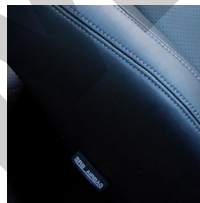


IHS AUTOMOTIVE

# The Automotive Interiors Report

2016 edition

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**SECTORAL REPORT**

Interiors



# Contents

|  |           |
|--|-----------|
| <b>Executive Summary</b>   | <b>4</b>  |
| <b>Introduction</b>  | <b>6</b>  |
| Mega-themes and market structure   | 7         |
| – Continued M&A activity   | 7         |
| – More market concentration in interiors?  | 7         |
| – The emergence of the Chinese   | 7         |
| Automotive interiors – sub-segment commentary                                      | 8         |
| <b>Seats</b>   | <b>9</b>  |
| Increased vertical integration in seat production                                  | 10        |
| – International moves in seat production   | 11        |
| Seat supplier strategies: Lear, JCI and Faurecia all follow different routes       | 11        |
| – Lear – increased vertical integration and an expanding global footprint          | 11        |
| – JCI: a world leader, but now leaving automotive interiors                        | 12        |
| – Faurecia: committed to seating and automotive interiors                          | 12        |
| <b>Cockpits, dashboards, instrumentation and centre stacks</b>                     | <b>14</b> |
| Instrumentation: three companies with over 50% of the global market                | 15        |
| Centre stacks: prominent role for Asian suppliers                                  | 15        |
| <b>Vehicle manufacturer analysis</b>   | <b>16</b> |
| European premium vehicle manufacturers   | 17        |
| – Audi   | 17        |
| – BMW  | 19        |
| – Daimler Mercedes   | 21        |
| – Bentley  | 23        |
| Japanese vehicle manufacturers – luxury and mass-market segments needs converging? | 24        |
| – Lexus  | 24        |
| – Toyota   | 25        |
| – Suzuki   | 25        |
| – Nissan   | 26        |
| Mid-market European brands adopting new interior approaches                        | 26        |
| – PSA – a new interior look for the major brands                                   | 26        |
| – Citroën – from Cactus to Aircross  | 27        |
| – Peugeot – music and sound inspire the Fractal                                    | 27        |
| – Volkswagen   | 28        |
| – Volvo  | 29        |
| Two alternative perspectives – from motor sport and motor cycles                   | 32        |
| – McLaren  | 32        |
| – Yamaha – a new entrant with a new approach                                       | 32        |

|                          |           |
|--------------------------|-----------|
| <b>Supplier Profiles</b> | <b>34</b> |
| Aisin Seiki              | 35        |
| Alpine Electronics       | 61        |
| Alps Electric            | 68        |
| Autoneum                 | 78        |
| Bosch                    | 96        |
| Brose                    | 131       |
| Calsonic Kansei          | 147       |
| Car Trim                 | 158       |
| Clarion                  | 162       |
| Continental              | 169       |
| Denso                    | 247       |
| Dräxlmaier               | 279       |
| Dura Automotive          | 291       |
| Edscha                   | 302       |
| Faurecia                 | 311       |
| Flex                     | 365       |
| Ganxiang Mirror          | 367       |
| Gentex                   | 370       |
| Grammer                  | 376       |
| Grupo Antolin            | 389       |
| Harman                   | 421       |
| IAC                      | 432       |
| Infineon                 | 455       |
| Johnson Controls         | 470       |
| Kongsberg Automotive     | 529       |
| Lear                     | 542       |
| NHK Spring               | 573       |
| Novem                    | 585       |
| Panasonic                | 591       |
| Pioneer                  | 605       |
| Plastal                  | 609       |
| TomTom                   | 614       |
| Toyoda Gosei             | 620       |
| TS Tech                  | 637       |
| Visteon                  | 648       |

|  |    |
|--|----|
| <b>Figures</b>   |    |
| Figure 1: Audi e-tron quattro concept at CES 2016              | 17 |
| Figure 2: BMW i Vision Future Interaction Interior at CES 2016 | 19 |
| Figure 3: Mercedes-Benz E-Class interior                       | 21 |

