

CNH Industrial Spin-Off Quick Summary - October 25, 2019

PARENT		SPIN-OFF		KEY NOTES	
Name:	CNH Industrial	Name:	Inveco	Spin-off Announcement:	September 3, 2019
Ticker:	CNHI	Ticker:	N/A	Spin-off Target Date:	Q1 2021
Price:	\$10.83	Price:	N/A		
Dividend Yield:	1.89%	Dividend Yield:	N/A	Tax-status:	Not stated
Market Cap:	\$14.63BN	Expected Market Cap:	N/A	Form 10:	Not filed
Enterprise Value:	\$35.4BN	Expected Enterprise Value:	~\$5.3BN		
2018 Revenue:	\$29.71BN	2018 Revenue:	\$13.1BN		
2018 Adj. EBITDA:	\$4.59BN	2018 Adj. EBITDA:	\$890.0MM		
Note: Market Data as of 10/25/2019		*Assumes 6x EV/EBITDA multiple (low end of comps)			

Resources from CNH Industrials

[Spin-off Slide Deck Presentation – September 3, 2019](#)

[Spin-off Press Release – September 3, 2019](#)

Investor Relations Contact Information – Noah Weiss, Head of North America Investor Relations

- Phone: (630) 887-3745
- Email: investor.relations@cnhind.com

Additional Resources

[Podcast Episode - Southwestern Asset Management - Minute 40 - Quick Thoughts on CNH Industrial \(CNH\)](#)

Overview

On September 3, 2019, CNH Industrial (CNHI), a global industrial company focused on farm and construction equipment, announced that it would spin off its truck business, named Inveco in early 2021 into a separate company with revenue of \$13.1BN. The remaining business will include the tractor business, the construction equipment business, and special vehicles (such as firefighting trucks), and is expected to generate \$16BN of revenue. The driver behind the decision is limited synergies between the two groups. Further, agg equipment companies trade at higher multiples than trucking companies. According to Factset, CNHI trades at 7.7x 2018 adjusted EBITDA. In contrast, Deere trades at 15x 2018 EBITDA.

As of now, the parent company has not mentioned whether the spin-off will be taxable or tax-free, but CNHI has retained investment banking advisors to support the planned transaction so investors and analysts should likely see more details in the coming months.

Background

As mentioned above, the main catalyst for the spin-off is driven by management noting that there are very limited synergies between the SpinCo and the ParentCo. Additionally, as also mentioned above, agricultural equipment companies (the ParentCo) tend to trade at higher multiples than trucking companies (the SpinCo). The market has clearly responded well to this, as the common stock has traded up a bit over 6% since the announcement was made a few weeks ago. Per management, the spin-off includes Inveco, Inveco Bus, Heuliez Bus and the Fiat Powertrain (FPT) commercial brands, with combined expected revenues of around \$16BN.

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EXPECTED TRANSACTION

HIGHLIGHTS

TRANSACTION STRUCTURE	<ul style="list-style-type: none"> ▪ Pro-rata allocation of On-Highway shares to shareholders ▪ On-Highway to include CV and PT ▪ Off-Highway to have long-term certainty of engines / transmissions supply from PT ▪ One-time charges related to the transaction expected to be incurred
TRANSACTION BENEFITS	<ul style="list-style-type: none"> ▪ Transaction will enable dedicated management teams to focus on delivering TSR ▪ Pure play companies will attract differentiated investor bases, unlocking value of On-Highway / Off-Highway ▪ Operational synergies within Off-Highway and On-Highway secured, with limited dis-synergies expected on corporate costs
FINANCIAL IMPLICATIONS	<ul style="list-style-type: none"> ▪ Both companies are expected to be well capitalized, with flexibility to fund growth priorities and capital allocation strategies ▪ Off-Highway to achieve strong investment grade rating by improving business profile and deleveraging ▪ On-Highway to secure efficient access to capital markets from Day One
TIMING	<ul style="list-style-type: none"> ▪ Expect transaction to be completed January 1st, 2021
APPROVAL	<ul style="list-style-type: none"> ▪ Transaction is subject to final approval of CNH Industrial Board of Directors, Shareholders, and other regulatory and customary approvals

19

Although activist investors weren't the driving force behind the transactions, famed activist Paul Singer and his fund Elliott Management reportedly took a stake in CNH after the announcement of the spin-off. Elliott was also said to have had multiple meetings with company executives and the firm's largest shareholder, the Agnelli family, who owns 29% of the stock with 42% of its voting rights.

