



The North American Supplier Industry: Restructure, Refinance, Restore

Federal Reserve Bank of Chicago
Fifteenth Annual Automotive Outlook Symposium
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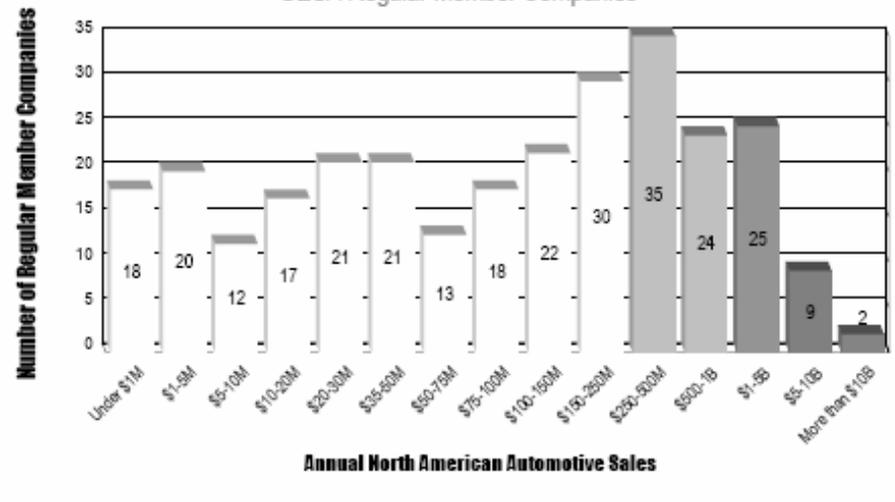
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A Strong and Diverse Membership: The OESA Network

2008 Membership Size Distribution

OESA Regular Member Companies



- 386 members
- 301 regular members
- \$300 billion global sales

OESA Board of Directors

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- Wallace K. Tsuha, Jr., Chairman, CEO and President, Saturn Electronics & Engineering, Inc.
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OESA Membership: A Broad Range of Resources

10 Years

- **14 peer group councils**: CEO, CFO, Chief Purchasing Officers, China Strategy, Communications, Environmental, Health & Safety, Foreign Subsidiaries, HR, Legal Issues, Sales & Marketing, Product Development, Small and Medium Suppliers, Warranty, Government Affairs
- **OEM Town Hall Meetings**: GM, Ford, Chrysler, Toyota
- **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 timely and relevant challenges and issues suppliers face
- **International Collaboration**: CLEPA-Europe, JAMA and JAPIA-JAPAN, OESA/MEMA-US
- **The Network** : OESA provides a forum, a source of industry information, and a vast network of suppliers, customers, and affiliates



Outline

- Business Environment
- Restructure
- Refinance
- Restore



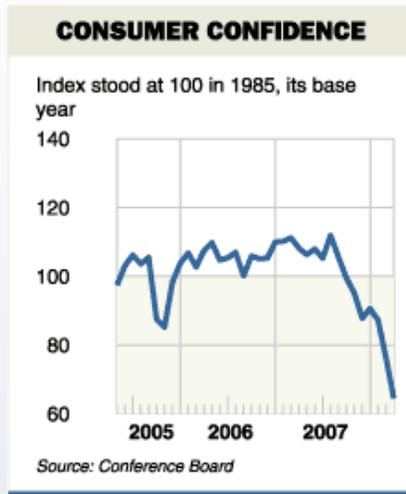
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- **Business Environment**
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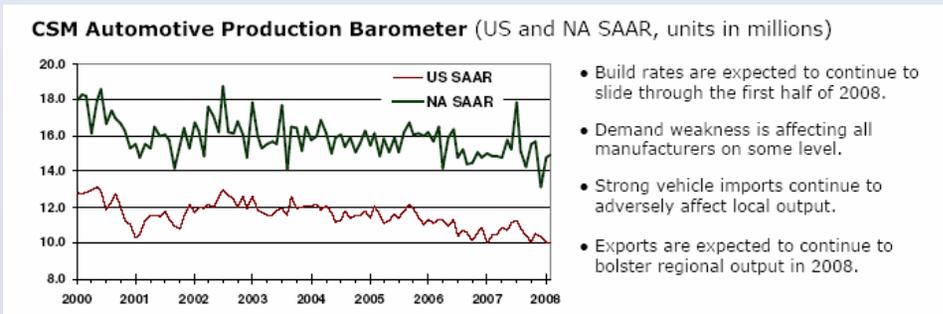
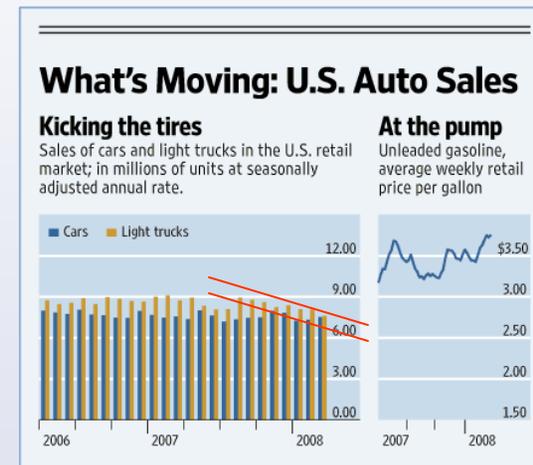
Current Industry Headwinds

Economics overpower industry's ability to price for volume



- Consumer confidence: "tanking"
- Housing: 50-60% through down cycle
- Sub-prime fall out: risk aversion increases

- 2007 US sales = 16.1 million
- 2008 forecasts = 14.9 to 15.8 million



- 2007 NA production = 14.9 million
- 2008 forecasts = 14.0 to 14.5 million

Sources: Wall Street Journal, Federal Reserve Board, CSM Worldwide

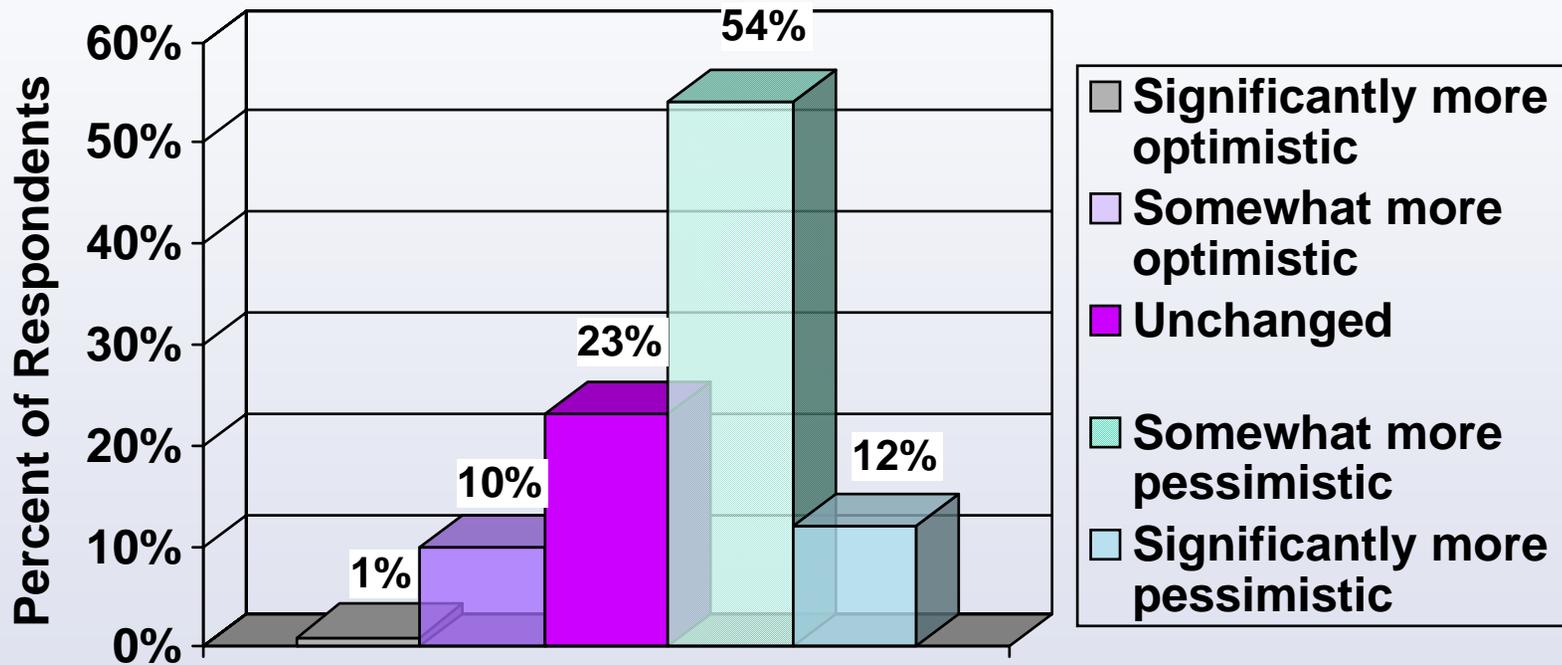


All Signs Point to a Pessimistic 2008 Outlook

Suppliers on the winning side of consolidation are optimistic

10 Years

Describe the general twelve month outlook for your business. Over the past two months, has your opinion become:



Responses = 114

Source: May 2008 OESA Supplier Barometer



Suppliers are Focused on Three Major Risk Factors for Meeting 2008 NA Business Plans

- Declining production volume levels and volatility
- Rising raw material and energy prices
- Risk of an economic recession

Additional significant risks:

- Continued Detroit Three-specific market share declines
- Weakening U.S. dollar

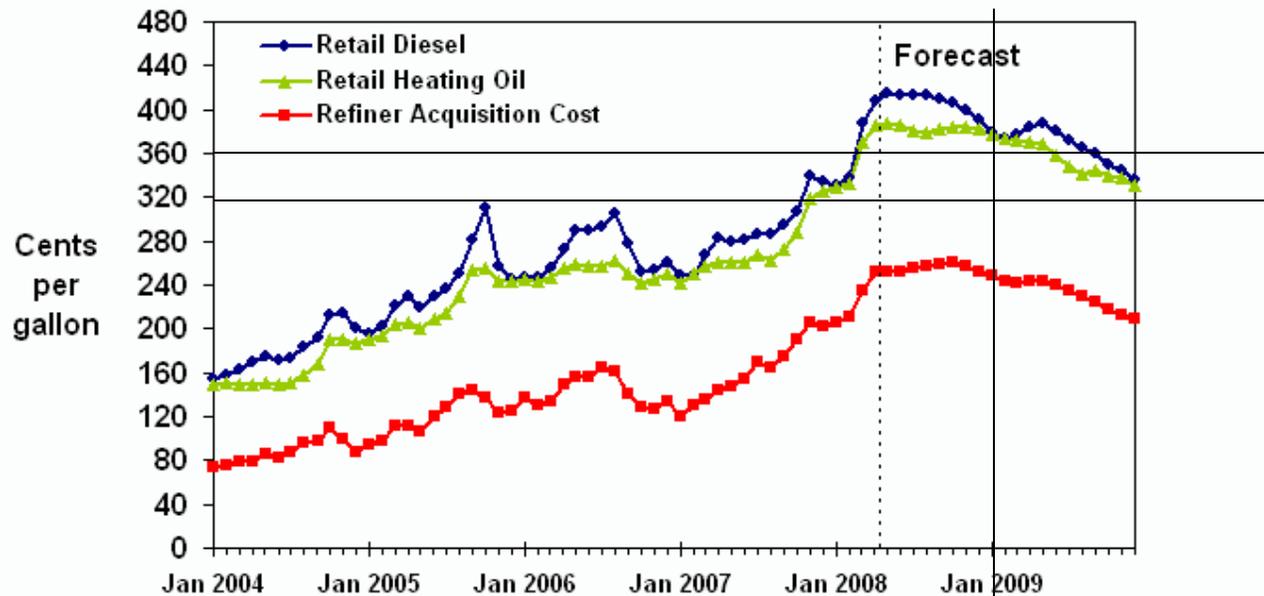
Source: March 2008 OESA Supplier Barometer; Responses = 89



Petroleum Prices

Will they kill off economic growth?

