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AlixPartners

Press Release

BILANCIO A 4RUOTE - The Italian automotive supply chain faces the challenges of the global market

The first study devoted to the Italian automotive supply chain, conducted by Cassa Depositi e Prestiti, SACE SIMEST and ANFIA, in collaboration with AlixPartners, was presented today at Piazza Affari

New technological trends, M&As, eastward shift and tariffs uncertainties are the key challenges to an industry that represents 5.6% of national GDP and provides jobs for 7% of the total manufacturing sector workforce

The annual reports of the Top50 players of the sector display positive sales and profits, attention to capitalization and indebtedness for long-term growth: what instruments can help keep up this pace? What are the new solutions of the CDP Group?

Milan, 27 February 2019 – The automotive industry is undergoing a profound change worldwide. The center of mass production and consumption are increasingly shifting eastward and doubts surround U.S. tariffs weighing on the short-term situation. In the meanwhile, a veritable technological revolution is affecting the various areas of the industry: not only producers and major car companies, but also providers and the entire supply chain are facing challenging investment plans, aggregation processes, merges and acquisitions that are reshaping the entire industry.

Into this highly complex context comes **Bilancio a 4Ruote**, the first study of the automotive industry and its Italian supply chain - a galaxy of 5,700 companies, many of them SMEs, that also accounts for 5.6% of national GDP and provides jobs for 7% of the Italian manufacturing workforce - conducted by Cassa Depositi e Prestiti, SACE SIMEST and ANFIA, in collaboration with AlixPartners.

At the center of the study, presented today at the Italian Stock Exchange, is an in-depth look at the principal drivers of the industry, a comparative analysis of the annual reports of the 50 top players in the Italian supply chain, and an overview of the insurance and financial solutions the CDP Group offers to support their growth plans - organic and by acquisition - and investments to keep pace with the market.

*“Automotive represents a relevant branch of the national industry of the Country, with important spillovers on the economy also in terms of satellite activities – declared **CDP CEO Fabrizio Palermo** – With the new Industrial Plan, for the first time, CDP addresses both large and small companies. Thanks to an integrated and capillary portfolio of solutions, it offers concrete support to the numerous SMEs that, directly and indirectly, make up the vehicles production chain”.*

*“This is a key sector traditionally characterized by a marked propensity for innovation and openness towards foreign markets - **SACE CEO Alessandro Decio** declared – and this is why we undertook the initiative that led to the presentation of this study today. With our products to support exports and internationalization within the GDP Group, we proactively stand beside Italian players of this industry, now facing a huge technological upgrade and a shift towards new markets, above all Asian ones. And*

we do this by providing instruments and resources to consolidate and expand their positioning and global market shares.”

“Bolstering the link of the entrepreneurial system with the Italian financial system, beginning with state-owned structures such as Cassa Depositi e Prestiti and SACE SIMEST, which help companies grow, internationalize and have more solid balance sheets, is a key driver for the evolution of our supply chain,” affirmed ANFIA President Paolo Scudieri. “This is especially true for the small and medium size firms, so numerous in Italy. At such a crucial time for the industry's future, we, as ANFIA, are working with the expanded automotive supply chain to develop a strategic plan for the industry and formulate an adequate policy roadmap, agreed with the government, to keep pace with what other European countries, our competitors, are doing”.

“The automotive industry is facing important changes at a growing speed,” comments Dario Duse, Managing Director of AlixPartners. “Those factors that at the beginning represented challenges - the CASE (connectivity, autonomous drive, sharing and, above all, electrification) - are more and more a reality. After a few positive years, the industry and the supply chain need to manage these important changes through greater openness to technologies, industries, and investment rationales unrelated to the industry just few years ago. In a context where economic and political aspects and, especially for Europe, emission regulations present important challenges, the capacity to innovate in order to develop and integrate new business models and technologies is essential to face future challenges”.

Here is a summary of the content.

Automotive: all the numbers of the supply chain

The automotive sector is a key part of Italian industry, in terms of both importance and structure. With € 93 billion in revenue, it accounts for 5.6% of Italian GDP and provides jobs for 250,000 people, equal to 7% of the entire manufacturing workforce; besides, it generates considerable satellite activity for the Italian economy (with a multiplier effect of 3.2). It is also highly fragmented, composed of a galaxy of 5,700 companies, many of them SMEs. This characteristic is especially evident in components and engineering & design (where 45% of the companies in the supply chain employ less than nine people). It also displays a high degree of concentration (with 75% of total revenues generated by 8% of the companies).

The four challenges to the automotive industry

Technological revolution, M&As, eastward shift, and doubts about trade war are the most important challenges revealed by *Bilancio a 4Ruote* for the automotive industry. Here is some supporting evidence.

Technological revolution. A number of technological trends are redefining the industry—connection, autonomous drive, car-sharing, and electrification—and require major investments and expertise. Electric mobility alone is expected to generate € 255 billion in investment by 2023 worldwide. Of these, 184 billion will affect suppliers (OEMs) and 25-40 billion their supply chain, 3.5 billion for the Italian chain.

