



Global Automotive Supplier Study

Quick rebound after the crisis – Significant challenges ahead

Roland Berger
Strategy Consultants

LAZARD

SHORT VERSION

September 2010

Executive summary

- In line with the recovery of global car production, revenues in the global auto supplier industry are almost **back at pre-crisis levels**, while suppliers' EBIT margins will even reach an **all-time high** of approx. 6% in 2010
- Profit recovery is particularly strong among **European** and **North American** suppliers
- Rising factor costs and especially a dramatic increase in **price pressure from carmakers** will lead to shrinking margins in 2011 and beyond
- At the same time, the global supplier industry needs to **refinance** the substantial sum of around **EUR 130 bn** between now and 2015
- The crisis has not led to real consolidation in the most problematic segments – therefore, a growing group of **structural underperformers** (approx. 20% of the global supply base) will be the first to fail once volumes decline again
- The industry urgently needs to switch to a **more collaborative approach** to avoid disruptions in the supply chain and a decrease in innovation power

Contents

Page

A. The storm is over – Quick rebound after a global shockwave	4
B. Challenges ahead – Margin squeeze and rising capital needs	21
C. Conclusions and solutions – How the industry needs to change	39
D. Contacts	42



A. The storm is over – Quick rebound after a global shockwave

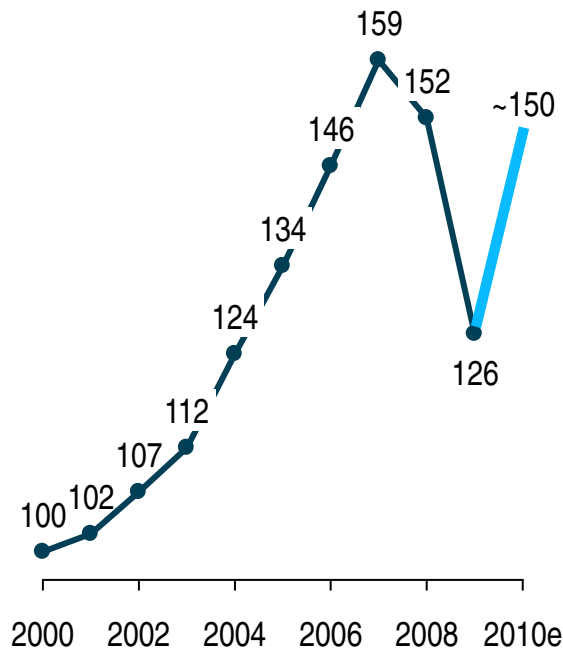
LAZARD **Roland Berger**
Strategy Consultants



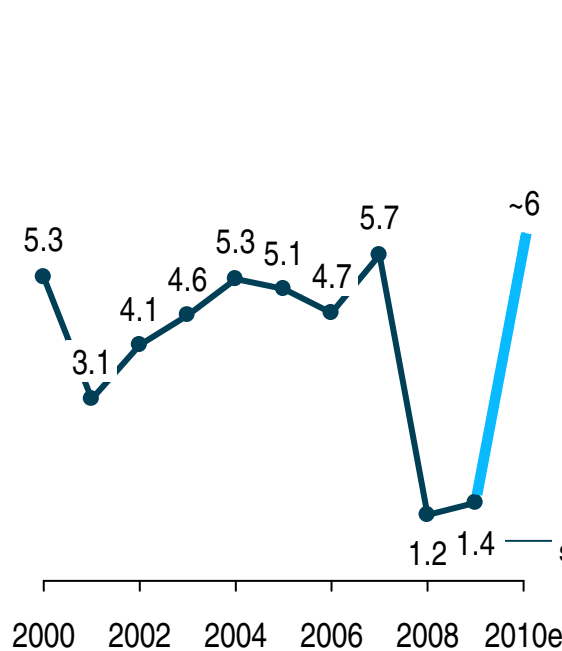
Revenues in the global auto supplier industry are almost back at pre-crisis levels – Profitability may reach an all-time high of ~6% in 2010

Key supplier performance indicators 2000-2010e (n = ~530 suppliers)

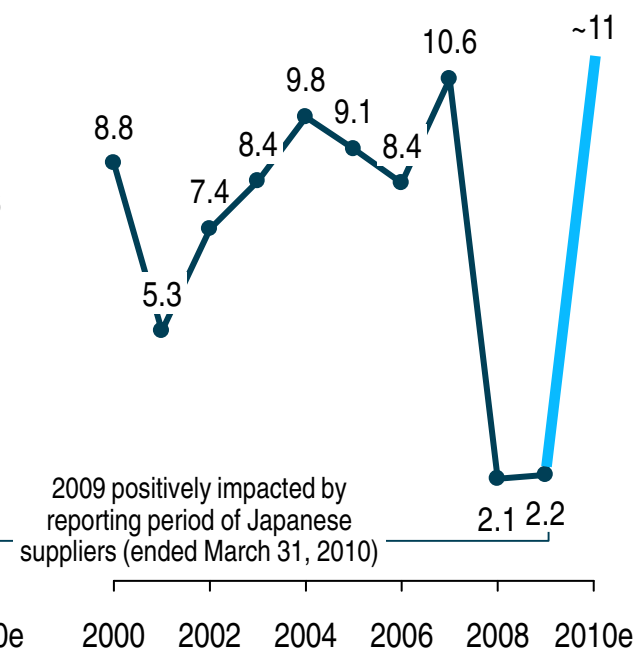
Revenue growth [2000=100]



EBIT margin¹⁾ [%]



ROCE²⁾ [%]

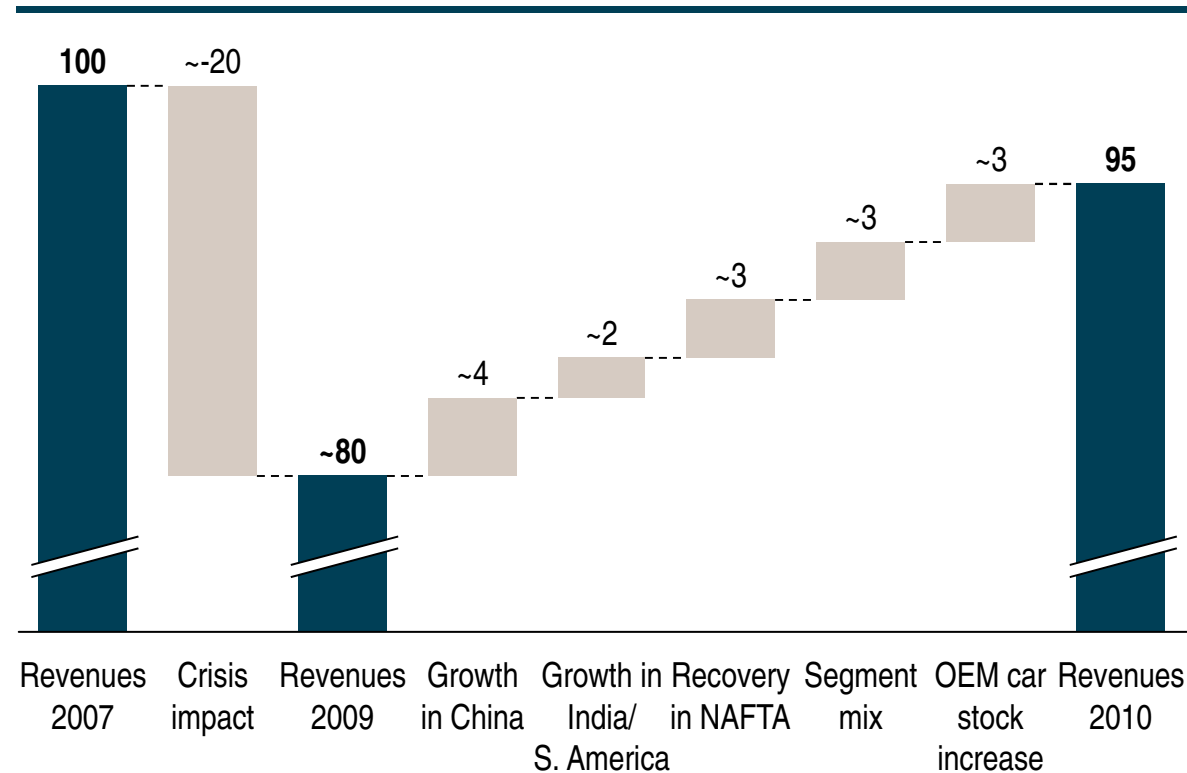


1) EBIT after restructuring items 2) EBIT after restructuring items/capital employed

Main drivers of the volume recovery are ongoing growth in emerging markets as well as a "back to normal" product mix

Supplier revenue development 2007-2010

Average supplier revenues [2007=100]



COMMENTS

- > **Growth in China:** Ongoing demand growth fueled by overall economic development (sales +17% vs. 2009)
- > **Growth in Brazil/India:** Continued rise in demand (sales +14% vs. 2009)
- > **Recovery in NAFTA:** Fast recovery after market collapse in 2009 (sales +12% vs. 2009)
- > **Segment mix:** Gradual demand shift back to premium vehicles driven by fleet and corporate customers
- > **Increase in vehicle stock:** Refilling distribution channels

Looking back: The automotive supplier industry has undergone the most severe crisis in its history



EUR 200 bn: Cumulative decline in revenues 2008/2009 compared to pre-crisis level

EUR 75 bn: Cumulative reduction of EBIT in 2008 and 2009 compared to 2007

EUR 15 bn: Restructuring costs booked in 2008/2009

EUR 15 bn: Total equity erosion, 2009 vs. 2007

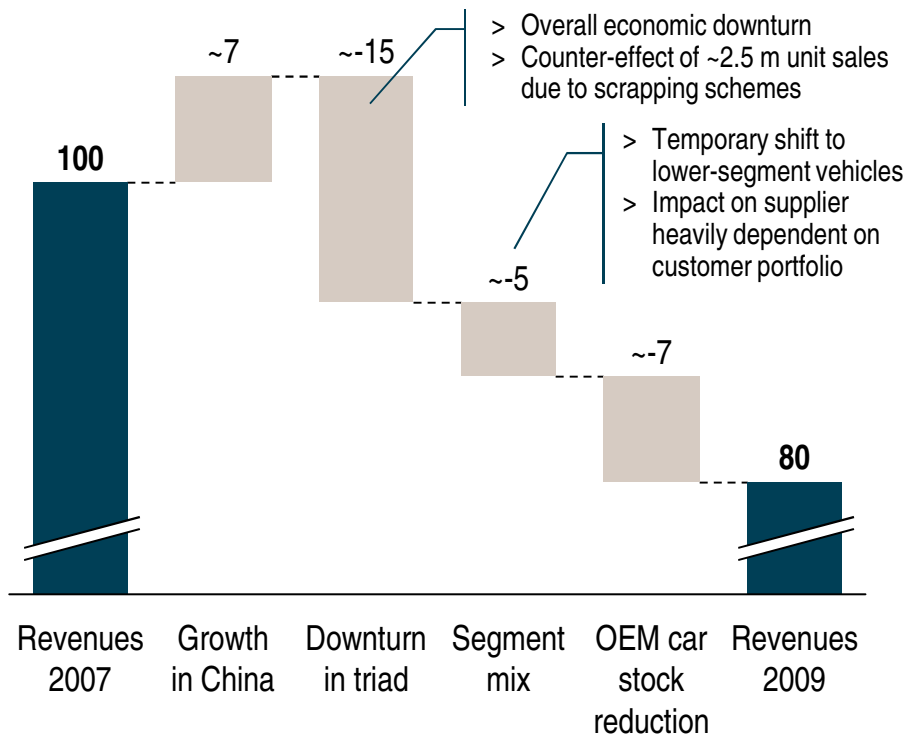
350: Number of automotive suppliers that went bankrupt in the crisis

BUT: Positive free cashflow in the industry in 2009 due to massive counter-measures

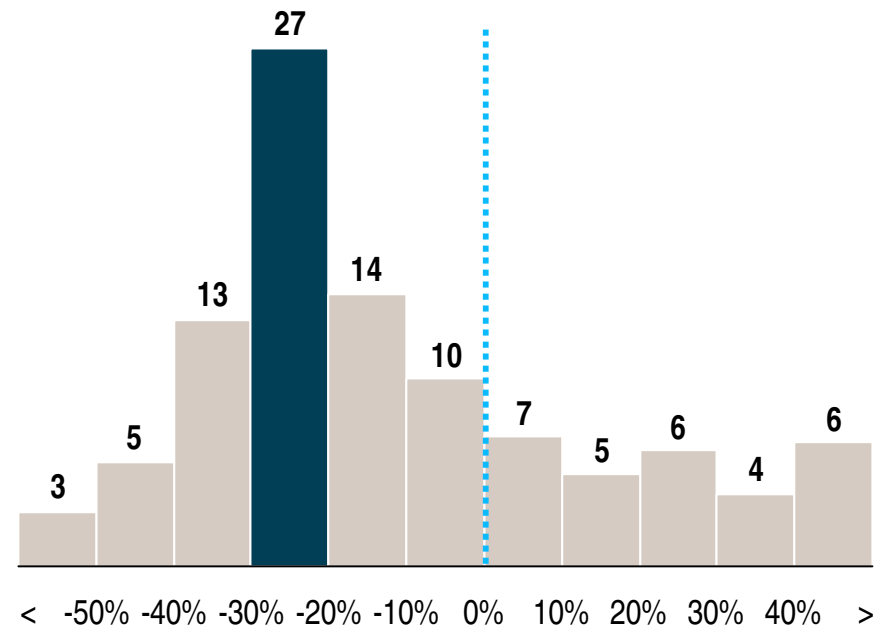
Revenues in the global auto supply base collapsed by approx. 20% during the crisis

Supplier revenue development

Average supplier revenues [2007=100]



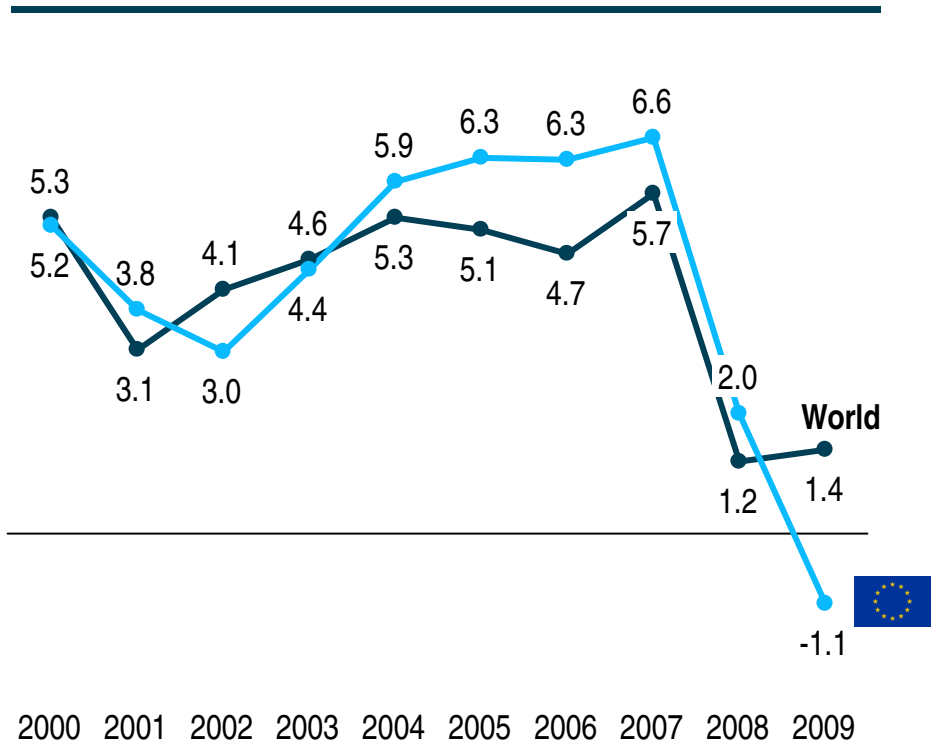
Loss of revenues 2009 vs. 2007 [% of all suppliers]



