



AmherstPartners

Fusion and Winning in China

China: Prospects for North American Suppliers
CAR - Management Briefing Seminars

August 3, 2010

AmherstPartners



Amherst Partners was founded in 1994 to assist middle-market businesses by providing investment banking and corporate restructuring services, delivered by professionals with deep expertise, broad experience, and proprietary access to a network of local and global resources.

Amherst Partners delivers comprehensive financial advisory services to automotive clients across the supply chain, including Tier I & II suppliers, aftermarket component manufacturers, among other industry service and product providers.

The Amherst team has completed over 100 corporate finance engagements across the passenger vehicle, commercial vehicle, and specialty and recreational vehicle sectors.

A Full Platform for Global Expansion

- The concept of China as merely a low-cost manufacturing location is dated, the importance of China requires full participation

Leveraging China's Growing Capabilities

Stage 1
Circa early to mid 1990's



Stage 2
Circa mid to late 90's



Stage 3
Early 2000's



Stage 4
Present to 5-10 years in the future



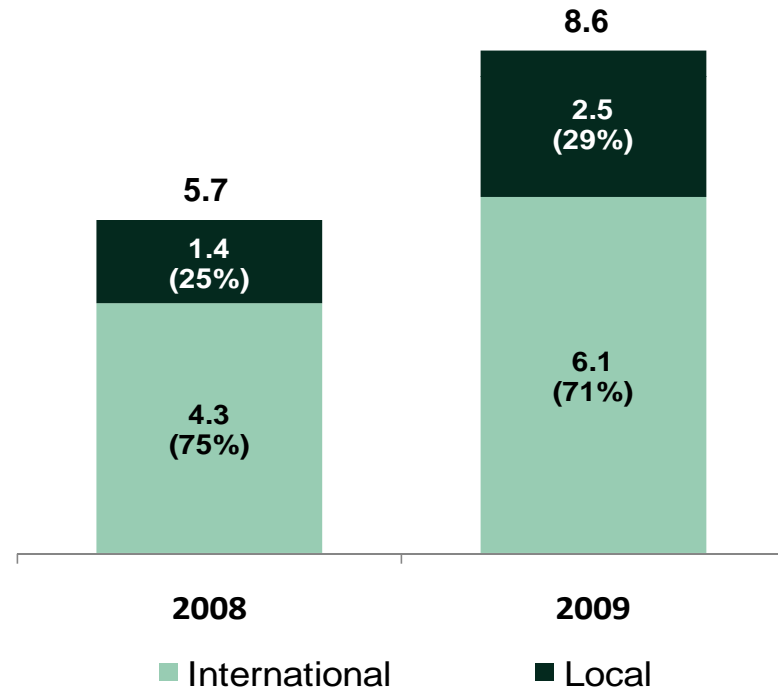
Source: Booz & Co.

International OEMs/Brands Dominate

- The most common entry strategy for NA suppliers is to follow their OEM customers
- But local vehicle manufacturers are gaining market share significantly
- Sale growth is shifting from Tier 1 cities to Tier 2&3s, from coastal regions to inland, a trend believed to favor local VMs in next few years
- Local VMs represent an important source of growth

China Passenger Vehicle Sales 2008-2009¹

(incl. import, million units)



