
Picking Up the Pieces: The Restructuring of the North American Automotive Industry

Presented by:
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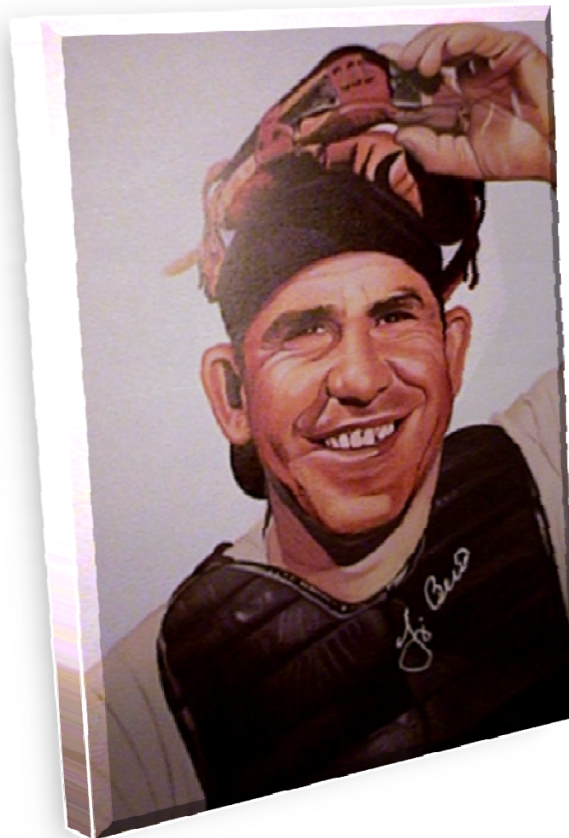


August 4, 2010
Traverse City, Michigan



“The future ain’t what it used to be.”

Yogi Berra



Our Future View Has Changed



What we **used to** think:

- 16M unit sales annually was the new normal
- Cyclicalities was not significant
- Government was viewed as an irritant but not a major player
- Assumed if we managed our current financial performance, we were ok
- Operationally efficient, or so we thought
- High growth markets were offshore and new competition was coming from offshore
- Capital returns were an issue, but volume would cover it

The New View



What we think **now**:

- Sometime we will return to 16M, but it's no longer the norm
- Automotive is still a cyclical industry
- Government is engaged as an investor, lender, legislator, arbitrator, union supporter and more
- Financial condition and financing are an issue for **everybody**
- Operational execution and efficiencies are critical
- Capital returns become a more critical performance indicator
- High growth markets are offshore and new competition is coming from offshore
- The lender of last resort, the US Government, is unlikely to bail out the industry if it gets in trouble again
- It is back to the basics - a demonstration of the talent and skill that made this industry great.

Lessons From “The Great Recession”

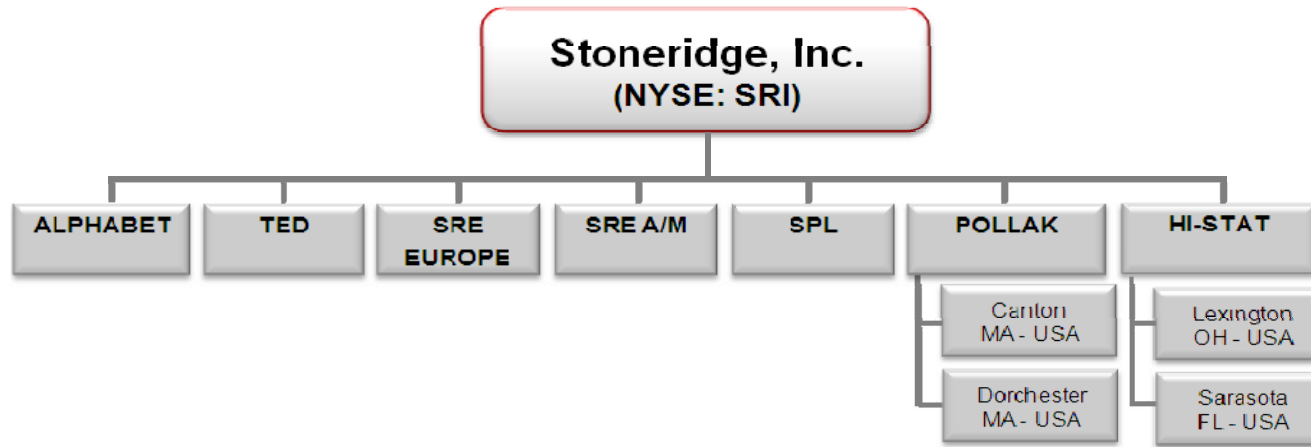


- Industry was very adept adjusting to significantly lower volume and finding cash to survive (speed & flexibility).
- Cost structures were significantly reduced.
- Life is not always fair. Coming out of bankruptcy many are in a better competitive position due to, debt and interest restructuring besides operational restructuring - they may have a competitive advantage now vs. those who didn't file.
- Recession did not significantly change the competitive landscape - still too much capacity in the short term.
- Government involvement is here to stay and we need to attempt to direct/influence it as an industry.
- Success means holding your cost gains as growth returns.
- Diversification and/or a clear strategic focus is a characteristic of the survivors.
- OEM /Supplier relationship need to change
- Focus on simplicity not complexity.

