KPMG

cutting through complexity

Global expansion of the Turkish Automotive Supply Sector

Istanbul, 20th November 2014

Agenda

I.	**KPMG Overview**
II.	Recent Trends und Developments
III.	Business opportunities & strategies for Turkish investors / automotive supply companies – Case examples from Germany, Russia and China

KPMG Global

Industry-focused audit, tax and advisory services

155 countries

155.000 Experts

<u>In the last 2 years we have served:</u>

- **40% of the global top 20 Automotive Suppliers**
- **60% of the global top 20 OEMs**
- **In all major automotive markets**

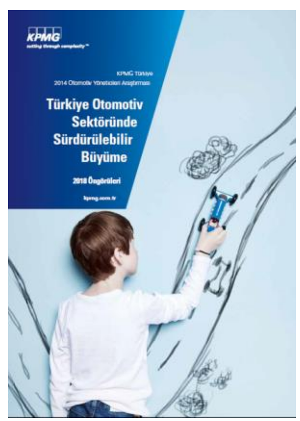
KPMG Türkiye

In Turkey since 1982

900 professionals in İstanbul, Ankara, İzmir

2,000 clients

Audit, tax and advisory services



- KPMG Türkiye Otomotiv Yöneticileri Araştırması
- 200 üst düzey yöneticinin katılımıyla
- Türkçe ve İngilizce

Agenda

I.	KPMG Overview
II.	**Recent Trends und Developments**
III.	Business opportunities & strategies for Turkish investors / automotive supply companies – Case examples from Germany, Russia and China

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (1 of 8)

TRENDS 2020

Automotive Risk Management

Scarcity of resources
New Regulations

Challenges for the Automotive Industry

- **Efficient / intelligent use of material & securing** strategic raw materials
- **Increasing environmental challenges**

What drives the topic?

50% increase of car recalls to previous year

Supply Chain Transparency from the start on:

40% of all claims rooted back to Tier 2 suppliers and beyond

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (2 of 8)

TRENDS 2020

New Technology

Increasing complexity

Production Efficiency

Design to Cost

Challenges for the Automotive Industry

- **Standardized modularization & intelligent production lines**
- Rising requirements for **energy efficiency** & **safety features**
- **Lightweight materials**

What drives the topic?

- Usage of lightweight materials will be **doubled** till 2030

20% In 2025 one out of five car registration will be an e-car

- OEMs are requested to meet CO2-Emission under 95 gram per kilometer till 2020

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (3 of 8)

TRENDS 2020

Big Data

Continuous Improvement

Challenges for the Automotive Industry

- **New communication platforms**
- Management of worldwide available **data**

What drives the topic?

- From 2010 to 2020, the amount of data to be processed will increase by **factor 50**
- Till 2020, 90 million networked cars will be sold in Europe
- In 2011, an OEM received in total 20 gigabyte data from their customers, today they receive **30GB** per day

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (4 of 8)

TRENDS 2020

People

War of Talents Generation Y

Challenges for the Automotive Industry

- **Knowledge Management** of the future

What drives the topic?

35% of all employees of German OEMs are older than 50 years

War of Talents & Generation "Y"

- Continuous development is one of the most important USPs for being an attractive employer

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (5 of 8)

TRENDS 2020

Financial Services

Customer Service

Challenges for the Automotive Industry

- Increasing demand for **insurance, financial** and **other services.**

What drives the topic?

- Diversification of finance and lease products
- Financial Service Power in Emerging Markets will increase in next 6 years by **factor 2**
- Fierce competition among OEMs, banks and independent finance companies
- Changing customer behavior in terms of „new mobility“

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (6 of 8)

TRENDS 2020

New Sales Channels

OnlineSales platforms

Challenges for the Automotive Industry

- **Pressure** on **traditional sales channels**
- **New communication & sales behaviors**

What drives the topic?

