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The Industry after the Restructuring

**Federal Reserve Bank of Chicago
Auto Outlook
June 5, 2009**

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The Economic Significance of the Supply Base: The Largest US Manufacturing Sector

- 686,000 direct employees
 - 898,500 intermediate jobs
 - 1,701,800 expenditure induced
 - 3.29 million jobs (4.8 multiplier effect)
- Considering only direct employees, the supplier sector is the largest manufacturing industry in Michigan, Ohio, and Indiana as well as Kentucky, Missouri, Oklahoma, South Carolina and Tennessee
- In total, the light duty, heavy duty and aftermarket parts suppliers account for approximately \$390 billion of shipments

Source: MEMA Moving America. Part by Part. (www.mema.org)



The Supplier Sector – Top 15 States

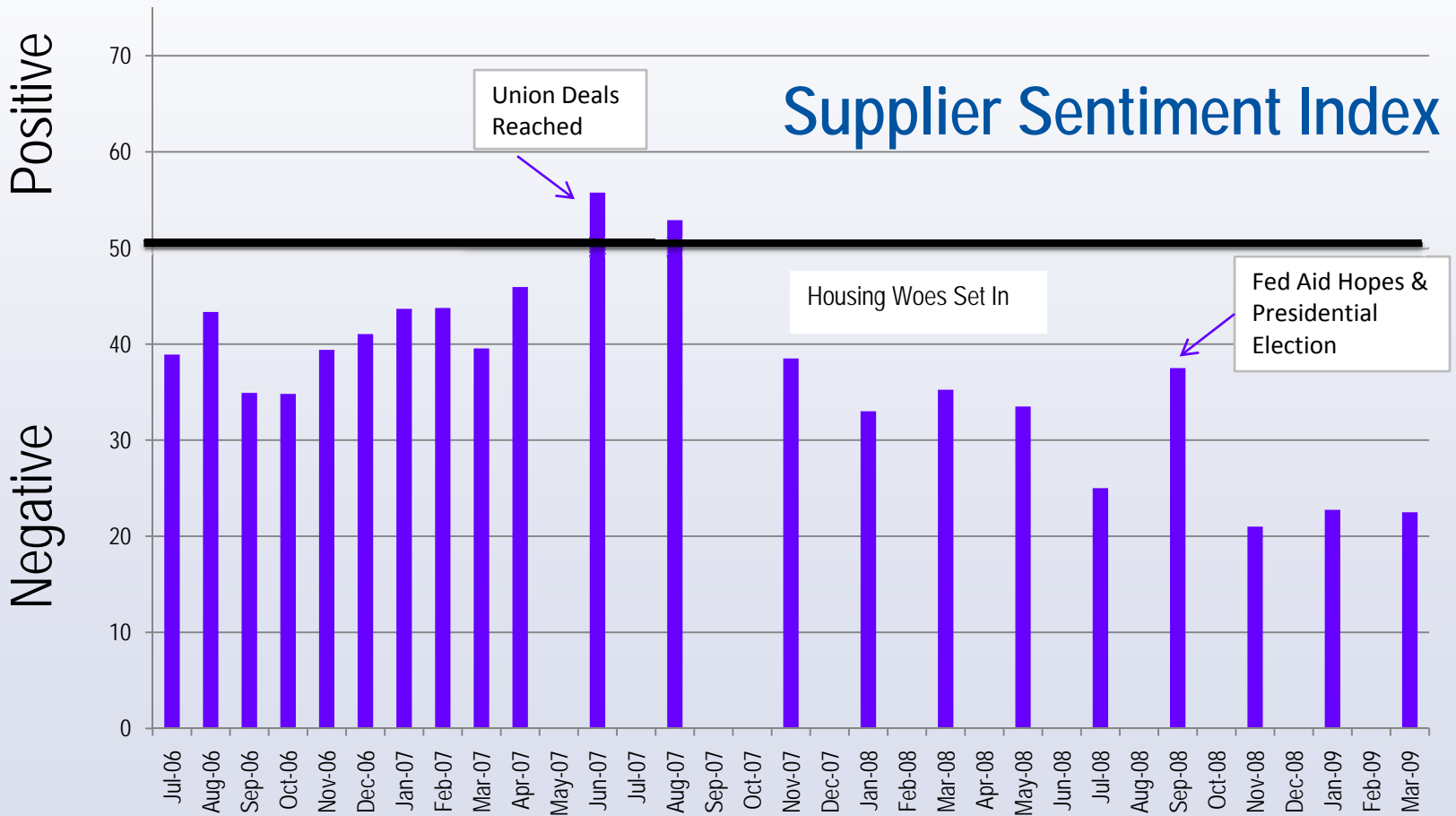
State	Direct Jobs (MEMA 2009)	Direct Jobs (MEMA 2006)	CHANGE
Michigan	111,224	145,818	(34,594)
Ohio	80,600	97,323	(16,723)
Indiana	66,721	86,934	(20,213)
Tennessee	44,172	45,749	(1,577)
Illinois	36,033	40,063	(4,030)
Kentucky	34,656	35,102	(446)
North Carolina	26,078	27,589	(1,511)
California	24,677	28,596	(3,919)
Texas	24,664	20,175	4,489
Alabama	21,654	15,965	5,689
New York	20,367	31,017	(10,650)
South Carolina	19,492	20,943	(1,451)
Missouri	17,828	18,888	(1,060)
Wisconsin	17,662	21,502	(3,840)
Georgia	16,165	22,701	(6,536)

