



European Automotive Newsletter

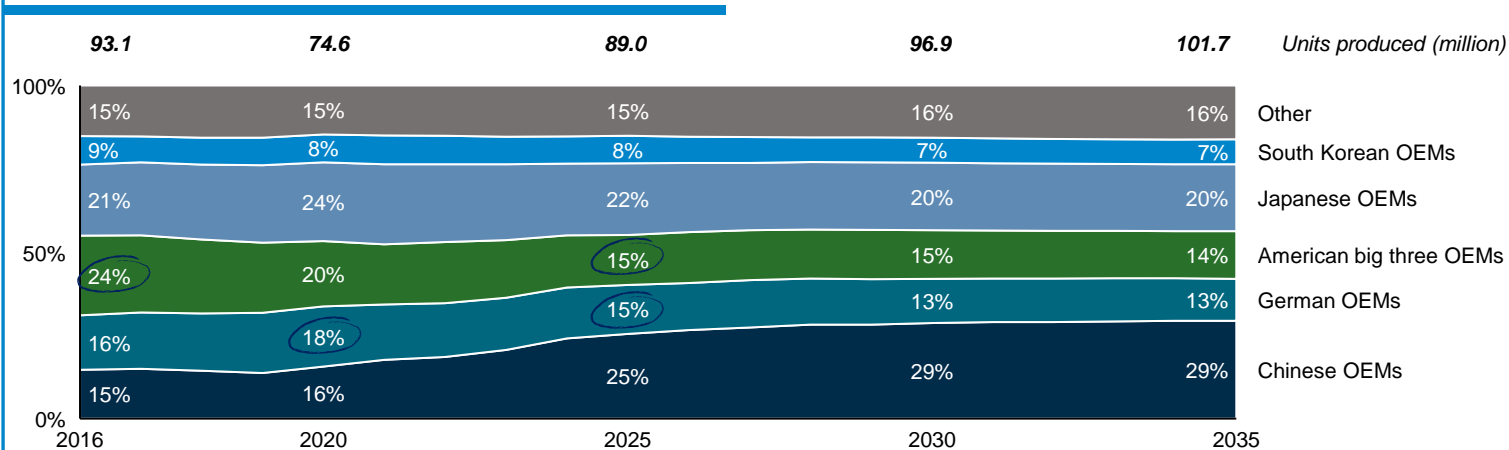
- Is China's Automotive Industry a Sustainable Threat to German OEMs?
- Will Tariffs protect the U.S. Auto Industry?
- Transaction Activity
- Quarterly Update of Financial KPIs

April 2025

Is China's Automotive Industry a Sustainable Threat to German OEMs?

German OEMs are encountering challenges in the Chinese market. Since 2023, their market share has declined as Chinese consumers increasingly prefer domestic brands such as BYD, Geely, Chery and others. This shift, along with production overcapacity, has intensified price competition, forcing German OEMs to reduce margins and invest in innovative technologies. Additionally, the rise in Chinese car exports to Europe is impacting German manufacturers in their home market, particularly in the lower and mid-price segments.

