



BRAZILIAN OEM AUTOPARTS SCENARIO

- Purposes**
- ✓ *measure the Brazilian automotive market and to evaluate the market trends*
 - ✓ *map the current OEM Brazilian autoparts industry and evaluate its evolution*
 - ✓ *underline the key factors for a foreign autoparts company coming in Brazil*
- Target**
- ✓ *foreign autoparts companies for developing OEM business in Brazil*

Presentation Summary

1. Global automotive market forecast

- Worldwide forecast (2012-2016)
- South America forecast (2013-2017)

2. Brazilian automotive outlines - 2012

- Automotive macro data
- Investments for automotive
- Autovehicles production & sales
- Autovehicles import / export
- Carmakers ranking
- Carmakers plants (current and new entries)

3. Brazilian automotive market trends

- Sales & production trends
- Main key factors
- Brazilian forecast (2013-2017)

4. Brazilian autoparts industry - 2012

- Autoparts industry performance
- Sales & investments
- Companies profile
- Autoparts import / export & trade balance
- Aftermarket
- Financial indices
- Main key factors

5. Foreign autoparts suppliers coming in Brazil

- Opportunities
- Barriers
- Business models
- Needed profiles

6. Debriefing

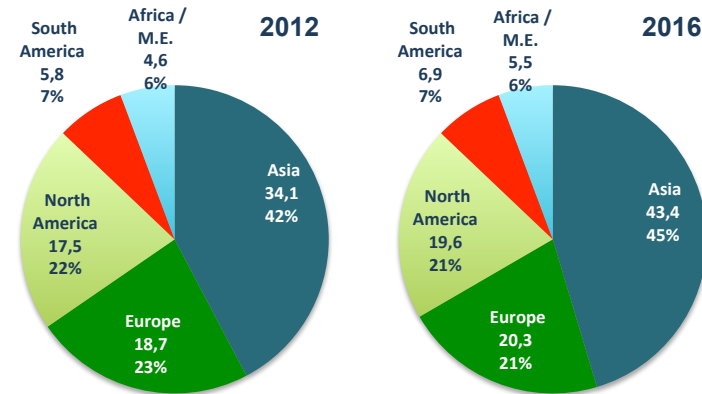
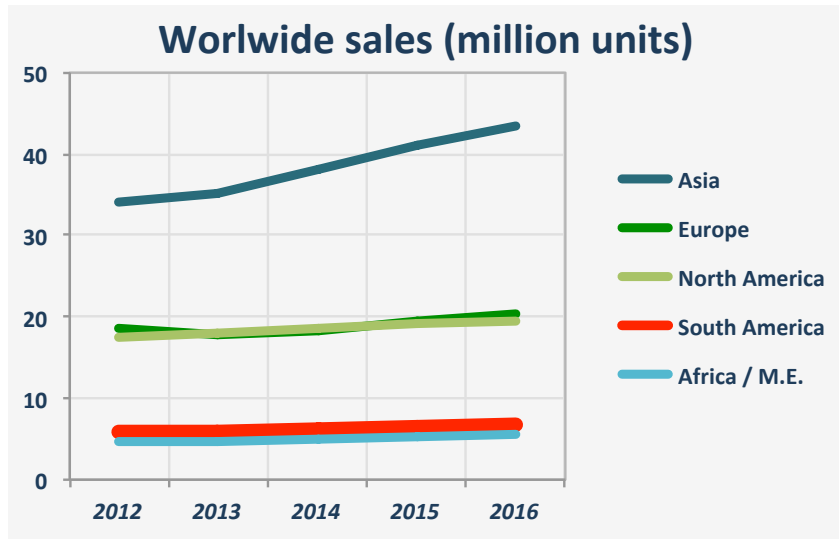
- Conclusions
- Questions & Answers

1. Global automotive market forecast

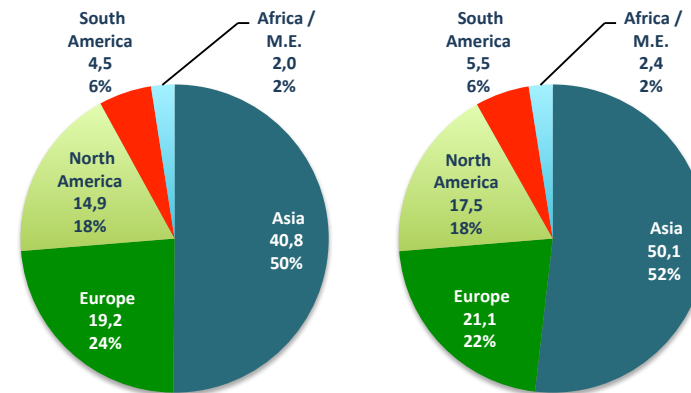
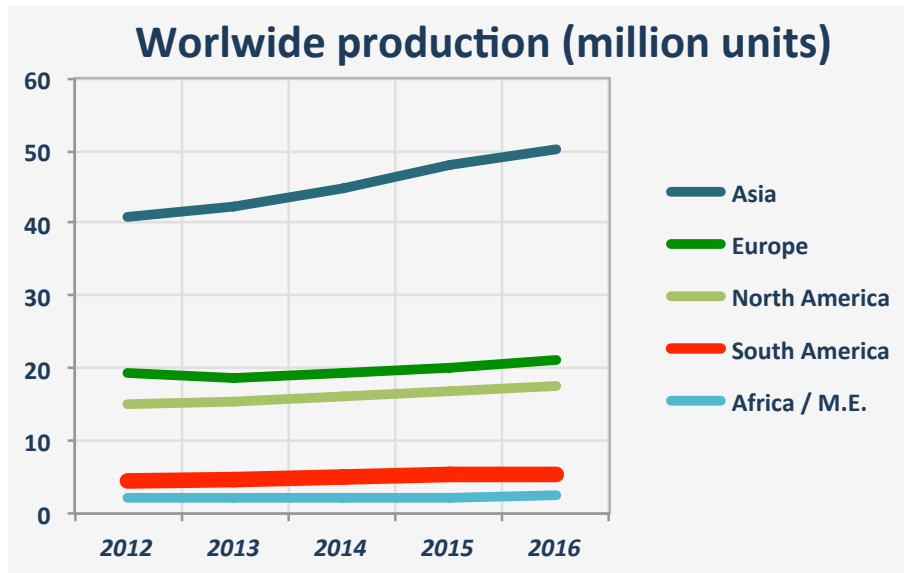
- **Worldwide forecast (2012-2016)**
- **South America forecast (2013-2017)**

1 - Global automotive market forecast

Worldwide forecast (2012-2016)



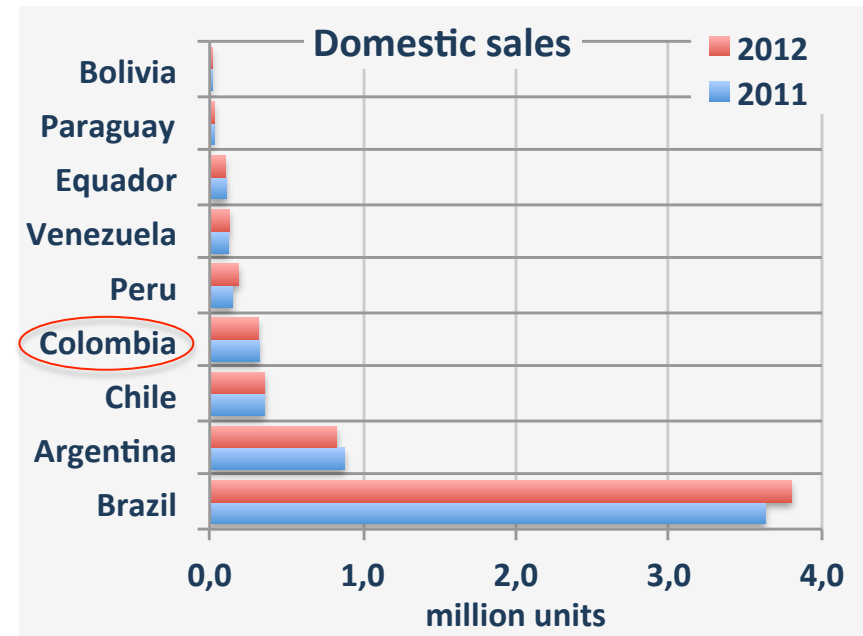
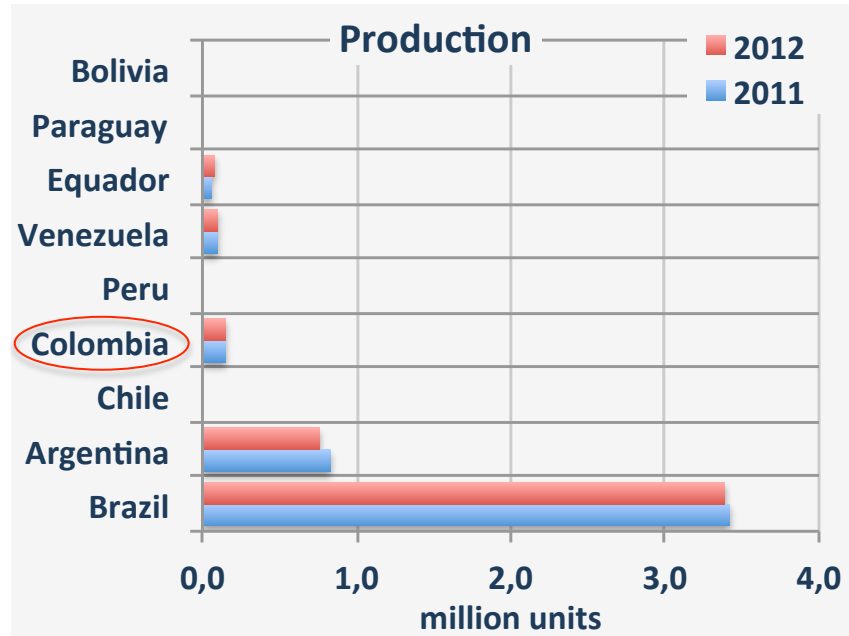
	2012	2016	Change
WORLDWIDE	81 million	95 million	+18%
SOUTH AMERICA	5,8 million	6,9 million	+19%



	2012	2016	Change
WORLDWIDE	82 million	97 million	+19%
SOUTH AMERICA	4,5 million	5,5 million	+22%

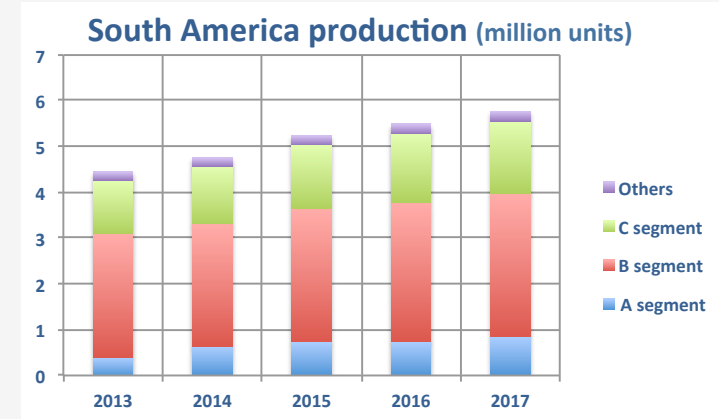
1 - Global automotive market forecast

South America forecast (2013-2017)



➤ According to IHS, the segmentation of the South America production in 2013-2017 will be as shown at the side, where:

- A segment + 115% up to 0,8 million units in 2017
- B segment + 15% up to 3,1 million units in 2017
- C segment + 36% up to 1,6 million units in 2017
- Others + 19% up to 0,2 million units in 2017



2. Brazilian automotive outlines - 2012

- Automotive macro data
- Investments for automotive
- Autovehicles production & sales
- Autovehicles import / export
- Carmakers ranking
- Carmakers plants (current and new entries)

➤ ANFAVEA members



- AGCO do BRASIL
- AGRALE
- CAO A Hyundai
- CATERPILLAR BRASIL
- CNH LATIN AMERICA
- DAF PACCAR
- FIAT AUTOMOVEIS
- FORD MOTOR COMPANY
- GENERAL MOTORS do BRASIL
- HONDA AUTOMOVEIS do BRASIL
- HYUNDAI MOTOR BRASIL
- INTERNATIONAL
- IVECO LATIN AMERICA
- JOHN DEERE BRASIL
- KARMANN GHIA
- KOMATSU do BRASIL
- MAHINDRA Bramont
- MAN LATIN AMERICA
- MERCEDES-BENZ do BRASIL
- MITSUBISHI – MMC do BRASIL
- NISSAN do BRASIL
- PEUGEOT CITROEN do BRASIL
- RENAULT do BRASIL
- SCANIA LATIN AMERICA
- TOYOTA do BRASIL
- VALTRA do BRASIL
- VOLKSWAGEN do BRASIL
- VOLVO do BRASIL

➤ Companies

- 28 carmakers with 58 plants
- over 500 autoparts main industries
- over 5100 dealers
- sectorial ≈ 200.000 companies

➤ Production capacity

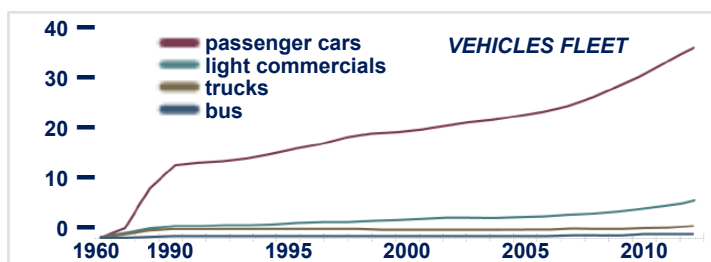
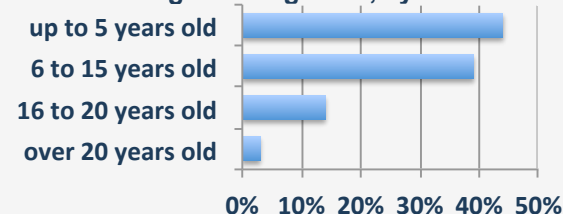
- Autovehicles: 4,5 million
- Agricultural: 110 thousand

