Detroit – Washington D. C.

Suppliers' Focus: The Theory of Everything

TAYSAD Delegation
March 31, 2015

Margaret Baxter
Senior Vice President, Operations and International Affairs
OESA – Original Equipment Suppliers Association

About OESA

- Founded in 1998, the Original Equipment Suppliers Association (OESA), serves as the automotive supplier voice and a valuable resource for member organizations.
- Membership is exclusive to original equipment automotive suppliers that directly provide components, tools, materials and services to the OE light vehicle industry.
- Membership is comprised of approximately 450 Tier 1,2, and 3 automotive suppliers with North American OE sales ranging from $10 million to $5+ billion.
- OESA's interests are guided by a board of directors consisting of CEOs from member companies.
- Members enjoy direct access to 14 dedicated association employees in Detroit and 6 in Washington, D.C.

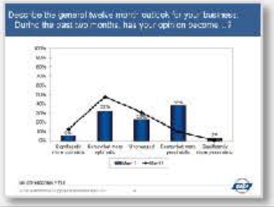
OESA:
The Voice, Forum and Resource

OEM Communication
Open & productive dialogue on behalf of suppliers

Peer Group Councils
Member-driven agendas & roundtables

Industry Studies
Benchmarking, trends, analysis, best practices

Member Surveys
Industry trends & supplier best practices



OESA Events
Thought leadership on critical topics

Advocacy & Voice in DC and the States
Lobbying and interaction with legislators and regulators

OESA Staff
Resources, connections, information, assistance

Global Relationships and Connectivity
Access to global associations & government agencies

Short Term: The Automotive Squeeze Play

- **Revenue Growth Continues – But Slower, Incremental Growth**
  - ✓ NA: 800,000 to 400,000 year-over-year unit growth in 2015 and 2016

- **Launches Drive Caution – Earnings Warnings and Market Share Shifts**
  - ✓ Ford and suppliers noting caution on outlooks

- **Recalls Drive Panic – All Hands on Deck Responses Required**
  - ✓ 60 million units in 2014 (2013 = 23 million)

- **Cash Goes to Shareholders (nothing wrong with that) and Warranty Reserves (non-value added)**
  - ✓ Ford shifts $1.8 billion to dividends and share buybacks; $400 million for warranty/recall reserves

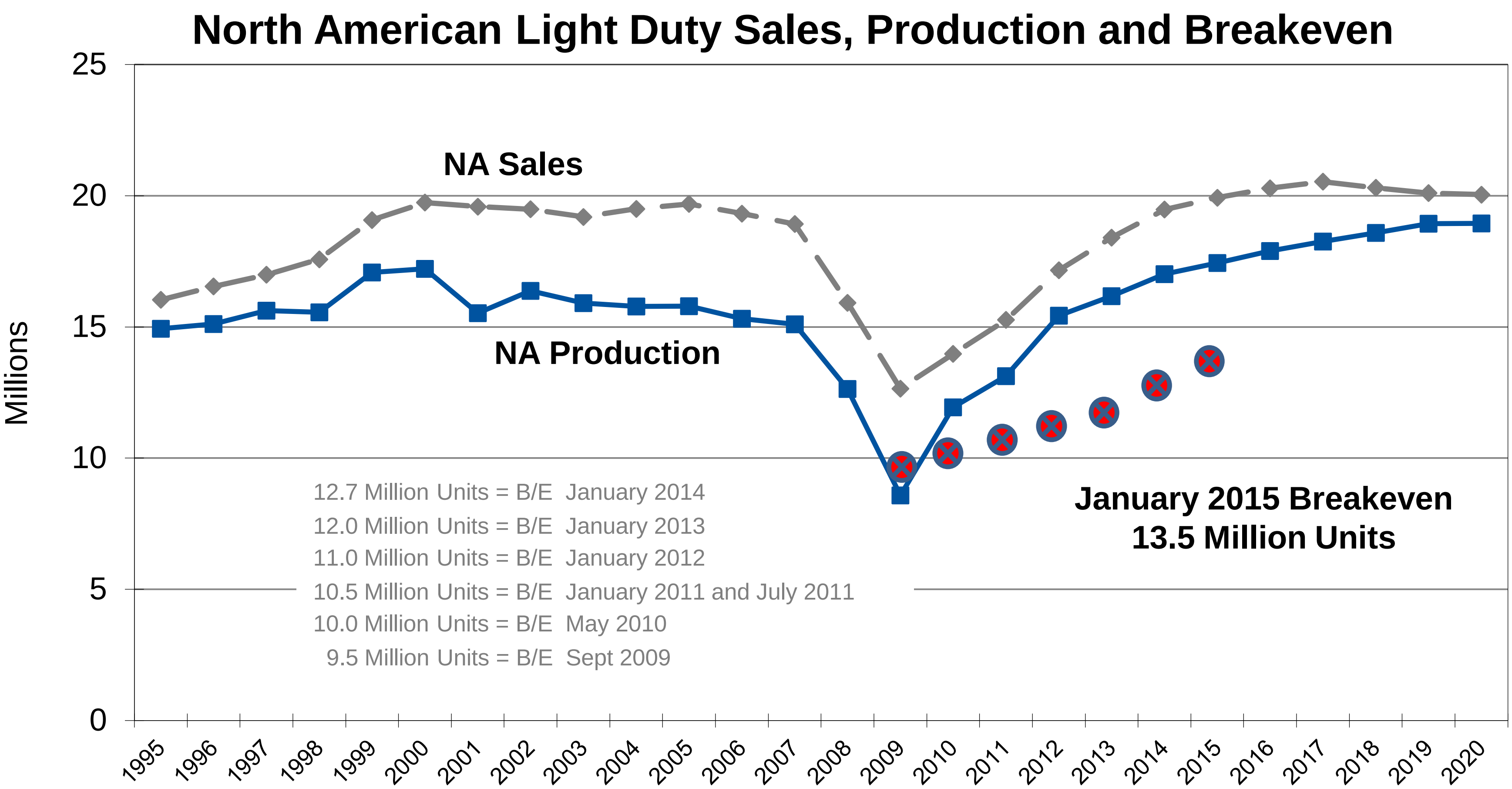
North America
2015-2017 Production Forecast Comparison
(Volumes represent NA Car, Lt Truck class 1-5)

