

# Automotive Update

Deloitte Corporate Finance LLC



## Investment Banking Advisory Services

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- Capital Raising
- Corporate Development Advisory
- Fairness Opinion

## Transaction Highlight



**Dukes, Inc.**

and

**GST Industries, Inc.**

have sold substantially all of their  
assets to

**Transdigm Group Inc.**



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The undersigned acted as exclusive financial  
advisor to Dukes, Inc. and GST Industries, Inc.

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**Deloitte.**

**Deloitte Corporate Finance LLC**

Deloitte Corporate Finance LLC (DCF) is pleased to announce its role as exclusive financial advisor to Dukes, Inc. and GST Industries, Inc. (collectively, Dukes) in their sale of substantially all of their assets to Transdigm Group Incorporated (NYSE: TDG, Transdigm) for approximately \$96 million in cash, plus the possibility of future payments up to a total of \$60 million over four years based on the achievement of certain growth targets.

The DCF team assisted Dukes in the execution of the transaction from the initial development of marketing materials and value expectations in a challenging macroeconomic environment to the identification of potentially interested parties, the organization of the due diligence process and advising on deal negotiations. This transaction further highlights DCF's experience in and focus on the Aerospace and Defense industry.

### **About Dukes and Transdigm**

Dukes, Inc. is headquartered in Northridge, CA, and GST Industries, Inc. is located in Mesa, AZ. Both companies are suppliers of proprietary, highly engineered components primarily to the business jet, regional jet, and military aerospace markets, along with commercial and military helicopter markets. For over fifty years, Dukes has primarily designed and manufactured highly engineered valves, while also producing certain pumps, solenoids and related components. The majority of Dukes' revenues are business-jet related with significant content on the Cessna family of jets and Hawker Beechcraft Premier and 400XP, as well as Bombardier business and regional jets, Bell 206/407/412/429 and military platforms such as the F-16, F-18, C-130, T-50, and AH-1Z/UH-1Y. Major customers include Cessna, Honeywell, Bombardier, Hawker Beechcraft, Lockheed Martin and Bell. The Company had annual revenues for fiscal year 2009 of approximately \$36 million.

W. Nicholas Howley, Chairman and CEO of TransDigm stated, "The Dukes business is well known and respected in the aerospace industry. The addition of Dukes to the TransDigm portfolio of companies allows us to continue to expand our existing valve products with offerings across a fuller range of aerospace applications. While 2010 may well be a difficult year for the business jet market, we see significant long-term value creation opportunities in the Dukes business. The proprietary nature of these products along with aftermarket content fit well with our overall business strategy."

TransDigm, through its wholly-owned subsidiaries, is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electromechanical actuators and controls, ignition systems and components, gear pumps, specialized valves, engineered connectors, power conditioning devices, specialized fluorescent lighting, specialized AC/DC electric motors, aircraft audio systems, engineered latches and cockpit security devices, lavatory hardware and components, hold open rods and locking devices, specialized cockpit displays, elastomers, NiCad batteries/chargers, and starter generators and related components.

## Additional Recent Transactions



**Chesapeake Corporation**

has sold its South African and Mauritian  
subsidiaries to



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The undersigned acted as financial advisor to  
Chesapeake Corporation

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**Deloitte.**

**Deloitte Corporate Finance LLC**



**MotorVac Technologies, Inc.**

has been acquired by

**UView Ultraviolet  
Systems, Inc.**

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The undersigned acted as exclusive financial advisor to  
MotorVac Technologies, Inc.

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**Deloitte.**

**Deloitte Corporate Finance LLC**



**Appleton Papers, Inc.**

has sold C&H Packaging to



**INTERFLEX GROUP**

A portfolio company of  
Red Diamond Capital

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The undersigned acted as exclusive financial  
advisor to Appleton Papers, Inc.