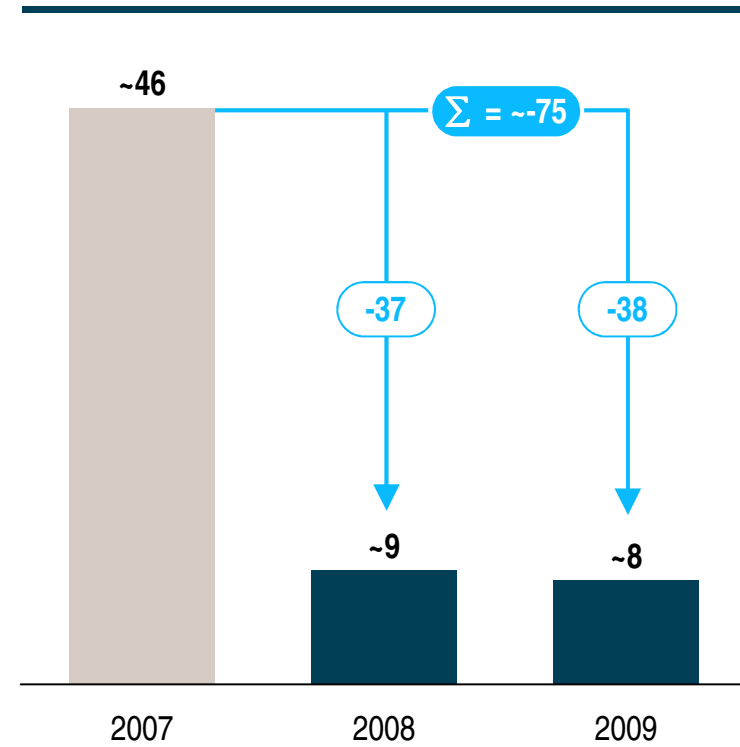
Around EUR 75 bn in EBIT was "lost" during 2008 and 2009 compared to 2007

Supplier profitability 2000-2009

EBIT margin¹⁾ [%] – Global and Europe



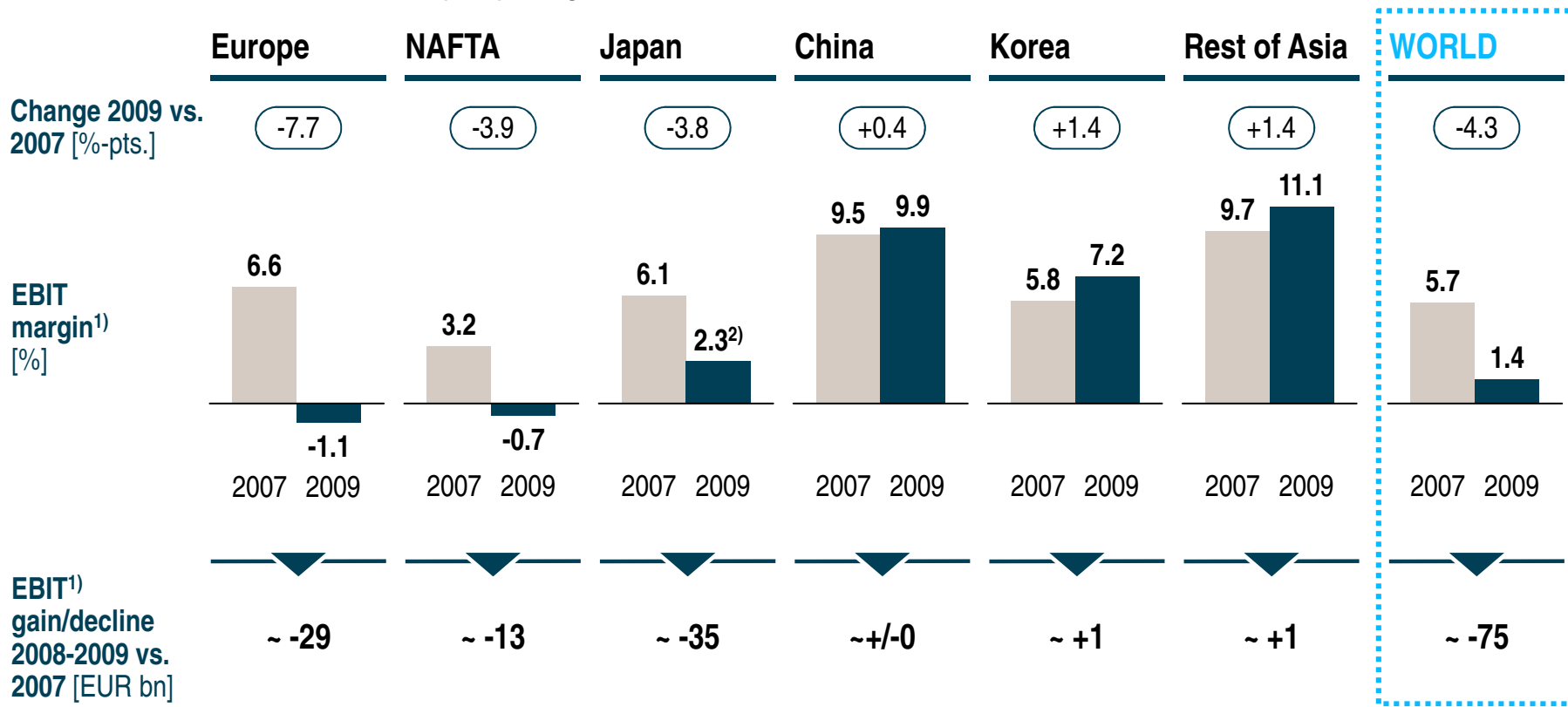
EBIT¹⁾ [EUR bn] – Global



1) EBIT after restructuring items

Triad suppliers suffered most – By contrast, suppliers from emerging markets performed extremely well, even during the crisis

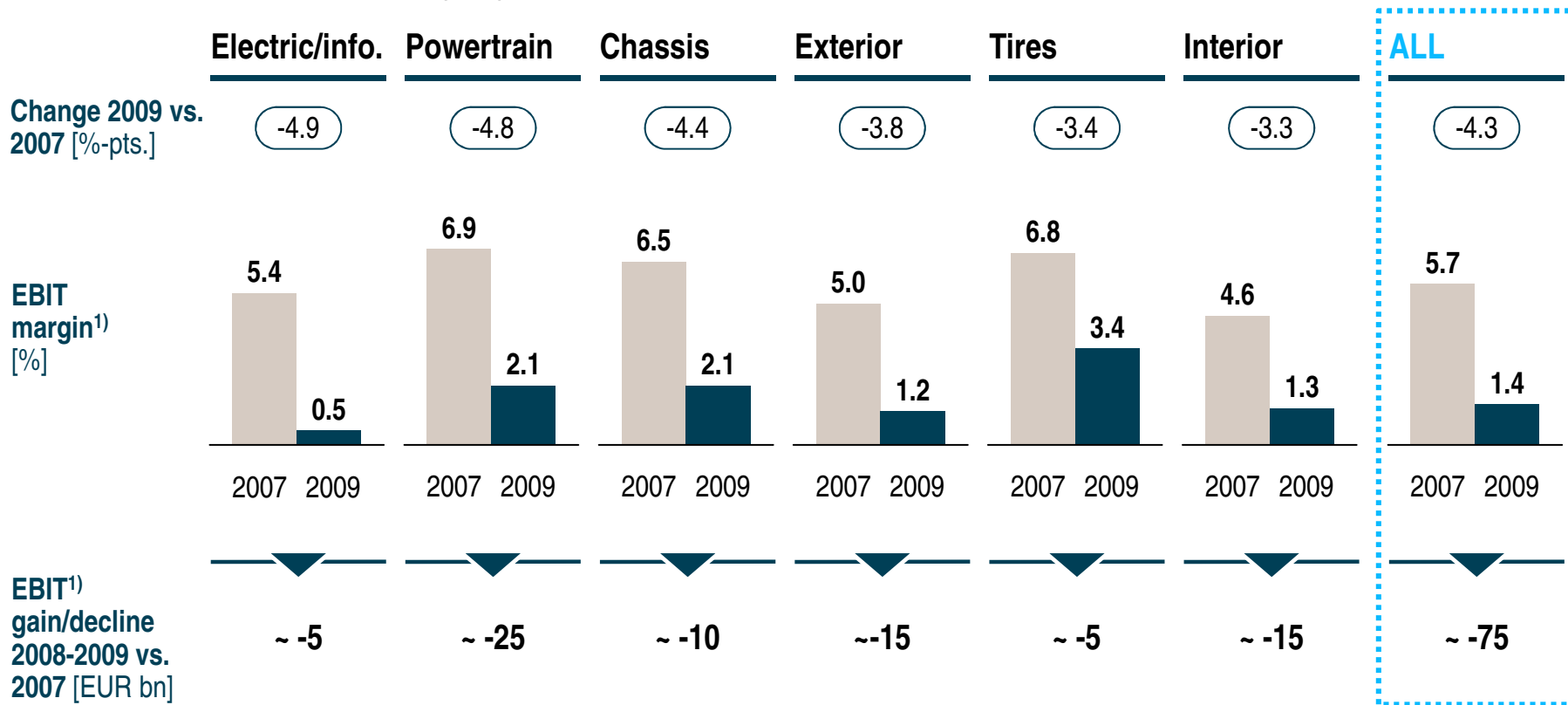
Supplier EBIT profitability by region 2009 vs. 2007



1) EBIT after restructuring items 2) 2009 positively impacted by reporting period of Japanese suppliers (ended March 31, 2010)

Suppliers of tires managed to keep profitability at a reasonable level due to their relatively stable aftermarket business

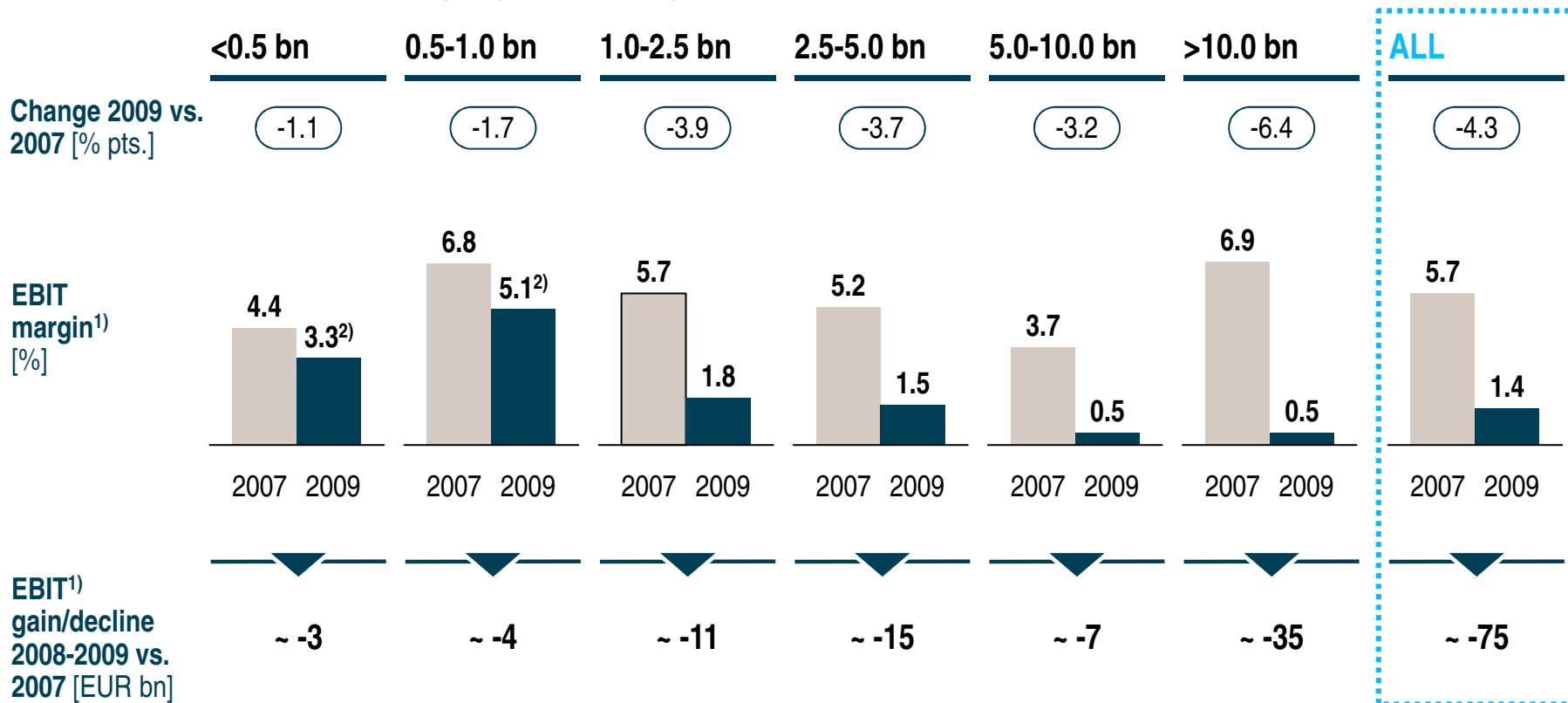
Supplier EBIT profitability by domain 2009 vs. 2007



1) EBIT after restructuring items

Strong differences depending on company size – Large suppliers in particular experienced major losses

Supplier EBIT profitability by company size 2009 vs. 2007

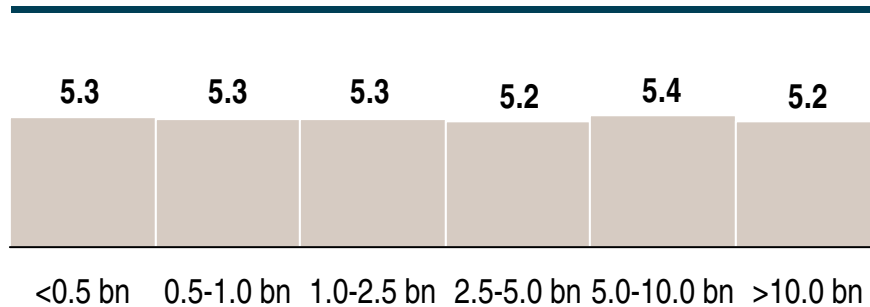


1) EBIT after restructuring items 2) 2009 positively impacted due to disproportionately high share of companies with reporting ending March 31, 2010

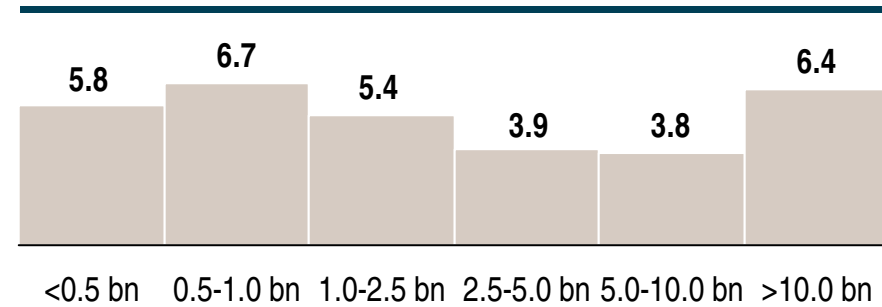
The profitability structure of the industry has changed substantially during the past decade

Supplier profitability by company size 2000-2009 [EBIT margin¹⁾, %]

