

Global Automotive Strategies

Past Developments and Future Trends

Presentation

**Jay N. Woodworth, *President*
Woodworth Holdings, Ltd.**

**Federal Reserve Bank of Chicago/JDPA Conference
Detroit
June 3, 2004**

Auto Industry Strategies

- Everyone's favorite industry
- Still the world's largest industry in terms of employment, value added, and maybe even excitement
- Strategic outlook is more unsettled than at any time in memory

Strategies--Past and Future

The central objective:

- Build excellent, popular products for sale in the competitive, global marketplace
- Buy outstanding components from an excellent group of suppliers
- Pay very good wages and benefits to labor
- Make a very respectable rate of return on shareholders' investment

Note: This presentation focuses upon *light vehicles* and manufacturers of light vehicles in the industrialized world (consisting of North America, Western Europe, Japan, and Korea). The following charts exclude the heavy-truck market, as well as manufacturers of heavy trucks.

Auto Strategies--Past and Future

- Strategies utilized
 - Globalization has taken on a new urgency for most players, led by GM and Ford, with DaimlerChrysler and Volkswagen attempting to devise strategies
 - Improve product quality, boost technology
 - Battle for market share by cost cutting, chopping prices, adding incentives
 - New push for 'green' products & components
- A shortfall in performance can mean death or forced consolidation