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**Deloitte.**

**Deloitte Corporate Finance LLC**

# Industry Trends

## Automotive Industry Trends

While virtually all market sectors were impacted in 2009 by the global credit crisis, it can be argued that the automotive sector suffered some of the biggest losses. Lack of available consumer credit, compounded by the suspension of traditional automotive lease programs and the continual deterioration of consumer confidence, dramatically reduced North America's 2009 automotive sales volumes. North American auto sales dropped over 35% to 10.4 million vehicles in 2009, as compared to 2008 sales volumes of over 16 million vehicles. For domestic OEMs and suppliers already facing operational inefficiencies, inflexible cost structures and intense competition, the rapid decline in sales volumes ultimately proved crippling. Although the government-supported bankruptcies of GM and Chrysler remained the focal point of the automotive crisis, 60 suppliers filed for bankruptcy protection in 2009, while approximately 200 more simply shuttered operations and went out of business, according to the Original Equipment Suppliers Association. Additionally, many suppliers that were able to avoid bankruptcy or liquidation were forced to convert working capital into cash to sustain operations during the downturn. The implications of this fallout have resulted in an ongoing and necessary industry restructuring, which will likely continue well into 2010.

### More rationalization to come

While many large suppliers continue to work through the bankruptcy process or have completed restructuring efforts, numerous others will continue to face difficulty in 2010. With ongoing liquidity concerns and limited access to new capital, those suppliers that survived 2009 will need to be able to sustain operations and fund their working capital ramp-up as production resumes. According to *J.D. Power and Associates*, 2010 North American sales volumes are forecast to be approximately 11.5 million units, representing a 10.6% increase over 2009. Despite forecasted increase in vehicle sales and the recent downsizing of the supply base, excess industry capacity remains. As OEMs look to become more efficient and continue to streamline operations, an efficient supply base and leaner dealer network have become areas of focus. As a result, suppliers and dealers alike will likely continue to experience pressure from OEMs, who will likely require expanded product offerings and service requirements as consumer demand rises and production ramps-up.

Due to the ongoing rationalization and the expected stabilization of vehicle sales and production volumes, M&A activity is expected to increase in 2010, when compared to 2009. However, with deteriorated asset bases, limited access to conventional capital and private equity on the sidelines, untraditional financing and non-cash deals will likely become more prevalent. Mezzanine funding, debt-to-equity swaps and OEM-backed bridge loans will be utilized to support struggling, but critical suppliers' operations until a long-term solution can be implemented. OEMs will continue to influence deals between these suppliers in order to insure consistent production and establish a more stable supplier base. Furthermore, it will be interesting to observe how traditional debt holders that have converted to equity positions, oftentimes under pressure, will impact the deal flow. Although 2010 shows promise of being a better year than the extreme turmoil experienced in 2009, ongoing supplier restructurings, excess production capacity and limited available capital continue to weigh on the sector, extending an ultimate industry-wide recovery.

