Challenges and Success Factors in the Automotive Supplier Industry

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Global automotive industry

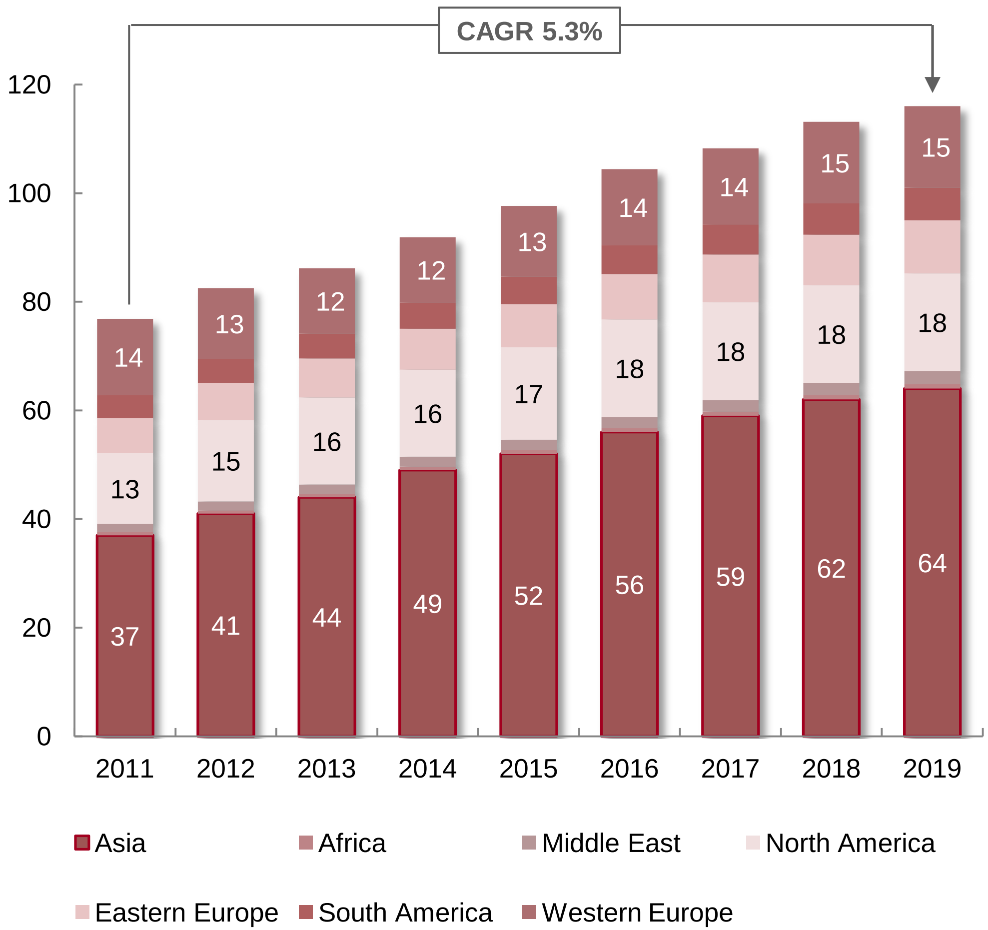
The global automotive industry has an outstanding relevance for the socio-economic and technological environment

Turnover Over €2 trillion	**Fifth-largest economy as a separate country**
Tax Revenue Approx. €500 billion	**Significant contribution to public finance**
R&D Investments Approx. €100 billion	**Driver for technological progress**
Employment Approx. 8 million	**Significance for social stability**

