



German American Business Outlook

Annual Survey among German Firms in the U.S.

"New Decade, New Growth"



Roland Berger
Strategy Consultants

November 2010

German-American firms are well down the road to recovery, uncertainty fades, optimism abounds

Executive Summary

1 RECOVERY OPTIMISM

- > Firms' top lines have strengthened as prices have stabilized and volumes have rebounded for 66% of companies, while 91% expect positive growth for their operations going forward
- > 69% plan to hire additional workforce in 2011
- > Both labor and other input costs have largely stabilized
- > Introducing new innovative products, expanding workforce and entering new geographies will see a substantial increase in 2011 over 2010

2 TRANS-ATLANTIC IMPACT

- > While Germany was also strongly hit by the recession, application of unique instruments has allowed it to better master the recession and contain unemployment
- > Many businesses have been able to benefit from Germany's recovery and leadership
- > While access to credit is still an important issue, a majority of firms witnessed more favorable lending due to their affiliation with German firms
- > Firms are more optimistic of their own outlook than the outlook for the US economy

3 GLOBAL MARKETPLACE: CHALLENGES AHEAD

- > Although less than previously anticipated, many firms were still impacted by FX rate fluctuations and one third is unprotected going forward
- > Industries, including renewable energy and automotive, highlighted concerns about current and future potential raw material shortages

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A close-up, slightly blurred photograph of the American flag, showing the stars and stripes. The flag is the background for the entire slide. A white rectangular box is overlaid on the middle of the image, containing the title text. Below the white box is a solid blue horizontal bar.

Objectives, methodology and results overview

The Survey

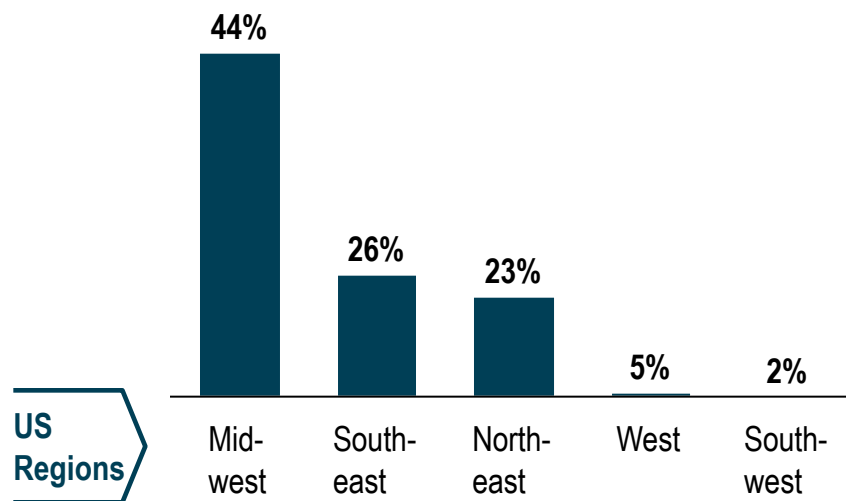
Introductory remarks

- > In the fall of 2010, the **German American Chambers of Commerce** (GACCs – AHK USA) in cooperation with the **Representative of German Industry & Trade** (RGIT) and **Roland Berger Strategy Consultants**, for the second time, conducted a survey evaluating the transatlantic trade relations: The German American Business Outlook
- > We approached approximately **1,900 German-owned subsidiaries in the US**, of which **10%** of senior management from various industries responded, representing a 16% increase over the number of respondents in 2009
- > The survey asked for the firms' opinions on the **state of the economy**, their expectations for the US economy and the prospects for their own businesses

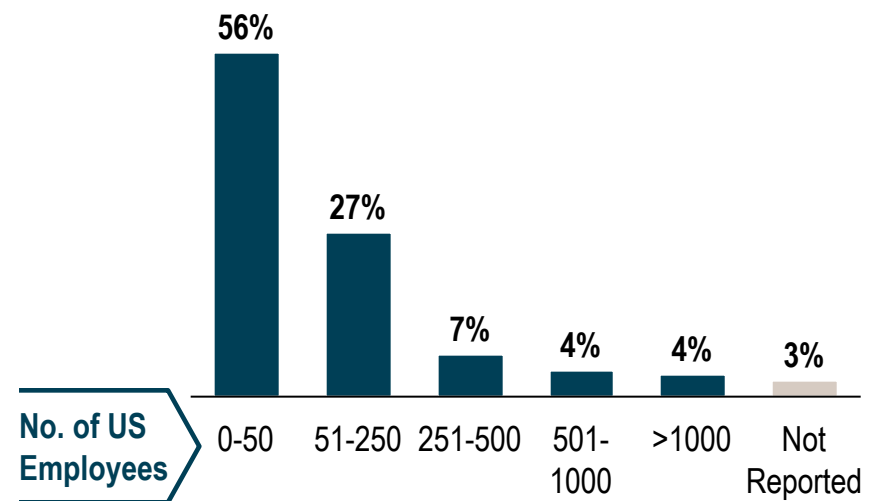
The survey covered the broad spectrum of German companies in the US

Participating companies in the study

BY REGION [%]



BY COMPANY SIZE [%]



- > **MIDWEST, SOUTHEAST AND NORTHEAST** region represent over 80% of respondents
- > The survey drew feedback mainly from small-medium enterprises, the **CLASSICAL GERMAN "MITTELSTAND"** (83%)
- > With shares of >30%, **AUTOMOTIVE AND MANUFACTURING** are the most heavily represented industries

■ Share of participants

Overall, German-American firms have a positive outlook for a stronger year ahead

1 German-American firms are **OPTIMISTIC** about their **OUTLOOK** in 2011

2 **GERMANY'S** economic **STRENGTH** has **BENEFITED** German-American companies

3 Nevertheless, **CHALLENGES** such as **RAW MATERIAL SHORTAGES** and potential **FX FLUCTUATIONS** must still be managed to ensure success



Stabilization and optimism going forward:
The state of German-American firms

1.

German-American firms are stronger in 2010 with a positive outlook for 2011

I REVENUES – Firms' top lines have strengthened as prices have stabilized and volumes have rebounded

II COSTS – Both labor and other input costs have largely stabilized

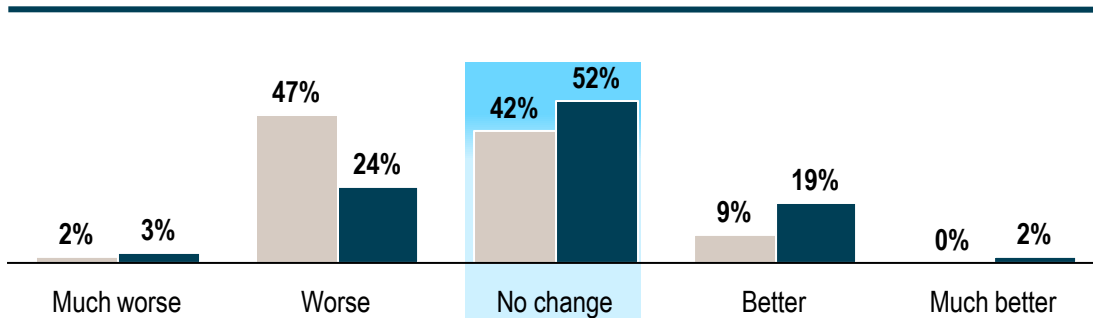
III FINANCING – Ease of financing is still an important issue although far fewer companies have reported decreased accessibility of credit

IV OUTLOOK – There is less uncertainty regarding the economy and more certainty to grow own business and increase headcount

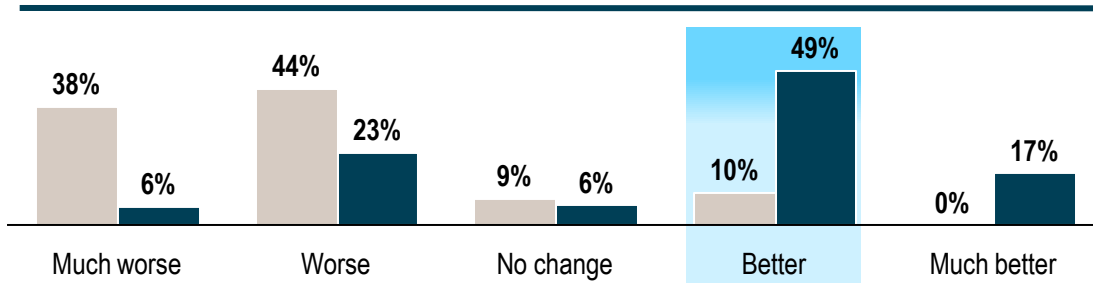
Higher sales volumes and stable prices have accelerated growth for many German-American businesses

Change in sales prices and volumes in 2009-10

Sales prices have been stabilizing...