➤ Economics

- Revenues: US\$ 107 billion
- GDP share: 5% x total & 21% x industrial
- Tributes generation: US\$ 25 billion
- Foreign market: export: US\$ 23 billion – import: US\$ 33 billion
- Investments: US\$ 68 billion
- Employment: 1,5 million people

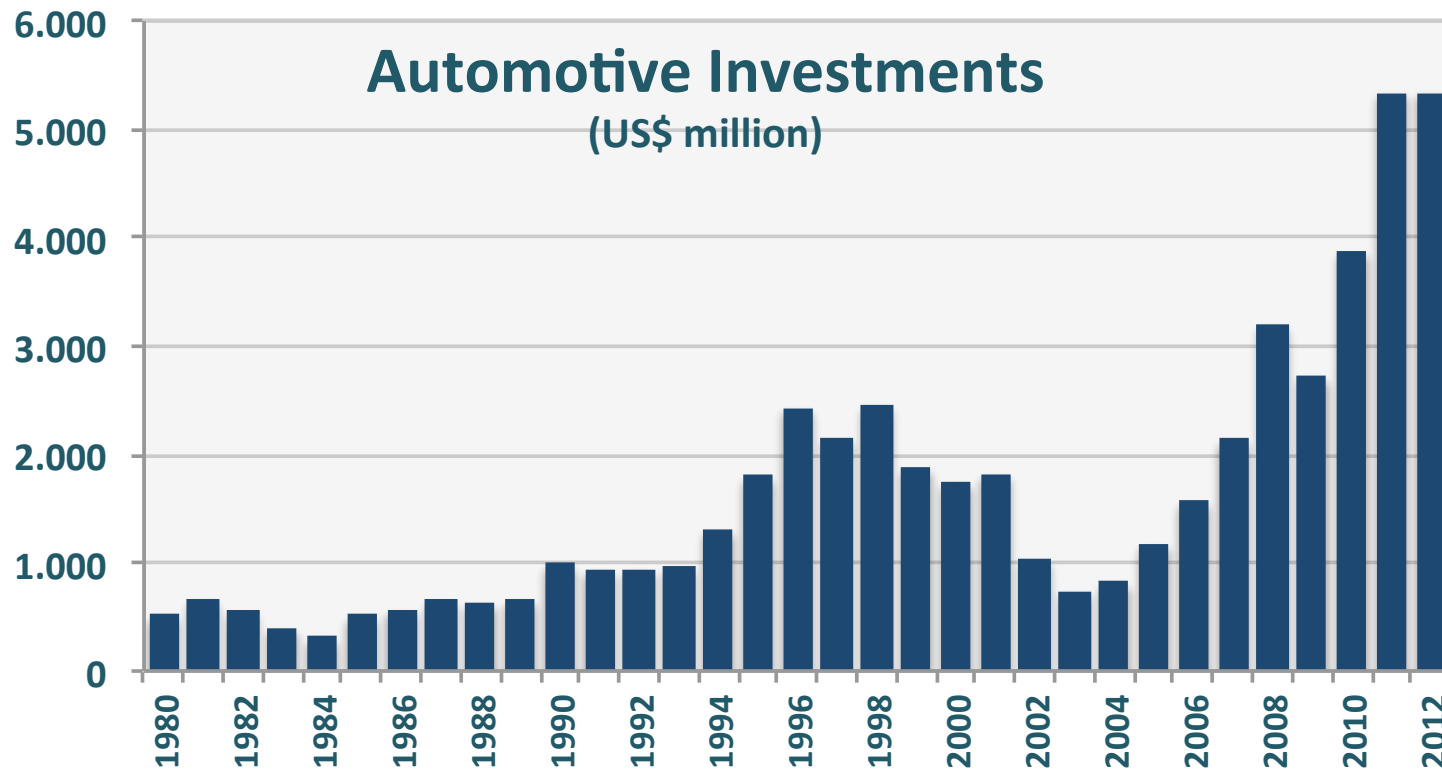
➤ Fleet

- over 38 million vehicles operating
- with a ratio of 5 habitants per vehicles (*being US = 1,2 and Europe = 1,8*)
- with an average fleet age of 8,8 years:



2 - Brazilian automotive market outlines - 2012

Investments for automotive – 1980/2012

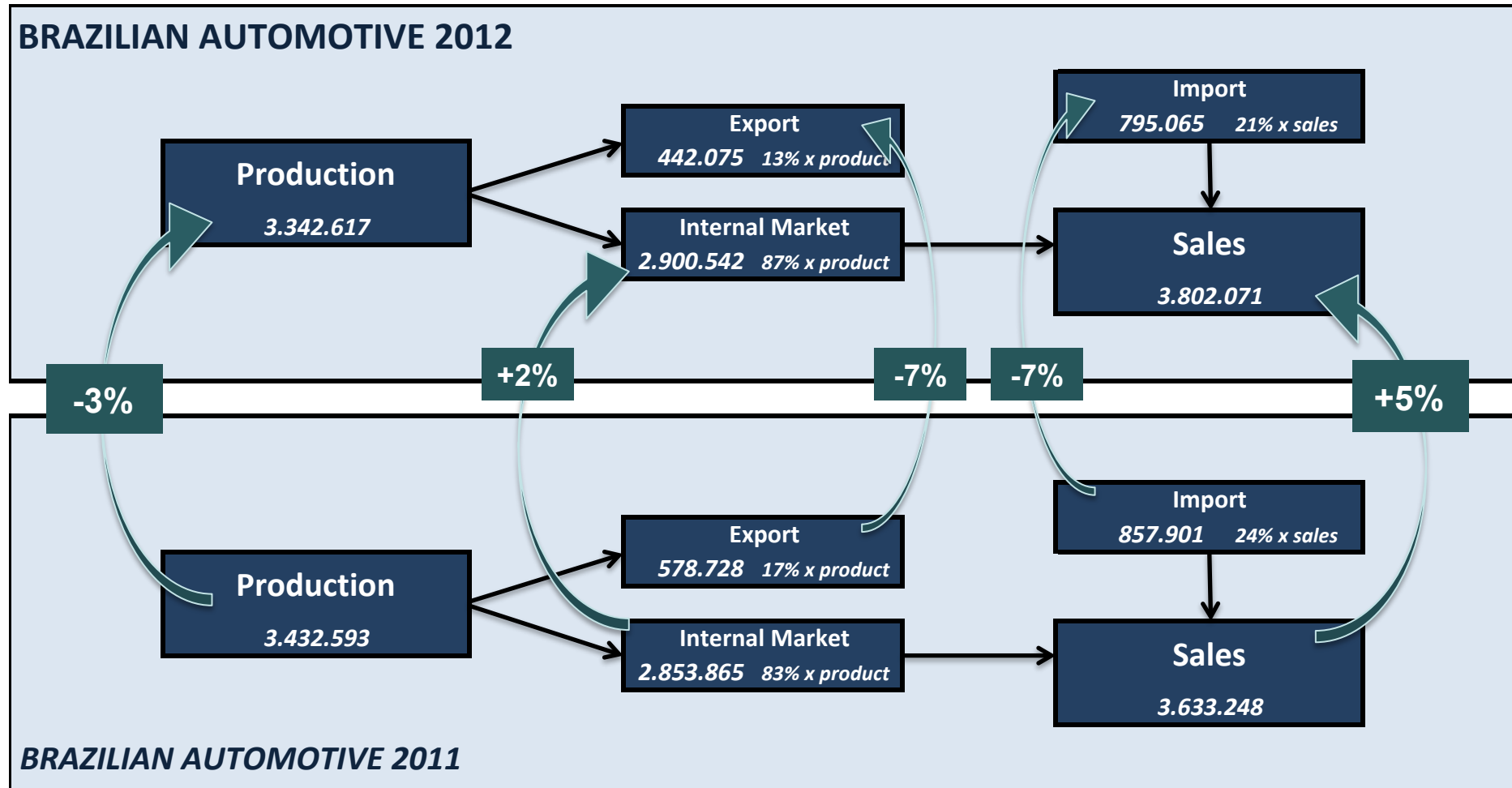


The investments planned in 2013 ÷ 2015 would be significantly higher, mainly for:

- Carmakers: new plants or capacity improvement & new vehicles
- Autoparts: capacity improvement & new products
- New plants of new foreign carmakers and suppliers (mainly from China)

2 - Brazilian automotive market outlines – 2012

Autovehicles production & sales



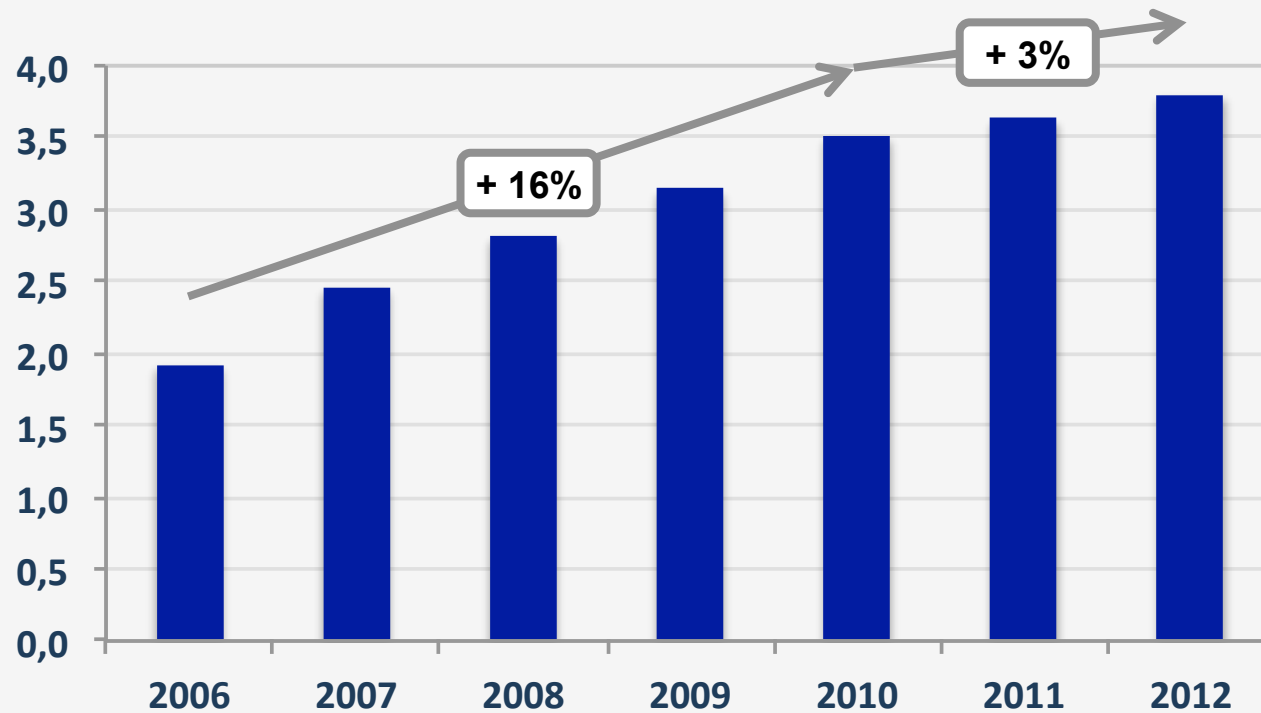
WORLDWIDE AUTOMOTIVE RANKING

- 7th producer
- 4th domestic market

2 - Brazilian automotive market outlines – 2012

Autovehicles production & sales

HISTORICAL SALES (million units)
and CAGR (Compounded Annual Growth Rate)



After years of good growth, the sales slowed down considerably since 2011

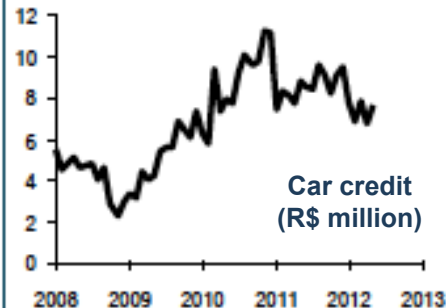
REASONS FOR CURRENT MARKET WEAKNESSES

1 ECONOMIC SLOWDOWN



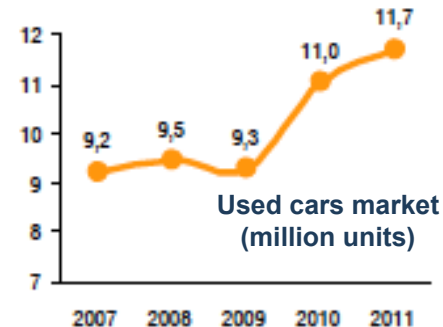
- GDP growth have come to a stall on the recent past
- Reflects global financial situation

2 FINANCING RESTRICTION



- Unfavourable financing conditions due to global crisis
- Higher interest rate for car credits

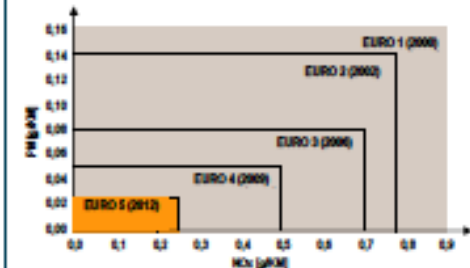
3 INCREASED USED CARS MARKET



- Increasing used cars market in direct competition with new cars market
- Residual price uncertainties