## General Economic Trends

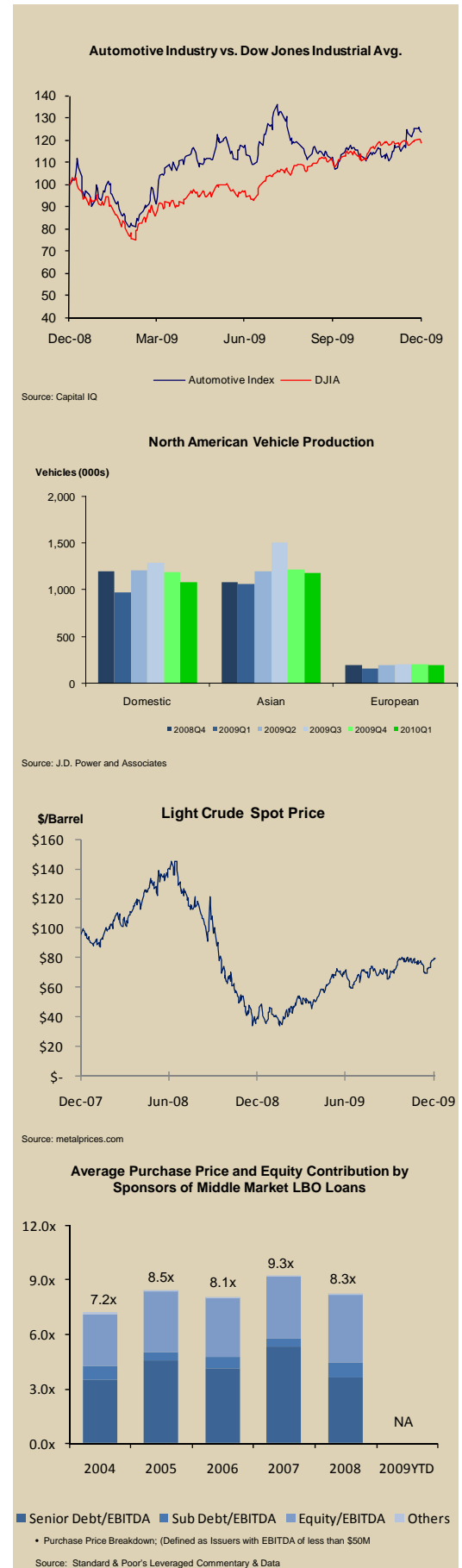
The fourth quarter of 2009, despite chilly temperatures across much of the United States, closed with slight warm ups in various economic indicators. After 13 months of falling inventories, businesses showed signs of possible restocking with gains in inventories in October and November. If that positive trend holds, it could spur production increases elsewhere in the economy. On the consumer side, small gains were seen in U.S. retail spending during the holiday season. Employment figures improved relatively in the fourth quarter, as job losses slowed, but weakness persists in the labor market with the unemployment rate at 10%. Less optimistically, on Jan. 14 the Federal Reserve's Beige Book published an overall assessment of continued weakening of economic activity across the country.

This economic climate continues to affect the M&A atmosphere, which is still trying to thaw out: From Q3 to Q4, the total value of M&A in the U.S. more than doubled, to \$205 billion, while the number of transactions increased only 3%, reflecting the appetite and ability to execute larger transactions in the fourth quarter.

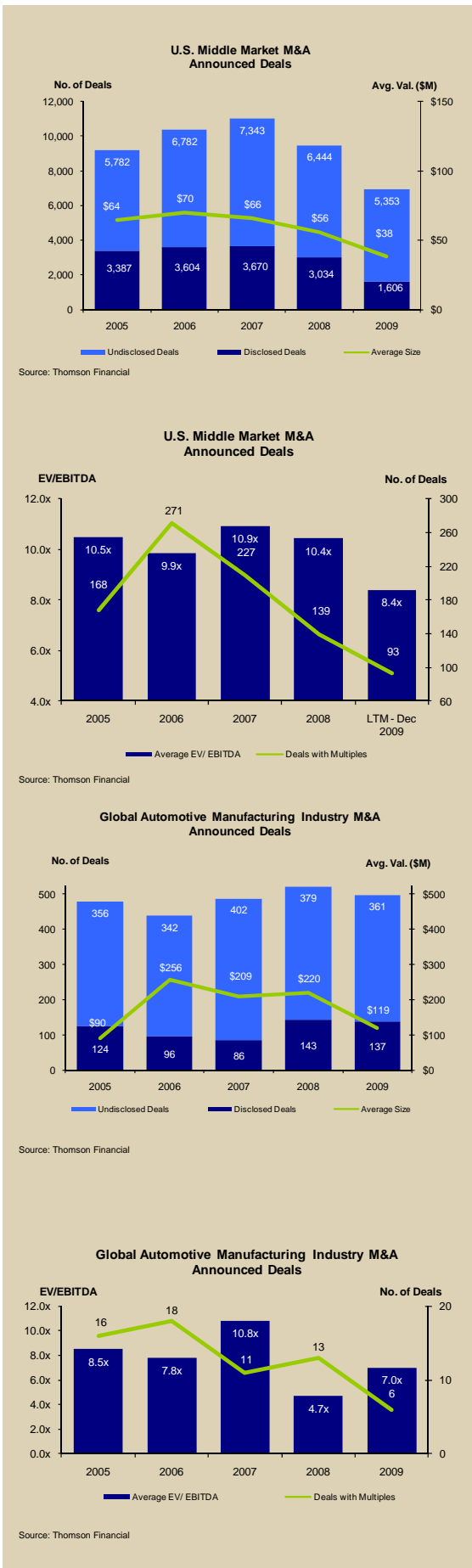
Financial buyers have not yet returned to their previous, pre-recession place at the deal table, with private equity responsible for about 6.5% of announced deal values globally and in the U.S. in 2009. That compares to about 9.5% of the value in 2008. Limited leverage opportunities for financial buyers will likely continue to favor strategic buyers in general.

