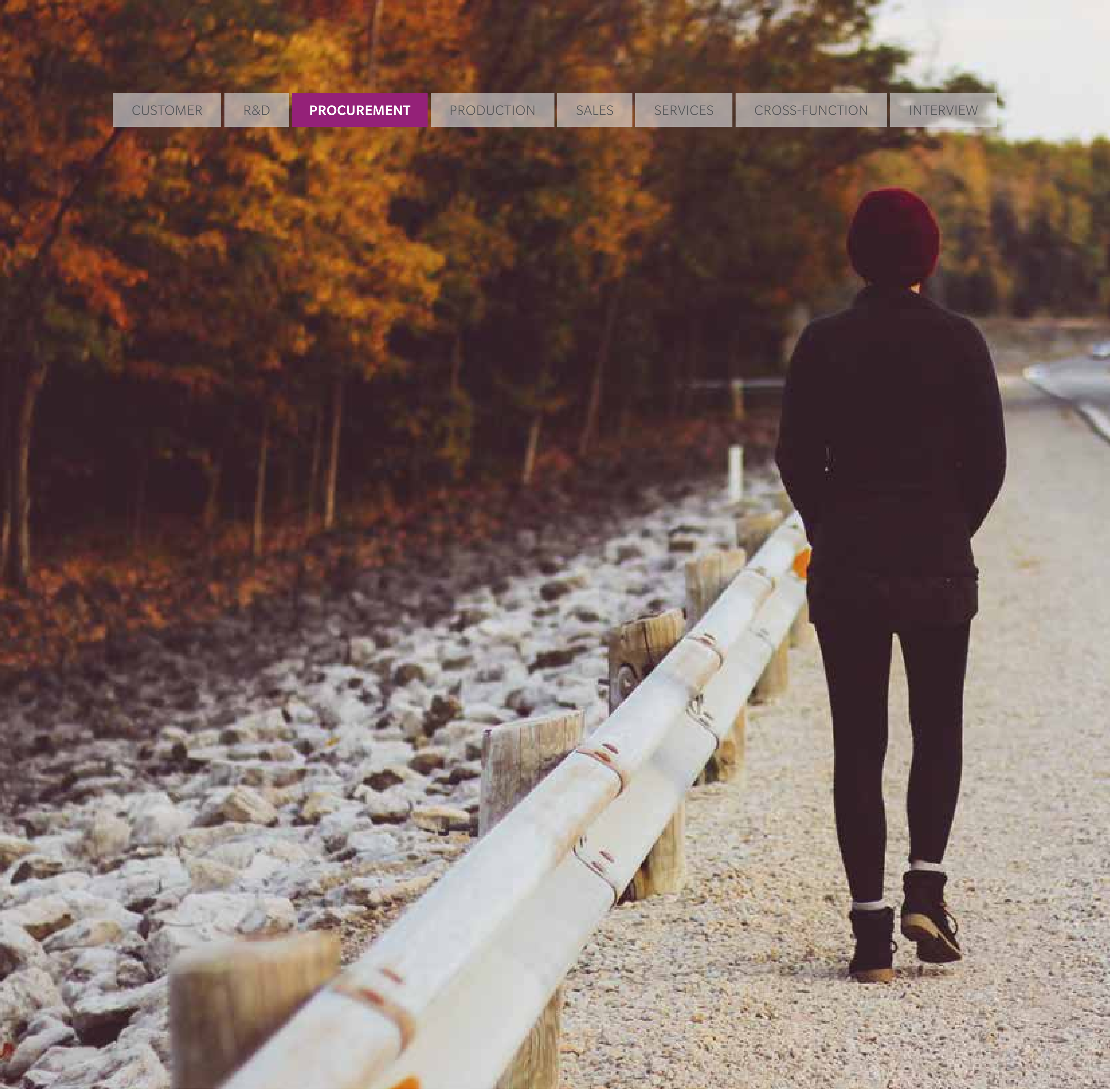

DOOMED TO GROW?