Δ compares prior reported forecast volume (in millions)	2015					2016 Forecast	2017 Forecast
	1Q Forecast	2Q Forecast	3Q Forecast	4Q Forecast	2015 Forecast		
pwc Autofacts	4.35	4.48	4.2	4.13	17.17	17.47	18.32
IHS AUTOMOTIVE driven by POLK	4.40	4.46	4.35	4.24	17.44	17.92	18.34
LMC AUTOMOTIVE	4.36	4.55	4.33	4.22	17.46	17.89	18.20
IRN	4.38	4.71	4.21	3.99	17.31	17.96	18.17
WELLS FARGO	4.31	4.41	4.27	4.22	17.21	17.48	na
SIG SUSQUEHANNA FINANCIAL GROUP, LLLP	4.28	4.48	4.27	4.32	17.35	17.61	17.88
Forecast Average	4.35	4.52	4.27	4.19	17.32	17.72	18.18
Forecast Spread	0.12	0.30	0.15	0.33	0.29	0.49	0.46
2014 Actual	4.20	4.41	4.17	4.22	17.00		

Last Updated: February 2015

OESA

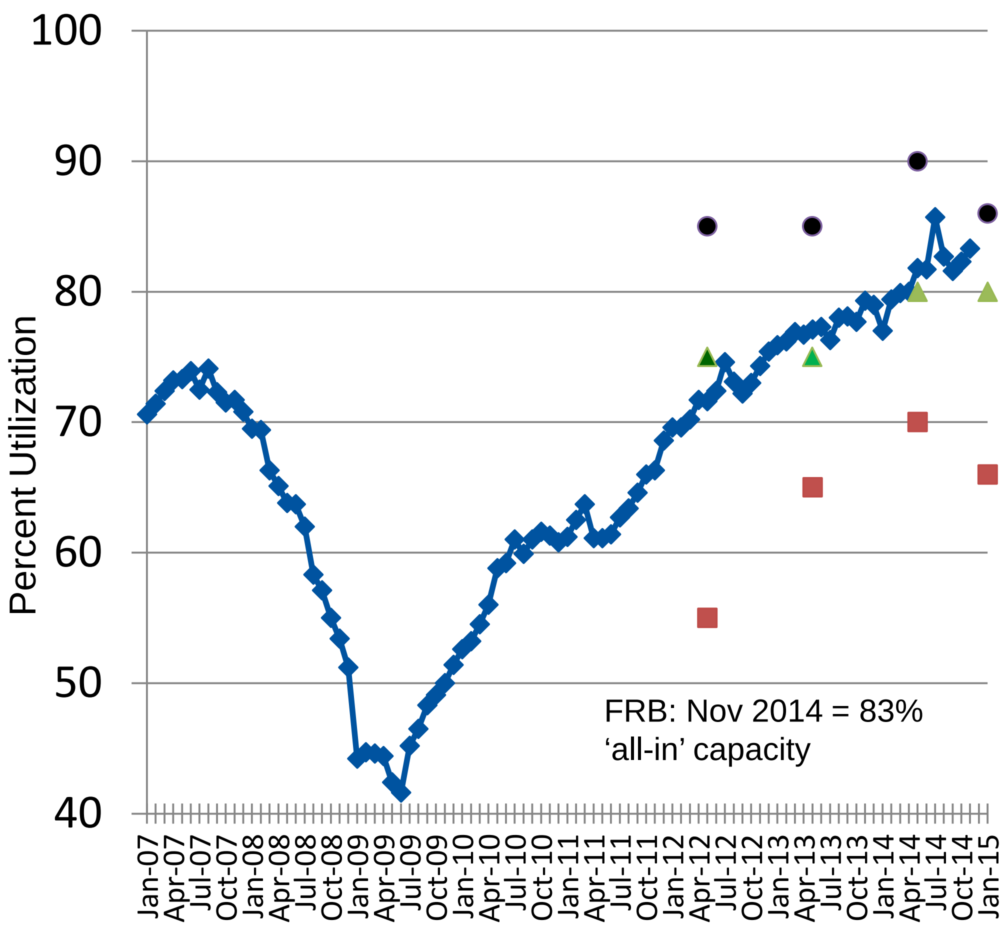
Supplier Stress Test: NA Production May Drop 22 Percent From 2015 Forecast and Still be at Breakeven



