



Planning Through Peaks and Valleys

CAR MANAGEMENT BRIEFING SEMINARS

Traverse City, Michigan
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Championing the business interests of the automotive OE supplier community:

Founded in 1998, the Original Equipment Suppliers Association (OESA), serves as the voice of the automotive supplier and a valuable resource for member organizations. Throughout the supply chain and on legislative and regulatory issues, **OESA represents the collective voice of suppliers.**

Exclusively for automotive suppliers:

Supplier membership is exclusive to original equipment automotive suppliers that directly provide components, tools, materials and services to the OE light vehicle industry.

Strength in numbers:

Membership is comprised of approximately 375 Tier 1, 2, and 3 automotive suppliers with North American OE sales that range from \$10 million to \$5+ billion. Affiliate members support the supplier community with thought leadership, industry analysis and other key information.

Led By supplier industry executives:

OESA's interests are guided by a board of directors consisting of CEOs from member companies of all sizes.

Staff that works for members:

Members enjoy direct access to a staff of dedicated association employees in Detroit and Washington, D.C.

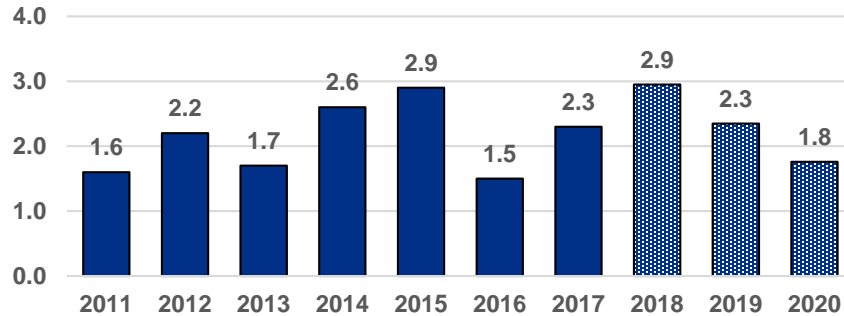
Roadmap

- **Market Outlook**
- Tariffs & Tripwires
- Production Dynamics
- Risks & Rewards
- Takeaways

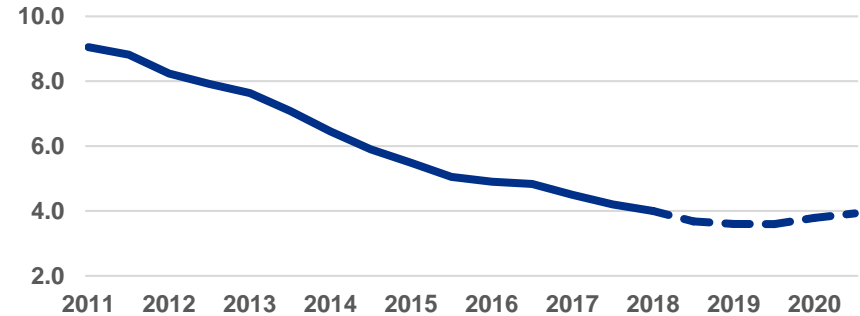


US Economic Outlook

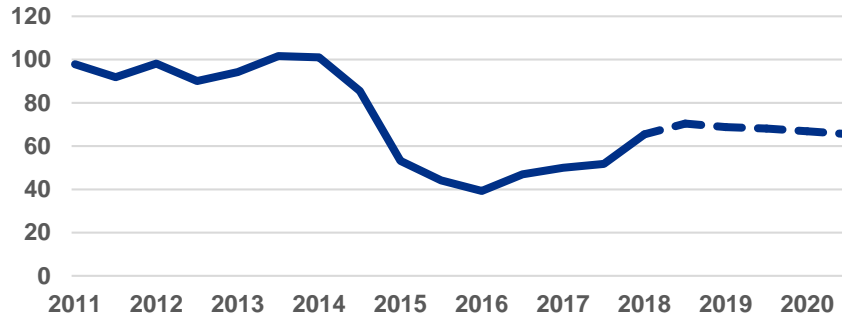
GDP (% Δ, YoY)



