CRAIN COMMUNICATIONS
autonews.com
Automotive News
March 27, 2023

EV push could spur more supplier mergers and acquisitions

M&A activity cooled in 2022 but could pick back up now fueled by private equity.

John Irwin
jirwin@crain.com

The pace of supplier mergers and acquisitions could soon pick up as companies attempt to reposition themselves for the electric vehicle era and as private equity firms seek to put hundreds of billions of dollars in available capital to work.

As more battery-electric vehicle programs launch, suppliers have the opportunity to "rethink everything" about their businesses, from production, to service portfolios to their manufacturing processes, said Ellen Clark, co-lead of Plante & Moran Corporate Finance's industrials team.

As part of that process, many companies are likely to turn to mergers, acquisitions or strategic alliances to bring on new capabilities, different products or new talent.

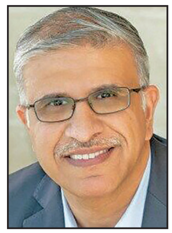
"This isn't a situation where they can sit back and wait for the OEMs to tell them what to do," Clark said. "They need to be proactive on this."

Supplier M&A activity declined in 2022 after a red-hot 2021 that was spurred by pent-up new-vehicle demand at the beginning of the pandemic, Plante Moran said, although specific data wasn't available. Overall M&A activity in the U.S. fell 18 percent last year to 15,670 deals, a figure more in line with the market from before 2020, the company said.

Several notable deals came to fruition in 2022 or closed over the course of the year. In September, software supplier Aptiv paid $600 million to acquire Italian battery cell technology provider Intercable Automotive Solutions. The move was geared toward strengthening Aptiv's position as a BEV systems supplier.

In December, Aptiv closed on a $3.5 billion purchase of software provider Wind River, which it had announced about a year earlier. As Aptiv integrates its acquisitions, it remains open to more deals, CFO Joe Massaro said on a February earnings call.

The supplier plans to "execute our M&A strategy and focus on transactions that enhance our scalability across both the brain and nervous system of the vehicle, accelerate our speed to market with relevant technologies, and access new markets," he said.



Kotagiri: "Very advantageous"

Likewise, Canadian supplier giant Magna International Inc. moved in December to buy Veoneer Active Safety for $1.53 billion to boost its advanced driver-assistance systems capabilities as the market for those components takes off.

"Just bringing the two teams together with that manufacturing expertise is going to be very advantageous," Magna CEO Swamy Kotagiri said during a late-year news conference about the deal.

Private equity

But such large transactions were the exception to the rule.

The average value of deals in 2022 fell significantly from a year earlier, indicating that the typical deal was smaller than normal, according to Plante Moran.

Given general economic uncertainty, rising interest rates and various supply chain woes of the past two years, that was no surprise, Clark said.

"Buyers today are more disciplined and deliberate," she said. "But there's still capital available."

A lot of it, in fact.

> **"This isn't a situation where [suppliers] can sit back and wait for the OEMs to tell them what to do. They need to be proactive."**
>
> Ellen Clark, Plante & Moran Corporate Finance

Clark said private equity firms have raised about $800 billion in capital that they have not yet invested. When factoring in leverage, that represents about $2 trillion in transaction value sitting on the sidelines, she estimated.

Not all of that will be spent on the auto industry, of course. But interest in the EV space is high because of automakers' skyrocketing investments.

"It's become a sexy area of the market for private equity," Clark said. "Auto represents a good opportunity for private equity to put their money to work and for strategic buyers to shore up their own capabilities and secure more growth, more quickly."

And buyers could find some attractive discounts, considering the financial distress some companies are in.

"You may see more M&A, but it might be more on the distressed side," said Michael Robinet, executive director of consulting at S&P Global Mobility.

Internal combustion

While much of the big money in M&A will be geared toward electrification and growing driver-assist segments, opportunity exists for companies with business in internal combustion engines, according to Plante Moran.

The number of financially distressed suppliers of internal combustion components is likely to grow in the coming years as the market for gasoline-powered vehicles shrinks. Not all companies are thinking strategically about pivoting to electrification or have the necessary capital to do so.

But Clark forecasts that as long as a market for internal combustion vehicles remains, smart suppliers in that space with capital to spare will be able to cherry-pick acquisitions for their capabilities or manufacturing capacity.

"In the long term," she said, "there could be really good returns for those consolidators to get pricing power as competition dwindles." AN