



Global Automotive Supplier Study 2008

EXECUTIVE SUMMARY

 ROTHSCCHILD

Roland Berger
Strategy Consultants

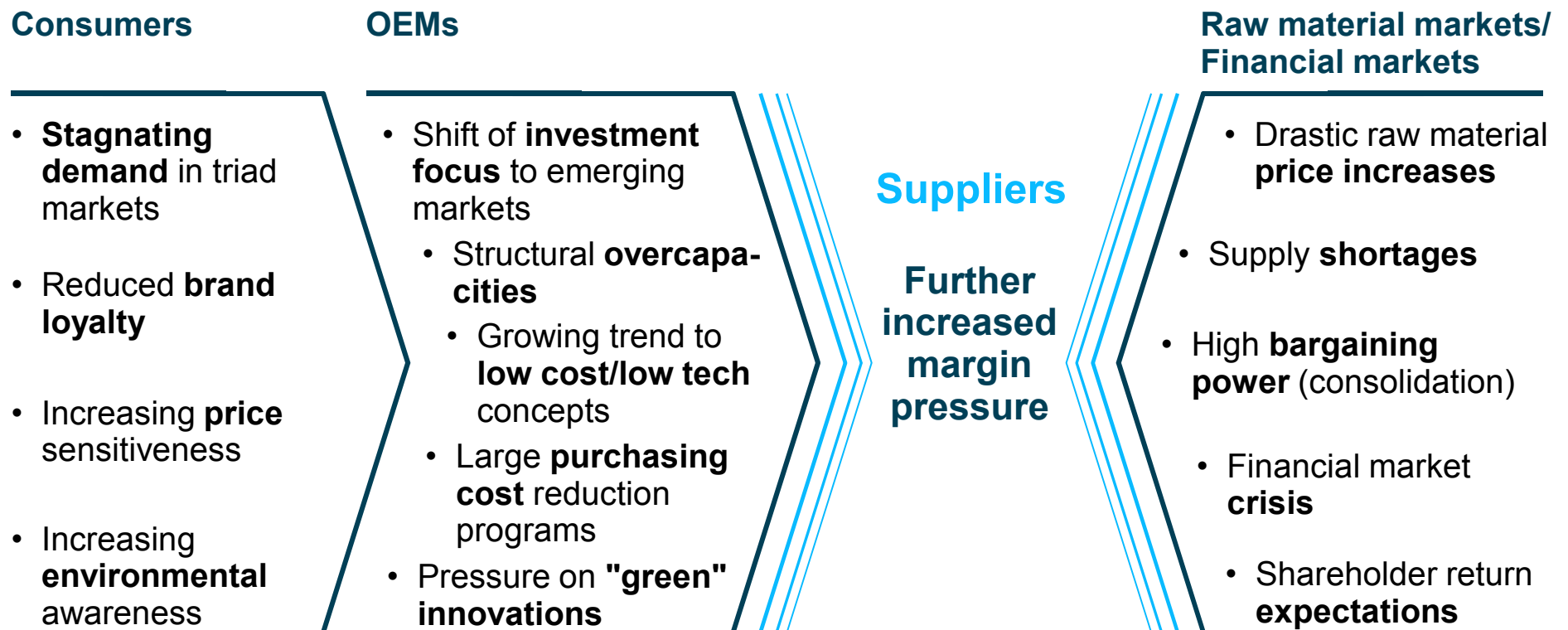
August 2008

Summary

- Automotive suppliers are facing one of the **most competitive** environments ever (increasing raw material prices, low cost competition, ...) – and pressure will further increase
- Nevertheless, global **profitability continued to improve** further in 2007 (average EBIT margin 2007: 5.4%, average ROCE margin: 11.9%)
- **Mid-sized and large suppliers** based in Europe, Japan and India have been particularly successful
- We identified **15 main levers for the future success** of automotive suppliers
- Overall, many suppliers are **not prepared well enough** for the upcoming challenges

The pressure on automotive suppliers has further increased – Suppliers are in a "sandwich" position

The automotive powerplay



Given this environment, we have taken a closer look at historical financial performance and future success factors for suppliers

LOOKING BACK



- Historic supplier **profitability**
- **Profitability trends** by region, company size, product focus and business model
- **Top** and **low** performing suppliers

LOOKING AHEAD

- **Success factors** for future supplier performance (revenue structure, cost structure, balance sheet structure)
- Strategic **readiness** check



