

Changing lanes 2014-15

The automotive C-suite's agenda

Randy Miller, Global Automotive Advisory Leader

21st Annual Automotive Outlook Symposium



Building a better
working world

Changing lanes 2014-15

The automotive C-suite's agenda



- 1 **Buckle up**
New sources of volatility

- 2 **Drive loyalty**
Getting closer to customers

- 3 **Take the fast lane**
Multidimensional competition

- 4 **Digital tuning**
Operational efficiency

- 5 **More miles per gallon**
Resource management

EY's second annual automotive executive survey
100 global automotive respondents

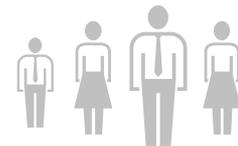
Automotive C-suite executives

60



EY automotive partners

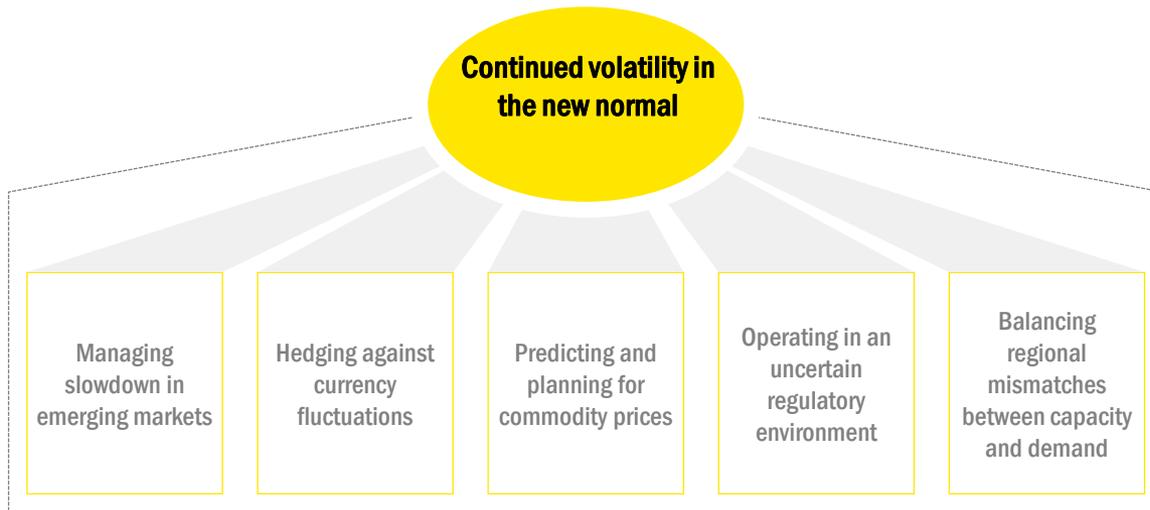
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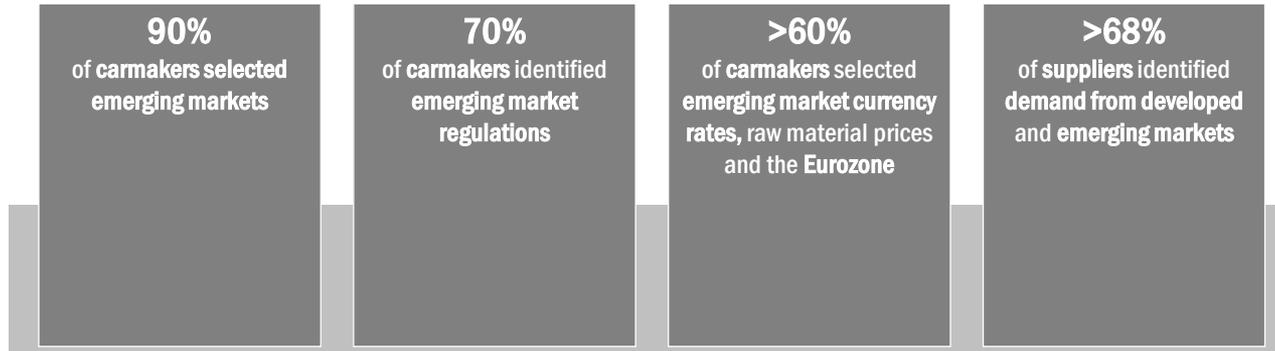
1

Buckle up

New sources of volatility – navigating uncertainty is business as usual



C-suite's sources of volatility



Trendicators

1.8m Sales decline registered by regions that fell in 2013, with 62% from emerging markets
US\$7b Forex transactions' negative impact on European OEMs
17%-18% Standard deviation in iron ore and steel prices during 2012-13
+85% to -6% Changes in sales growth in Thailand

