You can receive this press release and print-ready photos of our experts by e-mail. Please submit your request to pierre.deraed@oliverwyman.com

Joint press release from the VDA and Oliver Wyman

VDA (German Association of the Automotive Industry) and Oliver Wyman study on the automotive supplier industry

New automotive deal?

- **German suppliers can emerge from the crisis in a stronger position than their competitors**
- **Restructuring follows liquidity protection**
- **No profits forecast for 2009 and 2010**
- **Revenue of auto-industry suppliers plunged 35 percent in first quarter of 2009**
- **Automotive market will remain a growth market over the long term**

Frankfurt am Main/Munich, May 19, 2009 – **Suppliers around the world are feeling the full force of the crisis: During the first quarter of 2009, revenue plummeted 35 percent. No profits are expected to be generated this year or next. A decline of the global automotive production in a double-digit range must be reckoned with in 2009. On the basis of this estimate, supplier companies had reduced their workforce significantly through the end of March. These are the findings of a new study titled "Continuing Crisis or Rebirth of the Automotive Supplier Industry?" prepared by Oliver Wyman and the Verband der Automobilindustrie (the German Association of the Automotive Industry, VDA). The study also analyzed the current crisis, effective countermeasures and the restructuring of the supplier industry in Europe, Asia and North America. The basis of the study is a survey of 120 CEOs of the world's automotive supplier industry. To survive, companies must initiate a sweeping restructuring program once they have secured their liquidity. German suppliers have an opportunity to emerge from the crisis as winners. All long-range forecasts expect the automotive market will remain a growth market around the world.**

But the industry's long-range direction is being overshadowed at the moment by the economic crisis. Within the span of a few short weeks, the decades-long growth phase experienced in automaking vanished. Like a house of cards, sales figures collapsed country by country. The only tower of strength up to now has been the Chinese auto market. The German car market is being stabilized by an environmental premium provided by the government. Similar instruments are being used in other countries as well. They show that the purchase of a new vehicle remains a top priority for consumers.

Around the world, a drastic decrease in auto production is expected to occur in 2009. The cause of this collapse can be primarily traced to the financial market crisis. Since the crisis spread to the real economy, demand for new vehicles has plunged. The structural challenges of the highly consolidated sector are also intensifying the impact on automakers (OEMs).

No quick end of the crisis in sight

In the past six months, the crisis has hit the automotive supplier industry harder than automakers. Since November 2008, 31 companies have filed for bankruptcy in German-speaking regions alone. In the United States, around half of the 30 largest automotive suppliers, which have revenue of about $270 billion and more than 1 million employees, faces the threat of bankruptcy.

This is a contrast to the situation at the beginning of the crisis, when automotive suppliers were in a strong position. In 2007, suppliers generated earnings before interest and taxes (EBIT) of 6 percent. Despite the downturn experienced in the fall, suppliers concluded the year of 2008 with 2.9 percent growth in revenue and a positive EBIT margin of 4.3 percent. The first devastating impact of the crisis appeared in the first quarter of 2009. Revenue plunged by 35 percent – nearly all companies experienced losses.

The 120 top managers surveyed in the study “Continuing Crisis or Rebirth of the Automotive Supplier Industry?” reported that they had cut their number of employees significantly through the end of March. Added to this were a stop to the use of temporary workers, the expiration of fixed-term contracts and the introduction of a shorter workweek at 70 percent of supplier companies. By the end of 2009, 15 percent of the 7.4 million jobs provided by automotive suppliers around the world could be cut, especially abroad. Less than 5 percent of the companies will turn a profit. The entire sector’s losses will amount to 3 percent of revenue. A return to the level achieved in 2007 will be reached in 2014 at the earliest, forecasts show.

First priority: safeguard liquidity

Ninety-six percent of the surveyed CEOs said their highest priority at the moment was to secure liquidity. As a result, payment goals are being renegotiated, receivables collected, low-priority projects stopped and crisis-tackling task forces formed. In terms of personnel and non-personnel costs, all levers are being used to reduce spending without having to draw on cash reserves.

To keep a company in business, management, shareholders and employees are closing ranks. “Managers and employees are cooperating and sticking together,” says Klaus Bräunig, Managing Director of the German Association of the Automotive Industry. One critical area is considered to be a good relationship involving loan guarantees and soft-loan programs. But the suppliers agree that loan guarantees should be provided only to healthy companies. Any company that failed in recent years to efficiently run its business and remain competitive cannot expect to receive a helping hand from taxpayers. Tension is increasingly being experienced in the working relationship with public and private banks as well as with credit insurers. As a result of a general, high risk assessment of the automotive industry, many banks are reluctant to provide loans and are not prepared to expand or extend lines of credit at the previous conditions.

