

Drive value*

Automotive M&A Insights 2007





Welcome



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Welcome to PricewaterhouseCoopers' Automotive M&A Insights, an annual review of M&A activity and key trends within the global automotive sector.

The automotive deal market boomed in 2007, with over 600 deals transacted. The global disclosed deal value of \$57.1 billion was the highest total since the M&A boom of the late 1990s. This edition explores the automotive transactions that closed during this remarkable period and the implications of these trends on future deals. We enjoyed compiling this issue as it reminded us how significant some of the "mega-deals" truly were and how fortunate we are to have served our clients during such an exciting era.

Much has changed in the M&A space since the deals that drove the 2007 boom. The inexpensive and widely available credit that fueled deal activity no longer appears readily accessible. Companies in markets such as China and India are outgrowing their emerging market status and are becoming key global players. The US dollar, which once seemed irreversibly strong, has declined against other currencies. The convergence of these market realities has generated broad concerns about the continued strength of the deal market.

However, the findings of this paper suggest there are new deal drivers emerging. These drivers include increased deal interest from trade companies, intensified restructuring, and increased cross-border investment. Although these elements suggest continued automotive deal activity, albeit at a lower level of intensity, perhaps the more things change the more they stay the same.

We hope you enjoy reading about this historic phase in automotive M&A and find our insights both interesting and useful. This document is only an introduction to our thoughts on the automotive sector, an industry in which PricewaterhouseCoopers, with its experienced and dedicated automotive transactions team, is a leading participant. Our clients in the automotive and financial communities frequently seek our advice on potential transactions, due diligence, and the strategy underpinning deals. As always, your feedback is extremely valuable to us, and should you have a comment or require further information, please do not hesitate to contact us.

Regards,



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Global M&A overview

Beyond the boom

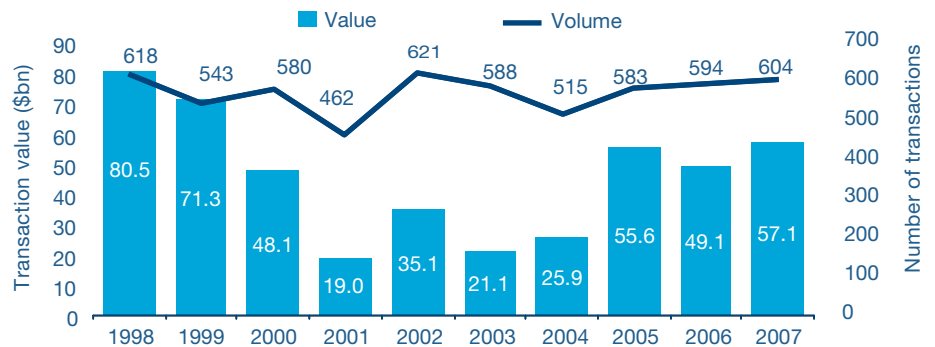
2007 was a banner year for the automotive deal market. It was the biggest year for deals on a value basis since the M&A boom of the late 1990s.

There were 604 automotive deals transacted globally in 2007, with a total disclosed deal value of \$57.1 billion.

The global supplier sector remained the busiest part of the marketplace. Supplier deals made up 44% of total 2007 deal volume and 62% of disclosed deal value.

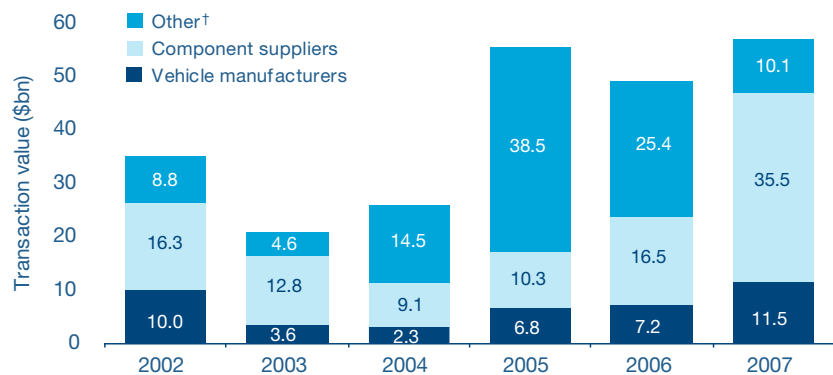
The magnitude of this active market was evidenced by the return of “mega-deals.” These “mega-deals” included Continental’s acquisition of Siemens VDO, Cerberus’s acquisition of Chrysler, and Carlyle and Onyx’s acquisition of Allison Transmission. The return of the “mega-deals” coincided with the return of Vehicle Manufacturer (VM) deals, including the Chrysler deal and Al Dar Asset Management’s purchase of Aston Martin from Ford.

Global automotive M&A activity, 1998–2007



Source: Thomson Financial and other publicly available sources

Global automotive M&A activity, by sector, 2002–2007



† Retail, aftermarket, rental/leasing, and wholesale

Source: Thomson Financial and other publicly available sources

Note: All monetary figures are in US dollars unless otherwise noted.
All transactions presented closed within the specified calendar year.

One driver of this tremendous deal market was the availability of low-cost financing in the first half of 2007. This led to a continued high level of activity by private equity and other financial buyers. Financial buyers completed 140 deals in the automotive sector globally in 2007. Continuing the upward trend of the last few years, financial investors accounted for roughly half of overall disclosed deal value in 2007.

