

Driving Value

Automotive M&A Insights 2010

March 2011

Welcome

It is our pleasure to provide you with the *2010 Automotive M&A Insights* edition of *Driving Value*, PwC's annual review of mergers and acquisitions (M&A) activity and key trends within the global automotive industry. This publication explores global automotive transactions and key trends within the global automotive sector, including:

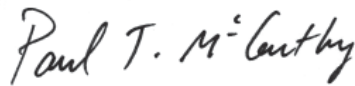
- A review of 2010 automotive deal activity among vehicle manufacturers, suppliers, retailers, vehicle financiers, and other related sectors.
- Key trends that drove the deal market including: stabilization of the economic climate, recovery of light vehicle assembly volumes, significant growth in the Asia M&A market and buyers seeking growth versus sellers divesting money-losing operations.
- A look at the transaction activity by sector and region.
- Outlook for deal activity and trends in 2011 and beyond, including a return to the traditional drivers of M&A—driving economies of scale, acquiring technology and expanding geographic and customer base.

This latest edition of the *Automotive M&A Insights: Driving Value* is only an introduction of our insight and observations about the automotive industry. Our clients in the automotive and financial sectors frequently seek our advice on potential transactions and the strategies underpinning deals. Your feedback is important to us. We welcome the opportunity to provide you with more information about any of the topics that require further information.

Kind regards,



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Strategy to prosper

As the economy continues to rebound from the global financial crisis, the automotive industry has regained its footing and is firmly in growth mode. Now the focus is on strategies to prosper rather than to survive. Mergers and acquisitions are a key to success.

Poised for growth

In many respects, 2010 represented a continued steadying of the automotive industry and its supply base. During the last two years, the turbulent and dynamic environment was punctuated by a worldwide financial crisis and collapse of vehicle sales, especially in North America. These factors have moved into the background as the industry continues to stabilize and focus on strategic mergers and acquisitions (M&A.)

Although global automotive deal volume for 2010 was stable relative to 2009, disclosed transaction value declined dramatically. Even excluding the US Treasury financed bailouts and sovereign wealth fund investments in 2009, global automotive deal value in 2010 was down. In comparison, both deal volume and disclosed deal value for global cross sector M&A remained flat between 2009 and 2010. Limited access to capital, strained financial position, and heightened sensitivity to risk as a result of overall market uncertainty, drove strategic buyers to focus on smaller bolt-on and/or survival-driven deals. On the financial buyer side, while there was significant interest in the automotive sector, fewer automotive deals materialized in 2010.

In contrast to global trends, two regions experienced significant increases in deal activity and value: Asia and

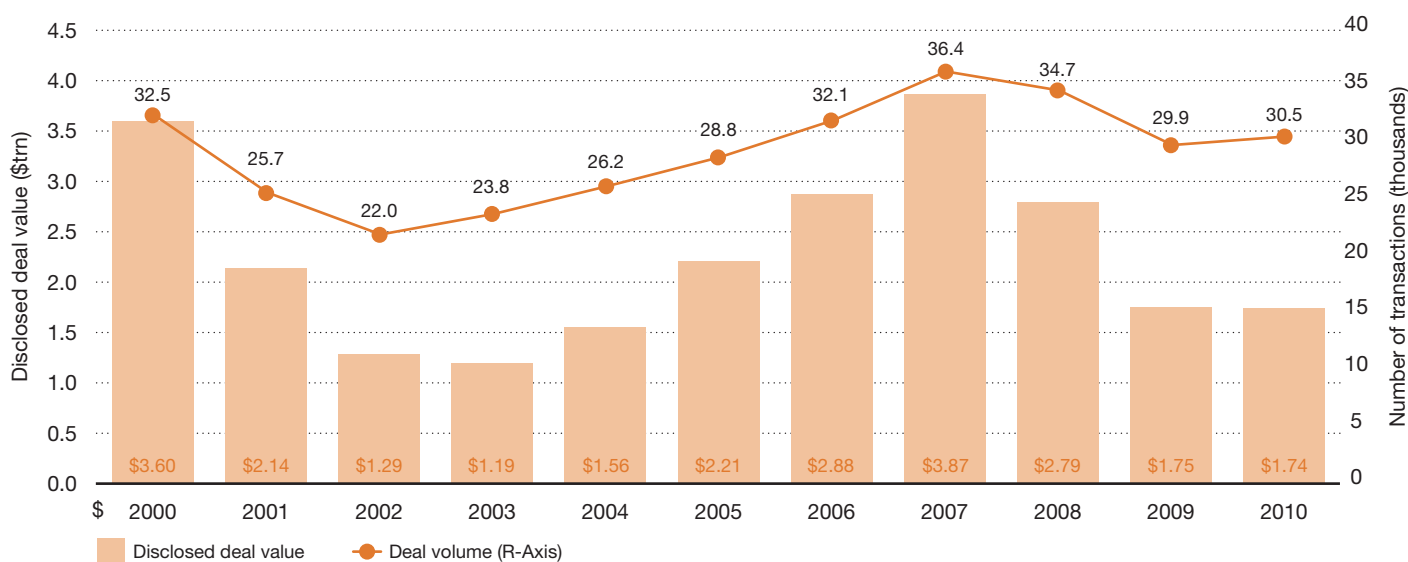
Europe. Asia's disclosed deal value more than quadrupled from 2009 levels due to a few large vehicle manufacturer transactions. Likewise, the European industry was very active in the global deal market for the second consecutive year accounting for 46 percent of global auto M&A activity by volume and 41 percent of global disclosed value.

With the stabilization of the economic climate, both trade and financial buyers are likely to show renewed interest in production related automotive assets. During 2010, the automotive industry and its supply base witnessed the recovery of production volumes; which led financial buyers to rebalance their portfolios away from non-production related assets such as automotive retail, service, and financing businesses into automakers and suppliers.

Historically deal volumes have tracked with light vehicle assembly volumes; however, during 2010, deal volumes failed to match the recovery in assembly due to issues highlighted above. With better access to capital markets and excellent growth prospects, PwC expects deal volumes over the next few years to better correlate with global light vehicle assembly volumes which are poised to increase by more than 37 percent through 2017. Additionally we expect automotive M&A to demonstrate a heightened interest in larger, more strategically driven investments.

As companies plan for future growth and success, the focus should be to develop critical competencies, acquire new technologies, and expand geographic reach. Companies should consider M&A as one of the tools to achieve their strategic objectives and goals.

Global cross-sector M&A deal volume & value



Sources: Thomson Reuters and other publicly available sources.

