

Press release

For business editors
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Electro-Mobility Changes Rules of Game for Automotive Industry

- **New Commerzbank Sector Report Automotive Suppliers 2018**
- **Prognosis: Record sales of €84 bn for the industry in Germany in 2018 (2017: €79.8 bn), increase of 5.4%**
- **Trend towards consolidation through digitalisation: number of small- and medium-sized companies set to decrease by as much as 30% by 2025**
- **With new forms of mobility service providers emerging, battery production urgently requires investment**

Between an innovative mobility world and a new ecosystem

Despite the structural changes within the industry, the development of the German automotive supplier sector remains positive. "We expect a new sales record for the automotive sector this year, namely in the region of €84 billion. In a year-on-year comparison this is an increase of 5.4%. As a consequence of the negative effects from exchange rates, higher costs for raw materials, greater investment costs, and in particular as a result of increased research and development costs, we assume the earnings situation will deteriorate somewhat from 2018 onwards. This has already been reflected in the amended forecasts for the current business year by several listed suppliers," explained Cedric Perlewitz, Sector Head Automotive & Transport at Commerzbank.

With ever stricter specifications for permissible emissions of noxious substances there is further pressure on car manufacturers to accelerate their change of strategy towards greater electro-mobility. "Digitalisation is turning a page and writing a new chapter when it comes to mobility. New cross-sector competitors, such as internet, technology and consumer electronics companies with future business models, as well as new manufacturers specialising solely in electro-mobility, are competing with the established players. Everybody wants to secure a piece of the new mobility action," added Perlewitz.

Enormous investment costs are necessary to defy the digital shift in the automotive industry. According to the report, this will have repercussions: "We expect to see more cross-sector transactions triggered by digitalisation. The increasing software competence plays a decisive role in networking the car with the

‘outside world’,” stated Perlewitz. In this respect, there will be more strategic cooperations as well as minority shareholdings coming about; in particular, however, additional cross-border M&A activities are expected, above all from China to Germany.

Trend: Consolidation through digitalisation

One challenge for the car makers could be the pending consolidation process. As recently as 2016, a study from Struktur-Management-Partner (SMP) and the Institute for the Automotive Industry (IfA) forecast that the number of small- and medium-sized companies would decrease by as much as 30% by 2025. In the medium term, the need to create value-added on the respective sales markets will lead to an increase in the local purchasing quota from 40 to 50% at present to a figure of between 80 to 90%. Radical localisation, i.e. the use of supply sources in the respective region, is thus gaining in significance.

Furthermore, digitalisation is changing the current value-added structures. It is triggering a move away from the classical supply chain towards flexible production networks and is leading to the entry of software. Successful suppliers are actively utilising digitalisation. Not only are they transforming their production flows in line with customer requirements, they are also systematically exploring which innovative possibilities are opened up by digitalisation for their product ranges and business models.

Electro-mobility accelerating change of strategy

Electro-mobility will gain in significance in the automotive sector. An important driver behind the technical development and transformation is regulation. There is major uncertainty in an age of disruptive development: “In addition to the availability of efficient technologies – in the case of batteries, for example, their energy density and range – the solution has to make economic sense for the customer,” underlined Perlewitz. In this respect, the overall costs outlook is decisive for fleet operators, a particularly important customer group.

“We can observe how companies are realigning their strategy in the sector – also through spin-offs, in order to be able to react to these developments more efficiently and in a more agile manner,” said Perlewitz.

Battery production requires investment now

Battery technology – the most important driver in the automotive industry – represents the main focus of research work in the sector. Excessive prices, inadequate ranges, and long charging times are still an impediment to the use of electric cars on a mass scale. The availability of the key raw material lithium, which is required for the construction of rechargeable batteries, is safeguarded according to the Commerzbank

Sector Report. The long-term objective of research work remains substituting the proportion of expensive cobalt without negatively impacting on the thermic stability or the number of possible charging cycles. Safeguarding the value-added chain is another key strategic consideration on the part of car makers and automotive suppliers. It is above all foreign market players which are already investing heavily in Europe and Germany.

“Companies are faced with the decision of choosing between the right point in time for investment and the necessary technological leap. German automobile manufacturers and automotive suppliers have also already begun positioning themselves for the next battery generation, the so-called solid-state cells, so as to make themselves more independent of Asian providers in the medium term,” is Perlewitz’s summary of the situation.

The Commerzbank Sector Report Automotive Suppliers 2018 is available as an abridged version (in German only) at this link: <https://www.commerzbank.de/branchenbericht-automotive>

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