

CAR Management Briefing Seminars

“Rewired For Success: Is the Industry Sustainable for Capital Creation?”

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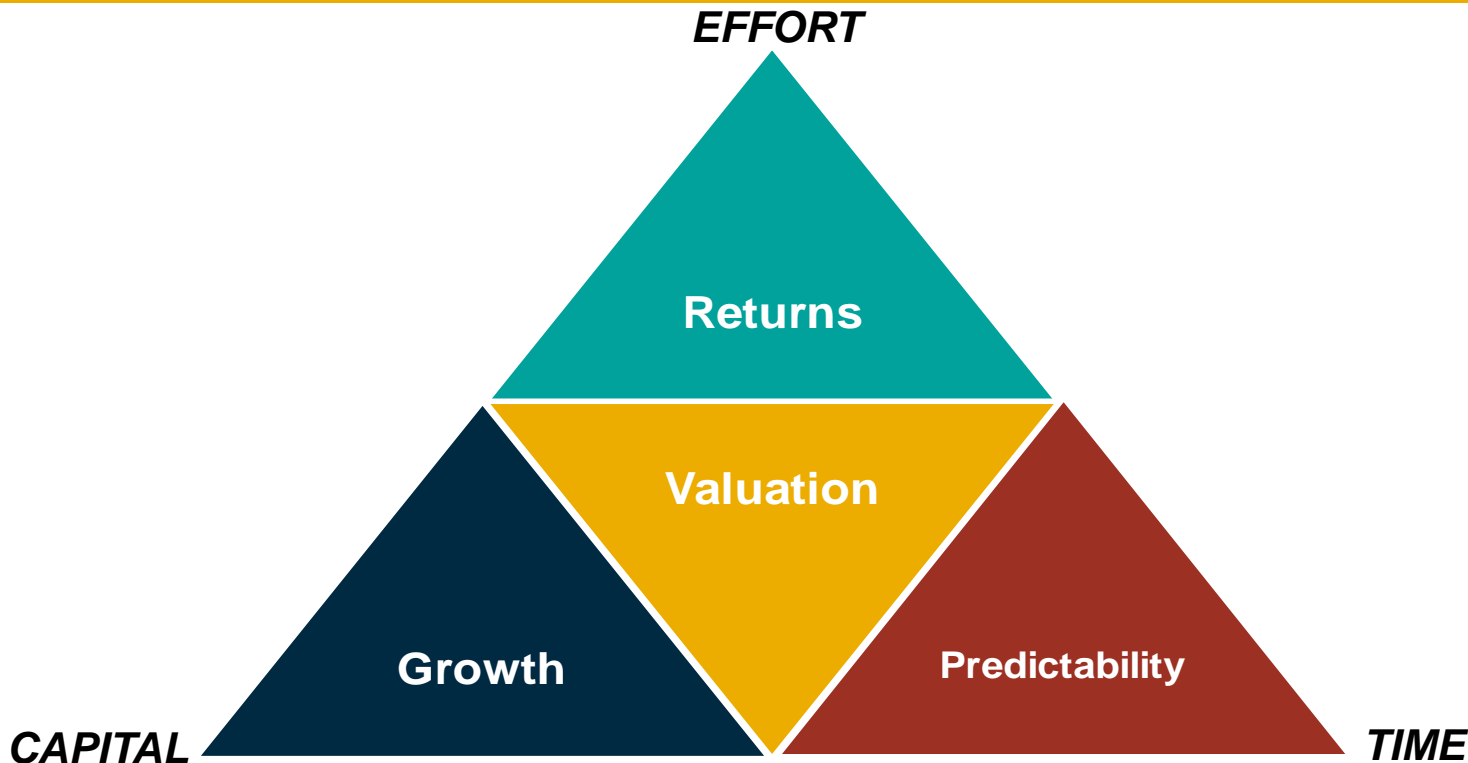
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Today's Agenda

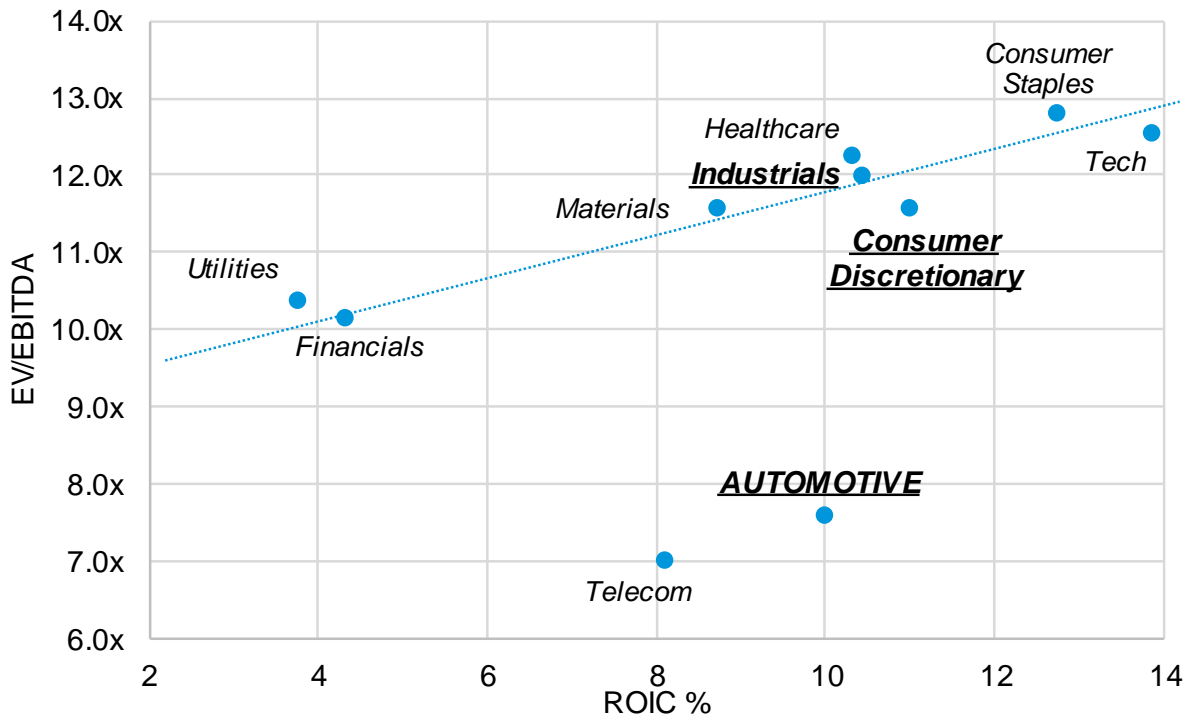
- Section I.** **So much has changed (industry structure) but so much remains the same (cycle, margins & valuation).**
- Section II. CAR.x is upon us. In aggregate terms, the inflection point has been neutral...but at the stock level it has been a massive differentiator.
- Section III. Parting thoughts from an investor – this seems an important time to balance risk vs reward.

