




CHINESE APPETITE – Emerging market players are buying into the European auto supplier industry

Summary of study results

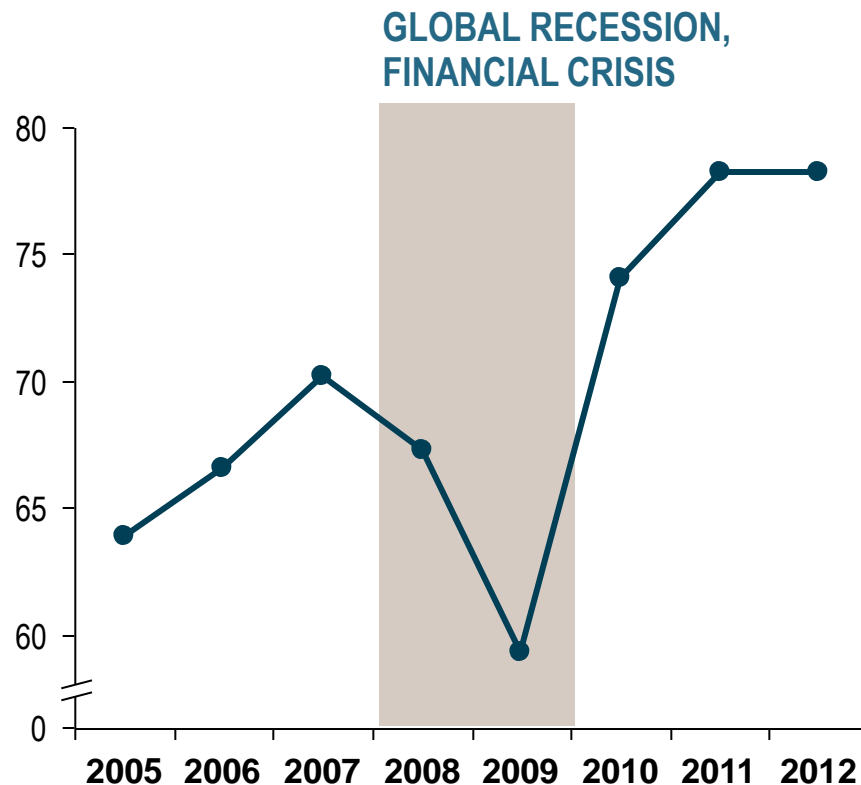
Roland Berger
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July 2011