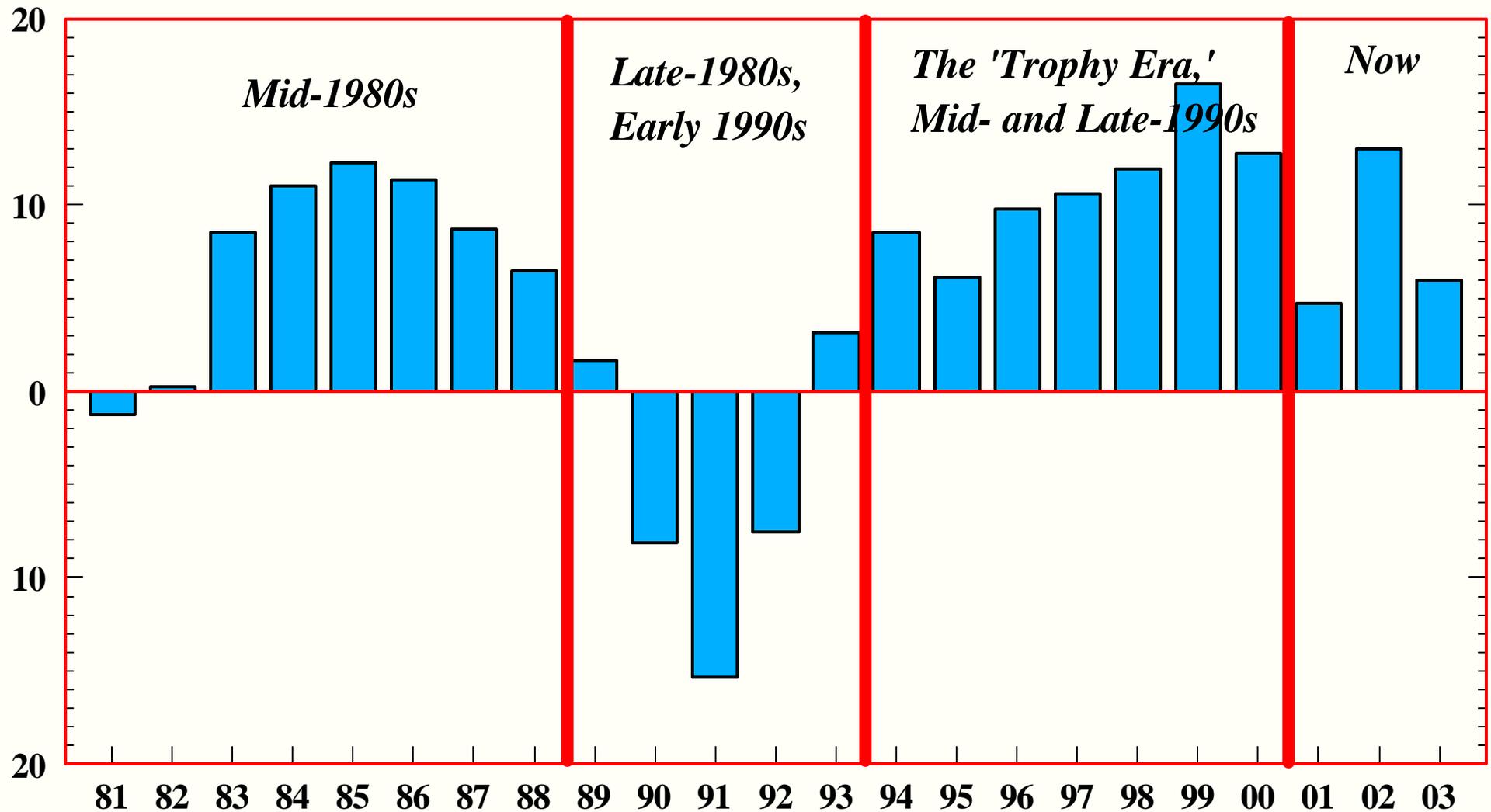
This Is Not Rocket Science

- It's actually more difficult than 'Rocket Science'
 - Not just trying to tame the Laws of physics
 - Auto companies must build products in a tough competitive marketplace, too
 - Also satisfy consumer tastes
 - And make a profit

Auto Industry Profits in North American Market