Restructuring is a must

But these steps will not be enough to manage the crisis. The sustainable decrease in sales volume and revenue is having devastating effects. “The measures being used right now like shorter workweeks are enabling companies to briefly catch their breath, but they are not a long-term solution," says Jan Dannenberg, Partner and supplier expert at Oliver Wyman. "For this reason, automotive suppliers are being forced to make significant structural adjustments in their cost structures." This can be done only within the context of operational restructuring. The priorities must be setting up crisis and turnaround teams, implementing cost-cutting programs, streamlining portfolios and lowering capital costs. Without a market revival, layoffs, plant shutdowns and the sell-off of individual company segments will soon be unavoidable. But even if such steps are taken, the bankruptcy facing some companies cannot be averted. The pressure from lenders is just too great. The surveyed CEOs expect that up to 500 of the world's 4,000 automotive supply companies with revenue of more than €20 million will declare bankruptcy by the end of 2010. In Germany, this could affect up to 70 companies, of which a large number could remain in business following a restructuring. In particular, suppliers owned by private equity firms frequently find themselves in an extremely precarious situation as a result of their high amount of leverage and the interest payments associated with it.

To successfully manage the crisis and correctly position companies for the next upswing, managers must take fast, decisive action. The study "Continuing Crisis or Rebirth of the Automotive Supplier Industry?" assigns recommended actions to three phases. In the last three to six months, the primary goal was to secure liquidity and assure delivery capability. The focus through the end of 2009 is to advance the new organization of the company within the context of a comprehensive restructuring program. It will not be until the beginning of 2010 that management will be able to give thought to the company's new direction over the middle term and introduce the necessary measures to improve competitiveness and to optimize market positioning.

"New automotive deal" or weakening of the value-creation structure?

Despite all of its negative effects, the crisis will ultimately strengthen the supplier industry. Weakened companies will drop out of the market; strong suppliers that have run into financial difficulties will be systematically acquired by competitors or investors. "OEMs and suppliers must determine how they will design their partnership in coming years," Bräunig says. Either they will try to jointly tackle the challenges as equals and develop new forms of partnership, or the relationship will be characterized by mistrust and short-term success strategies. "'New automotive deal' or a weakening of the value-creation structure," Bräunig says in summing up the challenges facing the sector.

The crisis will also fuel the creation of new business models. In one reflection of this, a polarization is expected to occur, giving rise to function-focused, innovation-driven business models for premium customers as well as low-tech and low-cost business models. The top managers surveyed for the study agree that the government should stand back and restrict itself to creating the necessary framework conditions. Many market players have the opportunity to emerge from the crisis in a strengthened position and expect to see as little distortion of competition as possible along the way. Today's important success factors, including customer focus, cost leadership and innovative power, will remain a top priority for companies. In addition, "soft" success factors like skills in entrepreneurial activities, exploitation of globalization and strong network ability are becoming increasingly important. The current degree to which the factors are being addressed shows how well supplier companies are positioned today. "As a result, German supplier companies have an opportunity to emerge strengthened from the crisis and begin a new chapter of growth," Dannenberg stresses.

The study “Continuing Crisis or Rebirth of the Automotive Supplier Industry?”

For the study “Continuing Crisis or Rebirth of the Automotive Supplier Industry?” Oliver Wyman surveyed 120 CEOs from automotive supply companies in Europe, Asia and North America between March and April 2009. The topics of the survey covered the current crisis, company countermeasures and the restructuring of the supplier industry. This work was augmented by broad secondary research and a financial analysis of the supplier industry. In this portion of the study, the key financial figures of 250 automotive suppliers were evaluated.

Points of contact

Eckehart Rotter
Head of the Press Department
Verband der Automobilindustrie (VDA)
Westendstraße 61
60325 Frankfurt am Main

Tel.: 069-97507-266
Fax: 069-97507-320
rotter@vda.de
www.vda.de

Pierre Deraëd
Head of Corporate Communications
Oliver Wyman
Marstallstraße 11
80539 Munich

Tel.: 089.939 49 599
Fax: 089.939 49 515
pierre.deraed@oliverwyman.com
www.oliverwyman.com/de

ABOUT THE VDA

Sustainable, modern mobility are the main objectives of the Verband der Automobilindustrie (the German Association of the Automotive Industry, VDA). The president of the association is Matthias Wissmann. The association nationally and internationally promotes the interests of the entire German automotive industry. Its approximately 600 members include automobile manufacturers, suppliers and manufacturers of trailers, special bodies and containers. The association represents its members' interests in all areas of the motor traffic industry, including economic and transport policies, technical legislation, quality assurance and taxation. In its work, the association places a special emphasis on the issues of the environment and climate protection. The VDA is also the organizer of international motor shows for passenger cars and commercial vehicles.

ABOUT OLIVER WYMAN

With more than 2,900 professionals in over 40 cities around the globe, Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com.

Oliver Wyman is one of the leading strategy consulting firms in the German-speaking world as well, with above-average growth rates. At Oliver Wyman offices in Munich, Frankfurt, Duesseldorf, Hamburg, and Zurich, 560 employees work for leading companies from the following industries: automotive, retail, manufacturing, financial services, aerospace, mechanical and plant engineering, media, telecommunications, and transport. They are supported by a worldwide network of experts, allowing us to put together the best possible team for every assignment.