Perspective: Thoughts on deal activity in 2010

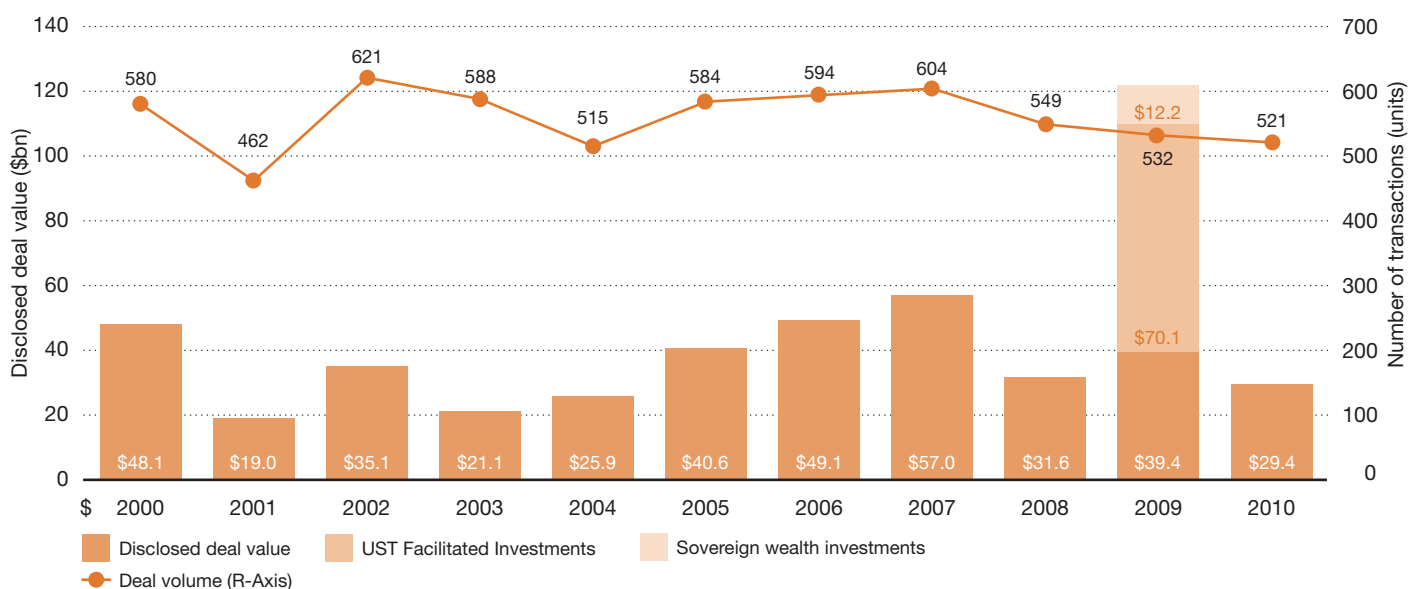
Survival driven smaller and middle market deals, took center stage in 2010. Activity moved upstream, with trade buyers returning and a key focus on Asia.

Volume steady, but value drops as buyers narrow focus

While volumes have held steady in the global automotive M&A deal market, disclosed deal value declined to its lowest levels in five years. In 2010, 521 deals were closed with a total disclosed value of \$29.4 billion.

In contrast, 2009 was characterized by unusually high disclosed deal value due to government-driven bailouts and the completion of two mega-deals conceived in 2008. Government investments (US treasury and sovereign wealth funds) made up over \$82.4 billion of the \$121.9 billion in disclosed deal value during 2009. With most of the massive restructuring behind us and a cautious credit environment, 2010 precluded such megadeals, resulting in a 76 percent year-over-year decline in overall disclosed deal value.

Global automotive M&A deal volume and value



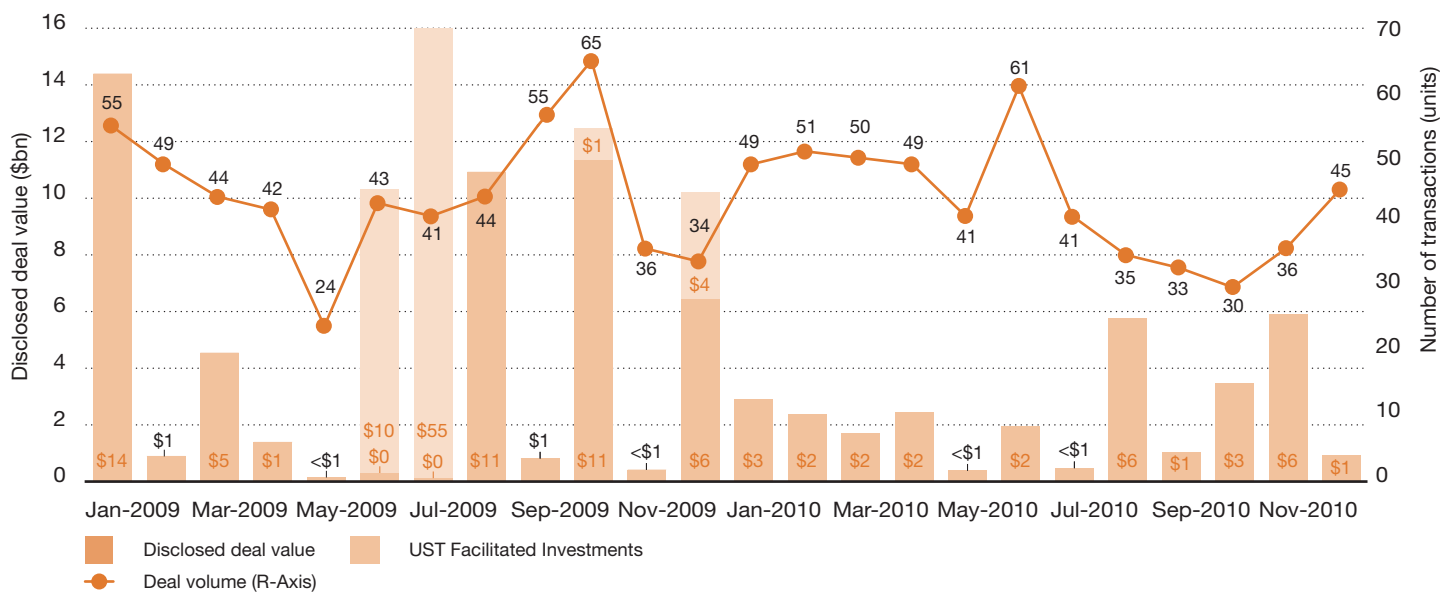
Sources: Thomson Reuters and other publicly available sources.

Compared to the first half of 2010, the second half of the year witnessed fewer deals being completed, but with higher disclosed deal values. This is an indicator that the industry has exited the mass restructuring phase and is now driven by deals focused on growth strategies rather than survival strategies. Record profits being realized by the industry, especially in North America, have also reduced the sense of urgency to divest underperforming assets.