U.S. Distillate Fuel Prices



Retail prices include State and Federal taxes

Short-Term Energy Outlook, May 2008

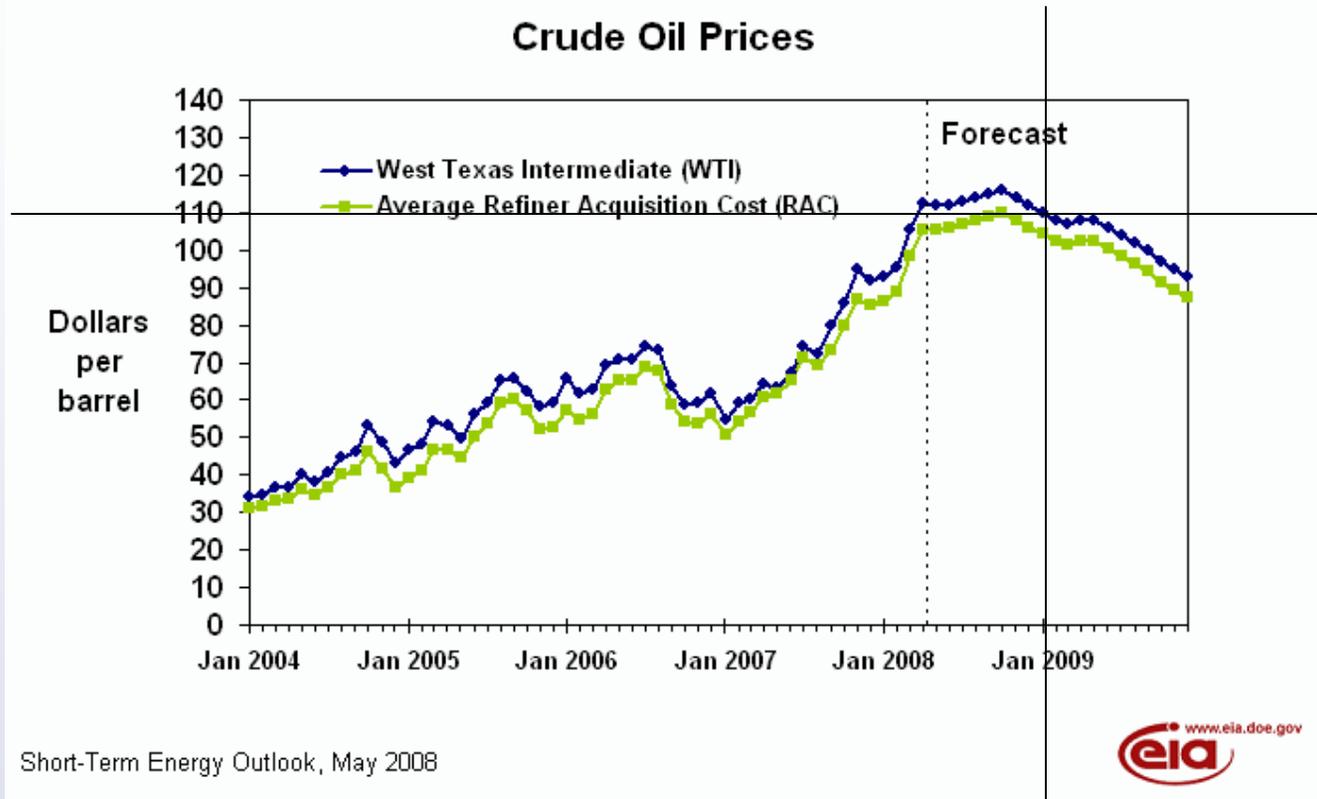


The last forecast from the US DOE; but too optimistic?



Gasoline Prices

Will they kill off the lucrative truck market?

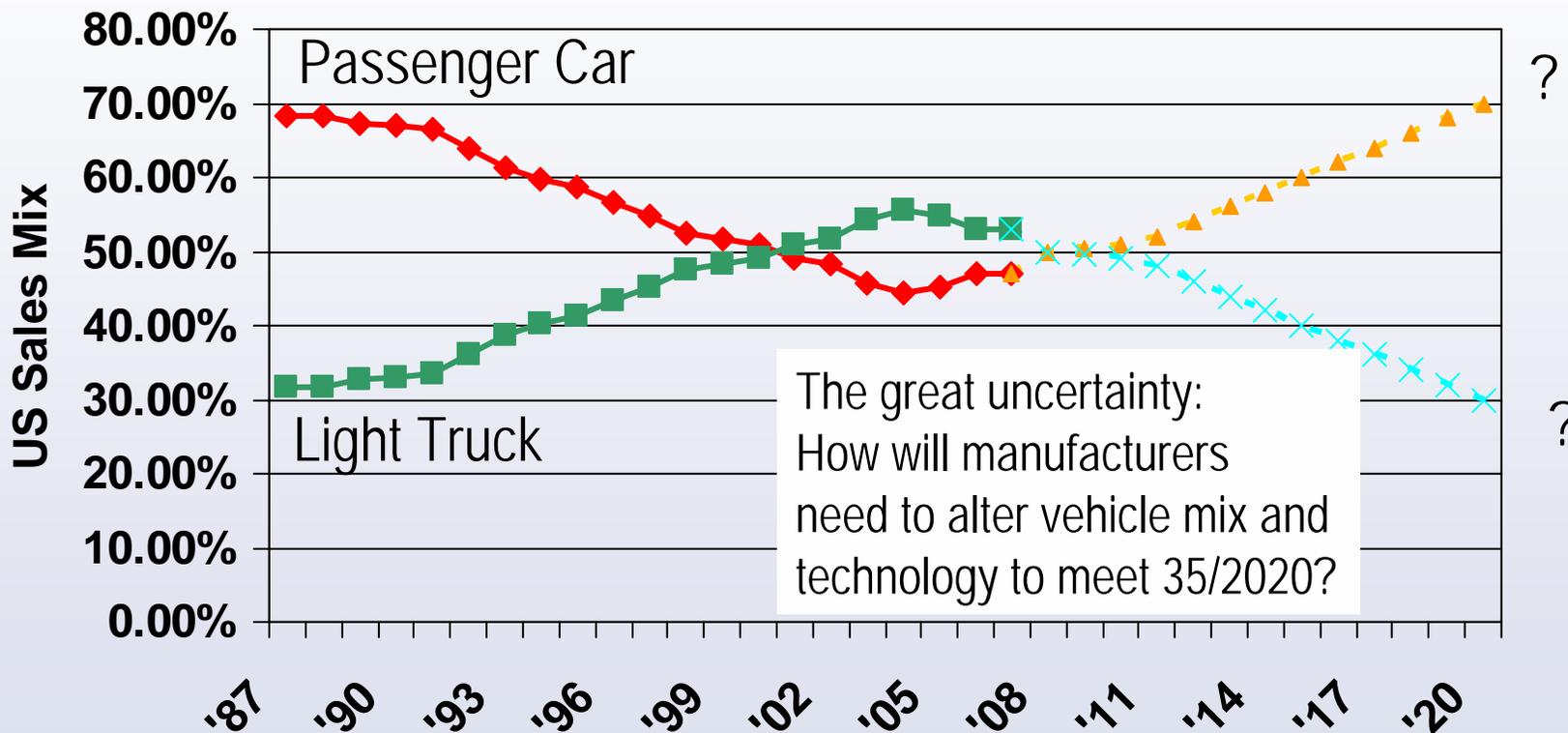


The last forecast from the US DOE; but too optimistic?



CAFE Will Radically Change the US Market

Fuel price is already driving real change



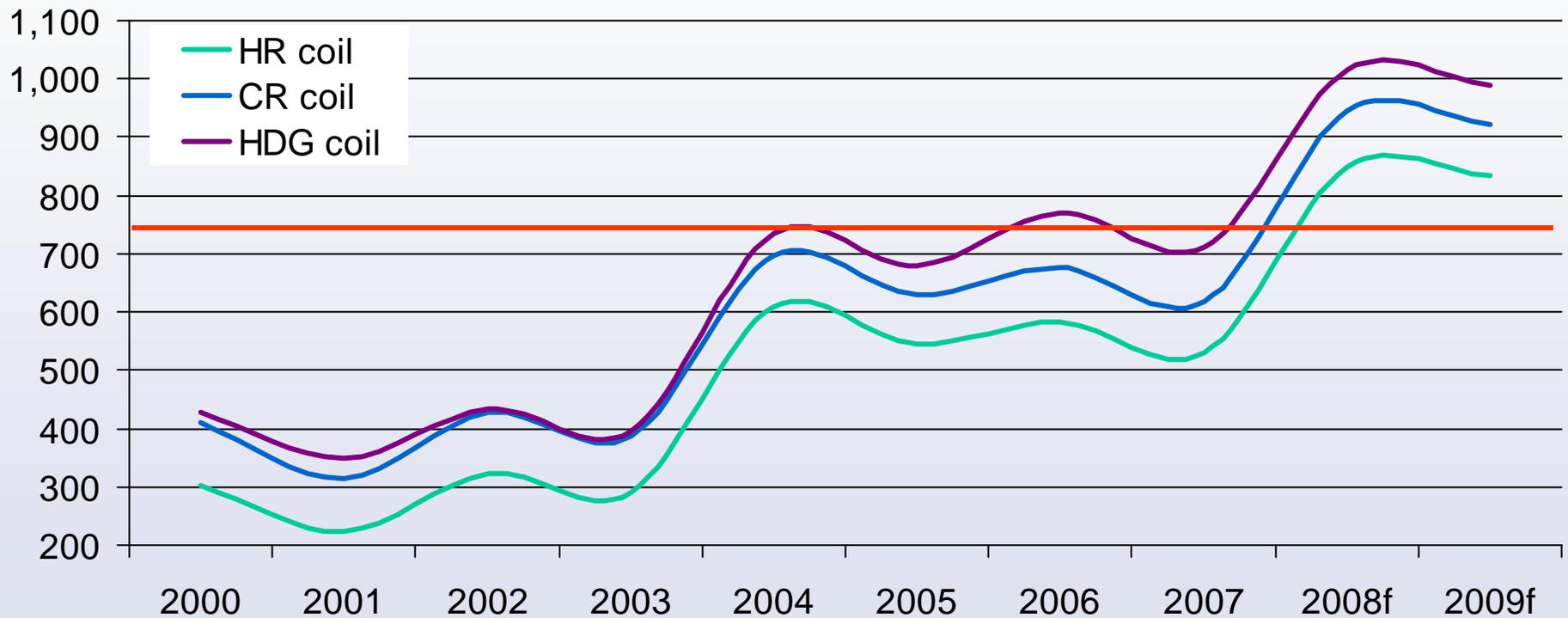
Note: 1987 to 2007 actual mix shares; 2008 to 2020 illustrative trend – not a forecast



Steel Material Prices

Will they reduce long term margin improvements?

US steel sheet prices fob Midwest mill, nominal, US\$/s.ton

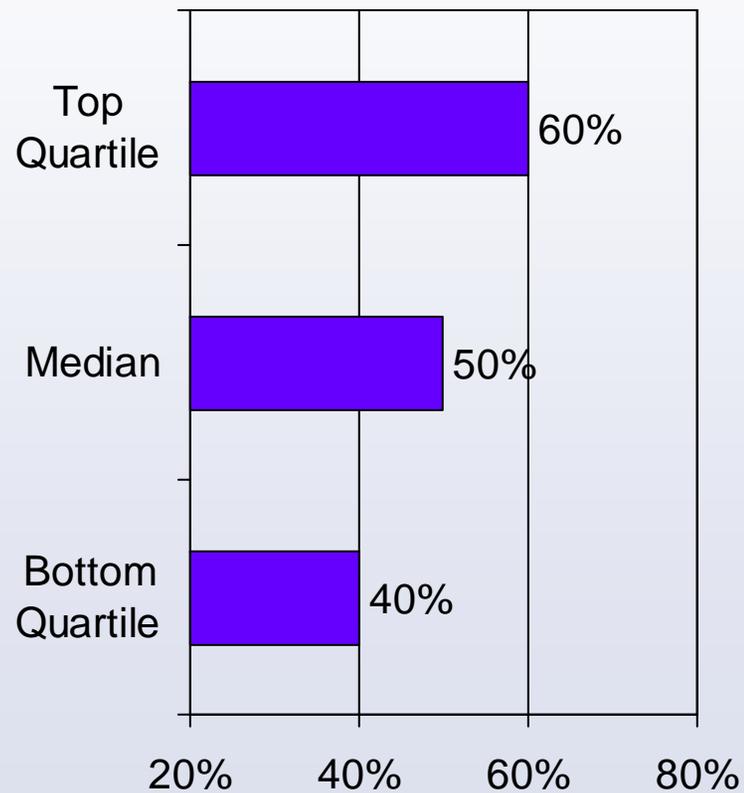


Data: CRU Analysis, presentation to OESA CPO Council, April 2008



Why are Material Markets Important to Suppliers?

