

## Brazilian Auto parts Industry

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### Executive Summary

- The auto parts sector has its development tied to the automotive industry.
- The 698 auto parts companies settled in Brazil are more concentrated in the southeast region.
- In 2012, the Brazilian auto parts industry had revenues of US\$ 41.8 billion.
- In recent years, the Brazilian auto parts market is assuming importing features.
- Investments in the auto parts market will grow in the coming years given the increasing demand in the Brazilian automotive industry.

### The auto parts industry in Brazil

The development of the Brazilian auto parts industrial park is directly linked to the development of the industrial plants of automakers in the country, since these industries, form the automotive industrial complex.

Thus, the Brazilian auto parts industry has emerged from the late 50's when the big automakers settled in Brazil. Despite the high degree of vertical integration of vehicle manufacturers at that time, a huge metal mechanic auto parts in the ABCD region of São Paulo was being created.

During the 70s, some manufacturers began to expand its activities, without, however, staying away from the large consumer centers characterized by the Rio and São Paulo states. In the 90s, the concern to maintain proximity to the auto parts suppliers of São Paulo leads to an undergoing process of change in terms of aspects such as trade liberalization and stabilization programs in South American economies.

Thereafter, the investment cycle of the auto industry caused a regional decentralization of vehicle production, with the location of new plants in distant regions of large consumer

Table 1 - Companies distribution according to total sales 2012

| Shareholder Structure                    | 2012    |
|--|---------|
| National capital                         | 22,80%  |
| Foreign capital                          | 56,10%  |
| National majority capital                | 4,50%   |
| Foreign majority capital                 | 15,40%  |
| Mixed capital (50% national/50% foreign) | 1,10%   |
| Total                                    | 100,00% |

Source: Sindipeças

centers, also shifting the auto parts industry to these regions.

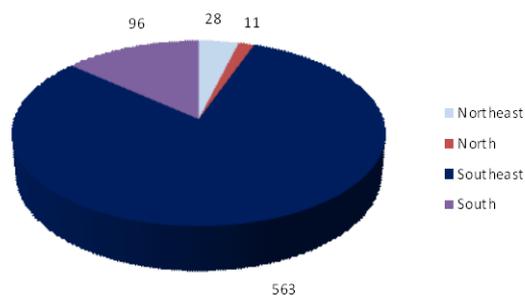
### Geographical Distribution

The auto parts industry according to 2012 data, is composed of 698 companies that are located primarily in the Southeast region.

In recent years it can be observed the increasing involvement of regions outside the state of São Paulo which presented significant progress as a result of incentives provided by the automotive industry, coupled with the growth verified in these regions.

Bahia, Rio Grande do Sul, Minas Gerais and Santa Catarina are the states that had higher growth of the auto parts industry during the last decade.

Figure 1 : Geographic business unit distribution (2012)

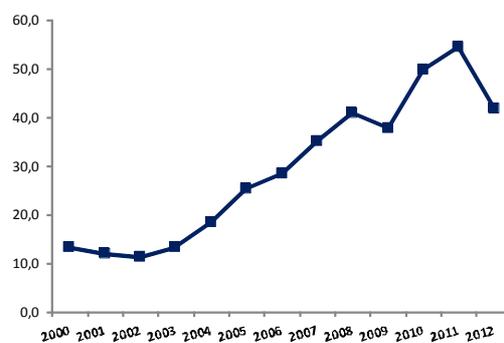


Source: Sindipeças

### Sales

In 2012, the Brazilian auto parts industry recorded revenues of US\$ 41.8 billion. Compared with the previous year there was a decrease of 23% due to the decline in vehicle production by 1.9% as a consequence of the low GDP growth at 0.9% as well as the high inventory of vehicles checked at dealerships in the early 2012 (January to April). In the last decade (2001-2010) the turnover of the auto parts industry grew by 319% ( an average of 15% per year) due to the increased dynamism of the automotive industry related to good conditions of income, employment, credit availability and reduced interest rates verified in the Brazilian economy. According to 2012 data, automakers accounted for 69% of total sector turnover followed by the aftermarket in 15%, plus exports and intersectoral representing 9% and 7% respectively.

Figure 2: Auto parts industry sales (US\$ Billion)



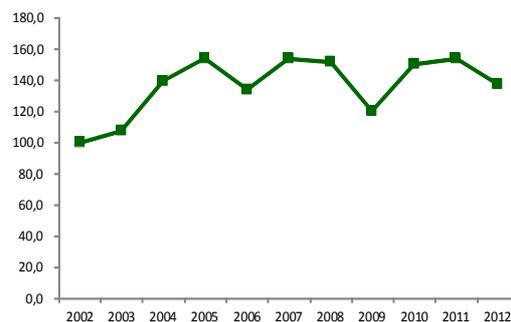
Source: Sindipeças

### Production

Until the beginning of the global financial crisis in 2008, the physical production in the auto parts sector maintained a robust pace of growth since the expansion of the sector was supported by the strong performance of the automotive industry and favorable external scenario. However, with the advent of the crisis, the fall in the auto parts industry production was more sharply.