The market is a Discounting Mechanism that Balances Across Three Axes



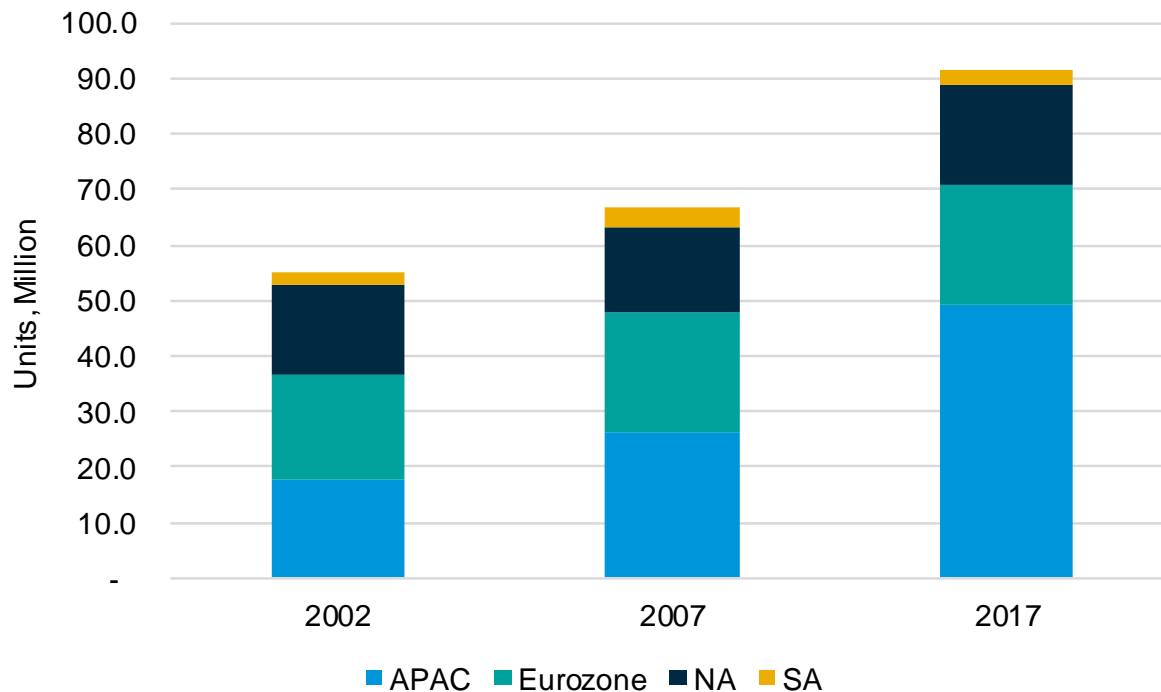
Source: SFG Research

We Think The Auto’s Are Getting Punished For Lack Of Predictability



Source: SFG Research, FactSet

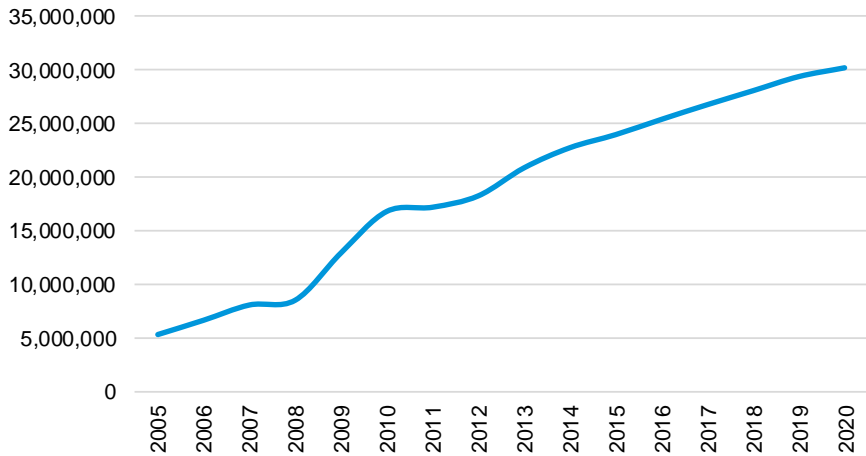
Despite Volume Growth and Shift East, Cyclical Concerns Loom



Source: SFG Research, AutoForecast Solutions LLC

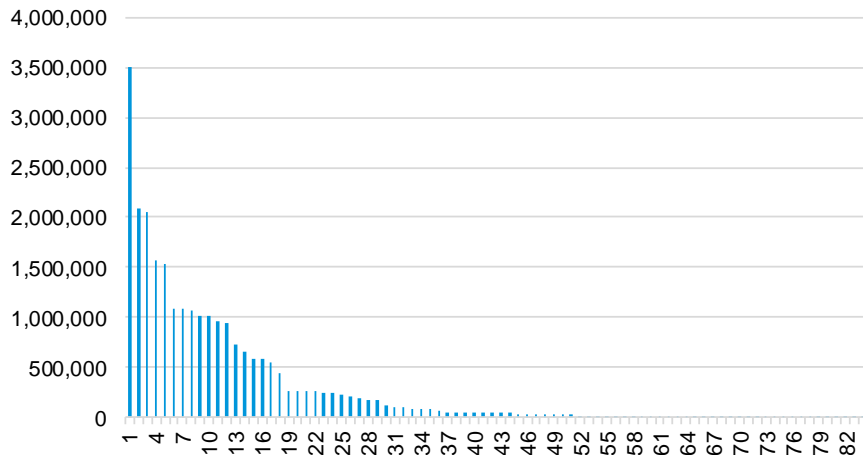
In China, Investors Don't Know What to Make of the Cycle...

