BLAZING THE TRAIL

German & French Automotive Suppliers

Mazars Survey 2013

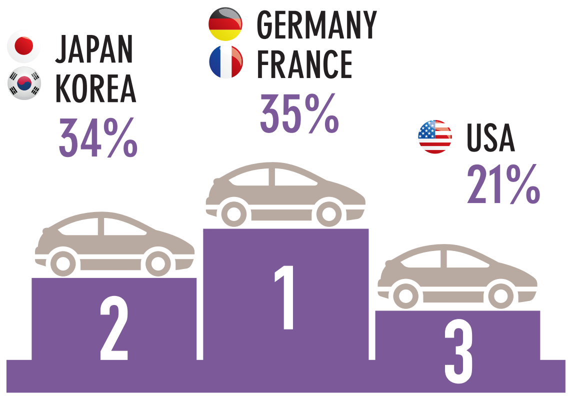
The European automotive industry has seen strong progress following encouraging results from German auto manufacturers and French auto suppliers. For the former, it is business as usual. For the latter, its remarkable growth has surprised many industry insiders.

French suppliers emerged from the global crisis with renewed vigor, reporting their highest stock market growth ever in 2013. Meanwhile, German suppliers now make up ¼ of the sales of top 100 suppliers when it was only 15% a decade ago. This study investigates the factors underlying this strong progress, and the trends for 2014 and beyond.

MAZARS

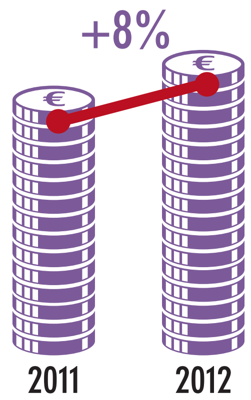
1. GENERAL CONTEXT

The key revenue figures below highlight the strong current state of the French and German auto industry. In line with its robust historical performance, the German auto industry solidified its position as a dominant global player over the past few years.



GLOBAL SHARE OF AUTOMOTIVE INDUSTRY

French and German auto manufacturers & suppliers generate **€724 BILLION** in revenues



IN 2012	Germany	VERSUS France
MANUFACTURERS REVENUES (billion)	€384	€97
SUPPLIERS REVENUES (billion)	€176	€67
WORKERS	1.6 M	671,000

PANEL & METHODOLOGY: For the purposes of this study, Mazars analyzed the financial results of 30 German and French auto suppliers, and conducted one-on-one interviews with 12 of those companies. Data was gathered from 2012 annual reports and press releases of our panel, media articles from *Bloomberg*, *Les Echos* and *Wirtschatswoche* as well as from independent specialists such as INPI, EPA, FIEV, VDA and CCFA.

0 TO 60 IN INDUSTRY NEWS

In today's brave new world, the way for automotive players to stand out from the competition is through innovation.

PURE PLAYERS

VALEO

Present for the first time at the 2014 Consumer Electronics Show (CES), Valeo showed its latest innovations in intelligent mobility: Automated Valet Parking (parking your car remotely), eye control systems (driving assistance system controlled by the eyes) and 100% LED lighting (Increased lifetime and reduced energetic consumption).

MITSUBISHI

#created a solar-cell spray from carbon compounds, a breakthrough that may revolutionize the car market. The first prototype only converted 10% of the energy into electricity, as opposed to the typical 20% conversion rate for regular solar cells.

BOSCH

#is creating an emergency breaking assistance system, preventing up to 75% of all rear-end collision.

MICHELIN

#is using sunflower oil in place of petroleum in its formulation of certain all-weather tires. This improves traction at low temperatures and short breaking distances in the wet.

EXTERNAL INCOMERS

CISCO

#Continental AG and Cisco have introduced a proof-of-concept connected vehicle that is equipped with highly secure and seamless network technology to meet the growing demands for connected vehicles.

SUNMOOV'

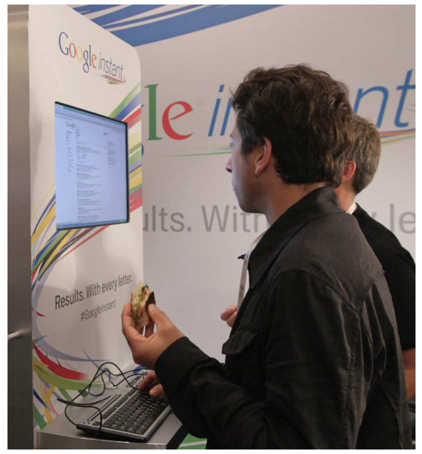
#is a shared electrical car service to be launched in Lyon in 2014. Only 30 minutes are required to charge the vehicle with solar energy and monthly plans will start at 12 euros, offering great value to city-dwellers.

