

Strong rebound amid challenges

According to CLEPA Pulse Check surveyed by McKinsey, held late February into early March, suppliers have become significantly more optimistic with their outlook on 2021, with 38% of surveyed suppliers showing positive forecasts compared to just 8% six months ago. The majority outlook is robust in response to the much faster than expected rebound of the global automotive market, with four out of five suppliers expecting to increase order volumes in the next 12 months. Profitability is foreseen to stabilise further, with numbers above 5% in reach for over four out of ten respondents again.

The forging suppliers provided similar feedback to a survey by Euroforge, indicating a strong growth in order books. The supply chain has quickly focused on supplying the demand amid volatile market. The survey showed that the commercial vehicle market is more stabilized and optimistic than the passenger vehicle market.

Outlook for automotive supplier industry rebounds – almost 40% of suppliers with positive general outlook

Survey conducted between February 8th – 26th, 2021

What is your general outlook for the automotive supplier industry?



! General outlook significantly more positive than during last two years, healthy order intakes drive faster than expected recovery
 ~80% of automotive suppliers expect increasing order volumes in the next 12 months

Note: Displayed percent values without accounting for "N/A" answers. N=40 (September 14th – October 4th, 2020), N=74 (February 8th - 26th, 2021)

Source: McKinsey CLEPA Pulse Check Survey

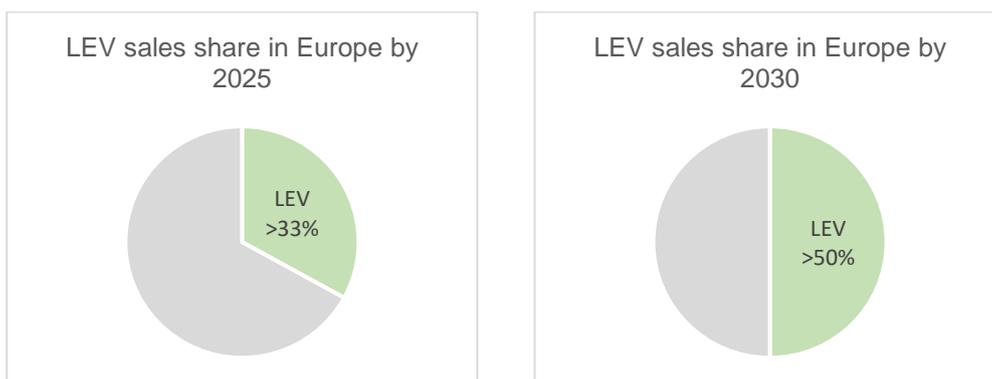
McKinsey & Company

Over 60% of respondents in fact indicate to be impacted by the pandemic and the current difficulties with deliveries of semiconductors and other critical materials, like steel and plastics, and constraints in transport and logistics capacity. Raw material suppliers of forging companies have also extended the lead time up to six months. Further noticing the semiconductor crisis, it is clear that the Suppliers and OEMs must work to increase their visibility on demand.

The structural measures applied since the beginning of pandemic has still in place. Only 4% of respondent do not foresee dramatic change in their businesses in the next 5 years. With the structural changes taking the full effect, suppliers foresee an increase in profitability.

Change is expected to culminate in further consolidation of the sector (70% of respondents rank this number one). 68% refer to an expected shift in profit pools from traditional components to software. Half of respondents point at the increasing importance of activities involving key high-tech components.

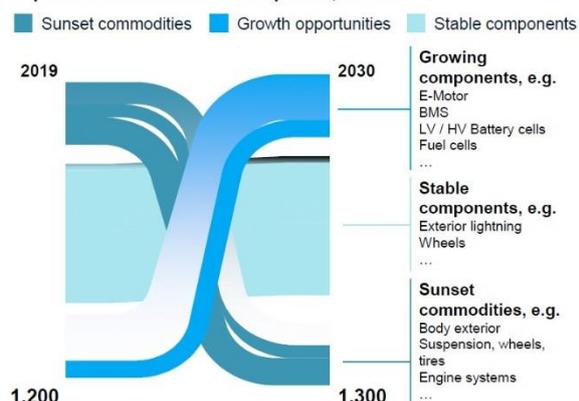
As also the common view for Euroforge members, CLEPA pulse check also showed that for those active in combustion engine related technology, the increasing demand for electrified solutions puts significant pressure on their business model. With global automotive volumes not foreseen to reach beyond 100 million units again any time soon, the overall pie is also shrinking.



According to IHS Markit, Low emission Vehicle (LEV) sales of passenger vehicles, which is the combination of BEV, FCEV and PHEV totals more than 33% of European sales by 2025, where increases more than 50% by 2030.

**Technology-driven portfolio shift:
Component landscape is changing...**

Expected market size development, EUR billions



! Only half of components (by revenue 2030) expected to remain unaffected by portfolio shifts

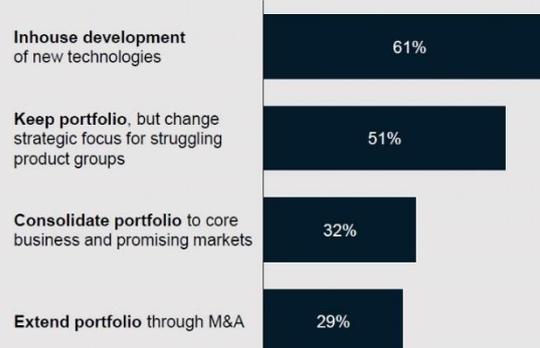
Note: Displayed percent values without accounting for "N/A" answers. N=74 (February 8th - 26th, 2021)
Source: McKinsey CLEPA Pulse Check Survey, McKinsey Center for Future Mobility

... thus suppliers are reviewing and adapting their portfolio

Survey conducted between February 8th - 26th, 2021

>90% of suppliers currently actively reshaping their product portfolio

What type of portfolio changes are particularly being considered?



McKinsey & Company

Nine out of ten suppliers are currently reviewing and adapting their product portfolios. The Pulse Check reflects the various strategies they currently deploy to manage change. Foremost, 61% of respondents ranked in-house development of new technologies a priority,

secondly, 51% opt for a change of strategic focus within the existing portfolio, with consolidation and mergers and acquisitions ranking almost equally third (32%) and fourth (29%). Interestingly, half of suppliers also actively explore markets for their technology solutions outside of the automotive realm, notably in household appliances and charging solutions.