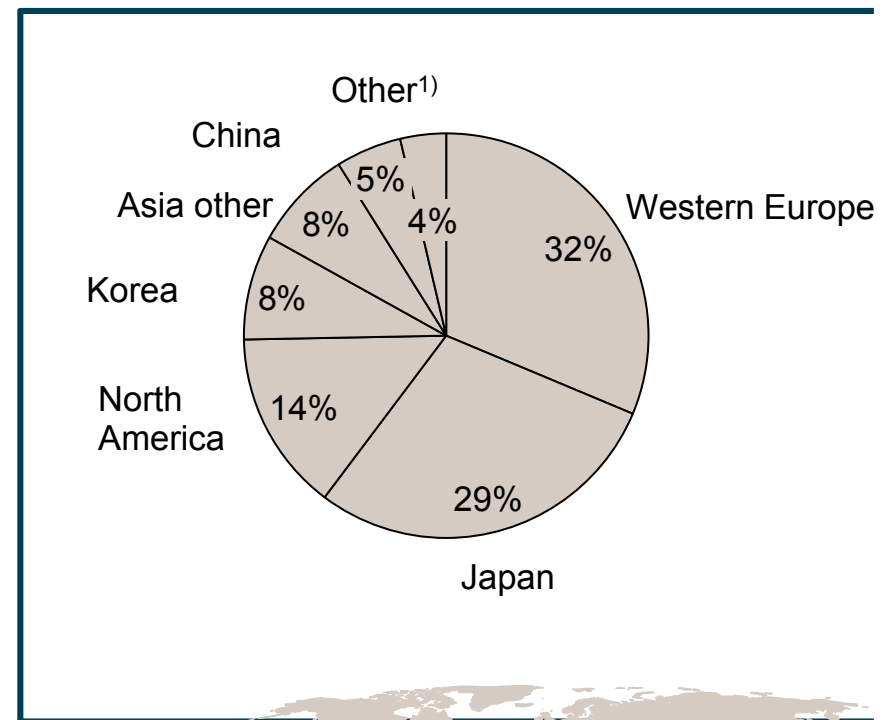
How has your company performed compared to its peer group – and is it well enough prepared for the future?

Our study results are based on the largest automotive supplier benchmarking database worldwide

STUDY APPROACH

- Analysis of **financial and operational data** of >400 automotive suppliers between 2001 and 2007
- Interviews with **~100 supplier executives**
- Incorporation of Roland Berger and Rothschild **project experience**
- **Desk** research

DATA BASIS – split by region¹⁾



Σ = 410
 suppliers
 globally

1) Based on location of headquarter



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Looking back –
Despite a challenging environment, automotive supplier profitability has further improved

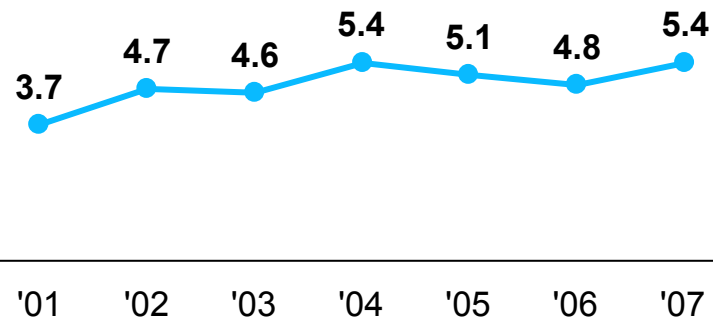
 **ROTHSCHILD**

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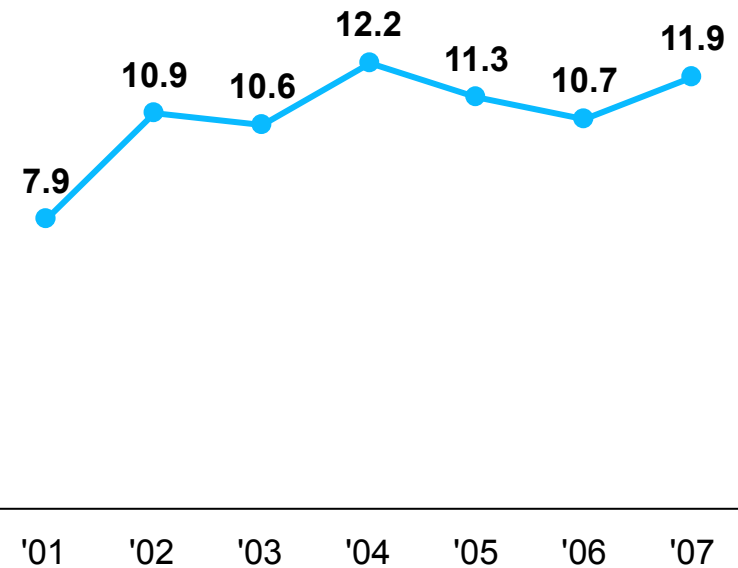
Profitability of the global automotive supplier industry has further improved in 2007

Profitability of automotive suppliers 2001-2007 [%]

EBIT margin



ROCE




Basis: Revenue-weighted average of performance-rated suppliers

Source: Roland Berger/Rothschild Supplier Database 2008

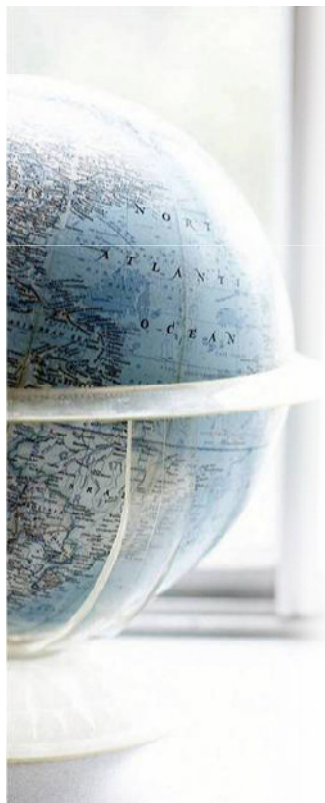
However, not all automotive suppliers benefited from the positive trend in the same way