APPLE

#was granted a patent for a new car dashboard that would make most of the manual controls in your vehicle digital, letting you control everything from the temperature to the radio station using a touch screen.

GOOGLE

#successfully tested an automated car that drove 300,000 miles with only one accident, a parking lot fender bender. That occurred when a human was driving.



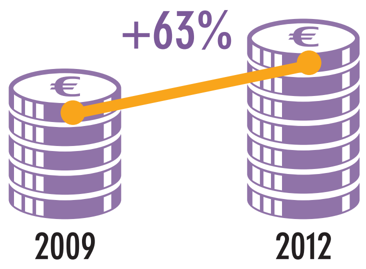
2. AUTOMOTIVE SUPPLIERS

PEOPLE

In 2012, French suppliers employed more people than French manufacturers, highlighting the opposing trends in the French auto industry. German suppliers hired twice as many people as French suppliers.

	Germany	France
MANUFACTURERS	931,000 employees	329,000 employees
SUPPLIERS	694,000 employees	342,000 employees

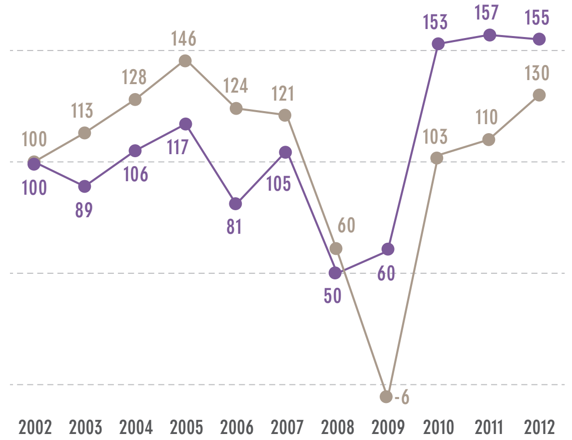
REVENUE



Between 2009 and 2012, French supplier revenues grew by 63% compared to only 18% for manufacturers. As a consequence, supplier contributions to the French auto industry increased from 33% to 40%. German suppliers did not reach the level of their French counterparts.

PROFITABILITY

EBIT Margin - Suppliers
(index 100 in 2002)



FRANCE: CAGR 4.5% | GERMANY: CAGR 2.7%

Not surprisingly, EBIT margin experienced a sharp decline during the global economic slump. Prior to the slowdown, German suppliers notably outperformed their French counterparts in terms of EBIT margin growth. However, French suppliers' profitability is increasing at a faster rate since 2009.

France gaining ground, Germany still on top

PERFORMANCE GAP CAUSES

The following sentiments are based on individual interviews conducted anonymously by Mazars with key decision makers in R&D departments of the automotive industry in Germany and France over the course of 2013.

#1 German suppliers driving innovation

"German suppliers generate additional income through patent-protected innovations." (Supplier, Germany)

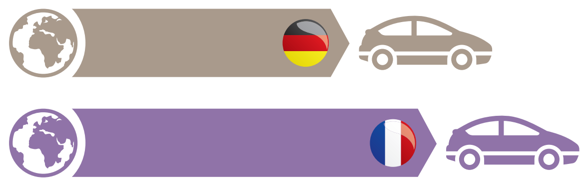
In 2012, Top 4 suppliers averaged…

799 patents (Germany)

272 patents (France)

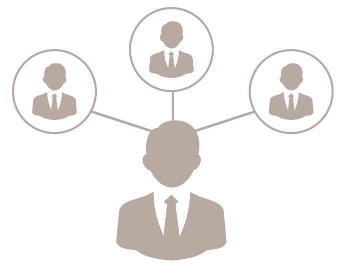
#2 French suppliers reach internationally

"The French have been forced to sell internationally, so we have benefited from increased sales in the United States and China. The Germans stay more local." (Supplier, France)



#3 Germans rely on efficient value chain management

"The German financial structure remains consistent even though major investments and strong working capital increases were made." (Supplier, Germany)



#4 Partnerships forged on innovation

Both countries are creating stronger links between suppliers and manufacturers. For example, Audi, Continental and Jenaer created a driving assistance and transport management system for cities.

#5 Disruptive newcomers

New disruptive technologies and business models are joining the automotive industry (examples: Cisco, Apple, Google).

