



The Automotive Suppliers: State of the Industry

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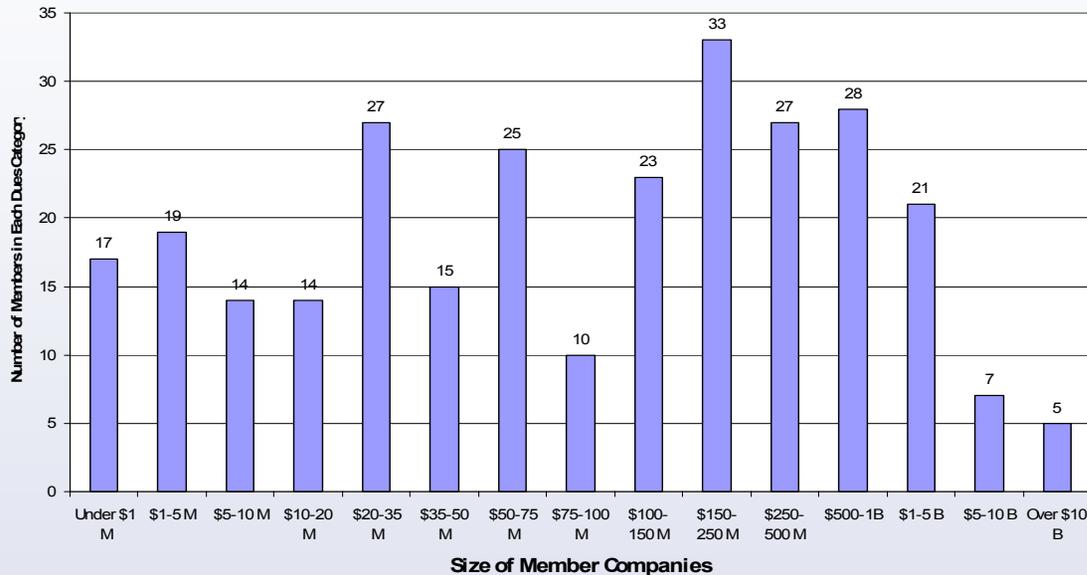
Original Equipment Suppliers Association

- Formed in 1998, Affiliated with the Motor Equipment Manufacturers Association
- 353 members
 - Global automotive sales over \$300 billion
 - Complete supply chain, Tier 1– n
 - Suppliers of modules, systems, components, materials, engineering, tools, dies, molds
 - Represent 65% of NA OE Sales
- Operate nine Peer Group Councils, 400+ executives
- Conducted 20 events in 2003, over 3,000 participants
- Addressing a number of industry issues
- Serve as a credible industry voice



OESA Regular Member Distribution — by Revenue

OESA Member Size Distribution 2004

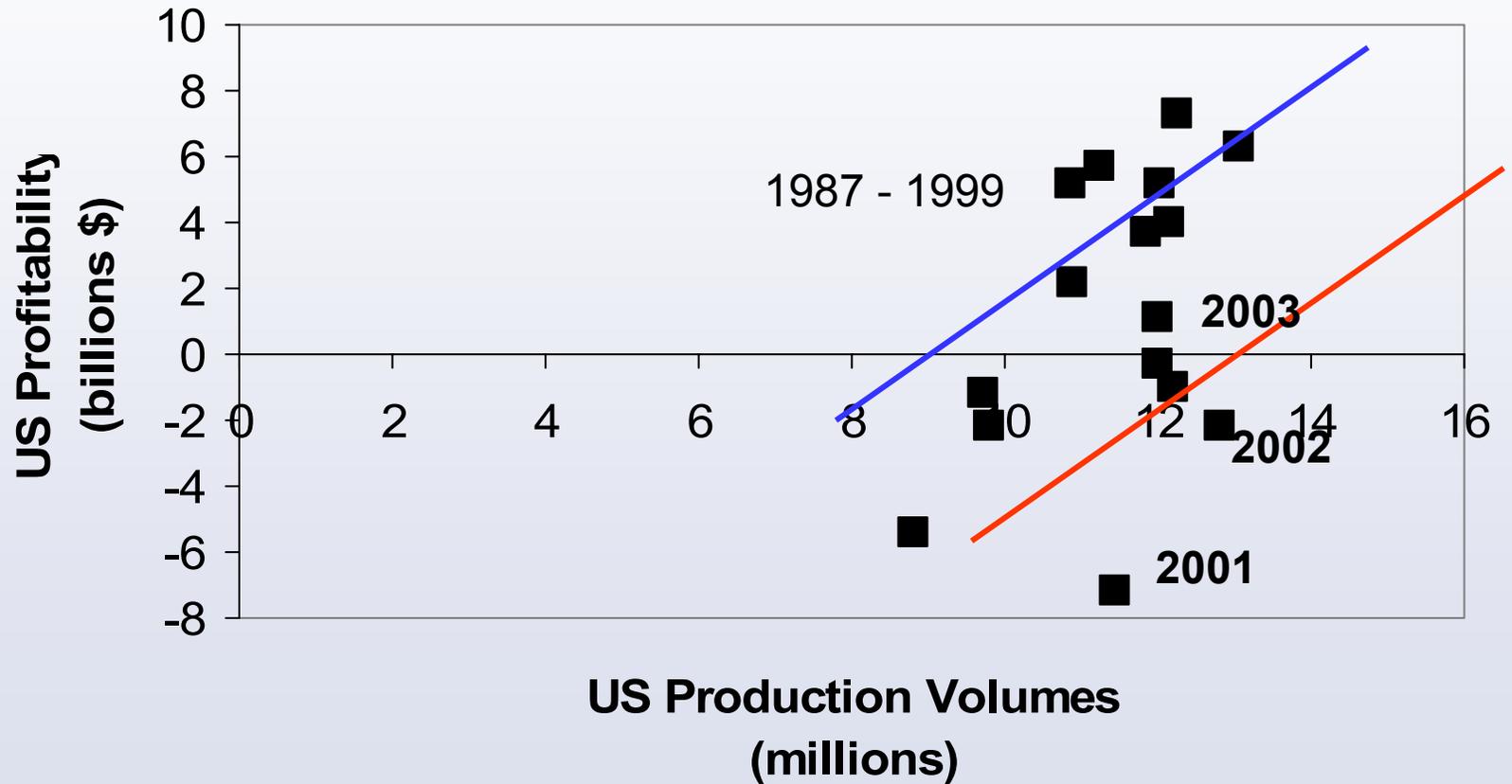


- 353 total members
- 288 regular members
- \$300 b global sales

- 55% of members have sales below \$150 million
- 32% of members have sales between \$150 million and \$1 billion
- 12% of members have sales over \$1 billion (\$200 b global sales)



Motor Vehicle Industry Profitability v. Production— Are breakeven points increasing?



Source: US Bureau of Economic Analysis



Are Demands for New Business Model from Structural Barriers or Dysfunctional Behavior

Many issues within the industry's own control

➤ **Price Deflation**

- Structural: increased global information, international competition
- Behavioral: OEM purchasing incentives and budget structures

➤ **Purchasing Strategies**

- Structural: consumer-driven deflation, product liability/risk aversion
- Behavioral: constant resourcing - no thought toward strategic partnership and collaboration

➤ **Production Cyclicity and Sales Growth**

- Structural: interest rates, credit availability, vehicle scrap rates
- Behavioral: sales forecasting euphoria, production schedule volatility

➤ **Legacy Requirements**

- Structural: health care and pension benefits
- Behavioral: price down/risk up, not cost elimination focus

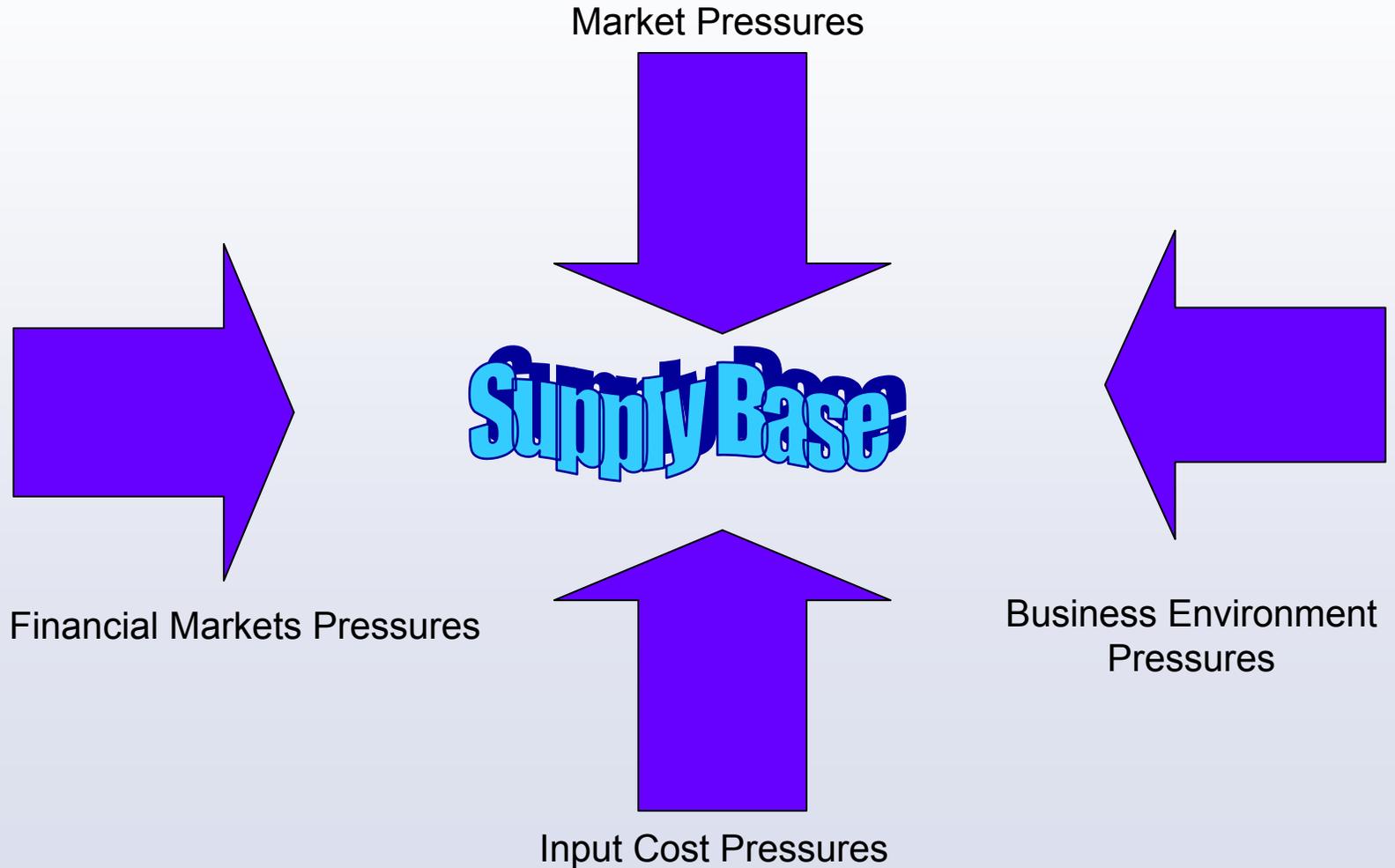


Did the 90s Strategies Create the “Broken Business Model?”

- **Mergers and Acquisitions**
 - Did promised synergistic benefits payoff?
- **Outsourcing**
 - Have total industry costs been reduced or simply re-allocated?
- **Organizational Restructuring**
 - Have product development process efficiencies, consumer orientation, and other objectives been fulfilled?
- **Systems Capabilities**
 - Did supplier industry horizontal “product” consolidation overlook vertical “process” rationalization payoffs?
- **Technology Investments**
 - Did IT capital expenditures pay off – except for getting industry through Y2K?