China Production 2005-2020e



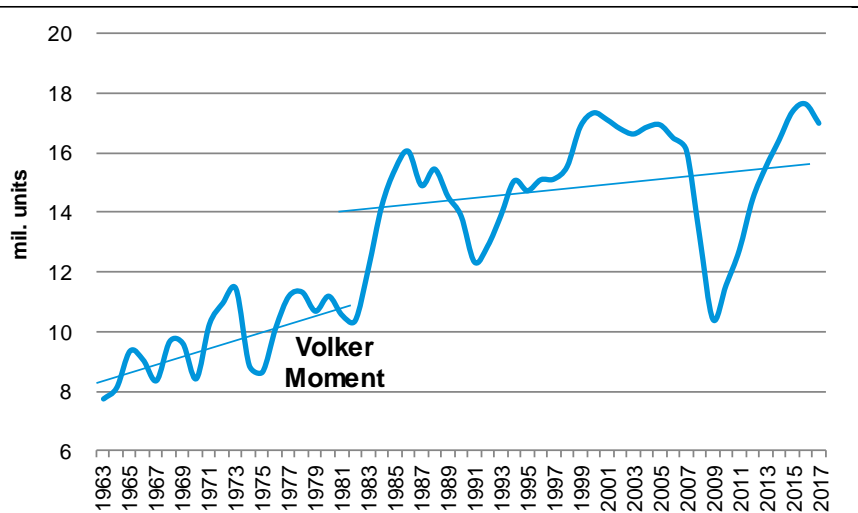
Source: SFG Research, AutoForecast Solutions, LLC

China 2016 Production by OE

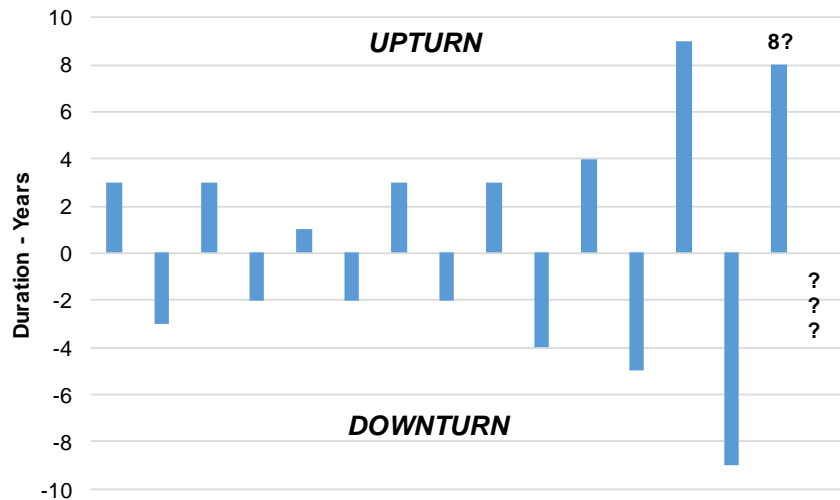


Source: SFG Research, AutoForecast Solutions, LLC

Unfortunately, In The Key NA Market The Market Has Strong Opinions...