Another deal driver, as witnessed by the high level of supplier deal activity, was continued restructuring of the automotive industry. This restructuring was in response to challenges including competitive intensity, globalisation, raw material price increases, excess capacity, shifting customer preference and regulatory demands. These catalysts combine to highlight the opportunity of M&A to fundamentally transform the automotive industry.

Shifting gear, not shifting into neutral

The credit crunch that hit the market in mid-2007 led to a gear shift in the auto deal market. Leveraged lending suffered from the fallout in the sub-prime mortgage market. Though closed deal volume and value remained strong throughout the year, the number and value of announced deals dropped in Q4 and anecdotal evidence suggests this has continued into 2008.

However, the number of automotive deals has only dipped under 500 once over the last ten years and there are several reasons to expect a continued high number of automotive transactions in 2008, even in the US.

Our expectations:

- Lower deal prices are likely. The global credit crunch is likely to result in lower transaction multiples. This is especially the case in the US, where prices may also be depressed by cyclical market risks.
- Trade buyers attracted by current market conditions. Many trade buyers are increasingly motivated to engage potential deals as they perceive less competition from private equity investors and are drawn by potentially lower prices. In 2008, trade buyers are likely to focus on deals that allow them to grow in new and emerging markets, diversify their customer base, and target bolt-on acquisitions with a sound strategic rationale. Trade buyers' share of deals increased as 2007 progressed and is expected to continue this ascent.

- Private equity remains interested in automotive. While it may have made private equity “mega-deals” less possible, the credit crunch has not resulted in the withdrawal of financial buyers from the marketplace. Private equity firms and other financial buyers still have significant capital that needs to be deployed. Though “mega-deals” are expected to dwindle, many private equity firms remain interested in undervalued, distressed and mid-size automotive acquisitions. We also may see more partnering by corporate and financial buyers.
- Continued automotive sector restructuring provides deal flow. There remains a large amount of restructuring in the supply base, as companies strategically adjust their portfolios to achieve concentration of scale and expertise—as well as exit less competitive pieces of their portfolio.
- Inbound investment is likely to be a major driver of 2008 automotive deals. In particular, the weakening of the US dollar is making domestic assets more attractive. There is significant interest expressed by investors from regions with stronger currencies and capital to invest, including the Middle East, Europe, China and India. Many of these inbound investments are also aimed at securing access to US customers.
- Overall, while it appears the automotive deal market will slow from its torrid 2007 pace, it is likely that in 2008 it will remain fairly active. The automotive deal market is shifting gear, not shifting into neutral.

Vehicle manufacturers—on the road again?

Financial buyers get behind the steering wheel

After two years of elevated deal activity, transaction volume in the VM sector returned to levels more consistent with those earlier in the decade. There were 57 VM deals closed in 2007, which were characterised by an increase in financial buyers and the purchases of larger, controlling stakes in target companies. This compares to 81 and 78 deals in 2006 and 2005 respectively, which largely consisted of the purchase of smaller stakes in passenger vehicle manufacturers and the acquisition of several large

truck manufacturers. Despite this dip in deal volume, 2007 deal value rose to \$11.5 billion from \$7.2 billion in 2006. The increase was largely driven by Cerberus's purchase of Chrysler, which registers as the largest VM deal of this decade to date.

With the exception of MG Rover, the Chrysler deal and Al Dar Asset Management's purchase of Aston Martin represent private equity's first investment into large VMs. Private equity and other financial buyers have long played a major role with component suppliers and ancillary automotive businesses.

However, their increased presence in the VM sector marked a historic turning point in their role within the automotive industry.

There was also moderate activity in the truck sector. Volvo AB, who bought 13% of Nissan Diesel in 2006, raised its stake to exceed 95%. SAIC (Shanghai Automotive Industry Corporation) teamed up with Iveco, Fiat's truck division, to acquire a controlling stake in Chongqing Hongyan, a manufacturer of heavy-duty commercial vehicles.

Global top seven disclosed vehicle manufacturer's M&A transactions, 2007

Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
1	7,400	Chrysler Group	USA	Cerberus Capital	Financial	USA	80
2	1,386	Volkswagen	GER	Porsche	Trade	GER	4
3	1,085	Nissan Diesel Motor	JPN	AB Volvo	Trade	SWE	76
4	847	Aston Martin	GBR	Al Dar Asset Management	Financial	KUW	92
5	470	Severstal Auto	RUS	New Deal Investments	Financial	RUS	100
6	127	Chongqing Hongyan Motor	CHN	SAIC & Iveco	Trade	CHN	67
7	52	Country Coach	USA	Riley Investment	Financial	USA	100

Note: The top seven VM transactions presented above comprise all disclosed VM transactions in 2007 that were valued above \$50m
Source: Thomson Financial and other publicly available sources

The road ahead

Despite the credit market's troubles, there are several developing trends that suggest deal value in the VM sector might avoid a large decline in 2008. The first of these is the ripening of emerging markets. Fueled by growing local markets and appreciating currencies, automotive companies in developing nations may increasingly look to acquire the technology and strong brands of their American and European counterparts. One example of this is Tata's purchase of Jaguar and Land Rover from Ford.

Porsche's pursuit of Volkswagen AG (VW AG) could also contribute

to sector deal value in 2008. 2007 marked the third consecutive year that Porsche continued to increase its stake in VW AG, raising its shareholding from 27% to 31%. The European Court of Justice cleared the way for a 2008 acquisition of a controlling stake when it declared the "Volkswagen Law" illegal. This law had capped VW AG voting rights at 20% regardless of the number of shares held.