Source: MEMA Moving America. Part by Part. (www.mema.org)



The Great Amount of Uncertainty is Driving Pessimism Through the Supply Chain

Compared to Two Months Ago, How has Your 12 Month Outlook Changed



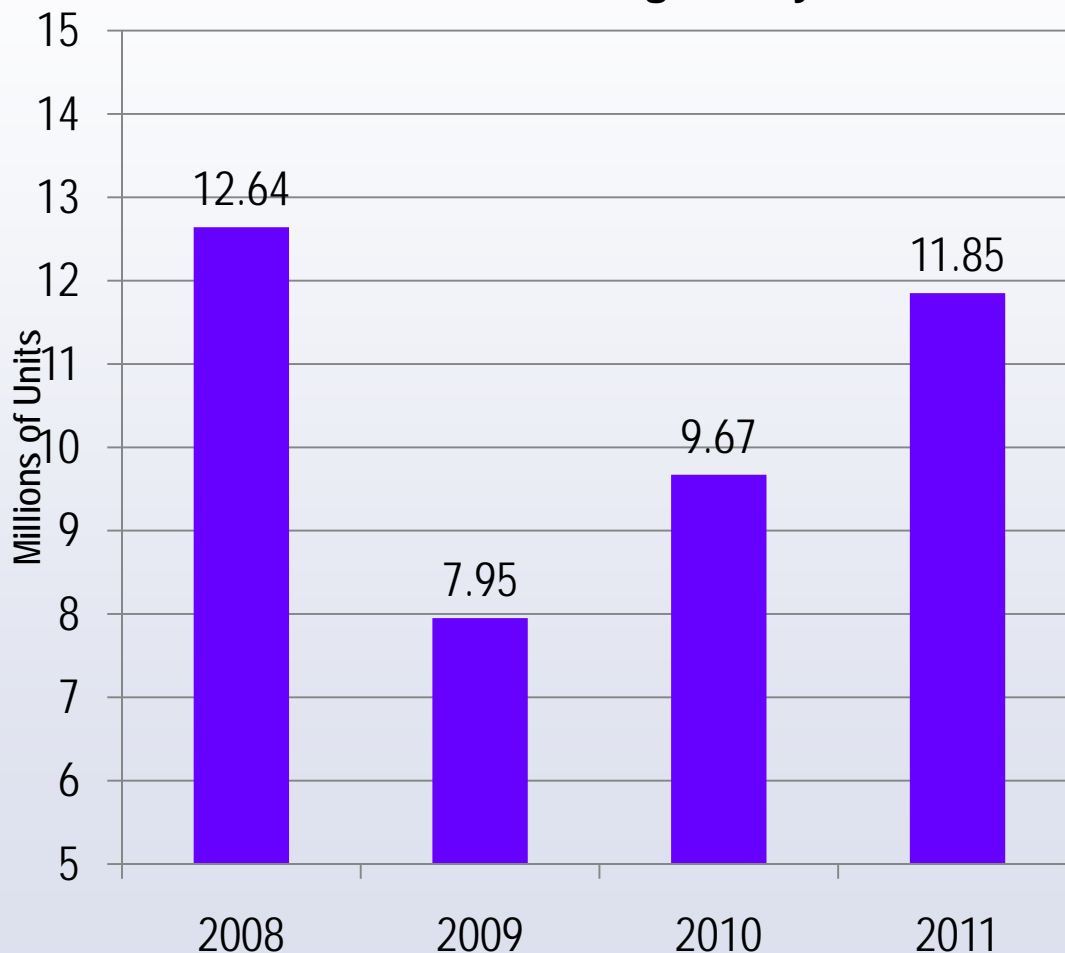
Source: OESA Supplier Barometer



North American Production Outlook

- 1Q 2009 NA production ended 52% down year-over-year
- There is greater probability than ever we will hit the lowest part of any forecasting range
- D3 receivables for March are estimated down 70% from 4Q 2008 run rate; Chrysler at 82,000 units for 2Q 2009
- The OESA February survey revealed 31% of respondents were in severe financial distress or risk of bankruptcy before the end of 2Q 2009. A full 62% put themselves in that camp by the end of 2009.