Total profits in this market generally run around \$10-12 billion in good years

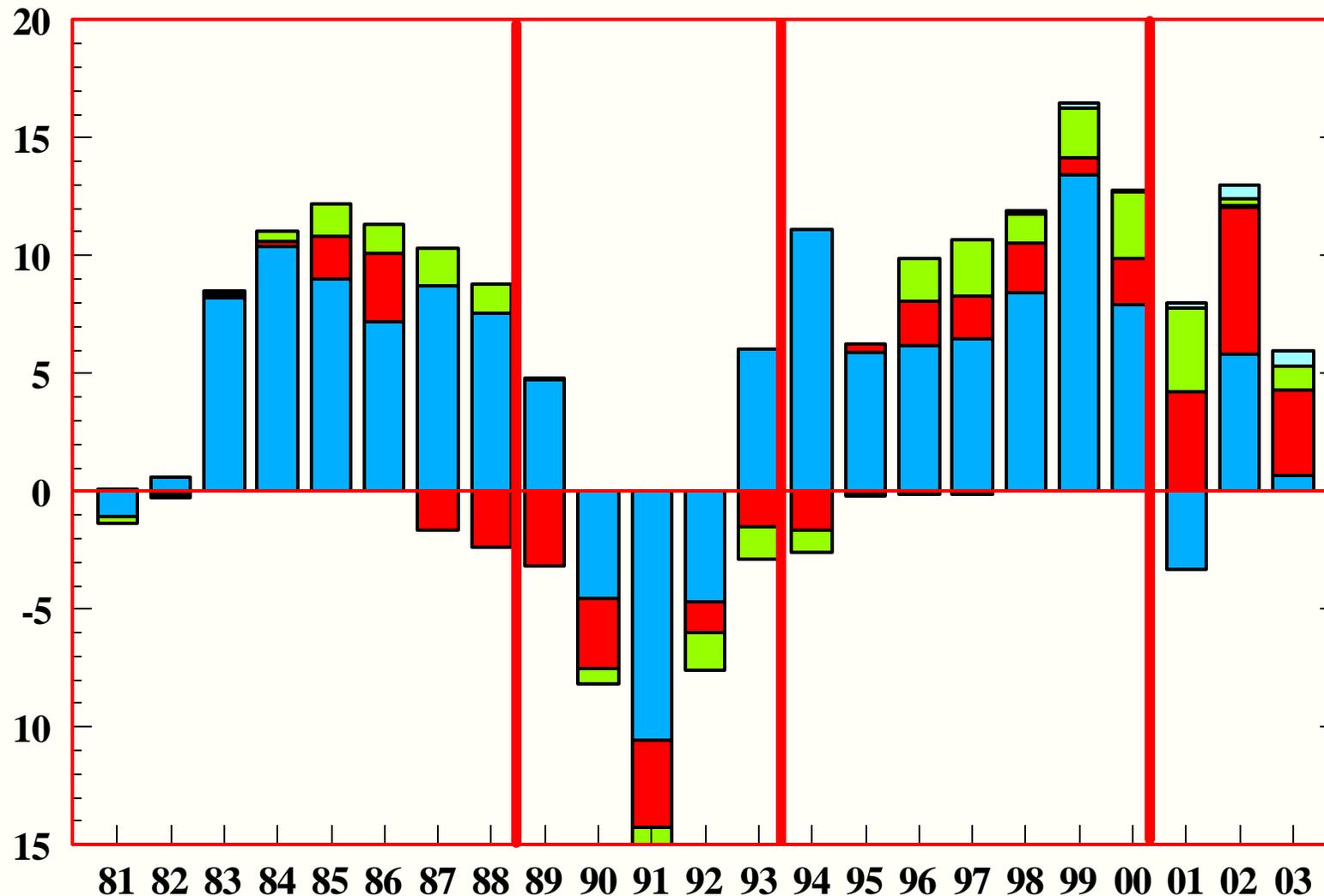
Billions of After-Tax Profits



Profits in North American Market by Group

The most profitable group in North America are the Japanese companies

Billions of After-Tax Profits



Auto Producers:

- Korean
- European
- Japanese
- U.S. Big-3

Sources:

Company reports and WHL estimates.