3. FUTURE TRENDS

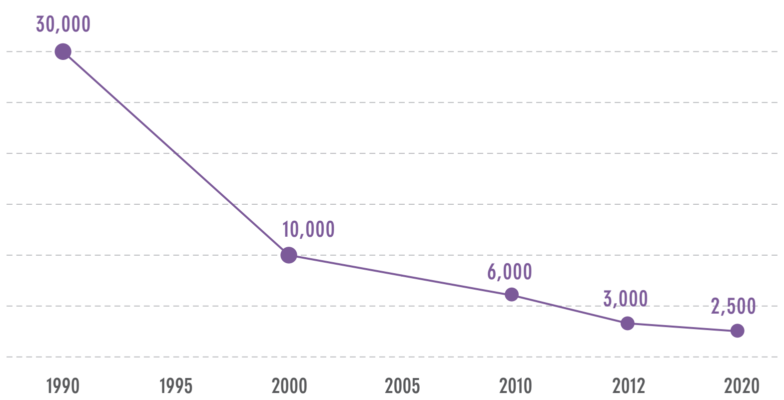
"EMERGING NEW BUSINESS MODELS IN THE AUTO INDUSTRY WILL INCORPORATE NEW PLAYERS FROM OUTSIDE TRADITIONAL SPHERES OF INFLUENCE. THESE DISRUPTIVE PLAYERS WILL DEVELOP INNOVATIVE WAYS OF COMMUNICATING, CLEAN WAYS OF DRIVING AND NEW SOURCES OF FINANCING."

Roland Schwientek,
Head of Automotive,
Germany

#1 CONSOLIDATION.

"Suppliers will continue to experience a high degree of market consolidation." (Supplier, Germany) From 1990 to 2012, the number of global suppliers reduced by 90%, dropping from 30,000 to 3,000. Following the 2008 economic crisis, suppliers looked for new ways to reinvent themselves, as globalization and pricing pressures pushed the industry toward further consolidation. Mergers and acquisitions continue today; economies of scale are increasingly viewed as a key success factor. By 2020, the number of global suppliers is expected to drop to only 2,500.

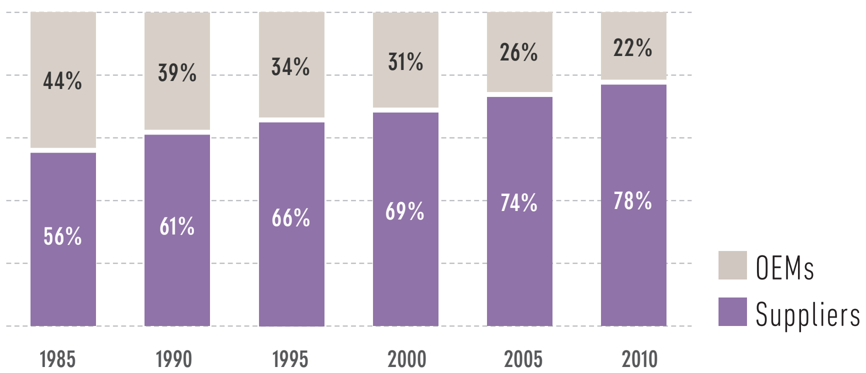
Number of suppliers



#2 SUPPLIERS' GROWING ROLE.

Despite, or perhaps as a direct result of this consolidation, the role of suppliers is increasing within the auto supply chain. In fact, suppliers are more essential than ever before. The percentage of passenger car value creation directly attributable to suppliers has been steadily increasing for decades. In 2010, this figure represented 78% of car value creation, a 13% increase over 2000 and a 39% increase over 1985.

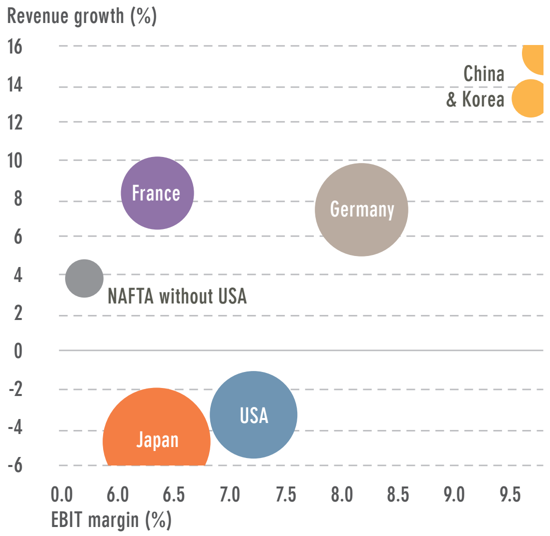
Supplier part in passenger car value creation



#3 NEW MARKET ENTRANTS.

"Chinese and Indian engineering companies are entering the German market through M&A." (Supplier, Germany) The auto industry continues to gain new market entrants from Asia. Despite strong French and German supplier growth, their Chinese and Korean counterparts have shown even greater increases in both revenue and EBIT margin. They are increasing competition in the sector and their arrival may be sooner than we expect.

