

Automotive Supplier Industry – General Overview

Presentation @ TAYSAD
Association of Automotive Parts
and Components Manufacturers



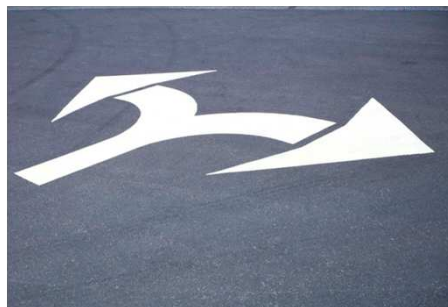
Istanbul, May 2017



Contents

A **Looking back**

Record profits, but
at slower growth



B **Looking ahead**

Four main
challenges in the
supplier industry



C **Conclusions**


Key actions for
automotive
suppliers



D **Contact**

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A

Looking back

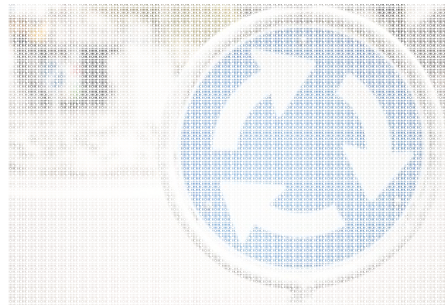
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B

Looking ahead

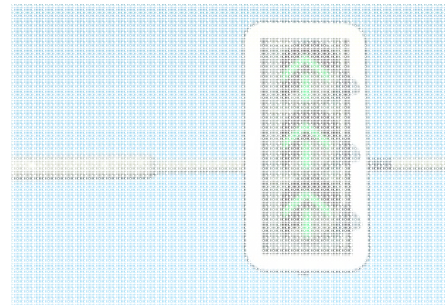
Four main
challenges in the
supplier industry



C

Conclusions

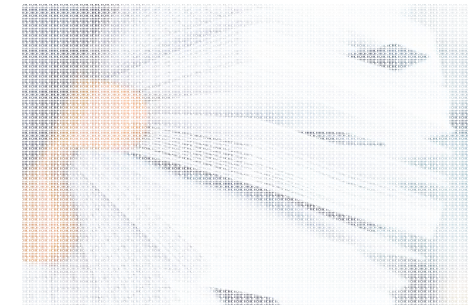
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automotive
suppliers



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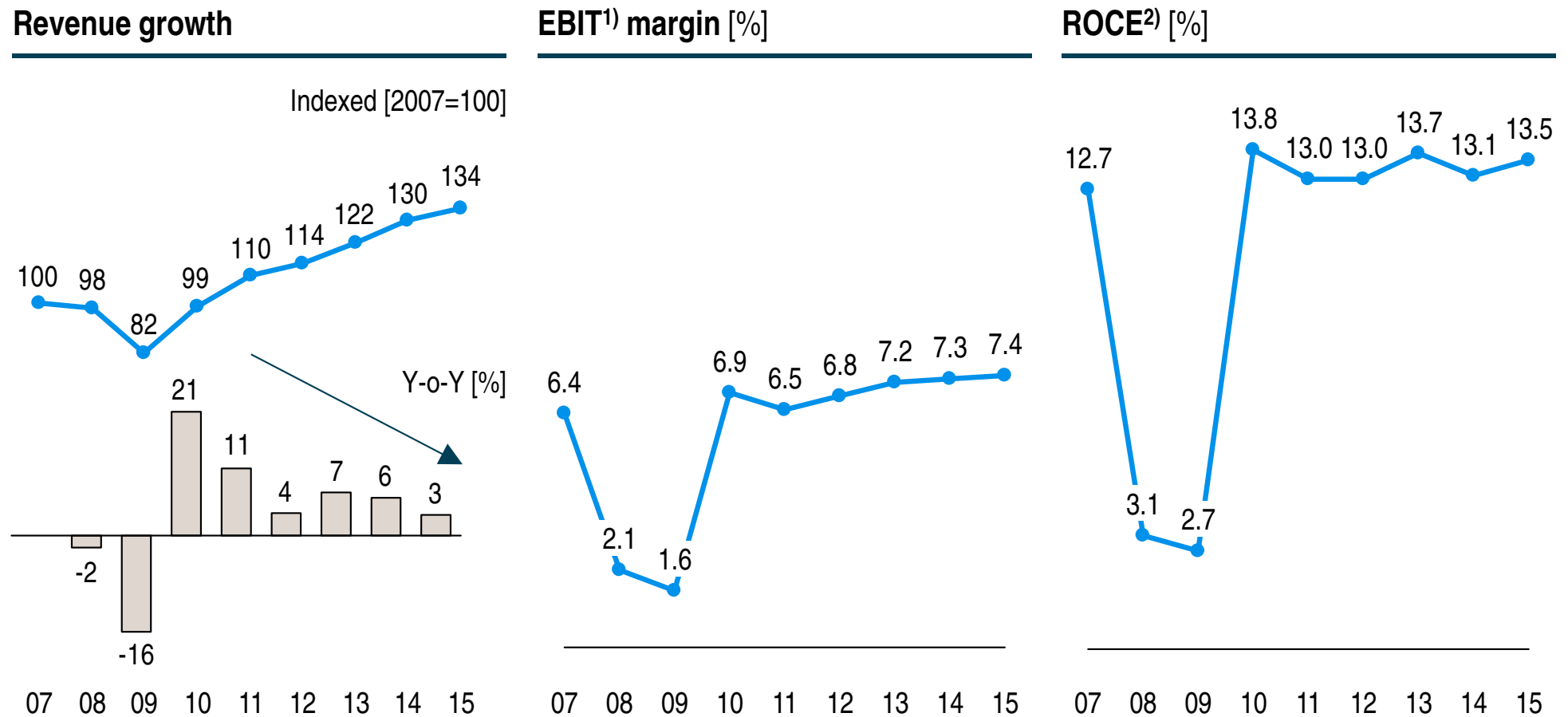
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2015 was another excellent year for suppliers with record profits – However, at increased volatility and slower revenue growth globally

