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Automotive Supplier Survey 2019

In cooperation with the Automotive Industry Association of the Slovak Republic and the Slovak Automotive Institute, PwC surveyed the current situation, key factors and the future expected development in the automotive supply segment in Slovakia.

SLOVENSKÝ AUTOMOBILOVÝ INŠTITÚT

Dear Friends and Business Partners,

There is currently lots of focus on the transformation of the automotive industry, and the discussion is about e-mobility, specifically about battery-driven e-mobility. In order to able to comply with, or at least get close to EU CO_2 emission rules, car manufacturers need to include battery-driven cars in their fleets. But e-mobility itself will not transform the automotive industry. It is about a change in mobility demands and related innovations, including electric vehicles, connectivity, autonomous driving and sharing models.

Car manufacturers have invested billions of euros in designing vehicles for connected, autonomous, shared and electric mobility. Development times for these technologies vary, e.g. electric cars are gaining in popularity, while autonomous and shared vehicles are still a bet for the future. However, all these technologies are seen as inevitable.

To avoid being left behind, many carmakers jumped in, hoping to gain an early-mover advantage and become segment leaders, which had a direct impact on the investment needs of their suppliers. So far, many automakers and suppliers have been disappointed: the introduction of e-vehicles is not as strong as original expectations, and as for self-driving cars, some analysts do not want to be reminded of the predictions they made five years ago.

To be sure, the new mobility demands will ultimately reshape the automotive industry, and in order to benefit from this, there needs to be a clear focus on prospects, capabilities and investments, especially at a time of other concerns, such as regulation and protectionism, including threats to supply chains with a direct impact on suppliers. The best approach will vary from one company to the next, each having its own abilities. But all successful approaches will likely involve the same principles: a more specialized portfolio, a more focused value proposition, more rigorous financial management and a greater willingness to collaborate with others, specifically in capital investment and innovation.

The Slovak automotive industry does not stand away from the transformation, and the future success of the sector is key for the whole economy of Slovakia. So far, in 2019, the unemployment rate has further decreased. At the same time, Slovak CEOs are concerned about the economic outlook and a slowdown in growth and are preparing for cost cutting. In addition, CEOs expect that the quality of education is having negative impacts on the introduction of new technologies and Slovakia's competitiveness. There are sure to be many challenges ahead for the supplier industry.

This is the seventh Slovak Automotive Supplier Survey. The results were published in May 2019. Our thanks go to all the representatives of the supplier industry who took part in the survey. Their responses give a comprehensive summary of the expectations and anticipated challenges for the sector in Slovakia. I feel certain you will find the survey interesting reading and a source of added value.

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The automotive industry had another successful year in Slovakia in 2018. Slovak carmakers confirmed their excellent performance by producing a record-breaking number of 1,093,215 passenger cars, with all four car manufacturers operating in Slovakia contributing to the 5.9% y/y growth. Our local automotive suppliers also reported an increase in deliveries of components, modules, and systems, not only to our local automotive manufacturers, but also more than 60% of locally-produced components were exported. We expect 2019 to again be a record-breaking year, but it is not enough to appreciate the success, we must focus on the future.

The coming structural and technological changes will be, and already are, big challenges for the entire automotive industry. Are Slovakia and the Slovak industry ready for these changes? Have systematic conditions been created for sustainable growth? What has to be changed?

These are questions which the management of the Slovak Automotive Industry Association is asking. Currently, our association has 200 members and is a member of international organizations. We are a respected social dialogue partner. However, our ideas and generally-applicable definitions are not sufficient for communication with the government. Therefore, we appreciate the annual activity of our member organization, PwC, whose annual survey of automotive suppliers provides a very useful insight into the opinions and mood of our firms and investors.

The results of this year's survey confirmed the existence of certain barriers for the further development of the automotive industry in Slovakia and other sectors and specified the reasons and the shortages. We are very pleased that the survey has confirmed our fundamental propositions in communication with the government, which covered issues such as Slovakia's competitiveness as regards costs, labour market flexibility, workforce mobility, educational levels and the educational system, the connection between the academic community and the industry, and waste management (predominantly the processing of industrial waste and products after the end of their lifetime).

The combination of several factors and the long-term lack of interest in finding adequate solutions have resulted in a gradual loss of our competitiveness, and neighbouring countries and others represent a threat for us. All this has caused our automotive suppliers to be less optimistic as regards their further development, the extent of orders, and further growth.

It is important to take advantage of the opportunities we have thanks to the presence of four big carmakers and an advanced supplier structure. We cannot take this situation for granted, but must create conditions for its preservation and further growth. In changing conditions, it will not be an easy task. Therefore, all players who have the potential to influence this future must closely collaborate to achieve this. We must strive to turn challenges from global trends into opportunities and use the opportunities adequately. Therefore, it is important to restore favourable conditions for investors, create a stable and predictable business environment, lower the tax and contribution burden and, by encouraging innovations, shift the industry towards production with higher added value.

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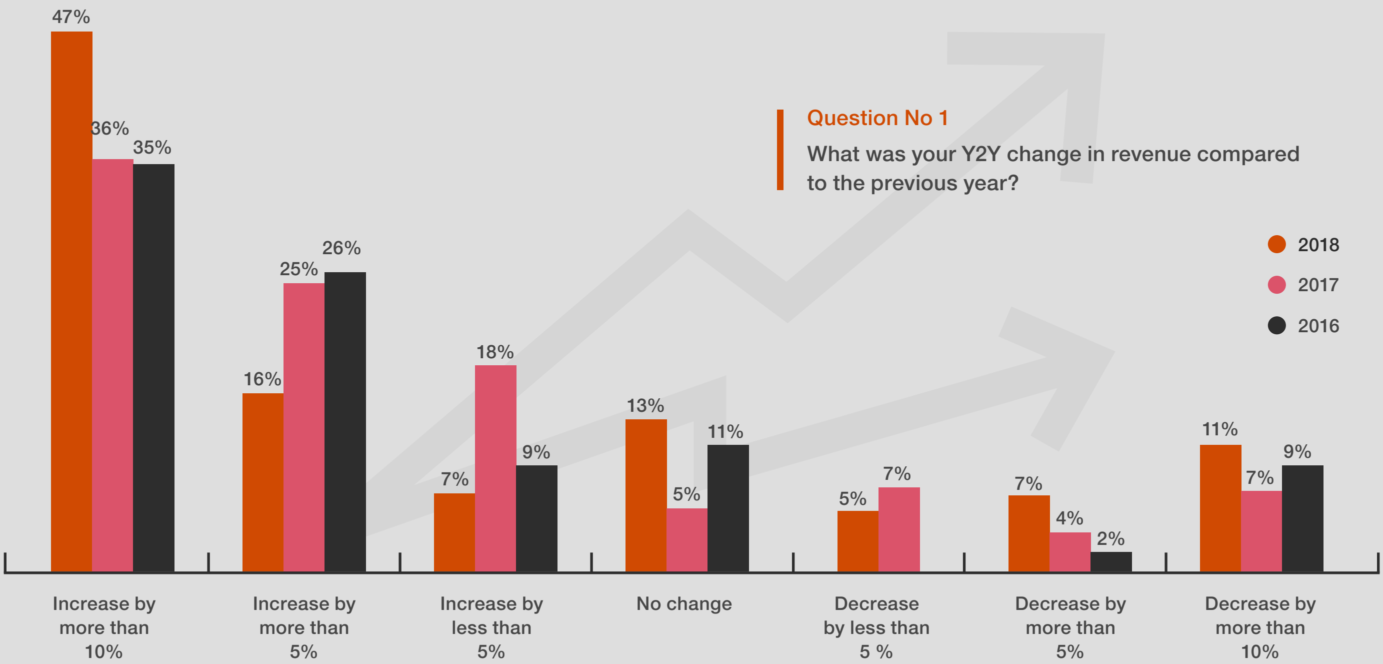
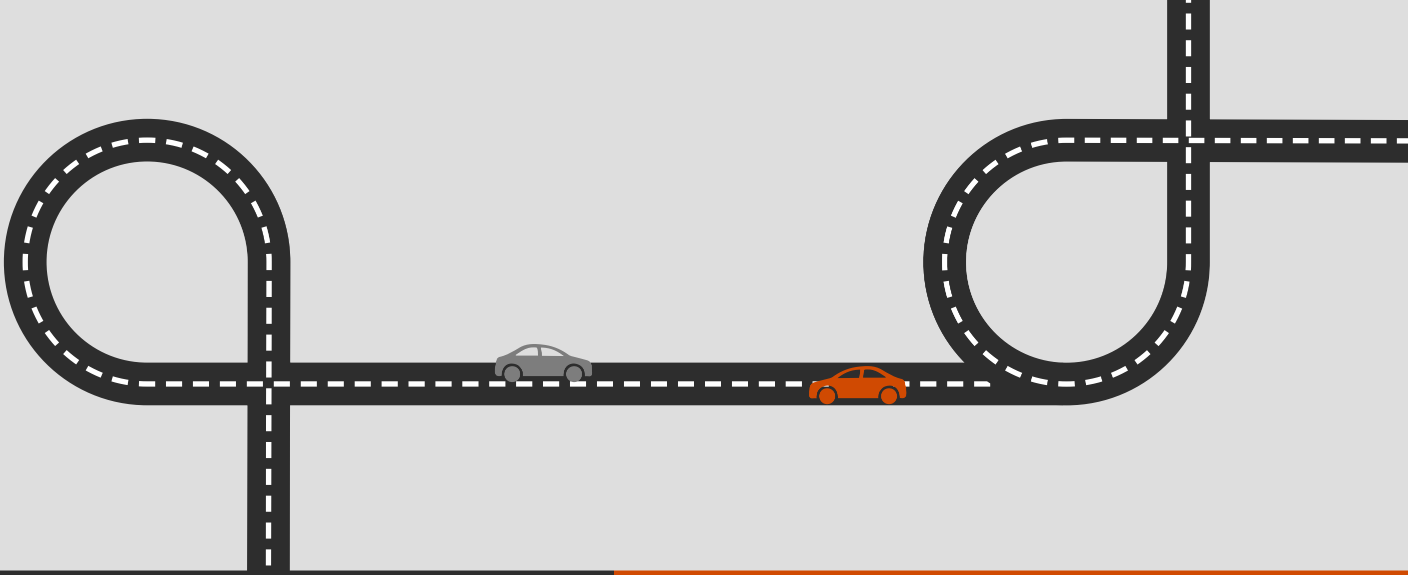
Analysis of 2018 company results

Many experts believe that 2018 was the year the current boom reached its peak. The results of the surveyed businesses also support this opinion. More than three-fifths of the respondents reported revenue growth and more than 40% even saw double-digit growth. Slightly less than one-eighth of the survey participants reported a revenue decrease. The performance of the surveyed businesses confirms that last year was probably the year in which the development of the automotive industry culminated. The performance is also in line with the year-to-date results for the sector, which were higher by more than 20% compared to the previous year.

Question No 1

What was your Y2Y change in revenue compared to the previous year?



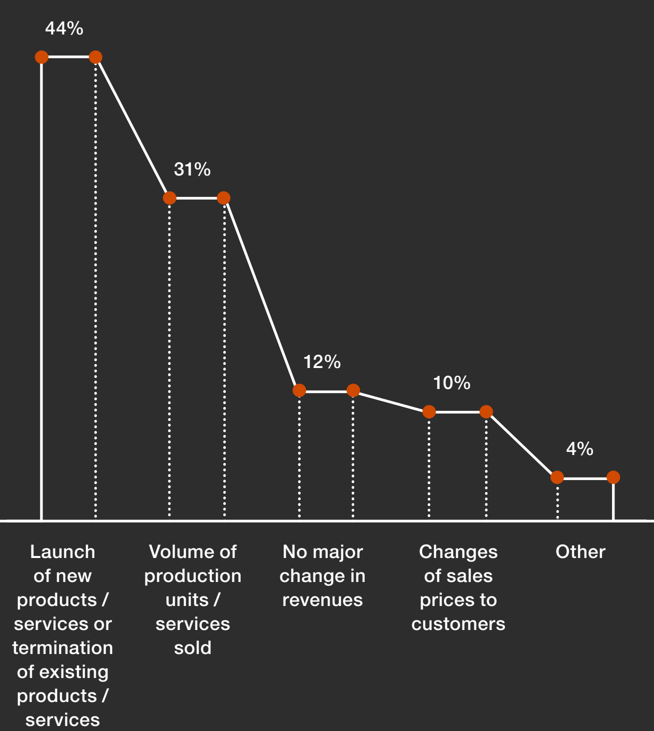


The effects of the ongoing production growth in the automotive industry mainly affected suppliers as regards demand – three-fifths of the surveyed businesses stated the volume of products sold as the main factor for revenue growth. Generational exchange of products, especially in the car manufacturing plants, also affected growth in production – over 40% of the respondents also felt that this had an impact on their performance. Changes in sales prices only affected revenues of 10% of businesses, with other factors only having a rather marginal effect. One firm scaled back production at its Slovak plant, and one company transferred production to Slovakia from a plant in China.

The 2018 economic boom in the industry also impacted production capacity utilization. 60% of the respondents reported utilization of production capacity in Slovakia of more than 80%. As a general assumption, this level of production capacity utilization is required to generate profits in the industry. Most firms (almost two-fifths) utilized 80–90% of their capacity, and almost one-sixth more than 90%. Slightly less than one-third of the surveyed businesses utilized their production capacity between 60% and 80%, and a few companies used less than 60% of capacity. This is indicative of some Slovak suppliers not having been successful in winning contracts for new models at Slovak car plants.

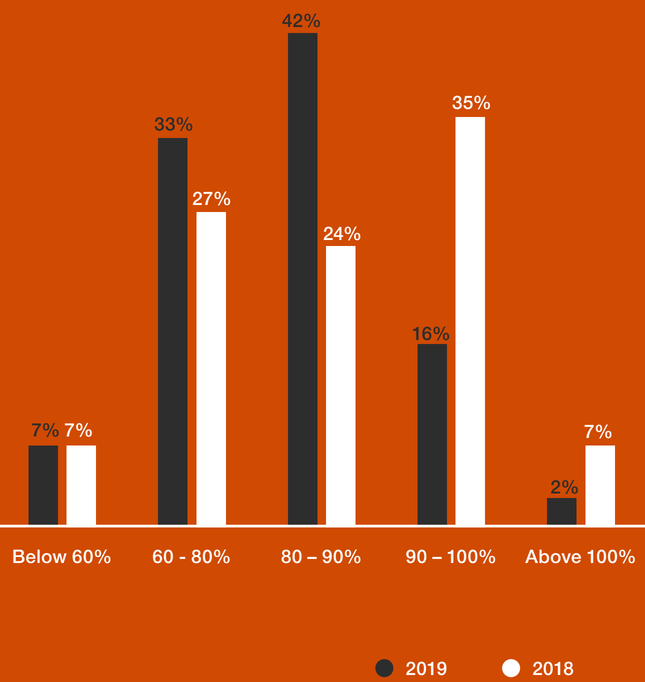
Question No 2

What were the main factors for the 2018 revenues change?