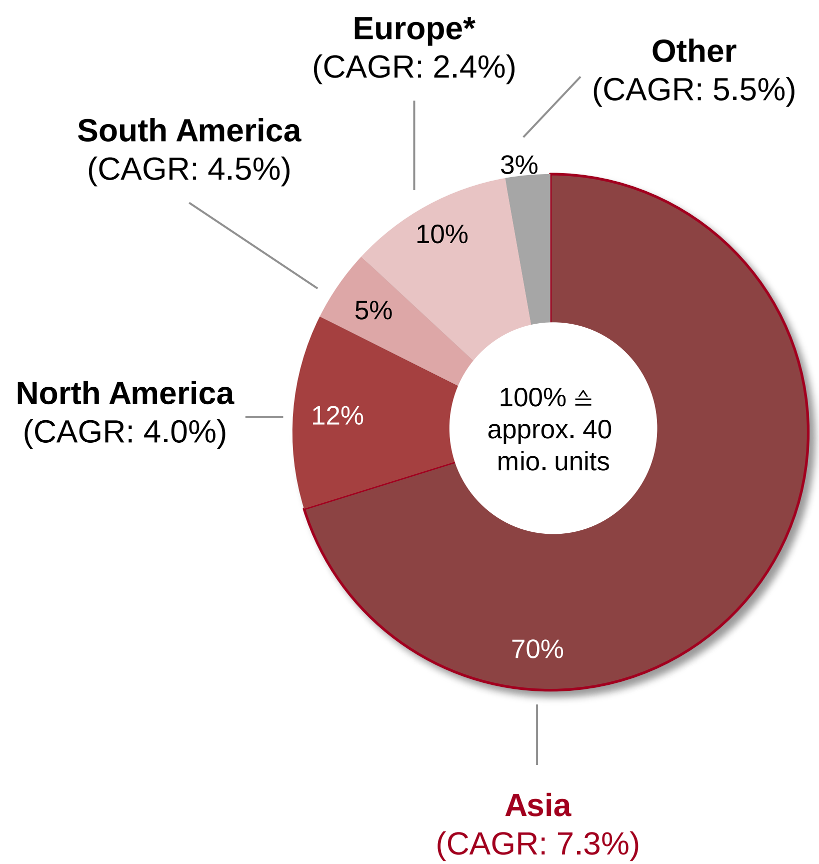
Global automotive value creation

Global automotive industry will continue along growth path in the coming years. Especially Asia is driving increase in global automotive production

Global production – Forecast per region (in mio. units)



Growth contribution by region 2011-2019 (in %)



Sources: LMC Production forecast; DB Research; UBS; FTD; Automobilwoche; Automobil Produktion; * Western and Eastern Europa

Challenges within the automotive supplier industry

Increasing requirements demanded by OEMs and customers induce comprehensive growth opportunities for automotive suppliers

Outsourcing of R&D activities as well as production to suppliers (targeted level vertical production approx. 20-25%)

- Increasing requirements reg. technological competencies and global footprint
- Generally tier 1-status required
- Growth opportunity

Changing global customer needs requires increasing individualization of automotive components

- Increasing relevance of small batches (low volume/high mix portfolio)
- Increasing need for flexibility and logistic competencies
- Growth opportunity

Growing importance of premium segment vehicles in global context

- Automotive premium segment is growing at an above-average level
- Premium segment offers higher margins for automotive suppliers than volume segment
- Growth opportunity especially for German suppliers (approx. 75% of total global premium car production is "made in Germany")

OEM strategies and consequences

Purchasing strategies of OEMs will lead to significant structural changes within the automotive supplier industry

- OEMs purpose to restrict and **reduce dependency on single suppliers** (avoidance of oligopolistic structures with regard to single components or systems).
- Ideal, future suppliers from the OEMs perspective will have a **turnover of €300-600 m**, be **financially independent** (non-corporated, family-owned, also Private Equity) and show **profitability.**
- Approx. **50% of German automotive suppliers won't meet these criteria** in future.
- The **total number of suppliers** is expected to **decrease significantly** in next years.
- **Insolvencies as well as mergers** will be **driver** for increasing concentration of supplier landscape.

Consolidation in the automotive supplier industry is gaining momentum.

The number of tier 1-suppliers is expected to increase. In contrast, the number of tier 2 and tier 3-suppliers will decrease significantly within next decade.

Resulting success factors for automotive suppliers

Global footprint, profitability, strong innovative drive and critical corporate size are most relevant success factors

- The most relevant **success factors** for mastering future challenges within the automotive supplier industry are:

Global Footprint

- Presence in major automotive markets
- Production and logistic in North America, Europe as well as Asia

Innovative Strength

- Focused product strategy
- Full range service from R&D to production

Critical Corporate Size

- Economies of scale
- Process capabilities
- Independence

Earnings Power

- EBIT
- Equity
- Sustainability

Mastering industry challenges

Strengthening competitive positioning within ongoing consolidation process

Establishing/strengthening status as global tier 1-supplier

Being deeply integrated within OEMs R&D as well as production process

- The success factors above apply **not only in theory**, but they are **already visible as todays trends** in the automotive industry.