...while sales volume has bounced back to a greater degree



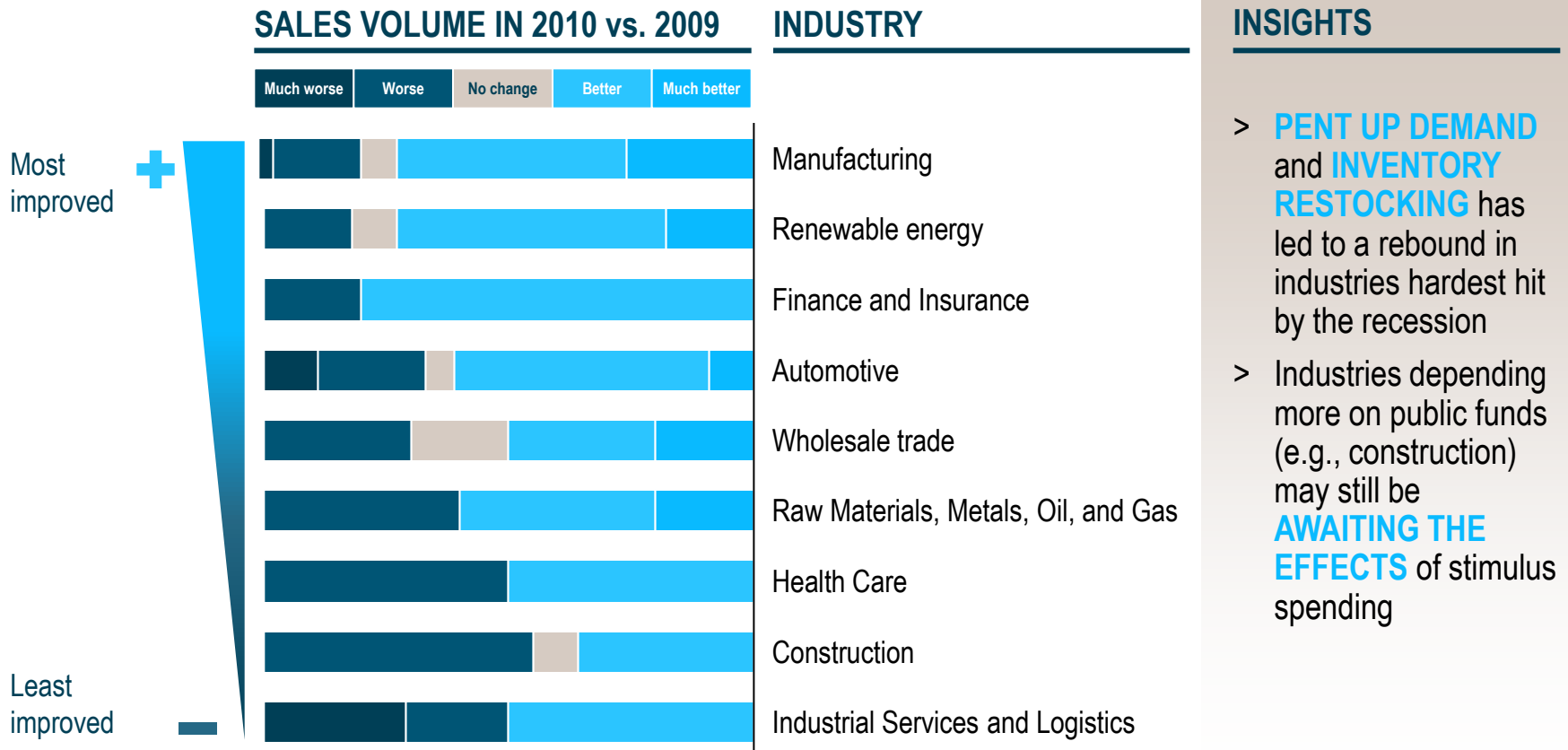
■ 2009 ■ 2010

INSIGHTS

- > Firms have experienced a neutral impact on sales price
- > Firms have seen a **POSITIVE EFFECT ON SALES VOLUME**
 - Exporting companies have enjoyed the strongest increases with ~80% reporting improved volumes
- > Sales volumes have **REBOUNDED FROM 2009** whereas sales prices have only stabilized

Notably, the sales volume effects differ across industries

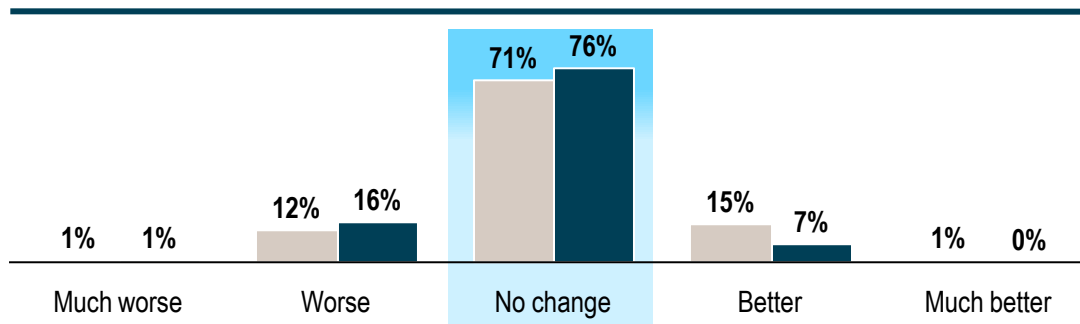
Sales volume change by industry



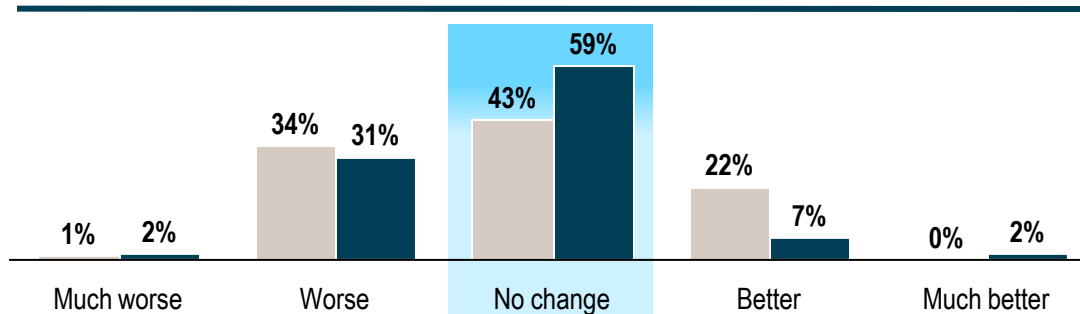
Labor and non-labor costs have remained relatively stable in 2010

Change in labor and non-labor costs in 2009-10

There has been no change in labor costs for a majority of firms..