Identify the percentage of direct raw materials and purchased components in your cost structure.



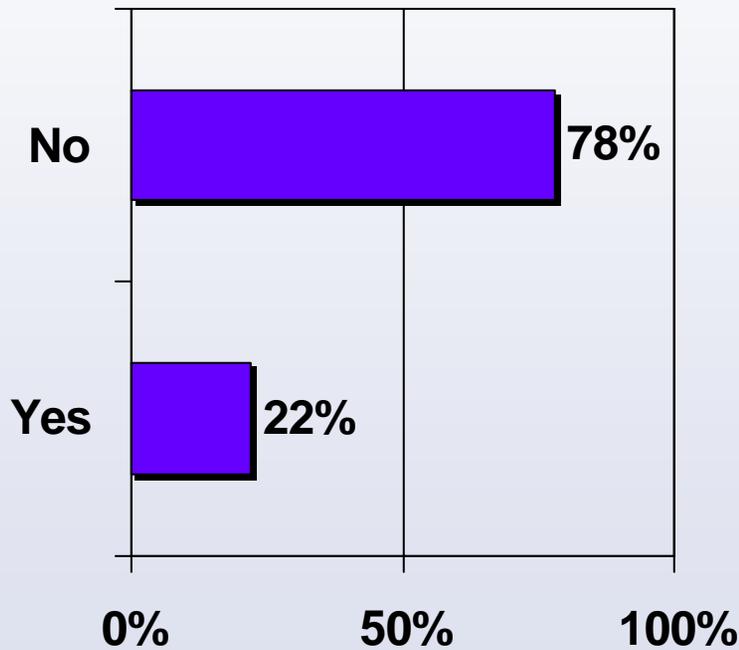
Source: OESA Material Cost Recovery Survey, May 2008; N = 76



Material Costs Creating Financial Vulnerability

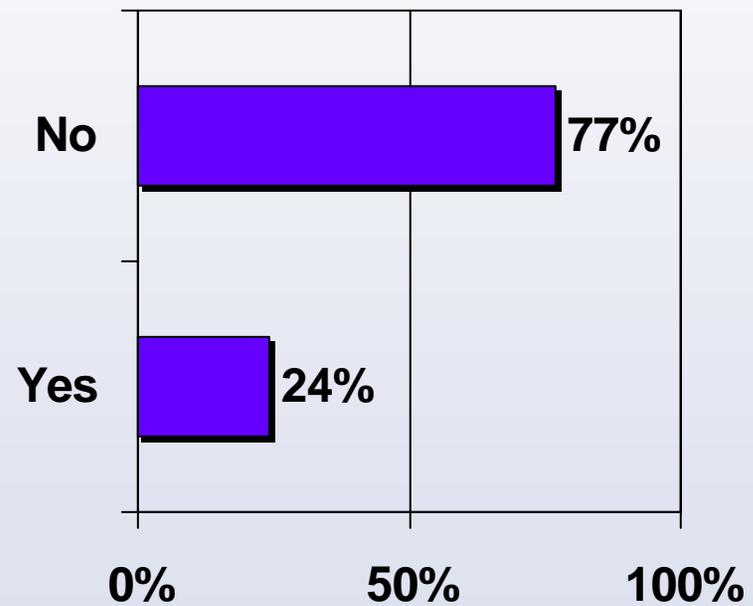
Without any material cost recovery, do current material costs put your company at risk of financial insolvency?

Total Sample



N = 77

Companies under \$250 million Revenue



N = 41

Source: OESA Material Cost Recovery Survey, May 2008



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8 of the top 18 NA Suppliers are Restructuring in and out of Chapter 11

Top 150 suppliers – The largest suppliers to North America, ranked by sales of original equipment parts in 2007

2007 rank	Company	Address	Top executive	Total North America OEM automotive parts sales (dollars in millions) 2007	Total North America OEM automotive parts sales (dollars in millions) 2006	Total worldwide OEM automotive parts sales (dollars in millions) 2007	Total worldwide OEM automotive parts sales (dollars in millions) 2006	Products
1	Magna International Inc. (905) 726-2462	337 Magna Drive Aurora, Ontario L4G 7K1 Canada	Donald Walker & Siegfried Wolf co-CEOs	\$13,592	\$12,897	\$25,645	\$23,883	Interiors, exteriors, body and chase closures, electronics, engines, trans
2	Delphi Corp. (248) 813-2000	5725 Delphi Drive Troy, MI 48098	Robert Miller executive chairman	11,810	13,870	22,283	22,737	Mobile electronics and transportatic powertrain, safety, thermal, controls electrical/electronic architecture, in-consumer electronics military, medical
3	Johnson Controls Inc. (734) 254-5000	49200 Halyard Drive Plymouth, MI 48170	Beda Bolzenius president, automotive experience	7,585 f	8,580 f	18,500 f	19,500 f	Seat systems, interior electronics, d panels, overhead systems, center ar and hybrid vehicle batteries
4	Lear Corp. (248) 447-1500	21557 Telegraph Road Southfield, MI 48034	Bob Rossiter chairman, president & CEO	7,198	9,811	15,995	17,839	Seating, electrical distribution, elect
5	Robert Bosch LLC (248) 553-9000	38000 Hills Tech Drive Farmington Hills, MI 48331	Peter Marks chairman, president & CEO	6,460 fe	4,453 fe	34,000 f	29,687 f	Gasoline systems, diesel systems, t electrical drives, starter motors and automotive electronics, steering eye
6	Denso International America Inc. (248) 350-7500	24777 Denso Drive, P.O. Box 5133 Southfield, MI 48086	Haruya Maruyama president & CEO	5,805 fe	4,558 fe	37,510 fe	28,530 fe	Thermal, powertrain control, electro small motors, telecommunications, in
7	Continental AG (248) 393-5300	One Continental Drive Auburn Hills, MI 48326	William Kozyra president & CEO Continental, North America	5,250 fe	2,409 f	25,000 fe	11,470 f	Electronic brakes, stability managem chassis systems, safety system elec systems, powertrain electronics, int
8	Dana Corp. (419) 535-4500	4500 Dorr St Toledo, OH 43615	Gary Convis CEO	4,797 f	5,187	8,721 f	8,504	Axles, driveshafts, structures, sealir products, off-highway vehicle trans
9	TRW Automotive Inc. (734) 855-2600	12025 Tech Center Drive Livonia, MI 48150	John Plant president & CEO	4,067 f	4,135 f	13,555 f	12,162 f	Steering, suspension, braking and e fasteners, occupant restraint system
10	ThyssenKrupp USA Inc. (248) 643-3500	3155 W. Big Beaver Road Troy, MI 48084	Christian Koenig vp, public & government affairs	3,876 fe	3,879 fe	11,075 fe	10,207 fe	Powertrains, suspensions, steering camshafts, crankshafts
11	Aisin World Corp. of America (734) 453-5551	46501 Commerce Center Drive Plymouth, MI 48170	Don Whitsitt president	3,755 fe	3,486 fe	21,705 fe	19,367 fe	Body systems, brake and chassis sy drivetrain & engine components
12	Visteon Corp. (800) 847-8366	One Village Center Drive Van Buren Township, MI 48111	Michael Johnston chairman & CEO	3,431	4,068 e	10,721	10,706 e	Interiors, climate control and electr
13	International Automotive Components (313) 240-3000	5300 Auto Club Drive Dearborn, MI 48126	Jim Kamsickas president & CEO, North America & Asia	3,290	2,489	5,307	4,306	Instrument panels/cockpits, door ps flooring and acoustics; exterior fasc
14	American Axle & Manufacturing (313) 758-3600	One Dauch Drive Detroit, MI 48211	Richard Dauch chairman & CEO	3,086 e	3,032	3,248 e	3,192 f	Driveline and drivetrain systems; ax
15	ArvinMeritor Inc. (313) 551-2400	6401 W. Fort St. Detroit, MI 48209	Chip McLure CEO	3,008	4,598	6,400	9,195	Axles, brakes, aperture systems, dri systems
16	Yazaki North America Inc. (734) 983-1000	6801 Haggerty Road Canton, MI 48187	George Perry president & CEO	2,793 e	3,704 e	11,308 e	10,583 e	Wiring harnesses, connectors, clust plug cords
17	Faurecia (248) 409-3500	2050 Auburn Road Auburn Hills, MI 48326	Michael Heneka president, North America	2,610	1,950	17,400	15,000	Seats, cockpits, doors, acoustic pac exhaust systems
18	Navistar International Engine Group (708) 865-4304	10400 W. North Ave. Melrose Park, IL 60160	Jack Allen president	2,545 e	2,718 e	3,305	3,397 e	Diesel truck engines

e = estimate f = fiscal fe = fiscal estimate

To update list, fax information to the Automotive News Data Center



Cash Flows Choke when the Business Pipeline is Weak, Cost Structures Balloon, Balance Sheets are Leveraged and Legacies Constrain Options

Business Portfolio	Amcast (12/04 and 11/05) ASC (5/07) Plastech (2/08) Collins & Aikman (5/05)	Dana (3/06) Federal-Mogul (12/01)
Product Cost Structure	Blackhawk (10/07) Blue Water (2/08) Dura (10/06) Pine River Plastics (2/07) Tower (2/05)	Delphi (10/05) Remy Int. (10/07)
	Financial Leverage	Legacy Burdens

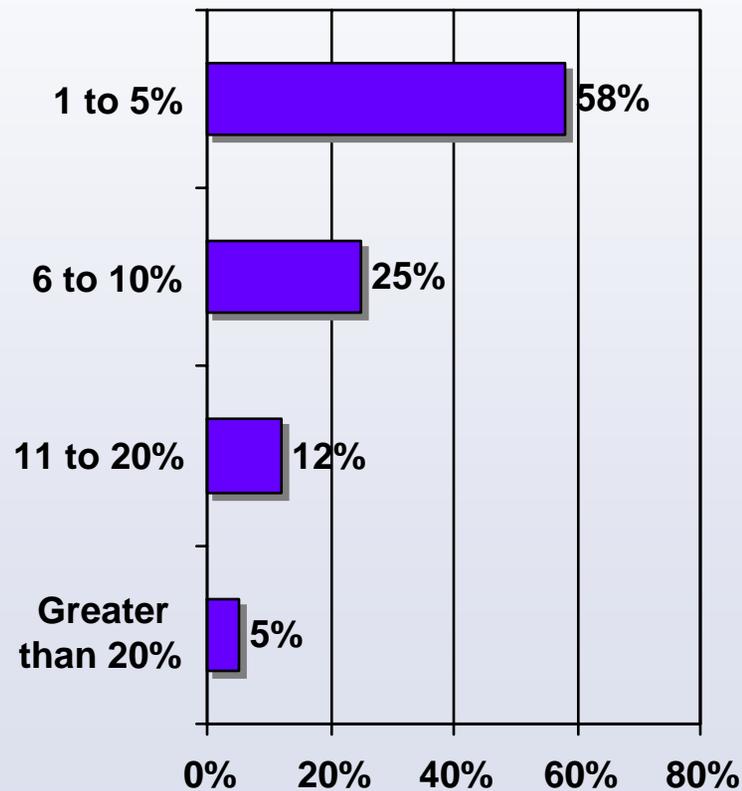
Note: OESA selected bankruptcy examples; not all cases are clearly identified with just two root causes. IRN has identified 36 major bankruptcies since 2003.