Lastly, two recent developments suggest merger activity may accelerate in Europe. The first is VW AG's recent increased stake in Scania AB. This deal could act as a catalyst to the long anticipated merger of Scania AB and MAN as

VW AG (owner of a large stake in both companies) has long been a proponent of this merger. If Porsche continues to increase its stake in VW AG, it may become the head of a new car and truck behemoth. The second development is new CO₂ regulation that will increase manufacturing costs. In an effort to offset CO₂ costs and confront a new titan sized competitor, other European VMs might be forced to merge and validate Rick Wagoner's 2003 prediction, "You cannot have six or seven manufacturers [in Europe], each with 8 to 10 percent of the market and make money."

The cycle

The late 1990s through 2000 were marked by a period of integration. As VMs looked to achieve economies of scale, expand their presence in foreign markets, and acquire new brands. This phase saw numerous mergers including Daimler's acquired interest in Chrysler and Mitsubishi, Ford's creation of its Premium Auto Group (PAG) through acquisitions of Land Rover and Volvo, GM's investment in Fiat and Suzuki, Renault's acquisition of a controlling interest in Nissan and others.

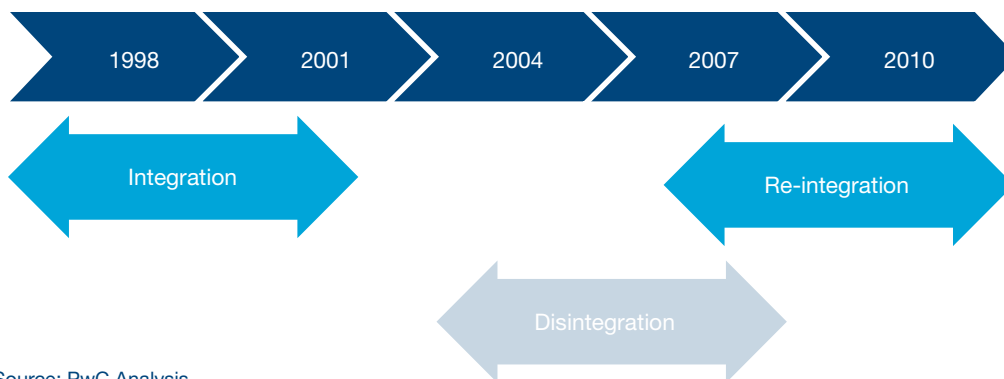
By contrast, the last several years have been characterised by disintegration, where lackluster

returns and unrealised synergies led to the sale of previously acquired assets. For example, this reversal saw Daimler sell its interest in Chrysler and Mitsubishi, Ford dissolve PAG, and GM pay its way out of a put option that would have required it to purchase Fiat. At the time, conventional wisdom thought the 1990s experiment with VM consolidation had been unsuccessful and should not continue.

However, the current VM deal environment is showing signs of another inflection point. A new set of acquisitions suggests a renewed phase of integration may be developing. The new phase

of consolidation is likely to have three primary drivers: 1) "Dis-integrated" pieces finding new homes where synergies may be more achievable; 2) Newly assertive emerging market players going global; and 3) Increased regulatory and development costs motivating VMs to spread costs over more units. Globalisation, increased competition, and insufficient returns still indicate that further consolidation of VMs is necessary and likely inevitable. The lesson of the late 1990s deal busts is no longer that VM consolidation is not sensible. Instead, it demonstrates that successful deals require a realistic strategy.

Vehicle manufacturer deal cycle



Source: PwC Analysis

Components—the sum of the parts
is “sometimes” larger than the whole

Return of the “mega-deals”

Buoyed by a handful of multi-billion dollar “mega-deals,” the component supplier sector remained the busiest part of the automotive deal market in 2007, commanding 62% of total disclosed deal value.

With a total of \$35.6 billion, 2007 deal value nearly tripled the previous six year average of \$12.8 billion. While the buyout boom of the late 1990s saw equally lofty deal values and transaction volumes, 2007 reflected the most supplier deal activity this decade.

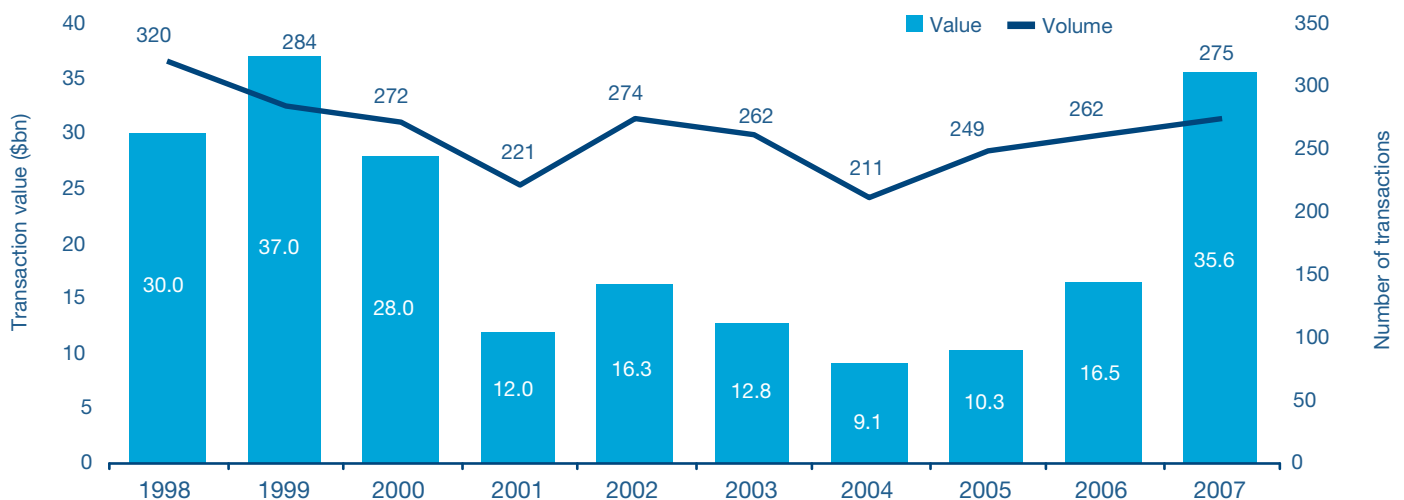
While the total disclosed value of transactions completed in 2007 increased 115% compared with 2006, deal volume only increased by 13 deals, resulting in an average deal size of \$129 million versus \$62 million in 2006. Excluding the \$15.6 billion Siemens VDO/Continental AG merger (one of the largest supplier acquisitions in history), the average deal size in 2007 becomes \$70 million.