For much of 2009 and 2010, the deal market remained an environment of corporate restructuring, divestitures,

and capital infusions. However, with the global light vehicle industry expected to build 10.2 million more vehicles in 2012 than in 2010, increased profitability amongst automakers and suppliers will make them more attractive to investors. Increased profitability and improving cash flows also will provide the automakers and suppliers with the means to pursue M&A for strategic growth. Faurecia's purchase of Emcon Technologies and Johnson Controls' purchase of the Keiper Recaro Group are examples of such strategic growth acquisitions that are likely to represent the expected pattern of supplier consolidation in the near future.

Global auto M&A deal volume & value



Sources: Thomson Reuters and other publicly available sources.

Deal activity moves upstream

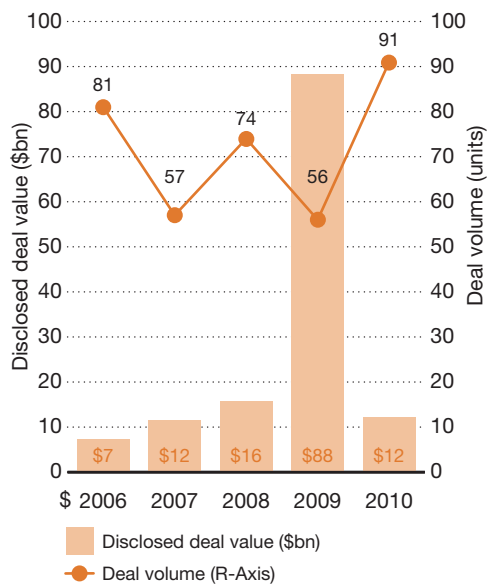
Vehicle manufacturer and component supplier categories experienced higher levels of activity in the deal market during 2010 as compared to 2009. Much of the activity was carried out by companies seeking to:

- divest non-core assets
- bolster core competencies, and
- engage new markets or customers

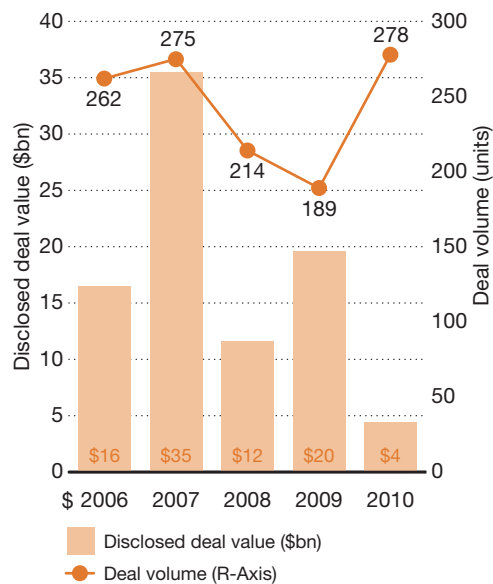
On the other hand, deal volumes for the ‘Others’ category, which includes: retail, aftermarket, rental/leasing and wholesale, etc., experienced a significant decline.

The shift in the mix of deal categories is closely aligned to the production cycles of the automotive industry. For much of 2008 and 2009, production volumes declined precipitously driving potential buyers and sellers of manufacturing related assets, especially financial buyers, to the sidelines. Hence much of the activity focused in areas that were not solely dependent on industry output such as aftermarket, rental/leasing, and the less cyclical parts of the automotive value chain. With the bottoming out of production volumes and the emerging signs of recovery in 2010, there has been renewed interest in the automaker and component supplier categories.

Vehicle manufacturers M&A activity



Component suppliers M&A activity



Sources: Thomson Reuters and other publicly available sources.

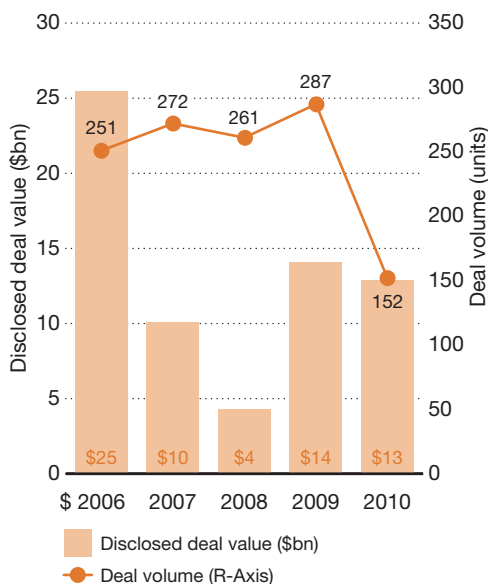
Sources: Thomson Reuters and other publicly available sources.

Rebalancing the automotive investment mix

Rebalancing among trade and financial buyers—In an effort to protect their cash reserves, trade buyers were less willing to expend their limited cash or take on additional debt during the economic downturn. As a result, strategic acquisition activity, which historically drove nearly 80 percent of deal volume, accounted for only 69 percent in 2009. In comparison, trade buyer’s share of M&A activity picked up marginally to about 73 percent in 2010.

However, trade buyers limited their M&A activity to deals involving specific product lines, technologies or geographies. This is likely to remain the status quo in the near future even with improved access to credit and overall improvement in sector confidence. Moreover, as corporations shift away from survival mode, they are less likely to divest underperforming assets as they focus more on their topline growth.

Others M&A activity



Sources: Thomson Reuters and other publicly available sources.

Even with a growing share of the deal market, financial buyers’ activity declined compared to 2009. Similar to trade buyers, the disclosed deal values for financial buyers also remained depressed compared to past years. Financial buyers represent those acquirers whose primary activity is not tied in to the automotive sector such as private equity, hedge funds, venture capital, banks, government institutions, etc. Financial buyers, specifically Private Equity (PE), continued to show interest in the automotive sector during 2010, but pricing and funding dynamics limited the number of deals that they actually closed. Moreover, financial buyer portfolios have seen little churn in their automotive holdings over the past few years. Hence, in the near term they are more likely to seek ways to monetize their current investments rather than increase their exposure to the automotive industry.