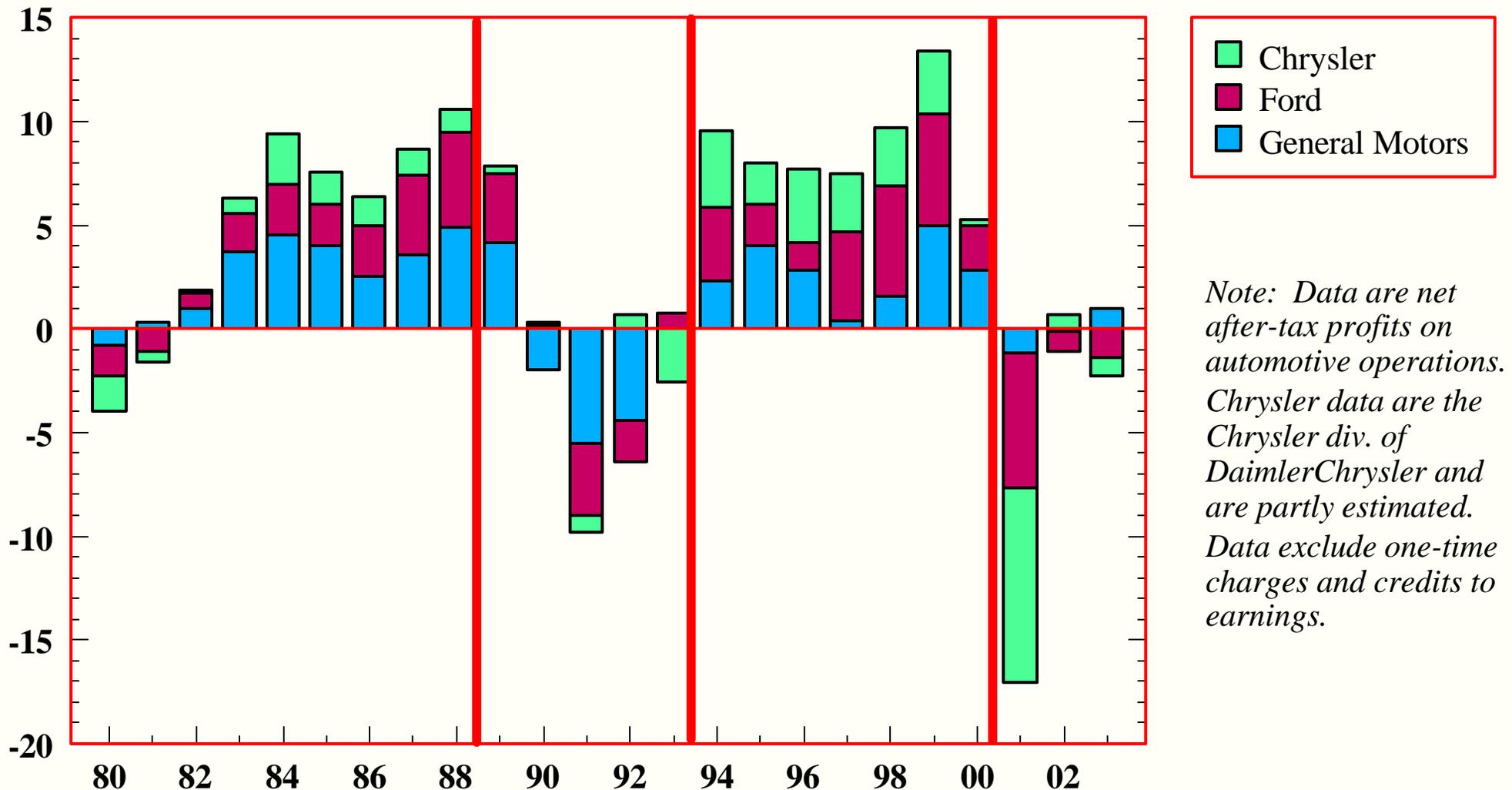
U.S. Big-3 data include GM, Ford, and the Chrysler div. of DaimlerChrysler.

European data exclude Chrysler.