- Change in customer behavior and impact out of new technologies

50% of all German car dealerships are at risk to go into insolvency

- New market models and scrutinizing of existing market player

44% of all car-owner in Germany consider to buy their next car online

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (7 of 8)

TRENDS 2020

Smart Mobility

Urbanisation / Carsharing E-Mobility Clean driving

Challenges for the Automotive Industry

- Fundamental change of **ownership structure**
- **Security & new mobile technologies**
- **New functionalities, infrastructural changes** & **business models**
- **New market players** attack traditional OEMs

What drives the topic?

44% of experts stated Smart Mobility will be profitable in 10 years.

25 m West European city in-habitants will use mo-bility solutions in 2029

8 megatrends will have a significant impact on the Automotive Industry and bring various challenges. (8 of 8)

TRENDS 2020

Increasing Globalization

Shift to Emerging Markets

Challenges for the Automotive Industry

- Optimization of **industrial footprint**
- **"Glocal" approach** of R&D and Production

What drives the topic?

35% of vehicles will be produced in home countries of OEMs – in 2010 it was 60%

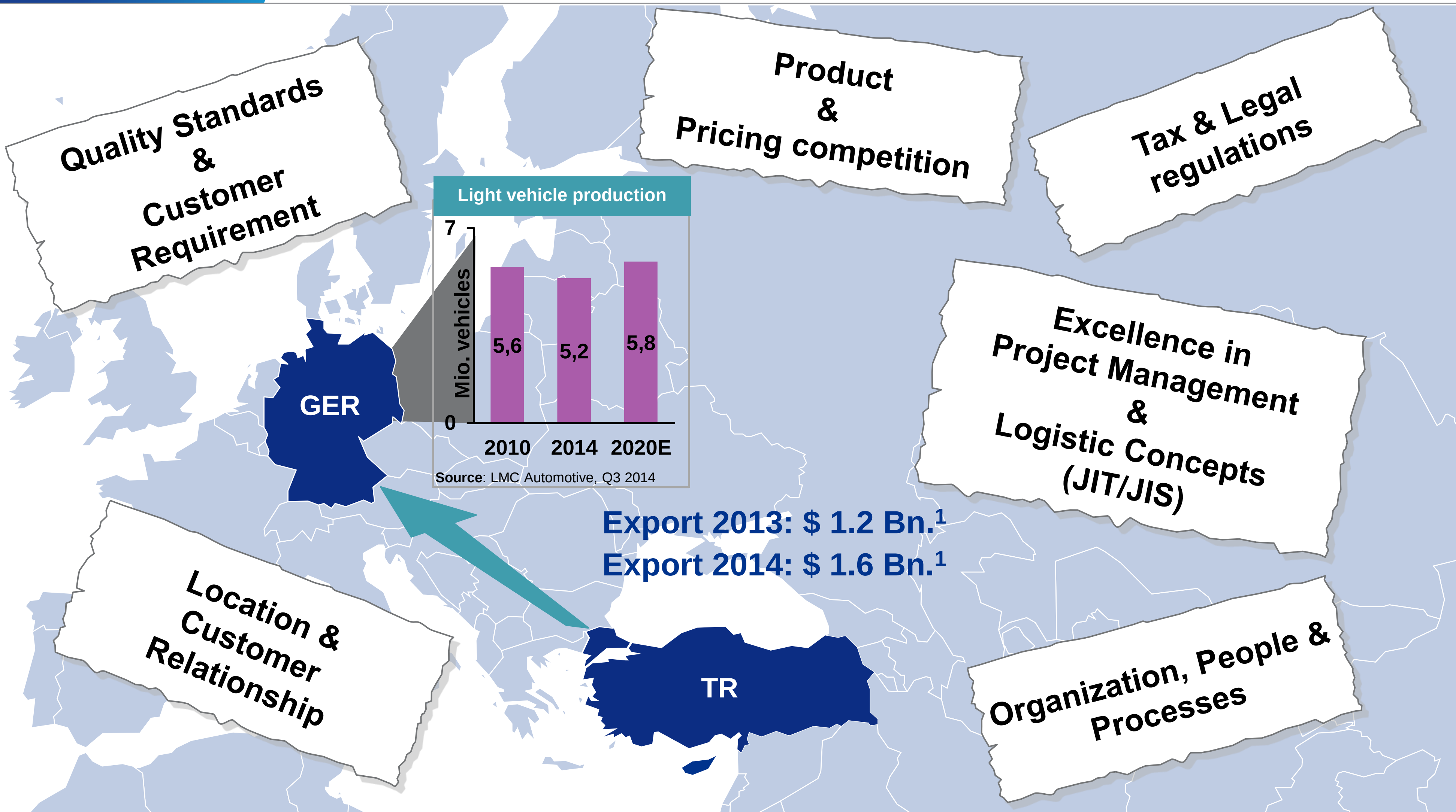
- Interlocking of Supply Chain Streams and production facilities are one of the key success factors