Analysis of global supplier profitability

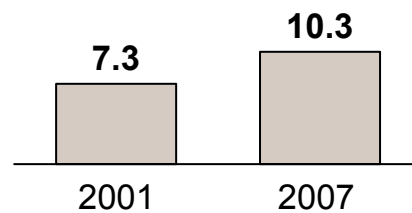
	Region	Size	Product focus	Business model
WINNERS (> average ROCE)	1 	2 	3 	4 
	<ul style="list-style-type: none"> Western Europe Japan India 	<ul style="list-style-type: none"> 2.5-10 bn EUR revenues 	<ul style="list-style-type: none"> Powertrain Chassis 	<ul style="list-style-type: none"> Suppliers focused on modules Suppliers focused on innovative products
LOOSERS (< average ROCE)	<ul style="list-style-type: none"> North America China Korea 	<ul style="list-style-type: none"> <2.5 bn EUR revenues >10 bn EUR revenues 	<ul style="list-style-type: none"> Exterior Tires 	<ul style="list-style-type: none"> Suppliers focused on systems integration Suppliers focused on commodities

Profitability varies strongly across regions – European and Japanese suppliers are in pole position

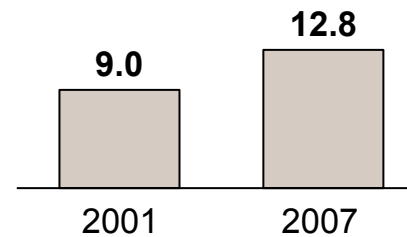
Key performance indicators by region – ROCE 2001-2007 [%]



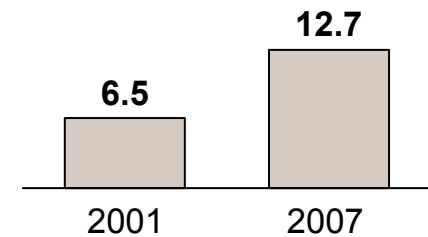
North America



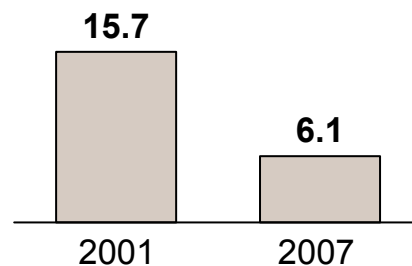
Western Europe



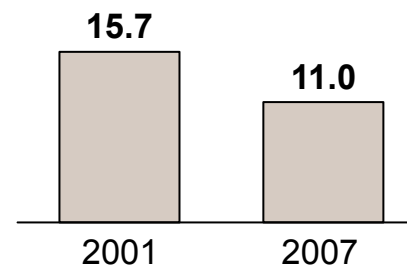
Japan



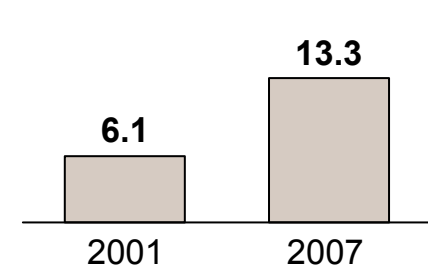
China



Korea



Rest of Asia (esp. India)

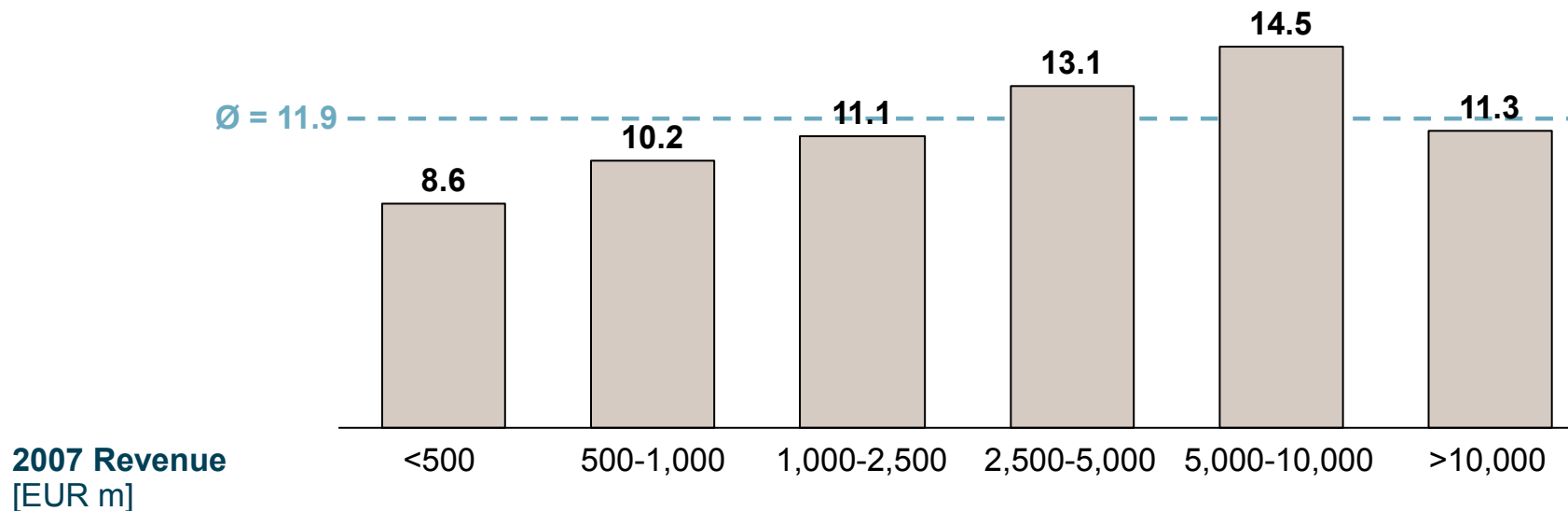
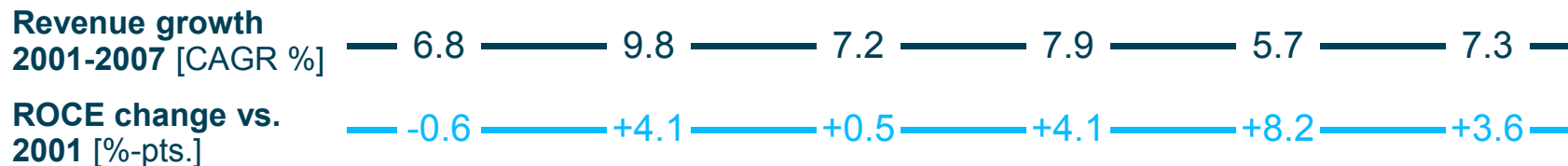


