Automotive Tier One Q1 2020

Industry Report

August, 2020

Applied Value
Empire State Building
350 Fifth Ave. Suite 5400
New York, NY 10118
Phone: +1 646 336 4971

www.appliedvaluegroup.com

Applied Value is a management consulting & investment firm founded on the principles of lean growth and entrepreneurship.

1997 Background as an internal consultancy and change agent within the Swedish ***Stenbeck Group…***

KORSNÄS MTG TELE2 MILLICOM

…today, a hands-on consultancy supporting clients **across industries** 2019

Industries of Expertise

- Telecom & Media
- Chemicals & Process
- Industrials & Engineering
- Consumer Goods
- Automotive

Applied Value Group

Investments

Selected portfolio companies

HUMAN CARE, COSMOSID, rivermeadow, Bake My Day, Division 5 Inc Steel Fabrication, Soderfors Steel, flexenclosure

Management Consulting

APPLIED VALUE

Social Responsibility

HAND IN HAND, Straight Ahead Ministries, Exodus

ROI driven

Fact-based

Practical over theoretical

Hands-On

Global perspectives

Our Lean Growth framework is based on Focus, Simplicity, Speed – guiding principles to raise client performance.

Lean Growth

Focus
- ✓ Define strategic focus
- ✓ Excel in key capabilities
- ✓ Use partners for non-core activities

Simplicity
- ✓ Reduce complexity
- ✓ Simplify and standardize processes, organization and supply chain

Speed
- ✓ Set targets
- ✓ Measure and improve
- ✓ Reduce Time to Market-Customer-Cash

Offerings

Go-to-Market
Segmentation, Positioning, Product/Channel Mix

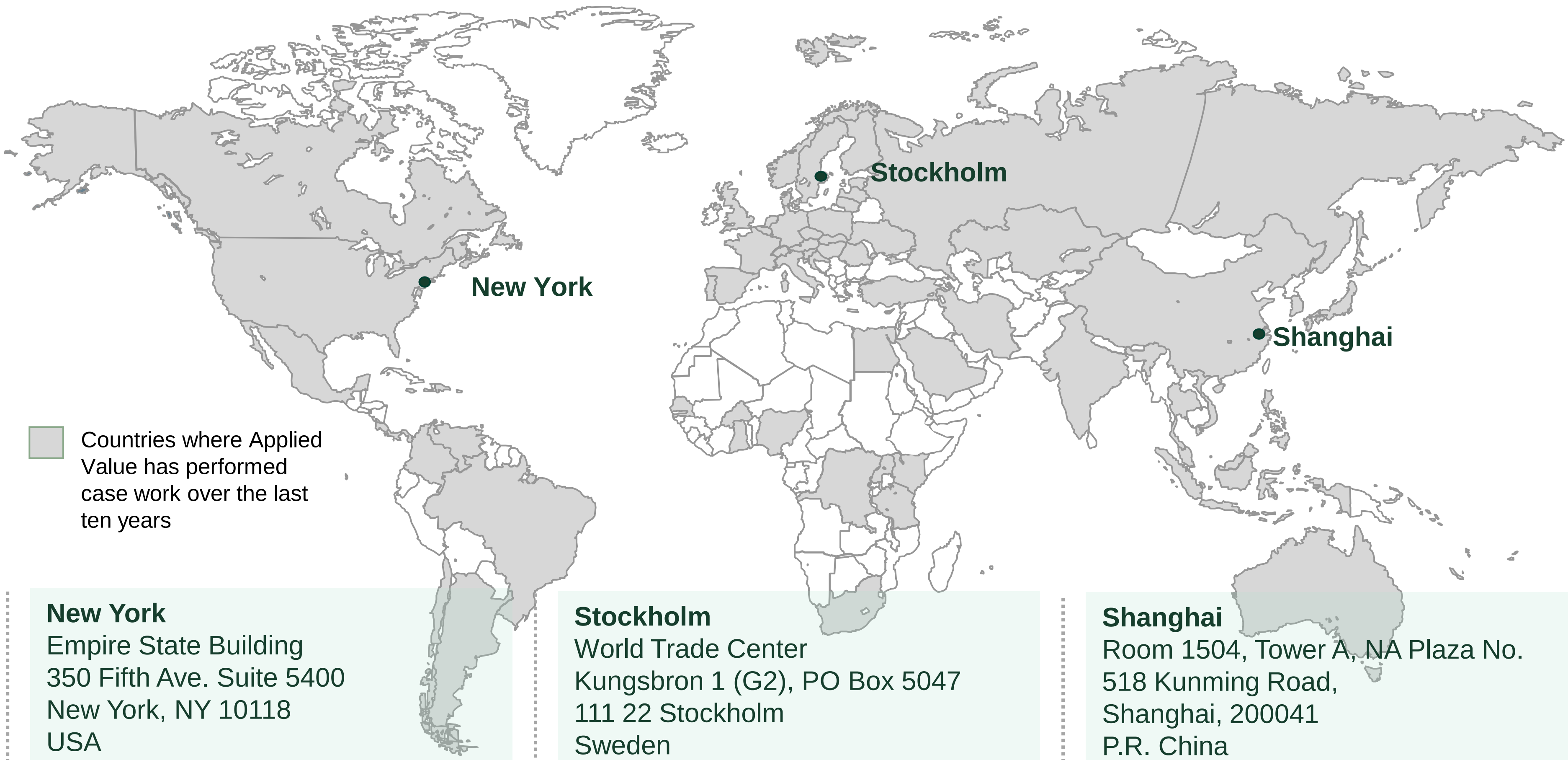
Gross Margin Improvement
Pricing, Sourcing, VA/VE, Supply Chain, Operations

OPEX Efficiency
Operational efficiency, S&M / G&A productivity, Organization

Capital Efficiency
Working Capital mgmt., Innovation/R&D performance, M&A, Fixed asset leverage

Digital Transformation and Efficiency
Strategy, Capability improvement, Execution

Applied Value challenges and supports repeat global clients across industries from three offices.



New York
Empire State Building
350 Fifth Ave. Suite 5400
New York, NY 10118
USA

Phone: +1 646 336 4971
newyork@appliedvalue.com

Stockholm
World Trade Center
Kungsbron 1 (G2), PO Box 5047
111 22 Stockholm
Sweden

Phone: +46 8 562 787 00
stockholm@appliedvalue.com

Shanghai
Room 1504, Tower A, NA Plaza No. 518 Kunming Road,
Shanghai, 200041
P.R. China

Phone: +86 21 5213 6390
shanghai@appliedvalue.com

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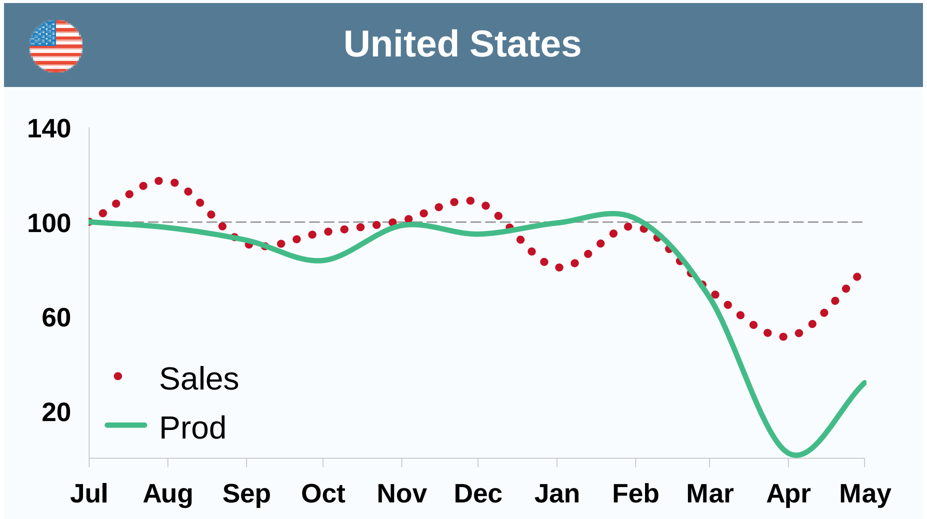
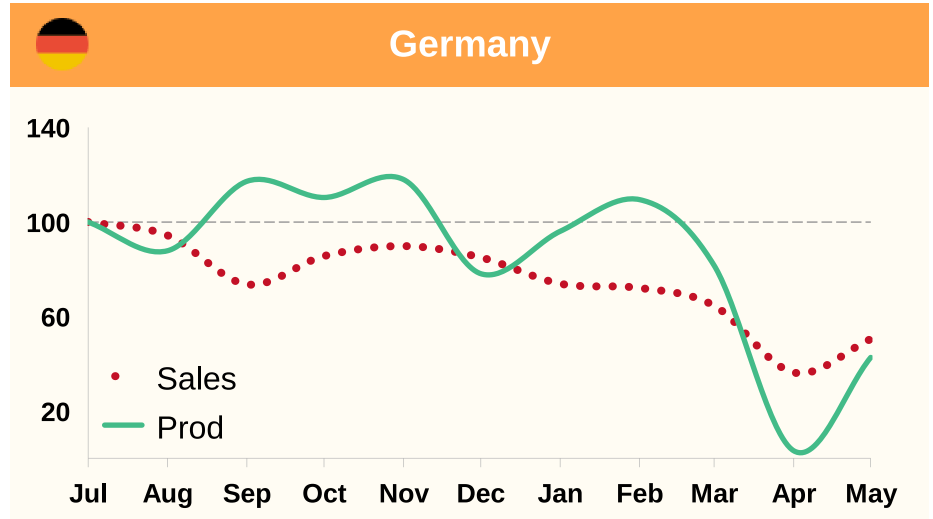
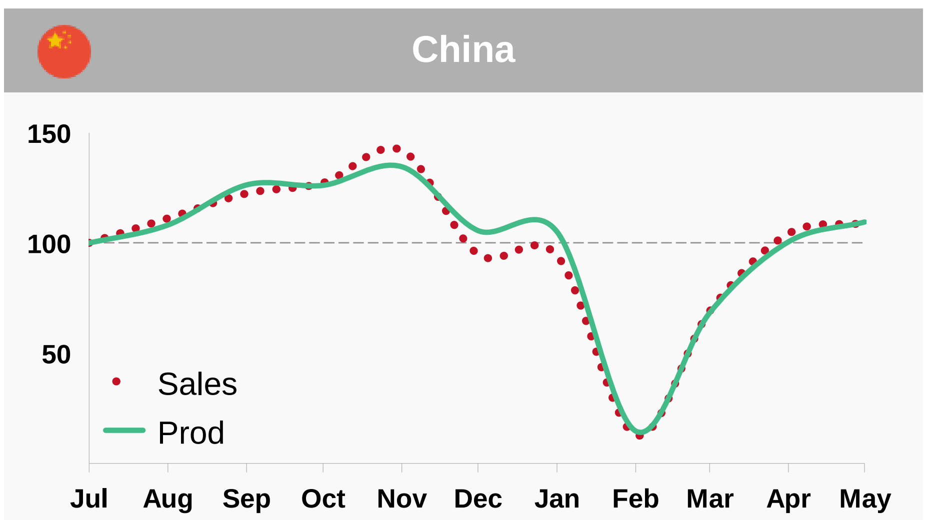
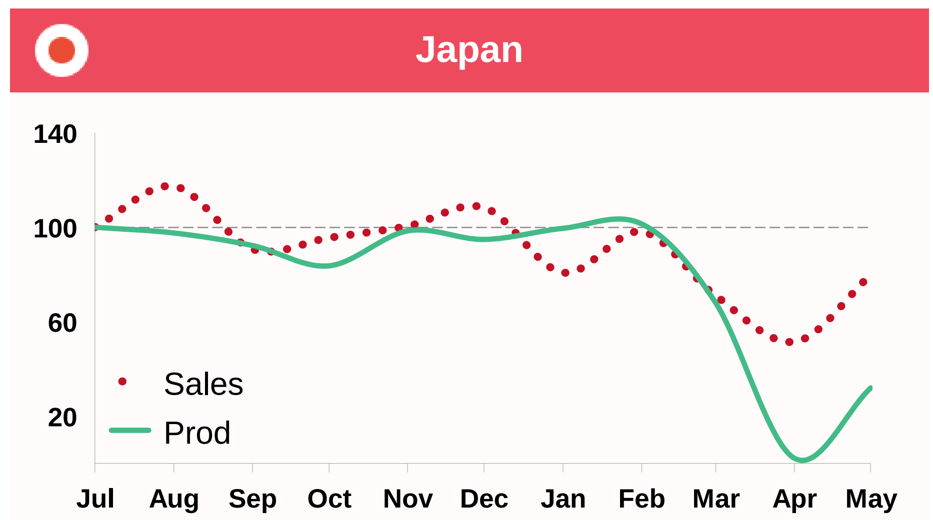
Global light vehicle production and sale declined to nearly 0 at the height of COVID-19 in April with a slight recovery beginning in May.



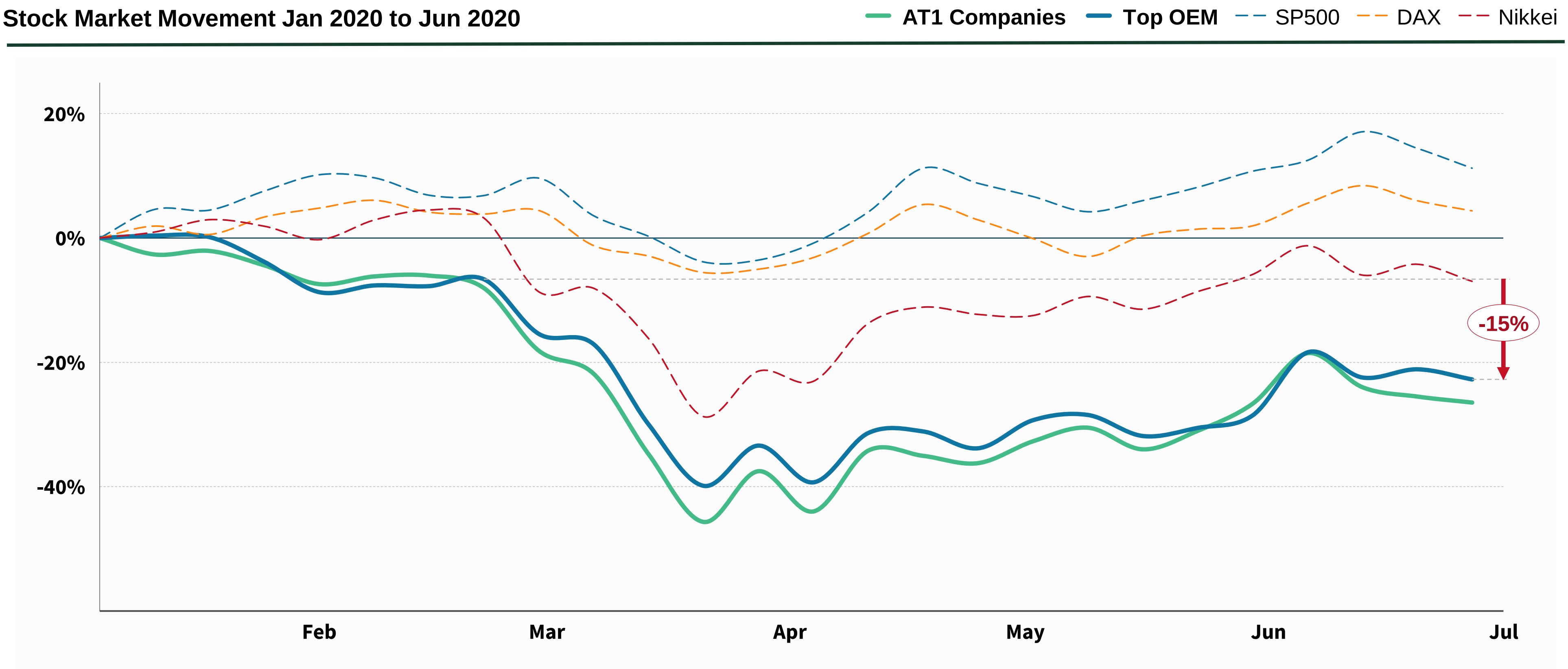






Stock market performance of OEM and AT1s were similar during the pandemic, they fell further and recovered slower than major global indices.

Stock Market Movement Jan 2020 to Jun 2020



- Major stock markets **declined by around 40% but quickly recovered** to near pre-pandemic levels.
- Automotive sector saw slower rebound compared to general indices. **OEM as well as Tier 1 Supplier stock price are 14% lower compared to the pre-pandemic high** in mid-February.
- COVID-19 also caused **significant appreciation of the US Dollar** as major central banks took various action to combat economic turmoil and to prepare for the onset of global recession.

Source: CapIQ, Investor Presentations, AV Analysis

Most OEMs saw significant damage to both Revenue and EBIT in Q1 2020 and Q2 is expected to bring similar news or possibly worse.

CQ1 2020 vs. CQ1 2019

	Revenue	EBIT
Ford	-15%	-132%
FCA	-16%	-95%
GM	-6%	-48%
	32%	514%
	-15%	-19%
	-8%	-28%
	-6%	-69%
	-8%	-83%
	4%	5%
NISSAN	-21%	-2,207%
	-15%	-44%
	6%	5%

Source: CapIQ, Investor Presentations, AV Analysis

Many OEMs have announced or executed plans to reopen 75 – 100% of Pre-COVID capacity by June.

