Global Automotive Supplier Study 2018

Transformation in light of automotive disruption

December 2017
The status
Record volumes and profits, but key markets are at a tipping point

The future
Upcoming automotive disruption will fundamentally change the industry

The challenge
Suppliers' traditional business will be questioned on multiple levels

The consequence
Automotive suppliers need to transform their business models

The Contacts
Roland Berger and Lazard Automotive teams
Executive Summary (1/2)

> The automotive industry has seen a **continuation of global growth** in 2017 – However, **first signs of weakening are visible** with softening of growth in China and Europe and a slight volume decline in the US

> In this still favorable environment, the **global supplier industry is expected to increase its revenues by 3% and maintain its profitability level** with an average EBIT margin of ~7% in 2017
  - **Chinese and NAFTA suppliers** are currently **more profitable** than the global average
  - **Exterior, chassis and tire suppliers** are on track to **improve their EBIT margin profile** in 2017
  - **Powertrain suppliers** continue to see their **margins under pressure** due to intensified competition and the cost of innovation

> **For 2018**, we expect **continued growth** for the global supplier base, but at a slower pace with stable **EBIT margins**

> The **four automotive megatrends** Mobility, Autonomous driving, Digitization and Electrification will continue to change the automotive industry, causing **disturbance in all supplier domains**
  - **New mobility business models** are poised to disrupt car ownership, personal mobility and goods logistics: The share of new vehicle sales for application in the field of new mobility (e.g. ride hailing, car sharing) may range between 10-15% in the US and Europe and up to 35% in China by 2025
  - The timeline for **level 4/5 autonomous keeps accelerating** as necessary economics, regulations and technology fall into place: Penetration rates for autonomous cars (SAE level 4/5) may reach a level between 5% and 26% in ~15-20 years
  - In digitization, **artificial intelligence offers almost limitless possibilities** while connectivity-enabled technologies are reaching mainstream application: Within the next 10 years almost all cars in mature markets will have some form of connectivity
  - **Momentum for electrification is building among OEMs** due to increasing regulatory pressure and accelerating technology advancement: Scenarios for the share of EV cars in 2025 range from 8-20% in the US, 20-32% in Europe and 29-47% in China
Executive Summary (2/2)

> Suppliers are expected to face five main challenges going forward
  > Slowing growth will put pressure on margins and create a need to find new ways to grow
  > Accelerated change of technological focus requires further investment into new technologies such as ADAS and electrification, putting an undue burden without a promise of quick returns
  > Emergence of software as key differentiator will make many existing competencies obsolete and create more intensive competition from new tech players
  > Commoditization of hardware parts and disaggregation of systems will exert additional pressure to reduce cost and increase operational efficiency
  > Potential downswing of valuations for commoditized suppliers in the midterm might go along with growing investor pressure to increase shareholder value

> In order to succeed in the new automotive environment, suppliers will have to transform their existing business models
  > Rethink overall strategy in order to either capture new growth opportunities or consolidate the market around the existing portfolio
  > Define a long term technology roadmap and strategic positioning in the value chain regarding both product and service offering
  > Implement a lower operating cost base and ensure sufficient financing for the upcoming transition at the same time
  > Adapt organizational structure and governance model to successfully manage new emerging technologies and competencies alongside old declining technologies under one roof
  > Create a new company mindset and culture to foster innovation which is of paramount importance to compete in the new technology areas
  > Build up new partnerships and leverage this ecosystem to find new ways to innovate
A

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The automotive industry recently has been more in the public eye than ever before

Recent notable automotive headlines

Record 2016 for U.S. Auto Industry; Long Road Back May Be at End
- The New York Times

After Years of Growth, Automakers Are Cutting U.S. Jobs
- The New York Times

U.S. Electric Vehicle Sales Soared In 2016
- Forbes

NHTSA seeks ways to clear the road for self-driving cars
- ZDNet

How a Trump tariff could sideswipe U.S. auto industry
- Associated Press

Auto industry tells Trump 'We're winning with NAFTA'
- Reuters

Europe's vehicle sales reach post-crisis high
- Automotive News Europe

Why 2017 will go down as the beginning of the end of the internal combustion engine
- The Washington Post

European sales of gasoline-powered cars overtake diesel: ACEA
- Reuters

Diesel sales fall in key Europe markets
- Automotive News Europe

Premium midsize SUVs overtake sedans, wagons in key European segment
- Automotive News Europe

Merkel says car industry must work to rebuild trust
- Reuters

China's Car Sales Have Been on a 26-Year Record Streak
- Bloomberg News

Global automakers call on China to ease "impossible" electric car rules
- Reuters

IN THE AGE OF TRUMP, CHINA EYES ELECTRIC CAR DOMINANCE
- Wired

Electric car sales in China set to reach record-breaking 700,000 units in 2017
- Autocar

China Sends a Jolt Through Auto Industry With Plans for Electric Future
- The Wall Street Journal

Source: Lazard, Roland Berger
The industry had another year of record volumes, however slowing growth on global level with North America on the decline

Global light vehicle production volume\(^1\) by region, 2012-2017e [m units]

### NAFTA
**CAGR\(^2\): 3.7%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>15.4</td>
</tr>
<tr>
<td>2013</td>
<td>16.2</td>
</tr>
<tr>
<td>2014</td>
<td>17.0</td>
</tr>
<tr>
<td>2015</td>
<td>17.5</td>
</tr>
<tr>
<td>2016</td>
<td>17.8</td>
</tr>
<tr>
<td>2017e</td>
<td>17.4</td>
</tr>
</tbody>
</table>

### Europe\(^3\)
**CAGR\(^2\): 4.3%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>15.8</td>
</tr>
<tr>
<td>2013</td>
<td>16.0</td>
</tr>
<tr>
<td>2014</td>
<td>16.9</td>
</tr>
<tr>
<td>2015</td>
<td>18.1</td>
</tr>
<tr>
<td>2016</td>
<td>18.8</td>
</tr>
<tr>
<td>2017e</td>
<td>19.1</td>
</tr>
</tbody>
</table>

### China\(^4\)
**CAGR\(^2\): 10.2%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>18.6</td>
</tr>
<tr>
<td>2013</td>
<td>21.3</td>
</tr>
<tr>
<td>2014</td>
<td>23.0</td>
</tr>
<tr>
<td>2015</td>
<td>24.0</td>
</tr>
<tr>
<td>2016</td>
<td>27.4</td>
</tr>
<tr>
<td>2017e</td>
<td>27.6</td>
</tr>
</tbody>
</table>

### South America
**CAGR\(^2\): -10.6%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4.3</td>
</tr>
<tr>
<td>2013</td>
<td>4.5</td>
</tr>
<tr>
<td>2014</td>
<td>3.8</td>
</tr>
<tr>
<td>2015</td>
<td>3.1</td>
</tr>
<tr>
<td>2016</td>
<td>2.7</td>
</tr>
<tr>
<td>2017e</td>
<td>3.1</td>
</tr>
</tbody>
</table>

### World
**CAGR\(^2\): 3.4%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>81.5</td>
</tr>
<tr>
<td>2013</td>
<td>84.7</td>
</tr>
<tr>
<td>2014</td>
<td>87.4</td>
</tr>
<tr>
<td>2015</td>
<td>88.8</td>
</tr>
<tr>
<td>2016</td>
<td>93.1</td>
</tr>
<tr>
<td>2017e</td>
<td>94.9</td>
</tr>
</tbody>
</table>

### Japan/Korea
**CAGR\(^2\): -1.9%**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>13.9</td>
</tr>
<tr>
<td>2013</td>
<td>13.5</td>
</tr>
<tr>
<td>2014</td>
<td>13.7</td>
</tr>
<tr>
<td>2015</td>
<td>13.3</td>
</tr>
<tr>
<td>2016</td>
<td>12.9</td>
</tr>
<tr>
<td>2017e</td>
<td>13.5</td>
</tr>
</tbody>
</table>

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1) Incl. light commercial vehicles; 2) CAGR 2012-2016; 3) Excluding CIS and Turkey; 4) Greater China

Source: IHS, Lazard, Roland Berger
In 2017, the U.S. and Canada experienced significant declines – Mexican and Japanese production driving global production growth

Top 20 by country and by OEM group, light vehicle production

1) Incl. light commercial vehicles; 2) Year-on-year growth rate

Source: IHS, Lazard, Roland Berger
2017 was another good year for suppliers with moderate growth and margins comparable to previous years

Key supplier performance indicators, 2010-2017e (n=~650 suppliers)

Revenue growth

Indexed [2010=100]

YoY [%]

EBIT\(^1\) margin [%]

1) EBIT after restructuring items

Source: Company information, analyst forecasts, Lazard, Roland Berger
The overall positive sentiment was also reflected in the supplier valuation levels that still trade above their long-term average.

Evolution of automotive supplier valuations

> Valuation multiples of publicly listed automotive suppliers are above their long-term average values, however, below peak values observed during the last two to three years.

> High valuation levels are supported by an abundance of cheap liquidity on the global stock markets as well as profitable growth of automotive suppliers. More recently, the question around the impact of a changing automotive environment had a muting effect on valuations.

> While European and North American suppliers trade at similar valuation levels, Japanese companies continue to trade at a discount, reflecting the stagnation in their home market.