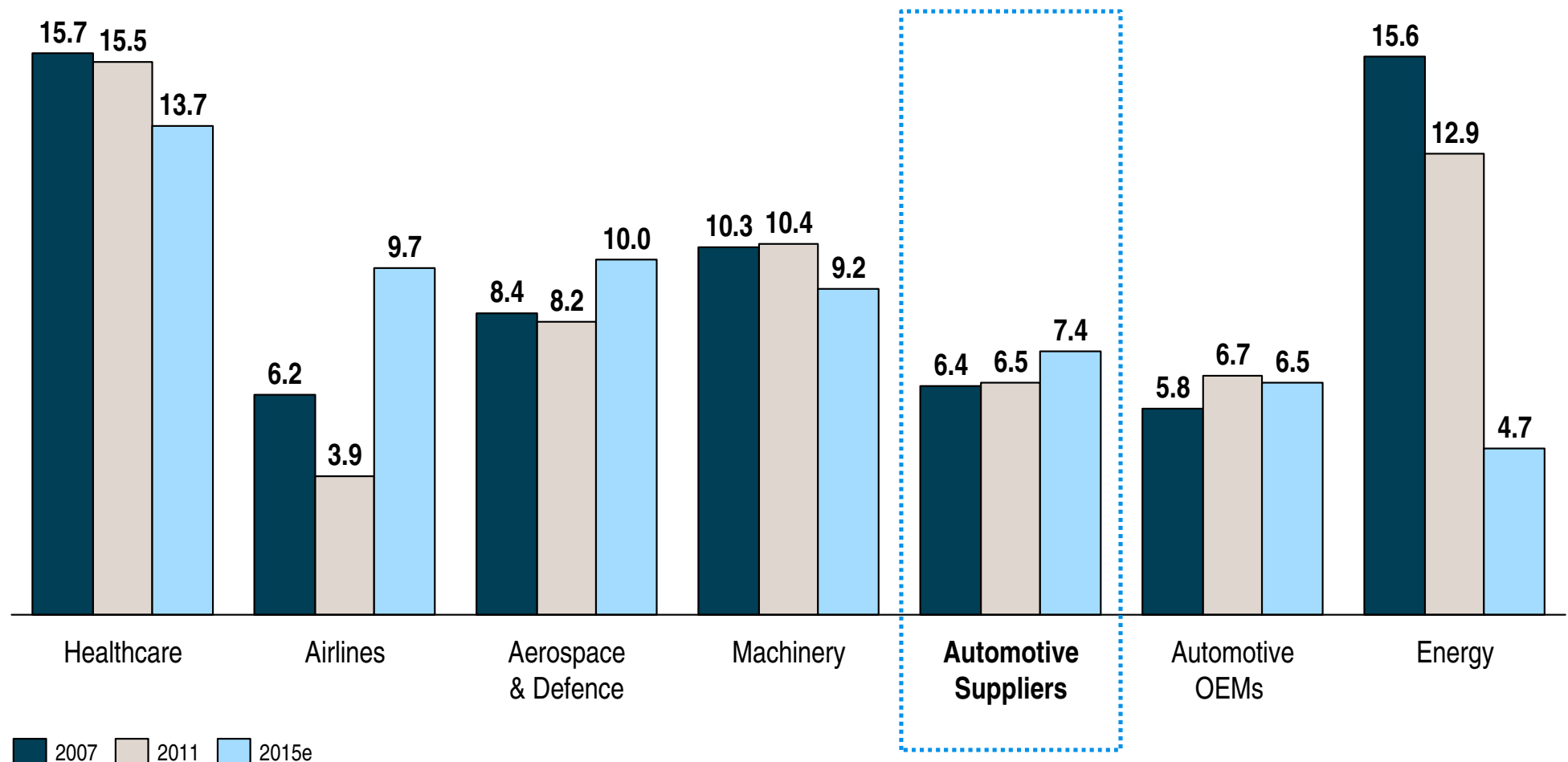
Key supplier performance indicators, 2007-2015e (n=~600 suppliers)



1) EBIT after restructuring items 2) EBIT after restructuring items/capital employed

Cross-industry comparison shows that automotive suppliers still generate far lower margins than other industry sectors

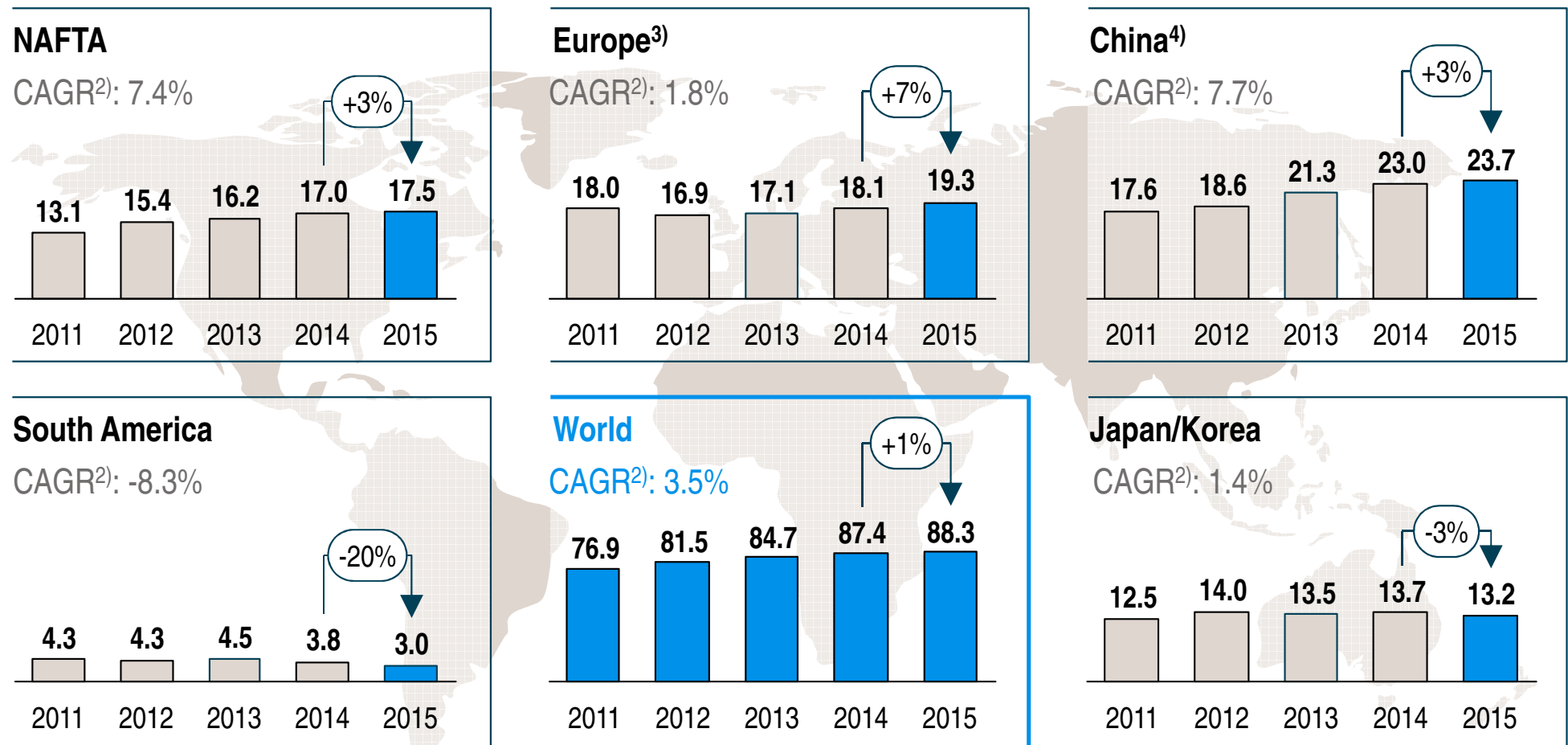
EBIT margin across selected industries¹⁾