...while non-labor costs have seen some greater variation



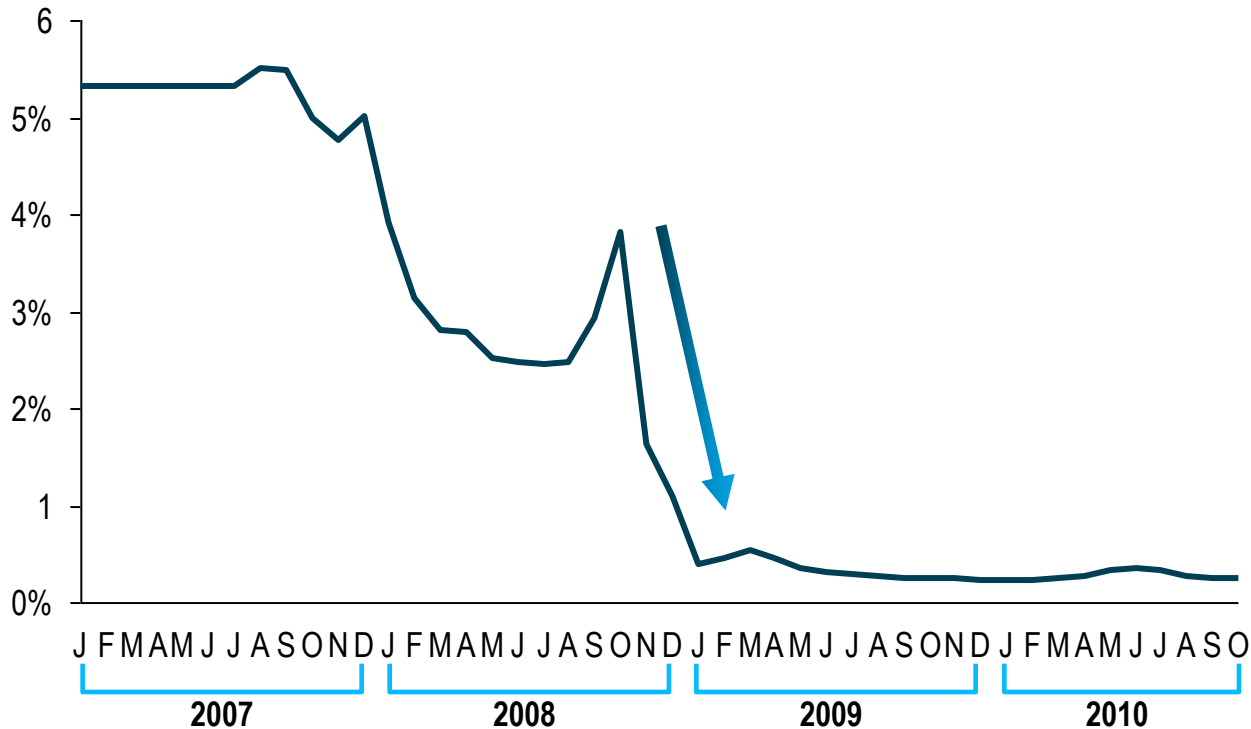
■ 2009 ■ 2010

INSIGHTS

- > Firms operating in the **SERVICES & SALES** sector of the US economy have experienced the **LEAST CHANGES** in non-labor input costs (61%)
- > On the contrary, many **EXPORT-ORIENTED** businesses (49%) have reported **WORSE** or **MUCH WORSE** non-labor costs in 2010

Lending rates have been maintained at their lows for almost two years now

1 month LIBOR¹⁾ rate [%]



INSIGHTS

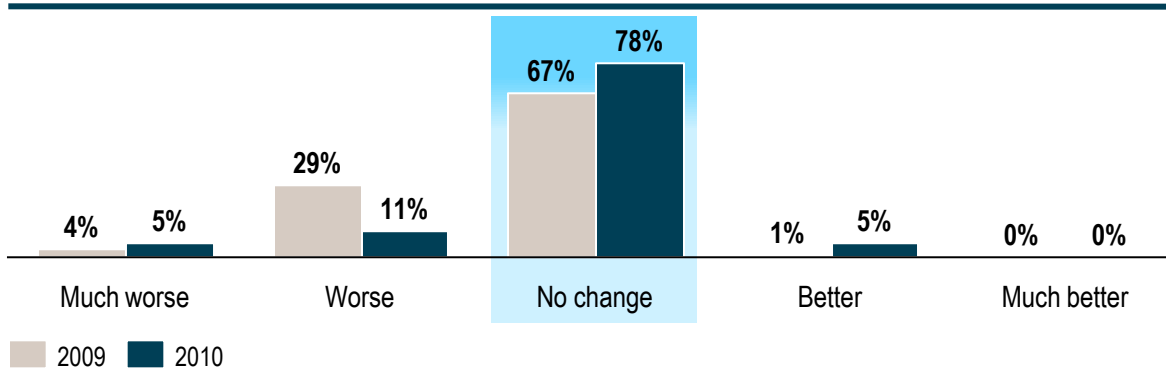
- > The credit crisis and ensuing global recession saw a **TIGHTENING OF CREDIT CONDITIONS** that hampered overall corporate spending activity
- > With massive injections into the capital markets by central banks around the world, lending restraints have **SUBSTANTIALLY EASED**

1) London Interbank Offer Rate

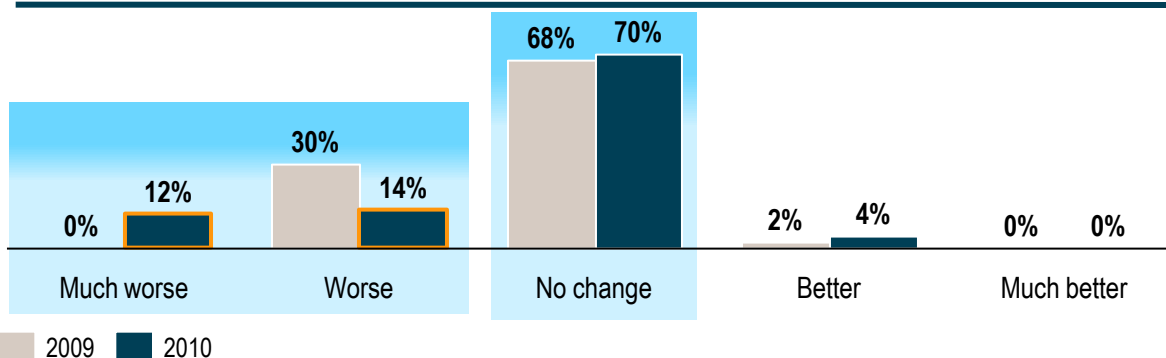
However, most companies have not seen any major improvement this year – access to credit is still tough

Ease of obtaining new loans

A large majority of firms reported no change in financing ease...



...while some automotive firms experienced more difficulty

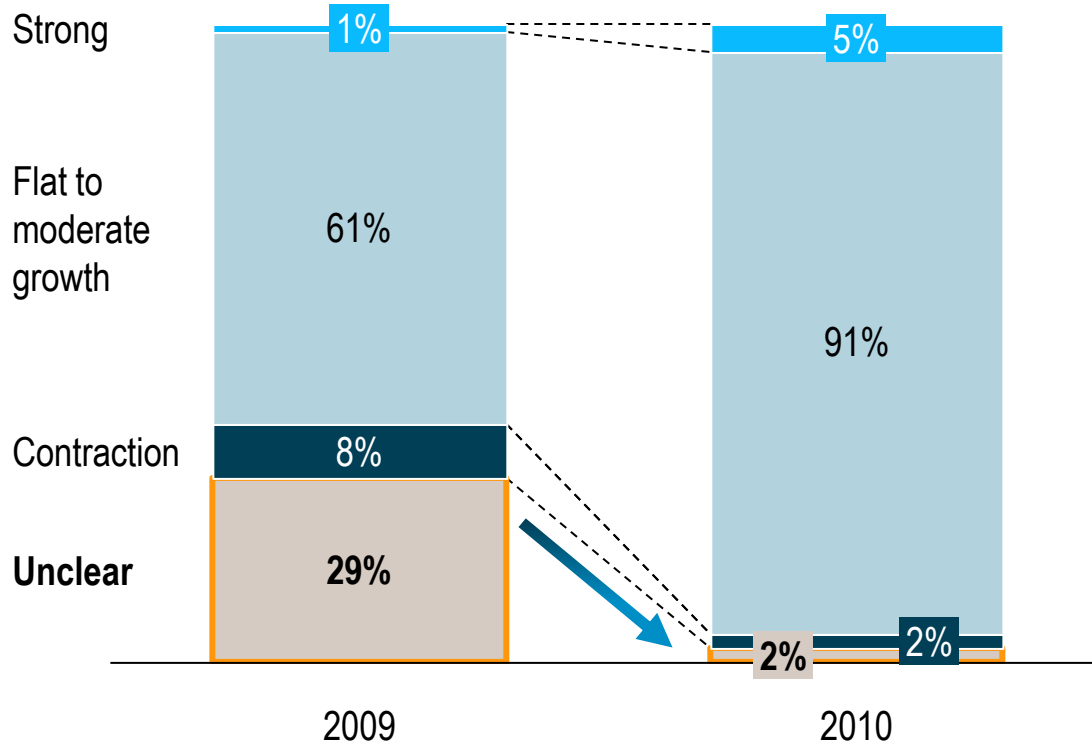


INSIGHTS

- > Some automotive firms had **GREATER DIFFICULTY OBTAINING NEW LOANS** compared to 2009, which might be due to the fact that many were considered at risk due to the previous strong decline in the industry
- > Financial institutions may still be wary lending for large PPE investments when the industry is still at **OVER-CAPACITY**