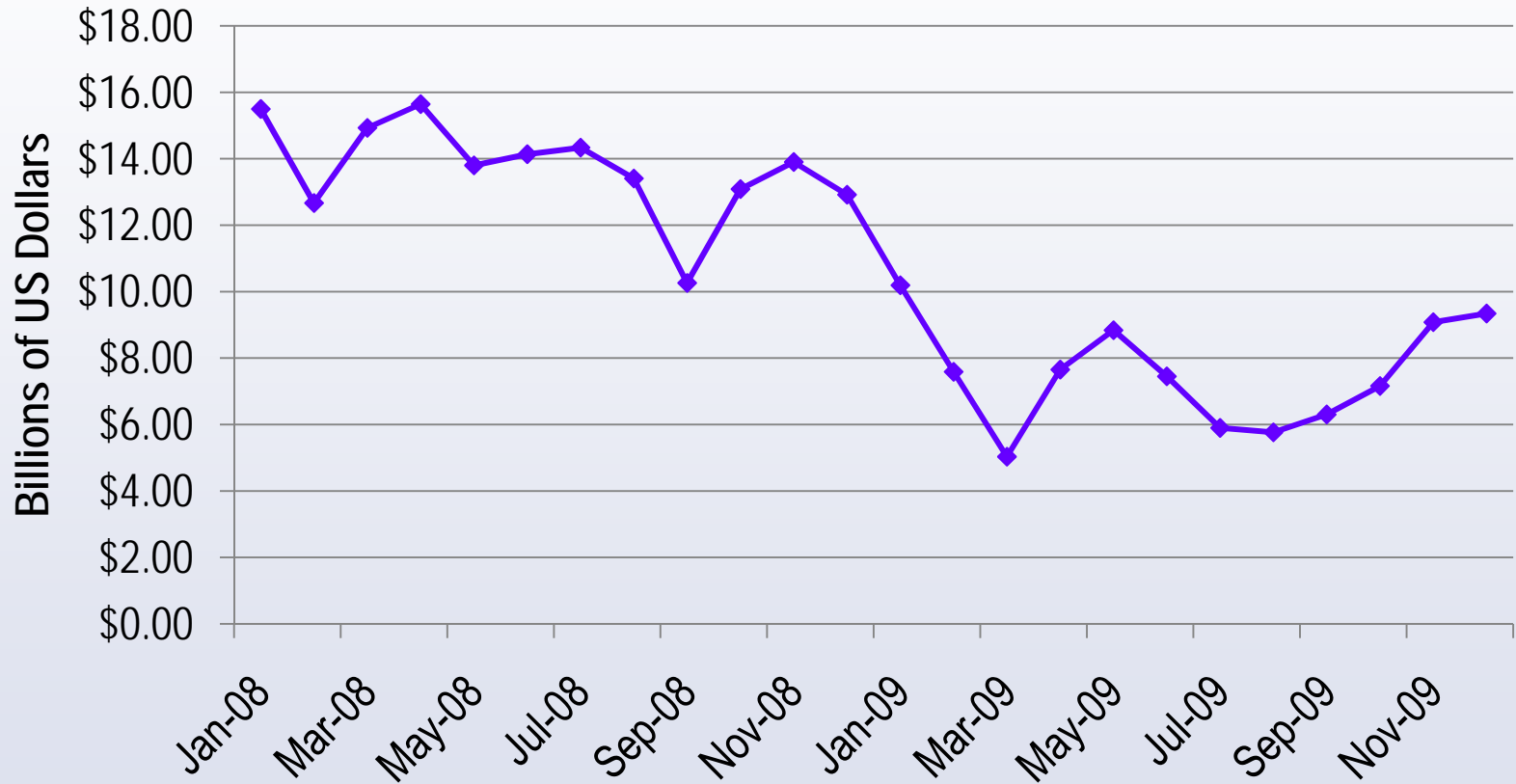
North American Light Duty Production



Source: CSM Worldwide, May 2009



Tracking D3 Monthly Supplier Receivables

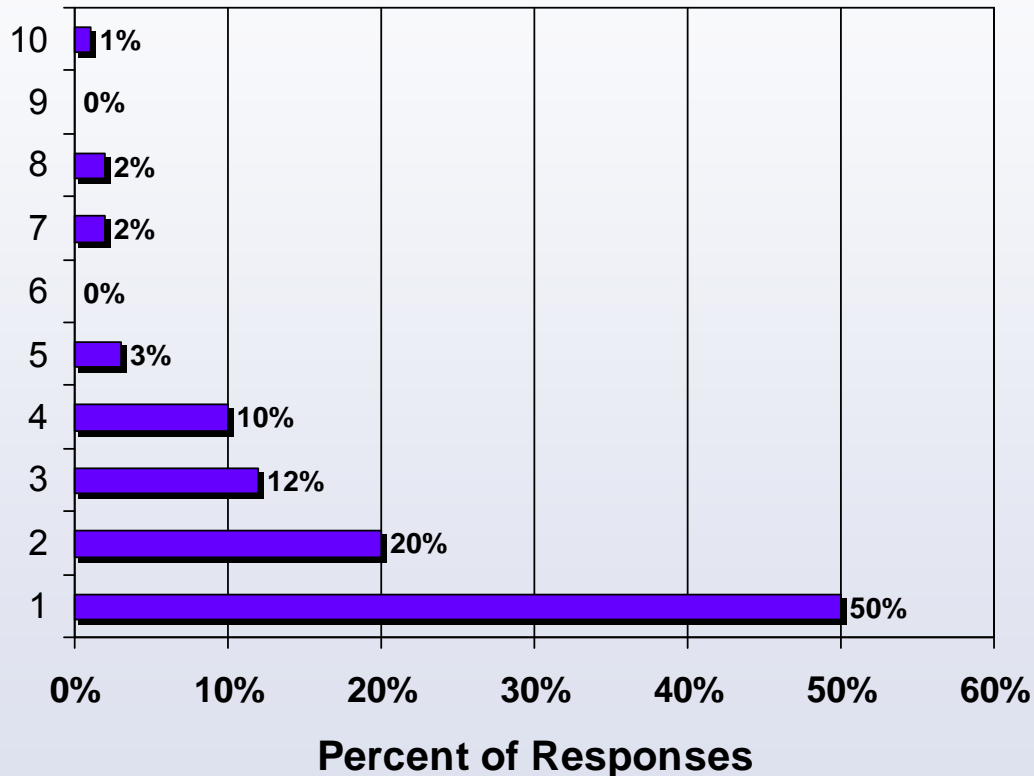


Source: OESA based off of May 2009 CSM Worldwide production numbers



Supplier Revenue Will Be Down Significantly . . . Can We Make It To the Other Side?