Worldwide: Production by OEM Group

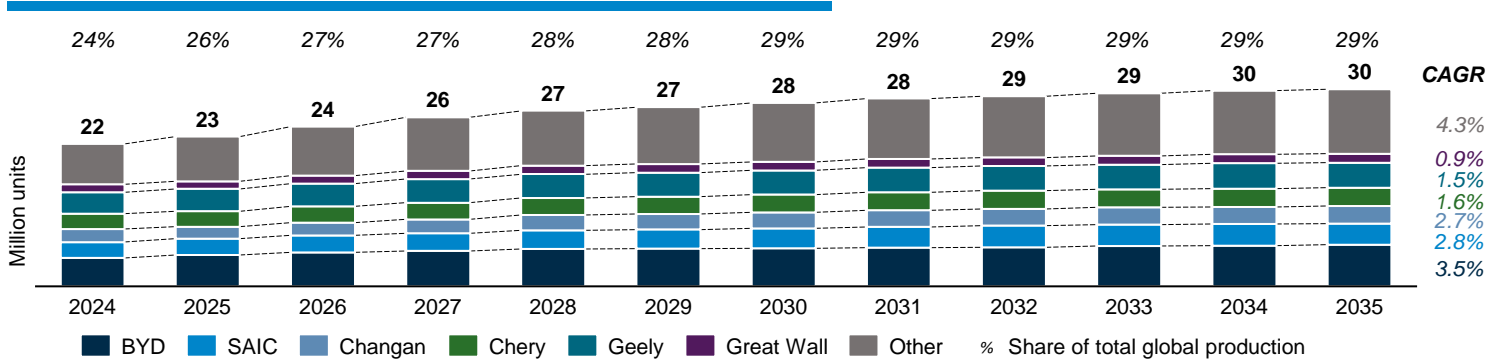


The Chinese automotive industry has experienced remarkable growth over the past decade. In 2024, production reached a record 22 million light vehicles, with projections indicating further growth to 28 million units by 2030 and 30 million units by 2035. Notably, Chinese OEMs accounted for 24% of global light vehicle unit production in 2024, a figure expected to rise to 29% by 2035.

A significant driver of growth is the new energy vehicle (NEV) sector, encompassing battery electric vehicles (BEV) and plug-in hybrids (PHEV). BYD, for instance, saw a 42% increase from 2023 to 2024, reaching 4.3 million light vehicles, all of which were hybrids and pure electric vehicles. However, the proportion of pure electric vehicles in BYD's production decreased from 52% in 2023 to 42% last year. Geely, which produces electric, hybrid and ICE vehicles, increased production by 19% during the same period, reaching 3.2 million vehicles in 2024. Similarly, Chery, also producing electric, hybrid and ICE vehicles, achieved a 37% production growth from 2023 to 2024, reaching 2.4 million units.

Is China's Automotive Industry a Sustainable Threat to German OEMs?

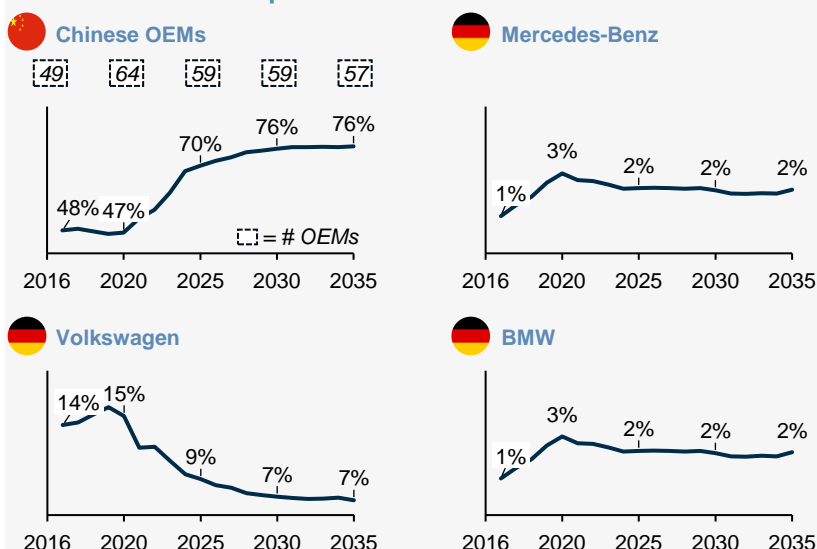
Worldwide: Production by Chinese OEMs



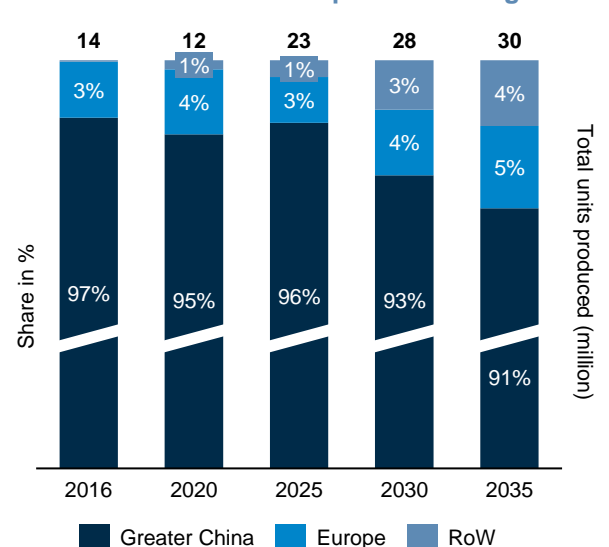
Forecasts indicate that the future growth of Chinese OEMs will not only be driven by rising global vehicle demand but will also come largely at the expense of other OEM groups, as has been the case historically. While all OEM groups are losing share, German auto manufacturers are particularly impacted. The combined production share of Volkswagen, BMW and Mercedes-Benz is projected to decline to 13% by 2035, from 15% in 2025. This represents a reduction of c. 200,000 light vehicle units over a decade, even as global production is expected to increase by around 12.7 million units during the period.