Levers for corporate success within a challenging environment

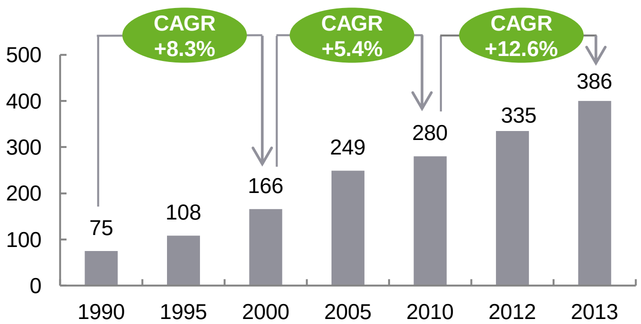
Practical CASE STUDY on the example of an interior supplier

Lever	Implementation
Internationalization with regard to growth markets/ OEM /cooperation/JV	■ Establishment of production site in China ■ Expansion of production sites in (NAFTA/EastEurope) ■ Initiation of capacities in Mexico, India and Korea (JV) ■ Extension of tier 1-status from 65% to 92%
Project management	■ Optimizing of processes and improvement of cost efficiency /Price Policy
Product strategy/Innovation	■ Extension of competencies in field of surfaces as well additional products
Core competencies/Competition	■ Optimizing and expansion of process technologies
Production structures	■ Improvement of infrastructure/processes/logistic
Corporate management	■ Improvement of efficiency with regard to reporting/ controlling and risk management
Corporate culture/Communication/Payment policy	■ Employer brand ■ Systematic human resources development ■ Profit-sharing (MBO/Balanced Scorecards)

The effects of strategic leverage could be clearly observed

CASE STUDY: *Profitability has risen significantly by working on success factors*

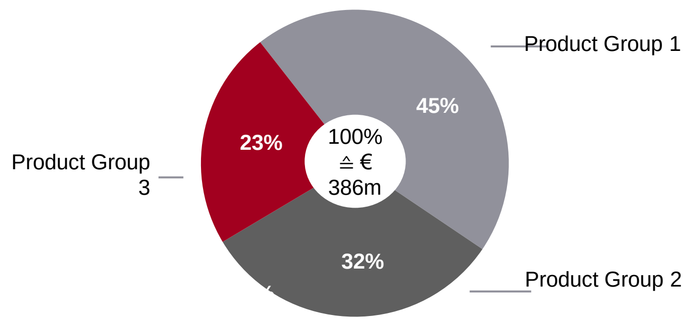
Historical Revenue Development



Significant revenue growth above market level. Acceleration of growth since 2010

Product Portfolio

Revenue share 2013 (in %)[1)]



Focus and specialization on limited number of high quality interior components

Technological Competencies

- Full-Service-Supplier: Competencies from first concept studies to ready for series production.
- Modern plastics die casting, e.g. multi component production, IMA, GID, IMD, back injection molding of materials.
- Focus on innovative coating technology, e.g. high-gloss surfaces and laser varnish.
- In-house tool and device construction.

High technology/process competencies throughout the plastics processing value chain

Global Footprint

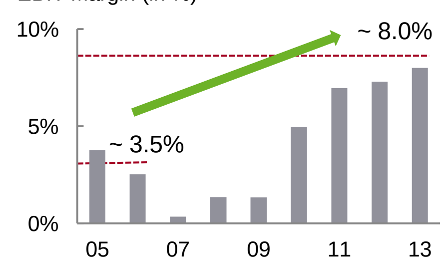
Worldwide production capacities.
Further expansion in China and NAFTA

Considerable leverage for margin generation was activated in recent years:

- Exceeding critical size
- Focused product strategy
- Expansion of technology expertise
- Expansion of global footprint
- Optimizing project-/process-competencies/skills

Considerable margin increase by rising relevance as Tier 1 supplier.

EBIT Margin (in %)



Sources: Company Information, Graf Lambsdorff & Compagnie Analysis; EG Analysis; [1)] Based on estimates

Thank you very much for your attention and interest!

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