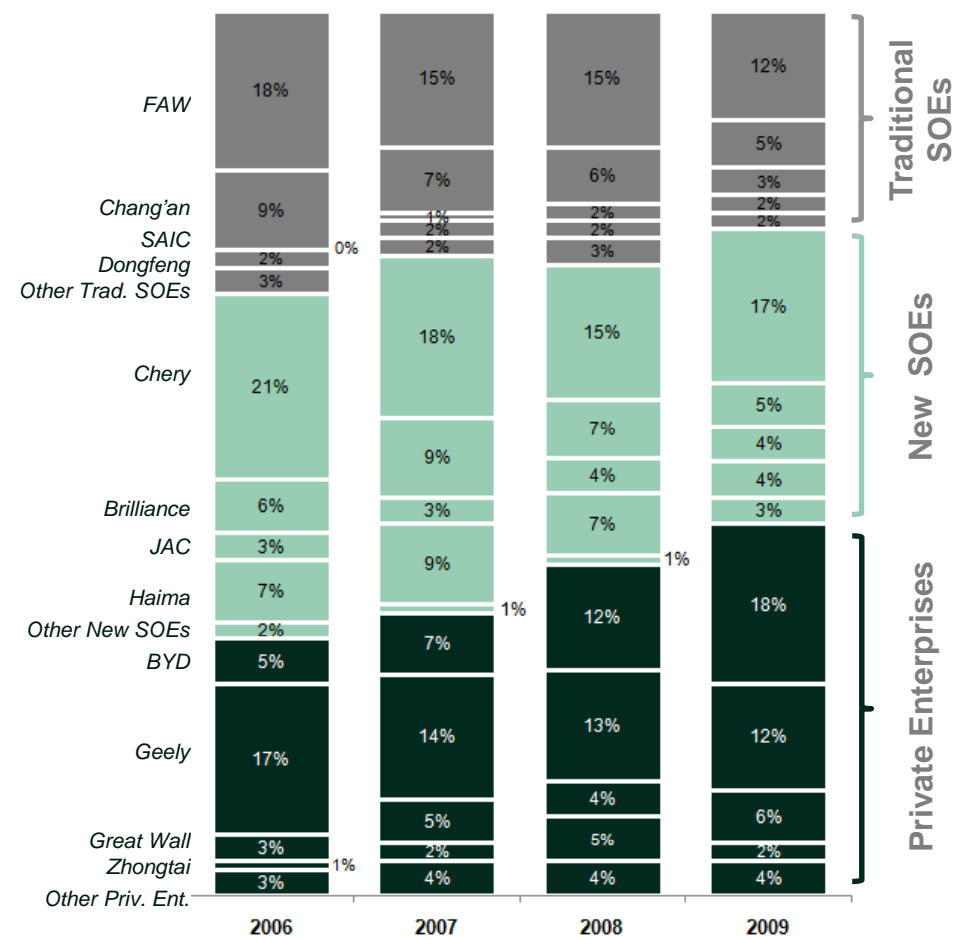
1. Source: Global Insight China Report

- Traditional SOEs (e.g. FAW, SAIC)
 - Early entry in the auto market
 - Certain scale of operations
 - JV partners of international brands
 - Central government support
 - Access to capital

- New SOEs (e.g. Chery, JAC)
 - Local government support
 - Certain level of market-driven decision-making process

- Private Enterprises (e.g. BYD, Geely)
 - Market orientation
 - Distinct individual styles