Looking forward, uncertainty over the US economy has almost disappeared

US economic outlook

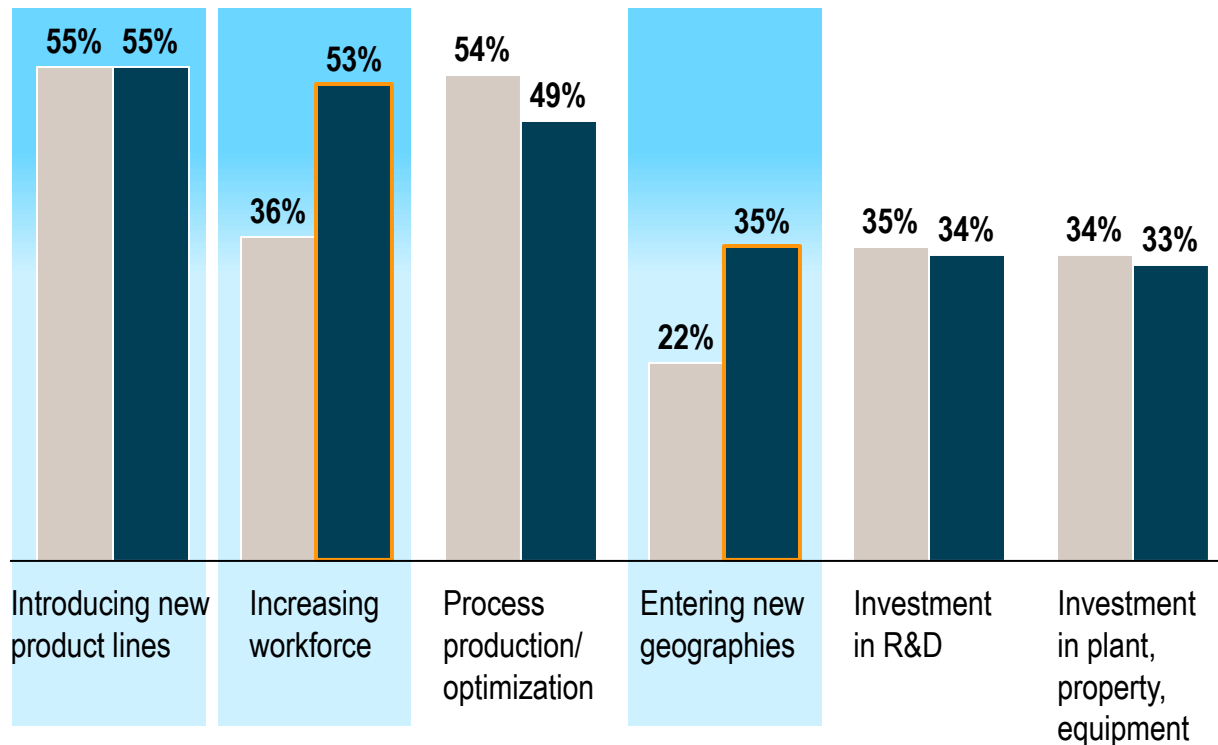


INSIGHTS

- > Overall, 63% of respondents are expecting the **ECONOMY TO GROW** moderately (58%) or strongly (5%), while 33% are expecting stagnation
- > Very few firms (2%) foresee a double-dip recession
- > 68% of respondents also don't deem further stimulus measures necessary to fuel economic growth

Firms are still planning to expand product offerings, while more are aiming to increase capacity and tap new markets

Strategic initiatives



■ Taken in 2010 ■ Planned for 2011

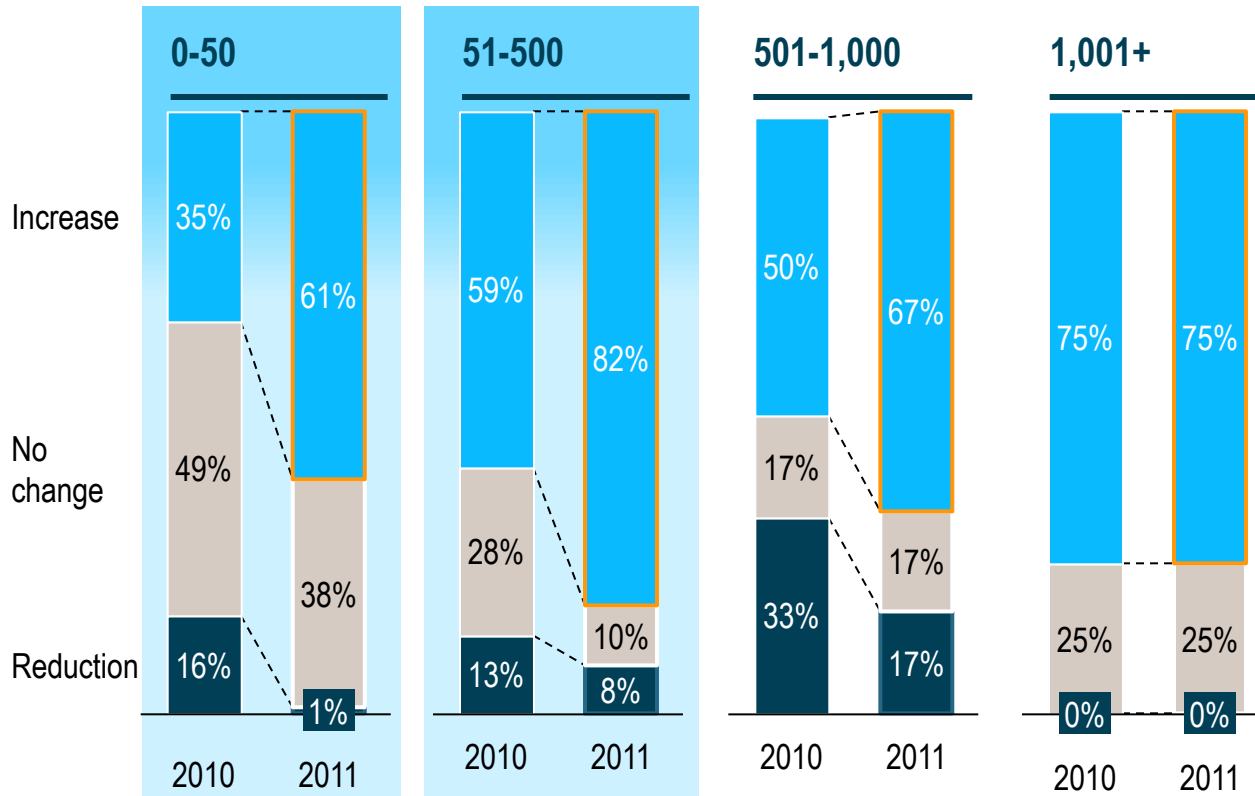
Source: German American Business Outlook 2009, 2010

INSIGHTS

- > German-American firms are **GROWTH-ORIENTED**, and planning to engage both in short-term and long-term strategic initiatives
- > Focus remains on introducing **NEW INNOVATIVE PRODUCTS**
- > Expanding workforce and entering new geographies will see a substantial increase in 2011 over 2010, **FURTHER INDICATING OPTIMISM**

Mid-sized firms are leading in terms of hiring plans – smaller firms in terms of confidence gains to expand headcount

Changes¹⁾ in headcount by company size [employees]



INSIGHTS

- > Overall, **69%** of respondents are planning to increase headcount
- > **ONLY 4%** of all firms expect reductions in 2011 (vs. 15% which experienced decreases in 2010)
- > **SMALL BUSINESSES** have experienced the most increase in confidence as the number of firms planning to increase headcount has almost doubled

1) 2010 data indicates respondents' experienced changes whereas 2011 data indicates respondents' expected changes



The trans-atlantic impact:

Benefits of German-American business relations

2.