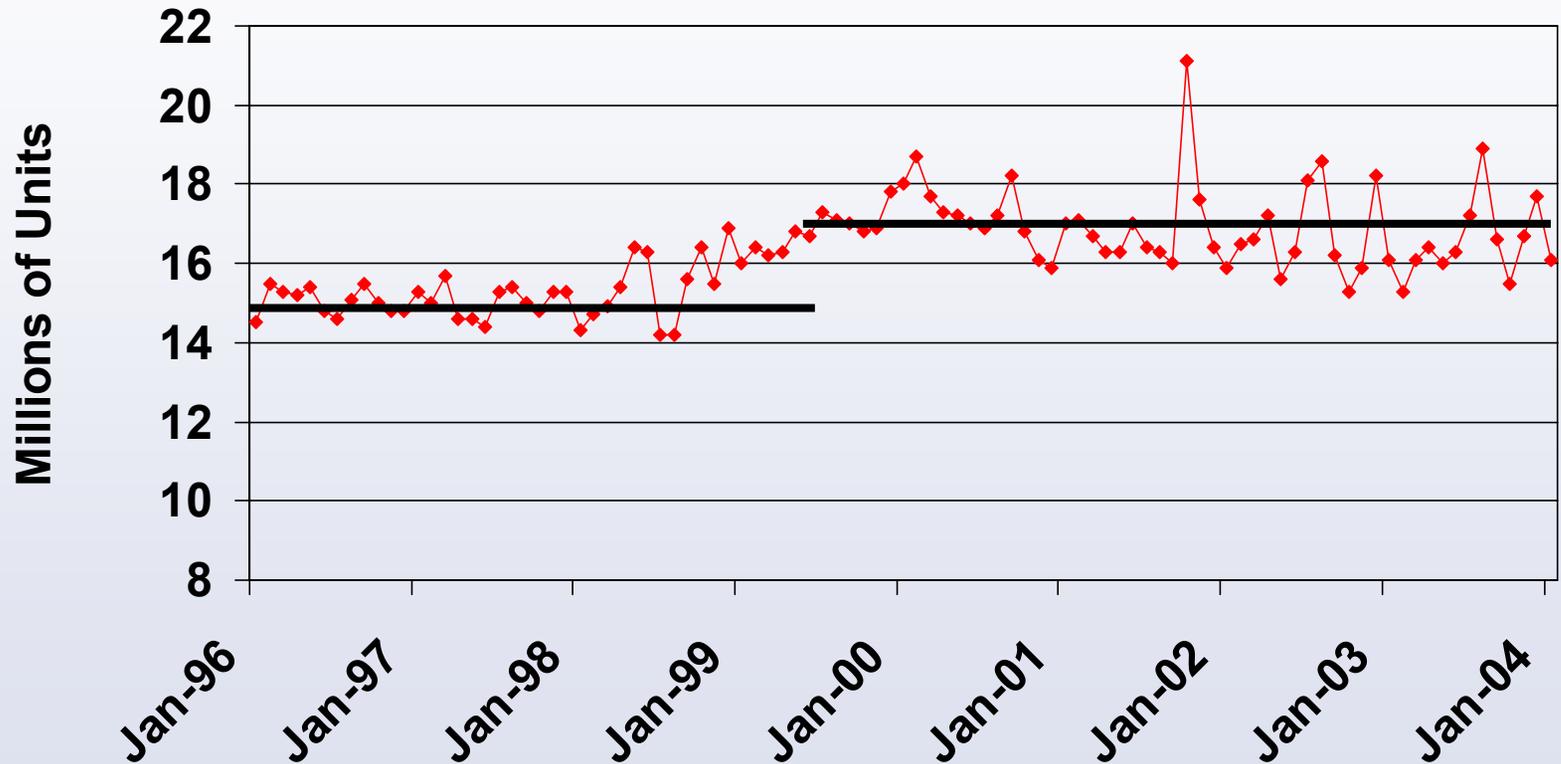
Outline: Supplier Challenges





US Light Vehicle Sales

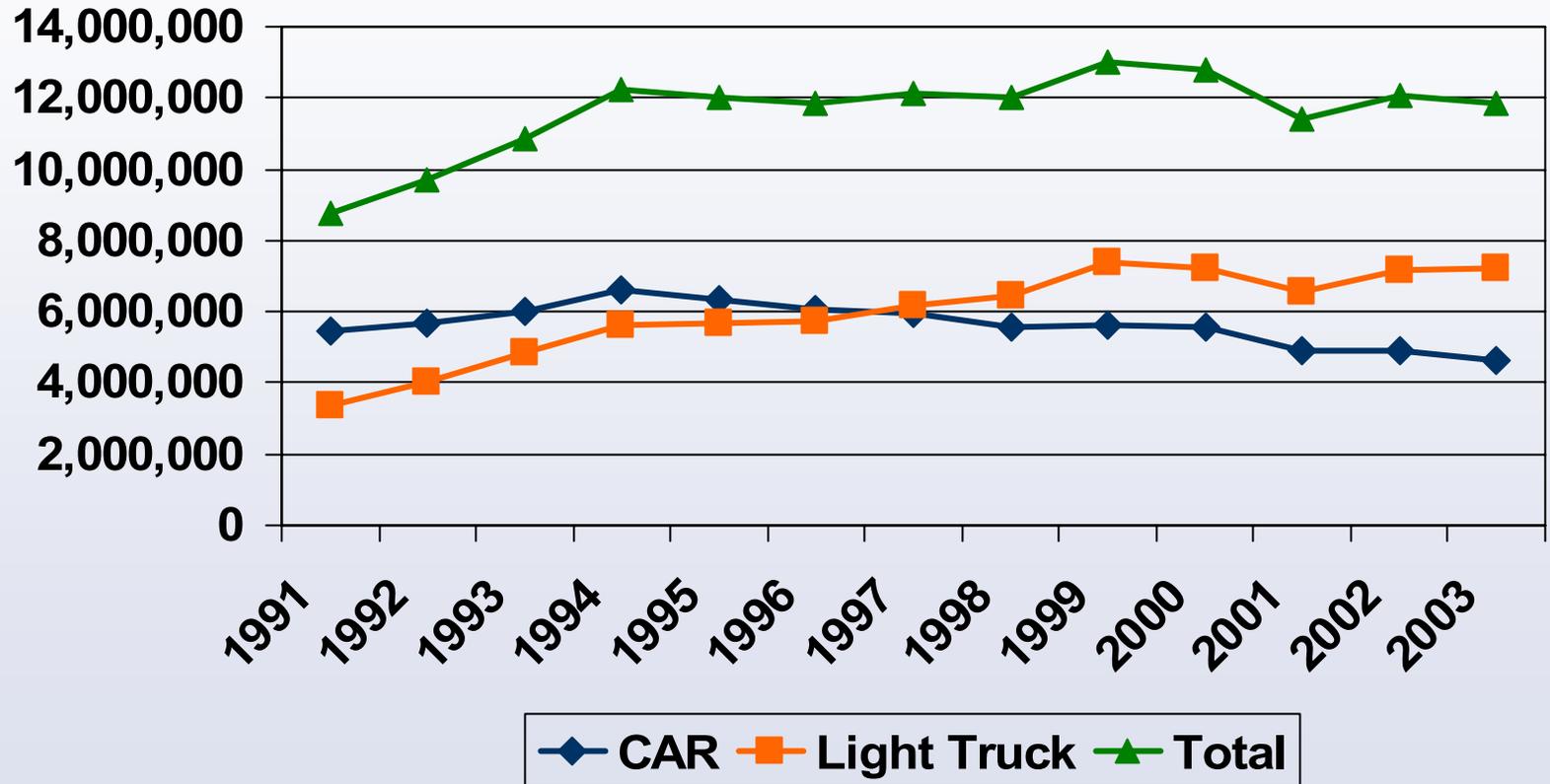
2004 Forecast: 16.8 to 17.2 million units



Source: US DOC – seasonally adjusted annual rate



US Light Vehicle Production – 2004 Forecast: Steady at 12 Million Units

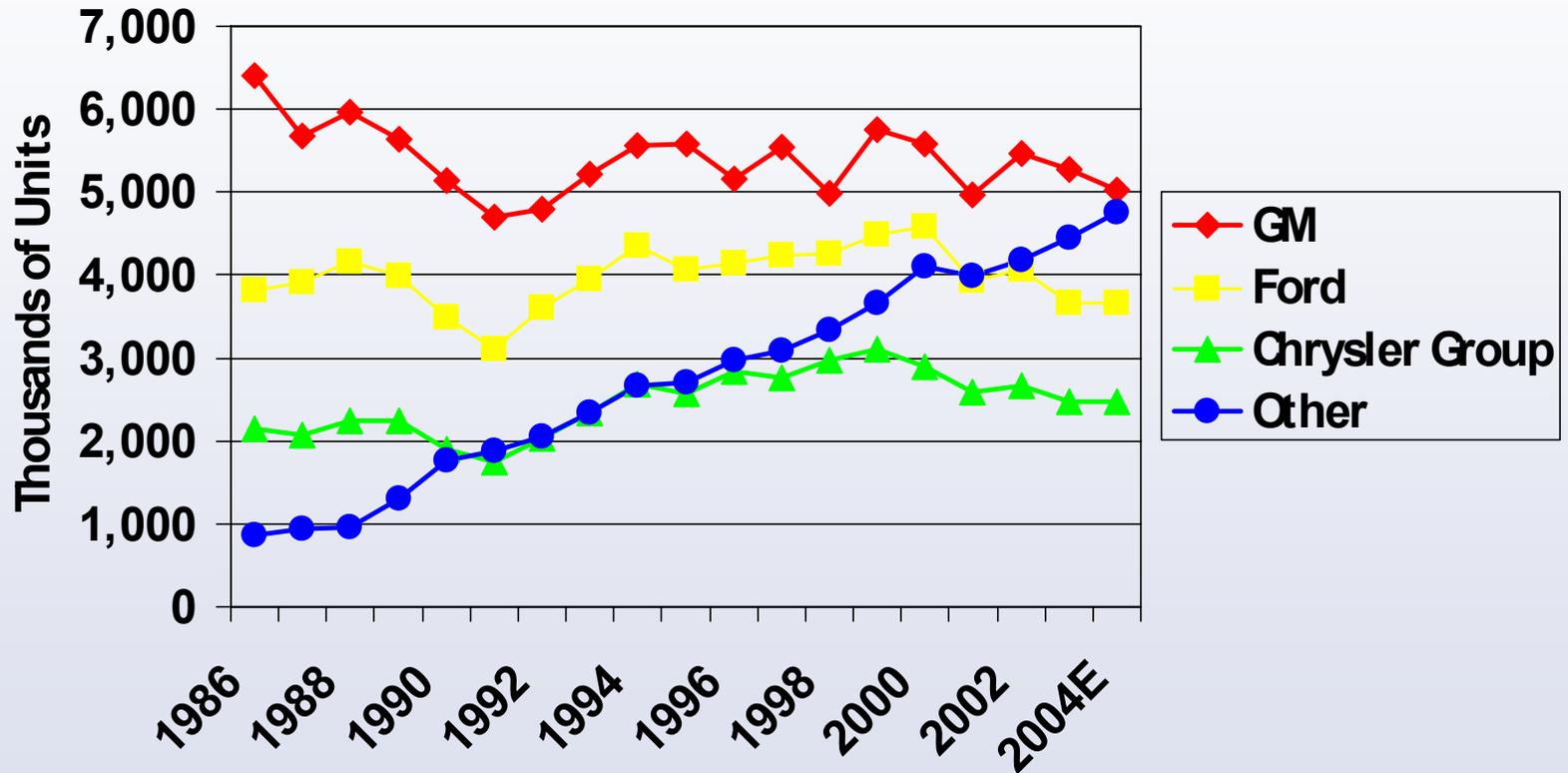


Source: Wards and CSM Worldwide



North American LV Production

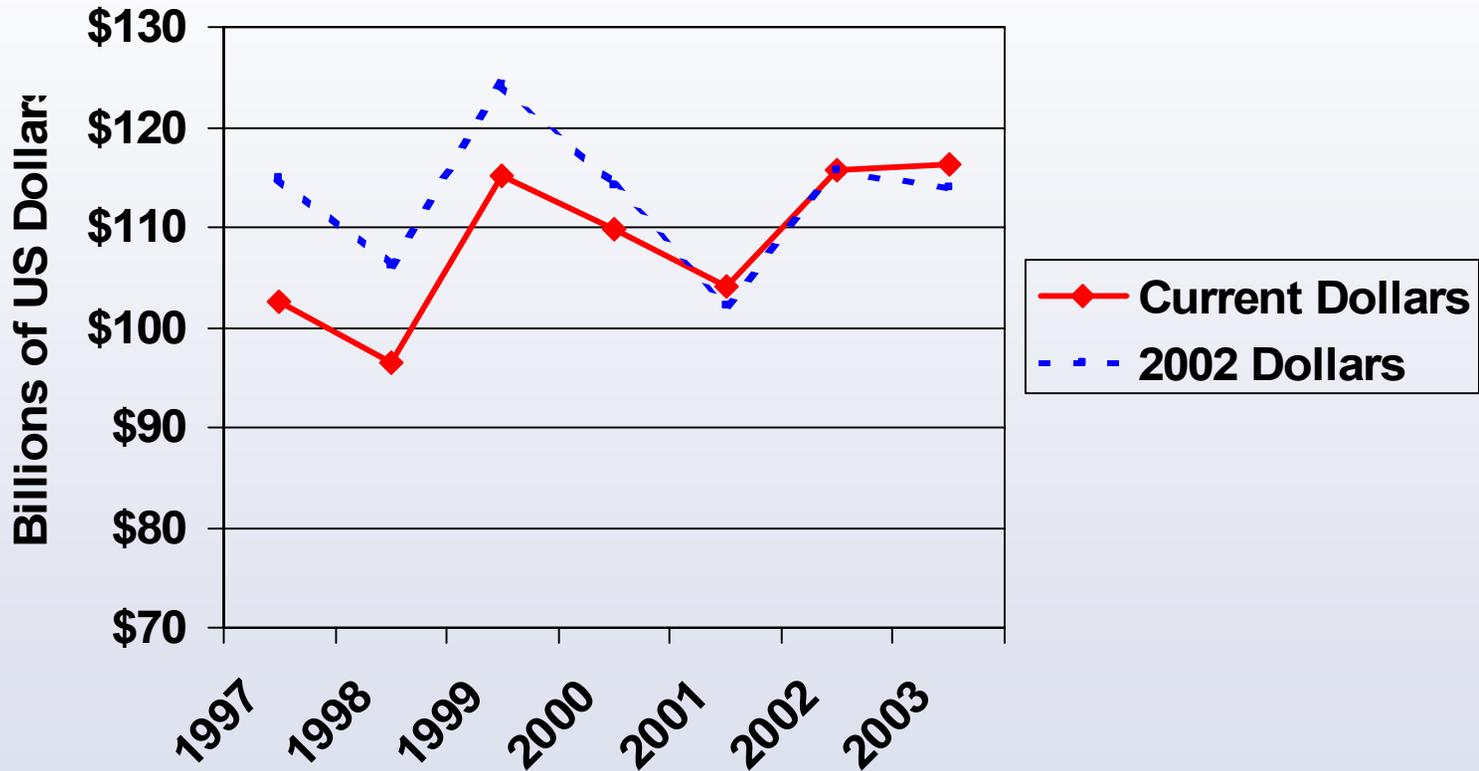
Traditional Domestics hold 1990 – 1993 Levels