4 EURO 5 IMPLEMENTATION

NOx and PM emissions standards for diesel vehicles in Brazil



In Jan 2012 the standards moved from Euro3 to Euro5, with:

- a strong pre-buy effect in 2011
- consequently a lower trucks demand in 2012

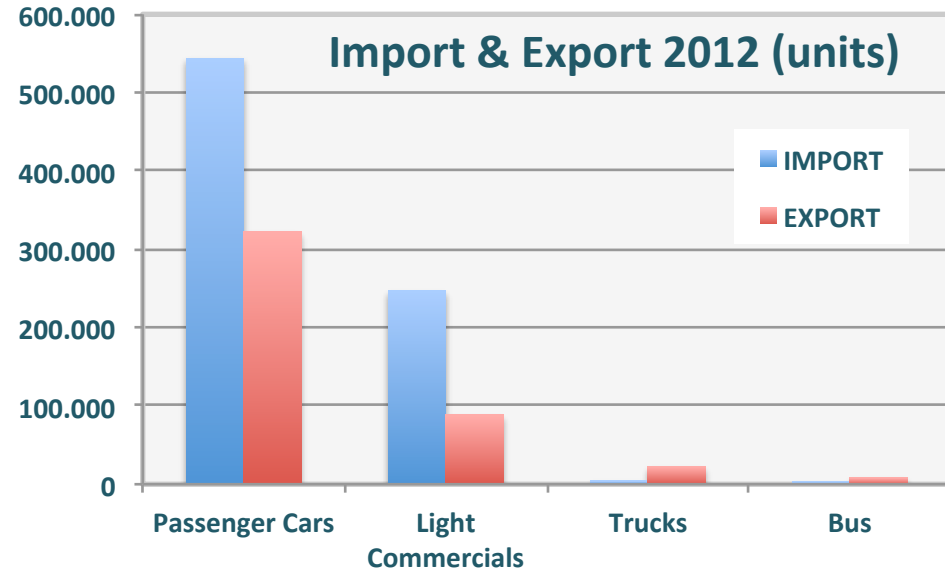
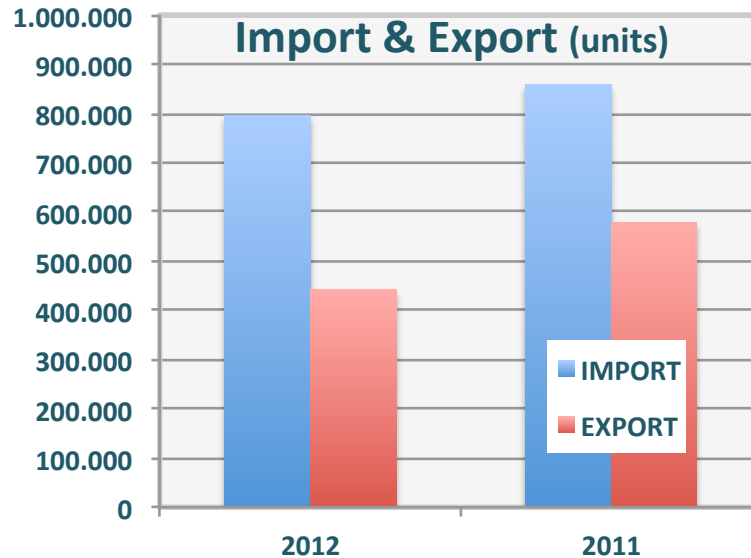
IMPACT



However, the 2013 first half was the historical best half, with a sale of 1.8 million units, 4.8% more than in the same period of last year.

2 - Brazilian automotive market outlines – 2012

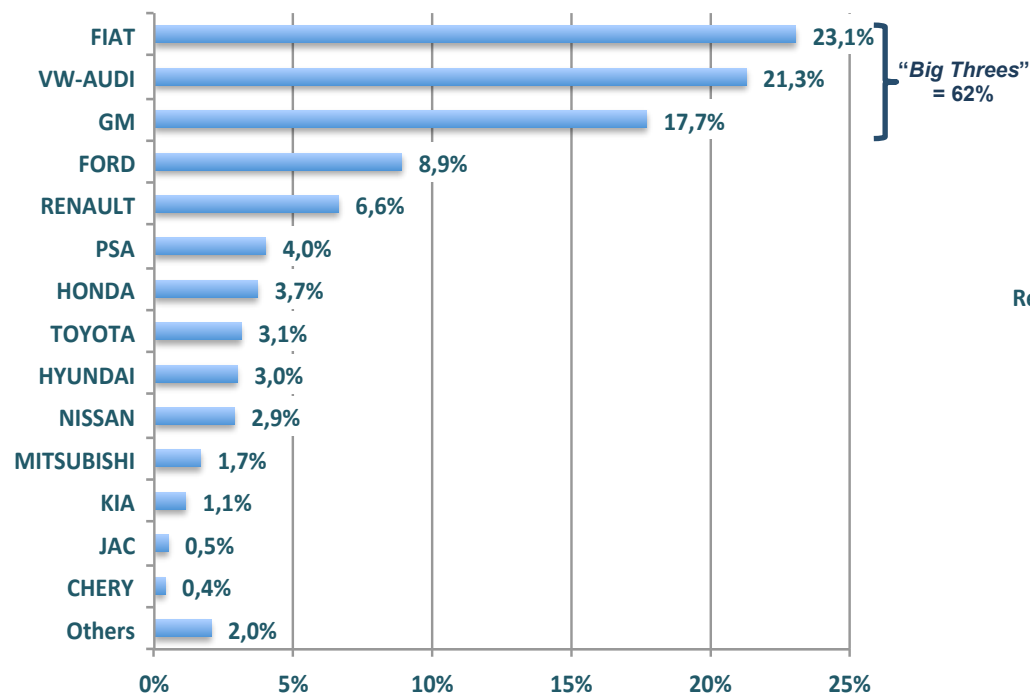
Autovehicles import / export



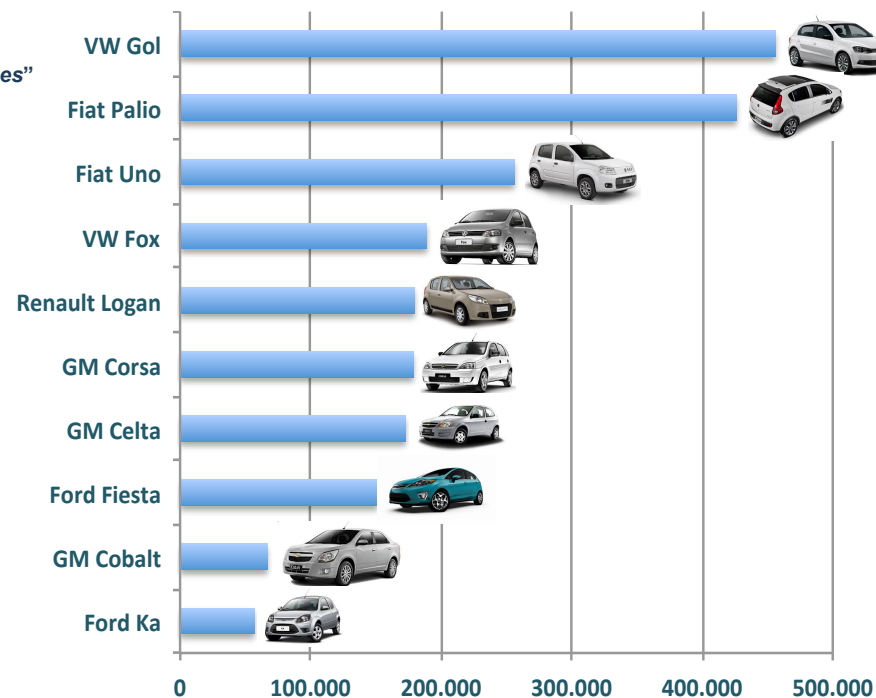
- The balance continues to worsen, confirming such trend since 2008.
- The import was supported by the success of the Korean and Chinese vehicles and of the SUV's.
- The export was supported mainly by the sales in Latin America.

The negative balance was one of the main factor of the production downturn in 2012

Passenger Cars & Light Commercial



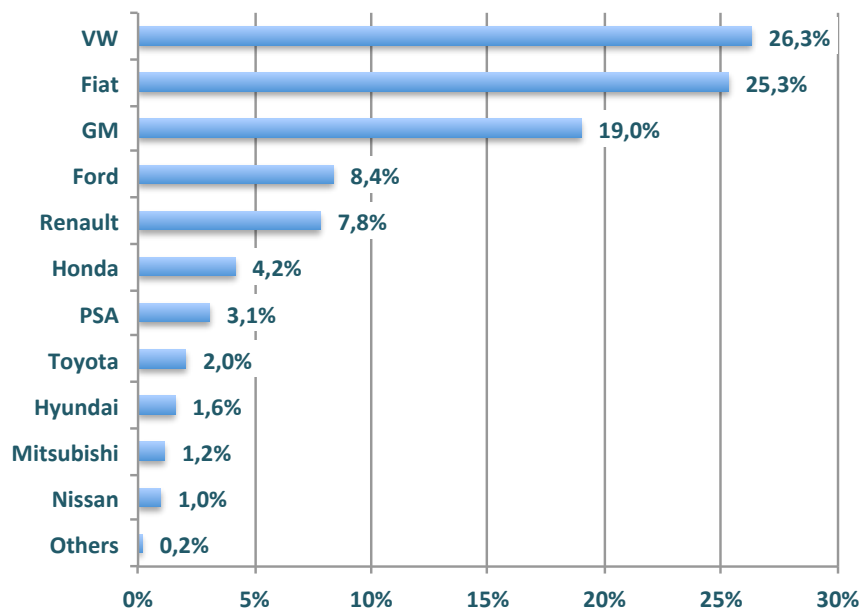
Best-selling “car families”



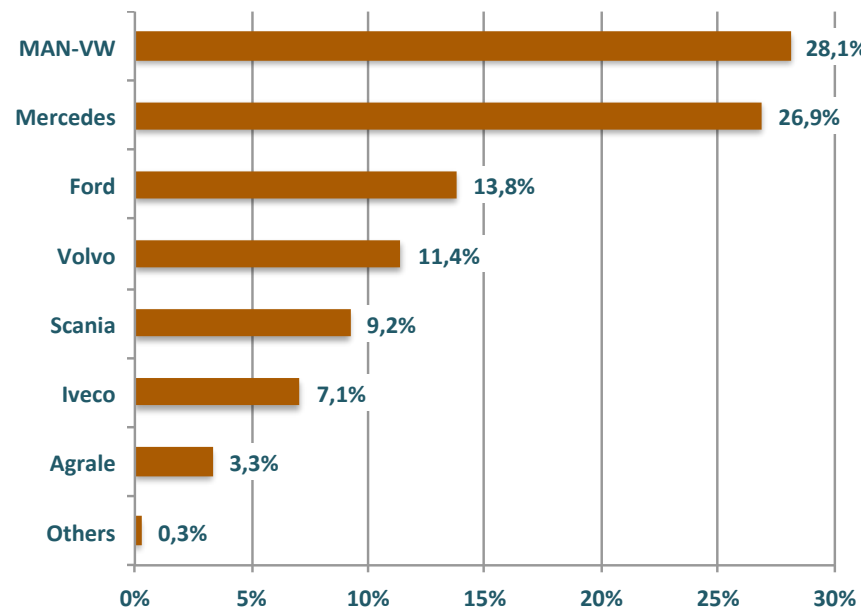
- Fiat + VW + GM (the “Big Threes”) together account for 62% of sales (*it was 75% in 2006*).
- Fiat confirms its leadership in sales for the 11th consecutive year.
- VW Gol is the best-selling “car family” (*and the VW Gol hatch is the best-seller car for the 25th consecutive year*).