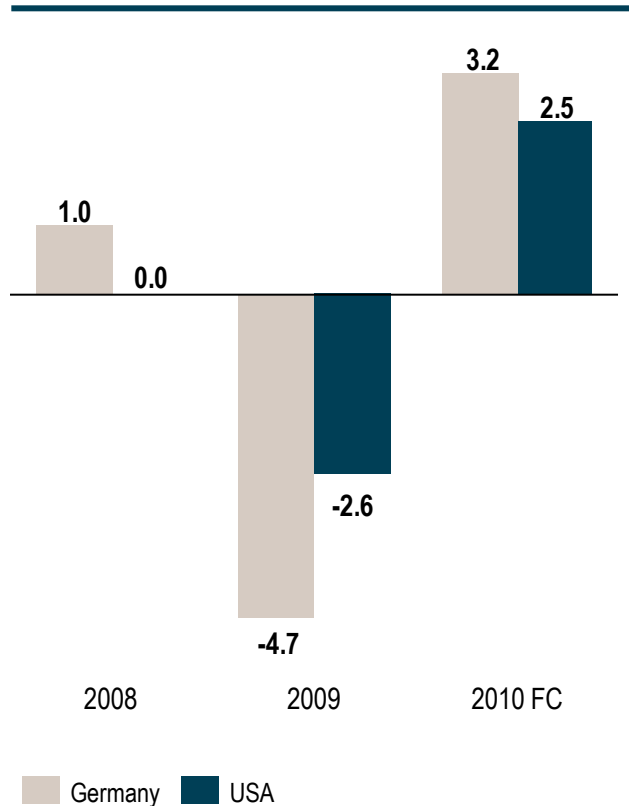
German-American firms in the US have benefited from Germany's economic and technological strength

- I ECONOMIC RECOVERY** – While Germany was also strongly hit by the recession, application of unique instruments has allowed it to better master the recession and contain unemployment
- II GROWTH IMPACT** – Many businesses have been able to benefit from Germany's recovery and technology leadership
- III FINANCING EFFECT** – A majority of firms witnessed more favorable lending due to their affiliation with German companies
- IV BUSINESS OUTLOOK** – German-American firms are more optimistic of their own outlook compared to the outlook for the US economy

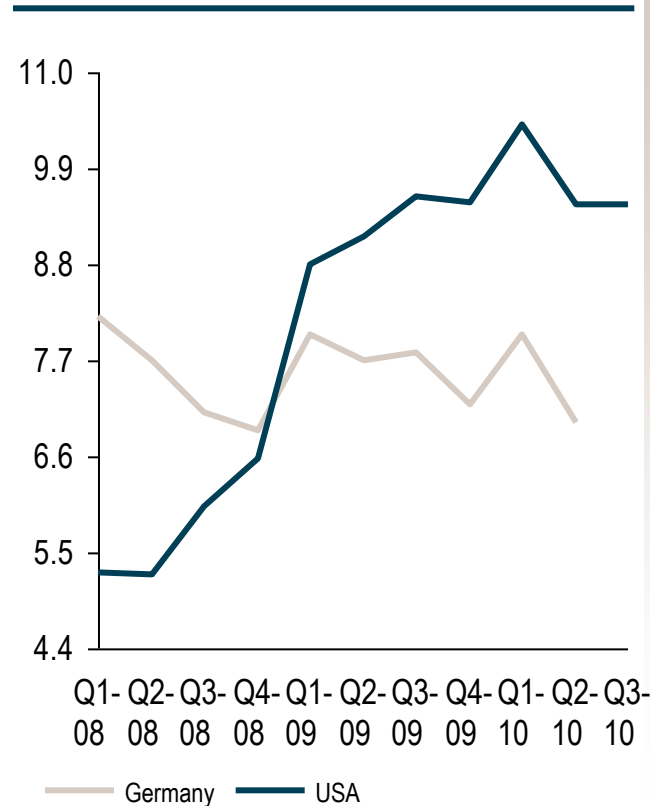
While both countries were strongly impacted by the recession, Germany succeeded in containing unemployment

Mastering the recession – US vs. Germany

GDP GROWTH RATES [%]



UNEMPLOYMENT RATE [%]

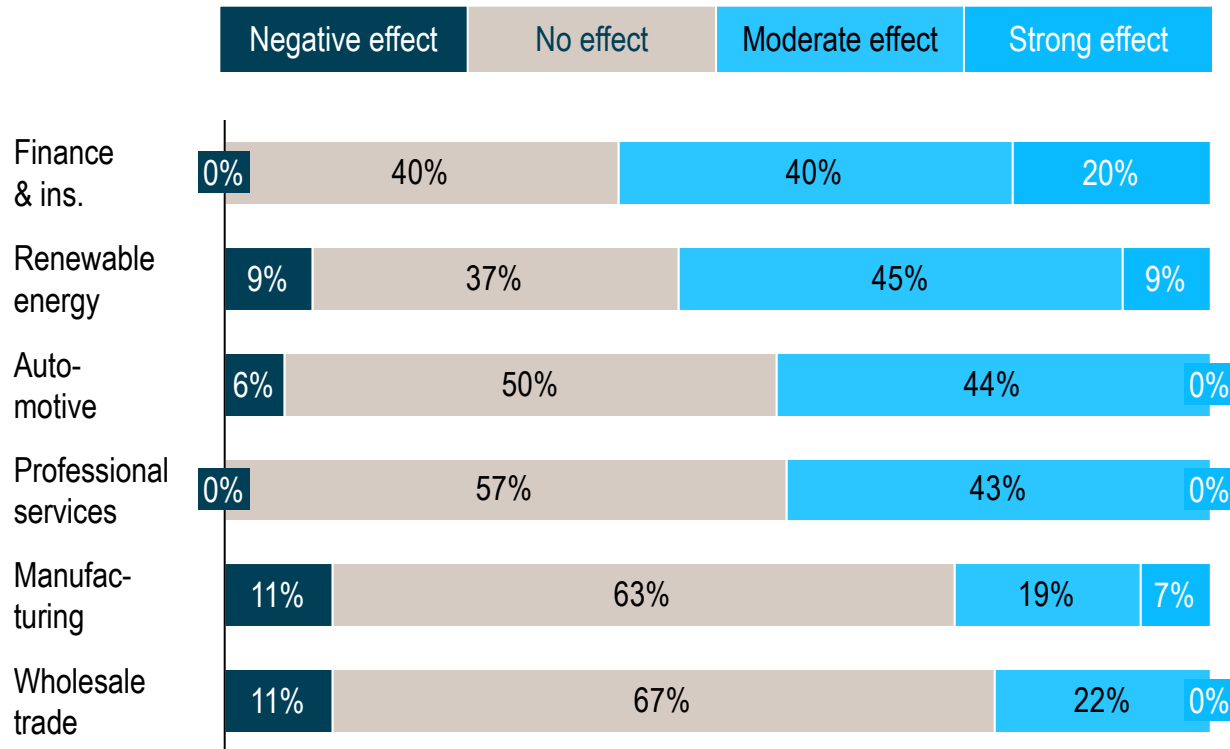


INSIGHTS

> **UNEMPLOYMENT** in Germany was **NEGLIGIBLY IMPACTED** and even **IMPROVED** over time in part due to flexible recovery programs such as the 'Kurzarbeit' initiative

Many firms have been able to leverage and benefit from the German-American business ties