1) Up to top 100 publicly traded companies worldwide of each sector (except for automotive suppliers)

Key driver of these results was growing vehicle production in the main markets – Although growth rate lower than in the past

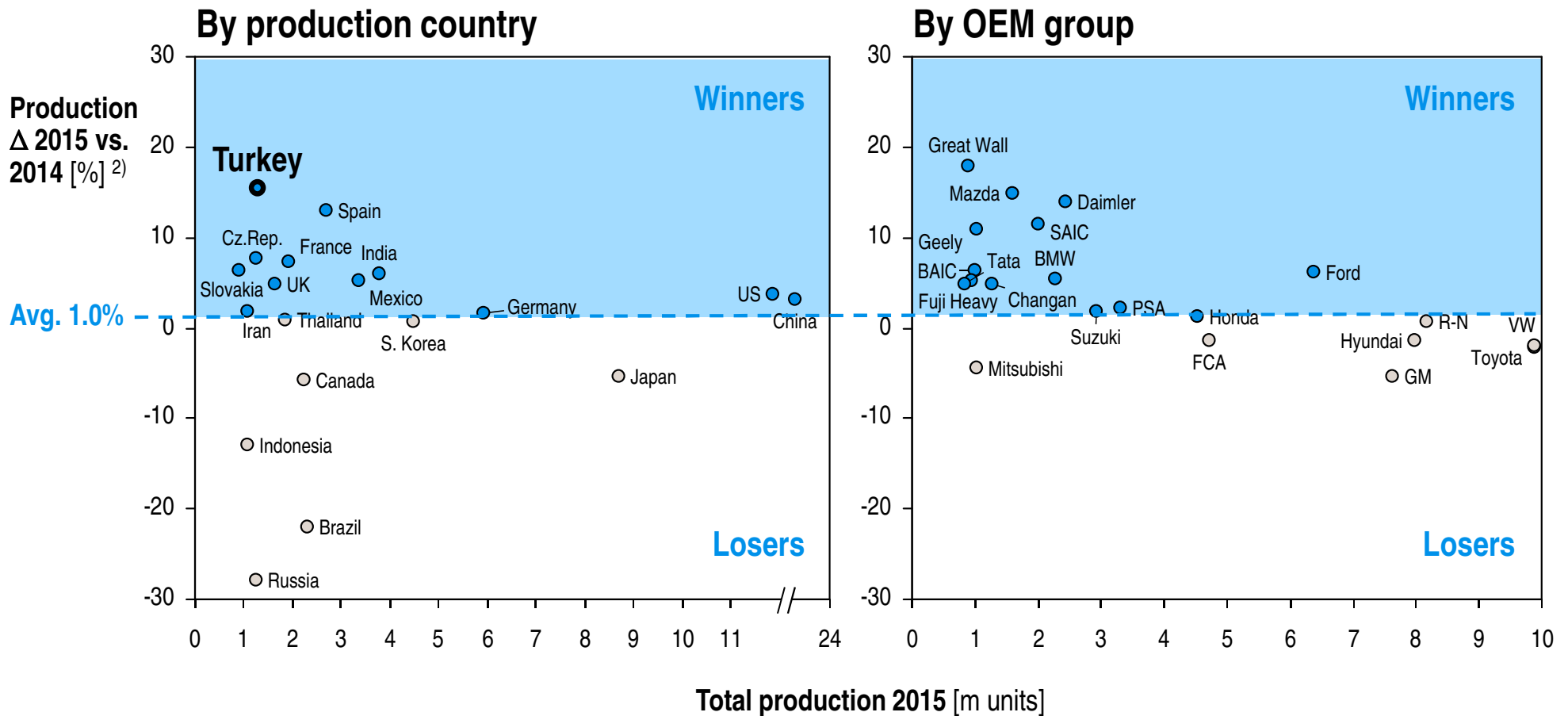
Global light vehicle production volume¹⁾ by region, 2011-2015 [m units]



1) Incl. light commercial vehicles 2) CAGR 2011-2015 3) Excluding CIS and Turkey 4) Greater China

Major decline in Brazil and Russia – Chinese manufacturers and premium OEMs keep on fueling the growth – Turkey as Winner

Top 20 by country and by OEM group, light vehicle production¹⁾



1) Incl. light commercial vehicles 2) Year-on-year growth rate

Financial performance of suppliers varies greatly depending on region, company size, product focus and business model

Profitability trends in the global automotive supplier industry – 2015 vs. 2007

1 Region 2 Company size 3 Product focus 4 Business model



- > **NAFTA**-based suppliers currently achieve the highest margins with >8% EBIT
- > **Europe**-based suppliers continue to show a strong performance due to their leading technology positioning

- > **Large suppliers** with >EUR 10 bn revenues maintain strong margins of ~8% EBIT
- > **Lower midsize suppliers** (EUR 0.5 to 2.5 bn revenues) have improved and remain above average

- > **Chassis suppliers** clearly improved margins to almost **8% EBIT** driven by ADAS and active safety
- > **Tire suppliers** maintained strong margins based on their aftermarket business

- > **Product innovators** are generating stable above-average margins of ~8% EBIT based on technology leadership translated into higher prices



- > **Chinese** supplier margins have dropped to industry average due to intensified local competition
- > **Japanese** suppliers remain at a low margin level of ~6% EBIT