M&As. In a context dominated by technological advancement, the processes of aggregation, merger and acquisition are also accelerating: on the one hand, high-tech companies, particularly SMEs and startups, are becoming more attractive. On the other, more traditional companies are pursuing the roads of joint ventures, acquisitions of startups, the financing of projects of transformation and industrial development, and consolidation with other industry players to acquire and maximize their mix of expertise, often in sectors until now distant. It is no coincidence if in 2018 mergers and acquisitions reached a record figure

of € 64 billion worldwide, for a total of 224 deals. Of these, half concerned Europe and the vast majority (72%) involved the acquisition of suppliers.

Eastward shift. While the centers of the components sector remain solidly anchored in Europe, Japan and North America, vehicle production world is increasingly shifting eastward. Although the economic picture was less favorable in the Chinese market in 2018, the Asian giant remains solidly at the top, with industrial production triple that of no. 2 country, Japan. Indeed, Asia alone represents 60% of vehicle sales worldwide. The trends of the past ten years are particularly emblematic. Sales in China have more than quadrupled since 2007, while those of the rest of the world have increased by 10%, driven primarily by the emerging markets. For Europe and North America, performance has actually been negative, with a decline of 0.3% and 1.5%, respectively, since 2007.

Customs duties. For the short term, trade policies are still one of the greatest sources of uncertainty for the industry. The imposition of duties on the industry threatened by the U.S. might have an impact in terms of reduced sales and investments, resulting in an 0.2 percentage point drop in Italian GDP by 2020.

A look at the annual reports: positive past, rosy future

Starting with an analysis of 2017 annual reports and interpreting results in light of the trends for 2015-2017, SACE analyzed the financial statements of Italy's 50 top players in the automotive supply chain.

Sustained by an increase in new car sales, the performance of the Top50 was positive, in terms of sales and profits, consolidating the growth trend dating back to in 2010: in 2017 sales exceeded € 16 billion (+ 8.3%), EBITDA was € 2.1 billion, and margin on sales was 13%.

Both financial and balance sheet ratios improved, with ROE at 15.9%. Despite greater use of borrowing to sustain growth (5.5 billion in 2017 vs 5.2 in 2016), the net financial position remained constant compared to 2016 and the sustainability of the business increased overall.

Observing the 2015-2017 trends by geographical area, the Top50 players in the Italian supply chain were the best performers in terms of both sales (+ 10.9% on average, contrary to the aggregate of foreign players) and profitability (EBITDA: + 10.8%). The situation is the opposite for data on capitalization and indebtedness, which over the long term may affect the ability to meet technological challenges in the industry, particularly as for electrification is concerned.

CDP Group offerings to support the supply chain

In this definitely challenging context, a broad, renewed series of instruments is offered by the national institutions, with one important innovation: the latest budget law extends the scope of action of CDP to initiatives, at home and abroad, to increase the size of companies even through aggregation; CDP and SACE SIMEST have both created teams of experts devoted specifically to serve this industry.

Basket bonds, bond loans—both public and private—loans and guarantees to support growth and internationalization plans, export credit: there is a broad range of solutions for supporting the growth, access to bank credit, and participation in the capital market of companies in the automotive supply chain, with particular focus on support for R&D investments and—a recent addition—for investments compatible with sustainable development objectives.

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Profiles

About **CDP. Cassa depositi e prestiti (CDP)** is the National Promotional Institution with a mission to support sustainable development and invest in competitiveness. Founded in 1850, CDP plays a key role in financing infrastructure and social&affordable housing and in supporting enterprises' growth and international expansion. Since 2016, CDP has also been recognized as the Italian Financial Institution for Development Cooperation. Within this broadened mission, CDP aims at promoting sustainable development, in Italy and abroad, accelerating the 2030 Agenda SDGs achievement. In order to fulfil its role, CDP acts as a catalyst of public and private sector investments, promotes the dialogue among stakeholders and identifies new strategies to sustain growth and employment.

SACE, a wholly-owned subsidiary of Cassa depositi e prestiti, offer export credit services, credit insurance, protection of foreign investments, financial guarantees, bonding, and factoring. With € 94 billion in transaction insured in 198 countries, it supports the competitiveness of companies in Italy and abroad, ensuring more stable cash flows and transforming the default risk of companies into development opportunities. With **SIMEST**, of which it owns 76%, it forms the export and internationalization hub: a single point of reference for access to all the insurance-financial instruments of the CDP Group designed to support the competitiveness and foreign growth of Italian companies worldwide.

ANFIA – Italian Association of the Automotive Industry – is one of the leading Italian Trade Associations, members of CONFINDUSTRIA. Born in March 1912, over these one hundred years, ANFIA mission has always been to represent the interests of its associate members and ensure effective communication between the Italian motor vehicle industries on the one hand, and the Public Administration and Italian political bodies on the other, with regard to all technical, economic, fiscal, legal, statistical and quality-related issues referred to the automotive sector. The Association is structured in three product-based Groups, each one chaired by a President.
Components: motor vehicle parts and components manufacturers; Car Coachbuilders and Designers: companies working in the sector of design, engineering and style of motor vehicles and/or parts and components for the automotive sector; Motor vehicles: motor vehicles manufacturers in general, including trucks, trailers, camper vans, special means of transport.

About **AlixPartners**. AlixPartners is a results-driven global consulting firm that specializes in helping businesses successfully address their most complex and critical challenges. Our clients include companies, corporate boards, law firms, investment banks, private equity firms, and others. Founded in 1981, AlixPartners is headquartered in New York, and has offices in more than 20 cities around the world. For more information, visit www.alixpartners.com.