The physical output of the manufacturing industry of parts and accessories for motor vehicles decreased by 10% in 2012 compared with the previous result for the same reasonings mentioned to justify the fall in sales during the same period.

Figure 3: Auto parts industry physical production



Source: Sindipeças (Index fixed monthly on unadjusted seasonally base. 2002=100).

### External Sector

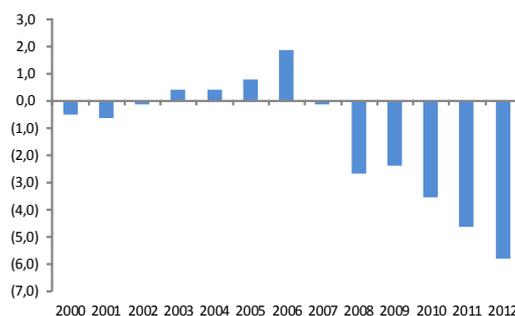
In recent years the Brazilian auto parts market is assuming an importing profile.

The deficit in trade balance of the auto parts industry has recorded growth since 2007 when a loss of approximately US\$ 100 million occurred. This is due to several factors, among them: A) strong expansion in the Brazilian automotive market, B) sharp decline in the exports of auto parts, from 2008, due to the global financial crisis; C) quick recovery of the domestic auto industry in the period after the crisis, because of government stimulus given to the sector; D) slow recovery of the international market, as a consequence of the low level of activity in the US and the crisis in the Eurozone.

### Exports X Imports

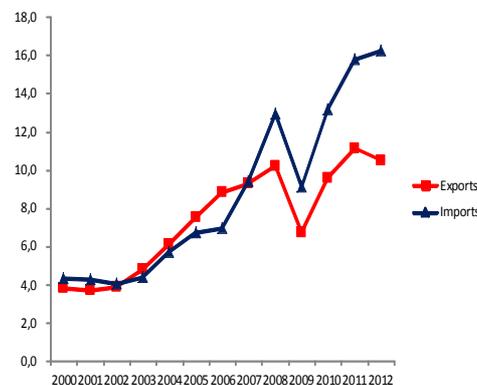
Brazil has been very competitive in the international market for auto parts, and each year has increased its participation. Between 2000 and 2012 the volume of exports grew by 176%. While growth is considerable, some factors related to domestic production did not contribute to the greater amplitude of the volume of exports, such as: A) Products of plastics and rubber, are generally expensive and presents low quality when compared with international peers. B) Brazil is not competitive in producing electronic chips to auto parts components. According to 2012 data, the main destination of Brazilian exports is South America, corresponding to 48.7%. The main highlight is the participation of Argentina with 36.1% importing an amount of US\$ 3.78 billion. North America absorbs 14.0% of Brazilian exports and Mexico is the destination of 9.6% of total exports. As regarding to imports, the same has advanced significantly so that between 2000 and 2012 the growth rate was 279% helping to increase the deficit in the auto parts segment. Europe is the leading supplier of auto parts with a share of 38.5% in total imports of the country. Asia / Oceania and North America are respectively the second and third blocks of main suppliers of auto parts for vehicles in the Brazilian industry, with a share of 37.2% and 15.2% respectively.

Figure 4: Auto parts trade balance (US\$ Billion)



Source: Sindipeças

Figure 5: Exports X Imports (US\$ Billion)



Source: Sindipeças

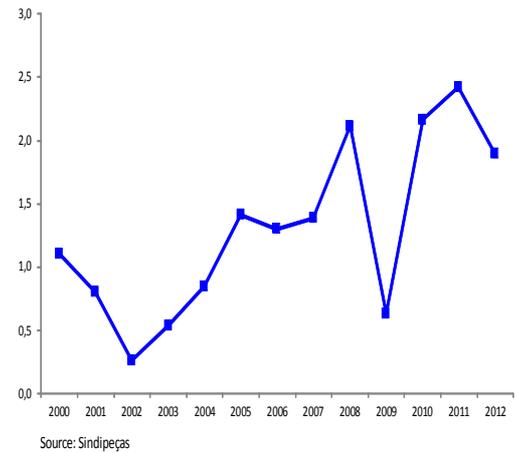
## Investments

According to the report of the Union of components for Automotive Industry ( Sindipeças ), in 2011 investments in the auto parts industry amounted US\$ 2.4 billion , best result of all time series , behind only 2010, when it was invested US\$ 2.2 billion .Compared with the total invested in the previous year , the result of 2011 is 9 % higher. It is noteworthy that the amount invested in 2009 is the lowest since 2003 . The insignificant result for 2009 reflects the effects of the global financial crisis on the domestic economy .

The scenario presented in the crisis period (volatility in the stock market and the exchange rate, bank failures , etc. ) , have caused many agents to review their projections , reflecting directly on the volume of investments in production facilities .

In the coming years given the growing demand in the Brazilian automotive industry , the expectation is that resources in the auto parts sector should be aimed at developing new products , improving production processes , as well as expansion of production capacity.

Figure 6: Auto parts industry investments (US\$ Billion)



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