Question No 3

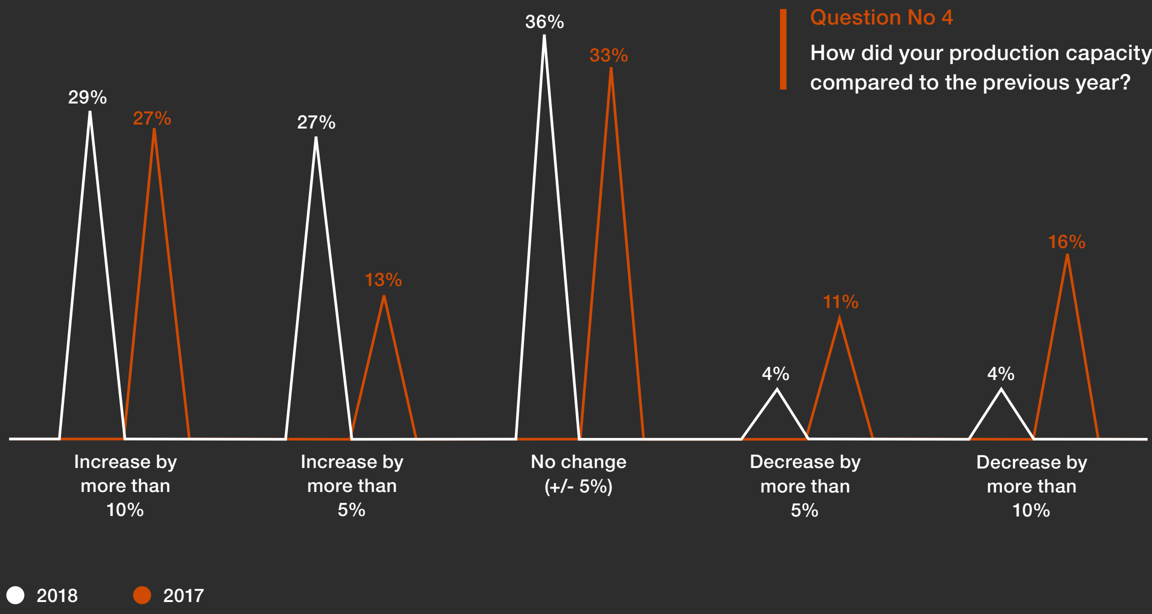
What is your current production capacity utilisation?



The high demand for automotive suppliers' production is evidenced by the fact that the relatively high utilization of production capacities was achieved in a situation when half of the surveyed businesses even increased their production capacities last year, most of them seeing double-digit growth. More than one-third of the businesses that commented on this question did not change their production capacity, and only few respondents reported a decrease.

Question No 4

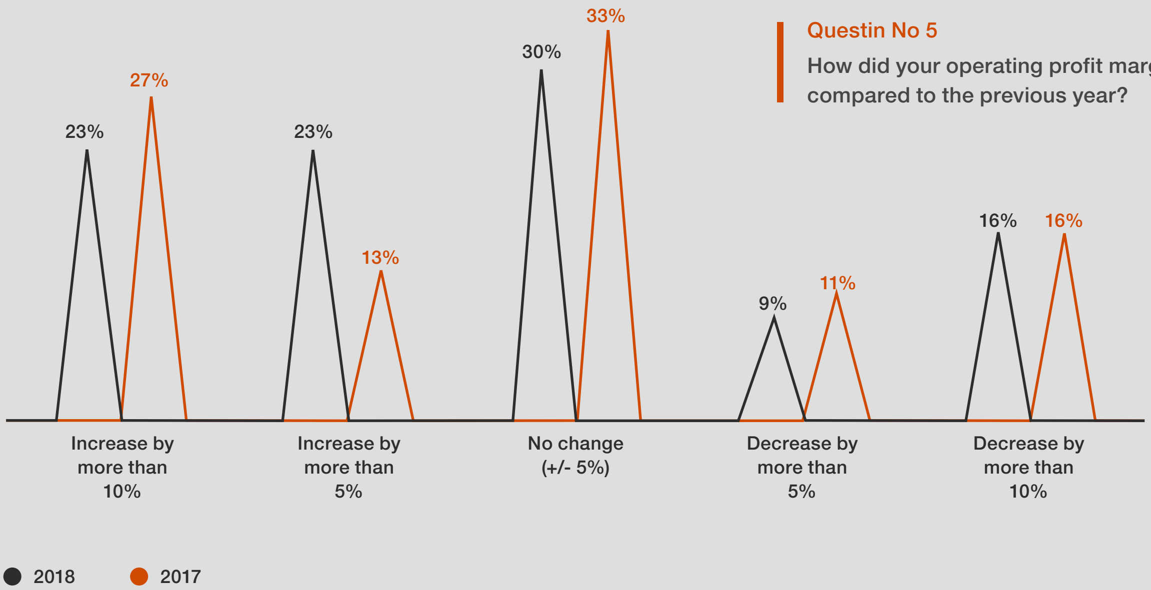
How did your production capacity change compared to the previous year?



The responses show a diverse picture: whilst almost half of the respondents reported an increase in margins, the other half either had flat margins or decreasing profitability. This indicates that not all of the suppliers in Slovakia were able to benefit from the overall growth, either due to markets (price pressure), or internal challenges (e.g. productivity, costs).

Questin No 5

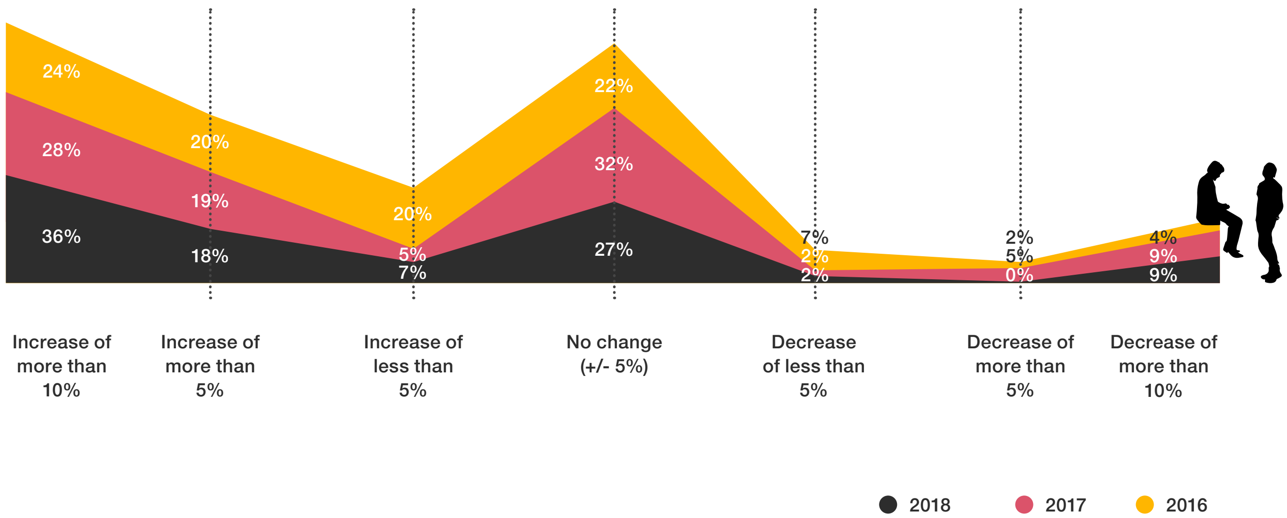
How did your operating profit margin change in 2018 compared to the previous year?



Considering the production volume, it is not surprising that many companies in the survey increased staff numbers. One-third of the respondents increased their staff numbers by more than 10%. At about a quarter of companies, the number of staff remained unchanged, and only 11% of firms reported a decrease in staff numbers. Last year, according to preliminary aggregated figures, the industry saw an end to the two-year decline in labour productivity. However, when considering the more important measurement of added value created per employee, it is clear that without significant improvements, especially in the innovation area, this indicator is unlikely to improve further.

Question No 6

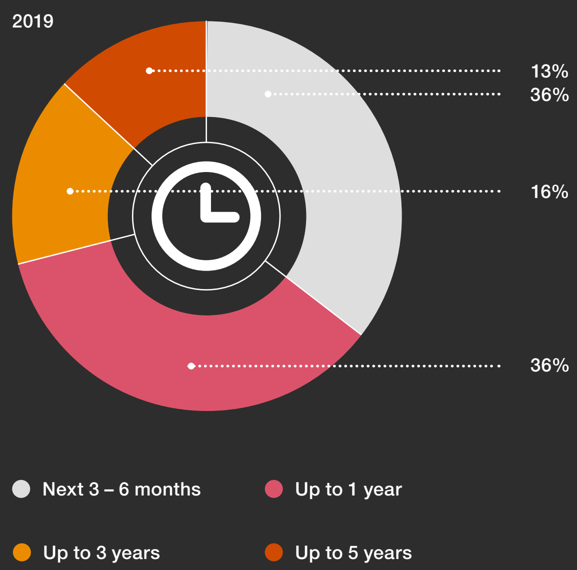
How did total staff numbers (own and external) change in 2018 compared to the previous year?



The question on the predictability of the business environment being the basis on which businesses prepare their production plans and budgets saw some revealing answers. More than two-thirds of the surveyed businesses stated they could make a reliable estimate for a maximum of one year ahead; half of them only for three to six months. Slightly less than 16% of companies are able to estimate the development for three years with confidence, and 13% of respondents believe their estimates are reliable for up to five years. So far, the predictive ability of businesses was mainly affected by the low predictability of the development of the business environment and often by a lower level of strategic management. Global factors were also cited.
In addition to slower growth in several large markets, the threat of trade wars and political changes, such as Brexit, may cut sales of certain models in profitable markets.

Question No 7

When preparing budgets or production plans, what timeframe are you able to reliably estimate?

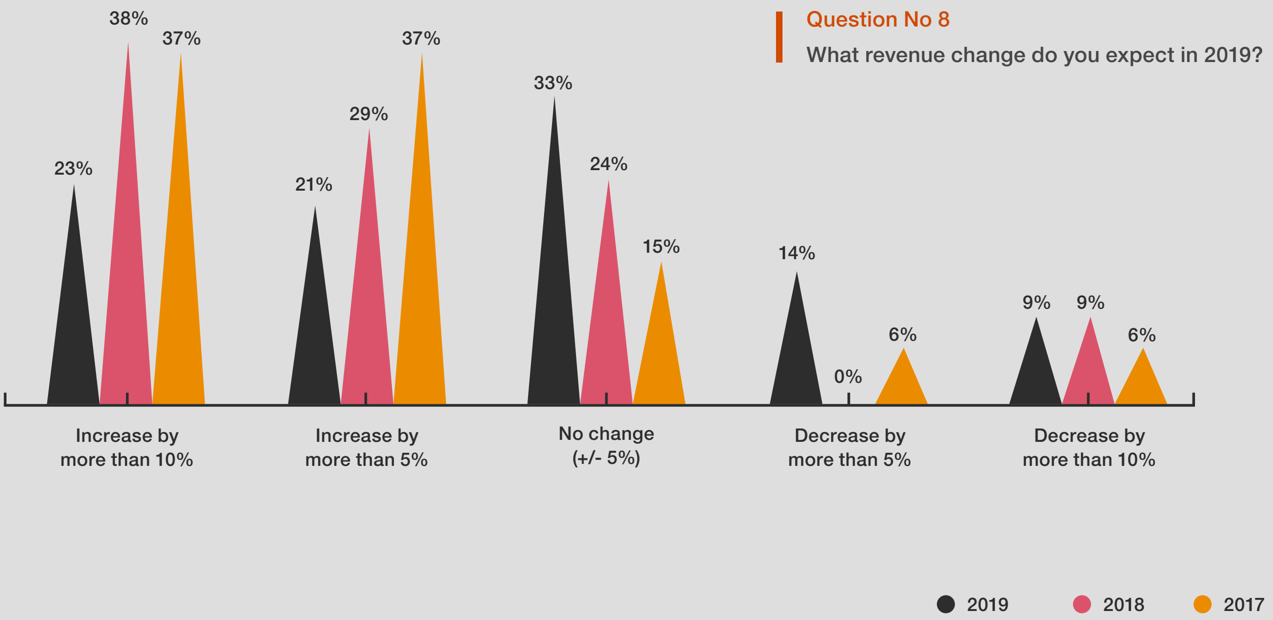


Supplier`s plans for the future

Although some businesses expect considerable revenue growth in 2019, it is clear that optimism is vanishing if we look at medium-term expectations. More than 20% of firms expect double-digit revenue growth in 2019, but this percentage was almost twice as high in previous years. The total number of businesses with growth expectations also dropped significantly. Almost one-third of the surveyed firms have cautious expectations and do not expect changes in their performance. Almost a quarter of companies expect a sales decline and have significantly less positive expectations compared with predictions in previous years. The disruptive trends within global economies appear to have an immediate impact on the automotive outlook.

Question No 8

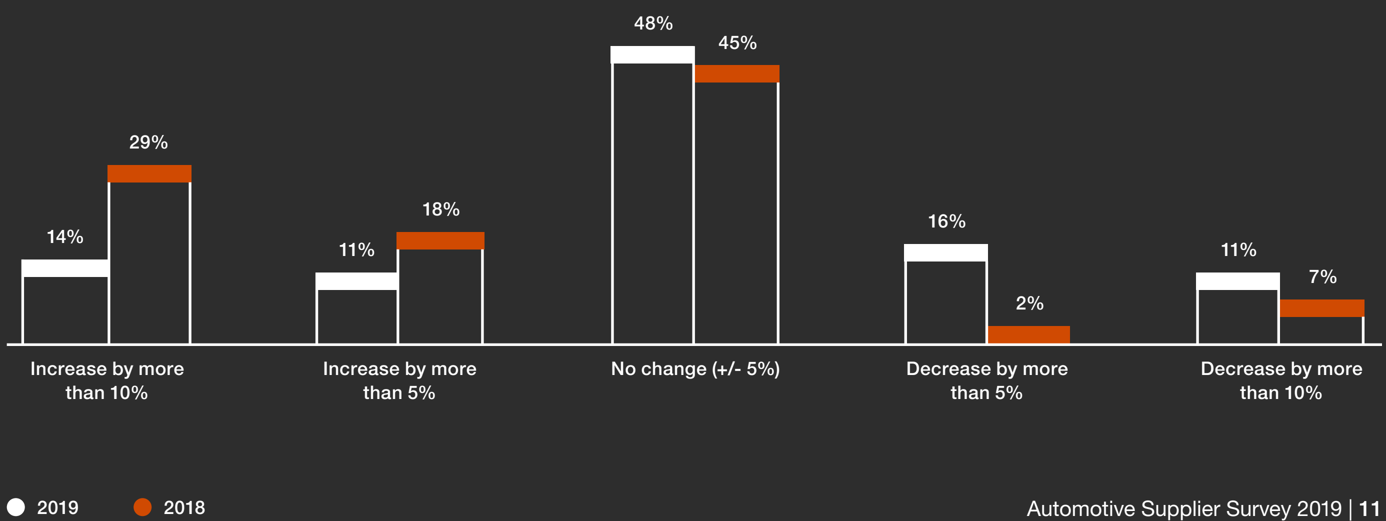
What revenue change do you expect in 2019?



