The Auto Suppliers’ Outlook: Managing Growth in North America and Uncertainty in Europe

Automotive Outlook Symposium
May 31, 2013

Dave Andrea
Senior Vice President
OESA – Original Equipment Suppliers Association
OESA Mission – Serving 446 Members

Mission

OESA advances the business interests of automotive original equipment suppliers by:

- **providing a forum** to address issues of common interest
- **serving as a resource** for industry information and analysis
- **promoting the interests** of the OE supplier community
- **serving as a voice and positive change agent** for the industry

OESA is an affiliate of the Motor & Equipment Manufacturers Association
How We Gain Our Perspective at OESA:
446 members, 55 council meetings with 672 executives, 38 events with 5,800 participants, 61 member surveys and 14 staff
Suppliers Will Support NA’s 16 Million Unit Production Demand in 2013 And, With Investment and People, 17 Million in 2015

The Short-Term Question is: How Do Suppliers Get There Without Destroying Margins?

The Long-Term Question is: Can Suppliers Remain Disciplined to Full Capacity Utilization, Cash Flow Optimization and Program ROI Without Closing Assembly Plants?
Outline

• Today’s Environment

• Flexing Up

• Going Forward
Outline

• Today’s Environment

• Flexing Up

• Going Forward
The Economic Significance of the U.S. Supply Base

Source: IHS/MEMA 2013 Economic Impact Study

Jobs Multiplier: 4.93
U.S. Motor Vehicle Parts Manufacturing: 11 States Have More than 20,000 Direct Employment

Source: IHS/MEMA 2013 Economic Impact Study
12 Month Supplier Sentiment Index Is Increasing . .
As Long as You Ask About NA and Not Europe

No. of Responses = 92
# North America 2013-2015 Production Forecast Comparison

(Volumes represent NA Car, Lt Truck class 1-5)

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>2013</th>
<th>2014 Forecast</th>
<th>2015 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q Actual</td>
<td>4.02</td>
<td>4.17</td>
<td>3.85</td>
</tr>
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<td>3Q Forecast</td>
<td></td>
<td></td>
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<tr>
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<td>17.02</td>
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<td>2014 Forecast</td>
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<td></td>
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<tr>
<td>4Q Forecast</td>
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<td>15.90</td>
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<td>16.62</td>
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<tr>
<td>2015 Forecast</td>
<td></td>
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<td>16.43</td>
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<tr>
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<td>3Q Forecast</td>
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<tr>
<td>4Q Forecast</td>
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<tr>
<td>2015 Forecast</td>
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**Forecast Average**

<table>
<thead>
<tr>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>2013 Forecast</th>
<th>2014 Forecast</th>
<th>2015 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.01</td>
<td>4.14</td>
<td>3.85</td>
<td>3.89</td>
<td>15.89</td>
<td>16.25</td>
<td>16.63</td>
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**Forecast Spread**

<table>
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<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>2013 Forecast</th>
<th>2014 Forecast</th>
<th>2015 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.03</td>
<td>0.11</td>
<td>0.19</td>
<td>0.38</td>
<td>0.52</td>
<td>0.58</td>
<td>1.88</td>
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</table>

**Reference: 2012 Actual Average**

<table>
<thead>
<tr>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>2013 Forecast</th>
<th>2014 Forecast</th>
<th>2015 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.96</td>
<td>3.99</td>
<td>3.67</td>
<td>3.82</td>
<td>15.43</td>
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</tbody>
</table>

_Last Updated: May 2013_
## Europe 2013-2015 Production Forecast Comparison
(Volumes represent EU Car, Lt Truck class 1-5)

<table>
<thead>
<tr>
<th></th>
<th>1Q Actual</th>
<th>2Q Forecast</th>
<th>3Q Forecast</th>
<th>4Q Forecast</th>
<th>2013 Forecast</th>
<th>2014 Forecast</th>
<th>2015 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>pwc</td>
<td>4.72</td>
<td>4.75</td>
<td>4.07</td>
<td>4.92</td>
<td>18.46</td>
<td>19.57</td>
<td>21.21</td>
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<td>IHS</td>
<td>4.72</td>
<td>4.83</td>
<td>4.16</td>
<td>4.57</td>
<td>18.27</td>
<td>18.93</td>
<td>19.74</td>
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<tr>
<td>LMC</td>
<td>4.70</td>
<td>4.70</td>
<td>4.20</td>
<td>4.70</td>
<td>18.30</td>
<td>18.60</td>
<td>19.60</td>
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<tr>
<td>Polk</td>
<td>4.60</td>
<td>4.80</td>
<td>4.20</td>
<td>4.60</td>
<td>18.20</td>
<td>19.51</td>
<td>21.07</td>
</tr>
<tr>
<td>Guggenheim</td>
<td>4.70</td>
<td>4.70</td>
<td>4.11</td>
<td>4.47</td>
<td>17.96</td>
<td>18.53</td>
<td>19.57</td>
</tr>
<tr>
<td><strong>Forecast Average</strong></td>
<td><strong>4.69</strong></td>
<td><strong>4.76</strong></td>
<td><strong>4.15</strong></td>
<td><strong>4.65</strong></td>
<td><strong>18.24</strong></td>
<td><strong>19.03</strong></td>
<td><strong>20.24</strong></td>
</tr>
<tr>
<td><strong>Forecast Spread</strong></td>
<td><strong>0.12</strong></td>
<td><strong>0.13</strong></td>
<td><strong>0.13</strong></td>
<td><strong>0.45</strong></td>
<td><strong>0.50</strong></td>
<td><strong>1.04</strong></td>
<td><strong>1.64</strong></td>
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</tbody>
</table>