The “mega-deals” driving the total sector transaction value in 2007 were the aforementioned

acquisition of Siemens VDO, along with purchases of Allison Transmission, a share of Magna, a division of Goodyear, Metaldyne, Bandag and Tower.

With low-cost financing readily available in the first half of the year, the automotive component sector witnessed record amounts of private equity investment in 2007. Financial buyers accounted for \$9.9 billion of component supplier transactions in 2007, up from \$3.0 and \$4.4 billion in 2005 and 2006, respectively.

Global M&A activity in the automotive component suppliers sector, 1998–2007



Source: Thomson Financial and other publicly available sources

Top deals

Each of the top three supplier deals in 2007 indicates a different trend in the current deal market:

Conglomerates continued to exit automotive sector

Siemens VDO, the automotive division of the German conglomerate, was acquired by Continental AG in a deal that closed in the fourth quarter of 2007 for a record \$15.6 billion. By acquiring the Siemens VDO business, Continental AG became the world's fifth largest automotive components supplier with forecast revenues of €26.4 billion (\$37.8 billion)¹. Continental AG also gained access to advanced technology in the driver information, safety and interior

electronics areas, while Siemens VDO was able to divest a non-core business and invest the proceeds into acquisitions (UGS, Dade Behring) for its other businesses.

VM asset divestiture

Allison Transmission, the commercial and military vehicle transmission manufacturer, was sold by GM to private equity firms Carlyle Group and Onex Corporation for \$5.6 billion. Despite debt market stagnation and underlying recession fears, the acquisition closed in December and enabled GM to gain liquidity to fund its ongoing restructuring and negotiations with the UAW.

Foreign direct investment

Magna International, the Toronto-listed component supplier, sold a minority stake (18%) to Russian Machines, parent of Russian VM GAZ, for \$1.5 billion. The stake allows GAZ access to Magna's technology and engineering, while Magna gains a firmer footing in the high-growth Russian market.

Outside of the top deals, we continued to see strong middle-market activities. These were characterised by deal trends including the sale of non-core divisions or products and "bolt-on" acquisitions. The focus was often on smaller, strategic, targeted deals.

¹ *Automotive News*, February 2008.

Global top ten disclosed component suppliers M&A transactions, 2007

Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
1	15,649	Siemens VDO Automotive	GER	Continental	Trade	GER	100
2	5,575	Allison Transmission	USA	Carlyle & Onex	Financial	USA	100
3	1,537	Magna International	CAN	Russian Machines	Trade	RUS	18
4	1,475	Goodyear, (Engineered Prod.)	USA	Carlyle Group	Financial	USA	100
5	1,189	Metaldyne	USA	Asahi Tec	Trade	JPN	100
6	1,018	Bandag	USA	Bridgestone/Firestone	Trade	USA	100
7	1,000	Tower Automotive	USA	Cerberus Capital	Financial	USA	100
8	560	Teleflex, (Automotive Business)	USA	Kongsberg Automotive	Trade	NOR	100
9	485	TK Aluminum (Select Ops)	ITA	Nemak	Trade	MEX	100
10	363	Koninklijke Nedschroef Holding	NED	Gilde, Parcom Ventures	Financial	NED	100

Source: Thomson Financial and other publicly available sources

Macro trends to drive supplier deal-making

The supply sector faces market headwinds that may make it more difficult to maintain the recent deal momentum:

- In the near term, turmoil in the credit markets may prevent financial buyers, as well as some trade acquirers, from executing “mega-deals” in the components space.
- Risk of a cyclical downturn in key markets may dampen supplier deal enthusiasm. However, some buyers are concerned with deal timing, as it is easier to create value when buying occurs at a market bottom. Second, some suppliers are responding to the global credit crisis by focusing on business fundamentals—execution, survival, and organic growth—rather than embracing the risk of large, complex transactions.

That said, there are a number of positive indicators that point to sustained supplier deal market strength:

- Increasing regulatory standards—CO₂/fuel economy, harmful emissions, and safety—combined with ongoing oil price increases and volatility, these changes are creating opportunities in

the marketplace. Suppliers with advanced technologies to help meet new regulations may become attractive acquisition candidates.