For Deloitte's monthly economic update, click here: [Economic Update - December 2009](#).

For a Deloitte economist's perspective on Chinese consumption, please read: ["China's consumer market: What's next?"](#).



# Highlighted Transactions



## Deals Announced

- December 16, 2009 – **Metalsa SA de CV** of Mexico, a unit of **Grupo Proeza**, agreed to acquire the structural products business of **Dana Holding Corp**, a Toledo-based manufacturer of motor vehicle parts, for USD 150 mil.
- December 11, 2009 – **Patriarch Partners LLC** agreed to acquire an undisclosed majority interest in **Dura Automotive Systems Inc**, a Rochester Hills-based manufacturer of automotive shifter systems, for an estimated USD 125 mil.
- December 4, 2009 – **General Motors of Canada Ltd** planned to acquire the remaining 50% interest, which it did not already own, in **CAMI Automotive Inc**, an Ingersoll-based manufacturer of motor vehicles and parts, from its joint venture partner **Suzuki Motor Corp of Japan**.
- November 20, 2009 – **Volkswagen AG** agreed to acquire **Wilhelm Karmann GmbH**, an Osnabrueck-based manufacturer of cars.
- November 19, 2009 – **Spartan Motors Inc** acquired **Utilimaster Corp**, a Wakarusa-based manufacturer of walk-in van and truck bodies, for an estimated USD 57 mil.
- November 17, 2009 – **Autoliv Inc**, of Sweden agreed to acquire the North American passive safety assets of **Delphi Automotive LLP**, a Michigan-based manufacturer of automotive parts. Terms were not disclosed.
- November 13, 2009 – Bankrupt **Mark IV Industries Inc**, an Amherst-based manufacturer of automotive components and a unit of **Sun Capital Partners Inc**, completed its debt restructuring with creditors.
- November 11, 2009 – **Subaru Europe NV** of Belgium, a unit of **Fuji Heavy Industries Ltd**, planned to acquire a 70% stake, which it did not already own, in **Subaru Italia SpA**, a Ala-based manufacturer of motor vehicles, from **Mitsui & Co Ltd**.
- November 9, 2009 – **Lear Corp** completed a debt restructuring process in which prepetition senior secured lenders received USD 600 mil of new debt, USD 500 mil of convertible preferred, and 26% of the new common stock. Unsecured creditors received 46% of the new equity and warrants.
- November 2, 2009 – **Faurecia SA (Faurecia)** of France planned to acquire the entire share capital of **EMCON Technologies**, a Troy-based manufacturer of vehicle parts, from **One Equity Partners**, in exchange for 20.9 mil **Faurecia** new ordinary shares valued at USD 407.813 mil.
- October 25, 2009 – **Fisker Automotive Inc**, a joint venture between **Quantum Fuel Systems Technologies Worldwide Inc** and **Fisker Coachbuild LLC**, planned to acquire the assembly plant, located in Wilmington, Delaware, of **Motors Liquidation Co**, a Detroit-based manufacturer of motor vehicles.
- October 9, 2009 – **BeijingWest Industries Co** of China planned to acquire the damper facilities of **Delphi Corporation**, a Troy-based manufacturer and wholesaler of automobile components.
- October 8, 2009 – Bankrupt **Accuride Corp (Accuride)**, an Evansville-based manufacturer and wholesaler of commercial vehicle components, agreed to a debt restructuring with **Bondholders**. Upon completion, **Bondholders** was to hold a 98% interest in the restructured **Accuride**.
- October 6, 2009 – **Delphi Corporation (Delphi)** ended four years in bankruptcy court, emerging as a private company. **Delphi** divested several businesses and agreed to sell its steering systems operations and four plants back to **General Motors** in its reorganization. The emergence was done through a sale of most assets to **Delphi Holdings**, an entity led by senior creditors **Elliott Management** and **Silver Point Capital**. The group acquiring the now much smaller **Delphi** will forgive nearly \$3.5 billion of bankruptcy loans and will invest \$900 million in capital.