Effect of the German recovery on German-American firms

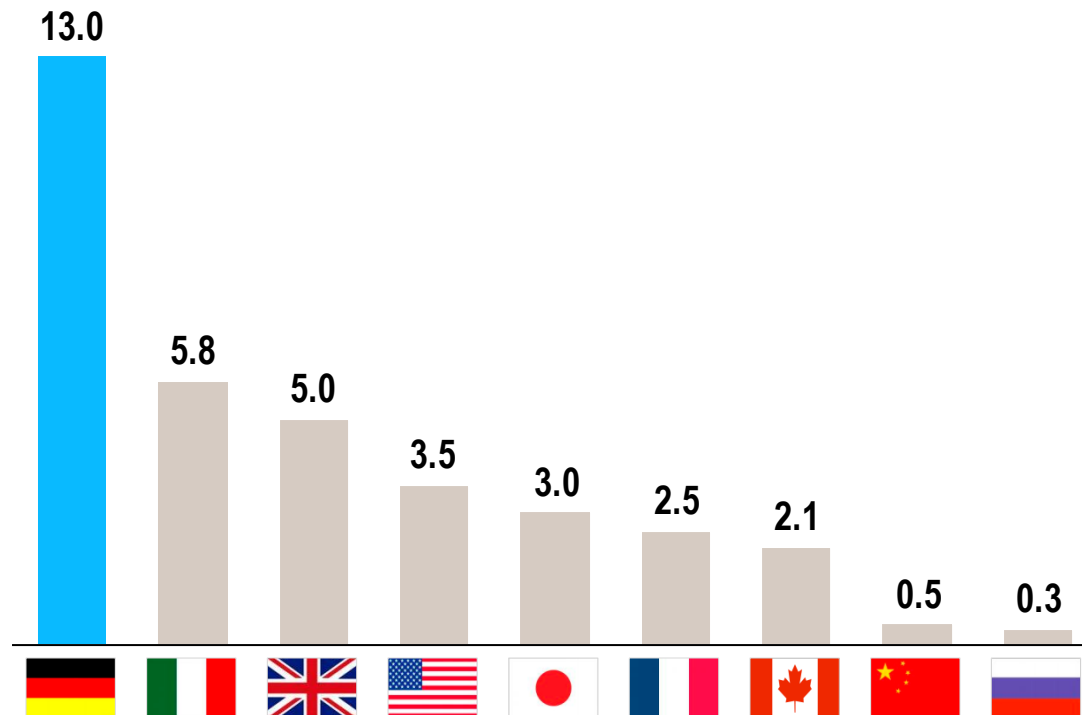


INSIGHTS

- > Financial services firms likely **BENEFITED FROM MORE STABLE CONDITIONS** in Germany
- > **RENEWABLE ENERGY** sector has benefited from Germany's leading **TECHNOLOGICAL POSITION** in the area

Specific industries such as renewable energy may capitalize on Germany's market leadership

Renewable energy¹⁾ as a % of total electricity consumption, 2008



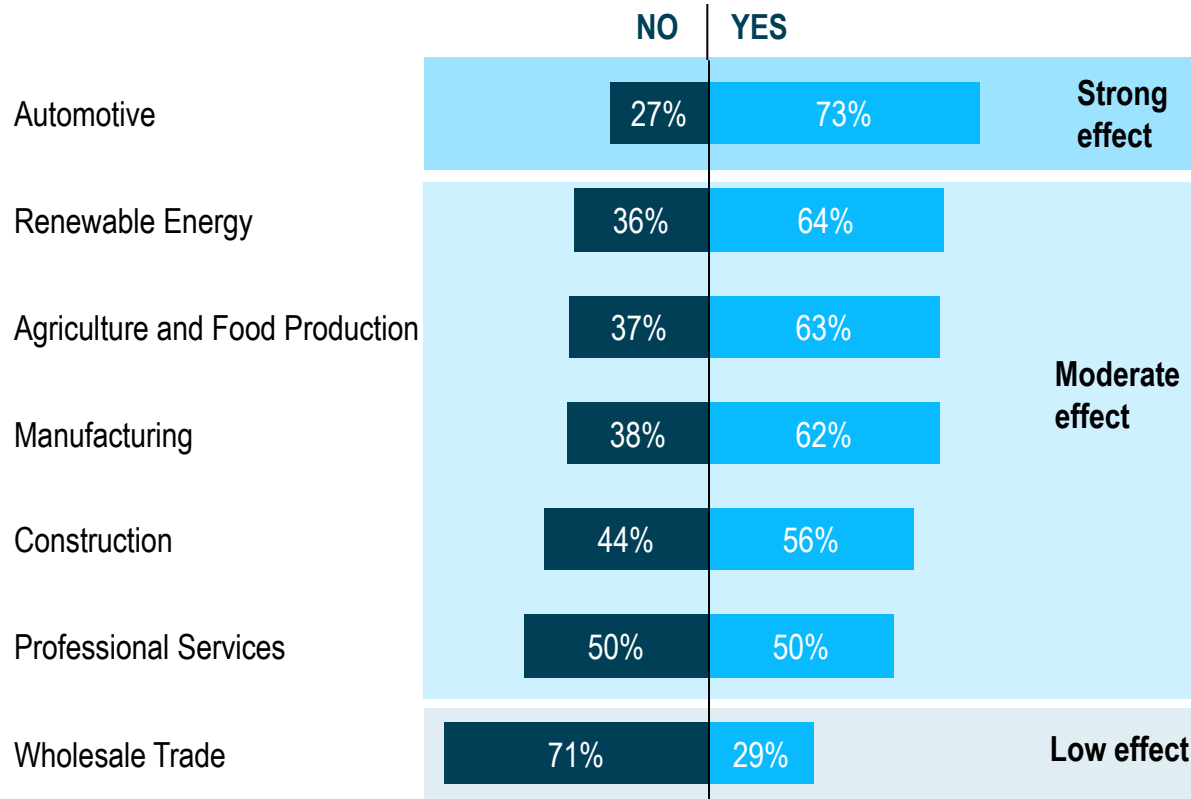
1) Non hydro

INSIGHTS

- > First-mover advantage in developing **BUSINESS MODELS** based on renewable technologies
- > Internal expertise on integration of renewable **TECHNOLOGIES** into current business practices and infrastructure
- > The **TECHNICAL EXPERTISE** associated with renewables can be used to enhance value propositions with customers
- > **SUPPLY CHAINS** can be optimized and made more cost effective using renewable technologies in delivery, storage, etc.

Majority of firms also leveraged the German business ties to realize easier financing conditions

Effect on access to financing due to the German connection



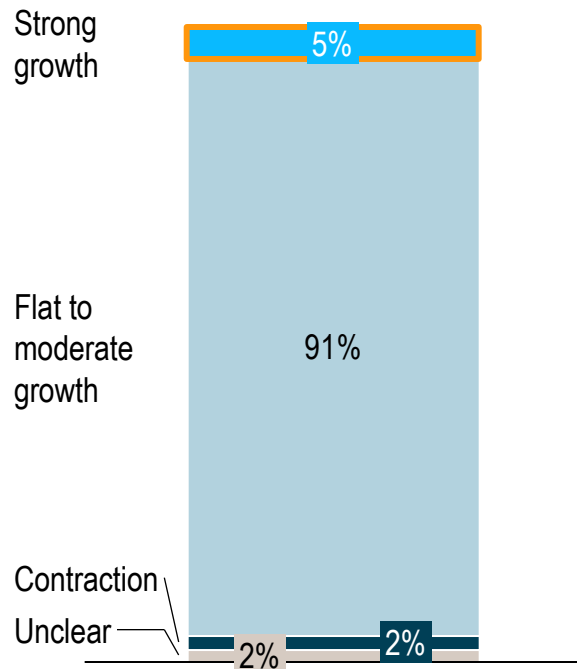
INSIGHTS

- > **CAPITAL-INTENSIVE** and public sector industries tend to leverage their affiliation to a greater extent, using a German parent for **LOWER BORROWING COSTS, LARGER LINES OF CREDIT**, and more **GENEROUS WORKING CAPITAL**
- > Firms predominantly structured with **LOWER FIXED COSTS**, or more service and **TRANSACTION-ORIENTED**, tend to leverage the relationship less for financing