Basis: Revenue-weighted average of performance-rated suppliers

Source: Roland Berger/Rothschild Supplier Database 2008

We identified strong differences regarding company size as well:
The smaller the company, the less profitable

Key performance indicators by company size – ROCE 2007 [%]

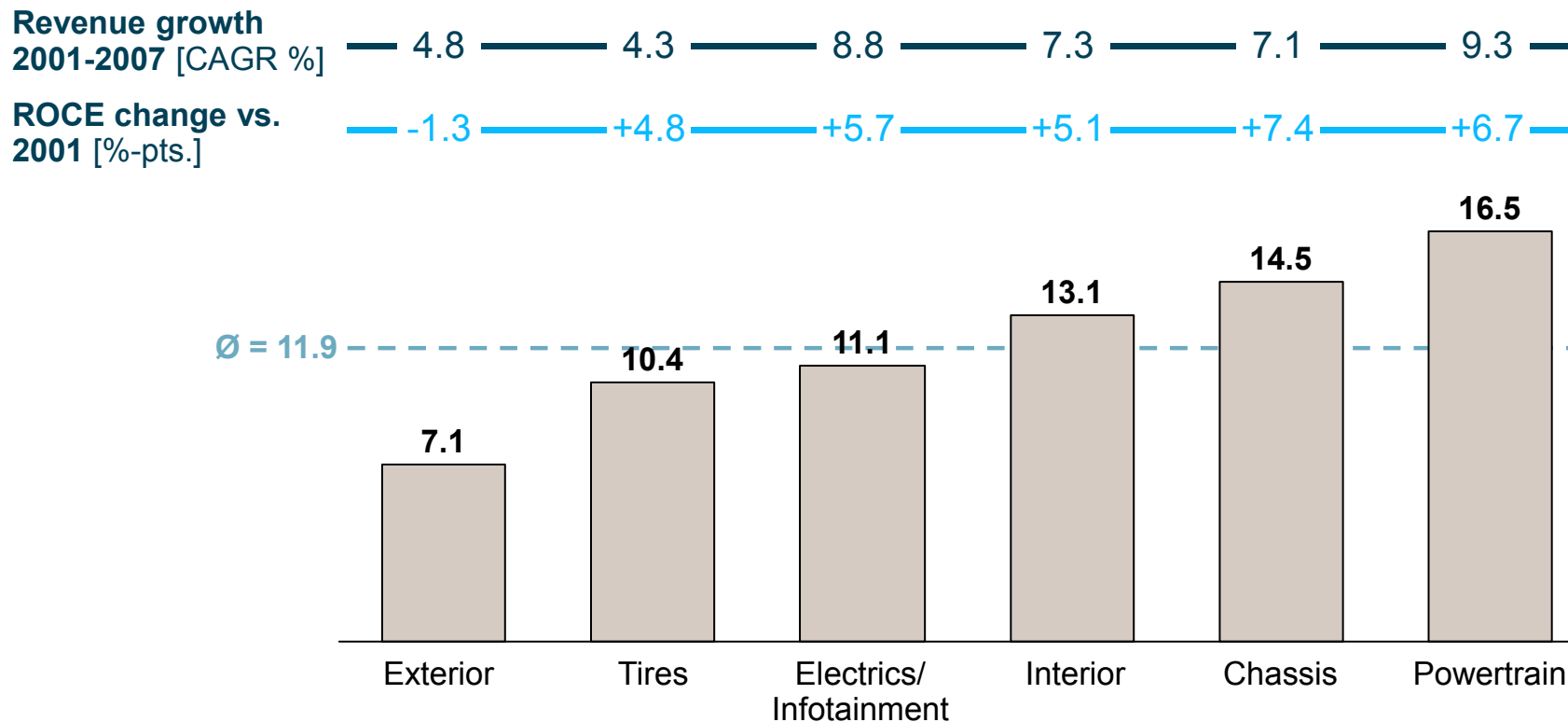


Basis: Revenue-weighted average of performance-rated suppliers

Source: Roland Berger/Rothschild Supplier Database 2008

Suppliers with a business focus on Powertrain, Chassis and Interior achieved above-average profitability in 2007