Carmakers ranking – production

Passenger cars & Light commercials



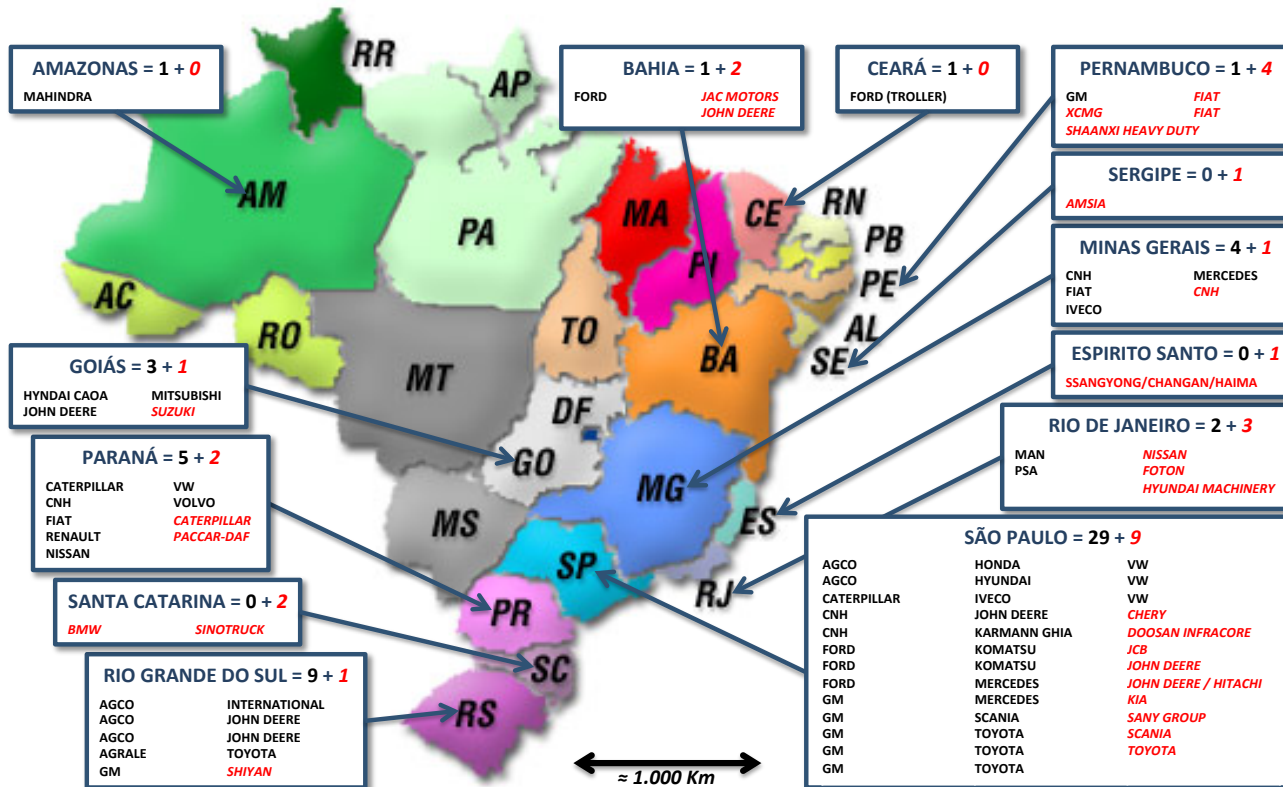
Trucks & Bus



- FIAT + VW + GM (the “*Big Threes*”) together account for 69% of cars production (75% in 2006).
- MAN + MERCEDES + FORD together account for 70% of trucks & bus production (76% in 2006).
- Note the merge, occurred in end 2008, of the trucks & bus operations between MAN and VW.

2 - Brazilian automotive market outlines - 2012

Carmakers plants (current and new entries)

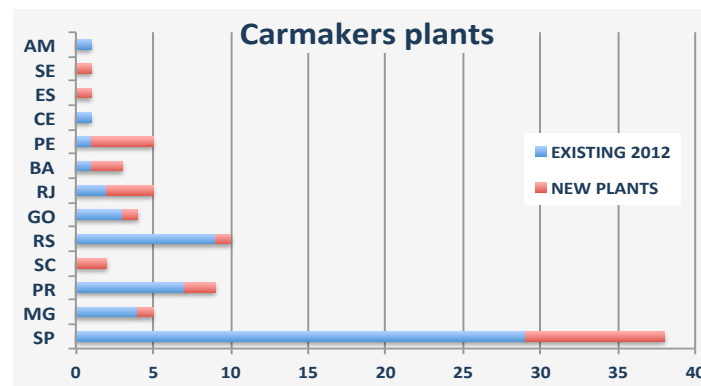


TOTAL FORECAST IN 2016: 85 plants

➤ 58 existing plants (updated end 2012)

➤ 27 new plants (planned 2013-2016):

- 7 from China:
 - Chery
 - Foton
 - JAC
 - Shaanxi
 - Shiyan
 - Sinotruck
 - Ssangyong
- 2 from US:
 - Amsia
 - Paccar DAF
- 1 from Germany:
 - BMW
- 1 from Korea:
 - Kia
- 1 from Japan:
 - Suzuki



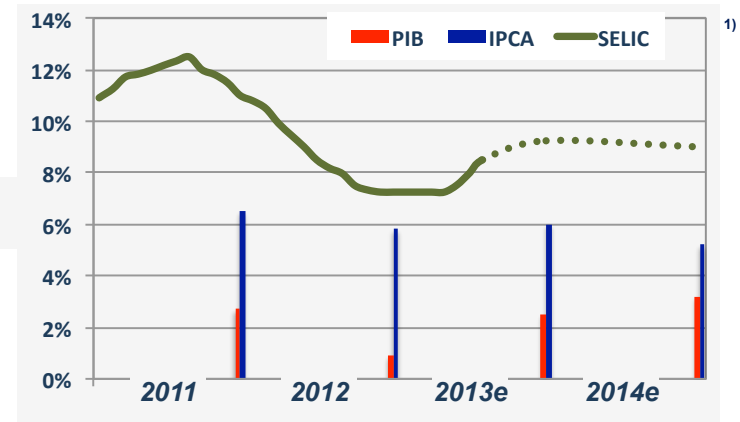
3. Brazilian automotive market trends

- **Automotive Sales & Production trends**
- **Main key factors**
- **Brazilian forecast (2013-2017)**

The future growth of the Brazilian automotive industry is based on three fundamental trends

1 ECONOMIC DEVELOPMENT

The GDP in Brazil will return to former growth, mainly driven by stable inflation and controlled interest rates



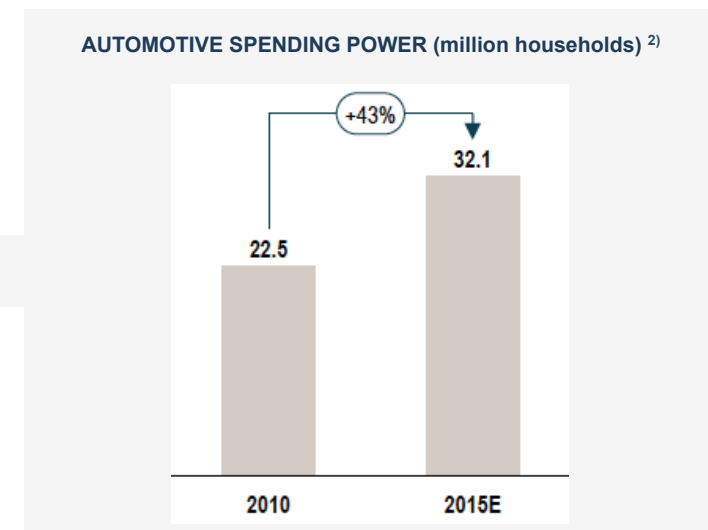
3 MEGA-EVENTS & MEGA-CONSTRUCTIONS



The upcoming events (like World Football Cup and Olympic Games) and energy and infrastructure investments will increase demand in the next years

2 INCREASING SPENDEABLE INCOME

The positive economic development will increase the number of households that can afford to buy a car

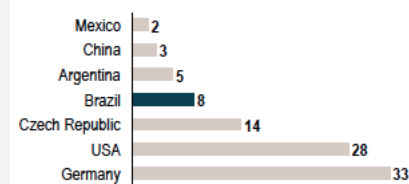


1) PIB = GDP – IPCA = inflation rate – SELIC = official interest rate
 2) Number of householders with spending power > R\$ 28.000 per year

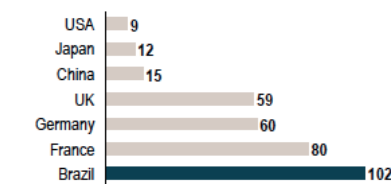


- **High and strongly increasing labour cost.**
- **Lower productivity as other automotive Countries.**
- **High cost of “doing business in Brazil”, like energy, logistics, bureaucracy, taxes, ... (the so-called “custo Brasil”):**

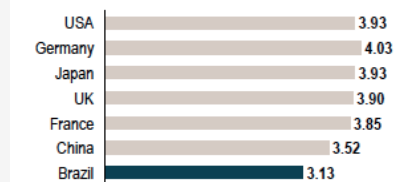
Labor costs per hour ¹⁾ [USD]



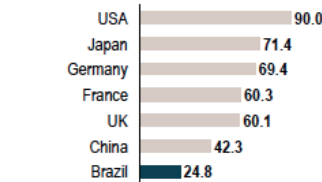
Social charges [% of base salary]



Logistics Performance Index



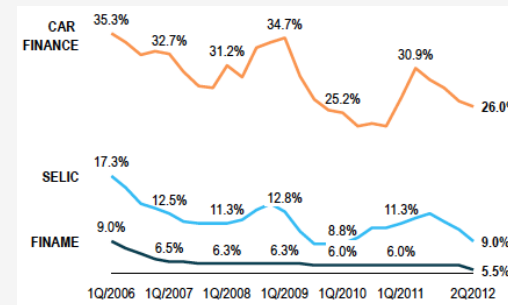
Competitiveness Index



- **Unfavourable exchange rate.**
- **Heavy burden on import taxes and significantly complex operations for importing.**
- **Uncertainties about the solidity of the real economy in the coming years.**



- **Increase of IPI (“industrial product tax”) for all vehicles sales by 30 points, with reduction up to 0 for locally produced vehicles.**
- **Re-negotiation of free trade agreements with foreign Countries (Mexico, Argentina, etc.).**
- **Lower interest rates for FINAME financing with local content requirements & better conditions for financing the vehicles purchase (ex. commercial vehicles, trucks):**



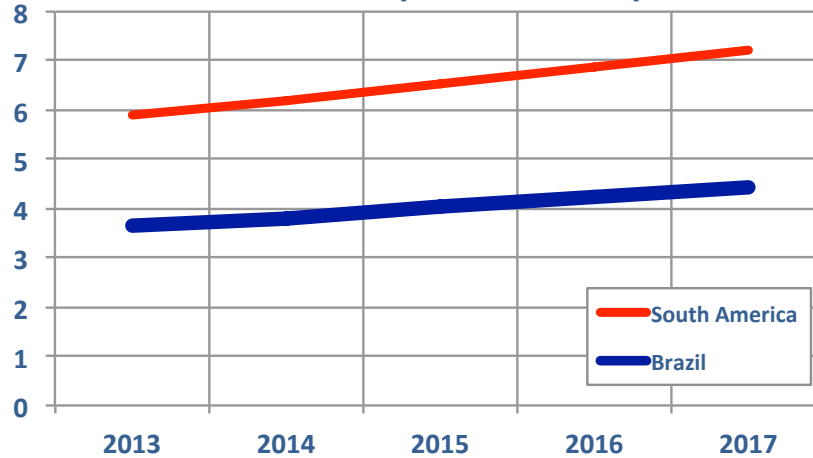
- **Higher competition and newcomers will imply wider offer at lower prices.**
- **Forecast of sustained demand from the emerging middle class.**
- **Establishing programs to encourage exports.**

1) Salary including benefits and social charges

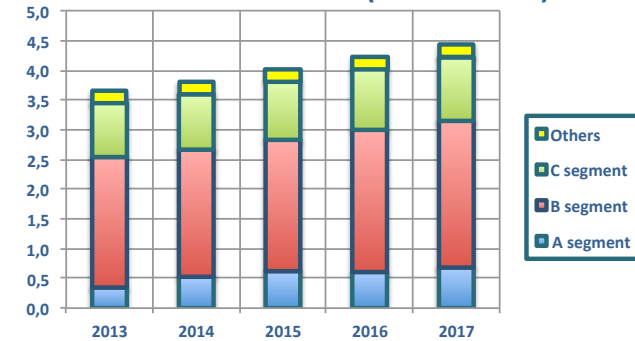
1 - Global automotive market forecast

Brazilian forecast (2013-2017)

Brazilian sales (million units)

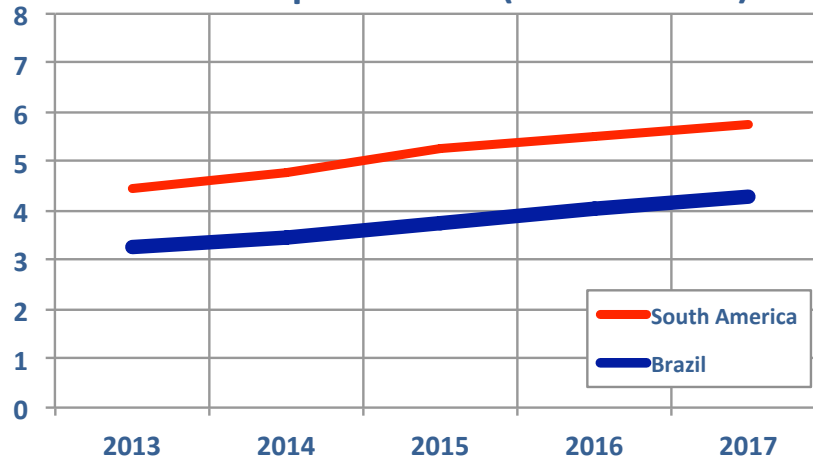


Brazilian sales (million units)

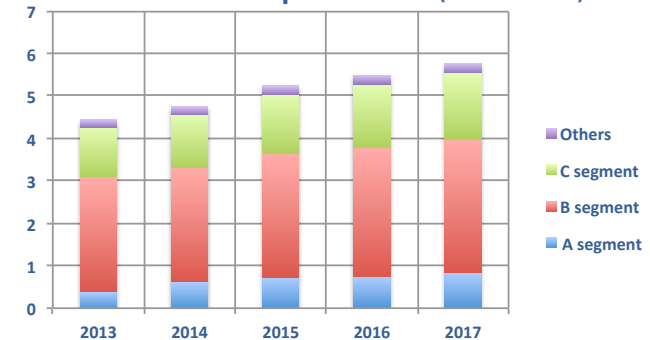


	2102	2017	
SOUTH AMERICA	5,9 million	7,2 million	+23%
BRAZIL	3,7 million	4,4 million	+21%

Brazilian production (million units)



South America production (million units)



	2102	2017	
SOUTH AMERICA	4,5 million	5,8 million	+30%
BRAZIL	3,3 million	4,3 million	+31%