Suppliers at a crossroads

Automotive suppliers are experiencing strong growth and good profitability throughout the world; however, small and medium-sized enterprises find themselves in a dilemma.

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The financial performance of the worldwide automotive supplier industry is excellent. On average, the reviewed companies earn an average EBIT margin of seven percent and have an average equity ratio of 40 percent. (See Exhibit 1.) Companies from the United States are especially profitable, while automotive suppliers from Germany and China are experiencing the highest rates of growth in the world. So it is not surprising that three German companies can be found in the top ranks of the Top-10 list of the world's biggest automotive suppliers. (See Exhibit 2.)

But if one takes a closer look at German suppliers, it can be seen that the size of the company plays a significant role in its financial performance. German suppliers with revenues of more than €5 billion generate average growth of almost 16 percent per year and an EBIT margin of seven percent. Suppliers with annual revenues of less than €1 billion exhibit solid growth of almost 10 percent on average and an average EBIT margin of slightly less than seven percent. On the other hand, medium-sized enterprises with revenues of between one and €5 billion generate average growth of only about five percent per year and an average EBIT margin of about five percent. (See Exhibit 3.) Therefore, medium-sized enterprises must answer a very fundamental question: Should I remain in my segment or should I compete with the industry giants?

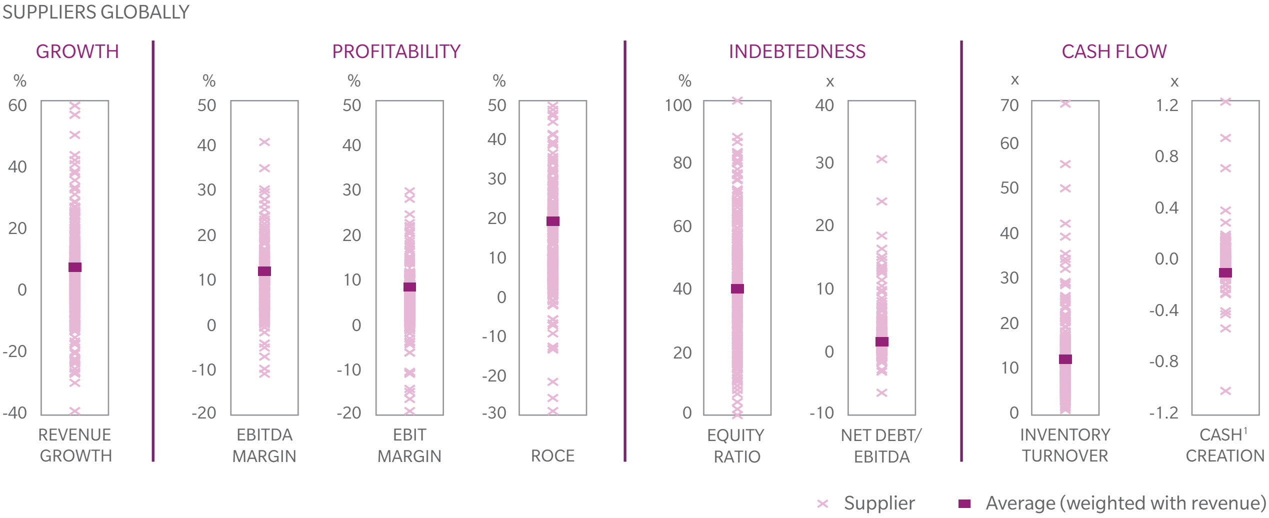
STRATEGIC CHALLENGES FOR MEDIUM-SIZED ENTERPRISES