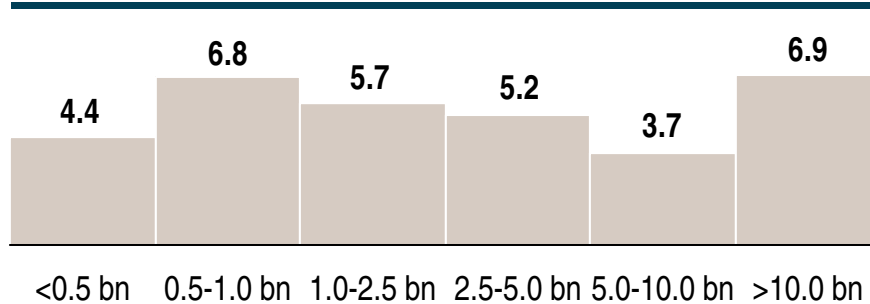
2000



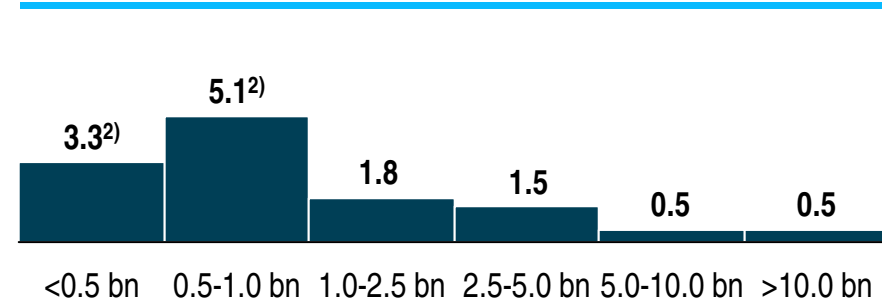
2004



2007



2009

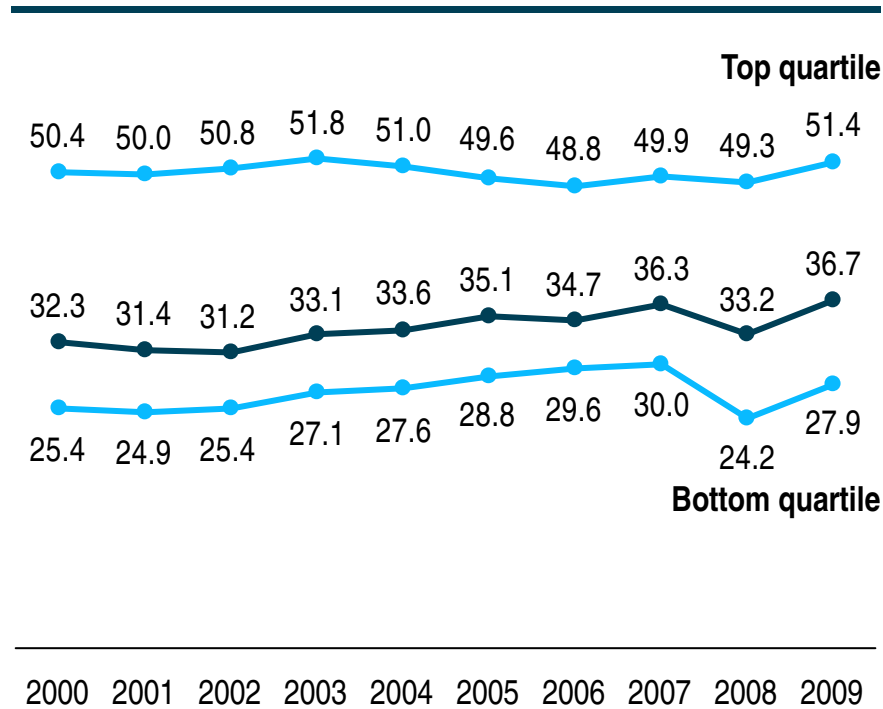


1) EBIT after restructuring items 2) 2009 positively impacted due to disproportionately high share of companies with reporting ending March 31, 2010

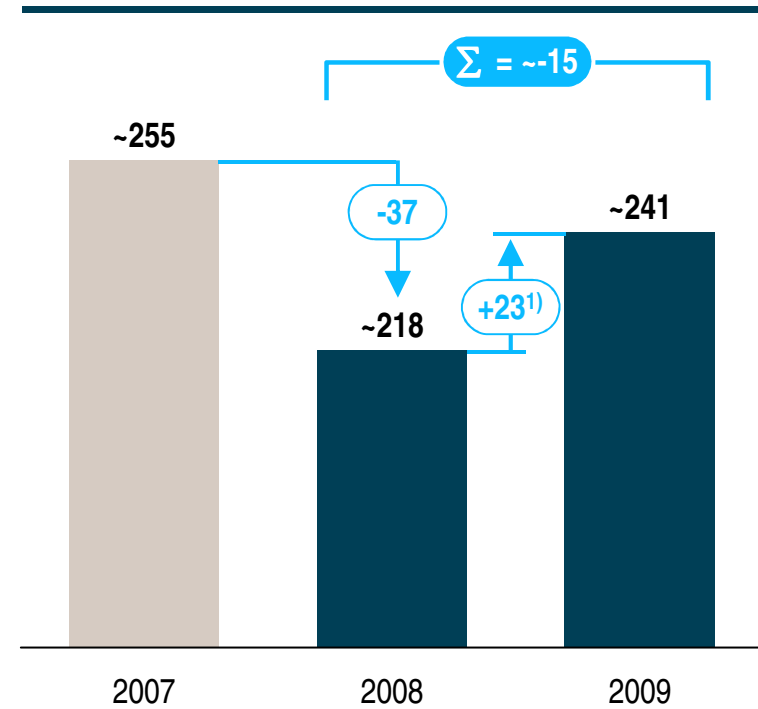
Around EUR 15 bn of equity has been "burned" during the crisis

Supplier equity 2000-2009

Equity ratio [% of total assets]



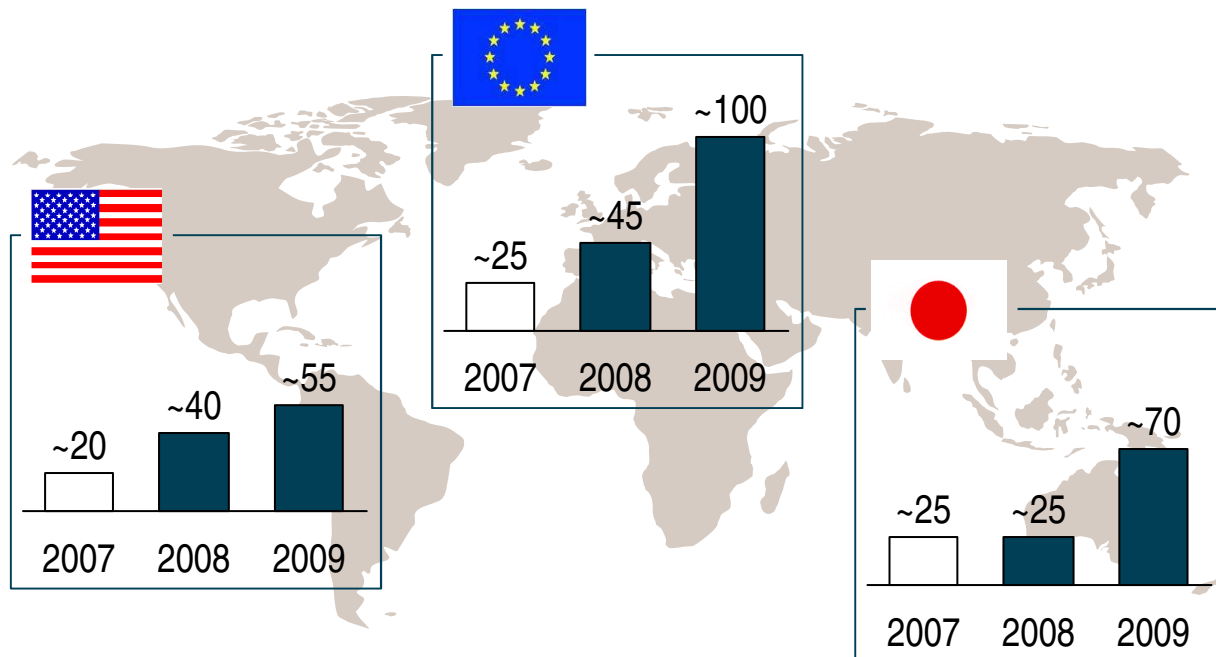
Equity [EUR bn]



1) Thereof ~60% related to Delphi restructuring

As a result of the crisis, around 350 suppliers went bankrupt globally in 2008 and 2009

Insolvencies in the supply industry 2007-2009



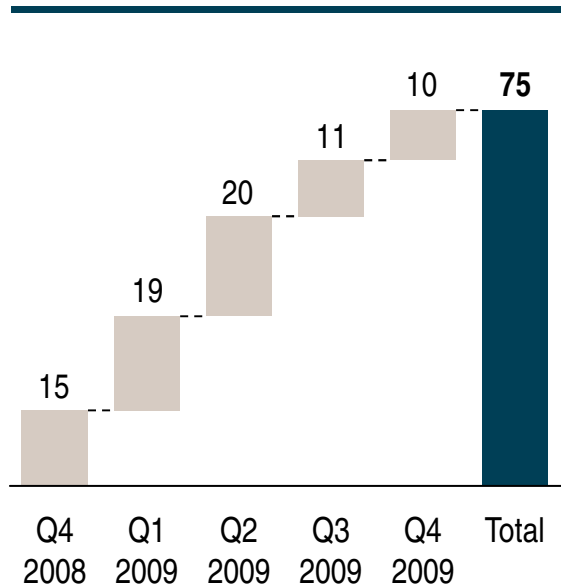
REGIONAL TRENDS

- > In the **US**, numerous major suppliers have been hit hard since the beginning of 2008 (main reason: extremely one-sided dependency on the Detroit 3)
- > In **Europe**, the wave of insolvencies began in the final quarter of 2008 and peaked in the middle of 2009, affecting primarily small and medium-sized businesses (main reason: major dependency on the premium segment)
- > In **Japan** it is particularly the very small and small suppliers that have been hit hard
- > Only a very low number of insolvencies have been seen in newly industrializing countries

In Europe, very small suppliers in process-based product segments were affected in particular

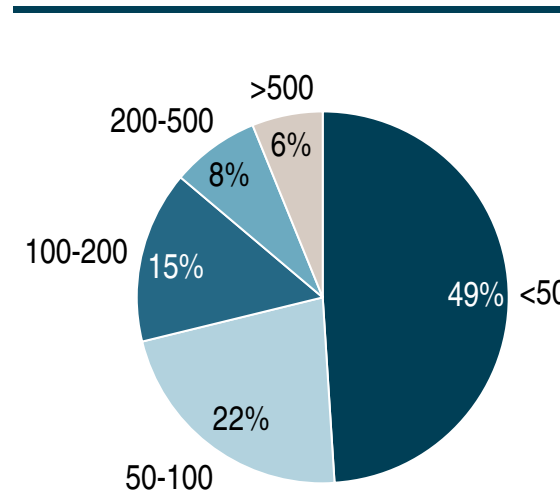
Insolvencies among German suppliers

Over time



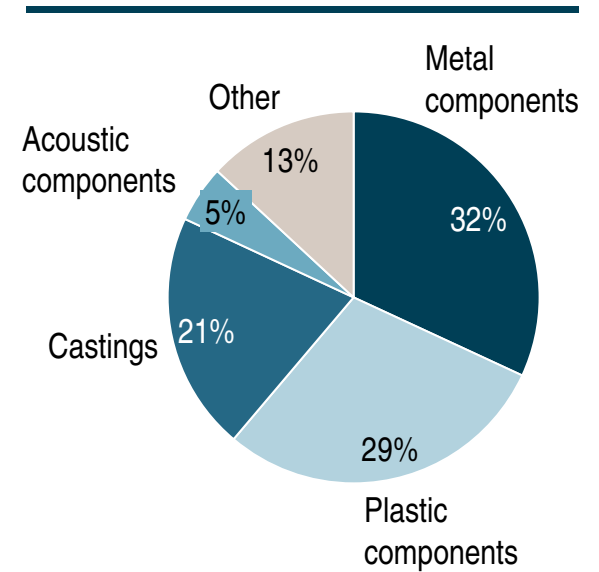
Around 8% of German suppliers

By sales volume [EUR m]



Around 4% of German suppliers' value added

By product focus

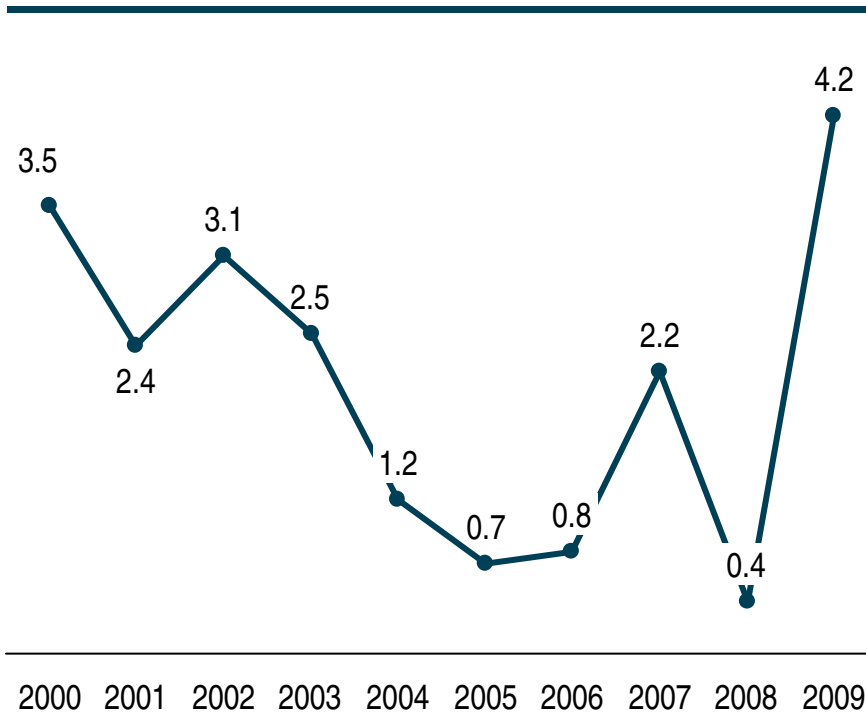


Around 85% process-focused suppliers

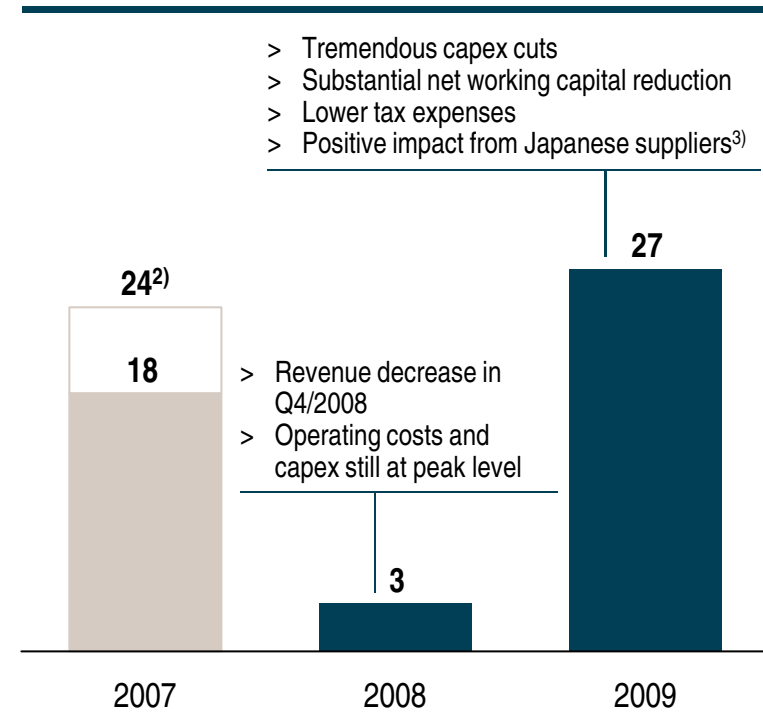
Big surprise: Due to massive countermeasures, the global supplier industry maintained a positive free cashflow in 2009