Businesses were more restrained when making estimates on development in staff numbers. Almost half of the companies stated their staff numbers would remain unchanged, which indicates lower pressure on recruiting new staff. After a start-up phase in the production of new models in car plants, the emphasis is now on making production more efficient, and suppliers will be affected by this. Though, with the start of production, demand may still grow for supplies of some models. However, slightly more businesses expect staff reductions than staff increases. The expected end of the growth phase is likely to see the start of programmes focused on improving operational efficiency.

Question No 9

What headcount changes do you expect in 2019?

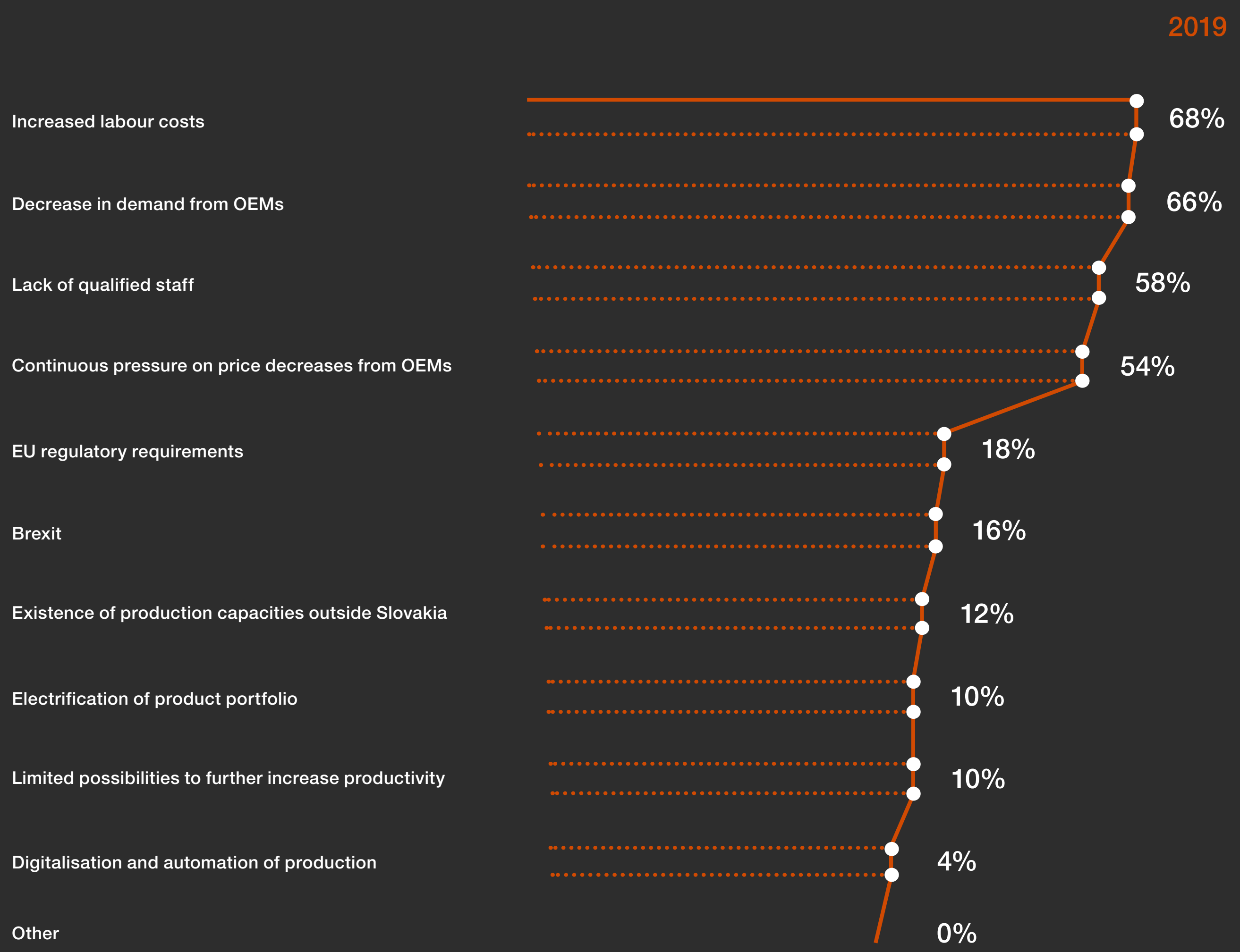


HR related topics significantly affect future growth prospects. The most significant risk factor stated in the responses is the increase of labour costs. Two-thirds of the survey participants identified it as an obstacle to further growth. Almost the same percentage of firms consider lack of qualified staff as a risk factor. The second group of important factors refers to the demand of carmakers. Two-thirds of automotive suppliers consider the volume of orders as a risk factor for their future growth. A slightly lower percentage of firms is concerned about the impact of continuous pressure on price decreases from car manufacturers. Almost one-fifth of firms consider tighter EU regulation of the automotive sector to be a risk, and a similar percentage of businesses feel uncertain about Brexit. So far, automotive suppliers in Slovakia are not concerned about the impacts of electric car production, at least in the medium term, although this trend is achieving more and more support throughout the EU. Considering the multinational trends and specifically the strategic visions of the European OEMs, it appears more attention should be given to anticipating needs resulting from the effects of the transformation of the automotive industry.

Many suppliers also consider the form and application of certain laws and regulations as a problematic factor affecting their business activities. More than 40% of the surveyed firms report a negative experience with transfer pricing and other corporate income tax requirements. Slightly more firms consider the costs of compliance with labour law to be an issue. The new General Data Protection Regulation ("GDPR") was identified as being a challenge by 36% of the respondents. New requirements for financial reporting are an issue for almost a quarter of the survey participants, and the same percentage is not satisfied with the requirements that must be met when state aid is claimed. The increasing effort needed to comply with the regulation is seen as a disruption to business.

Question No 10

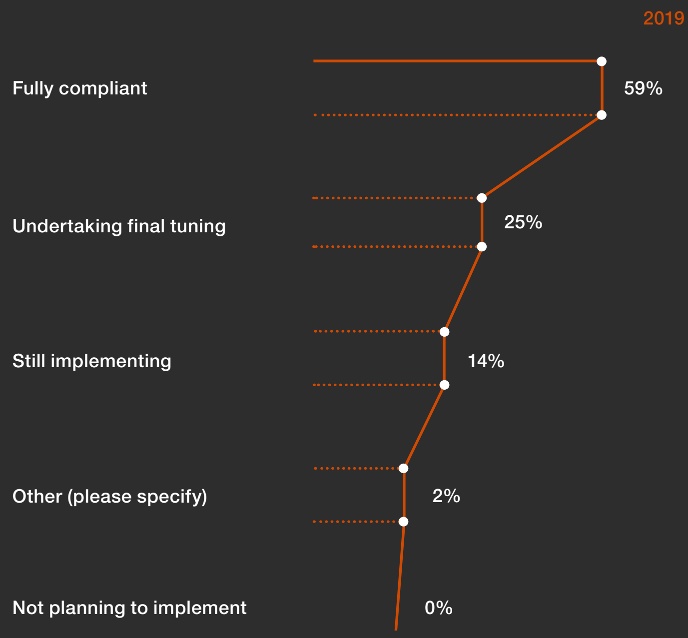
Which of the following risk factors may affect your future growth prospects?



GDPR required changes to many processes at companies. Although the firms stated that the requirements of this regulation created extra administration, almost three-fifths of respondents reported to be fully compliant with them. A further quarter of companies are undertaking final tuning of the systems to comply with GDPR, and one-eighth of businesses are still in the implementation phase.

Question No 11

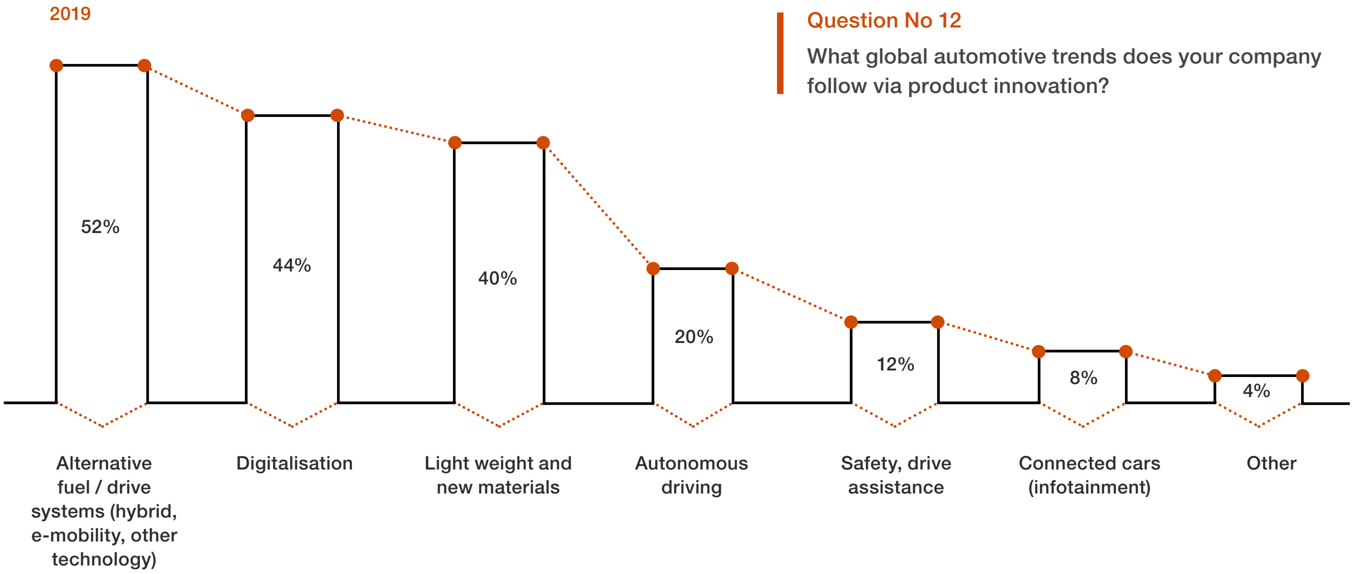
With respect to the new Global Data Protection Regulation (GDPR) you are:



Technological progress is changing the automotive industry to an unprecedented extent. These changes relate to various areas and affect products and corporate processes. For 52% of the respondents, the increasing use of alternative drive systems, especially battery-based e-mobility, including hybrid drive systems, is the most significant trend. Digitization is an area where companies expect major changes affecting both products and internal corporate processes – 44% of respondents consider digitization an important factor. Almost the same percentage of respondents identified new materials, especially those that can reduce vehicle weight, as an area that they are monitoring. Almost 40% of the survey participants see important product change trends in interconnected technologies (infotainment), assistant systems, and especially in autonomous vehicle functions.

Question No 12

What global automotive trends does your company follow via product innovation?



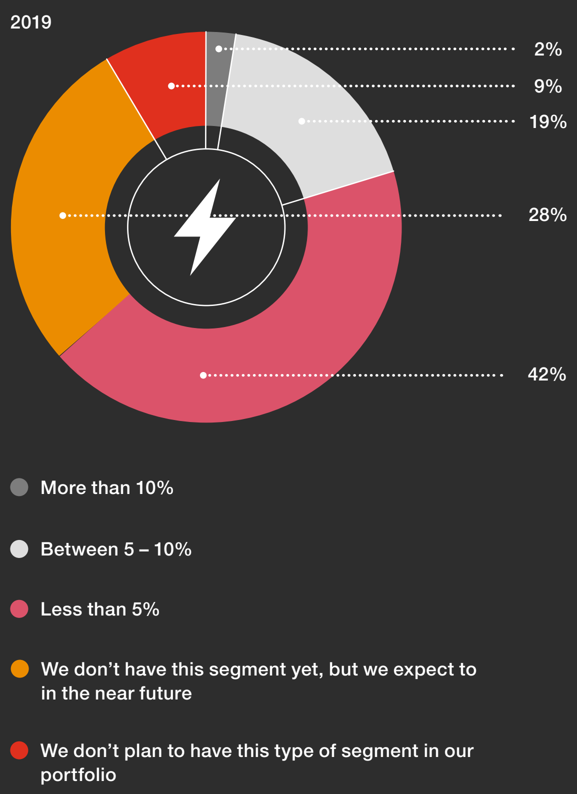
Although many companies expect that new drive systems, most importantly e-mobility, will change automotive industry products, this is currently not a focus of attention, which is reflected in the e-car production landscape in Slovakia to date. One-third of the respondents do not currently manufacture electric car components, and some firms do not intend to do so in the future. A similar percentage of firms supply up to 5% of their production for electric cars. One-sixth of respondents deliver 5% to 10% of their production for electric cars, and only a single company reported a figure of more than 10%.

Despite recommendations from previous years that the supplier sector may benefit from preparations for the development of e-mobility by confirming its position in production and gaining influence over the development of new driving systems, the Slovak car industry is lagging behind. Alongside Germany where the start-up production of electric cars is changing car factories and the supplier network, V4 countries are also preparing themselves for the new mobility era.

But the fact that our firms are not involved in this trend is also due to their low innovation capability as regards product innovations, which are necessary for the development of new products for e-mobility.

Question No 13

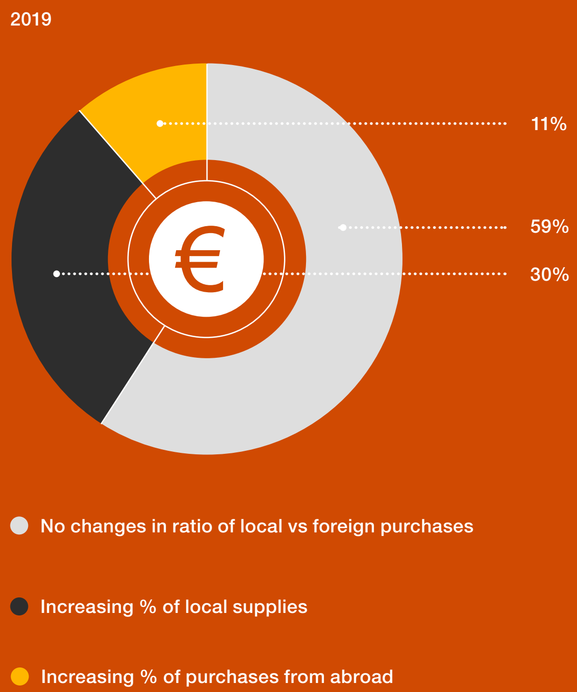
What percentage of your portfolio is supply for electromobility (hybrids, electrics)?



