

FOCUS

CRAIN'S BIGGEST DEALS OF 2017

Deal totals 2016 vs. 2017

A comparison of the number of deals per year per industry.

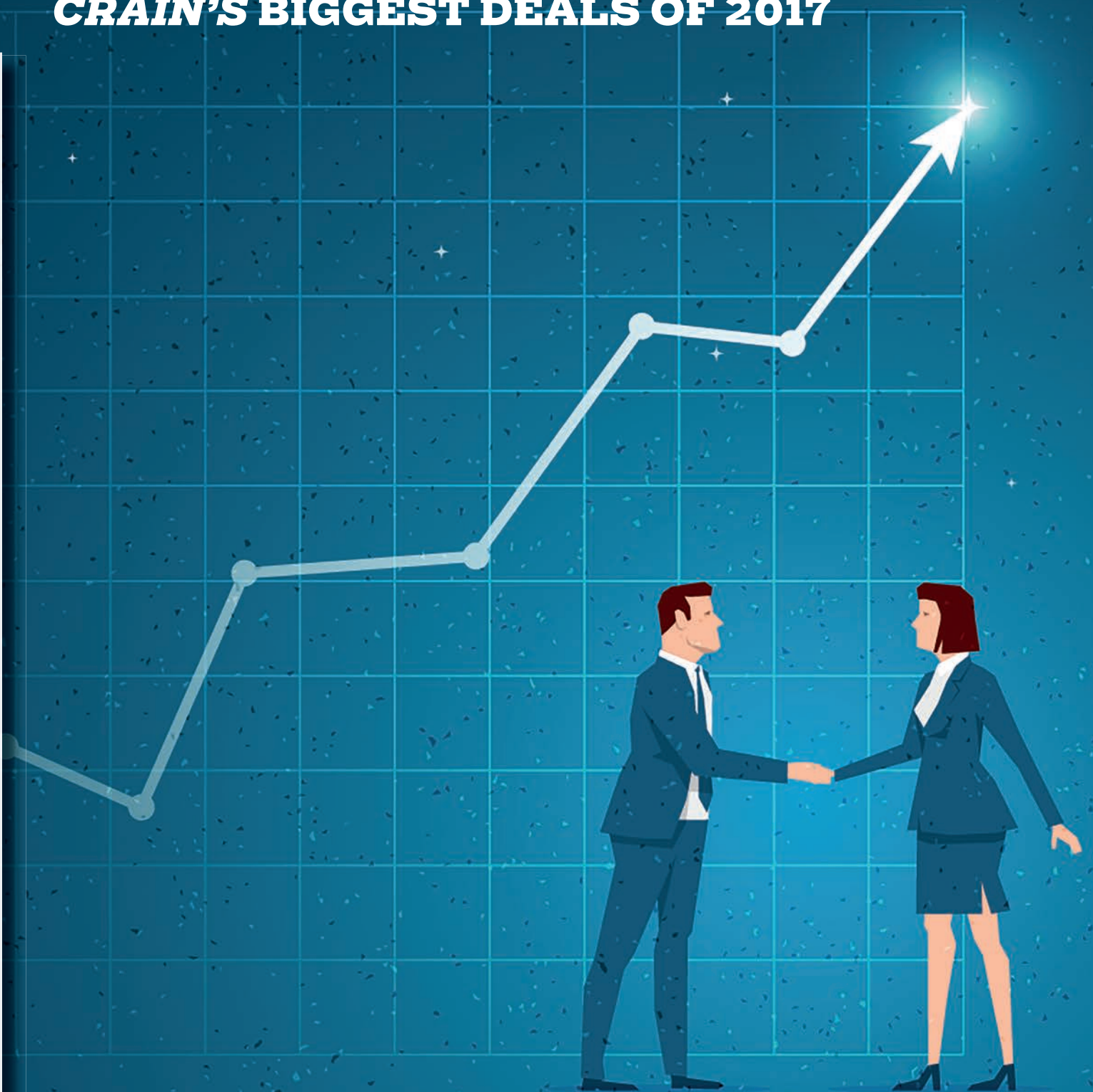
2016

Industries	# of deals	%
Automotive	22	44
Health care	8	16
Technology	5	10
Retail	4	8
Finance	3	6
Food	3	6
Utilities	2	4
Construction	1	2
Manufacturing	1	2
Real estate	1	2
Total	50	100

2017

Industries	# of deals	%
Automotive	13	23.2
Retail	7	12.5
Technology	7	12.5
Services	6	10.7
Biotech/ Medical	5	8.9
Food	4	7.1
Health care	3	5.4
Manufacturing	3	5.4
Energy	2	3.6
Finance	2	3.6
Media/ Marketing	2	3.6
Insurance	1	1.8
Mining	1	1.8
Total	56	100

Source: *Crain's* Lists of Largest Mergers & Acquisitions 2016 and 2017
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Hot M&A market

Southeast Michigan's automotive industry, technology, private equity drive 2017 deals

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As far as mergers and acquisitions were concerned, 2017 was the year of consolidation.

From American Axle & Manufacturing's \$3.3 billion deal for Metaldyne Performance Group to Meritor's \$34 million acquisition of Fabco Automotive, Southeast Michigan's automotive industry looked to build market share by gobbling up competitors and smaller players.