When examining the Chinese market alone, the outlook becomes even more challenging for German OEMs. By 2035, the combined market share of BMW, Mercedes-Benz and Volkswagen will halve to 11% of all light vehicles produced for the Chinese market, mainly at the expense of Volkswagen. Domestic OEMs are expected to continue their expansion to a share of 76% in the same timeframe. From 2016 until 2020 various new Chinese OEMs entered the market. Substantial consolidation can be expected to materialise until 2035.

China: Market share per OEM¹



Worldwide: Chinese OEM production regions



To better meet demand in international markets, Chinese OEMs will expand their global production volumes, especially in Europe. Currently, 96% of Chinese OEM's production takes place in Chinese plants. By 2035, this share is expected to decline to 91%, with a strong shift to Europe (5%).

Source: S&P, Research, VDA

¹ Refers to China as vehicle production market in S&P production forecast. OEM refers to OEM Group

Is China's Automotive Industry a Sustainable Threat to German OEMs?

The challenges the German OEMs are facing in regards to the growing strength of the Chinese automotive industry are manifold, affecting all areas of the business :

- 1 Increasing global competitive pressure**

Chinese manufacturers are steadily gaining market share both within China and internationally. This has led to increased competition for German manufacturers, particularly in the EV sector.

Especially in China, once the top market for German manufacturers, the German OEMs saw a significant drop in market shares, while the local brands are gaining continuously popularity.

But also in their European home markets, German OEMs face these challenges. Numerous Chinese electric vehicle brands are entering the European market, frequently offering more cost-effective alternatives with innovative technology. This development results in significant market shifts, particularly within the lower and mid-price segments.
- 2 Price War and Margin Pressure**

German manufacturers are forced to sustain competitive vehicle pricing. Recognising that competing on price is unfeasible. Emphasis on reliability, technical sophistication, safety, and user experience are crucial elements for sustaining the necessary competitive advantage.
- 3 Adjustment of the strategy**

To maintain their competitive edge, German OEMs are increasingly investing in partnerships with Chinese companies. Volkswagen, for instance, is collaborating more closely with local firms such as XPeng to develop cost-effective electric vehicles for the Chinese market. At the same time, German OEMs are adapting their model range and product strategy unusually quickly to better meet the needs of the local market.
- 4 Importance of Technology Development**

Chinese manufacturers are increasingly prioritising innovations in battery technology, autonomous driving, and connected vehicles. At the same time, there is a greater willingness to enter the market with less mature product developments, to achieve significantly shorter time-to-market times. It is essential for German OEM to sustain technological parity, with accelerated innovation cycles, while not jeopardising the reliability of the products in the field.

Despite the current growth story, the Chinese automotive industry is also facing challenges. Overcapacity has led to intense competition, forcing companies to offer substantial discounts. Market consolidation is expected, with smaller companies likely disappearing. Nevertheless, the production of Chinese OEMs demonstrate dynamic growth, with an increasing presence in the global market. The emphasis on new energy vehicles and the expansion into international markets highlight China's ambition to assume a leading role in future mobility and at the same time a threat to German OEMs. The rapid expansion of the Chinese automotive industry is significantly affecting German manufacturers, who have traditionally maintained a robust presence in China.

For premium manufacturers, innovation, quality, and competitive pricing are crucial to maintain their market share. In contrast, mass-market producers in the mid-price and mid-quality segments are expected to face increasing pressure as global competition is likely to further increase.