4. Brazilian autoparts industry – 2012

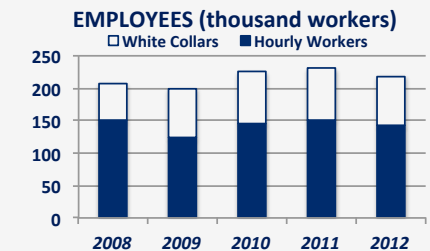
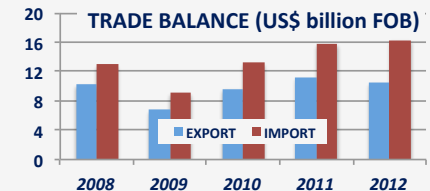
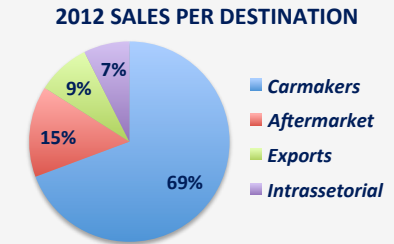
- **Autoparts industry performance**
- **Sales & investments**
- **Companies profile**
- **Autoparts import / export & trade balance**
- **Aftermarket**
- **Financial indices**
- **Main key factors**

➤ Companies

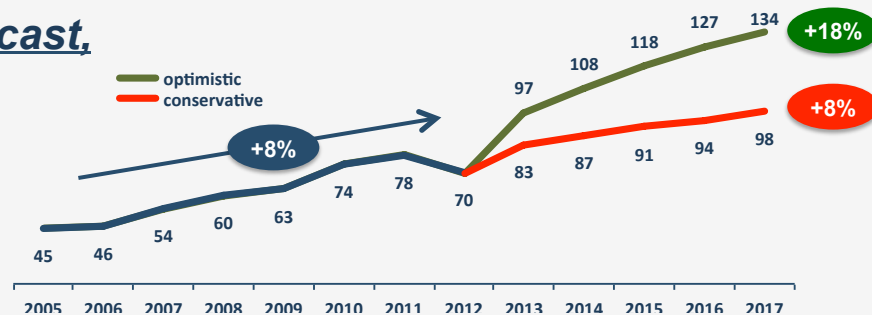
- over 500 companies associated to SINDIPEÇAS¹⁾ and ABIPEÇAS²⁾
- over 700 autoparts main plants
- sectorial ≈ 200.000 companies

➤ Economics

- Revenues: US\$ 42 billion
 - 69% assemblers OEM's
 - 15% aftermarket
 - 9% export
 - 7% intrasectorial
- Foreign market:
 - export: US\$ 10,4 billion
 - import: US\$ 16,3 billion
- Investments: US\$ 1,9 billion (4,5% on sales)
- Employment: total 218 thousand people
 - hourly workers: 142 thousand people
 - white collars: 76 thousand people



➤ OEM autoparts market forecast, without export (R\$ billion)

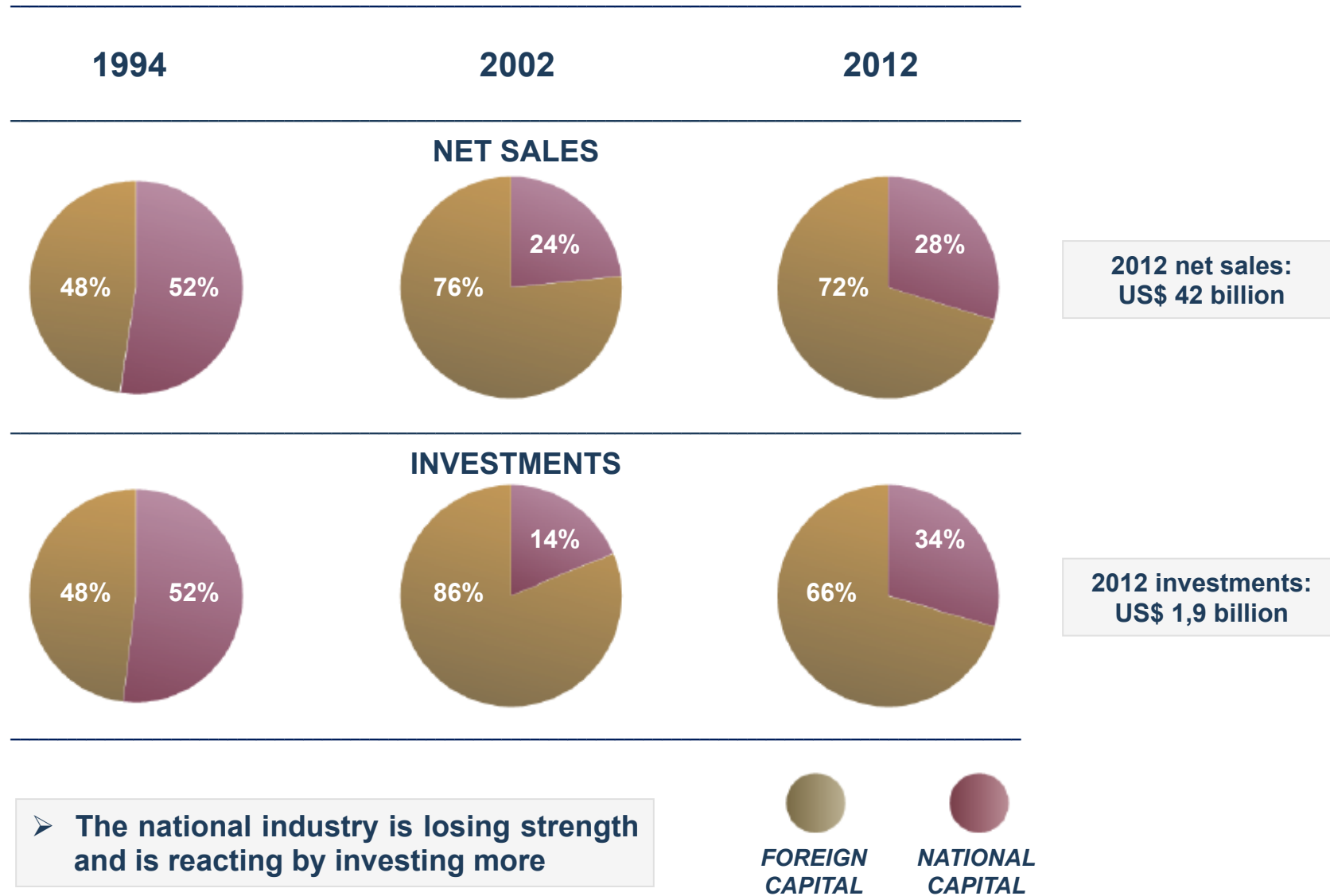


1) SINDIPEÇAS: Sindicato Nacional da Industria de Componentes para Veiculos Automotores

2) ABIPEÇAS: Associação Brasileira da Industria de Autopeças

4 - Brazilian autoparts industry - 2012

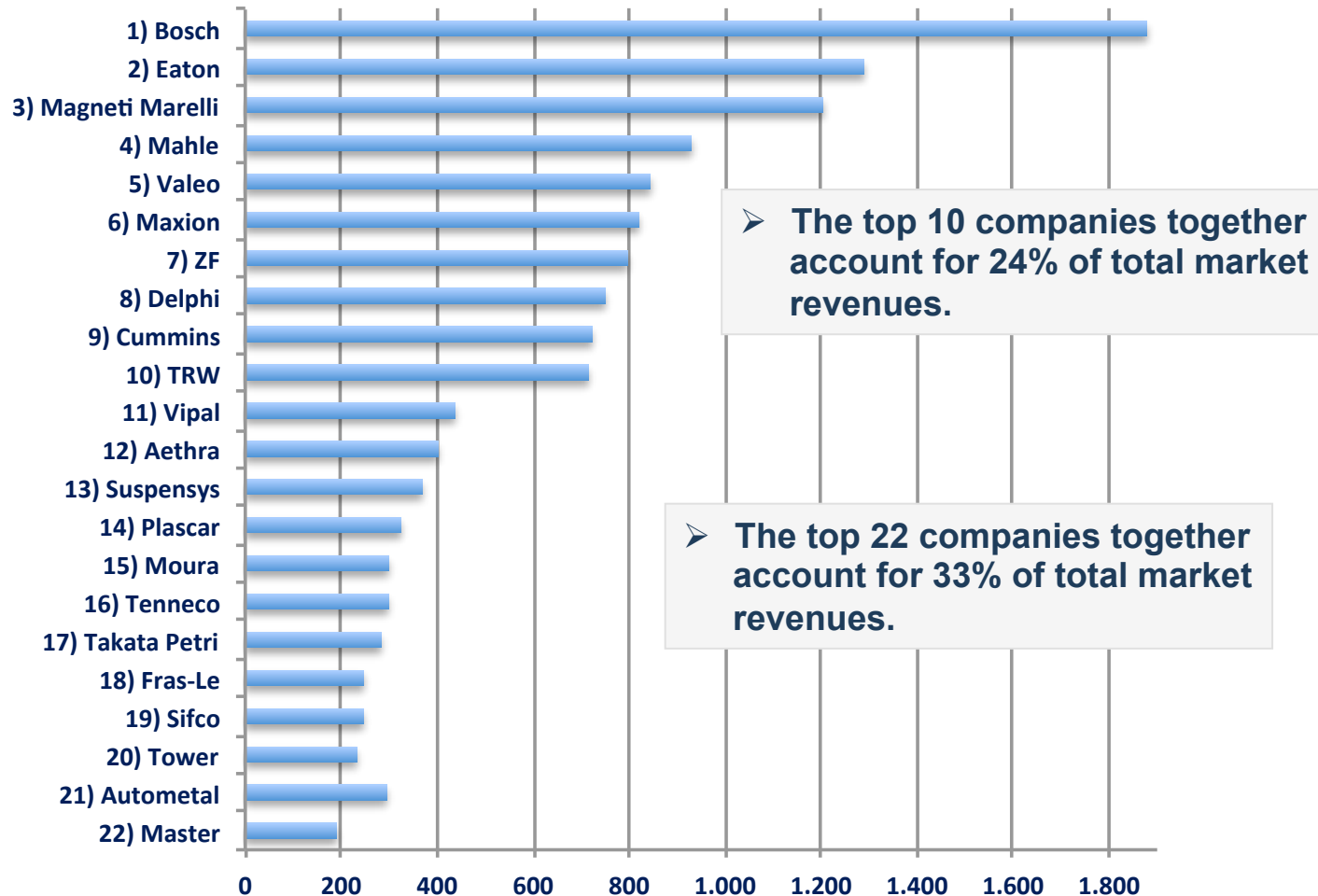
Sales & investments



4 - Brazilian autoparts industry - 2012

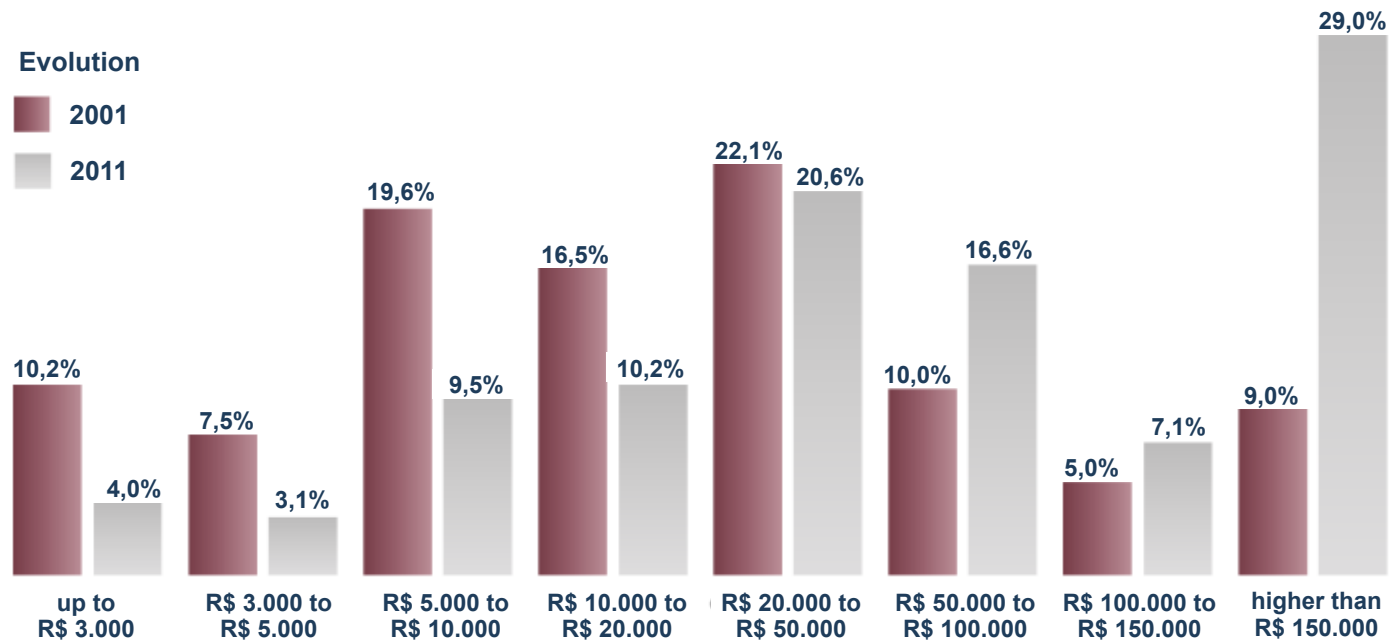
Companies profile

Only 22 autoparts companies achieve each one a net revenue higher than US\$ 100 million:

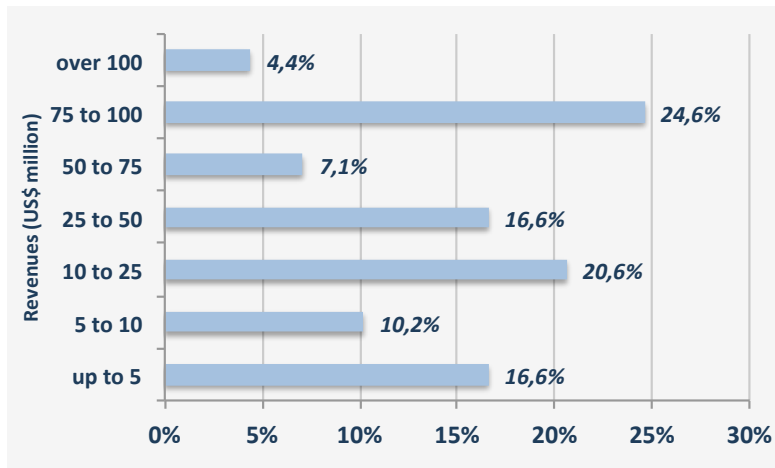


Just 5 of the first 22 companies are controlled by national capital (# 11 - 12 - 13 - 19 - 22)

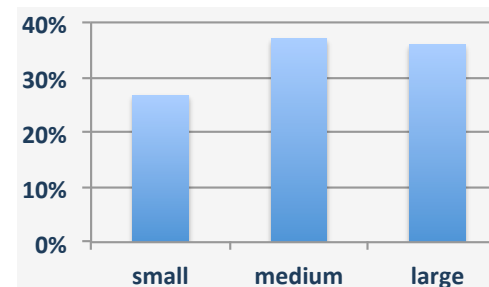
Number of companies by level of revenues



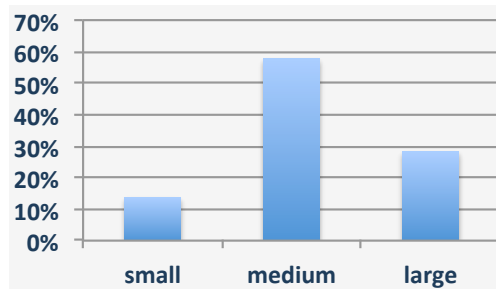
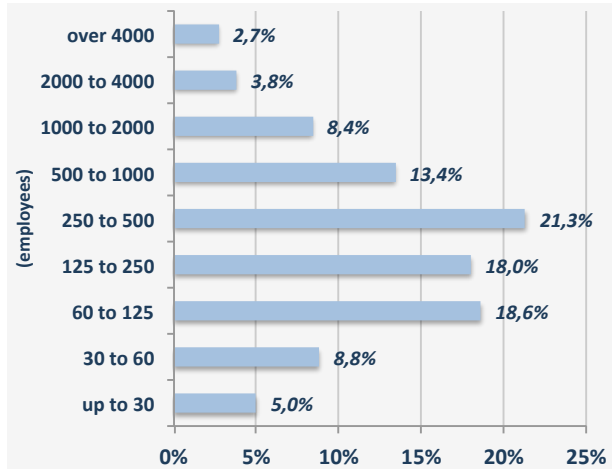
Revenues of small and medium sized companies are shrinking, while large companies grow.



Classifying small / medium / large sized companies using the usual thresholds of 10 and 50 US\$ million of revenues, the companies distribution is rather balanced.



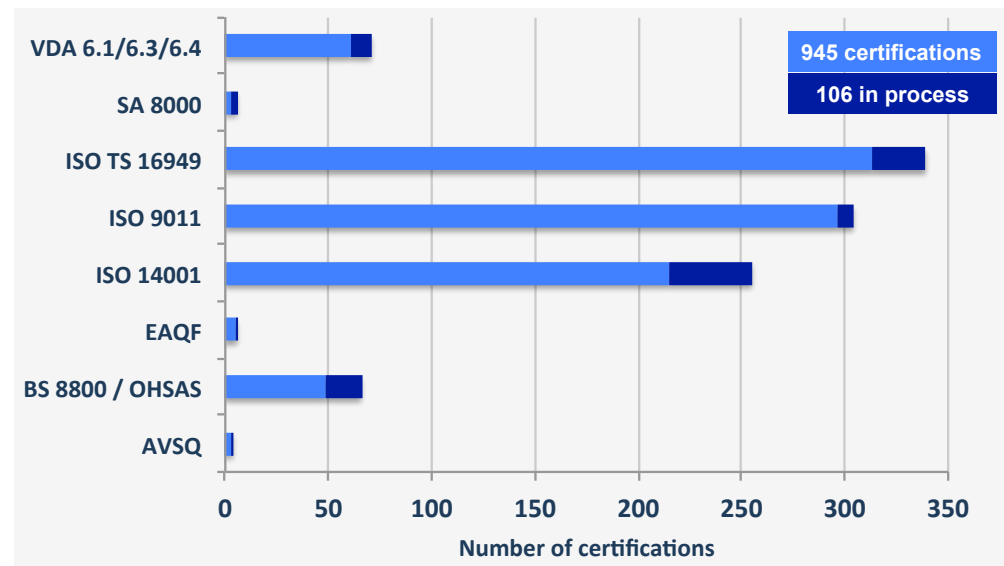
Distribution by employees number



Classifying small / medium / large sized companies using the usual thresholds of 50 and 500 employees, the medium companies are more than half.

Note that only 6,5% are companies with more than 2000 employees.

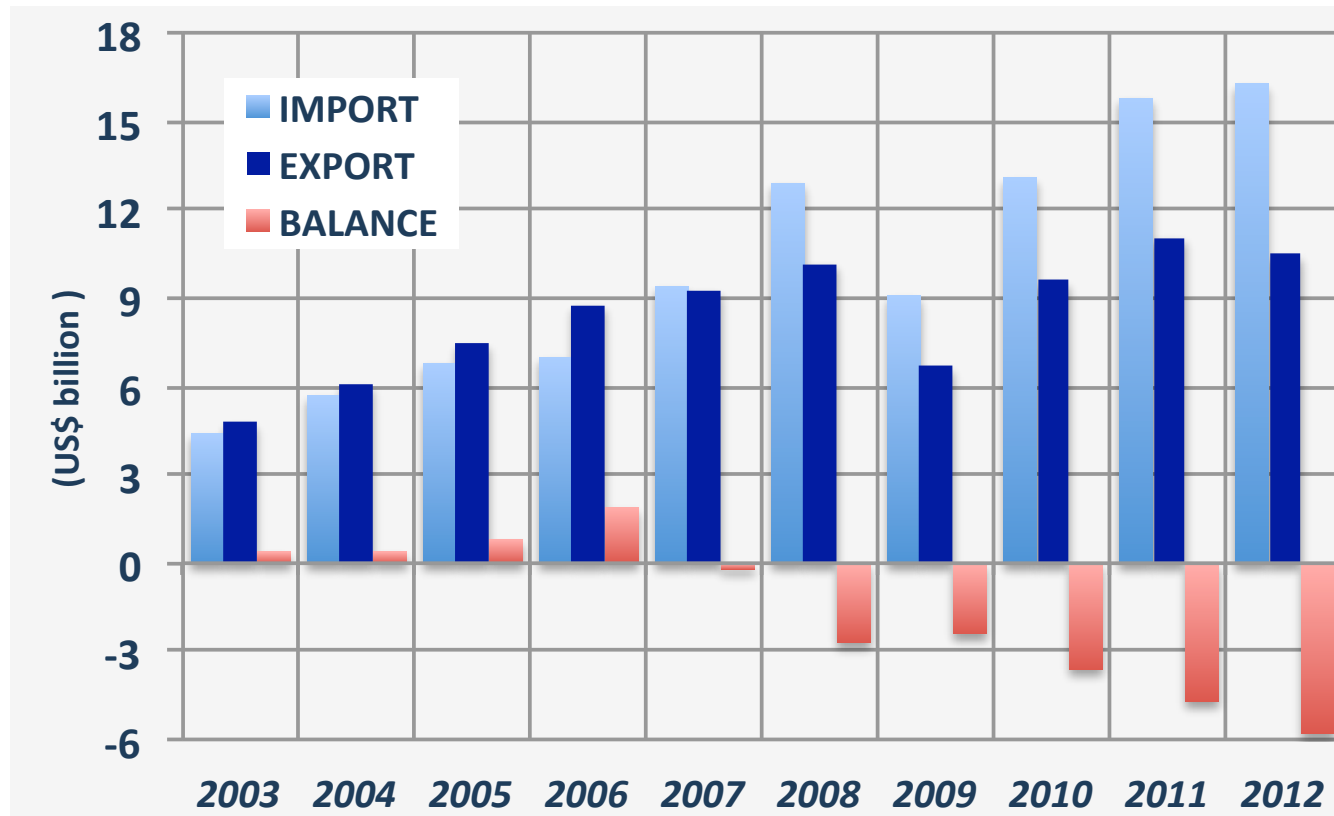
Quality Certifications



Quality certification is a prerequisite for suppliers

4 - Brazilian autoparts industry - 2012

Autoparts import / export & trade balance

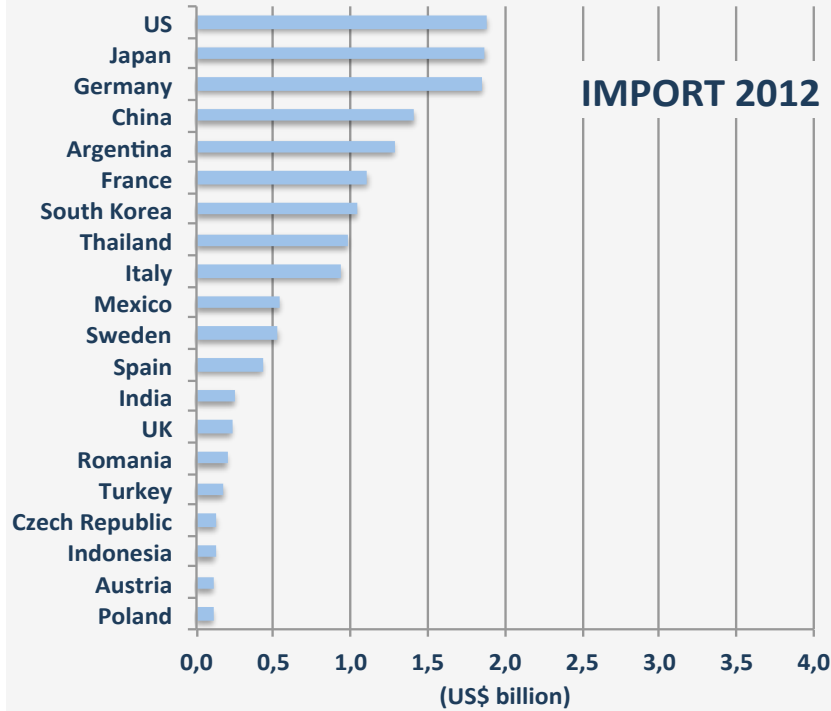


- With the global crisis in 2008, Brazil became the destination for autoparts produced abroad, such as Germany, China and Korea, which worsened in later years reaching negative balance of US\$ 5,8 billion in 2012.
- Recently the Brazilian Government launched a new automotive regime, favoring a higher content of local components.

4 - Brazilian autoparts industry - 2012

Autoparts import / export & trade balance

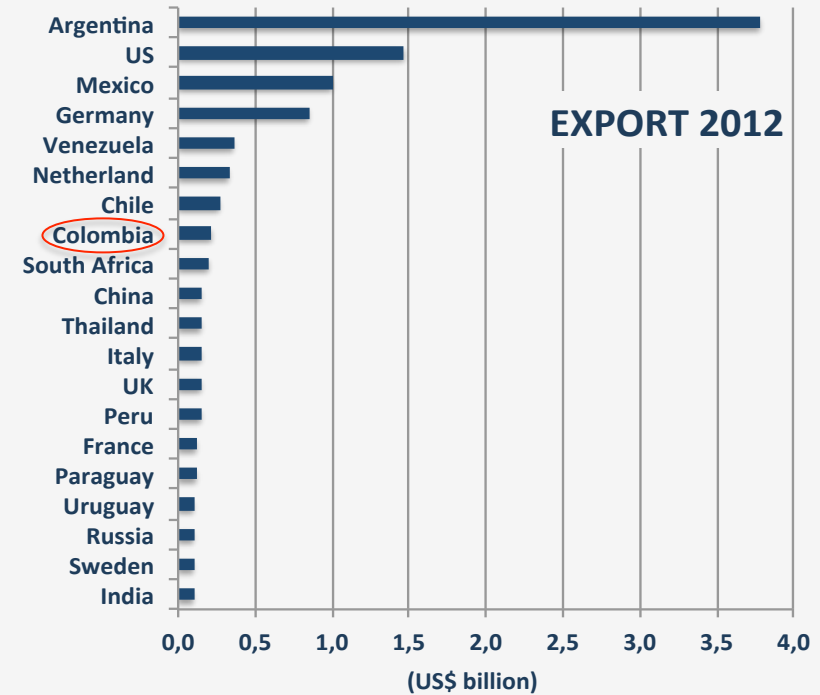
List of the first 20 origins:



IMPORT 2012

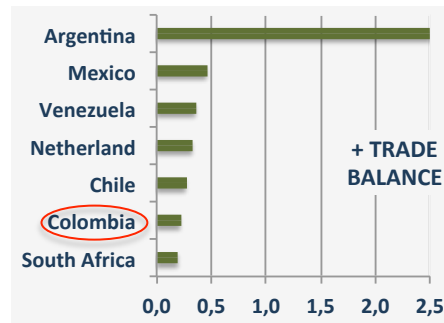
representing 93% of the total importations