Strategic buyers also made big plays for technology, and private equity

Need to know

- 2017 was the year of consolidation
- Automotive industry looked to build market share
- Strategic buyers also made big plays for technology

uity wasn't dormant, looking for middle-market or regional players it could roll up into larger entities.

M&A experts say Michigan is a hot acquisition market because of its record returns in recent years coming

out of the recession and with the automotive industry reaching its projected sales peak in 2016, more deals could be on the horizon thanks to favorable tax reform, even as values drop.

"Multiples are really high right now, and that's driven a lot of sellers into the marketplace that normally wouldn't have been interested," said Timothy Damschroder, partner and chair of the business practice for Bodman LLP in Ann Arbor. "People are bullish on the economy, from Wall Street to the middle market, and

that's driven everyone to be aggressive."

For American Axle, the push to acquire Metaldyne Performance Group — formed in 2014 when its private equity owners American Securities merged the former Metaldyne with Grede Holdings LLC and HHI Group Holdings LLC — was a necessity to reduce its reliance on its former parent company General Motors Co.

The automaker accounts for more than 60 percent of American Axle's revenue and poses a threat to its bottom line if the automaker's sales fall

off. The integration of MPG is expected to reduce GM to 41 percent of sales this year with plans to reduce that further to 32 percent by 2020.

David Dauch chairman and CEO, in an interview with *Crain's* in April last year, said he spoke with Steve Keifer, GM's chief of purchasing, after the deal was signed and the automaker is very supportive of the deal.

"Keifer recognizes the intent to reduce our reliance on GM, but while protecting our business with them," Dauch said.

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DEALS

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Plymouth Township-based Adient Ltd. sought to improve its capacity use and expand market share with its \$360 million acquisition of competitor Futuris Group in September. Lear did the same thing in April when it acquired the seating business of Grupo Antolin for \$307 million.

Strategic buyers weren't alone in amassing market share last year either. Boston-based private equity firm Thomas H. Lee Partners acquired Warren's Art Van Furniture Co. in a \$550 million deal in February, then used the furniture retailer to acquire Levin Furniture Inc. and Wolf Furniture Co., both of Pennsylvania, for \$170 million and \$95 million, respectively. Experts believe Thomas H. Lee plans to roll out the Art Van brand to a wider geographic market in a fragmented industry ripe for such consolidation.

Private equity is expected to remain strong in 2018 as well, Damschroder said, because firms continue to be very successful in raising funds thanks to a years-long trend in economic growth.

Globally, private equity funds are sitting on nearly \$1 trillion of "dry powder," industry slang for money that they've raised but have yet to invest.

"People want to invest dollars in business, and the amount of dry powder is just massive," Damschroder said. "PE firms have so much to invest they are essentially fighting each other to get deals done."

The auto industry's breakneck pace of new launches — some suppliers expect to be involved in as many as 200 new product launches in the next two years — is expected to cause financial distress among the supply base, providing lower prices and more opportunity for private equity takeovers, said Leonard LaRocca, partner of the deal advisory practice for KPMG LLP in Detroit.

"Suppliers are struggling to keep up and the expected stagnant (sales) volumes will add financial pressure to the system," LaRocca said. "We're going to start to see cracks in the supply chain, and PE will step in and get in on deals that are bit too hairy for traditional strategic buyers."

The trend of chasing, bidding and acquiring niche technology firms that can be used to expand, differentiate and exploit new markets is not expected to slow, LaRocca said.

Aptiv Inc., formerly Delphi Automotive plc, bought Boston-based autonomous driving software firm NuTonomy for \$450 million in December. BorgWarner Inc., an Auburn Hills-based powertrain supplier, acquired electric vehicle battery charger manufacturer Sevcon Inc. in September for \$200 million.

That trend will continue — Germany's Robert Bosch GmbH acquired Detroit-based corporate ride-sharing software developer Splitting Fares Inc. (better known by its brand name SPLT) last week for an undisclosed sum.

"For our local companies, like BorgWarner, Adient, Lear, etc., they are all going to be active (with M&A)," LaRocca said. "But automo-



Timothy Damschroder: People want to invest in business.



Leonard LaRocca: Connectivity has impact.

nnectivity and the trends in the tech space." For instance, Kalamazoo's Stryker Corp. acquired real-time imaging technology firm Novadaq Technologies Inc. for \$701 million in September.

Deal structure is also changing, which expedited deals last year and is expected to this year as well, both LaRocca and Damschroder agree.

The use of representation and warranty insurance, which provides coverage for the breach of a representation or warranty, in a purchase agreement. Essentially, in deals without the use of the insurance, the buyers' attorneys work diligently to protect their client

from liabilities tied to products and services made by the seller before

the sale — think a massive, painfully expensive automotive recall. Indemnification negotiations ultimately slowed down deals and, often enough, killed them, Damschroder said.

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"The use of this insurance eliminates heavy negotiations and is really moving deals to completion with more ease," Damschroder said. "In 2016, only about 20 percent to 30 percent of deals had the insurance; last year, they all did. I don't expect that to change, and it's gone a long way in making deals less painful."

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