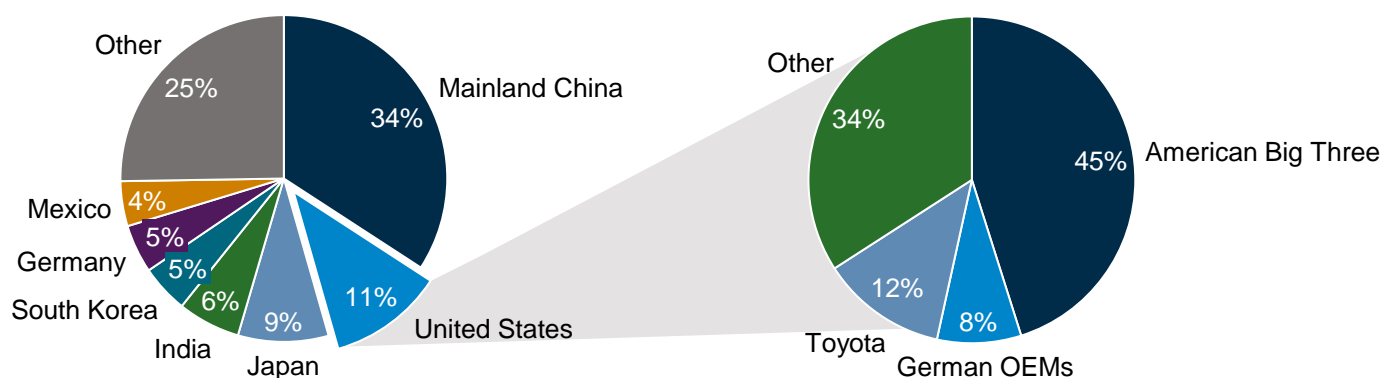
Will Tariffs Protect the U.S. Auto Industry?

On 26 March 2025, the U.S. government announced special tariffs of 25% on all cars that are not manufactured in the United States. Tariffs came into force at the beginning of April 2025 and will also affect light commercial vehicles. Starting in early May 2025, car components such as engines, transmissions and electrical components used to manufacture cars in the U.S. will also be affected. The protective effect of tariffs on the U.S. automotive industry is viewed highly controversial. We analyze whether such protective effect can be achieved in a truly globalized automotive industry or if tariffs will just drive prices due to the complex and internationally interwoven structures.

Structure of the U.S. Automotive Industry

The U.S. automotive industry is among the largest globally, traditionally led by the "Big Three" – General Motors (GM), Ford and Stellantis (formerly Fiat Chrysler). These corporations are headquartered in Detroit, Michigan, which has historically been the center of the U.S. automotive sector. Additionally, more than 10 international automaker strategic groups, including prominent German manufacturers, have established a substantial presence in the U.S.

Global car production (2024) / U.S. car production by OEM (2024)



The Importance of Mexico and Canada for OEMs and Suppliers

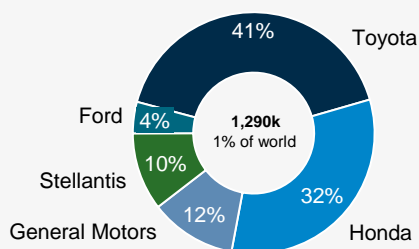
Mexico plays a vital role in North American automotive production and is essential for the supply chains of many automakers. Its low production costs, skilled workforce and proximity to the U.S. have attracted companies like Ford, General Motors, Volkswagen, BMW and Mercedes-Benz to set up production facilities in the country. In 2024, 4.4% of worldwide car units were produced in Mexico, with c. 91% exported worldwide. Canada also contributes significantly, with a 1.5% share of global car production in 2024. The U.S.-Mexico-Canada Agreement (USMCA, formerly NAFTA) facilitates trade between the U.S., Mexico and Canada.

During the production process of a car, raw materials, semi-finished and finished goods cross national borders multiple times. A car, finally assembled in the U.S. is based on components which have been also been produced in Mexico containing parts manufactured in the U.S. with raw material from Canada.

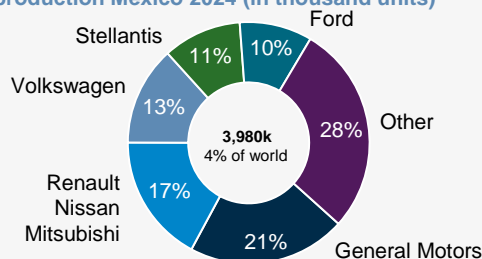
Introducing tariffs in such environment will unavoidably lead to a price increases across the whole value chain including the end customer as the margins of the single products are not sufficient to cover 10% higher costs.

