

FROST & SULLIVAN



**2017 Global
Automotive Refinish Coatings
Market Leadership Award**

FROST & SULLIVAN

**BEST
2017 PRACTICES
AWARD**

**GLOBAL
AUTOMOTIVE REFINISH COATINGS
MARKET LEADERSHIP AWARD**

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Background and Company Performance

Industry Challenges

Automotive refinish coatings are required to deliver an array of properties and characteristics, such as surface finish, gloss, corrosion protection, depth and variety of colors, uniformity of coating thickness, weatherability, and ultra-violet (UV) resistance of varying degrees. Various paint and body shops such as multi-shop operators (MSOs), independent body shops, and original equipment manufacturer (OEM) aftermarket body shops that address car owners' repair and refinish needs are major customers using these coatings. Therefore, coating manufacturers have to remain updated on changing market needs based on improved technologies, substrates used, and regulations.

A major challenge faced by body shops is turnaround time per refinish process, which can take more than 4 hours, depending on the requirement for color retrieval and color matching and the preparation time involved. To address this growing customer demand, refinish coatings manufacturers are required to develop formulations that can be applied easily and dry quickly.

Similarly, global environmental regulations regarding volatile organic compound (VOC) emissions are pushing manufacturers to provide more waterborne or high solids formulations. Automotive coating manufacturers are constantly under pressure to differentiate themselves from their competitors by offering innovative products and trending colors and finishes. Exact color matching with a car's existing color is an important requirement on which refinish coatings manufacturers need to focus. Additionally, refinish coatings customers demand products that have the same mechanical and optical qualities as the vehicle's OEM coating.

Automotive refinish coatings manufacturers need to maintain strong relationships with their distribution partners because the market greatly relies on distribution companies. Refinish coatings manufacturers need to ensure their customers, such as body shops and distributors, are well equipped to serve end users in terms of product mixing and application. Therefore, manufacturers need to offer quality training and technical assistance services to their customers and engage in collaborative product development to create long-term customer relationships, thereby staying ahead of the competition.

Axalta Coating Systems' Market Leadership

Growth Strategy Excellence

Axalta Coating Systems is the most prominent company in the automotive global refinish coatings market, with a revenue share of 28.3%. The company manufactures automotive refinish coatings under its world-renowned Standox®, Spies Hecker®, and Cromax® brands. Axalta's refinish business accounts for approximately 43% of its total revenue,

powered by its global production capacity, which is the largest for refinish coatings among its competitors.

Axalta has devised a local production strategy to satiate regional demand and reduce turnaround time. The company operates manufacturing units in North America, Asia-Pacific, Europe, and Latin America and continues to expand its production capabilities in regional locations. For instance, because of the high demand growth in Asia-Pacific, Axalta recently announced its intention to open a new manufacturing plant for high-performance automobile, commercial vehicle, and industrial coatings in Nanjing, China. This facility is expected to be fully operational by the end of 2020. Similarly, the company opened its first manufacturing facility in Argentina in January 2017 to expand its operations in Latin America.

Furthermore, Axalta strives to maintain its leading market position by constantly looking for prospective merger and acquisition opportunities. For example, the company acquired Ellis Paint Company in early 2017 to leverage this company's strong manufacturing and distribution capabilities in the automotive refinish and industrial coatings and lacquers market. In 2016, Axalta acquired High Performance Coatings Sdn. Bhd., a leading coatings company in Southeast Asia, which extended Axalta's reach into additional refinish markets. Similarly, in the second half of 2016, Axalta acquired Geeraets Autolak, a leading distributor of Axalta's Cromax refinish coating products in the Netherlands for nearly 40 years. This acquisition enables Axalta to establish greater control over product distribution in the Netherlands, while extending additional value-added services to customers, thereby facilitating further customer acquisitions in Europe.

Implementation Excellence

Axalta focuses on bringing together various business teams, such as sales, marketing, research and development (R&D), product development, and customer and technical services, to enhance customer engagement and create a stronger digital strategy. The company is currently moving from a distributed data management approach to a master data strategy, allowing business managers to view required data holistically, irrespective of the region in which they are located. Such initiatives help Axalta streamline all processes and guarantee high output at every level of operation.

