

INSIDER

AUTOMOTIVE AFTERMARKET

DECEMBER 2022



THE DEAL ENGINE:

AAPEX/SEMA Recap: M&A Themes Influencing the Automotive Aftermarket

MAJOR M&A THEMES IN THE AUTOMOTIVE AFTERMARKET TODAY

1. Investor Flight to Earnings Stability
2. Supply Chain Challenges Abating – But Not Entirely; Still Affecting M&A Strategies
3. Coming To Terms with Electrification
4. American Buyers Love Their Trucks and SUVs (and Customizing Them)

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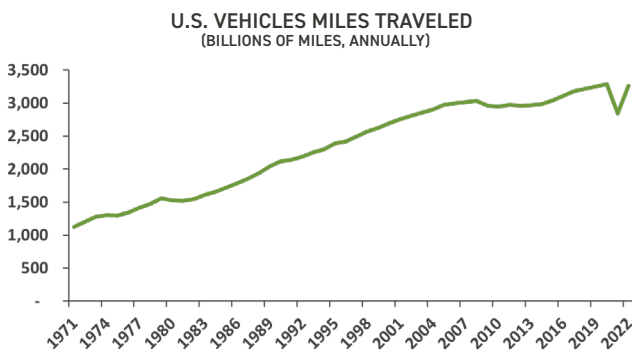
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1 INVESTOR FLIGHT TO EARNINGS STABILITY



As the COVID pandemic started in early 2020, there was substantial concern about the future of the aftermarket as stay-at-home orders closed businesses and cleared roadways.

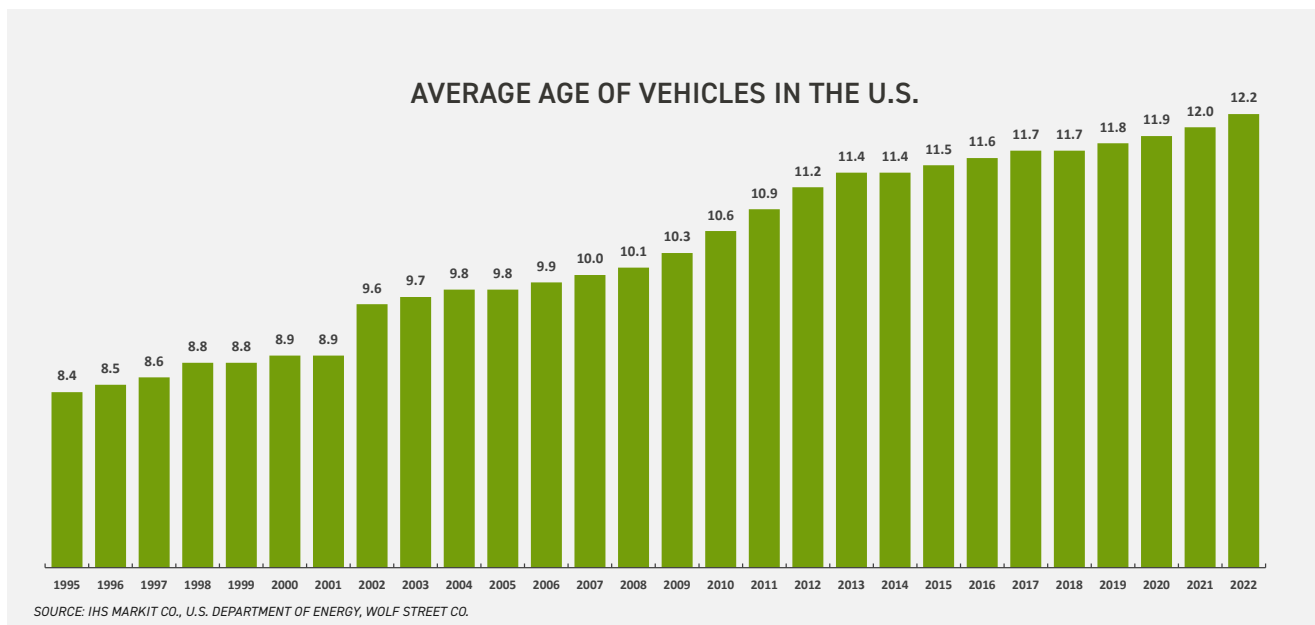
Very shortly after, as many shifted to remote work, benefited from stimulus, and took advantage of the additional free time that was created through eliminated commutes, the sales of aftermarket parts—particularly performance and appearance enhancing products—went on a boom which continued through 2021 and into 2022.



