

Delivering exceptional shareholder value

Leading products on the right platforms #1 contributor to automotive supplier performance

Introduction

The global automotive industry continues to undergo significant change. Complex issues like globalization, connectivity, advanced materials and additive manufacturing, and regulatory compliance are all forces impacting automotive suppliers' drive to deliver exceptional shareholder value (SHV).

Regardless of the opportunities and challenges afforded by these forces, automotive executives have had to remain steadfast in their obligations to deliver value to their company shareholders. And while it's easy to say SHV is important, it is something entirely different, and infinitely more difficult, to understand what the strategic and operational levers are that help create and deliver exceptional shareholder value.

Continuing our exploration into the drivers of exceptional shareholder return for global automotive suppliers

For a second year, Deloitte's Automotive practice has examined a 10-year span of financial performance for more than 210 global Tier 1 automotive suppliers. The 2014 study, first conducted in 2012, examines the financial performance for suppliers between 2003 and 2013 to identify which companies achieved the highest shareholder returns and explore the operational levers used to generate those superior results.

The winning themes

The study identifies six winning themes that consistently correlate to superior shareholder value creation among automotive suppliers: Product portfolio leadership; Market-focused innovation; Diversification; Capacity demand alignment; Cost and asset efficiency; and Capital structure. The study also explores which suppliers best executed against the themes to identify the top quartile (56 "Top Performers") among the suppliers in the analysis.

Figure 1: Winning themes



Source: Global Automotive Supplier Study

Questions explored

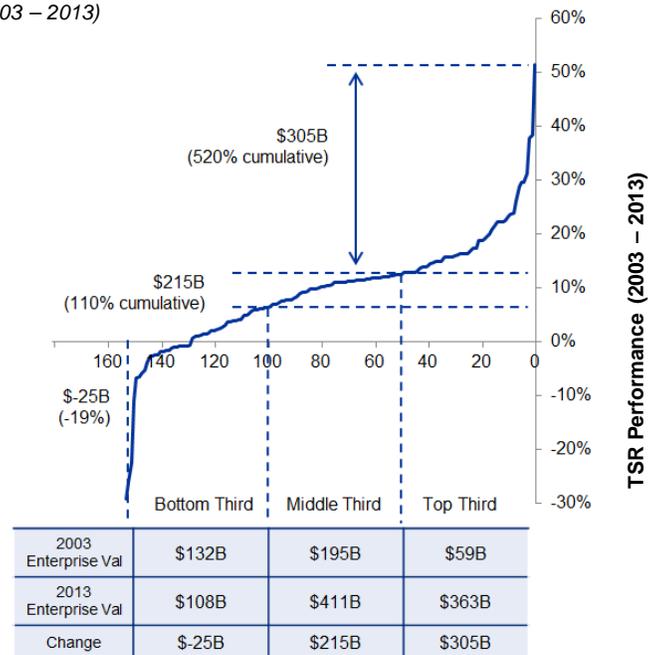
- Who are the Top Performers that created superior total shareholder return?
- Who are the Top Performers within a product segment and regional basis?
- How did the winners perform across financial and operational metrics versus the rest of the suppliers?
- For the Top Performers, what were the winning themes that emerged relative to what they have done to drive SHV?
- How do those winning themes translate into continued superior performance in the future?
- What are the strategic and operational levers used to execute the winning themes and deliver exceptional shareholder value?

What's new for 2014

Combined, the 213 suppliers in the 2014 Global Automotive Supplier Study generated approximately \$495 billion in shareholder value between 2003 and 2013. But the gap between the Top Performers and the remaining population in the study is significant.

The Top Performers cumulatively generated a 520 percent increase in shareholder value, while the bottom third of the 210+ suppliers reduced shareholder value by 19 percent over the same period.

Figure 2: Shareholder returns¹ (2003 – 2013)



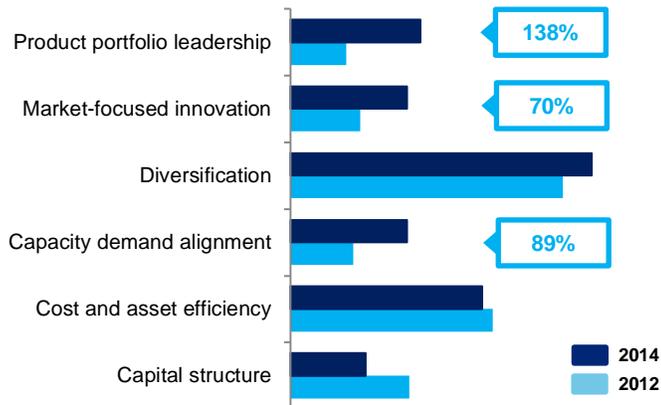
¹ 10-year market cap data only available for 155 suppliers
Source: Capital IQ, Deloitte Methodology

What's new for 2014 (cont.)

