



Schwartz and Co has published the first edition of its must-have annual report in the automotive sector: Leading Automotive Suppliers Bluebook 2018

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Schwartz and Co has published the first edition of its must-have annual report in the automotive sector, « Leading Automotive Suppliers Bluebook 2018 ». This report analyses 100 global leading automotive suppliers with a focus on their sales, geographic localization, market and business segments, to identify the key drivers of their business profitability and provide strategic insights about the automotive parts industry.

Context

Despite overall growth in 2017, the automotive industry may encounter a short-term plateau: Asian and European automotive markets showed strong growth last year but North American market experienced a slight decline.

On the demand side, automotive suppliers may suffer from the growth slowdown as several automakers forecast lower global demand in the near term. New demand may rise in the long-term as a result of the penetration of new mobility services and autonomous driving. Moreover, traditional core products are at risk due to the disruption of the automotive industry: electrification puts great pressure on powertrain and chassis suppliers, and autonomous driving increases the demand requirement for electronic suppliers.

On the supply side, raw material costs as well as module part supply price still have a non-negligible impact on the profitability of automotive suppliers. From a global view, the automotive value chain is expected to extend and the business model is supposed to become service-oriented rather than product-oriented. New players joining into the automotive industry have introduced more competition to both traditional suppliers and automakers.

Objective

In that context, Schwartz and Co has benchmarked the financial performance of 100 global leading automotive suppliers in terms of operating margin, as well as:

- To understand the automotive market development trends and highlight the key issues
- To identify the most profitable business segment in the automotive spare parts industry based on the benchmark
- To select the most financially performant players in the industry in the year and analyse their success factors



The players studied are the world's biggest automotive suppliers in terms of sales, active in 7 main business segments, and based in North America, Europe and Asia:



They have been analysed through three different angles: automotive sales size, geographical localization, and business segments:



Key results

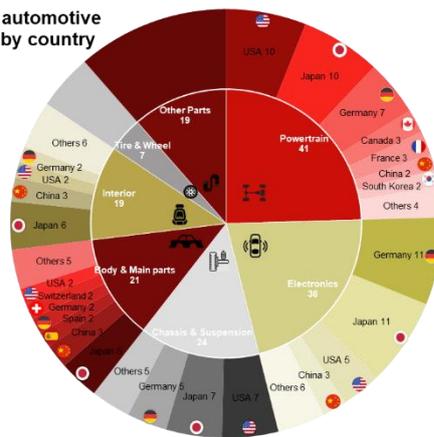
- The global automotive industry has been through continuous growth in 2017 regarding both production and sales: Asia and Europe showed steady growth. North America, however, experienced a slight volume decline.
- Volkswagen Group grabbed the top spot in 2017 automotive sales, closely followed by Renault-Nissan-Mitsubishi Alliance. Toyota ranked third. The big three automakers made up together one-third of the total.
- Electrification, autonomous driving, and sharing concepts are expected to reshape the automotive industry:
 - The automotive industry is recently marked by electrification due to technology maturation as well as regulatory pressures.
 - AI-assistant technologies, together with more performant onboard sensors make it possible to solve non-connected autonomous driving, while the



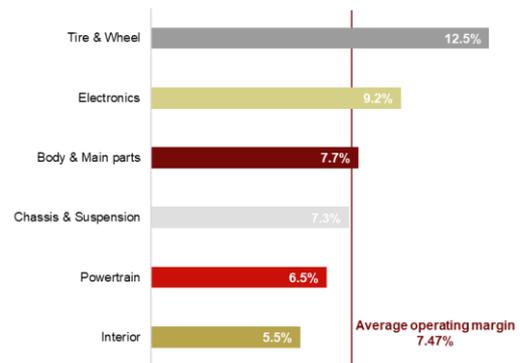
development of 5G telecommunication offers limitless possibilities for massive connected and autonomous driving on the road.

- The penetration of sharing concepts is manifested by the rise of new mobility services: DIDI and UBER are the most known and used platforms today.
- In such a complex environment, leading global suppliers maintained their profitability level with an average operating margin of about 7.5 % in 2017:
 - Large suppliers with automotive sales above 10 B\$ are usually not the most profitable generally due to the adverse synergy effects among multiple business segments. Companies with automotive sales between 2 B\$ and 4 B\$ are currently more profitable than the global average.
 - The geographic localization of leading automotive suppliers coincides with the prosperity of the automotive market. Nearly half of the leading automotive suppliers are based in Asia. The profitability level, however, is in complete contradiction. Asian suppliers are less profitable than the others.
 - Benefiting from high entry barriers and added value, tire and electronics suppliers maintain an operating margin high above the average. Powertrain and interior suppliers continue to see their profitability under pressure.