The U.S. Big-3 Again Lost Money in 2003

Global automotive losses occurred at Ford and Chrysler last year in the price war with GM

Net After-Tax Auto Profits, in \$ Billions

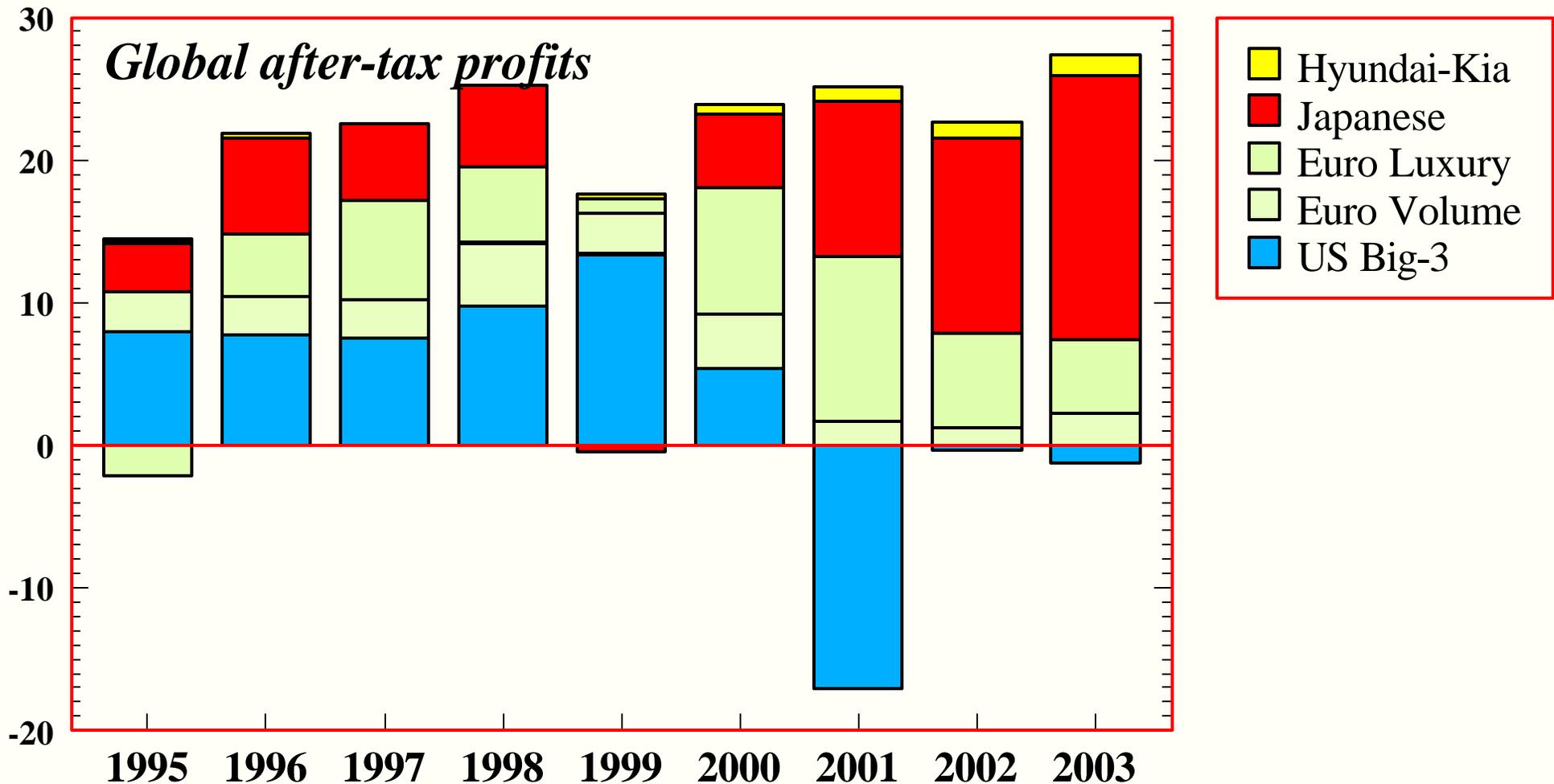


Note: Data are net after-tax profits on automotive operations. Chrysler data are the Chrysler div. of DaimlerChrysler and are partly estimated. Data exclude one-time charges and credits to earnings.

Global Profits of Groups of Automakers

The U.S. Big-3 firms almost broke even last year, while the Japanese 'Big-3' surged to large profits

