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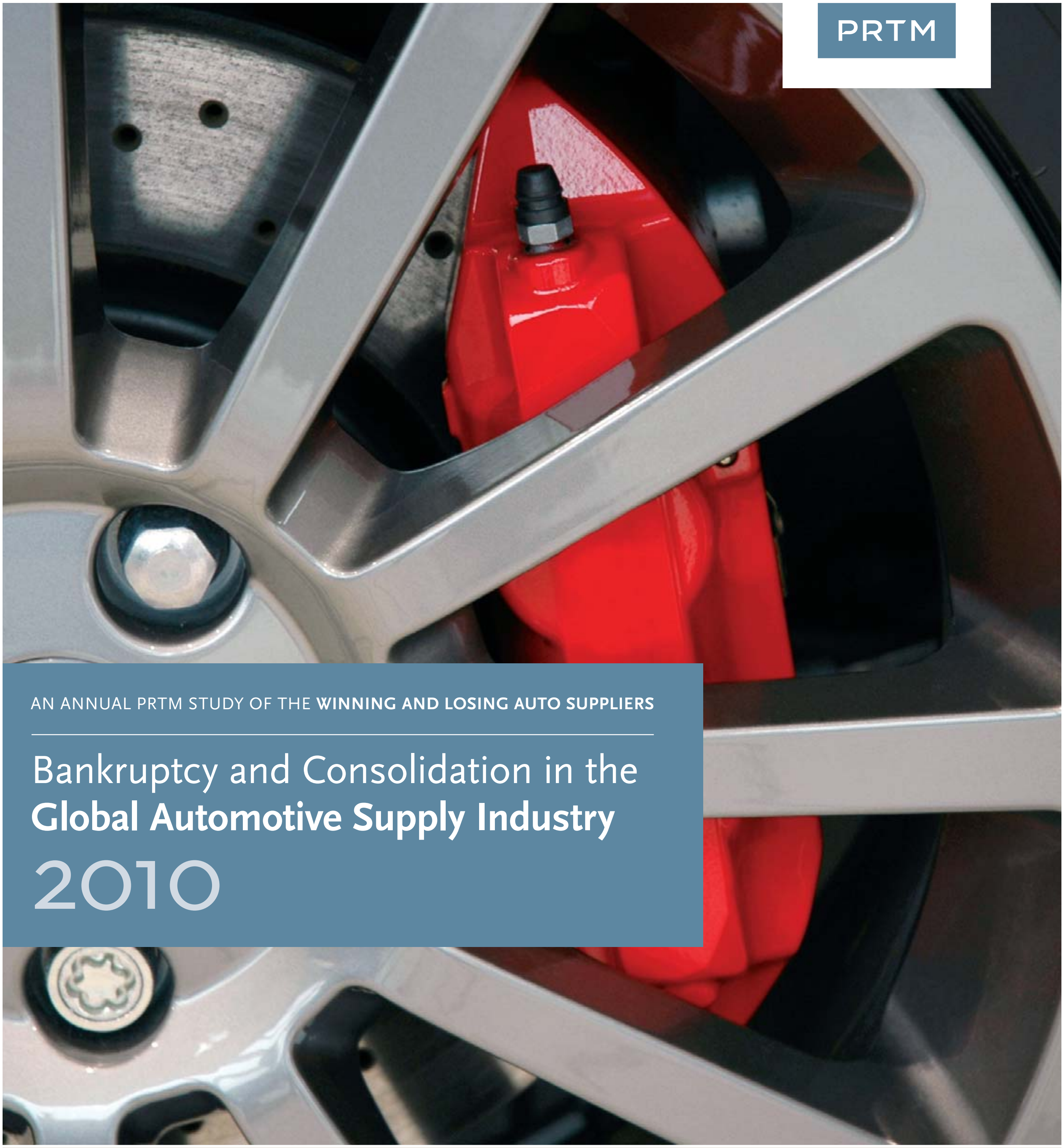

AN ANNUAL PRTM STUDY OF THE **WINNING AND LOSING AUTO SUPPLIERS**

# Bankruptcy and Consolidation in the **Global Automotive Supply Industry**

# 2010

Where Innovation Operates℠

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# Executive Summary

The worst of the global auto industry storm is over, but there is plenty of turbulence ahead for some sectors. Although bankruptcies have slowed, U.S. and European suppliers continue to be pressed hard as sales volumes shift to emerging markets. It will be years before auto sales in North America and Europe return to prerecession levels. This shift is further strengthening suppliers in China and India, giving them the financial clout they need to pursue their commodity strategies anywhere in the world.

With confidence growing in the auto industry in general, merger and acquisition (M&A) activity is accelerating, not only in the traditional hunting grounds of Europe and the U.S. but also in the Pacific Rim and elsewhere. As the M&A field has widened beyond Western nations' auto companies, more and more deals are consolidating assets across regions.

At the same time, the market's rebound and the prevalence of attractive acquisition targets have increased private equity's presence in the industry. A few new private equity players, together with several established firms, are snapping up undervalued assets and evaluating suppliers in still-fragmented areas of the industry, particularly in powertrain, chassis, and exterior subsystems.

To better understand what is happening in the industry and to identify which companies may fare better or worse than their competitors, PRTM studied 560 suppliers with aggregate revenues of US$2.14 trillion in 2009. This includes the 100 largest suppliers worldwide—referred to in this report as the "Global 100"—along with the next largest 460 suppliers from Europe, North America, Japan, and South Korea, as well as from fast-growing auto nations including Brazil, China, and India.

The resulting analysis underlined the strength of suppliers in emerging regions. Auto suppliers in India and Brazil are clearly expanding their influence. Chinese auto parts makers are becoming more visible and much stronger, especially now that China is the world's largest and fastest growing market for auto sales.

But perhaps the biggest surprise comes from mature markets. Japanese auto suppliers, showing lackluster results in last year's study, made a very strong comeback in 2010. And U.S. suppliers, having struggled through the drama that beset the North American auto industry, are in much better shape today—to the point where several are positioned to become acquirers. This contrasts sharply with last year's study, where U.S. suppliers were all but absent from the list of those most likely to be consolidators.

As in previous years, the study evaluates companies on the basis of their *buyer score*, that is, their financial and operational ability to acquire other suppliers or specific divisions of those suppliers. Importantly, this year we added a new metric, the *buyer attitude score*, which reflects a supplier's inclination to engage in M&A activity in the near future.

# Industry Backdrop:
# Recovery in Global Sales Volumes

### Uneven recovery favors suppliers invested in emerging markets

Between 2007 and 2009, plummeting sales in the U.S. and in several other countries drove down the global automobile market by about 15 million units (Figure 1). In the U.S. alone, vehicle volumes dropped to a 27-year low—a 40% fall from 2007. In some European countries, such as Germany, governments offered six times the incentives per capita as those offered in the U.S., in essence robbing from the future to stay afloat. Even with these incentives, however, overall light vehicle sales in Europe declined by more than 20% in those two years.

Now, with the biggest downturn in the industry's history behind them, automotive executives can now breathe a little more easily. The U.S. market, while depressed, is expected to grow 10% in 2010. European sales, though declining slightly in 2010, are predicted to tick slowly upward in 2011.

Emerging markets represent the real engine of global recovery. Sales of light vehicles in China in the first half of 2010 soared by an average of about 45% over the same period last year, and are likely to top 30% for the whole year. Even if the Beijing central government succeeds in throttling growth to a more sustainable rate, car sales are set to roar ahead at double-digit annual rates for years to come. The primary catalyst: the sheer volume of first-time buyers in China's many million-person cities and vast rural regions who now have an income level that allows them to buy their first four-wheeler.