Production increases 101 percent between 2009 and 2015 (using a 17.3 million projection) while breakeven levels have increased only 40 percent

Sources: IHS Automotive (December 2014) and January 2015 OESA Automotive Supplier Barometer

Supplier Utilization: The Story is the Lower Quartile



The US Federal Reserve and OESA state that the US supply base is running approximately at **80% capacity utilization – looking at all available capacity (the blue line and the middle dot)**

The **lower quartile** companies are operating 66% including all available capacity – a dramatic increase from 55% just three years earlier

*When asked about utilization rates, the **upper quartile** of companies are running at 86% utilization – and this is at a 16.9 million unit level. What happens when we hit 17.7 million units in 2016?*

Dots = Capacity Utilization data from the OESA Automotive Supplier Barometer May 2012, May 2013, May 2014, January 2015

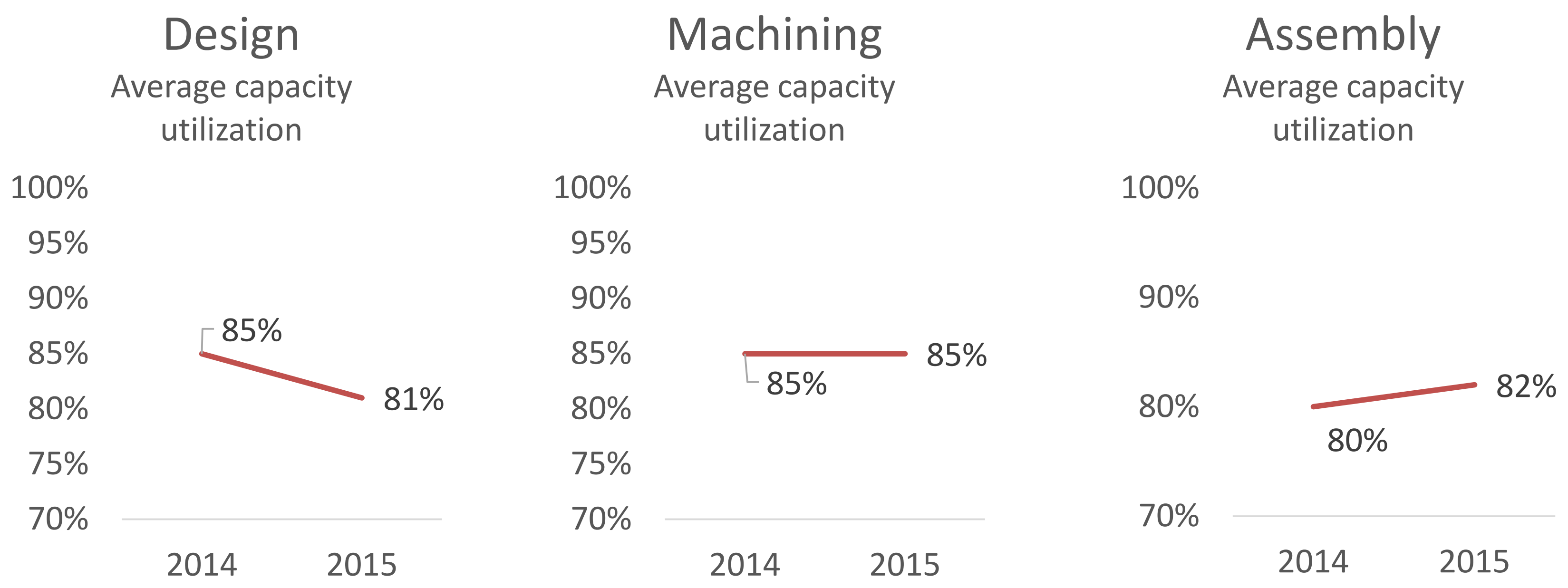
NAICS 3363 capacity utilization corrected in April 2013 to reflect updates in FRB dataset

Source: U. S. Federal Reserve Board of Governors

What are Suppliers Doing About It?