German companies in particular have arrived at this crossroads over and over again. Suppliers in Germany are often so successful with their products that they are forced by their OEM customers to build new factories worldwide and broaden their product portfolios. However, if they surpass the "magic" revenue figure of roughly €1 billion, they also need to implement new organizational structures and processes to manage a global supply chain and a portfolio consisting of different segments. In such situations, loss-makers are often not identified in time, investments are misallocated and the company's liquidity is not assured. And yet, companies that successfully manage the transformation to a global player are often able to establish themselves as preferred supplier to the major platforms of the auto manufacturers and realize valuable synergies within their factory networks. In this respect, the study clearly shows that stronger growth is often accompanied by greater profitability once annual revenues reach the level of approximately €5 billion. Therefore, fast-growing companies in particular must always ask themselves if they are ready for the next stage of development. Otherwise, their success story could come to an abrupt end.

This is even more important considering the fact that the market environment for automotive suppliers offers numerous opportunities, despite considerable global uncertainty. Thanks to their financial strength, large suppliers in particular can seize the opportunity of growing through acquisitions and investing into new technology fields. The main drivers of this trend are the continued positive development of the global automotive market, a shifting of the value chain in the direction of suppliers, the growing importance of software in cars, and stricter regulation leading to new drive technologies and new materials. Smartly positioned automotive suppliers – and most especially German automotive suppliers – can only benefit from such a stable and promising environment. ●

EXHIBIT 1: THE GLOBAL SUPPLIER INDUSTRY SHOWS AN AVERAGE GOOD FINANCIAL PERFORMANCE – BUT THE VARIATION RANGE IS VERY BIG

Financial ratios in comparison to 2015



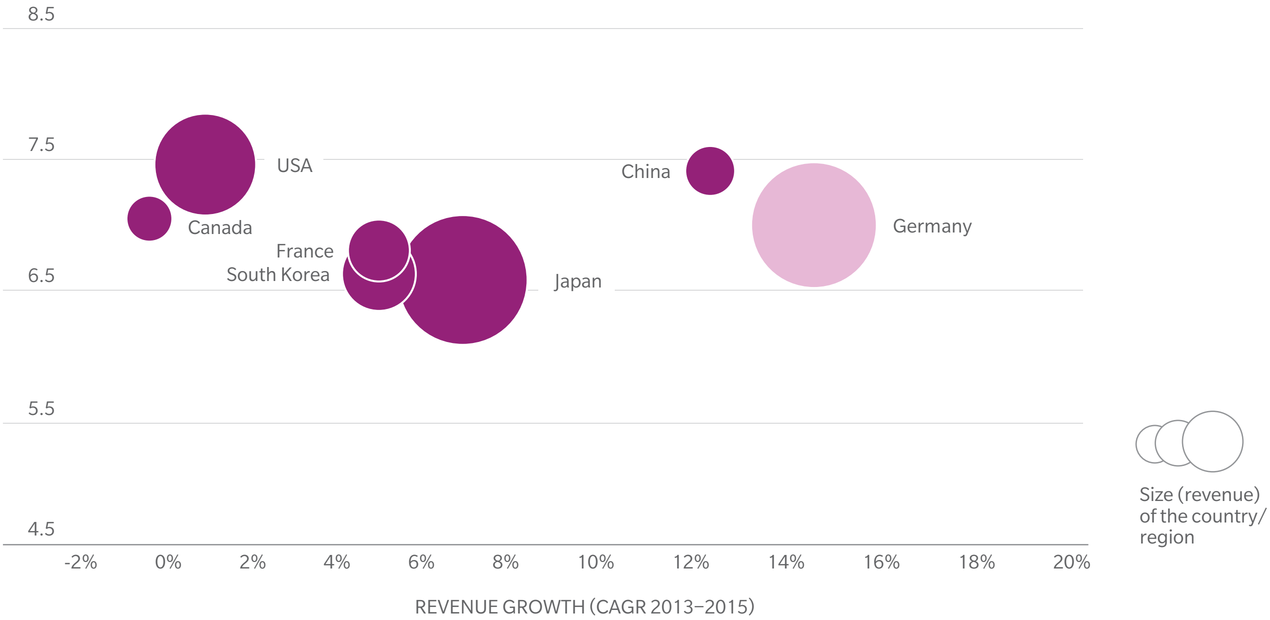
1. Changing Net Cash (cash and equivalents minus financial debts) in relation to Capital Employed at the end of the period