Will Tariffs Protect the U.S. Auto Industry?

Car production Canada 2024 (in thousand units)



Car production Mexico 2024 (in thousand units)



The impact of tariffs on car prices finally assembled in Mexico or Canada will even be higher despite the car being an U.S. brand.

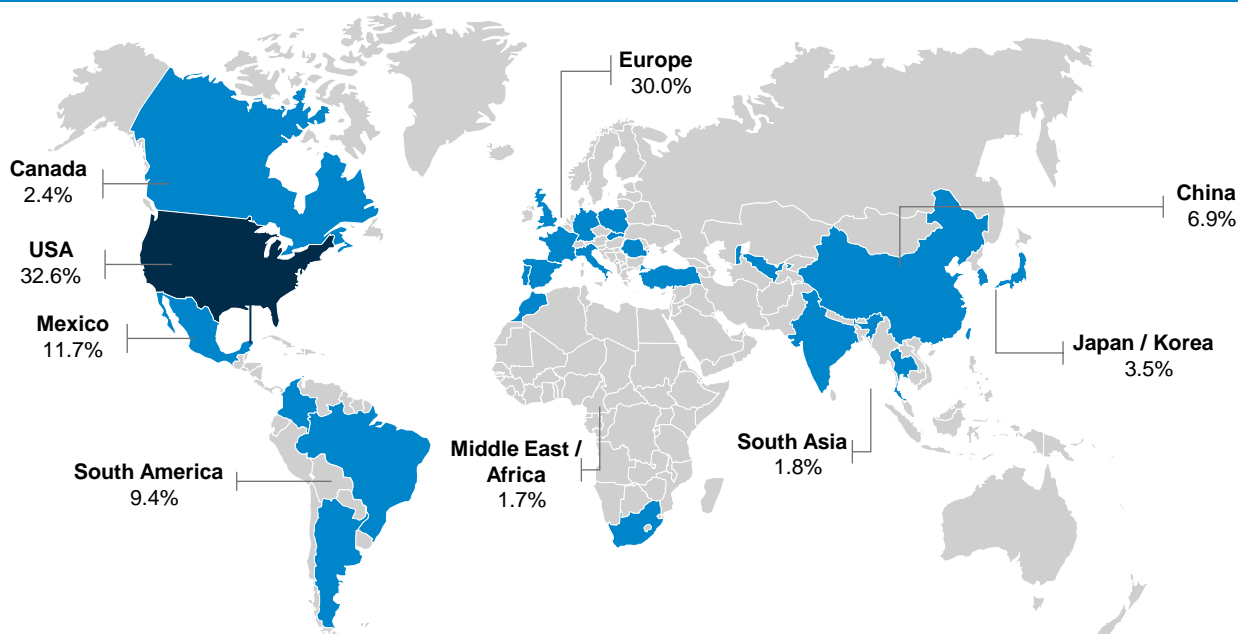
Major OEMs operate production facilities across Mexico and Canada, with key production hubs including Guanajuato, Puebla and Monterrey in Mexico, as well as Ontario, Oshawa and Oakville in Canada.

Both countries export a large proportion of their cars to the U.S. market. Mexico with its competitive labour costs and availability of skilled workforce has also been the go-to region for automotive suppliers. Many of them operate local factories that produce parts and components for vehicles destined for the U.S. market.

U.S. “Big Three” Worldwide Footprint

Beyond the north American continent, the “Big Three” have historically and due to merger established an extensive global production footprint, which accounts for almost 50% of their global production capacity. Europe represents 30% and though not being the standard case, cars imported to U.S. form these plants would also be subject to tariffs.

