

PRESS RELEASE

## **BERYLLS STUDY OF THE TOP 100 AUTOMOTIVE SUPPLIERS 2018: REVENUE SURPASSES THE PRIOR YEAR'S RECORD; PROFITABILITY DECLINES**

- Despite unfavorable conditions, 2018 proved to be a strong year for the world's 100 biggest automotive suppliers. Their total revenue grew by 7.6 percent to the record sum of € 889 billion. However, this tremendous growth was offset by declining profitability.
- As in previous years, first and second places were taken by Bosch and Continental, the market leaders in Germany. In fifth place came ZF, a total of 17 German companies made it into the top 100. Their average growth was 3.5 percent year on year.
- Chinese suppliers continued to strive upwards: the six companies represented in the ranking grew by 31.5 percent on average. The new entrant CATL jumped to position 71.

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**Munich, June 7, 2019 – For the eighth time, Berylls Strategy Advisors has analyzed the world's 100 biggest automotive suppliers for its Top 100 Suppliers Study. The changes in the ranking are serious; the sustained transformation of industry has had a huge effect over the last year. The prior-year record of € 827 billion is eclipsed by the € 889 billion revenue in 2018, though at the expense of profitability. Though the 17 German suppliers were able to demonstrate their profitability, with 8.5 percent EBIT/operating income, they declined in the ranking by two places on average. The Chinese, on the other hand, are only headed in one direction, namely upward. With six companies instead of four in the ranking, 31.5 percent average growth, 8.7 percent EBIT / operating income and an average improvement of 12 places, they are among the climbers of the year. The 19 US suppliers can also count 2018 as a successful year; the same applies to the Japanese companies, which, with 28 representatives in the ranking, formed the largest group once again. The situation is entirely different for Korean suppliers, who, following 2017, struggled with weak revenue again in 2018, compounded by lower profitability. Part of their business was again hampered by severe exchange-rate effects.**

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## **BOSCH, CONTINENTAL AND DENSO DEFEND THE TOP SPOTS; MAGNA PUSHES OUT ZF**

Places one to three appear to be set in stone. Bosch, with revenue of € 47.6 billion (Mobility Solutions division), remains securely at number one in Berylls's study of the top 100 automotive suppliers in 2018, followed by Continental (€ 44.4 billion) and the Japanese supplier Denso (equivalent to € 42.6 billion). The winners' rostrum has thus been in steady hands since 2016. As in 2017, place four is still contested between Magna (€ 34.6 billion) and ZF (€ 34.0 billion), which Magna can settle in its own favor. The change at this position is the only one among the top 15.

The dominant topics in 2018 were the uncertainties in the market, caused by a cooling of the Chinese economy as a result of the erratic US trade policy and the to and fro of the Brexit negotiations. Nevertheless, growth still received a strong impetus. The total revenue of the Top 100 from 2016 to 2017 only improved by 1.1 percent; it thus rose by an impressive 7.6 percent from 2017 to 2018. The result was a new record revenue of € 889.2 billion for the Top 100. However, the supplier industry did not negotiate 2018 entirely without skid marks. Among other things, high investments in future technologies, increasing labor costs at former low-cost sites and severe increases in raw materials prices in some areas led to declining profitability. EBIT or operating income deteriorated by one percentage point on average to only 7.7 percent. As in the prior year, the picture is affected by exchange-rate effects: Whereas the euro's appreciation had a negative effect on all companies outside the Eurozone in 2017, the effect was reversed in 2018. Exchange-rate effects particularly benefited the Japanese and US companies in the euro-denominated ranking.

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## **SIGNIFICANT CHANGES DUE TO M&A ACTIVITIES**

The M&A carousel is picking up speed; consolidation of the industry is gaining momentum and shaking up the Top 100. The sale of the Bosch starter division in the prior year to a Chinese consortium had caused a stir. This transformation continued in 2018 at significantly higher speed. In the world of classical combustion engines, Bosch, with over 1,000 patents, is becoming increasingly independent in the field of autonomous driving, and thereby taking a leading position in CASE technologies. Continental, at second place in the ranking, is even considering splitting into the "new" and "old" worlds. Denso, the global number three among the Top 100 in 2018, is also pushing ahead with its transformation and therefore recently acquired stakes in Infineon. Weichai Power, the strongest Chinese company in the Top 100 (place 20), is taking an exciting path in forming a strategic alliance with Ballard Power

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(manufacturer of automotive fuel-cell products). With the Schaeffler Venture Forum, Schaeffler is creating the basis for collaboration with start-ups and developing competence in autonomous driving by purchasing the South German SME Paravan.