**CHAPTER TWO**

Introduction

SAMPLE

## Mega-themes and market structure

### Continued M&A activity

Mergers and acquisitions remain core themes within the automotive interiors market, and there seems to be no end to this ongoing process as suppliers seek to redefine their market positions and focus. For example, Magna has decided it can make better margins in transmissions than interior components and, alongside acquiring Getrag to boost its position in the transmissions market, it has sold its non-seat interiors business to Antolin of Spain for over USD500m. Moves such as this also reflect a more general trend amongst major tier one automotive suppliers, namely for companies to sell off or acquire specific business units, rather than make complete acquisitions: focus and specialisation appear to be key examples of current business strategy in this market, especially amongst major global companies.

While trading business units appears to be an important element in the corporate strategies of the major tier one interior suppliers, as well as at the smaller tier ones and tier twos, entire company acquisitions still take place. For example Aunde of Germany, an interior materials specialist, has acquired Isringhausen (a commercial vehicle and low volume car seat supplier) and Fehrer (one of the major independent seat foam suppliers). Theoretically, with Isringhausen bringing full seat and seat frame capability, this means that Aunde could present itself as able to offer complete seat supply capability, although whether it will do so remains to be seen.

There are other examples of the acquisition of specialist interior component companies by larger players seeking to gain greater scale internationally and customer access. One such example is US-owned Key Plastics acquiring OHLO and Paulmann & Crone in Germany, giving it significant presence amongst the German vehicle companies in small interior components, such as door handles and bezels.

In addition, joint-ventures and alliances still represent a practical route for companies to expand internationally. For example, Autoneum (formerly Rieter) and IAC (which has grown through acquiring mainly bankrupt suppliers such as Collins & Aikman and Stankiewicz) which are both two major players in headliners and other interior trim throughout Europe and North America, have chosen to ally themselves with a local supplier in South Africa, Feltex, to supply the German vehicle companies' factories there. Autoneum has also established a number of joint-venture operations in markets outside its European base, for example with Summit in Thailand and with Nihon Tokusho in India (as Nittoku)

The other side to M&A is, of course, divestment and exiting from the sector; there have been major moves in the broad non-seat interiors area; Magna selling to Antolin and JCI selling to Yanfeng of Japan are two of the most significant recent moves in this market. Similarly, Delphi spun its interior business off into Inteva, since when this company has focused mainly on window regulators and locks and latches at the expense of its legacy cockpits and door panel business; and Visteon has progressively sold its interior business, most of it in 2014 to Reydel, which is now owned by private equity company Cerberus; it also sold its Berlin factory to a company formed by the factory's management in 2014.

### More market concentration in interiors?

Faurecia, however, remains committed to the dashboard and cockpit market, at least for now; in fact, one US stock market commentator went so far as to suggest that in the light of the Magna buying Getrag, a similar mega-move in interiors was next. The idea of Faurecia buying Lear was mooted, essentially on the grounds that Faurecia needed greater scale to secure its long-term future in this segment. Such a move would mainly impact on the seat market, and with Faurecia and Lear each currently having close to 25% of the European seating market in particular, it would seem likely that such a move could fall foul of the European competition authorities especially. In parallel, the car companies themselves would be unlikely to want the seat market to be dominated by one company with around 50% segment market share. In Japan and Korea, there has been some movement amongst the world of keiretsu and chaebol suppliers. For example, Ecoplastics, formerly controlled by Hyundai-Mobis (itself a major supplier of tier one assemblies including cockpits to Hyundai) has been sold by Hyundai-Mobis, although it is still Korean-owned.