Feb 10
- DAIMLER (China)
- Volkswagen (China)

Apr 20
- Volkswagen (Europe)

Apr 27
- DAIMLER (Europe)

May 4
- HONDA (Europe)

May 12
- BMW (Global)
- HYUNDAI (Global)
- TOYOTA (Global)
- HONDA (USA)
- TESLA (Global)

May 18
- Ford (Global)
- FCA (Global)
- GM (Global)

Jun 1
- NISSAN (Global)

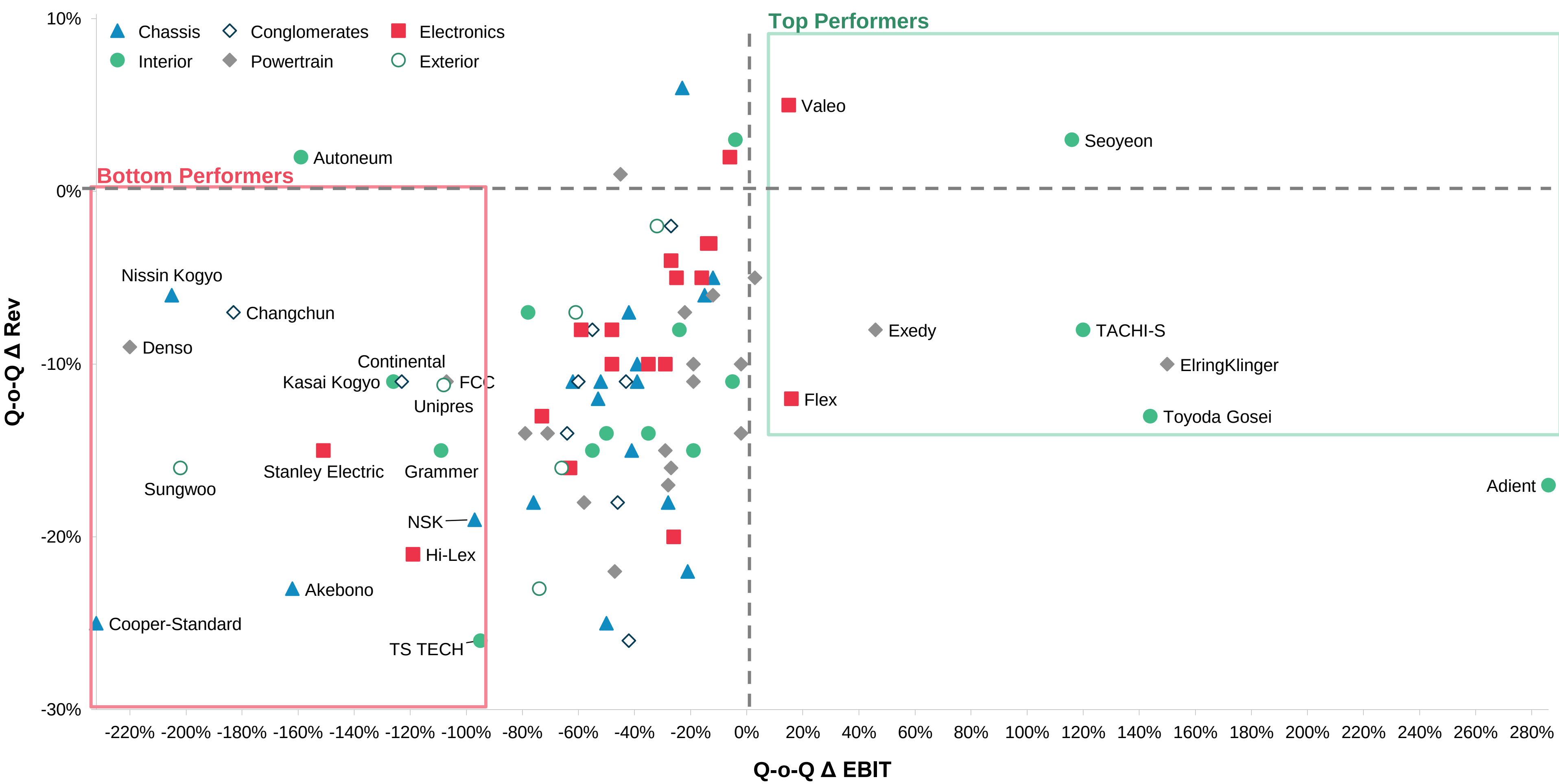
Plants **reducing shift count and length** to allow for increased cleaning measures

Growing Mexican COVID case count has delayed some plant openings – **Puebla ordered VW & Audi to keep plants closed**

GM forced to push back addition of 3rd shift one week due to **parts shortages from Mexico**

Compared to Q1 2019, the majority of Auto Tier 1 suppliers have seen large decline in revenue and EBIT.

Tier 1 Supplier Revenue and EBIT Change
Q1 2020 vs Q1 2019



Source: Company Financials, Investor Presentations, CapIQ, Applied Value Analysis

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AV’s methodology breaks out Tier One Auto Companies into key Sub Segments.

Chassis

Axles, exhaust, suspension, brakes, bearings, 4WD components, fuel tanks, bearings

Powertrain

Drive controls, engines, transmissions, 5C components, pistons, heads, engine cooling and air management, injectors, turbochargers, tubes and hoses, antivibration systems

Electronics

Antilock braking system, lamp and headlights, batteries harnesses, entertainment and infotainment system, control modules, regulators, electrical wirings, and air conditioning units

Exterior/Body

Class A stamping, non-/structural stampings, frame/subframe components, body hardware glass, paint, body molding, fascias, wiper systems, door handles, seals, and wheels

Interior

Seats, seat belts, interior products, safety related products, analog instrument panels (IPs), trim, carpet, headlines, mirrors, climate control

Conglomerates

Suppliers a composite of the above categories with no distinct specialization

Applied Value has assessed 89 publicly traded Auto Tier 1 companies across 6 different operational segments.

Segment	Companies	Total in Analysis
Chassis	SKF, akebono, AAM, CooperStandard, DANA, DORMAN, F.tech inc., JTEKT, LEONI, Mando, MARTINREA, MERITOR, NSK, PRESS KOGYO, SAF-Holland, SHOWA, NISSIN	18
Powertrain	nexteer, SECO SEOJIN AUTOMOTIVE, MUSASHI, NGK, Cummins, DENSO Crafting the Core, Allison Transmission, MODINE, TENNECO, SUMITOMO RIKO, nemak, SMP, DELPHI, RHEINMETALL AUTOMOTIVE, EXEDY, BorgWarner, HITACHI Inspire the Next, F.C.C., LINAMAR, elringklinger	20
Electronics	APTIV, flex, GENTEX CORPORATION, HELLA, HI-LEX, HYUNDAI MOBIS, KOITO, METAIR, OMRON, NIPPON SEIKI, Panasonic, STANLEY, Stoneridge, SUMITOMO ELECTRIC, TOKAI RIKA, Visteon, Valeo, MITSUBISHI ELECTRIC Changes for the Better	18
Exterior/Body	SUNGWOO HITECH, Topre, UNIPRES, G-TEKT CORPORATION, SUPERIOR INDUSTRIES, Gestamp	6
Interior	TOYOTA BOSHOKU, TS Tech, NIHON PLAST CO., LTD., GENTHERM ELECTRONICS, Lydall, TOYODA GOSEI, GRAMMER, LEAR CORPORATION, TACHI-S, autoneum, ADIENT, Autoliv, faurecia, Kasai, POLYTEC GROUP	16
Conglomerates	NBHX, Continental The Future in Motion, FUTABA, ZF, AISIN Geared up for the future, HORIZON GLOBAL, TEXTRON, MAGNA, 中国鑫达 CHINA XD, KONGSBERG	11

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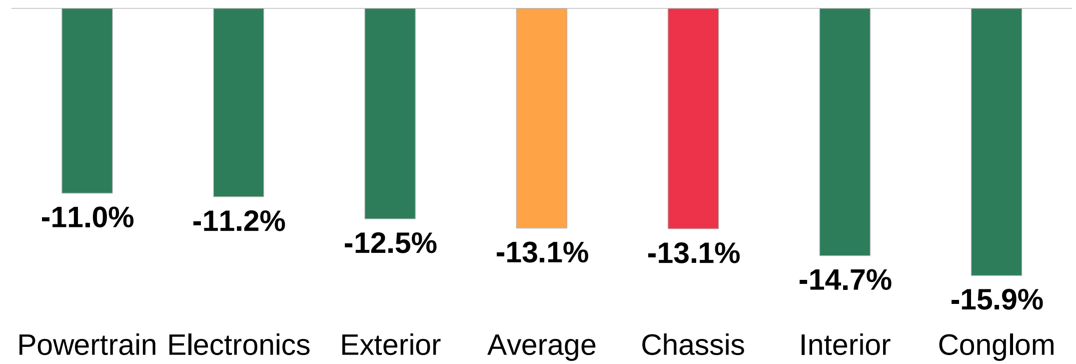
Applied Value has analyzed 18 companies in the Chassis segment.

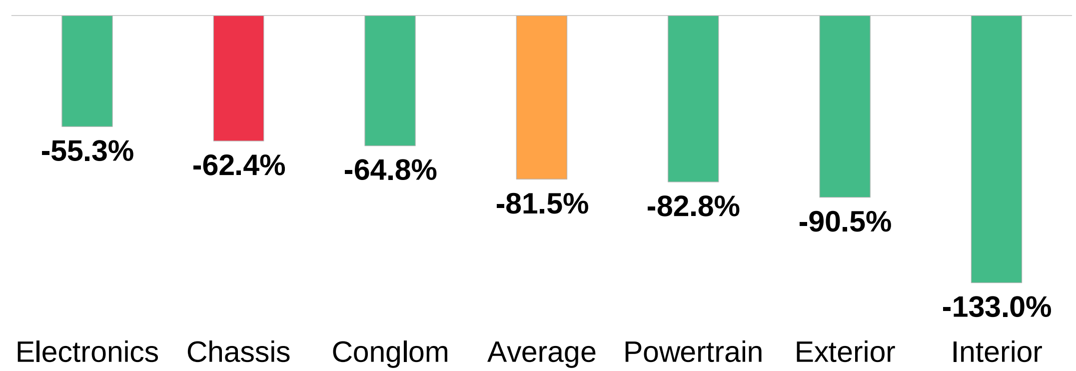
Chassis

Axles, exhaust, suspension, brakes, bearings, 4WD components, fuel tanks, bearings

Chassis Segment Revenue Performance:
Q1 2020 vs. Q1 2019



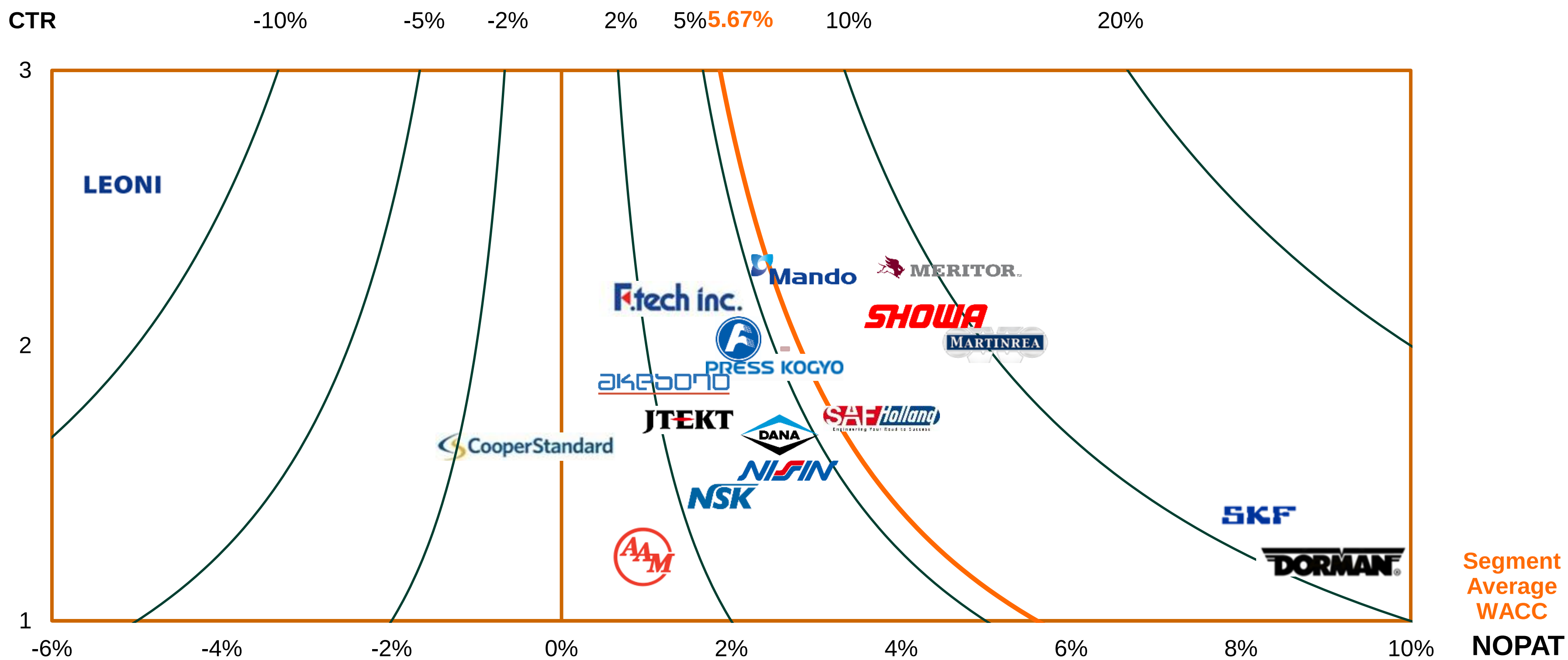
Chassis Segment EBIT Performance:
Q1 2020 vs. Q1 2019



Source: CapIQ, Investor Presentations, AV Analysis

ROIC snapshot for Chassis segment.

Peer Group ROIC LTM



Top Performers (LTM ROIC)	Dorman	+9.6%	SKF	+9.5%	Martinrea	+8.4%
Bottom Performers (LTM ROIC)	Leoni	-13.4%	Cooper	-0.7%	AAM	+1.3%

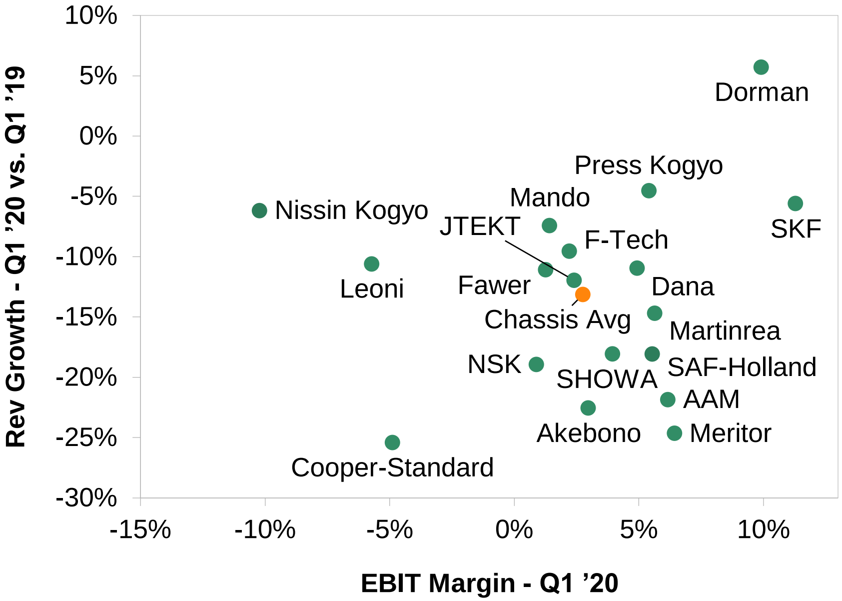
ROIC = Return on Invested Capital (actual return that the company has generated after tax)

WACC = Weighted Average Cost of Capital (the required return that the company must generate in order create value, i.e. a ROIC>WACC creates shareholder value)

Source: Capital IQ, Annual reports, Applied Value Analysis

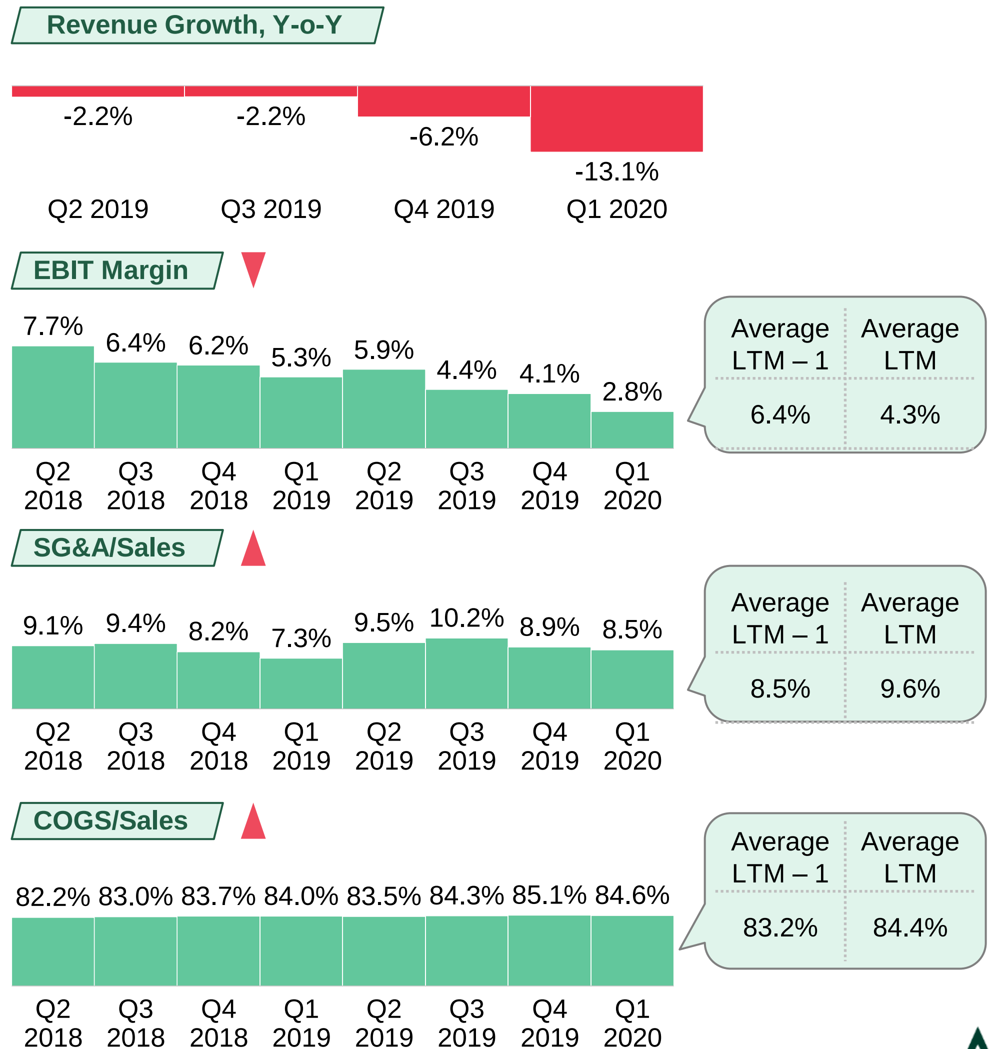
Chassis sector saw significant revenue decline of -13.1% in Q1 2020 due to the impact of COVID-19.