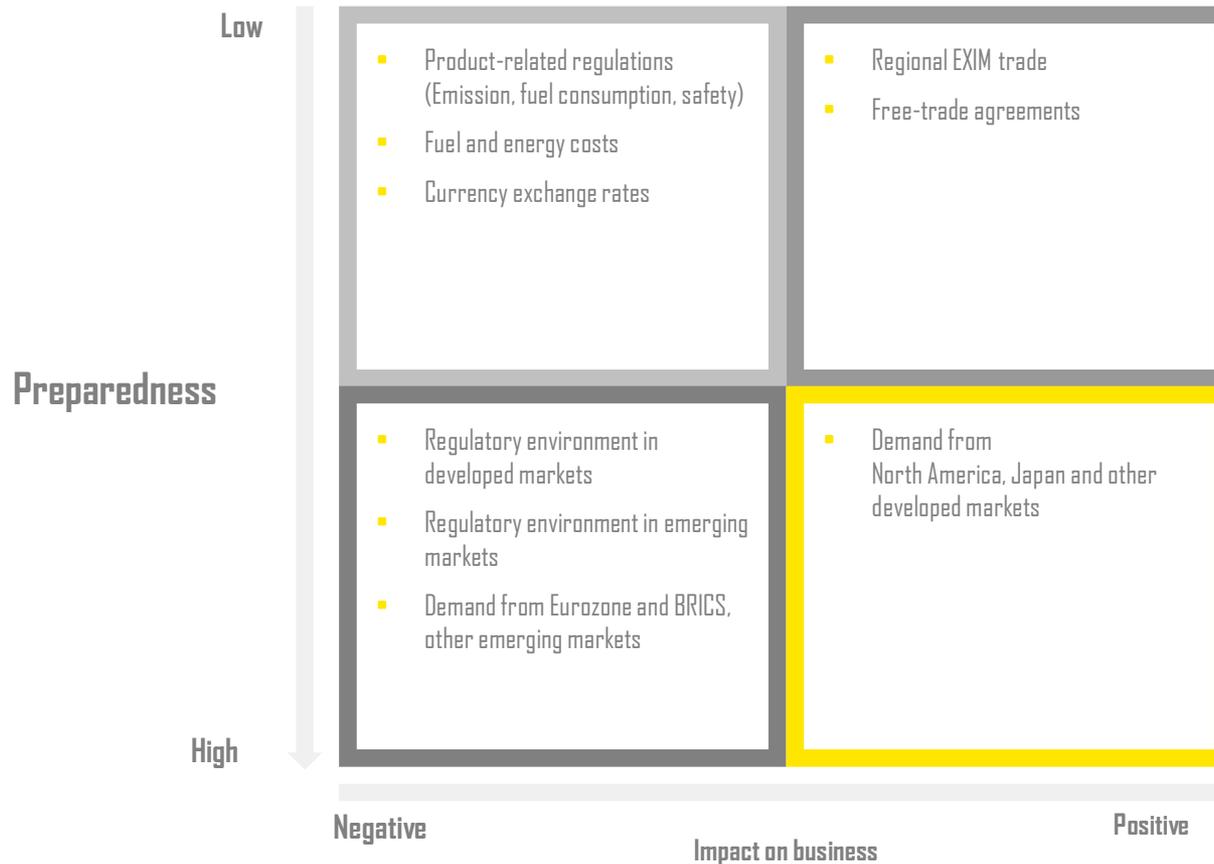
Sources for trendicators: LMC Automotive, *Global Light Vehicles 2013 review*, European automakers' financial publications; Metal Bulletin, via Thomson Datastream; LMC Automotive, *Global Car and Truck Forecast, 4Q13*; EY analysis.

1

Buckle up

New sources of volatility – navigating uncertainty is business as usual

C-suite's views on impact and preparedness



Illustrators

Toyota's profit doubles driven by weaker Yen

Mercedes-Benz Cars aims 50% production outside Germany by 2020

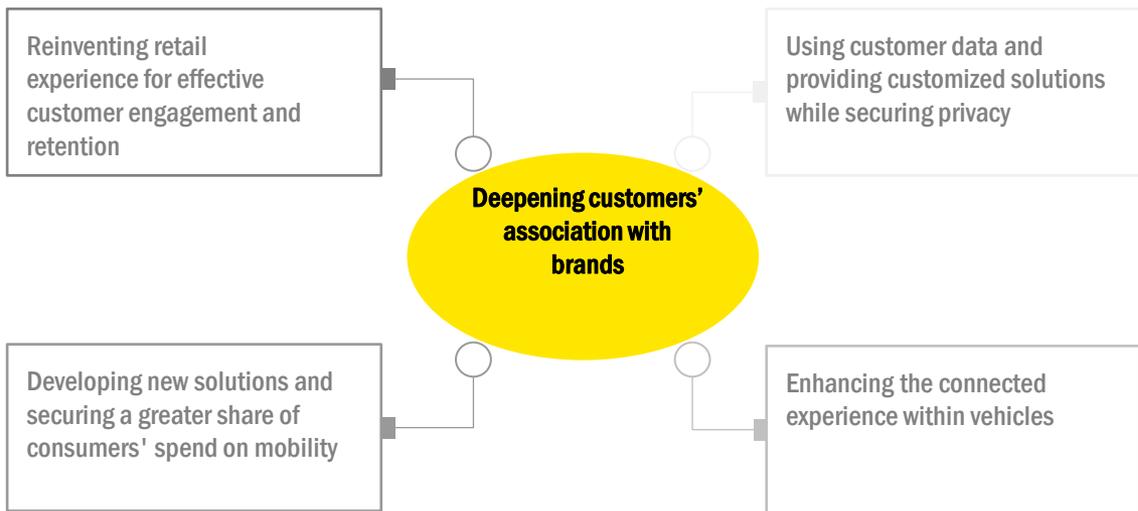
German OEMs counts on hedging as Euro strengthens

BMW to halt South Africa expansion plans due to socio-political uncertainty

2

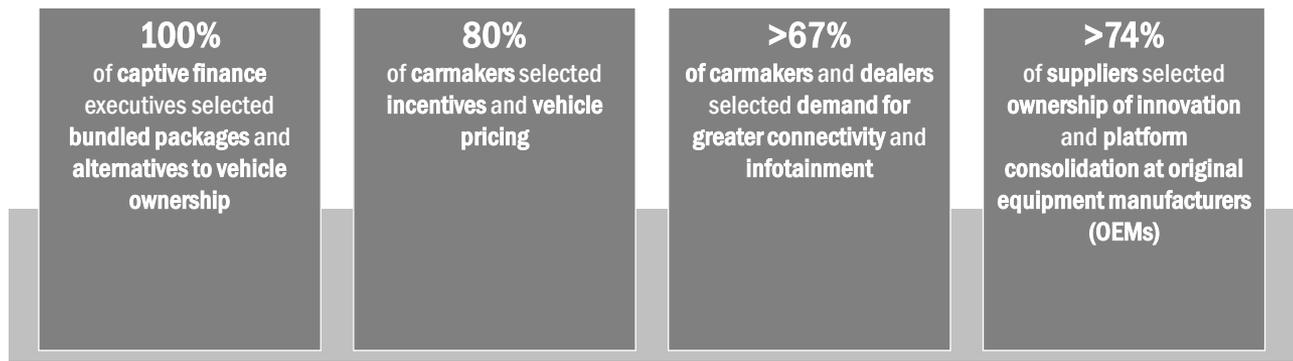
Drive loyalty

Getting closer to customers – new value propositions to strengthen relationships and increase wallet share