Source: Factset, Lazard, Roland Berger
Financial performance of suppliers varies greatly depending on region, company size, product focus and business model

Profitability trends in the global automotive supplier industry – 2010 vs. 2017e

<table>
<thead>
<tr>
<th>Region</th>
<th>Company size</th>
<th>Product focus</th>
<th>Business model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>Large suppliers with &gt;EUR 10 bn revenues maintain strong margins of ~7.5% EBIT</td>
<td>Chassis suppliers clearly improved margins to ~8% EBIT driven by ADAS and active safety</td>
<td>Product innovators are strongly growing and generating stable above-average margins of &gt;7% EBIT based on technology leadership translated into higher prices</td>
</tr>
<tr>
<td>NAFTA</td>
<td>Midsized suppliers (EUR 1.0 to 2.5 bn revenues) show strong and very profitable growth</td>
<td>Tire suppliers maintained strong margins due to favorable raw material costs</td>
<td></td>
</tr>
<tr>
<td>European</td>
<td>Upper midsized suppliers (EUR 2.5 to 5 bn revenues) below average regarding profitability</td>
<td>Powertrain suppliers gradually lost ground and achieve below-average margins in the meantime</td>
<td></td>
</tr>
<tr>
<td>Japanese/Korean</td>
<td>Small suppliers (below EUR 0.5 bn revenues) lag behind in terms of growth and profitability</td>
<td>Interior suppliers still trail their peers, with recently even lower margins</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company information, Lazard, Roland Berger
China- and NAFTA-based suppliers are currently more profitable than the average – China-based suppliers recently on the decline

Key supplier performance indicators by region, 2010 vs. 2017e [%]

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue CAGR 2010-2017e</th>
<th>EBIT margin 2010-2017e</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>~11.9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>NATO</td>
<td>~3.0%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Europe</td>
<td>~6.9%</td>
<td>~5.1%</td>
</tr>
<tr>
<td>South Korea</td>
<td>~7.2%</td>
<td>~6.5%</td>
</tr>
<tr>
<td>Japan</td>
<td>~5.1%</td>
<td>~6.3%</td>
</tr>
<tr>
<td>Average</td>
<td>Ø 2017e = 7.3</td>
<td></td>
</tr>
</tbody>
</table>

- China-based suppliers have seen a decline in margins in recent years from a very high level due to intensified competition in their home market, but still achieve above average growth and profitability.
- NAFTA-based suppliers are still leveraging the effects from their substantial restructuring during the 2008/2009 auto crisis and the subsequent re-focusing on technology.
- Europe-based suppliers largely benefit from leading technology positions in many segments and a favorable customer mix.
- South-Korea-based suppliers' margins have come under pressure recently.
- Japan-based suppliers have seen a slight recovery in terms of profitability, reducing the gap to other regions.

Source: Company information, Lazard, Roland Berger
Profitability levels are currently in line across different company sizes – Only very small suppliers substantially lag behind

Key supplier performance indicators by company size (EUR bn sales), 2010-2017e [%]

Revenue CAGR 2010-2017e

- Large multinational suppliers (above EUR 10 bn revenues) grew in line with the average, but have been able to achieve above average profitability
- Large suppliers (EUR 2.5-5 bn revenues) gave up profitability to continue strong revenue growth
- Midsize suppliers (EUR 1.0-2.5 bn revenues) increased profitability, mostly on the back of a very focused and technology-enabled product portfolio
- Very small suppliers lag behind in terms of growth and profitability due to limited resources for innovation and expansion

Source: Company information, Lazard, Roland Berger
Powertrain suppliers face increasing pressure on profitability – Exterior suppliers strongly grow at attractive margins

Key supplier performance indicators by product focus, 2010 vs. 2017e [%]

<table>
<thead>
<tr>
<th>Product Focus</th>
<th>2010-2017e</th>
<th>2010-2017e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tire</td>
<td>~2.9%</td>
<td>~4.9%</td>
</tr>
<tr>
<td>Chassis</td>
<td>~6.0%</td>
<td>~7.4%</td>
</tr>
<tr>
<td>Powertrain</td>
<td>~5.6%</td>
<td>~5.6%</td>
</tr>
<tr>
<td>Exterior</td>
<td>~11.5%</td>
<td>~8.0%</td>
</tr>
<tr>
<td>Electrics/Infotainment</td>
<td>7.3%-7.8%</td>
<td>~6.1%</td>
</tr>
<tr>
<td>Interior</td>
<td>~5.9%</td>
<td>~5.5%</td>
</tr>
</tbody>
</table>

- Tire suppliers grew at a slower rate, but benefited from recently favorable raw material costs.
- Chassis suppliers clearly improved margins over time – development increasingly driven by advanced driver assistance and active safety.
- Powertrain margins pressurized by intensified competition, the cost of (multiple) innovations and the rise of electric vehicles.
- Exterior suppliers have been strongly growing while continuing to be profitable above average due to growing lightweight focus.
- Electrics/Infotainment suppliers face changing customer requirements and increased competition, reducing profitability.
- Interior suppliers’ margins continue to stay under pressure.

Source: Company information, Lazard, Roland Berger
Product innovators outpace process specialists in terms of profitability and growth

Key supplier performance indicators by business model, 2010 vs. 2017e [%]

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2017e</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue CAGR</strong></td>
<td>~6.4%</td>
<td>~5.5%</td>
</tr>
<tr>
<td><strong>EBIT margin</strong></td>
<td>7.7</td>
<td>~7.2</td>
</tr>
<tr>
<td></td>
<td>6.7</td>
<td>~6.7</td>
</tr>
</tbody>
</table>

> On average, innovative products feature higher differentiation potential and greater OEM willingness to pay higher prices

> High entry barriers through intellectual property in many innovation-driven segments

> Competitive structure more consolidated in innovation-driven segments

> Higher fragmentation in many process-driven segments puts pressure on prices

> Product innovators grow slightly above process specialist due to increasing demand for innovative products and solutions

Note: Analysis excludes tire suppliers; 1) Business model based on innovative products with differentiation potential; 2) Business model based on process expertise (while product differentiation potential is limited)

Source: Company information, Lazard, Roland Berger
Margins of top-performing suppliers expected to stay at previously high levels – Low-performing peers still significantly lagging behind

Key performance indicators of top vs. low performing suppliers

Revenue growth [2010=100]

EBIT\(^2\) margin [%]

1) Top (low) performance based on above- (below-) average revenue growth 2010-2016, ROCE 2010-2016 and ROCE 2016; 2) EBIT after restructuring items

Source: Company information, Lazard, Roland Berger
However, top performance is not necessarily related to (product) innovation only.

Key performance indicators of top vs. low performing suppliers

- **Product innovators** outperform process specialists in terms of average profitability.
- **Top process specialists**, though, achieve average revenue growth that is above the top product innovators.
- Large difference in growth rates between top and low performing process specialists indicates the relevance of scale economies.
- Increased difference in growth rates between top and low performing product innovators indicates the relevance of profitable innovation.

1) Top (low) performance based on above- (below-) average revenue growth 2010-2016, ROCE 2010-2016 and ROCE 2016; 2) EBIT after restructuring items.

Source: Company information, Lazard, Roland Berger.
Short term, we expect continued, but slower revenue growth and comparable margins to 2017e

**Supplier global revenue and margin outlook 2017e/2018e**

<table>
<thead>
<tr>
<th>Production volume [m units]</th>
<th>Revenue growth [2010 = 100]</th>
<th>EBIT(^1) margin [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAFTA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.8 17.5 17.4</td>
<td>113 118 124 131 138 142 ~147</td>
<td>7.1 6.8 6.8 7.1 7.3 7.0 7.2 ~7.3</td>
</tr>
<tr>
<td>16 17e 18e</td>
<td>16 17e 18e</td>
<td></td>
</tr>
<tr>
<td>Europe(^2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.8 19.1 19.3</td>
<td>124 131 138 142 ~147</td>
<td></td>
</tr>
<tr>
<td>16 17e 18e</td>
<td>16 17e 18e</td>
<td></td>
</tr>
<tr>
<td>China(^3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27.4 27.6 27.9</td>
<td>12.9 13.5 13.0 ~3%</td>
<td></td>
</tr>
<tr>
<td>16 17e 18e</td>
<td>16 17e 18e</td>
<td></td>
</tr>
<tr>
<td>Japan/Korea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.8 19.1 19.3</td>
<td>124 131 138 142 ~147</td>
<td></td>
</tr>
<tr>
<td>16 17e 18e</td>
<td>16 17e 18e</td>
<td></td>
</tr>
<tr>
<td>S. America</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.7 3.1 3.4</td>
<td>93.1 94.9 96.2 ~3%</td>
<td></td>
</tr>
<tr>
<td>16 17e 18e</td>
<td>16 17e 18e</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17.8 17.5 17.4</td>
<td>113 118 124 131 138 142 ~147</td>
<td></td>
</tr>
<tr>
<td>16 17e 18e</td>
<td>16 17e 18e</td>
<td></td>
</tr>
</tbody>
</table>

**Main revenue drivers**
- Slowing growth in mature markets (US, Europe, Japan/Korea)
- Continued softening of growth in China
- Strong growth in South America, Russia, Turkey and Middle East partially counteract slowdown in major markets

**Main EBIT drivers**
- Relatively stable top-line
- Political and macroeconomic environment expected to remain stable with growing downside risks
- Product innovators continue to translate technology leadership to favorable pricing

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Source: IHS, company information, Lazard, Roland Berger

1) EBIT after restructuring items; 2) Excluding CIS and Turkey; 3) Greater China
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Looking ahead: Several industry trends are influencing the automotive industry in the short and long term

Automotive industry trend radar

Note: Excluding product segment specific technology and operational issues

Source: Lazard, Roland Berger
Ride sharing services are forecast to continue to grow at a fast pace, attracting massive capital paired with high valuations.