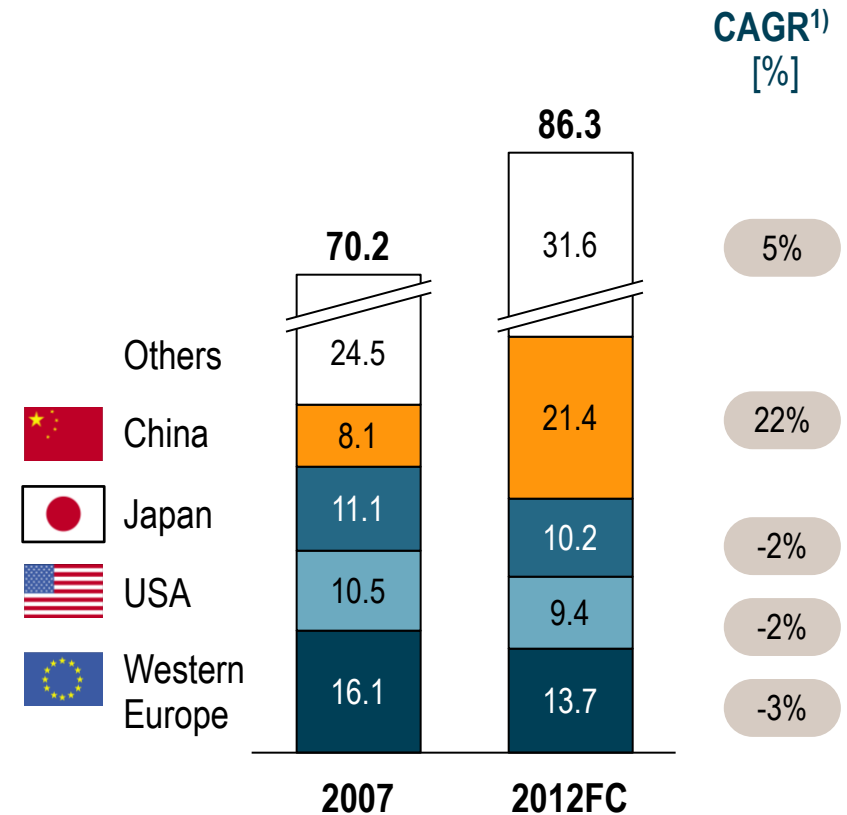


Automotive production volumes have recovered after the crisis. However, triad markets are still below pre-crisis volumes

Development of global production volumes¹⁾ [m units]

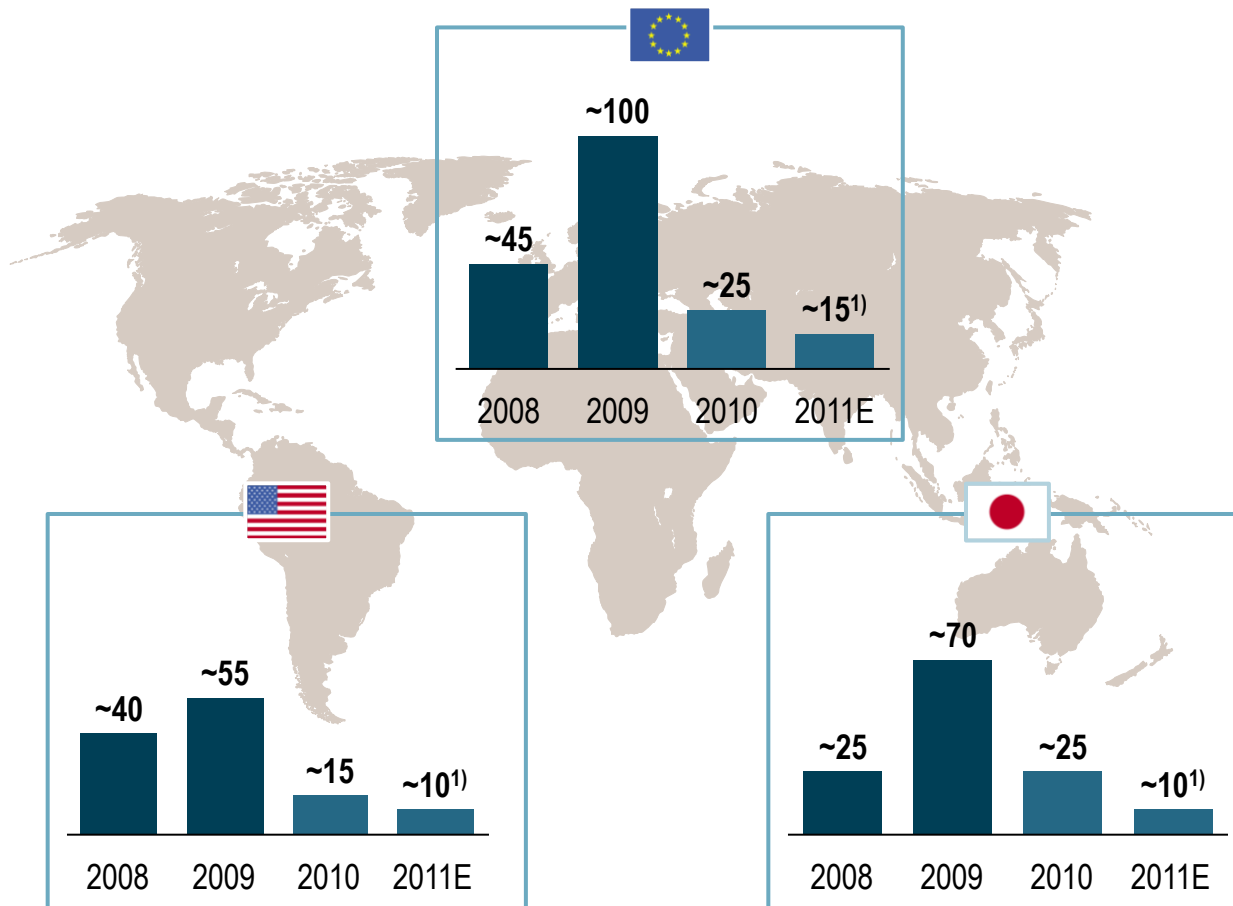


Regional breakdown of production volumes¹⁾ [m units]