Chassis' EBIT Margin x Revenue Growth



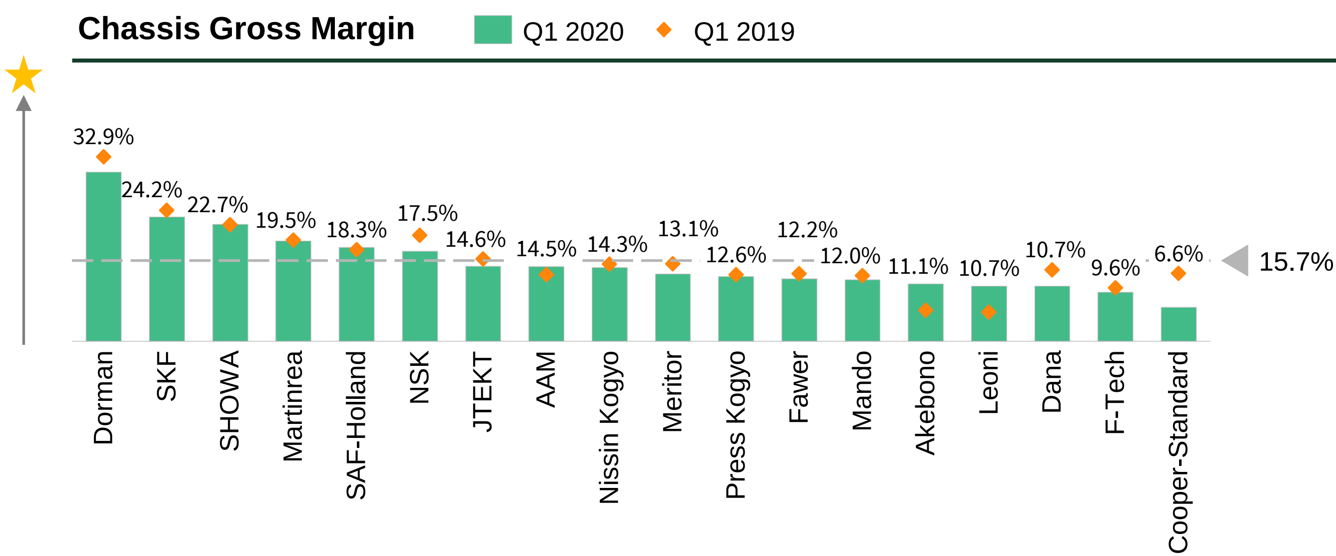
- Dorman was the only company in the chassis segment to record increased revenue in Q1 2020 vs. the same period last year and attributed this favorable comparison to a difficult product launch that hindered sales in Q1 2019.
- Cooper Standard suffered a significant 25.4% decline in revenue year on year, which was mainly driven by the COVID-19 pandemic as well as its divestiture of the Anti-Vibration Systems business to continental. Foreign exchange fluctuation also had significant adverse effect on its top line.
- Martinrea revenue declined 14.7% in Q1 2020 due to general weakness in the automotive market and COVID-19. However, revenue will likely rebound with the acquisition of Metalsa and its entry into passenger car structural component business.

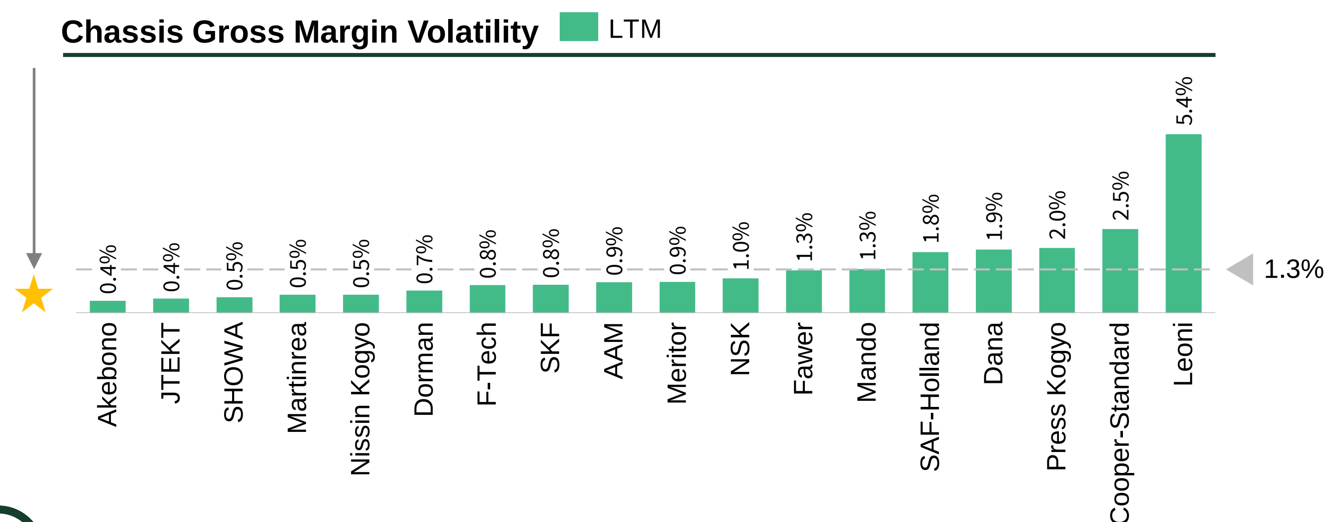
Chassis' Quarterly Development



Source: CapIQ, Investor Presentations, AV Analysis

Average Gross Margin of chassis segment was 15.7% in LTM, with Dorman and SKF as leaders and Cooper Standard lagging with Gross Margin of 6.6%.





- Akebono saw an increase in Gross Margin that can be attributed to positive effects from measures for fixed cost reduction in Japan and optimization of human resources and cost reduction in North America, despite declining order volume in North America and China.
- SKF was able to maintain one of the segment's highest gross margins despite recording revenue decline of 5.6% YoY in Q1 2020. The high margin is attributed to continuous emphasis on efficient operations and targeted cost reduction and is expected to improve further with implementation of AI-driven efficiency improvement initiatives.
- SHOWA recorded gross margin of 24.2% in Q1 2020. It initiated the acquisition of Hitachi Chemical for $8.9 million. This merger is aimed to enhance SHOWA's expertise in high-tech and electronic materials to further improve competitiveness in international markets.

Note: Dorman only serves Aftermarket, thus the higher Gross Margins compared to peers
Source: Interim & Annual Reports, Capital IQ, Applied Value analysis.

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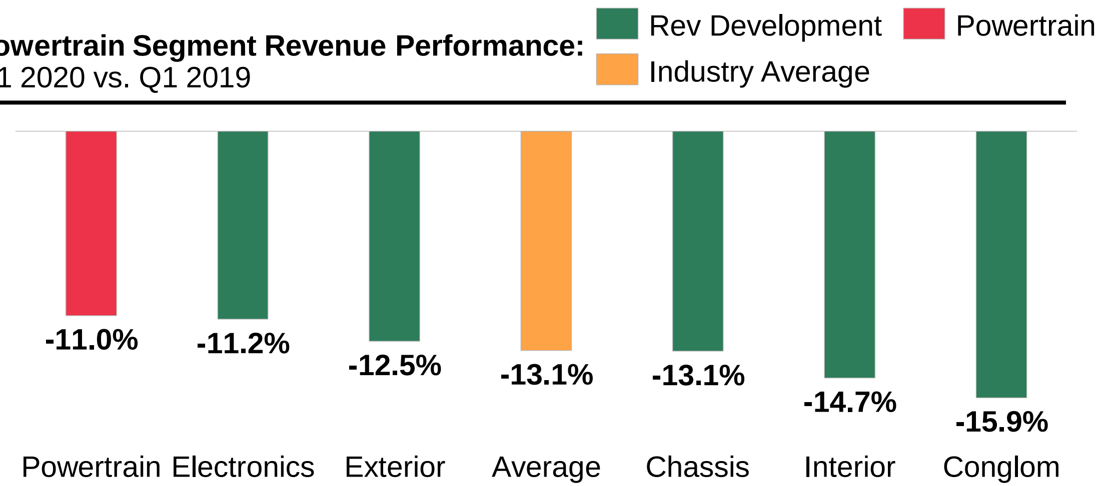
Applied Value has analyzed 20 companies in the Powertrain segment.

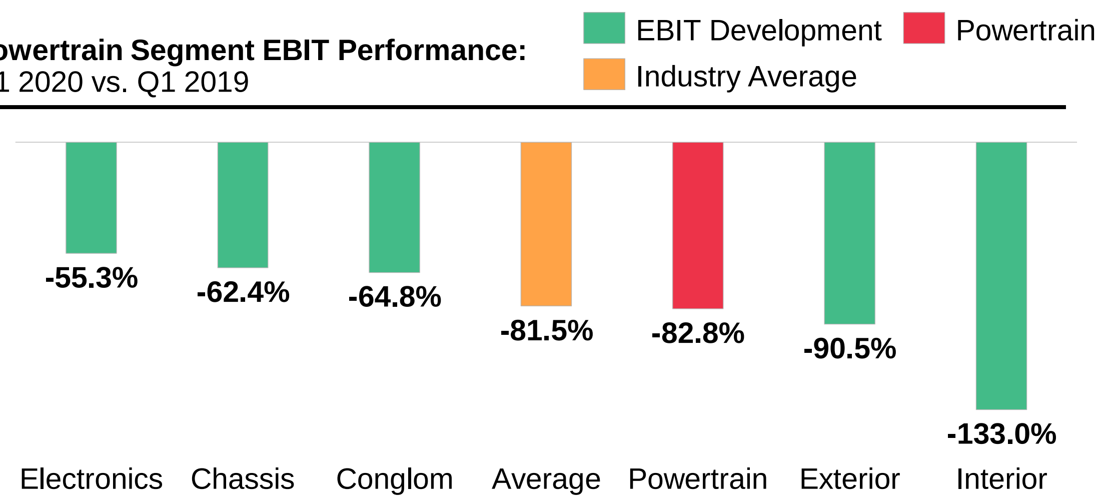
Powertrain

Drive controls, engines, transmissions, 5C components, pistons, heads, engine cooling and air management, injectors, turbochargers, tubes and hoses, antivibration systems

Powertrain Segment Revenue Performance:
Q1 2020 vs. Q1 2019

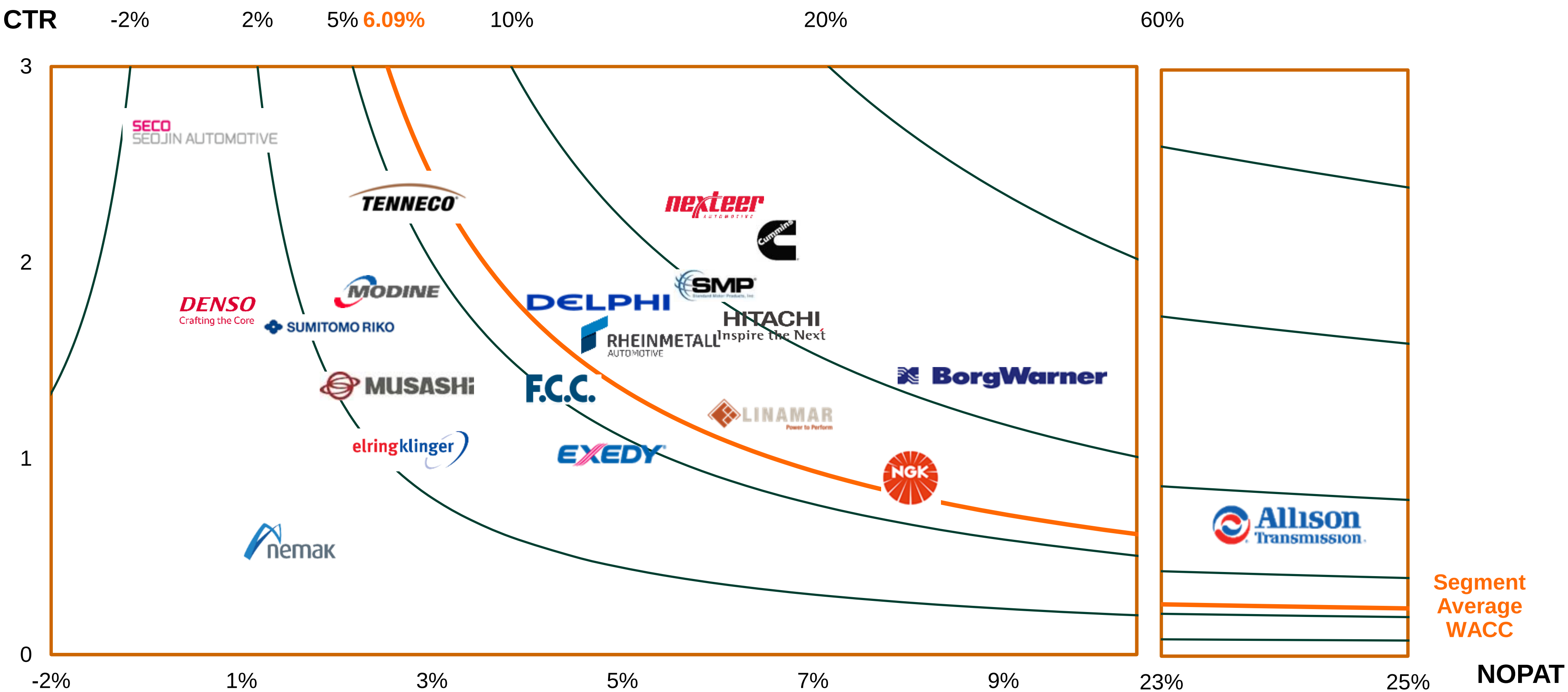


Powertrain Segment EBIT Performance:
Q1 2020 vs. Q1 2019



ROIC snapshot for Powertrain segment.

Peer Group ROIC LTM



Top Performers (LTM ROIC)	Allison	+16.1%	Cummins	+12.6%	Nexteer	+12.6%
Bottom Performers (LTM ROIC)	Seojin	+0.3%	Nemak	+0.8%	Denso	+1.5%

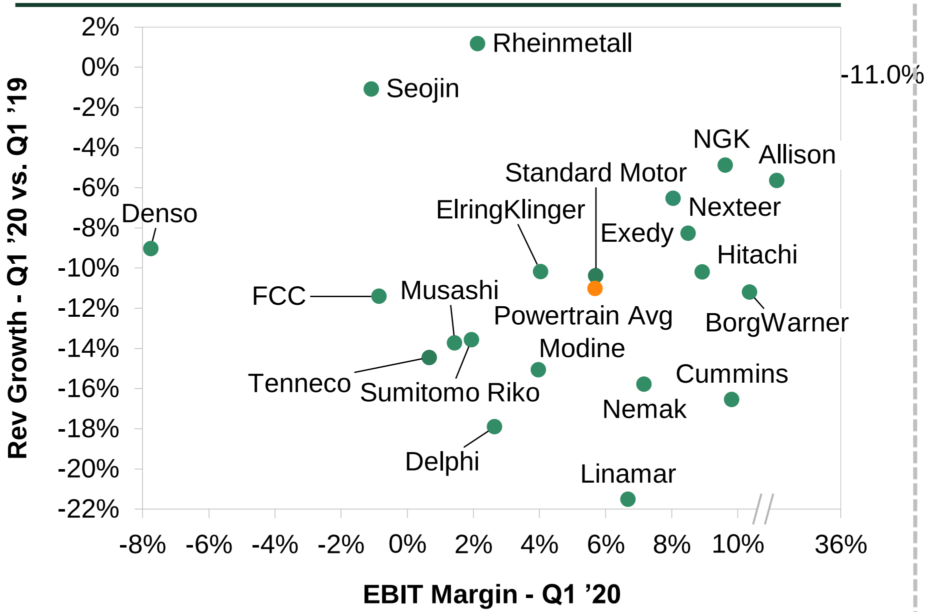
ROIC = Return on Invested Capital (actual return that the company has generated after tax)

WACC = Weighted Average Cost of Capital (the required return that the company must generate in order create value, i.e. a ROIC>WACC creates shareholder value)

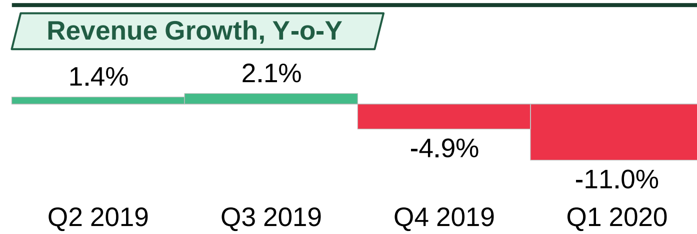
Source: Capital IQ, Annual reports, Applied Value Analysis.
WACC: Damodaran Online.

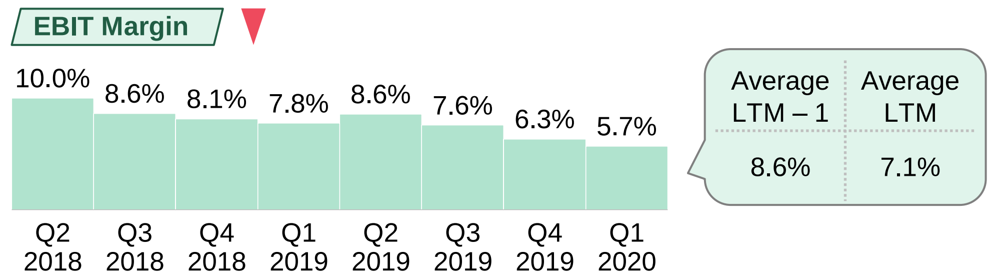
Powertrain segment was the least impacted by COVID-19 vs. other segments, but still recorded a loss of -11.0% in Q1 ’20 vs. Q1 ‘19.

