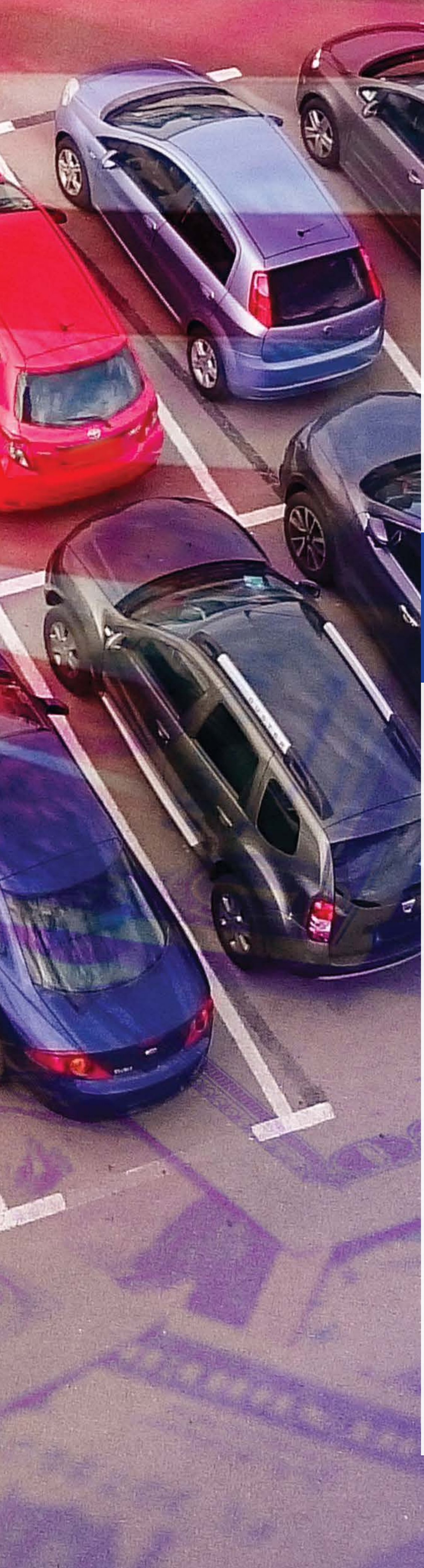

A PRIVATE EQUITY PERSPECTIVE *on the U.S. Automotive Sector*

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Private equity likes change. In evolving industries, PE firms bring a distinctive toolkit: experience in buying and selling across economic cycles, a sharp eye for identifying undervalued assets, and a disciplined approach to risk and value creation.

The U.S. automotive sector—long considered mature, margin-constrained, and capital-intensive—is now undergoing a profound transformation. Electrification, autonomous driving, regulatory flux, and supply chain upheaval are reshaping both the supply chain and original equipment manufacturer (OEM) landscape. For many incumbent investors and industry participants, the capital and strategic commitment required to navigate this shift is daunting. PE, by contrast, sees opportunity.

Firms like AURELIUS exemplify this contrarian ethos. Its investment model tolerates elevated risk and leans heavily on operational intervention rather than leverage or margin expansion on the back of macroeconomic tailwinds. In sectors deemed unfashionable or structurally challenged, such as the automotive supplier segment, PE investors with operational capabilities can unlock latent value.

PE's long-term orientation and ability to deploy capital strategically allow it to support businesses through transformational periods. In the automotive sector, where suppliers must adapt rapidly to OEM demands while managing investments supporting future viability, this model is particularly attractive. Hands-on investors who can implement operational efficiency initiatives and drive performance improvement are able to deliver sustainable outcomes for all stakeholders.

Filling the Void: PE Steps In Where Public Markets Step Back

While listed OEMs continue to attract institutional capital—often on the basis of depressed valuations—the broader automotive OEM supply chain has seen a marked withdrawal of interest from public market financing,

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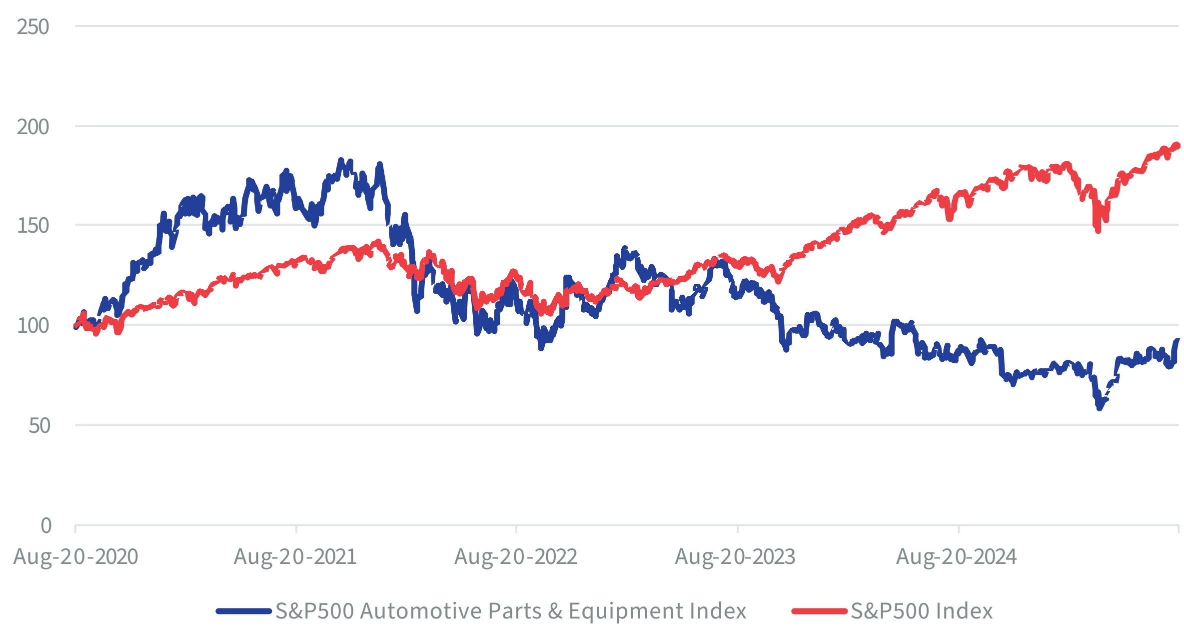
Figure 1: Relative Performance of the S&P500 Automotive & Equipment Index