State of the ride hailing industry

<table>
<thead>
<tr>
<th>Capital raised by industry leaders [USD bn]$^1$</th>
<th>Latest reported valuation (pre money) [USD bn]</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Didi Chuxing</strong> 15.7</td>
<td>&gt; Based on its April 2017 equity investment round led by Softbank</td>
</tr>
<tr>
<td>&gt; USD 5 bn raised in latest round led by Softbank</td>
<td></td>
</tr>
<tr>
<td>&gt; Expanding internationally as a strategic investor</td>
<td></td>
</tr>
<tr>
<td><strong>Uber</strong> 11.6</td>
<td>&gt; Based on the last equity investment round in June 2016</td>
</tr>
<tr>
<td>&gt; USD 10 bn potential investment led by Softbank</td>
<td></td>
</tr>
<tr>
<td>&gt; Ride requests up 150% YOY</td>
<td></td>
</tr>
<tr>
<td><strong>Lyft</strong> 3.6</td>
<td>&gt; However, secondary market interest pegged the value closer to USD 50 bn in June 2017</td>
</tr>
<tr>
<td>&gt; USD 1 bn raised in latest investment round led by Alphabet's CapitalG</td>
<td></td>
</tr>
<tr>
<td>&gt; 1H 2017 saw as many rides as all of 2016</td>
<td></td>
</tr>
</tbody>
</table>

$^1$ Announced investments as of November 2017

Source: Crunchbase, desktop research, Lazard, Roland Berger
Vehicle sales for new mobility services are expected to exceed 10% of new car sales by 2025 in the US and the EU.

Share of vehicle sales for New Mobility\(^1\) [% passenger car sales]

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>EU-28</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>98%</td>
<td>98%</td>
<td>97%</td>
</tr>
<tr>
<td>2020</td>
<td>92%</td>
<td>91%</td>
<td>91%</td>
</tr>
<tr>
<td>2025</td>
<td>90%</td>
<td>85%</td>
<td>65%</td>
</tr>
</tbody>
</table>

\(^1\) Includes forecast for car sharing, ride hailing, ride sharing, and Robocabs. Does not include sales for conventional taxis or rental car fleets.

- New mobility sales are expected to grow through 2025 due to:
  - Changes in car ownership patterns
  - Growing urbanization
  - Enhancements in technology & mobility business models

- The disruption potential in China is higher due to its relatively lower base of ownership levels today (1 car for 7 people vs. 1 for 2 in EU and 1 for 1.25 in US)

- Post 2025, the introduction of RoboCabs could drive a significantly larger share of sales to new mobility.

Source: Global RB Mobility Revenue and Profit Pool Model, Lazard, Roland Berger
Automated driving is set to arrive at fast pace – With new entrants and real-life pilots already under way

### Commercialization timeline of automated driving functionality by SAE\(^1\) levels

<table>
<thead>
<tr>
<th>Automation level (NHTSA)</th>
<th>Current</th>
<th>Short-term</th>
<th>Mid/long term</th>
<th>&quot;Moonshot&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1, &amp; 2</strong></td>
<td></td>
<td>2017</td>
<td>2020</td>
<td>2025</td>
</tr>
<tr>
<td>(Driver assistance and partial automation)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collision warning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Night vision</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>BSD(^2), Lane departure warning, Lane keeping assist</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adaptive cruise control (no steering)</td>
<td></td>
<td>Lane keeping</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AEB(^3)</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>AEB(^3) w pedestrian detection</td>
<td></td>
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<tr>
<td>Parking assist (steering only)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Traffic jam assist</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Traffic signal recognition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Driver monitoring</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Level 3</strong></td>
<td></td>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Conditional automation)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction zone assist (LV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction zone assist (CV)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Parking with App&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Platooning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway chauffeur (ACC(^4) w steering &amp; system monitors road)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traffic jam platoon</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Level 4/5</strong></td>
<td></td>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(High/Full automation)</td>
<td></td>
<td>2020</td>
<td>&quot;Remote valet parking&quot;</td>
<td></td>
</tr>
<tr>
<td>Light vehicles</td>
<td></td>
<td>2020</td>
<td>&quot;Highway pilot&quot;</td>
<td></td>
</tr>
<tr>
<td>Commercial vehicles (where significantly different from light vehicle timing)</td>
<td></td>
<td>2020</td>
<td>&quot;Exit-to-Exit&quot;</td>
<td></td>
</tr>
<tr>
<td>1) Society of Automotive Engineers; 2) Blind spot detection; 3) Automated emergency braking; 4) Advanced cruise control</td>
<td></td>
<td>2020</td>
<td>&quot;Urban pilot&quot;</td>
<td></td>
</tr>
</tbody>
</table>

Source: Lazard, Roland Berger
Future penetration of highly automated vehicles will depend on overcoming current hurdles and convergence on shared mobility

Autonomous driving – Penetration rate of highly automated cars (SAE Levels 4/5)

**Disruptive/High scenario**
- Sharing proliferates with high acceptance of car/ride sharing services
- High penetration of autonomous vehicles in shared fleets and privately owned premium and volume vehicle segments
- Autonomous, shared vehicles, called RoboCabs provide on-demand mobility services to consumers and businesses
- High use of autonomous vehicles by ride sharing services drives down costs significantly

**Low scenario**
- Shared mobility confined to early adopters in dense urban areas
- Automated driving penetration primarily in flagship premium models
- Continued use of human drivers renders ride sharing services’ business models mostly unsustainable

1) In % passenger car sales; includes RoboCabs and private autonomous cars

Source: Global RB Mobility Revenue and Profit Pool Model, Lazard, Roland Berger
An increasing share of vehicles will be connected globally – Digitization as enabler for new business models and technologies

### Connected vehicles

**Connected vehicle forecast**  
[selected markets; % of vehicles sold]¹)

<table>
<thead>
<tr>
<th>Regions included</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; North America</td>
<td>41%</td>
<td>57%</td>
<td>95%</td>
</tr>
<tr>
<td>&gt; Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Japan/Korea</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Greater China</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Connectivity types**

<table>
<thead>
<tr>
<th>Type</th>
<th>2015</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smartphone-based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Connectivity and calculation power provided by smartphone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tethered</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Connectivity provided by smartphone</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Embedded</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Car with build-in telematics unit</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Drivers of growth**

- > Safety enhancement (E-Call)
- > Infotainment (entertainment, info, navigation services)
- > Advanced HMI (speech recognition)
- > Integration of virtual personal assistants
- > Over the air updates
- > New OEM service offerings
- > New business models
- > Autonomous driving

¹) Including embedded (SIM card on the car, ~50% of volume), tethered (SIM card on the smartphone, ~20% of volume) and smartphone-based (calculating power in the smartphone, ~30% of volume) systems, excl. OBD dongle-based connectivity – Share considers only North America, Europe, Japan/Korea and Greater China; ²) Calculation power/functionality

Source: Auto2X, IHS, Lazard, Roland Berger
However, improved internal & external connectivity will make modern vehicles vulnerable to an increasing number of cyber threats.

Cybersecurity threat vectors

Internet based attacks
- 4G/5G
- E-Call

Hardware attacks
- OBD II port
- Direct ECU attacks

Sensor attacks
- GPS sensor
- Radar sensor
- Other sensors

Near-field wireless attacks
- Bluetooth
- WiFi
- DSRC
- Remote key

Action items for holistic security concept

Secure processing (secure boot, run-time integrity, OTA updates)

Secure network (message authentication, CAN ID killer, distributed intrusion detection)

Secure gateway (domain isolation, firewalls/filters, centralized intrusion detection)

Secure interfaces (secure M2M authentication, secure key storage)

Source: Company information, Interviews with market participants, Lazard, Roland Berger
Electrification in Japan and North America mainly achieved through HEV technology so far, whereas China more focused on BEV/PHEV

Global light vehicles xEV\(^1\) sales volume by region, 2016 ['000 units]

<table>
<thead>
<tr>
<th>Region</th>
<th>USA</th>
<th>Europe(^2)</th>
<th>China(^3)</th>
<th>Japan(^3)/South Korea</th>
<th>RoW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,475</td>
<td>526</td>
<td>416</td>
<td>1,154</td>
<td>10</td>
</tr>
<tr>
<td>USA</td>
<td>284</td>
<td>15% (76)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>17% (89)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>25% (104)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>27% (98)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe(^2)</td>
<td>464</td>
<td>15% (41)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>17% (95)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>23% (32)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>8% (32)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China(^3)</td>
<td>621</td>
<td>15% (132)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>23% (95)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>8% (32)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>65% (239)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan(^3)/South Korea</td>
<td>1,104</td>
<td>4% (41)</td>
<td>39% (455)</td>
<td>57% (652)</td>
<td></td>
</tr>
<tr>
<td>RoW</td>
<td>10</td>
<td>0% (6)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

HEV – Mild and full hybrid electric vehicles; BEV – Battery electric vehicles; PHEV – Plug-in hybrid electric vehicles; xEV – Class of electrified vehicles from mild hybrids to battery electric;
1) Excludes fuel cell electric vehicles; 2) Including Russia and Turkey; 3) China/Japan sales data includes only domestically produced xEVs

Source: MarkLines, Press Research, RB xEV forecast model, Roland Berger
Powertrain electrification adoption will be influenced by push and pull factors that have different levels of influence by region

Drivers for global powertrain electrification

<table>
<thead>
<tr>
<th>United States</th>
<th>Europe</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Future widespread adoption of xEVs to be driven primarily through a TCO(^2) advantage compared to ICE vehicles</td>
<td>&gt; Tightening CO(_2) fleet emissions targets</td>
<td>&gt; xEV adoption will largely follow China’s announced targets for NEV(^3) and FH/MH(^4)</td>
</tr>
<tr>
<td>&gt; Depends on the evolution of fuel and battery prices, taxes, incentives, etc.</td>
<td>&gt; ICE registration bans (e.g., Norway, Netherlands)</td>
<td>&gt; Environmental concerns drive city-level plate limitations for ICE</td>
</tr>
<tr>
<td>&gt; Increasing offer of desirable electrified vehicles in premium segments</td>
<td>&gt; Environmental city access restrictions permitting only low- or zero-emission vehicles (e.g., London, Paris)</td>
<td>&gt; TCO(^2) advantage only becomes a dominant factor from 2030 onward</td>
</tr>
<tr>
<td>&gt; Tightening regulations will be the dominant factor in CARB 177 states</td>
<td>&gt; TCO(^2) advantage only becomes a dominant factor from 2030 onward</td>
<td>&gt; Subsidies to promote market development are present but declining</td>
</tr>
<tr>
<td>&gt; City level emissions regulations not yet a major contributing factor</td>
<td>&gt; Incentives and tax advantages are present but declining</td>
<td></td>
</tr>
</tbody>
</table>