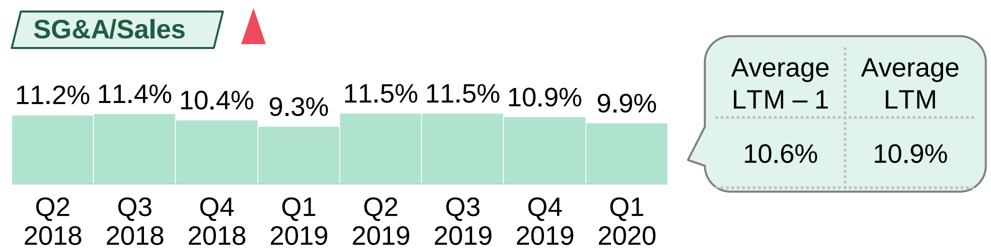
Powertrain’s EBIT Margin x Revenue Growth, year-over-year

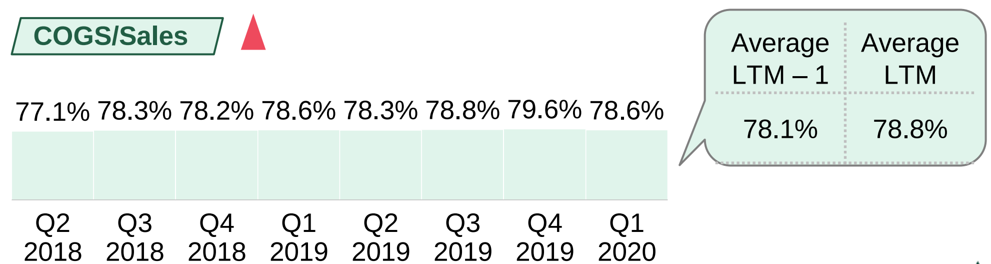


Powertrain’s Quarterly Development









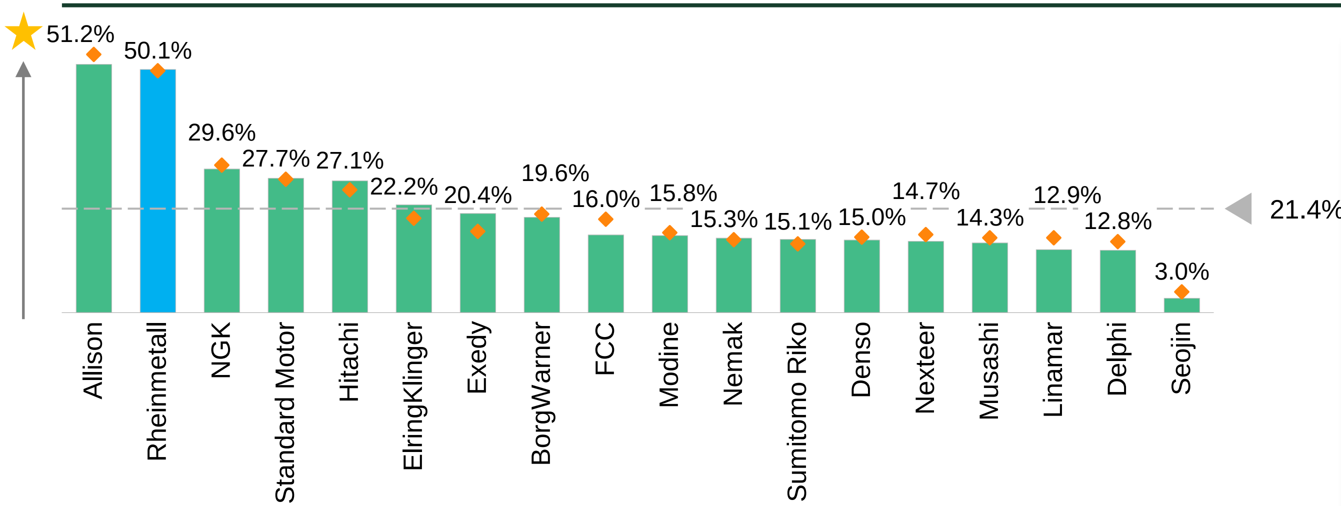
- The powertrain segment was the AT1 segment least affected by COVID-19 from a revenue perspective with a -11.0% hit to Q1 2020 revenue vs. Q1 2019.
- Tenneco, typically one of the segment’s most rapid growers experienced a -14.4% dip in Q1 2020. Amid the bad news, Tenneco was able to announce a positive development in March 2020 - a cobalt substitute material for its engine products to mitigate impact of cobalt price fluctuations.
- Linamar saw the segment’s most severe revenue decline in Q1 2020 at -12.5% vs. Q1 2019, while Rheinmetall was the segment’s only growth story, carving out a minimal 1.2% growth over the same period.

The average gross margin of powertrain sector in LTM was 21.4%, while gross margin volatility was on average 1.3%.

Accounting by Nature

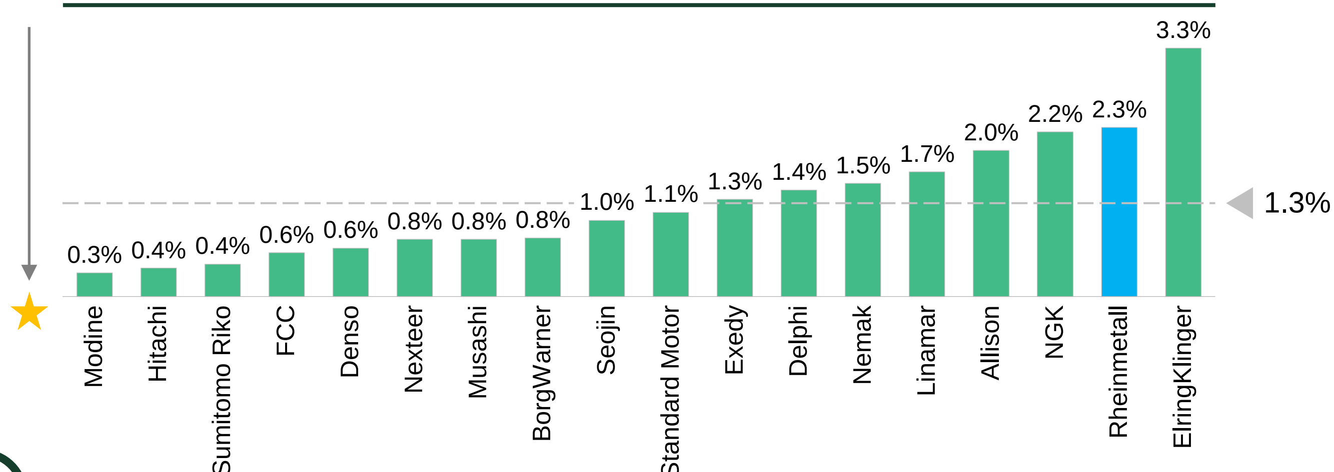
Powertrain Gross Margin

Q1 2020 ◆ Q1 2019



Powertrain Gross Margin Volatility

LTM



- Allison Transmissions maintains a high margin of 51.2% despite COVID-19 impact on its core on-highway market. This is because the negative effect on margins from the pandemic is largely offset by growing demand from defense and support equipment market.
- Modine has separated its automotive business from the VTS segment through physically separating manufacturing, setting up stand-alone business process and internal systems etc. This separation is aimed to improve earnings and cash flow through the divestment of most valuable assets.
- Rheinmetall is the only company with positive revenue growth in Q1 2020 at a rate of 1.2%. However, this growth is the result of growth from its defense business which was not influenced by the COVID-19 pandemic and sales increased sharply by 18% in the first quarter.

Note 1: Allison's high gross margin is attributed to it's focus on automatic transmissions
Note 2: Automotive is only 10% of Hitachi's Revenue
Source: Interim & Annual Reports, Capital IQ, Applied Value analysis.

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Applied Value has analyzed 18 companies in the Electronics segment.

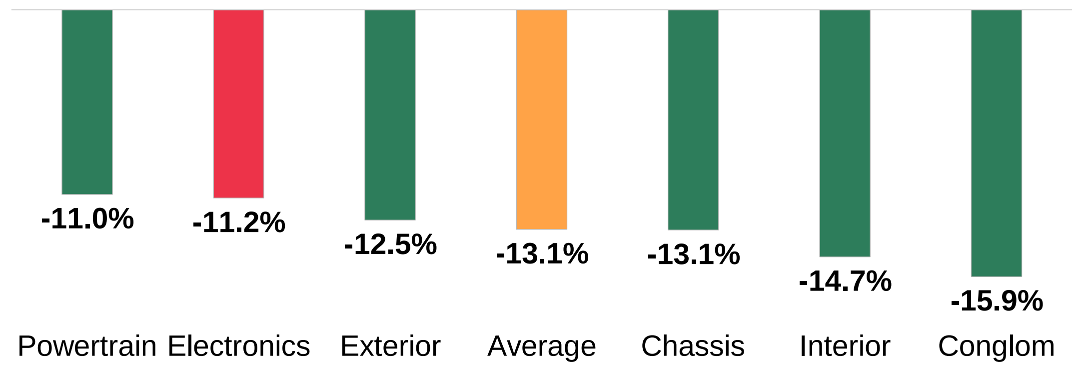
Electronics

Antilock braking system, lamp and headlights, batteries harnesses, entertainment and infotainment system, control modules, regulator, electrical wirings, and air conditioning units

Koito
Stanley
Panasonic
Sumitomo Electric
Metair Investments Limited
Omron
Hyundai Mobis
Valeo
Gentex Corporation
Stoneridge
Tokai Rika
flex
Mitsubishi Electric Changes for the Better
Aptiv
Nippon Seiki
Visteon
Hi-Lex
Hella

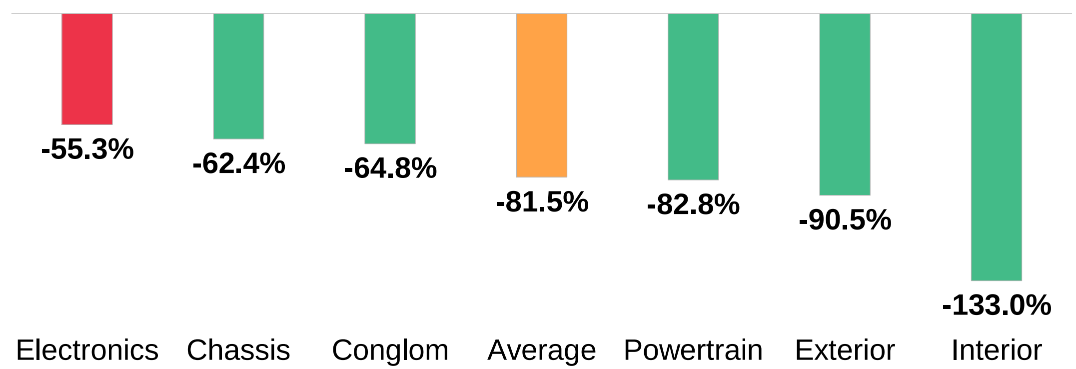
Electronics Segment Revenue Performance:
Q1 2020 vs. Q1 2019

Rev Development | Electronics | Industry Average



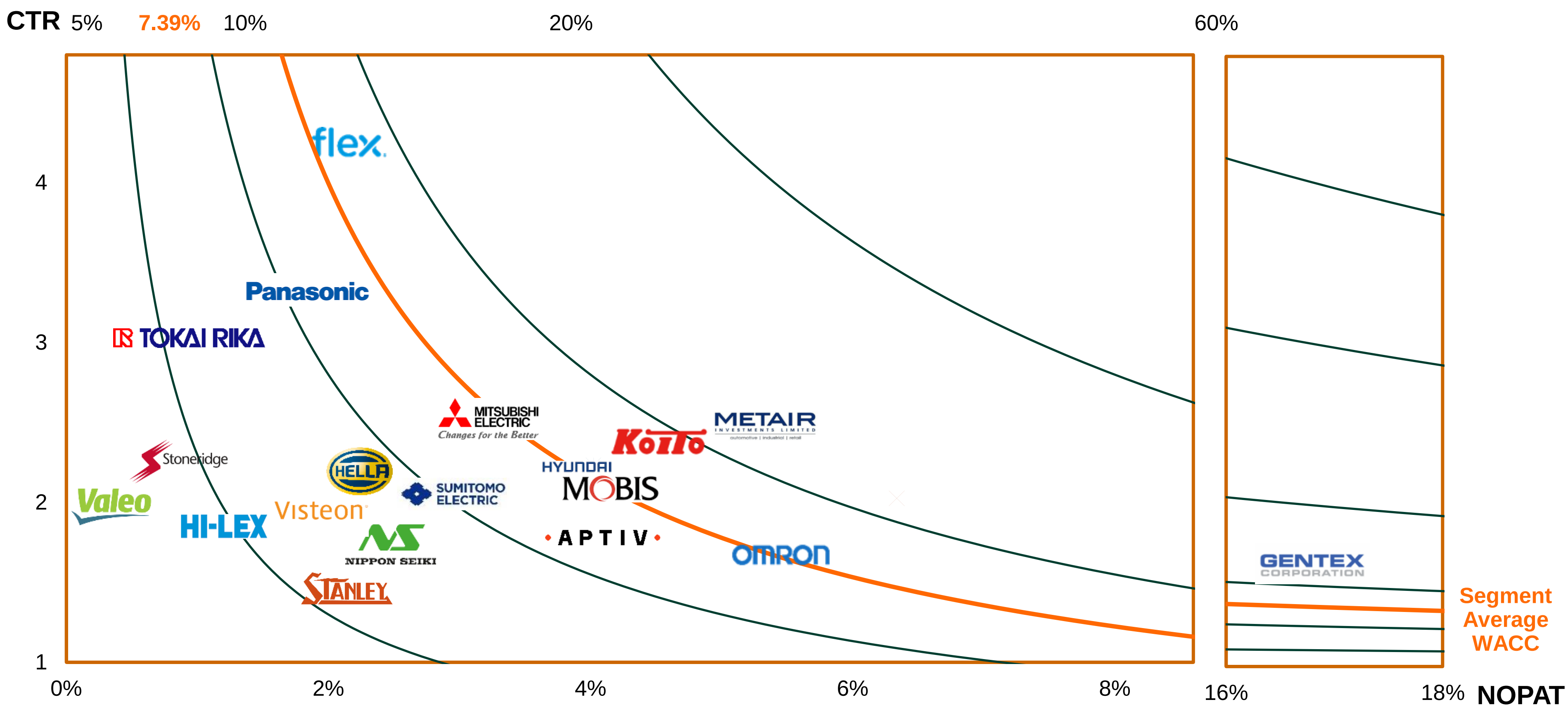
Electronics Segment EBIT Performance:
Q1 2020 vs. Q1 2019

EBIT Development | Electronics | Industry Average



ROIC snapshot for Electronics segment.

Peer Group ROIC LTM



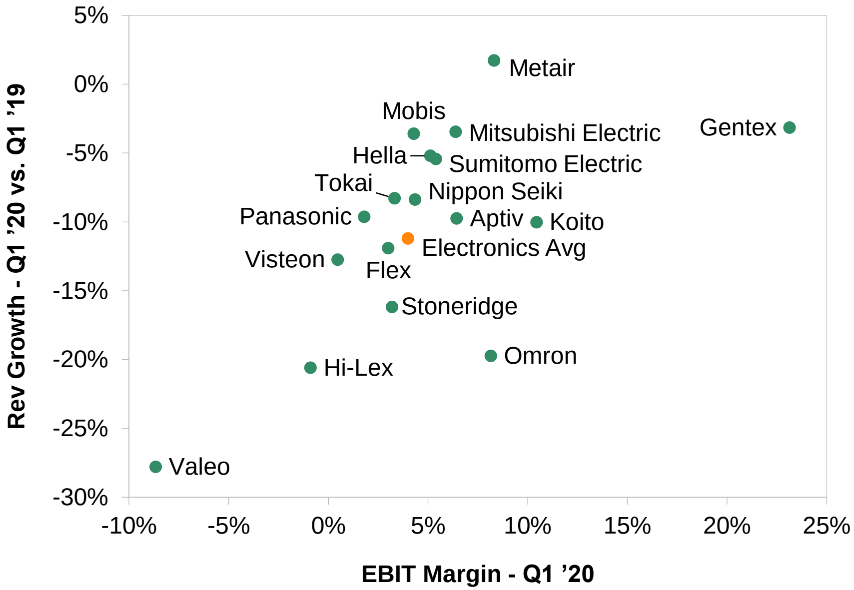
Top Performers (LTM ROIC)	Gentex	+15.0%	Metair	+10.9%	Koito	+8.7%
Bottom Performers (LTM ROIC)	Valeo	-0.6%	Stoneridge	-0.2%	Tokai	+1.9%

ROIC = Return on Invested Capital (actual return that the company has generated after tax)

WACC = Weighted Average Cost of Capital (the required return that the company must generate in order create value, i.e. a ROIC>WACC creates shareholder value)

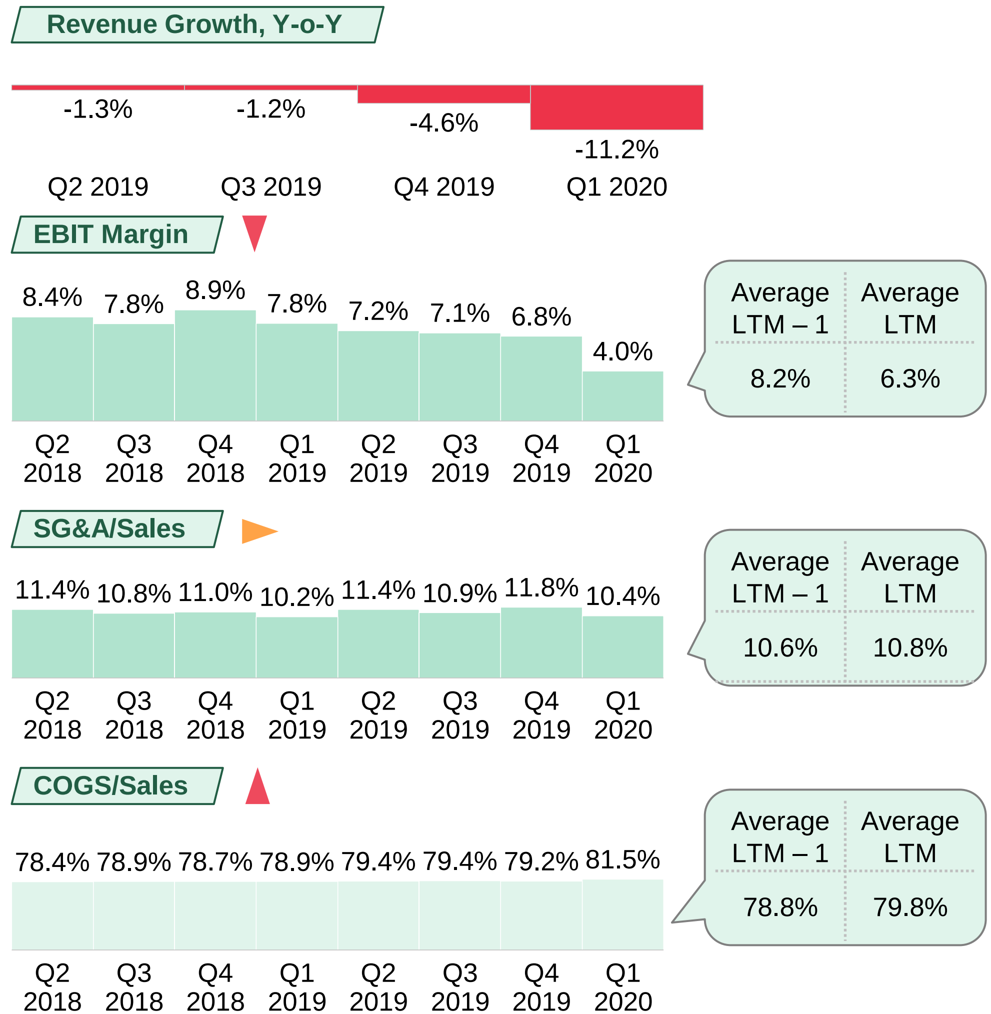
Compared to Q1 2019, Electronics' sector revenue dropped by -11.2% in Q1 2020.