- Distressed investment opportunities in the automotive sector are likely to increase in 2008, providing deal flow. This is particularly true in North America given its current vehicle market weakness.
- Following several large scale supplier transactions in 2007, individual business division or segment spin-offs from these newly formed conglomerates will produce deal flow. For example, Continental AG has already announced initiatives in this direction.
- Private equity funds and other financial buyers continue to have capital in need of deployment. The timing of this investment, however, is linked to credit market recovery and US economic resilience.
- Emerging markets are continuing to attract intense deal interest as global suppliers better position themselves in these key growth markets. The trend should accelerate again in 2008 as valuations may be more amenable to getting deals done.
- In addition, emerging markets are moving to a new stage. Supplier acquisitions are shifting aim from winning with traditional developed country VMs, to also winning business with Chinese and Indian VMs. In turn, emerging market companies are looking for developed market acquisitions to secure access to customers and technologies.
- Macroeconomic trends, particularly the depreciation of the US dollar, are making US supplier assets attractive to overseas investors.
- The future for most auto suppliers is clear—greater concentration of both scale and expertise. As companies move to that model, it creates deal flow both through the sale of non-core businesses and strategic, “bolt-on” acquisitions to strengthen the core.

Retail, aftermarket, rental/leasing
and wholesale

These four sectors observed an approximate 8% increase in deal activity in 2007, although overall deal value dropped approximately 60% to \$10.1 billion. Private equity funds remained the predominant driving force, leading over 80% of \$1+ billion deals in these sectors over the last four years. However, 2007 was devoid of any “mega-deals” such as the \$14 billion GMAC deal in 2006 or the \$15 billion Hertz deal in 2005.

In 2007, six of the top ten deals (by value) in these sectors were led by private equity. The largest transaction was KAR Holdings’ acquisition of ADESA for \$2.6 billion, bolstered the company’s North American salvage auction

portfolio by adding ADESA’s used car auction capabilities. The second largest private equity deal of the period was CVC Capital Partners’ acquisition of Fraikin for \$1.78 billion from Eurazeo, adding the freight vehicle leasing company to an already diverse portfolio that includes the British motoring organization, the AA.

In the UK dealership sector, consolidation continues with both Inchcape and Lookers making strategic acquisitions. The largest trade deal by value closed during 2007 was Europcar’s acquisition of Vanguard EMEA, which strengthened Europcar’s position as Europe’s largest car rental company. The deal included a

ten-year partnership with Vanguard US, giving Europcar (and parent company Eurazeo) access to the lucrative North American market, enabling them to offer clients a worldwide network.

Persistently strong deal volume—above 250 per annum over the last three years—creates an encouragingly healthy outlook for these sectors going forward. Though the private equity “mega-deals” of the past may be prevented in the near-term by a limited availability of large-scale financing, there is little reason to believe that total deal activity, which is driven in these sectors by middle-market trade acquirers, should decrease significantly.

Global top ten disclosed retail, aftermarket, rental/leasing and wholesale M&A transactions, 2007

Rank	Value (\$m)	Target	Target nation	Buyer	Buyer type	Buyer nation	% Acquired
1	2,556	ADESA	USA	KAR Holdings II	Financial	USA	100
2	1,783	Fraikin	FRA	CVC Capital Partners	Financial	GBR	100
3	858	Vanguard EMEA	GBR	Europcar International	Trade	FRA	100
4	807	Keystone Automotive Inds	USA	LKQ	Trade	USA	100
5	617	Feu Vert	FRA	CDC Capital	Financial	FRA	66
6	516	European Motor Holdings	GBR	Inchcape	Trade	GBR	100
7	336	Repco Corp	AUS	CCMP Capital Asia	Financial	HKG	100
8	293	Avis Greece	GRE	Bank of Piraeus	Financial	GRE	100
9	200	TruckPro	USA	Code Hennessy & Simmons	Financial	USA	100
10	109	Dutton-Forshaw Motor Co.	GBR	Lookers	Trade	GBR	100

Source: Thomson Financial and other publicly available sources

Regional analysis

Over the past six years, the regional split of disclosed deal value has fluctuated considerably, though the US and Europe have consistently maintained the largest shares. The two regions combined for 88% of global deal value in 2007, due in part to continued restructuring of supply chains in both geographies as well as several high profile “mega-deals.”

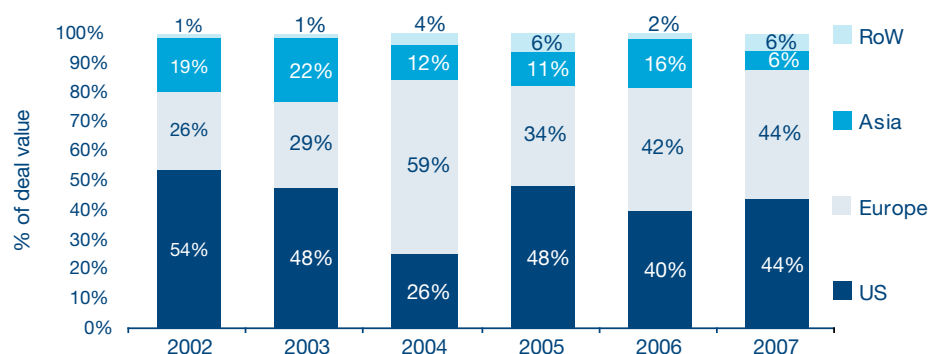
“Rest of World” (RoW) share of disclosed value increased slightly. However, the share of deal value attributable to Asia fell to 6% in 2007, the lowest level in the last six years. This phenomenon is probably best regarded as a pause, not a trend, as interest in opportunities in Asia remains strong from multinationals and there are long-term drivers for consolidation among local players.

