Automotive Companies Face Pressures, but the Aftermarket is Primed for Growth

Unpacking the Trends Driving Automotive and Aftermarket Mergers & Acquisitions (M&A)

CONTRIBUTORS
Todd Cassidy, Managing Director

M&A in the automotive industry is facing pressures from multiple angles. Most recently, the Trump Administration placed a 25% tariff on auto parts, on top of its already-active 25% tariff on imported cars. While there are country specific exceptions in the case of Japan, South Korea and others, the majority of car producing countries are still subject to the rates announced earlier this year. The tariffs are injecting fresh uncertainty into an industry already coping with challenges like increasing vehicle age and a slower-than-expected transition to electric vehicles (EVs)[1].

Amid these headwinds, automotive companies are currently taking a wait-and-see approach to dealmaking, as they try to forecast how the uncertainty will impact their investment strategies. Meanwhile, headwinds for the new vehicle market are often tailwinds for the aftermarket. Suppliers of nondiscretionary replacement parts could be positioned for stronger activity in the coming quarters if they can capitalize on the current hurdles facing automakers and original equipment manufacturers (OEMs). For both automotive companies and the aftermarket, success will come to companies that both optimize internal operations and make strategic, well-timed investments.

NAVIGATING TARIFF UNCERTAINTY

Like many industries, automotive companies are facing steep tariffs under the current administration. In addition to the tariffs on auto parts and cars, the Trump Administration has also implemented a 50% tariff on steel and aluminum, but has specified that imports already subject to the 25% car or parts tariff will not have the steel and aluminum tariff "stacked" on top. The bottom-line effects of these duties are projected to be significant, as automotive companies rely on broadly distributed supply chains that do not come with simple workarounds.

As a just-in-time manufacturing industry, the automotive sector is especially sensitive to supply chain disruptions – and most companies do not engage in dual sourcing and cannot simply switch to a different supplier when faced with disruption or new regulation. The Trump administration has amended its auto parts tariff policy to offer temporary offsets, reimbursing automakers for a set amount of 3.75% of the value of a U.S.-made car the first year, and 2.5% the year after, before they phase out. But while these offsets may provide limited relief from the full weight of the new tariffs, automotive investment cycles span multiple years, so the offsets are not likely to be enough for automakers to shift their post-tariff outlooks.

For companies with global supply chains, the quickest path to alleviating tariff impact would be acquiring a domestic or near-shore supplier – but there are currently very few viable targets. Domestic suppliers who do go to market during this time will likely be highly sought after, but this type of acquisition is not a reliable strategy for most automakers and OEMs.

ELECTRIFICATION CONTINUES, BUT AT A SLOWER PACE

Last year the EV supply base was rattled by lower-than-expected sales performance. Suppliers had made investments in anticipation of supporting a more active EV landscape and were left to either attempt to recoup those investments from their OEM partners or look for other methods to mitigate their deficits. The impacts were even more pronounced for smaller suppliers, who are more dependent on single programs – whereas larger suppliers are more diversified and better situated to weather demand fluctuations.

Now, in 2025, tariff burdens and the elimination of tax credits meant to help bridge the gap between internal combustion engine (ICE) vehicles and EVs are slowing things further. Many consumers were already reluctant to switch to EVs, and now some other chief incentives for doing so are disappearing. According to MEMA's Supplier Barometer, 63% of light vehicle suppliers indicate "substantial or utmost concern" for stranded capital as a result of underperforming EV programs over the next 12 months – up from 35% over the previous 12 months.

But despite these headwinds, EVs are not going away. Automotive companies still do not plan to abandon their EV production plans. Rather, EV manufacturers are adjusting their forecasts and strategies to meet new market realities. As a result of the shifts, opportunities could open for larger consolidators or opportunistic investors who can afford to acquire businesses that will eventually boast strong prospects. Their bets will have to be selective, however. EV makers, especially newer ones, may experience some short-term difficulty finding suppliers even as potential for long-term growth and ROI remains.

TAILWINDS FOR THE AFTERMARKET

While OEMs and their suppliers struggle with prevailing market forces, consumers are also challenged due to higher financing

continued on next page

costs (vis-à-vis the increasing underlying federal funds rate) and the near record average price of new cars, at nearly $48,000 per Kelley Blue Book. If consumers cannot buy a new car, they will invest in keeping their current vehicle for longer, and the average vehicle age will continue to increase in tandem. As of now, the average age of light trucks stands at 11.9 years, and the average age of passenger cars has risen to 14 years.

This trend is likely to continue as uncertainty, and potentially price increases stemming from tariffs, push more consumers to hold onto their vehicles. That means maintenance and replacement needs for existing vehicles will also increase, positioning suppliers of nondiscretionary replacement parts for strong success in the coming quarters. This is especially true for suppliers with domestic production capabilities that allow them to avoid tariff costs for imported auto parts, or those who are not beholden to a single materials source and can more easily adjust their supply chain. From an M&A perspective, sellers of nondiscretionary aftermarket business could see high demand. These businesses are highly sought in most contexts and will be even more appealing in an environment where consumers are keeping their vehicles.

SUCCESS WILL COME TO THOSE WHO OPTIMIZE

Given the present uncertainty around where to invest, many automotive companies are now looking inward. They are opting to focus on performance improvements, via internal optimizations, to enhance their margins and protect profitability.

In a challenging M&A environment, internal streamlining can be a powerful tool. It can position a business to attract investor capital over competitors who are less optimized and therefore less able to weather uncertainty. For automakers, a comprehensive performance improvement plan could include –

Automation

- Labor continues to be expensive, and automation is one way to bring costs down, but it is not a one-off change
- Automation is a process that requires upfront investment and iterative improvements. Companies who have already automated large segments of their production are better positioned for success and should emphasize those capabilities in dealmaking contexts
- A solid automation foundation can also lay the groundwork for the addition of machine learning and artificial intelligence (AI) tools which are increasingly present in factory operations

Supply Chain Optimization

- In a high-tariff environment, alternate sourcing options can be a major competitive advantage
- Companies that already practice dual sourcing are likely better positioned to navigate the new trade reality and attract investment
- Companies that have not already gained access to alternate sourcing options should not delay investigating what it would take to do so. Shifting operations to account for alternate sourcing requires investment and cannot be done overnight, and the sooner companies begin that process, the sooner they can reap the benefits

HOW PORTAGE POINT PARTNERS CAN HELP

In a market characterized by uncertainty, automotive and aftermarket companies need a partner with deep sector experience and familiarity with industry cycles. For companies looking to buy, Portage Point can help source capital to support an acquisition and help navigate the financial, operational and commercial due diligence process.

Companies looking to sell will need a hook to draw in buyers. Portage Point has the market knowledge and relationships necessary to craft a story that resonates with investors and helps companies put their best foot forward in a crowded and competitive environment. As an integrated platform, Portage Point Transaction Advisory Services experts can work seamlessly with the banking team, substantiating the historical profit performance to tie strategic plans to a robust forecast model presenting the future EBITDA performance in its best light.

Finally, for those pursuing an operational initiative, Portage Point has robust Performance Improvement and Office of the CFO Practices that can help navigate challenges and unlock new value. Now is the time for businesses to monitor cash closely. Strategies such as assessing portfolios for non-core asset divestitures or dialing up operational controls can free up cash to weather uncertainty and fund business investments.

Footnotes

1. As of this publication, the ultimate long-term tariff policy on the industry has yet to be finalized.