Budgeted Revenue Change



Note: Revenue Change Code

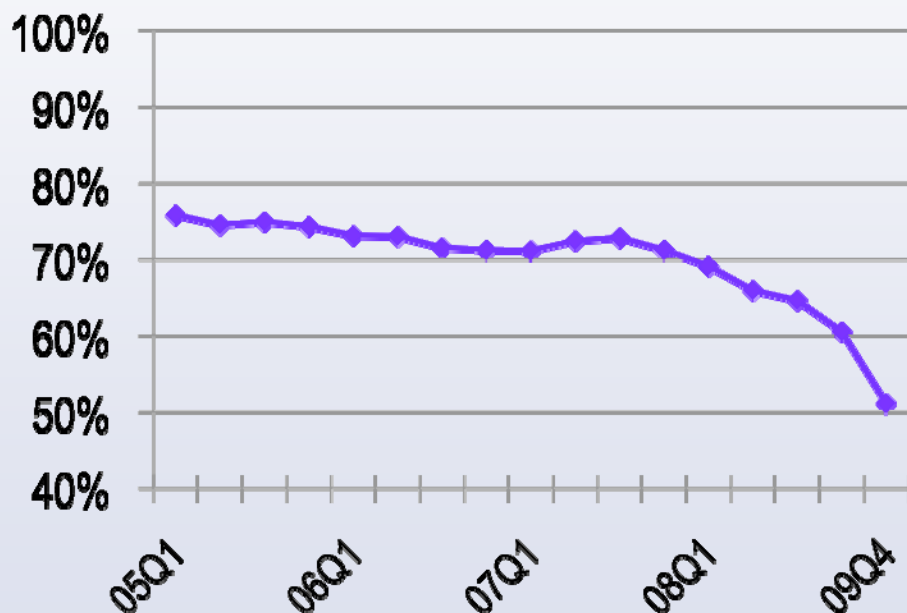
1 = > -30%; 2 = -20 to -29%; 3 = -16 to -19%; 4 = -10 to -15%; 5 = -6 to -9%
6 = -1 to -5%; 7 = No Change; 8 = +1 to +5%; 9 = +6 to +10%; 10 = > +10%

Source: OESA March 2009 Supplier Barometer. Responses = 123



Capacity Utilization Will Continue Falling and So Will Operating Income

U.S. Motor Vehicle Parts - Capacity Utilization Rates



Source: U.S. Federal Reserve Board of Governors

- Parts makers were running at 51.8% utilization in March
- Company's are readjusting BE to 60 to 70% utilization rates
- AlixPartners' analysis: ROCE has a 68 percent correlation to capacity utilization
- These losses will be driven by:
 - Volume declines
 - Mix change from truck to car



Current Supplier Financial Metrics

- 23% are currently in loan covenant violations;
- An additional 24% anticipate being in covenant violation by the end of 2009;
- 54% have been approached for shorter payment terms by their sub-tier suppliers; and
- 12% do not have access to working capital to support a 10% or greater increase in North American production builds.

The financial situation is even worse for small suppliers with revenue under \$250 million:

- 34% are currently in violation of bank loan covenants;
- An additional 33% anticipate being in covenant violation by the end of 2009;
- 53% have been approached for shorter payment terms by their sub-tier suppliers; and
- 18% do not have access to working capital to support a 10% or greater increase in North American production builds.