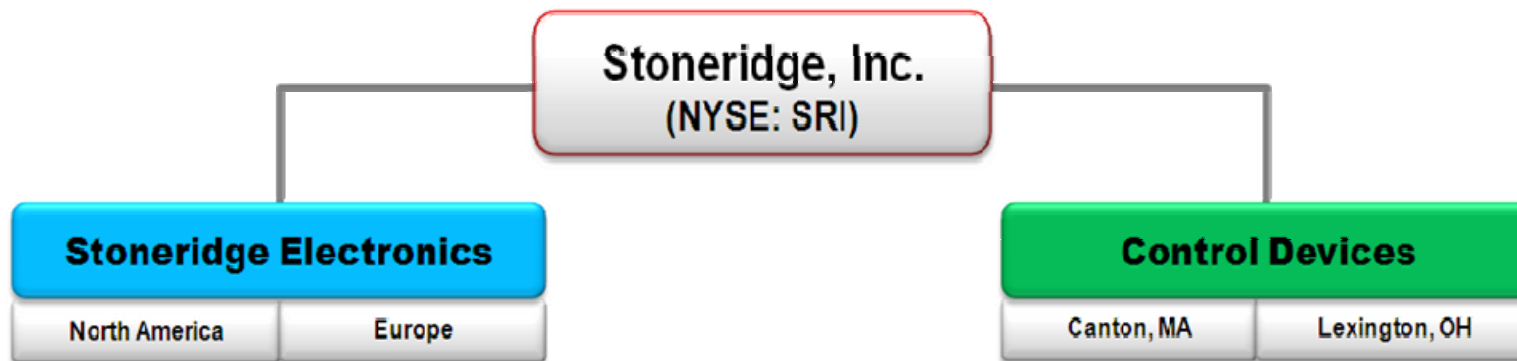
Stoneridge Structure – Focused Business Units



2006-08: Independent divisions with associated support complexity & cost



2009: Three interlinked business units with reduced cost & complexity, and greater heft in the marketplace



