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)

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Growth contribution by region 2011-2019 (in %)

- Europe*: (CAGR: 2.4%)
- Other: (CAGR: 5.5%)
- South America: (CAGR: 4.5%)
- North America: (CAGR: 4.0%)
- Asia: (CAGR: 7.3%)

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

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

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

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

Changing global customer needs requires increasing individualization of automotive components

- 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

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

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
### Levers for corporate success within a challenging environment

**Practical CASE STUDY on the example of an interior supplier**

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| **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**
- CAGR +8.3%
- CAGR +5.4%
- CAGR +12.6%

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

**Product Portfolio**

**Revenue share 2013 (in %)**
- Product Group 1: 45%
- Product Group 2: 32%
- Product Group 3: 23%

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.

**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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