Top 100 suppliers performance assessment

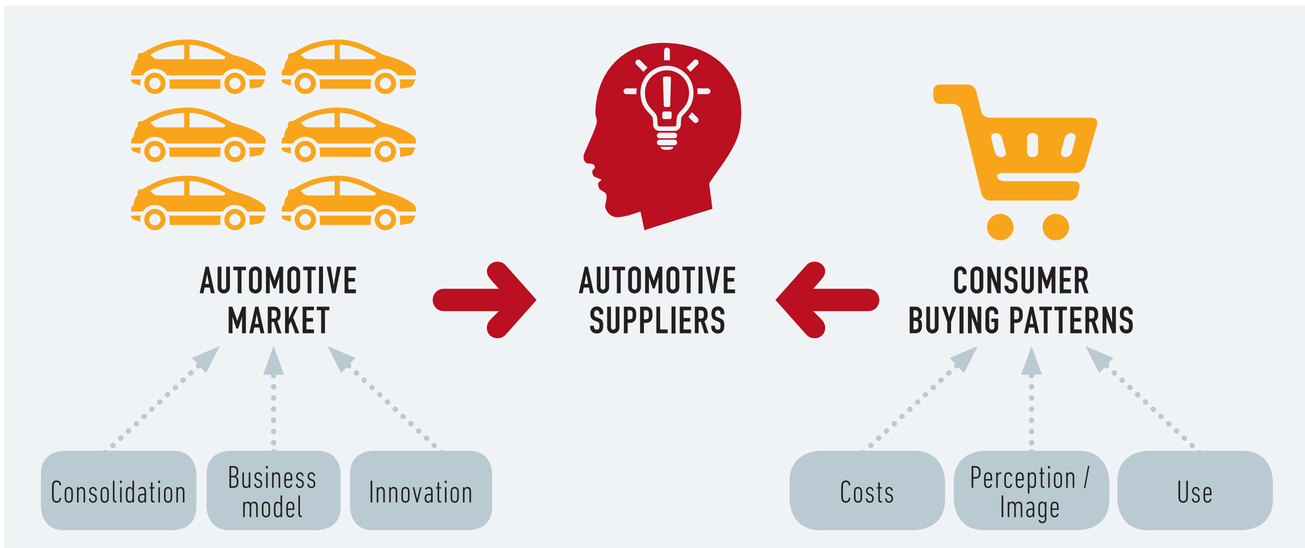


#4 INNOVATION.

"Efficiency, connectivity and safety demand new technologies. They enable technologically strong suppliers to market attractive products." (Supplier, Germany) Aside from cost, the top three concerns for car buyers today are pollution, safety and technology. Manufacturers should focus on lightweight, fuel-efficient vehicles, equipped with web-connected roadside assistance and multimedia components. Electric cars will continue to gain market share in 2014: France aims to put two million electric cars on the road by 2020. Meanwhile, the "Internet of Things" is unleashing a variety of connected objects that will be integrated into tomorrow's intelligent transportation solutions.

#5 NEW CUSTOMER NEEDS.

"New business models based on car sharing, integrated housing and mobility represent our main growth opportunities." (Supplier, Germany) To stay competitive, suppliers need to match their value proposition to customer needs. Buying patterns have shifted considerably over the past decade due to changing consumer attitudes and the financial crisis (the average age of a new car buyer is now over 50). Younger generations are opting for new solutions such as car sharing, a service that can be contracted over the Internet with insurance policies included. In Germany, more than half a million people used car sharing services in 2013.



THE ROAD AHEAD

"THE AUTOMOBILE MARKET IS GLOBAL AND INTERCONNECTED. IN RESPONSE TO THAT CHALLENGE, MAZARS HAS UNITED INTERNATIONAL AND MULTIDISCIPLINARY TEAMS UNDER ONE DEDICATED DEPARTMENT."

David Chaudat,
Global Head of Manufacturing

Today's suppliers are confronting far greater complexity than ever before. The industry is still rebounding from the 2008 financial crisis, the full impact of which is only now beginning to show. Looking ahead, we can expect new entrants from Asia to continue to gain market share amid increasing consolidation.

Meanwhile, manufacturers and suppliers are finding a wealth of opportunities in areas such as e-mobility, urban design and connectivity. Car buyers' legitimate concerns about the environment are fueling innovative and more efficient technologies.

Finally, suppliers will become increasingly influential in the auto supply chain, surpassing 80% of new car value creation in the coming years and contributing more to innovation and design. As a result, suppliers must attract and retain the brightest engineering and design talents, while developing key partnerships to push the boundaries of technological innovation and maintaining revenue growth.

Acknowledgement: We would like to thank the Mazars teams in France and Germany for their contributions to this report.

CONTACTS

David Chaudat
Global Head of Manufacturing
david.chaudat@mazars.fr

Grégory Derouet
Senior Manager
gregory.derouet@mazars.fr

Lionel Gotlib
Head of Automotive, France
lionel.gotlib@mazars.fr

Roland Schwientek
Head of Automotive, Germany
roland.schwientek@mazars.de

Floriane Haas-Falanga
Consultant
floriane.haasfalanga@mazars.de

Photos: Thinkstock