The Suppliers’ Outlook—
From Survive to Thrive

Federal Reserve Bank of Chicago
Automotive Outlook Symposium
June 1, 2012

Dave Andrea
Senior Vice President
OESA – Original Equipment Suppliers Association
How We Gain Our Perspective at OESA:
410 members, 55 council meetings with 560 executives, 30 events with 5,000 participants, 50 member surveys and 14 staff
Outline

• A Changing Industry

• Today’s Challenges to Survive

• Tomorrow’s Opportunities to Thrive
Lesson Learned: Meeting Production Demands While Keeping the Cost Discipline of the Restructuring

North American Light Duty Sales, Production and Breakeven

Sources: IHS Automotive (October 2011) and OESA Automotive Supplier Barometer

9.5 Million Units = B/E Sept 2009
10.5 Million Units = B/E January 2011 and July 2011
11.0 Million Units = B/E January 2012
Headcount is Rising Slowly
Productivity Will Rise if the Workforce Does Not Burn-out

Updated to include 2012 February/March projected employment

Includes only NAICS code 3363 for Auto Parts
Consolidation and elimination of weaker players has led to attractive industry dynamics

Barriers to entry have increased including need for global scale and customer proximity

Industry capacity cut significantly and competition has been reduced

Remaining competitors operating more rationally

2006

2010
Outline

• A Changing Industry

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• Tomorrow’s Opportunities to Thrive
Supplier Sentiment: Digesting Good and Bad News Every Day

Compared to two months ago, how has your 12 month outlook changed?

No. of Responses = 108
If Customer Demands Weren’t Challenging Enough
Natural and Industrial Disasters Stress Test the Entire Value Chain

- Magna Fire
- Japan Earthquake and Tsunami
- Southeast U.S. Tornadoes
- Autoneum PA flood
- Thailand Floods
- Evonik Plant Explosion
CDT Supply Chain Disruptions: Evonik controls ~25% of CDT production and ~40% of Nylon 12 production

- The industry was quick to identify the constituents and potential “work-arounds”
- OESA is supporting the workgroup charged with finding alternative sources of CDT
- OESA is supporting workgroups to identify methods to speed validation of alternative materials
Suppliers Are Taking On A Wide Range of Recovery Actions – A Sample of Actions with Customers

**Alternate Materials:**
- Design in new resins.
- Alternate material validation.
- Use alternative material.
- Working on expedited validation.
- Confirming use of alternative materials.
- Executing a material change.

**Monitoring:**
- Proactive schedule monitoring.
- Staying close to all production schedules.
- Watching releases from week to week.
- Closely monitoring releases in order to flex appropriately.

**Communication:**
- Keeping them in the information loop.
- Keep them informed of the status.
- Communicating / advising them of our information.
- Relaying information from our suppliers to our key customer.
- Working on quick approvals.
- Daily calls.
- We made phone calls to our customers that may be affected by this shortage and asked if they were ok and if we may see production shortages and all have said they are good. Some of our customers shut down for change over and we are getting informed that several companies and divisions are so busy that they will not be shutting down and are giving us the heads up so we can support their needs.
- Alerting when there is a risk. However, our investigations to date have shown limited risk for our components.
What actions and strategies are being taken within your company to mitigate supply chain risk?

- * Increasing dual sources of materials
- Increasing inventory or buffer stocks
- Validating alternate materials
- Sourcing materials/components closer to the point of use
- Expediting shipments
- Reallocating production within existing supply base
- * Increasing dual sources of components
- Increasing investments in IT systems or technologies
- Validating alternate components
- Simulating supply chain disruptions
- Other

* In 2011, Resourcing, adding new suppliers = 32 responses

No. of Responses = 107
The Supply Base Did Take a “Hair Cut” in 2009 and Bottlenecks Exist Throughout the Supply Chain

Capacity Utilization data from the OESA Automotive Supplier Barometer May 2012:

• Supplier Current Running Capacity (85%)
• Current + Warm-idled capacity (75%)
• Current + Warm + Cold-idled capacity (75%)

• When asked about utilization rates, the upper quartile of companies are running at 90%; 89% including their warm and cold-idled capacity— and this is at a 14.5 million unit level

• The lower quartile companies are operating at 70%; 55% including all available capacity

Source: U.S. Federal Reserve Board of Governors
Record Number of Vehicle Launches and Volume Recovery is Driving CapEx Budgets Higher

Estimate the change in capital expenditures using 2011 as the base year.