Trendicators
5.3 months Average research time (mostly online) spent by new car buyers in the US
1.3 Average dealership visits in the UK, down from 5 to 6 visits 10 years ago
50b Number of connected devices creating data by 2020
5 GB Expected or potential volume of data transfer per vehicle per month
12m Number of car-sharing drivers globally by 2020

C-suite's major value proposition drivers



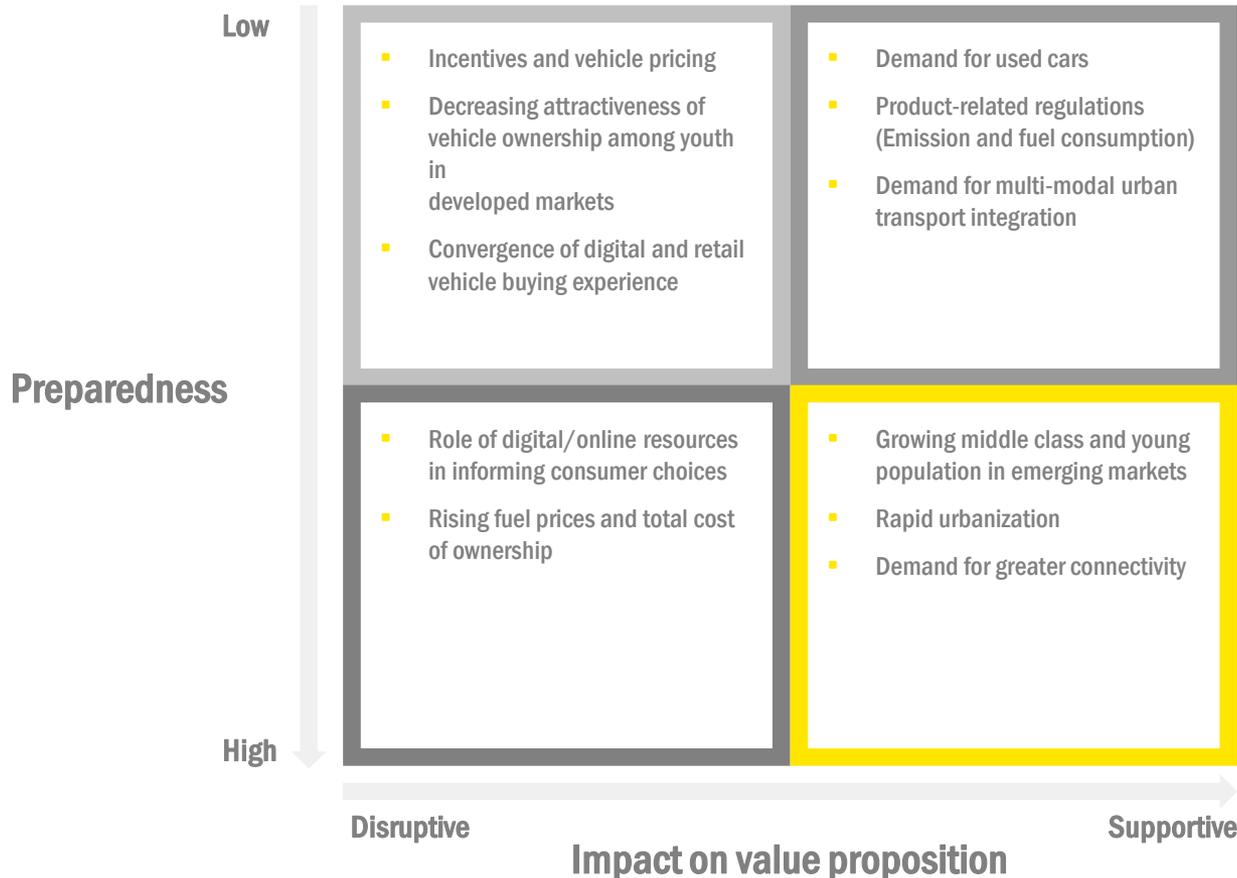
Sources for trendicators: "Have you met the new car shopper?", cars.com, 17 Feb 2014; SMMT International Automotive Summit, 2012; 2025 Every Car Connected: Forecasting the Growth and Opportunity study, SBD and GSMA, 2012; Navigant Research Press Release, 2013; EY analysis.

2

Drive loyalty

Getting closer to customers – new value propositions to strengthen relationships and increase wallet share