Key performance indicators by domain¹⁾ – ROCE 2007 [%]



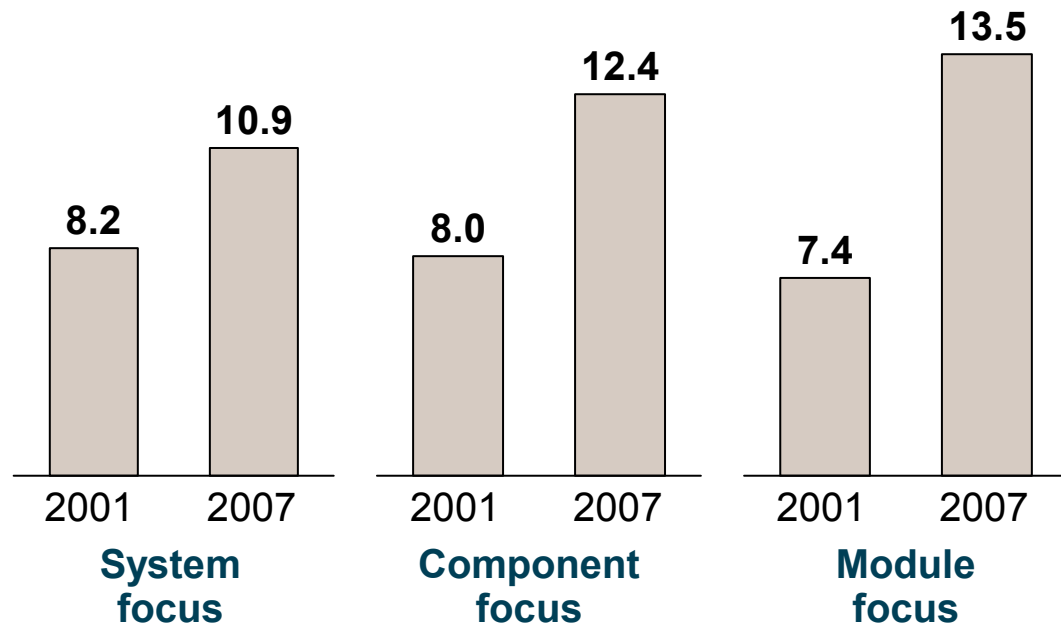
Basis: Revenue-weighted average of performance-rated suppliers (subset of 204 suppliers); excl. domain "Others", e.g. engineering services
 1) Allocation of companies based on domain with highest revenue share in product portfolio; total company revenue allocated to that domain

Module suppliers have been more successful than systems integrators – and a high degree of innovation pays off

Key performance indicators by business model – ROCE 2007 [%]