Electronics’ EBIT Margin x Revenue Growth, year-over-year



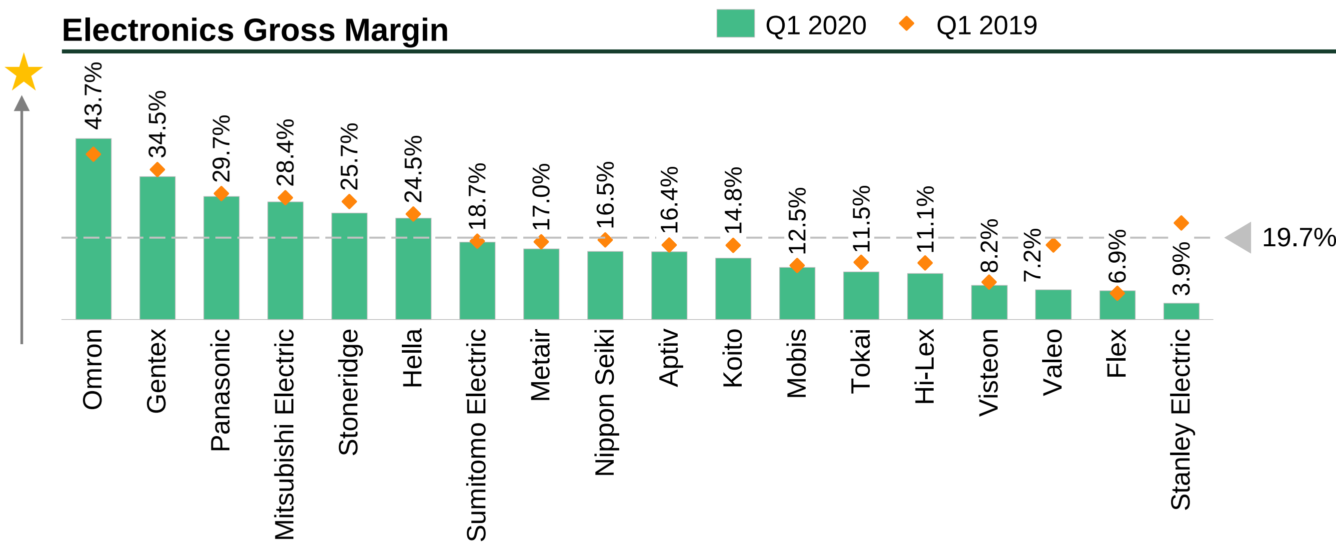
- Gentex reported highest EBIT margin amongst peers at 23.1% in LTM on top of a -3.2% decrease in revenue. The high margin is attributable to a strong product mix which mitigated the effects of falling demand.
- Due to the world-wide production suspension caused by COVID, Stoneridge’s revenue decreased by 16.2% Q-o-Q, but its gross margin improved slightly due to decline in raw material and overhead costs.
- Hi-Lex revenue declined sharply -20.6% in Q1 2020 vs. Q1 2019, although revenue had already been on a downward trajectory ahead of the outbreak.

Electronics’ Quarterly Development

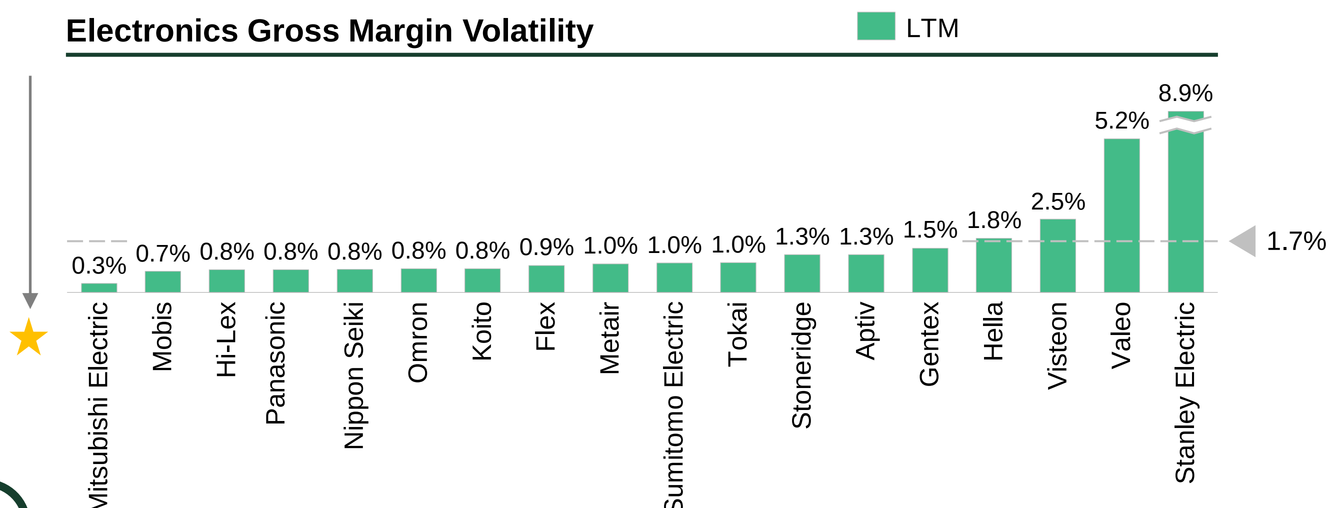


COVID brought significant impact to the Gross Margin of Valeo and Stanley Electric, propelling both companies to the bottom of their peer segment.

Electronics Gross Margin



Electronics Gross Margin Volatility



- Mobis weathered the COVID-19 pandemic exceptionally well with revenue decline of only 3.6% in Q1 2020 largely due to strong performance of its electrification segment, which grew nearly 22.3% resulting in 5.7% revenue growth in LTM. The company is emphasis R&D in electrification segment.
- Panasonic established a joint venture with Toyota, this collaboration focuses on the development of more durable and high quality automotive prismatic battery with high cost effectiveness. Via such cooperation Panasonic may become more competitive in battery related markets.
- Aptiv formed joint venture with Hyundai in the development of autonomous driving capabilities. The venture aims to develop road ready Level 4 & 5 technology by 2022 with fully driverless testing system road ready by 2020.

Note 1: Omron's Gross Margin is higher because of their Industrial Automation Business segment
Source: Interim & Annual Reports, Capital IQ, Applied Value analysis.

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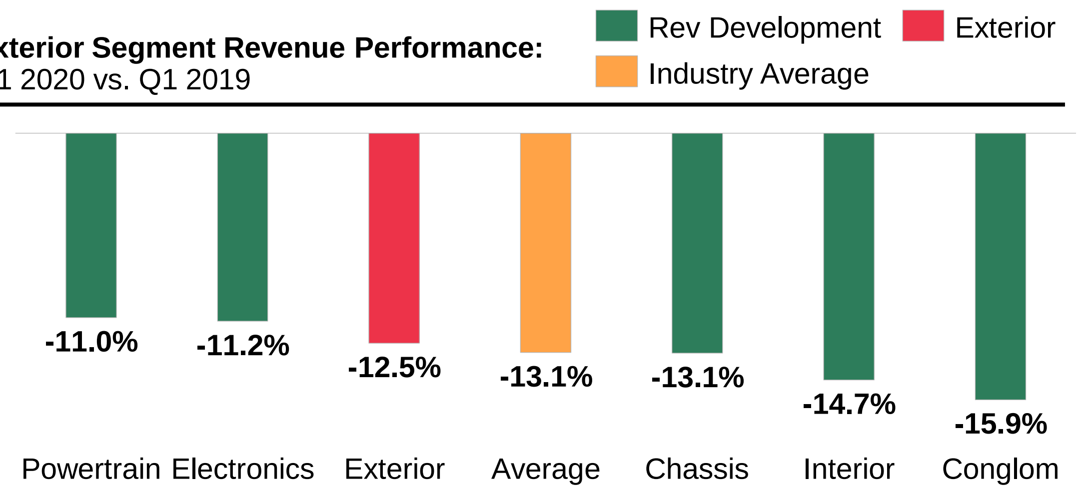
Applied Value has analyzed 6 companies in the Exterior/Body segment.

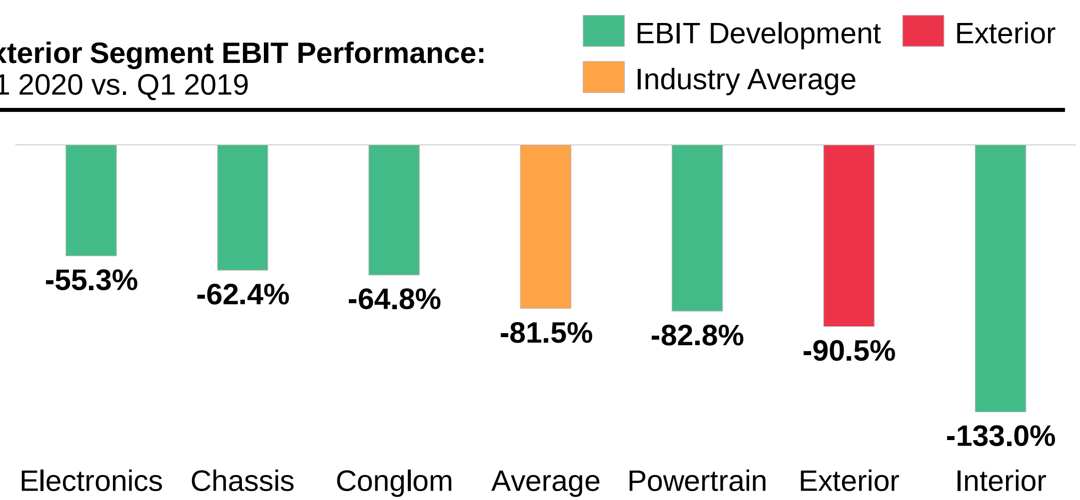
Exterior/Body

Class A stamping, non-/structural stampings, frame/subframe components, body hardware glass, paint, body molding, fascias, wiper systems, door handles, seals

Exterior Segment Revenue Performance:
Q1 2020 vs. Q1 2019

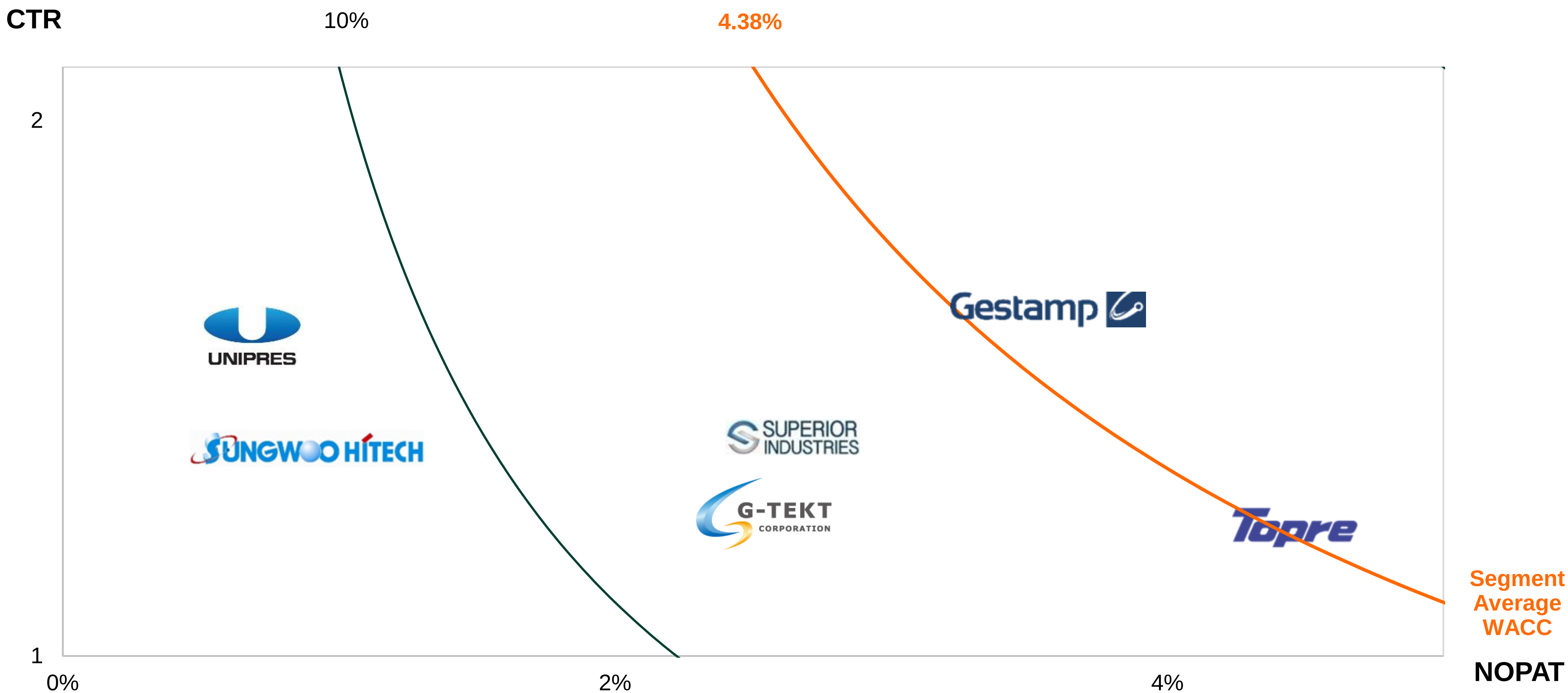


Exterior Segment EBIT Performance:
Q1 2020 vs. Q1 2019



ROIC snapshot for Exterior/Body segment.

Peer Group ROIC LTM



Top Performers (LTM ROIC)	Gestamp	+5.5%	Topre	+5.1%	Superior	+3.5%
Bottom Performers (LTM ROIC)	Unipres	+1.1%	Sungwoo	+1.1%	G-Tekt	+3.2%

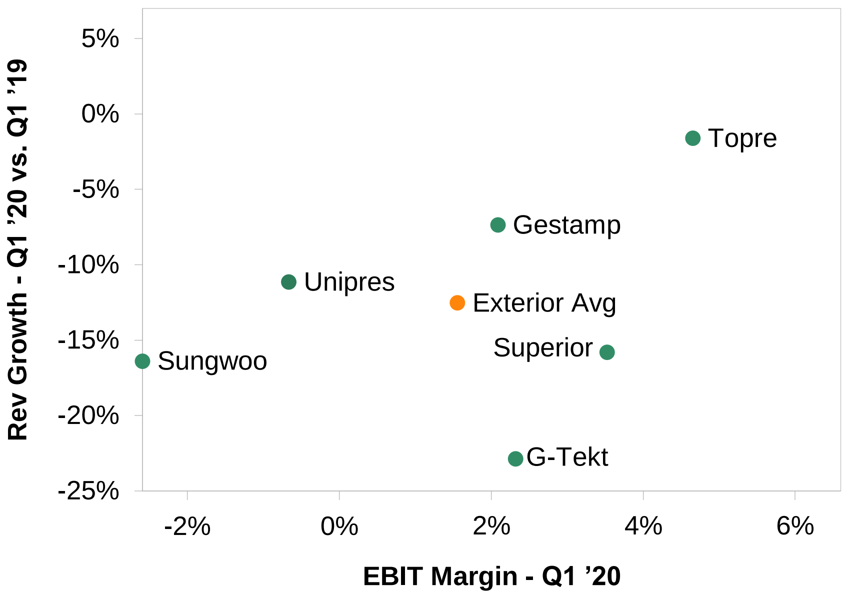
ROIC = Return on Invested Capital (actual return that the company has generated after tax)

WACC = Weighted Average Cost of Capital (the required return that the company must generate in order create value, i.e. a ROIC>WACC creates shareholder value)

Source: Capital IQ, Annual reports, Applied Value Analysis.
WACC: Damodaran Online.