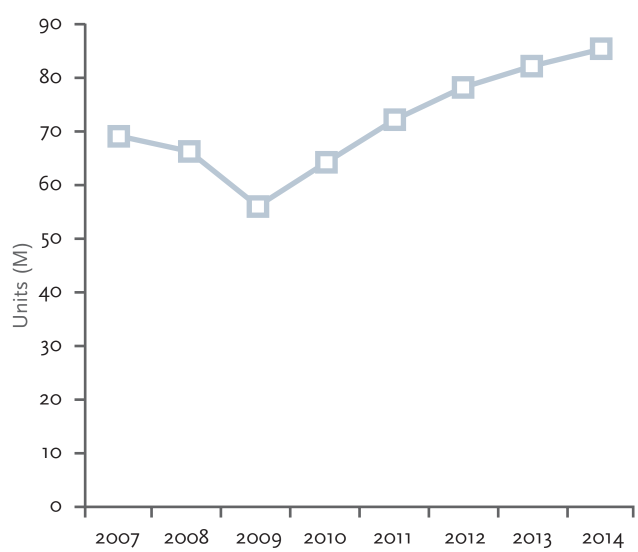
Solid gains in Brazil and India complete the story of sales volumes shifting steadily to tens of millions of new consumers in other parts of the world.

So how does this recovery look from the auto supplier's seat? For many of those heavily invested in North American and European original equipment manufacturers (OEMs), the picture is still somewhat bleak. U.S. credit markets remain tight, and OEMs are continuing to shrink their supplier bases. Major North American and European car makers are pushing for as few as 300 key suppliers per vehicle, with a few dozen of those designated as development suppliers—partners in designing the models that will be on the assembly lines by 2013.

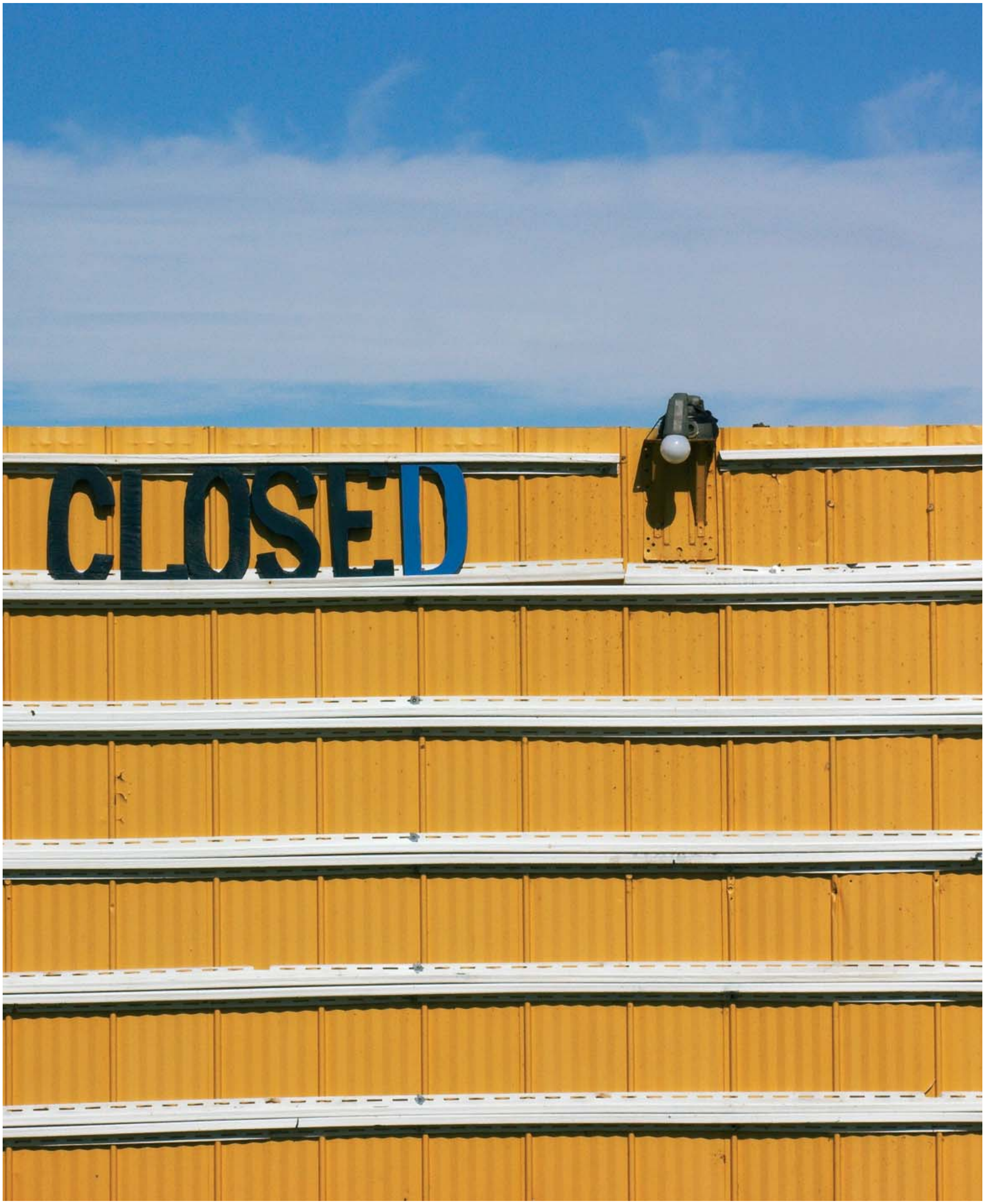
U.S. and European suppliers are reeling from the one-two punch of sales shifting abroad and the Detroit Three losing market share. These suppliers—at least those not heavily invested in China—are generally more vulnerable than their counterparts in the Pacific Rim. Japanese companies are gaining ground, thanks largely to the severe restructuring that most undertook last year and to the remarkable comeback that light vehicle sales in Japan have made this year. Suppliers from India and China are powering along too, as their regional sales volumes expand rapidly.

Geography is not the only determinant of how strongly a supplier is emerging from the recession; the company's subsystem focus is a major factor also. Chassis and powertrain suppliers, for example, are the most sensitive to volume risk, whereas electronics suppliers are relatively immune to this type of uncertainty. Risks are higher in any system or subsystem with high capital requirements for R&D and Manufacturing—seats or body sides, for example.