US: Seven deals over \$1 billion

US automotive M&A activity in 2007 was notable for “mega-deals”; seven of the top ten deals were \$1 billion or greater in value. 2007 saw private equity take a large role in US automotive M&A. Private equity buyers accounted for 82% of the value of the top ten deals in 2007.

Automotive companies continued divesting under performing and non-core operations. The most significant of these were

Global disclosed automotive deal value by target region, 2002–2007



Source: Thomson Financial and other publicly available sources

US top ten disclosed automotive M&A transactions, 2007

Rank	Value (\$m)	Target	Buyer	Buyer type	% Acquired
1	7,400	Chrysler	Cerberus Capital	Financial	80
2	5,575	Allison Transmission	Carlyle & Onex	Financial	100
3	2,556	ADESA	KAR Holdings	Financial	100
4	1,475	Goodyear Engineered Pro Bus	Carlyle	Financial	100
5	1,189	Metaldyne	Asahi Tec	Trade	100
6	1,018	Bandag	Bridgestone/Firestone	Trade	100
7	1,000	Tower Automotive	Cerberus Capital	Financial	100
8	807	Keystone	LKQ	Trade	100
9	560	Teleflex (Global)	Kongsberg	Trade	100
10	334	Safelite	Belron	Trade	100

Source: Thomson Financial and other publicly available sources

DaimlerChrysler’s sale of the Chrysler division and GM’s sale of Allison Transmission.

As a result of a housing slowdown and credit “crisis,” a limited number

of “mega-deals” are expected to occur in 2008; however, middle market activity continues to be strong. In addition, the weakening of the dollar is making US assets more attractive to foreign buyers.

Europe: A “mega-deal” pushes Europe into global lead

Largely due to one “mega-deal,” trade buyers dominated the 2007 European auto M&A market in terms of deal value, while the remaining transactions were significantly smaller. The keynote transaction was Continental AG’s purchase of Siemens VDO, which transformed Continental into one of the world’s largest automotive components suppliers.

Outside of the Continental “mega-deal,” the transactions were evenly split between trade and financial buyers in terms of value, \$3,606 million versus \$3,610 million, respectively. Car and truck rental businesses (Fraikin, Vanguard) were attractive targets in 2007 for both trade and financial buyers.

In the VM segment, Porsche further increased its stake in Volkswagen, and Aston Martin was purchased by a financial buyer.

The European Automotive M&A market is expected to be quite strong in 2008. The disclosed deal value already announced in Q1

2008 exceeds \$20 billion, with several noteworthy deals expected to close in mid 2008. These include the sale of Jaguar and Land Rover by Ford to Tata Motors, Porsche elevating its stake in VW to 51% and VW assuming control of Scania, as well as MAN, in which VW already holds a 30% stake.

European top ten disclosed automotive M&A transactions, 2007

Rank	Value (\$m)	Target	Buyer	Buyer Type	% Acquired
1	15,649	Siemens VDO	Continental	Trade	100
2	1,783	Franklin	CVC Capital	Financial	100
3	1,386	Volkswagen	Porsche	Trade	4
4	858	Vanguard EMEA	Europcar	Trade	100
5	847	Aston Martin	Al Dar Asset Mgmt	Financial	92
6	617	Feu Vert	CDC Capital	Financial	66
7	516	European Motor	Inchcape	Trade	100
8	485	TK Aluminum (Select Ops)	Nemak	Trade	100
9	363	Koninklijke Nedschroef	Glide/Parcom	Financial	100
10	361	Valeo Connective Systems	Leoni	Trade	100

Source: Thomson Financial and other publicly available sources

Asia: Calm before the storm?

The Asian automotive M&A market was dominated by trade buyers during 2007. These deals included global expansion, technology, and low cost market plays. Among the top three deals in 2007 were Volvo's acquisition of a controlling stake in Nissan Diesel, Bosch's acquisition of Australia-based brakes manufacturer Pacifica Group, and CCMP Capital Asia's acquisition of Australia-based aftermarket reseller and supplier Repco.

Moreover, large deals involving passenger vehicle manufacturers have subsided as players are evaluating opportunities outside the Asian region (e.g., Tata Motors' bid for Land Rover and Jaguar) in order to enhance their global footprint and increase value through technology transfer.

Also, there is growing interest in the commercial vehicle (CV) market, with several global vehicle manufacturers exploring potential acquisitions of CV units.

For example, in 2007, Iveco and SAIC acquired a controlling position in heavy-duty CV manufacturer, Chongqing Hongyan.

Additionally, consolidation among fragmented vehicle manufacturers is expected to continue with numerous smaller transactions expected in 2008.