1) Light vehicles / Q1 2011 Production

As a result of the positive development, insolvencies in the global auto supplier industry declined drastically in 2010 and 2011



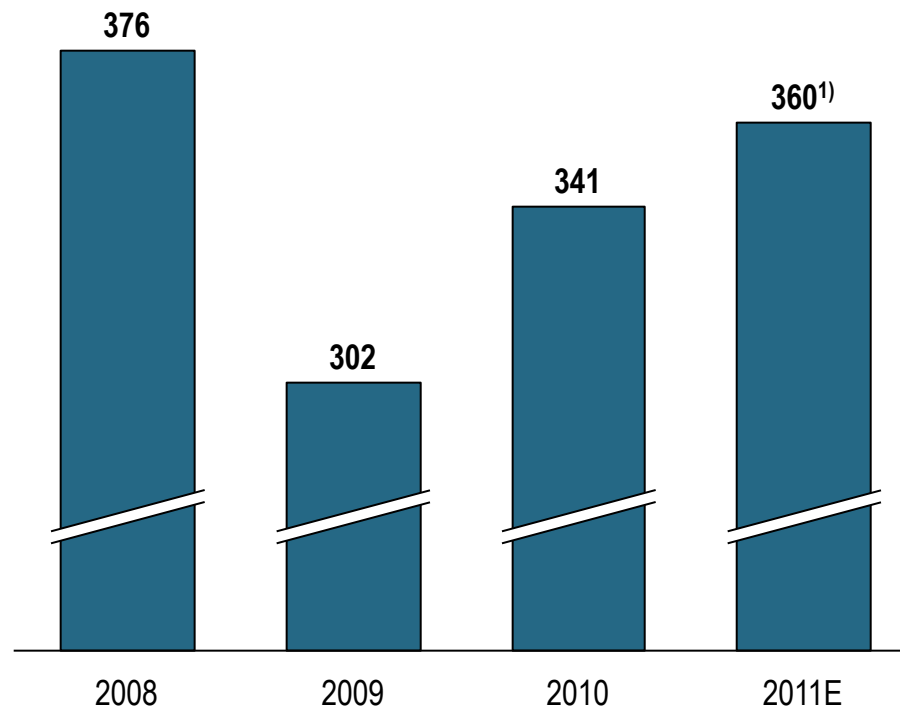
Selected insolvencies in supplier industry in late 2010-2011

COMPANY	SEGMENT
SELLNER GROUP	Interior trim
SAARGUMMI	Sealing systems
BBS	Aluminum wheels
ANT KUNSTSTOFF-TECHNIK	Interior plastics
CROMODURO CORPORATION	Interior plastics
HONSEL [®]	Aluminum casting

1) First half of 2011

Due to an improved investment climate and good availability of targets (insolvencies!), the number of transactions increased significantly