- Alternative Work Schedules
- Contingency Workforces
- Productivity/Thru-Put Enhancement
- Existing Plant and R&D Expansions
- Global Footprint Re-Balance (Particularly Questioning Where and How Mexico Fits)

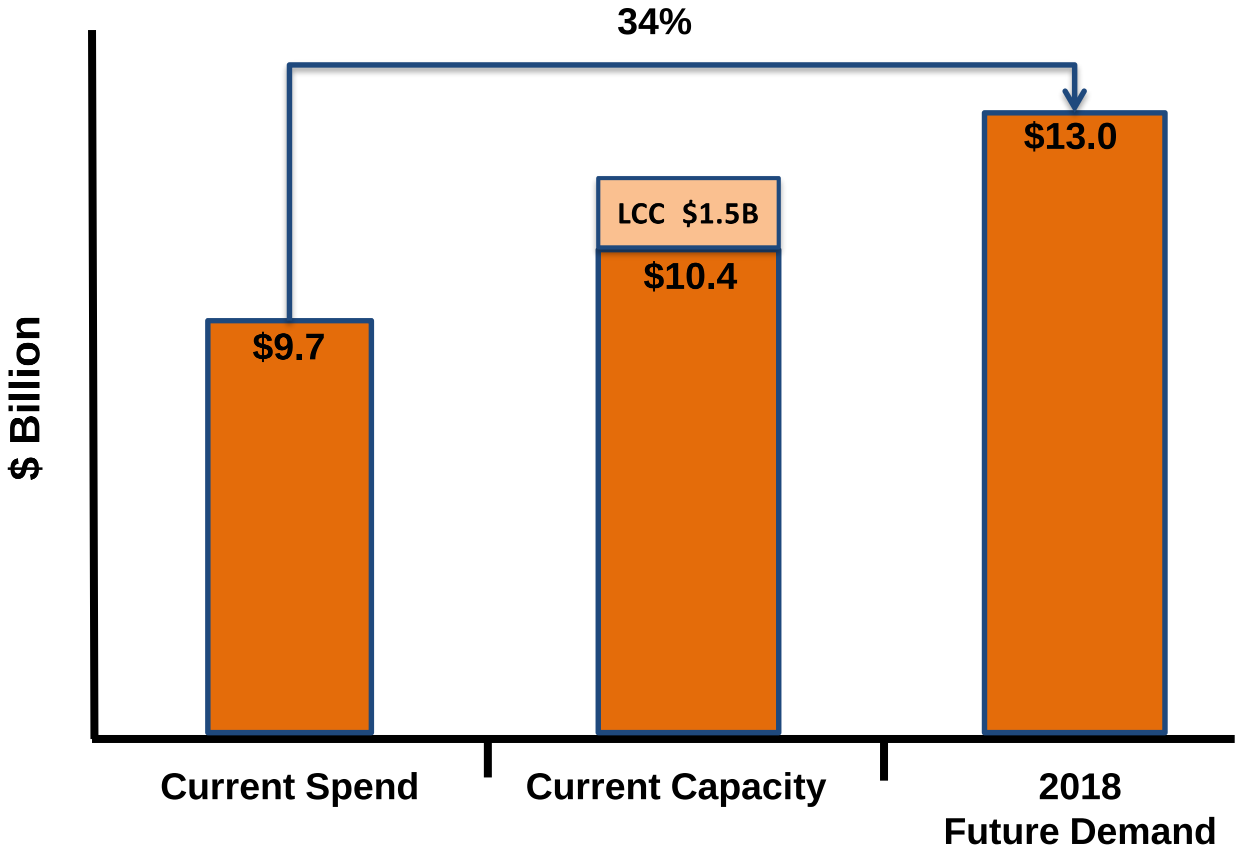
The Tooling Sector is Running Flat Out as Well



- *Survey question: Based on how you measure capacity internally, identify your current capacity utilization rate:*
- *Number of respondents = 79*

Source: Harbour Results, January 2015 Tooling Barometer

Harbour Results: At a Minimum, The Tooling Industry Needs to Support 34% Growth by 2018