Asian top ten disclosed automotive M&A transactions, 2007

Rank	Value US (\$m)	Target	Buyer	Buyer type	% Acquired
1	1,085	Nissan Diesel	Volvo AB	Trade	76
2	353	Pacifica Group	Robert Bosch	Trade	75
3	336	Repco Corp	CCMP Capital Asia	Financial	100
4	332	Motor Industries	Robert Bosch	Trade	9
5	127	Chongqing Hongyan	SAIC & Iveco	Trade	67
6	117	Xanavi Informatics	Clarion	Trade	100
7	106	Rhythm	THK	Trade	100
8	98	Ceramic Sensor	NGK Spark Plug	Trade	50
9	95	EJ Zupps	Automotive Holdings	Trade	100
10	72	Toyota L&F Chubu	Aichi Toyota Motor	Trade	77

Source: Thomson Financial and other publicly available sources

Cross-border activity/deal flow

Shift into reverse

US automotive deal flow swung from a \$0.9 billion surplus in 2006 to a \$1.8 billion deficit in 2007. This was largely driven by a dramatic increase in Asian investment in the US (\$0.5 billion in 2006 to \$1.3 billion in 2007) and large decreases in US investments in Asia (\$1.3 billion in 2006, \$0.2 billion in 2007) and Europe (\$1.6 billion in 2006, \$0.6 billion in 2007). Across the Atlantic, Europe's automotive deal trade balance flipped from a large \$5.8 billion deficit in 2006 to a \$1.4 billion surplus in 2007. This dramatic shift was driven by a decrease in investment from Asia. However, this is a bit deceptive as the large Asian investment in Europe in 2006 was due to only a few deals.

Laying the BRICs

Drivers of future cross-border automotive deals will likely include the arrival of new global players, emerging market growth, and currency fluctuations.

In many cases, automotive companies in emerging nations are quickly becoming global players looking for increased access to global customers, markets, and technology. Examples in recent deals include India's Tata and Mahindra & Mahindra, China's Chery and

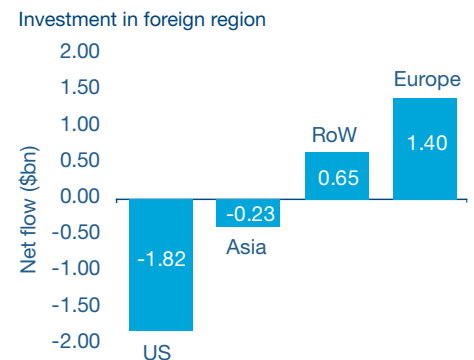
SAIC, and Russia's Russian Machines. This trend is likely to feed cross-border deal flow over the next several years.

In turn, companies from developed nations seeking to gain further access to the quickly growing markets in the BRIC countries are also likely to be a factor in future cross-border deal activity. This could be especially true of component suppliers who are seeking proximity to local VMs. There were early signs of this in 2007 including Cummins' purchase of the remaining shares of Tata Holset (a joint venture founded to produce diesel engines in India) and Bosch's increased investment in Motor Industries, an Indian-based component supplier.

Finally, the weakening of the US dollar versus global currencies in 2008 vs. 2007 is likely to

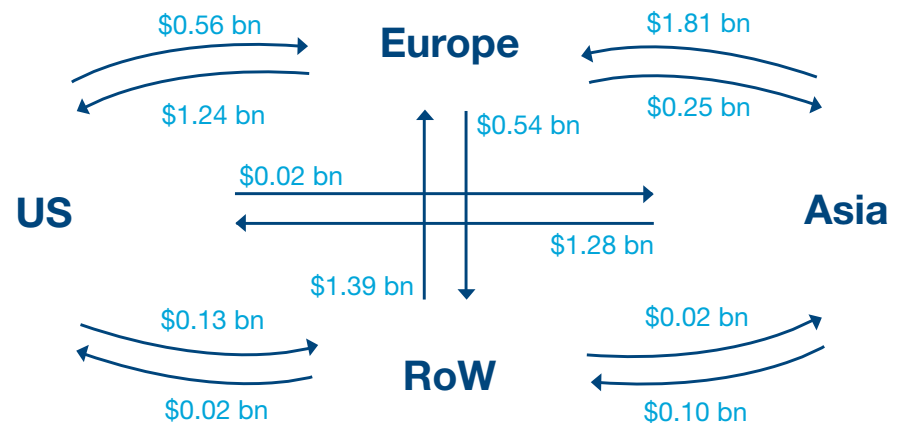
encourage bargain hunting in the US. This trend is already materialising in early 2008 as interest in US automotive assets increases. Overall, the currency situation could lead to a significantly larger net deal deficit for the US in 2008 vs. 2007, including large net deal surpluses from Asia, RoW, and potentially Europe.

Net deal flow by region, 2007



Investment in foreign region

Source: Thomson Financial and other publicly available sources



Source: Thomson Financial and other publicly available sources

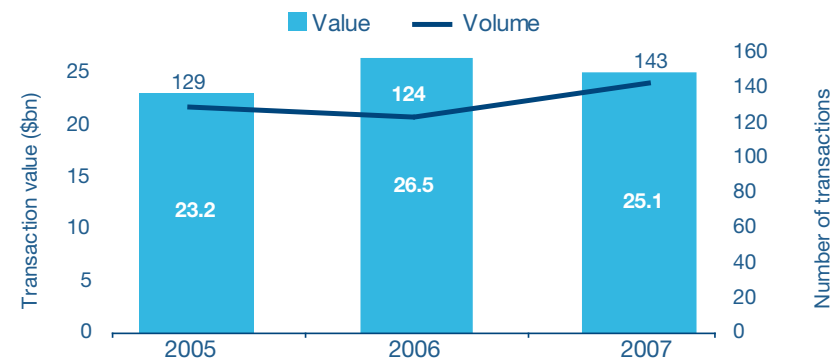
Private equity/financial buyers downshift

Financial buyers: Share of deal value peaking?