<table>
<thead>
<tr>
<th></th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
<th>80%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All respondent Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>18%</td>
<td>12%</td>
<td>10%</td>
<td>24%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>2014</td>
<td>14%</td>
<td>11%</td>
<td>19%</td>
<td>21%</td>
<td>20%</td>
<td>15%</td>
</tr>
</tbody>
</table>

By Company Revenue

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>2012</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$151 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>2014</td>
<td>22%</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue Range</th>
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<th>2014</th>
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</thead>
<tbody>
<tr>
<td>$151-$500 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>21%</td>
<td>12%</td>
</tr>
<tr>
<td>2014</td>
<td>35%</td>
<td>23%</td>
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</tr>
<tr>
<td>2012</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td>2014</td>
<td>29%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Estimate of Percent Increase over 2011 Base

No. of Responses = 97-102
### Suppliers Have Been In the Labor Market

**Within the next six months, is your company planning to add or cut staff in each of the following areas?**

<table>
<thead>
<tr>
<th>Area</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate- General Management</td>
<td>15% 4% 82%</td>
<td>25% 2% 73%</td>
</tr>
<tr>
<td>Corporate- Engineering and Technical</td>
<td>80% 1% 19%</td>
<td>79% 2% 19%</td>
</tr>
<tr>
<td>Production-Hourly</td>
<td>57% 6% 37%</td>
<td>73% 3% 25%</td>
</tr>
<tr>
<td>Production-Skilled Trades</td>
<td>53% 1% 46%</td>
<td>53% 1% 46%</td>
</tr>
<tr>
<td>Sales and Marketing *</td>
<td>47% 0% 53%</td>
<td></td>
</tr>
</tbody>
</table>

* 2010 data not available. Was not a category in Nov. 2010 survey

No. of Responses = 81-85

OESA Automotive Supplier Barometer November 2011
Matching Labor Supply and Demand is Difficult

For those areas where your company is planning to add staff, indicate if you are having trouble finding qualified, available candidates.

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<thead>
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<th>Area</th>
<th>2011</th>
<th>2010</th>
</tr>
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<tbody>
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<td>Corporate- General Management</td>
<td>11%</td>
<td>18%</td>
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<td>25%</td>
</tr>
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<td>Production-Hourly</td>
<td>30%</td>
<td>26%</td>
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</tr>
<tr>
<td>Sales and Marketing *</td>
<td>33%</td>
<td>35%</td>
</tr>
</tbody>
</table>

- **Yes, we are having trouble finding qualified available candidates**
- **No, we are not having trouble finding qualified available candidates**
- **Not applicable**

* 2010 data not available. Was not a category in Nov. 2010 survey

No. of Responses = 54-71

OESA Automotive Supplier Barometer November 2011
Outline

• A Changing Industry

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• Tomorrow’s Opportunities to Thrive
The Vehicle Manufacturers’ Global Footprint Supported by FTA’s Will Drive The Suppliers’ Footprint

Source: IHS Automotive – April 2012

<table>
<thead>
<tr>
<th>Region</th>
<th>2011 Units (Millions)</th>
<th>2018 Units (Millions)</th>
<th>% of World 2011</th>
<th>% of World 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>13.1</td>
<td>17.6</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>China</td>
<td>17.6</td>
<td>29.1</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>Europe</td>
<td>20.2</td>
<td>23.2</td>
<td>26%</td>
<td>22%</td>
</tr>
<tr>
<td>Japan/Korea</td>
<td>12.5</td>
<td>12.9</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Mid-East/Africa</td>
<td>2.3</td>
<td>2.7</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>South America</td>
<td>4.3</td>
<td>6.4</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>South Asia</td>
<td>6.9</td>
<td>12.6</td>
<td>9%</td>
<td>12%</td>
</tr>
</tbody>
</table>

2011 volume = 76.9 million units
2018 volume = 104.5 million units
As Global Vehicle Architecture Commonality and Volumes Grow – Suppliers have Opportunities to Restructure their Footprints for Swing Capacity on the Export Side

Estimate the percent of your current North American production that is exported outside of the NAFTA region (percent of dollar value).