**Figure 1:** Global Automotive Sales of Passenger Cars and Trucks




*Source: PRTM Analysis*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# **Bankruptcies:** Slowing but Not Disappearing

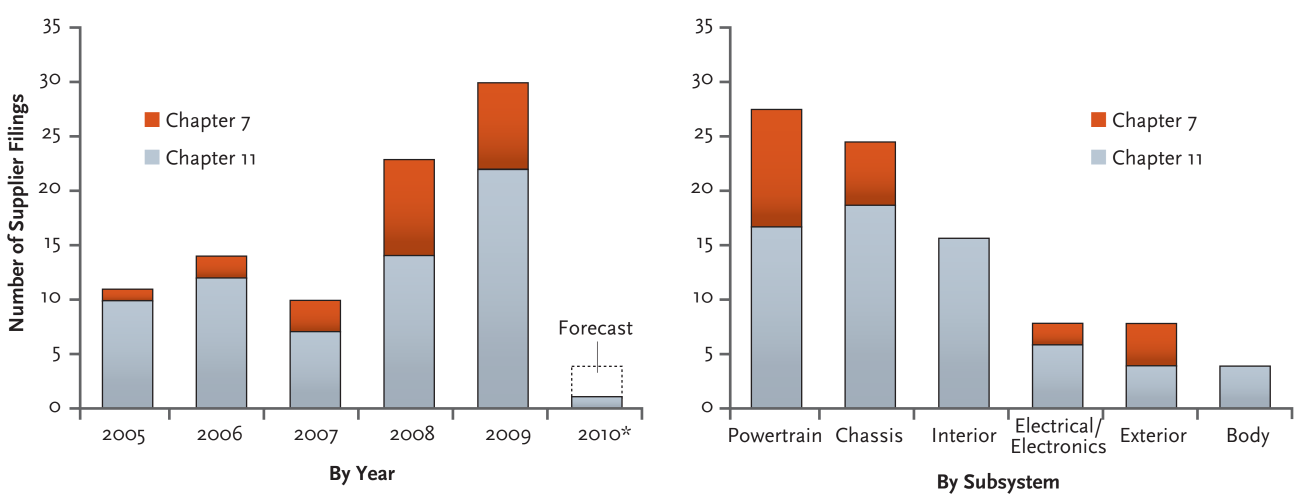
## Bailouts and OEMs' moves helped many U.S. suppliers, but European suppliers are still in danger

Worst-case scenarios for the recession predicted that many automobile suppliers would be swallowed up by bankruptcy. Many did go under in the U.S. in 2009—significantly more than in 2008. Particularly hard hit were those in systems with significant volume sensitivity, such as powertrain and chassis (Figure 2). Certainly, more North American suppliers would have experienced this fate if the U.S. and Canadian governments had not bailed out General Motors and Chrysler, or if the U.S. government had not initiated its $5 billion supplier-support program.

U.S. suppliers also took steps of their own to avoid bankruptcy. Many cut capacity to reflect their expected share of a North American market, producing five million fewer cars a year in 2011 than in 2007. Lowering their breakeven point has allowed these companies to turn a profit. At the same time, however, it has raised the risks of short-term capacity crunches in commodities and subsystems as North American demand rebounds broadly by about 10% this year—and skyrockets for some successful new models.

The convergence of these factors means that even though recovery remains halting and uneven, far fewer U.S. suppliers will declare bankruptcy in 2010 than in 2009 or 2008. In fast-growing markets such as Brazil, China, and India, auto suppliers' bankruptcies will not be an issue at all. But the same cannot be said of European suppliers: Supplier failures there will continue into 2011 as sales decline.

**Figure 2:** Auto Parts Bankruptcies in the U.S., 2005–2010




** For Jan–June 2010*

*Notes: Based on bankruptcy filings in the U.S. Includes OEM and aftermarket. Excludes tooling, engineering, and indirect services.*
*Source: Capital IQ, PRTM Analysis*

# **Mergers and Acquisitions:** Buyers on the Hunt

## The pursuit of distressed and undervalued companies speeds up

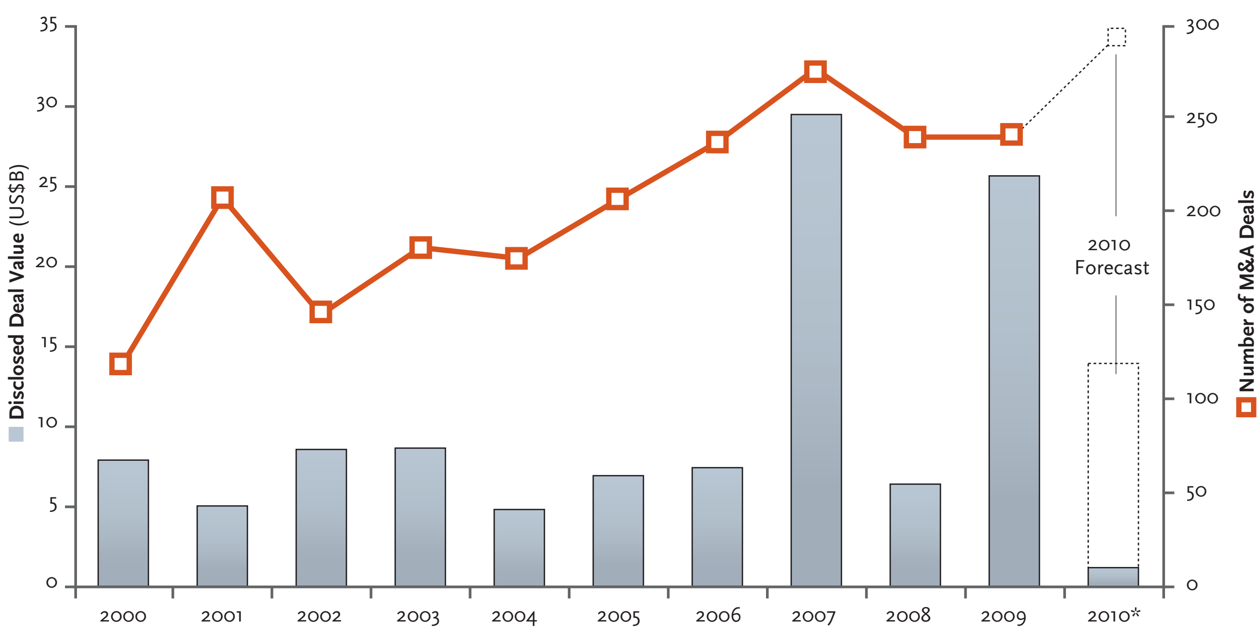
M&A activity is on the rise again (Figure 3). Although last year's deal volumes were inflated by the emergence of Delphi's core businesses from bankruptcy protection and by Schaeffler's hostile takeover of Continental, this year is shaping up to hit a record number of deals. The first five months of 2010 alone saw 108 automotive industry deals worldwide—a near-record level for that period of time.

The consolidation race is now on, and it has many new entrants. For the first time in the industry's history, the competition for underpriced assets and divestitures is truly global.

Three aspects of the consolidation race are especially interesting. First, private equity firms have become very active players. (See "Private Equity Wallets Open.") Second, Chinese and Indian suppliers are very much in the M&A game—as acquirers. Third, deal-making in the auto industry is no longer just a regional pursuit.

Recent examples of cross-regional activity are everywhere. In the past year, BeijingWest Industries

**Figure 3:** Number of Global M&A Deals and Disclosed Deal Value, 2000–2010




** Data for Jan–May 2010*

*Source: Thomson M&A, PRTM Analysis*

Group acquired 100 percent of Delphi's suspension business. Motherson Sumi bought Visiocorp, one of the world's largest makers of rearview mirrors, and Ruia Group acquired 60 percent of Henniges Automotive, the German sealing systems supplier.

Measured over the last decade, the changes are huge. In 2000, three-quarters of the M&A deals involved North American and European suppliers buying other suppliers in their "home" regions. But for all of 2010, PRTM predicts that only 48 percent of M&A deals will involve suppliers headquartered in those regions. Chinese and Indian players are expected to corner 15 percent of the deal flow in 2010, up from 2 percent in 2000.

Not surprisingly, intra-regional activity will be the predominant M&A pattern. Witness the 534 instances of North American suppliers buying other North American suppliers over the last decade—a cumulative total disclosed deal volume topping $50 billion—and 67 instances of Chinese suppliers buying other Chinese companies for an aggregate $1.3 billion in that time span.