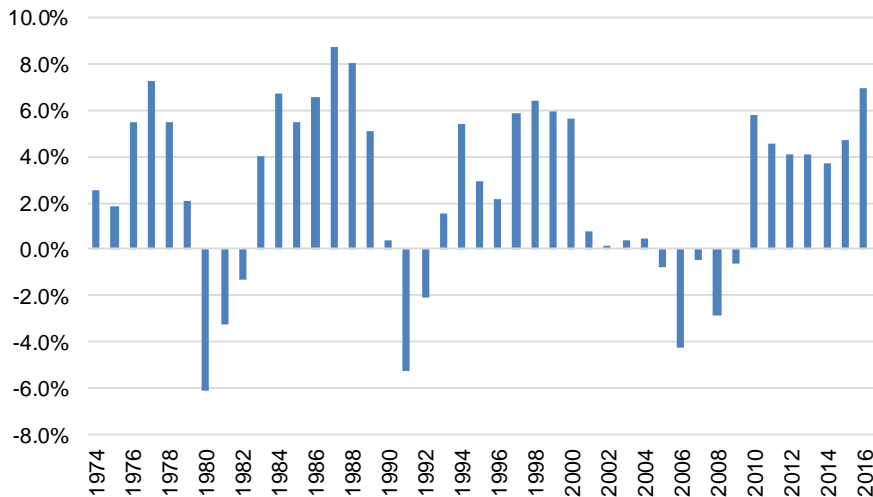
Source: SFG Research, Ward's Automotive



Source: SFG Research

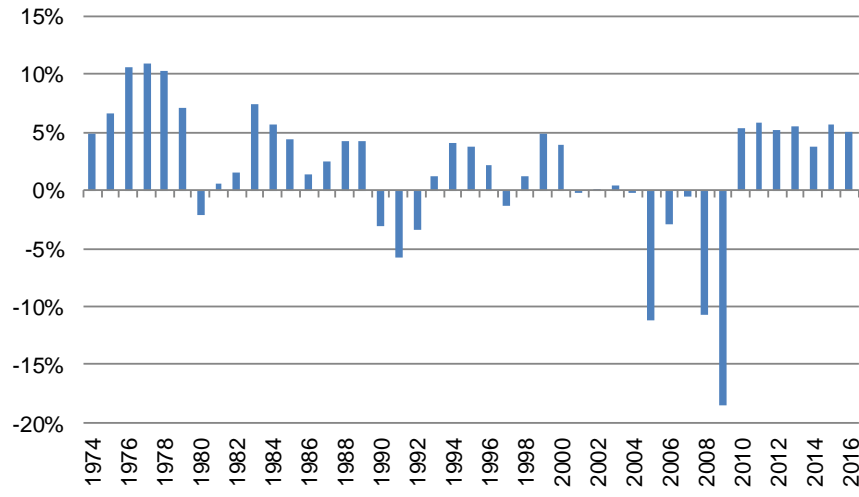
OEM Margins Have “Peaked” ...

Ford: Operating Margin - Auto



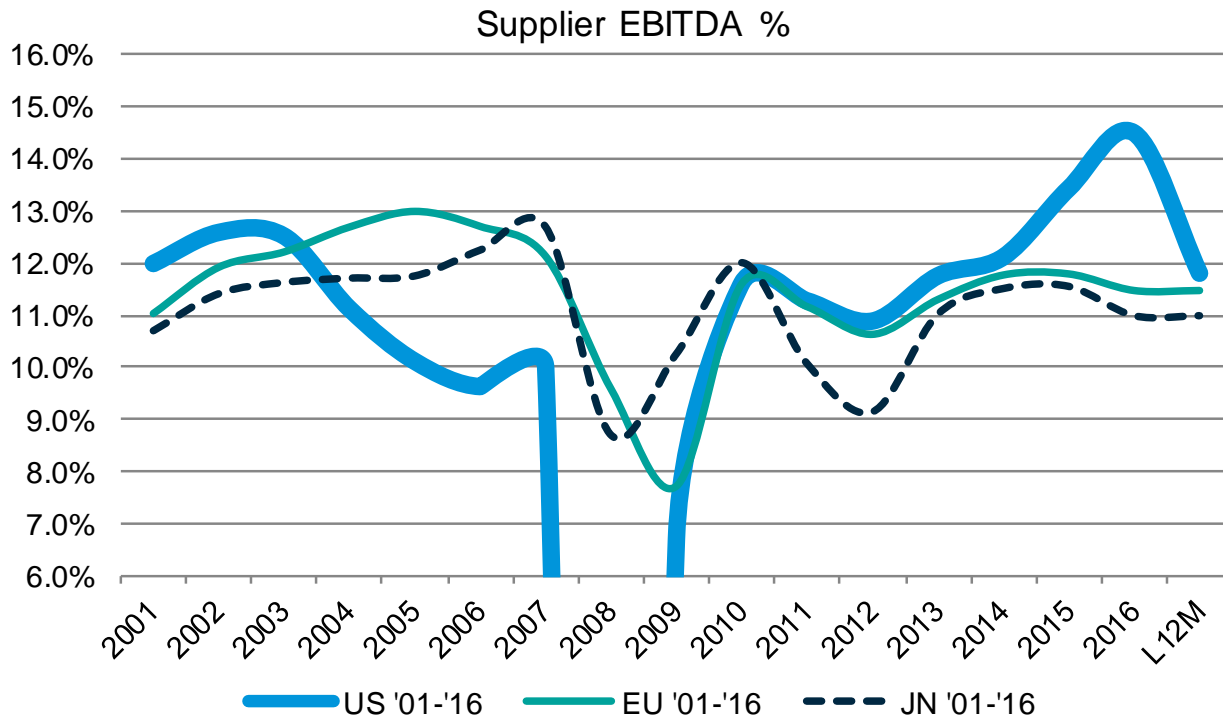
Source: SFG Research, FactSet

GM: Operating Margin - Auto



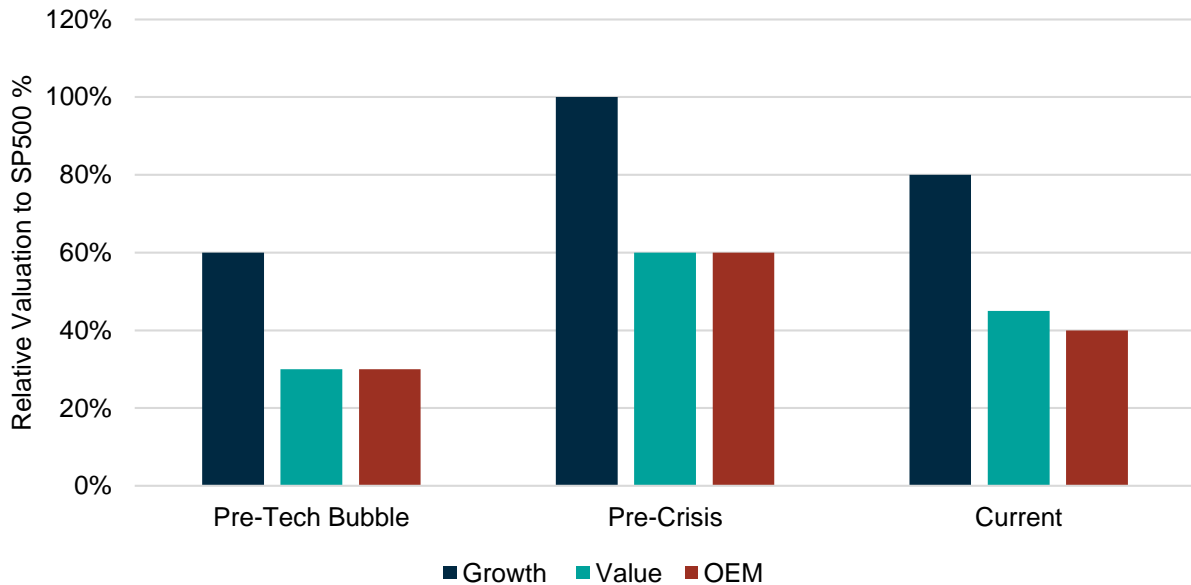
Source: SFG Research, FactSet

...and so, too, have the Supplier Margins.