Worldwide: U.S. OEM plant volumes by region (2024)



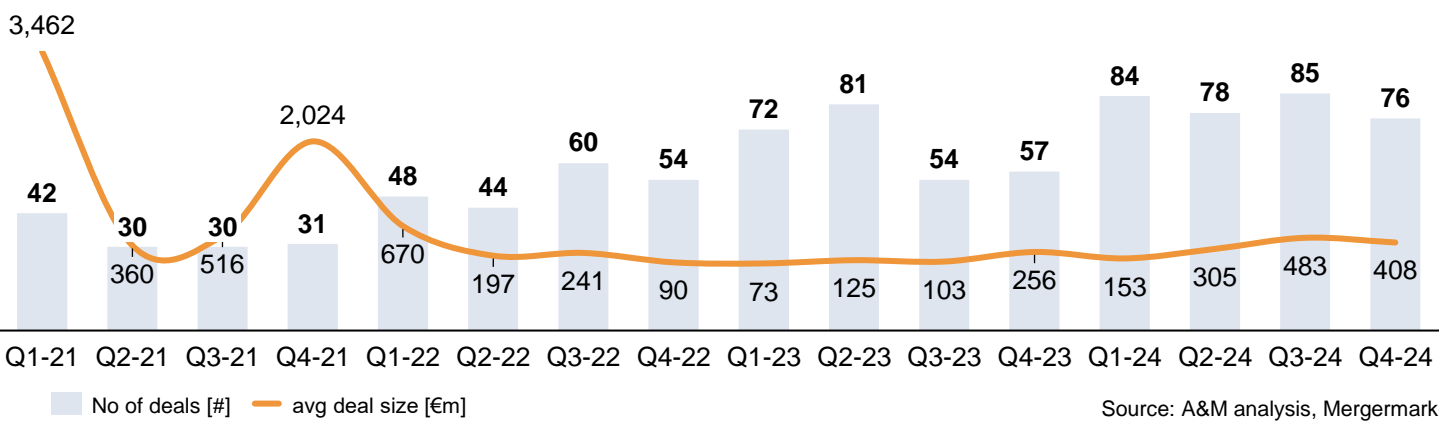


Will Tariffs Protect the U.S. Auto Industry?

Our Key Takeaways

- The **supply chains and production footprints of all international car manufacturers are highly globalized**, to leverage cost advantages from low-cost countries with products often crossing national borders several times.
 - Although General Motors and Stellantis are reportedly increasing production in the U.S. at the expense of other locations, a **significant steering effect on capex intense productions due to tariffs can only be expected in the mid- to long-term**.
 - The same is true for the Tier 1+ supply chain. The **relocation of the production of automotive parts in a broader scale is theoretically possible**, practically such transformation efforts are a **time-intensive and costly process**. Distressed situations of Tier 1 suppliers are an example where OEMs often rather accept price increases than going through product relocations. As such, nationalization will most likely severely impact the competitiveness of the end products.
 - The future growth of **American OEMs' international footprint is also at risk if reciprocal tariffs come into force**. China has already announced comparable tariffs, and the European Union is also in consultation on reciprocal tariffs for cars.
 - International OEMs importing car parts or light vehicles into the U.S. are already reacting to U.S. tariffs. Audi, for example, has paused exports from Mexico to the U.S. market, while VW is planning to impose an export fee on certain car models. The consequences for car buyers and the U.S. car market cannot yet be assessed, but **significant price increases and market stagnation are likely**.
 - Ultimately, **tariffs and reciprocal tariffs will affect all OEMs and automotive suppliers negatively**, especially considering the large volumes produced in non-domestic regions and the complexity of global supply chains.
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- **Protecting the national players of an industry, which reached such high degree in globalization as the automotive industry did, with tariffs seems to be extremely challenging.**
 - **Unavoidable cost increases driven by tariffs will most likely – especially in the short-term - also impact the companies and end customers of the economic area which is intended to be protected by the measures.**
 - **Imposing such measures on an industry which is currently dealing with a massive transformation will further increase the financial pressure and weaken the stability on the sector. This will impact all companies with economic ties to the U.S. either being located within the country or just maintaining trade relations to it.**