Source: Thomson Financial

# Market Snapshot

\$U.S. in millions

	Reported	Market	Enterprise	Enterprise Value to:		EBITDA	Reported	Stock Performance	
	Date	Cap	Value	Sales	EBITDA	Margin	P/E	Quarter	LTM
<b>Auto Manufacturers</b>									
Daimler AG	09/30/09	\$54,640	\$67,101	0.6x	N.M.	1.8%	N.M.	6.1%	43.0%
Ford Motor Co.	09/30/09	\$33,071	\$44,169	0.4x	N.M.	1.6%	N.M.	38.7%	336.7%
Honda Motor Co., Ltd.	09/30/09	\$60,627	\$99,950	1.1x	N.M.	7.4%	N.M.	8.1%	58.9%
Nissan Motor Co. Ltd.	09/30/09	\$35,445	\$61,033	0.9x	N.M.	7.1%	N.M.	28.3%	146.5%
Toyota Motor Corp.	09/30/09	\$130,716	\$227,384	1.3x	N.M.	1.7%	N.M.	4.5%	30.1%
Volkswagen AG	09/30/09	\$43,927	\$36,609	0.3x	5.6x	4.8%	17.7x	(33.5%)	(68.6%)

**Average Auto Manufacturers**

0.8x 5.6x 4.1% 17.7x 8.7% 91.1%

**Component Suppliers**

American Axle & Manufacturing Holdings Inc.	09/30/09	\$558	\$2,036	1.3x	N.M.	0.7%	N.M.	13.3%	177.5%
ArvinMeritor Inc.	09/30/09	\$830	\$2,624	0.6x	N.M.	2.3%	N.M.	43.0%	292.3%
AutoIiv, Inc.	09/30/09	\$3,690	\$4,678	1.0x	N.M.	8.4%	N.M.	29.0%	102.1%
BorgWarner Inc.	09/30/09	\$3,878	\$4,831	1.3x	N.M.	6.5%	N.M.	9.8%	52.6%
Bridgestone Corp.	09/30/09	\$13,700	\$20,676	0.7x	9.0x	7.9%	N.M.	(3.0%)	19.3%
Continental AG	09/30/09	\$8,877	\$23,364	0.8x	7.2x	11.3%	N.M.	(2.7%)	31.8%
Cooper Tire & Rubber Co.	09/30/09	\$1,213	\$1,710	0.6x	8.1x	8.0%	N.M.	14.1%	225.5%
Denso Corp.	09/30/09	\$24,068	\$22,274	0.8x	N.M.	4.5%	N.M.	1.2%	84.2%
Eaton Corporation	09/30/09	\$10,548	\$15,162	1.2x	N.M.	9.1%	31.6x	12.4%	28.0%
Federal-Mogul Corp.	09/30/09	\$1,720	\$3,335	0.6x	N.M.	6.1%	N.M.	43.3%	N/A
GenTex Corp.	09/30/09	\$2,460	\$2,110	4.3x	N.M.	20.1%	N.M.	26.1%	102.2%
Goodyear Tire & Rubber Co.	09/30/09	\$3,414	\$8,773	0.5x	N.M.	3.5%	N.M.	(17.2%)	136.2%
Harman International Industries Inc.	09/30/09	\$2,447	\$2,566	0.9x	N.M.	1.1%	N.M.	4.1%	110.9%
ITT Corporation	09/30/09	\$9,087	\$10,931	1.0x	7.5x	13.3%	14.3x	(4.6%)	8.2%
Johnson Controls Inc.	09/30/09	\$18,287	\$22,342	0.8x	N.M.	3.8%	N.M.	6.6%	50.0%
Magna International, Inc.	09/30/09	\$0	(\$641)	N.M.	N.M.	1.6%	N.M.	19.0%	69.0%
Stoneridge Inc.	09/30/09	\$228	\$328	0.7x	N.M.	0.8%	N.M.	27.3%	97.6%
Superior Industries International, Inc.	09/27/09	\$408	\$283	0.7x	N.M.	(1.2%)	N.M.	7.7%	45.4%
Tenneco Inc.	09/30/09	\$1,052	\$2,628	0.6x	N.M.	5.7%	N.M.	36.0%	501.0%
TRW Automotive Holdings Corp.	10/02/09	\$2,809	\$5,222	0.5x	7.9x	5.9%	N.M.	42.6%	563.3%
Valeo SA	06/30/09	\$2,641	\$4,367	0.4x	8.4x	5.1%	N.M.	33.7%	137.0%