**Main driver**

- **Economics/ Total cost of ownership**
- **Regulation**

**Scenario variable(s)**

- Oil price
- CO\(_2\)/km target in 2025
- CAFC\(^5\) and NEV\(^3\) balances

Source: Lazard, Roland Berger

1) Besides shown factors, all regions will be influenced by the emergence of automated driving with convergence on mobility (especially electrified RoboCabs) and appeal to consumers through performance and image

2) Total cost of ownership

3) New energy vehicle

4) Full Hybrid / Mild Hybrid

5) CAFC - Corporate average fuel consumption
Lower battery costs and potentially rising oil prices may drive electrification penetration in the United States to ~ 20% by 2025

USA – New sales\(^1\) propulsion share [2016-2025; m units; % of sales]

### High xEV scenario
- Oil: 65 USD/barrel | Battery cost: low
- 2016: 17.6% BEV, 7% PHEV, 2% FH, 97% ICE & MH
- 2020: 17.2% BEV, 6% PHEV, 2% FH, 90% ICE & MH
- 2025: 16.8% BEV, 11% PHEV, 3% FH, 80% ICE & MH

### Mid xEV scenario
- Oil: 55 USD/barrel | Battery cost: medium
- 2016: 17.6% BEV, 3% PHEV, 2% FH, 97% ICE & MH
- 2020: 17.2% BEV, 3% PHEV, 2% FH, 93% ICE & MH
- 2025: 16.8% BEV, 7% PHEV, 2% FH, 88% ICE & MH

### Low xEV Scenario
- Oil: 45 USD/barrel | Battery cost: high
- 2016: 17.6% BEV, 2% PHEV, 2% FH, 97% ICE & MH
- 2020: 17.2% BEV, 2% PHEV, 2% FH, 95% ICE & MH
- 2025: 16.8% BEV, 2% PHEV, 2% FH, 92% ICE & MH

---

\(^1\) Passenger cars and light duty trucks

Source: US EPA, IHS, RB xEV forecast model, Roland Berger

BEV – Battery electric vehicles; PHEV – Plug-in hybrid electric vehicles; FH – Full hybrid vehicles; ICE & MH – Internal combustion engine & mild hybrid vehicles; xEV – Class of electrified vehicles from mild hybrids to battery electric
Electrification in Europe varies depending on CO₂ emission targets – Share could reach between 20% a. 32% for 2025

EU28¹ – New sales² propulsion share [2016-2025; m units; % of sales]

High xEV scenario
75 g CO₂/km in 2025 (100% target)

Mid xEV scenario
75 g CO₂/km in 2025 (95 % phase in)³

Low xEV Scenario
75 g CO₂/km in 2025 (90 % phase in)³

BEV – Battery electric vehicles; PHEV – Plug-in hybrid electric vehicles; FH – Full hybrid vehicles; CNG/LPG – Compressed natural gas/liquefied petroleum gas vehicles;

MD – Mild hybrid vehicles; xEV – Class of electrified vehicles from mild hybrids to battery electric

1) Incl. UK; 2) Passenger cars and light commercial vehicles; 3) The top 95/90% of the fleet need to meet the target; 95 % ≈ 80 g CO₂/km; 90 % ≈ 85 g CO₂/km

Source: EEA, IHS, RB xEV forecast model, Roland Berger
China NEV market with significant growth forecasted; neutral NEV and CAFC balance with a 13% BEV and 4% PHEV share in 2025

China – New sales propulsion share [2016-2025; m units; % of sales]

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Share 25% Higher</th>
<th>Share 25% Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>High xEV scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26.8% in 2016</td>
<td>30.3% in 2020</td>
</tr>
<tr>
<td>Mid xEV scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26.8% in 2016</td>
<td>30.3% in 2020</td>
</tr>
<tr>
<td>Low xEV Scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26.8% in 2016</td>
<td>30.3% in 2020</td>
</tr>
</tbody>
</table>

### Electrification

BEV – Battery electric vehicles; PHEV – Plug-in hybrid electric vehicles; FH/MH – Full and mild hybrid electric vehicles; ICE – Internal combustion engine vehicles;
xEV – Class of electrified vehicles from mild hybrids to battery electric; CAFC – Corporate average fuel consumption; NEV – New energy vehicle

1) Within FH/MH, a significantly higher share is expected for 48V mild-hybrids

Source: MIIT, IHS, RB xEV forecast model, Roland Berger
Recent developments point towards an acceleration of the disruption caused by the four automotive megatrends

New **mobility** business models are poised to disrupt car ownership, personal mobility and goods logistics

The timeline for level 4/5 **autonomous** keeps accelerating as necessary economics, regulations and technology fall into place

In **digitization**, artificial intelligence offers almost limitless possibilities, while connectivity-enabled technologies reach mainstream application

Momentum for **electrification** is building among OEMs due to increasing regulatory pressure and accelerating technology advancement

Source: Lazard, Roland Berger
The automotive "end game" appears inevitable, yet the transition period is marked by a high level of uncertainty.

Scenario development (applicable to light vehicle)

Degree of change

North America
- High penetration of ride hailing in major metropolitan areas
- Technology leadership in highly automated driving
- Strong regulatory support

China
- Strong push and high maturity for electrification
- High penetration of ride hailing in major metropolitan areas
- Strong players pushing for autonomous driving
- Fast regulatory decisions

Europe
- High population density in cities ideal for RoboCabs
- Stringent emission regulation drives electrification
- Slow regulatory processes

Emerging markets
- Less stringent emissions regulations delay the growth of electric vehicles
- Growing adoption of ride hailing in major cities
- Autonomous driving is limited by lacking infrastructure and driving behavior

Source: Lazard, Roland Berger
Automotive suppliers will need to prepare for five distinct changes that will emerge on the road to the "end game"

Emerging changes impacting automotive suppliers

1. Vanishing growth
   - Stagnation in mature markets
   - Increased usage of shared mobility solutions

2. Accelerated change of technologies in focus
   - Increasing proliferation of electrified powertrains
   - Strong industry push for ADAS and connectivity solutions

3. Emergence of software as a key differentiating factor
   - Digital features determine value to the end-customer
   - Digitization offers new monetization options

4. OEMs encounter increasing investment needs and margin pressure
   - New technologies require substantial investments
   - OEMs challenged by new competitors

5. Valuation levels of commoditized suppliers might come under pressure
   - Outperformance of OEM valuation multiples might come to an end
   - Outlook of commoditized supplier sub-sectors might be seen more critical by equity investors as well as creditors

Source: Lazard, Roland Berger
Contents

A  The status
Record volumes and profits, but key markets are at a tipping point

B  The future
Upcoming automotive disruption will fundamentally change the industry

C  The challenge
Suppliers' traditional business will be questioned on multiple levels

D  The consequence
Automotive suppliers need to transform their business models

E  The Contacts
Roland Berger and Lazard Automotive teams

This document shall be treated as confidential. It has been compiled for the exclusive, internal use by our client and is not complete without the underlying detail analyses and the oral presentation. It may not be passed on and/or may not be made available to third parties without prior written consent from Lazard and Roland Berger.
The automotive disruption is creating specific challenges for automotive suppliers

Challenges for the global supplier base

1. Vanishing growth

2. Accelerated change of technologies in focus

3. Emergence of software as a key differentiating factor

4. OEMs encounter increasing investment needs and margin pressure

5. Valuation levels of commoditized suppliers might come under pressure

**Impact on suppliers**

- Vanishing growth will put current supplier business models at stake
- Technology shifts require suppliers to invest in new and old technologies in parallel
- Suppliers need to build up competencies fast
- Suppliers will face even higher cost pressure
- Commoditized suppliers will be under increasing pressure from their investor base to increase shareholder value

Source: Lazard, Roland Berger
Vanishing growth will put current supplier business models at stake
Overall growth is expected to stagnate and volumes might even decline in the long term in a shared autonomous world.

Short to long term growth perspectives [LV production; m units]

- **Recovery and sustained growth**
  - CAGR 3.5%

- **Short term**
  - Growth slow down
  - CAGR 2.4%

- **Mid term**
  - Growth stagnation
  - CAGR ~1-2%

- **Long term**
  - Emergence of shared and autonomous mobility

- Business as usual
- Shared mobility
- Disruptive scenario (RoboCabs)

- **Today**
  - 74.4

- **2015**
  - 88.8

- **2020**
  - 94.9

- **2025**
  - 101.9

- **2030/2035**

> Growth has recently being slowing down in mature markets

> In the future, supplier revenue growth will be determined more by the product portfolio and content per vehicle than by underlying production volume growth

> After 2025, a decline of overall production volumes might occur in a disruptive scenario

---

Source: IHS, Global RB Mobility Revenue and Profit Pool Model, Lazard, Roland Berger
The current supplier business model of compensating negative cost impacts with volume growth will no longer work.

Potential impact on typical supplier EBIT development [%]

As volume growth stagnates, suppliers will not be able to sustain their profitability through traditional means.