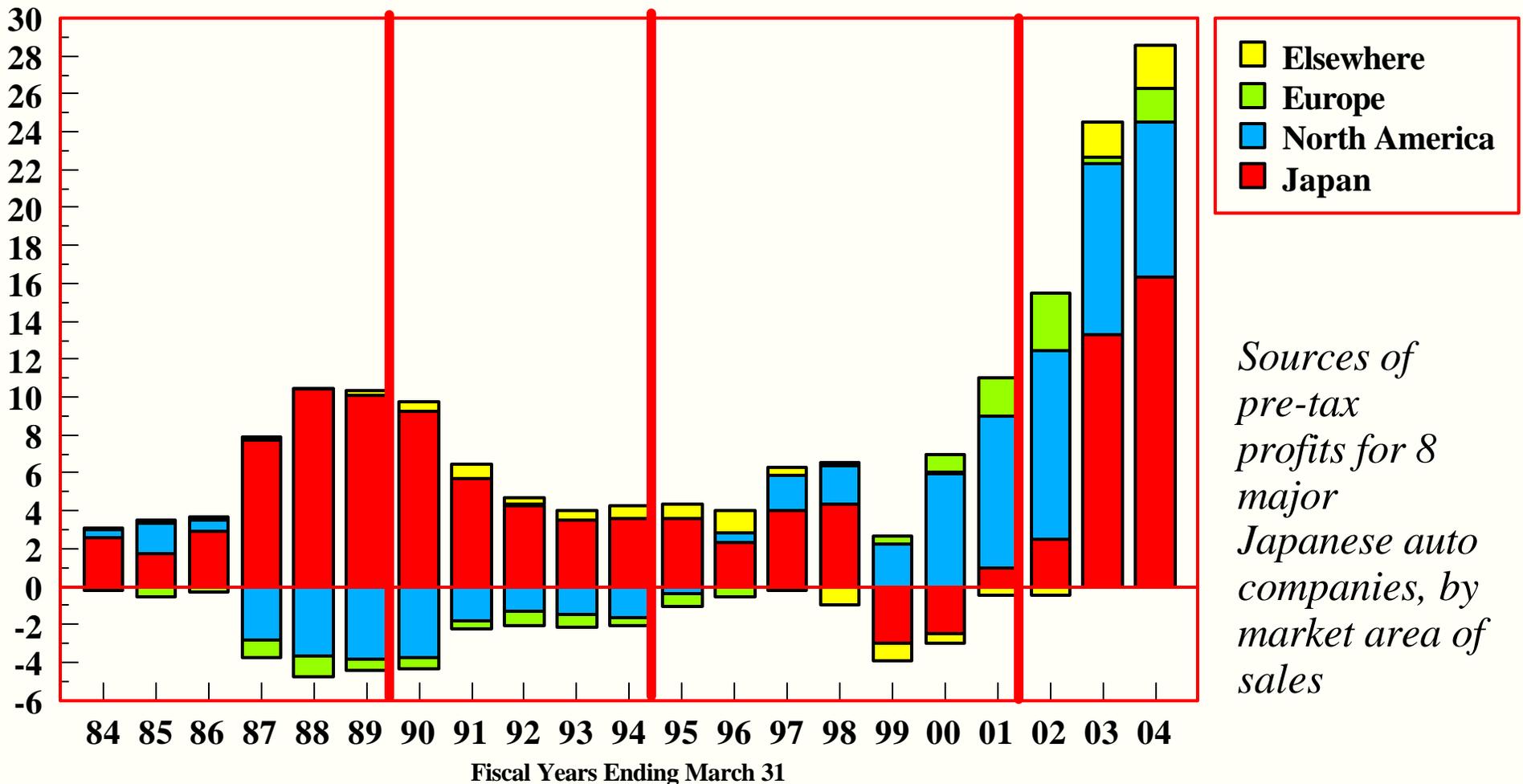
After-tax Profits, in \$ Billions



Diversification in Profits of Japanese Firms

The Japanese automakers no longer make most of their profits at home. Now, it's North America.