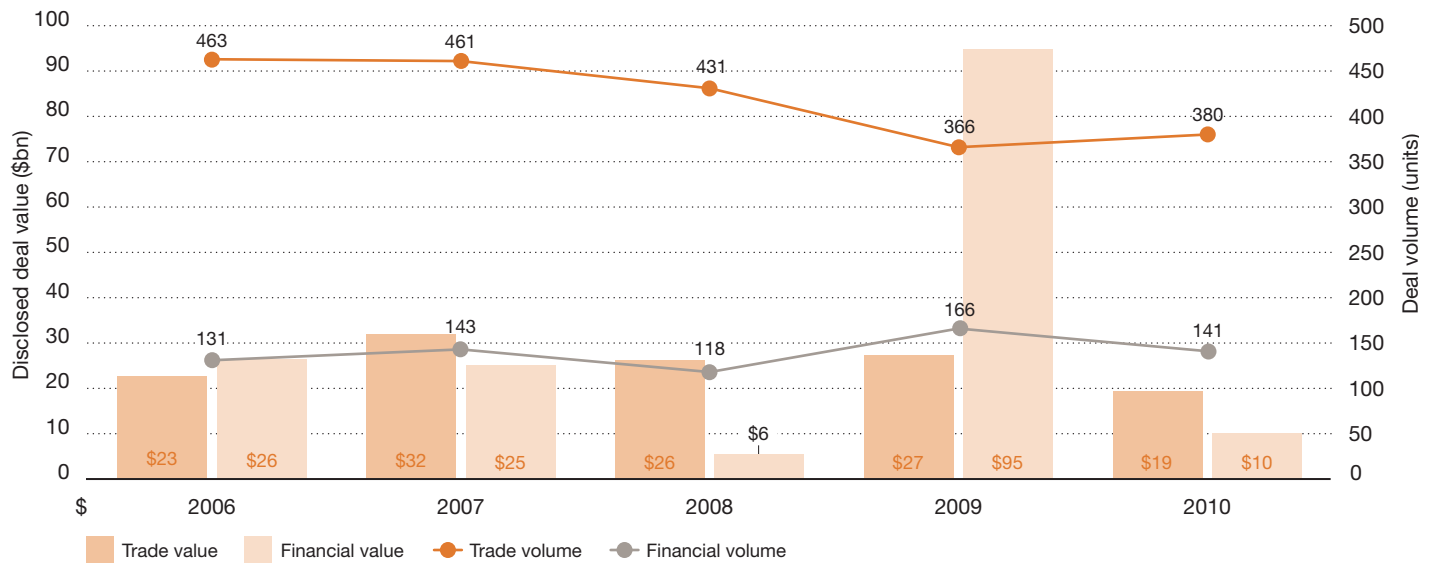
Rebalancing within financial buyer portfolios—Stabilization in the production environment during 2010 resulted in financial buyers broadening their focus to again include deals in the supplier and vehicle manufacturer categories. Compared to 2009, financial buyers increased their investments in automakers and suppliers while investments in the “Others” category declined by nearly 50 percent.

Financial buyers M&A activity—2010 deal volumes vs. 2009 deal volumes

Target sector	2010	2009
Vehicle manufacturers	24	14
Component suppliers	67	56
Others	50	96

Historically, US based PE houses have been more active in the automotive sector as compared to their European counterparts. This trend is likely to continue in the near future with US PE houses engaging across all categories in the automotive value chain. Their European operations are likely to be the principal drivers of PE acquisitions in the sector in Europe and are more likely to be involved in larger transactions. European PE houses on the other hand have been taking a keen interest in the “Others” category, particularly aftermarket, and this is expected to continue, as is a focus on turnaround opportunities.

Global auto M&A activity by buyer type



Sources: Thomson Reuters and other publicly available sources.

Private equity assets poised for activity

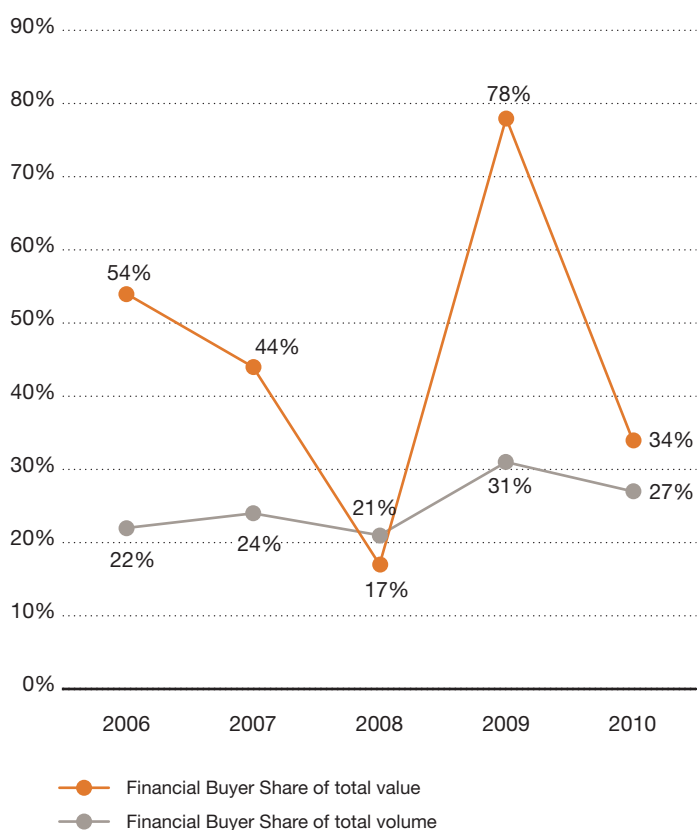
PE funds raised capital of over \$2.5 trillion between 2005 and 2009, a significant part of which is still not invested. Among the mega PE funds, there is more than \$200 billion in funds yet to be invested. Due to the challenging environment in 2008 and 2009, many PE assets that would have been monetized under normal conditions are still sitting in their portfolios.

In 2010, investor confidence in the automotive industry also returned, signalling a more favourable environment for initial public offerings (IPO's). These conditions enabled a total of four automotive IPOs to be completed during 2010—including three IPOs in the US alone—compared to zero IPOs during 2009. GM's IPO, the largest in history, underscores the current momentum that the automotive sector has in US capital markets.

While the IPO market provides an alternative exit strategy for PE in the US, this is not necessarily the case for the European Union (EU). Germany (DAX), as the center of the European auto industry is the most prominent of the markets, and could have a favorable view toward automotive sector IPOs. However, the UK (FTSE), EU's key financial market, is unlikely to show significant interest in automotive IPOs thus limiting the potential for IPOs to serve as an exit route in the EU.

Thus given the significant PE overhang, renewed US capital markets interest in the automotive sector, and additional avenues to monetize investments, PE activity is expected to pick up in the near future.

Financial buyer's share of global automotive M&A activity



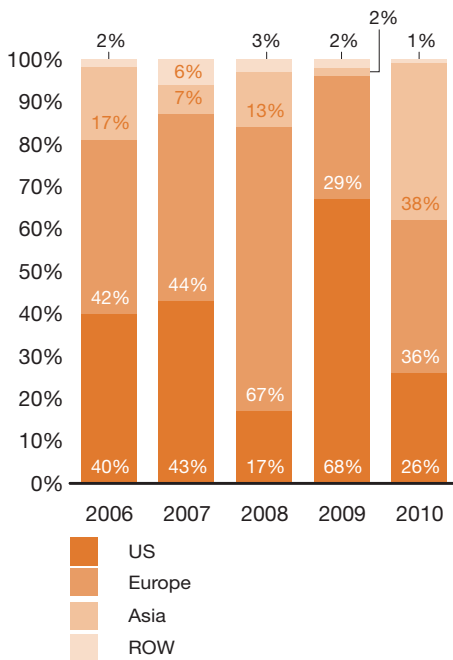
Sources: Thomson Reuters and other publicly available sources.