C-suite's views on impact and preparedness



Illustrators

BMW's dynamic web site teaser selection

Audi's digital car showrooms in London, Beijing

FordDirect, a digital marketing services organization

Customer location data privacy concerns in the US

Daimler's suit of mobility services

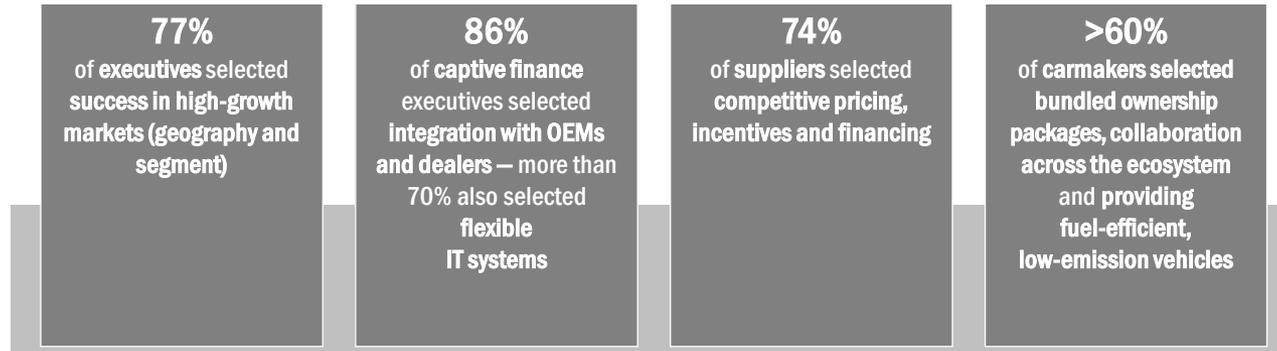
3

Take the fast lane

Multidimensional competition – market leaders race ahead with differentiation, innovation and partnerships



C-suite's top drivers for competitive advantage



Trendicators

<p>US\$102b OEMs spending on R&D and innovation in 2013 ~5,000 new auto patents granted in the US per year</p>
<p>US\$25b Potential market size of connectivity by 2025</p>
<p>US\$6.2b Potential market size of car-sharing services by 2020</p>
<p>62% Organizations have not aligned their information security strategy to their risk appetite or tolerance</p>

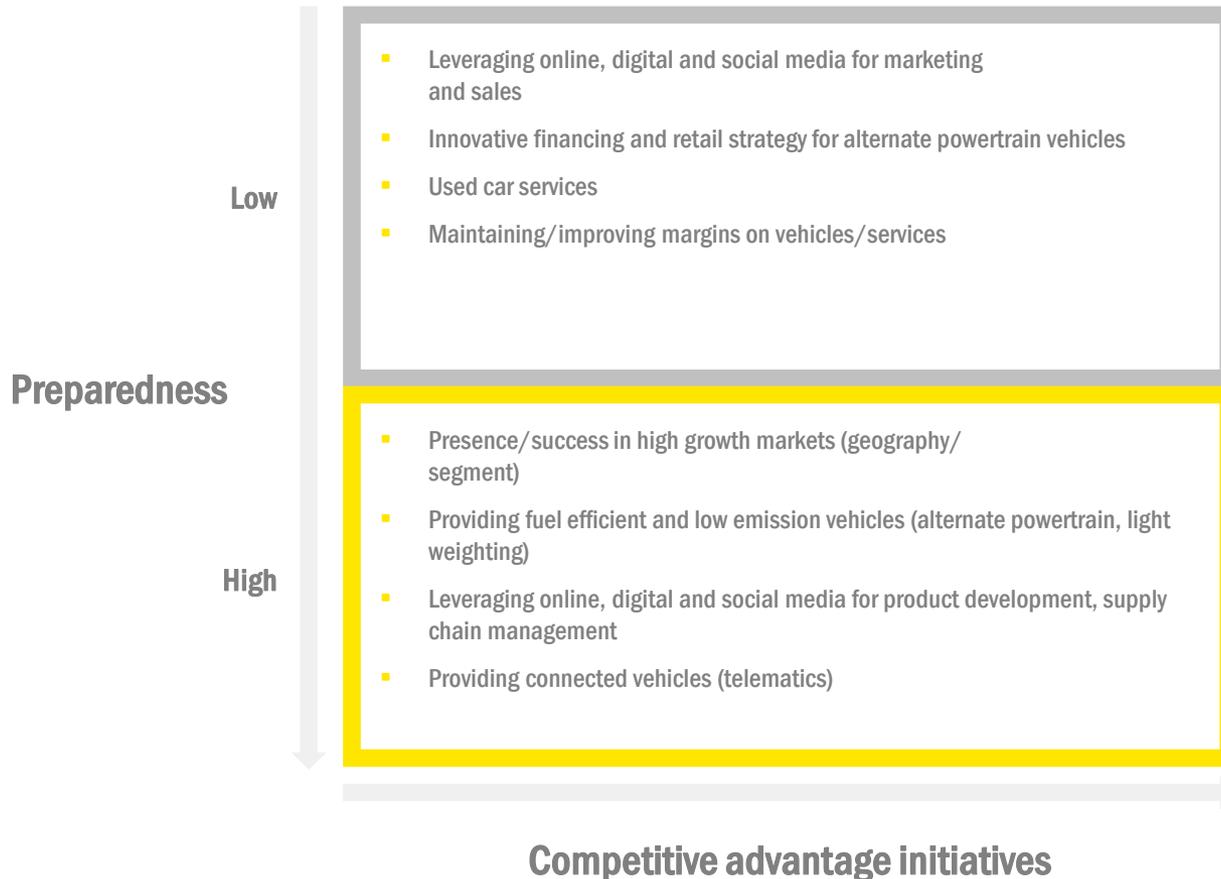
Sources for trendicators: 2014 *Automotive Innovation report*, Auto Alliance; 2025 *Every Car Connected: Forecasting the Growth and Opportunity study*, SBD and GSMA, 2012; Navigant Research Press Release, 2013; National Highway Traffic Safety Administration Press Release, 2014; The General Administration of Quality Supervision, Inspection and Quarantine Press Release, 2014; EY analysis.