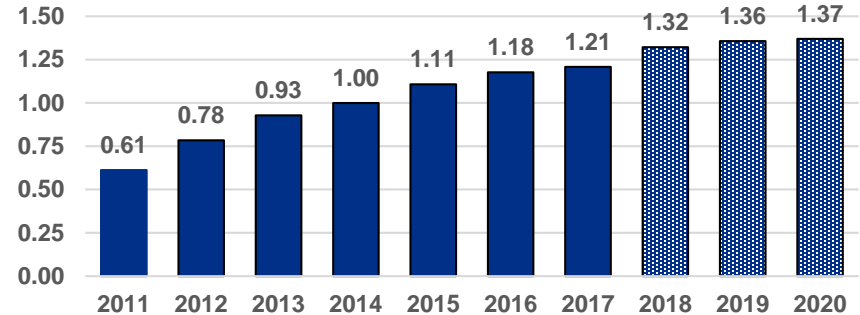
Unemployment (%)



Oil Prices (WTI, \$/Barrel)

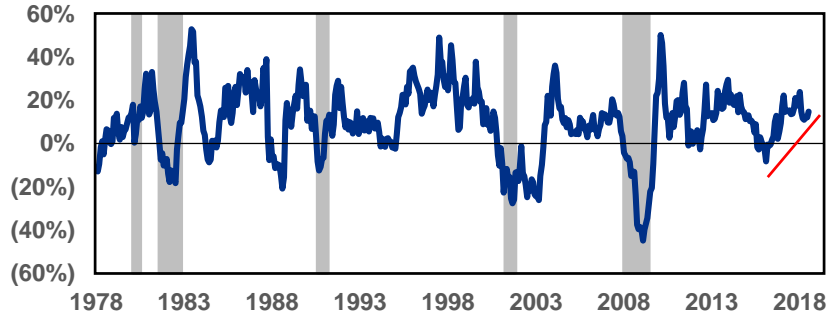


Housing Starts (million)

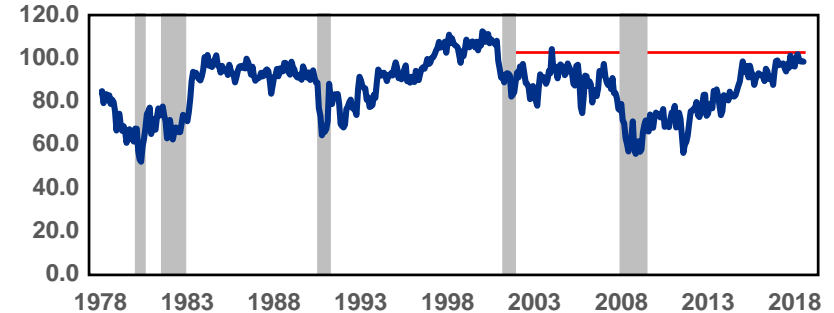


US Cycle Indicators

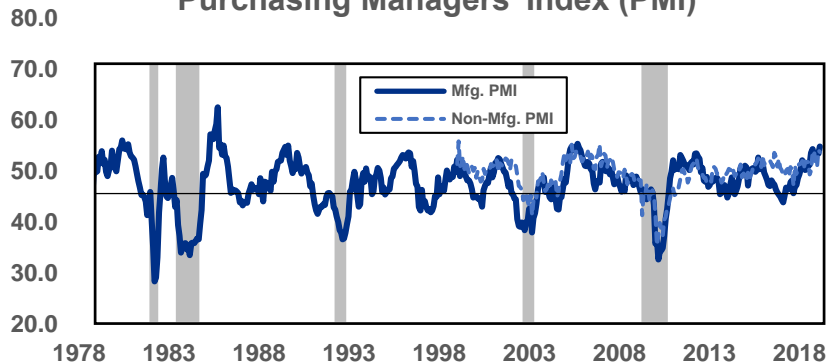
S&P 500 (% Δ , YoY)



