

Money Talks:

A Supplier's Guide to Thriving in the Automotive Industry's
New Financial Landscape



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Agenda

- What's Changed Since Last Year?
- Where Are We Today?
- Survive Not Thrive, For Now
- Transitional Capital
- Private Equity's Bumpy Track Record
- Looking Ahead: Letting the Market Work
- Looking Ahead: A Selective Partner

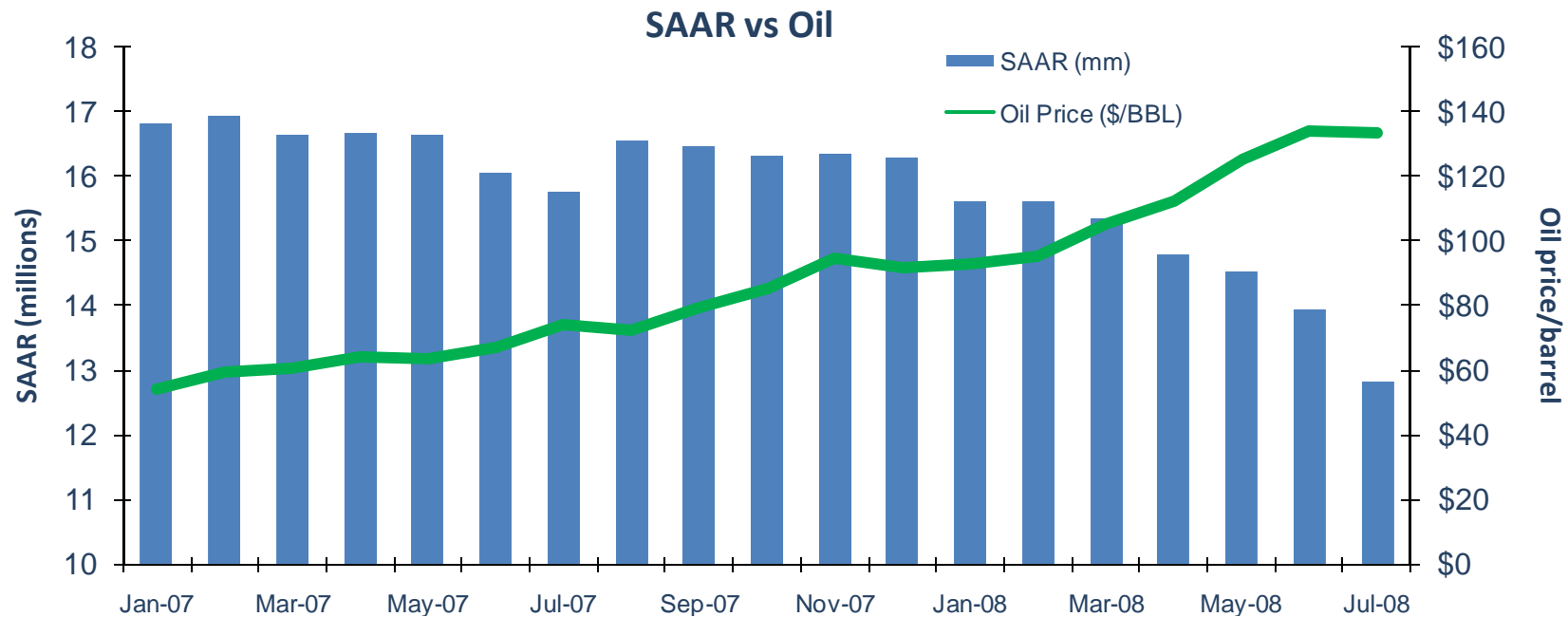
What's Changed Since Last Year?

- August 2007 thesis of *The Recapitalization of Detroit*: capital a critical enabler in Detroit's transformation – painfully obvious today
- “Investors still have abundant capital, notwithstanding recent hiccup”
 - **Abundant equity capital still available**
- “Institutional debt market likely to slow, not stop investments, unless consumer pinched”
 - **Institutional debt market effectively closed to suppliers and OEMs**

Source: Casesa Shapiro Group

Where are We Today?