American Axle Strike: Ripples Throughout Industry

73% of respondents impacted;
91% expect less than 10% recovery

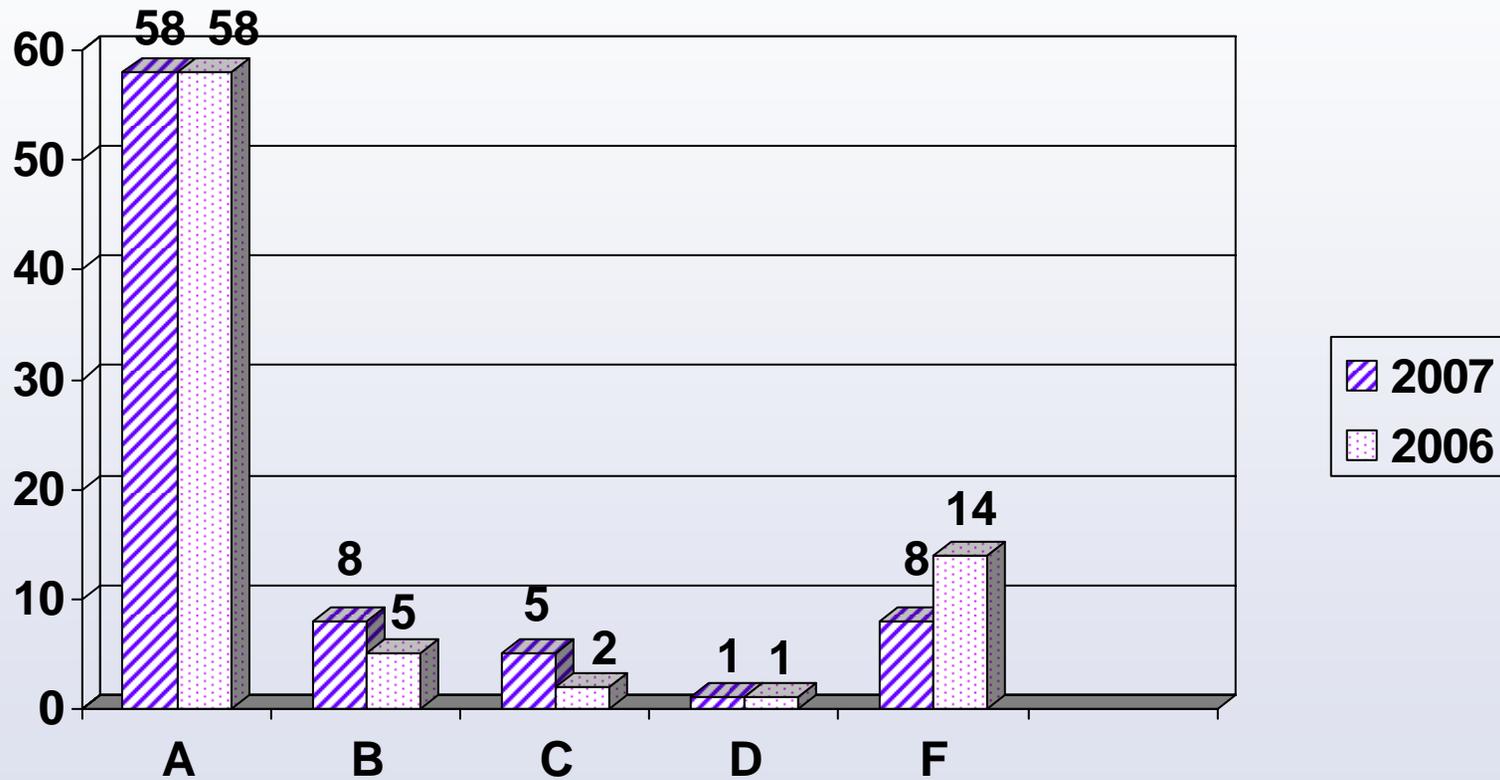
If affected, to this point how much has the strike impacted your top-line revenue?



Source: OESA Supplier Barometer, May 2008; Responses = 83



Supplier Financial Strength Migrated Higher in 2007 – Yet 18% Remain “Stressed”



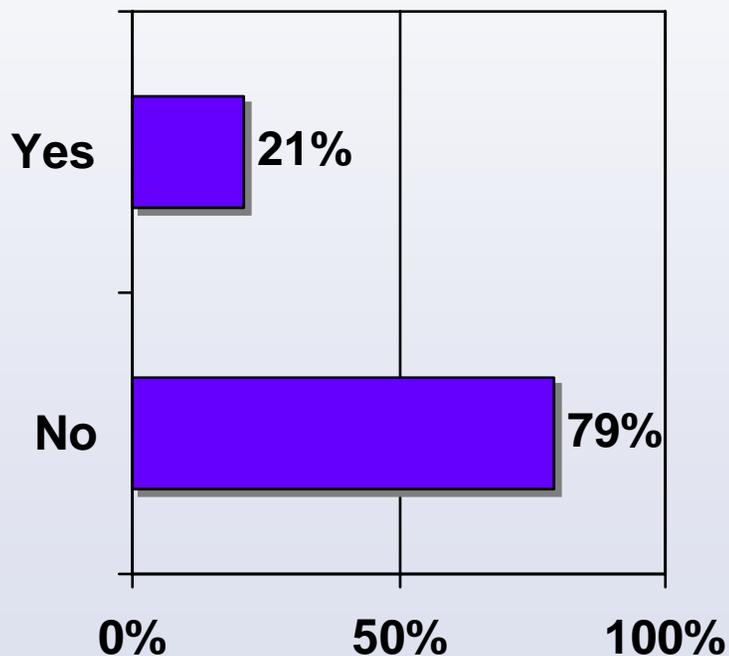
Source: BBK 2007 Financial Ratings Survey; suppliers rated C or below are potentially stressed



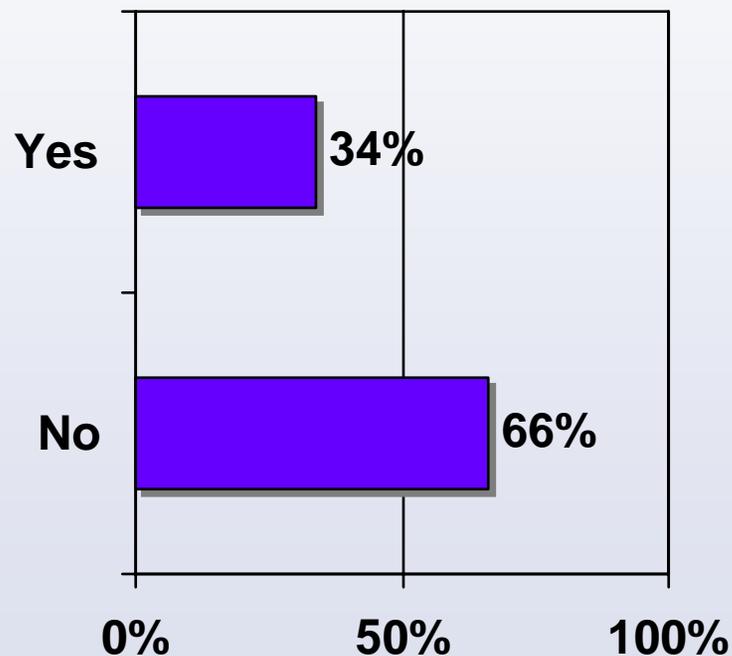
Bankruptcies will Continue through 2008

Considering your top five customers (by revenue) and top five suppliers (by purchases), do you currently, or do you anticipate in 2008 that you will, have a major customer or supplier in Chapter 11 restructuring?

Customers



Suppliers



Source: OESA Supplier Barometer, May 2008, Responses = 113



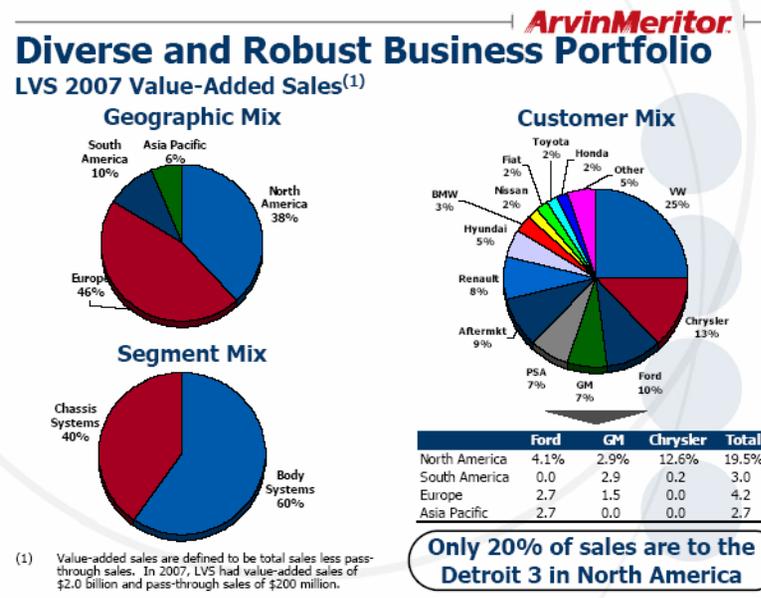
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- **Refinance**
- Restore



Everything and Everyone in Play

Carve-Outs & Spin-Outs





Everything and Everyone in Play

Asset Combinations - Hedge Funds

SPECIAL REPORT	
TOP 10	
NORTH AMERICAN INJECTION MOLDERS	
Company	Most recent year's sales
1 International Automotive Components Group North America LLC	\$1,595
2 Plastech Engineered Products Inc.	\$1,350^E
3 Berry Plastics Corp.	\$1,315^E
4 Delphi Corp.	\$1,030^E
5 Magna International Inc.	\$945^E
6 Newell Rubbermaid Inc.	\$719^E
7 Nypro Inc.	\$699.9
8 Automotive Components Holdings LLC	\$517^E
9 Illinois Tool Works Inc.	\$500^E
10 AptarGroup Inc.	\$472^E

This 25-page section focusing on the injection molding industry begins on Page 13.

^EPlastics News and industry estimates Plastics News graphic by Scott Merryweather



Everything and Everyone in Play

Foreign Direct Investment

MEDIA RELEASE
For Immediate Release

Metaldyne Agrees to be Acquired by Asahi Tec

Combined Companies Will Create Leading Global Powertrain / Chassis Supplier

PLYMOUTH, MI – September 1, 2006 — Metaldyne Corporation, a leading global supplier of powertrain and chassis systems and components, announced today it has agreed to be acquired by Asahi Tec Corporation, a Shizuoka, Japan-based chassis and powertrain component supplier in the passenger car/light truck and medium/heavy truck segments.