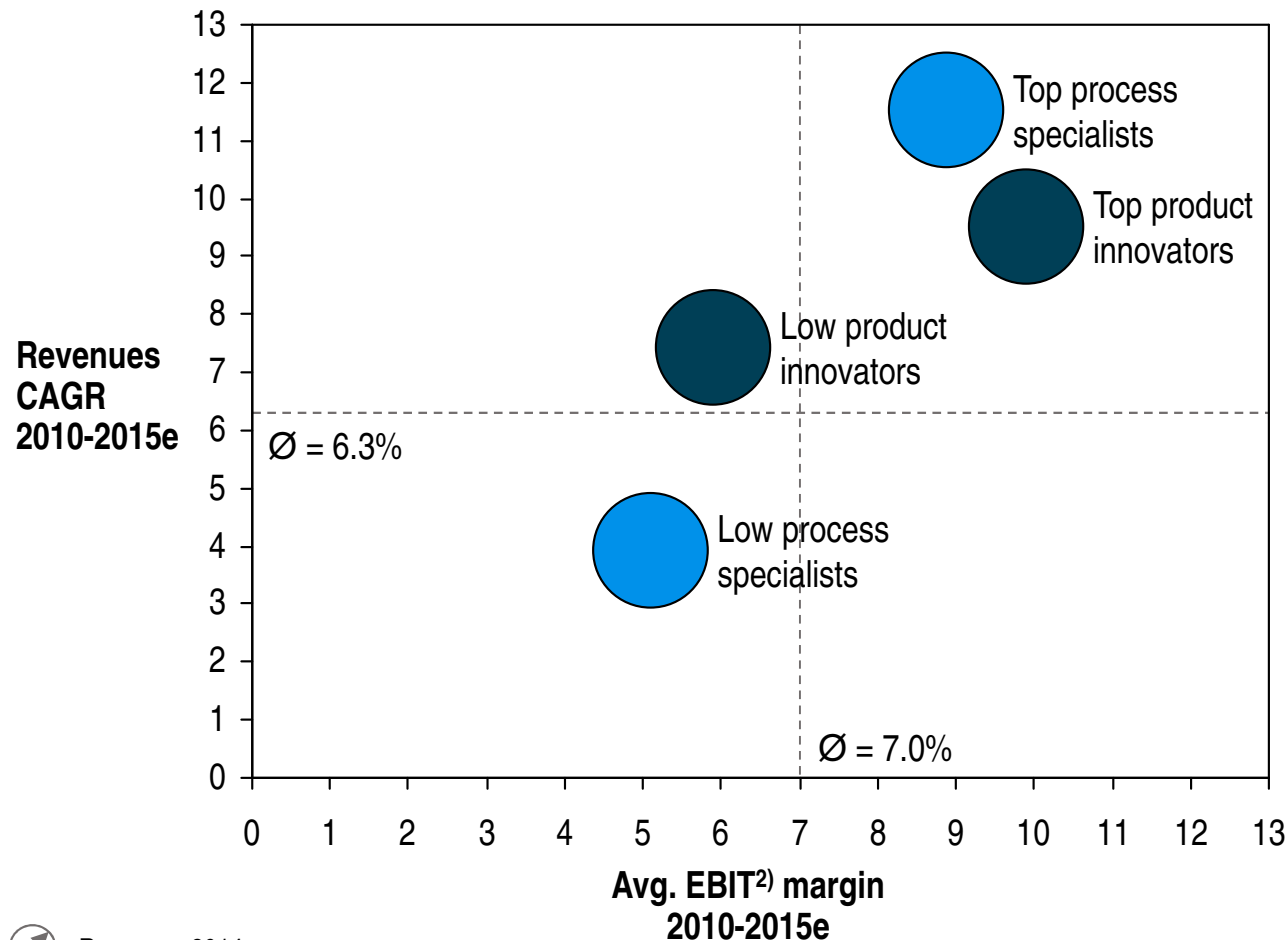
- > Upper **midsize suppliers** (EUR 2.5 to 5 bn revenues) remain below average
- > **Small suppliers** (below EUR 0.5 bn revenues) have the lowest margins at ~5% EBIT

- > **Powertrain** suppliers gradually lost ground and achieve below-average margins in the meantime
- > **Interior** suppliers still trail their peers, but have shown signs of recovery recently


- > **Process specialists** continue to face below average margins of ~6% EBIT due to a lower innovation level and higher competitive pressure

However, top performance is not necessarily related to (product) innovation only

Key performance indicators of top vs. low performing suppliers¹⁾



- > **Product innovators lead** process specialists in terms of **average profitability** – no real difference in terms of growth
- > **Top process specialists**, though, achieve average margins **close to those of the top product innovators**
- > Large **difference in growth rates** between top and low performing process specialists indicates the **relevance of scale economies**

 Revenues 2014

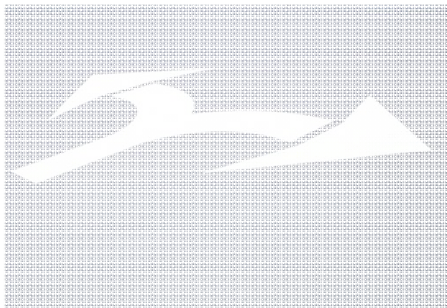
1) Top (low) performance based on above- (below-) average revenue growth 2007-2014, ROCE 2007-2014 and ROCE 2014 2) EBIT after restructuring items



A

Looking back

Record profits, but
at slower growth



B

Looking ahead

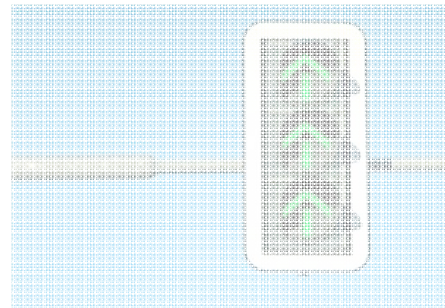
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C

Conclusions

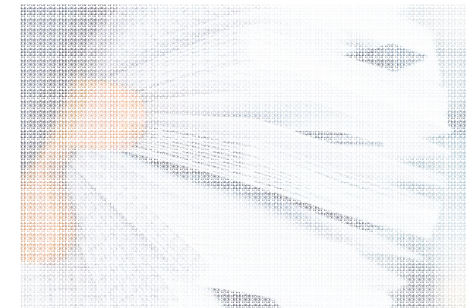
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automotive
suppliers