Source: McDonald Equity Research



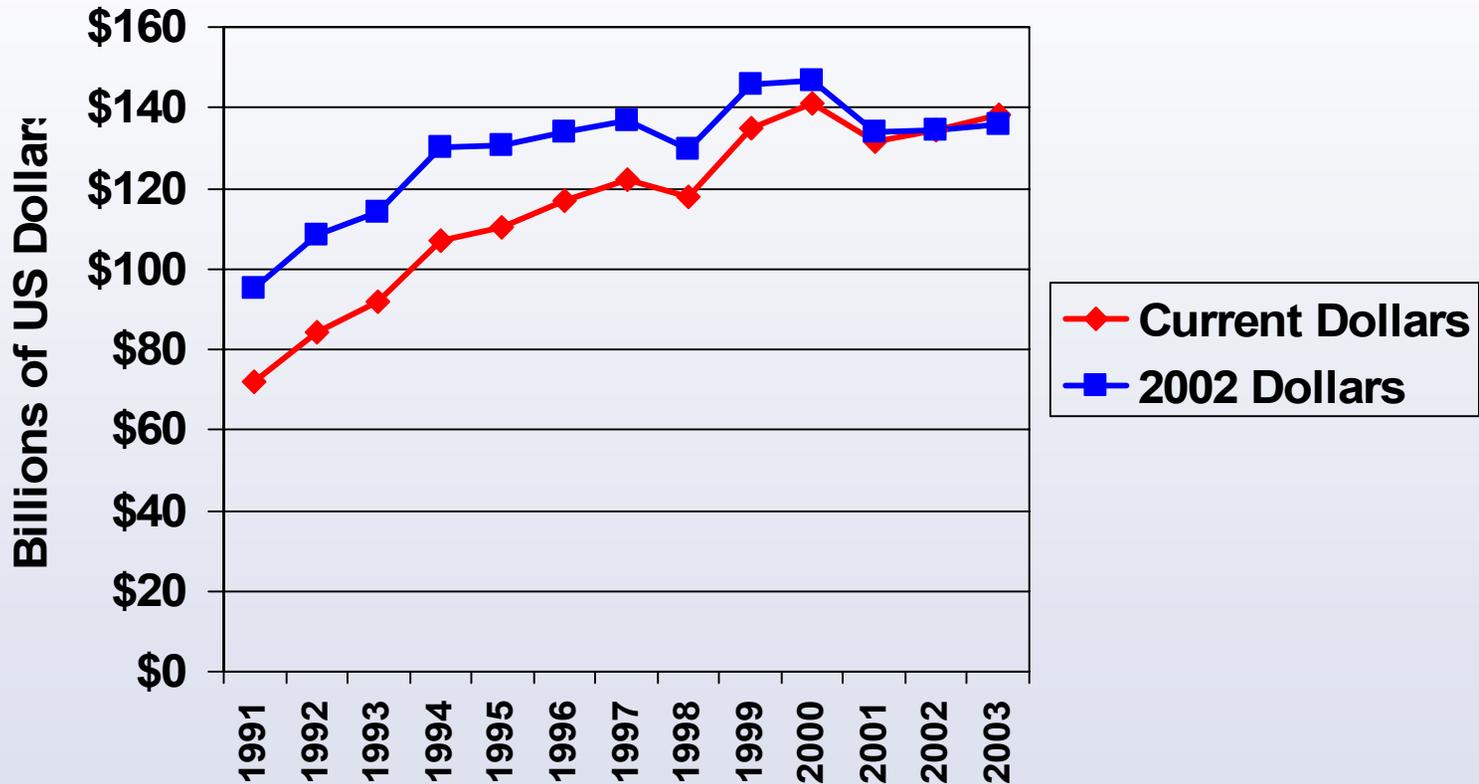
GM North American Auto Revenue – Flat revenues force concentration on costs



Source: Company reports



Ford Worldwide Auto Revenues – Flat revenues force concentration on costs

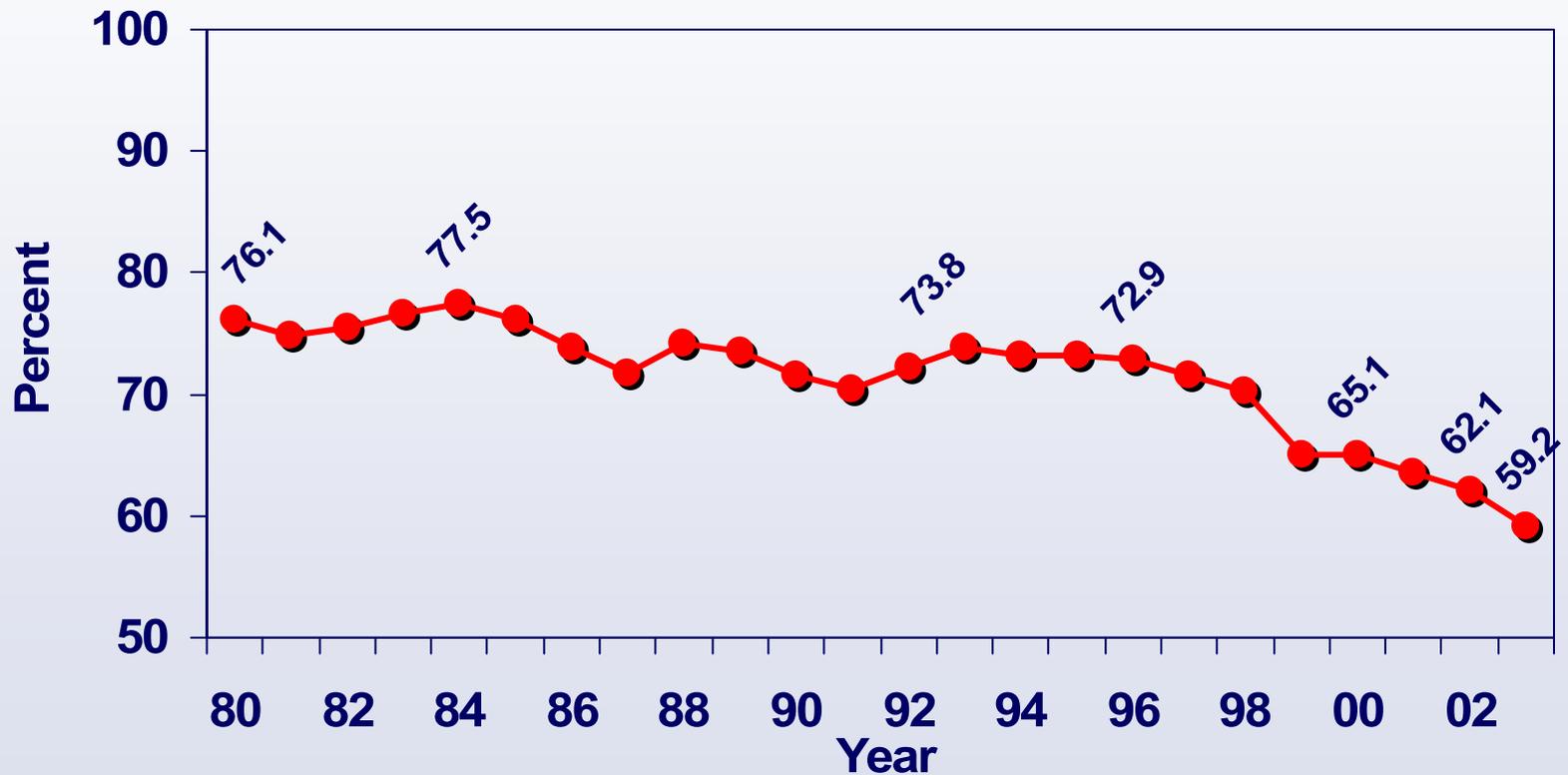


Source: Company reports



Revenue = Units X Price

Big 3 U.S. Light Vehicle Market Share

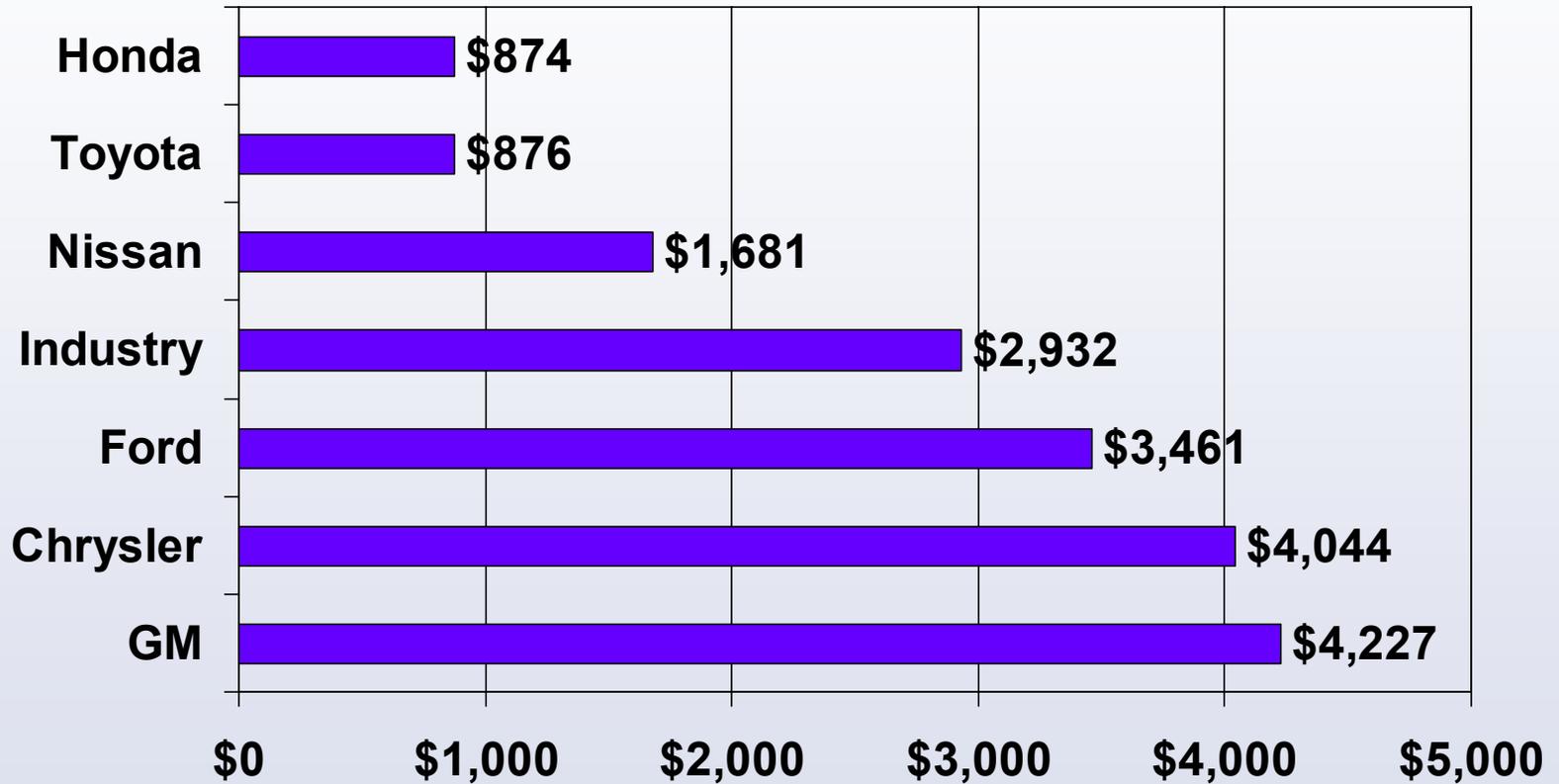


Source: Center for Automotive Research



Average Incentive Per Vehicle

Aggressive Pricing will Continue

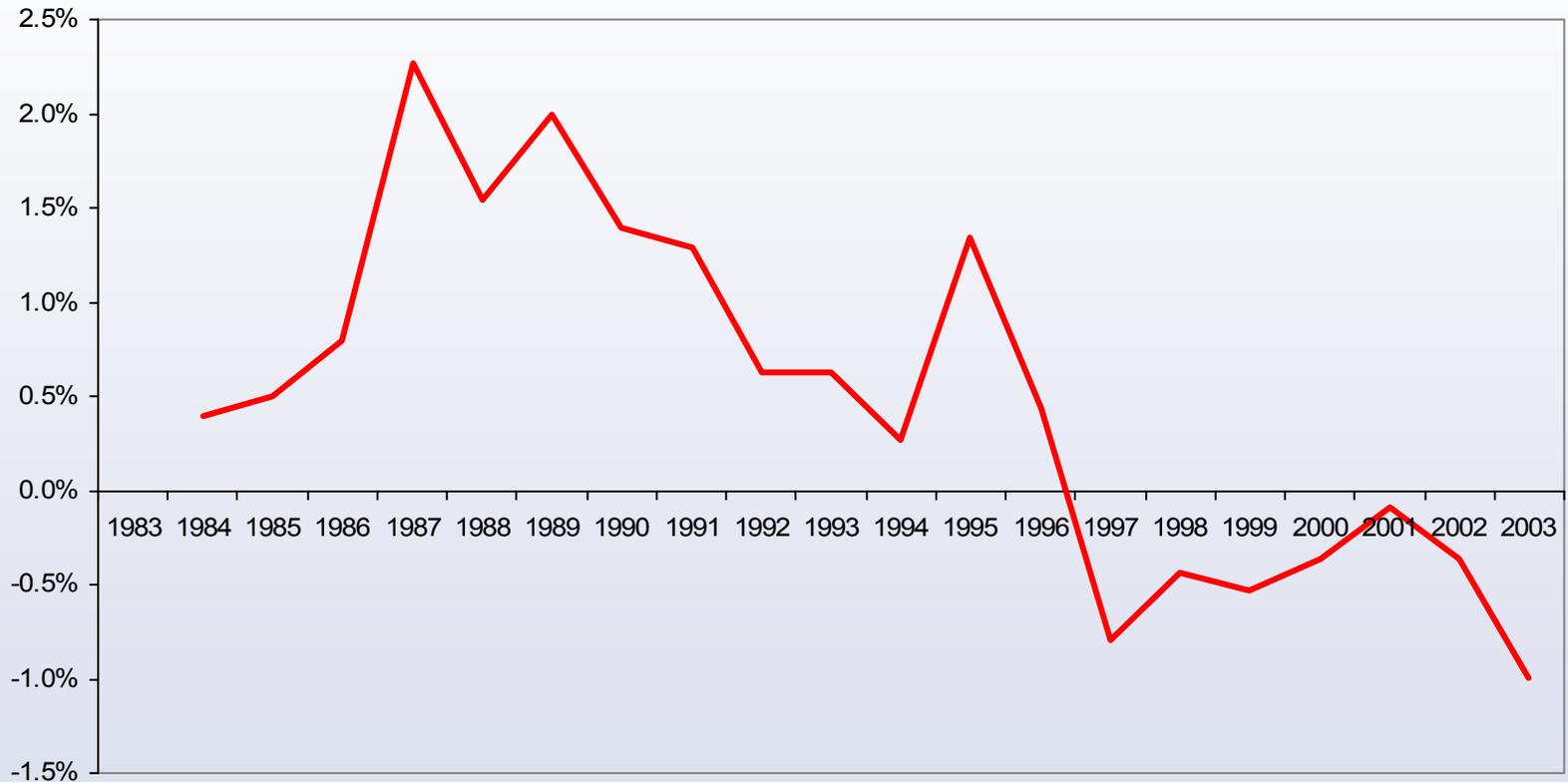


2004 Calendar Year through April

Source: Merrill Lynch and Autodata



PPI: Motor Vehicle Parts OEMs Reducing Variable Costs



Source: U.S. Bureau of Labor Statistics

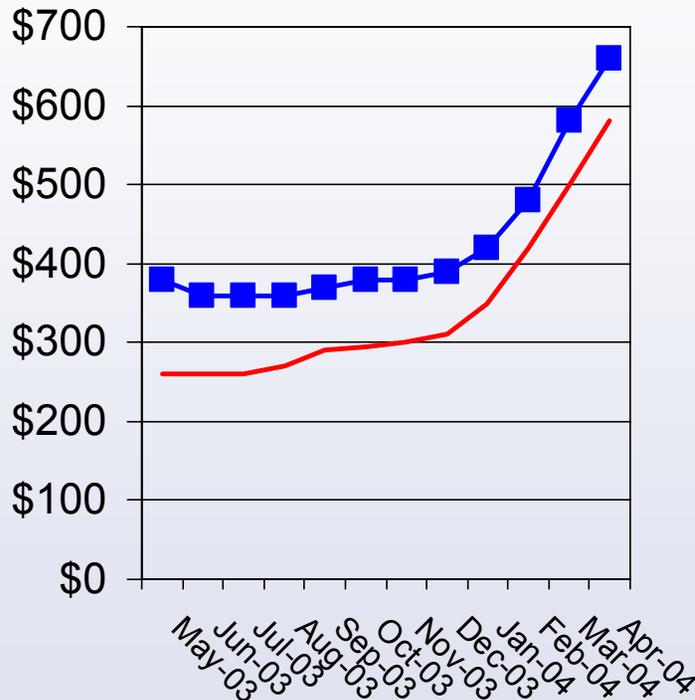


Pricing Pressures – No relief in sight

- World vehicle capacity is targeted at the US market
- Distressed businesses in capital-intensive industries focus on capacity utilization – good and bad capacity
- Good capacity brings a price premium on products in high demand
- Bad capacity brings negative pricing for products in low demand
- Greater information by consumers allows more discerning purchases
 - This results in continuing pricing pressures



