AP CAPITAL RESEARCH

M&A Deal of The Week

APOLLO GLOBAL MANAGEMENT × PANASONIC AUTOMOTIVE

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Executive Summary

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Deal Summary

- On March 29th, Panasonic Holdings announced its decision to sell a majority stake in Panasonic Automotive Systems (PAS) to Apollo Funds, an affiliate of US Private Equity firm Apollo Global Management. The deal is estimated to have an enterprise value of approximately ¥311 billion ($2.06 billion) and may be subject to adjustments at closing. Apollo will acquire an 80% stake in the business, with Panasonic retaining a minority stake in the subsidiary.
- As part of the deal, Panasonic will retain its stake in PAS by holding a 20% stake in Star Japan Holdings, a new holding company under Apollo Management. Apollo stated that the automotive business would maintain its strategic relationship with Panasonic Group.
- The deal aims to use Apollo's expertise and knowledge in the automotive industry to accelerate the growth of Panasonic Automotive Systems, which has faced reduced profit margins and increased competition from rivals in South Korea and China in recent years.
- The CEO of Panasonic Automotive Systems, Masashi Nagayasu, stated: "By taking advantage of our partnership with Apollo and realizing PAS' full potential, we aim to become a top global player in the automotive electronics industry by providing added value to cars and the mobility experience with our customers."
- The transaction is expected to be completed by the end of the first quarter of 2025, subject to the satisfaction of customary closing conditions, including regulatory approvals.

Key Figures

- **Deal Premium:** 33%
- **Closing date:** 2025 Q1
- **Panasonic P/E:** 6.3x
- **Panasonic D/E:** 38.2%
- **Panasonic Price/Book:** 0.8x
- **Panasonic Market Cap:** $22.2 billion

- **Apollo EV/EBITDA:** 20.41x
- **Apollo EV:** €73.99 billion.
- **Apollo P/E:** 12.5x
- **Apollo D/E:** 188.9%
- **Apollo Price/Book:** 4.8x
- **Apollo Market Cap:** $65.9 billion

Company Information

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Apollo Global Management (NYSE: APO)

- Apollo Global Management "Apollo" is an alternate asset manager specialising in Private Equity (PE) and, as of January 2024, is the 4th largest PE firm in the world with over $523 billion in assets under management (AUM). Apollo's business model involves looking for target firms with a market capitalisation of between $750 million and $2.5 billion and acquiring them outright or using debt in a leveraged buy-out (LBO). Apollo then attempts to accelerate value growth in the newly acquired business and, typically holding the company for a horizon of typically 3-5 years, exits the company via a sale or an initial public offering (IPO) at an expected higher valuation.
- Apollo's performance as a business over the past 5 years has been impressive. They have driven their revenues from a modest $2.8 billion in 2019 to a staggering $31.9 billion in 2023, reflecting a 5-year Compound Annual Growth Rate (CAGR) of 62%. The year 2023 was particularly fruitful for Apollo, with a revenue of $31.9 billion, leading to a net income of $4.84 billion and a net income margin of 15%. As a comparison to the industry, Apollo's margin sits below the industry average of 21%
- The current EPS is $1.75, resulting in a P/E of 12.5.

Panasonic Holdings Corp (TSE:6752)

- Panasonic Holdings Corp (Panasonic) is a holding company with eight subsidiaries. Panasonic Automotive Systems (PAS) accounted for 15% of Panasonic's revenue in 2023, equivalent to $9.1 billion. PAS has been one of Panasonic's underperforming business segments, with revenue peaking at $17.6 billion in 2019 and falling since. With constrained management resources, Panasonic cannot invest more in this division; hence, they decided to sell a stake to Apollo.
- Panasonic's Financials - Panasonic's revenue growth has been sluggish over the last five years, with its five-year CAGR equal to 1%. Their 2023 revenue equalled $60.7 billion, which led to a net income of $28.8 million, yielding a net income margin of less than 1%.
- Their current EPS sits at $0.31, resulting in a P/E of 6.3.

Deal Rationale and Risk

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Apollo’s Automotive Expertise and Falling Revenue

Failing Business Segment

- Panasonic Automotive Systems (PAS) division has been declining in revenue over the past 5 years, with a 5-year CAGR of approximately -11%, while Panasonic's CAGR is 1%. This is partly due to PAS' falling revenue growth and as a result, they have decided to sell off this segment of the business to Apollo Global Management. The transaction is part of Panasonic Group Chief Executive Officer Yuki Kusumi's plan to free up billions of dollars to invest in new areas of growth following the firm's restructuring into a holding company in April 2022. Panasonic has decided to retain a 20% stake in PAS, allowing it to capitalise on the increase in the value of the business while using Apollo's management expertise.

