THE CHICAGO CORPORATION

The Role For Financial Transactions in the Growth of Autonomous Vehicles

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For well-established investment banks, arranging capital and managing ownership transition for stable industry leaders is a mainstay of the business. Forward-thinking firms, however, look beyond established companies to emerging industries with companies who need the financial capability to grow either organically or through acquisition. The production of autonomous vehicles ("AV") and their components, while fantasy a few years ago, represents one of these emerging industries. Fortunately, the financial markets are beginning to take note.

Take a quick look at the amount of capital available generally. Much of the financing of AV industry participants has come from venture capital firms and, according to Pitchbook ("2017 Annual PE & VC Fundraising Report") almost $120 billion capital was available in venture capital funds at the end of 2Q2017. At the same time, private equity firms had at their disposal almost $850 billion to invest. As AV continues to get more support, these fund sources will become more readily available to the industry.

AV industry participants have been increasingly taking advantage of this capital. In 2016, there were only 14 transactions registered by Pitchbook and, in 2017, that number increased to 57 transactions. For the period from January 1st through May 31st, there were 18 transactions logged in 2017, increasing to 35 transactions in the recent 2018 period. Although most of the transactions were completed with venture capital funds, private equity is beginning to make investments this year. This significant growth indicates both an investor willingness to finance, and a need for finance from the industry.

And this growth is clear from the business environment. Infrastructure is obviously critical to the adoption of AV, and legislation permitting the use of AVs is a first step. 29 states have enacted legislation related to autonomous vehicles, and governors in 10 states have issued executive orders related to AVs (source: National Conference of State Legislatures). Michigan and Florida have gone so far as to allow AVs on all roads in their states.

Is the technology at the point where it will spawn new companies to address the industry's needs? The Society of Automotive Engineers has identified six distinct levels of autonomous operation:

1. No automation
2. Driver assistance
3. Partial automation
4. Conditional automation
5. High automation
6. Full automation

The world is already at level 2, and level 3 is just around the corner. How soon we get to level 6 is anyone's guess, but we can be sure that there will be many new companies developing and manufacturing the components necessary to get there. Financing those companies will be a requirement for growth.

What will make the innovative manufacturers successful? In addition to securing the financing necessary for development, growth through acquisition will also be key. OEMs will prefer suppliers – Tier 2 and below – that have the size and stability to reliably deliver product to their manufacturing process. Because so much innovation takes place inside smaller companies, these market participants will need to combine to achieve the scale necessary to compete. Combinations – achieved through ownership transition – will also result in making AV components compatible with each other, establishing operational standards which will, in turn, spawn more technology and products from growing manufacturers.

Finance plays an important role in the growth of companies, especially those in emerging industries. To take advantage of a fertile business environment, industry participants will need the capital to invest in their businesses and invest in the acquisition of other businesses. Venture capital, private equity, and the myriad of credit sources available to borrowers have demonstrated a growing interest in financing the component manufacturers in the AV industry. Forward-thinking investment banks offer the conduit to that financing.

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