In 2007, financial buyers completed 143 automotive deals with a total disclosed deal value of \$25.1 billion. Compared with 2006, this represents a 15% increase in deal volume and a 5% decrease in deal value. In 2007, financial buyers accounted for 24% of automotive deal volume and 44% of disclosed deal value, suggesting that financial buyers engaged in larger deals than corporate buyers. The largest private equity deal of the year was Cerberus’s \$7.4 billion acquisition of Chrysler.

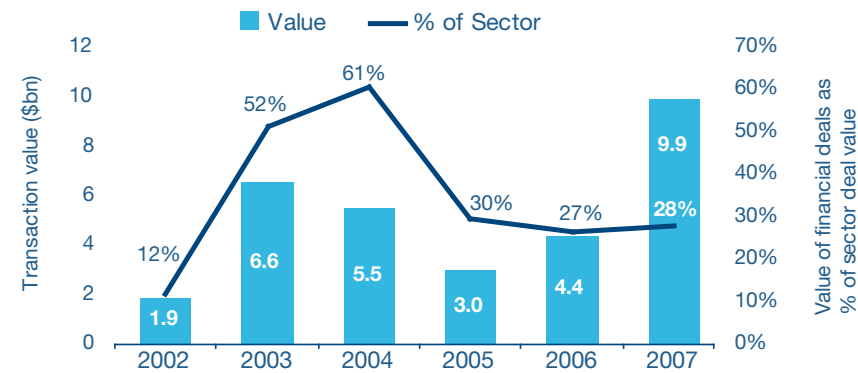
The past year witnessed financial buyers’ increasing interest in the VM sector. Financial buyer-backed VM deals as a percentage of total VM deal volume increased from 19% in 2006 to 30%. Likewise, the percentage of disclosed deal value increased from 7% in 2006 to 73%. Financial buyer investments as a percentage of total deal volume and value remained flat in the

Global automotive M&A activity from financial buyers, 2005–2007



Source: Thomson Financial and other publicly available sources

Financial buyer transactions in the component suppliers sector, 2002–2007



Source: Thomson Financial and other publicly available sources

Private equity/financial buyers down shift

component supplier and retail, aftermarket, rental/leasing, and wholesale sectors. However, total component supplier deal value more than doubled as did the value of component deals made by financial buyers. As was observed in the past three years, financial buyers continued to represent roughly one quarter of supplier deal volume and value. Notably absent in other deal categories in 2007 were blockbuster transactions like Cerberus's \$14.4 billion takeover of GMAC in 2006.

Restructuring, low valuations, and low-cost financing breed opportunity

Several factors contributed to financial buyers' strong interest in the automotive market. First, was ongoing restructuring, which is driven by elevated raw material cost, excess capacity, and increased regulatory demands. Financial buyers served as a source of capital and a catalyst to reshuffle the industry to help companies adjust to these new dynamics.

Second, lower deal multiples for many automotive companies and the presence of distressed opportunities continued to attract financial buyers looking to deploy capital.

Finally, as in other industries, the availability of low cost financing in the first half of 2007 helped drive active automotive market investment.

However, the US financial crisis (dating back to July 2007) has presented two main challenges to financial buyers interested in the automotive industry. First, a tighter credit market has impaired access to capital that is required by both restructuring automotive companies and financial buyers seeking leveraged deals. Financial buyers are clearly limited in their ability to complete, in the near-term, the highly leveraged "mega-deals" that have characterised the sector. Second, the risk of economic recession in the world's largest automotive market, the US, may decrease financial buyers' willingness and ability to complete transactions—or at least encourage them to wait for a market bottom to maximise their returns.

Global top ten disclosed automotive M&A transactions by financial buyers, 2007

Rank	Value (\$m)	Target	Buyer	Target type	% Acquired
1	7,400	Chrysler	Cerberus	VM	80
2	5,575	Allison Transmission	Carlyle & Onex	COMP	100
3	2,556	ADESA Inc	KAR Holdings	OTH	100
4	1,783	Fraikin	CVC Capital	OTH	100
5	1,475	Goodyear Engineered Pro Bus	Carlyle	COMP	100
6	1,000	Tower Automotive	Cerberus	COMP	100
7	847	Aston Martin	Al Dar Asset Mgmt	VM	92
8	617	Feu Vert	CDC Capital	OTH	66
9	470	Severstal Auto	New Deal Investments	VM	100
10	363	Koninklijke Nedsschroef	Glide	COMP	100

Note: VM=Vehicle Manufacturers, COMP=Component Suppliers, OTH=Retail, Aftermarket, Rental/Leasing, and Wholesale

Source: Thomson Financial and other publicly available sources

A surprisingly positive deal environment ahead...

Despite a host of challenges, the interest of financial buyers in the automotive sector remains surprisingly high in 2008. Several factors are attracting financial buyers and keeping them active in the sector:

1. Market weakness, continued restructuring, and global competition may prompt another consolidation wave and create abundant deal flow.

2. Relatively cheap assets, poor stock market performance and a tighter credit market will likely result in lower deal multiples in 2008.

3. Cyclical market timing arbitrage: fundamentally, the automotive industry is cyclical as is the market valuation of automotive companies. The potential for a cyclical downturn, particularly in the US, is therefore attracting investors' attention.

4. The weakening of the US dollar continues to make US assets attractive and will likely attract inbound investments. As previously noted, more automotive companies in high growth markets such as India and China are looking for assets and it is possible for them to club with financial buyers to complete transactions.

Overall, as structural shifts and financial instability drive consolidation among global automotive companies, financial buyers will continue to be a catalyst in sector restructuring.

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