The increasing proportion of purchases from local suppliers also affects production volumes in the automotive industry. Slightly less than 30% of respondents confirmed that their proportion of purchases in Slovakia were increasing. The proportion of purchases from domestic suppliers remained unchanged for almost 60% of firms, and some businesses increased the proportion of production inputs from abroad.

Question No 14

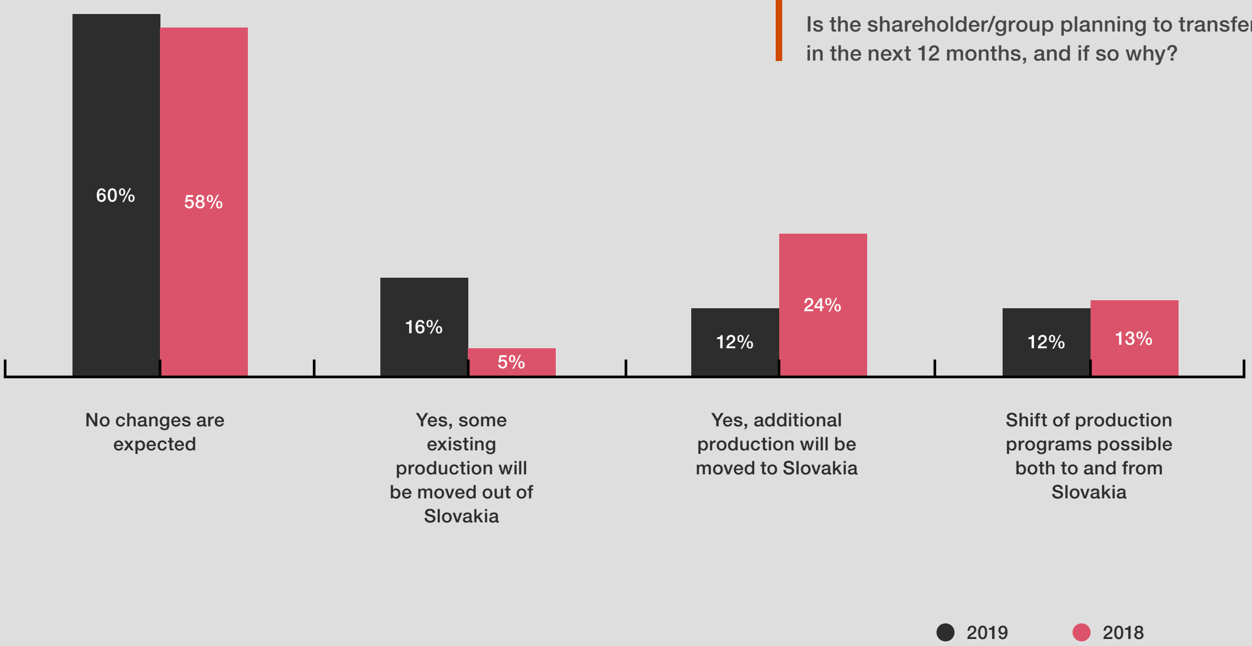
What is the trend for localisation of your purchases of materials and services in Slovakia?



Globalization, changes in purchasing strategies, business environment, and the fight for new orders within groups are changing production expectations at supplier plants in Slovakia. Although most respondents do not expect any changes, a number of them do. Some expect that new production will be moved to Slovakia, or that part of their existing production will be transferred to other plants. The critical signal for our economy is that among companies that expect a one-way shift of production, compared to previous years, many are considering shifting production to other countries. About 10% of businesses in the survey are considering such a move.

Question No 15

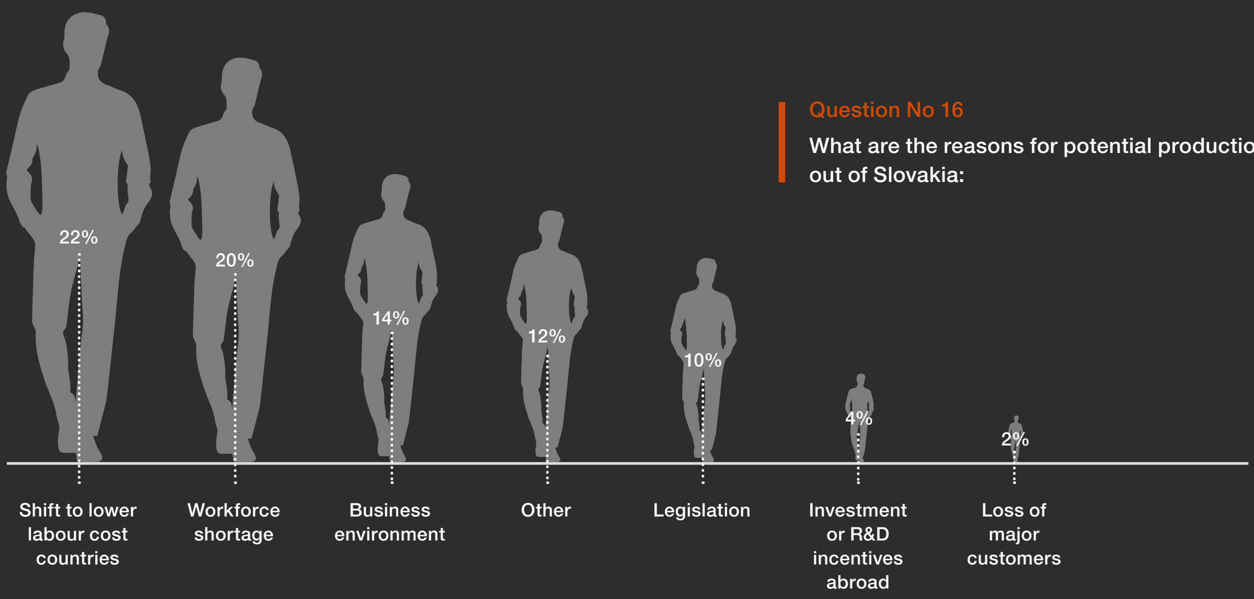
Is the shareholder/group planning to transfer production in the next 12 months, and if so why?



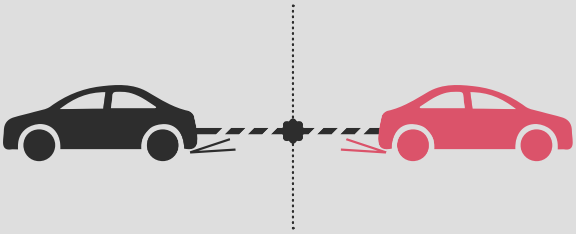
According to survey participants, the three most important reasons for transferring production out of Slovakia include lower manufacturing costs in other countries, a shortage of skilled staff, and drawbacks regarding the business environment and legislation in Slovakia. Investment and R&D incentives in other countries were also cited.

Question No 16

What are the reasons for potential production transfer out of Slovakia:



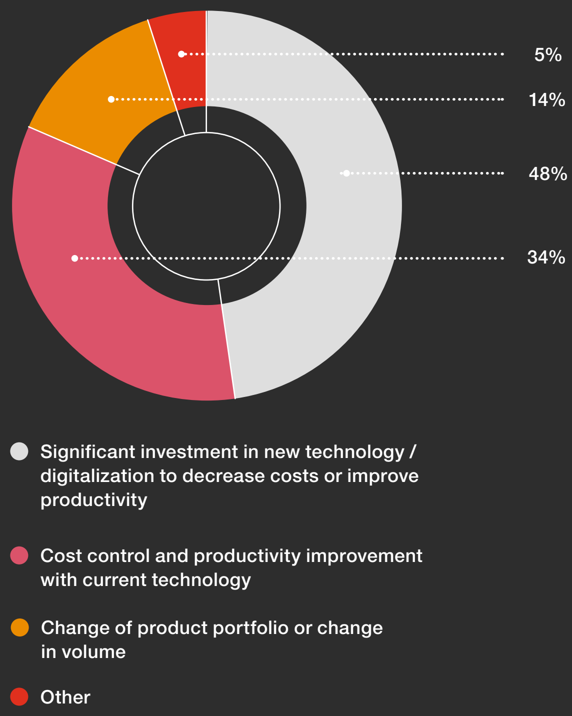
Competition in the automotive supplier sector, the emergence of new technologies and new companies (market entries) are making competition in the sector tougher. The vast majority of firms consider activities to make operations more effective in Slovakia as of key importance, mainly by increasing labour productivity. Almost half of the companies that commented on their future operation in the local automotive industry, plan major investments in new technologies and digitization to reduce costs and improve labour productivity. About one-third of the respondents plan to achieve similar goals using current technology.

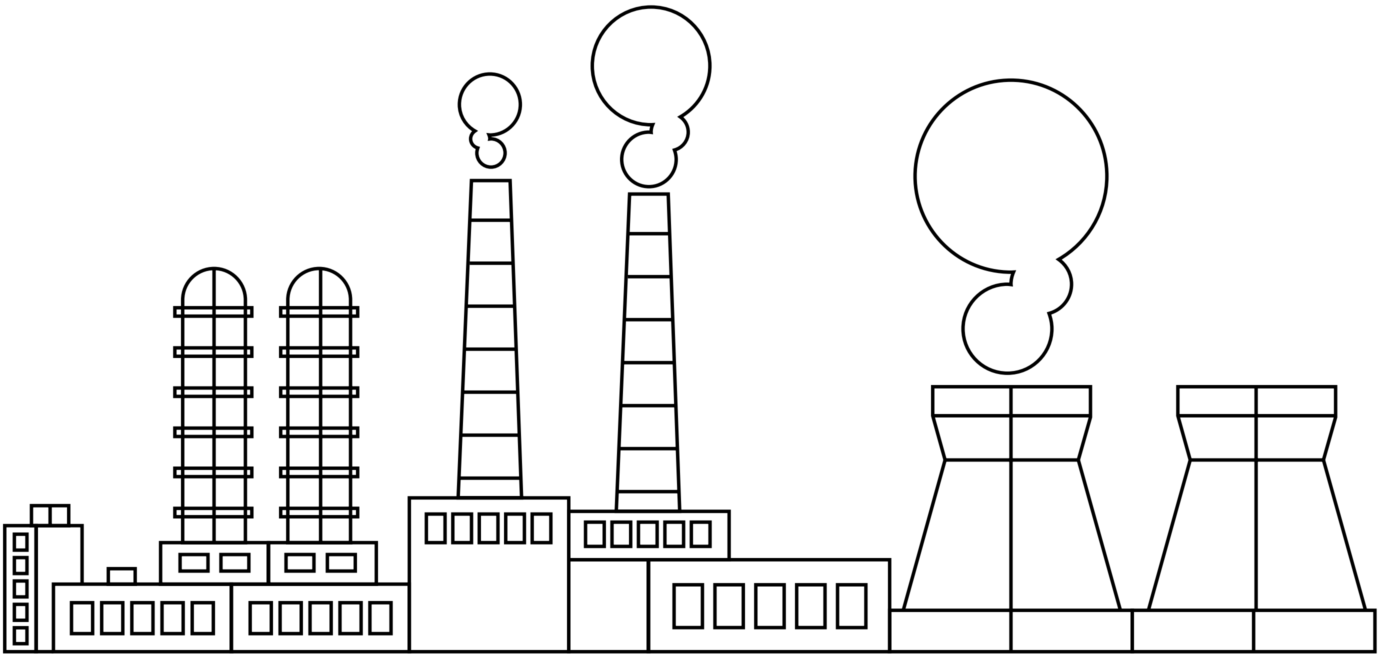


Question No 17

If you intend to continue operating in Slovakia, how would you describe your major focus for the next 3-5 years?

2019



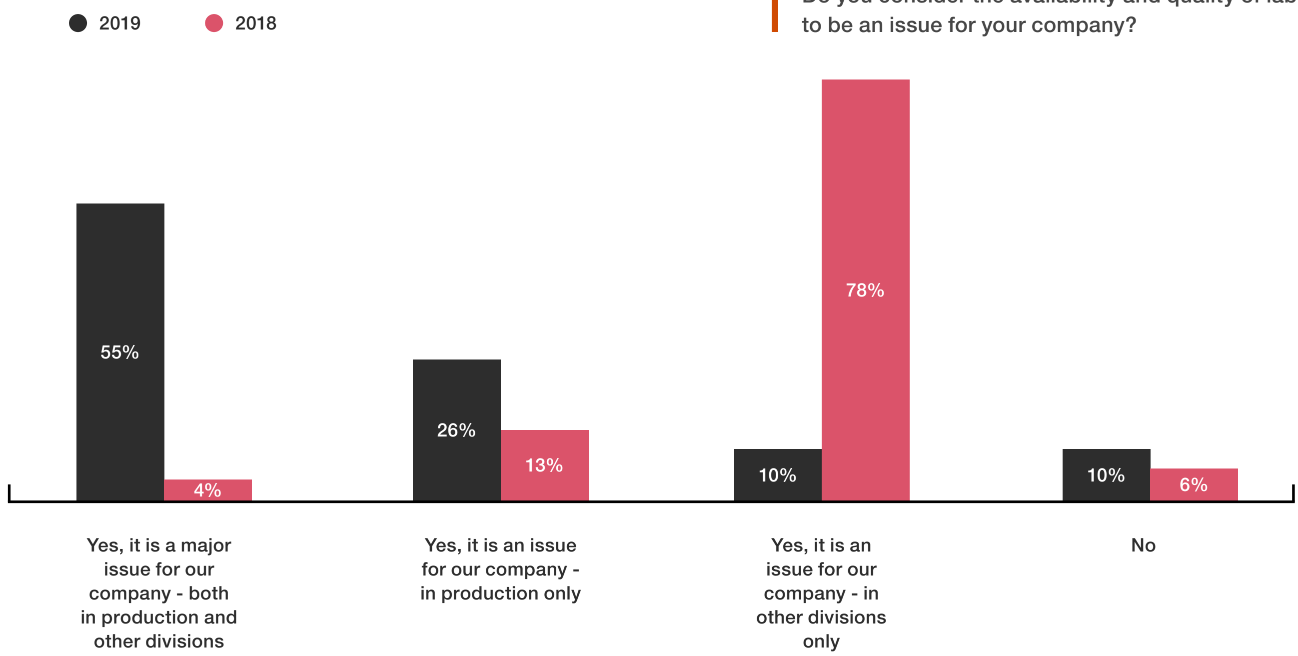


Human resources challenges

The availability of qualified staff remains a key issue for many companies in the automotive supplier sector. For more than half of the respondents, it is a factor that is complicating production and the operation of other divisions. Slightly less than a quarter of firms are only experiencing a lack of staff in production-related divisions. Few businesses are only understaffed in non-productive departments. Given the expected end of the growth period, it will be even more important for the labour market to respond far more flexibly to the demands of the industry than it has so far.