Specific recent examples include: in China, Chongqing Mach & Electric's acquiring the remaining 51 percent of Qijiang Gear Transmission for $38 million; in Europe, Schaeffler's spending $9 billion to buy 49 percent of Continental; and in Mexico, Metalsa's acquiring 100 percent of Dana's structural body business for $150 million.

## Private Equity Wallets Open

Prior to the first half of this decade, few private equity (PE) financiers got excited about the global automotive industry. That stance has changed dramatically. Select PE players—firms such as Goldman Sachs, Platinum Equity, Patriarch Partners, Warburg Pincus, and Sun Capital—are taking advantage of depressed valuations with significant stakes. Just one example: Visteon's bondholders, Goldman Sachs, Oak Hill Advisors, and Silver Point Capital, acquired about 95 percent of the company in late summer 2010. Visteon has raised more than $1.3 billion by selling the shares to its bondholders.

## China Rising

Chinese auto suppliers grew at a compound annual growth rate of 14% a year from 2005 to 2009—notwithstanding 2009's difficulties. They increased profit margins by 30% from 2008 to 2009, hitting a record 14% EBITDA as a percent of sales in 2009. Although they may not be ready to consider the largest acquisition targets, companies such as Changchun FAWAY Auto, Ningbo Huaxiang Electronic, and FAWER Automotive Parts are among tomorrow's likely global consolidators.


OBJECTS IN MIRROR ARE
CLOSER THAN THEY APPEAR

# **Winners and Losers:**
# Time to Place Postrecession Bets

### A snapshot of which suppliers are hunting, which are divesting, and which are vulnerable

So which suppliers are likely to accelerate out of the postrecession era by making acquisitions? And which are most likely to stall?

Given the geographical differences in automotive sales volume, any evaluation of global consolidation patterns must begin at the regional level, looking at major trends (see "What's Changed Since 2009's Study?" on page 19).

It is also important to consider each region's average buyer score, a metric that reflects their financial and operational ability to make acquisitions. The average divestor and potential distress scores must also be taken into account. Within that context, it's possible to determine, supplier by supplier, the strongest consolidators, the probable divestors, and the financially distressed companies likely to become acquisition targets.

#### **Likely winners:** Those with the ability *and* the will to consolidate

A company's ability and willingness to make acquisitions will determine whether it is likely to consolidate in the years ahead. Companies with the ability to make acquisitions have a high buyer score and belong to the category termed *potential buyers*. Within the potential buyer group, there are a select number of companies that have the mindset to acquire. That is, in addition to having a high buyer score, they have a high buyer attitude score. The companies in this subset are *likely consolidators*.

**Potential buyers—**Have the financial and operational strength to make acquisitions, as measured by buyer score

**Likely consolidators—**Are potential buyers with the mindset needed to make acquisitions, as measured by buyer score *and* buyer attitude score

***Potential buyers.*** As Table 1 demonstrates, the Japanese as a group have the highest buyer scores and therefore rank highest as potential buyers. They have shown strong EBITDA growth as a result of aggressively managing their costs while benefiting from this year's strong rebound in vehicle sales in Japan.

North American suppliers come in second. An improvement in their buying scores from last year suggests their performance has stabilized somewhat following the publicly funded OEM bailouts.

Chinese suppliers rank third highest as potential buyers. Their year-on-year surge in sales (see "China Rising") contrasts sharply with the slump experienced by European and North American suppliers in 2009—a sales drop of 18 and 24 percent, respectively. The contrast is even greater in regards to profits: Chinese players pushed 2009 margins 30 percent higher than 2008's figures, while margins for European and North American companies fell by the same percentage.

***Most improved buyers.*** The buyer scores of the Global 100 as an aggregate have improved markedly

**Table 1:** How Suppliers Compare by Region

| | # of Companies | Buyer Score | Divest Score | Potential Distress Score |
|---|---|---|---|---|
| Brazil | 15 | 4.7 | 5.2 | 5.5 |
| China | 53 | 5.2 | 4.9 | 4.6 |
| Europe | 159 | 4.8 | 5.5 | 5.7 |
| India | 46 | 4.7 | 4.9 | 5.2 |
| Japan | 122 | 5.5 | 5.3 | 5.3 |
| N. America | 107 | 5.3 | 5.3 | 5.2 |
| S. Korea | 55 | 4.2 | 5.0 | 5.3 |
| Global 100* | 100 | 6.6 | 6.3 | 5.4 |
| Global 100 Europe | 35 | 6.5 | 6.4 | 5.5 |
| Global 100 N. America | 29 | 6.5 | 6.3 | 5.2 |
| **Total** (Avg. of all) | 560 | 5.0 | 5.2 | 5.3 |

Strongest in Category — China Divest 4.9, China Potential Distress 4.6, India Divest 4.9, Japan Buyer 5.5, Global 100* Buyer 6.6
Least Strength in Category — Europe Divest 5.5, Europe Potential Distress 5.7, S. Korea Buyer 4.2, Global 100 Europe Divest 6.4

since 2009. Within this group, there are some interesting findings.

In the 2009 study, so many large North American suppliers were in financial distress that the smaller North American suppliers actually produced higher buyer scores. Over the past year, however, the suppliers on the Global 100 have recovered considerably: in this year's study, their average buyer score is 6.5, handily beating the average buyer score of 5.3 for all 107 North American suppliers surveyed.

Two of the U.S. suppliers in particular—ITW and Textron—improved their buyer scores significantly, and show up among both the top 25 potential buyers and the top 10 most likely consolidators. Both companies are demonstrating rapid recovery from the recession and from the industry crisis in North America in particular (Figure 4).

Similarly, four Japanese suppliers—Bridgestone, Toyota Auto Body, Asahi Glass, and Mitsubishi Electric—bettered their buyer scores so much that they were catapulted into the ranks of the top 25 potential buyers (Figure 4). Thanks to strong buyer attitude scores, Bridgestone and Asahi Glass also joining the top 10 most likely consolidators (Figure 5).

By contrast, European suppliers, hurt by Europe's sagging auto market, make up six of the 10 potential buyers whose buyer scores have deteriorated most since last year.

***Likely consolidators.*** In addition to financial strength, winning companies have the mindset to act as acquirers. These likely consolidators have, in other words, a high buyer attitude score in addition to a high buyer score. The top 10 likely consolidators are presented in Figure 5.

Among the companies in the Global 100, Japan's Denso provides an excellent example of why the buyer attitude score matters. This large supplier certainly has a high enough buyer score to consolidate assets from other companies under its roof; however, because Denso is a Toyota keiretsu company favoring natural growth

## Buyer Attitudes Matter

PRTM's annual study has traditionally examined suppliers' financial and operational strength but this year a second dimension was added—the *buyer attitude* score—to better predict which companies will be likely consolidators in 2010 and 2011. The buyer attitude score takes into account various factors, including a supplier's track record with acquisitions.

over acquisitions, its buyer attitude score is one of the lowest among the top 25 potential buyers in the Global 100. Thus, Denso is not on the list of the 10 most likely consolidators in 2010 and 2011.

On the other hand, DuPont has a lower buyer score than Denso but this U.S. supplier scored the highest in buyer attitude. Indeed, DuPont just recently made an acquisition that pushed its automotive division deeper into the electric vehicle market. The combination of DuPont's two scores vaulted the company into the top 10 most likely consolidators. Five other U.S. suppliers—ITW, Cummins, PPG, Textron, and Eaton—join DuPont in that select group.