Deal value turns to the east

From a regional perspective, Asia accounted for the largest share of global disclosed deal value in 2010. Traditionally a region with a much smaller share, Asia's disclosed deal value soared during 2010 to \$11 billion compared to \$2 billion in 2009. A significant portion of the disclosed deal value in Asia was driven by the VW-Suzuki and Daimler-Nissan deals. Additionally, these large transactions also resulted in Asia receiving the largest net investment inflow as opposed to the past few years during which the region witnessed a net investment outflow. These large deals notwithstanding, nearly 80 percent of deal activity and 67 percent of disclosed value in Asia was transacted by regional buyers.

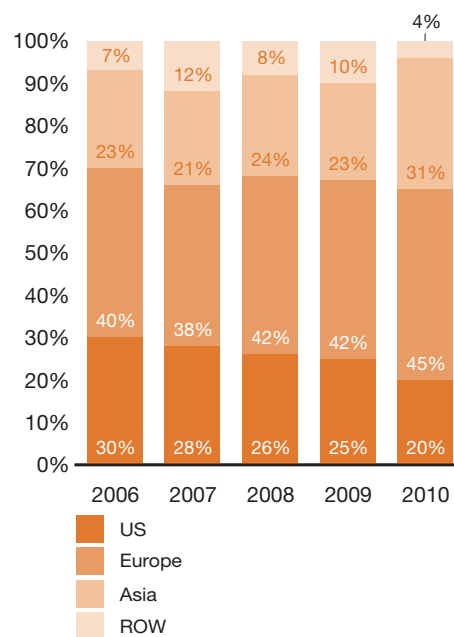
The global economic downturn has done little to halt the momentum of overseas investment by China. Many Chinese companies see M&A as a key component in transforming themselves into global organizations. Secondary markets such as Southeast Asia are viewed as a target market for their products with M&A as a viable entry strategy. These buyers are more likely to look west for M&A to acquire technology than to acquire production assets and market access. Key technologies in the areas of propulsion, safety, advanced electronics, and materials, are some areas that offer readily transferrable benefits to Chinese and Indian companies.

Share of global disclosed deal value by target region



Sources: Thomson Reuters and other publicly available sources.

Share of deal volume by target region



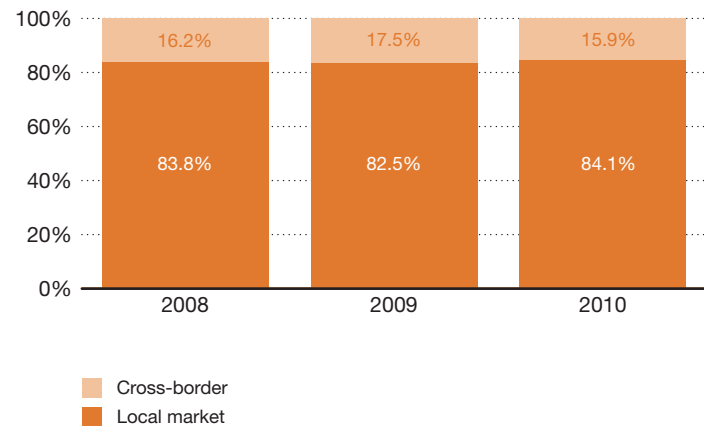
Sources: Thomson Reuters and other publicly available sources.

Regional deal flow

While the North American automotive industry focused on its rightsizing and turnaround efforts, the European industry was very active in the deal market during 2009 and 2010. European buyers accounted for nearly 46 percent of global M&A activity by volume. With four of the top 10 global transactions executed by European buyers, they also accounted for 41 percent of the global disclosed transaction value. That being said, Europe did not undergo the capacity rationalization to the same degree that the US industry did during the last few years. This unaddressed excess capacity will continue to burden operations and will likely be one of the factors driving M&A in Europe in the future.

Local region vs. cross border deals (all nations)

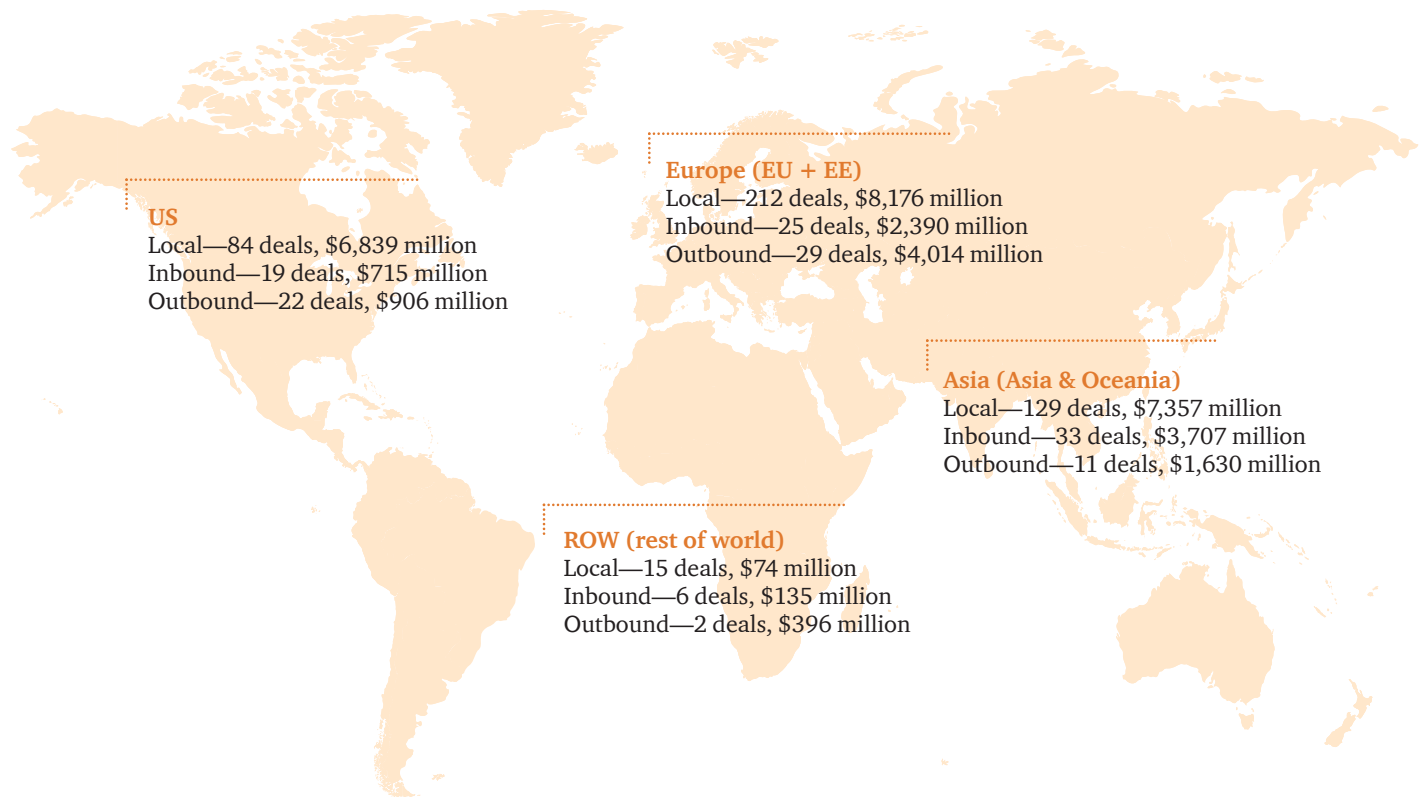
Measured by number of announced deals



Sources: Thomson Reuters and other publicly available sources.