Development Trend of Different OEM Types¹

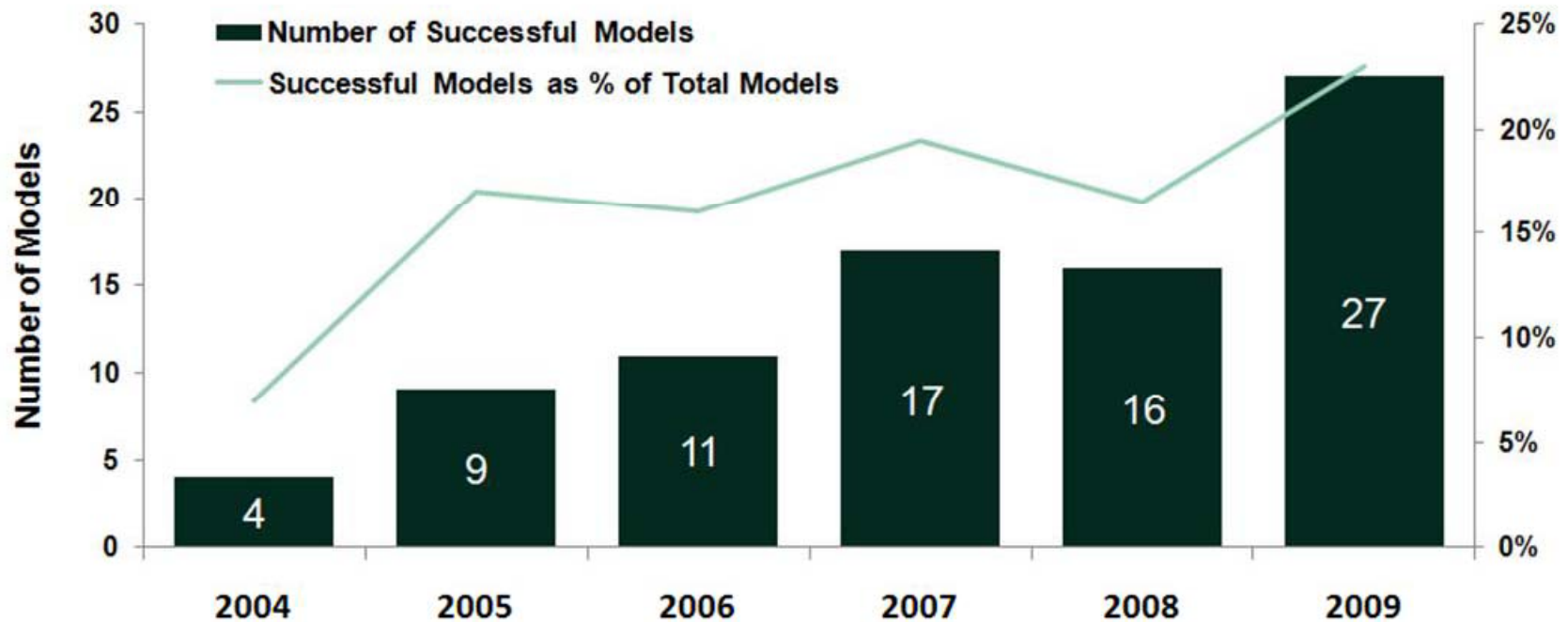


1. Source: IHS Global Insight
 Note: Includes mini car and pick-up volumes

Local OEMs Are Improving

- Local OEMs strive to close gaps with international brands in area of product designs and features, technological capabilities, project management, quality, etc.

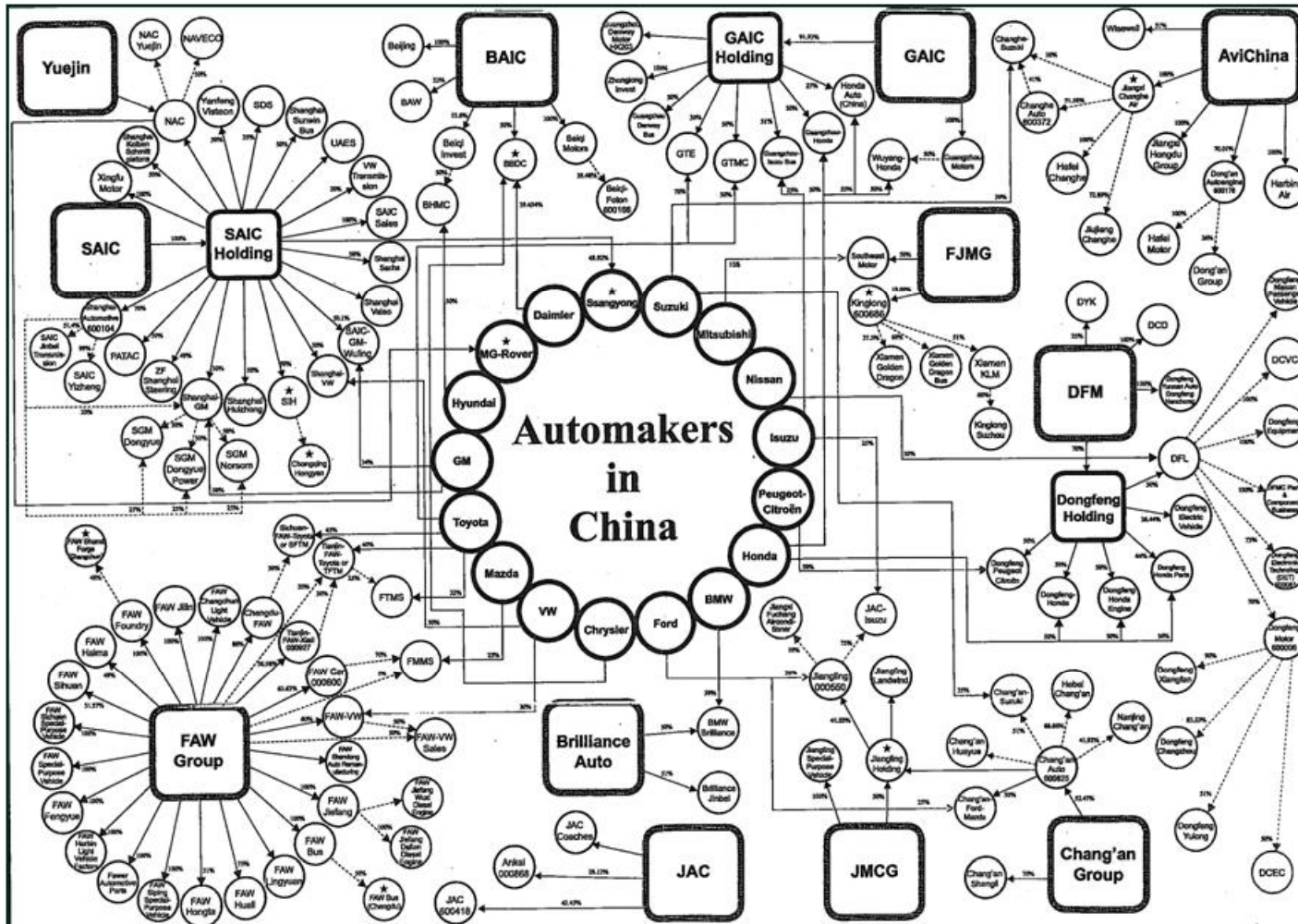
Domestic Brands' Successful Vehicle Models^{1,2}



