In the fall of 2015, the German American Chambers of Commerce (GACCs – AHK USA), the Representative of German Industry & Trade (RGIT), and Roland Berger Strategy Consultants, for the sixth time, conducted a survey of German subsidiaries in the U.S.: the German American Business Outlook 2016.

1,900 headquarters of German subsidiaries in the US were approached, senior management from various industries responded, mainly from the traditional German Mittelstand (84%).

The purpose of the survey was to gauge respondents' opinions on the current business conditions and future outlook.
The GABO survey is designed to draw insights on the current state and future expectations of German-American businesses.

Survey structure

1. State of the Business
2. Focus on the U.S. Market
3. Future Expectations of German-American Businesses
4. Perspectives on the Industrial Internet of Things

GABO has remained consistent to draw insightful trends over the years.
Respondents represented a comprehensive spectrum of regions and industries, primarily SMEs in Manufacturing and Automotive.

Study participant breakdown

<table>
<thead>
<tr>
<th>By company size</th>
<th>[%]</th>
<th>By industry</th>
<th>[%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10</td>
<td>23</td>
<td>Manufacturing &amp; Automation</td>
<td>29</td>
</tr>
<tr>
<td>11-50</td>
<td>26</td>
<td>Automotive &amp; Suppliers</td>
<td>20</td>
</tr>
<tr>
<td>51-150</td>
<td>25</td>
<td>Health Care &amp; Pharma</td>
<td>12</td>
</tr>
<tr>
<td>151-500</td>
<td>9</td>
<td>Chemicals &amp; Plastic Industry</td>
<td>11</td>
</tr>
<tr>
<td>501-1000</td>
<td>8</td>
<td>Material Handling &amp; Logistics</td>
<td>11</td>
</tr>
<tr>
<td>&gt;1000</td>
<td>9</td>
<td>Aviation &amp; Aerospace</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Agriculture &amp; Food Production</td>
<td>8</td>
</tr>
</tbody>
</table>

1) Based on employee count; 2) Respondents can be present in more than one industry, top 7 of 24 industries shown – results normalized to 100%

Source: German American Business Outlook
Another strong year of volume growth: 87% of companies report same or better/much better sales volumes

Sales volumes (2010-2015)

Change in sales volumes [%]

Source: German American Business Outlook
Companies hired more than planned in 2015. 75% plan to increase headcount in 2016.

Headcount change [%]

- **2013 (planned)**: 4%
- **2013 (actual)**: 13%
- **2014 (planned)**: 3%
- **2014 (actual)**: 6%
- **2015 (planned)**: 1%
- **2015 (actual)**: 9%
- **2016 (planned)**: 3%

- **Increase**
  - 2013: 74%
  - 2014: 61%
  - 2015: 54%
  - 2016: 75%

- **No change**
  - 2013: 22%
  - 2014: 22%
  - 2015: 45%

- **Reduction**
  - 2013: 3%
  - 2014: 26%
  - 2015: 63%

Source: German American Business Outlook
Over 40% increase in planned expansion of manufacturing capabilities over 2015

Strategic initiatives\(^1\) [%]

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entering new geographies</td>
<td>14</td>
<td>15</td>
<td>17</td>
<td>17</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Introducing new product lines</td>
<td>20</td>
<td>26</td>
<td>27</td>
<td>31</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Investment in Plant, Property, and Equipment (PPE)</td>
<td>26</td>
<td>24</td>
<td>22</td>
<td>21</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Expand manufacturing capabilities</td>
<td>19</td>
<td>13</td>
<td>16</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Investment in R&amp;D</td>
<td>17</td>
<td>15</td>
<td>15</td>
<td>21</td>
<td>21</td>
<td>20</td>
</tr>
</tbody>
</table>

1) Multiple responses allowed, normalized results to 100%

Source: German American Business Outlook
German companies expect to continue to outperform the market

Economic outlook

U.S. growth outlook [%]

Own business growth outlook [%]

1) Numbers may not add due to rounding; 2) Flat is defined as +0-1%, moderate is defined as +1-3%, while strong is defined as +>=3%

Source: German American Business Outlook
Focus on U.S. market

Access to U.S. market and customers continues to attract investment

Strategic focus and future investment in the U.S. ¹)

### Strategic focus on U.S. since last year [%]

<table>
<thead>
<tr>
<th>Change in Focus</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatly reduced</td>
<td>1</td>
</tr>
<tr>
<td>Moderately reduced</td>
<td>4</td>
</tr>
<tr>
<td>No change</td>
<td>32</td>
</tr>
<tr>
<td>Moderately increased</td>
<td>40</td>
</tr>
<tr>
<td>Greatly increased</td>
<td>23</td>
</tr>
</tbody>
</table>