SOURCE: U.S. FEDERAL HIGHWAY ADMINISTRATION

Now, economic uncertainty caused by rampant inflation, higher borrowing costs, elevated energy costs, and global tensions and conflict has caused a slowdown in that buying behavior. While purchases that could be considered discretionary have remained strong but have pulled back to historical sales levels, car usage has reverted to its pre-pandemic rates. In addition, the lack of available new vehicles has caused consumers to keep and maintain their existing vehicles longer.

Vehicle owners continue to purchase DIY and DIFM products that help to maintain and increase the longevity of their vehicle. Non-discretionary services such as mechanical repair and collision repair have also seen increased activity. In times of economic uncertainty, larger ticket purchases such as new cars are deferred while existing vehicles need to be maintained for longer. Deals involving suppliers of replacement parts have seen an uptick in activity with several transactions announced in 2022.



SOURCE: IHS MARKIT CO., U.S. DEPARTMENT OF ENERGY, WOLF STREET CO.

1 INVESTOR FLIGHT TO EARNINGS STABILITY



In November, Lincolnshire Management acquired Whitewater Brands from Peninsula Capital Partners and Rock Gate Partners. BGL's Industrials Group was the exclusive advisor to Whitewater Brands in the process. Whitewater Brands

exhibited extraordinarily consistent profitability after drivers returned to the roads following the forced closures as a result of the pandemic. Lincolnshire recognized the stability and attractive cash flow characteristics of this model.

See page 8 for a case study on the transaction.

“THE WHITEWATER BRANDS ARE WELL RECOGNIZED IN THE COLLISION REPAIR COMMUNITY AND THEIR REPUTATION POSITIONS THEM TO BE A PROMISING PLATFORM FOR GROWTH AS A LEADER IN A VERY LARGE, BROAD, AND HIGHLY FRAGMENTED MARKET,”

- T.J. MALONEY
CEO, LINCOLNSHIRE MANAGEMENT

In January 2022, Covercraft Industries, a portfolio company of Audax Group, completed the acquisition of Lloyd Design Corporation. Lloyd manufactures custom carpeted floor and cargo mats for cars, trucks, vans, SUVs, and RVs. Also in January 2022, All Star Auto Lights (Florida), LLC, a portfolio company of Atlantic Street Capital Management, acquired Autolights LLC. Autolights is a seller of refurbished headlights, taillights, and fog lights primarily to the collision repair industry and automotive dealers.

Both Lloyd and All Star Auto Lights benefit from the aging car parc given the aftermarket and replacement nature of their respective product lines.

“WE ARE EXCITED TO WELCOME THE AUTOLIGHTS TEAM TO THE ALL STAR FAMILY AND LOOK FORWARD TO THE COMBINED GROWTH AHEAD. WE CONTINUE TO TARGET COMPLEMENTARY OPPORTUNITIES TO POSITION ALL STAR AS A LEADING PROVIDER OF HIGH QUALITY REMANUFACTURED AND CERTIFIED AFTERMARKET LIGHTS AND BUILD OUR PRESENCE IN THE REMANUFACTURED AND OEM REPLICA WHEELS CATEGORY”