Assumptions:

- Average supplier EBIT 2017e
- 3.5% growth at contribution margin of 35%
- 1.2% LTA adjustment, material (1%), labor (2.5%) & other (1%) cost inflation
- At 5% of own value add
- At 2.5% of total labor cost
- At 1% of other cost
- At 1% of total material cost

Source: Lazard, Roland Berger
As a consequence, suppliers will need to look for different growth areas – Consolidation pressure will increase

Impact and consequences for suppliers

**Global production volume growth may decline in the long term**

> Suppliers need to ensure future growth by increasing their content per vehicle/expanding their product portfolio or by diversifying into other related or non-related areas

**Compensating cost increases with growth will no longer work**

> Suppliers traditionally used growth to compensate for cost inflation and price decreases (LTAs)
> However, overall growth might stagnate and global production volumes might decline in the long term with adoption of disruptive technologies

**Competitive pressure in growth areas will be high**

> Many suppliers put focus on technologies with growth potential, increasing competitive pressure in these segments
> Not all suppliers have the capability or competence or financial leeway to develop growth areas

Source: Lazard, Roland Berger
Technology shifts require suppliers to invest in new and old technologies in parallel.
Almost all vehicle domains will see a shift in growth focus over the next years – Disruption impact particularly high in powertrain

Impact of technology shifts by domain

### Disruption impact on current business

<table>
<thead>
<tr>
<th>Supplier domain</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Powertrain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chassis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exterior</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interior</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Next generation vehicle concept

- **Powertrain**
  - E-motors and power electronics
  - Battery systems
  - Simple 1-2 step reduction gears
- **Chassis**
  - Advanced driver assistance systems and autonomous features
  - Adaptive suspensions
  - Active steering and braking systems
- **Exterior**
  - Shifting material focus and growing importance of multi-material applications
  - Growth of non-structural composites
- **Interior**
  - New HMI / display technologies
  - Extended Infotainment solutions
  - Increased interior insulation (NVH)
  - Integration of electronics and surfaces

**Substantial new requirements for the supply base**

Source: Lazard, Roland Berger
Electric powertrain components to experience high growth rates at the expense of many traditional ICE components

Technology shifts – Powertrain

Background
> Increasing cost of ICE/exhaust treatment
> Mild and full hybrids aid in emissions improvement and enable ICEs with downgraded requirements
> BEV penetration rates increase driven by regulation, incentives and consumer demand

Technology trends – Winners
> Future powertrain architectures are electrified resulting in several fast growing domains:
  – E-motors
  – Inverters/power electronics
  – Battery
  – Battery cooling
  – 1-2 step reduction gears
  – Charging components

Technology trends – Losers
> Consequently, traditional ICE components and systems to experience below average growth rates:
  – Engine, camshafts, crankshafts, valves, lubricants
  – Exhaust, oil filters, alternators, ignition
  – Transmission, clutch gearbox, propeller shaft

Implications for suppliers
> ICE hardware commoditization
> Battery systems and electronics provide differentiation opportunities
> Limited potential in e-motors in part due to lower complexity vs. ICE

Source: Lazard, Roland Berger
The ADAS and AD component market will strongly grow providing an increasing revenue pool mainly for software focused suppliers.

**Technology shifts – Chassis**

**Background**
- ADAS offers several benefits to society and industry, including accident mitigation, congestion reduction, increased driving comfort and fuel efficiency gains

**Technology trends – Winners**
- Advanced vehicle control and sensor systems are the main benefactors of the shift to greater advanced driver assistance systems:
  - Advanced driver assistance systems and autonomous features
  - Adaptive suspensions
  - Active steering + braking actuators
  - E-Axles (as part of electrified powertrain)
  - Vision sensors (LiDAR, cameras)

**Technology trends – Losers**
- Meanwhile, traditional vehicle control systems are at risk for reduced market share:
  - Hydraulic steering systems
  - Traditional axles
  - Conventional suspensions

**Implications for suppliers**
- Hardware standardization / commoditization of traditional chassis components and systems
- Intelligent systems integrated with ADAS are expected to offer growth potential within respective domains (e.g., steering, suspension, vision systems, passenger safety systems)

Source: Lazard, Roland Berger
Emissions regulations push OEMs for increased lightweighting of body structures while ADAS and connectivity create new use cases

**Background**
- Shifting material focus and growing importance of multi-material applications
- New technology integration potential for enhanced safety
- New design possibilities due to missing ICE powertrain

**Technology trends – Winners**
- Advanced material components and advanced safety features offer potential in exterior components:
  - Non-structural composites
  - Increased usage of plastics
  - Side and rear view cameras and screens
  - Driving mode indication (autonomous vs. human driver)
  - Lock systems using cell phones

**Technology trends – Losers**
- Traditional materials and exterior components most at risk for lost share include:
  - Cast parts
  - Non-structural steel parts
  - Traditional side and rear view mirrors

**Implications for suppliers**
- Shifting materials competencies for non-structural components suppliers
- New use cases for intelligent exterior systems may offer differentiation potential particularly when paired with ADAS solutions

Source: Lazard, Roland Berger
Autonomous driving will drastically change interior designs and provide innovation and growth potentials

**Background**
- Growing importance of non-driving-related activities, such as infotainment, completing tasks while driving automated, eating and drinking
- Interior provides huge potential for innovation and continued growth

**Technology trends – Winners**
- New possibilities to design the interior of a vehicle by electric powertrain, connectivity and automated driving
  - New HMIs\(^1\) (Augmented reality head up displays, gesture recognition, haptic feedback) and integration of electronics and surfaces (OLED\(^2\) panels, curved screens)
  - Extended infotainment solutions
  - New design possibilities/requirements, e.g. luxury lounge seating or increased interior insulation (NVH\(^3\))

**Technology trends – Losers**
- Traditional interior components that might face lower demand
  - Analog instrument clusters
  - Buttons and switches
  - Conventional valves, pumps and compressors

**Key success factors**
- Successful translation of customer needs in product innovation
- Product differentiation
- Integration of E/E to ensure value creation

---

1) Human-machine interfaces; 2) Organic light emitting diode; 3) Noise, vibration and harshness

Source: Lazard, Roland Berger
Suppliers will need to commit resources to emerging technologies and in parallel navigate investments into current business

Impact and consequences for suppliers

**Investments in existing technology are still necessary**

- ICE advancement is indispensable for reaching emission targets
- Emerging markets still require conventional technologies
- Risk of losing market share too early and hence the ability to generate enough resources for impactful investments in new technology

**Strategies for non-growth business areas are needed**

- Harvesting/"Last man standing" strategies potentially including consolidation plays

**Expensive investments into new technologies**

- Limited availability of attractive targets with many potential suitors drives up the cost to pursue inorganic growth opportunities
- Many new technologies require extensive additions to suppliers’ existing capability set with limited specific talent and experience available for organic development
- New entrants from the consumer electronics space are committing extensive resources into developing new solutions, which increases the investment required to develop competitive offerings

Source: Lazard, Roland Berger
Suppliers need to build up competencies fast
With a vastly different set of features compared to today's vehicles, future cars will depend increasingly on software.

Software reliance of future vehicles [# of lines of software code]

- **18 m** – Boeing 787
- **18 m** – Google Chrome
- **45 m** – Microsoft Office 2013
- **62 m** – Facebook (excludes back-end code)
- **100-150 m** – Modern premium vehicle
- **~300 m** – Future vehicle (2030+)

> Some of the hardware components will be replaced with more streamlined design and improved software functionality – E.g. infotainment console

> The convergence of consumer electronics and the automotive industry leads to increased number of lines and higher complexity of the software code

> As vehicle software becomes the main differentiator, suppliers need to build up the necessary competencies to ensure future competitiveness.

Source: Git repository, Company websites, IEEE, Press research, Lazard, Roland Berger
Software companies are aiming at taking over ownership of the OEM interface by acting as system integrators.

Case study of software players as IVI integrators

1) In-vehicle infotainment

Source: Industry interviews, Lazard, Roland Berger
The new competencies are difficult to acquire and suppliers have to compete for talent with high tech giants and Silicon Valley start ups.

**Impact and consequences for suppliers**

**Software has become a main differentiation factor**

- Software related functions have become main differentiation criteria for car buyers
- Ascending technologies around ADAS heavily rely on software
- Software functionality increasingly substitutes hardware solutions

**Hiring of talent already very difficult for suppliers**

- IT and consumer electronics giants as well as start ups compete for similar (software) engineering talent
- OEMs are currently building up their capabilities around new technologies, increasing the fight for talent

**New culture necessary to successfully integrate new competencies**

- IT and consumer electronics industries with different innovation approach and product development processes

Source: Lazard, Roland Berger
Suppliers will face even higher cost pressure
OEMs will search for ways to cope with competitive pressure and upcoming investment needs, many of them affecting suppliers

### Cost and investment reduction efforts from OEMs

<table>
<thead>
<tr>
<th>OEM cost reduction levers (Selection)</th>
<th>Relevance</th>
<th>Implications for suppliers</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Classic levers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Procurement:</strong> OEMs will continue to expect price downs/LTAs</td>
<td><img src="https://example.com" alt="Low relevance" /></td>
<td>&gt; Strong OEM position, as many hardware parts will commoditize even more</td>
<td>-</td>
</tr>
<tr>
<td><strong>Structural setup:</strong> OEMs will optimize their footprint and overhead structure</td>
<td><img src="https://example.com" alt="Low relevance" /></td>
<td>&gt; No direct implications</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Complexity reduction:</strong> OEMs may reduce their model ranges and variants</td>
<td><img src="https://example.com" alt="Low relevance" /></td>
<td>&gt; Part standardization and volume bundling as consequence</td>
<td>-</td>
</tr>
<tr>
<td><strong>Disaggregation:</strong> OEMs move towards selective sourcing on component level</td>
<td><img src="https://example.com" alt="Low relevance" /></td>
<td>&gt; Increased transparency&lt;br&gt; &gt; Margin for system integration under risk</td>
<td>-</td>
</tr>
<tr>
<td><strong>Joint development:</strong> OEMs will reduce development efforts for certain technologies like Diesel</td>
<td><img src="https://example.com" alt="Low relevance" /></td>
<td>&gt; R&amp;D budgets at suppliers affected</td>
<td>-</td>
</tr>
<tr>
<td><strong>Outsourcing:</strong> OEMs may outsource captive production of non-differentiating hardware parts</td>
<td><img src="https://example.com" alt="Low relevance" /></td>
<td>&gt; Potential for additional business&lt;br&gt; &gt; Additional business might be declining in the long term</td>
<td>+/-</td>
</tr>
</tbody>
</table>

Source: Lazard, Roland Berger
Some OEMs move towards more selective sourcing on component level in order to benefit from hardware commoditization.