**Average Component Suppliers**

1.0x 8.0x 5.9% 23.0x 16.3% 141.7%

**Specialty Retailers**

Advance Auto Parts Inc.	10/10/09	\$3,831	\$3,965	0.7x	6.6x	10.9%	14.7x	3.1%	20.3%
AutoZone Inc.	11/21/09	\$7,824	\$10,484	1.5x	7.6x	19.9%	12.6x	8.1%	13.3%
Camco International Limited	06/30/09	\$52	\$27	0.5x	N.M.	(0.3%)	N.M.	(28.4%)	(1.6%)
Genuine Parts Company	09/30/09	\$6,057	\$6,193	0.6x	8.2x	7.4%	15.6x	(0.3%)	0.3%
O'Reilly Automotive Inc.	09/30/09	\$5,230	\$5,919	1.2x	9.7x	12.8%	18.6x	5.5%	24.0%
Pep Boys - Manny, Moe & Jack	10/31/09	\$443	\$710	0.4x	7.4x	5.0%	N.M.	(13.4%)	104.8%

**Average Specialty Retailers**

0.8x 7.9x 9.3% 15.4x (4.2%) 26.9%

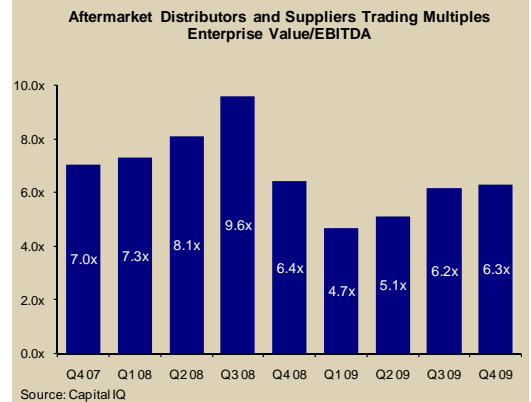
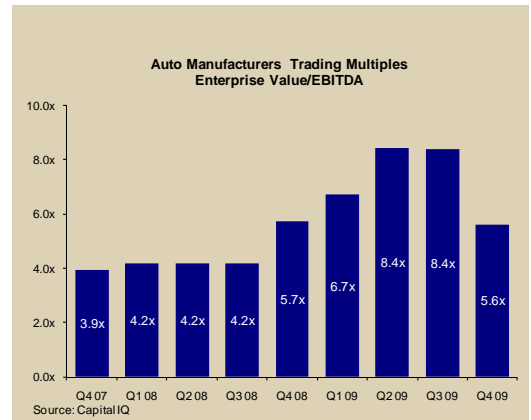
**Aftermarket Distributors and Suppliers**