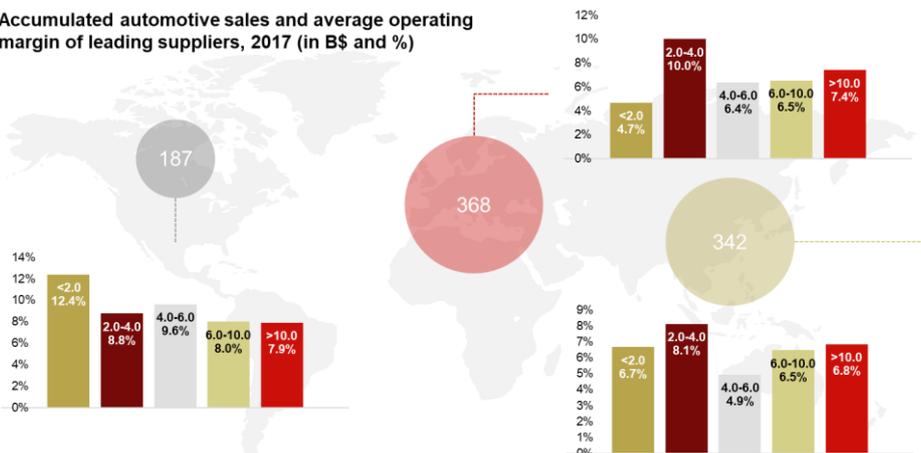
Number of suppliers by automotive business segment and by country



Leading suppliers' operating margin by business segments (in %)



Accumulated automotive sales and average operating margin of leading suppliers, 2017 (in B\$ and %)





- Several leading automotive suppliers achieved outstanding operating margins by monopolizing a high value-added submarket with their technologically leading products, such as Gentex, the specialist of automatic-dimming rear-view mirrors. Except for these, most suppliers maintain a high profitability level through:
 - Product differentiation, with focus on high value-added products or with specialties, such as tires with large rim diameters equipped for the high-end class vehicles, luxury interiors aiming at improving end-users' onboard experience and so on. High value-added products could increase the bargaining power when facing the price pressure from OEMs and improve market share. Behind these up-market products, suppliers' excellent leading technology and innovation ability is the key to the added value.
 - Lean production, with the strict control of production costs and the continuous improvement of operational efficiency. Some common actions are taken by the leading suppliers to reduce production costs, including self-sufficiency of core raw material or components, increasing production capabilities by launching new plants in low-cost regions, replacing human labour by industrial robots, and so on.
- Mergers and acquisitions play an essential role for leading automotive suppliers:
 - Most leading suppliers aim to reinforce their products, or/and expand new clients or new markets through merger and acquisitions.
 - Some suppliers, relying on their excellent restructuring capabilities, acquire good production assets at a reasonably low price, to further transfer the production by using the existed capacity to increase the volume, without any significant investments.
- Most suppliers have taken the move toward electrification. Traditional components, from driveline to suspension segments, could be enhanced with ECU and sensors. Leading engine parts suppliers have already begun to diversify into electrification aiming for a long-term growth runway.
- The performance measured in revenue per employee is not directly in line with the profitability level, but highly related to the industrial automation level. The automotive industry in South Korea has by far the highest automation rate. Production specialists, such as the powertrain, body and chassis suppliers also show high value in terms of revenue per employee

Quotes:

Meng GAO, Managing Director China: « Since 2010 China has been the most important automotive market in the world, and is continuing to play an essential role in leading the current industry mutation: electrification, autonomous driving, and sharing concepts. Aware of such important market opportunities, automotive suppliers, from small to large size, are preparing the incoming challenges, by redefining their development strategies, of their markets, customers and business segments, and carrying restructuring, M&A and JV activities. Schwartz and Co has been providing sector insights for the automotive players and supporting their strategic and investment decisions, through its tailor-made consulting services, and its automotive bluebook. »



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Marc Vuarchex, Senior Advisor Schwartz and Co, former President of GKN Driveline Asia Pacific Region: « Over the last 10 years, Asia Region has been leading the automotive industry development, out of which China has enjoyed a regular and steady growth, becoming the world leader country in term of car production and new programs, thanks to global and domestic car makers. This trend has been accompanied by tier one suppliers looking for new opportunities, through joint ventures and acquisitions, balancing their manufacturing and R&D capabilities over Asia. Simultaneously China has strongly invested in car electrification looking for a better CO2 balance and leading development of new technologies for an environmental friendly mobility. In coming years, China will probably be leading the step change in this industry. »

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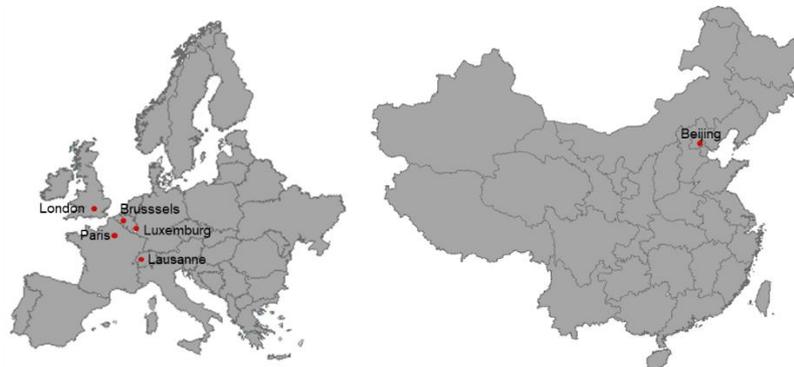
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