Supplier free cashflows 2000-2009

Free cashflow¹⁾ [% of revenues]



Free cashflow¹⁾ [EUR bn]

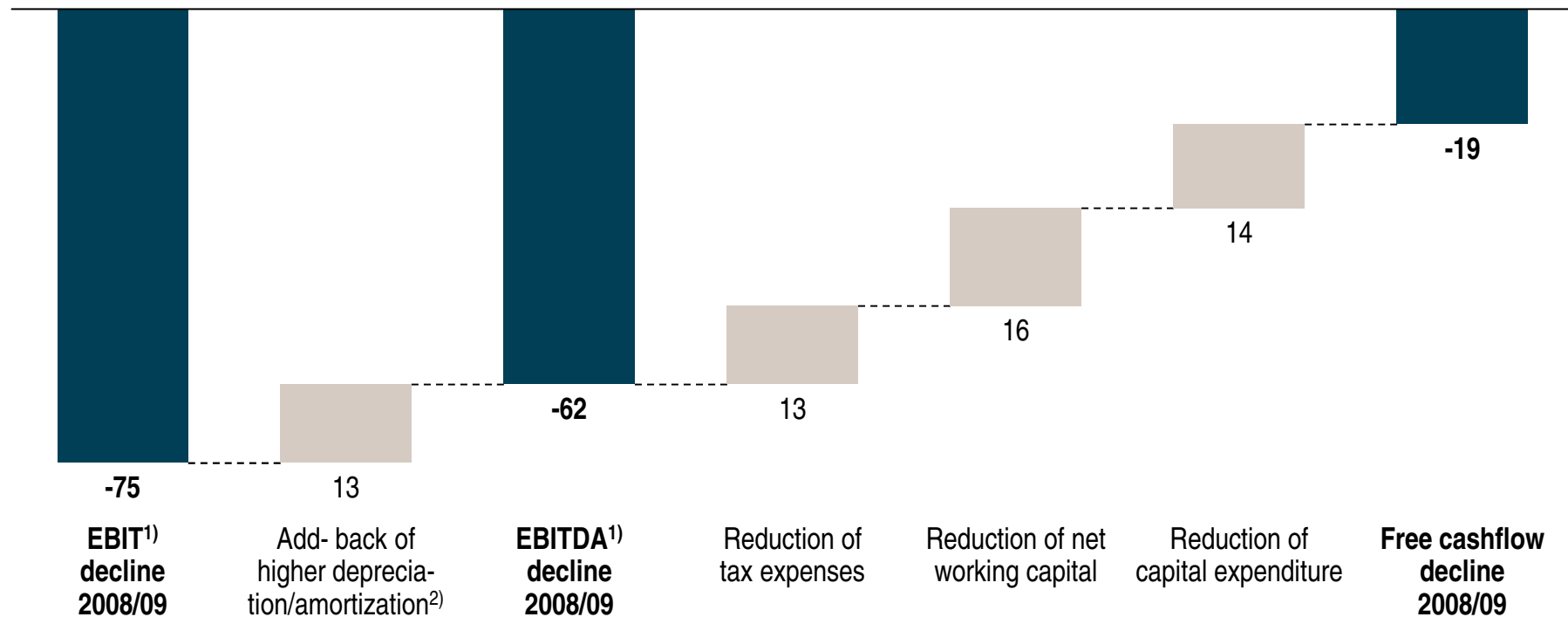


1) EBITDA after restructuring items /. tax /. change in net working capital /. capex ; investments other than capex (e.g. acquisitions) not considered

2) Adjusted for net working capital increase 3) Positive impact from reporting period (ended March 31, 2010)

Out of the ~EUR 75 bn decline in profitability, only one quarter has been turned into a "loss" of cash

Comparison of EBIT vs. free cashflow decline 2008-2009 vs. 2007 [EUR bn]

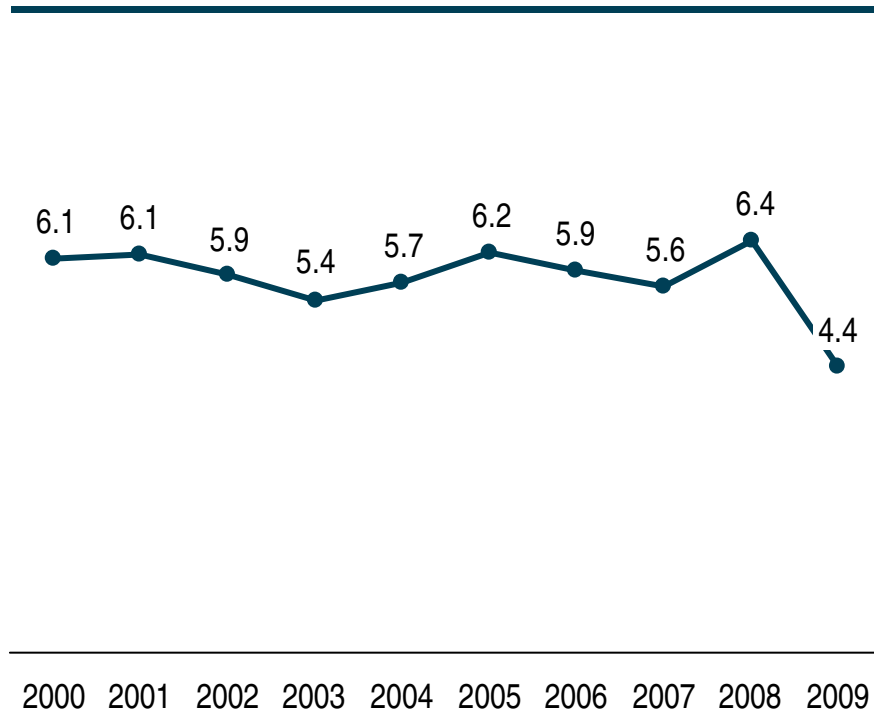


1) After restructuring items 2) Not cash-relevant

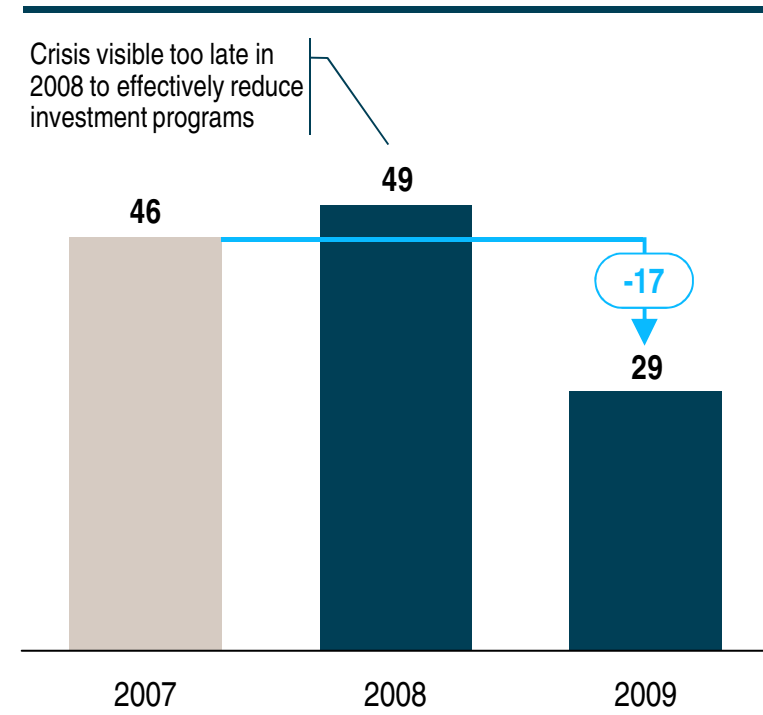
Most suppliers cut their investments dramatically during the crisis – Delayed capital expenditure will have to be recovered

Supplier capital expenditure 2000-2009

Capital expenditure [% of revenues]



Capital expenditure [EUR bn]

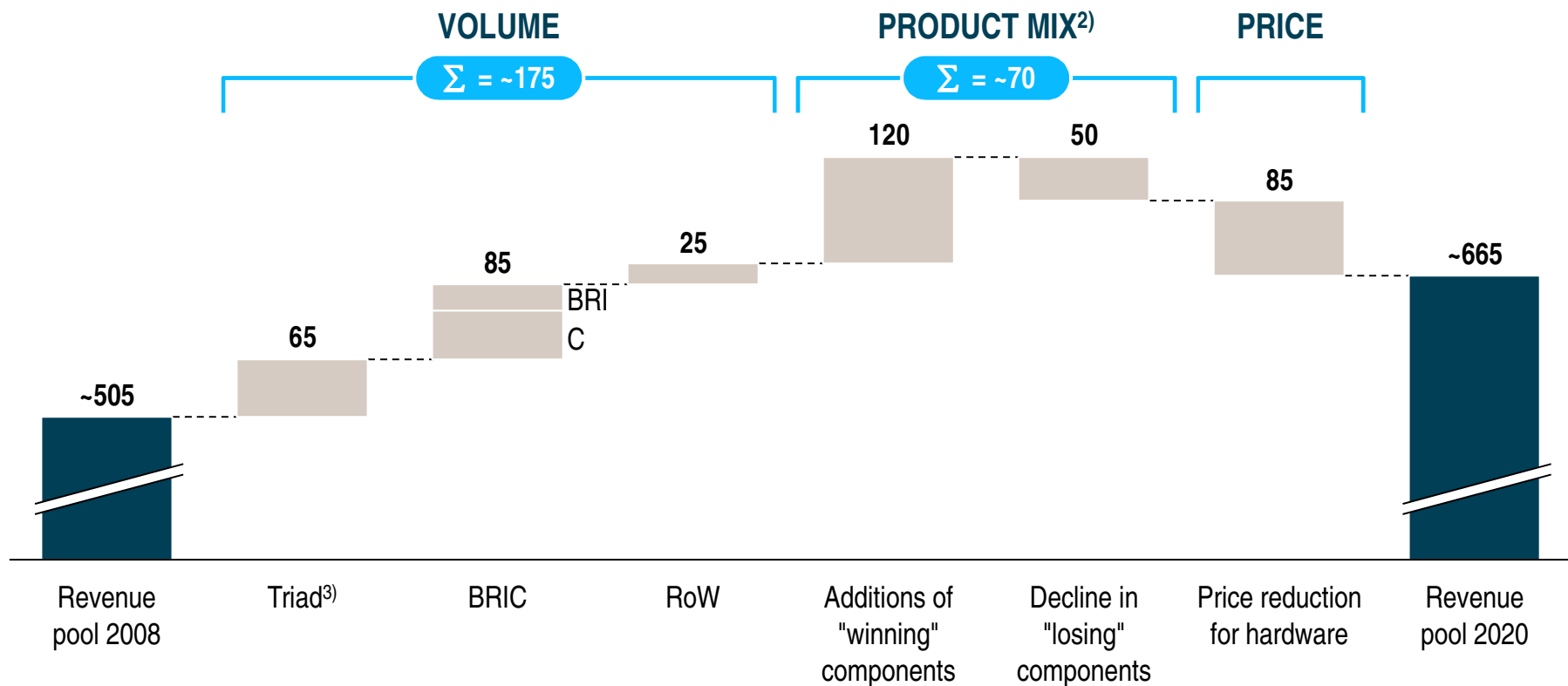




B. Challenges ahead –
Margin squeeze and rising capital needs

Looking ahead: The global market for automotive OE¹⁾ components will grow by approx. EUR 160 bn from 2008 to 2020

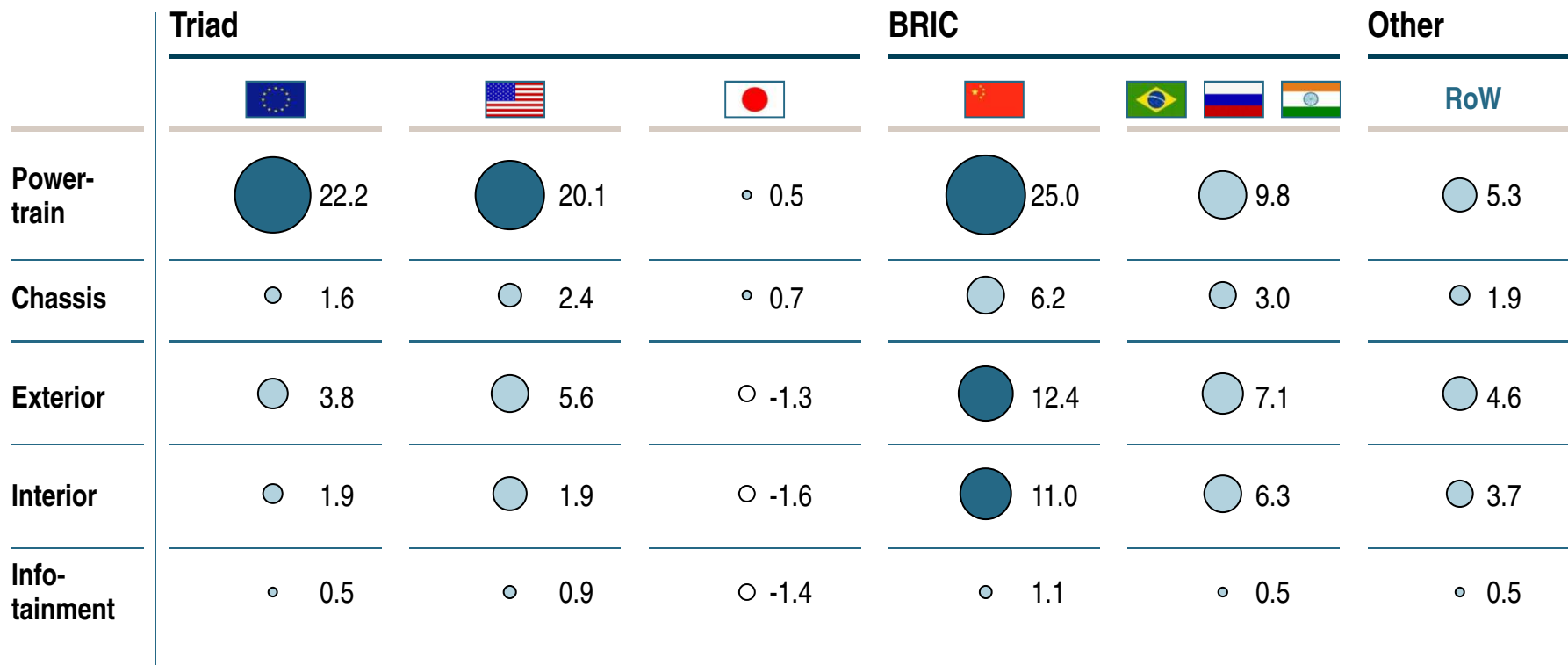
Major drivers for development of automotive component market [EUR bn]



1) Original equipment 2) Includes price reductions of electronics-related content 2) Partly due to crisis recovery effect

But: the EUR 160 bn is mainly created in the powertrain domain and in the BRIC markets – Most other product segments will stagnate