- PHIL DRUCE
PARTNER, ATLANTIC STREET CAPITAL

2

SUPPLY CHAIN CHALLENGES ABATING – BUT NOT ENTIRELY: STILL AFFECTING M&A STRATEGIES

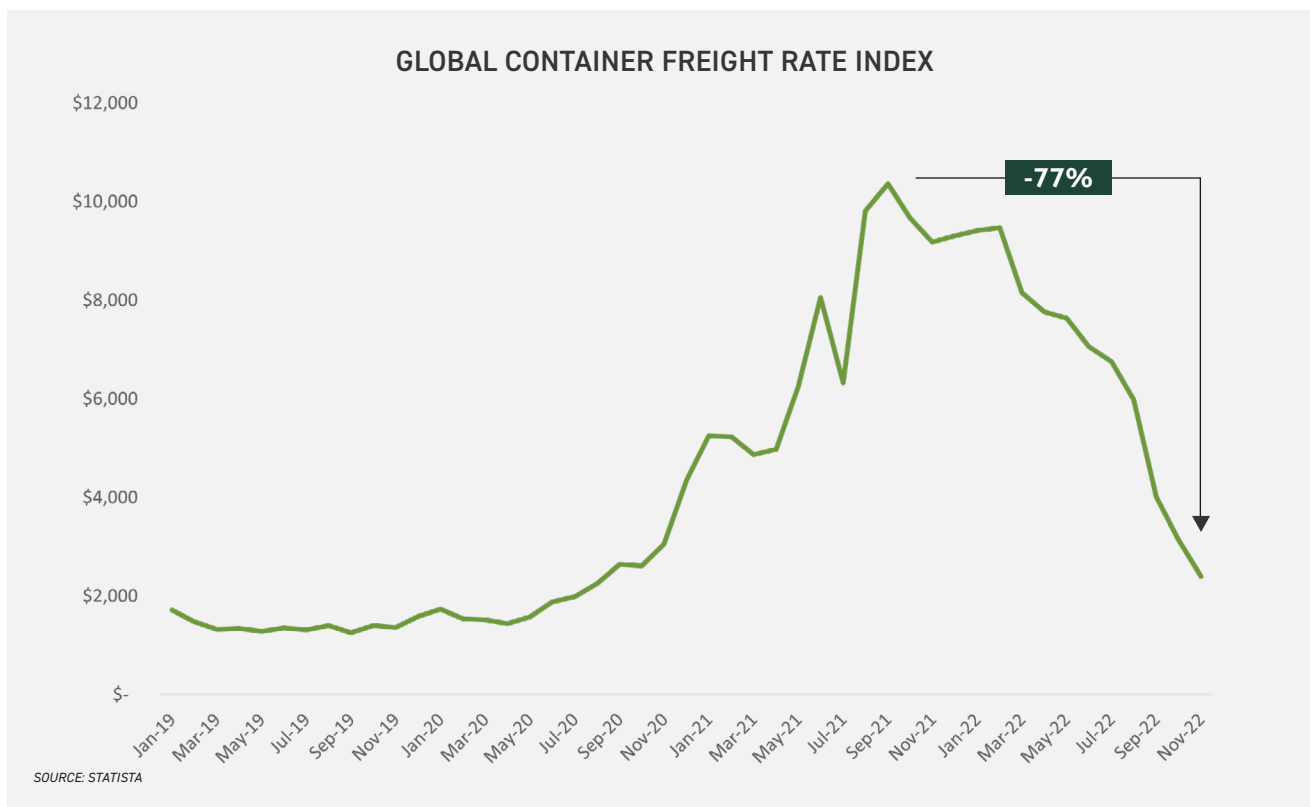
At the beginning of 2021, logistics costs and shipping rates were still high, and the ports were still clogged. High demand for products existed, while availability of goods remained low and lead times long. Global economies and travel have since opened back up. While shipping costs have come down, the risk of domestic rail strikes has lingered, with the U.S. government set to intervene.

While these external factors have improved, companies have continued to think hard about nearshoring some or all production given the speed-to-market advantages afforded by domestic or near-domestic production.

Vertical integration strategies are also being advanced through acquisitions and joint ventures. In October 2022, Contemporary Amperex Technology Co. Ltd.

(CATL) announced it has agreed to buy an almost 25% stake in cobalt producer CMOC Group. CMOC mines metals in China and Africa, illustrating an upstream strategy to secure materials in the growing China EV supply chain. Furthermore, Ford Motor Co and CATL are considering building a battery plant in Michigan or Virginia, which would be operated by CATL. The multibillion-dollar facility will make lithium iron phosphate batteries for Ford’s electric models.

Also in October, Nikola Corporation acquired Romeo Power, an energy technology leader delivering advanced electrification solutions. Commenting on the acquisition, Michael Lohscheller, Nikola’s President, said, “The acquisition of Romeo will enhance Nikola’s capabilities, allowing us to vertically integrate in an effort to accelerate product development and improve performance for our customers.”



