it also has quite a bit of potential in other countries."

3i's Ulf von Haacke agrees that the firm's approach to the sector has changed: "Our investment in Atesteo represented a shift to our approach in the sector. With Norma, Hilite and Q-holding, we were investing in parts manufacturers and suppliers. Atesteo and Formel D are really business service propositions that are



relevant to OEMs, but will continue to be relevant to a very fast growing electrical vehicle market."

Despite the change in approach, 3i continues to make strong returns on its investments in the region, netting 2.1x on Hilite, 5.5x on Norma and 4.4x on Atesteo, which it exited in December 2017. As Roland Berger's Mogge suggested, von Haacke thinks positioning the firm for the Chinese market is an extremely important part of any auto parts investment, even if the exit is not a direct trade sale to a strategic buyer from the region: "For all our portfolio companies in the automotive space, China was, and continues to be, the most important market. We established Hilite in Asia by opening a big plant, opened a plant for Norma in China and doubled Atesteo's capacity in the region. China is the fastest growing market in the past 10 years."

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Finally, Roland Berger's Huth predicts that new automotive-related sectors will attract more interest from financial investors: "Other areas that still have attractive growth are car-sharing services, and different mobility plays that will be valuable in the long term. This also includes trading platform acquisitions, such as Hg's acquisition of Meinauto.de." ■