In June, we attended ACG's 12th Annual Industrial Conference. Here are five of our top takeaways from Ted Morgan's presentation – ***'Automotive, OEM, After-Market'***

Prepared by TresVista

5 THINGS YOU MISSED –

1 **Automotive Market Overview:** The automotive industry of the US is the largest within manufacturing and is responsible for ~3% of the country's GDP. Industry sales grew over 2009-2014, and has since remained steady with annual sales reaching ~17m units in 2018. The market is expected to remain flat in the coming years, with growth expected when OEMs, who are currently investing in Capex and R&D on autonomous vehicles, bring them mainstream. However, this shift is not expected until the next decade.

2 **Changing OEM Automotive Business Models:** The business models of automotive OEMs are evolving on the back of changing market dynamics. Current business drivers, like vehicles produced, are expected to be less meaningful in a future where mobility is evaluated on a miles-driven basis—such as market share of total miles driven. The Boston Consulting Group predicts that by 2030, ~25% of all miles-driven in the US would be by shared autonomous electric vehicles. The convergence of the ridesharing, autonomous driving, and vehicle electrification trends would create a far more compelling case for growth when compared to any of the three forces alone. From a customer's perspective, the shift will be from privately owning vehicles to opting for more convenient, cost-effective ridesharing services. This could result in a commoditized value-proposition to the customer.

3 **Adapting to Changes:** OEMs are currently investing significant capital in manufacturing, and this CapEx is expected to decline in the future as production is shifted towards Tier-1 and Tier-2 suppliers. This could enable OEMs to focus on providing, for example, mobility-as-a-service. The Boston Consulting Group estimates that while growth in the automotive industry will continue, profits will shift to mobility tech, as emerging profit pools like autonomous vehicles, battery electric vehicles, and on-demand mobility would grow in the coming years. Currently at less than 1%, emerging profit pools are expected to constitute ~40% of total profits by 2035.

4 **Investments to Become Wiser/Focussed:** With the changing market dynamics, it is important for investors in the automotive space to effectively choose their business specialties. Several part-categories are expected to outpace growth rates for the overall automotive/aftermarket industries. For example, infotainment, audio, and telematics is currently an attractive specialty segment across the OEM and aftermarket space. On the flipside, side-mirrors as a segment is expected to be challenging for both suppliers and manufacturers due to a shift towards cameras and sonars.

5 **Dominating Strategics:** Strategic investments in the automotive industry have dominated over the last three years, accounting for ~75% of deals by count. Annually, around 200 deals are by private equity sponsors – with lower-middle market private equity making selective investments in OEM and aftermarket categories as a way of capitalizing on cyclical trends. Strategics on the other hand, are looking to grow their topline in an almost-flat automotive market, driving them to often outbid private equity in deals.