3 COMING TO TERMS WITH ELECTRIFICATION














Reducing carbon emissions through powertrain changes has been an area that Todd Cassidy, BGL’s Head of Automotive & Aftermarket, has written about for years. In 2016, Cassidy identified the thesis, “Lightweighting and Powertrain Efficiency Play Leading Roles in Meeting 2025 CAFE Standards.” In his analysis, Cassidy concluded, “Electric, hybrid, and fuel-cell vehicles capture much of the public’s attention, but these alternative-powered vehicles are still a long way from making a major impact on OEMs’ ability to meet CAFE targets.”

Beginning in 2017, the sentiment toward electrification was becoming decidedly different with multiple OEMs announcing major plans to deliver electrified platforms. Cassidy cited research from Boston Consulting Group that projected EVs to represent 5% and hybrids and EVs to represent over 30% of the 110 million vehicles anticipated to be built in 2025.

Over the subsequent five years, a strong push has been made to accelerate the adoption of EVs, and consumer acceptance has increased. Cassidy’s discussions with operating companies at SEMA about strategies toward the EV shift have been telling. While the question was more “if” EVs back in 2015 and 2016, today the question is “when” EVs. EVs will eventually represent a large part of the car parc, and businesses need to have a strategy to address them.

The latest headline in automaker announcements was in December 2022 when BorgWarner (NYSE:BWA) revealed plans to spin off its fuel systems and aftermarket segments, an “... important next step to further our pivot to EVs,” said CEO Frédéric Lissalde, as the company looks to increase its focus on becoming an EV supplier. BorgWarner has announced a \$4.5 billion EV revenue target for 2025.

MAJOR AUTOMAKER ANNOUNCEMENTS ON ELECTRIFICATION

YEAR ANNOUNCEMENT	BRAND	AMBITION
2022		50% of vehicles sold to be fully electric by 2025 or earlier, 100% by 2030
2022		Aims to make its entire lineup zero-emissions in major markets by 2040.
2022		25% of its vehicles will be electrified in 2030
2021		50% of vehicles sold to be fully electric by 2030 or earlier
2021		One-third of sales to be fully electric by 2026 and 50% by 2030, with all-electric sales in Europe by 2030
2021		20% of car sales to be electric by 2025
2021	 Mercedes-Benz	All newly launched vehicles will be fully electric from 2025
2021		50% of vehicles sold to be fully electric by 2030 or earlier
2021	 TOYOTA	3.5 million annual electric car sales by 2030 and the rollout of 30 BEV models
2021		All-electric vehicles to exceed 70% of European and 50% of Chinese and U.S. sales by 2030, and by 2040 nearly 100% to be ZEVs
2021		Become a fully electric car company by 2030

