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EDITORIAL – IHS SupplierBusiness Top Suppliers Ranking

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Bosch maintains leading position; ZF to see strong jump in ranking next year after recent acquisition of TRW

The global automotive supplier industry continues to strengthen, especially at the top end where tier one suppliers have built economies of scale by providing parts to multiple manufacturers around the world. This has created a group at the top that now have revenue that is comparable to OEMs (Bosch's automotive revenue was EUR30.59bn in 2013; Renault's was EUR40.93 billion). These suppliers will only get stronger as well, as they hoover up contracts for more parts on fewer platforms that will require global facilities; requirements that will lock out those further down the chain.

The industry has consolidated in recent years, but the next few years could see this go even further, creating a few industry giants. The starting pistol has already been fired on this with the merger of ZF and TRW (11th and 13th respectively on this year's list) creating a supplier that could potentially be in the top three next year. Carmakers have repeatedly outsourced their research and development (R&D) to suppliers for years as a means of shaving off cost; a move that has left them dependent on suppliers' expertise and increasingly, their manufacturing facilities. Consolidation does not necessarily mean an uptick in mergers and acquisitions though; suppliers may take the lead from the ties-ups between Renault-Nissan and others by creating manufacturing alliances.

Bosch continues to maintain lead

At the top end, the world's biggest suppliers again saw strong growth. Bosch maintained its position as the leading automotive supplier in 2013 reporting a 3.1% y/y increase in net sales during the year to EUR46.1 billion (USD63.4 billion). Sales in its Automotive Technology segment, which caters to the automotive industry, increased 6.7% y/y to EUR30.6 billion (USD42.1 billion). Bosch was followed by Denso, which reported a 14.4% y/y surge in net sales to JPY4.1 trillion (USD38.9 billion), driven by higher vehicle production at Toyota, its major customer as well as the largest shareholder, and foreign exchange gains from the depreciation of the yen. Of this total, the company generated 98.5% or JPY4 trillion (USD39.2 billion) from automotive business. Like Denso, Aisin Seiki (8th position) also benefited from surge in overseas vehicle production at Toyota and other Japanese automakers which drove up its net sales in FY2013/14 by 11.6% y/y to JPY2.8 trillion (USD27.4 billion), of which around 96.1% or JPY2.7 trillion (USD26.4 billion) came from automotive industry.

2014 Outlook

IHS Automotive forecasts global light vehicle production to grow 3.9% y/y to 87.6 million units in 2014, driven by continuous momentum in all regions, except in South America and South Asia, which are undergoing a difficult phase in term of vehicle demand. Light vehicle production in China is expected to cross record 23 million units this year, up 9.2% y/y while output in Europe, North America, Japan/Korea, and Middle East/Africa are projected to reach 20 million units (up 2.7% y/y), 17 million units (up 5.2% y/y), 13.8 million units (up 2% y/y), and 1.8 million units (up 20.7% y/y) respectively.

Amid such business environment, most of the automotive suppliers in the *IHS SupplierBusiness Top 25 Suppliers* list forecast moderate sales growth in 2014. Market leader Bosch expects that the downturn in the Eurozone will continue to impact key markets and based on this, the company expects its 2014 net sales to grow slightly. Despite this we expect the German supplier to maintain

its position as the world's leading supplier in 2014. In fact, Bosch is likely to see strong jump in sales from the automotive industry after recently agreeing to take over ZF's 50% stake in a steering system joint-venture (JV), ZF Lenksysteme. The JV generated sales of EUR4.1 billion (USD5.7 billion) in 2013. Bosch had considered this JV on equity method and not included its revenue share from the JV in its consolidated sales in 2013. However, with gaining full-ownership in the steering system specialist, Bosch is likely to include Lenksysteme's revenue in its consolidated sales going forward. This is expected to push Bosch sales from automotive business by around USD5 to 6 billion, catapulting the company as the first automotive supplier with sales of nearly USD50 billion.

This will further increase Bosch's lead from its nearest rival Denso. The Japanese supplier expects continued growth in developed markets in FY 2014/15; though the company predicts demand to diminish in some emerging markets. Continental hopes to continue performing well in 2014. The company expects moderate sales growth of 5% y/y driven by strong demand in North America and Asia. Magna was initially expecting marginal improvement sales in 2014 as it expected decline in sales from complete vehicle assembly activities. Globally automakers are bringing vehicle manufacturing activities in-house which forced several contract manufacturers such as Karmann out of business and have impacted business few who are still in the business. However, Magna later raised its forecast after strong performance in first three quarters.

See the full list of suppliers, and the full outlook and conclusions in the next Issue of SupplierBusiness Analysis

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