Of the export value you've provided above, what is the regional split of your exports?

<table>
<thead>
<tr>
<th>Region</th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Upper Quartile</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>8%</td>
<td>38%</td>
<td>81%</td>
<td>72</td>
</tr>
<tr>
<td>S. America</td>
<td>2%</td>
<td>5%</td>
<td>20%</td>
<td>51</td>
</tr>
<tr>
<td>Japan/Korea</td>
<td>2%</td>
<td>10%</td>
<td>30%</td>
<td>49</td>
</tr>
<tr>
<td>China</td>
<td>1%</td>
<td>10%</td>
<td>32%</td>
<td>47</td>
</tr>
<tr>
<td>Rest of World</td>
<td>2%</td>
<td>10%</td>
<td>23%</td>
<td>39</td>
</tr>
</tbody>
</table>

Note: No change in Y-o-Y results

No. of Responses = 96
And Improve Cost Structures Through the Import Side

Estimate the percent of your current material costs for North American production that is purchased outside of the NAFTA region (percent of dollar value).

Of the purchase value you've provided, what is the regional split of your purchases?

<table>
<thead>
<tr>
<th>Region</th>
<th>Lower Quartile</th>
<th>Median</th>
<th>Top Quartile</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>10%</td>
<td>22%</td>
<td>53%</td>
<td>55</td>
</tr>
<tr>
<td>S. America</td>
<td>0%</td>
<td>0%</td>
<td>6%</td>
<td>20</td>
</tr>
<tr>
<td>Japan/Korea</td>
<td>10%</td>
<td>25%</td>
<td>60%</td>
<td>51</td>
</tr>
<tr>
<td>China</td>
<td>10%</td>
<td>23%</td>
<td>50%</td>
<td>51</td>
</tr>
<tr>
<td>Rest of World</td>
<td>0%</td>
<td>10%</td>
<td>15%</td>
<td>33</td>
</tr>
</tbody>
</table>

No. of Responses = 92
Consolidation Will Continue – The Strong Will Likely Get Stronger

Considering your 2012-2013 North American Production planning volumes expectation, in terms of the number of your NA suppliers, select the relative size of your current supply base.

**Direct Suppliers**
- Too Large: 10%
- Too Small: 15%
- Appropriately Sized: 75%

**Indirect Suppliers**
- Too Large: 23%
- Too Small: 9%
- Appropriately Sized: 68%
2012 Planning Perspectives WRI – Converging or Forming a New Foundation to Grow From?

Source: Planning Perspectives, April 2012
Why Has the Industry Converged? Where are the Opportunities to Move Forward?

- The churn of purchasing, engineering and plant personnel has slowed post recession – and although low tenure is prevalent in critical positions, the industry is rebuilding its personnel ranks in a better cultural environment than we have seen in several decades.

- OEMs are acknowledging this public survey and commissioning internal, proprietary work to address specific issues.

- OEMs are rebalancing global management structures. The Japanese are shifting decision making to the regions where product launches and product differentiation has proliferated. Meanwhile, the Detroit 3 are shifting to more central control to regain control on costs, engineering and design that they had lost to the regions.

- In a perverse way, the natural disasters and industrial accidents have forced tighter working relationships. While managing under a crisis does create tension, it does expose the non-value added activity and allows for the implementation of more streamlined processes post crisis.
The Opportunities and the Risks are Greater than Ever – And No One Is Looking Back to the Good Old Days of 2009

- **Material Markets**
  - Pricing and availability

- **Natural Disasters**
  - Supply disruptions

- **Operational**
  - Globalization
  - Capacity management

- **Legal**
  - Terms and conditions

- **Financial Markets**
  - Access to capital

- **Regulations**
  - Fuel Economy
  - Emissions
  - Safety

- **Technology Road Map**
  - Major advances needed

- **Market Demand**
  - Consumer Acceptance
  - Perceived Value

**ROI**