Source: OESA Supplier Financial Health Survey, May, 2009



Greatest Risk to the Whole Economy: GM and Chrysler Wind Down Scenarios

Now on a 60 day timeline

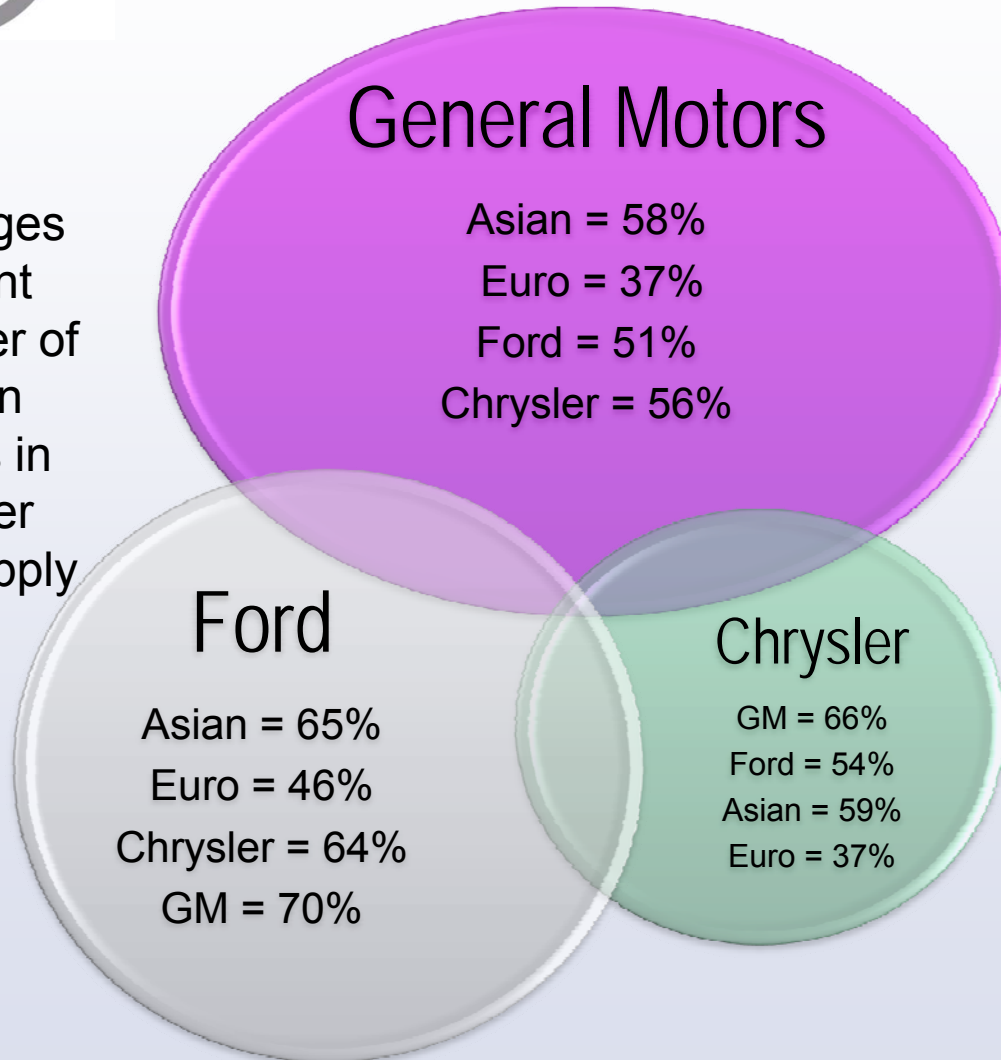
- **Chrysler:** A two year process includes a C11 and an orderly wind down – requires \$24 billion in DIP and results in 300,000 jobs lost at Chrysler and its suppliers
- **GM:** presented three scenarios:
 - **“Out of Court/Pre-Packaged” – \$33 billion Required Financing**– Tendering bondholders would be required to vote affirmatively to accept a Chapter 11 Plan of Reorganization, agreement in advance on VEBA, a government commitment, existing shareholders entirely diluted – in and out within 65 days. Predicted only a quick hit to showroom traffic and subsequent revenue hit in near term.
 - ***Suppliers would require \$8 billion in additional governmental funding***
 - **“Pre-negotiated Cram-Down” – \$86 billion Required Financing** – larger debt to equity conversion (up to 100%), reduction in obligations from others (e.g., contract rejection damages), up to 100% VEBA equity conversion – in and out up to 6 months
 - ***Suppliers would require \$9-10 billion in additional governmental funding***
 - **“Traditional C11” – \$103 billion Required Financing** – 18 to 24 months using all tools available to debtors to restructure through the court process
 - ***Suppliers would require \$13-17 billion in additional governmental funding***

Sources: February 17, 2009 respective submissions to the US Treasury



The Transformation Must Protect the Supply Base or the Interdependency of the Supply Base Can Cause a Top-Down or a Bottom-Up Implosion

Percentages represent the number of common suppliers in The other OEMs' supply base



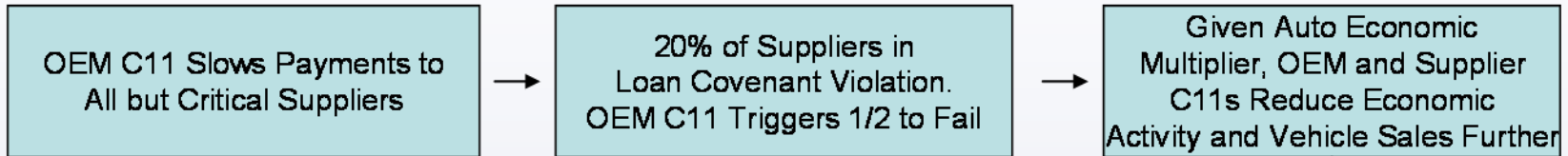
The fabric of the supply base connects all OEMs.

- Any OEM failure will propagate itself through the supply chain
- Any first tier supplier failure creates risk in at least two OEMs
- ✓ All OEMs becoming very aggressive on their supplier monitoring