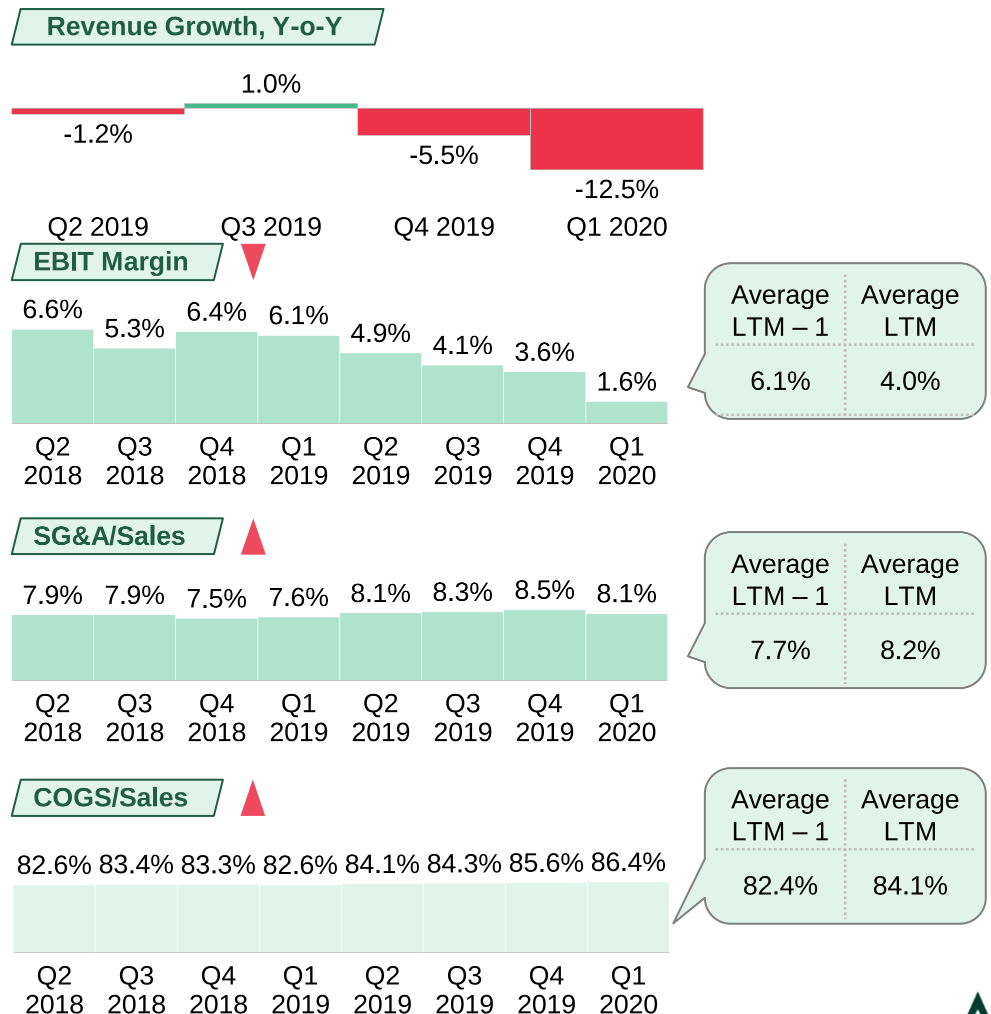
Exterior/Body segment endured a 12.5% decline in Q1 2020 revenue vs. the same period last year.

Exterior/Body's EBIT Margin x Revenue Growth, year-over-year

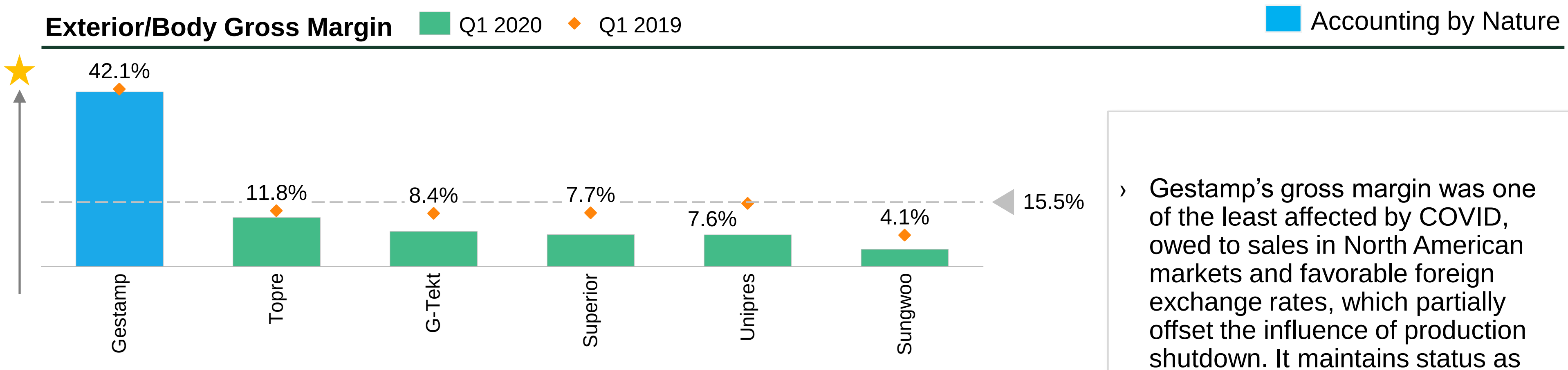


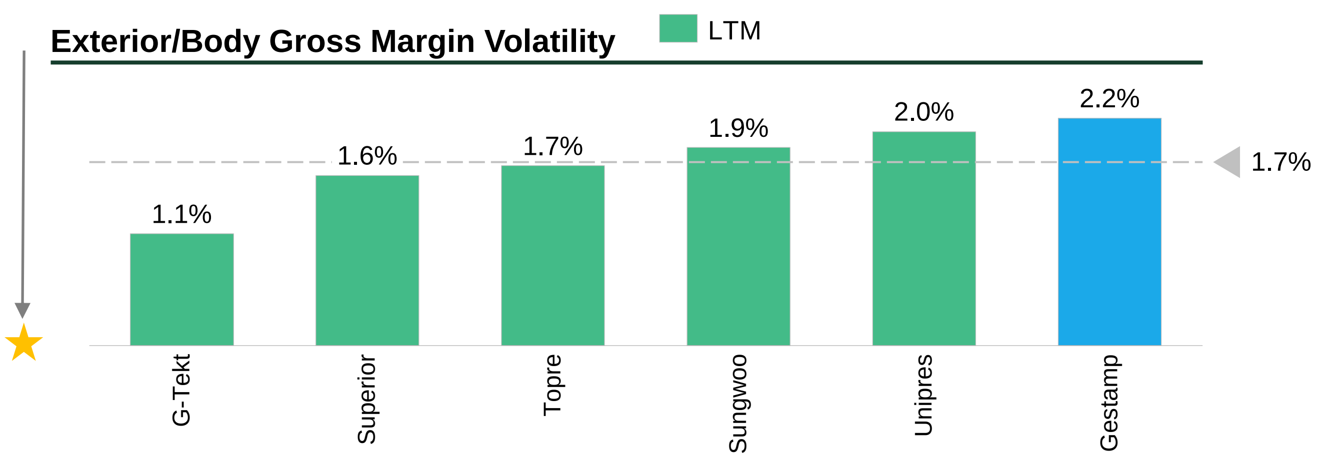
- The Exterior/Body segment experienced an overall revenue decrease of -12.5% in Q1 2020 vs. Q1 2019, performing slightly better than the average of all Auto Tier 1 companies, which recorded -13.1%.
- Topre outperformed peers, maintain nearly flat revenue while others declined. Recent performance has been aided by its acquisition of Mitsuike Co in Q2 of 2019.
- G-Tekt revenue declined 22.8% in Q1 2020 due to weakness in demand caused by global automotive slump and COVID-19. The decline is largely driven by strong decline in the North America and Asia markets.

Exterior/Body's Quarterly Development



Unipres experienced most significant decline in Gross Margin in Q1 2020 recording 7.6% down from 15.2% in Q1 2019.





- Gestamp's gross margin was one of the least affected by COVID, owed to sales in North American markets and favorable foreign exchange rates, which partially offset the influence of production shutdown. It maintains status as the segment's best gross margin primarily due to accounting policies.
- Superior Industries saw revenue decrease of 15.8% Y-o-Y while gross margin declined by 1.6%. Superior Industries' sales in Europe and North America market declined by 18.6% and 19.0%, respectively in Q1 2020.
- Sungwoo margin fell by 3.7% quarter on quarter.

Source: Interim & Annual Reports, Capital IQ, Applied Value analysis.

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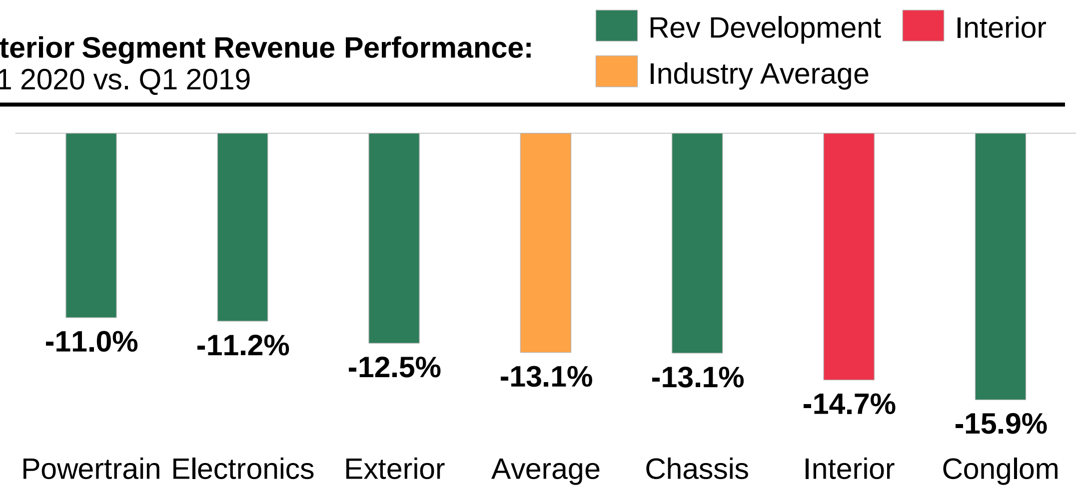
Applied Value has analyzed 16 companies in the Interior segment.

Interior

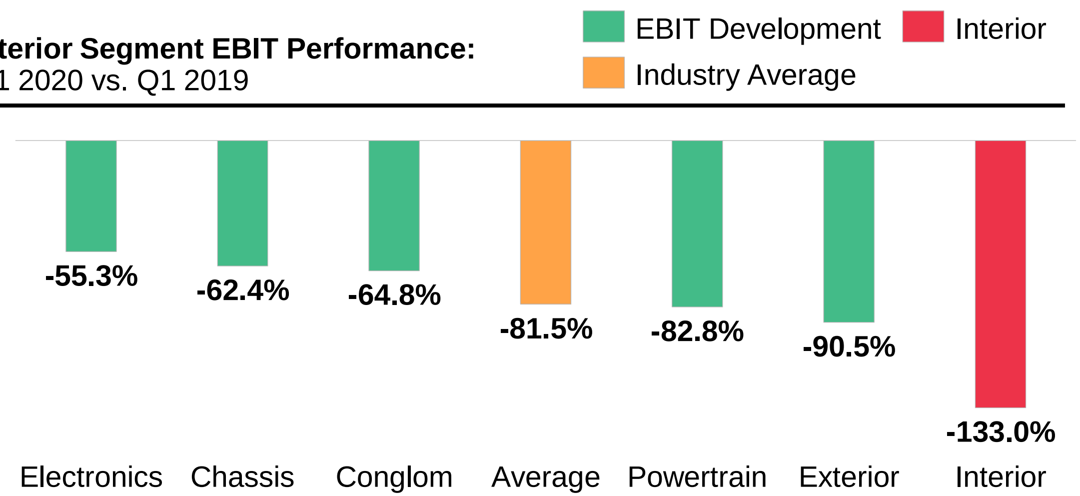
Seats, seat belts, interior products, instrument panels (IPs), trim, carpet, headlines, HVAC, mirrors, climate control

GENTHERM ELECTRONICS, Lydall, LEAR CORPORATION, Autoliv, faurecia, Kasai, T-Tech, NIHON PLAST CO., LTD. 日本プラスト株式会社, TACHI-S, TOYODA GOSEI, ADIENT, TOYOTA BOSHOKU, autoneum, GRAMMER, POLYTEC GROUP

Interior Segment Revenue Performance:
Q1 2020 vs. Q1 2019

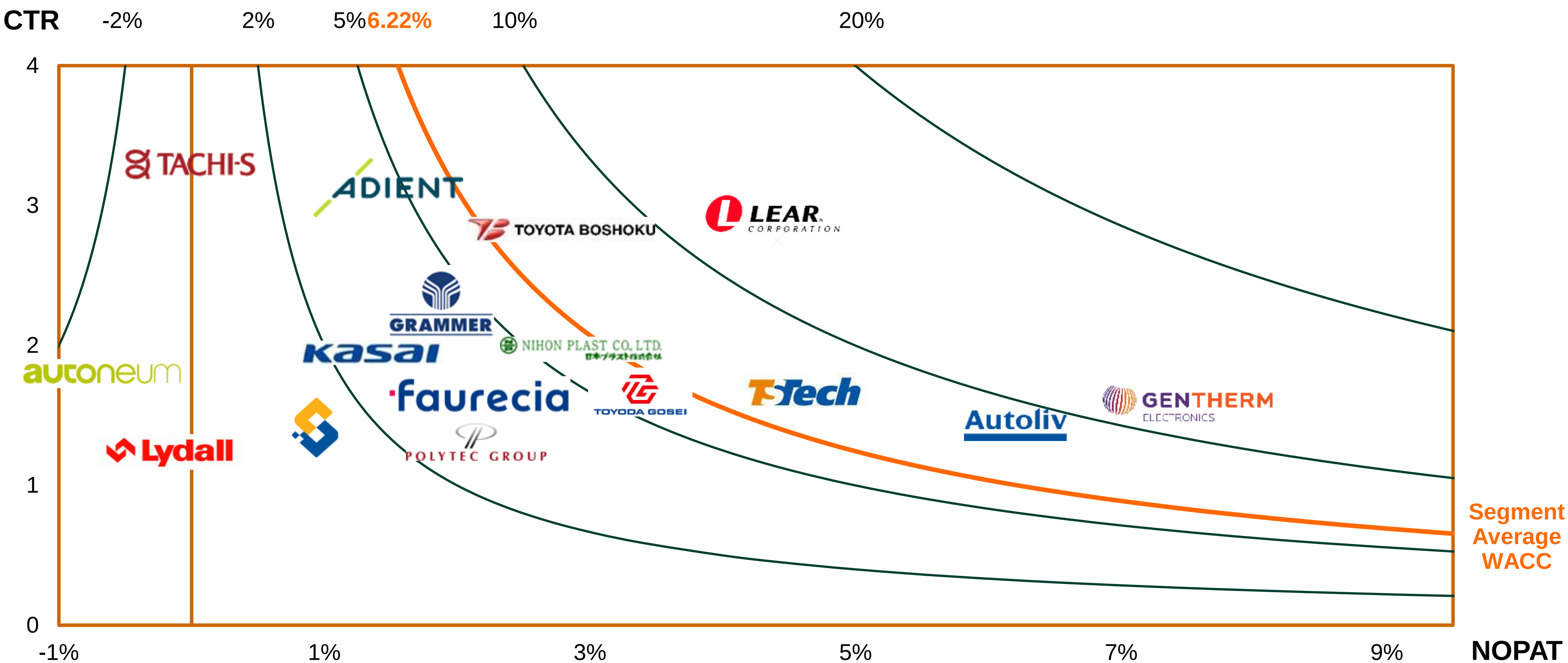


Interior Segment EBIT Performance:
Q1 2020 vs. Q1 2019



ROIC snapshot for Interior segment.

Peer Group ROIC LTM



Top Performers (LTM ROIC)	Lear	+12.1%	Gentherm	+12.0%	Autoliv	+9.4%
Bottom Performers (LTM ROIC)	Autoneum	-3.3%	Lydall	-1.5%	TACHI-S	-0.0%

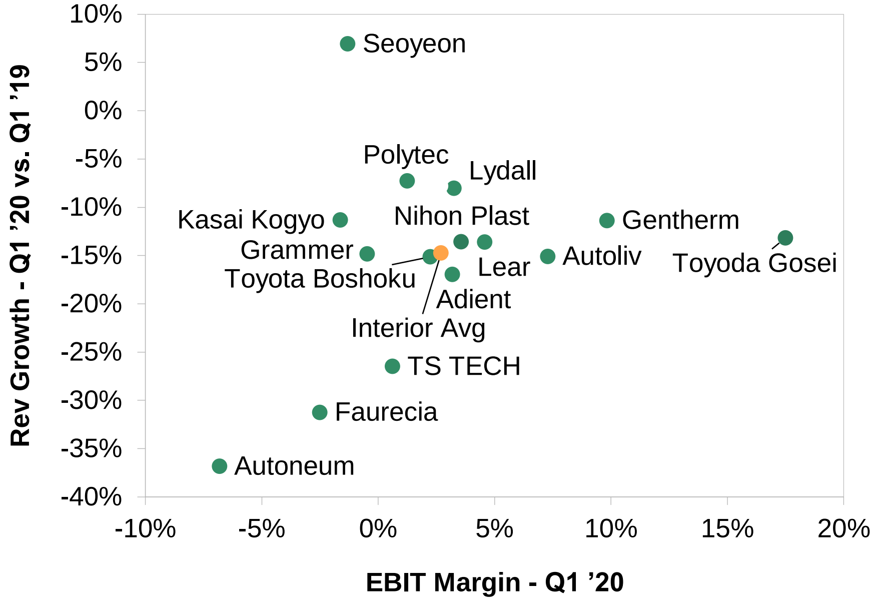
ROIC = Return on Invested Capital (actual return that the company has generated after tax)

WACC = Weighted Average Cost of Capital (the required return that the company must generate in order create value, i.e. a ROIC>WACC creates shareholder value)

Source: Capital IQ, Annual reports, Applied Value Analysis.
WACC: Damodaran Online.

Interior Q1 ’20 revenue dropped 14.7% compared to Q1 ’19, with the most dramatic revenue decline coming from Autoneum’s H1 results.