European M&A Activity – Automotive



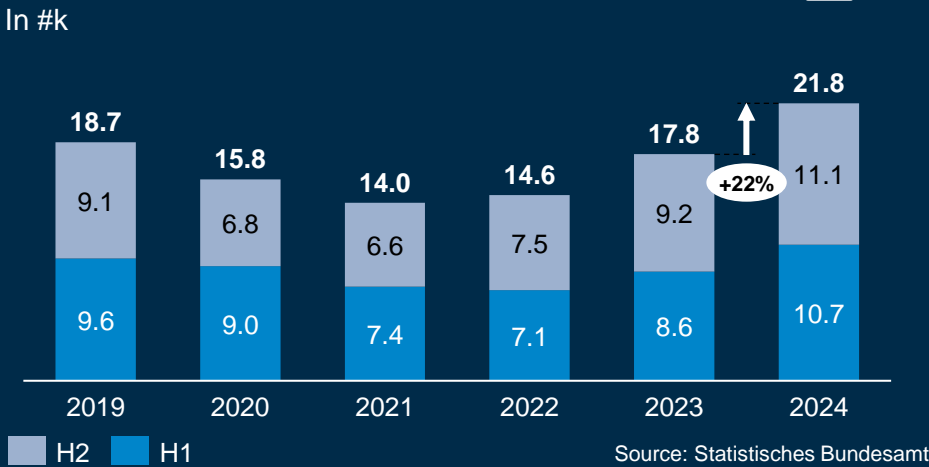
Despite economic headwinds, the European automotive sector demonstrated remarkably stable M&A activity in 2024. Q4 2024 saw an uptick in the average deal size versus the previous quarter, driven by few significantly larger M&A deals (whereas average deal size amounted to 408 million, median deal size was with 50 million euros on a comparable level to the previous quarters).

Automotive companies are increasingly utilizing M&A as transformation means to remain competitive and innovative in a changing regulatory environment, with the EU's impending ban on ICE vehicles by 2035 accelerating the shift towards electrification.

As this disruption is shaking up the market, it also highlights the industry's vulnerability. The current economic climate, characterized by instability and uncertainty, is pushing a growing number of companies into financial distress.



Insolvency filings in Germany



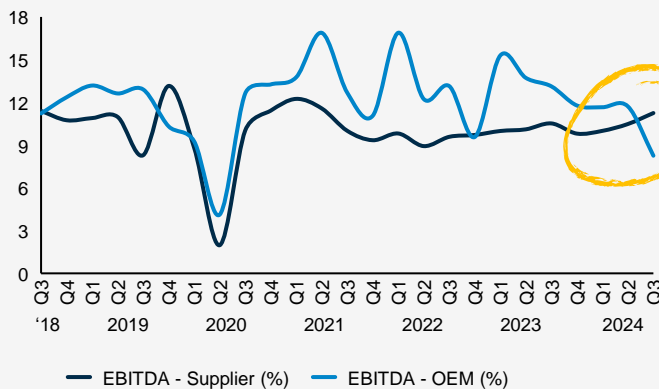
Insolvency filings at a five-year high

- Filings increased by 22% from 2023 to 2024.
- Insolvencies among companies with revenues of >10 million euros saw a sharper rise of 31% (364 cases in 2024).
- After a notable decline in insolvency filings in Germany between 2019 and 2021, financial strain has become increasingly apparent from 2023 onwards, driven by mounting pressures such as rising financing costs and concerns over a looming recession.

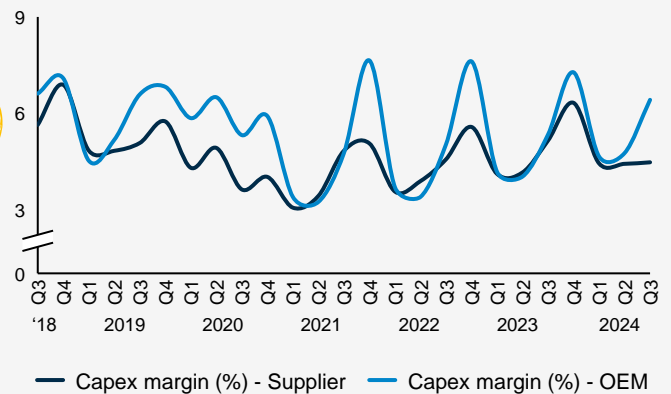
KPIs: Automotive Performance Update

- This industry snapshot of financial KPIs compares the quarterly published results of c. 20 OEM and c. 70 automotive suppliers since 2018.
- The OEM EBITDA margin shows a steady downward trend since Q1 2023, indicating a growing profitability issue compared to suppliers' relatively stable EBITDA margins over the same period.
- Equity ratios for OEMs and suppliers increased after Q4 2020. While OEMs show a higher average equity ratio than they had before the Covid-19 pandemic, suppliers still did not fully recover from the hit they had to take in 2020.
- OEM inventory levels increased to an historically high degree (except corona), reaching a DIO level of >60 days.