D

Contact

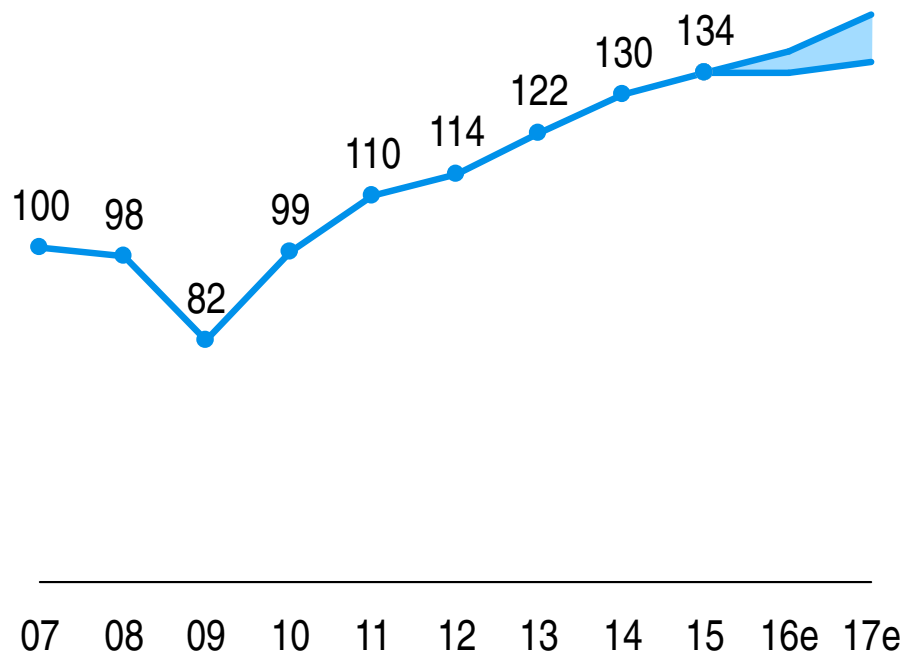
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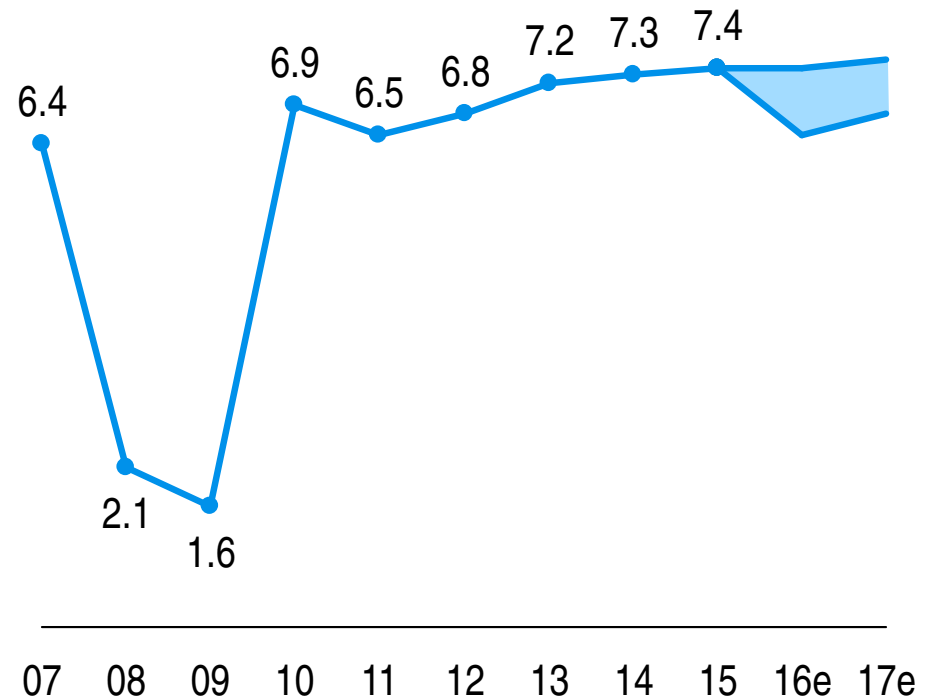
Short term, we expect even slower growth and margins still at a high level – Due to increased volatility, risks outweigh opportunities

Supplier global revenue and margin outlook, 2016/2017e

Revenue growth [2007=100]

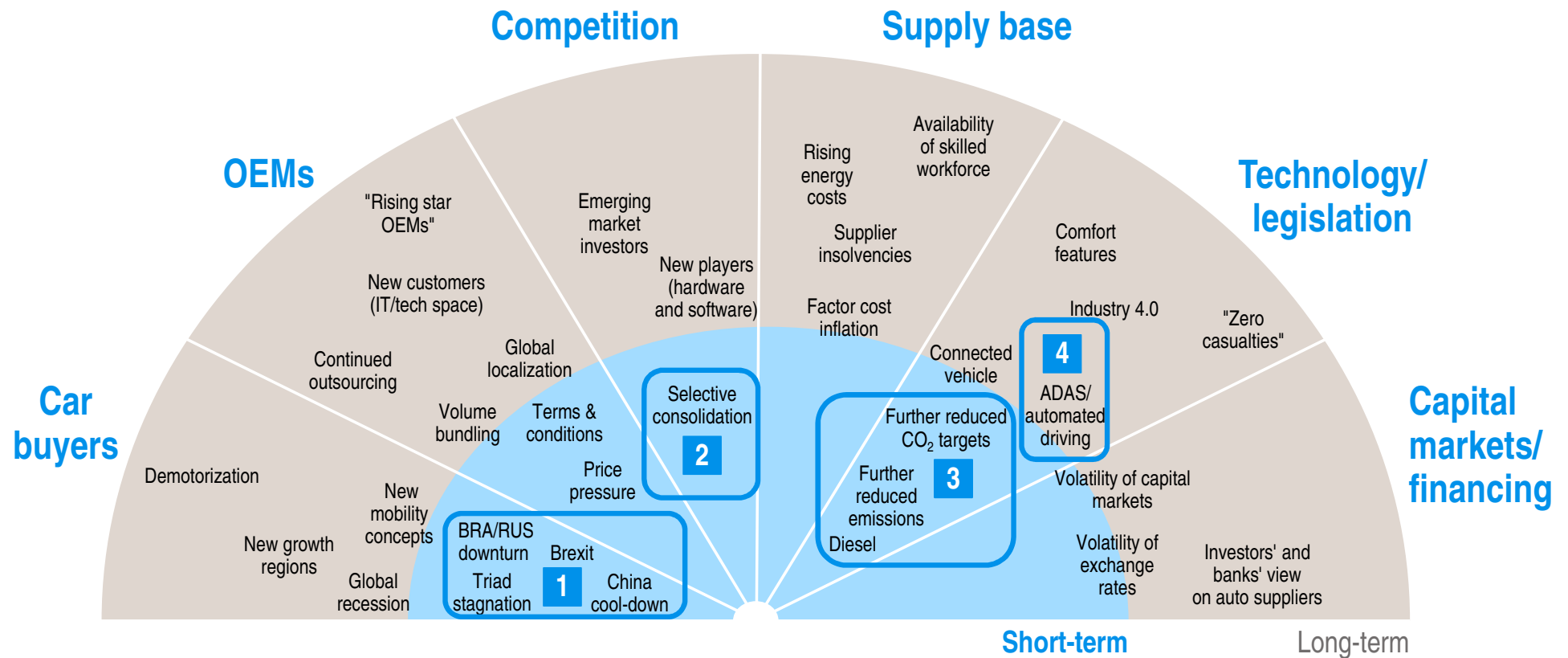


EBIT¹⁾ margin [%]



A potential market cool-down in 2016 and future technology changes stay at the top of the supplier CEO agenda

Supplier CEO radar screen for 2016 and beyond



Note: Excluding product segment specific technology and operational issues

Development of global hotspot markets is drifting apart – China maturing, Brazil struggling, Iran revitalizing and EU faced with Brexit

Overview of global "hotspots" 2016



United States

- > **Sales of SUVs and pickups at high level** driven by low fuel prices
- > **Vehicle emissions** receive new attention due to **COP21** and **diesel** controversy
- > New **mobility business models** emerge with the US being a frontrunner



Europe

- > **Unexpectedly high growth** of sales volumes across most markets in first months of 2016
- > **Controversy about emissions** (and diesel in particular) in the public debate
- > EV sales still **not picking up** yet
- > **Uncertainty** arising from **Brexit** decision



China

- > **SUV and MPV boom** continues, but overall growth slows down
- > **Chinese OEMs** reinforce their market position as quality increases
- > **EV market starting** to evolve



