

Press release**Study by Roland Berger Strategy Consultants and Rothschild: Global automotive supplier industry is facing the biggest crisis ever**

- Analyzing data on 400 automotive suppliers, reviewing 2008 financial figures and interviewing 100 supplier executives worldwide
- Supplier revenues are down by 20% to 40%
- Average supplier profitability is at an all-time low, after excellent performance in 2007 and the first half of 2008
- 20 insolvencies in Germany between mid-November 2008 and end of January 2009; more than 300 suppliers in the triad markets in danger
- Crisis is a catalyst for consolidation; new strategic options for healthy suppliers are emerging

Munich, March 2009: Three concurrent developments are putting the global automotive industry under huge pressure: the global downturn in the car and truck market, the trend towards small and basic cars and the collapse of financing in the automotive industry. Overall, global car sales have declined by 3% in 2008. The triad markets NAFTA, Europe and Japan are being hit particularly hard. Volumes in early 2009 are 25-35% below 2008 – and car sales promotion programs in Europe will not have a sustainable impact. The result: 2007 volumes will not be achieved before 2012/2013. Although the small car segment grew even in 2008, luxury cars and SUVs lost ground dramatically. This downshift is having a significant impact on the market shares of individual OEMs. Profitability of automotive suppliers has reached an all-time low.

"Automotive suppliers are facing the biggest crisis ever," says Marcus Berret, Partner in the Automotive Competence Center at Roland Berger Strategy Consultants. "20 suppliers have already folded during the past 3 months in Germany and many more insolvencies will follow if production volumes don't improve significantly in the second half of 2009." The global automotive industry is currently facing three major disruptions simultaneously: Due to the global recession and the subsequent lack of consumer confidence, sales volumes dropped by 20-30% in mature markets. Even some of the BRIC countries are experiencing declining volumes. Second, due to CO₂ regulations and changing consumer preferences, small and basic cars are in much higher demand at the expense of larger vehicles. Finally, most companies in the automotive sector are facing extremely tough financing conditions

which are "squeezing their liquidity and reducing their ability to finance much-needed restructuring," says Thomas Kästele, Managing Director at Rothschild.

A global market downturn – Car sales collapsing

Overall, global car sales declined by 3% in 2008, mainly driven by a disastrous fourth quarter. Although markets in Russia and the Ukraine still grew by 16%, sales of new cars declined by 16% in NAFTA and 9% in Western Europe. Sales figures from January 2009 indicate a further acceleration in the downturn. "The 2007 volumes will not be reached again before 2012/2013," says Felix Mogge, Project Manager with Roland Berger. Several European countries have set up promotional programs to increase car sales. "We do not expect a sustainable impact from these programs," Mogge says. "The low-cost/low-end OEMs will see a short-term profit but we expect the result to be marginal for the premium OEMs."

Downshifting – Luxury cars and SUVs lost ground

As one aspect of the crisis, the mix of global car sales has changed: The small car segment continued to grow worldwide even in 2008 (6%), while luxury cars (-19%) and SUVs (-11%) lost ground dramatically. This downshift is having a significant impact on market shares of the OEMs: While almost all companies with a strong focus on the luxury and SUV segments lost market share, other OEMs more specialized in small cars even managed to grow sales – Skoda or Suzuki, for example, by around 10%. Even commercial vehicle sales are currently collapsing worldwide. Once attractive "niche" segments like trucks or construction vehicles are under unprecedented pressure. "We are seeing volume reductions of up to 80%," says Berret. "New order entries in Q1/2009 are close to zero."

Automotive supplier profitability has reached a historical low

Automotive suppliers are facing deteriorating financial performance. The bottom line is that global automotive supplier profitability collapsed in 2008 to around 3% EBIT margin (2007: 5.4%). "Looking ahead, we project an all-time low in 2009 with an estimated EBIT margin of around only 0%," says Berret. Unlike in previous downturns, suppliers are currently unable to compensate for the cash shortages from operations with new money injections from their owners or the capital markets. In addition, credit insurers are withdrawing coverage, making working capital management through factoring impossible. "Many suppliers are therefore asking their customers for liquidity support, but there won't be enough for everybody," notes Kästele. "Only system-critical suppliers who can demonstrate a sustainable business model will survive."

Supplier CEO and CFO priorities for 2009

To survive the crisis, suppliers must focus on two priorities: ensuring their short-term liquidity and restructuring their operations to reduce the massive overcapacity in the market. "Every crisis offers opportunities for those who are stable and have healthy performance," says Berret. There are quite a few segments of the industry that have many fragmented players and huge overcapacities. "Therefore, this historical crisis also offers chances for those suppliers willing to proactively implement vigorous consolidation and restructure their businesses and markets," says Kästele.

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