3

Take the fast lane

Multidimensional competition – market leaders race ahead with differentiation, innovation and partnerships

C-suite's views on preparedness



Illustrators

Renault – Nissan deepen alliance to save EUR4.3 billion

Open Automotive Alliance by Google

BMW's priority on next growth markets

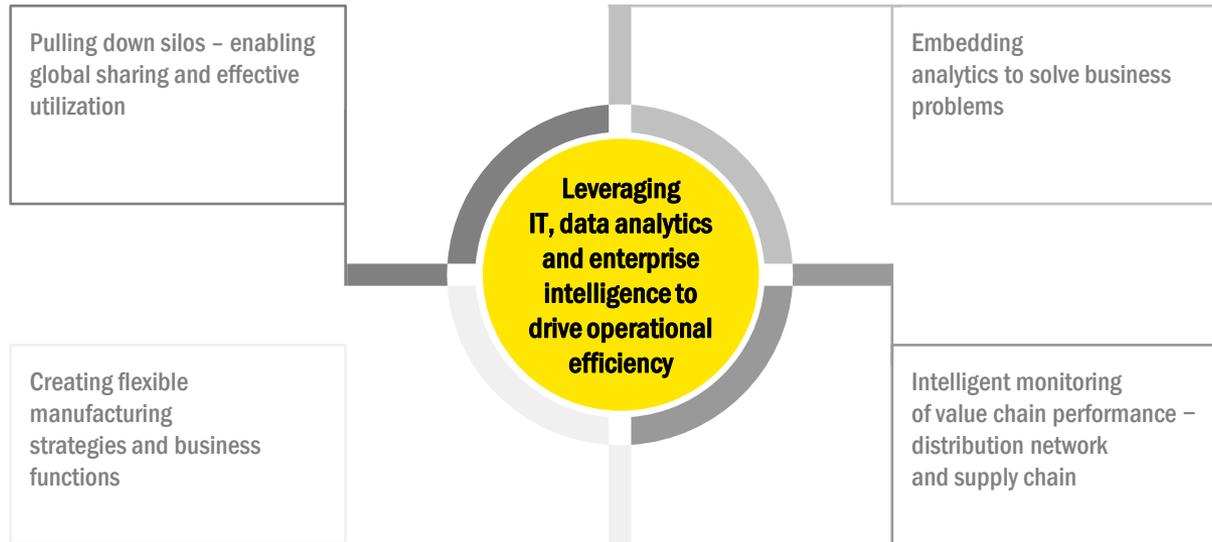
Ford's innovative 1L Eco Boost engine drives sales

VW's Direct Express aftermarket service

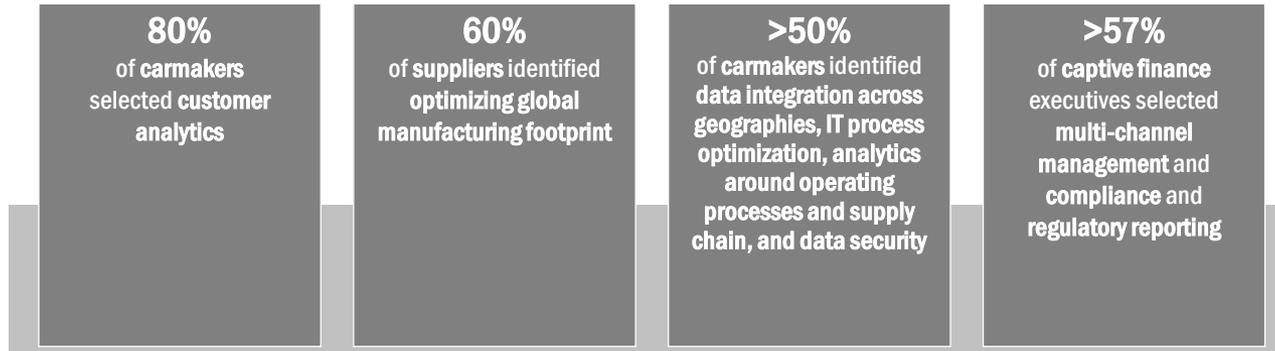
4

Digital tuning

Operational efficiency through digital transformation – restructure the business for flexibility and high-return performance



C-suite's critical business processes



Trendicators

<p>77% Companies with leading data also tend to have better financial performance</p>
<p>22m and 5.3m Vehicles recalled in the US and China, respectively, in 2013</p>
<p>27 Platforms to comprise 50% of global LV production by 2016 (versus 31 in 2012)</p>
<p>~US\$45b Amount spent by auto sector annually on warranty and recalls</p>
<p>1 trillion Pieces of traceability data generated each year for regulatory, warranty and recall control</p>