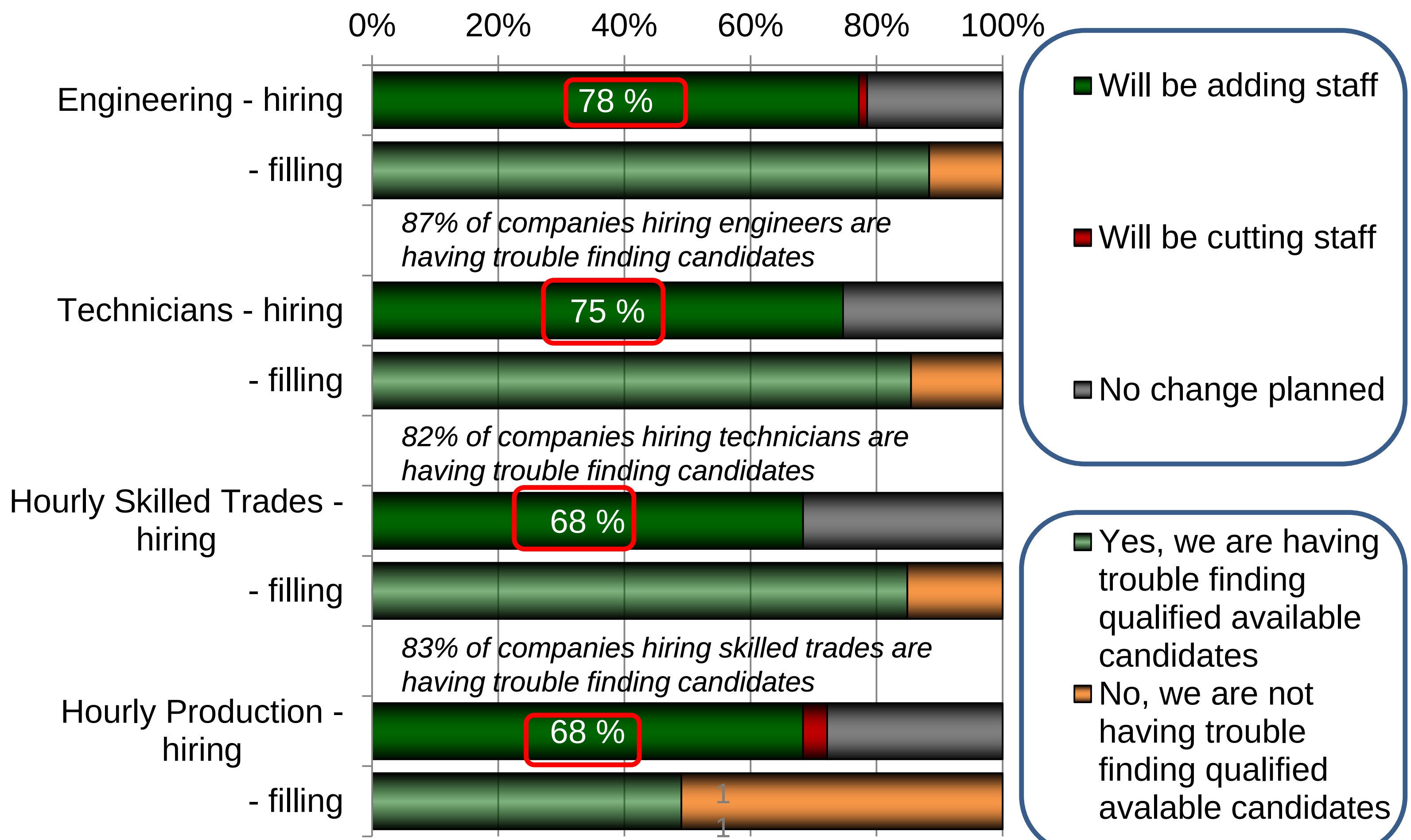


2018 Future Demand based solely on the number of launches reported by IHS and current spend reported by OEMs; without adjustment for increased content or localization

- *Current Spend = the total of 10 OEMs current annual spend on vendor tooling in N.A.*
- *Current Capacity = defined by HRI using tool suppliers that are 90% + automotive tool makers, can manufacture 100% of the complete tool, die and mold only, and willing and able to grow with the industry.*
- *2018 Future Demand = based on current spend and estimated N.A. model launches (all new and major); Source: IHS Automotive, OEM Interviews and HRI Estimates.*

Source: Harbour Results

Suppliers are Hiring . . . And Continue to Have Major Concerns Filling Technical Positions