In 2018, there were some notable examples of the rampant wave of M&A activities: In the US, Tenneco bought Federal Mogul; Calsonic Kansei of Japan acquired Magnetic Marelli from the Italian FCA Group. The Chinese supplier Joyson closed 2018 with the takeover of the insolvent airbag supplier Takata of Japan. GKN was taken over by the finance investor Melrose. The South Korean electronics specialist LG purchased the Austrian lighting specialist ZKW. Autoliv divested its electronics business, spinning off Veoneer (focus on lidar and radar components, among others). Honeywell completely spun off its Garrett turbocharger division, thereby, just like Johnson Controls, departing completely from the automotive business.

## CHINESE SUPPLIERS ON THE RISE

With total revenue of € 889 billion, the world's 100 biggest suppliers as a whole are looking back at a record year. But some companies stand out from the crowd with exceptional figures. As a national group, the Chinese deserve mention in this context, clearly differentiating themselves from other national groups with a growth rate of 31.5 percent and an average improvement of 12 places in the ranking. The battery specialist CATL and the electronics and safety specialist Joyson are once again outstanding here. At the other side of the Pacific, US companies are doing a good trade, growing by a considerable 13.1 percent on average and, with 9.5 percent, also showing the best EBIT / operating income. The large group of 28 Japanese suppliers in the ranking cannot keep up here, providing a very solid growth at 10 percent, but remaining below average in terms of EBIT/operating income. Unlike the Germans: the 17 companies - they still numbered 18 in 2017, but Aunde fell through the net - are impressive with 8.5 percent EBIT / operating income, and therefore lie clearly above the average 7.7 percent. However, this group was less successful with an average growth rate of only 3.5 percent.

For the Korean suppliers, it was even worse, though. They were already battling shrinking revenues in 2017, and nothing changed in 2018. Negative growth of 4.2 percent and only 4.3 percent in profitability (EBIT / operating income) ensure that the 6 Korean suppliers slip 3 places in the ranking. In 2018, they are not only suffering from challenging market conditions, but also considerably from exchange-rate effects, which are responsible for over 10 percent of the drop in growth.

## **WAS 2018 THE LAST RECORD YEAR FOR THE SUPPLIER INDUSTRY?**

The omens in early 2018 were not promising. Erratic US tariff policy, a weakening China, globally the most important sales market, Europe and the UK staggering toward Brexit, many OEMs hugely underestimating the new WLTP exhaust test cycle, and the anti-diesel mood among car buyers are obstacles to good business. Against all expectations, the 100 biggest automotive suppliers then recorded sturdy growth at the year end. Some 85 companies were still able to increase their revenues year on year. To be in the Top 100 club in 2018, at least € 2.9 billion revenue was necessary; 300 million more than in 2017.

The early months of 2019 show a very similar trend to spring 2018. Nevertheless, this year will not be able to continue the prior year's successes, since besides political issues, technical circumstances speak against further good years. Many companies are not able to perform the balancing act between boring, loss-making investment in CASE technologies (connectivity, autonomous driving, sharing and e-mobility) and declining operating earnings from the previous business. Suppliers with traditional modules focused on combustion engines are the losers in this upheaval. CASE is expensive, and until now has provided little, if any, economic contribution for the suppliers. This will only change slowly in the next decade. This challenge is not so relevant to the large corporations, such as Bosch, Continental and ZF, but also automotive suppliers with a CASE contact.

In addition, many large companies have very well-filled coffers following the profitable years 2010 to 2018 - a situation that will continue to pick up momentum as a result of industry consolidation. The momentum will be fueled by CASE technologies, which will be at the heart of the supplier transformation. And it seems that many Chinese companies are well prepared for this. They have the potential, within only a few years, to supplant established suppliers and drive them out of the Berylls Top 100. CATL is a current example of this.

The growth and market penetration of e-mobility - currently the primary CASE technology - are greater than in the rest of the world. That is why Chinese companies are continuing to buy suppliers in the West. However, suppliers with a commercial focus in the "old world" are losing their attractiveness day by day. They face difficult times.

**Berylls Strategy Advisors** is a top management consulting firm specialized in the automotive industry, with offices in Munich and Berlin, in China, in Great Britain, in South Korea, in Switzerland and in the USA. Its strategy advisors and associated expert network collaborate with automotive manufacturers, automotive suppliers, engineering services providers, outfitters, and investors to find answers to the automotive industry's key challenges. The main focus is on innovation strategies and growth strategies, support for mergers & acquisitions, organizational development and transformation, and profit improvement measures across the entire value chain. In addition, together with our clients, experts at Berylls Digital Ventures develop solutions for digitizing and transforming the business models of OEMs, suppliers, and engineering services providers. Longstanding experience, well-founded knowledge, innovative solutions, as well as an entrepreneurial mindset distinguish Berylls's consulting teams. Through partnerships with experts, Berylls can draw on in-depth technology expertise, a comprehensive understanding of the market, and powerful networks in order to develop workable solutions.

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