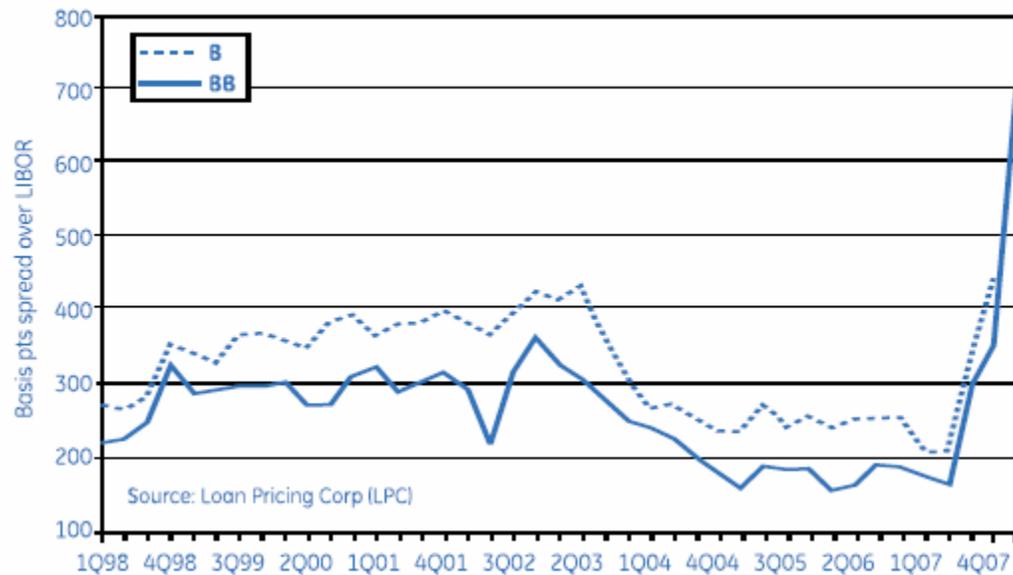
Delphi close to selling suspension and brake system operations; Chinese millionaire Tianbao Zhou expected to win auction, sources say

Delphi, the bankrupt US automotive supplier, is getting very close to selling its suspension and brake system operations, said two sources familiar with the situation. Chinese entrepreneur Tianbao Zhou is rumored to be the front-runner to acquire the business for USD 200m, said one of those sources. "We are in discussions regarding the sale of those assets," said a Delphi spokesperson, who declined comment on Zhou or the identity of any other bidders. Tianbao Zhou is expected to emerge victoriously with a bid of USD 200m after years of preparation and several rounds of auction, the source said. Zhou was ranked 391 on Forbes' Richest Chinese of 2007 list with personal assets worth CNY 1.55bn (USD 222m).



Credit Markets are Tightening for Automotive

Drawn Margins on Leveraged Institutional Term Loans

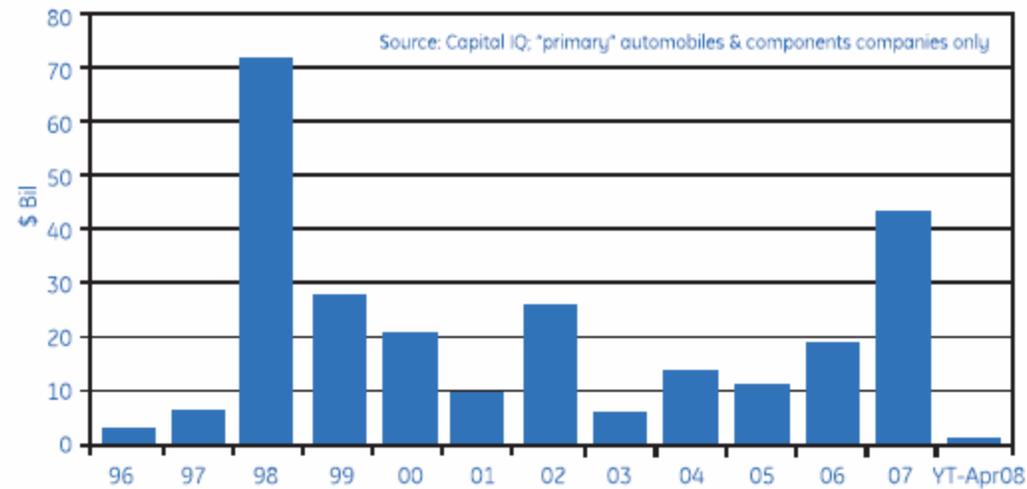


Source: GE Commercial Financial – Industry Research Monitor - 2Q 2008



Credit Markets are Tightening for Automotive

Global M&A Deal Volume

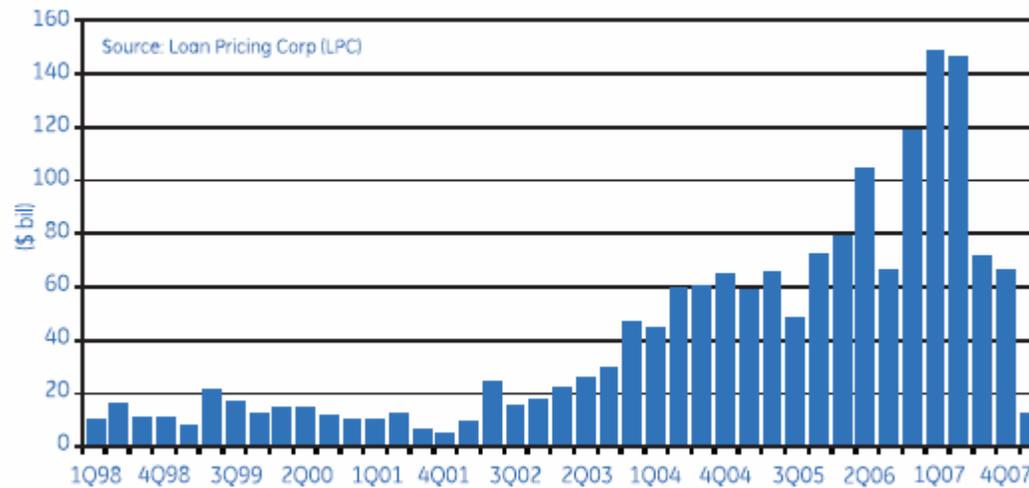


Source: GE Commercial Financial – Industry Research Monitor - 2Q 2008



Deals are Becoming More Selective

U.S. Quarterly Institutional Term Loan Issuance

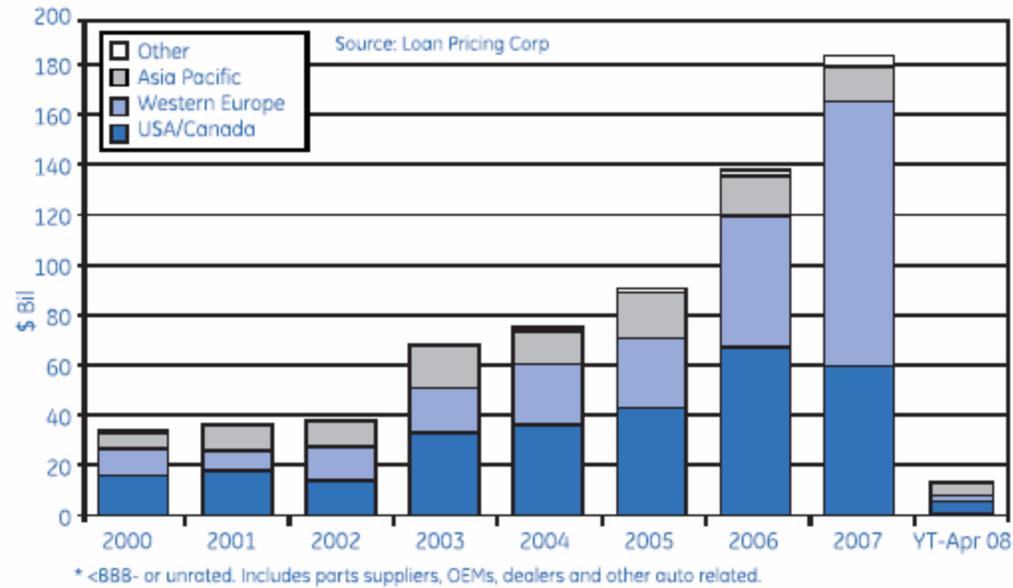


Source: GE Commercial Financial, Industry Research Monitor - 2Q 2008



Deals are Becoming More Selective

Global Auto & Auto Parts Syndicated Loan Volume



Source: GE Commercial Financial, Industry Research Monitor - 2Q 2008



Private Equity and Hedge Funds

The New American Supplier: Speed, Cash, Delivery

➤ Private Equity

- American Industrial Partners
- Blue Point Capital
- Castle Harlin
- First Atlantic
- Hammond Kennedy Whitney
- KPS Special Situations
- One Equity Partners
- Platinum Equity
- Ripplewood Holdings
- Sawmill Capital
- Thayer Capital
- Wilber Ross (IAC)
- Wynnchurch Capital

➤ Hedge Funds

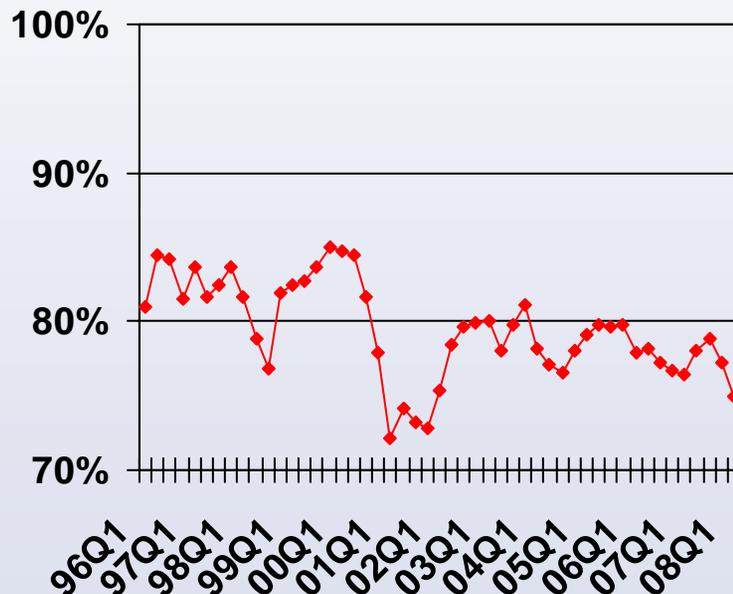
- Angelo, Gordon
- Appaloosa Management
- Cerberus Capital Management
- D.E. Shaw
- Harbinger Capital
- Marathon Asset Management
- Pardus Capital Management
- Patriarch Partners
- Silver Point Capital
- Stanfield Capital Partners
- Tennenbaum Capital Partners

Source: Macquarie Group, OESA CFO Council meeting presentation, 2007



Capacity Utilization Driving Consolidation

U.S. Motor Vehicle Parts - Capacity Utilization Rates



Source: U.S. Federal Reserve Board of Governors

- AlixPartners' analysis: ROCE has a 68 percent correlation to capacity utilization
- The traditional 80 percent rule of thumb does not apply given the shift of fixed costs and responsibilities
- Range of likely consolidation varies widely from stampings and molding on the high side to powertrain/driveline suppliers on the low end
- Financial consolidators will have a significant impact driving consolidation versus the strategic consolidators of the late 1990s
- Remember, the world is flat and capacity analysis must be from a global perspective



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- **Restore**



Suppliers are Focused on Three Major Risk Factors in 5 to 7 Year NA Business Plans

- Managing an increasingly complex global footprint – across engineering, purchasing, manufacturing and sales functions
- Detroit Three long-term competitiveness
- Emerging international competitors and capacity

Additional significant risks:

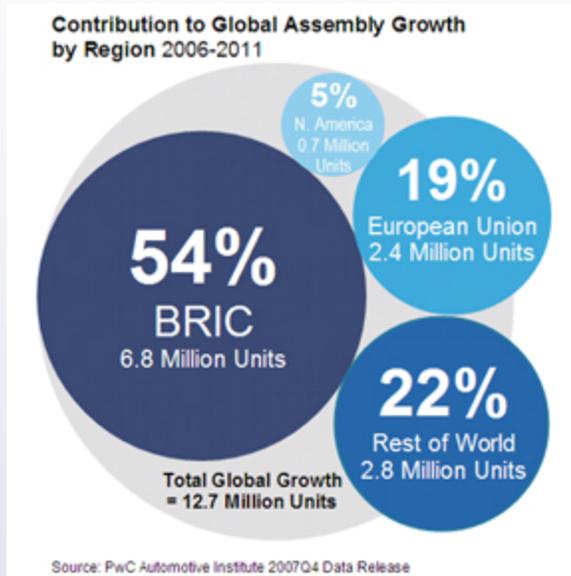
- Continued weakness of the US dollar
- Material price volatility and levels

Source: March 2008 OESA Supplier Barometer; Responses = 82



There is Significant Growth in Global Markets

Global Unit Growth = 2.5% CAGR



Global Revenue Growth = 5% CAGR



Source: General Motors Corporation Industry Analysis

Supplier value-added expected to grow from 2/3 of the vehicle towards 3/4 over the next 10 years.