Question No 18

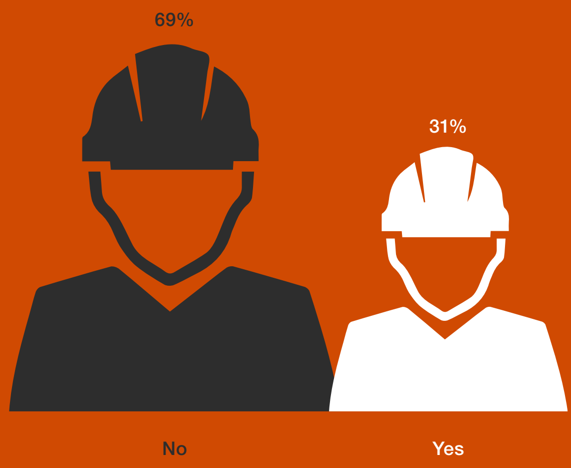
Do you consider the availability and quality of labour to be an issue for your company?



Although skilled labour is a topical issue in the industry, as regards the impact of shortages of skilled workers on winning new orders, other factors seem to play a more significant role. For about 30% of the respondents that commented on this question, skilled labour shortages are a limiting factor for winning new projects. Other factors are crucial for 70% of respondents.

Question No 19

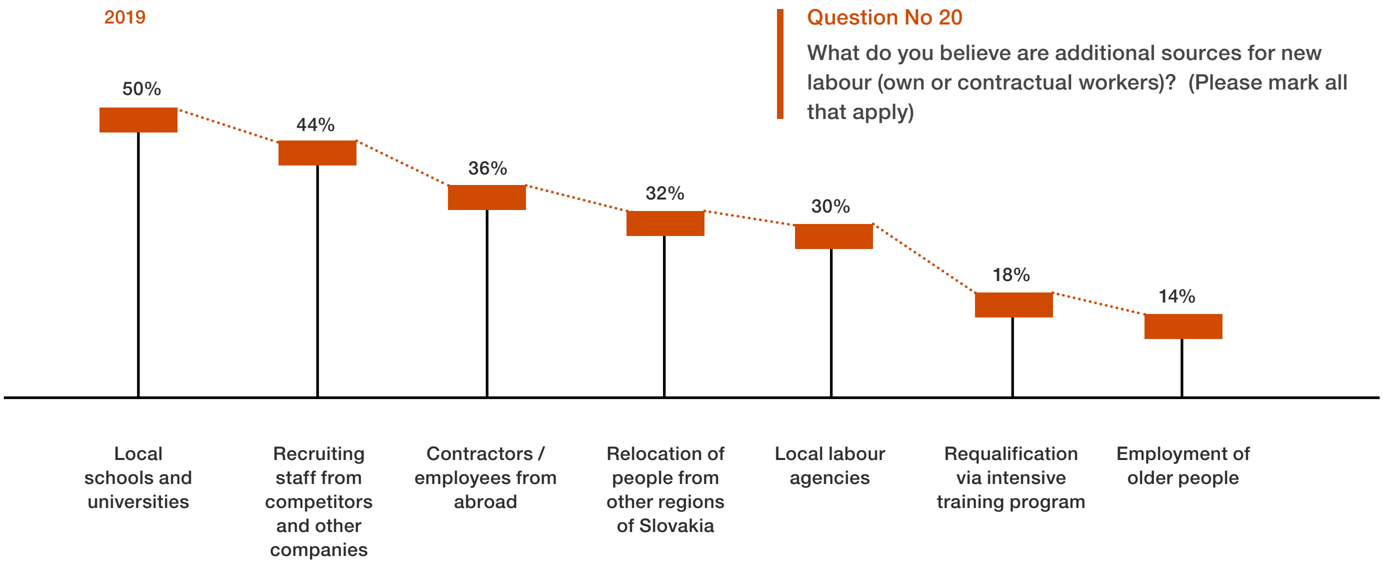
Are labour shortages restricting your ability to accept new projects?



The responses of businesses that participated in the survey confirm that firms are using various opportunities to recruit new staff. For most of them (more than half of the respondents), cooperation with schools and universities is crucial. Almost the same percentage of companies rely on recruiting staff from competitors and other companies. Many companies employ staff from other countries, hired by labour agencies. Many businesses in Western Slovakia bring staff from more remote Slovak regions, or lease staff using local labour agencies. Requalification and employment of older people is relatively unused as a source of new staff.

Question No 20

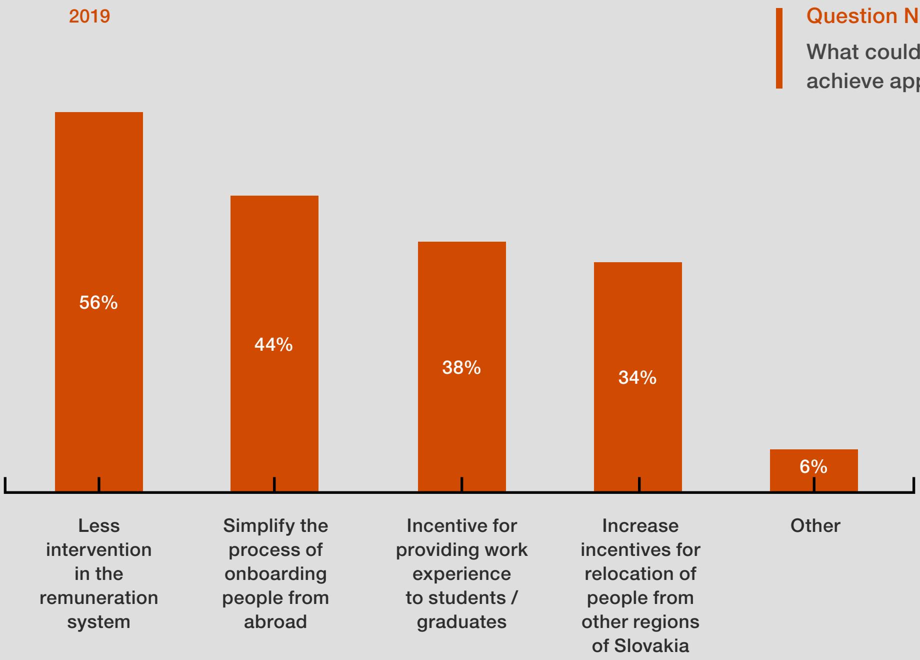
What do you believe are additional sources for new labour (own or contractual workers)? (Please mark all that apply)



Businesses also have a relatively clear idea of changes in legislation and the business environment that could help them recruit more staff. Currently, it is important for many companies to facilitate the process of recruiting staff from other countries, but this is not the area where most would welcome a change. Almost 60% of the respondents require less interference in legislation that directly influences their remuneration systems. Many would appreciate the introduction of incentives for employing new graduates, or the creation of possibilities for students to pass the mandatory practical training in a production plant. For some respondents, an increase of incentives for people willing to relocate for work would be helpful.

Question No 21

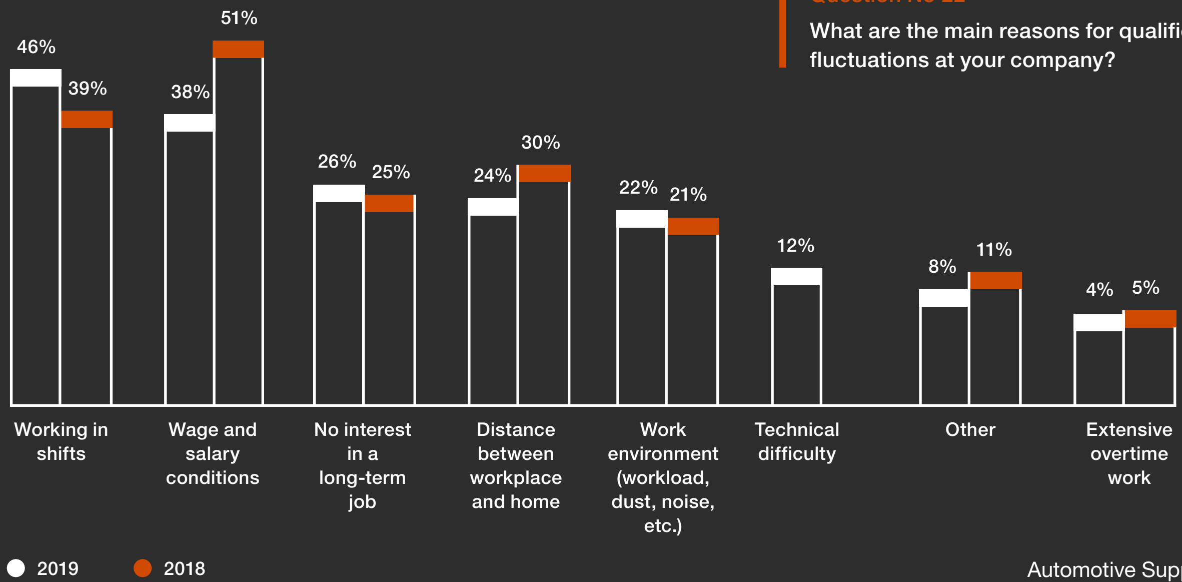
What could government do to help your company achieve appropriate staffing levels?



The situation on the labour market where demand for staff still prevails in many companies also affects staff turnover. For about 40% of the respondents, the most significant factors with an adverse impact on labour fluctuation include shift work and wage and salary conditions. A slightly lower impact perceived by about one-quarter of businesses is attributed to three other factors: no interest in a long-term job, distance between workplace and home, and a difficult or challenging work environment. The first five months of 2019 brought a further decrease in the overall unemployment rate, and the expected economic slowdown has not yet impacted the tight situation on the Slovak labour market.

Question No 22

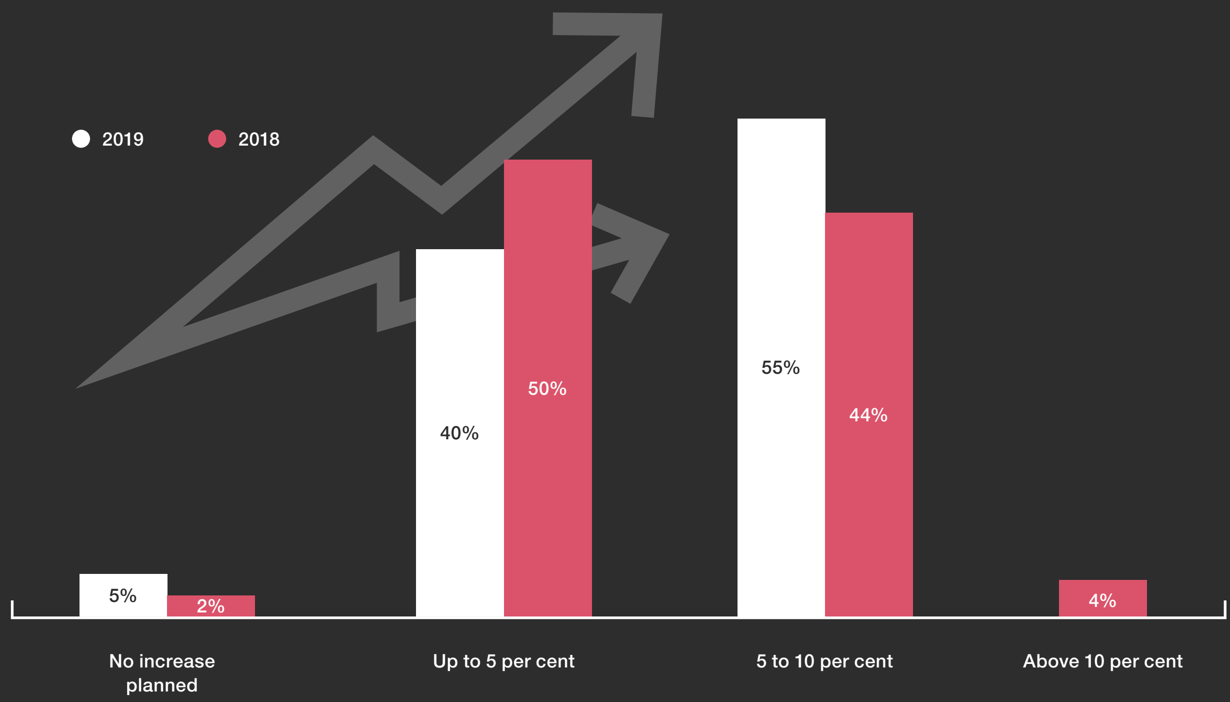
What are the main reasons for qualified labour fluctuations at your company?



The combination of the situation on the labour market, which is also felt in the pressure from trade unions, and changes in the labour law also resulted in almost all survey respondents considering a pay rise this year. Almost 55% of the firms that commented on this question expect a wage increase from 5% to 10%. The majority of the remaining companies plan to raise wages and salaries by up to 5%. Slightly less than 5% of businesses do not plan to raise wages and salaries. The long-lasting competitive advantage of Slovakia could be impaired by labour-related issues.

Question No 23

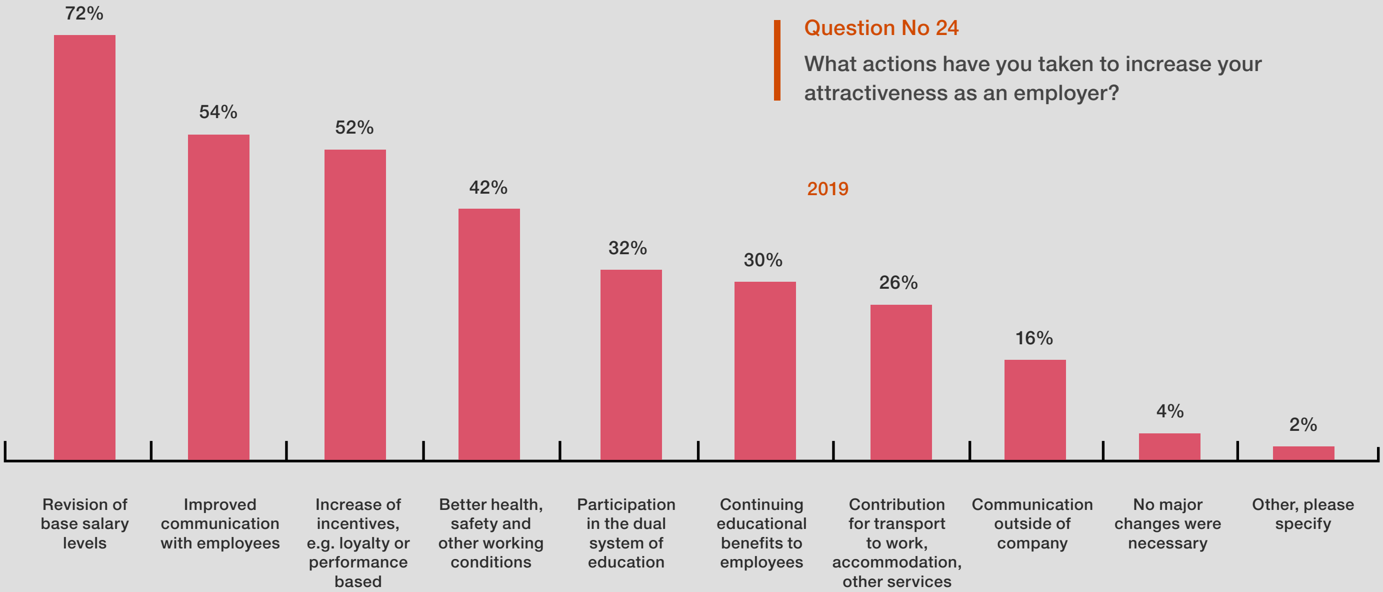
Do you plan to increase wages in 2019?