1. Source: IHS Global Insight

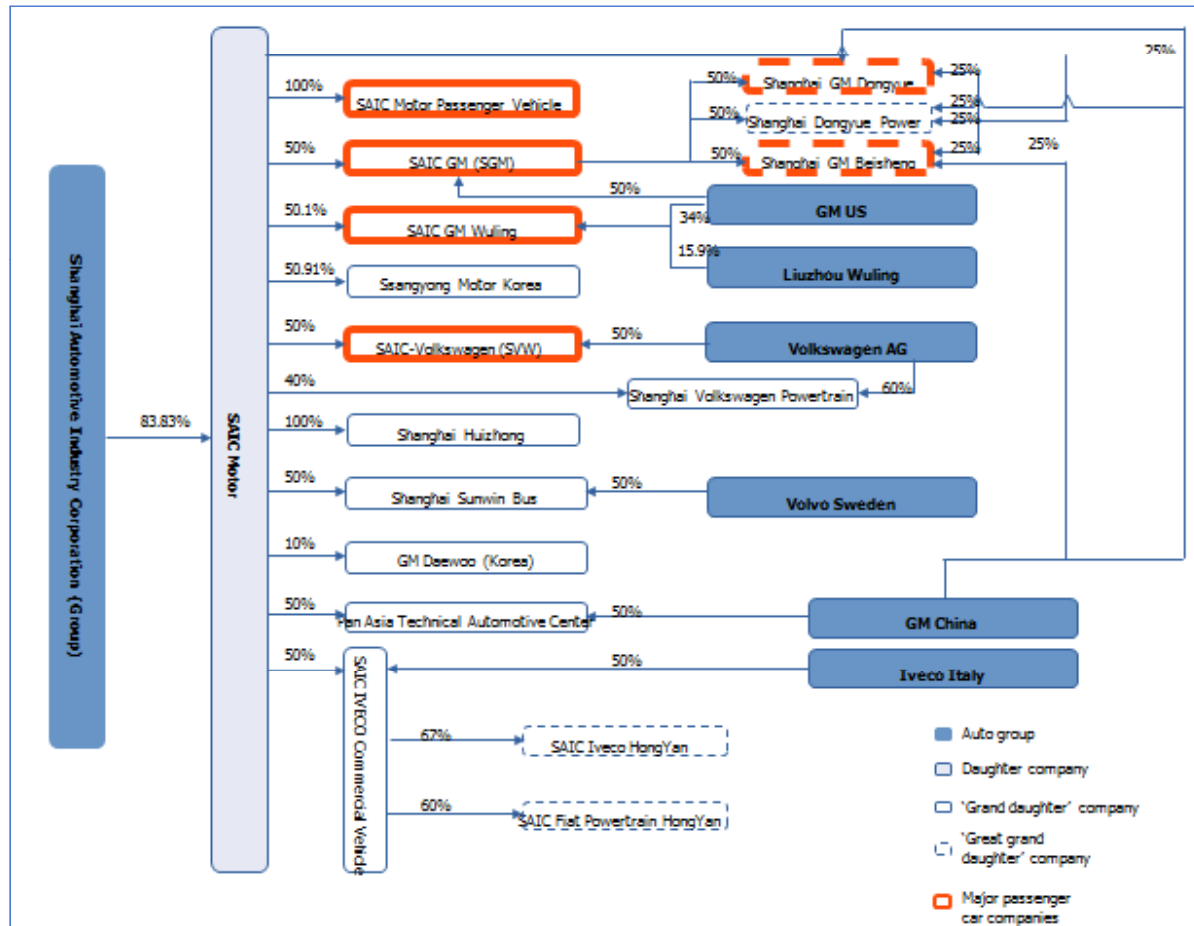
2. A successful vehicle model is defined as a model that sells more than 30,000 units in a year