ATC Technology Corporation.	09/30/09	\$477	\$413	0.9x	5.0x	16.9%	N.M.	20.7%	63.0%
Dorman Products, Inc.	09/26/09	\$277	\$278	0.8x	6.2x	12.4%	11.7x	4.3%	18.7%
LKQ Corp.	09/30/09	\$2,770	\$3,240	1.6x	N.M.	12.5%	25.5x	5.7%	68.0%
Motorcar Parts of America Inc.	09/30/09	\$61	\$85	0.6x	6.0x	10.3%	19.4x	(0.8%)	30.3%
Myers Industries Inc.	09/30/09	\$321	\$460	0.6x	6.4x	9.6%	N.M.	(15.5%)	13.8%
Standard Motor Products Inc.	09/30/09	\$188	\$302	0.4x	8.0x	5.2%	N.M.	(43.9%)	146.2%
Wabash National Corp.	09/30/09	\$59	\$110	0.2x	N.M.	(11.8%)	N.M.	(30.5%)	(58.0%)

**Average Aftermarket Distributors and Suppliers**

0.7x 6.3x 7.9% 18.9x (8.6%) 40.3%

Source: Capital IQ



## Related Content

In addition to information regarding the automotive industry being provided by DCF, you may be interested in additional events and informational sources available through DCF and the subsidiaries of Deloitte LLP.

### Dbriefs Webcasts

Stay on top of the latest issues and strategies. Deloitte LLP and its subsidiaries offer Dbriefs, live webcasts that provide you with insights on important developments affecting your business. Webcasts are complimentary, 1-hour live sessions; you can participate from the convenience of your office.

#### Transaction & Business Events

##### [Understanding the New M&A Environment and Realizing Greater Value in Manufacturing](#)

*Archived Webcast*

Looking ahead to the upturn, manufacturers are seeking strategic ways to drive growth, including M&A. Yet while deal making has always been an important part of the business, why do many deals fail to bring the expected value? We'll discuss:

- The post-recession M&A landscape, trends and insights in manufacturing.
- Driving M&A value in the new economy by focusing on structural cost changes, distressed assets, and consolidation.
- Effectively managing risk by optimizing deal flow and efficiency and preparing for future M&A activity.

Learn about the new M&A environment, what it means for manufacturers, and how to realize value that directly impacts the bottom line.

[Click here](#) to view the archived webcast from January 14, 2010.

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#### [New Deloitte Automotive Gen Y Study](#)

##### **Making the short list**

Read the second annual Deloitte Automotive Gen Y study for a unique look at what shapes this key demographics' opinions of vehicles and the auto industry.

[Click here](#) to read the full report.

#### [Getting Ready for a New Era in Automotive](#)

Dr. Hans Roehm, Deloitte Global Manufacturing leader, and Michelle Collins, US Automotive sector leader, discuss the structural changes, and trends that are transforming the auto industry.

[Click here](#) to read the full report.

#### [A New Era: Accelerating Toward 2020 – An Automotive Industry Transformed](#)

What will be the shape of the automotive industry as the world emerges from the economic downturn? This new report offers a perspective on the structural changes and major customer, technology and people trends expected to transform the industry over the next decade.

[Click here](#) to read the full report.

### Reports

#### [Economic Update: December 2009](#)

##### **May Your Days Be Merry & Bright**

[Click here](#) to read the full report or subscribe to receive the [Economic Update](#) by e-mail.

#### [Economic & Market Review – Fourth Quarter 2009](#)

The Economic & Market Review is produced by the Investment Consulting Services group of Deloitte. This newsletter is presented to provide perspective and context within which to evaluate your portfolio performance, as well as a forward look at the questions, events, and circumstances that may impact performance in the quarter ahead.

[Click here](#) to read the full report.

#### [A Tale of Two Industries: The Diverging Paths of Steelmakers in Developed and Developing Countries](#)

This whitepaper explores the effects of the recent economic turmoil in the steel industry in developed and developing countries.

[Click here](#) to read the full report .