List of the first 20 destinations:

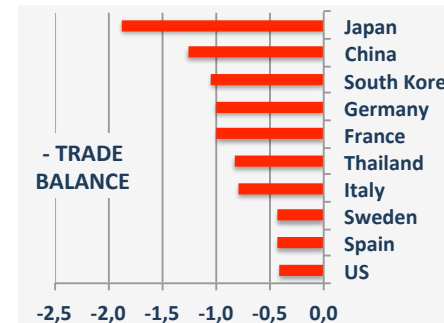


EXPORT 2012

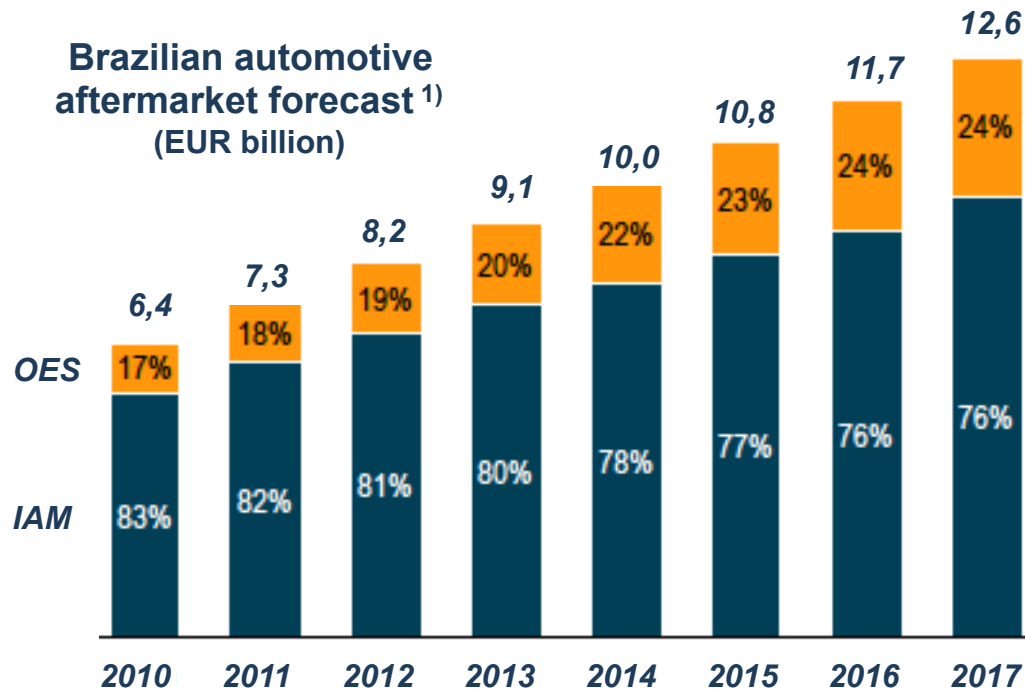
representing 94% of the total exportations



+ TRADE BALANCE



- TRADE BALANCE



GROWTH DRIVERS

- Growing users spendable income, enabling more maintenance and repairs
- Grow of the fleet at > 5% per year
- Higher-value fleet with more features and options
- Regulatory controls and warranty changes
- Changes in users behaviour towards more preventive maintenance

AFTERMARKET CHARACTERISTICS

- Despite the growing of the OES share, the aftermarket continues to be dominated by the IAMs.
- The data above are referred to the “official scenario”, but there is a big “parallel independent” market, which size is estimated by other sources in up to the double than the official data. Such parallel market is supplied by small local producers and by imported parts (mainly from Far East).
- Sizing figure: 35.000 retailers, 120.000 workshops and 1 million direct employees.

1) excluding tires



NOTE: Financial indices

The following informations have been elaborated by ROMA from public sources and also using data from an economical and financial study accomplished by Serasa Experian, who analysed the combined financial statements in US dollars, from 2009 to 2011, of 277 main companies associated to Sindipeças and Abipeças, representing around 50% of the total gross revenues in 2011.

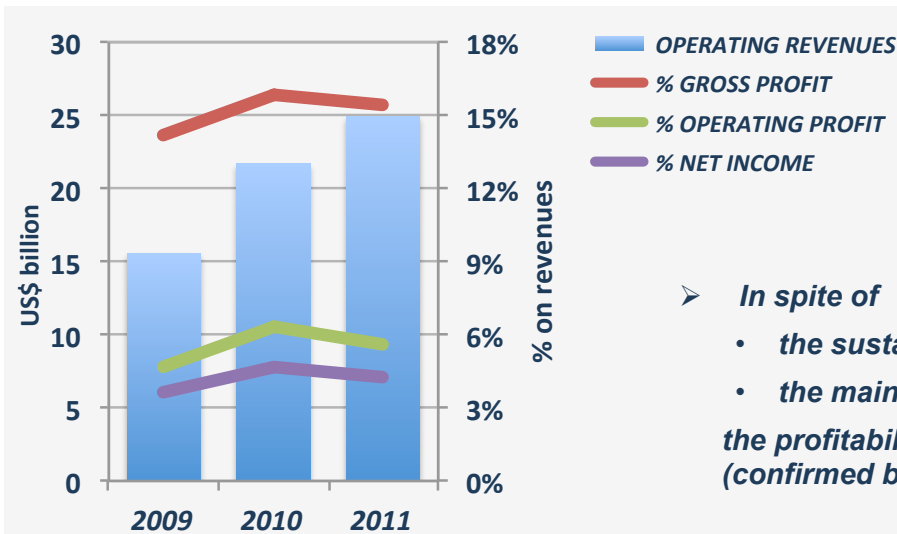
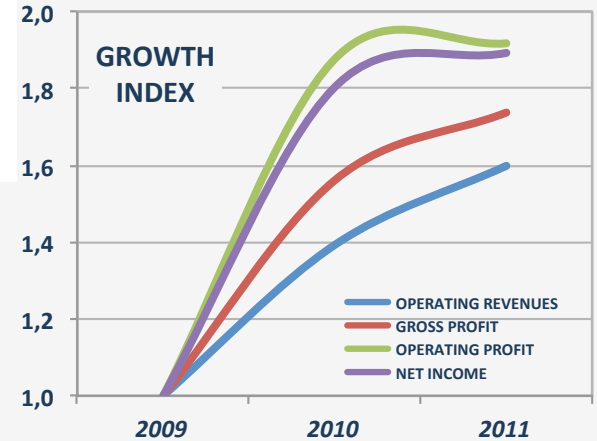
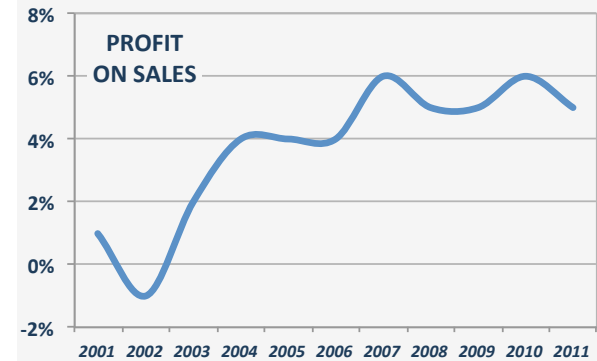
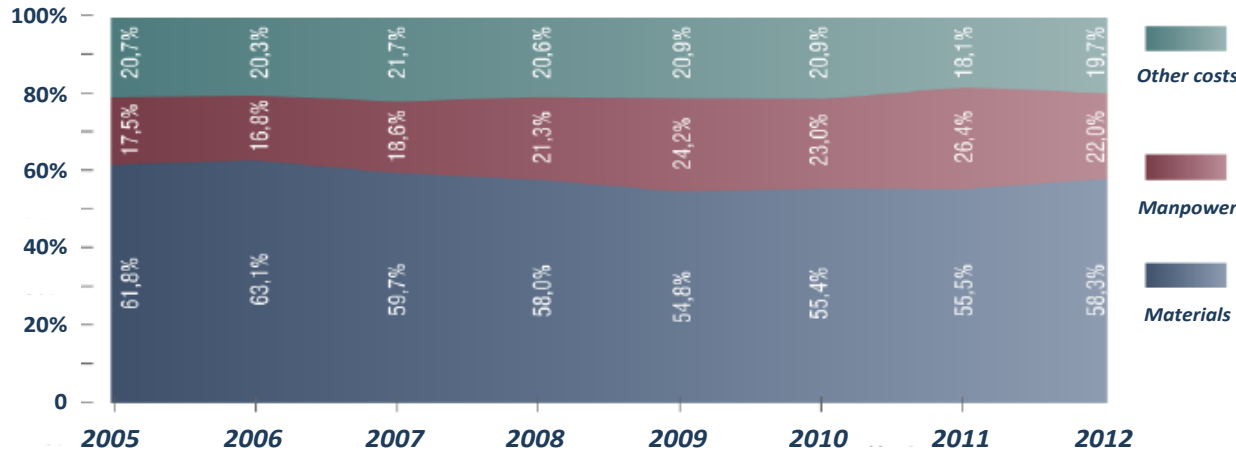
The following data are showed:

- ◆ ***Production cost structure***
- ◆ ***Profit & Loss***
- ◆ ***Profit on sales***
- ◆ ***Financial figures***

4 - Brazilian autoparts industry - 2012

Financial indices

PRODUCTION COST STRUCTURE

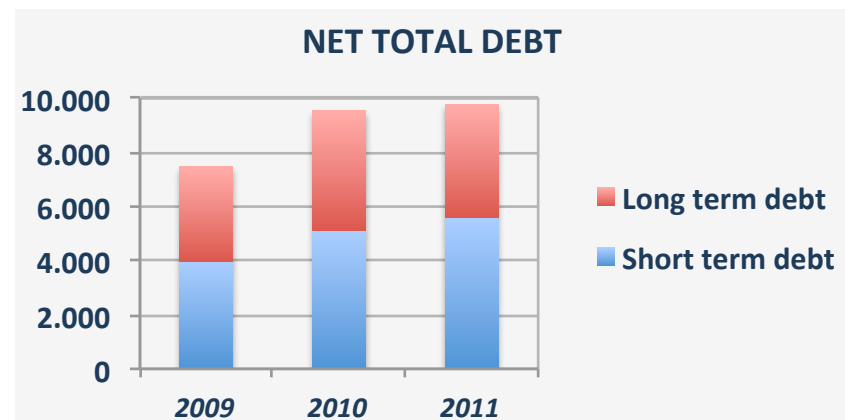
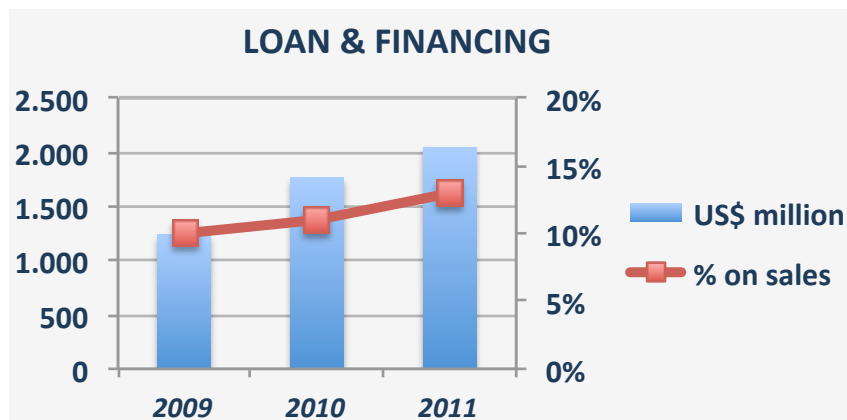
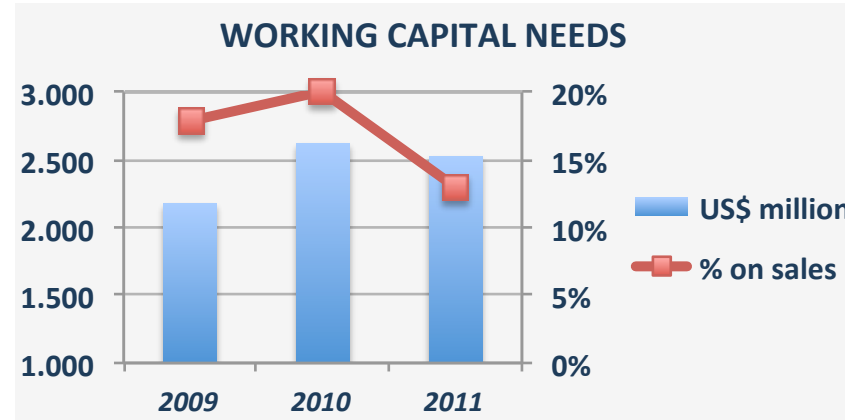
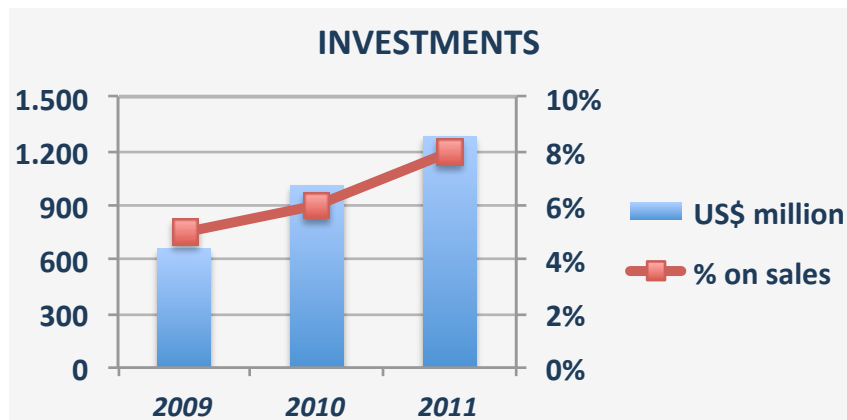


➤ **In spite of**

- the sustained growth of the revenues (at average rate of 30% per year) and
- the maintenance of the gross profit at 14-15% of the revenues,

the profitability shows signs of weakening (confirmed by various samples investigated in 2012).