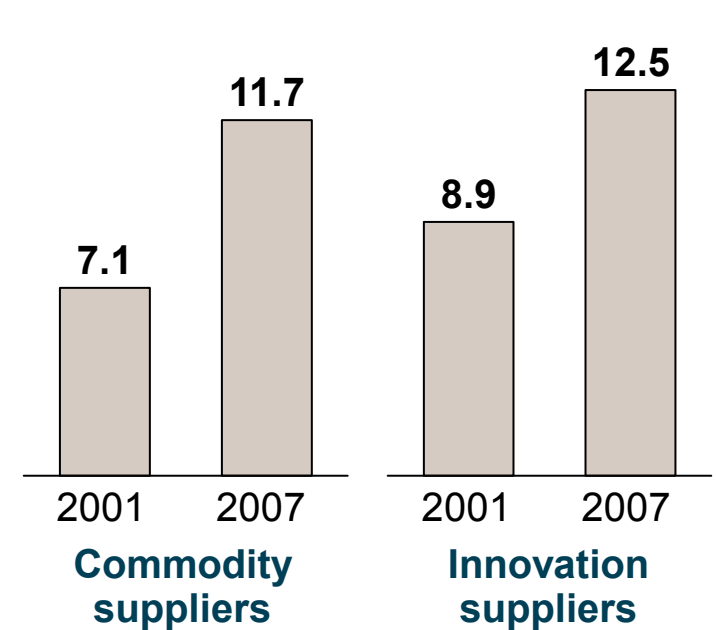
System/Module vs. component focus

— CAGR 5.7% — — CAGR 6.9% — — CAGR 9.1% —



Innovation vs. Commodity

— CAGR 6.3% — — CAGR 7.5% —

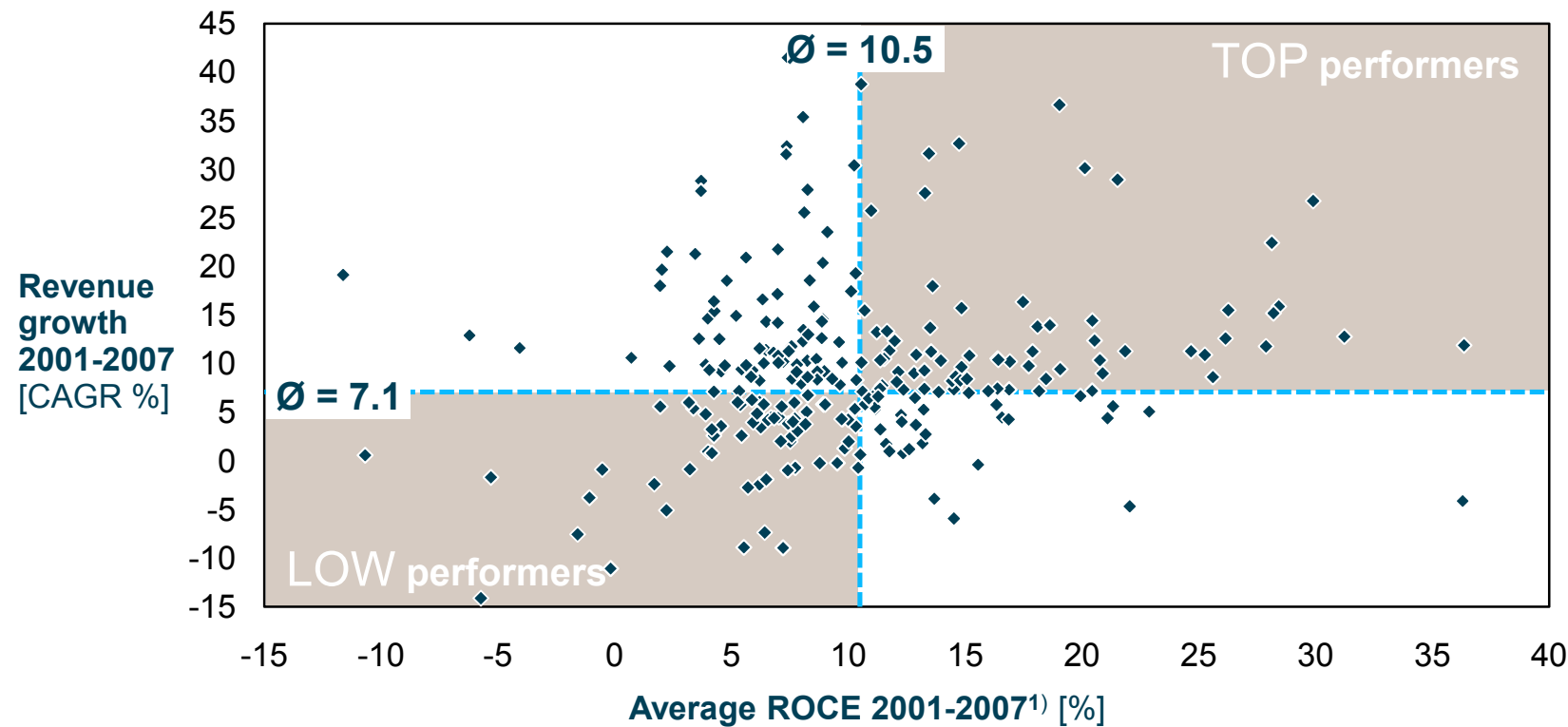


— Revenue growth

Basis: Revenue-weighted average of performance-rated suppliers

Across the automotive supplier industry, we have identified groups of ~50 top performers and ~50 low performers

Key performance indicators by supplier 2001-2007

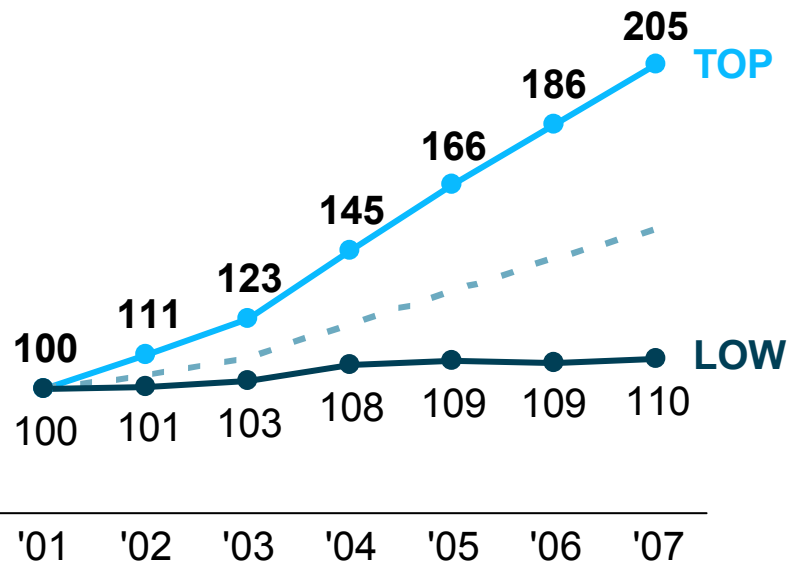


Basis: Revenue-weighted average of performance-rated suppliers 1) Additional criterion: above-average ROCE in 2007