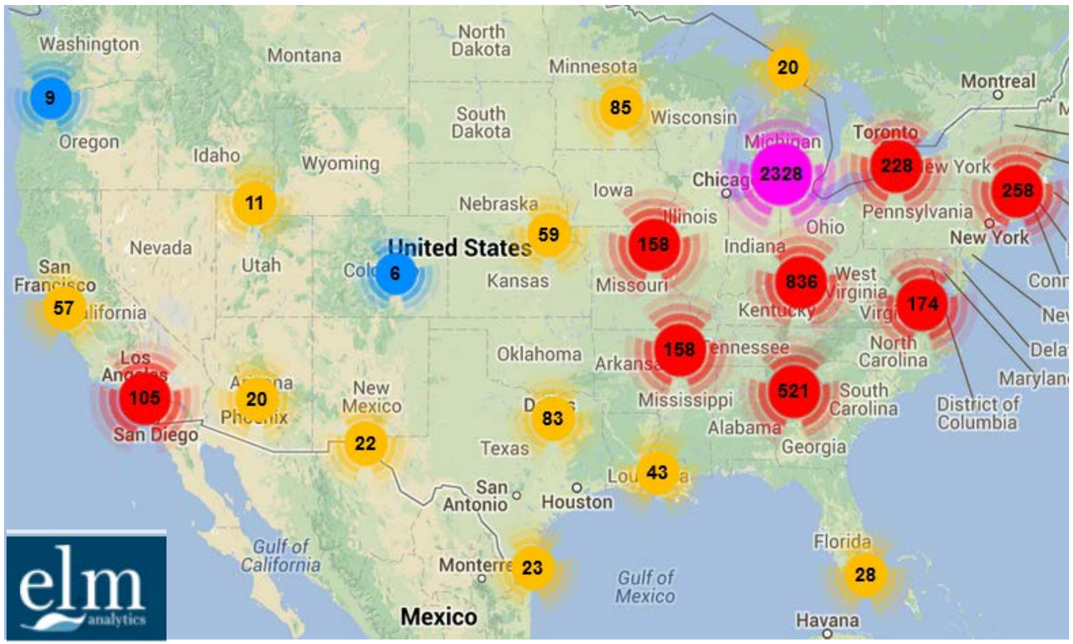


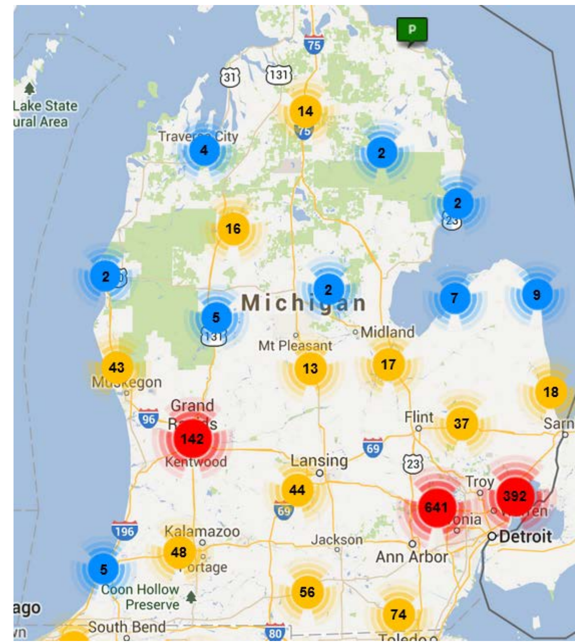
Note: Data labels show number of respondents
2013 comparative results are shown in the appendix

No. of Responses = 79

North America Production will Hold Its World Share
(yes, Mexico will grow faster than the US and Canada)

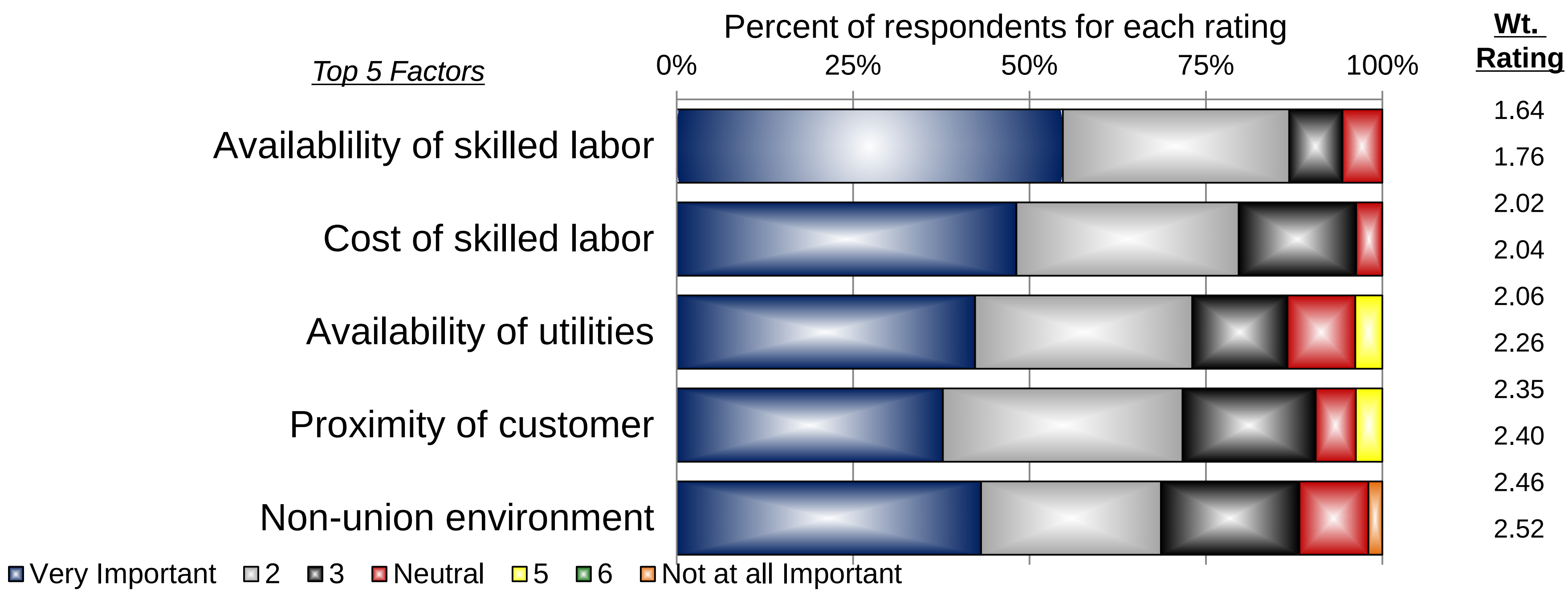
U.S. and Michigan Auto Supplier Locations