Interior’s EBIT Margin x Revenue Growth, year-over-year

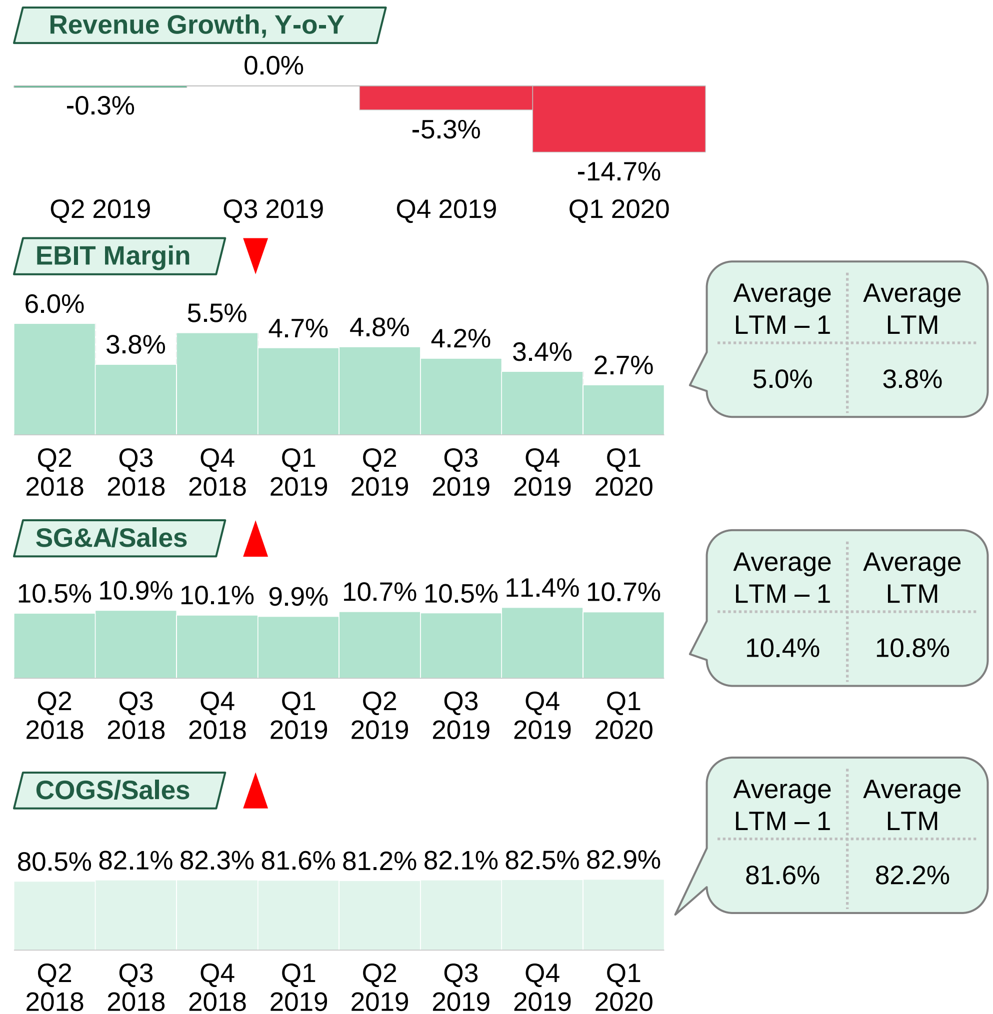


› Grammer experienced a 11.4% decline in sales compared to Q1 2019 due to production shutdown in China, lower demand, and unfavorable currency exchange. However, LTM revenue growth remains positive largely driven by strong sales in its commercial vehicle business in H1 2019.

› TS Tech had the worst performance on revenue growth with a decline of -12.7%; TACHI-S performed worse on the EBIT front with an EBIT Margin of 0% over the LTM.

› Compared to other benchmarked firms, Polytec’s revenue decline was relatively small at -2.2%. This is mainly due to increase in its passenger cars and light commercial vehicles business which offset the decline in its commercial vehicles business.

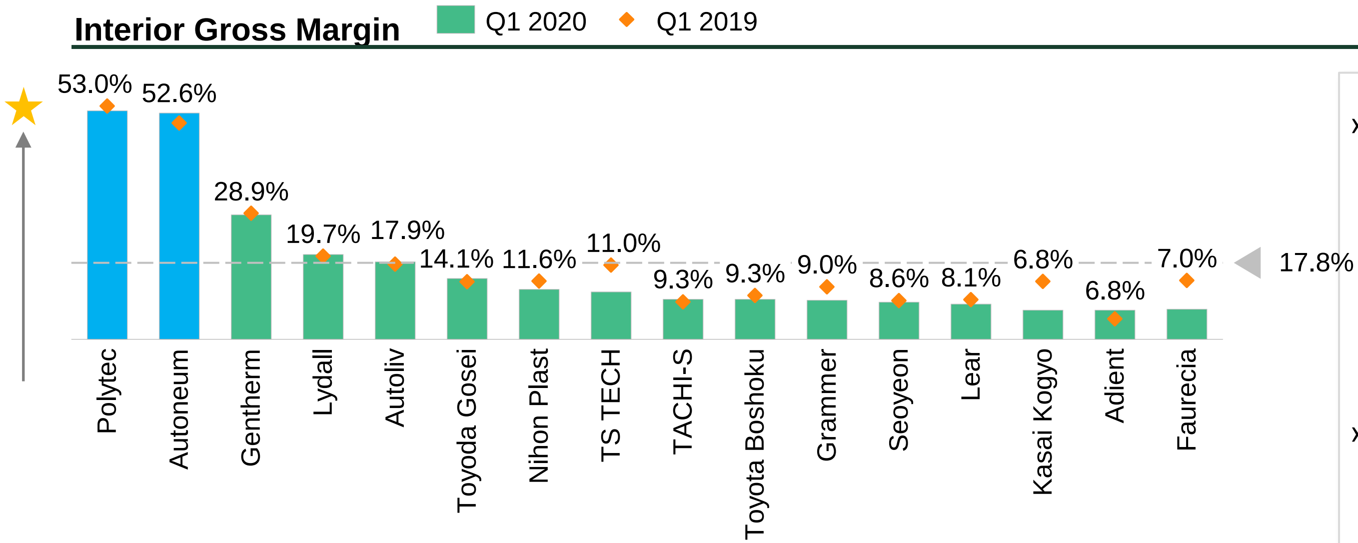
Interior’s Quarterly Development

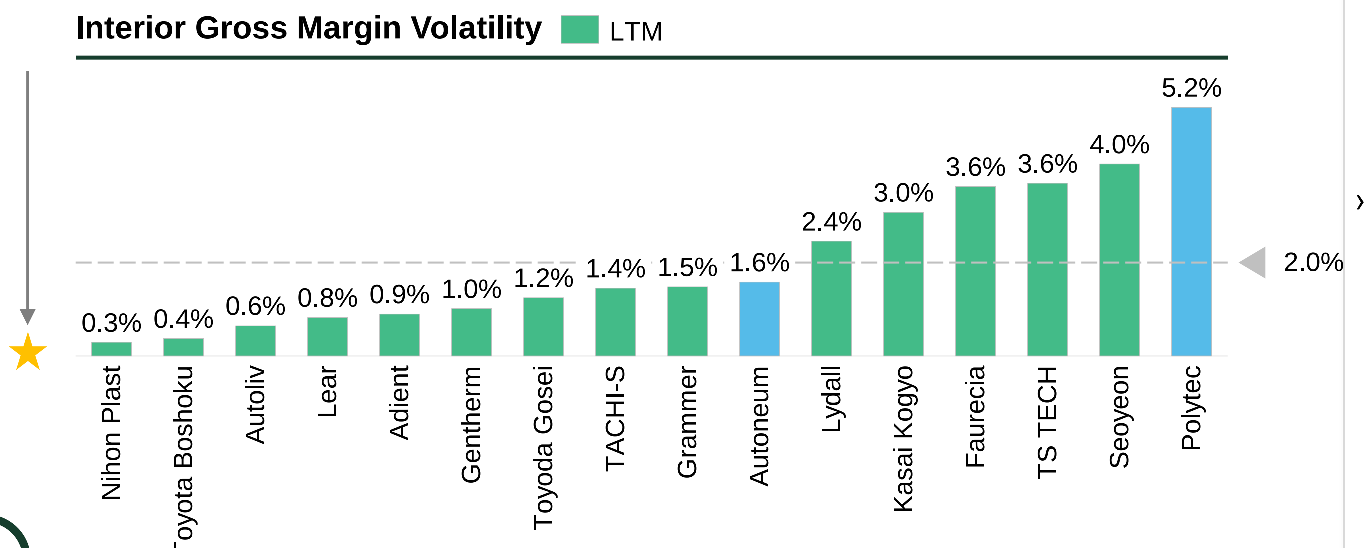


Note: Autoneum reports semi-annually

Faurecia saw significant Gross Margin decline in Q1 '20, propelling them to the bottom of the interior segment & increasing the volatility of their Margin.

Accounting by Nature





- Lear showed a decline in revenue in the first quarter due to weak sale in its Thermal Acoustical segment. Lear also invested in mobility technologies developments. This move may facilitate the company's innovation on intelligent mobility and experience-enabling technologies.
- Faurecia finished the acquisition of 50% stake in SAS from Continental with goal to enhance its interior modules and develop its own JIT network. Further, Faurecia could leverage current SAS business across various regions to enhance growth potential.
- Due to the lowering of global demand for light vehicle coupled with the effect of COVID-19, Autoliv's revenue declined by 15.1% in Q1 2020. However, its overall gross margin increased by 0.5% due to lowering of material costs, favorable currency exchange, and workforce adjustments.

Source: Interim & Annual Reports, Capital IQ, Applied Value analysis.

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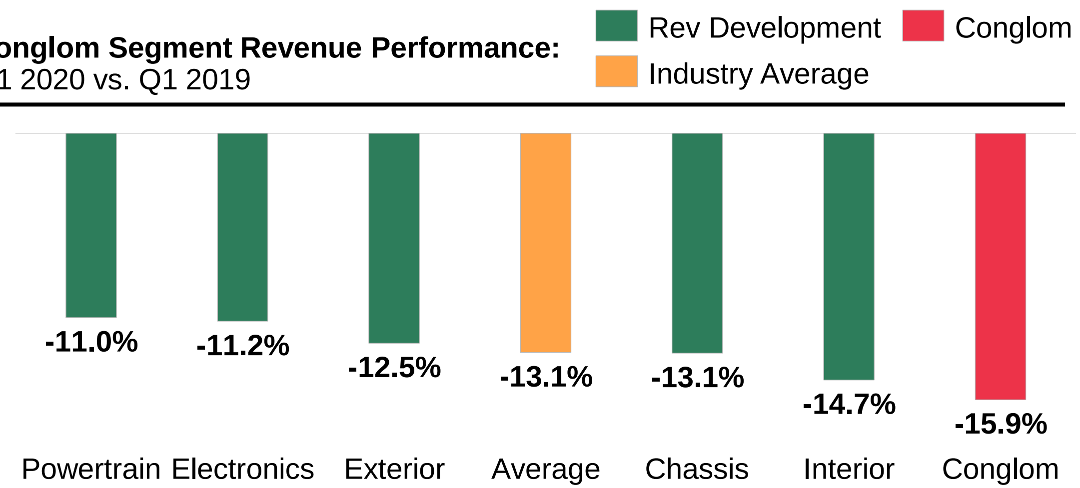
Applied Value has analyzed 11 companies in the Conglomerates segment.

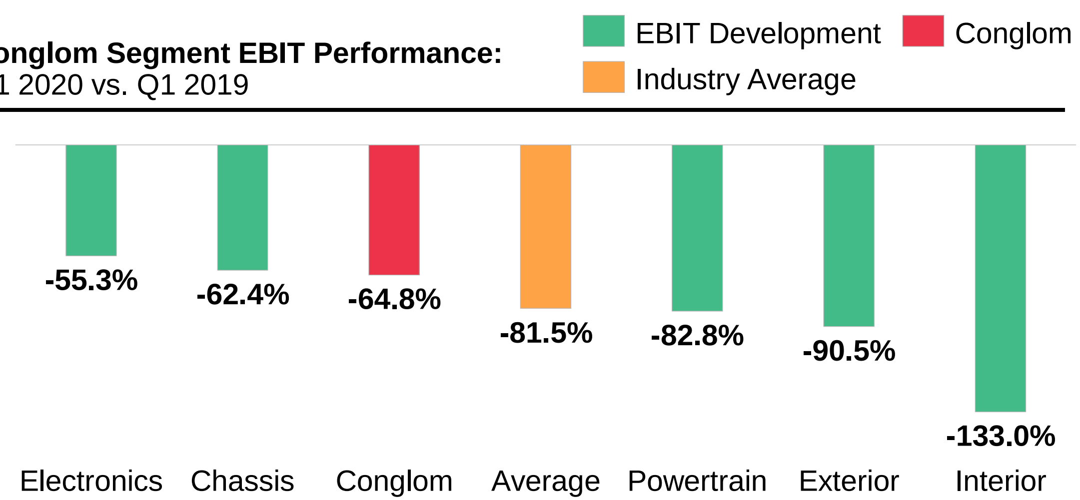
Conglomerates

Suppliers a composite of the above categories with no distinct specialization

Conglom Segment Revenue Performance:
Q1 2020 vs. Q1 2019

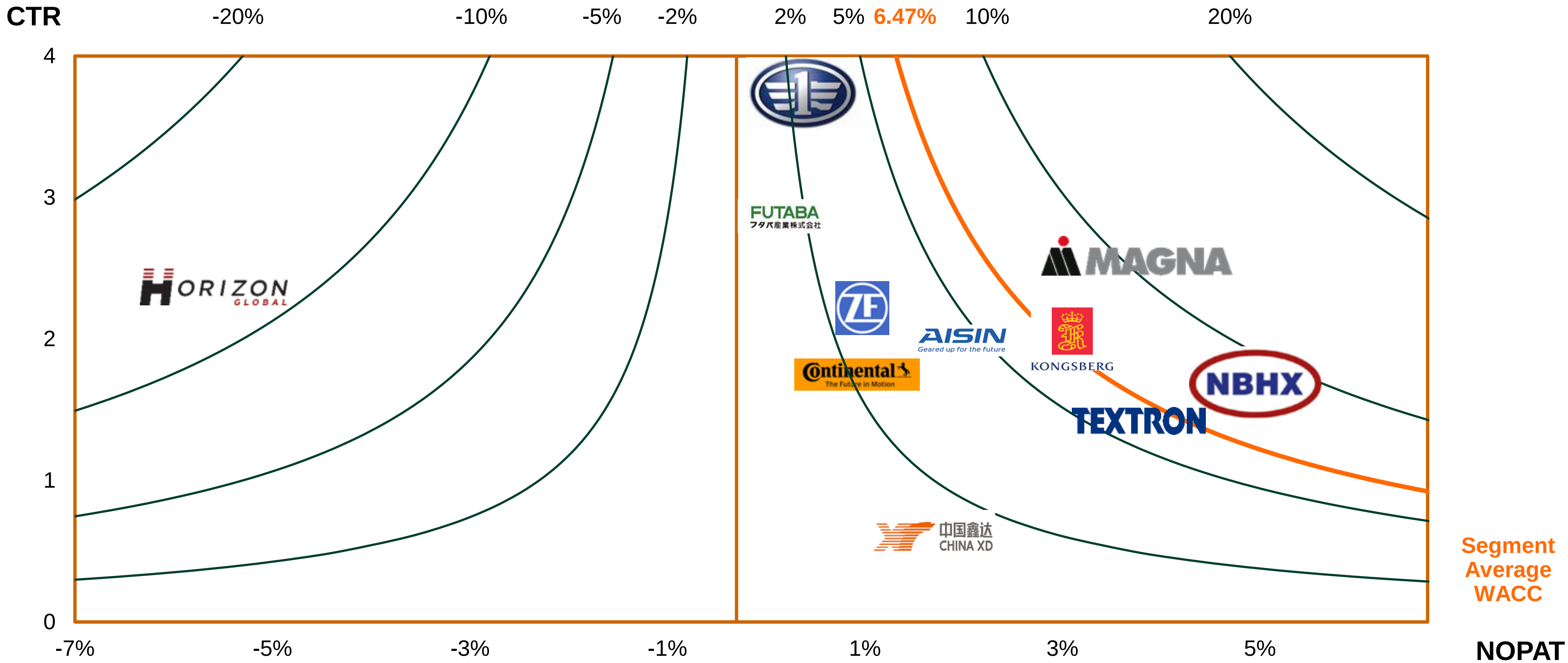


Conglom Segment EBIT Performance:
Q1 2020 vs. Q1 2019



ROIC snapshot for Conglomerates segment.

Peer Group ROIC LTM



Top Performers (LTM ROIC)	Magna	+10.5%	Huaxiang	+8.9%	Kongsberg	+7.5%
Bottom Performers (LTM ROIC)	Horizon	-12.5%	Futaba	0.5%	China XD	+1.6%

ROIC = Return on Invested Capital (actual return that the company has generated after tax)

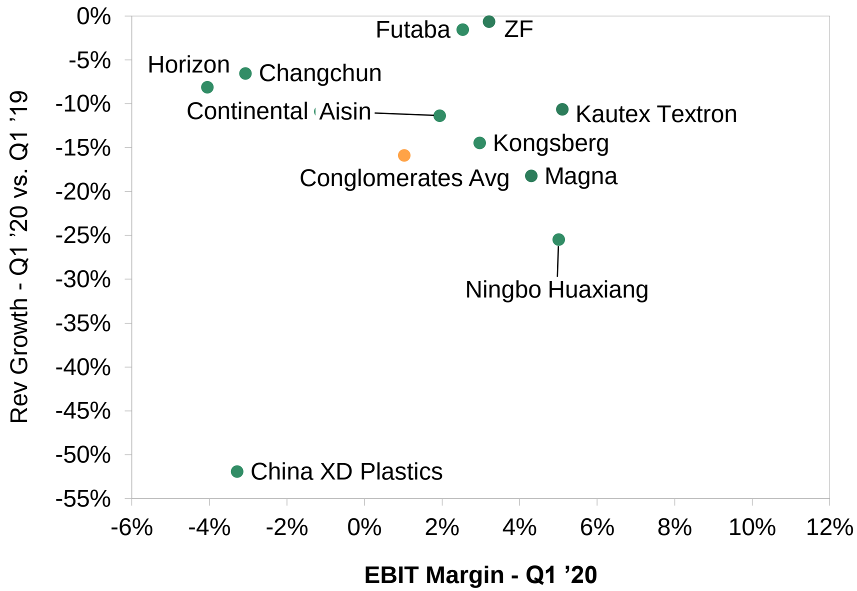
WACC = Weighted Average Cost of Capital (the required return that the company must generate in order create value, i.e. a ROIC>WACC creates shareholder value)

ZF reports semi-annual earnings, financial data based on twelve month prior to June of 2019

Source: Capital IQ, Annual reports, Applied Value Analysis. WACC: Damodaran Online.