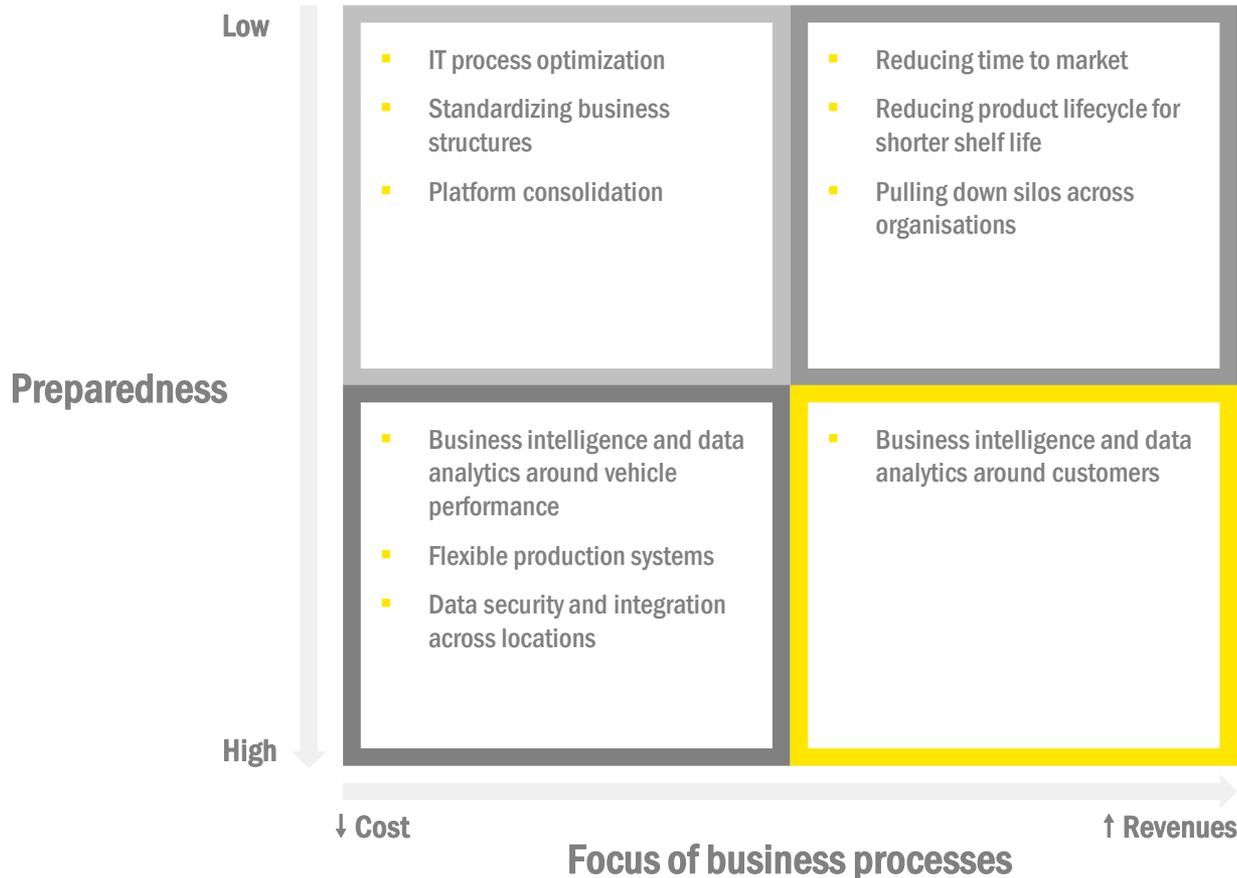
Sources for trendicators: The Economist Intelligence Unit Survey, February 2013; EY's Global Information Security Survey, October 2013; LMC Automotive, European Automotive Sector Outlook, 2012; Unleashing the Value of Traceability Data in the Auto Industry, Teradata Corp, 2012; EY analysis.

4

Digital tuning

Operational efficiency through digital transformation – restructure the business for flexibility and high-return performance

C-suite's views on priorities and preparedness



Illustrators

Daimler moving IT in-house to save €150 million/year

BMW's modular production strategy

Volvo's 1 platform for all cars

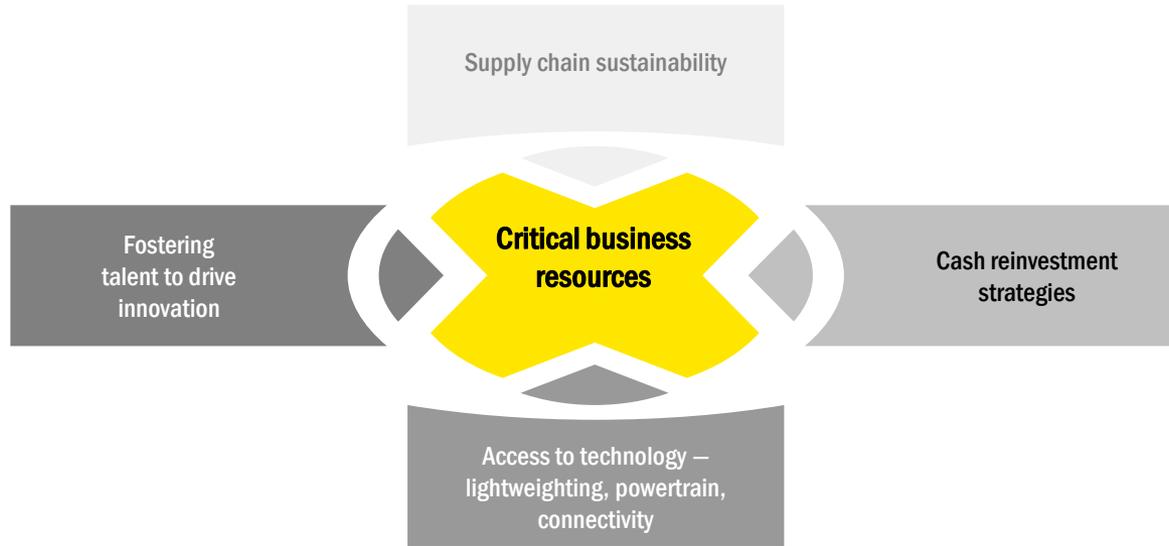
OEMs shift buying from complete seating to seat components

High dealer employees turnover in Brazil – high cost of training/retention

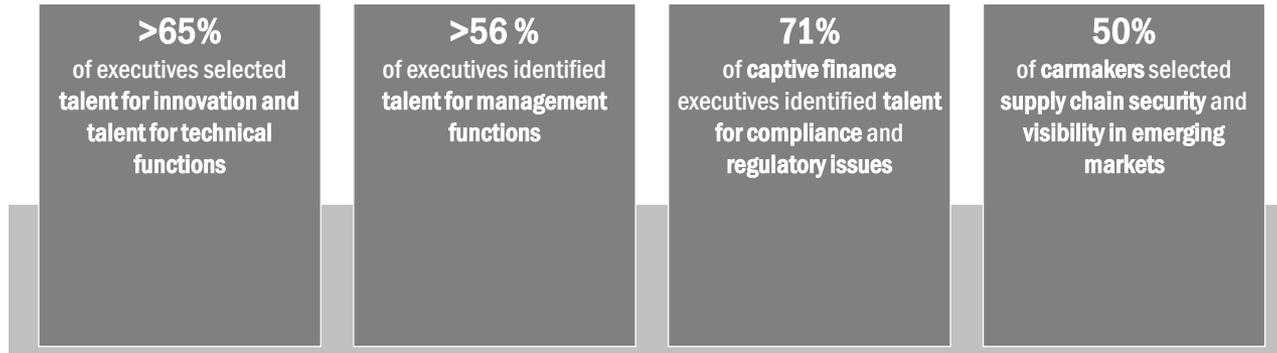
5

More miles per gallon

Resource management – optimizing resources, capital and technologies for high performance