The States Along the Infrastructure Corridors Have a Huge Economic Development Opportunity

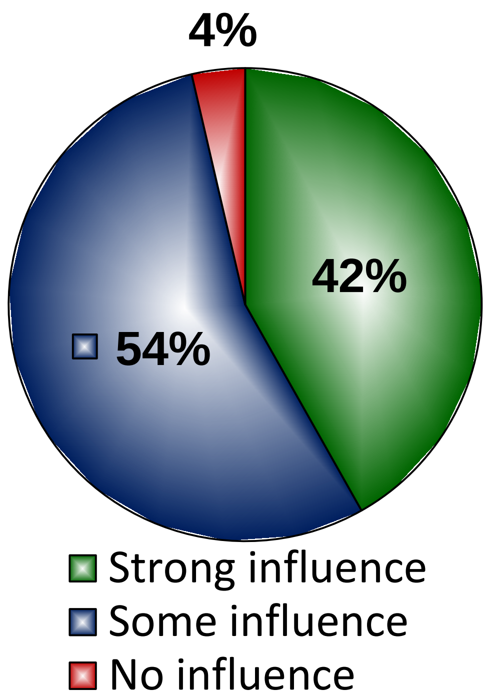
For Suppliers Looking to Expand, It is All About Labor Markets, Inputs, and Operating Environment



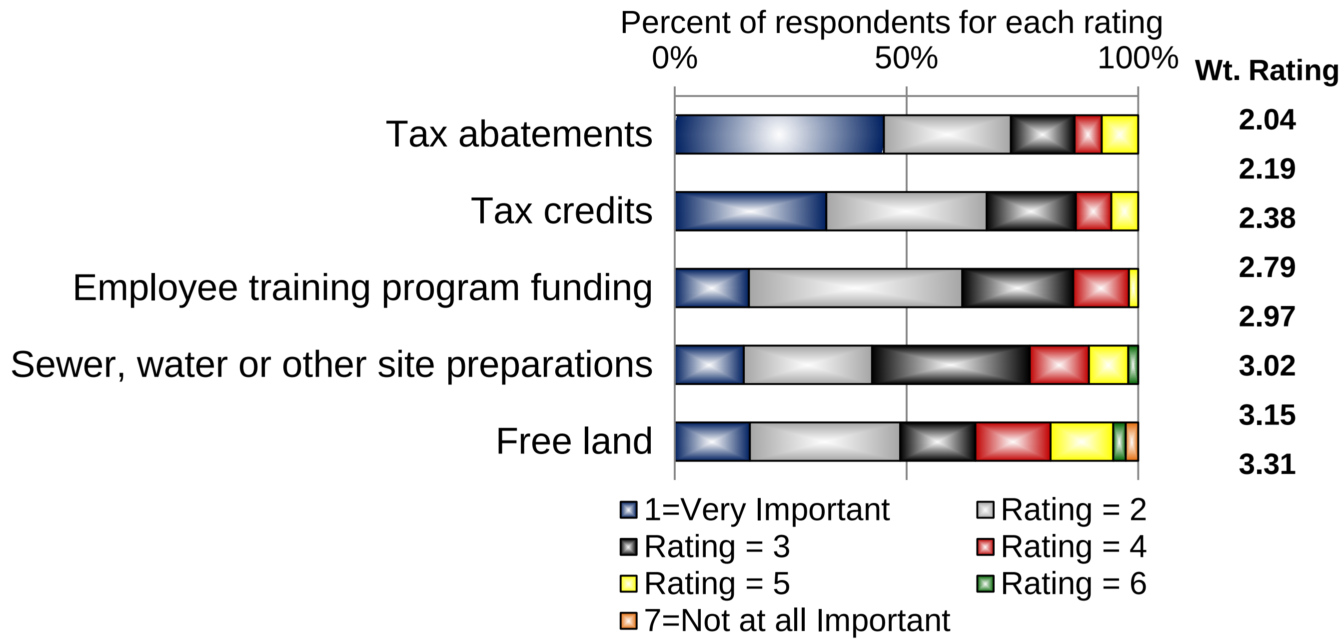
Other Factors in the Top 10: business taxes, proximity to trucking, worker cost of living, regulatory/permitting environment, pro-business political environment