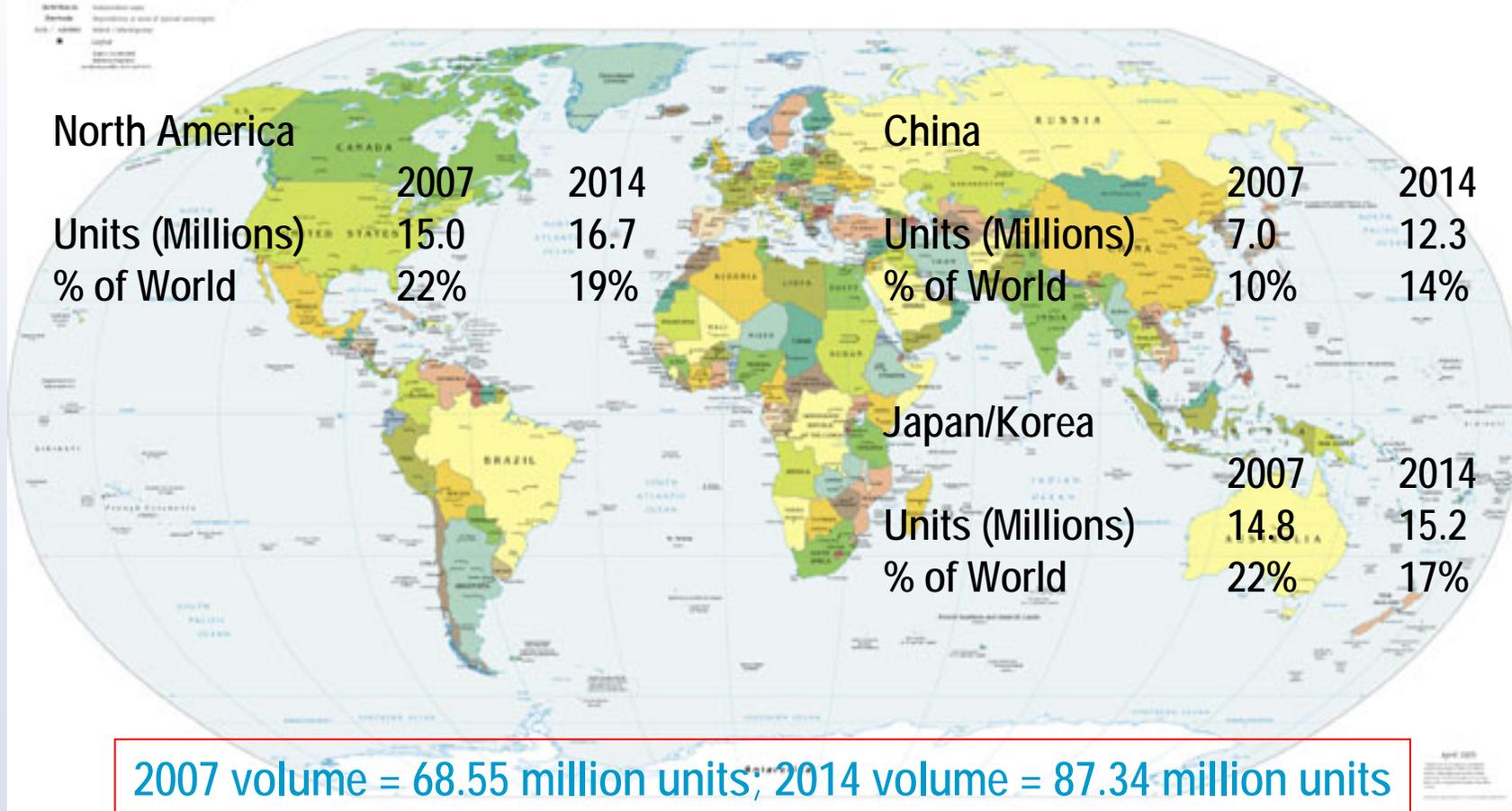


10 Years

One Certainty: Globalization

NA unit volumes increase; while world share declines

Political Map of the World, April 2005



2007 volume = 68.55 million units; 2014 volume = 87.34 million units

Source: CSM Worldwide



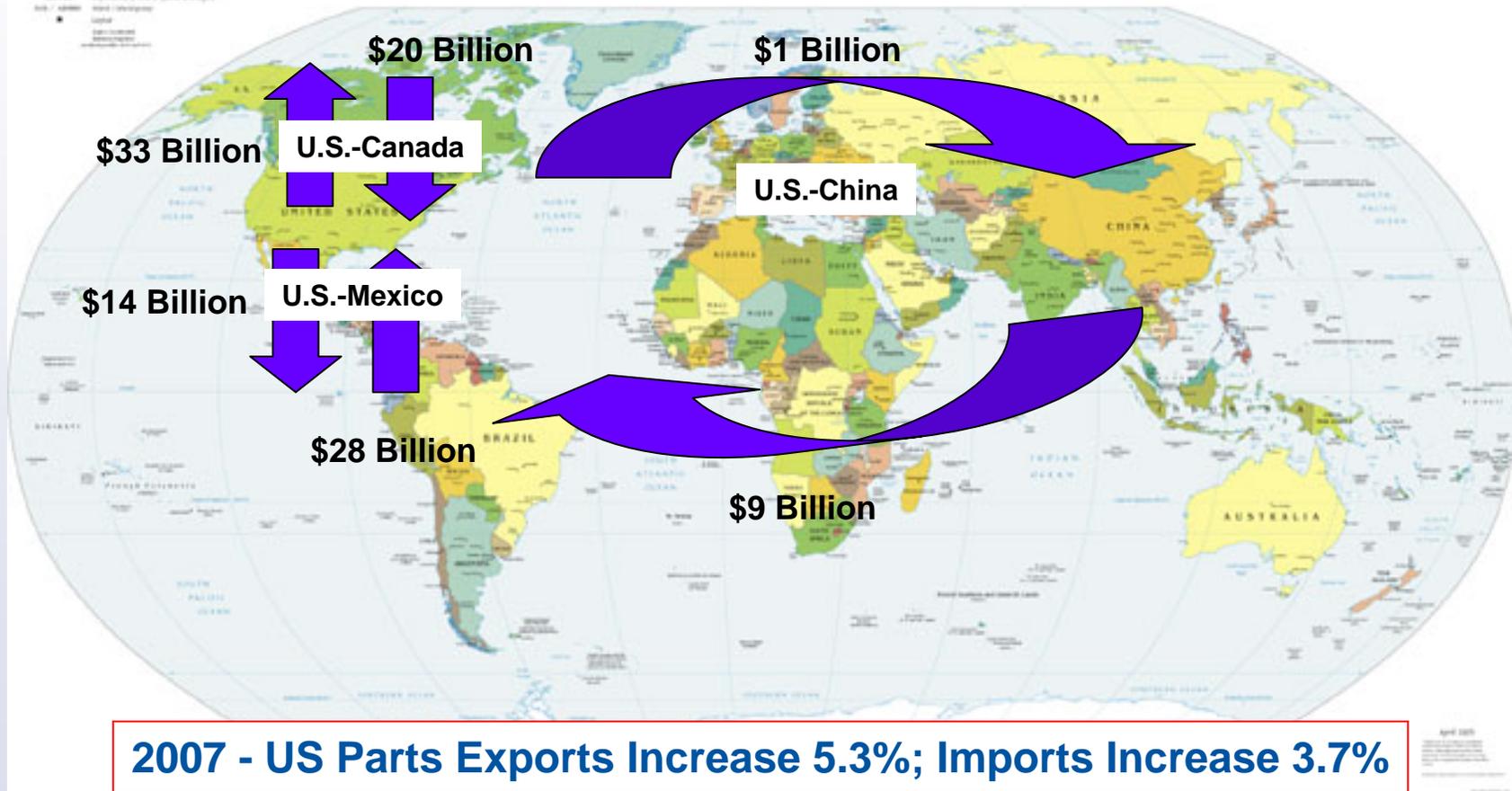
10 Years

Political Map of the World, April 2005

As Such, Global Trade Flows will Increase

Emerging markets and manufacturing footprints drive trade

2007 US Parts Trade with the World



Source: U.S. International Trade Administration



Regional Supply Bases Will Remain Relevant

➤ Operational

- Synchronization with JIT production and delivery systems
- Global coordination across design and product development teams
- Accurate landed cost data for analysis
- Insufficient focus on supplier development

➤ Organizational

- Coordination among internal OEMs functions requires local presence
- Critical purchasing, engineering resources not available within LCC

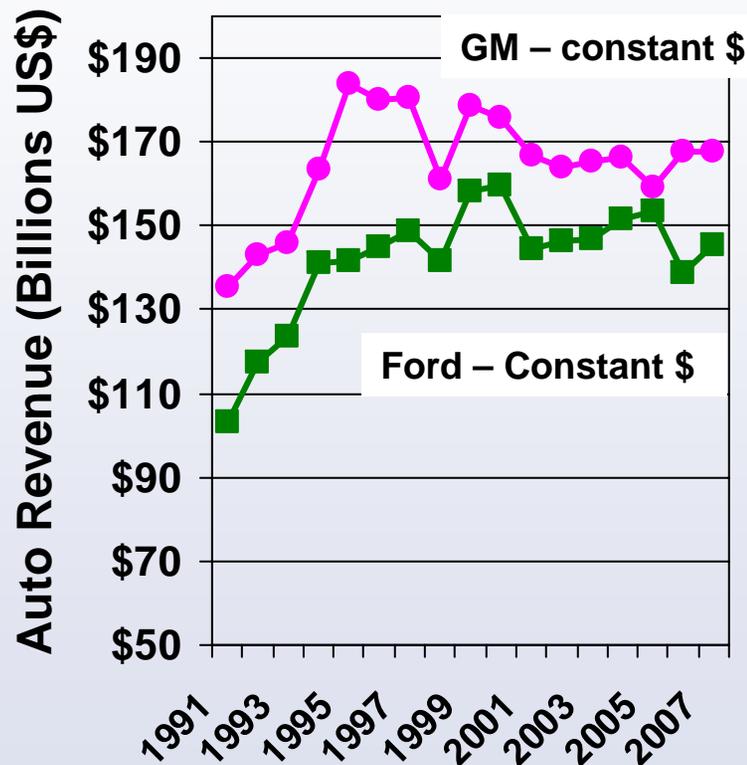
➤ Cultural

- Overcoming resistance to change supplier relationships (real and perceived issues)
- Overcoming previous unsuccessful sourcing decisions (surveys show actual cost savings can run just 20 percent of anticipated savings)

Source: McKinsey & Company



Supplier Fortunes will not Turn until Major Customer Fortunes Turn



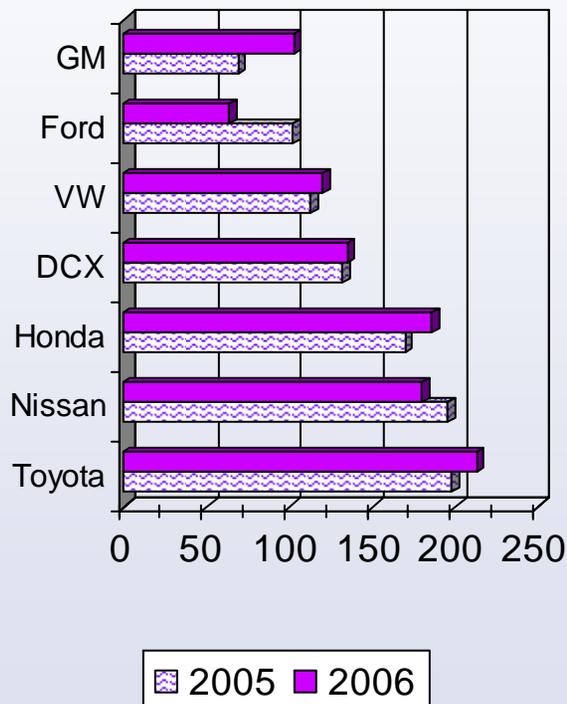
Note: constant \$ = 2005 dollars corrected by CPI.