C-suite's critical resources



Trendicators

US\$221b
Cash and equivalents balance of top 10 OEMs at the end of 2013
88%
Automotive executives see credit availability as either stable or improving
33,000
Auto component jobs at risk in Australia following OEMs' exit plans
8%-9%
Decline in franchised dealer network across major European markets
75% to 50%
Decline in share of traditional steel in cars made in Europe over 2010-20

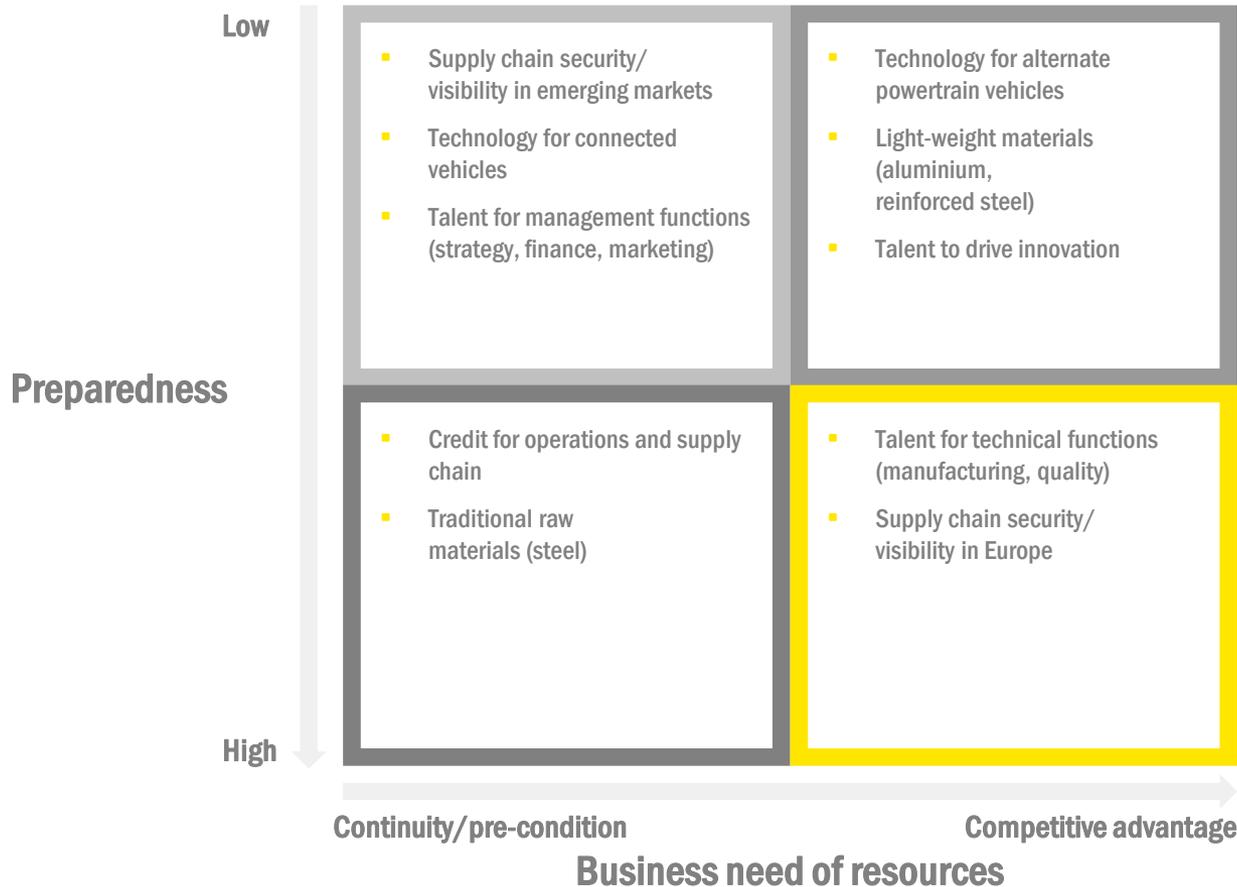
Sources for trendicators: S&P Capital IQ; *Automotive Capital Confidence Barometer*, EY, January 2014; The Federation of Automotive Products Manufacturers Australia; *ICDP European Car Distribution Handbook*, 2013; ICIS Press Release, 2013; EY analysis.

5

More miles per gallon

Resource management – optimizing resources, capital and technologies for high performance