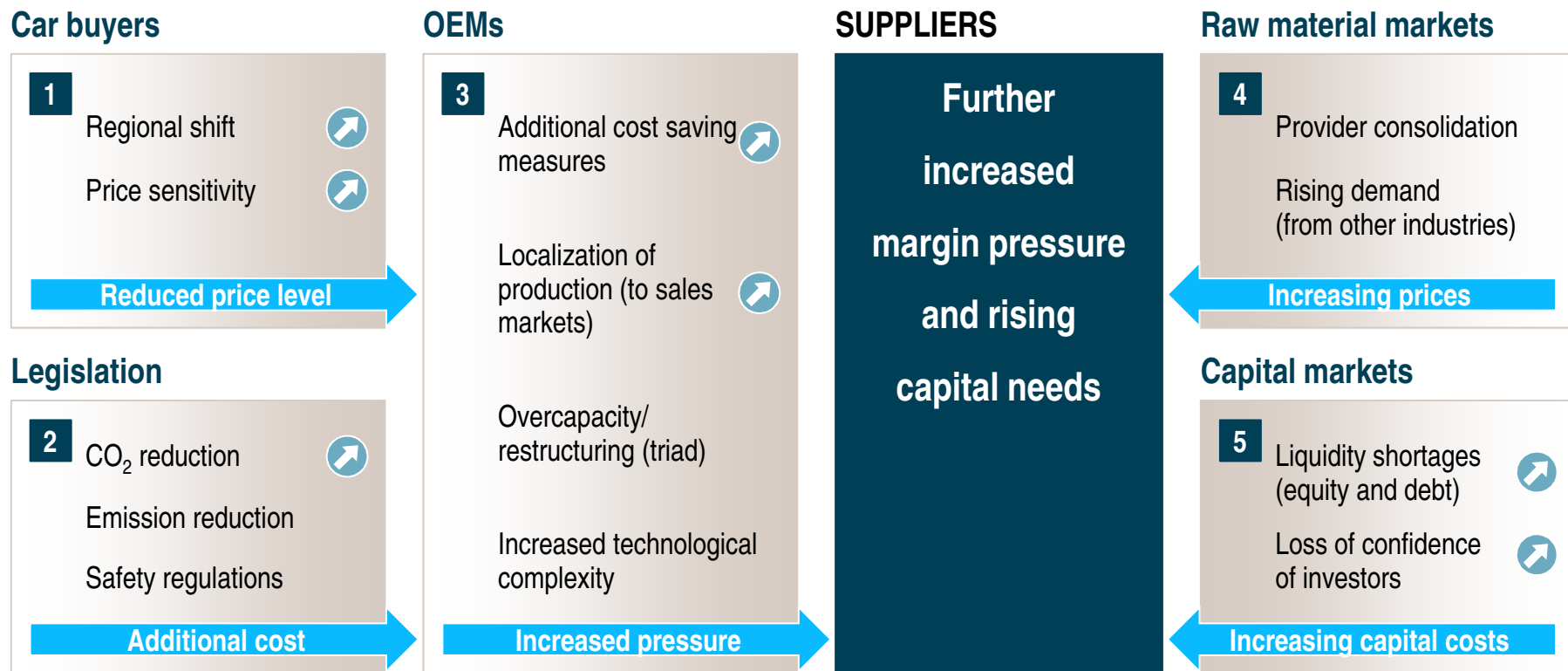
Additional auto component revenue pool 2020 vs. 2008 by domain/region [EUR bn]



Bubble size represents the revenue pool delta 2020-2008 Δ exceeds EUR 10 bn Shrinking markets

Some more bad news for suppliers will come from the general automotive industry environment

Trends shaping the supplier industry in the future

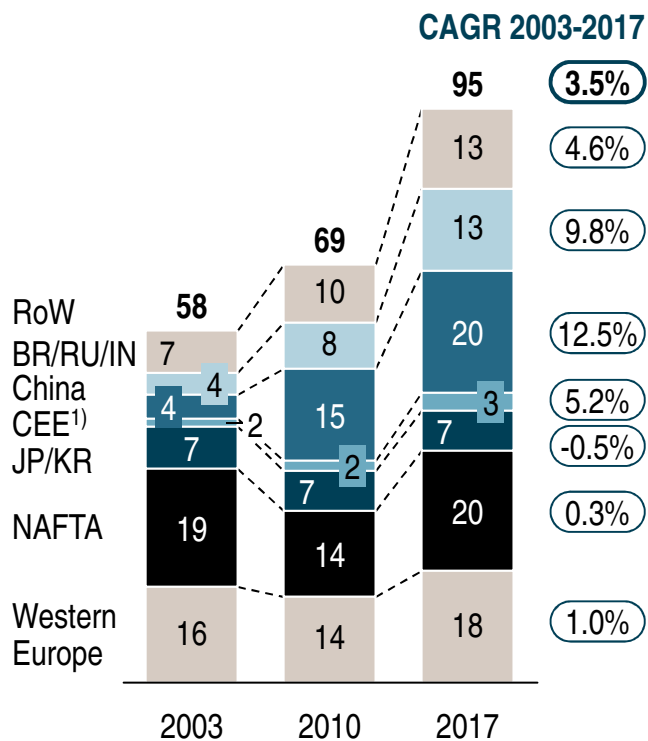


= increased importance over the past two years

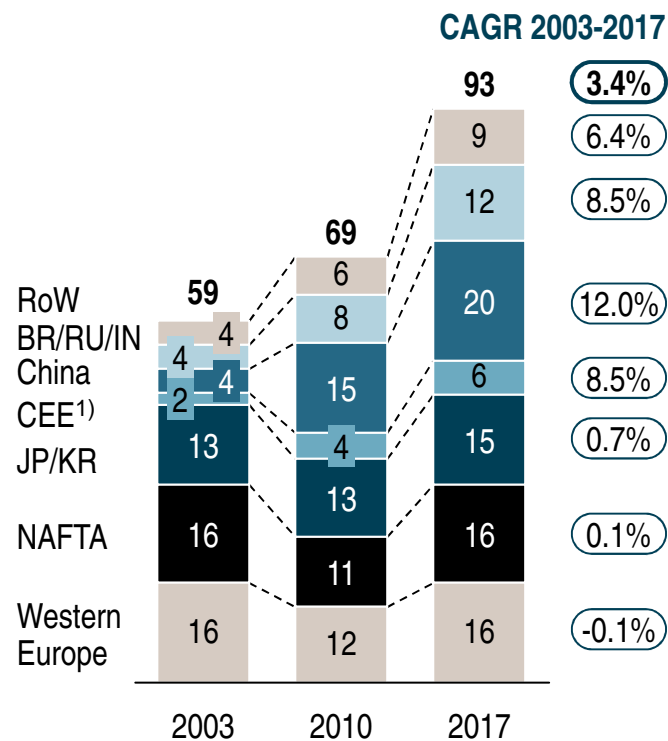
Vehicle sales and production markets continue to move to Asia – Triad markets likely to stagnate once fully recovered from the crisis

Light vehicle market by region 2003-2017 [m units]

Sales



Production



CONSEQUENCES

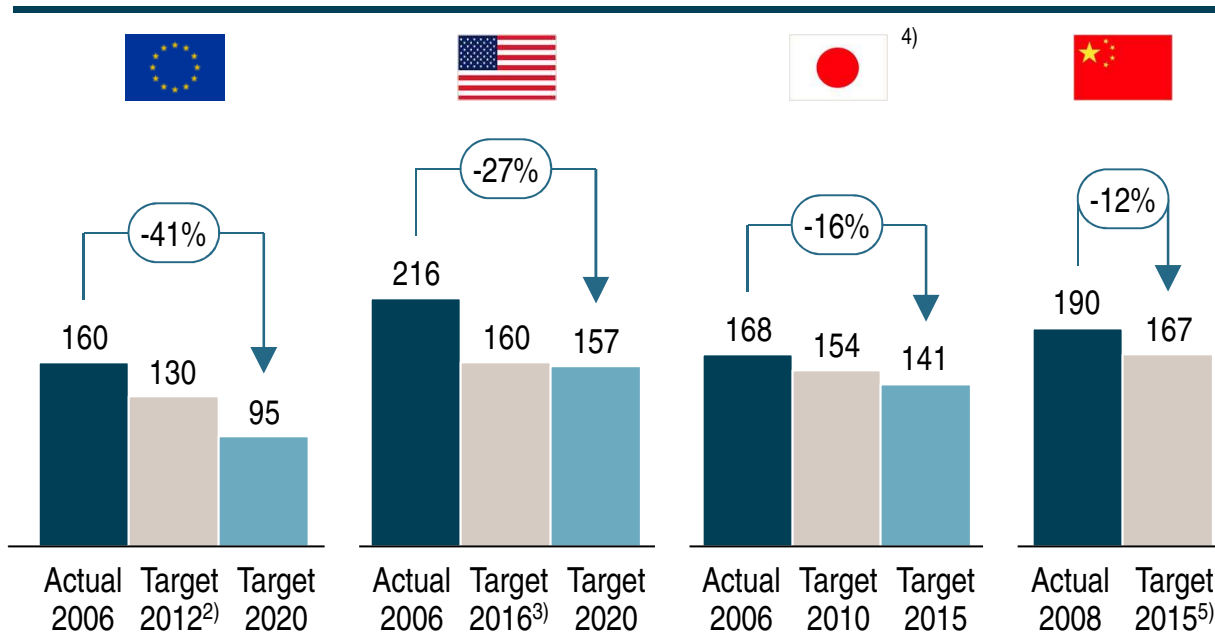
- > Supplier footprint does not match the structure of the suppliers' sales markets of the future
- > Pressure from OEMs on suppliers to localize production, i.e. opening new plants in emerging markets
- > Growing underutilization of supplier plants in triad markets following the shift of volumes
- > Significant financing needs for suppliers to fund footprint redesign (plant openings and closures)

1) Excl. Russia

CO₂ regulations are being tightened around the globe, imposing new technical and commercial challenges for OEMs and suppliers

CO₂ fleet emission targets by region [g/km]¹⁾

Sales



1) No cycle conversion considered; gasoline assumed for non-EU countries
 2) For 65% of the fleet from 2012 on, gradually increased up to 100% of the fleet until 2015
 3) New national fuel-economy program proposed by Barack Obama
 4) New passenger vehicle sales
 5) Target based on draft official automotive fuel-economy standards to improve fuel economy by an additional 18% by 2025

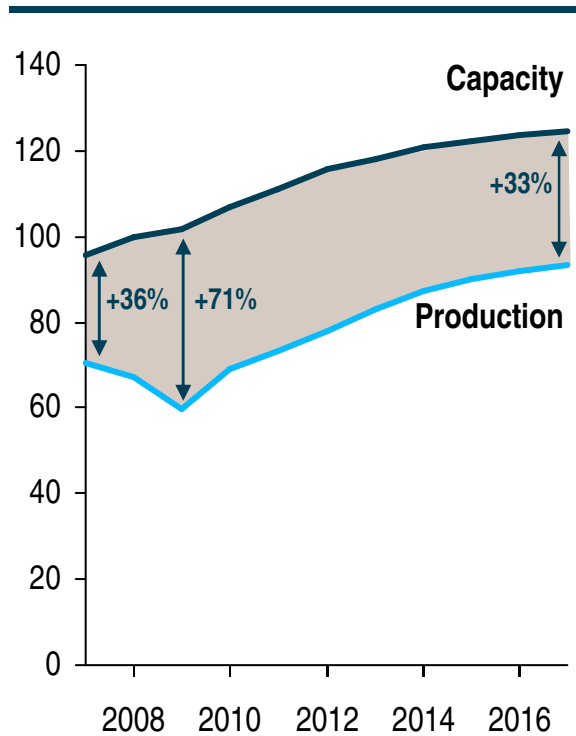
CONSEQUENCES

- > Change of vehicle technology to cope with tightened CO₂/ emission regulations provides new business opportunities for suppliers, especially in the powertrain domain
- > On the other hand, the existing business model of many traditional powertrain suppliers is jeopardized
- > Following the technology evolution requires significant R&D investments – development of several technologies in parallel inevitable

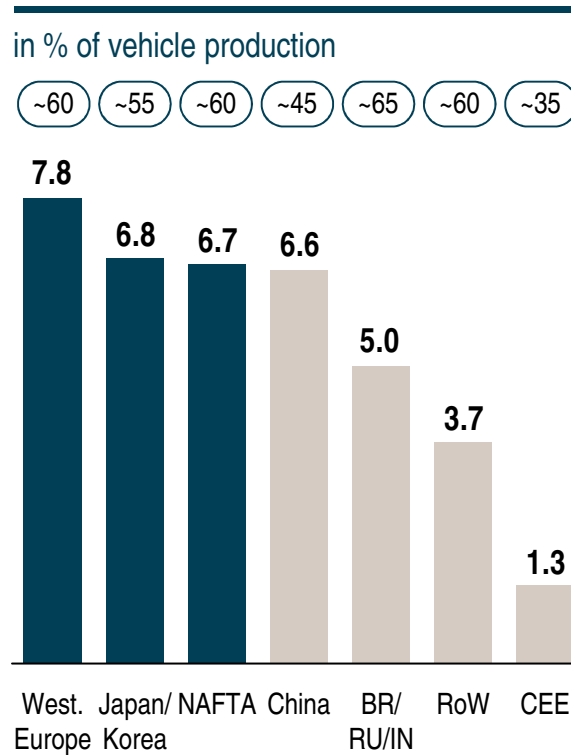
OEM overcapacity will remain significant in the triad – And additional capacity is being added in emerging markets

OEM production capacity development [m units]