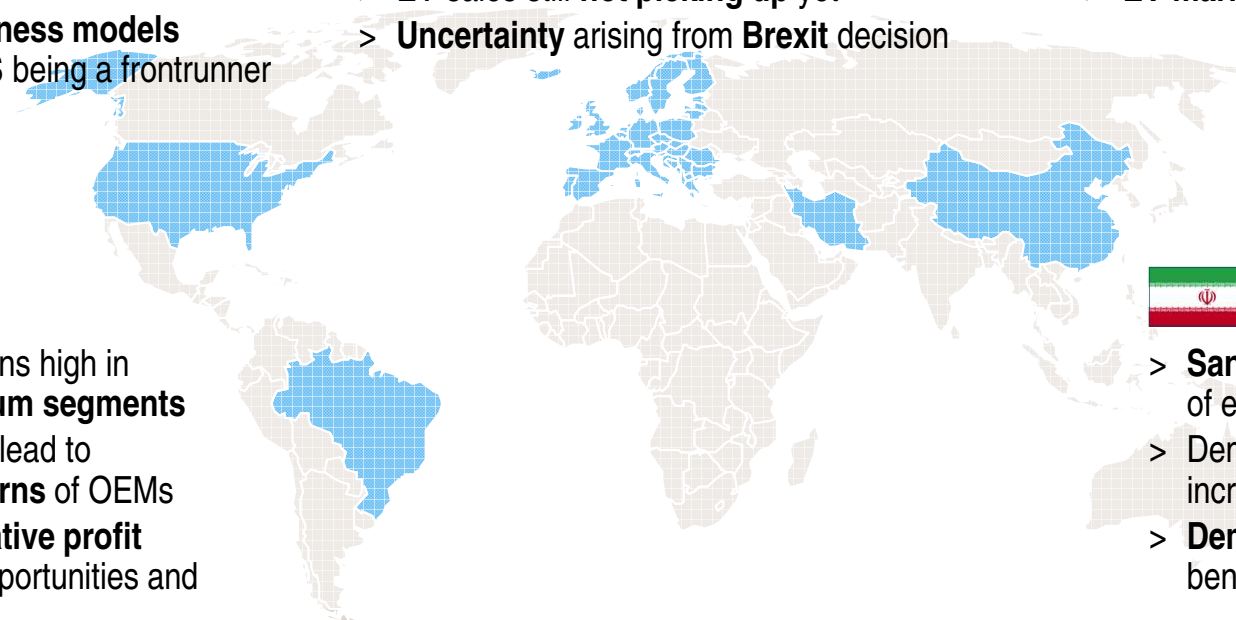
Brazil

- > **Competition** remains high in **budget** and **premium segments**
- > Sales volume risks lead to **profitability concerns** of OEMs
- > OEMs seek **alternative profit streams** (export opportunities and aftersales)







Iran

- > **Sanctions lift** promotes **growth** of economy and vehicle demand
- > Demand for **high-quality cars** increases
- > **Demographics** develop in a beneficial manner



Most recent M&A deals were driven by technology and customer/market access – Economics-driven consolidation still not picking up