Number of transactions in global automotive supplier industry



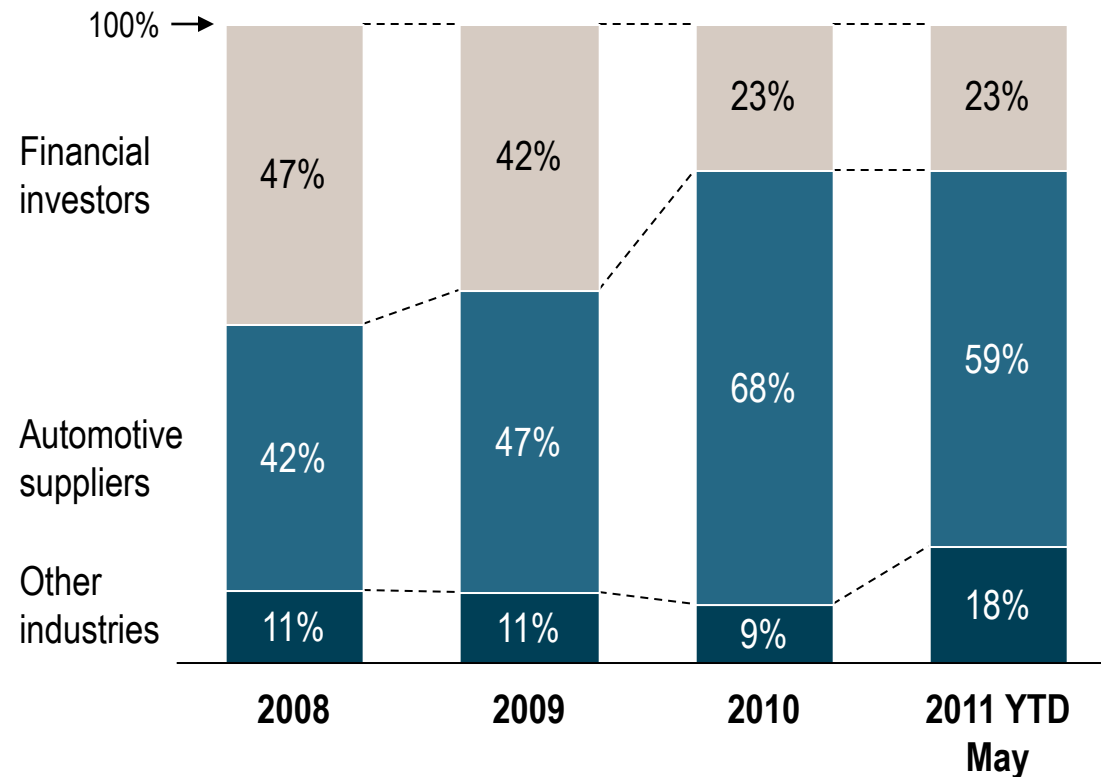
COMMENTS

- > In almost all cases, **operations** of insolvent companies have been **carried on** – very often supported by OEMs
- > Market **conditions** for M&A transactions and business situation of strategic investors **improved** significantly after crisis
- > The transactions market is already almost on **pre-crisis level**

1) Extrapolation based on transactions YTD May 2011 and seasonal effects
Note: Transactions considered: automotive supplier, worldwide, acquisition of majority interest

Strategic investors are playing a much more important role after the crisis. Main driving force behind this trend are OEMs

Auto supplier takeovers by buyer type [%]