From a business description perspective, the “On-Highway” business that will be separated includes its commercial vehicles and powertrain segments. These units focus on industrial vehicles, from large trucks to buses and powertrain engines.

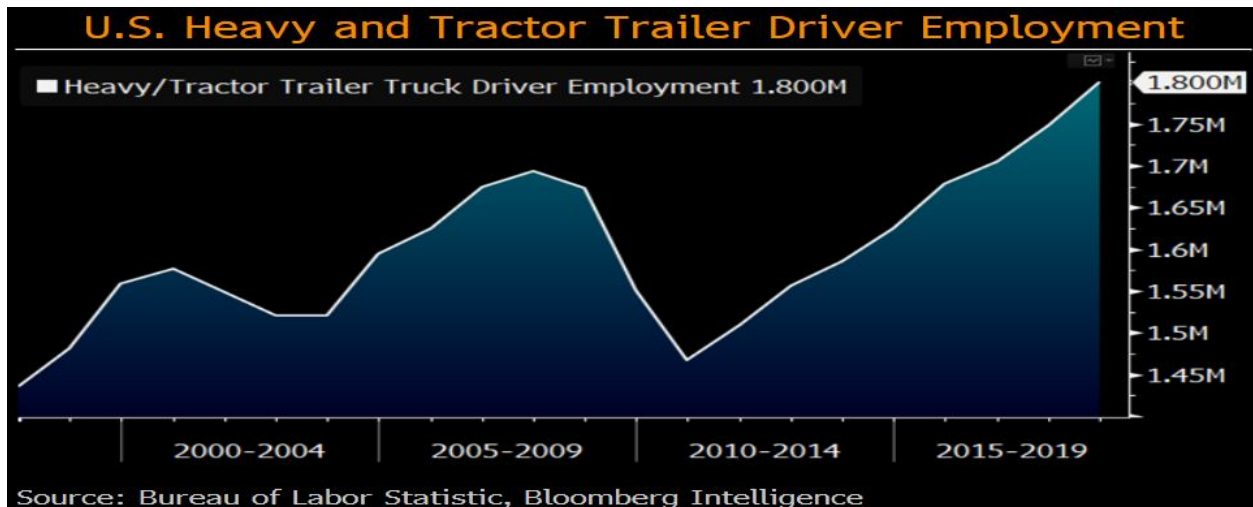
In terms of publicly traded competitors, comps focus on other, similar industrial trucking businesses. Main comps include Volvo, DAF, Daimler, and Paccar, all of which focus extensively on industrial trucking. An added benefit of the spin-off will be the opportunity for freedom for the trucking business, allowing it to expand and compete more effectively with its peers that focus more exclusively on trucking.

Trading Comparables Analysis					
Company	Share Price	Shares Out.	Market Cap	EV	EV/EBITDA
Volvo	14.76	2,032.91	30,005.75	42,524.76	6.39x
Daimler	52.13	1,069.84	55,770.76	212,827.31	14.66x
Paccar	70.38	346.37	24,377.52	30,733.78	7.94x
Volkswagen	175.96	501.30	88,208.75	309,969.66	6.51x
Mean					8.88x
SpinCo EBITDA	890.00				

Source: Factset

To be conservative, we can assume that Inveco will trade at the low end of its comp set at 6.0x EBITDA implying a \$5.3BN enterprise value.

The spin-off’s business is very cyclical as trucking tracks the overall economy, especially the strength of the individual consumer, since more goods will be transported when consumers are doing well and consuming more. In a macro climate in which global growth is slowing, the trucking business will not be very attractive. Additionally, trucking faces the combined headwinds of volatile fuel prices and an increasing shortage of drivers, driving up wage costs.



Our Initial Thoughts

At a high level, this is an interesting transaction. I would expect Remainco's business valuation to improve once the spin-off is complete in early 2021. It doesn't have to trade at parity to Deere (at 15x EBITDA) to be a profitable trade.

Nonetheless, Deere isn't a perfect comp for the Remainco as Deere is focused purely on agriculture equipment while Remainco is focused on construction equipment, specialty vehicles in addition to agriculture equipment.