SOURCE: PUBLIC FILINGS AND ANNOUNCEMENTS

3 COMING TO TERMS WITH ELECTRIFICATION



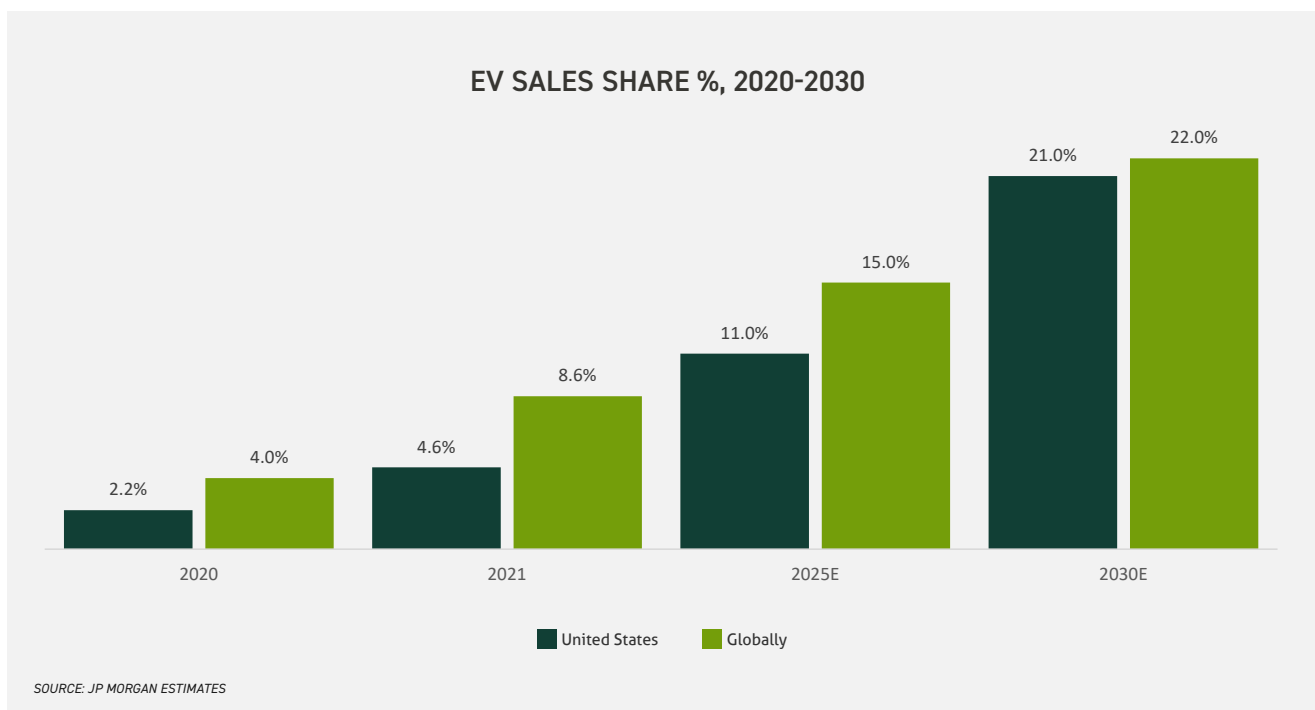
Suppliers of powertrain parts have resorted to M&A to add capabilities that insulate them from obsolescence. In September 2022, FPT Industrial, the global powertrain brand of Iveco Group, announced a minority investment in Blue Energy Commercial Vehicles Private Ltd, a zero-emission truck technology company headquartered in Pune, India.

Aftermarket companies that specialize in powertrain related components must also have an eye to the future. However, it is well understood, as Cassidy wrote in 2021, that the tail on the internal combustion engine for the aftermarket is measured in decades and not the four- to six-year typical private equity hold period and as a result remain highly attractive M&A targets.

Examples of powertrain-related businesses purchased by private equity over the last 12 months include RANDY's WorldWide (Greenbriar Equity Group and Tailwind Capital) in November 2022 and

Cloyes Gear and Products (MidOcean Partners) in February 2022. RANDY's is a supplier of aftermarket products primarily for sport utility vehicles, trucks, and crossover-utility vehicles. Replacement products include differential suspension, axle assemblies, transfer cases, alloy wheels, driveshafts, and transmission parts. Cloyes manufactures timing-drive systems and engine components for OEMs and the automotive aftermarket.

Race Winning Brands, a MiddleGround Capital portfolio company, acquired TMG Performance Products in June. TMG manufactures branded performance exhaust and air intakes for aftermarket automotive and marine enthusiasts. With this most recent acquisition and growing market share amongst enthusiasts, MiddleGround's Race Winning Brands platform appears well positioned for continued earnings growth going forward as the company benefits from substantial scale in the performance space.



4

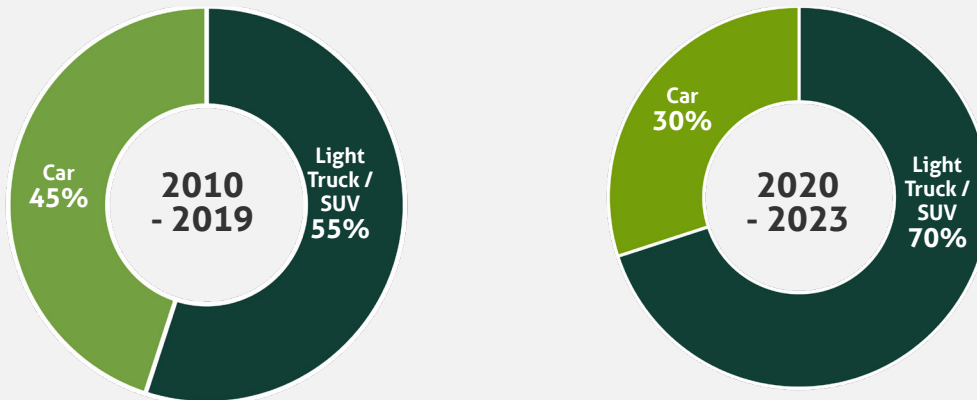
AMERICAN BUYERS LOVE THEIR TRUCKS & SUVs (AND CUSTOMIZING THEM)