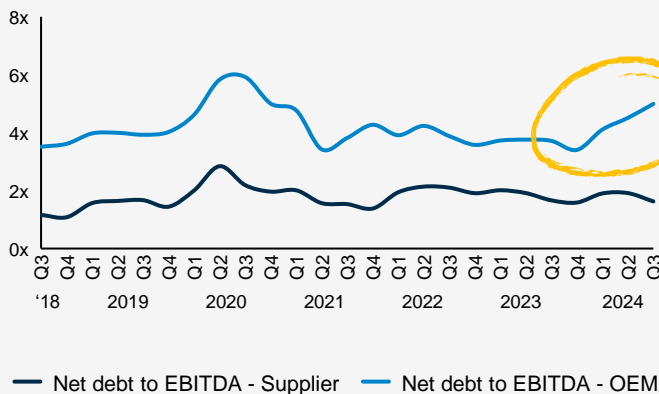
EBITDA margin (%) – Supplier vs. OEM



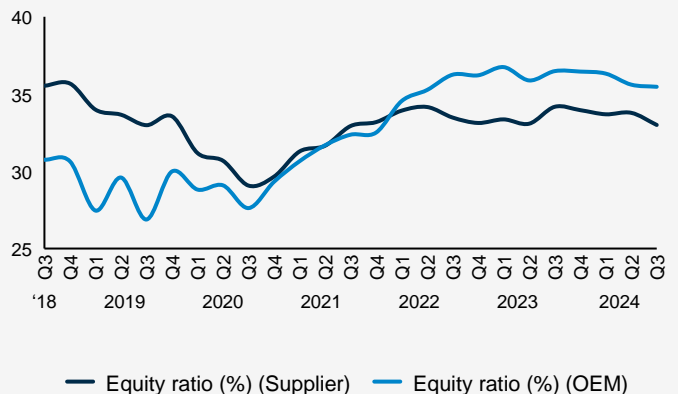
Capex margin (%) – Supplier vs. OEM



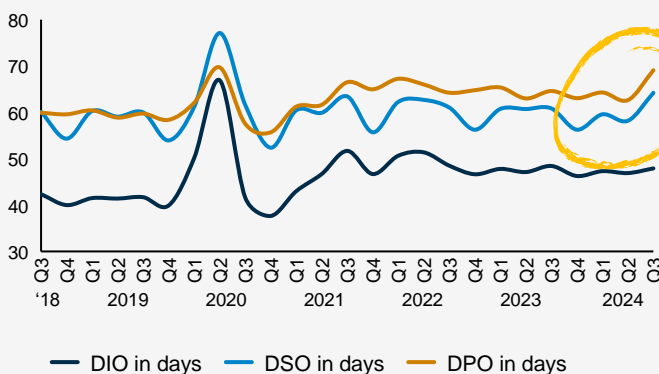
Net debt to LTM EBITDA ratio – Supplier vs. OEM



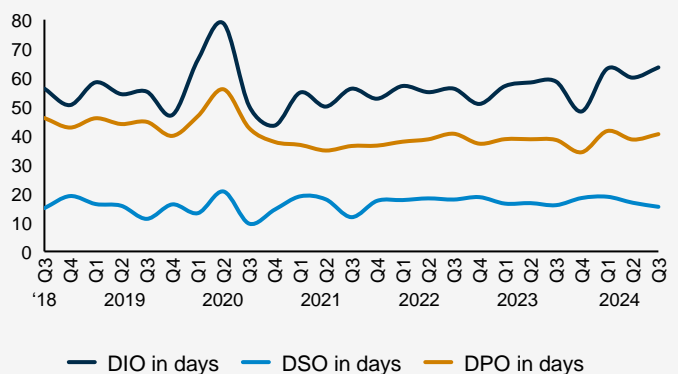
Equity ratio (%) – Supplier vs. OEM



Quarterly WC KPIs in days – Supplier



Quarterly WC KPIs in days – OEM





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