Product Portfolio Reduced and Focused



Electronics

Wiring Systems



Multiplexed Systems & Power Management



Modular Assemblies



Instrumentation



Control Devices

Actuators



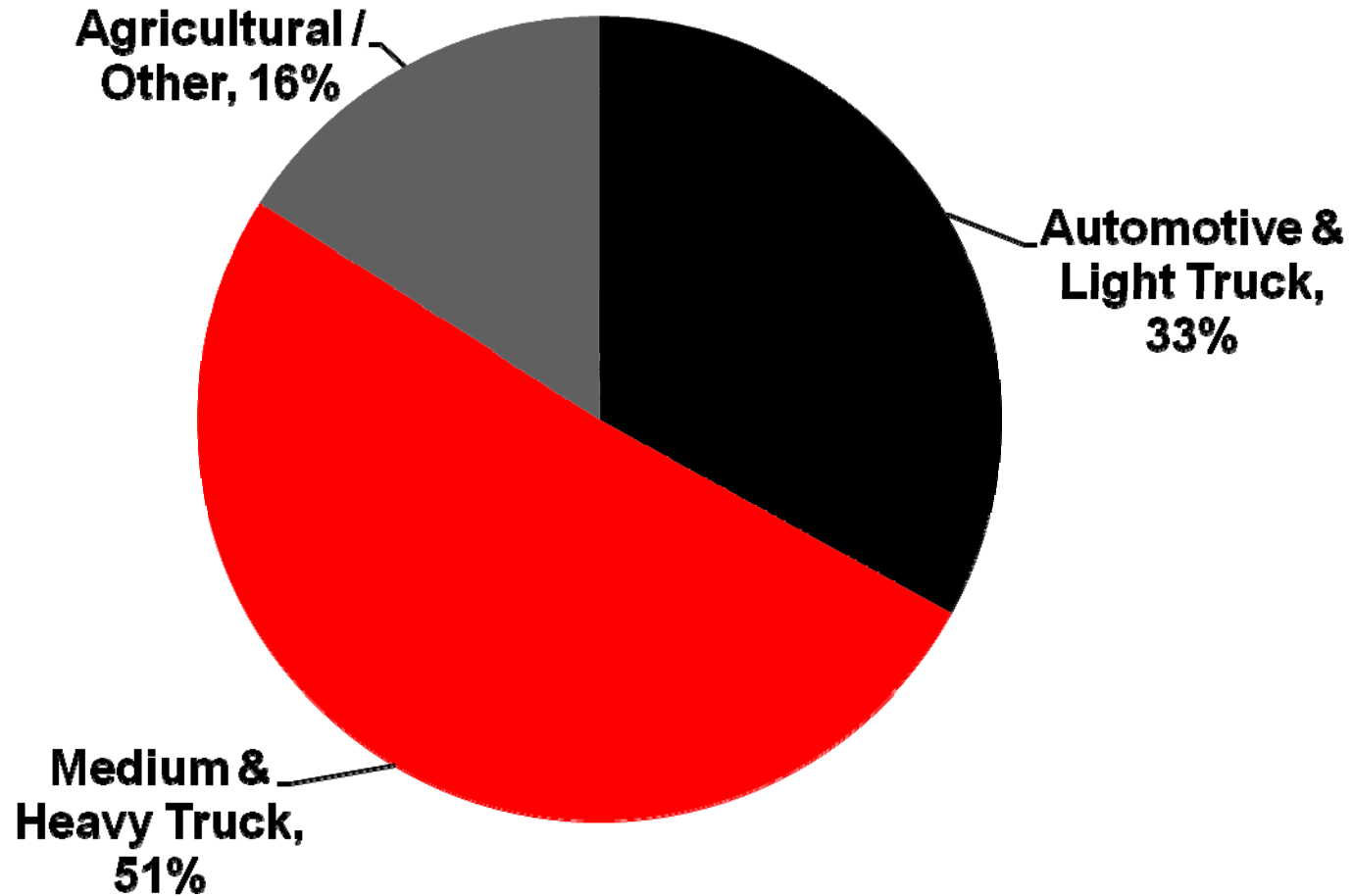
Sensors



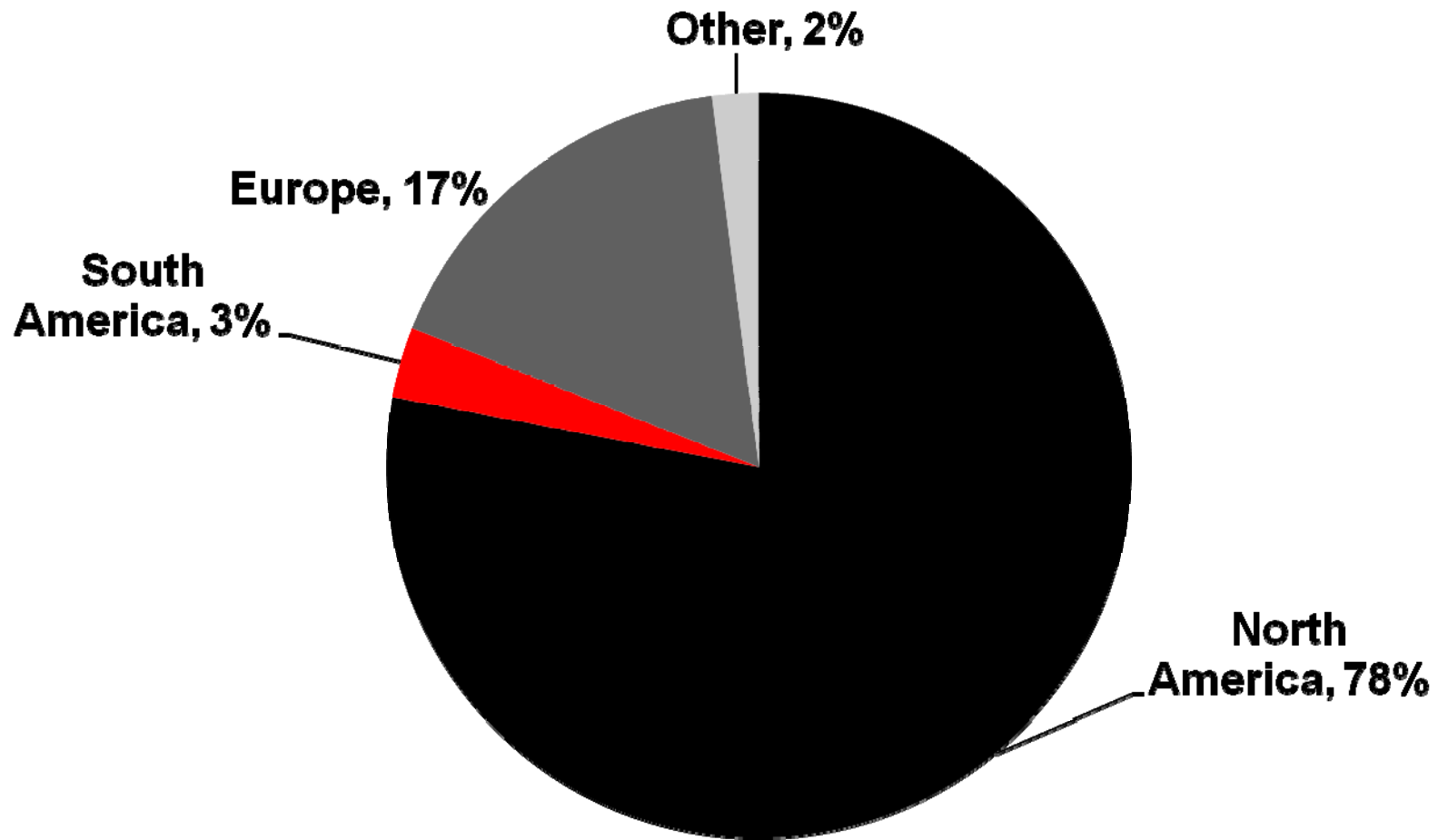
Switches



2009 Revenue by End Market



2009 Revenue by Geography



Impact of the Recession



	2007	2008	1st Half 2009	2nd Half 2009	2009
Net Sales	\$727.1	\$752.7	\$223.4	\$251.8	\$475.2
Operating Income	\$34.8	\$21.9	(\$23.1)	\$4.8	(\$18.2)
Free Cash Flow	\$15.4	\$17.9	(\$9.4)	\$11.2	\$1.8

Breakeven reduced 25% without significant cuts in design & development preserving future growth

Does not include 2009 JV sales:

- Brazil \$140.7M
- India \$20.4M

“Long range planning does not deal with future decisions, but with the future of present decisions.”