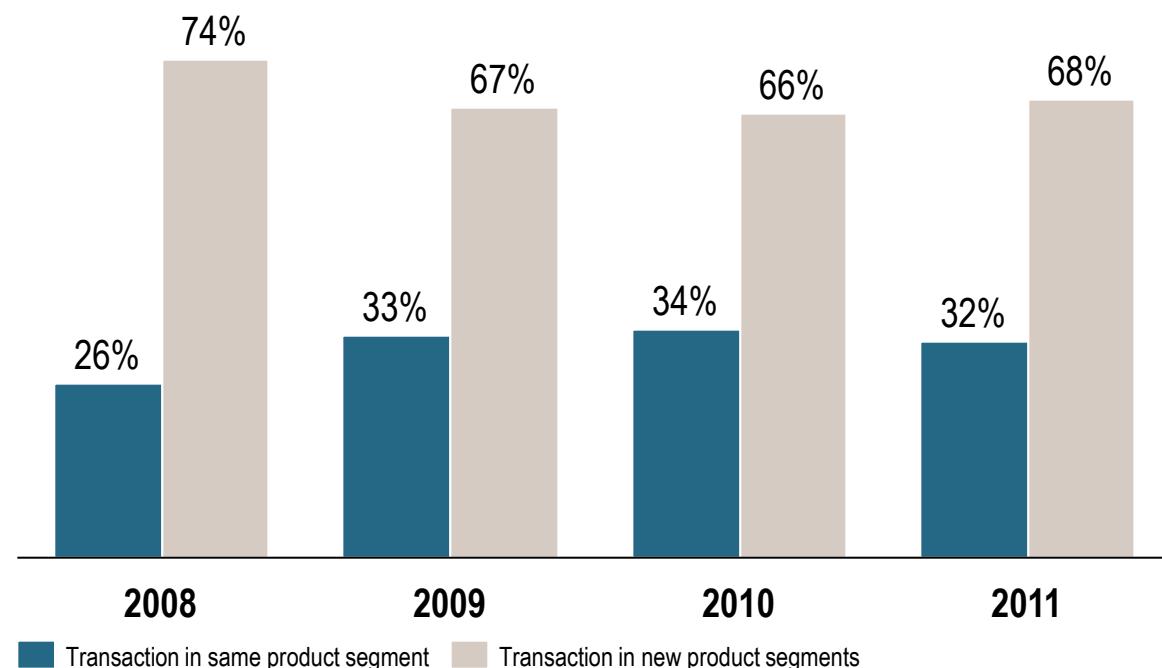


COMMENTS

- > **Financial investors exit** existing investments as market conditions are developing favorably
- > **OEMs are reluctant** to support financial investors given the negative experiences in the past years with overleveraged suppliers – and are heavily pushing strategic investors
- > New **strategic investors** with access to large funds emerge

However, despite increased importance of strategic investors, the industry is not on a real consolidation path

Shares of inter- and intra-segment transactions [%]



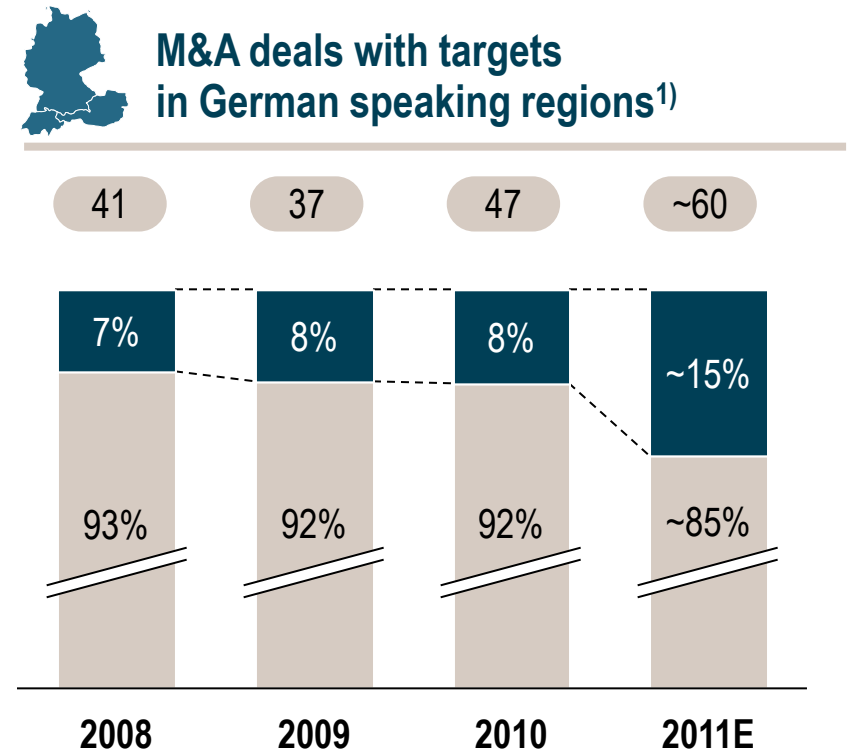
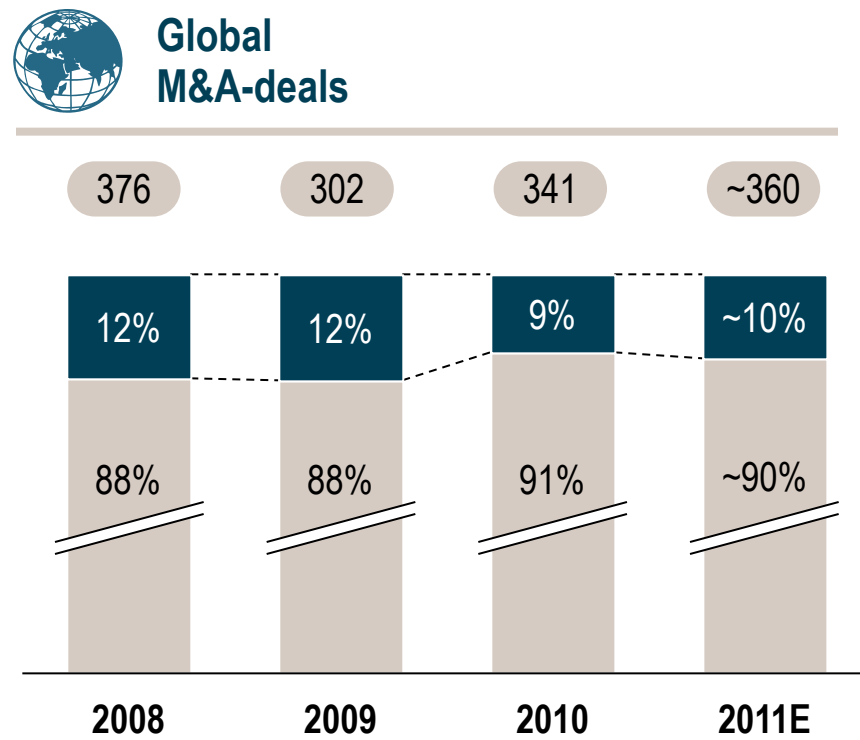
COMMENTS

