



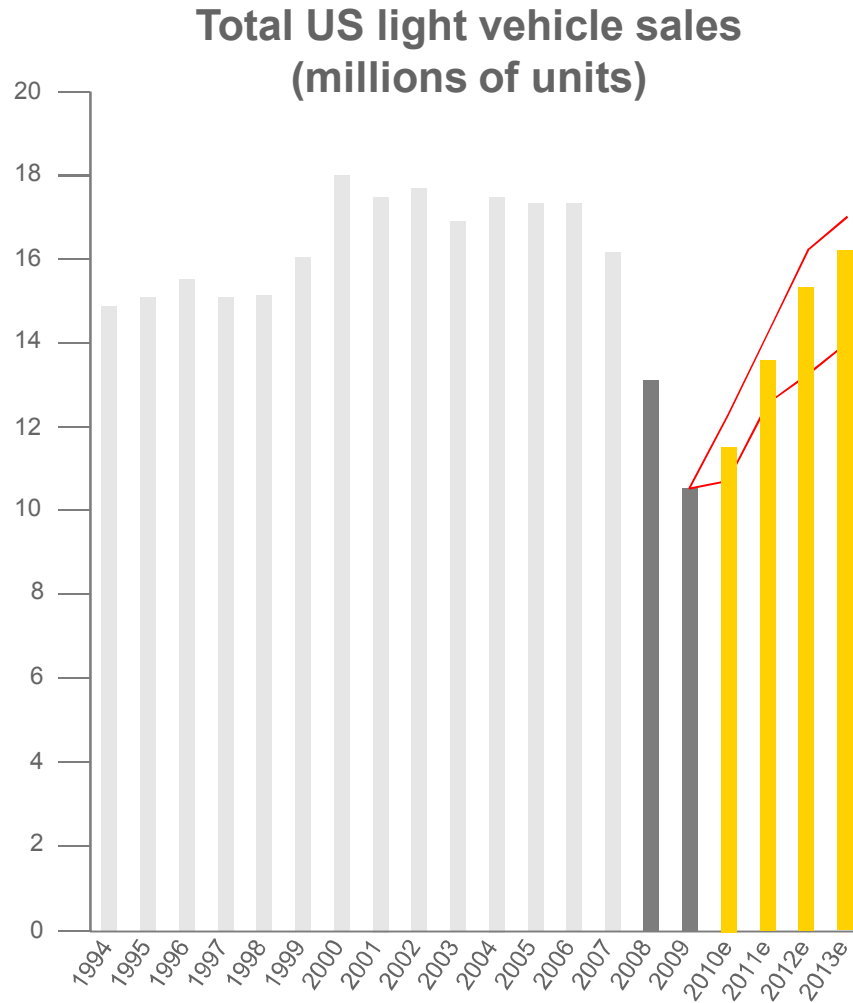
2010 Management Briefing Seminars

Money Matters session: an Ernst & Young perspective

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The automotive industry has had a significant shift in volume, but where are we going next?



An industry event

- ▶ Worst decline in half a century
- ▶ Global epidemic among mature markets

Upside recovery factors

- ▶ Economic stimulus
- ▶ High personal saving rates
- ▶ Low inflation rates
- ▶ Market recovery

Downside recovery factors

- ▶ Low consumer confidence
- ▶ High unemployment
- ▶ Slow GDP recovery
- ▶ Slowing personal consumption

A slower-than-normal recovery is likely.