72% of experts point out: Going East of Supply Chains is an ongoing trend with challenges

Agenda

I.	KPMG Overview
II.	Recent Trends und Developments
III.	**Business opportunities & strategies for Turkish investors / automotive supply companies – Case examples from Germany, Russia and China**

The German Automotive Industry is a mature market with competitive Suppliers. Beside pricing the product quality defines successful business.



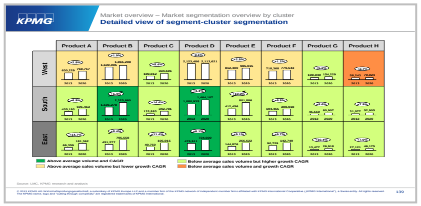
Source: (1) TUIK Q3 2014

Case Example – Market Entry Germany / Europe of a Chinese OEM

Ongoing Case

Market Entry Approach

Pan European Market Analysis

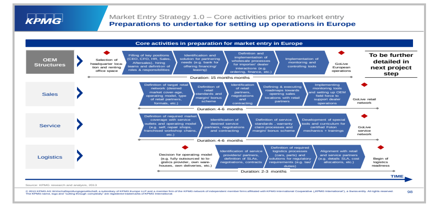


- Detailed macroeconomic analysis and market development outlook
- Target industry analysis and initial country and segment attractiveness ranking
- Regulatory environment assessment
- Initial customer segmentation based on secondary research
- Development of selection criteria for target markets