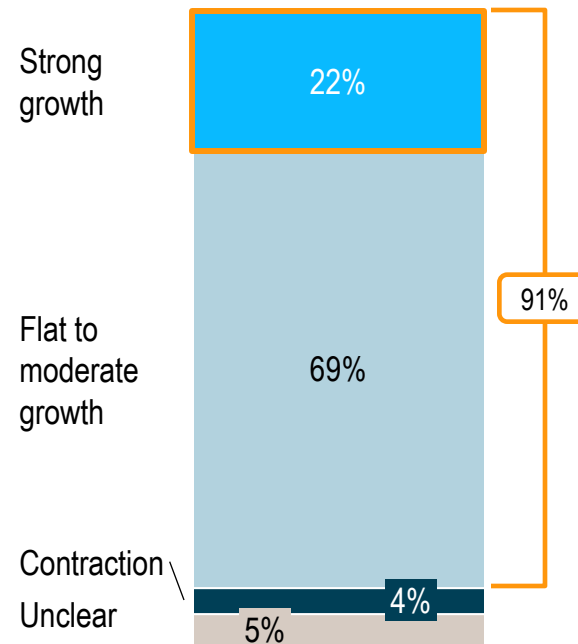
German-American firms are more optimistic about their own outlook compared to the US economy

Outlook on the US economy growth vs. own business growth

US ECONOMY GROWTH



OWN BUSINESS GROWTH



INSIGHTS

- > **MORE ROBUST GROWTH IN GERMANY**, German financing effects and German leadership in certain industries likely contribute to the differential in optimism



Thriving in a global marketplace:
Specific challenges going forward

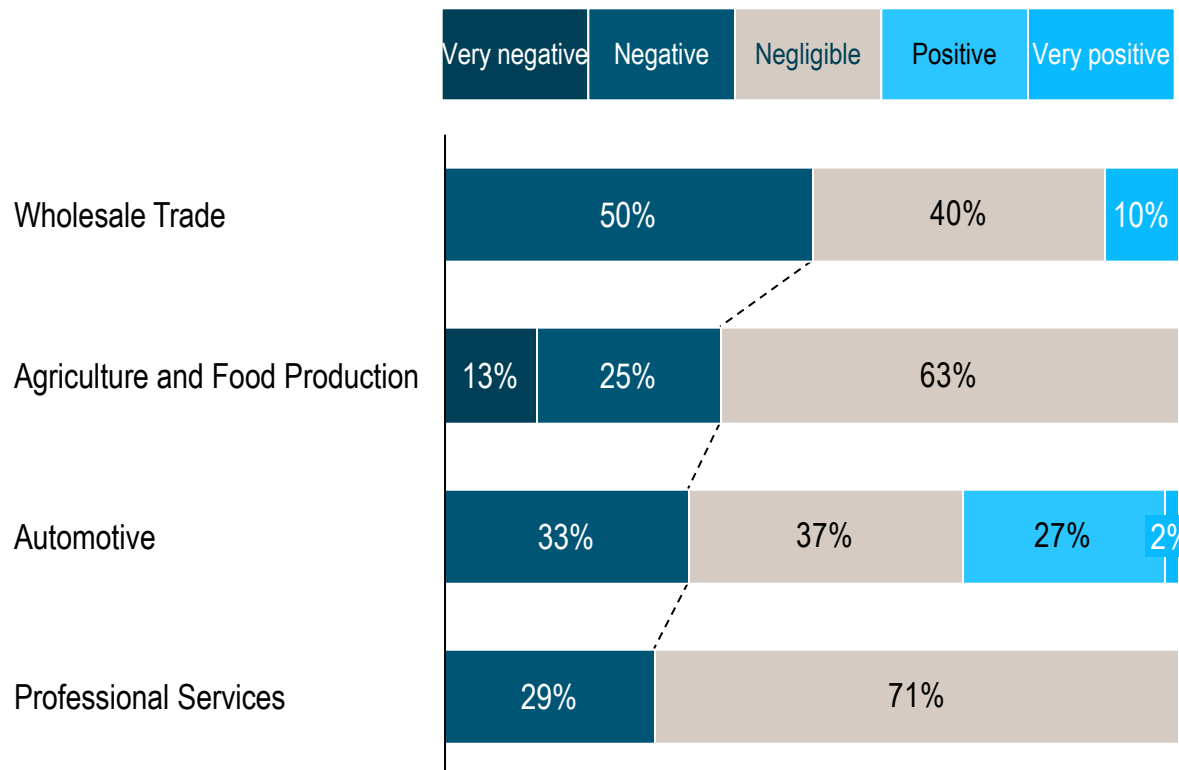
3.

German-American firms still face some challenges going forward

- I **FOREIGN EXCHANGE** – Although less than previously anticipated, many firms were still impacted by FX rate fluctuations and one third is unprotected going forward
- II **RAW MATERIAL SHORTAGES** – Industries, including renewable energy and automotive, highlighted concerns about current and future potential raw material shortages

Although less than previously anticipated, FX is still an important consideration

Effect of FX on select industries in 2010



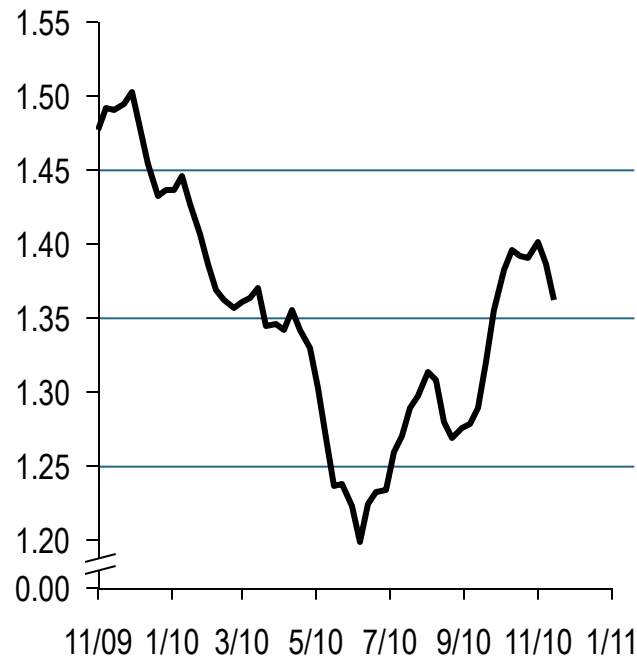
INSIGHTS

- > 73% of firms named FX risks as top concern in 2009, however only about **ONE THIRD** has been negatively impacted in 2010
- > **EXPORT-DRIVEN** agriculture and wholesale trade were most negative, as the lower EUR likely **ELEVATED THE RELATIVE PRICE** of exported goods
- > Interestingly, automotive was **FAIRLY BALANCED** – likely dependent on how revenues are reported and where suppliers are located

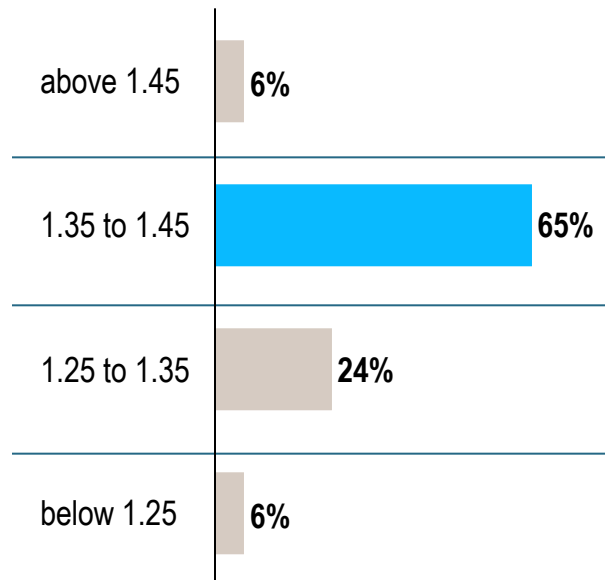
Most of the respondents are expecting the EUR/USD FX to stabilize going forward

FX development and expectations

EUR/USD EXCHANGE RATE



RESPONDENT EXPECTATIONS [2012]