Source: OESA June 2013; 55 responses

And Yes, Public Incentive Packages are an Important Form of Financing Within Plant Business Case Evaluations

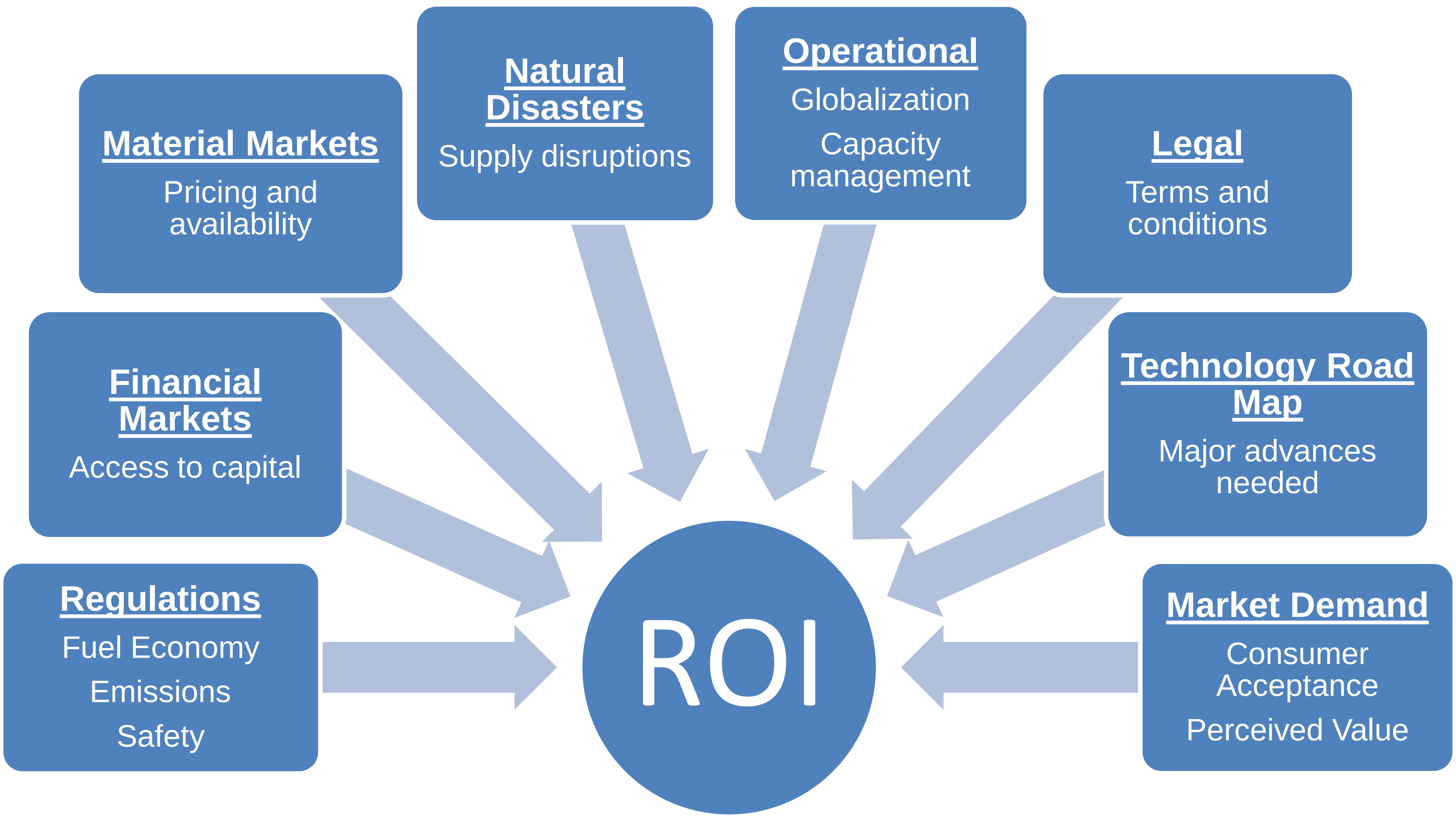


In your most recent plant location decisions, please rate the following public incentive options.



Source: OESA June 2013, 55 responses

The Supply Base Faces Unprecedented, Magnitude of Risk Simultaneously



Thank You

Margaret Baxter
Senior Vice President, Operations and International Affairs
OESA – Original Equipment Suppliers Association
1301 West Long Lake Road
Suite 225
Troy, Michigan 48098

248-430-5966
mbaxter@oesa.org