Steel Spot Prices – (\$/net ton)



— Hot-Rolled — Cold-Rolled

Source: Purchasing Magazine and Plante & Moran

➤ Drivers

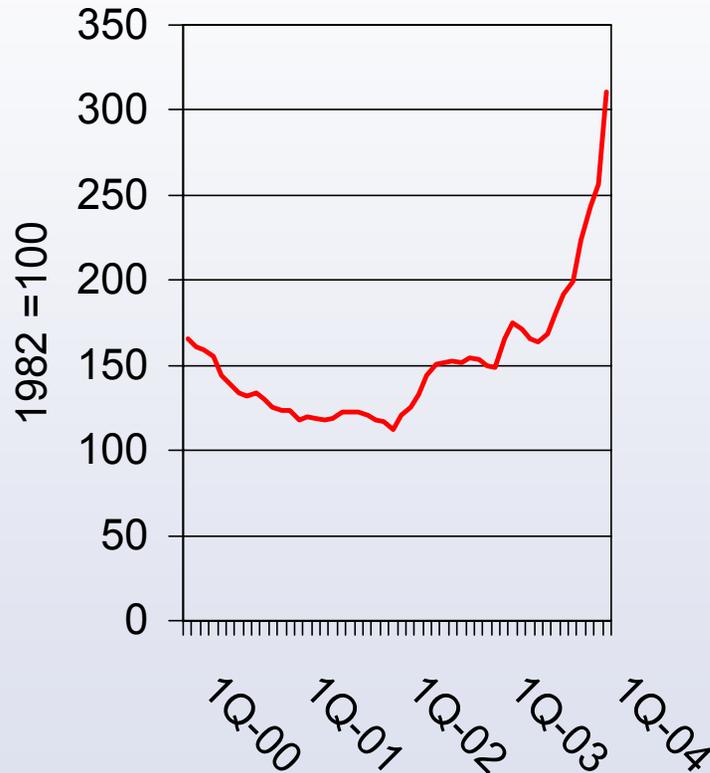
- China steel production growing 20% + per year over the past 2 years – expectation is 17% growth for 2004
- US and European demand increasing
- Transportation shortages; energy, scrap, and coke price increases

➤ Impact

- Smaller suppliers exposed up to 66% of their buys not on re-sell programs
- 75% of steel buys are cold and hot rolled
- Wide range of purchase impacts: 46% median increase for hot and 37% median increase for cold
- Wide range of recovery impacts: OEMs minimal on current programs; suppliers giving 1/3 of business 75% plus recovery
- Re-adjusting 2005 financial



Iron and Steel Scrap – PPI



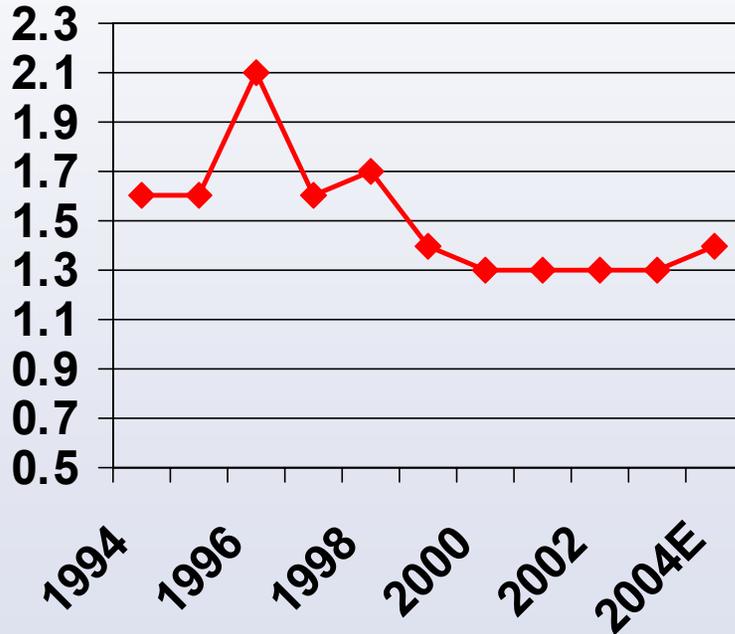
- Short-term
 - China steel production growing 20% + per year over the past 2 years – expectation is 17% growth for 2004
 - US and European demand increasing
 - Transportation shortages
- Forecast
 - Expectation that peak has been hit or is near
 - Q3/Q4 moving back toward 2003 levels – index level of 200 to 250
 - Large users may keep sales for domestic market to secure finished steel allocations
 - Efforts for US export restraints

Source: US Bureau of Labor Statistics

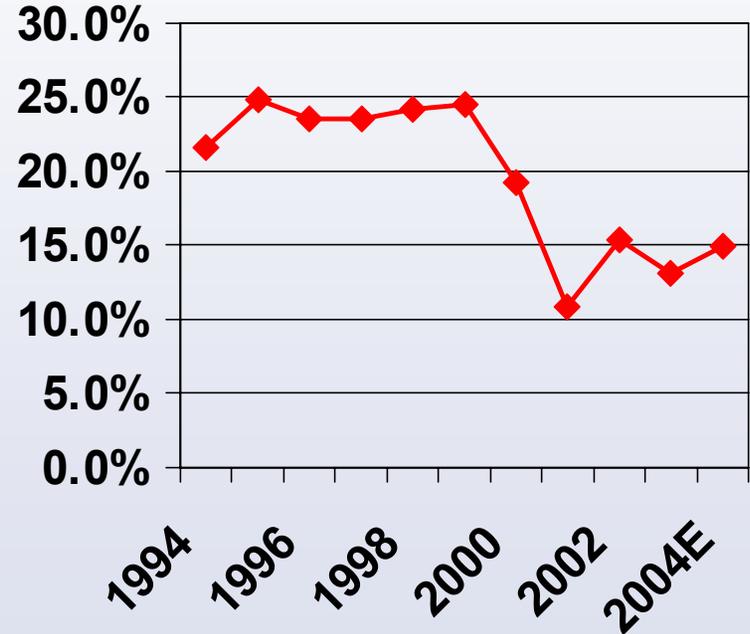


Supplier Profitability – One Sample

Total Asset Turnover



Return on Total Capital

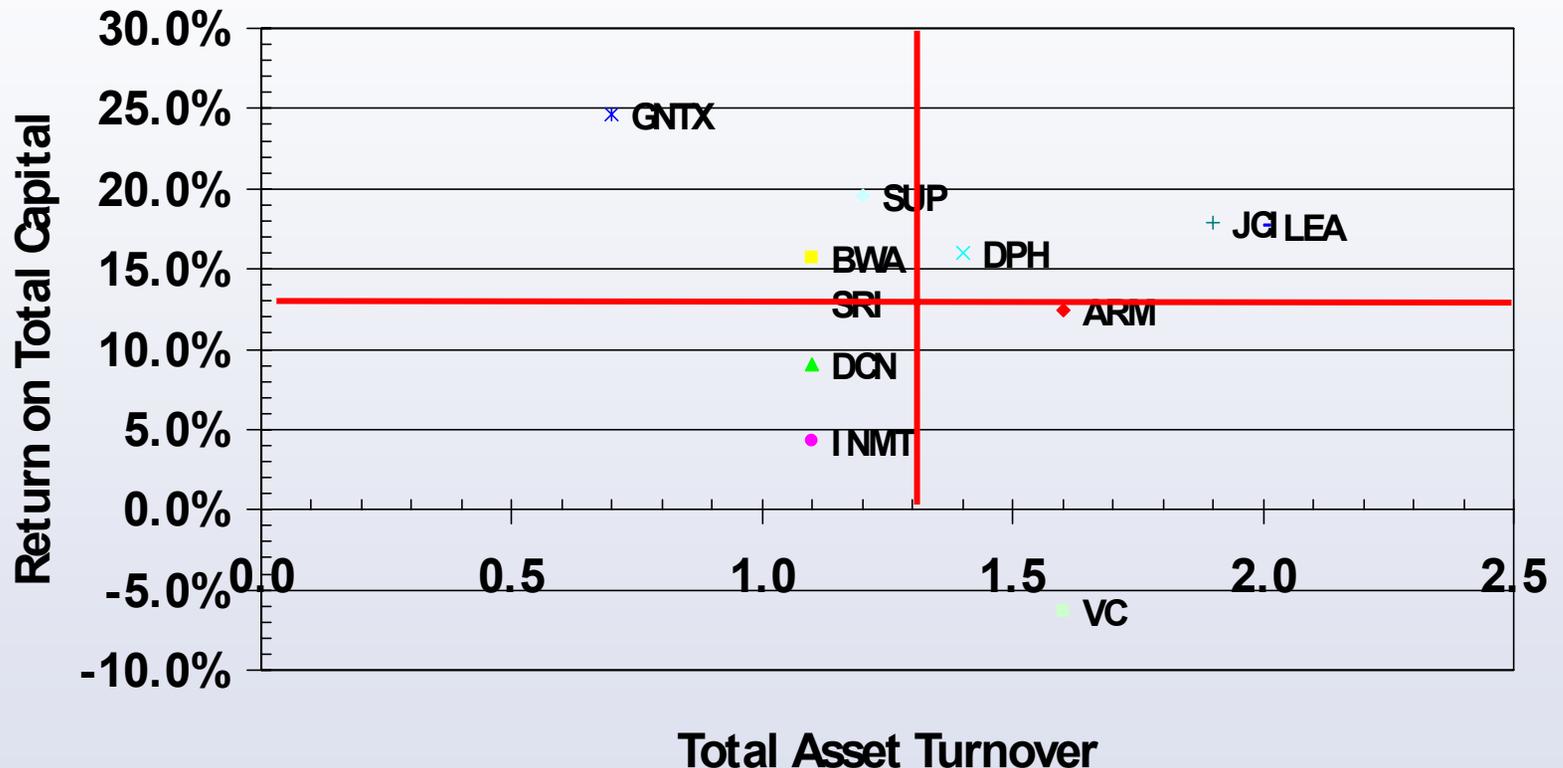


Source: McDonald Equity Research

Note: 11 company sample including ArvinMeritor, BorgWarner, Dana, Delphi, Gentex, Intermet, Johnson Controls, Lear, Stoneridge, Superior Industries, Visteon. $ROC = EBIT / \text{Average Total Debt} + \text{Equity}$