### The emergence of the Chinese

In almost every industrial and consumer product market, one of the most significant developments in recent years has been the emergence of Chinese companies, first in their home market, but increasingly on an international scale. It seems certain that this trend will continue, and Chinese interior component suppliers seem likely to take a far greater stake in the automotive supply chain than in the supply of cars, the stake in PSA taken by Dongfeng and Geely's ownership of Volvo notwithstanding.

In interiors arguably the most significant move by a Chinese company has been the 70% stake taken by Yanfeng in the non-seat interior business of JCI. One of the consequences of this move is that the Chinese company

has become an important supplier to Volkswagen at its US factory at Chattanooga, Tennessee and to Fiat at its plant in Serbia where JCI had been engaged in significant expansion of production capacity following the awarding of new contracts.

In China itself, US, European and Japanese seating and interiors companies have developed their presence through joint-ventures, as required by the Chinese government. One of the most recent moves in this area is the 50:50 joint-venture between Magna and Chongqing Hongli Zhixin; this arrangement was established to supply Ford Changan first, with business at other vehicle companies in China following. Hongli Zhixin already had foam, trim and seat structure operations in China, and its factory in Harbin will be a core part of the joint-venture with Magna.

## Automotive interiors – sub-segment commentary

Prior to the advent of the still rapidly changing new automotive digital era, the automotive interiors market could be seen as consisting of the following major component sub-sectors: seats, dashboard/cockpits, centre consoles, instrumentation and centre stacks, door panels, carpets, headliners, boot trim and miscellaneous mainly plastic parts. The larger components, namely seats and cockpits, have traditionally been supplied by a mixture of in-house and independent suppliers, while other interior components have been largely supplied mainly by national or regional small first and second tier suppliers. Since the late 1980s, the interiors sector as a whole has been undergoing a constant process of restructuring as the largest suppliers have grown by acquisition (at least until relatively recently), often growing more by acquisition than by organic growth. Meanwhile the remaining smaller companies have chosen to focus on specific component or technology areas.

In parallel, the vehicle companies have, in the main, exited from interior component manufacture themselves, although VW (with its Sitech subsidiary), Mercedes and BMW continue to make a proportion of the seats for their German plants themselves. Also some vehicle companies still assemble the cockpit inside their factories, albeit from externally-sourced components. In parallel, GM

and Ford have sold off their component arms, creating Delphi and Visteon respectively. These were once major interior component suppliers themselves. However, both Delphi and Visteon have since largely moved out of this market (retaining just instrumentation from their former interiors business, as well as the electronics and centre stack business). By contrast, in Japan and Korea, keiretsu or chaebol suppliers remain closely linked to their vehicle company part-shareholders.

Despite a seemingly constant process of merger, acquisition and joint-venture activity, even now, the interiors market as a whole remains quite fragmented with a bewildering number of suppliers. Many have an international presence, but despite the increasing globalisation of components supply, a number of country or regional specialists remain active and important in seating. For example, Bharat Seating and Krishna Maruti are two important seating suppliers in India, while Hanil E-Hwa is the leading door trim supplier in Korea. To date these companies have remained focused on these countries' markets, as have many other smaller companies in India and Korea, as well as numerous companies which remain focused on China. In recent times, however, a number of Chinese suppliers have begun to expand beyond China – one of the most significant Chinese companies in this area is Yanfeng which has taken a majority stake in JCI's global interiors business; in parallel, JCI is in the process of separating out its seating business into a new, independently-quoted company, to be called Adient.

Other examples of the constant process of restructuring of the supply base include Visteon selling its interiors business to Reydel, a former French company now owned by private equity firm, Cerberus; and Magna recently exiting interiors (but not seats) to focus on other areas, including transmissions, selling its interiors business to Antolin of Spain, already the world's leading headliner supplier. It seems highly likely that this process of sectoral restructuring and realignment amongst suppliers will continue, and it would not be surprising to see more acquisitions in North America and Europe by Chinese suppliers in particular.

This section now looks at some of the significant developments amongst interior suppliers in the light of the broad themes outlined above, particularly with regard to seats, instrumentation and centre stacks.