Apollo’s Expertise

- Apollo has a wealth of experience as an alternative asset manager and has acquired an 80% stake in PAS because they can turn around the business, accelerate revenue growth to the previous levels and increase profitability.
- The CEO of PAS, Masashi Nagayasu, said, "By taking advantage of our partnership with Apollo and realising PAS' full potential, we aim to become a top global player in the automotive electronics industry".

Risk

Macroeconomic

- The main risk in this deal comes from macroeconomic factors as PAS’ products are for the automotive industry, which is consumer-orientated, meaning that if economic growth is low and incomes are not rising demand will remain low. This could result in reduced PAS product orders, affecting revenues and potentially stifling Apollo’s attempt at accelerating growth and generating an increased valuation. However, what mitigates this risk is the fact that Apollo is a global powerhouse with a range of expertise in increasing a business valuation and turning businesses around. This means even if an economic slowdown were to happen, Apollo would find a way to force growth out of PAS.

Industry Analysis

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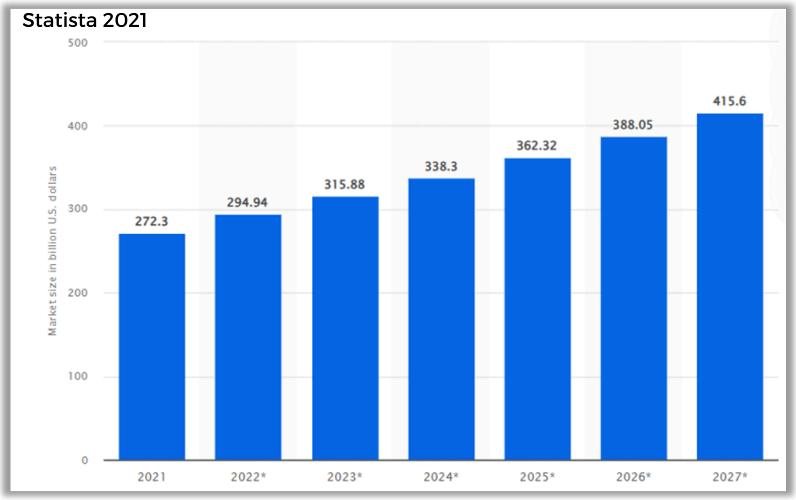
Automotive Electronics Industry

- The Automotive Electronics Industry is one of the fastest-growing industries in the world and is expected to grow rapidly in the next decade, as shown in the graph below. This is due to the implementation of AI.
- Current industry players include PAS, HELLA, Infineon Technologies AG, and Hitachi Automotive Systems, with Infineon holding the largest market share of the industry with 12.3%(Statista)

Projected size of the global automotive electronics market from 2021 to 2027(in billion U.S. dollars)



The Automotive Electronics industry in the U.S. is expected to grow at a **Compound Annual Growth Rate (CAGR) of between 5.8 and 6.1%** from 2021 to 2029, this being based upon various sources.

Threats

- One of the major factors holding back the automotive electronics industry is the high cost associated with implementing advanced electronic systems and technologies in vehicles. When advanced electronic systems and technologies are integrated into vehicles, the overall cost of the vehicle can significantly increase. This includes the cost of components, software development, testing, and integration. The high cost of vehicle electronics can make them more expensive for consumers, which limits their affordability and adoption, particularly in price-sensitive markets. As a result, this restricts the overall growth of the market.

Final Thoughts

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Samuel Thompson

All in all, the sale of PAS to Apollo will be very beneficial to Panasonic Holdings Corp, allowing them to profit from the sale of a declining business segment as well as capitalising on any future increases in value under Apollo's management through their 20% retained stake in PAS.

Regarding PAS's future, Apollo, based on its past track record in PE, should prove to be a good influence and hopefully transform PAS into the business it once was.

Luke Verney

An important change in the automotive sector has occurred with the sale of Panasonic Holdings' interest in Panasonic Automotive Systems (PAS) to Apollo Global Management. Apollo's acquisition of an 80% interest, valued at an estimated $2.06 billion, shows confidence in reviving PAS in the face of fierce competition. To increase PAS's worldwide footprint, Star Japan Holdings was formed, with Panasonic holding a 20% stake. The goals of CEO Masashi Nagayasu to improve the mobility experience, highlight this partnership's potential. Economically speaking, this transaction should encourage investment in automotive innovation and technology, which could result in the creation of jobs and increased industry competitiveness. Despite unknown financial advisors, this purchase, expected to close by Q1 2025, paves the way for innovation in vehicle electronics.

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