- It is perfectly rational with flat or declining real revenues that a company look to its largest cost component for relief
- In addition, raw material increases heavily influenced unfavorable cost positions at GM and Ford
- Short-term gains are the average 3 – 5% annual price reductions given by suppliers
- Two fundamental questions
 - Are cost (not price) structures truly changing in the industry?
 - Can the industry move to a new working model with a shared understanding of the attributes that characterize true collaboration?



Operating Relationships Will Not Improve Until Customer TCP Improves

Total Company Performance Index

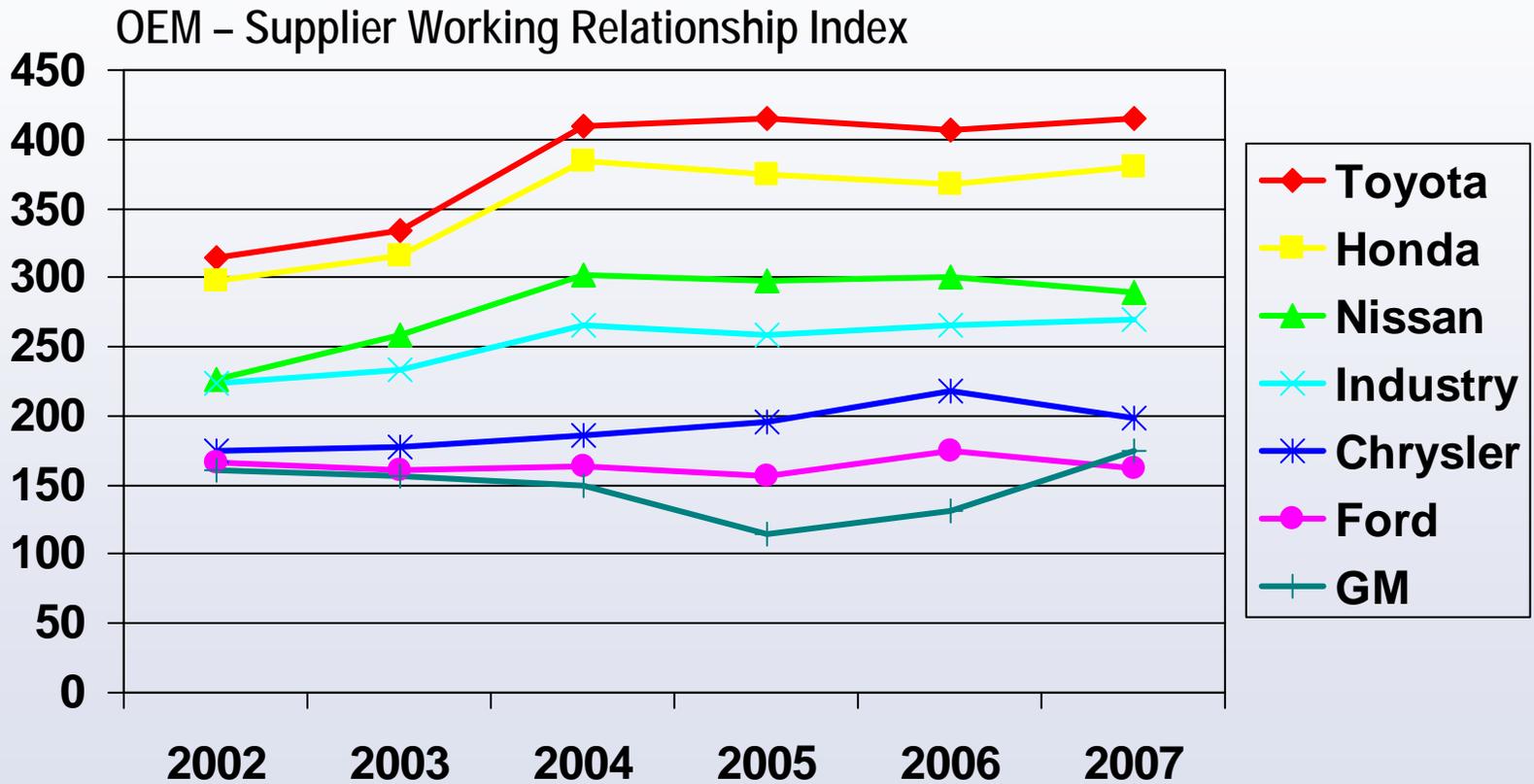


- While the total global unit and revenue growth remains strong; supplier fortunes reflect customer and platform exposure with individual customers
- McKinsey TCP measures total labor and capital productivity derived from a market, supply chain management, labor input, labor market and capital input perspective that includes:
 - Value added/labor cost, value add/employee, labor cost/employee, value add/vehicle, number of vehicles per employee, revenues/vehicle, intermediate input/vehicle, invested capital/vehicle
- OEM performance plays out in supplier relations, ability to price, production schedule predictability – basically every element that makes up the opportunity and cost of doing business
- GM has shown improvement, while Ford slipped between 2005 and 2006 on this measure

Source: McKinsey & Co., TCP 2006, November 2007



OEM – Supplier Working Relationships Show Some Progress, but Lag other Improvements



Source: Planning Perspective, 2007 Survey

350 to 500 is good to very good; 250 to 349 indicates adequate relations; under 249 poor

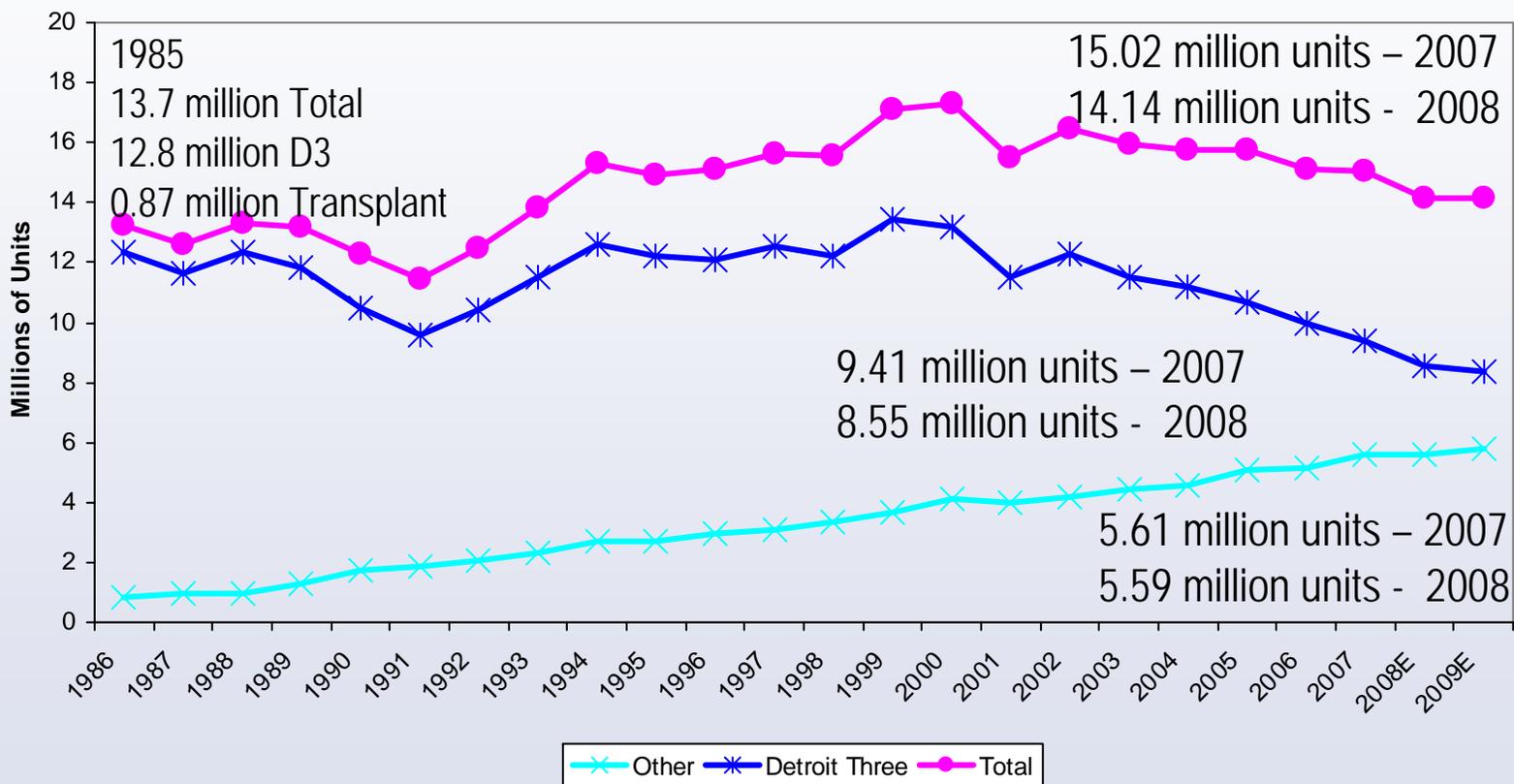


Suppliers' Cannot Wait for Their Customers: Suppliers need to address what is in their control

- **Lean operations from floor to back shop**
 - Implementing Overall Equipment Efficiency and value-mapping to all manufacturing and business processes
- **Total value chain management focused on cost out not price down**
 - Assuring productivity growth outruns margin pressure and capacity utilization fluctuation
- **Active working capital management**
 - Instilling a financial versus an accounting mindset
- **Strategic margin management**
 - Managing portfolio towards lower cost to serve customers and higher margin products
- **Next stage of competitiveness: a TPS-mindset throughout all supply tiers**



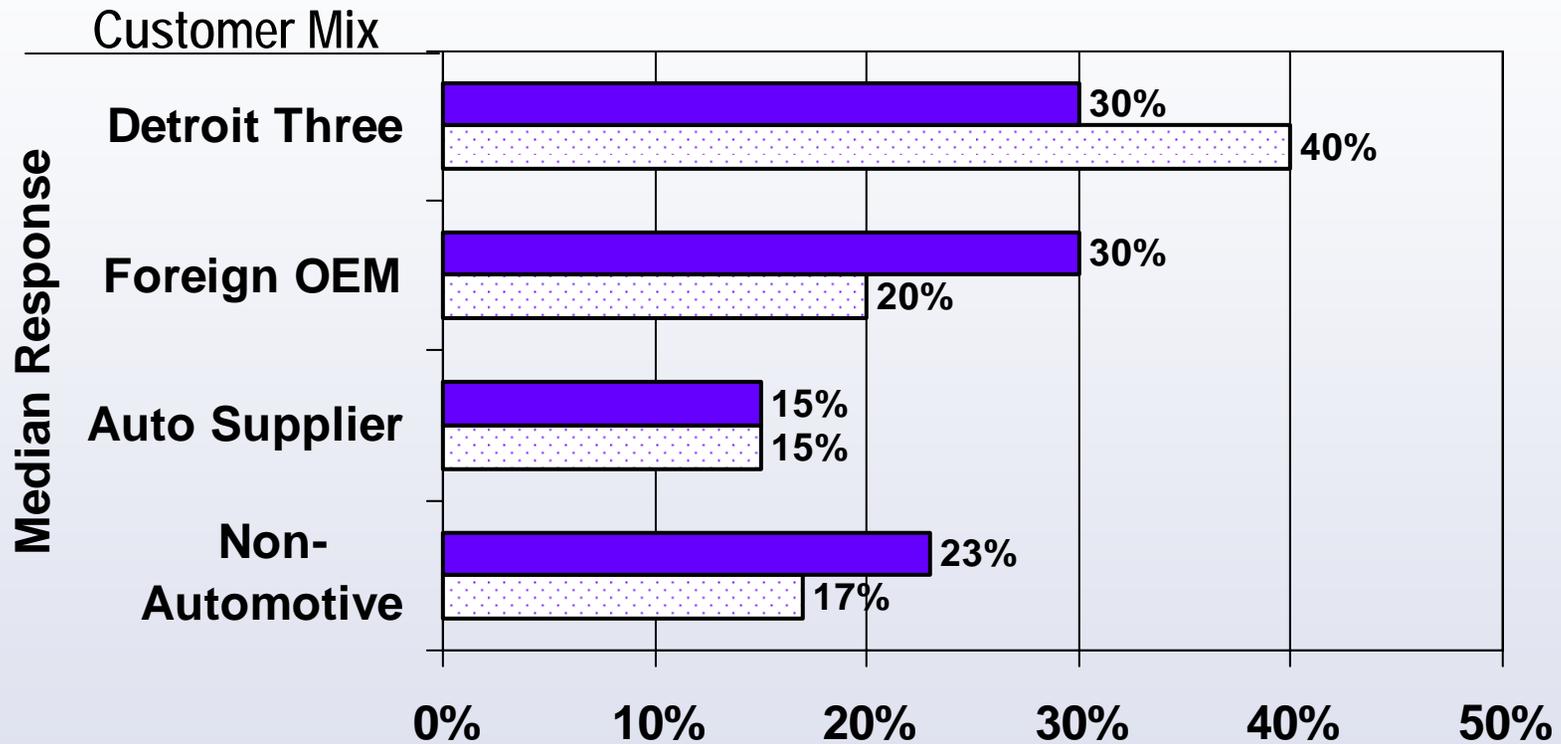
North American Light Duty Production Forecast



Source: KeyBanc Capital Markets, Apr 12, 2008



Suppliers are Looking to Diversify Automotive Customers and Non-Automotive Business



Responses = 84

2008 2013

Note: Because these are the median responses within each category, the sum across all categories does not add to 100%.