Global automotive M&A activity

Measured by number and disclosed value of deals (2010)



Source: Thomson Reuters and other publicly available sources.

Stability returns to supply base

The Z-scores (which measures the financial health of a company and predicts the probability of the company entering bankruptcy within a two-year period) across US listed automotive suppliers shows that the sector is moving out of the range of fiscal danger into neutral territory. With volumes trending upward, many suppliers are posting profits exceeding Wall Street expectations as well as, in some case, previous highs posted during the boom years in 2006 and 2007. Given an absence of financial pressures to drive divestitures and distress sales, industry participants do not have the urgent need to sell assets. This trend will have a countervailing impact on automotive M&A activity in the near term.

Consolidation is expected across the global supply sector and within the emerging Asian markets. However, given the current market environment, mega deals or consolidation amongst the ranks of the top suppliers is unlikely to take place in a significant way in the near term. However in the mid to long term, companies are expected to shift gears toward topline growth strategies and vie for global leadership, opening the door to larger deals and market restructuring.

Unlike the past two years, automotive M&A activity will be driven by buyers seeking growth and not by sellers

looking to divest unprofitable and/or non-core businesses. In other words, the market will experience more of a pull-effect which will also act to drive higher deal multiples.

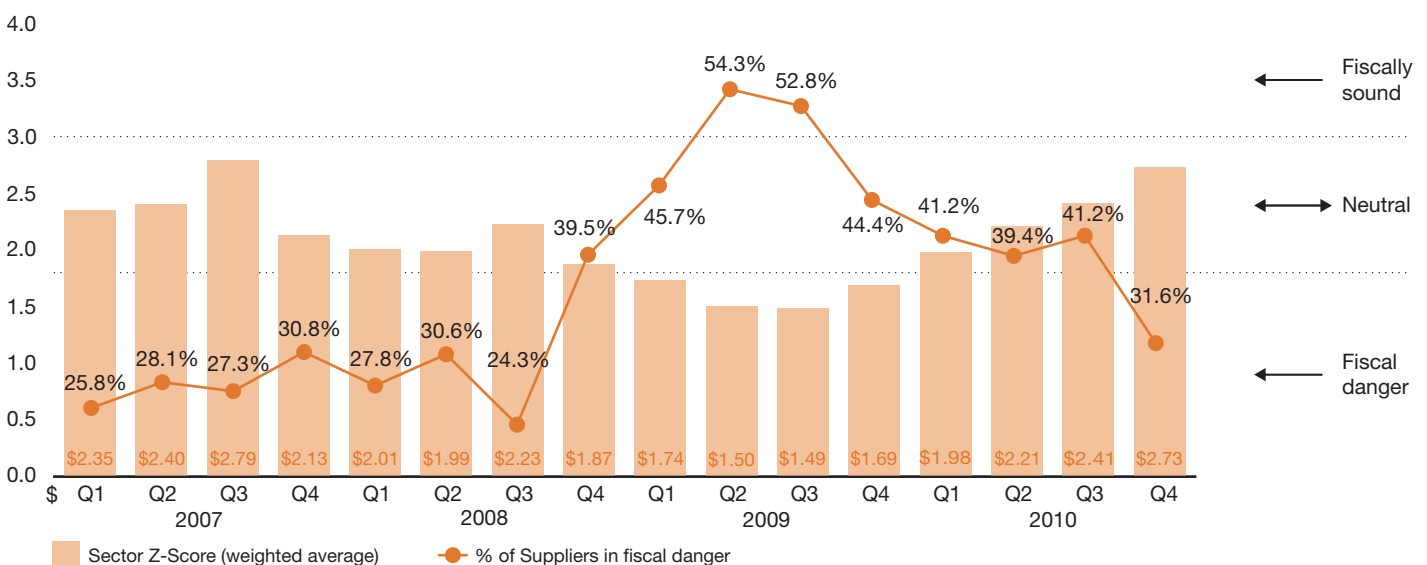
For emerging market players from China and India, access to technology will be a key driver of future automotive M&A activity as they look toward preserving their domestic market position as well as expanding overseas. With a strong financial footing, their M&A strategy will likely include smaller deals focused on technology platforms to fuel product growth and development.

Signs point to growth ahead

PwC Autofacts forecasts global light vehicle assembly to grow by nearly 27 million units over the next seven years, indicating a period of sustained growth for the automotive sector. These growth expectations underpin the attractiveness and stability of the sector for trade and financial buyers and will help drive future growth in automotive M&A activity.

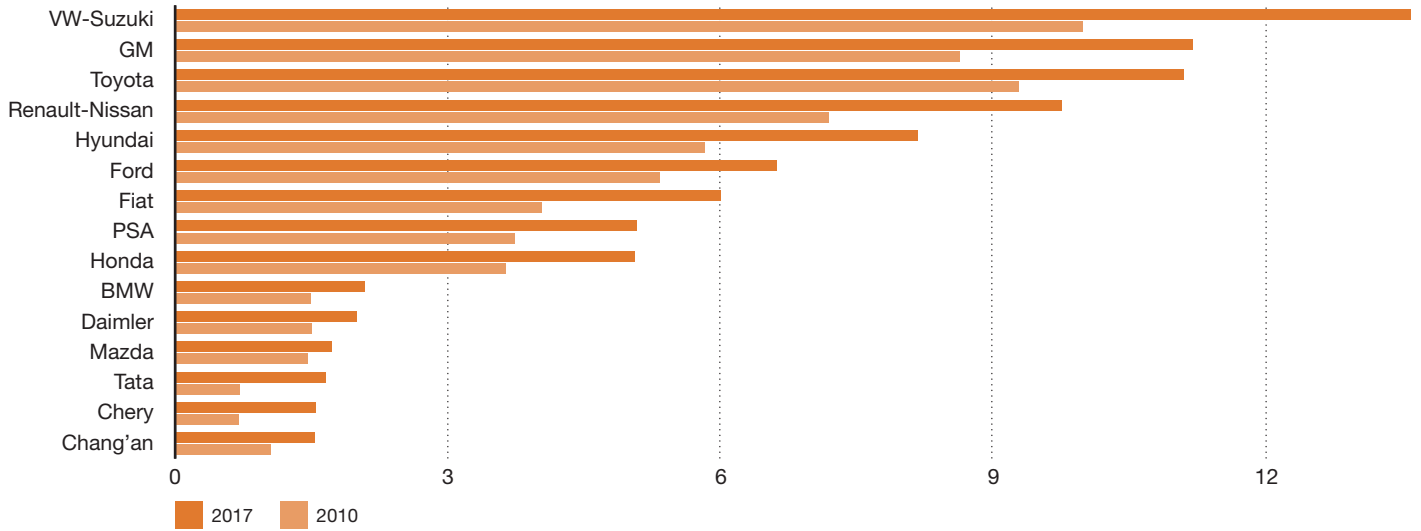
Another emerging trend is the growing difference in scale even within the ranks of the top 15 global alliance groups. In order to compete effectively against larger rivals like VW, GM, and Toyota, smaller and mid-sized mainstream automakers will need to explore alternatives such as M&A and strategic alliances to help build scale and efficiencies.