2003 ROC vs. Asset Turns

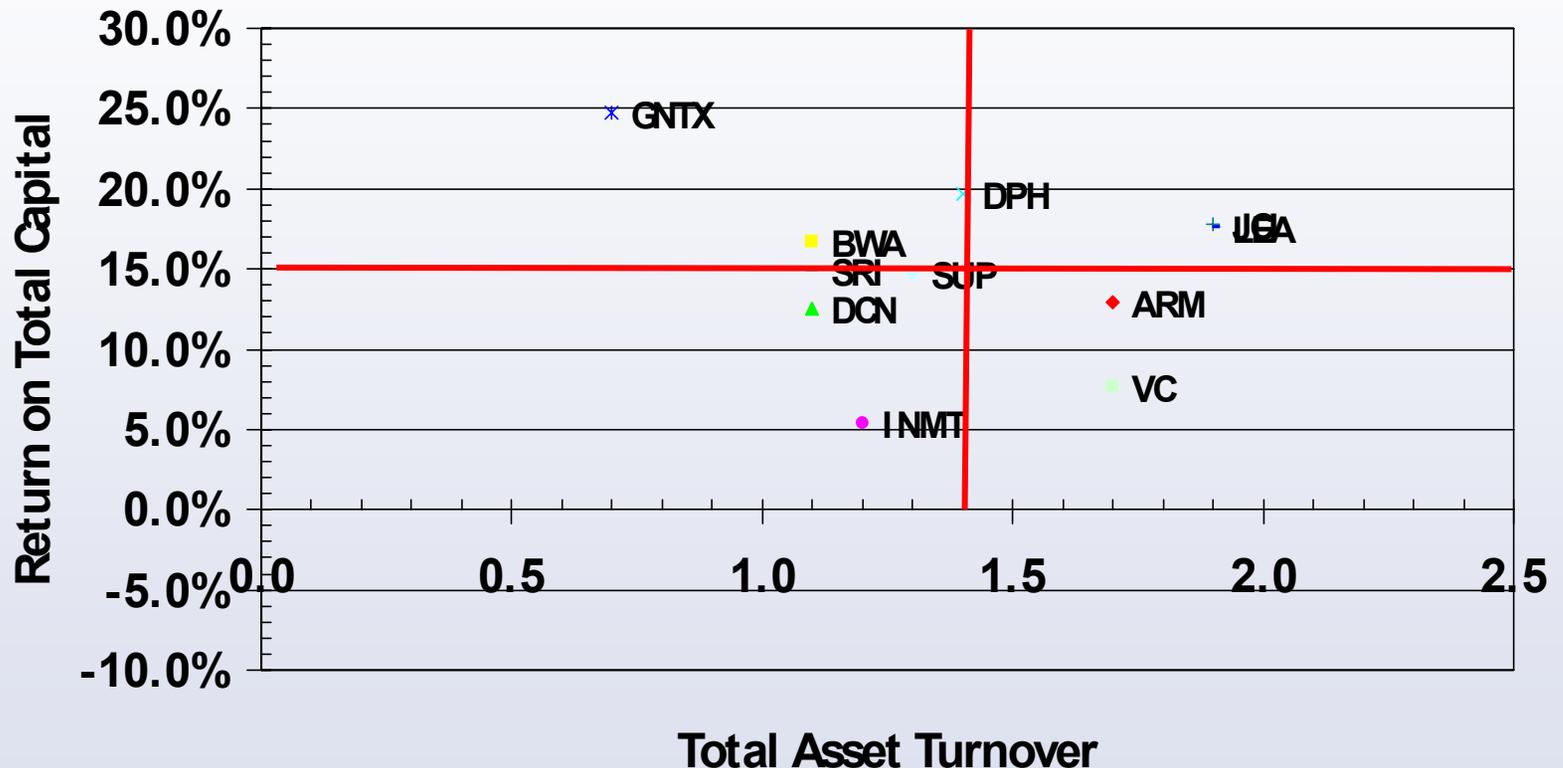


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2004 ROC vs. Asset Turns



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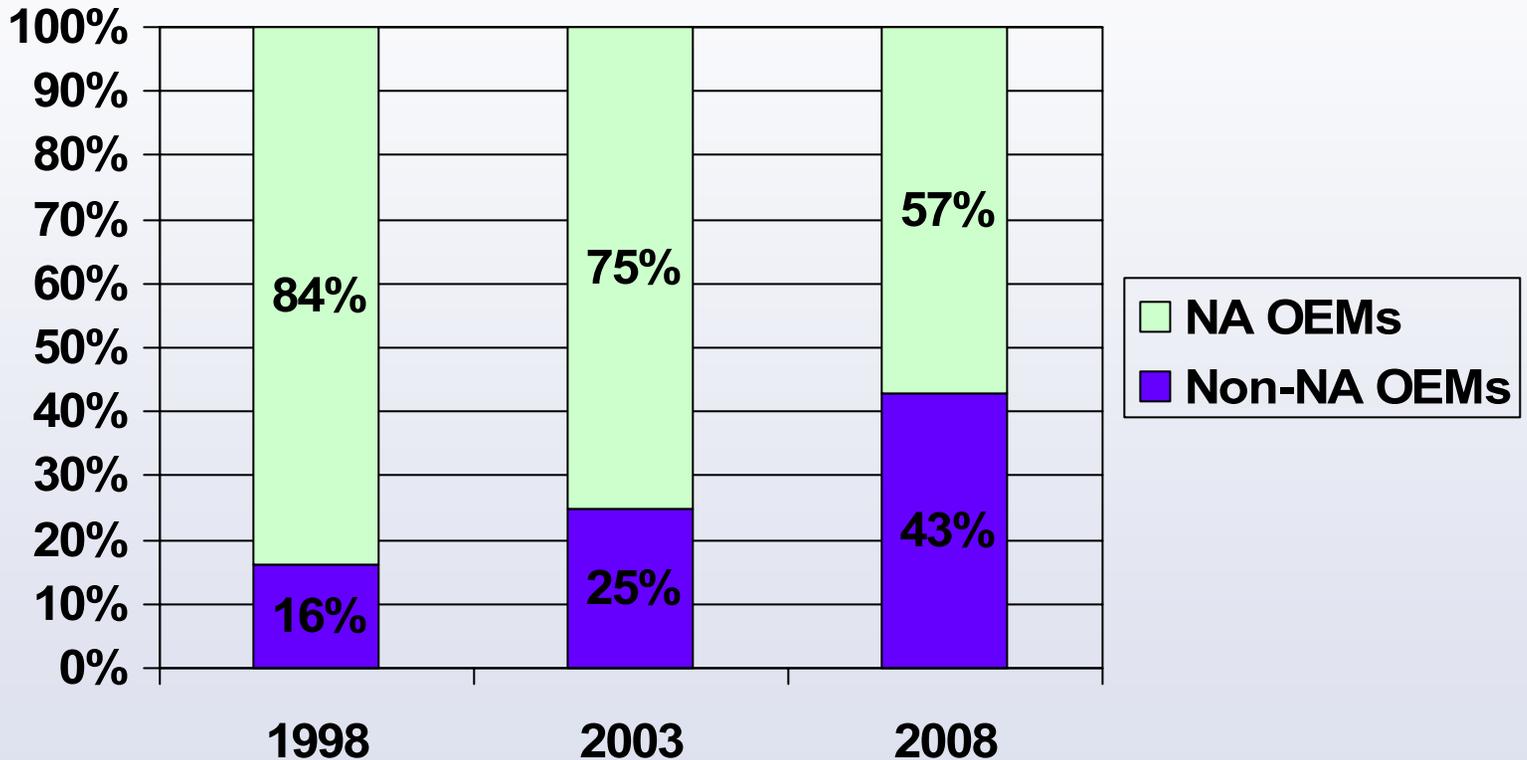
Outline: Supplier Opportunities





Customer Diversification Strategy

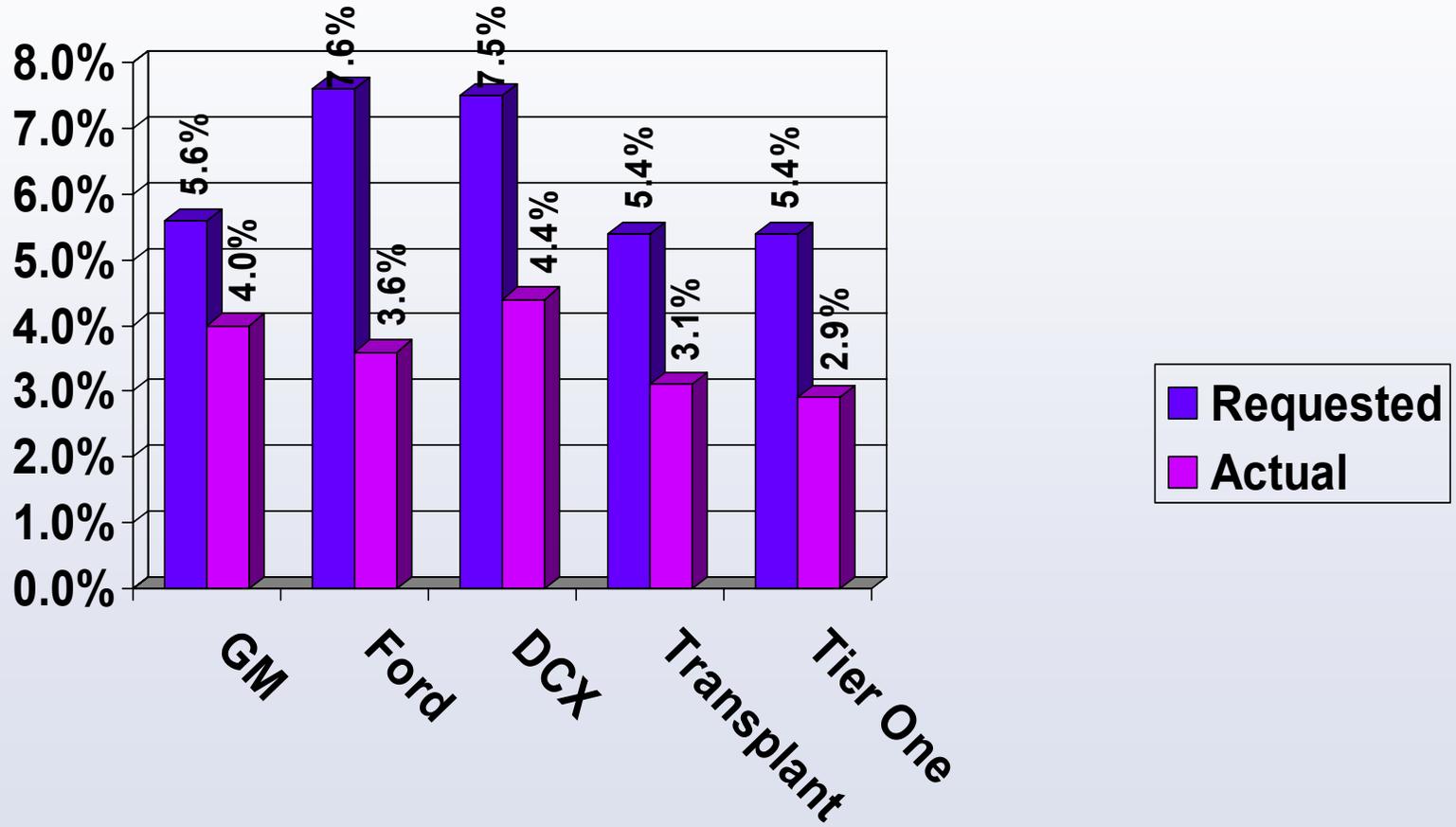
Suppliers aspirations exceed past performance



Source: McKinsey & Company



Industry Price Downs – 2003 Experience



Source: IRN, Inc.



Evaluating Outsourcing – It is more than just piece price

➤ **Structural Costs (\$)**

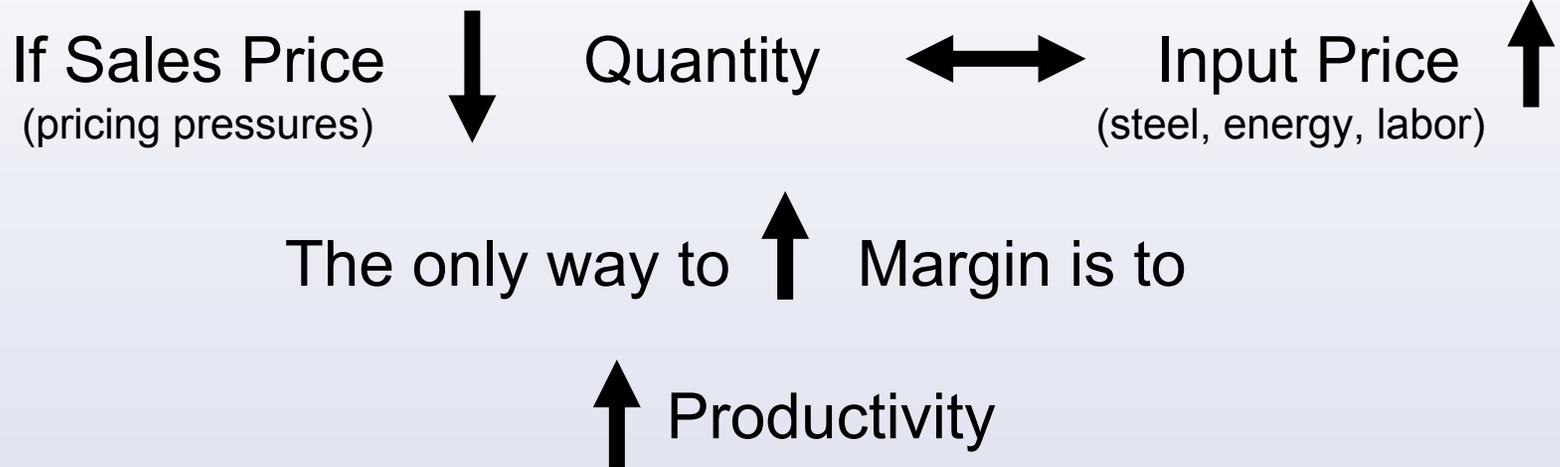
- Labor
- Logistics
- Duties/Tariffs
- Inventory Holding
- Raw Materials
- Energy
- Capital
- Technology
- Complexity
- Supply Chain Overhead

➤ **Risks (? - \$)**

- Currency Exchange
- Country Risk
- Wage Inflation
- Product Launch Risk
- IP Protection
- Expediting
- Safety Stocks
- Lost Product
- Shipment Stoppage
- Product Obsolescence