Overall, this year's list of top 25 potential buyers comprises an equal number of European, Japanese, and U.S. companies—a marked change from last year, when fewer North American suppliers made the list. More than half of the companies on this year's list are diversified—companies such as DuPont—while the rest are pure-play automotive and commercial vehicle suppliers such as Cummins or Michelin.

**Figure 4:** Most Improved Potential Buyers in the Global 100

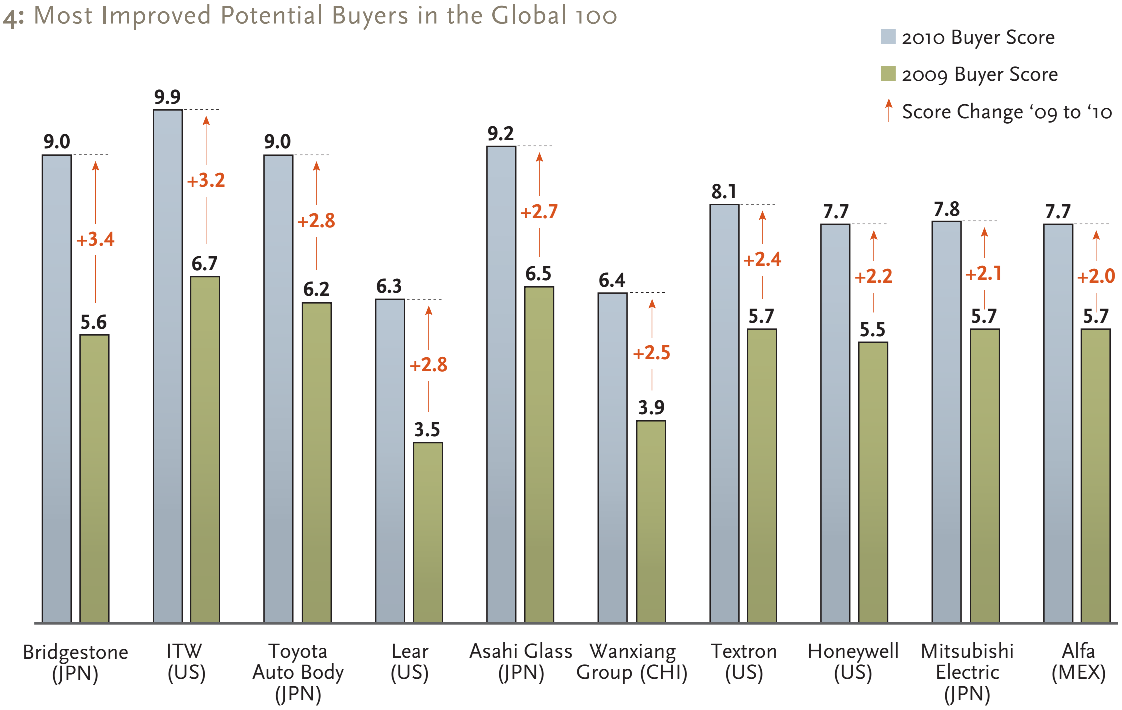
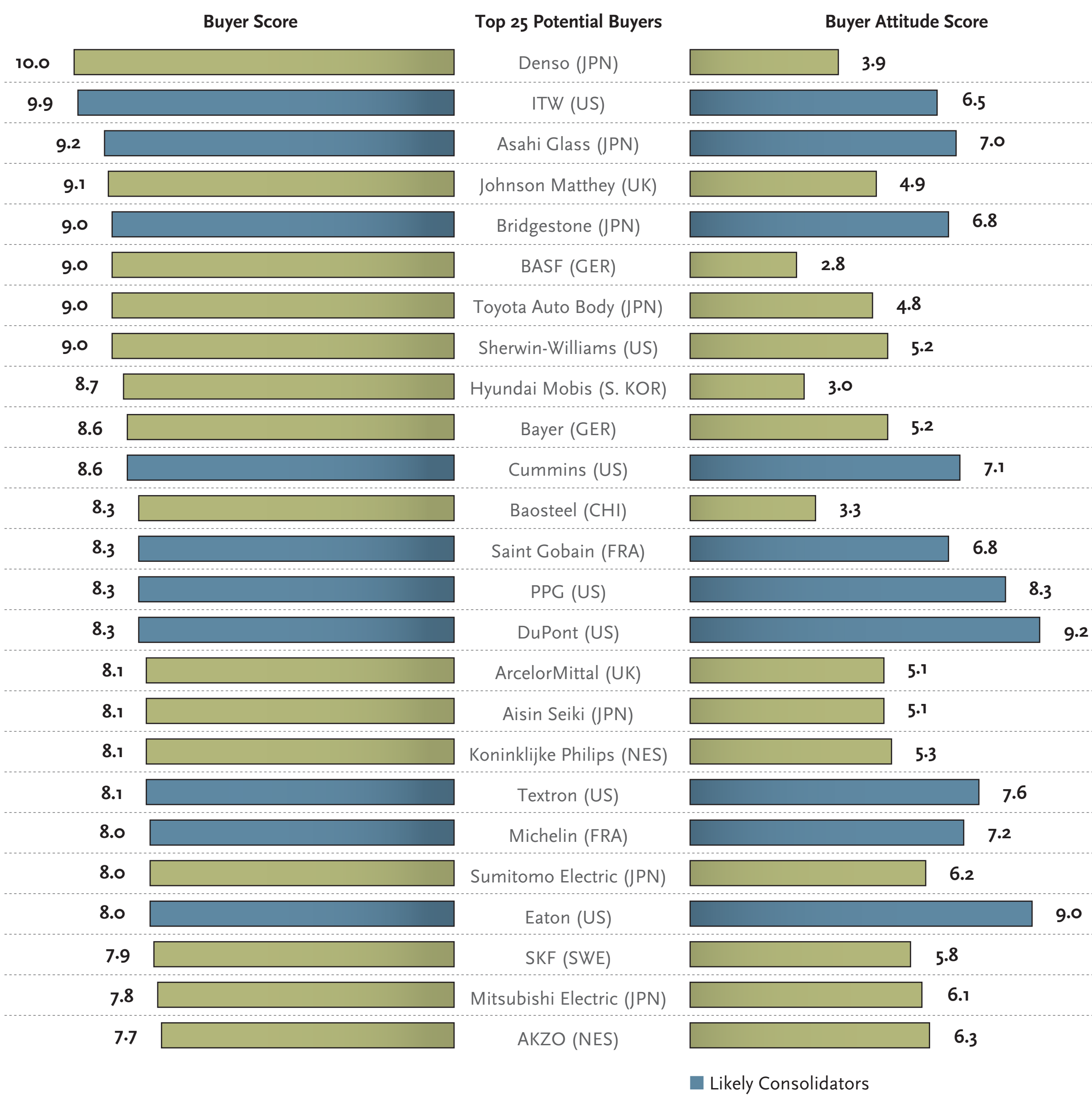


**Figure 5:** Top 10 Likely Consolidators in the Global 100



Those larger enterprises are already predisposed to M&A deals; in North American companies in particular, M&A activity is a common practice. Many of their top executives have hands-on experience with deals; companies are often steered by more short-term objectives that can be better reached through M&A.

In Japan, though, many of the largest suppliers—especially those that are part of the Toyota keiretsu—adhere to a conservative philosophy of organic growth and continuous improvement. Only two Japanese companies, Asahi Glass and Bridgestone, make it onto PRTM'S list of most likely consolidators, even though seven Japanese suppliers are among the top 25 potential buyers. And despite the Chinese suppliers' strong buyer scores, they are not yet large enough (with the exception of steel maker Baosteel) to be on the top potential buyers roster.