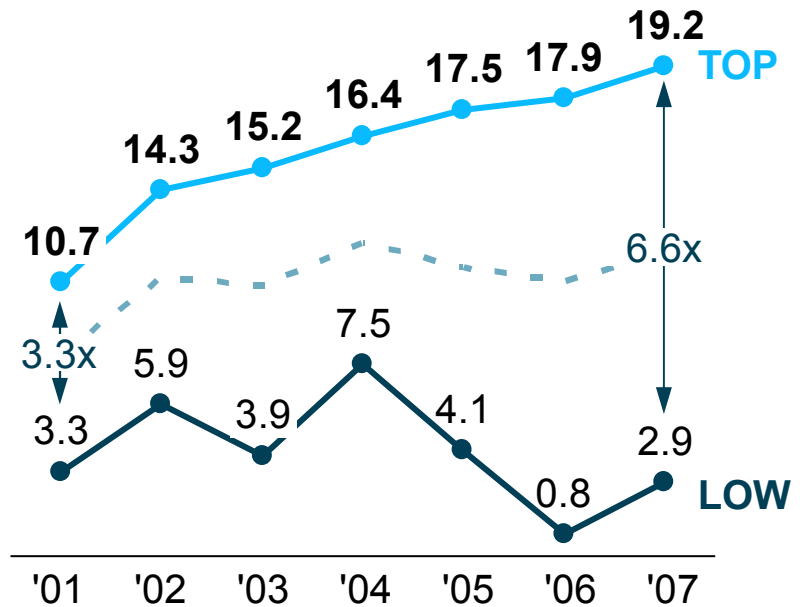
The gap between top and low performers is permanently widening

Key performance indicators by supplier 2001-2007

Revenue growth [2001=100]



Return on capital employed (ROCE) [%]



..... Industry average

Basis: Revenue-weighted average of performance-rated suppliers

Source: Roland Berger/Rothschild Supplier Database 2008



B

Looking ahead –
Suppliers need to master 15 main levers in order to reach and secure above-average profitability

Roland Berger
Strategy Consultants

The automotive industry will face turbulent waters in HY2/2008 and 2009 – Some indicators

-10%

Reduction of forecasted total **US light vehicle registration** in 2008 compared to 2007 – 16-year low in July 2008

-USD 150 m

Combined **daily loss of GM and Ford** in HY1/2008 (total loss of USD 27 bn in HY1/2008)

-29%

Average decline in net profits for Q2/2008 at BMW, Daimler and Toyota

-27%

Global **order book decrease** at Scania Trucks in HY1/2008; -44% decrease in Western Europe