Reference: 2012 Actual Average

Last Updated: May 2013
The Supply Base Did Reduce Capacity in 2008-10 Bottlenecks Exist Throughout the Supply Chain

Capacity Utilization data from the OESA Automotive Supplier Barometer May 2012 and May 2013:

- Supplier Current Running Capacity (89%)
- Current + Warm-idled capacity (80%)
- Current + Warm + Cold-idled capacity (75%)

- When asked about utilization rates, the upper quartile of companies are running at 95%; 85% including their warm and cold-idled capacity—and this is at a 16 million unit run rate
- The lower quartile companies are operating at 80%; 65% including all available capacity

NAICS 3363 capacity utilization corrected in March 2013 to reflect updates in FRB dataset

Source: U. S. Federal Reserve Board of Governors
Capacity is Tight: Supplier Break Even Points Can be Tested to a 12 Million Unit Level - Or a 25% Decline from Forecast

**North American Light Duty Sales, Production and Break Even**

Production will increase by 85 percent between 2009 and 2013 (using a 15.9 million projection) while break even levels will increase by just 26 percent.

Sources: IHS Automotive (Jan 2013) and January 2013 OESA Automotive Supplier Barometer
Suppliers Will Launch A Record Number of New Part Program Numbers to Keep Pace With New Vehicle Launches

Over the next 12 to 24 months, estimate how many all-new part number programs your company will be launching in North America.

<table>
<thead>
<tr>
<th>Global Auto Revenue</th>
<th>Lower Quartile Value</th>
<th>Median Value</th>
<th>Upper Quartile Value</th>
<th>Range</th>
<th># of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than $500 million</td>
<td>8.5</td>
<td>18.5</td>
<td>57.5</td>
<td>0-1000</td>
<td>38</td>
</tr>
<tr>
<td>$151-$500 million</td>
<td>12</td>
<td>20</td>
<td>40</td>
<td>0-136</td>
<td>20</td>
</tr>
<tr>
<td>$150 million or less</td>
<td>4.5</td>
<td>20</td>
<td>30</td>
<td>0-500</td>
<td>24</td>
</tr>
</tbody>
</table>

(A part number program is defined as a new base level part, not including complexity for trim levels etc.)
Systems Facing the Greatest Concern of Supply Chain Constraints Down Through the Supply Chain

Please describe in more detail your response selection above. (e.g. system, component, material, process and concern)

**Powertrain Comments**
- Machined components - it can be difficult to find competent suppliers.
- Limited casting/forging capacity in the market.
- Castings and forgings.
- Component supply of complex mechanicals.
- Raw material.
- Simple iron casting and machining constraints and lack of basic capability.
- Local sourcing constraint due to product specification gap between Japan and NA.
- Under hood components.
- Raw materials.
- Raw compounds.
- Long lead-time.
- Lead-time problems related to demand spikes. Inside the lead-times necessary to obtain raw materials (base polymer).

No. of Responses = 91
Outline

• Today’s Environment

• Flexing Up

• Going Forward
OESA Members Are Looking To Expand Workforces . . .

Will you be expanding your workforce in the next 6 months?

No. of Responses = 100-101

* 2010 data not available. Was not a category in Nov. 2010 survey
OESA Members Are Hiring But Are Increasingly Finding It Harder to Find Qualified Candidates

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate- General Administrative/Management</td>
<td>11%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>Engineering and Technical</td>
<td>57%</td>
<td>39%</td>
<td>25%</td>
</tr>
<tr>
<td>Production-Hourly</td>
<td>80%</td>
<td>70%</td>
<td>42%</td>
</tr>
<tr>
<td>Production-Skilled Trades</td>
<td>21%</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>Sales and Marketing *</td>
<td>28%</td>
<td>33%</td>
<td>-</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 = 65-84
Suppliers are Flexing Up to Match OEM Production Schedules
Are you running alternate schedules to increase productivity or flexibility to meet customer demands (i.e. 4-10 hour shifts, 3 crews/2 shifts, etc.)?