***Likely consolidators in China.*** Fifty-three Chinese auto suppliers were investigated in this study. Of the top 10 potential buyers, five are likely consolidators: Changchun FAWAY Auto, Ningbo Huaxiang Electronic, FAWER Automotive Parts, Guangzhou Automobile Group Component, and Weichai Power (Figure 6). Notably, just as in Japan, the companies with the strongest buyer scores do not have high enough buyer attitude scores to put them in the likely consolidator category. Concomitantly, the Chinese suppliers that have the highest buyer attitude scores do not have the highest buyer scores.

**Figure 6:** Top Chinese Likely Consolidators

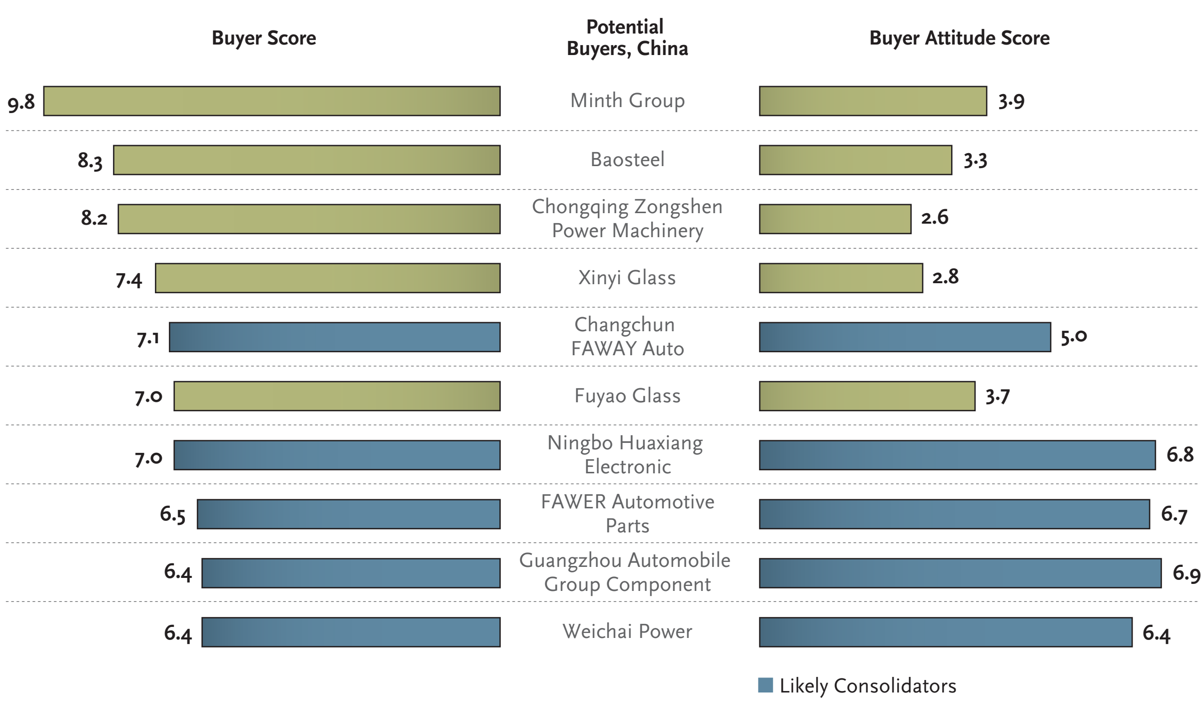
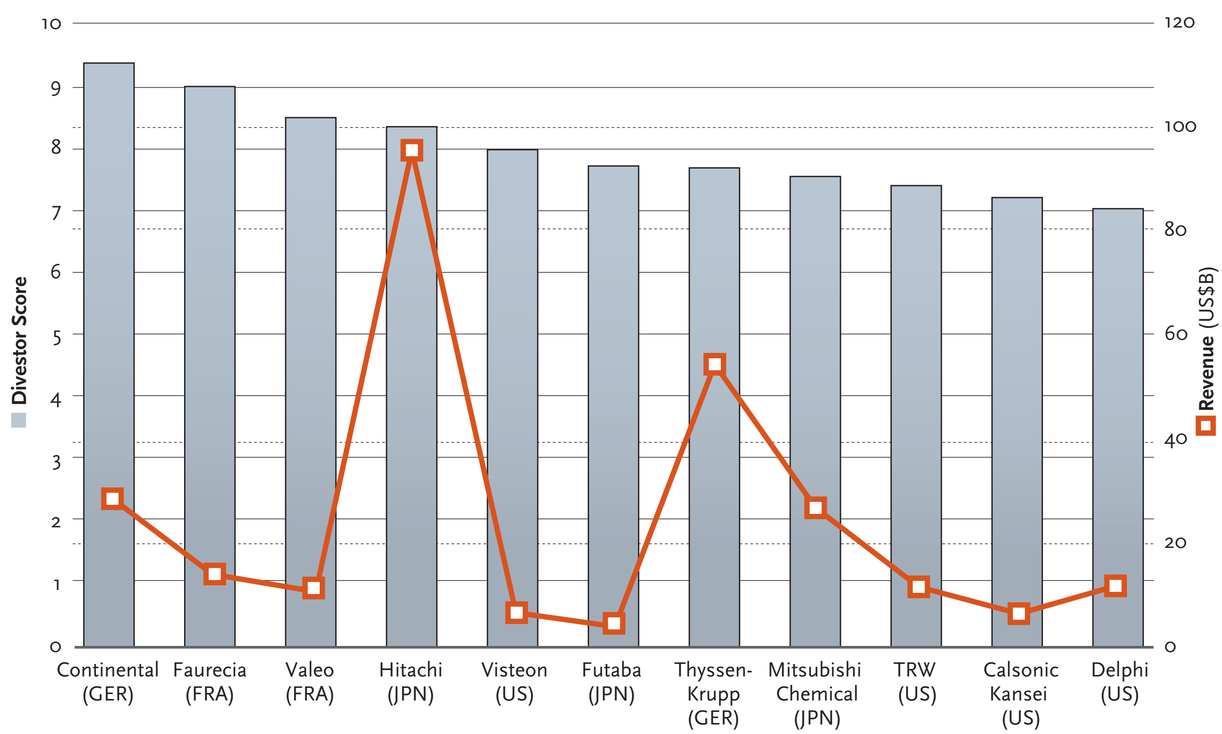


**Figure 7:** Top Potential Divestors in the Global 100




**Likely divestors:** A "Who's Who" of the global auto supply industry

The companies that are most likely to divest or are most vulnerable to takeover are by no means specific to any geography. Still, some regions and industry segments are more susceptible than others. In line with still-slumping sales in Europe, suppliers on that continent as a group received the highest divestor and distress scores in 2010.

(Companies that are more likely to make divestitures have a high divestor score; they belong to the category termed *divestors*. Those companies with a higher distress score are candidates for acquisition; they are termed *potentially distressed*.)

**Divestors**—May want to sell a business unit or the entire business due to liquidity problems or because of an opportunity for portfolio optimization

**Potentially distressed**—May need financial assistance or restructuring

Chinese and Indian suppliers, as a group, are the least distressed and least likely to divest (Table 1, page 10). That said, many may still be "buy" targets for global consolidators that are looking to gain market access or to acquire a low-cost base of manufacturing or engineering.