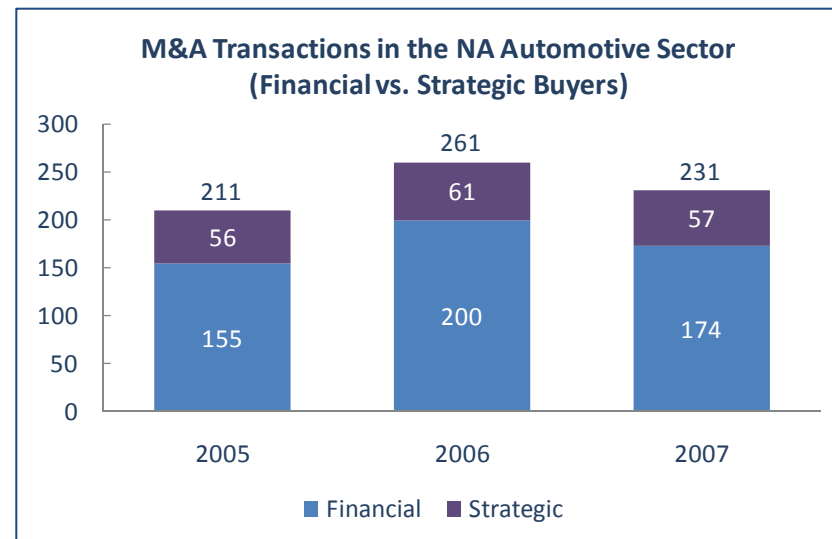
- Confluence of events (credit, economy, oil) have overwhelmed industry, resulting in collapse of obsolete business model
- Acute need for capital, for restructuring in mature markets and for growth in emerging markets



Sources: Casesa Shapiro Group, Wards

Survive not Thrive, For Now

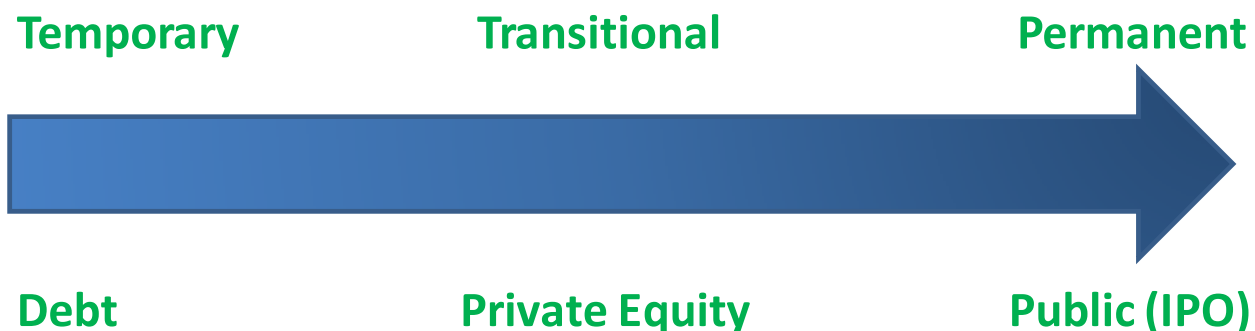
- “Thriving” is not realistic anytime soon
- If sufficiently capitalized, grow organically or acquire businesses in new markets and new products
- If not sufficiently capitalized:
 - 1) raise capital from traditional sources to execute your business plan (difficult)
 - 2) raise capital from non-traditional source (PE an example)
 - 3) sell your business to a better capitalized company (a “strategic”)
- Be realistic: best option among poor ones, may be to exit



Sources: Casesa Shapiro Group, Thomson Financial

Transitional Capital

- Private equity provides transitional capital, typically 5-7 years in duration
- Massive resources: PE invested \$1.1 trillion in 3,329 M&A deals in 2007, 25% of the global total
- Willing to take risk and partner with management
- Not industry experts, but active, involved owners
- Expert at deal structuring, valuation and financing
- Originally just financial engineering, but today PE brings strategic insight, management and expert resources