Automotive suppliers Z-score analysis



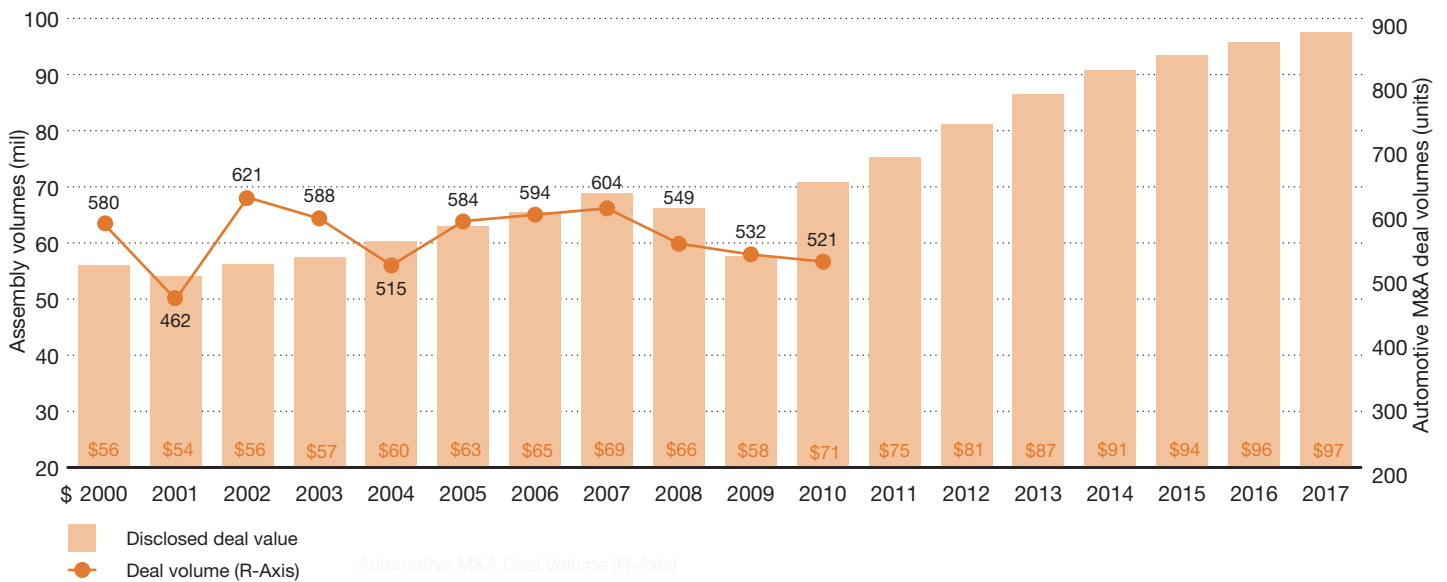
Sources: Thomson Reuters and other publicly available sources.

Global light vehicle assembly by alliance group



Sources: Thomson Reuters and other publicly available sources.

Global light vehicle assembly outlook



Sources: Thomson Reuters and other publicly available sources.

M&A is back in the automotive sector in 2011. If companies are not pursuing strategically targeted acquisitions, joint ventures, and divestitures, they risk losing ground in terms of competitive advantages.

Looking ahead

The automotive M&A market is clearly poised to grow in 2011 over depressed 2009 and 2010 levels, both in terms of deal value and volume. There are several drivers of the expected market revival, including:

- Companies have refocused their strategies from survival to profitable growth, and many more are therefore seeking to do M&A
- PE interest is back in force in the auto sector, and they have the financial ‘dry powder’ to get deals done
- Though capital is still being carefully conserved, there is nonetheless more cash flow and credit available to complete deals
- Emerging market players are positioned to be active participants in industry consolidation both in their home markets and internationally

The biggest driver for increased automotive transactions in 2011 is the strategic value that M&A can bring to address key issues facing automotive companies. These include:

- broadening geographic footprint,
- increasing market share,
- diversifying the customer base,
- bolstering technology capabilities; and
- increasing exposure to growth-oriented market trends like vehicle electrification, infotainment, and CO2 reduction. Companies will again have to consider M&A as an option in their toolbox of strategic options, and will also have to consider how competitors’ M&A actions may impact their competitive position.

Moving forward, winning automotive companies will be those who 1) capture profitable growth, and 2) achieve concentration of scale and expertise in the specific product/sectors in which they compete. These actions—which are dependent on M&A to achieve—can convey competitive advantage to automotive companies facing a brutal competitive environment. Companies which successfully achieve strategic consolidation may be able to: profitably grow faster than the market; achieve a scale and cost advantage; afford the R&D necessary for innovation and differentiation; afford globalization; reduce competitive intensity to a sustainable level; and create sustainable returns.

2011 and beyond

Based on our comprehensive market analysis, below are several factors we expect to see in the automotive M&A market in 2011 and beyond:

1. Global light automotive assembly volumes are expected to increase by more than 27 million units by 2017. Historical correlation between assembly growth and deal activity suggests that current deal volumes are below expected levels and are likely to increase.
2. The current level of uninvested capital at PE funds and favorable industry outlook will drive higher financial buyer activity in automotive M&A.
3. As the marketplace continues to improve, there are an increasing number of strategic buyers with the financial resources to execute deals.
4. Deal interest will continue to increase in more cyclical sectors like the automotive supply base, which has historically been the most active portion of the automotive value chain for deals.