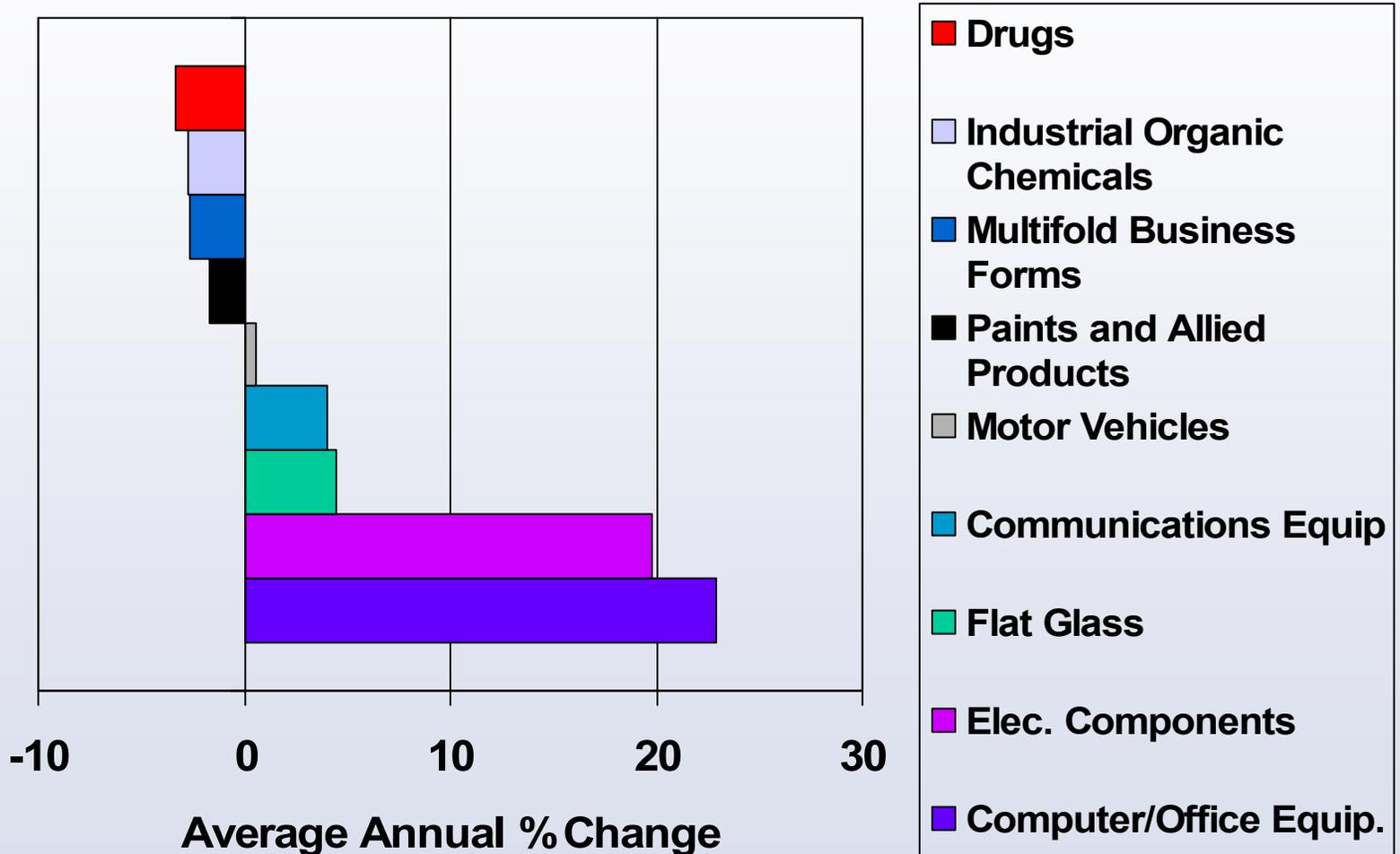
Economics 101 – Industry Margin Increase through Productivity





Multifactor Productivity 1990-1999

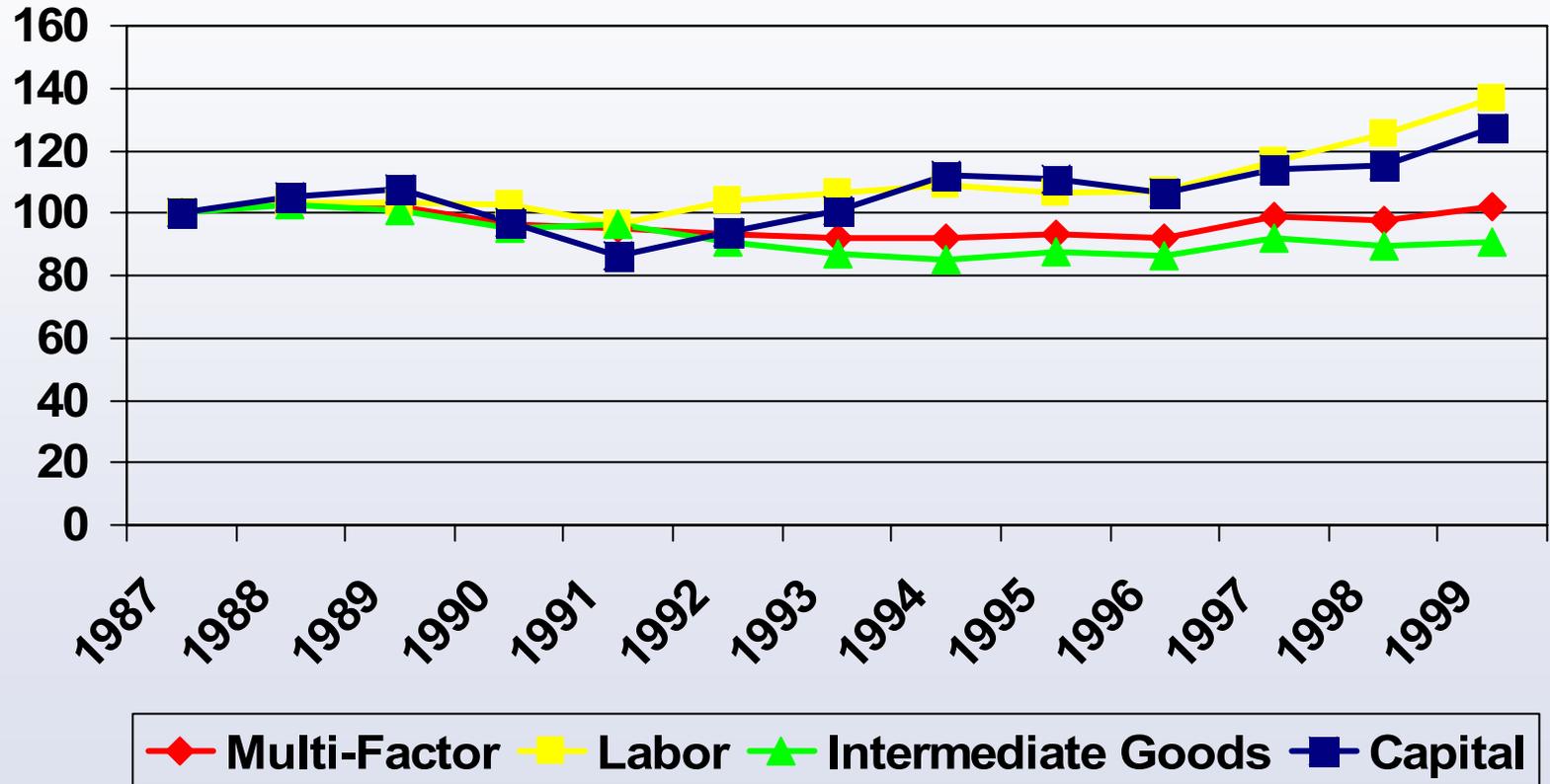
It is no wonder capital flows to other industries



Source: US Department of Labor



Multi-Factor Productivity - Is the Industry Outsourcing Effectively?

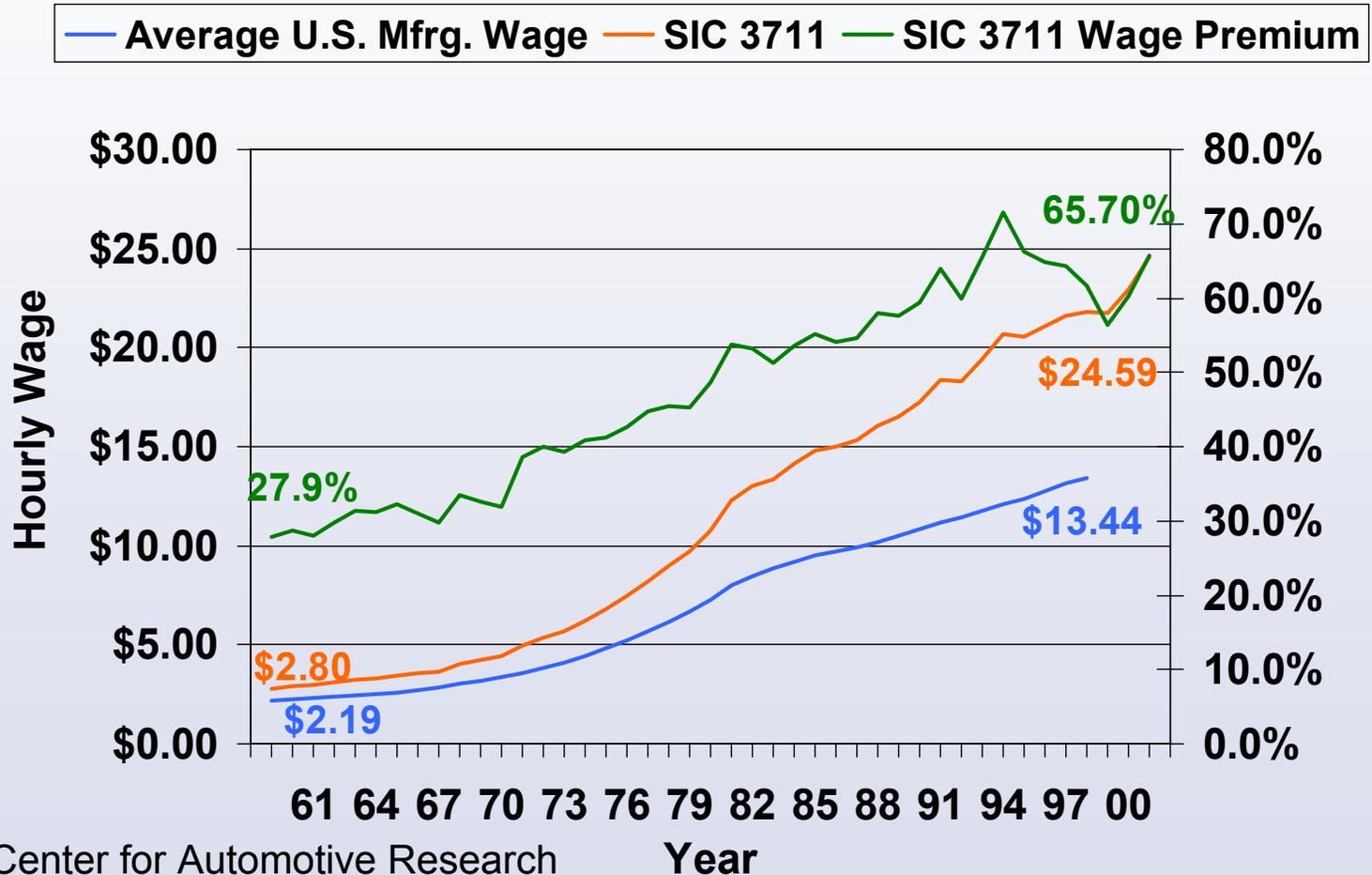


Source: US Department of Labor



Premium for Automotive Labor –

Auto wage growth forced Delphi/Visteon restructuring





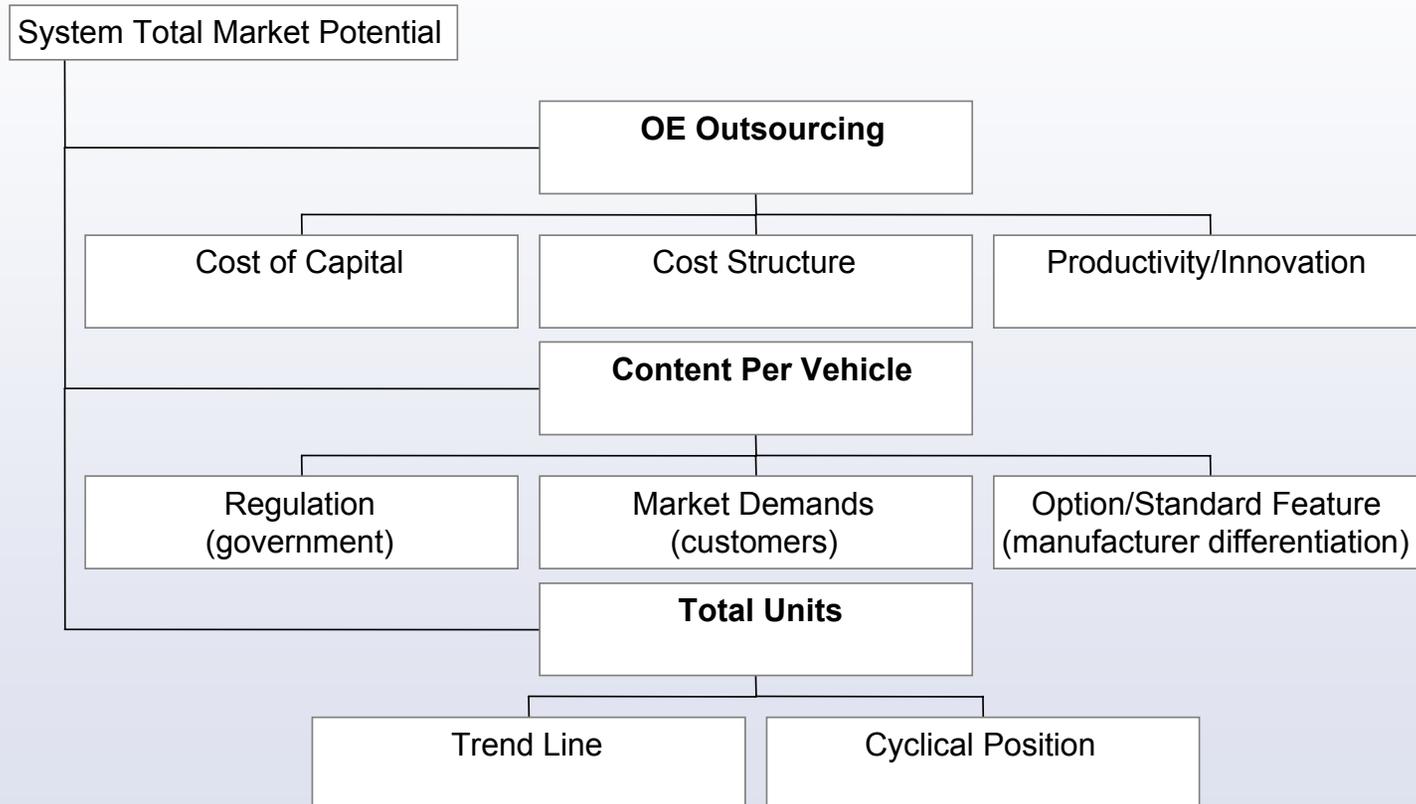
Restoring Industry Profitability Requires Suppliers and OEMs Coming Together

- **Economies of scale and capacity utilization**
 - Consolidation will continue to concentrate the industry into fewer mega-corporations; but successful companies will be flexible to respond quickly to market needs through the entire supply chain
- **Enterprise efficiency**
 - Industry must address total risks and costs to achieve true productivity improvement; but joint-ventures and outsourcing increase complexity but offer potential market opportunities and total cost reduction
- **Technology**
 - Real time, accurate information will drive the supply chain of the future; tremendous opportunities; but information cannot be used in a retaliatory manner
- **Common sense business behaviors**
 - An efficient business model is based on the best information possible and a common understanding of business practices to allow the best possible investment decisions