There is Good News In the Air

The Largest Customer's Product is Getting Better

Product and Brand Building Focus Reflected in Reason to Purchase

	2004 MY	2005 MY	2006 MY	2007 MY Q1-Q3
#1	Rebate Incentives	Value for the Money	Exterior Styling	Exterior Styling
#2	Value for the Money	Rebate/ Incentives	Value for the Money	Value for the Money
#3	Exterior Styling	Employee Discount	Fuel Economy	Fuel Economy
#4	Price/Monthly Payments	Manufacturer Reputation	Price/Monthly Payments	Dependability/ Reliability
#5	Past Manufacturer Experience	Exterior Styling	Rebate/ Incentives	Price/Monthly Payments

Source: GM Global Market and Industry Analysis



Supplier Business Opportunities: In Some Ways It's Back to the Future

Bailey Roadster

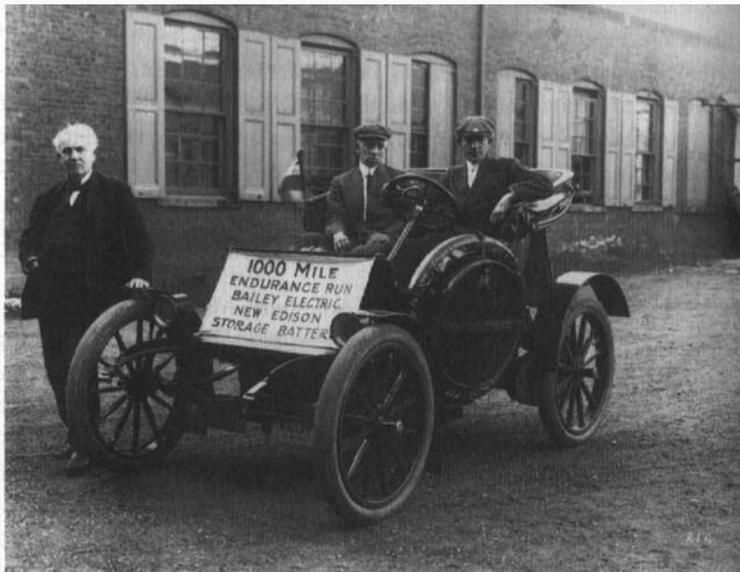


Figure 43. Thomas Edison poses alongside the Bailey roadster that survived a 1,000-mile run. (U.S. Department of the Interior, National Park Service, Edison National Historic Site, 14.625/12, neg. 214)

Chevy Volt: E-Flex FC

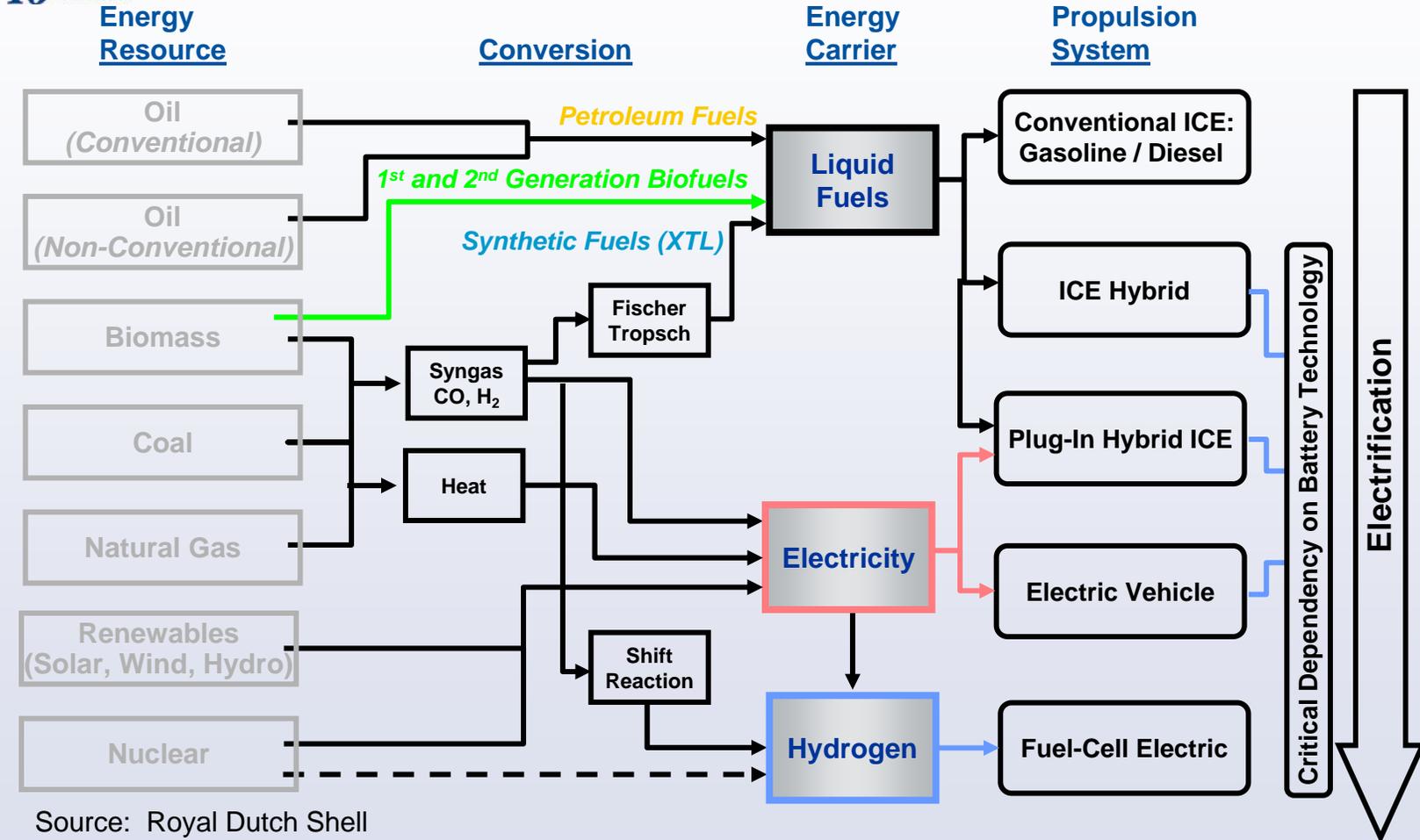




The Electrification of the Vehicle

The supply base will be core to all new systems

10 Years



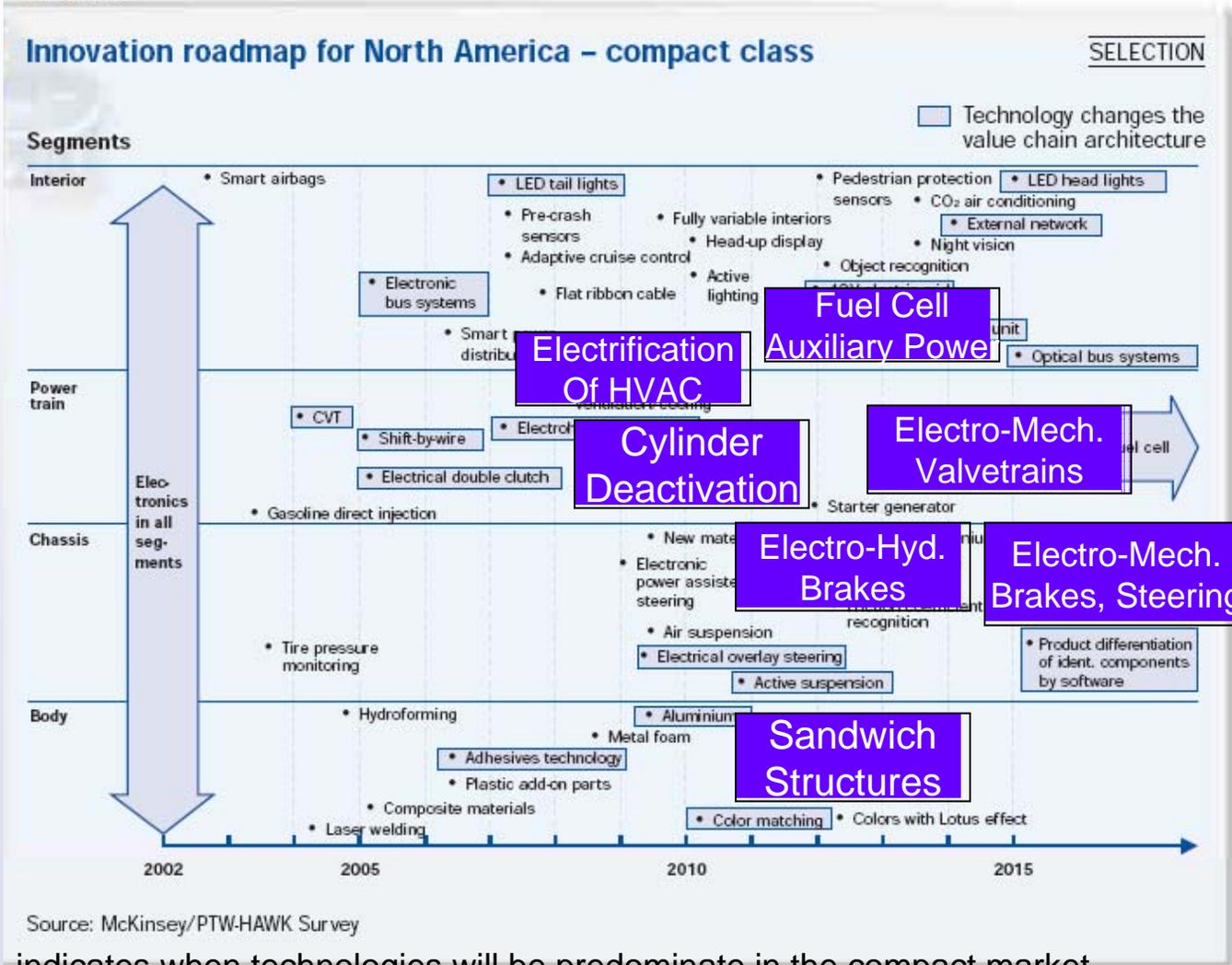
Source: Royal Dutch Shell



Reaching 35 MPG in 2020 Touches Every System

10 Years

Exhibit 9



Note: indicates when technologies will be predominate in the compact market



Conclusions

- Short-term, North American production environment and supplier financial condition is weakening
- Long-term NA production volume outlook remains positive; global opportunities remain significant
- While emerging markets must draw OEM and supplier attention, this should not come at the expense of the developed markets
- Regional markets and supply bases will exist within the context of the industry's global engineering, manufacturing and sales footprint
- The automobile will be at the epicenter of demographic changes, public policy challenges and product and process innovations – the suppliers and OEMs will have tremendous opportunities. But we need to improve the return on capital to have the wherewithal to succeed.



Thank You

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