Example: Disaggregation of systems

- **OEM control of design**
  - Fit product design language
  - Reduce cost, raise quality

- **Rise of software content**
  - New features are SW driven
  - Opportunity to differentiate

- **Hardware commoditization**
  - Limited differentiation
  - Low cost of components

**Disaggregation of systems**
- OEMs moving from sourcing full systems to individual components
- Some European OEMs lead push for disaggregation, others expected to follow

**Integration of systems**
- Enables E/E architecture integration across vehicle systems
- Modularization of software supports possible convergence of different systems (e.g., IVI and ADAS)
- Possibly move towards software-as-a-service
- Interchangeability of suppliers increases
- OEMs may integrate or outsource the activity to Tier 1 suppliers

**OEM benefit to disaggregate**
- Increase cost transparency | Build up competency | Enable platform development
- Direct access to expert tier 2 suppliers | Reduce time to market

Source: Lazard, Roland Berger
The changing competitive environment and shifting differentiation criteria will challenge suppliers and increase cost pressure.

Impact and consequences for suppliers

**OEM face competitive pressure and high investment needs**

- OEMs will look for options to reduce their cost base and redirect investments into new technologies.
- New cost levers like standardization or disaggregation will increase pressure on suppliers.
- OEMs may decide to develop/produce future growth areas in-house (to protect their workforce).

**End consumer differentiation criteria are changing**

- End customers value connectivity and other digital features.
- Fleet customers aiming at Mobility as a Service have different requirements than private customers.

**New competitors are emerging and aiming at new growth pockets**

- Consumer electronics giants have set their sight on the automotive industry.
- Start ups from Silicon Valley and Israel are moving fast in technology development.

Further growing pressure on component prices

**Competitive pressure from disaggregation & standardization**

**Lower room for differentiation**

**Difficult access to data driven business models**
Valuation levels of commoditized suppliers might come under pressure
Over the past five years, the gap between the valuation of automotive OEMs and suppliers has widened in favor of suppliers.

Evolution of automotive OEM and supplier valuations

> Supplier valuation multiples have clearly outperformed OEMs over the past years.

> The valuation spread is currently at an all-time high – suppliers nearly trade at 2x the valuation of OEMs.

> OEM valuations appear to have factored in risks from disruptive trends – in contrast to supplier valuations.

Source: Factset, Lazard, Roland Berger

1) NTM = Next twelve months; 2) Excluding the distorting impact of the economic crisis (Jan-Dec 2009 multiples); 3) BMW, Daimler, Ford, General Motors, Honda, Toyota and Volkswagen; 4) American Axle, Autoliv, BorgWarner, Brembo, Continental, Dana, Delphi, Faurecia, Hella, Johnson Controls, Magna, Norma and Valeo.
Today's valuation multiples of suppliers are on average nearly twice the level of OEMs – However, this trend may reverse mid-term

Impact and consequences for suppliers

**Equity investors do not give traditional OEMs credit for their "Terminal Value"**

- Risk of market share loss to (potential) new competitors (e.g. Tesla, Chinese EV OEMs, Uber, et al.)
- Risk to lose profit pool share to new entrants from technology/software space
- Risk of too large workforce that is no longer fully utilized (e.g. component manufacturing)

**Suppliers on average unaffected so far – some even benefitting from disruptions**

- Changing OEM structure does not negatively affect suppliers
- New technologies required offer additional business potentials

However, trend may reverse for commoditized suppliers in the medium-term due to several risks

- Increasing insourcing from OEMs to protect in-house work force/alleviate impact from required restructuring in traditional technologies
- Increasing price pressure
- Further share gain of new market entrants from the tech/electronics industry
- Worsening financing terms/interest rates

Source: Lazard, Roland Berger
Contents

A  The status
Record volumes and profits, but key markets are at a tipping point

B  The future
Upcoming automotive disruption will fundamentally change the industry

C  The challenge
Suppliers' traditional business will be questioned on multiple levels

D  The consequence
Automotive suppliers need to transform their business models

E  The Contacts
Roland Berger and Lazard Automotive teams

This document shall be treated as confidential. It has been compiled for the exclusive, internal use by our client and is not complete without the underlying detail analyses and the oral presentation. It may not be passed on and/or may not be made available to third parties without prior written consent from Lazard and Roland Berger.
Automotive suppliers can consider 8 key elements in order to transform their business model.

Automotive supplier transformation toolbox

1. Strategy and portfolio
2. Product and technology
3. Operating cost base
4. Capital/Financing
5. Competencies & capabilities
6. Organization & governance
7. Partnerships
8. Cultural mindset

Source: Lazard, Roland Berger
Suppliers need to define their end-game strategy and rethink their product portfolio in order to capture future growth opportunities

Key questions and key takeaways for suppliers

**Key questions for suppliers**

> What is the impact of the disruptive trends Mobility, Autonomous driving, Digitization and Electrification on the current business?

> With the emergence of new technologies, will the current product portfolio still be balanced and provide sustainable growth in the long term?

> As growth prospects are going to differ by segment and even by component, which products will continue to grow and which will decline?

> Which new segments can provide growth opportunities that fit well with the essence of the current business, and are resilient to expected shifts in the competitive environment?

> Can a ramp-down strategy for a decreasing segment be financially viable?

**Key takeaways**

> Clear understanding of the impact of disruptive trends on the current business

> Product portfolio decisions have become key strategic topics

> Applicable generic strategies include
  - Diversification into growth
  - Divestment
  - Harvesting in shrinking areas ("Last man standing")

Source: Lazard, Roland Berger
Active consolidation and harvesting are often financially viable strategies – Future sources for growth have to be identified

Strategic decision matrix and portfolio growth options

1. Strategic responses to declining segments

<table>
<thead>
<tr>
<th>Competitive Position</th>
<th>Competitive Intensity</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>High</td>
<td>Consolidate</td>
</tr>
<tr>
<td>Strong</td>
<td>Low</td>
<td>Maintain leadership</td>
</tr>
<tr>
<td>Weak</td>
<td>High</td>
<td>Exit/Divest</td>
</tr>
<tr>
<td>Weak</td>
<td>Low</td>
<td>Harvest Ramp-down business model</td>
</tr>
</tbody>
</table>

> Before the industry disruption reaches a tipping point, suppliers should consider end-game strategies for their declining business areas

2. New sources for growth

- Diversify into other industries
- New technology segment
- New applications
- New geographies

- Step-out
- Core
- Adjacent
- Adjoining value-chain position
- New value-chain position

> Suppliers can expand into new offerings and end markets to provide outlets for growth
> Diversification into other industries leveraging current core competencies as an alternative

Source: Lazard, Roland Berger
Also in 2017 many suppliers have streamlined their portfolio or invested into further growth through M&A

Selected automotive supplier acquisitions, 2012-2017 (YTD)

<table>
<thead>
<tr>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bohong / Wescast Industries</td>
<td>Amtek / Neumayer Tekfor</td>
<td>Amtek/ Kaiser</td>
<td>AVIC Automotive/ Henniges</td>
<td>Freudenberg/ TBVC</td>
<td>Motherson Sumi Systems /PKC Group</td>
</tr>
<tr>
<td>Continental/ Freudenberg molded brake parts</td>
<td>Gentex/ JCI HomeLink</td>
<td>AUNDE/ Fehrer</td>
<td>China National Tire/ Firelli</td>
<td>Musashi Seimitsu/ Hay</td>
<td>Intel/ Mobileye</td>
</tr>
<tr>
<td>Continental/ Parker Hannifin MCS</td>
<td>Gentherm/ W.E.T. Automotive</td>
<td>AVIC/ Hilite</td>
<td>Continental/ Electrobit</td>
<td>Megatech/ Bosch Europe</td>
<td>Superior Industries/ Uniwheels</td>
</tr>
<tr>
<td>Delphi / FCI MVL</td>
<td>Grammer/ Niedec</td>
<td>Bosch / ZF Lenksysteme</td>
<td>Delphi/ Unwired Technology</td>
<td>Grupo Antolin/ Magna Interior business</td>
<td>Ningbo Joyson/ KSS</td>
</tr>
<tr>
<td>Grupo Antolin/ CML</td>
<td>Huayu Auto. Systems / Yanfeng Visteon JV</td>
<td>Lear/ Eagle Ottawa</td>
<td>Johnson Electric / Stackpole</td>
<td>Yinyi Group / Punch Powertrain</td>
<td>Luxshare / ZF Body Controls</td>
</tr>
<tr>
<td>Hebei Lingyun / Kekekt</td>
<td>Magna/ Behr</td>
<td>Nidec/ Honda Eleys</td>
<td>MAHLE/ Letrika</td>
<td>Valeo/ FTE Automotive</td>
<td>Fountain West/Bosch Mahle Turbo Chargers</td>
</tr>
<tr>
<td>Lear/ Guilford Mills</td>
<td>Ningbo Huaxiang / HIB Trim Parts</td>
<td>Ningbo Huaxiang / HIB Trim Parts</td>
<td>Magna/ Getrag</td>
<td>CIE Automotive / Grupo Amaya Telleria</td>
<td>KSS/ Takata</td>
</tr>
<tr>
<td>Metalsa / ISE Automotive</td>
<td>Tokai Rubber/ Anvis</td>
<td>Visteon/ JCI auto. electronics bus.</td>
<td>Mann+Hummel / Affinia</td>
<td>Valeo/ Ichikoh</td>
<td>Fujiin Dare Automotive/ Caracoustic</td>
</tr>
<tr>
<td>Nemak / JL French Automotive</td>
<td>Wangfeng/ Meridian Lightweight</td>
<td>ZF/ TRW</td>
<td>NGK Spark Plug/ Wells Vehicle Electronics</td>
<td>American Axle/ Metaldyne</td>
<td>Genuine Parts/ Alliance Automotive</td>
</tr>
<tr>
<td>Tupy / Cifusna</td>
<td>Wuhan Iron &amp; Steel/ThyssenKrupp TB</td>
<td>Wuxiang Group/ A123</td>
<td>Valeo/ Peiker Acoustic</td>
<td>Mecaplast/ Key Plastics</td>
<td>CIE Automotive/ Newcor</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>WABCO/ RH Sheppard</td>
</tr>
</tbody>
</table>

Key: Acquirer/Target
Note: Excluding financial sponsor led transactions. Some 2017 transactions are signed, but not yet closed
In addition, there is a trend towards spinning-off or separating businesses to reduce complexity and increase focus.