Key players such as Visteon and Delphi in the U.S., Continental and Faurecia in Europe, and Calsonic in Japan are pruned for divestiture activities, ownership change, or another portfolio play (Figure 7). For example, One Equity Partners has just taken a 15% equity stake in Faurecia, and it is likely that the controlling shareholder PSA will divest a larger stake in the company. Visteon, which is in the process of exiting bankruptcy protection as this report is being finalized, could end up in the hands of its bondholders; alternatively, it could spin off assets such as its HVAC systems, lighting, or electronics businesses. Similarly, Delphi, although now looking robust again after emerging from bankruptcy protection, appears still too broad; it could divest its HVAC activities to concentrate on a more manageable product portfolio.

TRW, still with a large stake owned by Blackstone, is also likely to go on the block. It has been part of the financier's portfolio for eight years—longer than is typical for private equity players. Blackstone is likely to exit its stake in TRW entirely. In the wake of that process, TRW could be sold in its entirety; alternatively, it could see some of its assets divested in order to focus on safety systems such as air bags and seat belts or its steering and brake systems.

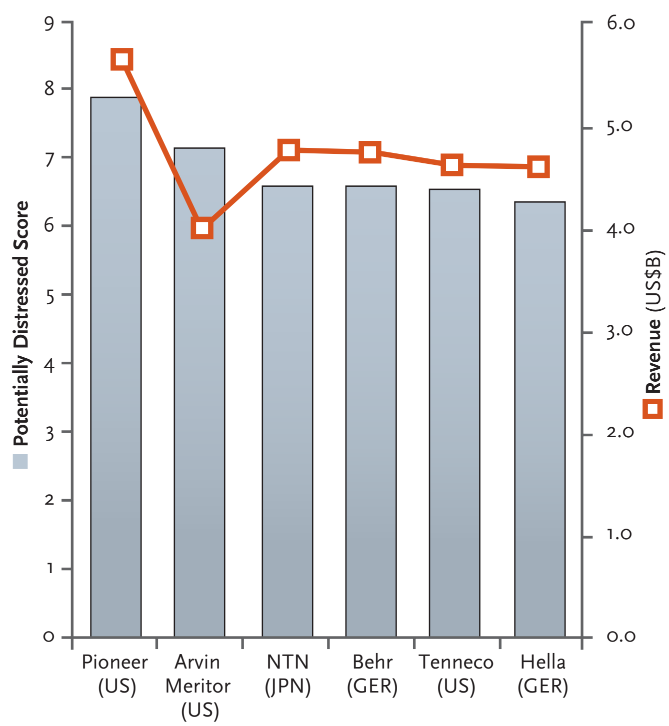
### **Likely losers:** Potentially distressed companies

PRTM reviewed two dozen metrics to arrive at the six companies on the Global 100 that appear most distressed in 2010. Each of these companies is widely recognized and reported to be in poor operating health, to have uncomfortably high debt loading, and to have limited business flexibility, among other drawbacks. Three are U.S. suppliers, two are German, and one is Japanese (Figure 8).

Pioneer belongs to this category because of its lowest-quintile score for capital structure and health, segment commodity structure, business health, and flexibility. Arvin Meritor also received several lowest-quintile scores (in capital structure, health, customer base) despite having divested most of its light vehicle businesses. The company has been overly reliant on the European and North American auto markets (making up 80% of sales). Likewise, Behr and Hella would do well to diversify into Asian markets. Behr, for example, has struggled to overcome the decline of Chrysler as a core customer and, as a result, was forced to accept Mahle as a white-knight investor. It is likely that Mahle will take over this family-owned company altogether.

Tenneco suffers from a plight similar to that of other suppliers on this list. It needs a tighter focus—ideally on emission controls—and must acquire new customers in China and India if it is to reduce its dependence on European and U.S. OEMs.

**Figure 8:** Most Financially Distressed Companies in the Global 100



# Analysis by Major Automotive System: Consolidation in Many Sectors

### An array of suppliers and fragmented subsystems categories will attract consolidation

Of the six main vehicle systems, powertrain, chassis, and exterior systems face some of the greatest consolidation pressures. For example, among the 266 powertrain system and components suppliers globally, one in five is a potential divestor or a potentially distressed company (Figure 9).

Taken cumulatively, powertrain systems sales fell 20% between 2008 and 2009, while EBITDA dropped by almost as much. (Yet powertrain looks relatively healthy next to body systems, where sales and earnings were off by 20% and 50%, respectively). A closer look at powertrain systems reveals that some subsystems are more prone to consolidation than others—notably engine electronics, turbochargers, transmissions, and engine cooling (Figure 10).

In the turbocharger, supercharger, and component subsystems, Cummins, Eaton, and Honeywell are prime contenders to make acquisitions, with suppliers such as Antonov and Le Belier likely to divest. Different companies would have different rationales for consolidation; for instance, Eaton does not need the technological infusion but is cash-rich and may desire portfolio expansion.

Similar drill-downs can be done for other subsystems. Within exterior systems, for instance, glass, lamps, and seals remain fragmented, while mirrors and paint represent less likely targets. And in chassis systems, four-wheel drive components and exhaust parts are fragmented, but axles and fuel tanks are already consolidated.