The findings of the 2014 analysis reveal some interesting insights into what suppliers are doing to drive performance. Specifically, among the 56 Top Performers:

- The number of suppliers executing strategies defined as Product portfolio leadership more than doubled from 2012 to 2014
- Related to product leadership, supplier attention to Market-focused innovation, the second leading theme contributing to supplier performance, also increased approximately 70 percent

Figure 3: Top Performers' presence against winning themes (2014 vs. 2012)



Source: Global Automotive Supplier Study

The Global Automotive Supplier Study reveals Product portfolio leadership as the leader among six winning themes, but suppliers may have additional opportunities to create value for shareholders.

- Cost and asset efficiency once again was identified as a “table stake” since more than 50 percent of the top-ranked suppliers displayed a presence against the theme
- Diversification also remains a strong focus area for the Top Performers as more than 50 percent of the suppliers continue to display a presence against this theme
- While presence against Capacity demand alignment increased 89 percent in the 2014 study, this theme is also a “table stake” as correlation to value creation was not as strong as those suppliers displaying excellence in Product portfolio leadership and Market-focused innovation
- The proportion of top-performing automotive suppliers from emerging markets, particularly India and China, increased 33 percent in the 2014 study, yet the mix of segment winners did not change between 2012 and 2014. Chassis and powertrain suppliers still account for more than 50 percent of the Top Performers, suggesting that leading suppliers in these fast-evolving content areas will continue to do well.

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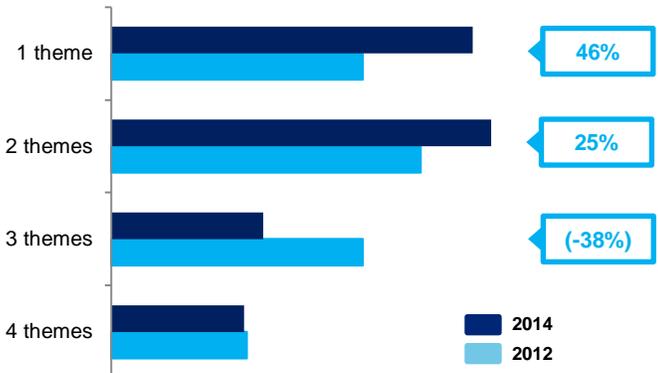
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- The number of Top Performers executing against three winning themes fell nearly 40 percent between 2012 and 2014, while execution against one theme increased 46 percent and execution against two winning themes increased 25 percent between 2012 and 2014 – suggesting suppliers are focused on only a small set of winning themes.

Figure 4: Number of themes Top Performers' are executing against (2014 vs. 2012)



Source: Global Automotive Supplier Study

The majority of the suppliers executing across three or more themes show presence in leading edge and premium platforms, and they display the ability to price better and ultimately achieve higher gross profit margins.

Automakers are increasingly focused on superior product offerings and innovation as a driver of growth, so it's not surprising Product portfolio leadership and Market-focused innovation rise to the top of the winning themes in the 2014 Global Automotive Supplier Study.

However, the fact that more than 50 percent of suppliers displayed activity against Diversification or Cost and asset efficiency-related strategies (both considered a “table stakes” in 2012) could signal missed opportunity for suppliers to create additional SHV.

Most suppliers are only executing against one or two themes of the six in the study. Because one of those themes is consistently Diversification or Cost and asset efficiency, there is a strong indication that many of the top-performing suppliers are not executing against both Product portfolio leadership and Market-focused innovation – thereby potentially missing benefits resulting from closely linking innovation and product leadership activities.

Capabilities to help suppliers

As a result of the study, we now have a rich set of data, as well as perspectives and insights around the winning themes and strategic and operational levers used by theme leaders.

Our teams can meet with supplier executives to review a more detailed version of the study, and provide an “outside-in” comparison of automotive suppliers against their defined peer set (or against the top performers) to highlight strengths and improvement areas. Our teams can also discuss the operational and strategic levers that Top Performers have deployed to create superior returns, and help suppliers identify and implement those levers that can help them realize their business growth objectives.

If you are interested in coordinating a discussion on the Global Automotive Supplier Study and implications to your organization, please contact any of the individuals noted here or write to usautomotivecommunic@deloitte.com.