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EDITORIAL – Johnson Controls set to make long planned exit from automotive

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Move comes amid busy period for mergers, acquisitions and divestments in the industry

Johnson Controls (JCI) has announced plans to spin off its automotive seating unit, creating and an independent, publicly traded company. Bruce McDonald, Johnson Controls' vice chairman and executive vice president, will become chairman and CEO of the new business. The new company will remain a major player in the automotive industry; the automotive part of Johnson Controls' business reported USD22 billion in revenue in 2014.

JCI has been steadily reducing its exposure to the auto industry over the last couple of years as it focuses on its other product lines; batteries and building efficiency. In April, JCI reported net income had more than doubled year over year in the second quarter of 2015, though automotive revenue was down. Although, even if the company completely divested its "automotive" business, it would still make car batteries under its "power solutions" business. Alex Molinari, chairman and CEO believes selling the autos business will generate capital for needed to develop new products.

In May, it sold its 50% equity stake in Johnson Controls Pricol Pvt Ltd, – which manufactures instrument clusters, displays, and body electronics – to joint-venture (JV) partner Pricol. In February of last year it sold its headliner and sun-visor business to private equity firm Atlas Holdings, and in January of 2014, it sold its automotive electronics business to Visteon for USD265m.

The exit from automotive would be the culmination of a dramatic change of direction for the company. Just five years ago, Johnson Controls was involved in an aggressive takeover attempt of Visteon's interiors and electronics business, offering USD1.25bn for the combined units. Now both have diversified away from the struggling interiors part of the business.

The announcement by Johnson Controls comes at a time of increased numbers of mergers, acquisitions and divestments in the industry. Last week saw reports that Faurecia is considering selling its bumpers business and is in talks with private equity firms and suppliers for the deal that could fetch around USD450 million. Faurecia's bumper business is a part of the company's exterior unit, which generated sales of EUR2.1 billion in 2014, representing around 11% of its total revenues.

In addition to this, the last 12 months have seen ZF Friedrichshafen complete a deal for auto safety systems supplier TRW Automotive, Magna announce its intentions to acquire transmission manufacturer Getrag, and Pirelli on course to be sold to Chinese company China National Chemical Corporation (ChemChina).

But these headline-grabbing acquisitions have been accompanied by a number of much smaller movements as part of a long restructuring efforts by suppliers. Delphi has shifted from an extremely broad supplier to a much more focused one since being spun off from GM and going through a long bankruptcy. In the last year, Visteon has spun-off its stake in Halla Visteon Climate Control and its interiors business in India.

In an industry that has traditionally been very horizontally integrated, certain suppliers are becoming more focused on its core businesses. Delphi's sale of its thermal unit to MAHLE in February was part of a strategy that focuses on higher margin technology products supporting fuel efficiency, infotainment systems and autonomous driving, as a way of creating a strategic advantage. The company has slimmed down its business lines from over 100 products to just 33, looking at each product and making a decision whether to continue or close the business based on performance.

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