FINANCIAL FIGURES



AVERAGE INVENTORY TURNOVER	2010	2011	AVERAGE PERIOD SALES COLLECTION	2010	2011	AVERAGE PERIOD PURCHASES PAYMENT	2010	2011
	50 days	48 days		47 days	45 days		56 days	55 days

KEY PRODUCTS EVOLUTION

◆ **QUALITY PRODUCTS**

Products performance and reliability more and more aligned to the international standards.

◆ **LEGISLATION**

Safety and pollution rules will progressively reach the US / European standards.

◆ **PRODUCT TRENDS**

New products share increases, like:

- *ABS at 100% of production in 2014 (today is 60%)*
- *Air-bag at 100% of production in 2014 (today is 60%)*
- *Air conditioning at more than 90% of production in 2016 (today is 75%)*
- *Electrical power steering will increase significantly in the next years (negligible today)*
- *Engine downsizing and turbo chargers starting from 2016*
- *Automatic and AMT transmissions will increase significantly in the next years*
- *Infotainment and GPS's systems will increase significantly in the next years*
- *...*

COMPANIES PROFILE EVOLUTION

Local automotive suppliers have to prepare for the expected growth and at the same time increase efficiency in their operations.

◆ **GROWTH**

- *Consider the impact of new local content requirements*
- *Handle increasing products and technologies specifications and requirements*
- *Prepare for the expected growth in production volumes*

◆ **EFFICIENCY**

- *Price pressure from OEMs*
- *Compensate high increases in labour and other factors cost*
- *Keep indirect structures lean to not harm profitability*
- *Define the right industrial footprint*



COMPETITION

◆ **CURRENT SCENARIO**

The local supplier park is one of the widest, where are competing American, European and Asian global suppliers, besides the Brazilians.

Such global suppliers also tend to provide their non-traditional customers.

◆ **NEW COMPETITORS**

The new incomings OEMs are bringing their home suppliers to Brazil, further increasing local competition.

Such new “home suppliers” need to extend the local customer base, to achieve reasonable size and profitability.

◆ **PRICE PRESSURE**

Increasing production cost cannot be passed on to OEMs.

The imported parts, from low-cost countries, define the market price.

◆ **OEMs POLICY**

The main OEMs are focusing suppliers with the following profile:

- *international suppliers with a local reasonable size*
- *certified suppliers: at least ISO14001 (mandatory) and ISO16949 (recommended)*
- *good quality performance together with high competitiveness*

5. Foreign autoparts suppliers coming in Brazil

- **Opportunities**
- **Barriers**
- **Business models**
- **Needed profiles**

◆ MARKET GROWTH

The automotive suppliers market, without export, will growth up to 15% per year in the next five years.

◆ NEW SUPPLIERS

OEMs are available to insert new suppliers, if competitive.

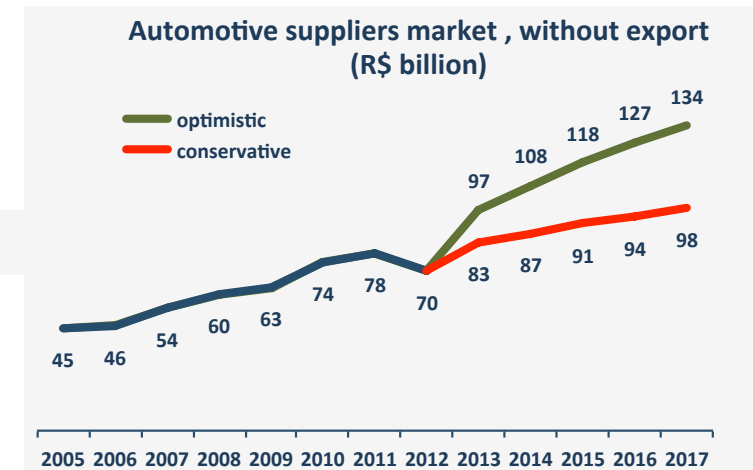
The higher renovation speed of the vehicles models allows to new suppliers participating in bids for new products.

◆ IMPORTED PARTS

Possibility to supply imported parts, despite the customs barriers, for “niche” products.

“Niche” products:

- *technologies not available in Brazil*
- *high competitiveness (= price)*
- *global components, supplied also outside Brazil*



5. Foreign autoparts suppliers coming in Brazil

Barriers

◆ CULTURAL DIFFERENCES

◆ CUSTOM BARRIERS & IMPORT PROCEDURES

◆ LOGISTICS & SERVICES PROVIDERS

◆ LOCALIZATION & PROXIMITY TO THE CUSTOMER

◆ COMPETITIVENESS vs. “*CUSTO BRASIL*”

◆ START-UP TIMING vs. BUREAUCRAZY

TWO DIFFERENT BUSINESS MODELS

can be planned for autoparts suppliers coming in Brazil, depending of the nature and the target of each supplier.

A) MAIN MANUFACTURING BASE KEPT ABROAD

- Market analysis to identify the business opportunities.
- Constitution of a local company, together with a Brazilian entity (person or company) who will be the legal representative.
Such local company will be “commercial & importing”.
- Implantation of the organisation of such local company, with:
 - commercial structure,
 - technical services for pre/after-sales,
 - quality services,
 - logistic structure,
 - administration services.
- Start-up of import and distribution operations.
- Depending on the nature of the imported products, gradually the local structure may carry out some additional technical operations, using Brazilian subcontracted suppliers, if any.

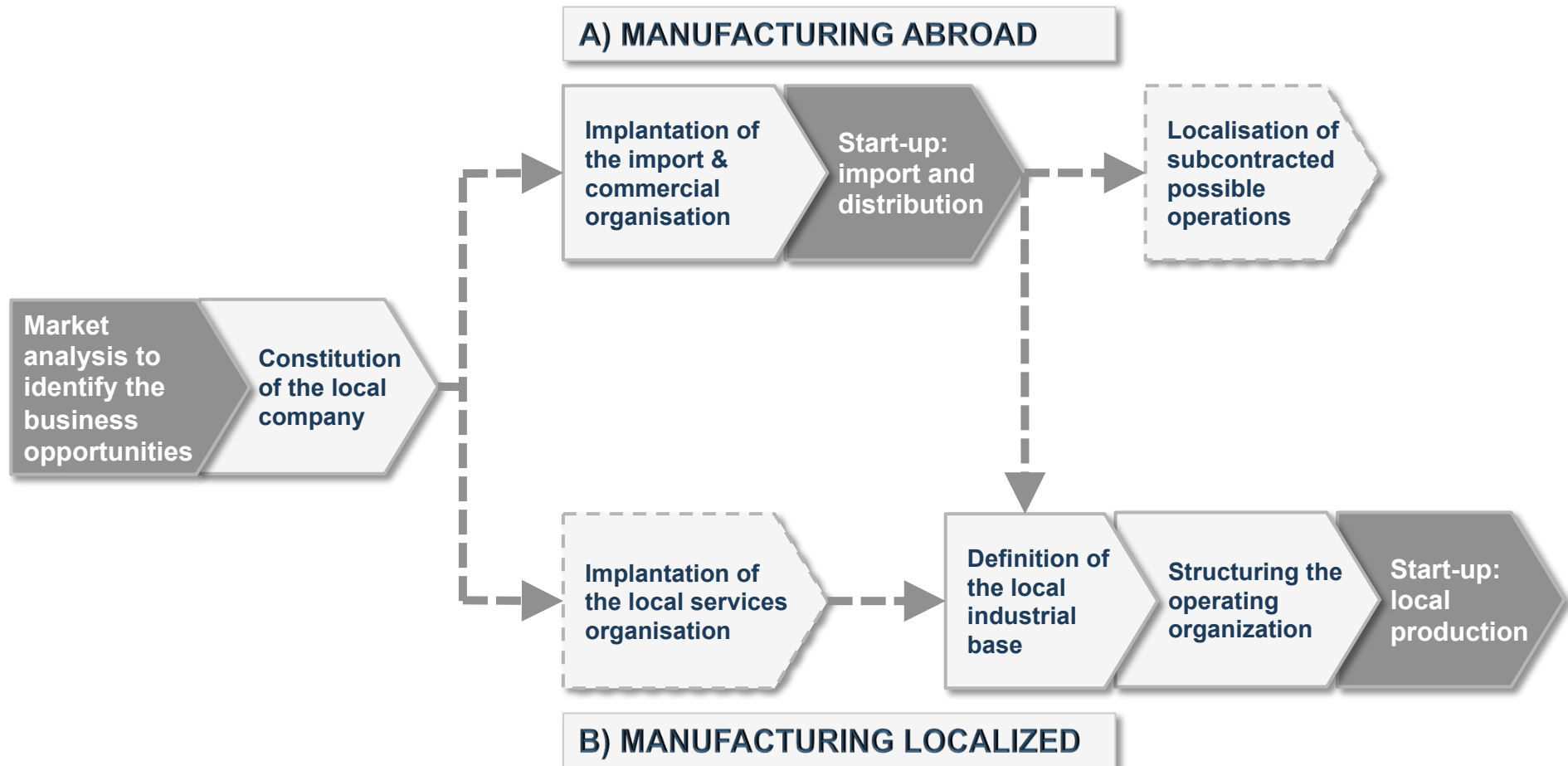
B) MAIN MANUFACTURING BASE WILL BE LOCALIZED

- Market analysis to identify the business opportunities
- Constitution of a local company, together with a Brazilian entity (person or company) who will be the legal representative.
Such local company can be “service provider”.
- Implantation of the organisation of such local company, with commercial and administration services.
- Plan for the establishment of local manufacturing base, which can be realized in two alternative workarounds:
 - own investment, with resources and competences from the headquarter; or
 - partnership with a Brazilian company, with homogeneous skills and productive means.
- Structuring the operating organization, alone or with the local partner.
- Start-up of the local operations, eventually using some semi-finished components coming from the headquarter.

*The two models above
can be complementary*

5. Foreign autoparts suppliers coming in Brazil

Business models



5. Foreign autoparts suppliers coming in Brazil

Needed profiles

➤ TECHNOLOGIES & PRODUCTS

- Due to the high local competition, a differential in products or technologies should be provided, in order to offer a real competitive edge to the customer.
- At least, a high competence/experience in the automotive supply should be demonstrable, together with a good competitiveness.

➤ MANUFACTURING

- Regarding the offered products, the involved manufacturing technologies should be dominated internally.

➤ QUALITY & AFTER-SALES SERVICE

- A best-in-class quality's organisation and results should be demonstrable in the headquarter organization, together with the willing to transfer the same standards in Brazil.

➤ COMMERCIAL & PRE-SALES SERVICE

- A local organization should be built up in Brazil, together with an effective support system from the headquarter.
- An efficient organization for offers elaboration should be planned, in order to assure quick and professional answers.

➤ LOGISTICS

- The local logistics should be suited to handle rapid delivery systems, like "Just In Time" or "Milk Run".
- For imported components, a local warehouse should be planned, in order to ensure a local stock for contingency.

5. Foreign autoparts suppliers coming in Brazil

Needed profiles

➤ ADMINISTRATION

- Due to the complexity of the Brazilian procedures and bureaucracy, a competent organisation should be locally planned. with an efficient link with the headquarter.
- In general, the Brazilian is not a good administrator. So it is necessary to pay attention to the financial and operating management.

➤ PLANNING THE BUSINESS

- Business planning and market informations is one of the major factors for the success of the project, together with the obvious competitiveness.
- A recent study, made by IPBT (*Instituto Brasileiro de Planejamento Tributário*) on the recent companies of all sectors, showed that 15% of companies closed in the first year and 42% in the first five years of life, caused by:
 - 42% lack of planning and market information
 - 17% tax complexity and bureaucracy
 - 15% difficult to access credit and financial investments
 - 12% high cost and complex management
 - 7% quarrels between the partners

➤ CULTURE

- Brazil is a complicated country to do business, with its habits and rules that newcomers must understand and assimilate quickly.
- Newcomings should be:
 - open mind and flexible in decision making and operational processes
 - open to adapt to different management and negotiation methods
 - available to adapt to different operating speeds
 - able to enter into the local mentality and make good use of it
 - determined and focused to the result, but patient
 - well organized and planned

6. Debriefing

- **Conclusions**
- **Questions & Answers**

Foreign autoparts suppliers coming in Brazil

	
<ul style="list-style-type: none"> ▪ Brazilian automotive market continues to grow, sustained by good economic outlook. ▪ The local autoparts market will grow even more. 	<ul style="list-style-type: none"> ▪ Brazilian government is acting to promote local production.
<ul style="list-style-type: none"> ▪ OEMs privilege international suppliers with reasonable size and high competitiveness. ▪ Quality levels are aligning to international standards. 	<ul style="list-style-type: none"> ▪ Wide competition and high pressure on costs / prices.
<ul style="list-style-type: none"> ▪ Good opportunities for newcomers to enter Brazil. 	<ul style="list-style-type: none"> ▪ Doing business in Brazil is not easy <i>(but 72% of sales is made by foreign-controlled suppliers)</i>.



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