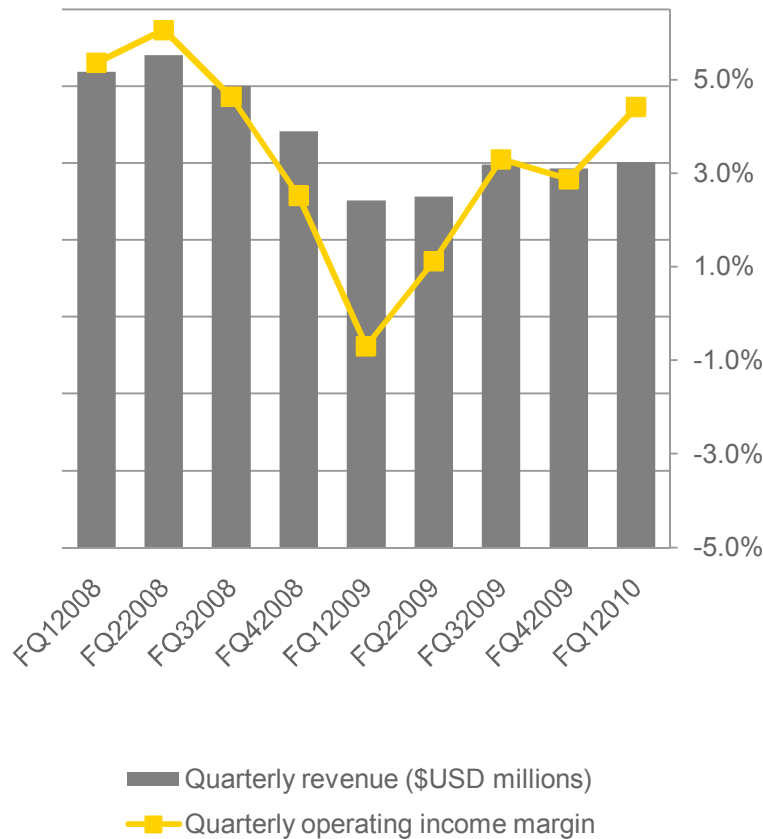
Even before the sales decline, the industry was facing several key issues that required attention

- ▶ Market growth orientation at the expense of profitability
- ▶ Incorrect/inflexible product mix due to poor visibility to customer preferences
- ▶ Overly-subsidized market to maintain production volumes
- ▶ Push versus pull
- ▶ High fixed cost structure
- ▶ Inadequate business intelligence for timely decision-making

An industry-wide transformation was required.

Response during the decline was effective — you took advantage of opportunities in adversity

Supplier revenue vs. operating margin



- ▶ Revenues have declined considerably and have not yet returned
- ▶ Operating margins also fell, but have nearly recovered to pre-decline levels
- ▶ A similar situation has played out with the vehicle manufacturers
- ▶ Many of these cost efficiencies have been realized through headcount reduction and deferral of capital investments

How will cost efficiencies be sustained?

There will be several challenges, some related to volume and mix changes

“New normal” level of new vehicle demand

- ▶ Customer behavior regarding replacement frequency
- ▶ New technologies – advanced powertrain
- ▶ Growth in emerging markets
- ▶ Forecast accuracy challenges

Productive capacity

- ▶ Relentless cost cutting has mothballed significant capacity
- ▶ Alternate demand for some capacity (e.g., plastic molding, metal forming)
- ▶ Value proposition for capacity expansion

Supplier viability

- ▶ Less consolidation than expected
- ▶ Vertical integration of Tier 2s and Tier 3s
- ▶ Are bankruptcies over?

There will be additional challenges introduced from external sources

Capital access

- ▶ Working capital generally available
- ▶ Capital not as available to fund fixed assets (expansion, tooling, etc.)
- ▶ Loans coming due with devalued asset backing will force debt restructuring

Increasing regulation

- ▶ Warranty and general liability – elevated quality concerns
- ▶ Recalls and regulatory
- ▶ Emission standards and carbon limits

Price volatility

- ▶ Currency
- ▶ Commodities

The industry will need to stay focused on these global challenges as the market improves

Strategic understanding of the market is critical

- ▶ Consumer buying and driving behavior
- ▶ Emerging markets' maturation
- ▶ Alignment of forecasting to total operations

A strong internal focus is going to be critical to execute the transformation

- ▶ Continue and sustain cost measures taken throughout the organization
- ▶ Investments to meet

Monitor and react to regulatory and other external impacts (both favorable and unfavorable)

A path to growth and profits

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