

SMARTER PERSPECTIVE: MOBILITY

Why Distressed EV Businesses are Ripe for Strategic Divestiture, Partnership and Acquisition in 2024 and 2025

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The electric vehicle (EV) industry, encompassing both automotive and e-bike manufacturers along with their suppliers, is currently navigating a turbulent landscape. Despite the industry's promise of revolutionizing transportation with sustainable solutions, numerous challenges have emerged, creating a complex environment that presents both risks and opportunities for stakeholders.

This market has experienced substantial growth over the past decade, driven by technological advancements, regulatory support, and increasing consumer demand for environmentally friendly transportation. Major automotive companies, alongside a wave of startups, have invested heavily in EV development, aiming to capture a share of this burgeoning market. E-bike manufacturers too, benefiting from similar trends, have also seen significant growth as urban commuters and recreational enthusiasts have sought efficient and eco-friendly alternatives to traditional transportation. This rapid



expansion, however, has not been without its obstacles.

One of the primary struggles for EV companies has been supply chain disruptions. The pandemic exposed vulnerabilities in global supply

chains, leading to shortages of critical components such as semiconductors and batteries. These resulted in a cascading effect on production schedules that have continued to cause delays and increasing costs. For automotive manufacturers, the reliance on a steady supply of lithium-



ion batteries has been particularly problematic. The raw materials required for these batteries, including lithium, cobalt, and nickel, are subject to fluctuating prices and geopolitical tensions, further complicating the supply chain.

E-bike manufacturers, though less dependent on semiconductors than their automotive counterparts, still face significant supply chain challenges. The surge in demand for e-bikes during the pandemic strained the availability of components like electric motors and battery packs. Smaller manufacturers, in particular, have struggled to secure these essential parts, leading to production bottlenecks and unmet consumer demand.

Additionally, the substantial capital investment required for research and development, coupled with the costs of establishing manufacturing infrastructure, has strained the financial

resources of many of these businesses. Exacerbating the situation, competition for funding in the EV sector is quite fierce and because many companies have resorted to aggressive pricing strategies to gain the market share needed to attract and retain investors, their margins have suffered. While this is particularly true of startups that often operate with limited capital reserves, some legacy ICE manufacturers have also shown vulnerability in these areas.

Macroeconomic factors have added another layer of complexity to the EV market. Rising inflation and interest rates have increased the cost of borrowing, presenting greater challenges for companies to finance their operations and expansion plans. The tightening of monetary policy by central banks globally has also dampened investor enthusiasm, leading to lower valuations and reduced access to capital markets. For suppliers, these economic conditions have resulted in increased costs for raw

materials and logistics, squeezing their already thin profit margins. Fortunately, most signs now point to a decreasing rate environment, with Federal Reserve reduction actions likely to begin by Q4 2024.

It is also important to point out the impact of regulatory policies on EV companies. While these have been generally supportive of the transition to electric mobility, the landscape is far from uniform globally or here in the U.S. Differences in emissions standards, safety regulations, and subsidies across regions and by state have created a fragmented market that complicates strategic planning and operations for EV manufacturers and their suppliers. We have seen that navigating this complex regulatory environment requires substantial resources and expertise, which many smaller companies tend to lack.

Despite these challenges, the current



market conditions present unique opportunities for buyers and sellers of distressed assets within the EV industry. For buyers, the distress experienced by many EV companies has led to attractive valuations. Investors with sufficient capital and a long-term vision can acquire assets at a discount, potentially benefiting from future market recovery. This is particularly relevant for private equity and other strategic investors who can provide both the financial resources and operational expertise to help turn around struggling companies.

The acquisition of distressed EV assets can offer several strategic advantages. Firstly, it allows buyers to gain access to innovative technologies and intellectual property at a lower cost. Numerous EV startups have developed cutting-edge technologies in battery management, autonomous driving and connectivity. These can be leveraged to enhance the capabilities of established automotive players or other, diversified industrial groups. Additionally, acquiring manufacturing facilities and gaining access to established supply chain networks can provide immediate production capacity and market entry, reducing the time and investment required for greenfield projects.

For sellers, the current market conditions, while challenging, also present an opportunity to restructure and streamline operations. Companies facing financial distress can explore divestitures of non-core assets to raise capital and focus on core competencies. This may involve selling off production facilities, patents, or even entire business units to more financially stable entities. Such strategic divestitures can help distressed companies reduce debt, improve liquidity and strengthen their balance sheets.

Partnerships and collaborations between distressed EV companies and larger, established businesses can also be

mutually beneficial. Larger companies can provide the necessary capital and market access to smaller, struggling businesses, while also benefiting from their innovative technologies and niche market presence. Such alliances can lead to synergies that enhance the competitiveness of both parties amid the rapidly evolving EV landscape.

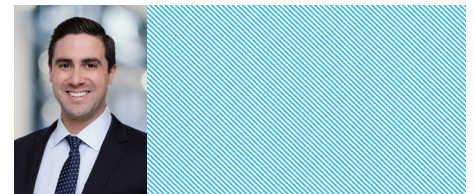
From a broader market perspective, the consolidation of distressed assets can contribute to the overall health and stability of the EV industry. By reducing fragmentation and fostering economies of scale, consolidation enhances the efficiency and competitiveness of the sector. This accelerates the development and adoption of EV technologies, contributing to the achievement of global climate goals.

However, the acquisition and restructuring of distressed EV assets are not without risks. Buyers must conduct thorough due diligence to assess the financial health, operational capabilities, and market potential of target companies. Understanding the underlying causes of distress, whether related to supply chain issues, financial mismanagement, or market competition, is crucial for developing effective turnaround strategies. Additionally, buyers must be prepared to invest significant resources in integrating and revitalizing acquired assets, which can be a complex and time-consuming process.

While the myriad challenges discussed in this article pose significant risks to businesses involved in the manufacturing, distribution and sale of EVs, we firmly believe that they also present unique opportunities for both buyers and sellers of distressed assets. For buyers, the acquisition of undervalued assets offers the potential for long-term gains through technological innovation, market entry, and operational synergies. For sellers, strategic divestitures and partnerships

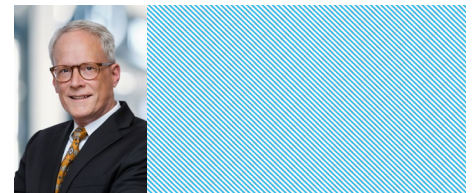
can provide the necessary capital and resources to navigate financial distress and refocus on core competencies. By leveraging these opportunities, stakeholders can contribute to the resilience and competitiveness of the EV industry, driving the continued growth and adoption of electric mobility solutions.

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