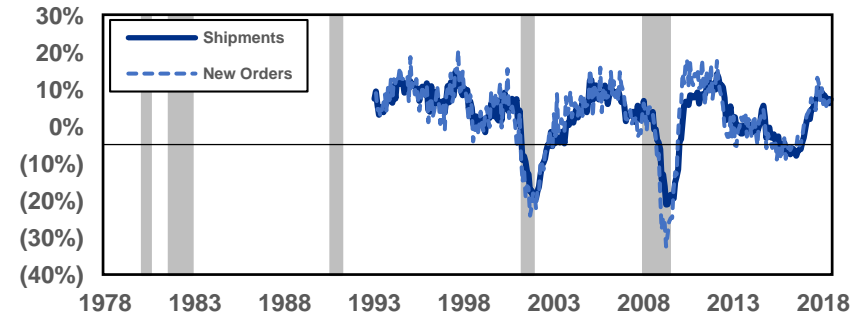
Consumer Sentiment Index



Purchasing Managers' Index (PMI)



Capital Expenditures (% Δ , YoY)



US Light Vehicle Sales

Forecasts vary – yet all reflect declining sales

2017

2018 YTD

(Jan-June)

17.2M

-1.8%

(326K)

8.6M

+1.9%

175K

+4.4%

118K

+5%

80K

+3.5%

283K

+12%

465K

-10.8%

(727K)

-12%

(370K)

Annual Sales (millions)

Forecast Avg

17.2M

-1.8%

-320K

17.0M

-1.5%

-250K

16.8M

-0.9%

-160K

16.7M

-0.7%

-110K

17.80

17.60

17.40

17.20

17.00

16.80

16.60

16.40

16.20

16.00

2015

2016

2017

2018

2019

2020

History

PWC-Autofacts

IHS-Markit

LMC Automotive

Wards Auto Intelligence

Source: 2Q 2018 OESA Affiliate Forecast Matrix – PWC/Autofacts, IHS Markit, LMC Automotive, Wards Auto Intelligence