Peter Drucker

Mixed Messages About the Future



2009

- 'Industry Fears Americans May Quit New Car Habit,' *New York Times*, May 31, 2009
- 'New Vehicle Sales Reach a 2009 High,' *NYT*, June 3, 2009
- '2010 sales will rise a bit. Or soar. Or maybe crash,' *Automotive News*, December 15, 2009

2010

- 'March U.S. Car Sales Rise in Sign of Industry Rebound,' *Wall Street Journal*, March 19, 2010
- 'Study Says U.S. Car Sales to Return to Pre-Recession Level,' *WSJ*, May 18, 2010
- 'Auto-Sales Optimism Fades,' *WSJ*, June 14, 2010
- 'Car Sales Enter Slow Lane,' *WSJ*, July 2, 2010

What *is* Clear at This Point

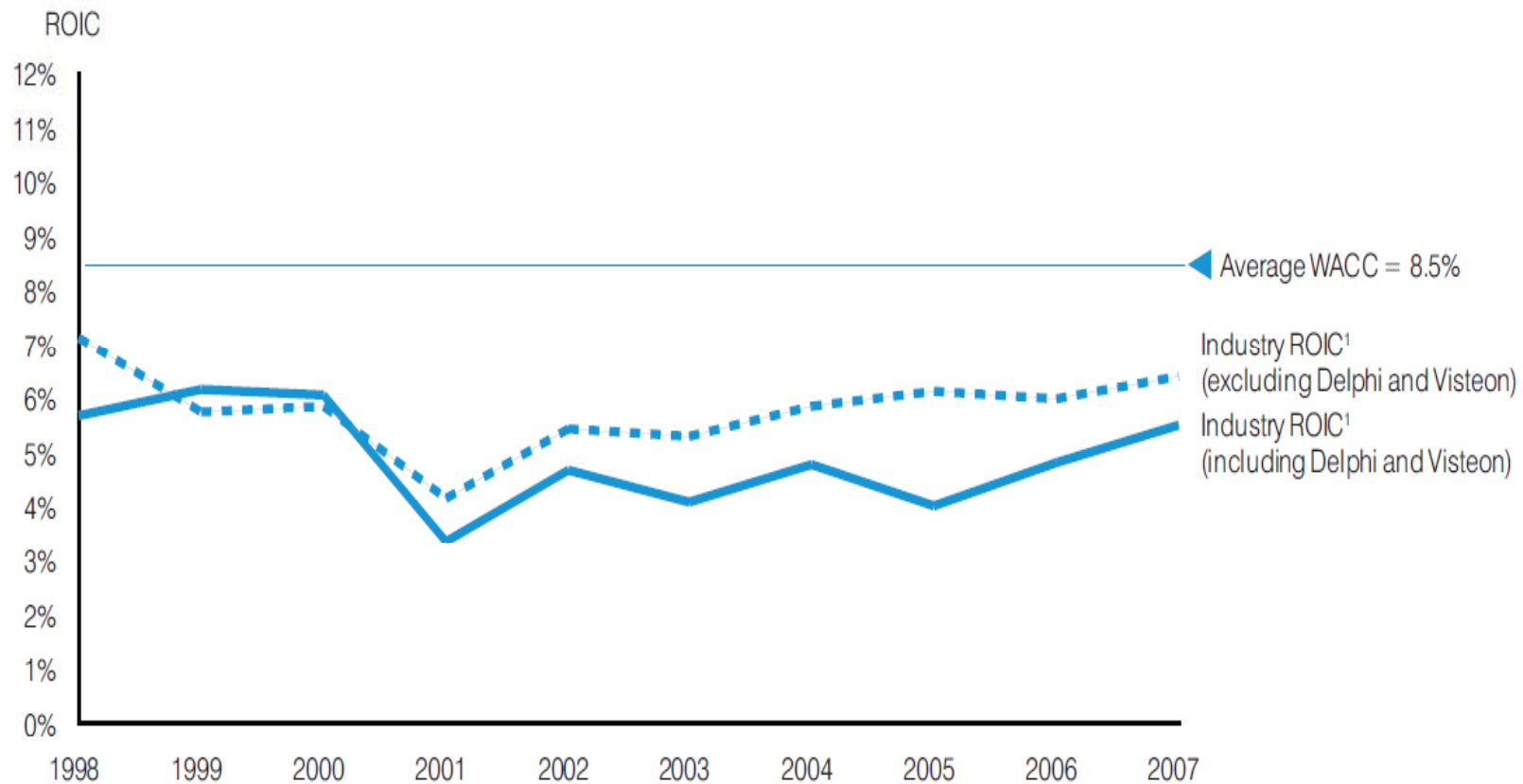
- Uncertain economic outlook due to employment, debt ,taxes and (WIGD) - What is the government going to do
- What the government is doing is involvement at increasing rates from energy & safety to workplace & environment
- Global competition gaining new skills to compete
- Increased pressure to restore givebacks and increase wages and benefits to union employees at OEMs
- Shifting market segments domestically and growth globally
- Need for increased investment to fund new product development
- Continuing reconfiguration/consolidation of the industry
- OEM/supplier model needs attention
- Need to get from a distressed industry to a financially viable one attracting investment

A Long Period of Underperformance



Return on Invested Capital (ROIC): Leading Automotive Suppliers

%, WEIGHTED AVERAGE BY YEAR (1998-2007)



Problems cannot be solved at the same level of awareness that created them “

Albert Einstein

Present Decisions – Cash is King



**Unless you have cash or access to it,
all else is unimportant.**

“A Pension on the Rocks Gets an Emergency Shot of Liquidity: Maker of Johnnie Walker Shores Up Retirement Plan With Barrels of Booze”