It has been a long-term trend in the U.S. automotive industry away from passenger cars towards trucks and SUVs to meet consumer preferences. Trucks and SUVs have high rates of customization and remain fertile grounds for aftermarket performance and appearance-enhancing products. Since the 2010's, the U.S. light truck / SUV has increased from approximately 55% of total annual production to roughly 70% since 2020.

Companies making customization products for trucks and SUVs continue to be attractive areas for consolidation. A recent relevant example of consolidation in the truck aftermarket is Midwest Truck and Auto Parts, acquired by S&S Truck Parts in August 2022. This acquisition represents a continued trend in M&A focused on the light truck and SUV segments of the market and demonstrates interest in companies that allow consumers to more easily customize their vehicles.

U.S. LIGHT TRUCK / SUV SHARE OF MARKET



SOURCE: BOA RESEARCH

5 CASE STUDY



LEADING OMNI-CHANNEL MARKETER AND SUPPLIER TO DIVERSE AUTOMOTIVE END MARKETS

WHITEWATER BRANDS

COMPANY OVERVIEW

- Leading marketer and supplier of high-margin, productivity-enhancing consumables and light equipment to the automotive collision, mechanical repair, and dealership industries
- Formed through a merger in 2012, products are sold to over 135,000 customers across North America
- Serves independent repair shops and Multi-Shop Operators (“MSOs”) in the highly-fragmented collision, mechanical repair, and automotive dealership industries

SELECT INVESTMENT HIGHLIGHTS & RELEVANCE

- Growth story focused on 1) market penetration, 2) brand and capability expansion, 3) end market expansion, and 4) consolidation
- Achieved substantial liquidity event for shareholders through the orchestration of a global market-clearing auction process
- Navigated through changing market conditions between first half and second half of 2022

5

AUTOMOTIVE AFTERMARKET / GLOBAL CONSUMER



AUTOMOTIVE AFTERMARKET	TIERED VEHICLE SUPPLIERS <ul style="list-style-type: none"> • Advanced Technologies • Components Produced with Various Materials • Highly Engineered Systems • Mixed OE Supply & Aftermarket Models 	AUTOMOTIVE AFTERMARKET <ul style="list-style-type: none"> • Non-Discretionary Replacement Parts • Enthusiast Products • Asset Light Manufacturing & Distribution Models • Varied Go-To-Market Strategies 	VOCATIONAL VEHICLES <ul style="list-style-type: none"> • Commercial Vehicle Components & System Suppliers • Specialty Vehicle Manufacturers • On- and Off-Highway Applications 	
	GLOBAL CONSUMER	FUNCTIONAL <ul style="list-style-type: none"> • Home Decor • Lighting • Kitchen & Bath • Outdoor & Casual Furniture • Ready-to-Assemble Furniture 	ENTHUSIAST BRANDS <ul style="list-style-type: none"> • Outdoor Products • Active Lifestyle • Sporting Goods • Performance Automotive • Aftermarket • Arts & Crafts • Performance Apparel & Accessories 	eCOMMERCE <ul style="list-style-type: none"> • Amazon-centric, FBA • Brands with eCommerce Strategies • Digitally Native Brands • Omnichannel Retailers

6 AUTOMOTIVE AFTERMARKET / GLOBAL CONSUMER



DEDICATED LEADERSHIP

AUTOMOTIVE AFTERMARKET



TODD R. CASSIDY
Managing Director
Automotive
Aftermarket

PROFESSIONAL EXPERIENCE

- Nearly 20 years of M&A and corporate experience
- Former investment banker at Raymond James and William Blair where he led coverage of the Automotive Aftermarket sectors
- Prior experience in product planning, program management, and engineering at Ford Motor Company, as well as engineering roles at DaimlerChrysler and Boeing