Source: SFG Research, Company Reports, FactSet

Bottom Line...Market Sees Auto's Through Historical Valuation Crucible...Not Likely to Change Until a Recession

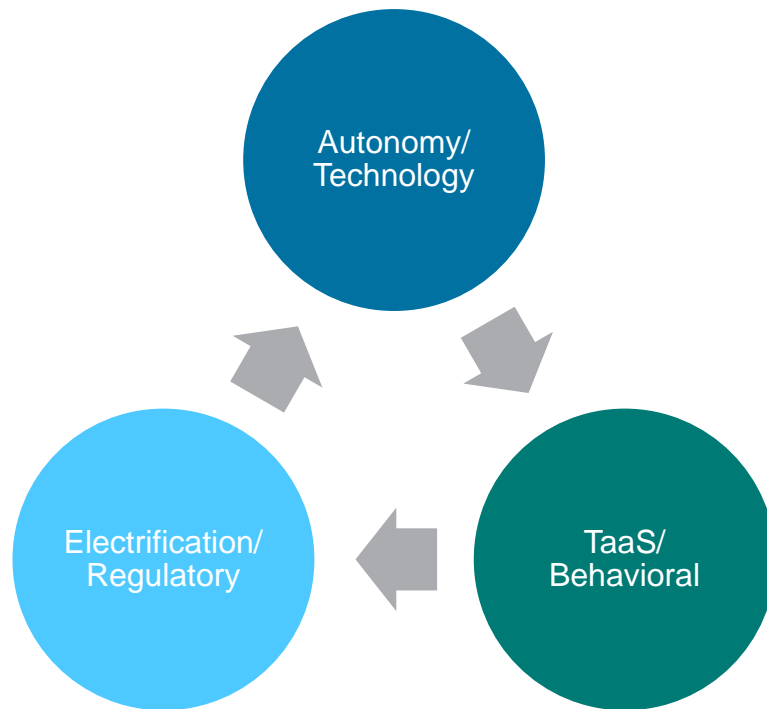


Source: SFG Research, FactSet

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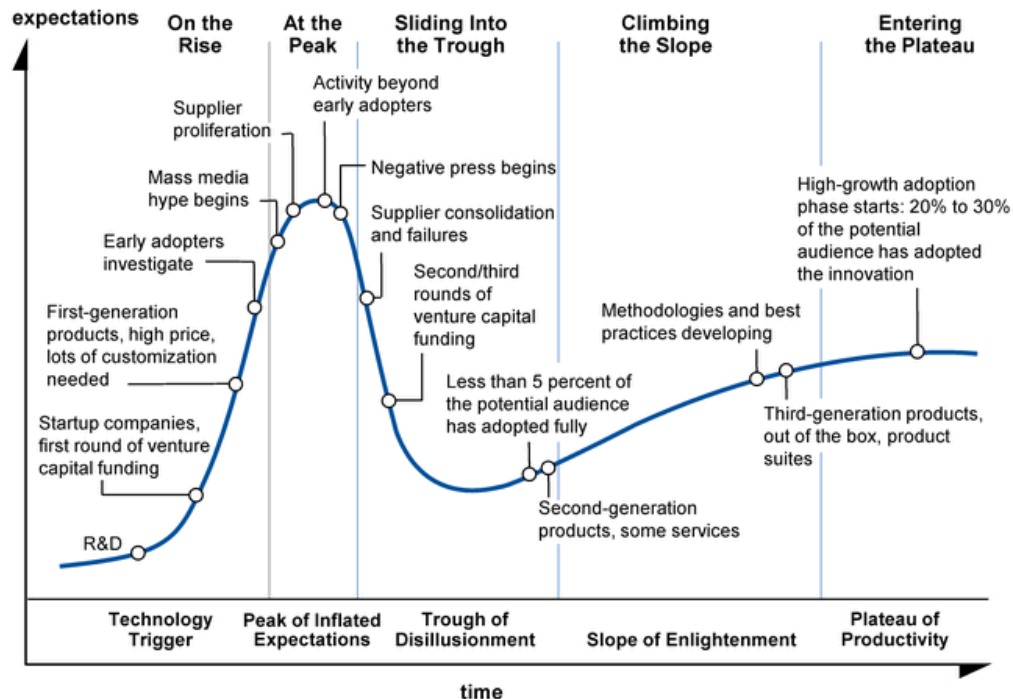
CAR.x Is the Big Question Hanging Over the Future Outlook for Auto