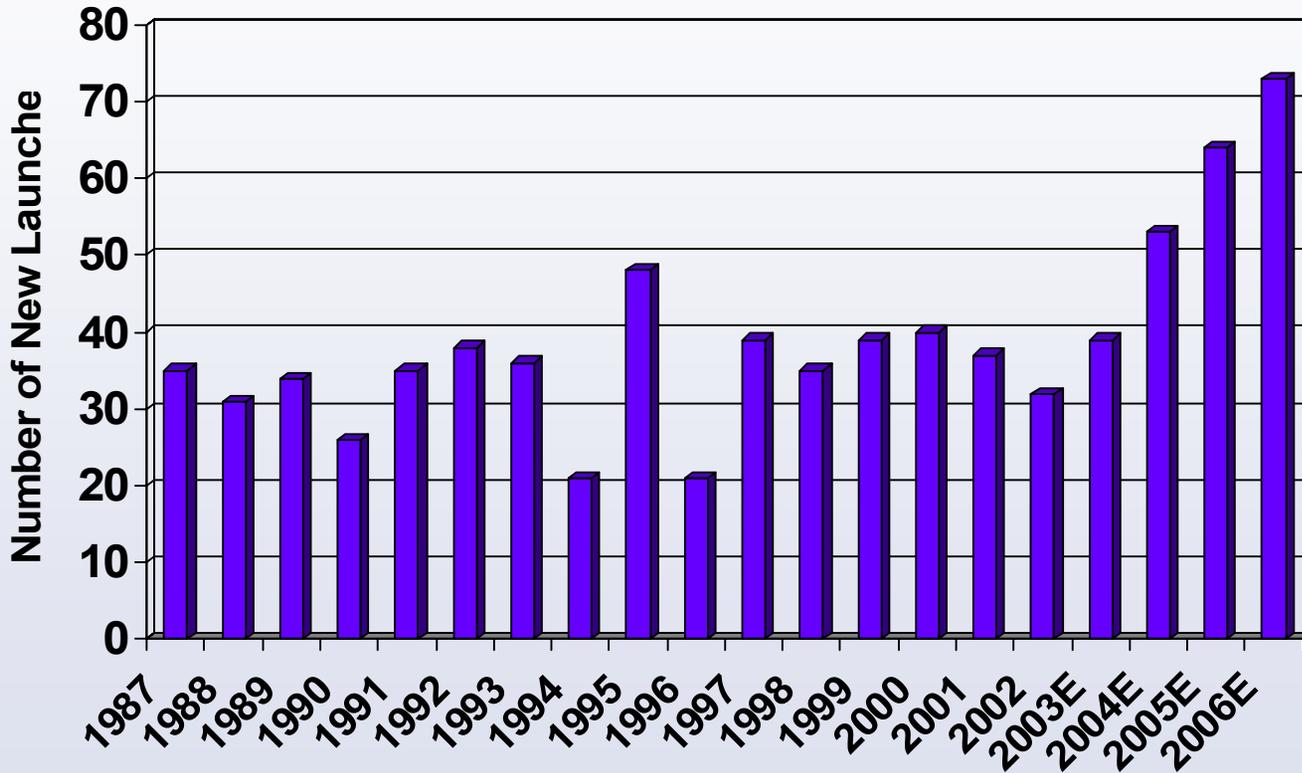
Total Vehicle Market Opportunity

Suppliers avenues to improve the revenue side





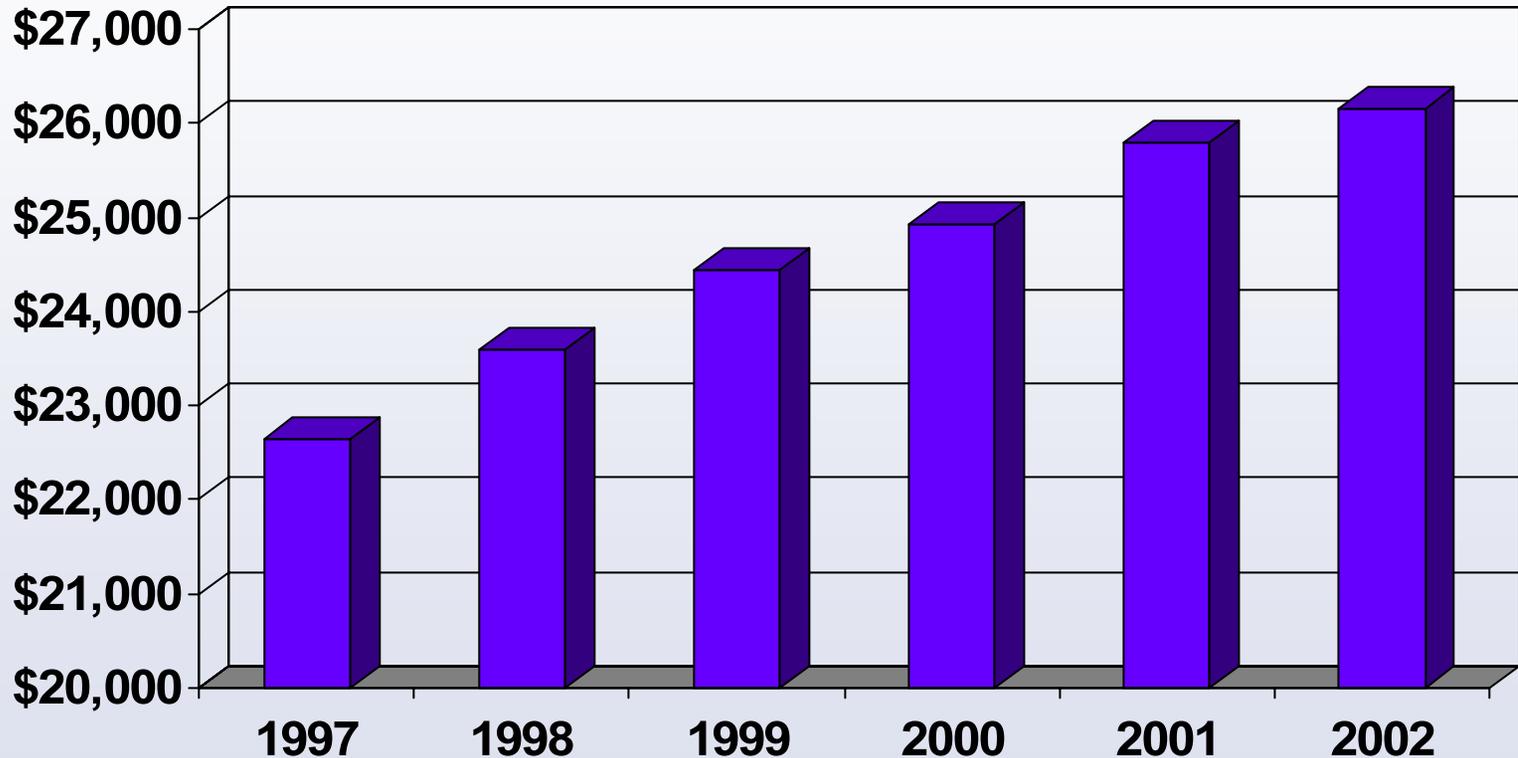
New Vehicle Launches – Path to increased units and content



Source: Merrill Lynch & Co.



New Vehicle Selling Price – Supplier opportunity for content

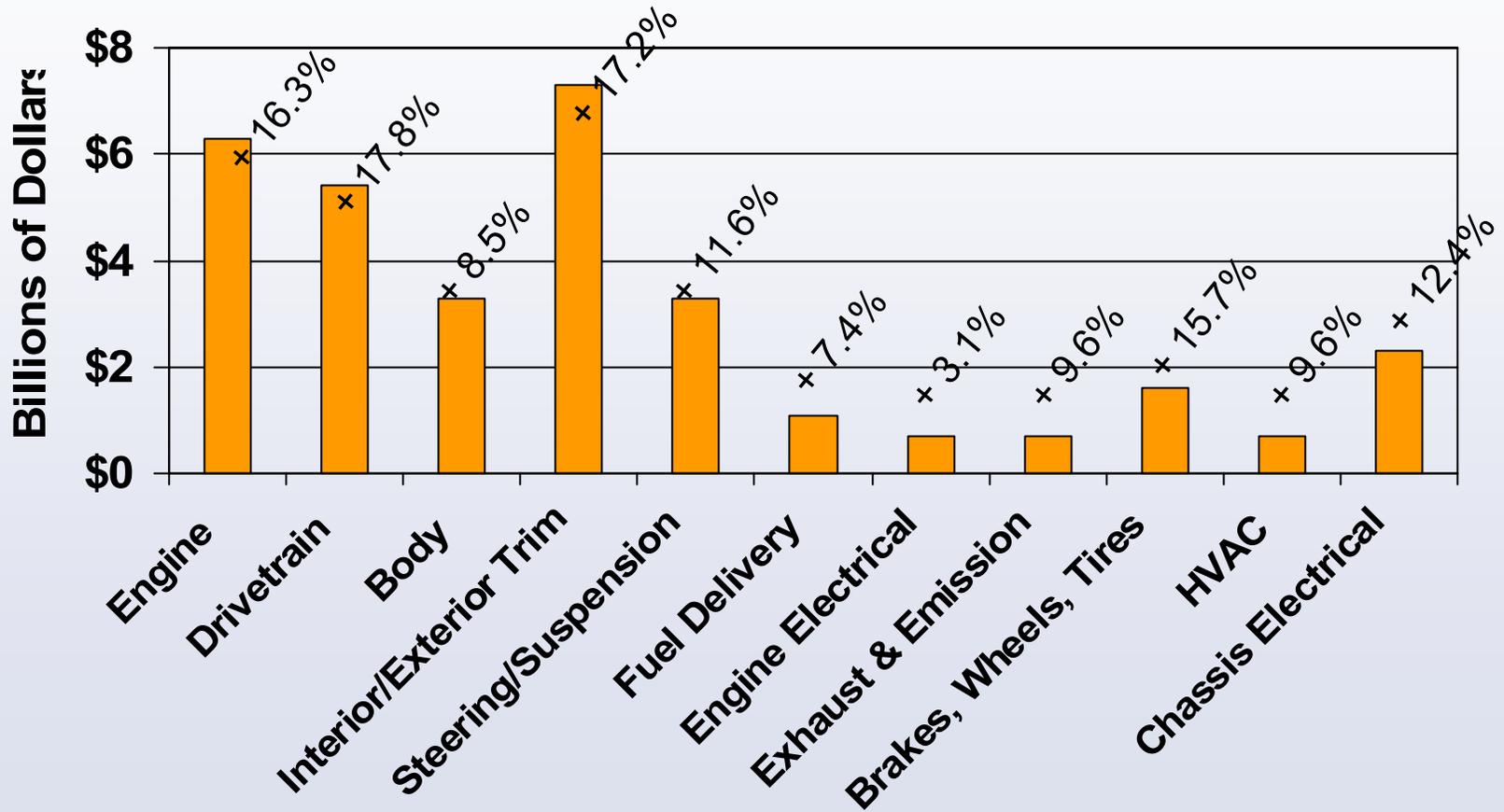


Source: National Automotive Dealer Association



Incremental Dollar Value – 2000 to 2010 Market by System

Assuming constant unit volumes and on-going pricing trends



Assumes “average” vehicle; total component cost increasing from \$13,600 to \$15,635 or 16%

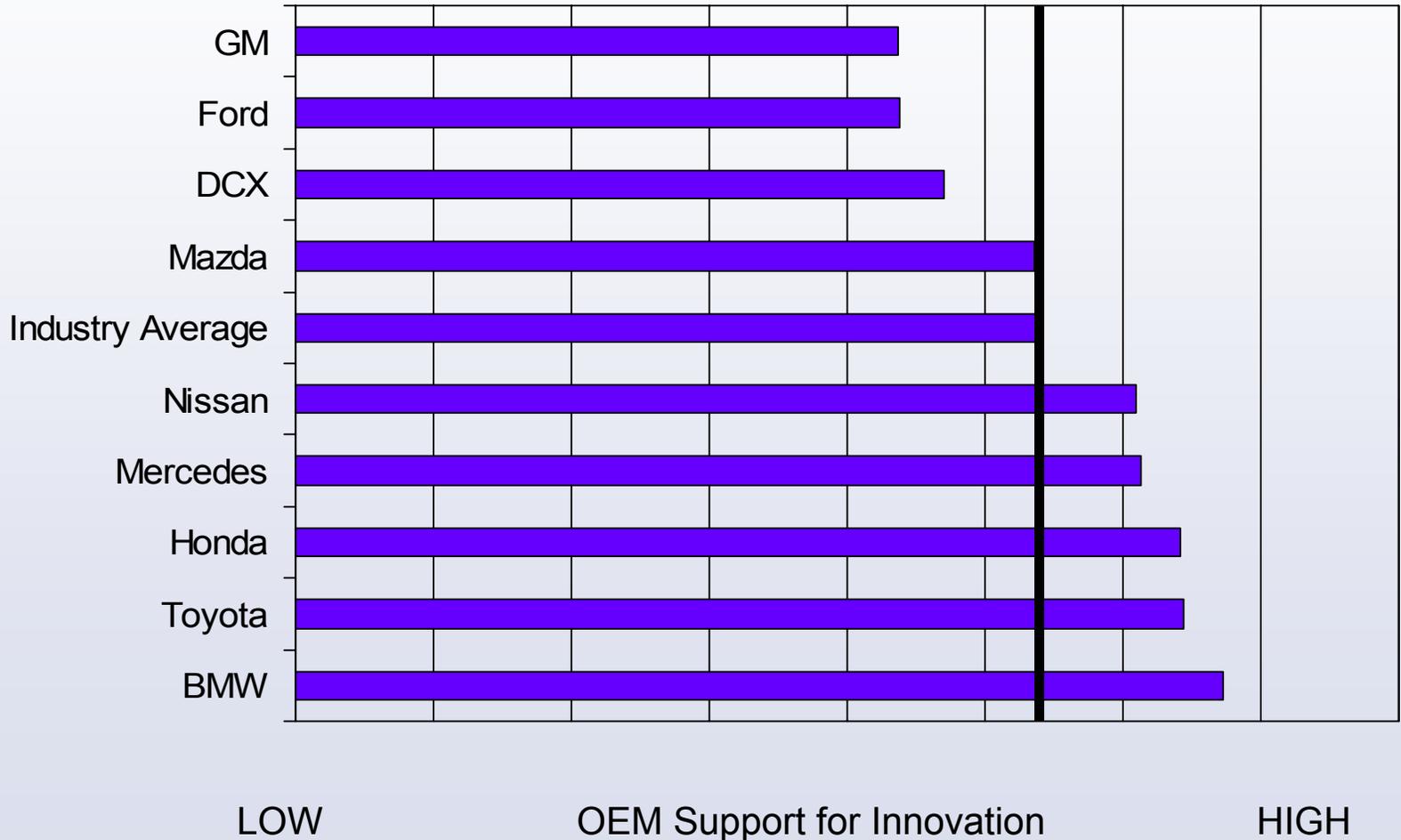
Source: Center for Automotive Research, Estimating the New Automotive Value Chain