Target Market Analysis

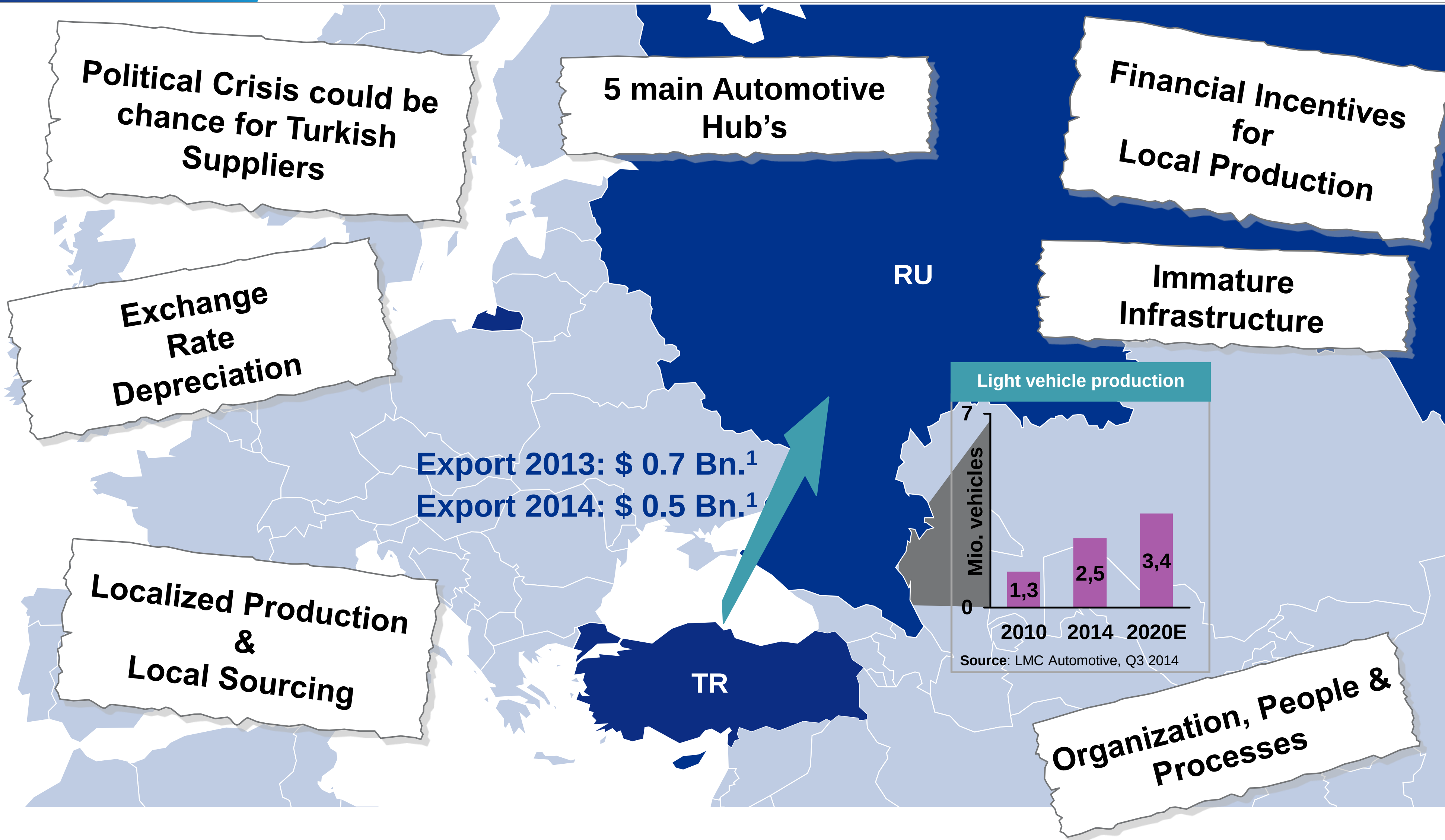
- Evaluation of addressable market potential (based on market research and initial segmentation)
- Target market selection and in-depth analysis
- Improved customer segmentation based on focus groups and quantitative research
- Product and price benchmarking (key competitors)
- Evaluation of key brand building factors

Market Entry Strategy and Roadmap



- Target market entry sequence
- Sales forecast and business case setup
- Entry mode evaluation and selection for each target market
- Product feature and pricing strategy
- Long-term product portfolio strategy
- Brand strategy concept and brand development roadmap
- Provision of roll-out and market activity roadmap