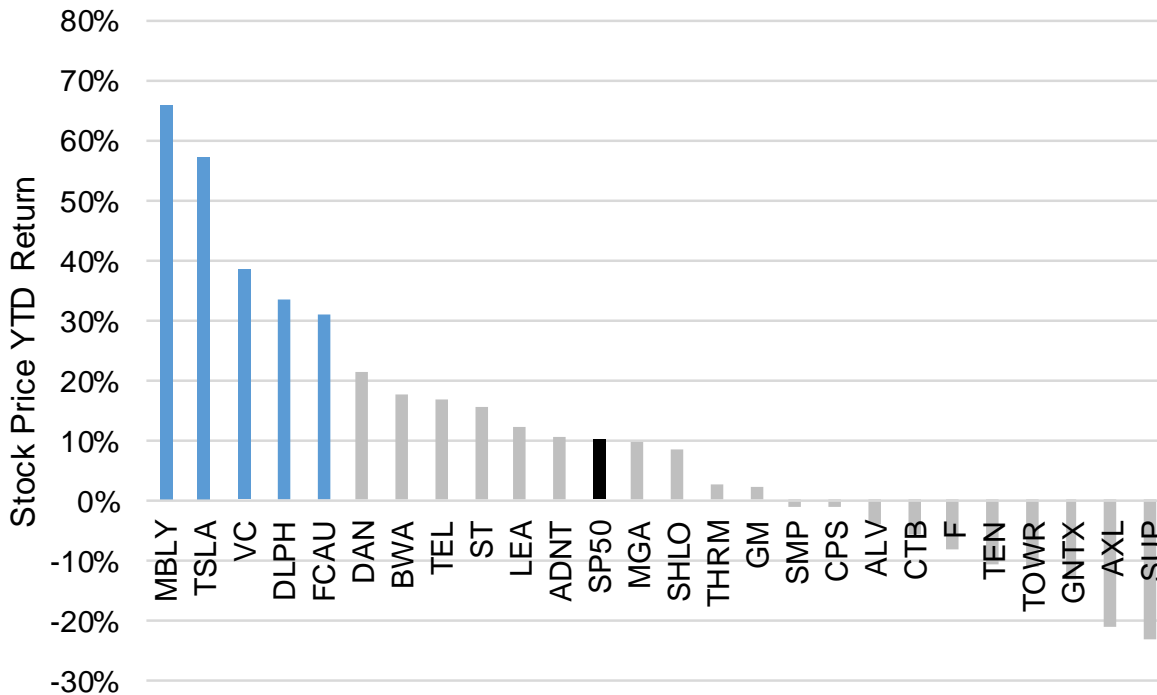
Remember Amara’s Law When Opining On Future...

- “We tend to overestimate the effect of technology in the short run and underestimate the effect in the long run”