EDUCATION

- M.B.A., Harvard Business School
- M.S., University of Michigan
- Mechanical Engineering
- B.S., University of Notre Dame
- Mechanical Engineering
- B.S., University of Notre Dame
- Philosophy
- Eagle Scout

GLOBAL CONSUMER



JOHN R. TILSON
Managing Director
Head of Consumer

PROFESSIONAL EXPERIENCE

- Leads BGL's Consumer Group
- Former managing director at predecessor firms to JP Morgan.
- More than 30 years of investment banking and corporate finance experience
- Extensive track record in mergers and acquisitions, capital markets, and strategic assignments for branded consumer platforms

EDUCATION

- M.B.A., Northwestern University, Kellogg School of Management
- B.S., University of Illinois
- Eagle Scout

6 AUTOMOTIVE AFTERMARKET / GLOBAL CONSUMER

REPRESENTATIVE TRANSACTIONS

AUTOMOTIVE AFTERMARKET

WHITEWATER
BRANDS

a portfolio company of

ROCK GATE PARTNERS
and
Peninsula Capital
Partners

— acquired by —

Lincolnshire
MANAGEMENT

Gearbox

a portfolio company of

MONOMOY
CAPITAL PARTNERS

Senior Secured Credit Facility

Transaction completed by a BGL banker while at a former firm.

K&W

a portfolio company of

GRYPHON
INVESTORS

— acquired by —

Goldman Sachs

Transaction completed by a BGL banker while at a former firm.

WHEEL PROS

a portfolio company of

Platinum Equity

— acquired by —

Audax Group

Transaction completed by a BGL banker while at a former firm.

Old World Industries
d/b/a

PEAK

has sold its manufacturing assets —
to —

INDORAMA
VENTURES

Transaction completed by a BGL banker while at a former firm.

QUALITOR

a portfolio company of

HCI EQUITY PARTNERS

— acquired by —

WELLSPRING CAPITAL
MANAGEMENT LLC

Transaction completed by a BGL banker while at a former firm.

Gabriel

a portfolio company of

OPENGATE CAPITAL

— acquired by —

MAT HOLDINGS, INC.

Transaction completed by a BGL banker while at a former firm.

DEXTER AXLE

a portfolio company of

THE STERLING GROUP

— acquired by —

TITAN
Brake and Actuator Business

Transaction completed by a BGL banker while at a former firm.

AFTERMARKET eCOMMERCE

MOTIS
BRANDS

a portfolio company of

Rotunda
Capital Partners

— acquired by —

PROSPECT HILL
GROWTH PARTNERS

ECIS-TUNING

a portfolio company of

BERTRAM
CAPITAL

— acquired by —

CORTEC Group

Co-Advisor

Eastwood

— acquired by —

KIAN CAPITAL
A PRIVATE INVESTMENT FIRM

ENTHUSIAST AUTO
HOLDINGS

a portfolio company of

BERTRAM
CAPITAL

— acquired by —

CORTEC Group

Co-Advisor

eCOMMERCE ENTHUSIASTS

TRUGLO
WHEN BRIGHTNESS COUNTS™

— acquired by —

GSM
OUTDOORS

RTIC

— acquired by —

WIND POINT PARTNERS

UPPER ECHELON
PRODUCTS®

— acquired by —

GUARDIAN
CAPITAL PARTNERS

OrthoFeet

a portfolio company of

TUCKERMAN CAPITAL

— acquired by —

Webster
Equity Partners

LOGO
SPORTSWEAR

an affiliate of

GLADSTONE INVESTMENT
and

DIGITAL FUEL
CAPITAL

— acquired by —

DBI **DIGITAL ROOM INC.**

a portfolio company of

H.I.C.
CAPITAL

KANJAM

— acquired by —

WS WILD
SPORTS

a portfolio company of

Centerfield Capital **EXPEDITION**

CEP
Cashless Equity Partners

TSC
APPAREL®

— acquired by —

CenterGate
CAPITAL

JA/EG
JACOB ASH/EMANUEL CERAZAO

— recapitalized by —

HCAP
PARTNERS

TRI-W

REGA



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