Moreover, the company strives to maintain the highest level of environmental sustainability by adopting industry best practices. For instance, as a response to the growing consumer preference for sustainable products, Axalta recently developed a group of waterborne refinish coatings in the European Union under the brand Syrox™. This refinish system provides a cost-effective alternative to competing premium product offerings. Axalta's Syrox product system was developed as a response to customer demand for straight forward, conventionally applied, economical, and sustainable refinish systems that provide accurate color matching.

Axalta always focuses on ensuring its products and services are superior and easily adopted by customers. For example, the company reaches out to its diverse customer base through learning and development programs offered through its multiple training and technology services facilities as well as through on-site assistance at customers' facilities and online.

Axalta recently launched a Master Refinish Certification program as part of its learning and development offering in North America. This program provides refinish customers with the opportunity to advance their skills from Axalta's own industry standard experts. Additionally, this program was rolled out as a response to customer feedback requesting a means to develop talent in their businesses.

Similarly, Axalta recently opened its first refinish training center in Dubai to provide expert training in product use and provide the latest coating technologies to body shop, repair, and refinish technicians. Axalta opened its 48th customer learning and development center - the Customer Experience Center - in the spring of 2017 located on the Hendrick Motorsport campus.

Technology Leverage

Axalta has four dedicated R&D centers worldwide and invested \$180 million in 2016. The company plans to expand its R&D capabilities through its forthcoming global R&D Global Innovation Center in Philadelphia, which is expected to be fully operational in 2018.

With over 1,400 patents held or pending worldwide in the automotive refinish coatings space, Axalta has been introducing many new coatings in the refinish market every year. Additionally, the company has introduced a number of application technologies to assist customers in the efficient processing and application of its products on vehicle surfaces.

To enable smooth operations at customers' facilities in arid US climates, the company introduced a coatings application system called IntelliMist™ paint shop climate control technology. This system improves paint shop productivity by automatically controlling spray booth humidity, thus enabling customers to apply all waterborne and solvent-borne coatings with ease, compared to other prevalent systems.

Fast-curing coatings are in high demand in the automotive refinish coatings industry. To address this growing customer requirement, Axalta introduced its Cromax Pro waterborne system, which includes a primer, base coat, clear coat, and other components. This system can be applied and cured in less than 30 minutes, whereas competing products take between 2 and 4 hours. The innovative UV-cured primer used in this system significantly reduces the coating application's overall cycle time, which customers greatly appreciate.

Color matching is a major challenge in the refinish coatings business, and Axalta is an automotive industry leader in color R&D. Body shop customers and distributors rate the company's color matching technology, AcquirePlus™ EFX, as the best among those offered by competitors. AcquirePlus EFX is an advanced handheld spectrophotometer that helps automotive refinish customers find the most accurate color match, even for complicated colors, faster than other technologies available in the market.

Brand Strength

Axalta's flagship brands (Standox, Spies Hecker, and Cromax) in the refinish coatings business are highly renowned in the industry for their excellent product properties, in addition to the associated services Axalta offers its customers. For example, the company's Spies Hecker refinish brand of products is used for coating high-impact, instantly recognizable liveries of the Mercedes-AMG Petronas Motorsport Silver Arrows race cars. Mercedes chose Axalta's coating system for its exceptionally short cycle time and excellent performance under high-endurance racing environments. Moreover, Mercedes again chose Axalta's products for the 2017 Mercedes-AMG F1 W08 EQ Power+ race car for their outstanding color accuracy and fast turnover time.

In the automotive coatings industry, various OEMs need to approve products for refinish applications. Axalta's long-standing relationships with its OEMs and refinish customers enable it to develop and manufacture products that match varied customer needs. This service has allowed the company to have its products qualified and approved by all major automotive OEMs with relative ease over the years. For instance, Volkswagen Group Italia, the Italian subsidiary of Volkswagen Group, recently approved Axalta's three premium brands under a new three-year agreement. Volkswagen Group considers this approval a significant step in providing its partners with Axalta's advanced refinish paint technologies and tailored support. Similarly, global automotive OEMs, such as BMW and Opel, have recently renewed approvals for Axalta's products because of their continued excellent performance in varied environments and climatic conditions.