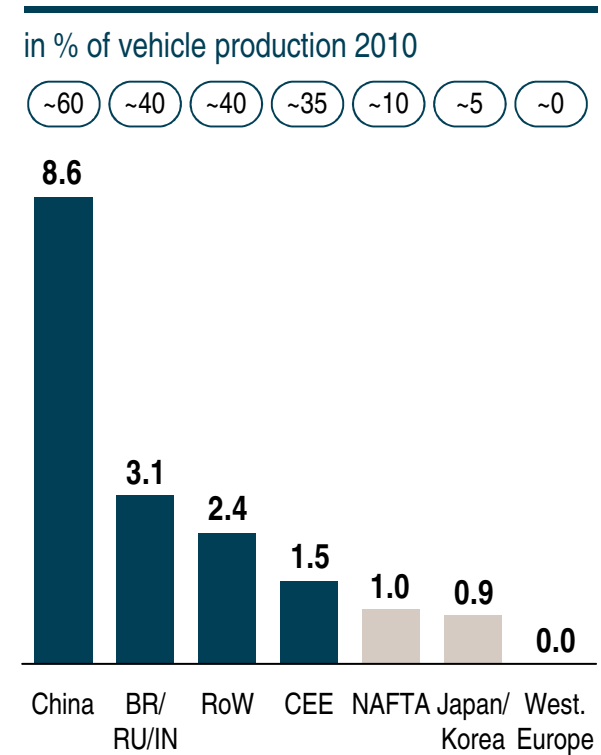
Production vs. capacity



Overcapacity 2010

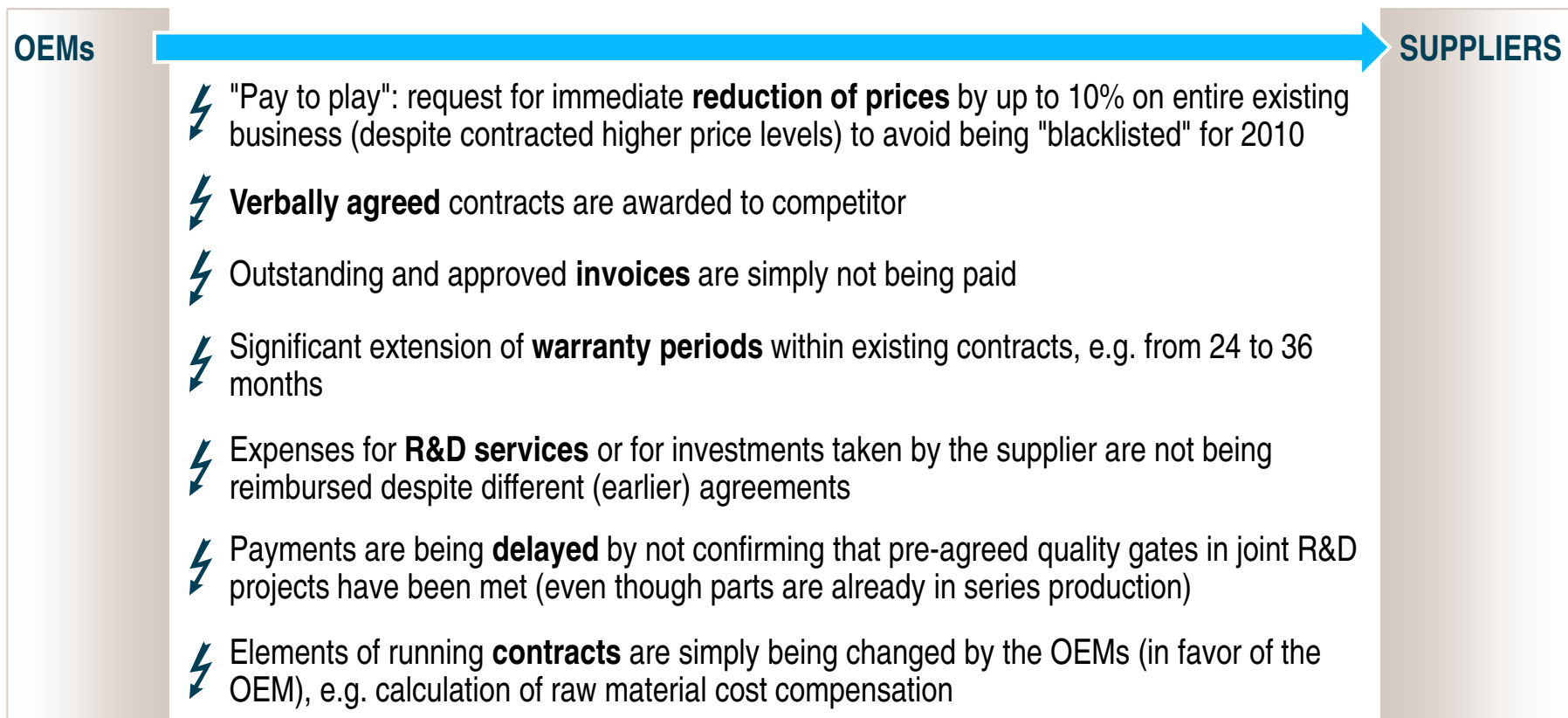


Capacity expansion 2010-2017



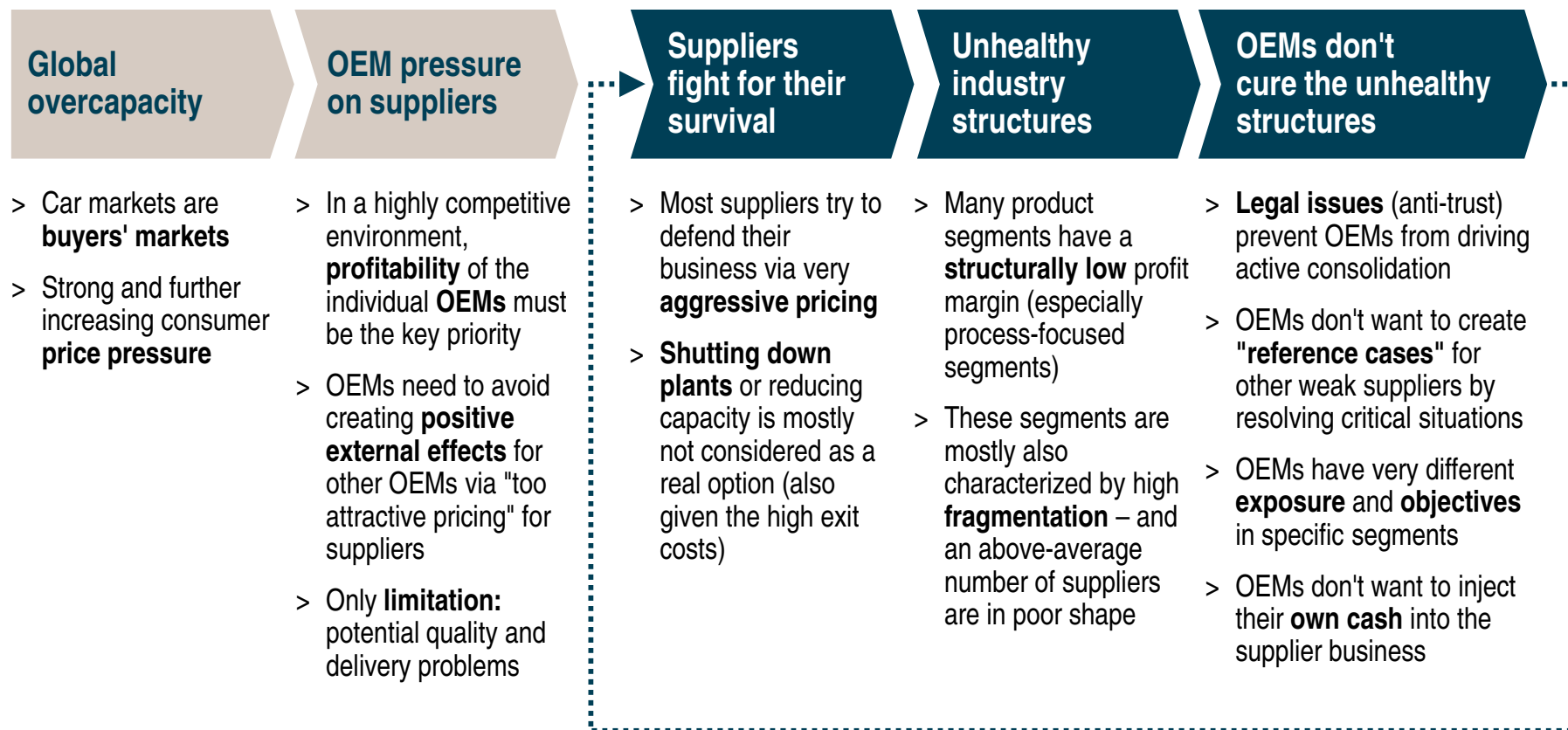
After some concessions during the crisis, OEMs have dramatically increased pressure on their suppliers again

Examples of selected recent OEM requests made to suppliers (not representative)



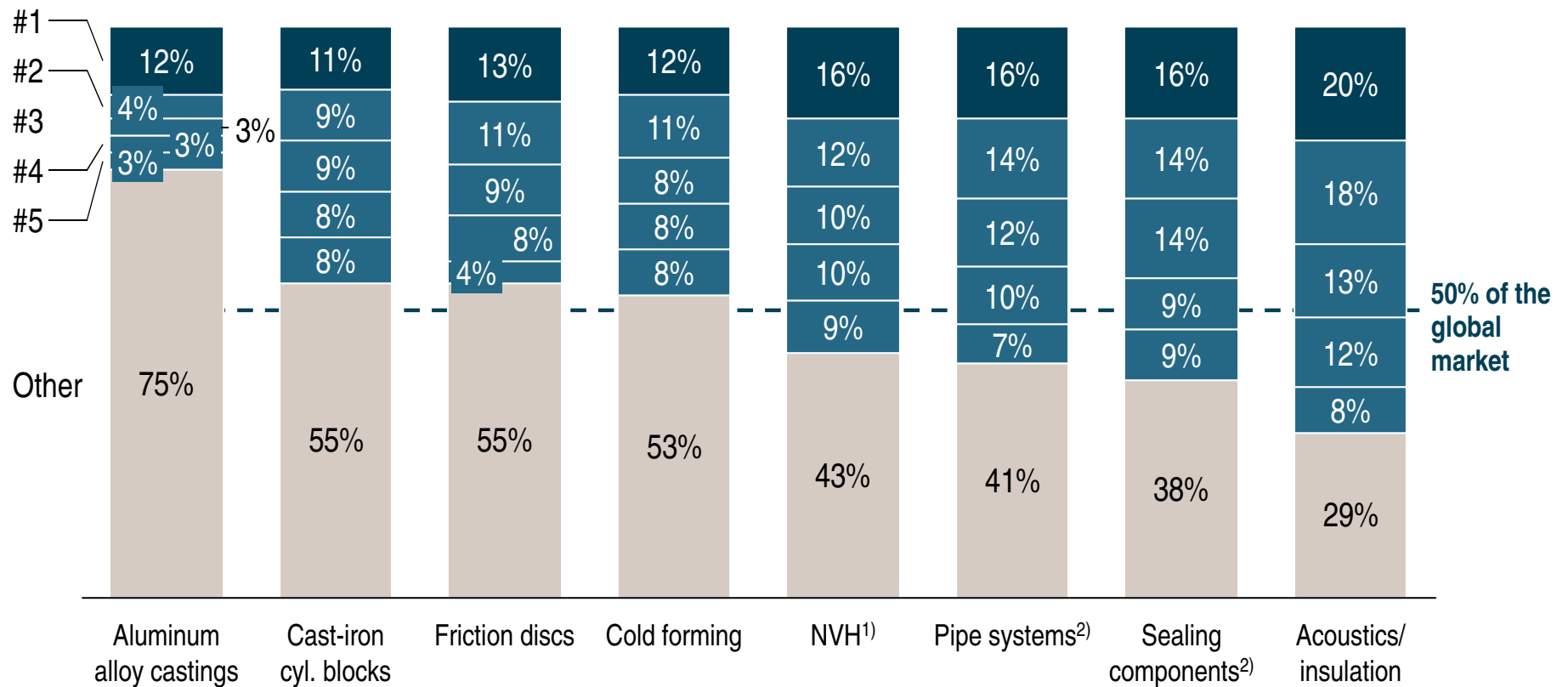
OEMs' dilemma: From an individual perspective, they have to act in this way – But this also creates the "problems of tomorrow"

OEMs' dilemma



Especially some process focused segments require consolidation to become more healthy

Competitor structure in selected process-based segments [market share, %]

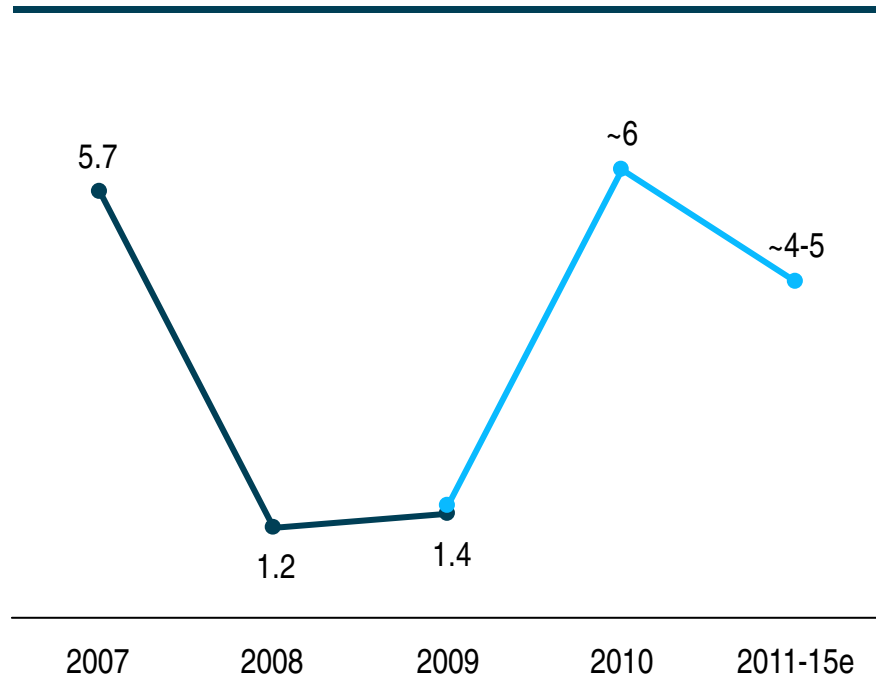


1) Noise, vibration, harshness 2) European market share

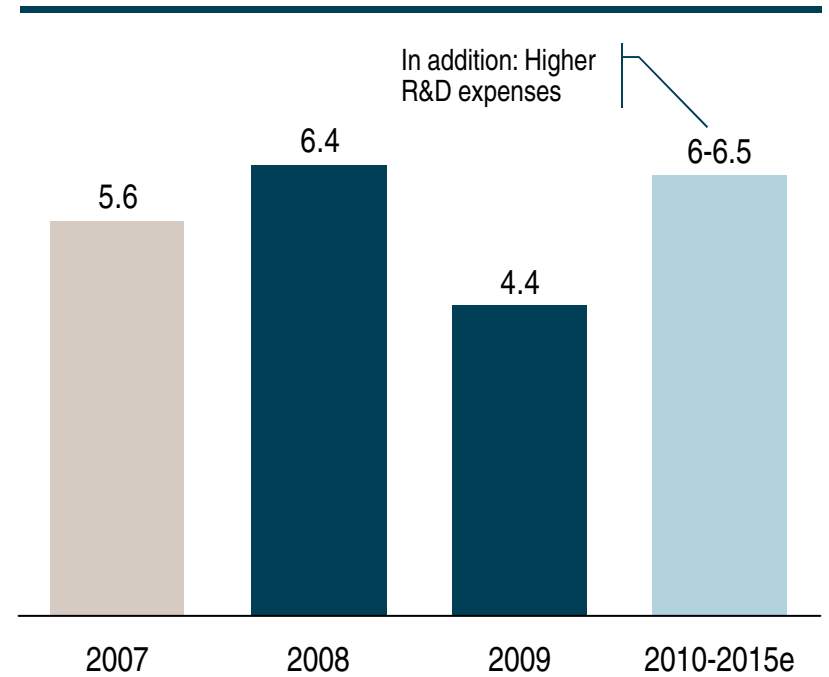
As a consequence of these trends, we expect supplier profitability to decline and capex needs to increase after 2010

Profitability and investment requirements of the supplier industry in the future

EBIT margin¹⁾ [%]



Investment requirements 2010-2015 [% of revenues]



1) EBIT after restructuring items

At the same time, automotive suppliers will have to refinance approx. EUR 130 bn by 2015

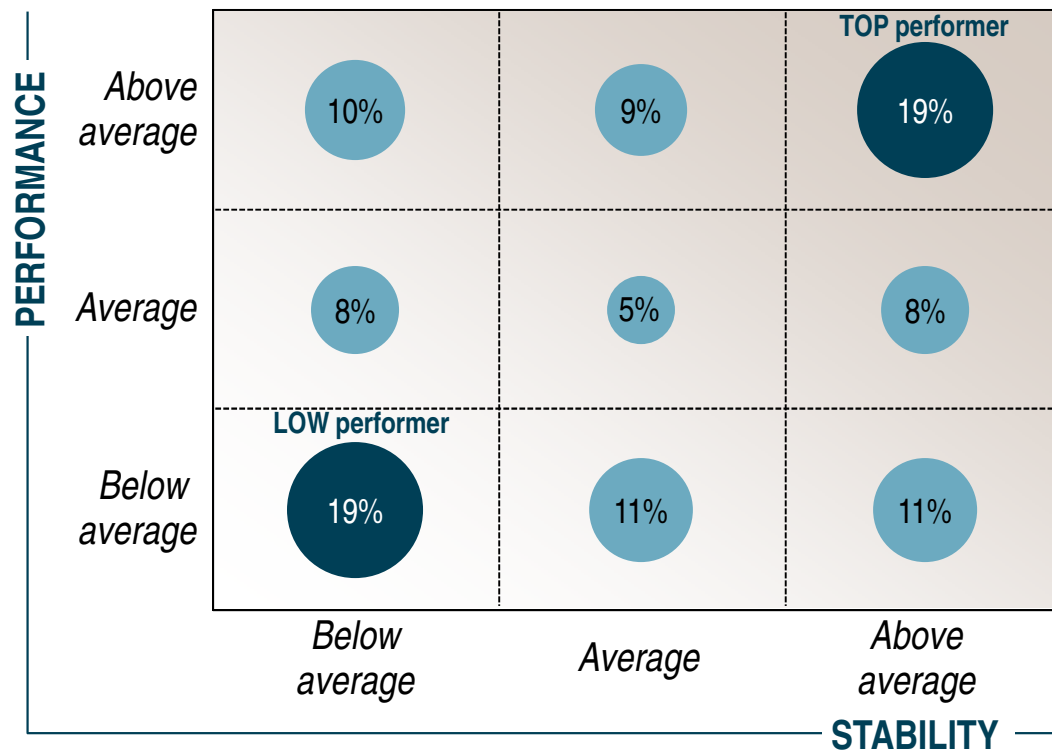
Capital needs of the supplier industry 2010-2015