-Roy Amara

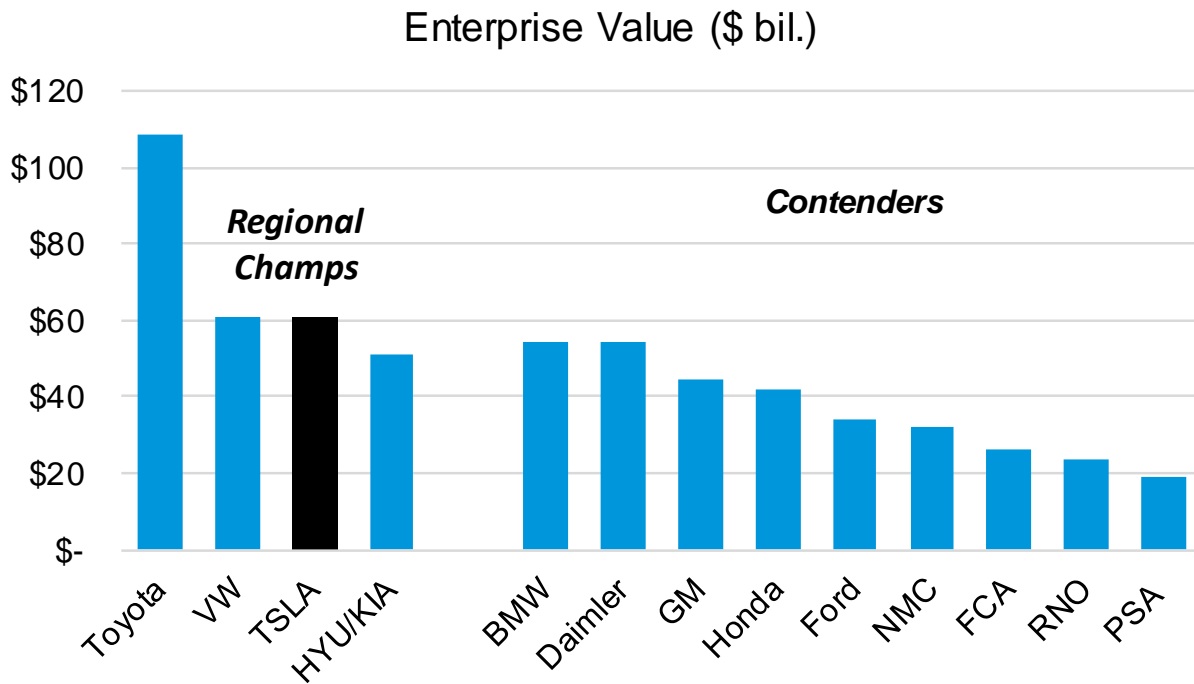


The Market is Favoring Stock’s Leveraged to CAR.x



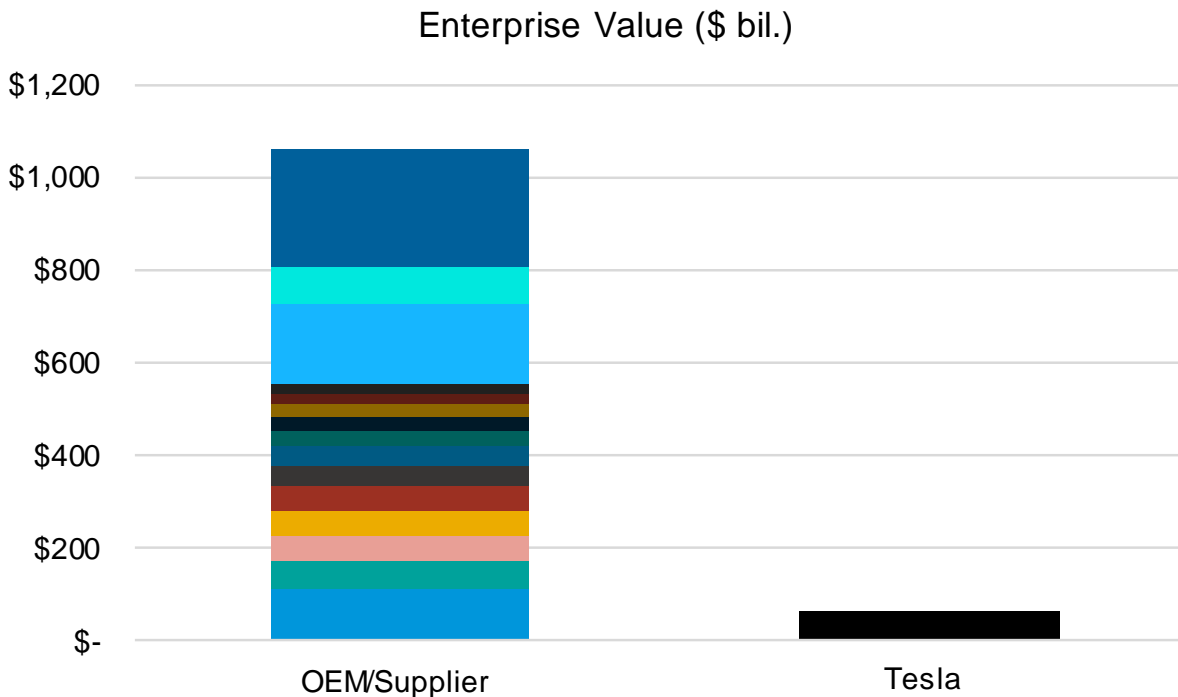
Source: SFG Research, FactSet

Investors & Executives Ask if it Has Gone Too Far?



Source: SFG Research, Factset

Maybe we need to change our perspective.....



Source: SFG Research, Factset

Autonomy: Investor Perception Positive

Current View

- Inevitable
- Vehicle Autonomy vs Autonomous Vehicles?
- Suppliers: Content opportunity
- OEM's: Revenue opportunity
- Non-Auto Players hunting for their position

How could we be wrong?

- Non-Auto player could be the disruptor
- Delayed timing
 - Regulatory delays
 - Infrastructure build out
- Regulatory demand creates adverse pricing environment

Electrification: Investor Perception Negative

Current View

- Growing Sense of Inevitability
- Fixed / Variable cost pressure
- Disruption of Current Industry Order –
By Company (TSLA) or Government
(China)
- Labor Risk

How could that “View” be wrong?

- Commonization
- Outsourcing opportunity for Suppliers
- Long term opportunity to improve
capital returns for OEM’s

TaaS (Transportation as a Service): Investor Perception Confused

Current View

- Inevitable
- Everyone wants to be a player:
 - OEM, Supplier, Dealer & Rental,
 - Tech, Government
- Data is Gold – What is the pick axe?
- Industry unit volume production will decline but \$ value likely to go higher

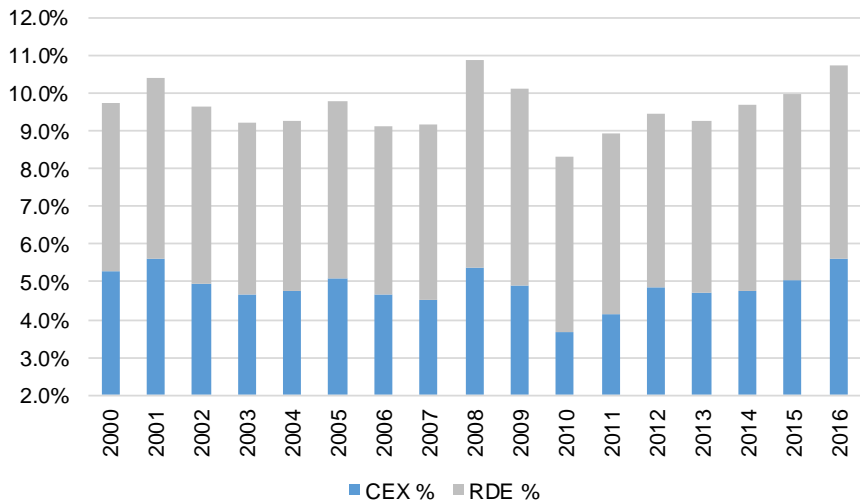
How could we be wrong?

- Heterogeneity of market could lead to slower than anticipate adoption curve
- Business Models are Complex
- Slower than anticipated adoption curve
 - some fundamental problems have not been addressed

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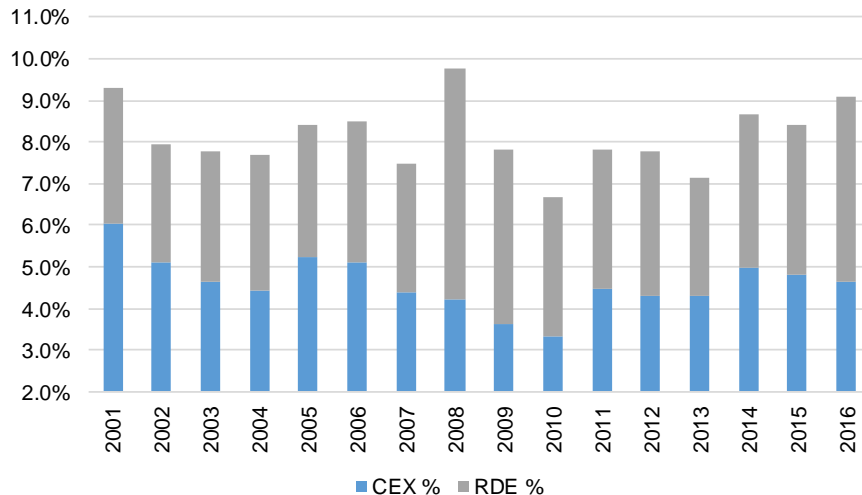
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Investment Rates are Climbing – Articulate the Magnitude of Growth Spending...The Market Can Look Forward.