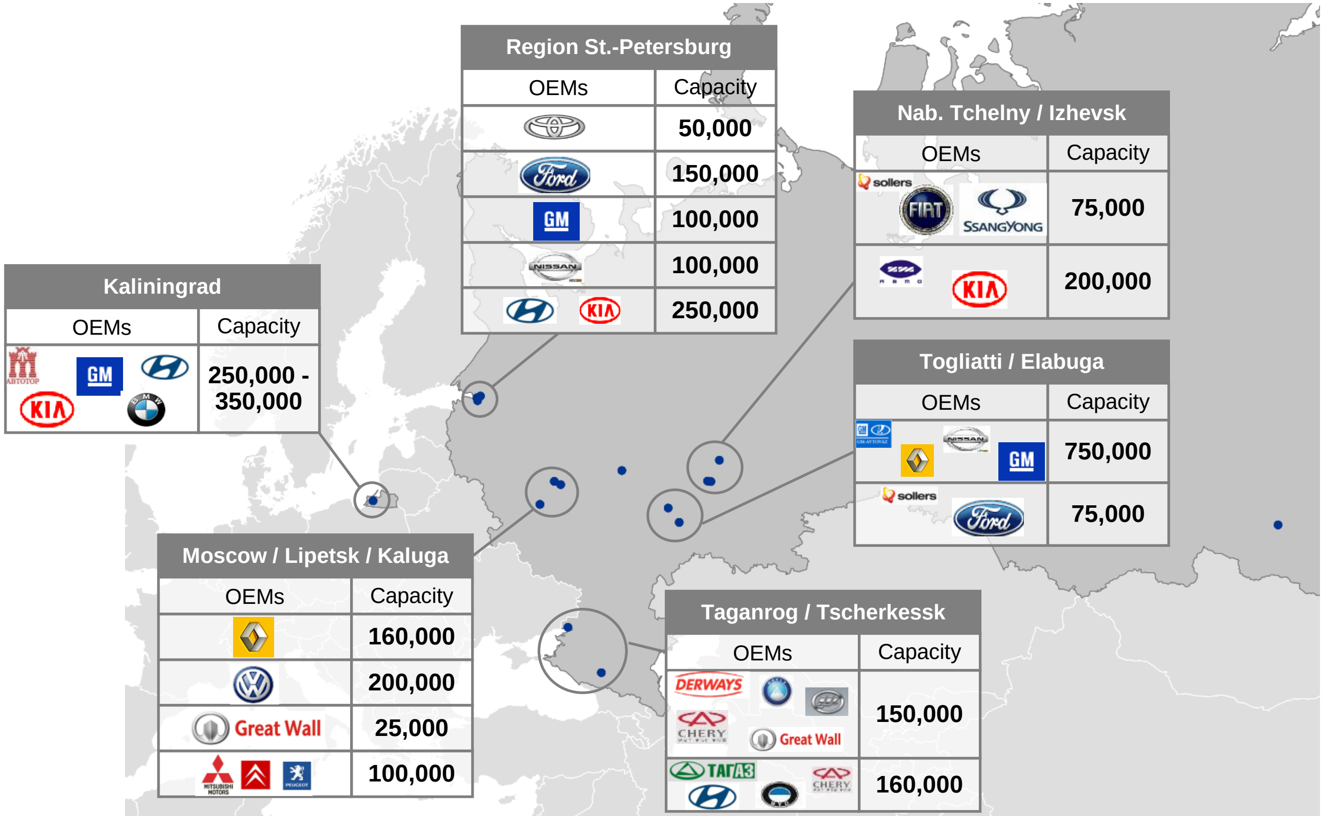
The political crisis between Russia and the EU could create opportunities for Turkish Automotive Suppliers.



Source: (1) TUIK Q3 2014

Russia – OEM Presence & local production or assembly capacities

Production capacity in major automotive clusters in Russia and local content of key OEMs



OEMs	Sales in Russia	Local content
	2013	
Hyundai Group	378,050	47%
VW	279,853	50%
Renault / Avtoframos	210,099	66-75%
GM / Avtovaz	174,649	95%
Toyota	169,438	15-20%
Nissan	146,319	32%
PSA / Mitsubishi	141,570	10-33%
Ford / Sollers	92,792	10-30%
GM Auto	81,421	15-20%
Geely	27,263	5%
SsangYong / Sollers	34,055	*96%**
Lifan	27,467	*74%**

- Most of the leading international OEMs already serve the Russian market through local production in accordance with local content regulations or assembly in cooperation with Russian partners (e.g. Derways)
- After a longer period of local assembly, several OEMs have announced to further localize their production by investing in own plants: e.g. Lifan (announced in 07/2014, targeted capacity 100,000), Great Wall (announced in 05/2014, targeted capacity 150,000) and Chery (announced in 08/2014, targeted capacity not specified)

Source: LMC, Avtostat, Ministry of Economic Development, companies homepages, expert.ru, avoreview
Legend: * % of total sales in Russia, that is assembled locally