### Corporate spinoffs – Selected examples

**Honeywell Set to Spin Off 2 Units, but Keep Aerospace Division**

**Announcement date:** 10-Oct-2017

"Honeywell Plans to Spin Homes and the ADI Global Distribution Business, a ~USD 4.5B Business, and Transportation Systems (\[^{[1]}\]), a ~USD 3.0B Business, into Two Independent, Publicly-Traded Companies by End of 2018 [...] Prospective Honeywell Portfolio Consists of High-Growth Businesses with Strong Operational and Technology Synergies, Focused on Six Key End Markets [...] Independent Investment Decisions Will Position Spins to Thrive in Evolving End Markets."

*Honeywell press release (10-Oct-2017)*

**Autoliv eyes split of business into two listed companies**

**Announcement date:** 14-Sep-2017

"Autoliv initiates strategic review of separating its business segments, Passive Safety and Electronics [...] the intent is to create two publicly traded companies capable of addressing two distinct, growing markets with leading product offerings [...] if the separation takes place, the process is estimated to take around one year under most separation scenarios."

*Autoliv press release (14-Sep-2017)*

**Delphi to spin off powertrain business, focus on autonomy and EVs**

**Announcement date:** 03-May-2017

"Delphi Automotive PLC today announced its intention to execute a tax-free spin-off of its Powertrain Systems segment into a new, independent publicly traded company ("Powertrain") [...] the transaction, which is expected to be completed by March 2018 [...] represents an exciting opportunity for our businesses by creating two independent companies, each with a distinct product focus, a proven business model, and the flexibility to pursue accelerated investments in advanced technologies."

*Delphi Automotive press release (03-May-2017)*

**Johnson Controls to Spin Off Automotive Business**

**Announcement date:** 24-Jul-2015

"Johnson Controls announced today that it plans to pursue a tax-free spin-off of its Automotive Experience business. Following the separation, which is expected to close in approximately 12 months, the Automotive Experience business will operate as an independent, publicly traded company."

*Johnson Controls press releases (24-Jul-2015)*

"As two distinct publicly traded companies, Johnson Controls and Adient will be better positioned to capitalize on significant growth opportunities and focus resources on their respective businesses and strategic priorities."

*Johnson Controls press releases (03-Oct-2016)*

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1) Refers to turbocharger business

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Source: Press, Company information, Lazard, Roland Berger
Once the target product portfolio is selected, suppliers must reassess their long-term product and technology roadmaps.

Key questions and key takeaways for suppliers

**Key questions for suppliers**

- How do the product and technology roadmaps need to change to ensure differentiating innovations for selected growth areas, especially given that traditional hardware is increasingly becoming commoditized?
- Does the roadmap include new electronics and software driven features as key differentiators?
- Which new product and service offerings or business models that are enabled by new technologies and features should be included?
- How might the product portfolio decision change the company’s value chain role?
- Should the company deliberately seek to cover different parts of the value chain to extract critical differentiation value?

**Key takeaways**

- Articulation of differentiating vs. non-differentiating product factors is of critical importance.
- Electronics and software are key differentiators in future growth areas.
- Value chain shifts may involve competitors becoming customers or development partners.

Source: Lazard, Roland Berger
The disruption offers a unique opportunity for traditional suppliers to expand from selling hardware only to selling features and services.

Shift from hardware-only to software-enabled & service offering

Expansion options from traditional business models

Example: Steering Systems

Traditional mechanical system

Future BEV autonomous system

SW-enabled/active components

Passive components

Product

Service

Wheel

Column

Rack/Pinion

Power pack

EPS controls SW

Table-stakes

Electro-mechanical steering system (designed for ADAS integration)

Precision steering

Driving profiles stored in the cloud

On-demand driving "experience" downloads

Cybersecurity

OTA updates

Source: Lazard, Roland Berger
A lower operating cost base is necessary to cope with increasing competitive pressure, especially for decreasing segments

Key questions and key takeaways for suppliers

**Key questions for suppliers**

> To what extent will pricing be impacted by increasing competitive pressure from OEMs and new competitors?

> Will today’s structural cost (overhead, footprint, etc.) still be required in the future?

> Is the current product design or manufacturing setup appropriate given the decreasing differentiation on hardware parts?

> In the future, which activities will be core and which will be non-core?

> What new possibilities are available to lower operating costs (e.g., Industry 4.0)?

**Key takeaways**

> Cost efficiency as the only remaining differentiator in commoditized segments

> Complexity reduction is a main lever to unlock new cost saving potentials

> Strong cash flow generation will be important to finance future strategic moves

Source: Lazard, Roland Berger
Suppliers need to maximize cash generation from operations and rethink their investments into R&D and assets

Supplier performance improvement – Main levers and budget impact

Maximize resource generation (efficiency)

Reduce cost and improve output adapting to lower volumes and higher competitive pressure

Strategically allocate resources (effectiveness)

Generate additional cash by strategically focusing spending on the right products, investments and R&D activities

Reduce operational cost base

Strategically rethink cash allocation

Source: Lazard, Roland Berger
Additional financing needs for new growth areas and diverging business strategies demand a review of the current financing plan

**Key questions and key takeaways for suppliers**

**Key questions for suppliers**

- What is the best option to finance the pursuit of new growth areas?
- Does the financing plan consider any M&A transactions that are planned in order to build up new competencies and/or capabilities?
- Does the current financing structure provide enough leeway to allow investments into both existing technology and new technology at the same time?
- Are current lenders willing to provide financing for new growth areas?
- Are current lenders willing to finance ramp-down business segments?

**Key takeaways**

- A clear view on future financing needs is important
- Different end game strategies may exhibit unique financing requirements and distinct risk/return profiles
- Alignment of lender interests with business strategy is necessary
- New/additional pools of financing should be considered

Source: Lazard, Roland Berger
Suppliers increasingly consider IPOs to get access to new capital pools

### Selected European automotive supplier IPOs in 2017

<table>
<thead>
<tr>
<th>IPO Date</th>
<th>Company</th>
<th>Business Description</th>
<th>Country</th>
<th>Market Capitalization [EUR bn]</th>
<th>Primary Tranche</th>
<th>Secondary Tranche</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-Oct-2017</td>
<td>TI Fluid Systems</td>
<td>Fluid systems manufacturer</td>
<td>UK</td>
<td>~1.5</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>13-Oct-2017</td>
<td>Voltabox</td>
<td>Battery systems manufacturer</td>
<td>DE</td>
<td>~0.4</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>04-Oct-2017</td>
<td>Pirelli</td>
<td>Tire manufacturer</td>
<td>IT</td>
<td>~6.8</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>20-Jul-2017</td>
<td>Jost</td>
<td>Truck components manufacturer</td>
<td>DE</td>
<td>~0.7</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>07-Apr-2017</td>
<td>Gestamp</td>
<td>Body and structural parts manufacturer</td>
<td>ES</td>
<td>~3.2</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

### Development of global automotive supplier IPO volume [EUR bn]

<table>
<thead>
<tr>
<th>Number of IPOs</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.2</td>
<td>1.4</td>
<td>0.7</td>
<td>0.3</td>
<td>1.2</td>
<td>2.6</td>
<td>1.6</td>
<td>5.2</td>
</tr>
</tbody>
</table>

1) As of 19-Nov-2017; 2) Primary tranche refers to the sale of newly issued shares during an IPO (i.e. in order to raise capital); 3) Secondary tranche refers to the sale of existing shares during an IPO; 4) Including transactions with an IPO volume of >EUR 100 m; 5) As of 24-Nov-2017

Source: Bloomberg, CapitalIQ, Dealogic, company information, Lazard, Roland Berger
Success in new growth areas will require a new set of competencies and capabilities

Key questions and key takeaways for suppliers

**Key questions for suppliers**

> What competencies and capabilities will be needed in new technology growth areas that are driven by sensors, electronics and software?

> What are the current core competencies and capabilities of the organization?

> Which aspects of company fundamental knowledge or physical capabilities can be leveraged or bundled throughout the organization to develop future products and technologies?

> What are the remaining competency and capability gaps?

> What is the best set of options available to close these gaps: Building up competencies in-house, establishing one or more partnerships, and/or acquiring a company with the necessary competencies and capabilities?

> What is a feasible timeline to build up the required competencies and capabilities and how will this impact the company’s product and technology roadmaps?

**Key takeaways**

> New technology growth areas are driven by sensors, electronics and software

> Understanding the gaps between current and needed competencies and capabilities is vital

> Evaluation of internal vs. external options to close competency gaps should be on the corporate agenda

> External options like M&A and partnerships may provide time and cost advantages

Source: Lazard, Roland Berger
As an example, future leadership in vehicle dynamics requires closing gaps on new electronics and software capabilities.

### Conventional vs. advanced vehicle dynamics skills and capabilities required

<table>
<thead>
<tr>
<th>Conventional body controls</th>
<th>Advanced body controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundamental knowledge</td>
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<td>Motion control</td>
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<td>Fluid management</td>
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<td>Electro-mechanical actuation</td>
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<td>ADAS systems design</td>
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<td>Physical capabilities</td>
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<td>System design</td>
<td>System design</td>
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<td>Manufacturing efficiency</td>
<td>Manufacturing efficiency</td>
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<td>NVH management</td>
<td>NVH management</td>
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<td>Software modelling</td>
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<td>Mechatronics implementation</td>
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<td>ECU integration &amp; sensor fusion</td>
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<td>Sensors</td>
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> Leading vehicle dynamics systems and component suppliers of the future will be those who develop expertise in both conventional and emerging technologies.