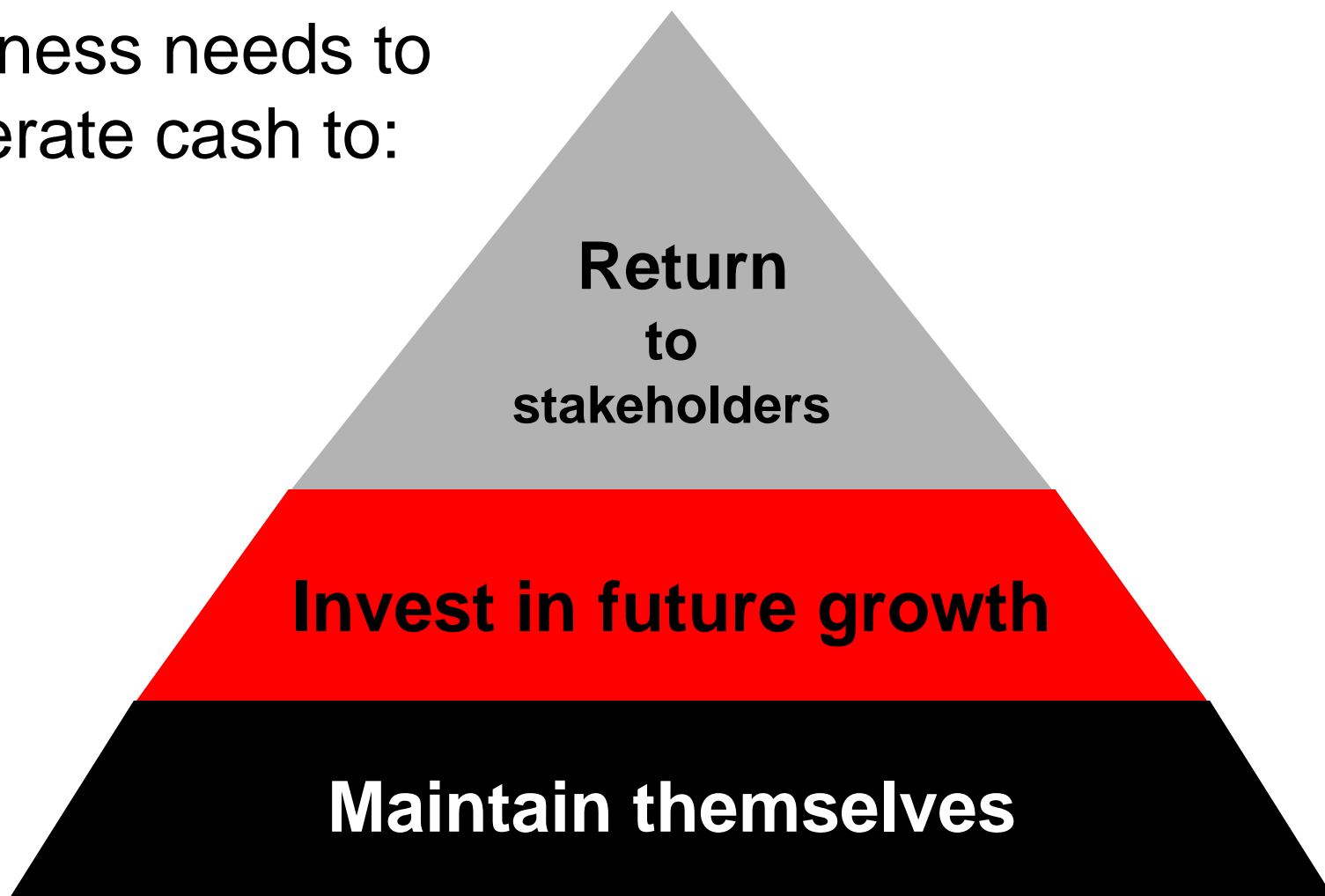
Wall Street Journal, July 2, 2010

“The global drinks giant [Diageo plc] said Thursday that it would help cure its £862 million pension deficit by transferring 2.5 million barrels of aging whisky to its pension fund, as part of a 10-year funding plan approved by the trustees of its U.K. plan.

‘Companies are looking for corporate assets which they can pledge to pension schemes which mean they don’t have to put in cash,’ said independent pension consultant John Ralfe.”

Why Access to Cash is So Important

Business needs to generate cash to:



Present Decisions - Secure Your Financial Borders

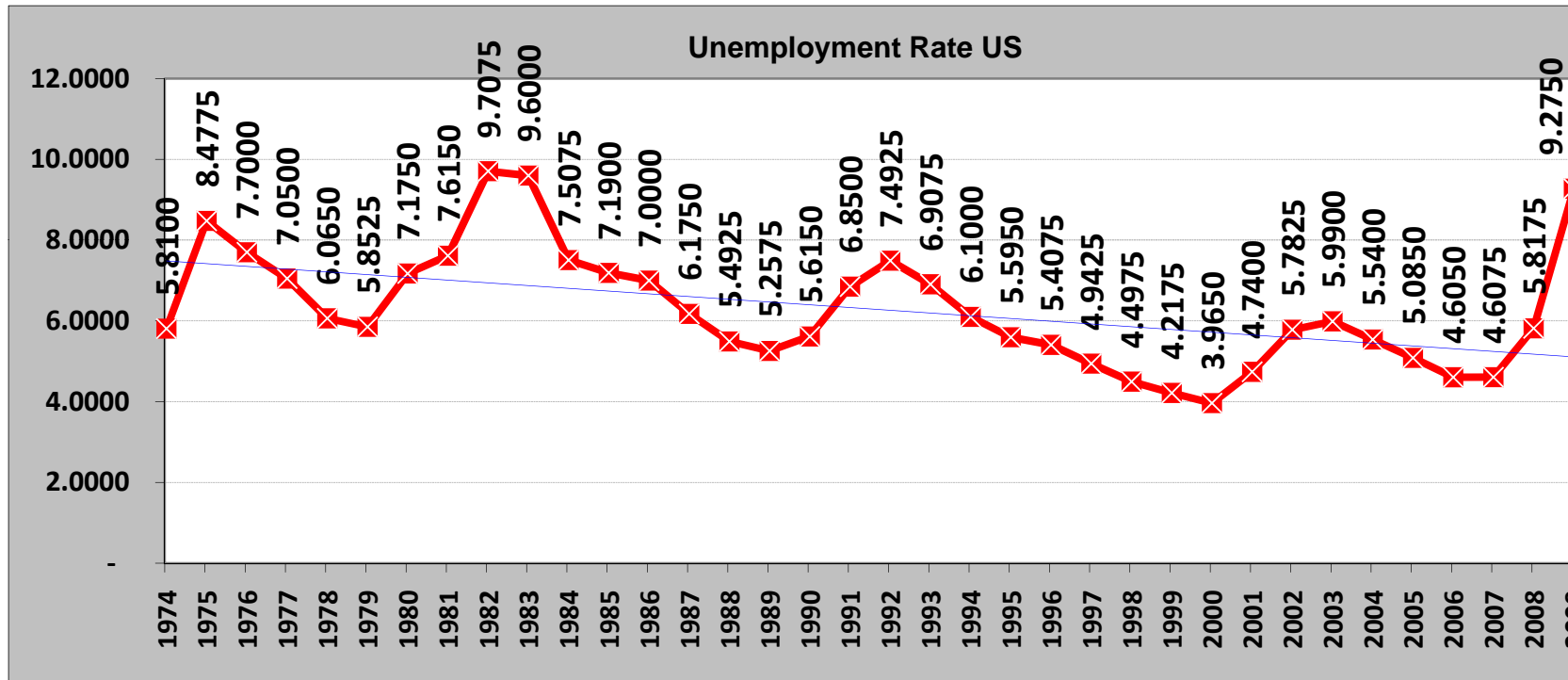


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- As everyone discovered, EBITDA has become a tool for what leverage can be placed on a business, not necessarily what can be supported.
 - Management teams must focus on cash and return on investment to a far greater degree. We need to change our return targets
 - Restore balance sheet credibility – Deleverage through operational performance not a chapter filing
 - It is critical that you know where your funding will come from.
 - Investors, lenders, customers, suppliers, government
 - **Learn from the past**

Secure Your Financial Borders



- Unemployment remains high despite record stimulus and support:

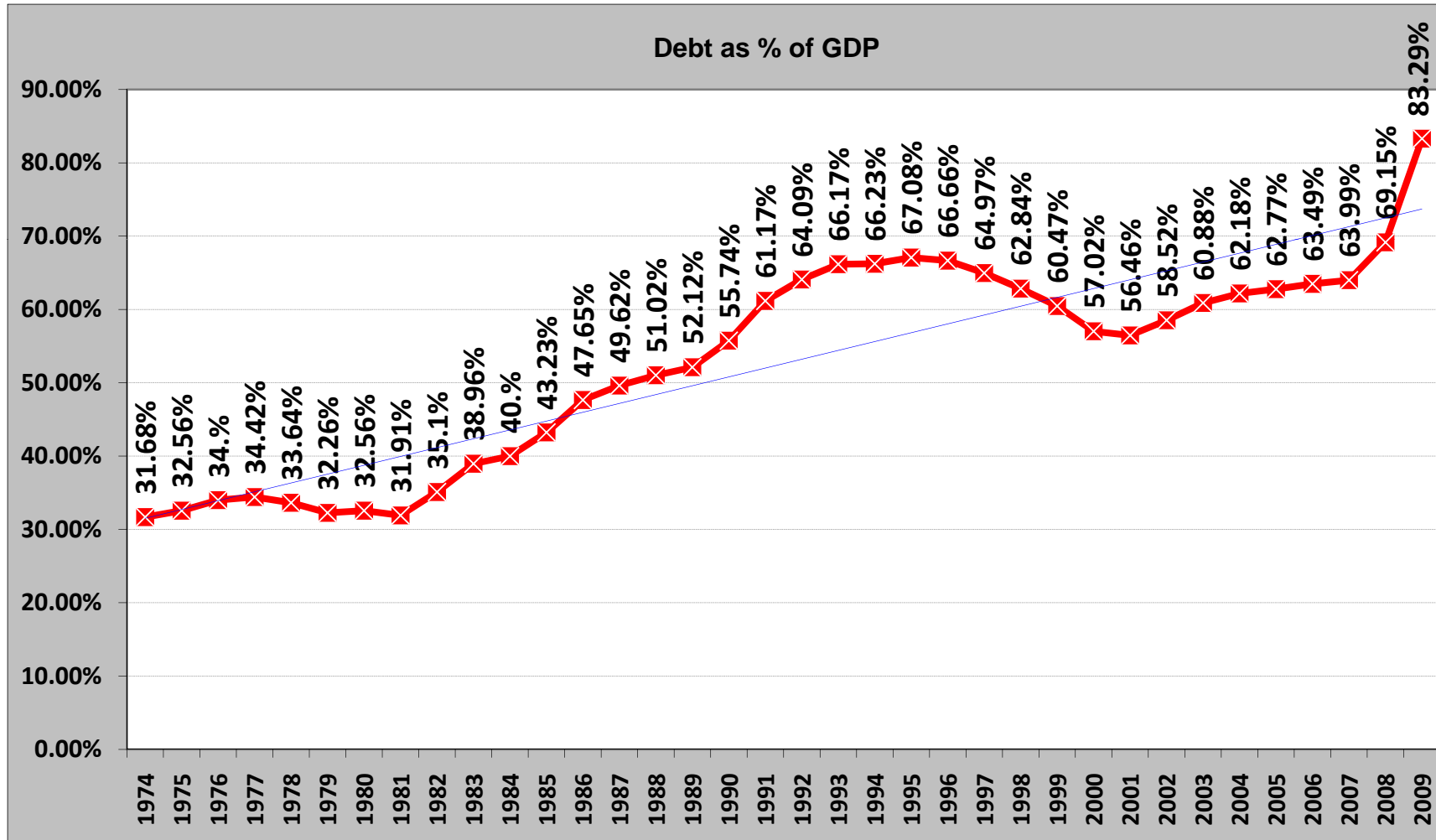


There is a price to stimulus - increased government debt and future raises in taxation.

Secure Your Financial Borders



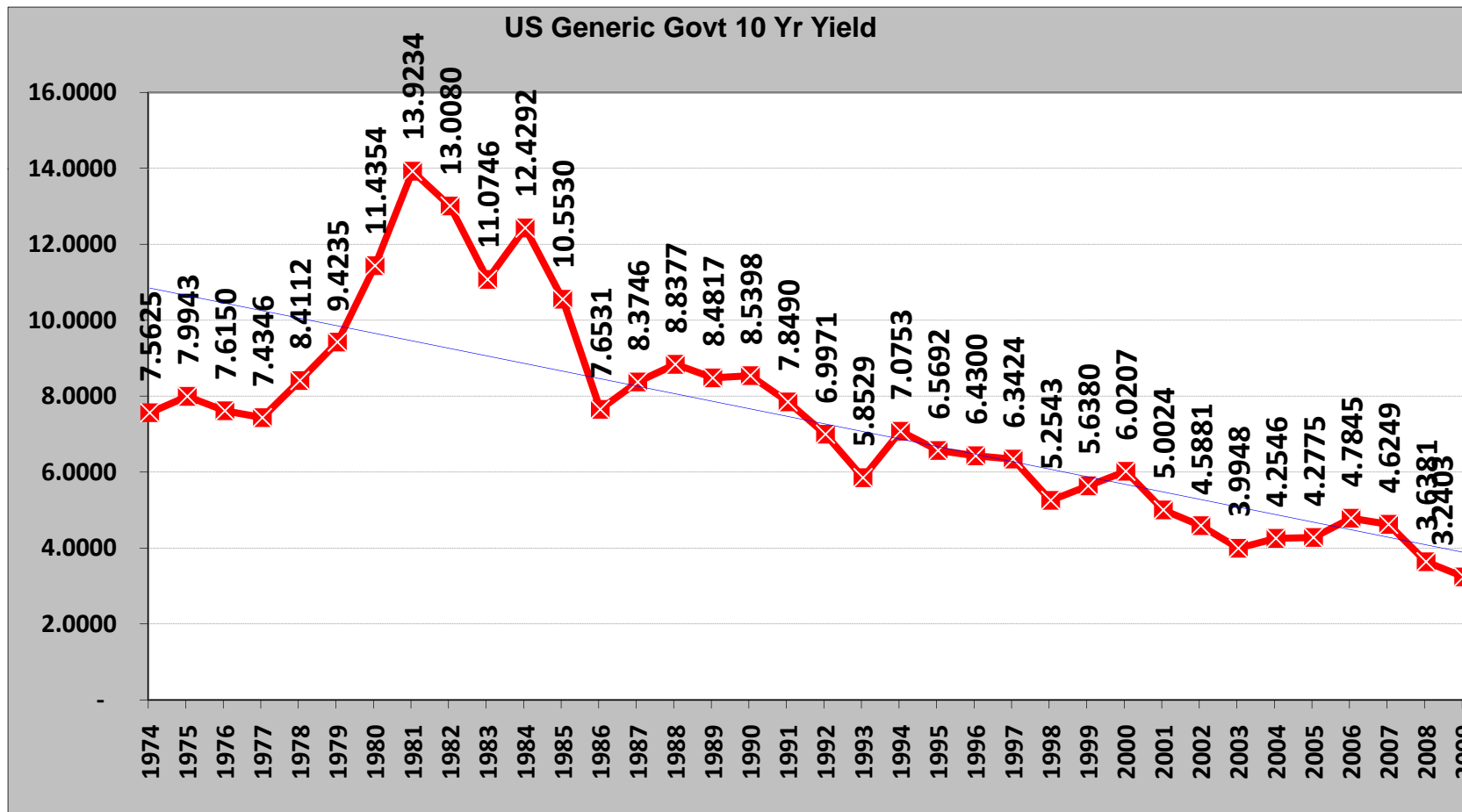
- Federal debt funding requirements



Secure Your Financial Borders



- A period of declining interest cost will change. **A re-do of the 1980-1985 rates spike is a possibility!**



Secure Your Financial Borders



“It has been dubbed the ‘wall of debt.’ A massive wave of borrowing will start cresting this year when the U.S. and European governments sell an estimated \$4 trillion in new bonds. The surge will course through the world financial system for several years as **countries, corporations and banks borrow record amounts of money** to repair the damage from the financial crisis and pay back loans from the boom that preceded it.”