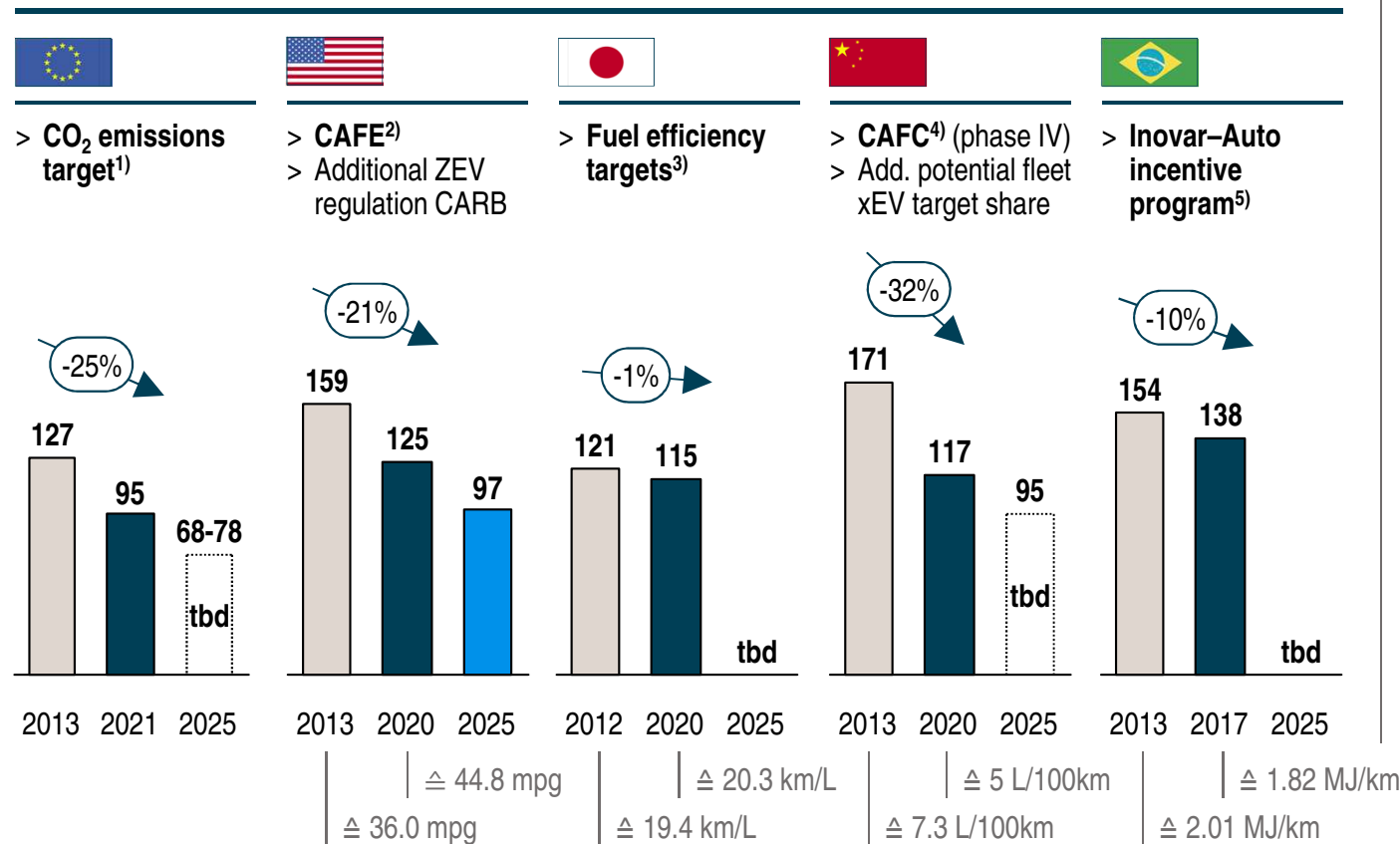
Major types of M&A motivation

	 Technology access	 Market/customer access	 Economics-driven consolidation	 Financial value creation
Rationale	<ul style="list-style-type: none"> > Gain access to new or strengthen existing technology/material or process capabilities to secure/establish USP (horizontal and vertical) 	<ul style="list-style-type: none"> > Gain access to regions or customers not served to date – via existing business or asset deals (e.g. capacity of production locations) 	<ul style="list-style-type: none"> > Optimize highly fragmented and inefficient market structures 	<ul style="list-style-type: none"> > Create value by turning around under-performing or distressed assets and/or divestments
Dominant acquirers/ domains	<ul style="list-style-type: none"> > Established, larger suppliers > Recently, also OEMs in the field of autonomous driving 	<ul style="list-style-type: none"> > In the past, typically driven by established market players, today primarily led by emerging market players 	<ul style="list-style-type: none"> > Typically occurring in process-focused segments with pressure on revenues, margin and utilization 	<ul style="list-style-type: none"> > Manufacturing-focused financial buyers, mainly private equity firms
Empirical evidence in recent deals	<ul style="list-style-type: none"> > Easiest to communicate sustainable "value add" to investors > Driver of many Chinese transactions 	<ul style="list-style-type: none"> > Pure "expansion" deals without technology focus are rare > Driver of many cross-border transactions, e.g. from Japan 	<ul style="list-style-type: none"> > Not favored by the OEMs in many cases > Buyers often cautious about restructuring activities required 	<ul style="list-style-type: none"> > Due to healthy sector environment, rather muted deal activity in this area

Emission regulations increase pressure on automotive OEMs to improve CO₂ emissions, fuel efficiency and exhaust gas emissions

Passenger car GHG emissions/fuel consumption [g/km] and toxic emission regulations

GHG emissions/fuel consumption [CO₂]



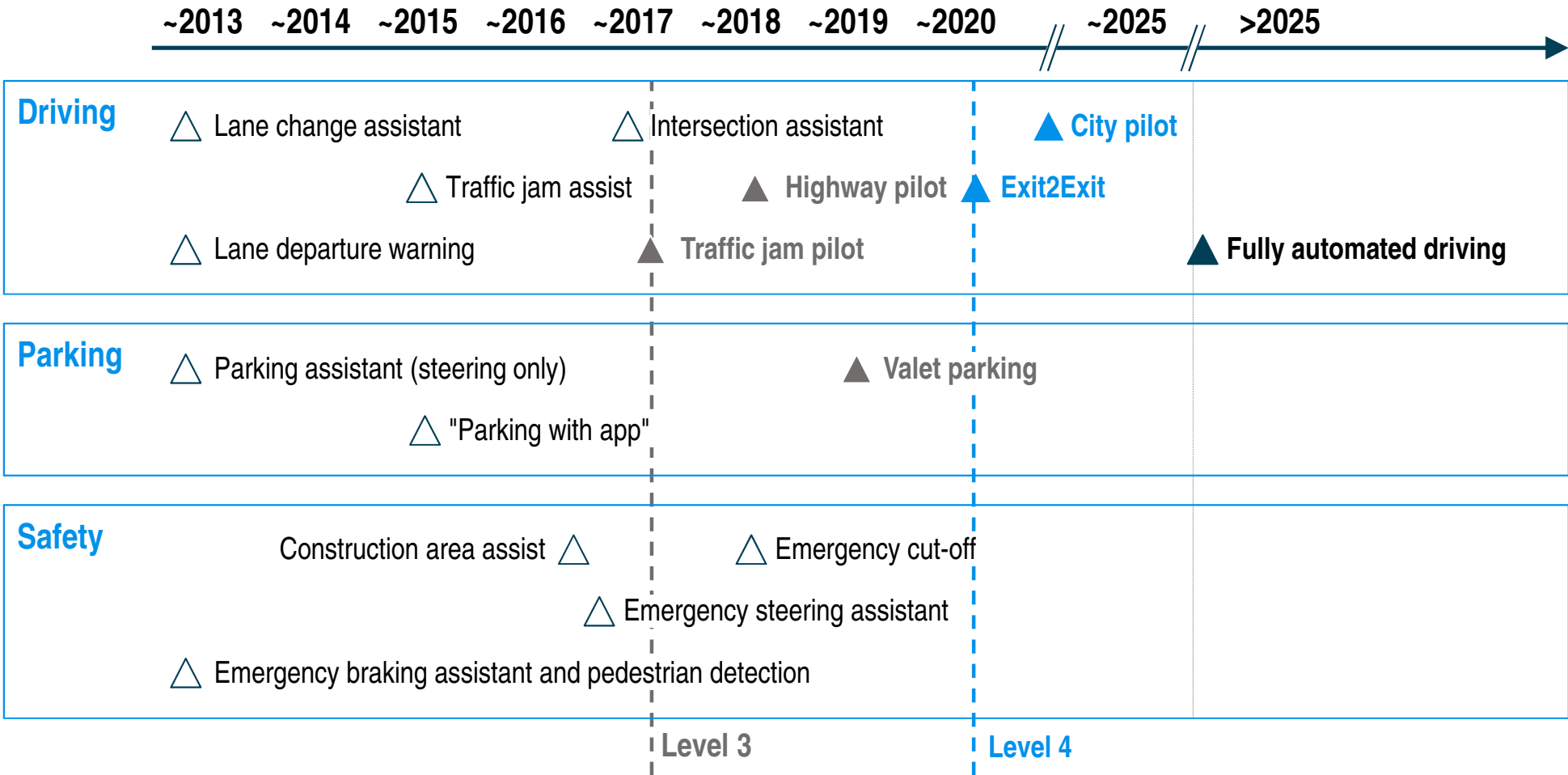
Toxic emissions (NO_x, PM, HC)

- EU**
 - > 2014: Euro 6b emission standard
 - > 2017: Euro 6c with implementation of RDE, WLTP
- USA**
 - > 2015: CARB LEV III
 - > 2017: EPA Tier 3 Standards
- Japan**
 - > 2009: Post new long-term (PNLT)
 - > 2018: Post-PNLT (PPNLT)
- China**
 - > 2016: China 5 and Beijing 5

1) Weight-based corporate average 2) Footprint-based corporate average; converted to NEDC 3) Weight-class based corporate average; showing JC08
 4) Weight-class based per vehicle and corporate average 5) Weight-class based corporate average; converted to NEDC