If yes, please describe and comment on the work arrangement.

• Three Shift Operations
• Three Crew Operations
• 4 - 10 Hour Shifts
• 12 Hour Shifts
• 24/7 Operations
• Overtime

No. of Responses = 102
Yes, 63, 62%
No, 39, 38%
Rank in order of significance the organization issues you face in launching these new parts.

<table>
<thead>
<tr>
<th>Category</th>
<th>Most Significant</th>
<th>Rating 2</th>
<th>Rating 3</th>
<th>Neutral</th>
<th>Rating 5</th>
<th>Rating 6</th>
<th>Least Significant</th>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>10%</td>
<td>29%</td>
<td>21%</td>
<td>17%</td>
<td>10%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Design and Engineering</td>
<td>8%</td>
<td>25%</td>
<td>24%</td>
<td>15%</td>
<td>14%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Prototype and Validation</td>
<td>3%</td>
<td>12%</td>
<td>18%</td>
<td>19%</td>
<td>28%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Sourcing and Procurement</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>8%</td>
<td>13%</td>
<td>26%</td>
<td>36%</td>
</tr>
<tr>
<td>Sales and Marketing</td>
<td>3%</td>
<td>7%</td>
<td>12%</td>
<td>18%</td>
<td>19%</td>
<td>28%</td>
<td>12%</td>
</tr>
<tr>
<td>Software Development</td>
<td>17%</td>
<td>14%</td>
<td>7%</td>
<td>7%</td>
<td>3%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>17%</td>
<td>14%</td>
<td>7%</td>
<td>7%</td>
<td>3%</td>
<td>45%</td>
<td></td>
</tr>
</tbody>
</table>

‘Other’ Responses:
- Timeline and lead-times.
- Program management.
- Global program management.
- Customer validation is incomplete or late.
- Quality and timing.
- Manpower to launch awarded business.
- Finding the right people in general.
- Hiring capable people to support the new business.
- Supplier quality.

No. of Responses = 29-90
What actions are you taking to address your biggest concern?

Number of responses

- Hiring technical staff: 58
- Increasing manufacturing capacity - Internal processes/efficiencies: 50
- Hiring skilled trades: 28
- Hiring production employees: 25
- Increasing collaboration with suppliers - Outsourcing technical: 15
- Increasing collaboration with suppliers - Outsourcing manufacturing: 14
- Increasing manufacturing capacity - Acquisitions: 6
- Other: 12

‘Other’ Responses:
- Training.
- Training and education.
- Supplier development.
- Stronger role in supplier launch.
- Allocate more resources to inspection during launch.
- We can handle our current and future design and engineering work. We need to continue staying out in front of program launches to eliminate last minute design work.
- Increasing process know-how.
- Looking at potential expansion options.

No. of Responses = 90
U.S. Employment: Total and Auto Parts Manufacturing

- Total U.S. Manufacturing Employment
- U.S. Auto Parts Manufacturing Employment

Updated to include March preliminary employment (not seasonally adjusted values)

Includes only NAICS code 3363 for Auto Parts
Outline

• Today’s Environment

• Flexible Production

• Going Forward
Over the Next Five Years, Suppliers Will Deepen the North American Supply Chain – Through Their Own Value Add and Sourcing

The percent of your total value add (vertical integration)

- Will Remain the Same: 27, 30%
- Increase: 57, 63%
- Decrease: 6, 7%

Your sourcing (as a percent of your total COGS)

- Will Remain the Same: 35, 40%
- Increase: 42, 48%
- Decrease: 11, 12%

No. of Responses = 88-90
2013 Planning Perspectives WRI – How Will the Industry Move Customer-Relationships Forward?

Source: Planning Perspectives, April 2013
Suppliers Will Support NA’s 16 Million Unit Production Demand in 2013 And, With Investment and People, 17 Million in 2015

The Short-Term Question is:  How Do Suppliers Get There Without Destroying Margins?  *By remaining as flexible as possible while hiring, adding flexible work schedules, putting in place production and supply chain workarounds, . . . .*

The Long-Term Question is:  Can Suppliers Remain Disciplined to Full Capacity Utilization, Cash Flow Optimization and Program ROI Without Closing Assembly Plants?  *YES – suppliers are not relying on the industry’s production bounce to cover past sins; suppliers will increase capacity in line with the increase in demand and negotiating leverage will remain in greater balance, . . . .*
Thank You

Dave Andrea
Senior Vice President
OESA – Original Equipment Suppliers Association
1301 West Long Lake Road
Suite 225
Troy, Michigan  48098

248-952-6401
dandrea@oesa.org