Price & Performance Value

Technology development and a series of acquisitions have provided Axalta with an enviable product portfolio comprising all chemistries, including polyurethane, epoxy, acrylics, and nitrocellulose. This extensive portfolio allows Axalta to provide solutions to a wide range of global body shops that offer services to vehicles made by OEMs, including BMW, Volkswagen, Toyota, Mercedes-Benz, and Ford. Collaborating with OEMs and body shops for design and development helps Axalta provide tailor-made solutions for optimum performance.

Axalta's product line consists of highly valued products in different price ranges that cater to customers' varied needs. For instance, to address the sustainability requirements of its cost-sensitive customers, the company developed its Cromax Mosaic™ solvent-borne collision repair basecoat as a lower-price alternative to VOC-compliant and expensive waterborne base coatings offered by its competitors. This product is a 3.5 VOC-compliant, full-feature base coat that provides outstanding color match, color repeatability, blendability, and spot repair and is well received among North American price-sensitive customers.

Customer Ownership Experience

The primary benefits enjoyed by Axalta's customers include its best-in-class products and overall support. Apart from a strong product portfolio, the company's success can be attributed to its value-added services, including application, testing, training, and periodic validation. With a team of experienced product development professionals, Axalta ensures product delivery, with excellent logistics management for highly efficient products.

In the rapidly evolving automotive refinish coatings industry, manufacturers need to provide distinctive solutions that will attract a wide range of both existing and new customers. Axalta recently opened its new Customer Experience Center in Concord, North Carolina, to enhance its customers' overall experience. This 36,000 square-foot facility features next-generation education, meeting, exhibit, and hands-on training spaces that customers can avail to increase their required knowledge for applying coatings and efficiently deploying the color-matching technology. Customers highly value Axalta's Customer Experience Centers for its utility and efficiency in providing services.

Furthermore, to ensure quality and customer value, Axalta's customer representatives regularly solicit feedback on product quality to provide a continuous feedback loop. With these benefits, Axalta has a strong customer base, including major body shops, such as CARSTAR and Caliber Collision.

Axalta is well recognized for providing a high level of satisfaction and often receives excellent feedback from its customers lauding the company's unmatched performance and exceptional customer service.

Conclusion

In an environment where coating demands and requirements for automotive refinish processes are steadily changing, Axalta has maintained its market leadership through constant innovation and strong customer relationships. Frost & Sullivan research confirms that with its broad portfolio of automotive refinish coatings, the company has successfully established its brand image, solidifying it as a provider of best-in-class products and high customer value.

With decades of experience in this market as well as its expanding customer base, Axalta offers excellent customer support in terms of product installation, after-sales services, and a consultative product development approach that helps customers reap benefits such as cost optimization, durability, and efficiency over the long term.

With its innovative product development approach, extensive training, technical services, and long-standing customer commitment, Axalta has achieved a leadership position in the automotive refinish coatings industry, with a market share of 28.3%.

For its strong overall performance, Axalta has earned Frost & Sullivan 2017 Market Leadership Award.

Significance of Market Leadership

Ultimately, growth in any organization depends upon customers purchasing from a company, and then making the decision to return time and again. Loyal customers become brand advocates; brand advocates recruit new customers; the company grows; and then it attains market leadership. To achieve and maintain market leadership, an organization must strive to be best-in-class in three key areas: understanding demand, nurturing the brand, and differentiating from the competition.



Understanding Market Leadership

Driving demand, strengthening the brand, and differentiating from the competition all play a critical role in a company's path to market leadership. This three-fold focus, however, is only the beginning of the journey and must be complemented by an equally rigorous focus on the customer experience. Best-practice organizations, therefore, commit to the customer at each stage of the buying cycle and continue to nurture the relationship once the customer has made a purchase. In this way, they build a loyal, ever-growing customer base and methodically add to their market share over time.