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as highlighted by the significant relative underperformance of the S&P500 Automotive and Equipment. (See **Figure 1.**) The same is true for debt financing. As a consequence, automotive suppliers, many of them privately held or non-core within larger conglomerates, face capital constraints and strategic drift.

Private equity has been stepping in, addressing this capital and operational need. At the supplier level, PE investors are playing a critical role in stabilizing supply chains, alleviating production bottlenecks, and restoring industry competitiveness. The sector's complexity—exemplified by tariff uncertainty, regulatory volatility, and production cyclicality—has deterred many traditional public and private market investors. PE firms with operational depth and a long-term investment horizon, however, view these challenges as opportunity.

The transition to hybrid and electric vehicles, the rise of autonomous technologies, and the globalization of supply chains all require strategic agility. PE investors, unencumbered by bureaucratic inertia, can move decisively. Their ability to align incentives, optimize decision-making, and effectively deploy capital gives them a structural advantage.

Moreover, PE ownership has repeatedly demonstrated its capacity to serve the broader ecosystem—customers, suppliers, and employees—through targeted investment and operational stewardship. In a sector where adaptability is paramount, the operational PE model works.

Strategic vs. Financial Sponsors: A Comparative Lens

The following table outlines key differences between PE investors and strategic owners in the automotive sector:

Dimension	Private Equity	Strategic Investors
Investment Horizon	Medium to long-term, cycle-aware	Often short-term, quarterly performance-driven
Capital Deployment	Flexible, opportunistic, focused on transformation	Tied to broader corporate priorities and constraints
Operational Focus	High—hands-on improvement initiatives	High—often limited by internal bandwidth
Risk Appetite	Higher—willing to invest in out-of-favor sectors	Lower—prefer stable growth-oriented segments
Value Creation Strategy	Margin expansion, revenue growth, cashflow optimization	Synergies, market share, product integration
Asset Selection Criteria	Defensible revenue, differentiated products, operational upside	Strategic fit, brand alignment, portfolio coherence

PE investors deploying capital within the automotive sector are drawn to businesses with strong and stable customer relationships, high barriers to entry, and drivetrain-agnostic product sets. They seek differentiated offerings that require technical sophistication and proprietary IP, and they target companies with identifiable operational improvement potential.

However, challenges abound. Technological disruption—such as the shift to steer-by-wire systems—can quickly render legacy products obsolete. Regulatory changes, from emissions standards to tariffs, introduce uncertainty. Broader economic conditions, including inflation and interest rate volatility, further complicate investment theses. Consumer preferences are also evolving, with increased demand for shared and used vehicles altering traditional volume forecasts.

Despite these headwinds, PE's ability to provide capital and operational expertise positions it as a vital force in the sector's evolution. Where strategic investors may hesitate, PE can act—and often does.

A Case Study

AURELIUS' acquisition of Teijin Automotive North America (now rebranded to its former name, CSP) illustrates the PE playbook in action. Identifying the Tier 1 supplier space as ripe for transformation, AURELIUS saw in CSP a business with untapped potential. Having become non-core within Teijin's broader portfolio, CSP now needs new strategic focus and investment.

With a 20-year track record in complex carve-outs and operational excellence, AURELIUS was selected as the preferred buyer in late 2024. The firm's reputation for operational stewardship and stakeholder alignment was instrumental. Working closely with Teijin, AURELIUS ensured a smooth transition, minimizing disruption and laying the groundwork for improvement.

Post-closing, AURELIUS immediately started to collaborate with CSP's management to develop a detailed operating plan. The focus: manufacturing excellence, margin expansion, and product portfolio optimization. CSP's position as a sole-source supplier of critical components to blue-chip OEMs provided a stable foundation. AURELIUS' operational resources—from lean manufacturing expertise to supply chain optimization—are being deployed to enhance competitiveness and financial resilience.

This transaction underscores the PE model's strengths: identifying overlooked assets, executing complex transitions, and driving operational excellence. In a sector where agility and execution matter more than ever, such capabilities are decisive.

Conclusion

The U.S. automotive sector is at an inflection point. Technological change, regulatory flux, and global competition are reshaping the industry. For many traditional investors, these dynamics are cause for caution. For private equity, they represent opportunity.

PE sponsors with operational depth and strategic flexibility are therefore increasingly central to the sector's future. By acquiring undervalued Tier 1 suppliers, implementing performance improvement initiatives, and aligning incentives across stakeholders, they are helping to rebuild and reposition critical parts of the automotive supply chain, to the benefit of all stakeholders. J

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