Companies continue to work on increasing their attractiveness as an employer as regards major changes in the labour law. In addition to increasing base salary levels, stated by about 70% of the survey participants, they are increasing incentives for employees' loyalty and performance. Many firms offer their employees transport to work, accommodation, and other services. However, companies do not only offer direct benefits. More than half of the respondents seek to improve communication with employees and 40% of businesses are enhancing health, safety, and other working conditions. Attention is also being paid to increasing staff qualifications. About one-third of the survey participants support further education of employees.

Question No 24

What actions have you taken to increase your attractiveness as an employer?

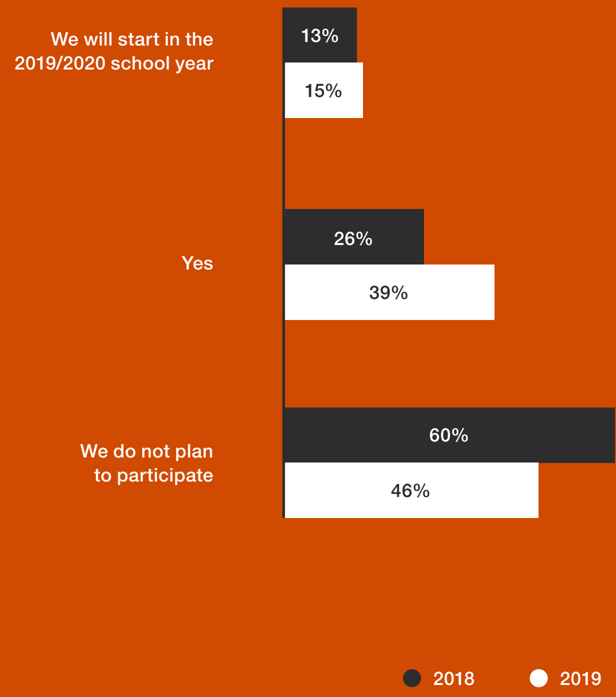


Cooperation with schools

Dual education as a method of recruiting new staff is an important topic in the industry. Although, nearly half of the companies that commented on it do not intend to join the dual system of education. About 40% of the survey participants are already part of the system, and about one-seventh of respondents plan to join the dual system of education in the 2019/2020 school year.

Question No 25

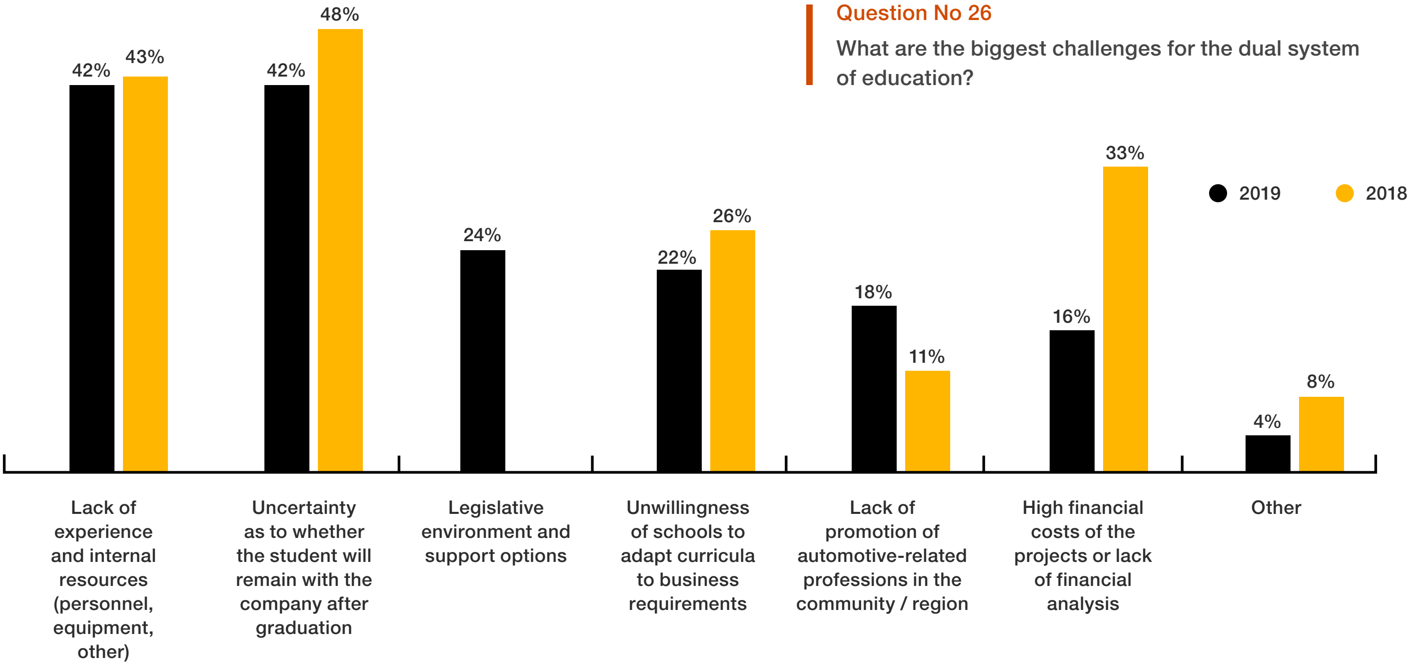
Do you participate in the dual system of education?



Companies also commented on barriers that hinder the development of dual education. For 40% of them, the two biggest challenges include a lack of experience and internal resources, especially personnel, for education in a dual system, and uncertainty as to whether the student will remain at the company after graduation. The weaknesses of the legislative environment for dual education and support options are also considered as a problem. In their opinion, the unwillingness of schools to adapt curricula to the practical requirements of companies is a barrier that prevents firms from participating more intensively in dual education. In addition, companies are also concerned about a lack of social support for education in the automotive sector, significant education-related costs, and a lack of information about the financial costs for dual education.

Question No 26

What are the biggest challenges for the dual system of education?

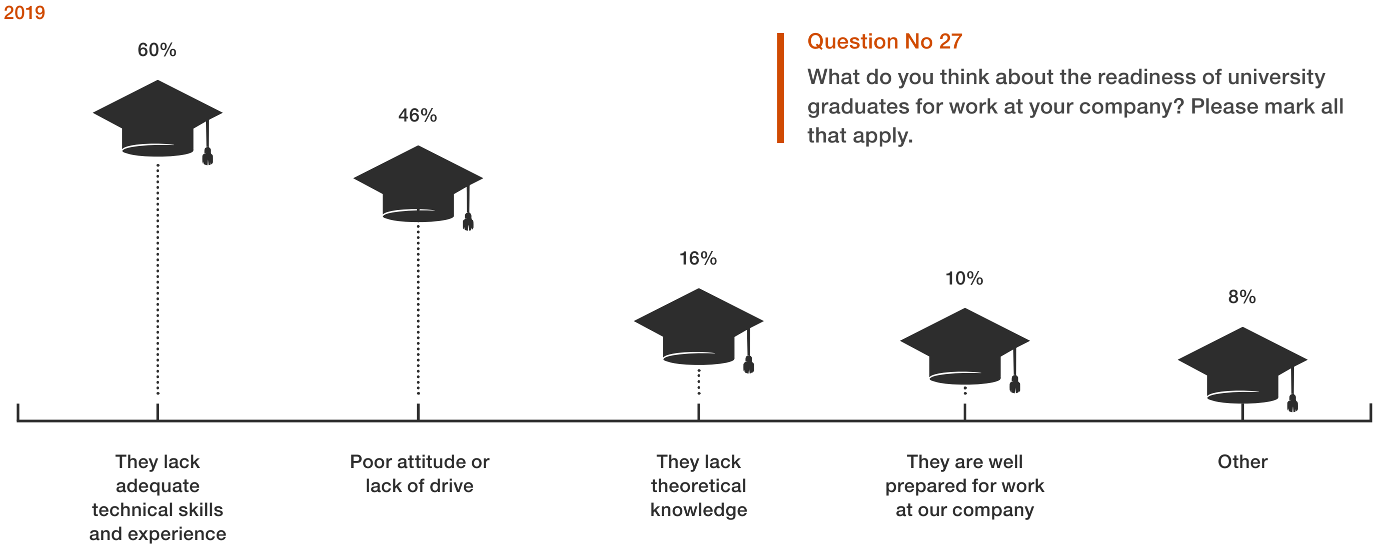


Only one-tenth of industrial firms are satisfied with university graduates. Three-fifths of respondents think that graduates lack technical skills and practical training appropriate for to their education level. Almost half of them noted poor work commitment and motivation at work, and one-sixth of firms complained that grad-uates also lacked theoretical knowledge in the given field.

The industrial sector has long been calling for a transformation of the Slovak education system. Currently, this system does not motivate students to work on developing their own personality and ability to get a job after graduation. The vast majority of students use “the path of less resistance”. The situation is alarming, and the autonomy of universities is a huge barrier. Unfortunately, the representatives of the academic community are also satisfied with the current status and they do not operate in a competitive environment. It is necessary to plan educational performance and set up study programmes, so that graduates gain more practical experience during their studies.

Question No 27

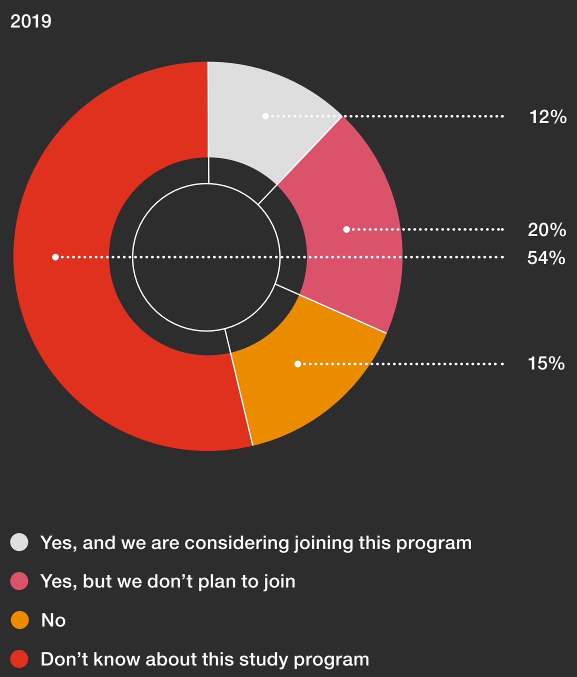
What do you think about the readiness of university graduates for work at your company? Please mark all that apply.



The new Professional Bachelor programme is a project of the Faculty of Mechanical Engineering of the Slovak Technical University in Bratislava, which seeks to better connect education with work. More than half of the survey respondents are not aware of this programme. About one-third of them consider this programme to be the right way to prepare university graduates for work in production companies, but most survey participants do not plan to join it. The programme might be a way of educating and training professionals who will be better prepared to solve business problems. Technological trends in various automotive business segments are increasing the demand for experts.

Question No 28

Do you consider the professional bachelor program to be the right way to prepare university graduates for work in your company?



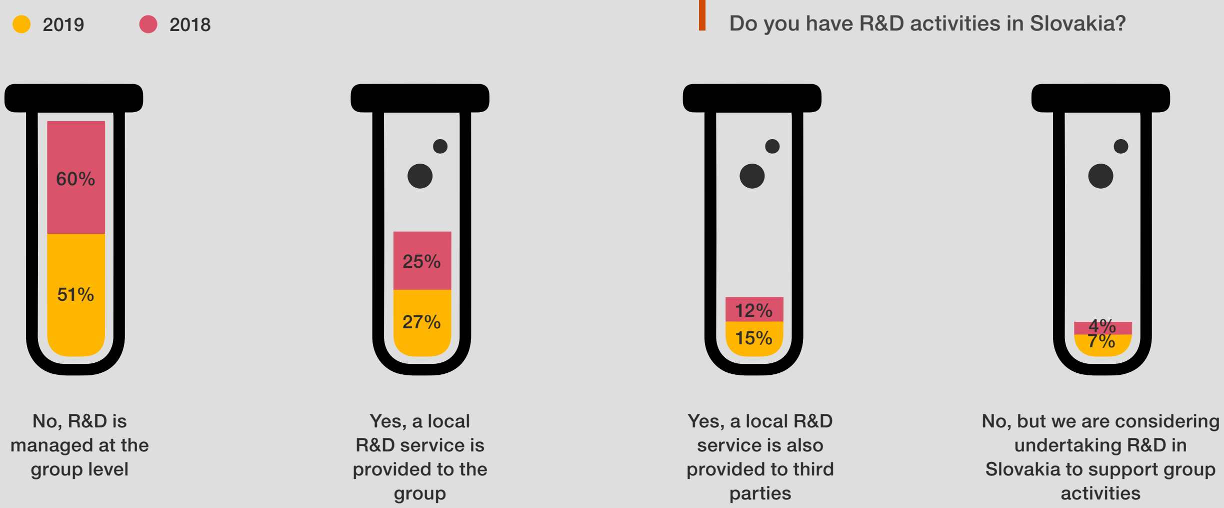
Innovations, development and technologies

The quality of university and higher education also affects the readiness of businesses to develop and innovate their products in Slovakia. More than half of the companies that commented on this question state that R&D activities are managed at the group level outside Slovakia. Less than 8% of them are considering undertaking R&D in Slovakia, or participating in group development activities. Of the two-fifths of the respondents that state they have R&D activities in Slovakia, the majority states that their R&D departments only provide services to group companies. Only slightly more than one-third of firms with an R&D department also provide R&D services to external customers.