Market indicates that the first level 3 systems would be available by 2017

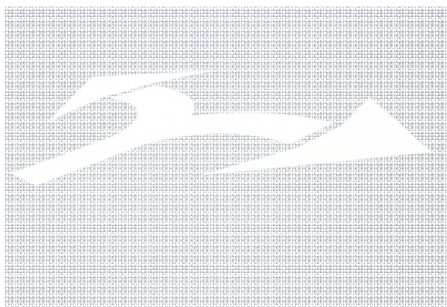
Launch horizon for AD functions



A

Looking back

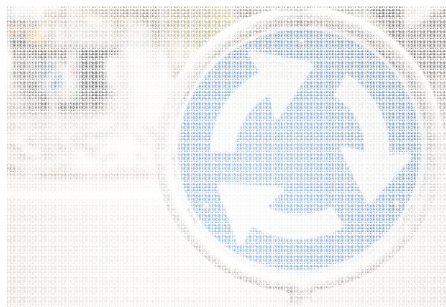
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B

Looking ahead

Four main
challenges in the
supplier industry



C

Conclusions

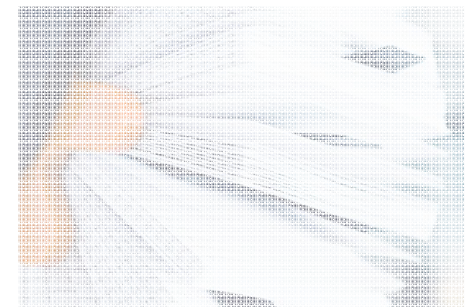
Key actions for
automotive
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D

Contact

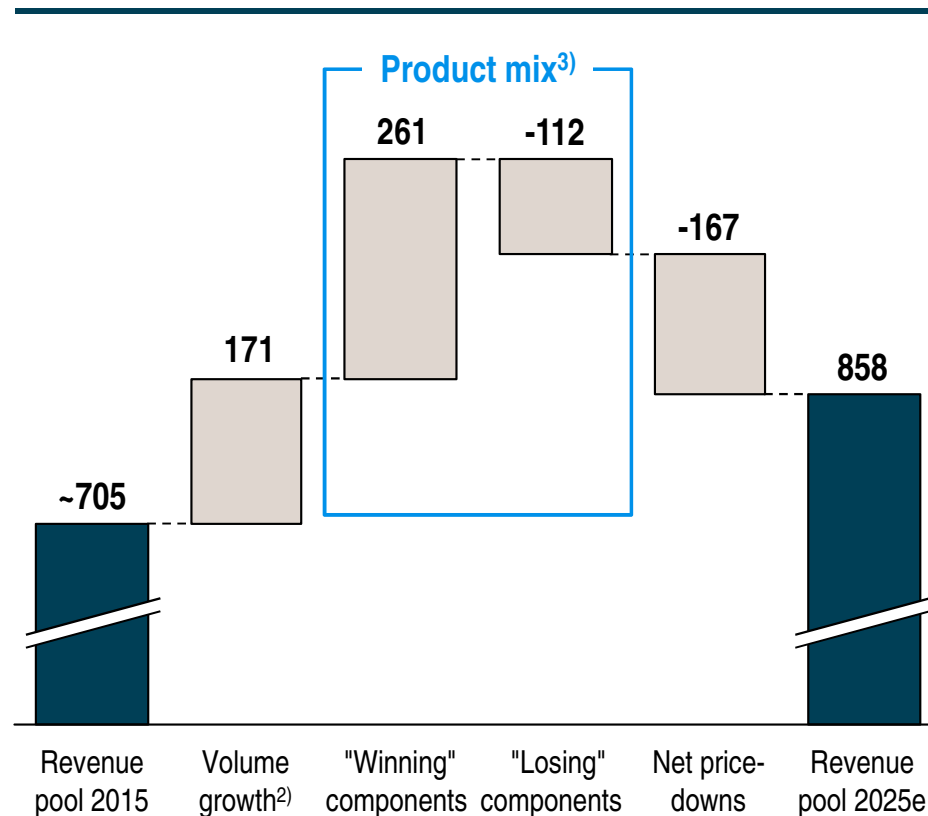
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The market for auto suppliers is expected to yield substantial further growth opportunities – Innovation will be key to capturing them

Global automotive component market development 2015 vs. 2025

Component market value¹⁾ [EUR bn]



Winning and losing components

Losers

- Diesel - Unit injector
- Diesel - Indirect injectors
- AT (3/4 stage)
- Starter
- Generators



Powertrain/
xEV

- H2 tanks
- BSG 48V
- Fuel cell
- Battery cells
- Large e-motors

Winners

- Power pack e-hydraulic
- Power pack hydraulic
- Power pack pinion EPS
- Brake booster (passive)
- Leaf springs conventional



Chassis/
ADAS

- Electric/mechanical caliper
- Coil springs - Composite
- Leaf spring - Composite
- ADAS/HAD
- Electric parking brake

- Longitudinal beam - Steel
- Front wall cross beam - Steel
- Hood - Steel
- Rear lamps - Conventional
- Trunk lid - Steel



Exterior

- A-Pillar - Composite
- B-Pillar - Composite
- Roof cross member - Composite
- Rear cross member - Composite
- Tunnel - Composite

- HVAC module (w/o AC)
- Parking heater
- Window lifter - Mechanical
- AC compressor - Conventional
- HVAC control - Manual



Interior

- AC compressor - Electric
- Pedals - Electronic
- HVAC EV
- PTC heater - xEV heaters
- Seat structure (lightweight)

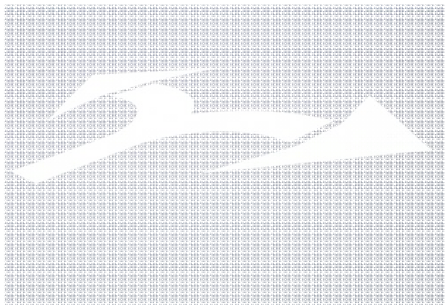
1) Light vehicle OE market, excluding commercial vehicle and aftermarket portion
 2) Change driven by vehicle production volume (volume per car at 2015 level)
 3) Additional growth/decline caused by change in product/technology content per car

up to -10%
 up to -20%
 more than -20%
 up to +20%
 up to +40%
 more than +40%

A

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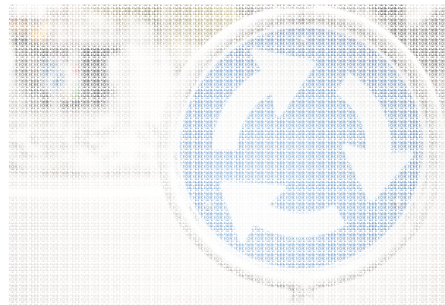
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B

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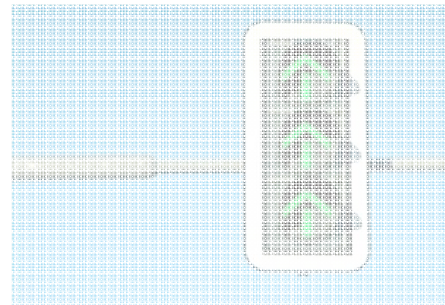
Four main
challenges in the
supplier industry



C

Conclusions

Key actions for
automotive
suppliers



D

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Thank you!



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