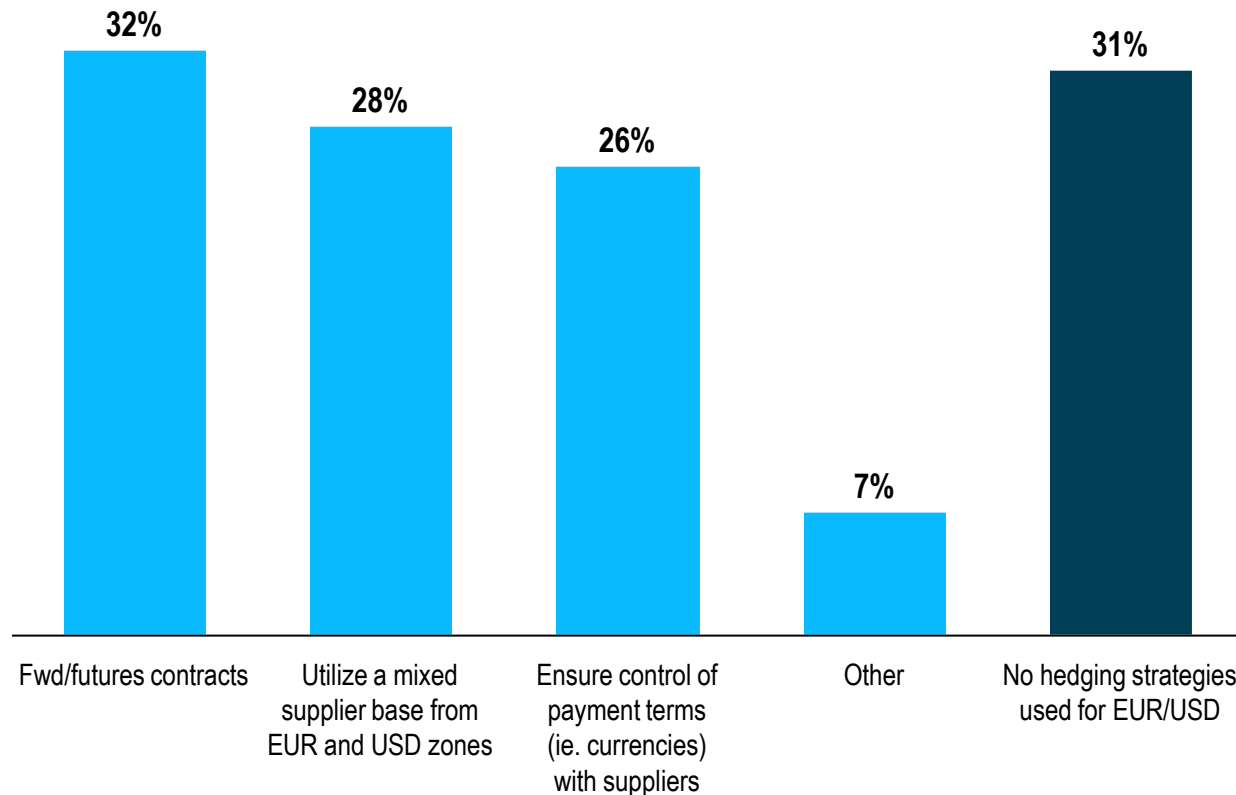


INSIGHTS

- > Despite **CONSIDERABLE VOLATILITY** this year, a vast majority of firms expect the Euro to stabilize through next year
- > A significant group expects the Euro to depreciate from current levels, possibly indicating some **LINGERING DOUBTS** about the health of European fiscal systems (e.g., recent problems in Ireland)

While most companies utilize different hedging strategies, one third are unhedged for FX risks

Hedging strategies utilized¹⁾



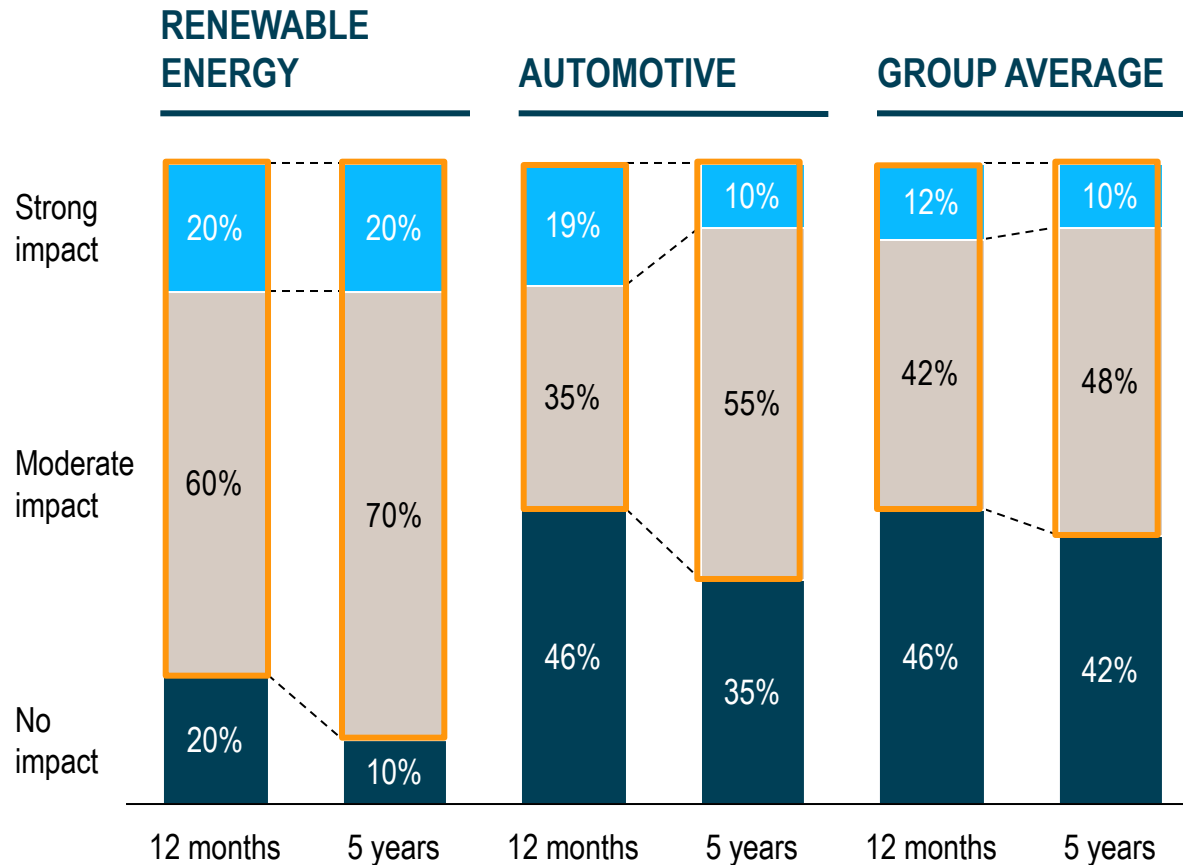
INSIGHTS

- > Some of the German-American firms do not utilize any hedging strategies directly as this function is executed by **CORPORATE HEADQUARTERS** in Germany (included in "Other" category)

1) Total exceeds 100% as firms can employ (and report) multiple hedging strategies

Raw material shortages are a concern for over half of the firms in the short term, and even more so in the long term

Expected impact of the raw material shortages by industry



INSIGHTS

- > Renewable energy anticipates the biggest impact change negatively in the long-term, as use of specialized materials such as **RARE EARTH MATERIALS** is crucial to the manufacture of solar cells, electric batteries and wind turbine components

German-American firms are optimistic about their outlook and should utilize their German affiliation to achieve growth

Key take-aways

German-American firms are rather **OPTIMISTIC** about the **OUTLOOK** for the **US ECONOMY** in 2011 and going forward

Growth expectations for the **GERMAN-AMERICAN BUSINESSES** in the US are **EVEN HIGHER** than those for the US economy

German-American firms should take advantage of the trans-atlantic business relations and **LEVERAGE** their **FINANCIAL STRENGTH** and **TECHNOLOGICAL LEADERSHIP**

Firms should continue developing robust strategies to **COUNTERACT THE CHALLENGES** incl. the FX risks and potential material shortages



German American
Chambers of Commerce
Deutsch-Amerikanische
Handelskammern

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Representative
of GERMAN
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