The promotion of the firms' innovation performance is dependent on their export performance, so more attention should be paid to this issue.

Question No 29

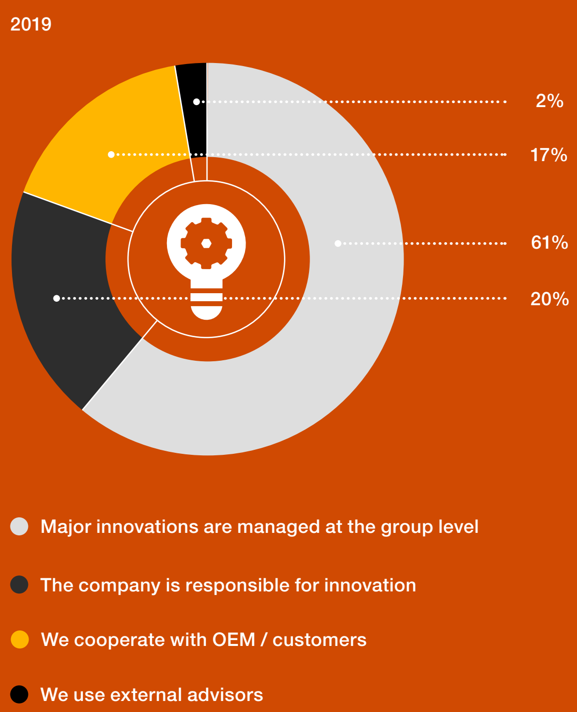
Do you have R&D activities in Slovakia?



The spread of competencies in R&D management also confirms the role of Slovak businesses that are still acting mainly as production units of multinational groups. In more than 60% of the companies that commented on this topic in the survey, major innovation activities are managed at the group level. About one-fifth of respondents have a special team for managing innovation activities, slightly less companies also cooperate with customers, especially carmakers. Suppliers only very rarely use innovation services of third parties.

Question No 30

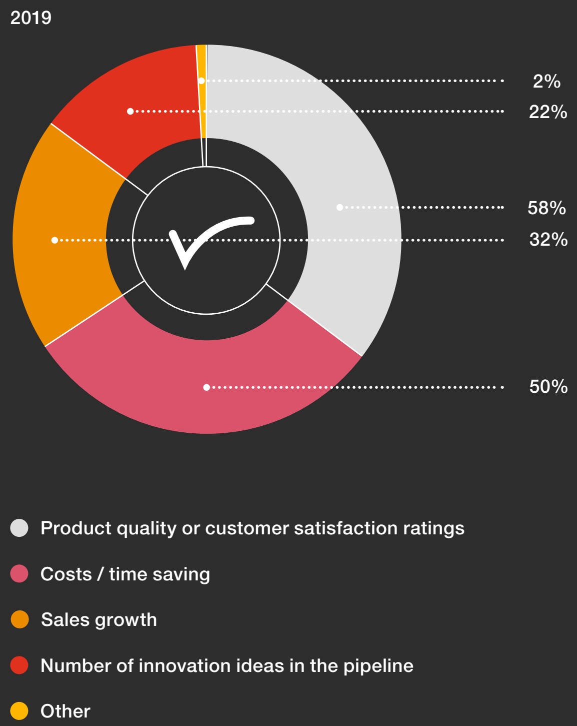
Who leads innovation activities at your company?



Almost three-fifths of the survey participants consider the product quality or customer satisfaction rating as the most important KPI. Half of the respondents also carefully monitor cost or time savings from innovative solutions. Almost one-third of businesses require innovations to boost sales. More than 20% of the respondents evaluate innovations by the number of innovation activities in the production process.

Question No 31

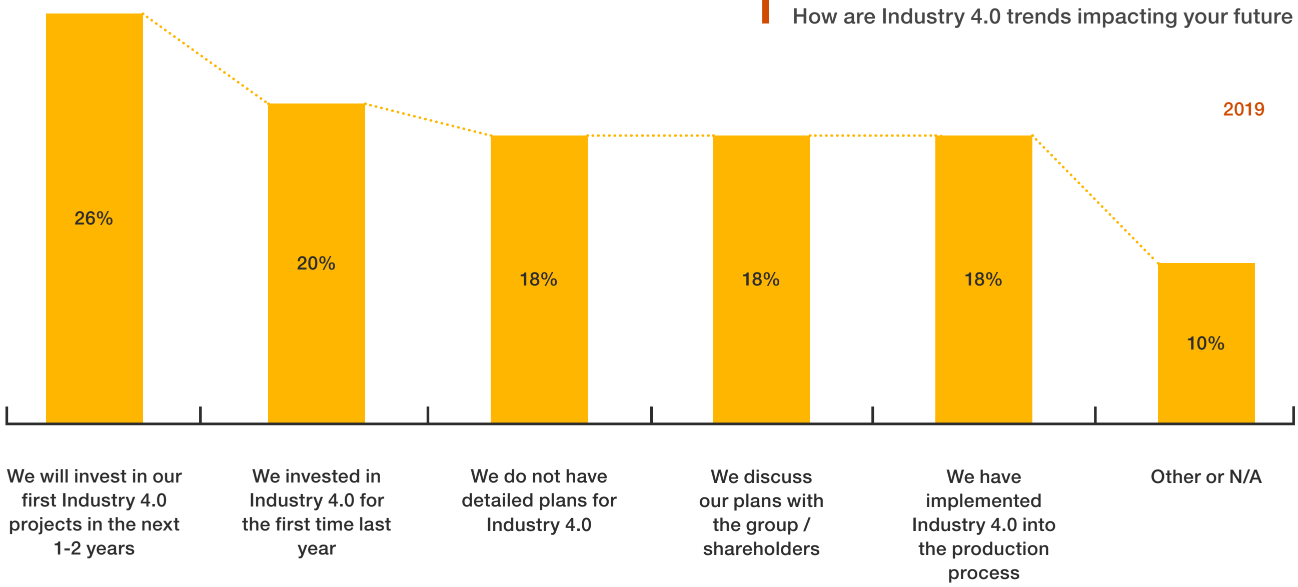
What are the most important metrics / KPIs for measuring innovation at your organization?



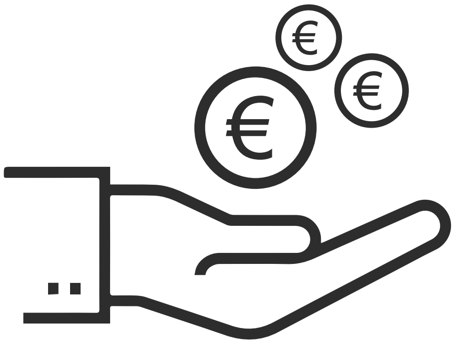
One of the industrial megatrends that are changing the operation of businesses in various sectors globally is the use of Industry 4.0 principles. Although businesses are intensively monitoring this trend, it is only being applied gradually. Only one-fifth of the surveyed businesses are currently undertaking activities using Industry 4.0 principles. Half of this group made investments in this area last year and the remainder implemented Industry 4.0 in the production process. Slightly less than one-fifth of the firms in the survey either had no specific plans for the future as regards Industry 4.0, or intend to discuss the topic with the parent company or shareholders. One-fourth of the surveyed businesses planned to invest in Industry 4.0 projects in the near future.

Question No 32

How are Industry 4.0 trends impacting your future plans?

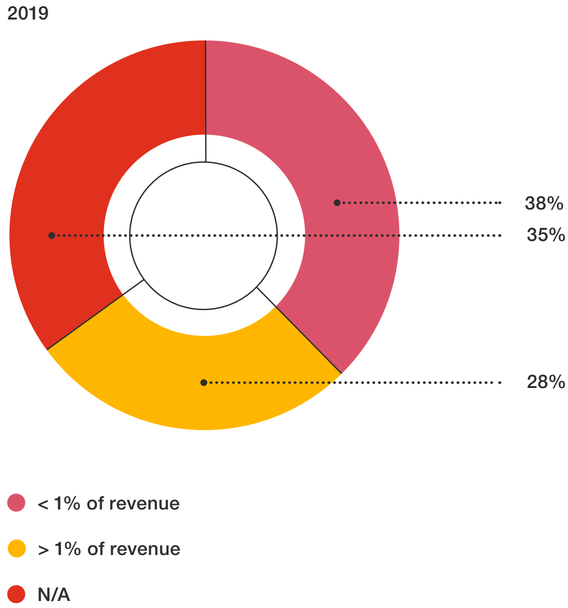


Investment plans in this area show that Industry 4.0 projects are in their infancy. So far, more than one-third of the companies that commented on this question have no estimates as regards investments in Industry 4.0 projects. Almost 38% expect that it will be less than 1% of their income. Slightly more than a quarter of businesses expect investments higher than 1% of their income.



Question No 33

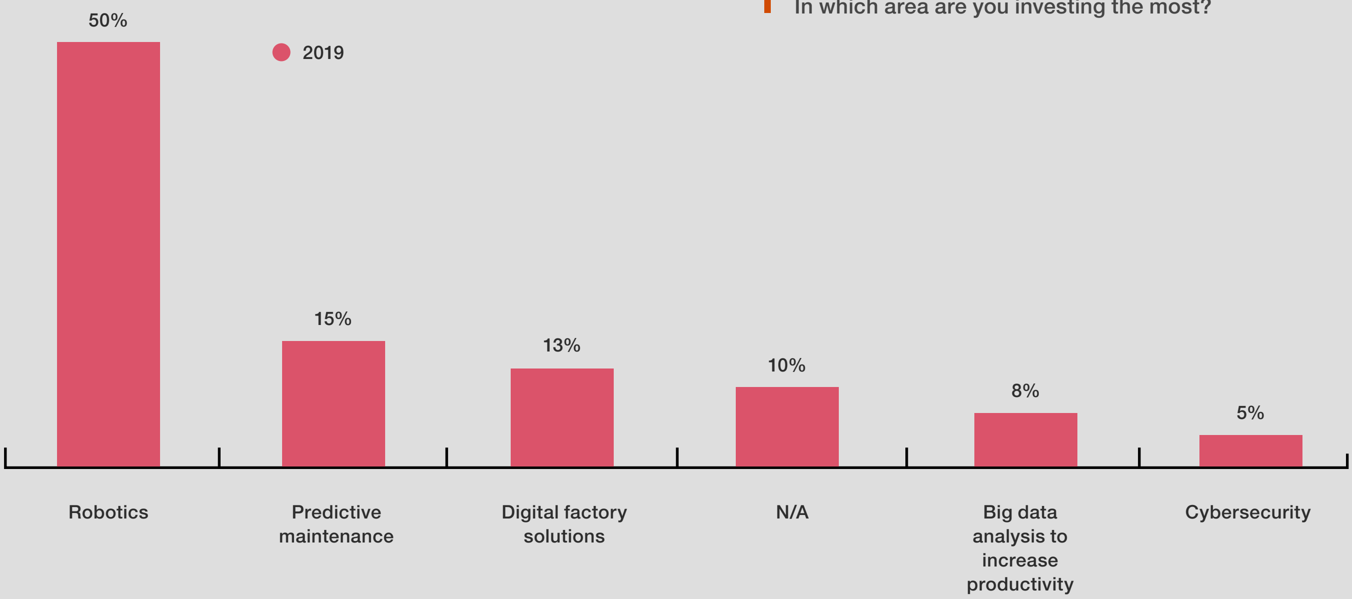
What is your estimated total spending in Industry 4.0 for the next 2-3 years?



50% of the companies that commented on this issue are investing in robotics, and about one-sixth in predictive maintenance projects. One-eighth of firms are investing in complex digital solutions for the whole production plant. Targeted investments in Big Data analysis and cybersecurity projects are not a focus anymore. It appears investments have been made already.

Question No 34

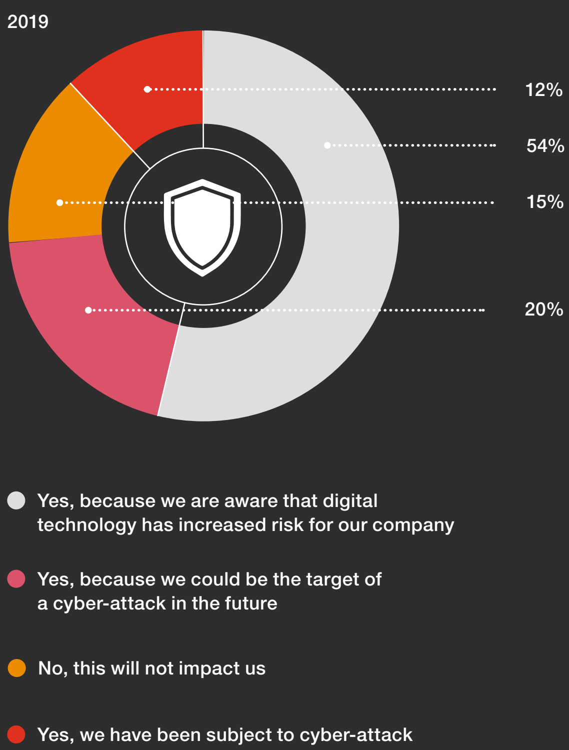
In which area are you investing the most?



The increasing level of utilization of smart technologies and solutions connected with the use of the industrial Internet of Things is turning the attention of firms to cyber security. One reason for this is the increasing number of cyberattacks on businesses. More than 85% of the businesses that commented on this question in the survey confirmed this fact. More than half of them are of the opinion that digital technology increases risk for them. One fifth of respondents were concerned that they could be the target of a cyberattack in the future, and more than 12% of companies have already suffered a cyberattack.

Question No 35

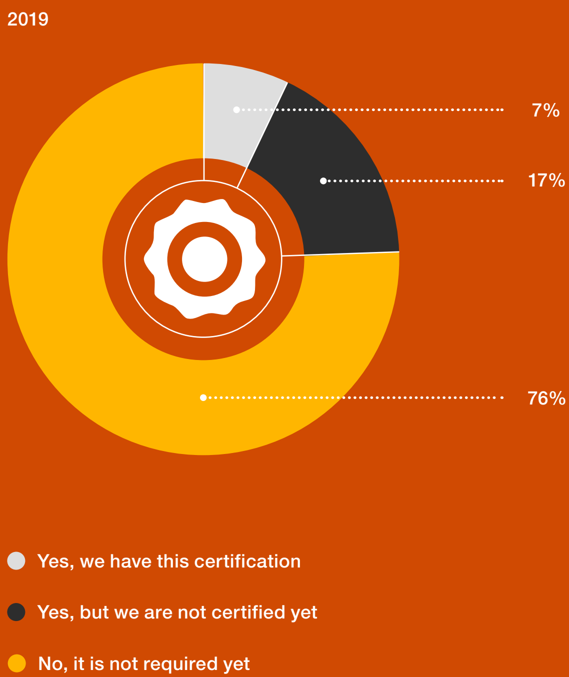
Do you consider cybersecurity to be an important topic for your company?