Overall Index Rating by OEM

Level of support influences who suppliers work

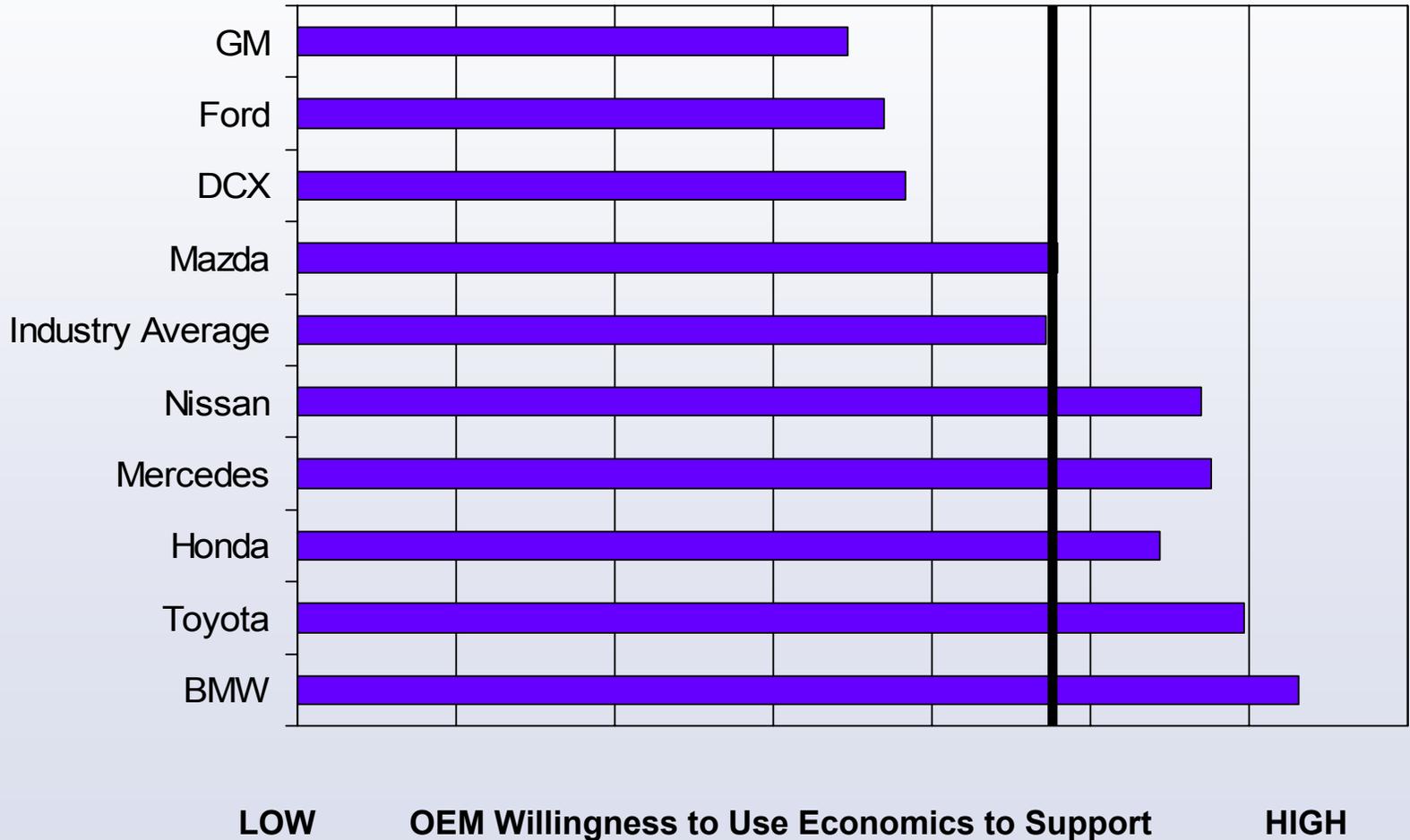
with





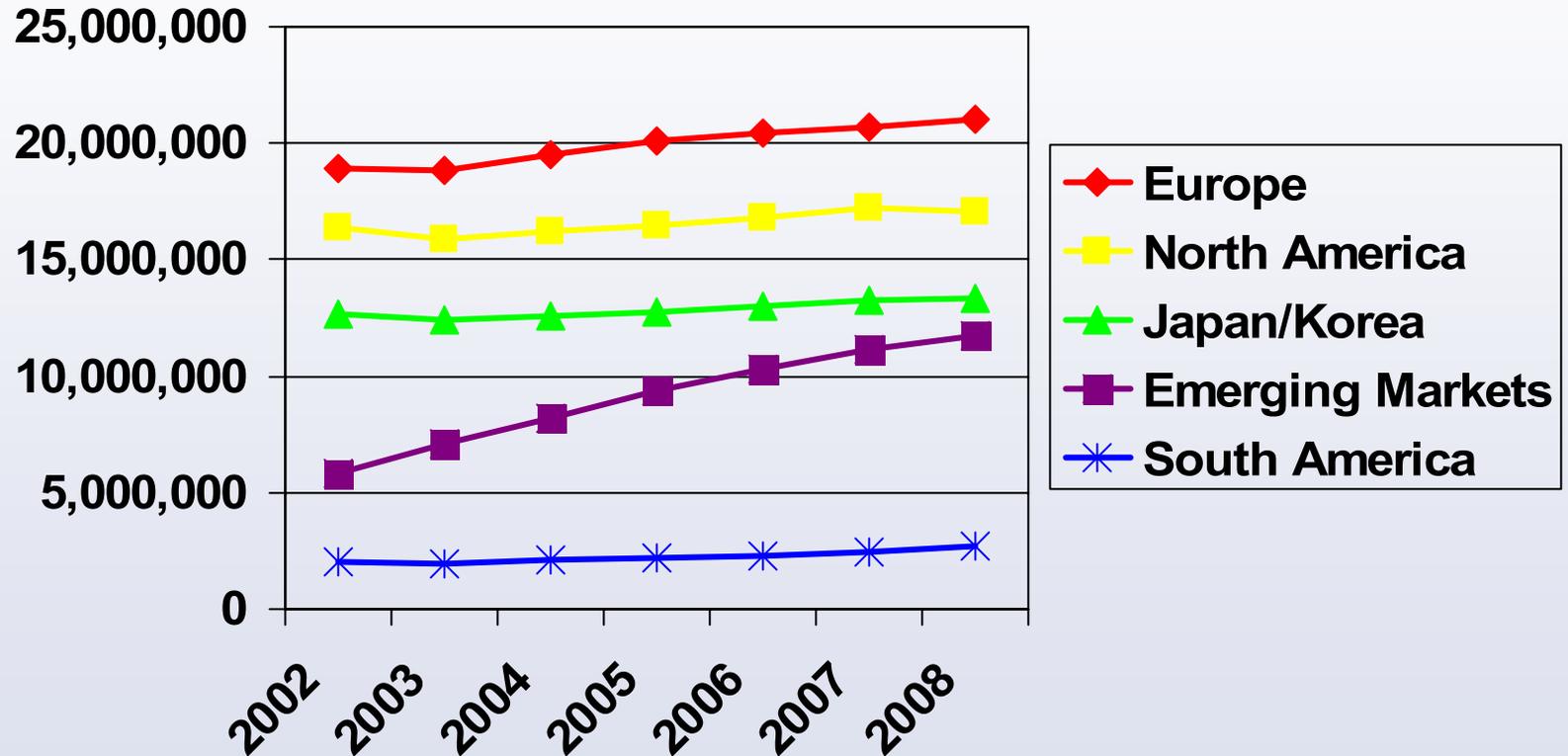
Financial Incentive Rating by OEM

“Show me the money;” Ranked by overall index rating





Global Vehicle Production – Suppliers' Footprint is Enlarging



Source: CSM Worldwide

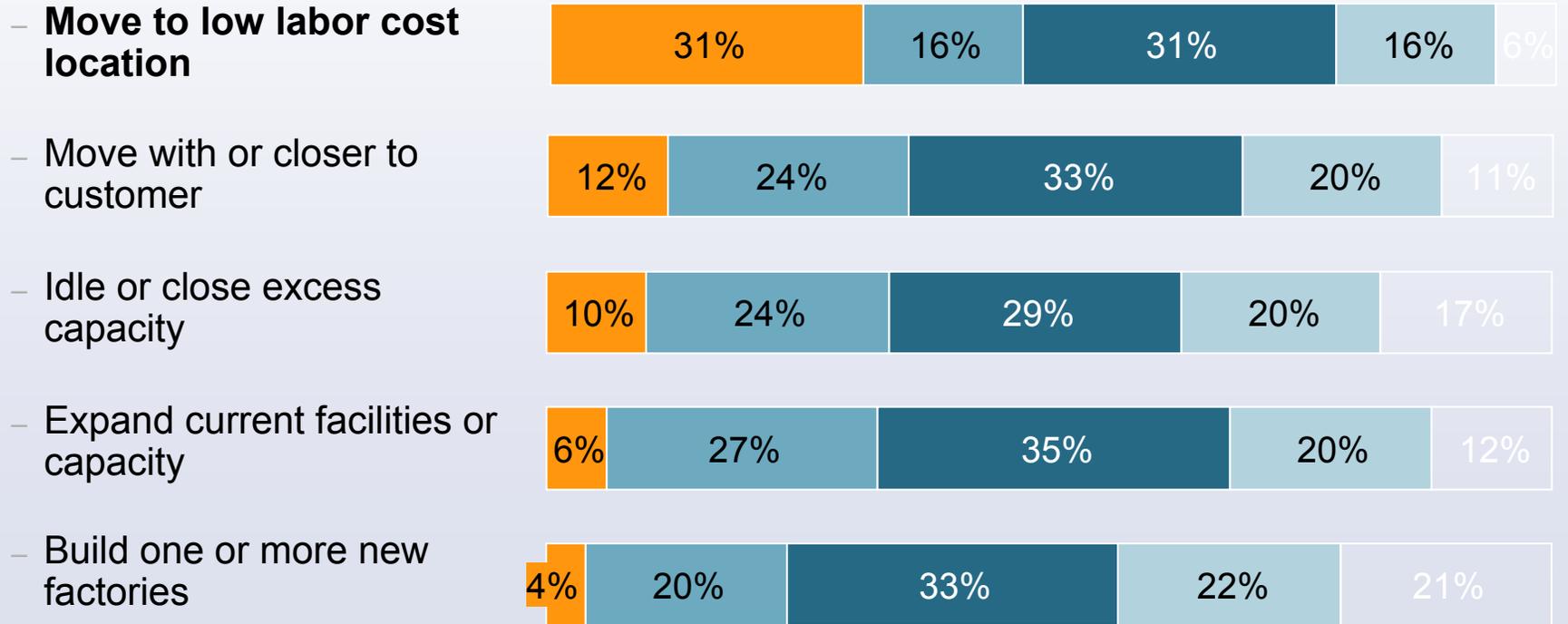


Issues Driving Re-Balancing the Global Manufacturing Footprint

Action

Priority

Top ■ High ■ Average ■ Low ■ No ■



Source: RolandBerger, The Odyssey of the Auto Industry, 2004



Growing Global Footprint – Requires Strategic Resource Allocation

- Total cost and risk analysis
- Local market and supply chain due diligence
- Integrating product designs and manufacturing processes to global strategies
- Increasing management skills and capabilities
- “Skate to where the puck is going”

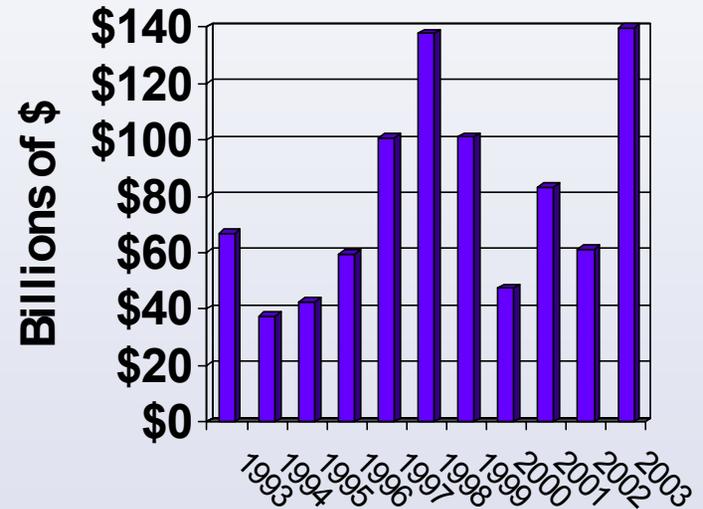


Capital is Available

Senior Bank Debt



High Yield Debt



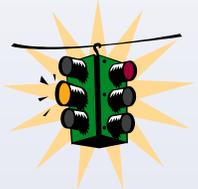
Source: E&Y and the Loan Connection; March 2004



The Industry Standard Score Card



- Production cyclical stability
- New vehicle program opportunities
- Increasing alignment of value add and cost structures



- Industry fixed costs; business process efficiency opportunities
- Short-term production schedules: incentives v. inventories
- Capital availability – for the right projects; but commercial risks are increasing
- Globalization – risk and rewards out of sync



- Input costs
- Industry dysfunctional behaviors (OEMs and suppliers)
- Long-term industry share of traditional customer base