Operating Profits, in US\$ Billions

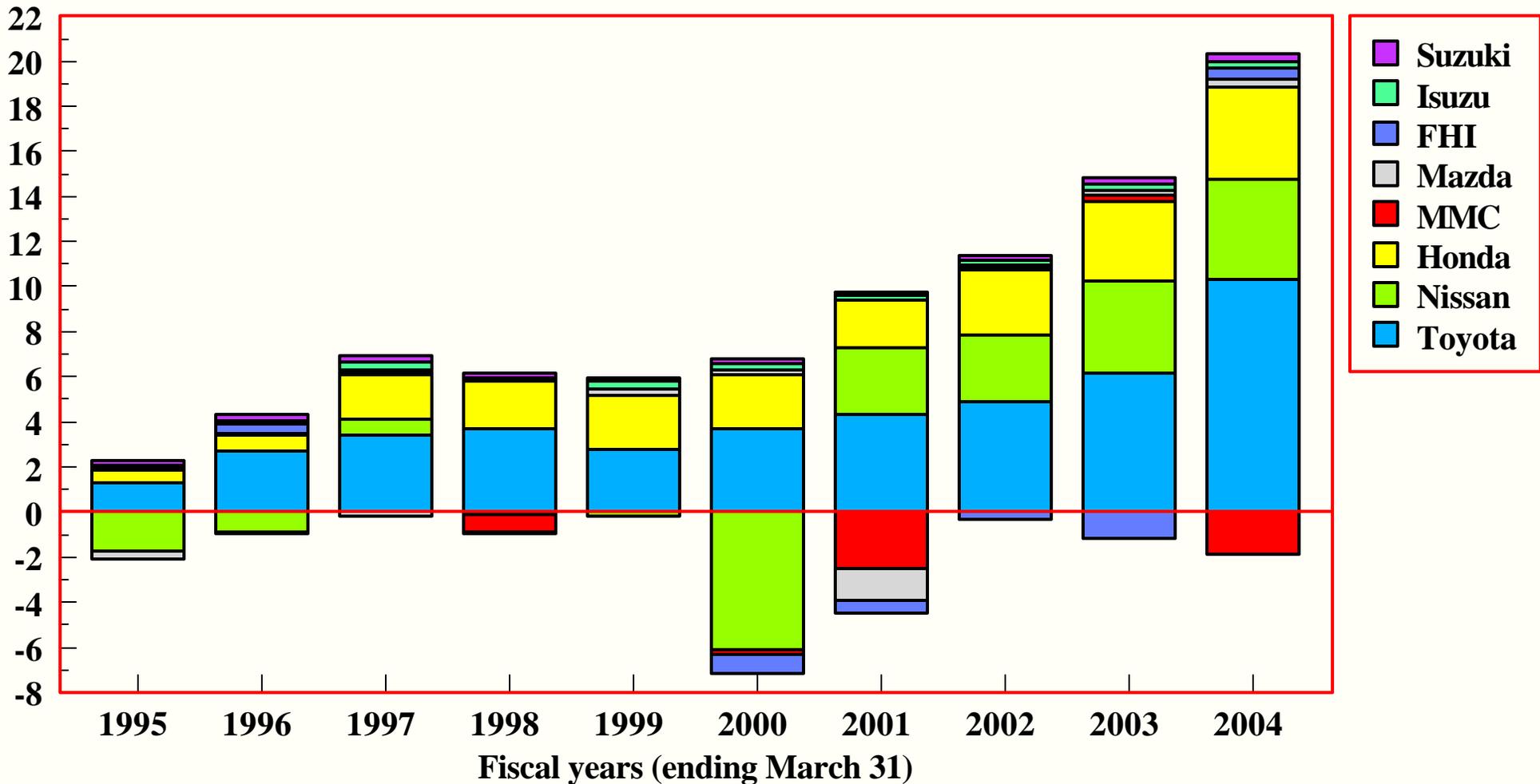


Sources of pre-tax profits for 8 major Japanese auto companies, by market area of sales

Large Profits of the Japanese Automakers

The Japanese 'Big-3' automakers are by far the most profitable set of auto producers in the world

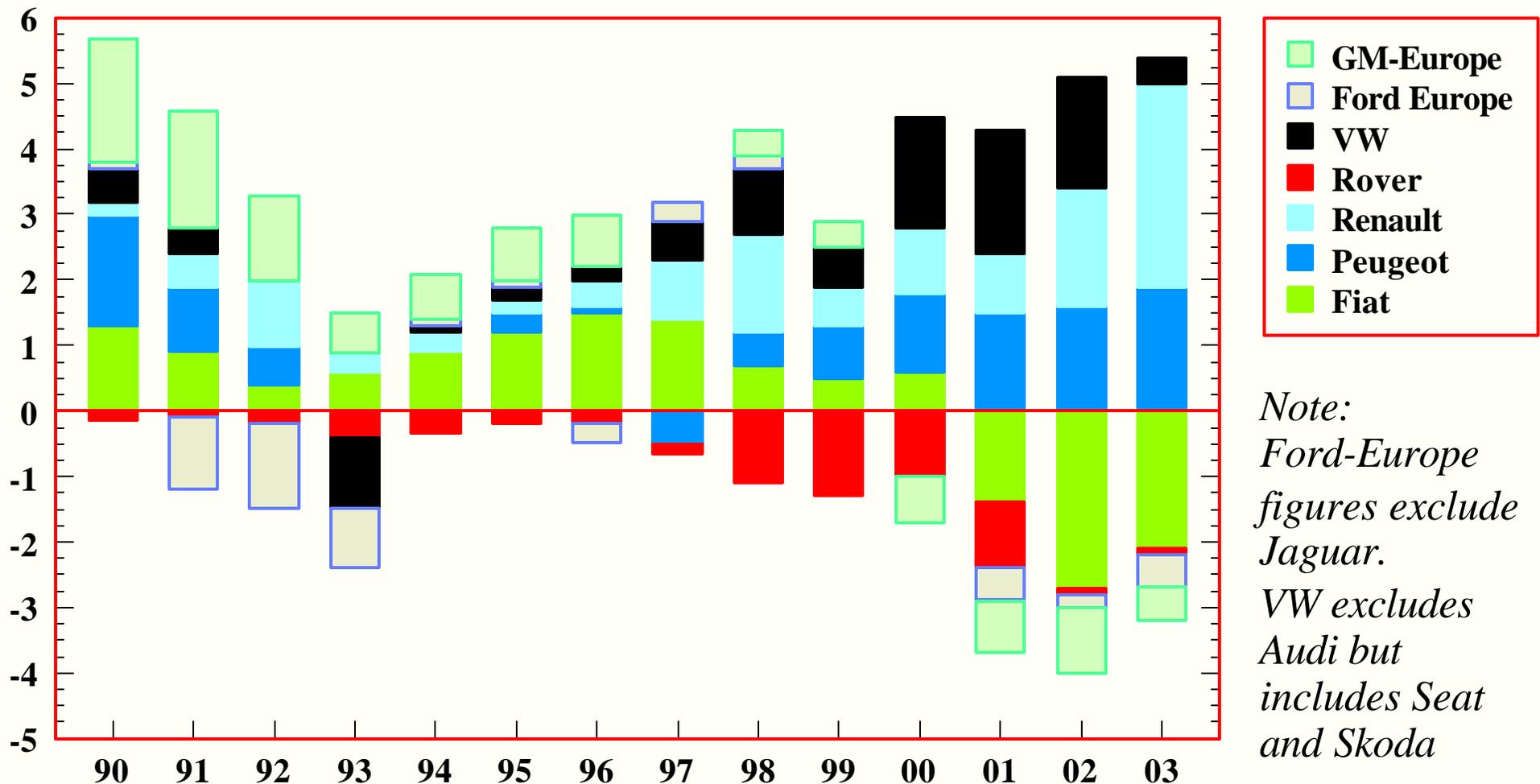
Global After-tax Profits, in US\$ Billions