ITEM	Volume 2010-2015 [EUR bn]	Assumptions
Revenues	5,150	> Strong recovery of market in 2010 > Net sales growth from 2011 of 4-5% p.a.
EBITDA	490	> EBITDA margin slightly below historical pre-crisis levels from 2011 onwards
./. Taxation	80	> Taxation derived from historical tax expenses pre-crisis
./. Change in net working capital	35	> Net working capital at pre-crisis levels
= Operating cashflow	375	
./. Capital expenditure	320	> Pre-crisis capex ratio assumed; additional capex needed for investments postponed in 2009
= Free cashflow	55	
./. Pro forma net interest / dividends	65	> Net interest and dividend payment ratios derived from historical levels
= Total cashflow before debt amortization¹⁾	-10	
./. Debt amortization requirement	120	> Starting point: Total debt as per end of 2009 > Maturity profile according to loan/bond maturities in Europe, North America and Japan (across all industries)
= TOTAL REFINANCING NEED¹⁾	130	

1) Excluding other investive cashflows apart from capex (e.g. M&A activities)

The situation will become particularly challenging for a large group of underperformers: ~20% of all suppliers are affected

Supplier assessment 2009 based on performance and stability [% of all suppliers]



PERFORMANCE

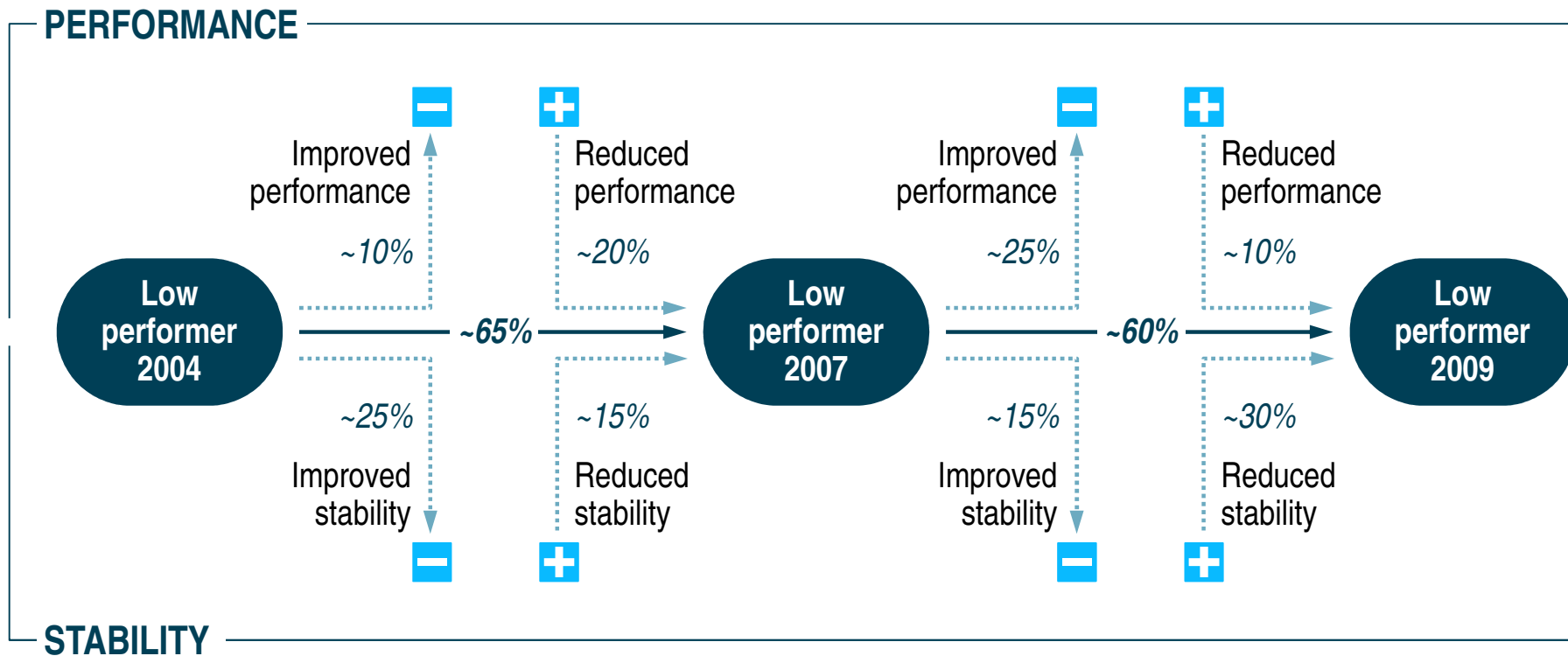
- > Revenue growth 2000-2009 vs. industry average [2.6%]
- > Average ROCE 2000-2009 vs. industry average [7.2%]
- > ROCE 2009 vs. industry average [2.2%]

STABILITY

- > Leverage 2009 vs. industry average [1.6x]
- > Equity ratio 2009 vs. industry average [36.7%]

The industry has a structural problem: Almost 50% of the current low performers have already been low performer six years ago

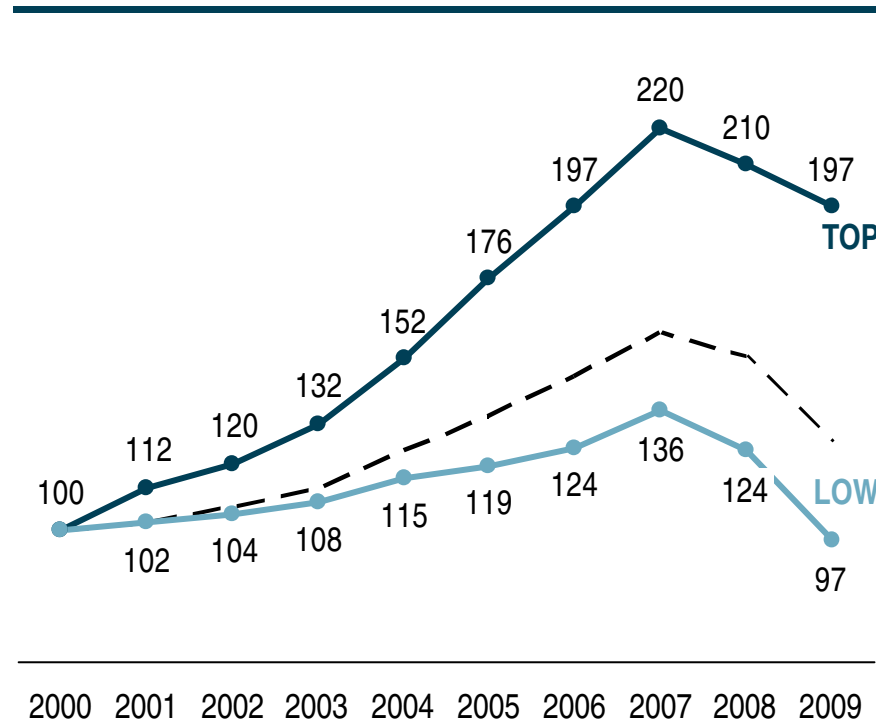
Evolution of low performer group 2004-2009



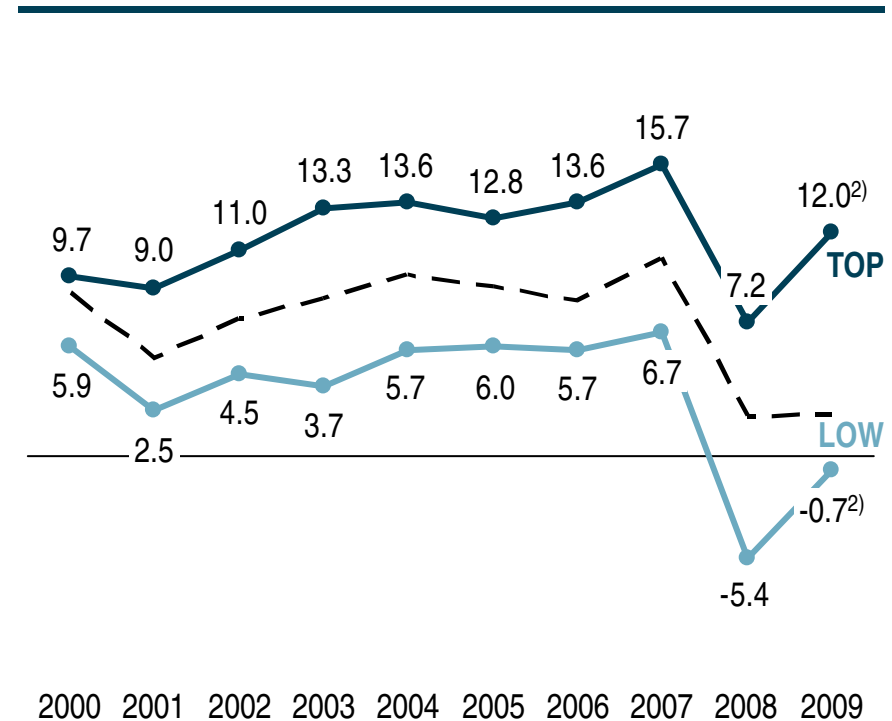
The performance gap between these low performers and their top performing peers has widened permanently over the past 10 years

Supplier performance 2000-2009

Revenue growth [2000=100]



ROCE¹⁾ [%]

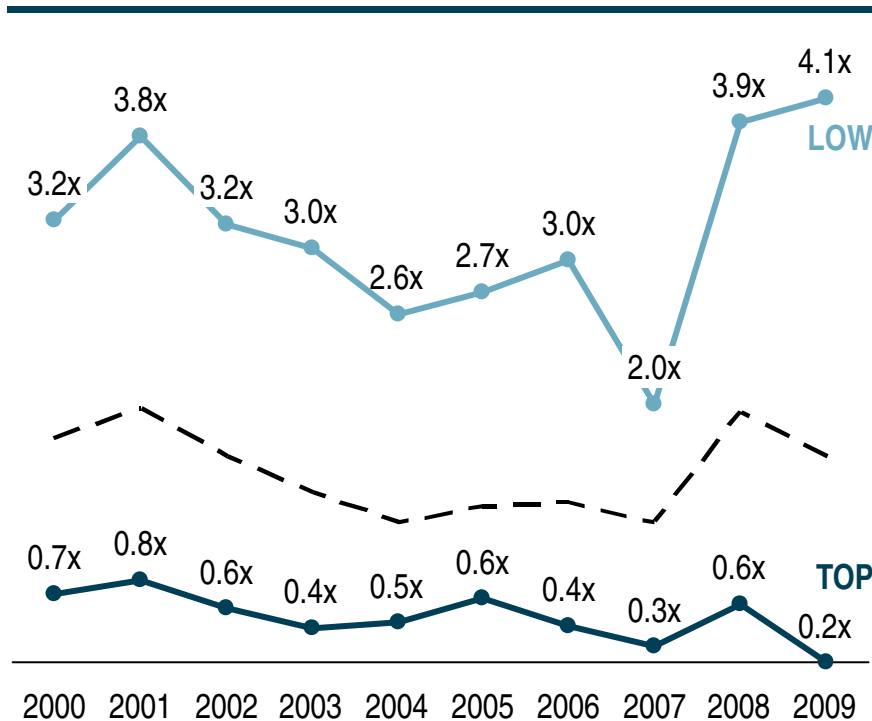


1) EBIT after restructuring items 2) Positively impacted by reporting period of Japanese suppliers (ended March 31, 2010) --- Industry average

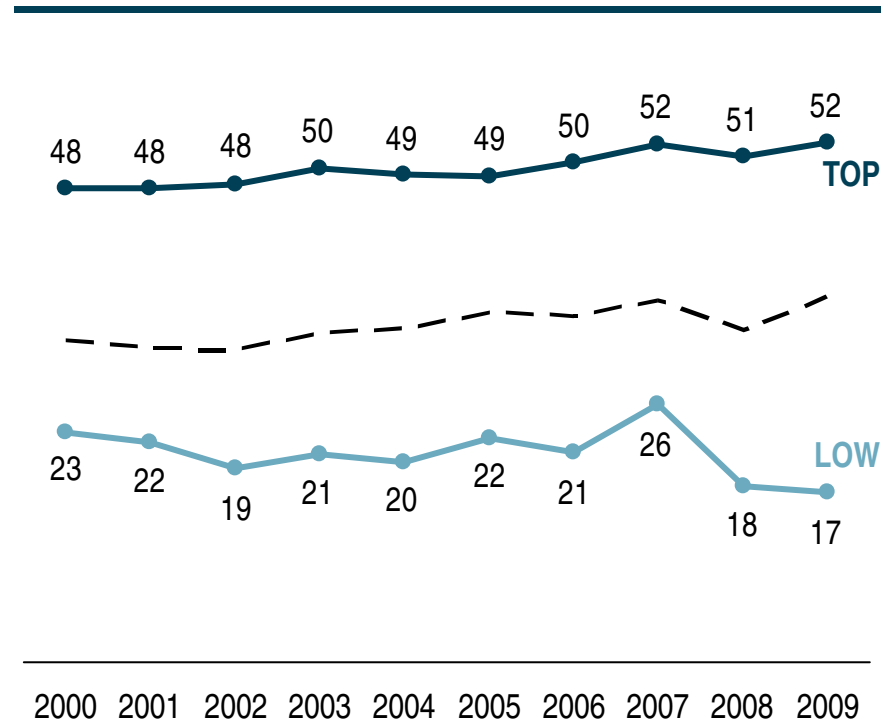
As a result, the financial stability of low performers has weakened during the crisis – Making them vulnerable to the next downturn

Supplier stability 2000-2009

Leverage [net debt/EBITDA]



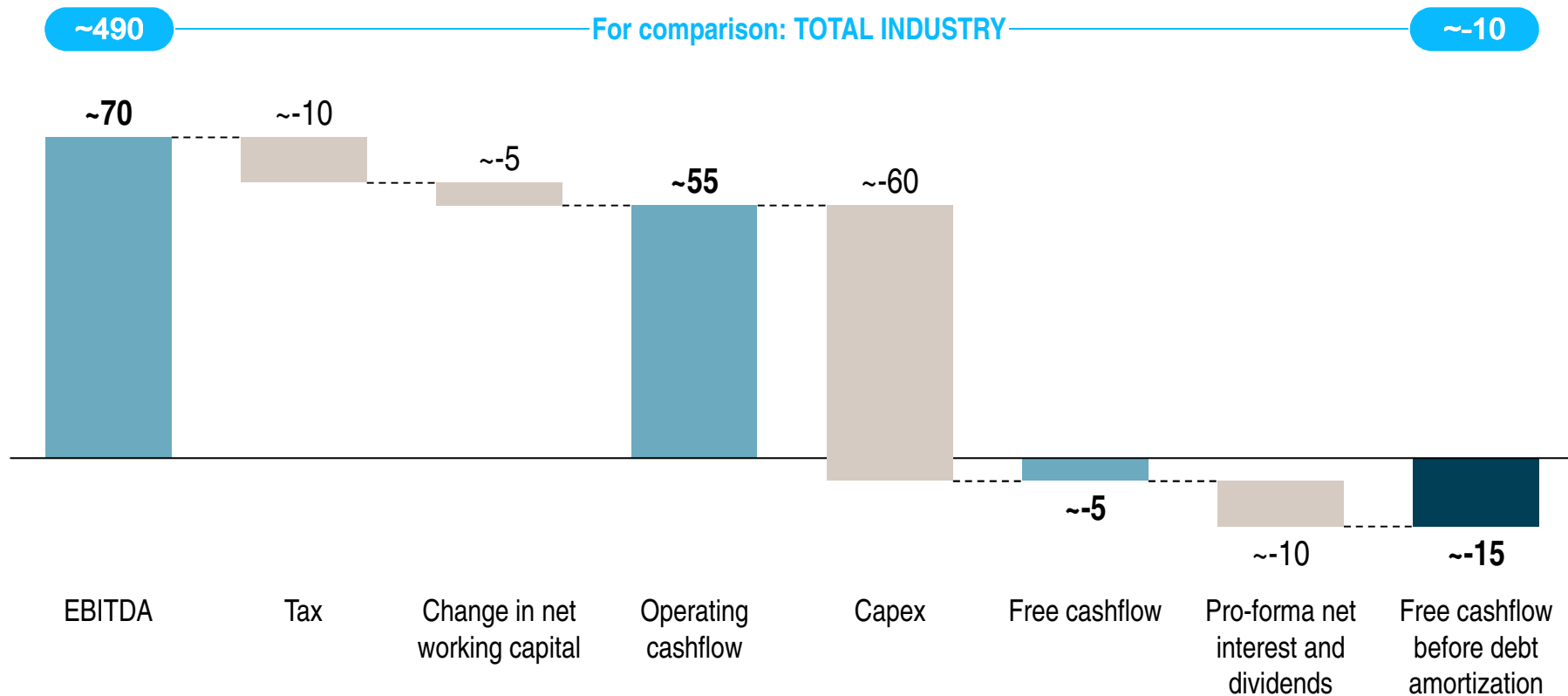
Equity ratio [equity/total assets]