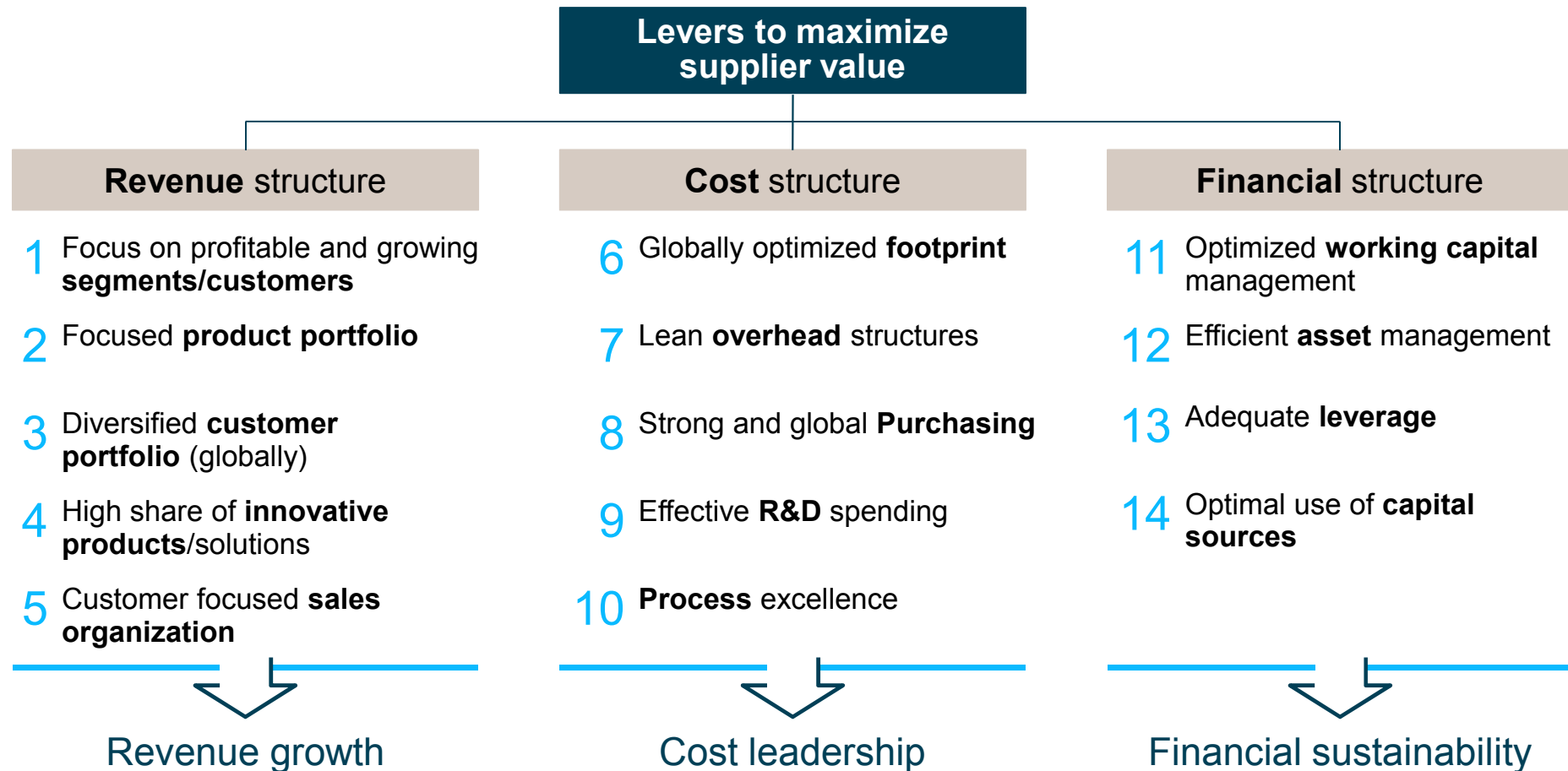
+75%

Increase of **steel prices** in 2008; price of crude oil has doubled within last 12 months

-27%

Average decline in net profits of 10 selected leading global suppliers in HY1/2008 compared to HY1/2007

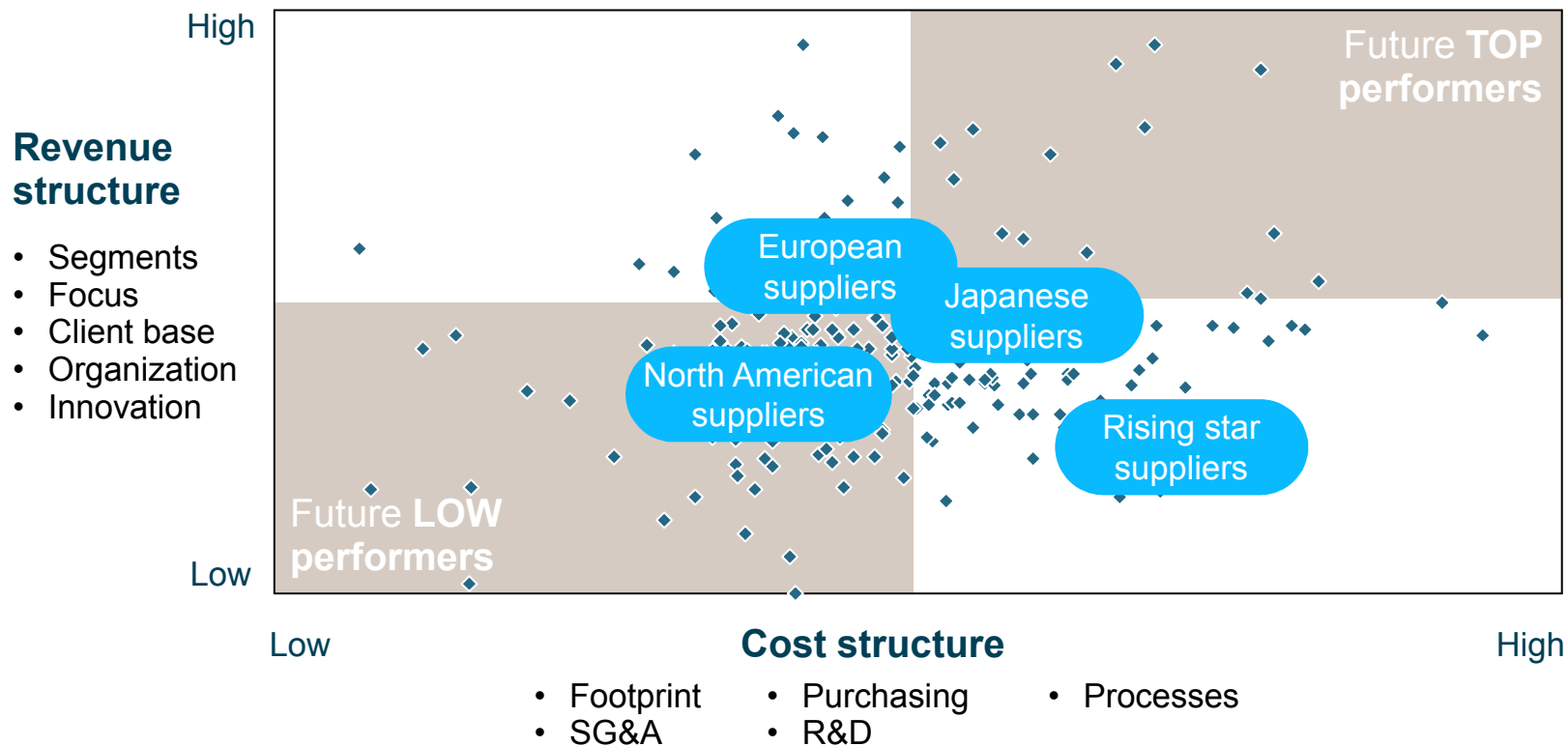
Based on our experience, automotive suppliers need to master 15 levers to reach/secure above-average profitability



15 Attracting and retaining **excellent people** (enabled by company culture, management style, incentive systems, ...)

Measured against this set of 15 strategic levers, many suppliers are not prepared well enough for the challenges ahead

Strategic assessment of future supplier performance



Basis: Revenue-weighted average of performance-rated suppliers

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