Feast or Famine Among the Euro Volume Firms

VW and the French automakers again made money in 2003; everyone else ran losses

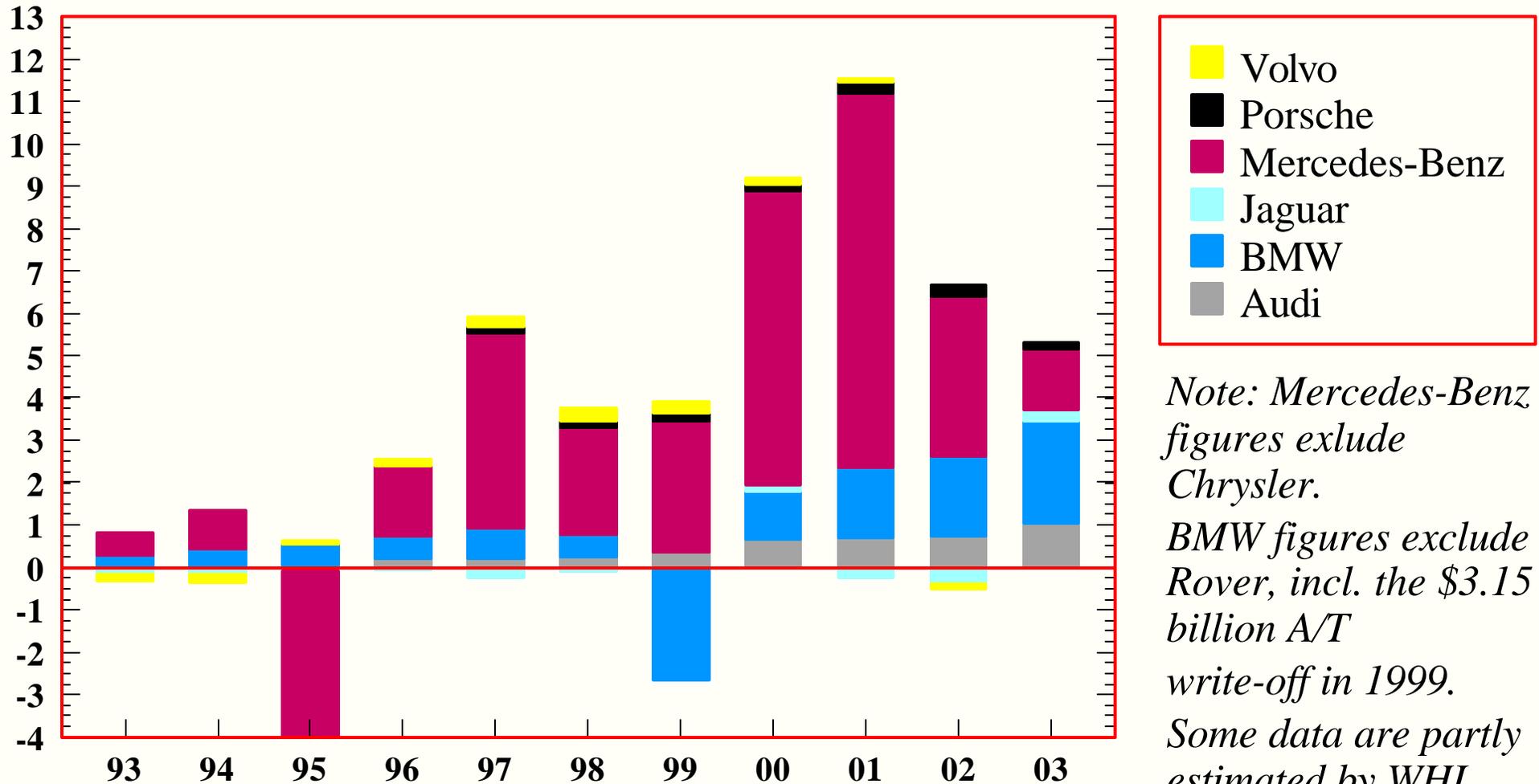
After-Tax Profits, \$ Billions



Note:
 Ford-Europe figures exclude Jaguar.
 VW excludes Audi but includes Seat and Skoda

The European Luxury Carmakers Are Earning Less The Japanese carmakers have arrived in Europe and profits of the Europeans are being cut in a soft market

After-Tax Profits, in \$ Billions



Note: Mercedes-Benz figures exclude Chrysler.
BMW figures exclude Rover, incl. the \$3.15 billion A/T write-off in 1999.
Some data are partly estimated by WHL

Trends to Watch

- Globalization--will it run amok as large companies take control in all geographic markets, forcing niche players like BMW and Peugeot-Citroen to find a big brother? Can DaimlerChrysler survive in its current slimmed-down form? Will DCX and VW be forced to follow the global strategies of GM, Ford, and Toyota? (probably yes)
- Profitability--as GM acquires its commanding share of the global marketplace, can it restructure its acquirees and make money? Ford has demonstrated poor ability to do so with its purchases (esp. Jaguar). GM has superb position in Asia, but what will it try to do?

Trends to Watch

- "Green" revolution: which technologies will be winners/losers and who will own them? Hybrid engines currently have the momentum (benefiting Toyota and Honda), although other companies regard hybrid as a dubious, halfway step to something else
- Will consumers buy--even demand--"green" products? Could an auto company stumble by not having access to the right "green" technology? The answers are apparently 'yes' and the U.S. Big-3 have been slow here

Trends to Watch

- **Recessions:** Does globalization buy immunity from business-cycle downturns in one or two major economies? Or does globalization heighten risks?
- **Reentry of Renault and Peugeot into the U.S.:** Both companies have been remarkably successful in Europe. Could they spoil their results by climbing back into the U.S. market?
- **Weak companies:** the outlook is grim for such large firms as Fiat and Mitsubishi, makers of mid-market 'commodity' products that sell at markdown prices. If these firms ultimately fail, this will be one major way in which 'excess capacity' is flushed from the system

Trends to Watch

- Ingredients for future success:
 - Clear, steady focus to the firm's core business
 - Global reach, certainly in sales, maybe also in manufacturing
 - Low-cost manufacturing operations, profitable base
 - Plenty of great, popular products
 - Solid, low-cost suppliers
 - Excellent, leading-edge technology, including 'green'
 - A labor force that's dedicated to the firm's success
 - Solid, sustained, above-average growth in profits

Trends to Watch

- What companies meet the criteria?
 - None
 - But Toyota arguably comes the closest
 - Nissan is catching up but the company does not have Toyota's long track record of dedication and success. (And the Japanese government's foreign-exchange rate policy is a major plus for Nissan and Toyota)
 - GM is in a fairly good cost position (though the Japanese Big-Three companies have lower costs at 110 ¥/\$) with a great global reach and improving products. The company's focus is better

Disclosure Statement

The automotive information in this report is provided by the Global Automotive Research service of Woodworth Holdings, Ltd. The information and data in this analysis were obtained from sources considered reliable but are neither all-inclusive nor guaranteed by our firm. The information contained herein is not to be deemed an offer or solicitation on our part with respect to the sale or purchase of any securities or commodities. Opinions reflect our judgment at this time, and are subject to change. In the course of our regular business we may be long or short in the securities mentioned, and may make purchases and/or sales of them from time to time in the open market or otherwise. Woodworth Holdings, Ltd., provides consulting services to a number of automobile companies and/or their subsidiaries or affiliates, and, while we make every effort to avoid conflicts of interest, it is possible that our judgments or investment portfolio recommendations could be affected by business consulting arrangements.



Woodworth Holdings, Ltd.

© 2004 Woodworth Holdings, Ltd.

Telephone: 908-598-1856

Mailing address: 18 Bank Street, Suite 206, Summit, NJ 07901

All Rights Reserved

Fax: 908-598-1249