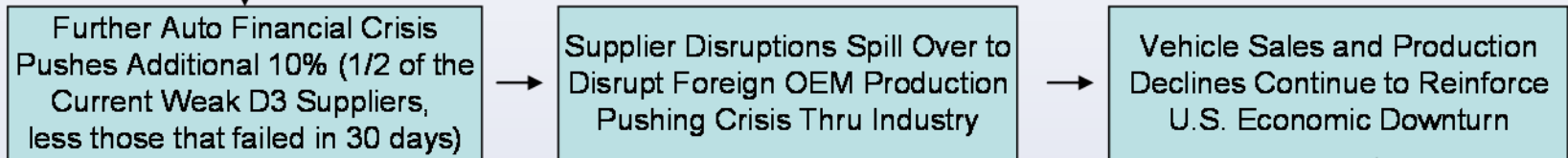


How an “Uncontrolled” OEM Bankruptcy Would Propagate through the Supply Chain

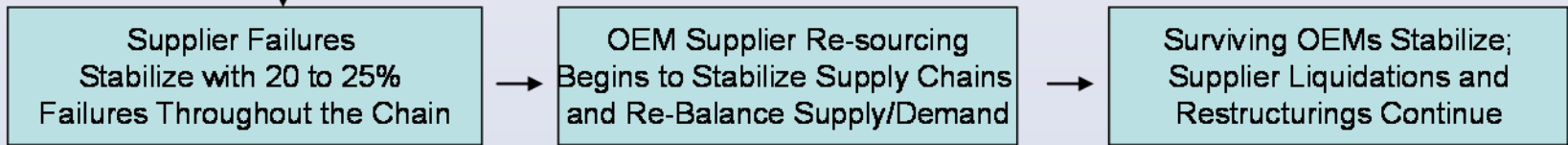
1 month



2 months



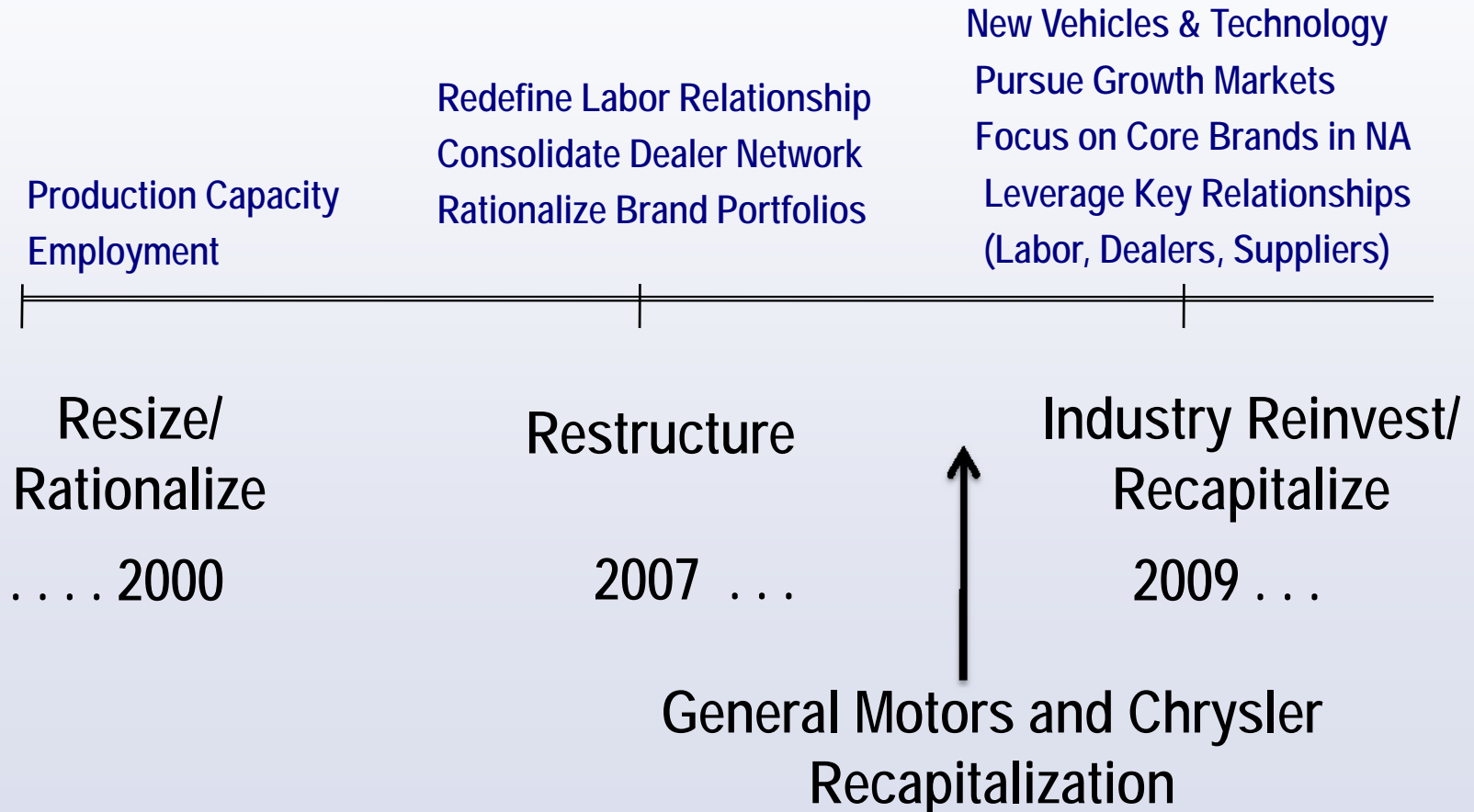
3 months



- The increased depth of the economic trough depends on how “orderly” the bankruptcy is
- Add 6 to 9 months onto when the trough is expected
- Add 12 to 18 months to when the markets return to 2006-2007 levels



The Industry, Banks and Government Must Work Together For the Industry To Move Through Recapitalization Without Major Disruption



Source: Casesa Shapiro Group with additional interpretation by OESA



Drivers of a New Business Model . . .