**Σ 2016: 63%**

### Top reasons for future investment in the U.S. ²) [%]

<table>
<thead>
<tr>
<th>Reason</th>
<th>% Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favorable energy costs</td>
<td>7</td>
</tr>
<tr>
<td>Portfolio diversification</td>
<td>11</td>
</tr>
<tr>
<td>Relative market stability</td>
<td>22</td>
</tr>
<tr>
<td>Increased demand for goods/services</td>
<td>27</td>
</tr>
<tr>
<td>Proximity to customer base</td>
<td>33</td>
</tr>
</tbody>
</table>

**Σ 2016: 60%**

¹) Numbers may not add due to rounding; ²) Multiple responses allowed, normalized results to 100%

Source: German American Business Outlook
69% confirm difficult access to skilled labor

Labor accessibility

Difficulty finding candidates w/ right level of education and/or training [%]

Yes: 69%
No: 31%

Source: German American Business Outlook
## Future expectations

Education and tax reform critical for sustained economic growth

### Relative importance of regulatory reforms

<table>
<thead>
<tr>
<th>Measures</th>
<th>Importance score&lt;sup&gt;1) [1 to 5]</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National Initiatives for Education &amp; Vocational Training</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Simplification of Tax System</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>Investment in Research &amp; Development</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>Investment in Infrastructure &amp; Broadband</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>Ease of Visa Requirements</td>
<td>3.4</td>
<td></td>
</tr>
</tbody>
</table>

1) 1 = least important, 5 = most important

Source: German American Business Outlook
Industrial Internet of Things: Opportunities in enhanced automation and external connectivity

Opportunities associated with Industry 4.0 [%]

- Automation in production process: 28%
- External connectivity (suppliers, clients, etc.): 26%
- Ability to collect and manage high amount of data: 19%
- Connectivity between transatlantic production facilities: 19%
- Other: 8%

Source: German American Business Outlook
Industrial Internet of Things: Concerns regarding data security and the implementation of IT infrastructure

Challenges associated with Industry 4.0 [%]

- Challenges in the implementation of IT infrastructure: 36%
- Data security risks: 33%
- Shift in workforce competencies: 17%
- Implications for the transatlantic workflow with different systems and/or regulations: 14%

Source: German American Business Outlook
## German-American companies continue to grow and invest in 2016

### Summary

| 1 | State of Business | German-American businesses confirm strong growth prospects – labor costs continue to worsen or remain the same but many firms still hired more than expected in 2015 to capitalize on the strong U.S. economy |
| 2 | Focus on U.S. Market | Firms are optimistic about growth prospects and plan to increase U.S. investment, largely driven by a positive outlook on the U.S. economy and continued demand |
| 3 | Future Expectations of German-American businesses | 75% of companies plan to keep hiring in 2016, but access to candidates with the right skill set continues to be an issue. 42% more companies plan to invest in their manufacturing capabilities over the prior year |
| 4 | Perspectives on the Industrial Internet of Things | Companies are capitalizing on digitization to gain a competitive advantage through enhanced automation and connectivity – Investment requirements in IT and cyber security infrastructure still present obstacles to adoption, especially for SMEs |

Source: German American Business Outlook
Participating organizations:

With their 3 main offices in Atlanta, Chicago, and New York and branch offices in Detroit, Houston, New York, Philadelphia and San Francisco, the GACCs (AHK USA) have approximately 2,500 members from all industries. The GACCs offer a broad spectrum of activities and services for the German-American business community. Fostering bilateral trade and investment, and the provision of consulting services are among the key tasks. The GACCs, coordinated and supported by the German Association of Chambers of Industry and Commerce (DIHK), are an integral part of the network of German Chambers of Commerce Abroad with 130 offices in 90 countries around the globe.

The Representative of German Industry and Trade (RGIT) is the liaison office of the Federation of German Industries (BDI) and the Association of German Chambers of Industry and Commerce (DIHK) in Washington. RGIT represents the interests of the German business community vis-à-vis Congress, the US administration and the international organizations based in Washington, D.C. We report regularly on economically significant developments as well as legislative activities in the US and provide our partners in the United States with information on German business.

Founded in 1967, Roland Berger is one of the world’s leading strategy consultancies. With 50 offices in 36 countries, the company has 2,400 employees contributing to its successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 220 Partners.
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