Source: Casesa Shapiro Group

Private Equity's Bumpy Track Record

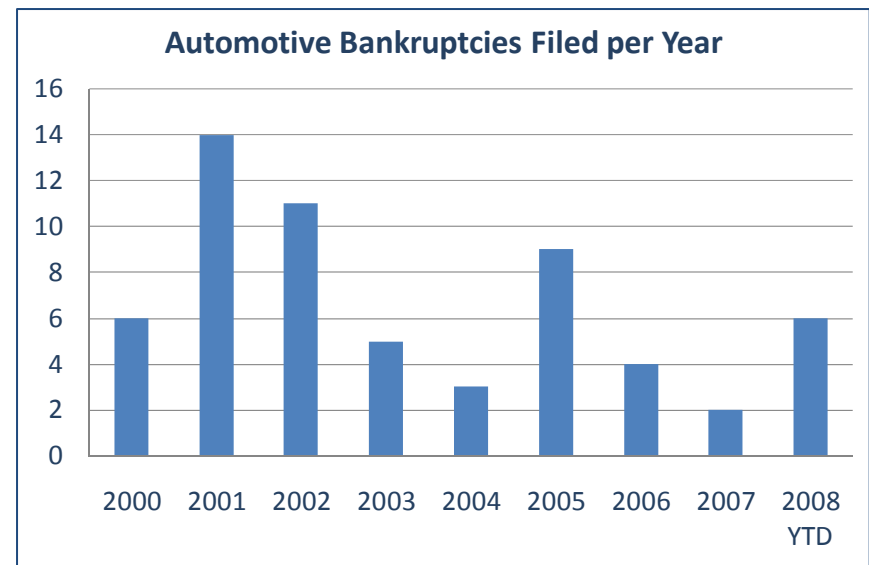
- US auto industry has been unrewarding for public and private investors
- Private equity's track record in auto industry poor
- Many PE investments misguided, overleveraged and poorly timed
- Common mistakes have included underestimating:
 - Risk of consolidation strategies (“roll-ups”)
 - Difficulty of winning new business
 - Leverage to negotiate price with customers
 - Strength of product or technology
- Notable successes include American Axle, BorgWarner, Lear and TRW
 - Astute timing of cycle
 - Supportive PE/management relationship
 - Proprietary technology and/or product
 - Management with outstanding track record



Source: Casesa Shapiro Group

Looking Ahead: Letting the Market Work

- Risk/reward profile of auto not particularly attractive – poor cash flow characteristics because of cyclical, capital intensity, customer concentration
- Private (and public) investors will be highly selective and reluctant to commit capital
- OEMs also more deliberate in letting distressed suppliers go into bankruptcy; reluctant to perpetuate supply imbalance
- Reluctance of capital providers will intensify industry shrinkage and consolidation – many firms will be taken over by lenders or fail – *this is the market at work*

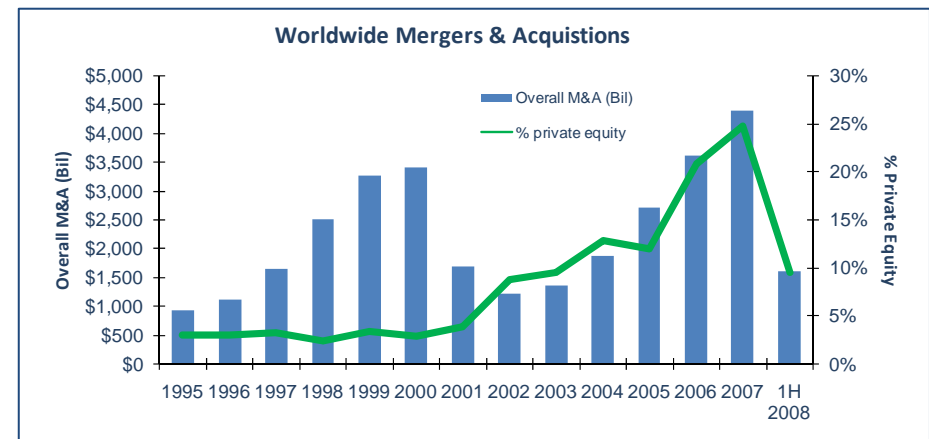


Sources: Casesa Shapiro Group, , BankruptcyData.com

Looking Ahead: A Selective Partner

- Private equity likely to provide significant amount of funding for the industry's restructuring, but will be very selective
- Not the ideal capital source for the auto industry, but beggars can't be choosers

- New investing approach likely:
 - Use less leverage
 - Be more hands-on
 - Rely on more conservative forecasts
 - Plan on less risky operating strategies



- Many works in progress to watch including Allison Transmission, Chrysler, Dana, Delphi, Dura, GMAC, Tower, TMD Friction
- Likely *long-term* result is a more rational and profitable industry structure, with better economics and higher valuations
- Healthy industry can then transition from private ownership to public ownership

Sources: Casesa Shapiro Group, Thomson Reuters