C-suite's views on need and preparedness



Illustrators

Toyota's US\$40 billion cash deployment plan

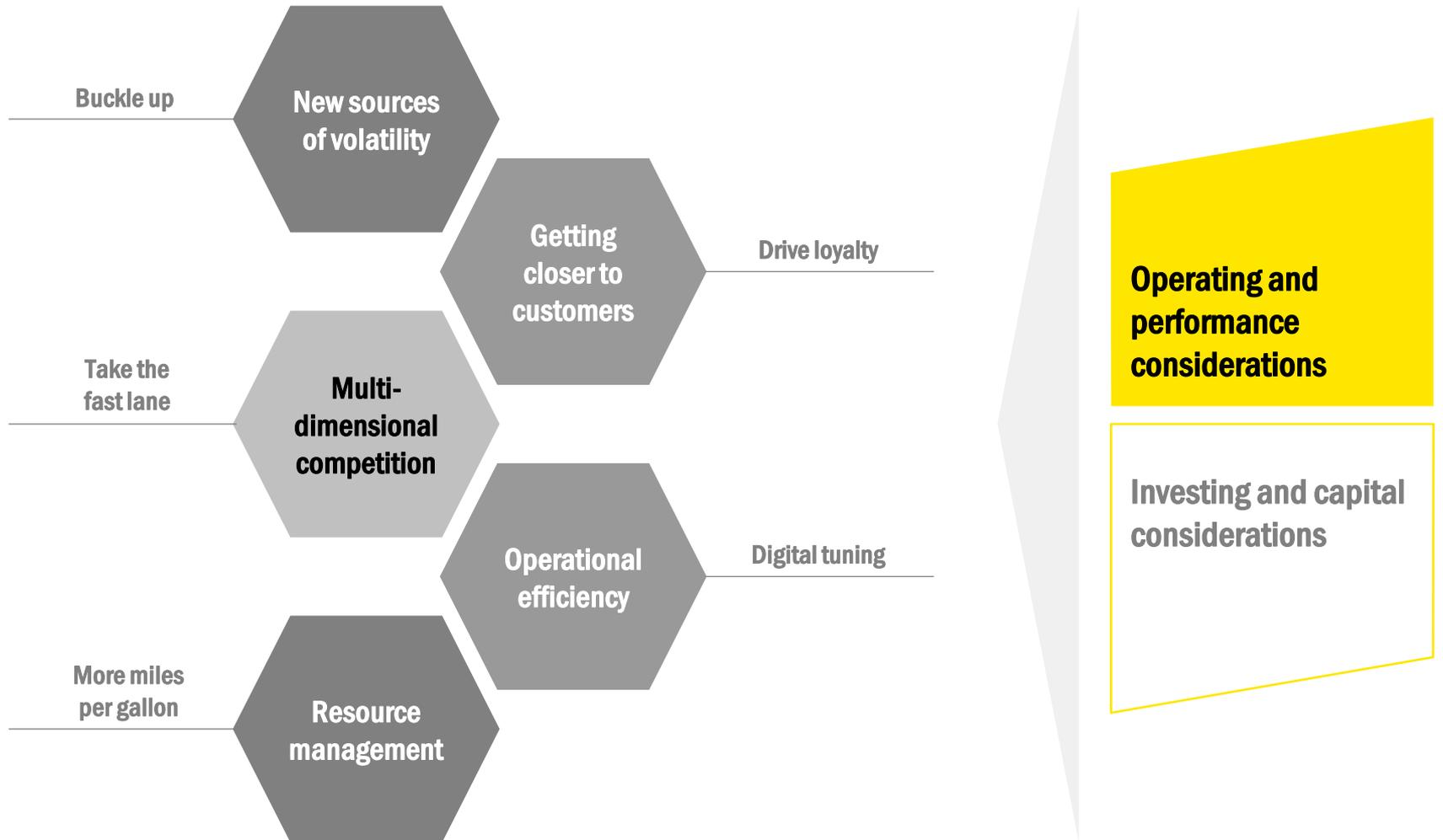
Honda's Now, Next and New Circle

Hyundai's World Skill Olympics

Ford's social media hiring campaign in the US

BMW to mass produce carbon fibre

Key considerations for the C-suite



Operating and performance considerations

Key themes	Operating and performance considerations
Buckle up New sources of volatility	<ul style="list-style-type: none"> ▶ Implement driver-based insight, data analytics and scenario modeling ▶ Implement global capacity management-sharing framework ▶ Optimize hedging strategy for currency and input cost fluctuations ▶ Assess readiness for regulatory changes in local markets
Drive loyalty Getting closer to customers	<ul style="list-style-type: none"> ▶ Adopt customer life cycle approach to identify touchpoints to cross- and up-sell ▶ Converge digital and physical experience of brand ▶ Implement transparent customer data privacy policy
Take the fast lane Multidimensional competition	<ul style="list-style-type: none"> ▶ Leverage connectivity and captive finance to identify new revenue streams ▶ Provide greater autonomy to local centers of innovation ▶ Evaluate sustainability of brand position and value proposition
Digital tuning Operational efficiency	<ul style="list-style-type: none"> ▶ Leverage IT and data for greater visibility into distribution network and supply chain ▶ Standardize and centralize processes around logistics, supply chain, IT and finance ▶ Develop a global shared services strategy ▶ Develop flexible production systems and focus on converting fixed costs into variable costs
More miles per gallon Resource management	<ul style="list-style-type: none"> ▶ Identify programs to attract and retain talent to drive innovation ▶ Focus on greater visibility and accountability in the supply chain, particularly in emerging markets ▶ Promote diversity and inclusiveness

Investment and capital considerations

Key themes	Investment and capital considerations
Buckle up New sources of volatility	<ul style="list-style-type: none"> ▶ Enhance business modeling and cash forecasting systems ▶ Stress test investment business cases ▶ Build flexibility into emerging markets investments ▶ Integrate government incentives, direct loans and guarantees in capital-raising strategies
Drive loyalty Getting closer to customers	<ul style="list-style-type: none"> ▶ Assess potential investment opportunities and risks associated with new segments and business models ▶ Renew digital marketing investment strategy
Take the fast lane Multidimensional competition	<ul style="list-style-type: none"> ▶ Form need-based and strategic alliances, JVs and acquisitions to gain technology and/or geographic coverage ▶ Capture and monetize synergies from partnerships and identifying key performance indicators ▶ Leverage credit and cash availability to pursue vertical and horizontal integration
Digital tuning Operational efficiency	<ul style="list-style-type: none"> ▶ Improve the quality of information flows to support enhanced visibility of liquidity and cash risks and opportunities ▶ Balance cost reduction with sustainable process change
More miles per gallon Resource management	<ul style="list-style-type: none"> ▶ Embed a cash culture with clear performance metrics ▶ Maximize return to shareholders with effective reinvestment strategy ▶ Benchmark leading-class performance and pursue targeted change

Thank you

Randy Miller

Global Automotive Advisory Leader

T: +1 313 628 8642

E: randall.miller@ey.com



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