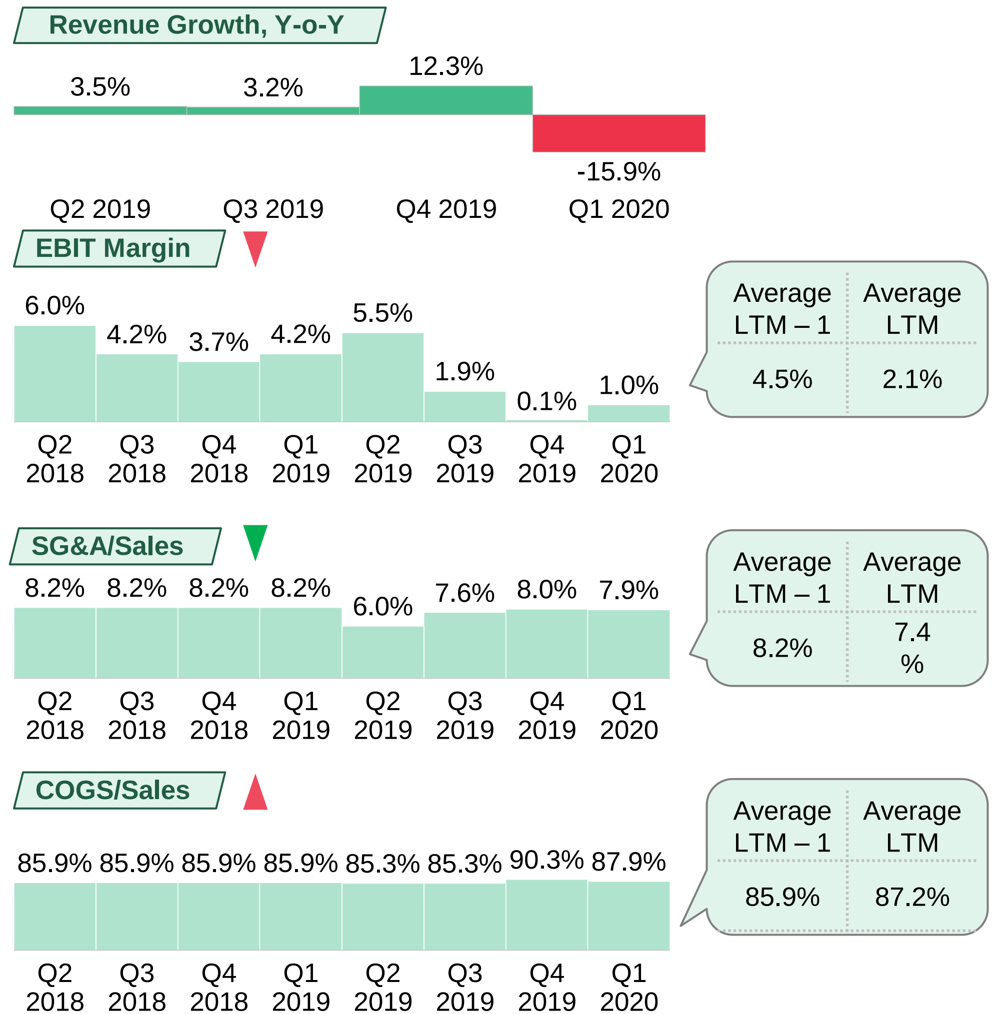
After a growth of revenue in Q4 2019, Conglomerates revenue decreased significantly by 15.9% in Q1 2020 compared with the same period last year.

Conglomerate's EBIT Margin x Revenue Growth, year-over-year



- Conglomerates in general saw significant revenue decline in Q1 2020. Further, the segment has the lowest EBIT margin compared all other segments at 1.0%.
- Huaxiang saw revenue decline 25.5% in Q1 2020 compared with the same period last year, although it's revenue in the last twelve months remains up 6.4%.
- Futaba performed well in Q1 2020 with revenue only decreasing 1.5% while maintaining its gross margins largely due to its effective cost management as well as structural reorganization.

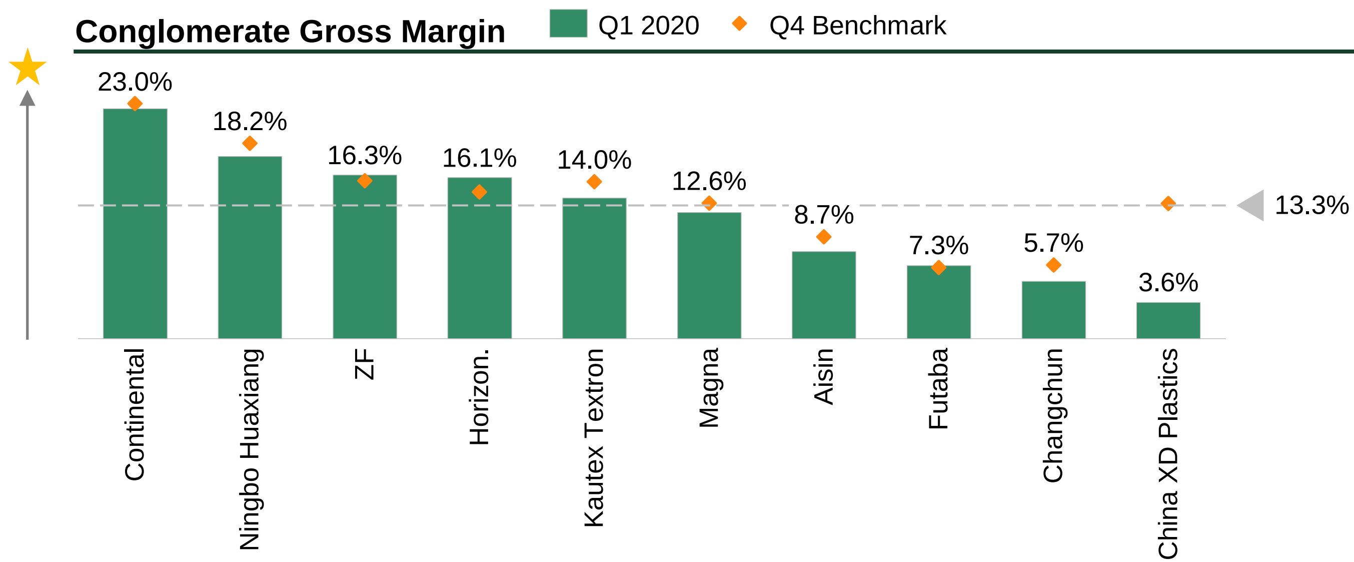
Conglomerate's Quarterly Development



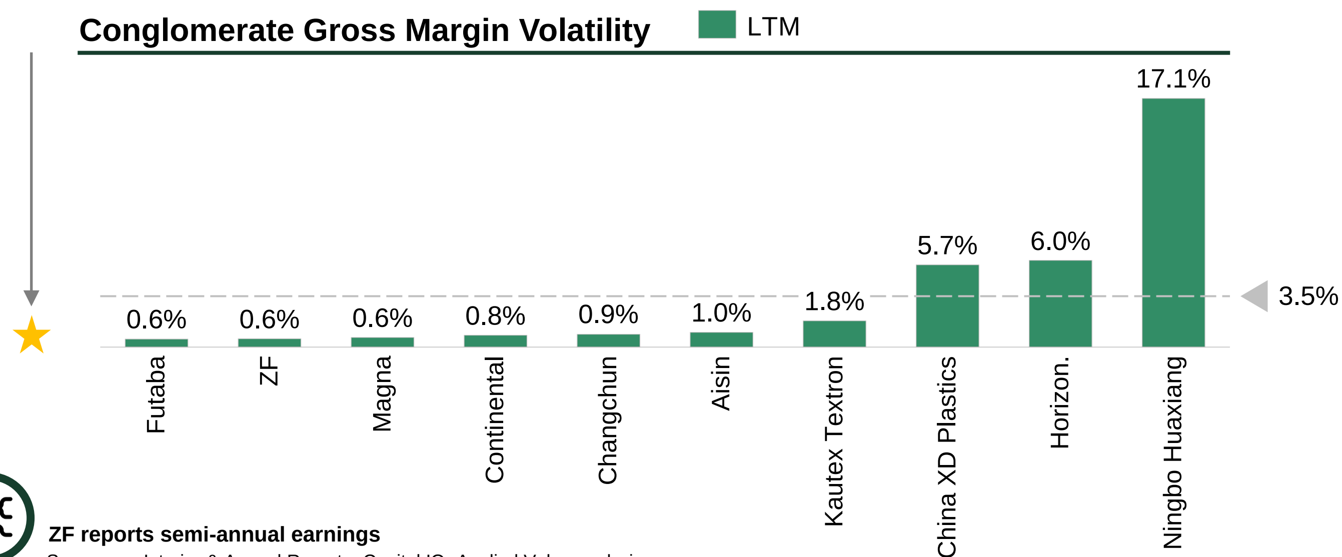
ZF reports semi-annual earnings, financial data based on twelve month prior to June of 2019

Overall conglomerate segment displayed a decrease of gross margin due to falling demand and production suspension caused by pandemic.

Conglomerate Gross Margin



Conglomerate Gross Margin Volatility



- Continental revenue declined by 10.9% compared to Q1 2019 due to falling demand in Asian and European markets. In February 2020, Continental established a strategic partnership with Menke Agrar for drive belts.
- ZF reported gross margin of 15.7% in FY 2019. In Q1 2020, it completed the acquisition of WABCO to enhance its product offering in commercial brakes and enhance innovation and R&D expertise.
- Textron reported highest EBIT margin at 7.9% while maintaining revenue levels. This is because the revenue of its defense business increased during first quarter with a good performance on margin.

ZF reports semi-annual earnings

Source: Interim & Annual Reports, Capital IQ, Applied Value analysis.

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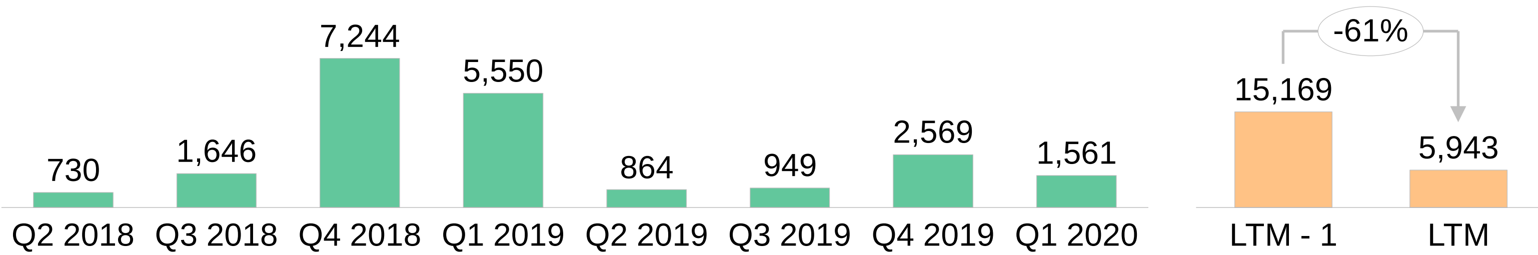
In Jan 2020, BorgWarner announced that it had entered into a definitive agreement to acquire Delphi in bid to strengthen product offerings.

Top 5 Most Recent M&A Activity

Company	**Target**	**Close Date**	**Value,** USD	**Target Description**
BorgWarner	DELPHI	Est. Q3 2020	**3.3B**	*BorgWarner is in the process of acquiring Delphi for 3.3 billion to expand product offering in clean energy engines.*
TOWER INTERNATIONAL	AGG AUTOKINITON GLOBAL GROUP	09/30/2019	**900M**	*Autokiniton Global Group, pursues investments in the global automotive supply industry and acquired Tower International.*
faurecia	SAS	01/30/2020	**230M**	*Faurecia finished acquiring the remaining 50% stake of SAS Autosystemtechnik from Continental AG.*
Continental	SAS	01/30/2020	**230M**	*Continental closed its deal to divest 50% stake in SAS Autosystemtechnik to Faurecia for $230 million.*
NISSIN	veoneer	02/03/2020	**110M**	*Honda and Nissin Kogyo finished acquiring remaining 51% stake of VBS from Veoneer AB for $110 million.*

Total M&A transaction amount previous 2 years, MUSD*



Divestures

Acquisitions

*Note – Total amount only includes the 86 firms that we have analyzed in the report

In January of 2020, BorgWarner announced the acquisition of Delphi for USD 3.3 billion to improve operational efficiency and enhance product lines.

Acquirer Information

BorgWarner

- BorgWarner is a leading automotive powertrain supplier with focus on transmissions and propulsion products for commercial automotive manufacturers
- Product line includes various transmission, clutch, turbochargers, engines, and drive components
- BorgWarner has an annual revenue of ~USD 10 billion and owns the majority of relevant market share in North American markets
- BorgWarner has strong strategic relationship with Ford, FCA, and GM in the North American markets

Deal Related Information

Horizontal Acquisition – All Stock
Goal of increase operational efficiency and enhance electrification related product lines

Total Deal Valuation: **$3.3 Billion**

Estimated Cost-Synergies **$125 million**

Share Price Before **$11.6**

Est. Purchase Price **~$14**

5-year EBITDA multiple **6.0x**

Acquisition EBITDA **4.9x**

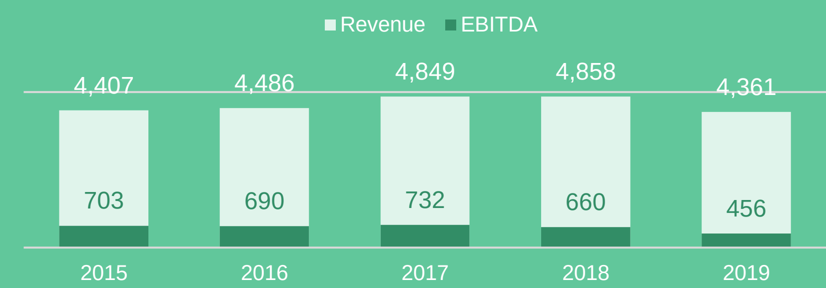
Premium Paid **~20%**

Industry Average **30%-45%**

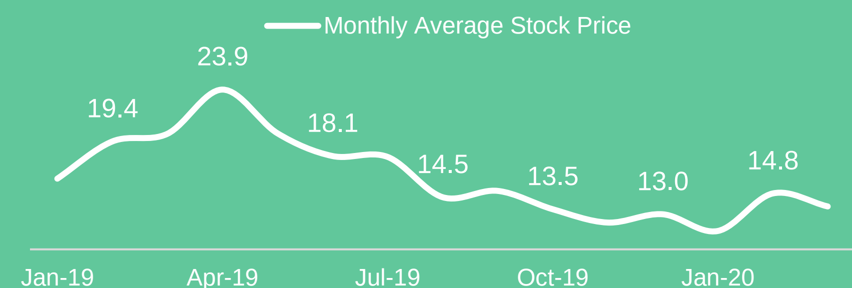
Target Information

Delphi Technologies

- Delphi Technologies is the powertrain unit of the former Delphi Automotive that was spun-off in 2017. The company is headquartered in London and provide mainly combustion product



- Delphi Technologies generated $4.4 billion of revenue in 2019 with declining revenue trend



- Delphi Technologies stock price declined by more than 40% in 2019 due to declining EBITDA margins
- Prior to its acquisition announcements, the company was valued at ~4.5x EBITDA

In September of 2019, AGG acquired competitor Tower International for $900 million in a horizontal merger.

Acquirer Information

Autokinition Group

AGG AUTOKINITON GLOBAL GROUP

- Autokinition Group is a leading North American Supplier of metal formed components and complex assemblies to the auto industry
- Manufacturers body structurer, interiors, closures, and chassis components
- Wholly owned by KSP Capital Partners which is a family owned private equity fund with portfolio companies aggregate revenue totaling $6.8 billion
- AGG has long-standing relationships with automotive manufacturer including GM, Ford, Nissan, Honda, Tesla, and BMW

Deal Related Information

Horizontal Acquisition

Goal of increase market size, efficiency, and competitiveness

Total Deal Valuation: **$900 million**

Good Will Created **$259 million**

Share Price Before **$19**

Acquisition Price **$31**

5-year EBITDA multiple **4.28x**

Acquisition EBITDA **7.56x**

Premium Paid **~70%**

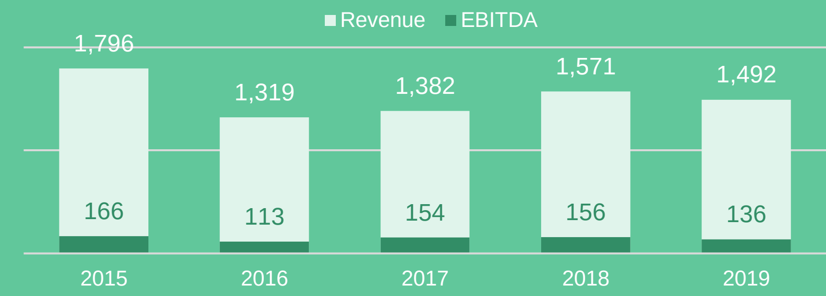
Industry Average **30%-45%**

Target Information

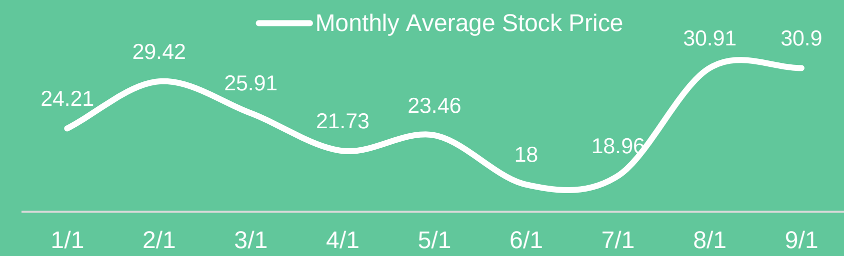
Tower International

TOWER

- Tower International is a leading global automotive structural metal components manufacturer with strong presence in the United States, Mexico, and Brazil



- Tower International recorded $1.5 billion in revenue in 2019 with EBITDA of $136 million, a margin of 9.1%



- Prior to acquisition, Towers International stock price declined by more than 40% in 2019 due to the decline in automotive industry
- Prior to its acquisition announcements, the company was valued at ~4x EBITDA

APPLIED VALUE GROUP