5. A boom in megadeals is unlikely to materialize in 2011; however conditions to support megadeal activity are building and larger deals are expected in the next three years. However, once a megadeal is transacted in a given sector, it could have a 'domino effect', leading to further large deals in a competitive response.
6. Average deal size and deal multiples will increase in 2011 due to availability of financing, improved industry economics and a shift away from distress sales.
7. Some constraints still remain on transaction activity. Companies remain cautious in their investments. Many of them remember deals that destroyed value over the last 10–15 years, when too often deals were driven by flawed strategies. In addition, credit availability remains below peak levels and valuations in some growth markets and sectors are starting to appear expensive. The expectation for the 2011 automotive deal market should be for solid improvement, not for a record year.
8. Deal flow will likely be adversely impacted by the reduced number of companies required to divest underperforming or non-core businesses. As corporations shift away from survival mode, they are less likely to divest underperforming assets as they focus on topline growth. This will be partially offset by financial investors looking to take advantage of revived performance and valuations and exit positions.
9. Asia is likely to preserve and grow its share of global cross border M&A. With a strong financial footing, their M&A strategy will likely include smaller deals focused on technology platforms to fuel product growth and development. Emerging markets like China are witnessing increased deal activity within local geographies. Nonetheless, emerging market automakers and suppliers are increasingly seeking overseas investment as they expand into newer markets or seek to acquire technology. These buyers are more likely to look west for M&A to acquire technology than to acquire production assets and market access. Key technologies in the areas of propulsion, safety, advanced electronics, and materials are some areas that offer instant benefits to Chinese and Indian companies.
10. The traditional envelope of the automotive world is expanding as newer technologies propagate through the industry, especially in areas such as infotainment and propulsion. This also is changing the definition of automotive M&A as automaker and supplier investments in assets across sectors such as rare earth metals, electronics, and software increase. M&A in these newer areas will result in higher multiples straddling the gap between higher multiples typical of technology firms and the lower multiples traditionally associated with the automotive sector.

In summary

In summary, the level of M&A activity is expected to increase over the next several years. Successful automotive market participants will use M&A to increase their competitive advantage in a variety of different ways, including market, product and customer expansion. Those that do not use M&A to their strategic advantage may find themselves at a significant competitive disadvantage five to ten years from now.

This report serves as an introduction to PwC's comprehensive blend of cumulative knowledge and direct experience in the automotive industry. Our services span the entire deal continuum, from strategy formation, to target identification and screening to deal execution to capturing synergies and exit. We have advised our clients in the automotive and financial communities on numerous potential transactions and their underlying strategies, and we look forward to helping our clients navigate the roads ahead.

Top 10 deals—Vehicle manufacturers

	Date effective	Target name	Target nation	Acquirer name	Acquirer nation	% of shares acq	Value of transaction (\$mil)	Buyer type
Vehicle manufacturers								
1	08/24/10	Denway Motors Ltd	Hong Kong	China Lounge Investments Ltd	Hong Kong	100.00	4,110.09	FIN
2	01/15/10	Suzuki Motor Corp	Japan	Volkswagen AG	Germany	19.90	2,527.43	TRADE
3	08/02/10	Volvo Car Corp	Sweden	Zhejiang Geely Hldg Grp Co Ltd	China	100.00	1,500.00	TRADE
4	02/23/10	Saab Automobile AB	Sweden	Spyker Cars NV	Netherlands	100.00	962.90	TRADE
5	04/28/10	Renault SA	France	Daimler AG	Germany	3.20	898.59	TRADE
6	04/28/10	Nissan Motor Co Ltd	Japan	Daimler AG	Germany	3.20	778.44	TRADE
7	09/17/10	Heartland Recreational	United States	Thor Industries Inc	United States	100.00	209.39	TRADE
8	05/31/10	Hunan Changfeng Motor Co Ltd	China	GAIG	China	29.00	154.61	TRADE
9	07/02/10	Hong Kong VAS-Business	China	Zongshen PEM Power Systems Inc	Canada	100.00	140.95	TRADE
10	02/11/10	Shanghai GM Motor Co Ltd	China	SAIC Motor Corp Ltd	China	51.00	84.50	TRADE

Top 10 deals—Component suppliers

	Date effective	Target name	Target nation	Acquirer name	Acquirer nation	% of shares acq	Value of transaction (\$mil)	Buyer type
Component suppliers								
1	11/29/10	Kumho Tire Co Inc	South Korea	Creditors	South Korea	88.73	1,120.08	FIN
2	09/09/10	Inergy Automotive Systems SA	France	Cie Plastic Omnium SA	France	50.00	428.68	TRADE
3	12/02/10	Hawk Corp	United States	Carlisle Cos Inc	United States	100.00	417.94	TRADE
4	02/08/10	Emcon Technologies	United States	Faurecia SA	France	100.00	407.81	TRADE
5	04/09/10	Dytech ENSA SL	Spain	BorgWarner Inc	United States	100.00	161.90	TRADE
6	06/21/10	IDQ Holdings Inc	United States	Castle Harlan Partners V LP	United States	100.00	160.00	FIN
7	03/08/10	Dana Hldg-Structural Prod Bus	United States	Metalsa SA de CV	Mexico	100.00	147.00	TRADE
8	12/10/10	Silverstone Bhd	Malaysia	Toyo Tire & Rubber Co Ltd	Japan	100.00	148.82	TRADE
9	01/21/10	Dura Automotive Systems Inc	United States	Patriarch Partners LLC	United States	100.00	125.00	FIN
10	09/07/10	Taiwan Kai Yih Indl Co Ltd	Taiwan	Tong Yang Industry Co Ltd	Taiwan	60.88	115.71	TRADE

Top 10 deals—others

	Date effective	Target name	Target nation	Acquirer name	Acquirer nation	% of shares acq	Value of transaction (\$mil)	Buyer type
Others								
1	11/10/10	Porsche Holding GmbH	Austria	Volkswagen AG	Germany	100.00	4,539.83	TRADE
2	10/01/10	AmeriCredit Corp	United States	General Motors Co	United States	100.00	3,314.29	TRADE
3	06/03/10	American Tire Distributors Inc	United States	TPG Capital LP	United States	100.00	1,300.00	FIN
4	03/31/10	HSBC Finance Corp-Auto Loan	United States	Santander Consumer USA Inc	United States	100.00	930.00	FIN
5	02/24/10	BCA	United Kingdom	Clayton Dubilier & Rice LLC	United States	100.00	624.08	FIN
6	03/31/10	Kumho Rent-A-Car Co Ltd	South Korea	Investor Group	South Korea	100.00	260.70	FIN
7	04/22/10	Futura Leasing SA	Poland	Abris Capital Partners	Poland	100.00	242.66	FIN
8	12/29/10	General de Servicios ITV SA	Spain	SGS SA	Switzerland	100.00	241.03	TRADE
9	04/09/10	Interleasing (Australia)Ltd	Australia	Mcmillan Shakespeare Ltd	Australia	100.00	190.80	TRADE
10	03/31/10	Andrew Page Ltd	United Kingdom	Investor Group	United Kingdom	100.00	153.22	FIN

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