--- Industry average

Low performers may get into severe refinancing issues mid-term – EUR 15 bn of new capital needed by 2015

Capital needs of low performers 2010-2015 [EUR bn]



On average, top and low performers have significantly different profiles – But: "the exception proves the rule"

Top/low performer profiles

	TOP PERFORMERS	LOW PERFORMERS	
BUSINESS STRUCTURE	1 Product portfolio	Strong focus on one or max. two product groups	Diversified product portfolio with focus on process-based products
	2 Segment coverage	Focus on segments with above average margins	Mainly low-margin segments
	3 Customer portfolio	Wide range of global clients ; no customer >20% revenue share	Strong dependence on one or two customers (>30% revenue share of top customer)
	4 Regional structure	Regional revenue structure close to global car production shares	70-80% of revenue generated in home region
	5 Market share	Global market share 20% or higher	<20% global market share
BUSINESS PERFORMANCE	6 Technology position	Leading technology position, enabling real differentiation	Differentiation not achieved
	7 Cost structure	Focus on cost efficiency (despite technology leadership)	Very often no state-of-the-art low-cost footprint
	8 Organizational structure	Clear and one-dimensional leadership , mostly organized along global product groups	Complex and redundant structures (regions/products/functions)
	9 Processes and systems	Maximum degree of standardization in processes/systems	Low level of standardization
	10 Management and people	High-performance culture and long-term continuity	Frequent changes at key positions



C. Conclusions and solutions – How the industry needs to change

LAZARD **Roland Berger**
Strategy Consultants

Suppliers and OEMs need to switch to a more collaborative approach in order to solve the structural problems of the industry

Need for action

SUPPLIERS' NEED FOR ACTION

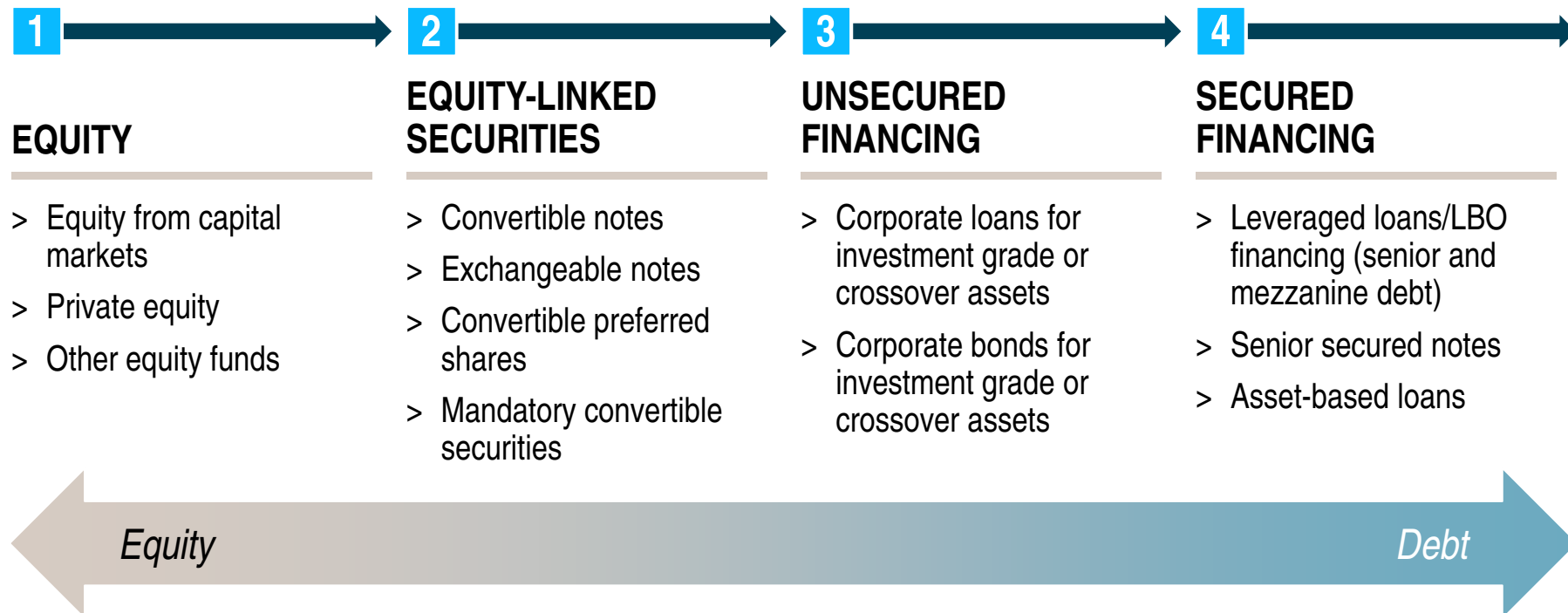
- > Further improve **operational efficiency** along the entire value chain
- > Increase discipline on **pricing side** and refuse unprofitable business
- > Select **growth opportunities** (regions, products) very carefully
- > Look for additional sources of **financing**

OEMs' NEED FOR ACTION

- > Establish **strategic partnerships** with selected suppliers
- > **Waive** some of the pressure levers towards supply base (e.g. "pay to play")
- > Actively support **consolidation process**, especially in unhealthy (process- focused) segments

Deep-dive on financing: Suppliers must consider the full range of financing alternatives to master the challenges ahead

Overview of selected financing alternatives





D. Contacts

LAZARD

Roland Berger
Strategy Consultants



Please contact us for any further information

Authors of this study

Roland Berger
 Strategy Consultants



Marcus Berret
 PARTNER

+49 89 9230-8737
 marcus_berret@de.rolandberger.com



Felix Mogge
 SENIOR PROJECT MANAGER

+49 89 9230-8346
 felix_mogge@de.rolandberger.com



Florian Schlieper
 SENIOR CONSULTANT

+49 89 9230-8022
 florian_schlieper@de.rolandberger.com



Per M. Nilsson
 PARTNER – Local Nordic contact

+46 703 610 210
 per-m_nilsson@se.rolandberger.com

LAZARD



Dr. Eric Fellhauer
 MANAGING DIRECTOR

+49 69 170073-733
 eric.fellhauer@lazard.com



Max Mayer-Eming
 DIRECTOR

+49 69 170073-784
 max.mayer-eming@lazard.com



Christof Söndermann
 VICE PRESIDENT

+49 69 170073-221
 christof.soendermann@lazard.com

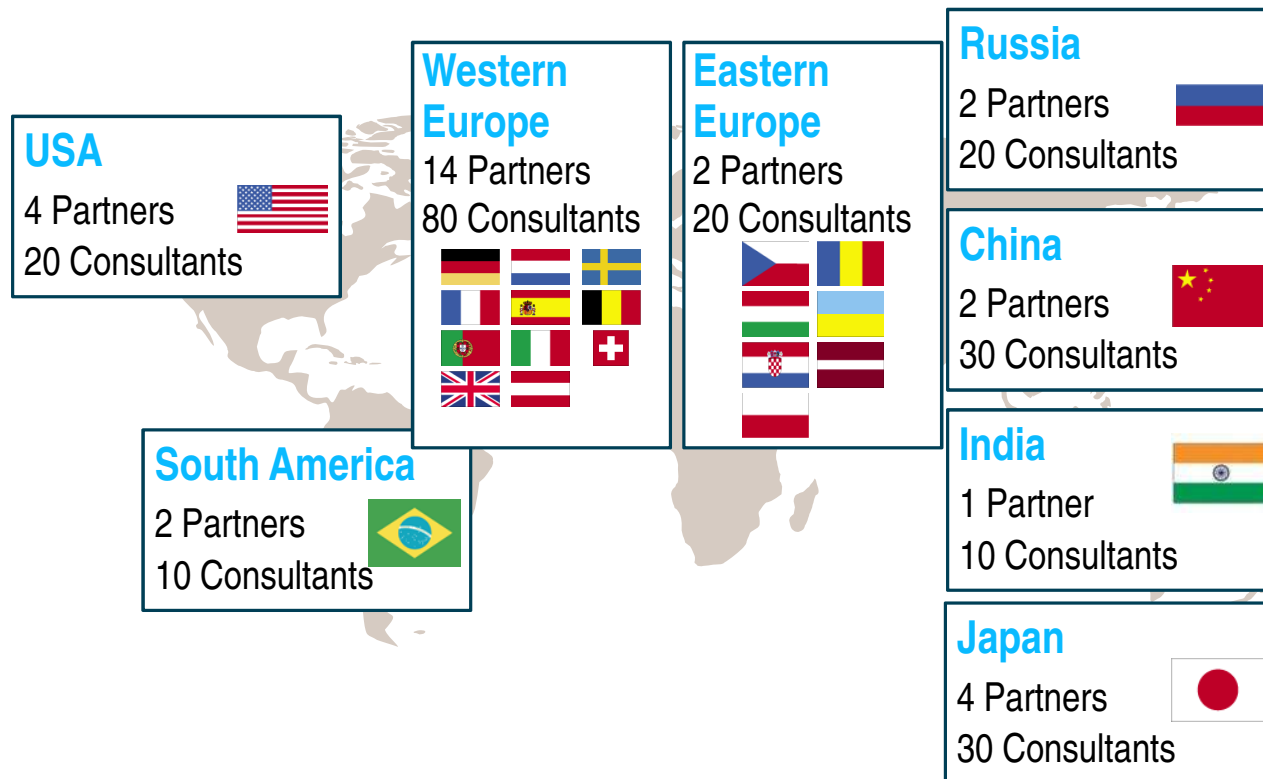


Lutz Kregel
 ANALYST

+49 69 170073-225
 lutz.kregel@lazard.com

Roland Berger Automotive: A strong global team with more than 250 Consultants dedicated to the clients in the automotive industry

Roland Berger Automotive: more than 300 dedicated Consultants globally

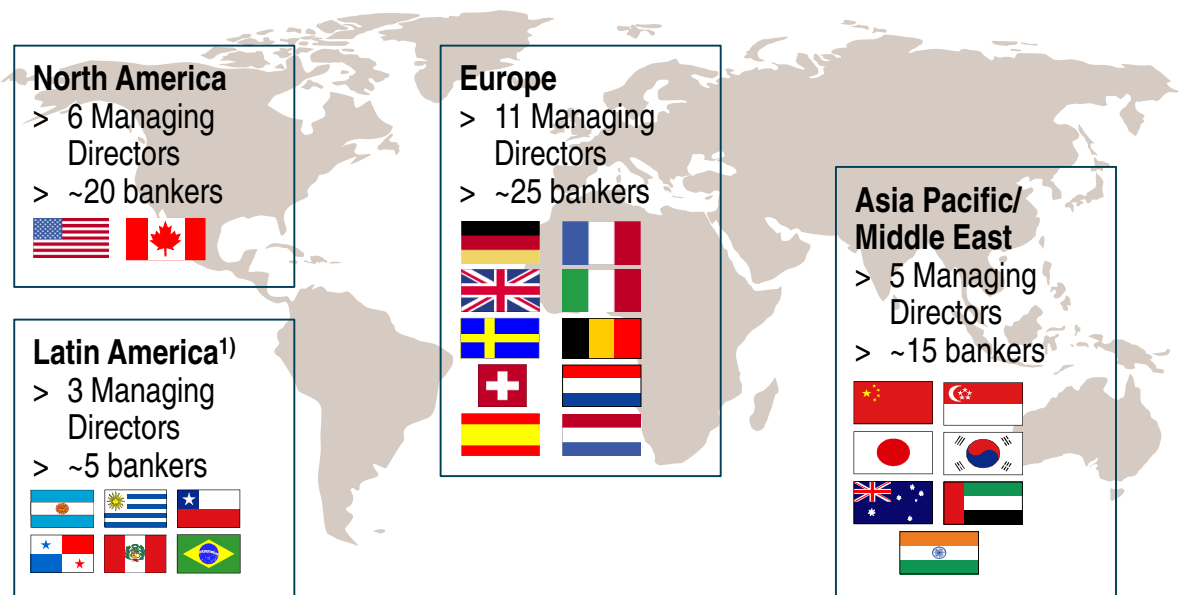


Key facts

- > Global team of **more than 250 dedicated automotive consultants**
- > Over **400 clients** in the automotive industry
- > More than **1,500 successful projects** since 2000
- > Proven **leading-edge tools** and methodologies
- > **Thought leadership** in the worldwide automotive community, producing highly regarded studies and top quality research

Lazard Automotive Practice: Unparalleled coverage of the global automotive sector

Lazard Automotive: >60 bankers with strong senior expertise in the automotive sector



Selected completed transactions

- > Cooper Standard: Restructuring
- > Continental: EUR 1.1 bn capital increase
- > UAW: Restructuring of OPEB liabilities of GM, Ford and Chrysler
- > Volkswagen: Acquisition of a 49.9% stake in Porsche
- > Opel: Advise of the German Ministry of Economics on the Opel situation
- > Metaldyne: Restructuring and sale
- > TI Automotive: Restructuring
- > Honsel: Restructuring
- > Hella: Sale of Holger Christiansen to Bosch
- > Wabco: Spin-off from American Standard
- > Siemens: IPO track of Siemens VDO (aborted due to sale to Continental)
- > Nippon Sheet Glass: Acquisition of Pilkington
- > Metaldyne: Merger with Asahi Tec

1) JV Signatura Lazard (Brazil) and MBA Lazard
 Note: Strategic alliances for Central/Eastern Europe, Mexico and Russia

This presentation was prepared by Lazard & Co. GmbH ("Lazard") and Roland Berger Strategy Consultants ("RBSC") exclusively for the benefit and internal use of our clients and solely as a basis for discussion of certain topics related to the automotive supplier industry described herein. This presentation is strictly confidential and may not be reproduced, summarized or disclosed, in whole or in part, without the prior written authorization both of Lazard and RBSC, and by accepting this presentation you hereby agree to be bound by the restrictions contained herein.

This presentation is based on publicly available information which have not been independently verified by Lazard or RBSC. Any estimates and projections contained herein involve significant elements of subjective judgment and analysis, which may or may not be correct. None of Lazard, any of its affiliates, or any of its direct or indirect shareholders, or any of its or their respective members, employees or agents nor RBSC provide any guarantee or warranty (express or implied) or assumes any responsibility with respect to the authenticity, origin, validity, accuracy or completeness of the information and data contained herein or assumes any obligation for damages, losses or costs (including, without limitation, any direct or consequential losses) resulting from any errors or omissions in this presentation.

The economic valuations contained in this presentation are necessarily based on current market conditions, which may change significantly over a short period of time. Changes and events occurring after the date hereof may, therefore, affect the validity of the conclusions contained in this presentation and nor Lazard nor RBSC assume any obligation to update and/or revise this presentation or the information and data upon which it has been based.