Explanatory note: Suppliers with a difference in financial ratios of more than three standard deviations from the average are not shown

Source: Oliver Wyman Supplier Financial Benchmarking 2016

EXHIBIT 2: GERMAN SUPPLIERS SHOW THE BIGGEST GROWTH DYNAMIC GLOBALLY – BUT ARE ONLY AVERAGE WITH REGARDS TO PROFITABILITY

Revenue growth and EBIT-Margin[1] for relevant countries



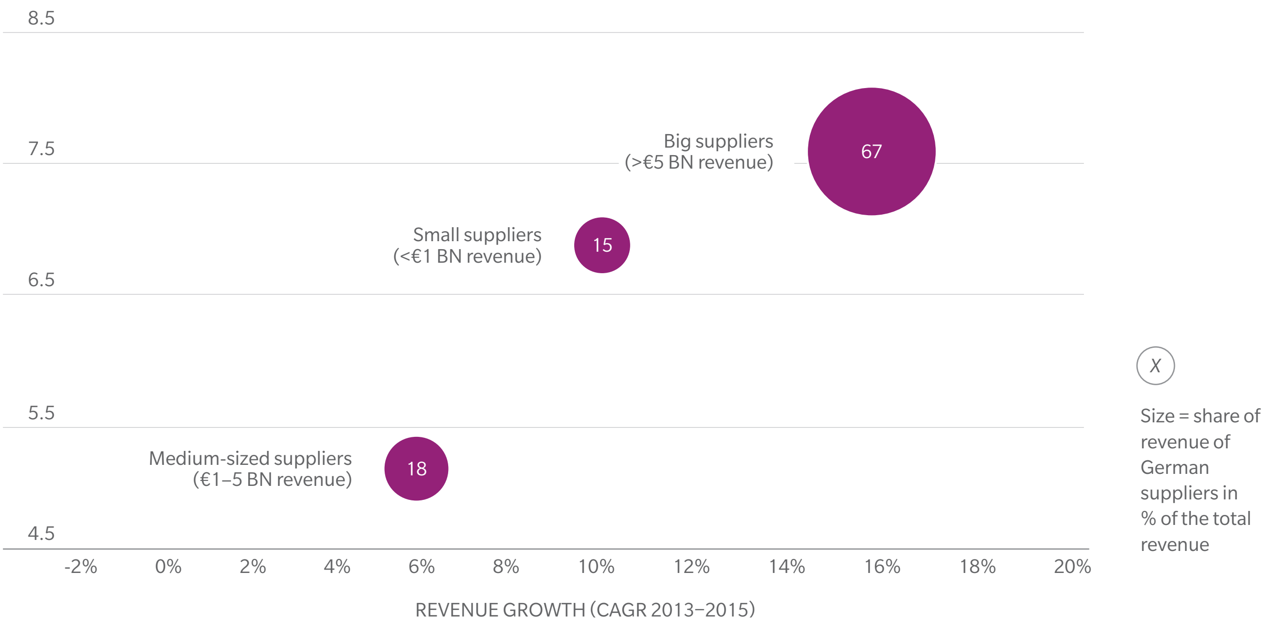
Explanatory note: Adjusted to currency effects

1. EBIT in % of revenue

Source: Oliver Wyman Supplier Financial Benchmarking 2016

EXHIBIT 3: MEDIUM-SIZED SUPPLIERS ON AVERAGE LOSE GROWTH DYNAMIC AND PROFITABILITY

Revenue growth and EBIT-Margin[1] of German suppliers in comparison to the company size



1. EBIT in % of revenue

Source: Oliver Wyman Supplier Financial Benchmarking 2016