Complicated and Fragmented Industry



Complex Internal Structure

Illustration of SAIC's Investment Structure (Only Automakers & Engine Producers)



- Complexity of decision making process
- Knowing where and who to access for new projects

Source: China Automotive Industry Yearbook 2008

Opportunities for US Suppliers

- Since 2004, no legal restrictions on foreign investment in auto component sector, investment can be in either JV or WFOE forms. No legal restrictions on the component procurement by local OEMs
- The localization of car part sourcing by OEMs in China has reached 80%, driving the growth of large Tier 1 and 2 suppliers
- Chinese OEMs' reliance on system integrators and major Tier I suppliers for key components and technologies
- Despite growth and some consolidation, the component sector remains highly fragmented

Strengths of US Suppliers

- Prior “homologation”
- Technological and management advantage over Chinese suppliers
- Production quality, R&D capabilities:
 - Quality remains a problem in China, and international OEMs are becoming more concerned about R&D capabilities of their local suppliers
 - OEMs want to avoid import / localization cycles: Many new models will be introduced to the market at faster speed
 - OEMs require Chinese suppliers have foreign partners to guarantee long-term R&D capacity
- Global platform

What to Keep in Mind

- Adaptation/Localization
 - Manufacturing processes
 - Product design
 - Relationship building at multiple levels in various departments and companies
 - Relationships with governments

- Human resources
 - The right people on the ground
 - The war for top talent, especially managers that can bridge the East and West

- Attention and support from the very top at the headquarters

- Culture differences as potential landmines

- Deploy your best in order to succeed in China

Recipe for Success in China

- **German engineering and design**
- **Japanese process management**
- **American financial management**
- **Chinese business development**

 ***Fusion Food*** ¹?

1. Definition of fusion food: a style of cooking that uses ingredients and techniques from around the world, especially one that combines Eastern and Western influences

Thank You!



Ling Wu
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Ling Wu specializes in advising clients on corporate finance projects, offering extensive experience in both mergers and acquisitions and capital-raising transactions. Additionally, she is active in working with both Asian and North American companies and bringing them together through joint ventures, investments or acquisitions. She has completed M&A and financing transactions in the U.S., Europe and Asia, covering an array of industries including automotive, manufacturing, distribution, transportation, mining, retail, media/telecom, health care and entertainment.

Prior to joining Amherst Partners in 2004, Ms. Wu served as director of PNC Financial Services, Inc., where she was responsible for venture capital investment activities and M&A engagements involving emerging growth and technology companies. She initially joined PNC's Capital Markets Division, where she focused on financial modeling, valuation analysis, transaction structuring, and distribution of various capital markets products. She was involved in providing financing solutions that included syndicated loans, asset-backed securitization, high yield corporate bonds, mezzanine debt, synthetic leasing and business credit to middle-market companies and large corporations. Ms. Wu began her corporate finance career in the Corporate Finance group of CBS Corp. (formerly Westinghouse Electric Corp.), participating in acquisition and divestiture transactions and the evaluation of major corporate strategic initiatives.

Ms. Wu is a frequent speaker on topics concerning cross-border mergers and acquisitions and transaction activities in the global automotive industry. She earned her dual master's degrees in finance and accounting from the University of Illinois in Urbana-Champaign and her bachelor's degree in enterprise management from Zhongshan (Sun Yat-sen) University in the People's Republic of China. In addition, she received CPA certification in the State of Illinois.

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