For businesses, the TISAX (Trusted Information Security Assessment Exchange) certificate required by more and more large customers in the automotive industry including carmakers is a guarantee of a degree of security against cyber threats. Its importance is likely to grow with the increasing use of smart solutions in the industry. However, only a few companies include it in their certificate kits. Three-quarters of the companies that commented on this question think that this certificate is unnecessary. The rest consider it important, but less than half of them have obtained it.

Question No 36

Do your customers require TISAX (Trusted Information Security Assessment Exchange) certification?

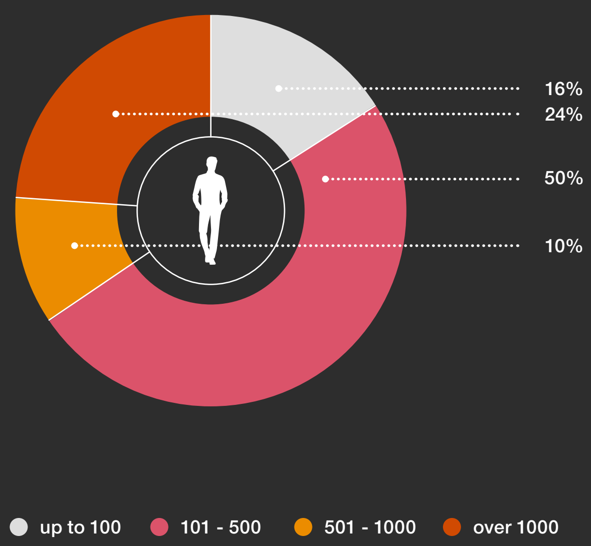


Structure of survey respondents

In modern economies, industry is subject to the increasing pace of technological progress. Modern technologies allow for a high concentration of production and an increase in production volumes, often at businesses that have traditionally not been large. The utilization of modern productive technologies have made large suppliers and medium-sized companies the centre of attention as a core group. Businesses with 100 to 500 employees represent 50% of all survey participants, which shows that this is an important segment of the Slovak automotive industry. The percentage of suppliers with more than 1,000 employees, which comprises almost one-quarter of the survey respondents, suggests a preponderance of exporting companies but, in practise, they also include suppliers with a higher concentration of orders from automotive plants operating in Slovakia. A higher percentage of system suppliers covering the broadest possible region with the production of specific components would be beneficial for this industrial sector. It is such companies, as evidenced by the results of this survey, that are most often adding additional competencies to production, frequently in development activities.

Question No 37

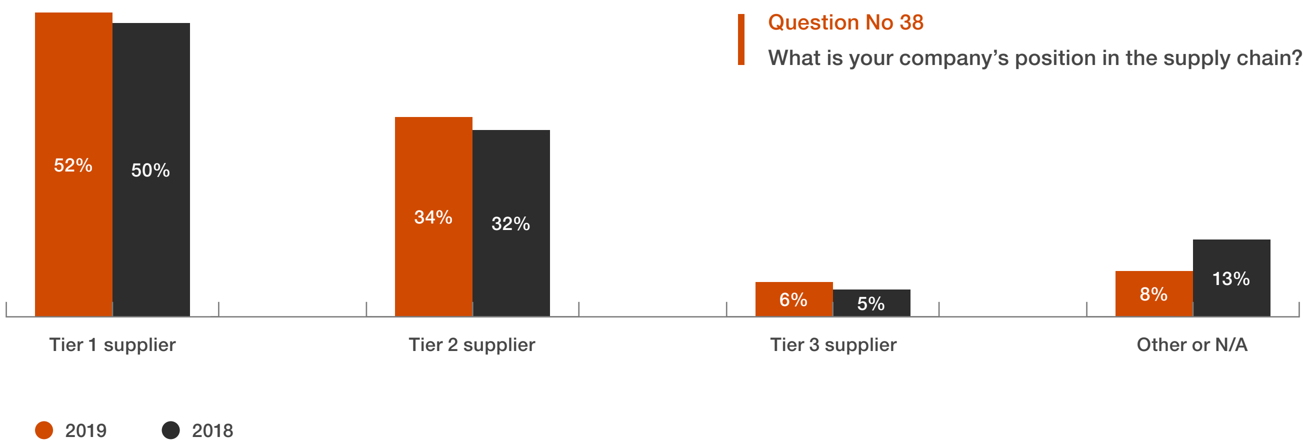
How many people (own staff and contractual workers) currently work at your plants?



More than 50% of the survey participants were Tier 1 suppliers, which indicates the potential of this segment. For several decades, car manufacturers have been moving productive activities (and, in many cases, the development of individual car components) to suppliers, so it is logical that Tier 1 suppliers are the primary recipients of these competencies. However, as they are frequently multinational companies, it is not sufficient to rely on this factor – it is important for their Slovak branches to apply for new competencies. However, developmental competencies may also be taken over by Tier 2 suppliers, representing 34% of the respondents to this year's survey. In some cases, they may supply a larger range of products to car producing firms and shift to a higher tier. The role of lower tier suppliers, or firms providing, for example, various technical services, lies in their specialization in production with a higher added value. Producers of pressed pieces or castings are an example of such companies – they manufacture simpler products, but with a higher degree of transformation of primary raw materials. The role of special service suppliers will strengthen, whether as regards quality, or in working with modern technologies used for production or logistics.

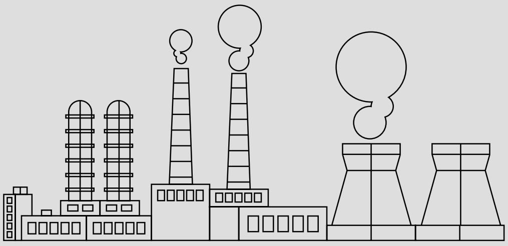
Question No 38

What is your company's position in the supply chain?



The ownership structure of surveyed businesses, with 84% being multinational firms and only one-eighth locally-owned companies, reflects the composition of the Slovak industry, the openness of the economy, and also the limited capital sourcing of local businesses. Despite the strong position of the automotive industry in the Slovak economy, access of local owners to capital needed for development is a factor that is limiting the increase of Slovak suppliers as regards numbers and percentage. The development of this segment, including the transformation of innovative ideas at new firms, industrial start-ups and scale-ups, will increasingly determine the future performance of the Slovak automotive industry.

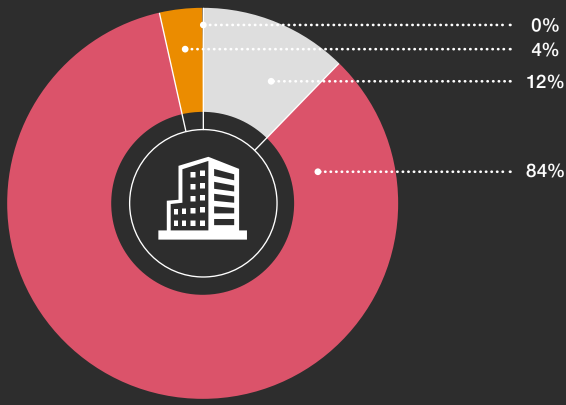
In addition, the dependence of the Slovak economy on foreign owners' decisions and the need to create a favourable and competitive business environment must be accentuated.



Question No 39

What is your company's ownership structure?

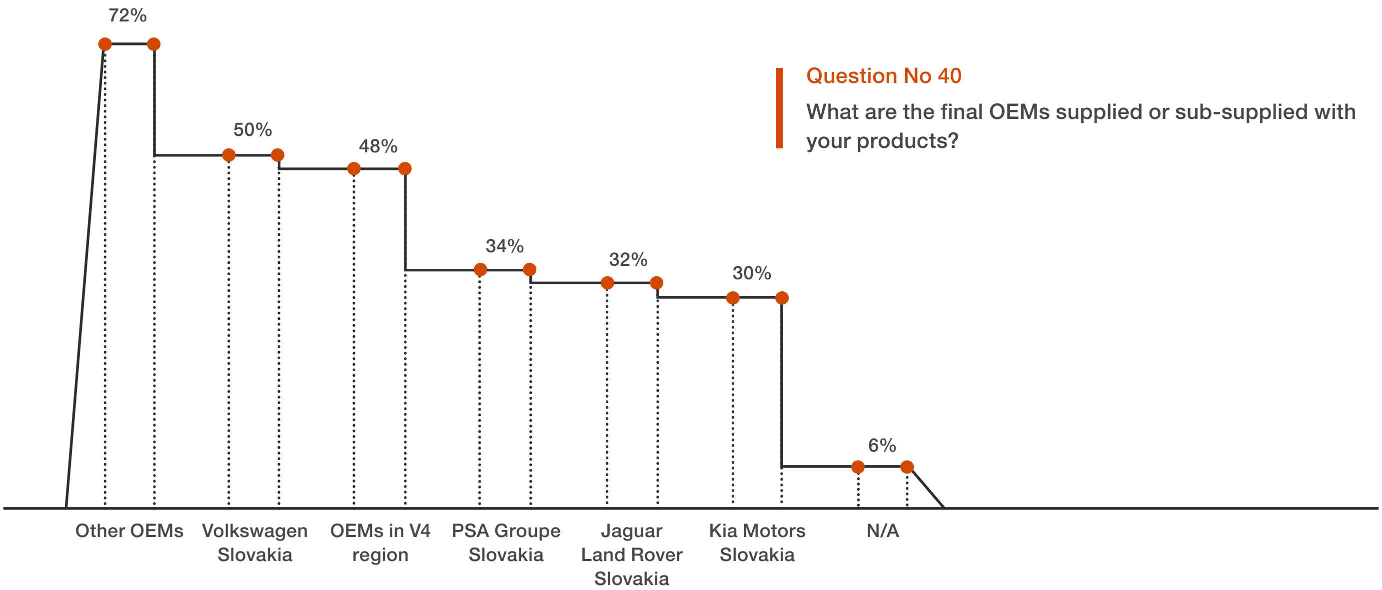
2019



The relatively high percentage of larger suppliers in the survey highlights the extent to which component producers are establishing themselves at several automakers in the region. Their primary customer group includes the four plants in Slovakia. Given that VW is the longest operating car plant in Slovakia, and the size and range of its products (two platforms, gearboxes, components, tools), it is not surprising that half of the surveyed businesses are suppliers to VW Group plants. About one-third of the respondents supply the local plants of the other three car manufacturers: PSA, KIA, and JLR. According to the survey, the percentage of suppliers of the new plant of JLR Slovakia is also at this level. Almost half of the surveyed businesses also supply V4 customers – three of the four car manufacturers with production plants in Slovakia have manufacturing plants in neighbouring countries. It is positive news that more than 70% of the surveyed firms also supply car producers other than the four firms with plants in Slovakia.

Question No 40

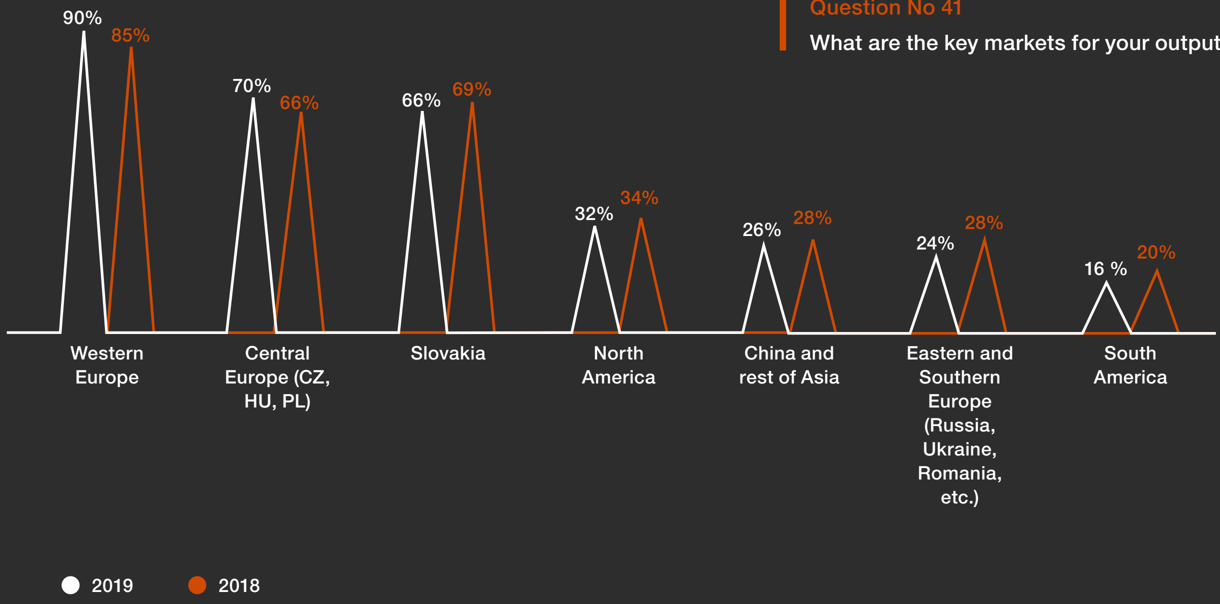
What are the final OEMs supplied or sub-supplied with your products?



From the geographical point of view, the surveyed companies include export-oriented suppliers. The vast majority of them supply customers in Western Europe. About 70% also have customers in Slovakia and neighbouring countries. One-third have also supplied North America. About one-fourth of the surveyed businesses supply Eastern Europe and China. The more diverse the sales markets are, the more robust the sup-plier industry will be with respect to turmoil on individual markets.

Question No 41

What are the key markets for your output?



About the survey

The survey was carried out by the consultancy firm PwC in cooperation with the Automotive Industry Association of the Slovak Republic and the Slovak Automotive Institute. The addressed suppliers responded via an on-line questionnaire, or printed versions of the questionnaire during the period 4 March to 25 April 2019. The survey includes 50 suppliers of the automotive industry in Slovakia. Our report includes the key findings regarding the automotive suppliers market, assessments of the results from last year and their main factors, and the future outlook.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We are a network of firms in 158 countries with more than 250,000 people committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at: www.pwc.com/sk.

About the Automotive Industry Association of the Slovak Republic

The Automotive Industry Association of the Slovak Republic is a voluntary association of legal entities acting in and contributing to automotive and associated industries. The main mission of the Association is to support the sustainability and competitiveness of the automotive industry in Slovakia. Its strategic objectives for 2019 include improving quality and shaping the business environment, supporting and creating an R&D base for the automotive industry; improving cooperation between final producers and sub-contractors, and developing environmental legislation. For more information visit: www.zapsr.sk.

About the Slovak Automotive Institute

The Slovak Automotive Institute is an independent industrial think-tank providing information services and analyses in fields relating to the automotive industry and industrial and transport sectors.

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