**Figure 9:** M&A Activity Expected in the Powertrain, Chassis, and Exterior Subsystems

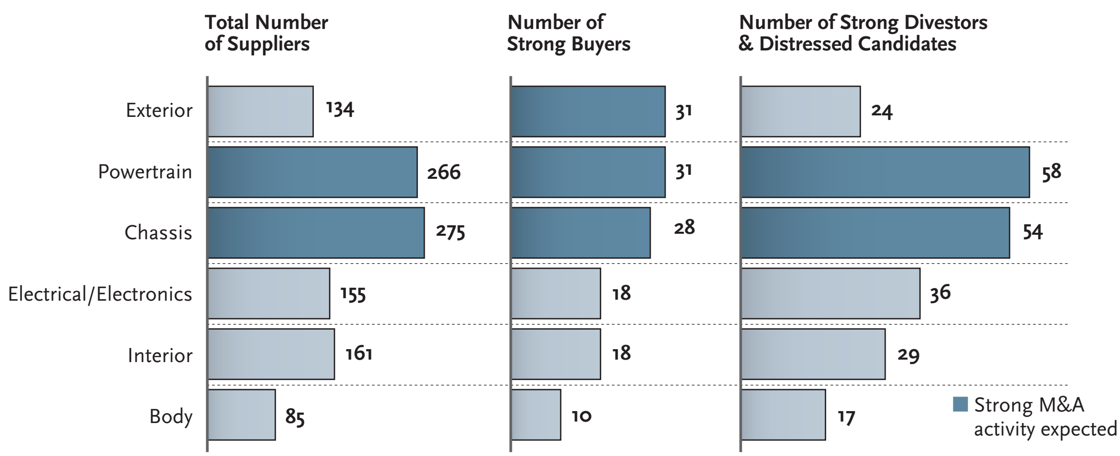
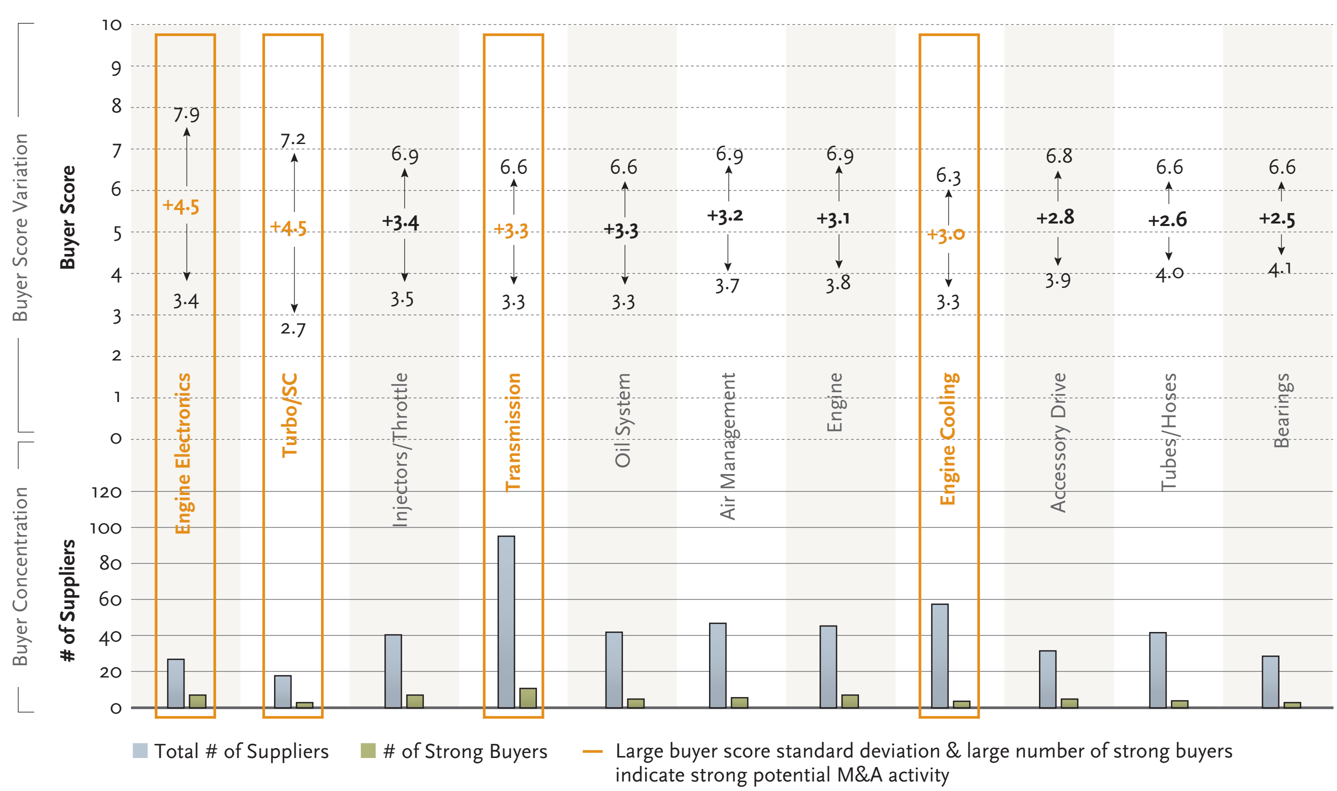



**Figure 10:** Strong M&A Activity Likely in Powertrain Subsystems



# **The Road Ahead:** Paved with Global Intentions

## Auto executives must take a harder look at how the industry will change

In the next decade, the rapid rise of China's auto sector will force today's industry leaders to rethink their definitions of "global"—and to understand the increasingly important role of localization in the new global view. Here is a sampling of projections based on the findings of this year's study:

- OEMs will continue to rationalize their supply bases to less than 3,000 suppliers per company in total—and as few as 300 per vehicle.
- The winning suppliers must be able to support global OEM platforms worldwide.
- Global OEMs operating in China and India will have to incorporate much more local content very quickly to compete on cost—and to meet local markets' expectations. Today, China's largest joint-venture auto manufacturers have roughly 50 percent Chinese manufactured content—a figure that is likely to top 80 percent by 2015.
- Vehicle design and engineering for global auto OEMs will become more local in emerging markets—particularly in China. Car buyers want cars designed expressly for them, not adaptations of cars designed in France, Germany, Japan, South Korea, or the U.S. The Chinese government wants its industries to move quickly up the value chain, and is now looking to global consolidators in China—Changan, Dongfeng, FAW, and SAIC—to become leading global car companies. Further, the government wants their joint ventures, such as FAW-VW, to become full-blown car companies too, complete with local product development capabilities.
- Five years from now, Chinese suppliers will be very visible on the Global 100 Suppliers list, thanks largely to the relentless growth of China's auto market. Companies such as Weichai Power—China's largest manufacturer of diesel engines, with $5 billion in annual sales—is already Cummins' toughest competitor for 5- to 10-liter diesels in China, but is barely known in the rest of the world.
- Supplier capacity will be an issue in 2010 and 2011 as three factors converge: prudent suppliers reduced capacity in the recent downturn; China's auto industry is growing apace; and Japan and the U.S. are exiting the recession. Case in point: The Buick Lacrosse, one of China's most popular mid-size sedans, is also a big seller in North America. Its sister vehicles using GM's Epsilon architecture are also doing well in Europe, China, and the U.S.; in such circumstances, component demand can increase as much as 100% the next quarter.
- Now that liquidity is returning for some suppliers, strong suppliers have golden opportunities to optimize their product portfolios technically, geographically, and in terms of customer base by acquiring complementary operations.
- Raw material providers and Tier-Two suppliers face much more flux in their customer mix and must stay alert to downstream industry consolidation trends.

## What's Changed Since 2009's Study?

- U.S. suppliers are once again among the most likely industry consolidators; last year they were all but absent.
- Japanese companies have risen in prominence as consolidators, thanks largely to their remarkable turnarounds on the back of tough cost controls and to the huge comeback of Japanese car sales.
- European auto suppliers have lost the most strength as potential consolidators compared to last year.
- Although Chinese suppliers continue to grow dramatically and demonstrate the financial wherewithal to drive consolidation, most lack M&A experience—and relatively few exhibit the necessary acquisition attitude.
- The suppliers that comprise the Global 100 are, as a group, stronger than last year; several are expected to be strong consolidators in 2010 and 2011.
- The pace of M&A activity is quickening and may reach near-record levels in 2010.

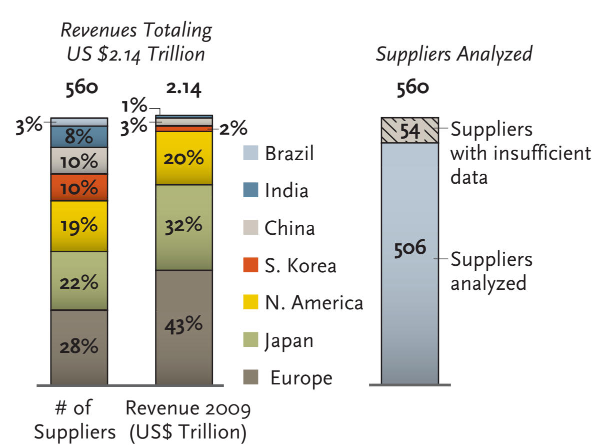
# Study Methodology

The 2010 PRTM study, expanded in scope from the one conducted in 2009, includes the largest 100 global automotive suppliers along with the 460 next largest suppliers from key regions (Brazil, China, Europe, India, Japan, North America, and South Korea). The study took into account 27 financial, operational, and strategic criteria, which fall into eight categories:

- Size and criticality
- Capital structure and health
- Commodity structure
- Business health
- Business flexibility
- Customer base
- Ownership structure and management
- Pricing

Scores were then developed that reflect each company's vulnerability to acquisition or break-up, and its likelihood of acquiring part or all of other companies. Although many of these companies are private, PRTM gathered enough data to include all but 54 of the companies in its analysis (Figure 11).

**Figure 11: Global Reach of Study**



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