- Fractionalized OEM sales and production shares
 - Increased complexity for suppliers
- Government integration in auto business model
 - Increased decision making complexity
- Capital structure complexity
 - Non-traditional owners from the US and Canadian governments to the UAW VEBA Trustees
 - For NA suppliers, a majority of major supplier competitors will be foreign or privately owned
- Environmental, energy, . . . Labor, tax, trade public policy focus
 - How stable will the playing field be?



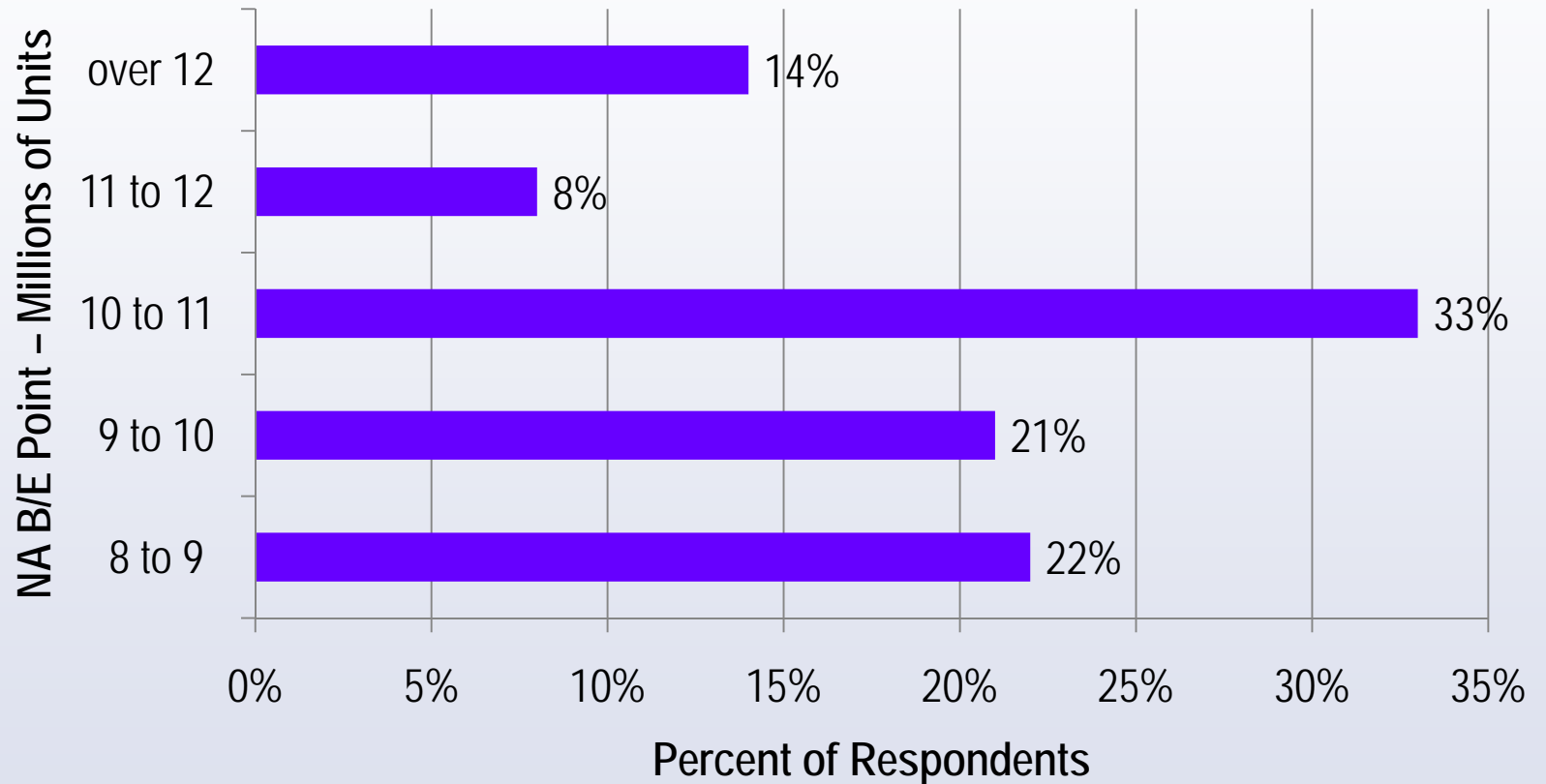
The Global Top Dozen

Supplier	2008 Global Revenue - Billions	2007 to 2008 Change in Position
Robert Bosch	\$ 33.9	-
Denso	\$ 27.8	-
Continental	\$ 25.0	+ 1
Magna	\$ 23.3	+ 1
Aisin Seiki	\$ 20.8	+ 1
Johnson Controls	\$ 19.1	+ 1
Delphi	\$ 18.1	-2
Faurecia	\$ 17.7	-
ZF	\$ 16.9	+ 1
TRW	\$ 15.0	+ 1
Lear	\$ 13.6	- 2
Toyota Boshuoku	\$ 12.3	+ 6

Source: Automotive News, June 1, 2009



A Vast Share of Suppliers Have Restructured To Be At Break Even at Lower Volumes



Source: OESA Supplier Financial Health Survey, May 2009; n = 71



The Auto Industry Needs a Healthy Working Relationship with Bankers . . .