Washington Post, 7/15/10

Plan on an increased cost of capital for your business unless you have locked in long-term financing!

Keep a Focus on Continuous Operational improvement

What we did /are doing at Stoneridge:

- Continued focus on lower-cost structures
 - Flattened the organization & streamlined decisions
- Adopted aggressive fiscal management philosophy
 - Stressed employee ownership for profit & cash
 - Modified Incentive plans payout on profit and cash
 - Changed the measurements to ROI or EVA
- Focused on the vital few
 - Targeted segments, customers
 - Thought in terms of product families vs. products, invested only in those that make money currently or are significant to future development and returns

Evaluate resources. Do they improve response time, bring a new skill or improve skill sets, and are they aligned with your business plan?

Focus your business. Target customers, regions, and markets. Have external measurements and keep them in front of your organization.

No One Model Insures Success

- **Mega supplier** - Global, multiple product lines, and possibly multiple markets. (Can't do everything well but can leverage size.)
- **Focused supplier** - Few product lines or one primary product line global or regional. (Must execute well in product development and operational performance.)
- **Connected supplier** - Multiple or few products, dependent on customers for expansion. (Must have strong alignment with the customer.)
- **Homebody** - Regional, focused on product and/or process.
- **Confused** - Some combination of all of the above. (Not sustainable.)

Evaluation, execution, execution, execution.

Diversification is a Key to Sustainability



Organizational danger is the “We know what we know” syndrome.

Diversification - Can be defined multiple ways:

- **Customers** - How will you acquire new ones within the industry and possibly outside?
- **Geography** - Can you support global expansion directly or, if not, through a JV or other agreements?
- **Markets** - It is not just Auto anymore. How do you determine where the attractive opportunities are and which ones fit your business model?
- **Operationally** - Most of the industry operates from a cost model vs. a technological one. What can you do to differentiate yourself?

And... never hesitate to copy successful companies!

Government Engagement is a Reality



- Government is now a owner/operator in the industry, either directly or through the legislative process
- Suppliers must become more active in the legislative process – continue to build on the progress made in the last year
 - Demonstrate our capabilities and our importance to the economy
- **Some recent legislative activities:**
 - Small Business Lending Act;
 - Proposed changes to OSHA;
 - Proposed changes to Advanced Technology Vehicle Manufacturing Incentive Program;
 - Section 136 Funding of the 2007 Energy Independence and Security Act;
 - Advanced Vehicle Technology Act, and
 - Motor Vehicle Safety Act.

We need to have a voice in this process



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- The government will create winners and losers in the industry - we have to deal with it
 - Consequences of government regulation
 - Steel tariff and the rising cost of steel
 - So we must amplify our voice drive the message beyond OEM and Tier 1 efforts.
 - Why not ask for help to drive technology development on shore by:
 - Lower the US corporate tax (second highest in the world) by making tax incentives for R&D permanent.
 - Tie government regulation to a low-cost financing source to facilitate the development and compliance
 - We can have common objectives and a strong voice

There are Still Opportunities (and Risks)

Examples of Significant Opportunities and Risks for Companies & Investors (from a supplier's perspective):

Products that will help improve fuel economy	<ul style="list-style-type: none">• Vehicle efficiencies• Mass & weight reduction
Green initiatives	<ul style="list-style-type: none">• Carbon footprint• Clean energy technology• Battery powered systems
Electronics, powertrain & emissions products	<ul style="list-style-type: none">• Fastest-changing vehicle segment
Safety-related products	<ul style="list-style-type: none">• The next generation beyond seatbelts and airbags

It all takes investment, so select targets appropriately or co-develop to share the risk.

OEM Supplier Model

- After what the industry has experienced can we say it is working well?
- While we are improving relations in the OEM supplier model we still see too much of same old attitudes and working relationships. And the same is true of Tier 1 working down their supply chain
- A few areas for consideration
- Terms and Conditions
- Keep our Intellectual Property
- Sourcing based on best landed costs versus market testing
- Work on reducing cost complexity

Future Considerations

- Co-develop & protect IP globally
- Greater investment by OEM or minimum volume guarantees
- Emphasize technology... de-emphasize commodities
- Speed to market & blended product portfolios
- Strategic long-term partnerships (consolidation, M&A activities)
- Consider options globally

Successful suppliers will be objectively measured on:

- Warranty
- World class operational excellence (cost, quality, delivery)
- Ability to support global requirements
- Financial stability

Danger Points

A partial list...

- Continued consolidation of OEMs and supply base
- Industry push down of cost sharing (warranty etc.)
- Inflation and material escalation w/o pass through
- Organized labor gaining influence- cost over productivity
- Lack of understanding the true cost of a weak supply base
- Protecting IP to retain competitive advantage
- Excess capacity and lack of pricing
- Global competition
- Government regulations
- Forgetting the past – it is different now.

Conclusions

- Competition never lessens in a free economy, and may be supported in a controlled economy.
- Business basics do not change, we just tend to drift away from them.
- Success comes to the team that:
 - Understands their business model (i.e. is not confused)
 - Calibrates their approach to fit changing market conditions
 - Thinks first
 - Acts fast and remains flexible
- It is not the industry you compete in, but how you compete in the industry.
- Work **on** the business not **in** the business.

- The Future ain't what it use to be
- It is probably better if we collectively work on the problems and address the issues

■ **THANK YOU**