Key Performance Criteria

For the Market Leadership Award, Frost & Sullivan Analysts focused on specific criteria to determine the areas of performance excellence that led to the company's leadership position. The criteria considered include (although not limited to) the following:

Criterion	Requirement
Growth Strategy Excellence	Demonstrated ability to consistently identify, prioritize, and pursue emerging growth opportunities
Implementation Excellence	Processes support the efficient and consistent implementation of tactics designed to support the strategy
Brand Strength	The possession of a brand that is respected, recognized, and remembered
Product Quality	The product or service receives high marks for performance, functionality, and reliability at every stage of the life cycle
Product Differentiation	The product or service has carved out a market niche, whether based on price, quality, or uniqueness of offering (or some combination of the three) that another company cannot easily duplicate
Technology Leverage	Demonstrated commitment to incorporating leading-edge technologies into product offerings, for greater product performance and value
Price/Performance Value	Products or services offer the best value for the price, compared to similar offerings in the market
Customer Purchase Experience	Customers feel they are buying the most optimal solution that addresses both their unique needs and their unique constraints
Customer Ownership Experience	Customers are proud to own the company's product or service, and have a positive experience throughout the life of the product or service
Customer Service Experience	Customer service is accessible, fast, stress-free, and of high quality

Best Practices Recognition: 10 Steps to Researching, Identifying, and Recognizing Best Practices

Frost & Sullivan Awards follow a 10-step process to evaluate Award candidates and assess their fit with best practice criteria. The reputation and integrity of the Awards are based on close adherence to this process.

STEP	OBJECTIVE	KEY ACTIVITIES	OUTPUT
1 Monitor, target, and screen	Identify Award recipient candidates from around the globe	<ul style="list-style-type: none"> • Conduct in-depth industry research • Identify emerging sectors • Scan multiple geographies 	Pipeline of candidates who potentially meet all best-practice criteria
2 Perform 360-degree research	Perform comprehensive, 360-degree research on all candidates in the pipeline	<ul style="list-style-type: none"> • Interview thought leaders and industry practitioners • Assess candidates' fit with best-practice criteria • Rank all candidates 	Matrix positioning of all candidates' performance relative to one another
3 Invite thought leadership in best practices	Perform in-depth examination of all candidates	<ul style="list-style-type: none"> • Confirm best-practice criteria • Examine eligibility of all candidates • Identify any information gaps 	Detailed profiles of all ranked candidates
4 Initiate research director review	Conduct an unbiased evaluation of all candidate profiles	<ul style="list-style-type: none"> • Brainstorm ranking options • Invite multiple perspectives on candidates' performance • Update candidate profiles 	Final prioritization of all eligible candidates and companion best-practice positioning paper
5 Assemble panel of industry experts	Present findings to an expert panel of industry thought leaders	<ul style="list-style-type: none"> • Share findings • Strengthen cases for candidate eligibility • Prioritize candidates 	Refined list of prioritized Award candidates
6 Conduct global industry review	Build consensus on Award candidates' eligibility	<ul style="list-style-type: none"> • Hold global team meeting to review all candidates • Pressure-test fit with criteria • Confirm inclusion of all eligible candidates 	Final list of eligible Award candidates, representing success stories worldwide
7 Perform quality check	Develop official Award consideration materials	<ul style="list-style-type: none"> • Perform final performance benchmarking activities • Write nominations • Perform quality review 	High-quality, accurate, and creative presentation of nominees' successes
8 Reconnect with panel of industry experts	Finalize the selection of the best-practice Award recipient	<ul style="list-style-type: none"> • Review analysis with panel • Build consensus • Select recipient 	Decision on which company performs best against all best-practice criteria
9 Communicate recognition	Inform Award recipient of Award recognition	<ul style="list-style-type: none"> • Inspire the organization for continued success • Celebrate the recipient's performance 	Announcement of Award and plan for how recipient can use the Award
10 Take strategic action	Upon licensing, company is able to share Award news with stakeholders and customers	<ul style="list-style-type: none"> • Coordinate media outreach • Design a marketing plan • Assess Award's role in future strategic planning 	Widespread awareness of recipient's Award status among investors, media personnel, and employees

The Intersection between 360-Degree Research and Best Practices Awards

Research Methodology

Frost & Sullivan's 360-degree research methodology represents the analytical rigor of our research process. It offers a 360-degree-view of industry challenges, trends, and issues by integrating all 7 of Frost & Sullivan's research methodologies. Too often companies make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. The integration of these research disciplines into the 360-degree research methodology provides an evaluation platform for benchmarking industry participants and for identifying those performing at best-in-class levels.



About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages more than 50 years of experience in partnering with Global 1000 companies, emerging businesses, and the investment community from 45 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.