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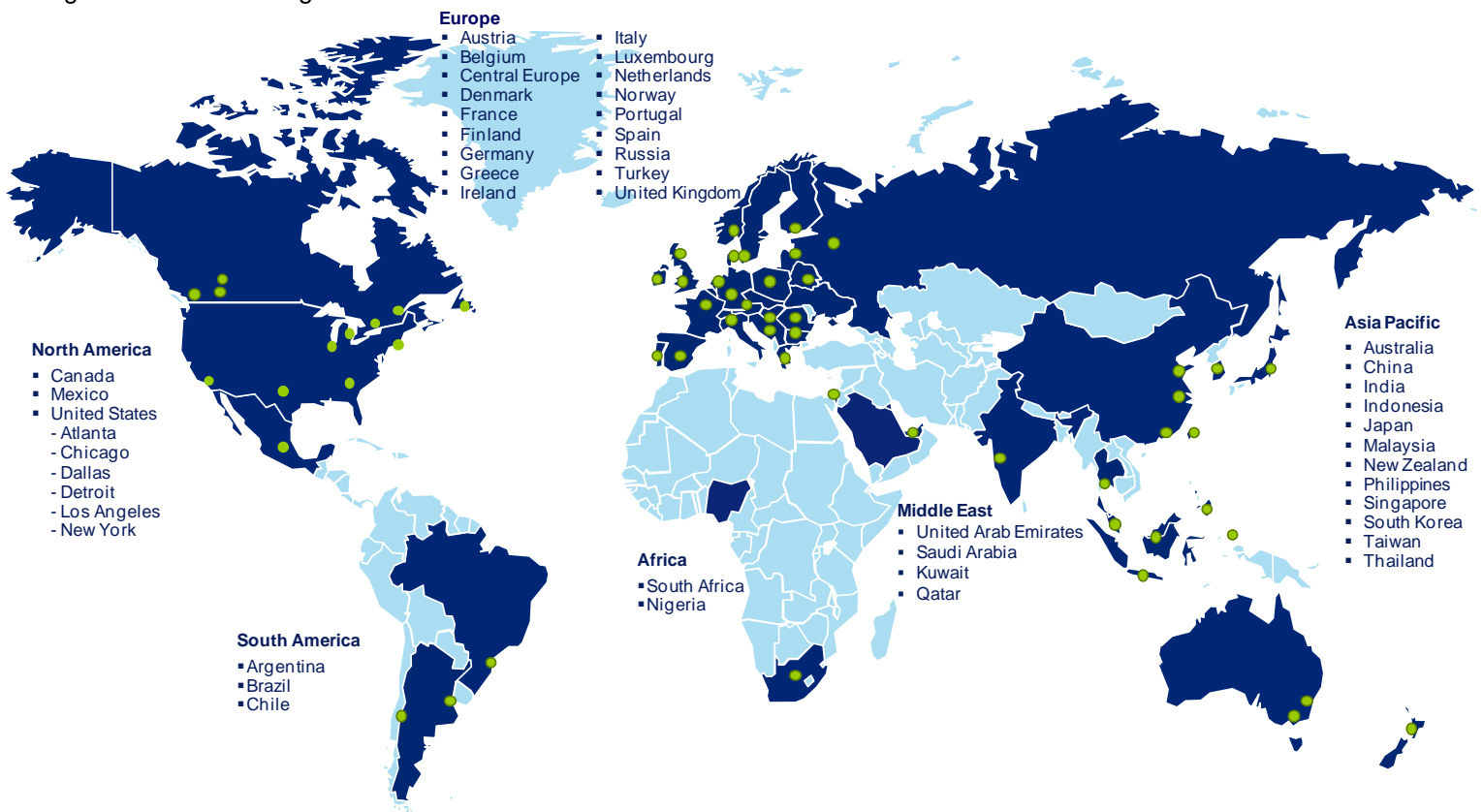
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\* In all office locations outside the United States listed above, corporate finance services are offered by the DTT member firm of the applicable country or an affiliate thereof. Each of the DTT member firms is a separate and independent legal entity.

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