> Gaining the competencies required may take on different forms, including:
- Investment to develop applicable skills already available in-house
- M&A
- Partnerships and alliances

Source: Lazard, Roland Berger
Organizational structure needs to accommodate the requirements of new business models

Key questions and key takeaways for suppliers

Key questions for suppliers

> Where should the organization allocate new technology development to have the strongest impact?

> What is a reasonable size for the new technology organization, considering new competencies and capabilities are required?

> Is a new business unit or even company necessary to separate the old from the new, as startups and new competitors act faster than the traditional supply base?

> Could an in-house "Think-tank" or start-up fund be viable alternatives to a new organizational unit?

> How does governance need to change in order to oversee new technology developments?

> Are traditional KPIs still valid in order to provide the necessary freedom and achieve the right results under the new circumstances?

Key takeaways

> Organizational structure is a key enabler for competency and capability build up

> New competitors and startups are shifting competitive dynamics and will challenge traditional organization structures and governance

> An in-house "Think tank" or an internal startup fund can be viable options

Source: Lazard, Roland Berger
Many suppliers will have to manage two fundamentally different business models under one roof – Organizational structure is key

Emergence of differing organizational requirements

**New technologies/"Start-up"**

- High visibility to senior leadership/CEO to ensure fast decision making and necessary support
- Bundling of necessary internal competencies in one place in the organization
- Facilitate add-on of additional external competencies
- Implement an innovation culture with agile principles
- Right growth focused governance model with new business metrics and objectives
- Shield the business from the "old way" of operating

**Old technologies/"Harvest"**

- High levels of product standardization to minimize the required investment levels for product development
- Target high levels of centralization of certain functions to reduce OPEX
- Create a culture focused on streamlined processes built around commoditized product
- Choose a governance model to optimize cash generation
- Export transferrable competencies to the New BU and legacy BUs that will be pillars for new growth

Source: Lazard, Roland Berger
Traditional suppliers will have to be more open to partnerships to effectively close competency gaps and enable innovation

Key questions and key takeaways for suppliers

<table>
<thead>
<tr>
<th>Key questions for suppliers</th>
<th>Key takeaways</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Which competencies or capabilities can be best provided by a partner in order to develop a new product or technology?</td>
<td>&gt; The complexity of new systems require a variety of capabilities rarely controlled by a single player</td>
</tr>
<tr>
<td>&gt; Which products and technologies are only technically and commercially feasible when jointly developed?</td>
<td>&gt; Shortened innovation cycles and the possibility to share investment costs make partnerships increasingly attractive alternatives to traditional in-house R&amp;D</td>
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<tr>
<td>&gt; How can innovation and product development be accelerated by teaming up with others and forming an innovation ecosystem?</td>
<td>&gt; Time is critical, as many partnerships have formed already</td>
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<td>&gt; Who can be a suitable partner, considering that sought after competencies often lie outside the traditional automotive industry?</td>
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<td>&gt; Is the organization ready to work with external partners on innovation?</td>
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<td>&gt; What is a suitable governance model for a partnership?</td>
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</table>

Source: Lazard, Roland Berger
Many traditional suppliers have already formed partnerships to jointly develop new technologies

Example of recent supplier partnerships

<table>
<thead>
<tr>
<th>Companies</th>
<th>Strategic rationale</th>
<th>Areas</th>
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<tbody>
<tr>
<td>Mahle/Faurecia</td>
<td>Collaboration on thermal management technologies for the cockpit of the future</td>
<td>Interior thermal mgmt.</td>
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<tr>
<td>Bosch/ Nikola Motor Company</td>
<td>Joint development of a powertrain based on truck eAxle technology</td>
<td>Powertrain eAxle</td>
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<tr>
<td>ZF/Hella/Nvidia</td>
<td>Collaboration to deliver self-driving technology with the NCAP safety certification</td>
<td>ADAS AI technology</td>
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<tr>
<td>Delphi/Intel1/BMW</td>
<td>Joint development to create an autonomous driving platform</td>
<td>Full autonomous car</td>
</tr>
<tr>
<td>ZF/Faurecia</td>
<td>Partnership to develop disruptive and differentiating interior and safety systems</td>
<td>ADAS safety &amp; interiors</td>
</tr>
<tr>
<td>Paccar/Nvidia</td>
<td>Collaboration on autonomous truck platform and artificial intelligence</td>
<td>ADAS AI technology</td>
</tr>
<tr>
<td>Continental/Nexteer</td>
<td>Develop advanced motion control, esp. braking and steering system integration</td>
<td>ADAS motion controls</td>
</tr>
</tbody>
</table>

1) Including MobilEye, acquired by Intel

Source: Press research, company information, Lazard, Roland Berger
A new cultural mindset enables the business model transformation

Key questions and key takeaways for suppliers

Key questions for suppliers

> Is the organization operating at the right level of risk and with enough focus on innovation to compete with new – and often more nimble – non-traditional competitors?

> Do teams have the necessary freedom and agility to pursue new technology topics, given that future automotive product development cycles will be much shorter than today?

> Is the current company culture attractive for new talent in future business areas?

> Has the company already transformed from functional silos towards cross-functional collaboration?

> Is company leadership at the forefront of a new cultural mindset?

Key takeaways

> Software and consumer electronics players have a different cultural mindset as compared to traditional automotive suppliers

> Providing the right company culture is important to attract talent in emerging technology areas

> Cultural mindset forms a critical foundation for any transformation efforts

Source: Lazard, Roland Berger
The cultural mindset has to be rethought along with the transformation of the business model

Cultural mindset transformation

**Status Quo**
- Focus on methods, processes and tools
- Tactics and pressure as drivers
- Limited initiatives
- Top-down decisions
- Implementation of defined changes
- Project orientation
- Problem orientation

**Transformation**
- Addressing existing mindsets and beliefs
- Motivation as driver
- Solution-driven
- Strategy-driven
- Change of framework
- Many connected initiatives
- Flat hierarchy, agile decisions
- Influence on the whole organization
- Reconfiguration and reinvention
- Result of many changes

**Past**
- Incremental processes

**Future**
- Change of working style

Source: Lazard, Roland Berger
Suppliers need to rethink their business model in order to be successful in the future

Summary: Key actions for automotive suppliers

1. Suppliers need to **rethink their strategy and product portfolio** in order to capture growth opportunities or consolidate the market around their existing portfolio.

2. Suppliers need to define a **long term technology roadmap** as well as their **strategic positioning in the value chain** regarding their product and service offering.

3. Suppliers need to implement a **new and lower operating cost base** and at the same time **ensure sufficient financing** for the upcoming transition.

4. Suppliers need to **build up new competencies and capabilities** and adapt their **organizational structure & governance** as well as **cultural mindset** to compete in the new technology areas.

5. Suppliers need to **build up new partnerships and leverage this ecosystem** to find new ways to innovate.

Source: Lazard, Roland Berger
Contents

A
The status
Record volumes and profits, but key markets are at a tipping point

B
The future
Upcoming automotive disruption will fundamentally change the industry

C
The challenge
Suppliers' traditional business will be questioned on multiple levels

D
The consequence
Automotive suppliers need to transform their business models

E
The Contacts
Roland Berger and Lazard Automotive teams

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Source: Lazard, Roland Berger
Roland Berger Automotive: A strong global team with more than 350 consultants dedicated to clients in the automotive industry

Roland Berger Automotive: More than 350 dedicated consultants globally

- Global team of more than 350 dedicated automotive consultants
- Over 400 clients in the automotive industry
- More than 2,000 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: ~65 bankers with strong senior expertise in the automotive sector

Selected closed transactions with Lazard involvement

- Anvis: Sale to Tokai Rubber Industries
- Chassix: Restructuring of the company
- Delphi: IPO of the company
- Dongfeng: Acquisition of a minority stake in PSA
- Fiat: Acquisition of remaining equity in Chrysler
- Gestamp: IPO of the company
- Harman: Sale to Samsung
- Honsel: Sale to Martinrea/Anchorage
- KPS Capital: Acquisition of Bosch Foundation Brakes
- Opel: Advising the German Ministry of Economics
- Pirelli: IPO of the company
- Pirelli: Sale of Camfin stake to ChemChina
- TBVC: Acquisition of remaining 50% stake by Freudenberg
- TI Fluid Systems: IPO of the company
- UAW: Restructuring of OPEB liabilities of GM, Ford, Chrysler
- Uniwheels: Sale to Superior Industries
- US Treasury: IPO of GM
- US Treasury: Sale of Chrysler stake to Fiat
- Via: Strategic investment from Daimler
- Volkswagen: Acquisition of a 49.9% stake in Porsche
- Wahler: Sale to BorgWarner
- ZF Friedrichshafen: Acquisition of TRW Automotive

1) In Korea, strategic alliance with Lazard Korea
Our global automotive supplier database encompasses the financial performance of ~650 companies – Valuable tool for benchmarking

Global Automotive Supplier Database
2000-2017e

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<tr>
<td>BorgWarner Inc.</td>
<td>3.7%</td>
<td>8.8%</td>
<td>40.7%</td>
<td>135.2%</td>
<td>74.9%</td>
<td>76.2%</td>
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- Comprehensive detailed supplier financial information clustered by product/domain focus, HQ regions, company size and business model

- Historical data back to the year 2000 on ~650 automotive suppliers from triad markets as well as from emerging countries

- Evaluation of historical performance against industry in more than 50 relevant financial KPIs

- Identification of best-in-class performance and ability to set relevant profitability targets within relevant peer group

Source: Lazard, Roland Berger
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