But When We Ask About Lending Relationships . . .

- **Most Significant Relationship**
 - **Commercial Bank (64 responses, median response = 5)**
 - ❖ Very Engaged (1 or 2) = 6 responses
 - ❖ Aggressively Exiting (6 or 7) = 24 responses
 - **Parent Company (5 responses, median response = 5)**
 - ❖ Very Engaged (1 or 2) = 2 responses
 - ❖ Aggressively Exiting (6 or 7) = 0 responses
 - **Family Ownership (4 responses, median response = 5)**
 - ❖ Very Engaged (1 or 2) = 1 responses
 - ❖ Aggressively Exiting (6 or 7) = 0 responses



U.S. Treasury Supplier Support Program

- \$5 billion program to arrange for guarantees or buy-back of GM and Chrysler Receivables

- **Advantages**
 - Provides protection should a GM or Chrysler bankruptcy occur
 - Provided some confidence for restoring lending into automotive suppliers
 - Showed awareness of industry economic significance

- **Limitations**
 - Targets only GM and Chrysler U.S.-based suppliers
 - Limited to selected suppliers
 - Does not help lower tier suppliers



However, Additional Supplier Assistance is Needed to Minimize Bottom-Up Implosion Risk

- **Short-term Operating Cash Flow**
 - 23 percent of members report they are out of compliance with loan covenants
 - Receivables limited; what receivables there are, lending from traditional lenders against these are significantly constricted, inventories worked down to a bare minimum
 - Options: expand loan guarantees, additional cash into deal
- **Mid-term Expansion Credit**
 - Commercial banks severely limiting lending for tooling and capital investment programs
 - Options: governmental backstopping of loans, additional cash into deal
- **Long-term Restructuring Capital**
 - DIP financing unavailable, hedge fund and private equity capital on the sidelines
 - Options: government seed money to encourage private capital back into the industry



Supplier Financial Assistance Pathway

		Short-Term Cash Flow	Mid-Term Expansion	Long-Term Restructuring
Existing Programs	US Treasury	Supplier Support Program		
	SBA	Loan Guarantees up to \$2 million (7a Program)	Assistance for \$1.5 to \$4 million loans (504 Program)	
	DOE		\$25 billion advanced technology support (Section 136 loans)	
	US Department of Agriculture		Business and Industry Guaranteed Loans up to \$10 million	
Potential Programs	Federal Government		Direct Supplier Loan Guarantees	
	Federal and State Governments	Interest Rate Deferrals	Cash for Collateral Valuation Support	
	Federal and State Governments			Public/Private Mezzanine Fund
	Federal Reserve of NY		TALF – Asset Based Lending Facility	



Supply Base Assistance Will Not Help Unless Sales Rebound . . . That is Unlikely With Negative GDP Growth without Some Form of Vehicle Demand Stimulus Like Other Developed Countries Have Adopted

Country	Program Start	Description	Result
Germany	Jan. 2009	Apx. \$3,150 bonus for scrapping a 9+ year old vehicle	Year-over-year increases immediate (Feb – highest rate in 10 years, +22% Y-O-Y)
France	Nov. 2008	Apx. \$1,250 for scrapping a 10+ year old vehicle	30-40% of sales associated with the program
Italy	Feb. 2009	Apx. \$1,900 to \$6,300 for scrapping a 10+ old vehicle	Program generated “significant registrations.”

Source: John Murphy, Merrill Lynch, “Scrappage Program Might Not Save The SAAR, April 6, 2009.



Summary

- The supply base is the fabric interconnecting the vehicle manufacturers and the complex value chain from material suppliers to system integrators
- The supply base faces unprecedented market and credit market headwinds
- Chrysler and GM restructurings will likely create two “new” competitors in the short term and force on-going bankruptcies as “bad company” assets are disposed
- Government, industry and the financial community must work together to support the supply base and prevent a top-down or bottom-up implosion
- The US Treasury Supplier Support Program provides receivables protection from Chrysler and GM bankruptcies, however . . .
- There is a critical need for immediate working capital, near-term program investment and restructuring capital – overarching everything is vehicle demand stimulus
- OESA and MEMA are the suppliers’ voice in Washington on these issues and other public policy issues



In This Time of Distress . . . OESA Provides a Wide Range of Tactical and Strategic Value to Survive and Thrive

- **12 peer group councils**: CEO, CFO, Chief Purchasing Officers, China Strategy, Communications, EH&S, HR, Legal Issues, Sales & Marketing, Product Development, Small and Medium Suppliers, Warranty, Govt. Affairs
- **OEM Town Hall Meetings**: GM, Ford, Chrysler, Toyota, VW
- **Member Surveys**: Benchmarking, Organizational Issues, Material Markets, Commercial Issues, Financial Practices
- **Member Industry Studies**: Terms & Conditions, Intellectual Property, Supply Chain, Customer Diversification, Warranty Management, Global Manufacturing Footprint...
- **Automotive Industry Events & Seminars**: addressing the challenges and issues suppliers face, developing strategies to compete
- **International Collaboration**: CLEPA-Europe, JAPIA-JAPAN, ACMA-India, others
- **The Network** : OESA provides a forum, a source of industry information, and a vast network of suppliers and affiliates



Thank You

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