Source: SFG Research, Company Documents

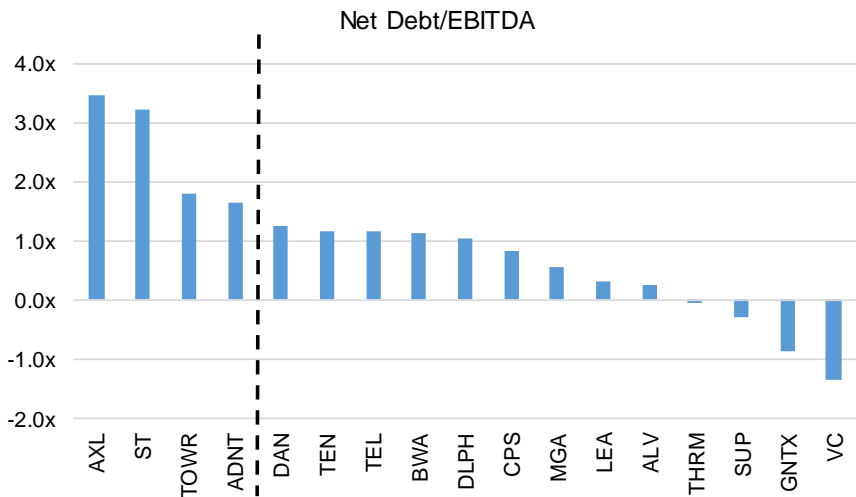
OEMs



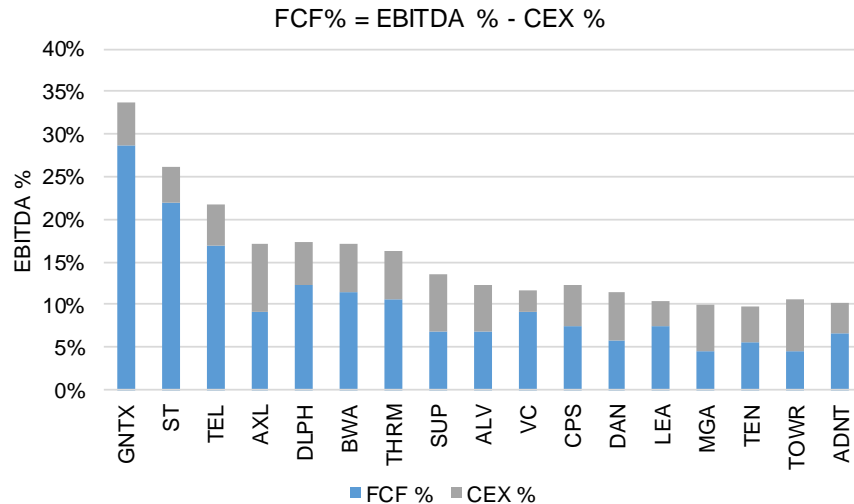
Source: SFG Research, FactSet

Suppliers

If Stable Cycle Prevails, Growth Investment Can Be Funded



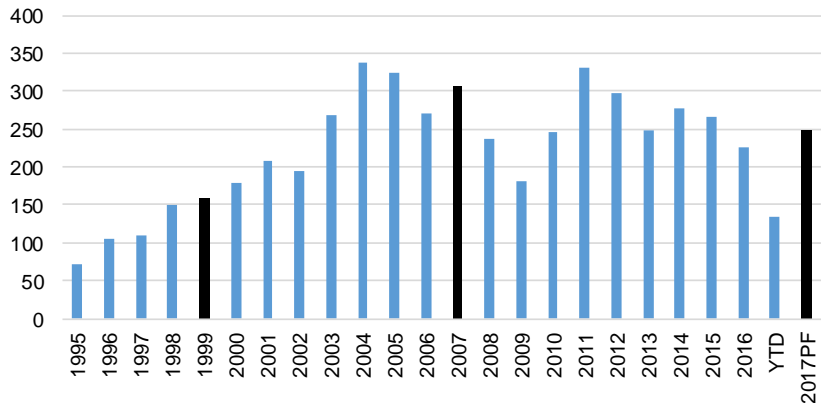
Source: SFG Research, FactSet



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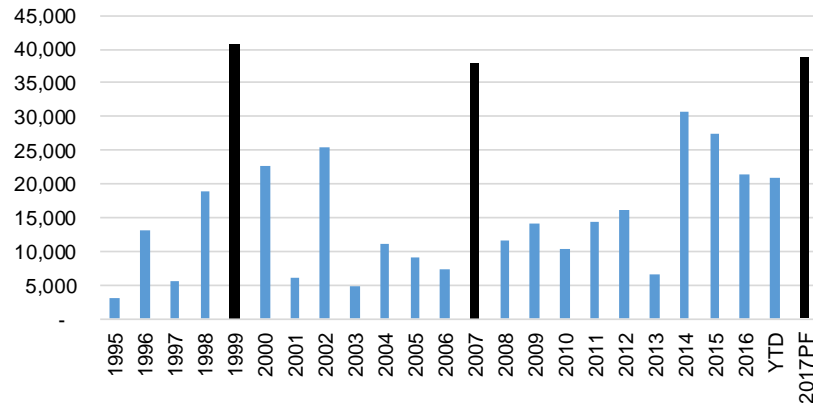
Think Through the Downside and Please Don't Bet the Ranch Chasing Unicorns...Consider Adoption of a PE Approach

Number of Transactions



Source: SFG Research, FactSet

Transaction Value (\$ mil)



Source: SFG Research, FactSet

Closing Thoughts

- The industry cycle is shifting and the market sees the industry through a historic valuation crucible.
- CAR.x is complex and will take time
- Manage capital with respect to risk...not just reward
- Industry may want to adopt PE model to access liquidity and manage risk.

THANK YOU VERY MUCH

Disclosure

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Positive: We expect this stock to appreciate by at least 15% over the next 12 months. Upon the initiation of a Positive rating, we expect this stock to appreciate by at least 20% over the next 12 months.

Neutral: We expect this stock to perform within a range of +/-15 percentage points over the next 12 months.

Negative: We expect this stock to depreciate by at least 15% over the next 12 months. Upon the initiation of a Negative rating, we expect this stock to depreciate by at least 20% over the next 12 months.

Suspended: The previously published rating and/or estimates are currently suspended and under review.