Global Automotive Strategies

Past Developments and Future Trends

Presentation

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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.
The most profitable group in North America are the Japanese companies.
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.
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

Woodworth Holdings, Ltd., Global Automobile Research
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

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

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