- > Majority of transactions of strategic investors still **outside** their current product segments
- > OEMs carefully manage global **market structures** in relevant product segments
- > Consolidation happens only in terms of **increased** player **size** – But not often in terms of increased market shares in specific segments

Notes: Segments include interior, chassis, powertrain, exterior, electronics, infotainment

Key trend in 2011: strategic investors from emerging markets increasingly gain importance – Notably in German speaking region

Acquirer by country in automotive supplier M&A deals [%]







Emerging countries (BRIC, Turkey, Singapore, Mexico)
 Mature Market
 xy Number of deals

1) Germany, Austria, Switzerland

Note: Extrapolation of deals up to end of May 2011, Seasonal effects considered for M&A outlook 2011

Particularly Chinese investors are becoming very active on the global transaction market for automotive suppliers

Major transactions with Chinese involvement since end of 2010

ACQUIRER	TARGET		
	Name	Sector	Year of acquisition
	Ogihara	Tooling, Stamping	2010
	Preh Group	Electronics	2011
	Saargummi	Rubber, Plastics	2011
	Inalfa	Roof systems	2011

2011/12 outlook

Today, at least one Chinese investor is involved in any major M&A-deal in the supplier



The increased activity of Chinese investors follows the new strategic five year plan of the Chinese government

Key elements¹⁾ of the 12. five year strategic plan

- > Further strengthening of the **competitiveness** of the automotive industry sectors
 - Intensified **R&D** efforts and technology upgrade
 - **Consolidation** of sectors (e.g. by means of M&A)
 - Support of **FDI** initiatives²⁾
- > Minimum annual **growth target** for the automotive industry of ~10%
 - Stimulation of national **demand**
 - Influence on **market structure** (supply side), e.g. by means of M&A

Implications on behavior of Chinese investors

- > Strong focus of Chinese players to acquire foreign **companies**
 - Well positioned **technology** leaders
 - **Valuable** suppliers in financial distress
- > Improved **process management**
 - **Speed**
 - **Stakeholder** management
- > Significantly increased **willingness to pay**

1) Selected key elements with relevance to the automotive industry

2) Foreign direct investments

The successful implementation of the strategic five year plan will increase the global competitiveness of Chinese suppliers

Overview of current and future characteristics of Chinese suppliers

CURRENT CHARACTERISTICS

- > **Competitive advantage** of Chinese suppliers based on
 - Lower cost (labor, energy)
 - Access to local players
 - Protection by government
- > **Product portfolio** of local Chinese suppliers mainly "Low Tech"
- > From a **global perspective**, Chinese players do so far not play a significant role in terms of technology and volume

OUTLOOK

- > Improve **competitiveness** of products
- > Higher **market share** with more complex products/ technologies
- > **Leading edge** products for emerging market cost level
- > Higher market shares in **international markets** (through FDIs and improved competitiveness of own products)

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