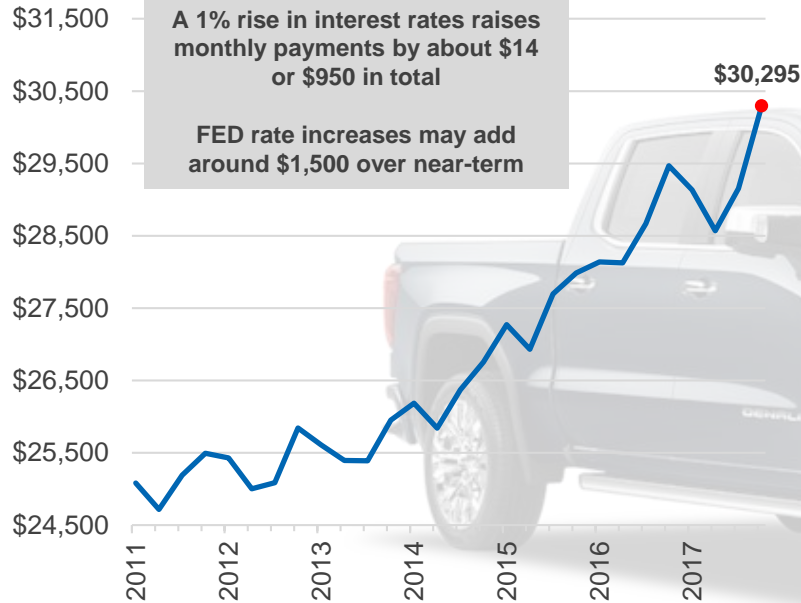


Planning Through Peaks and Valleys

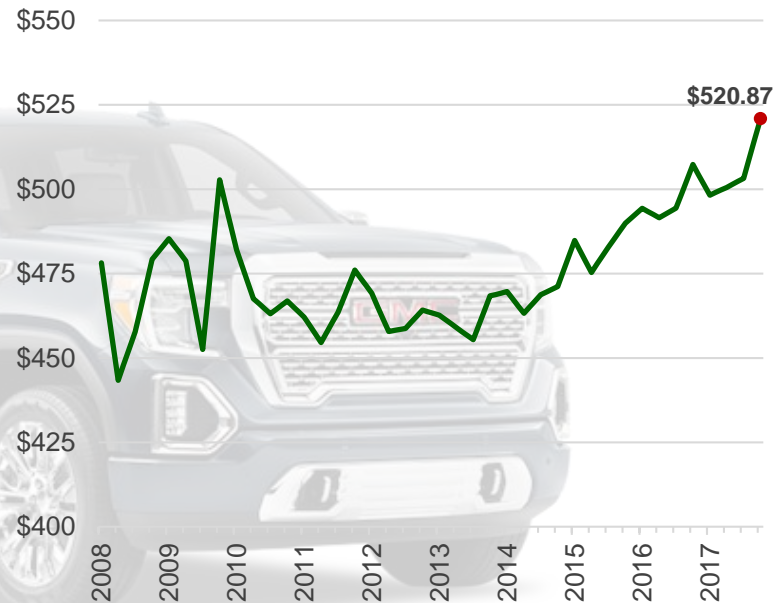
US New Vehicle Financing

Extended terms keeping monthly payments low, despite record financing amounts and rising interest rates

US Average Amount Financed



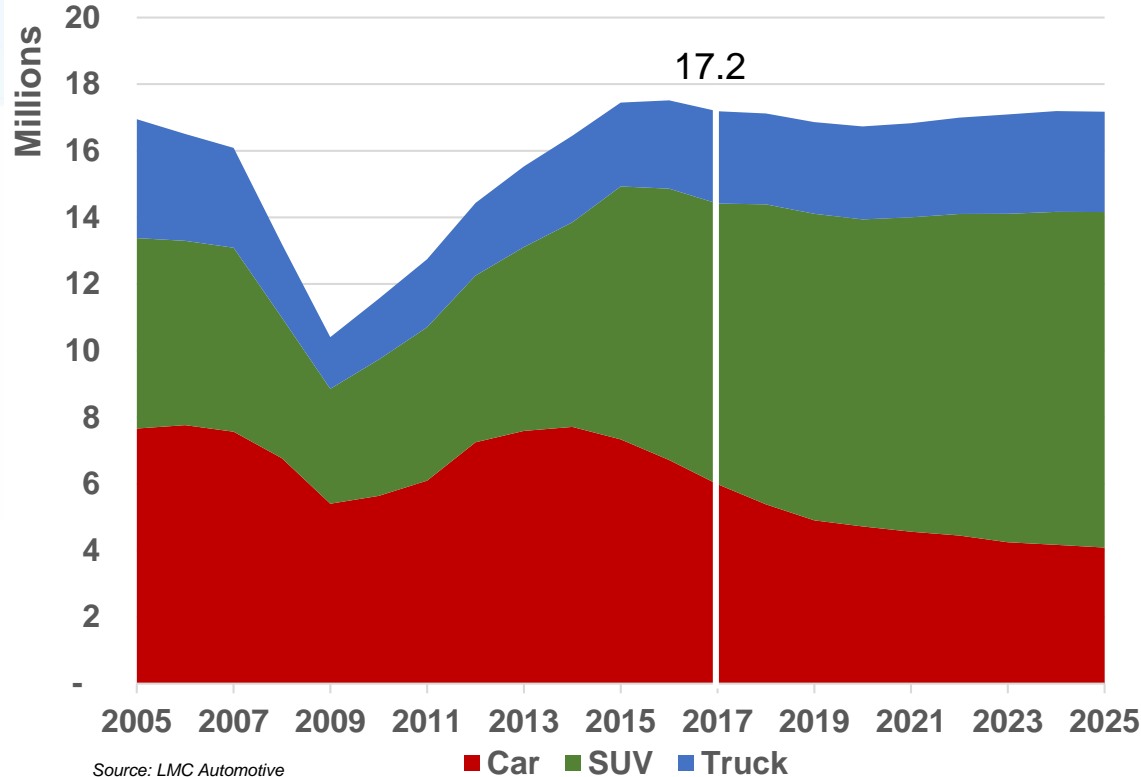
Auto Loan Monthly Payments



Source: Federal Reserve, New Car Loan at Finance Companies

Source: Federal Reserve, Author's Calculations

US Light Vehicle Sales By Type



Source: LMC Automotive

■ Car ■ SUV ■ Truck

2017 - Δ 2025



No Change



+9%
237K



+20%
1,646K

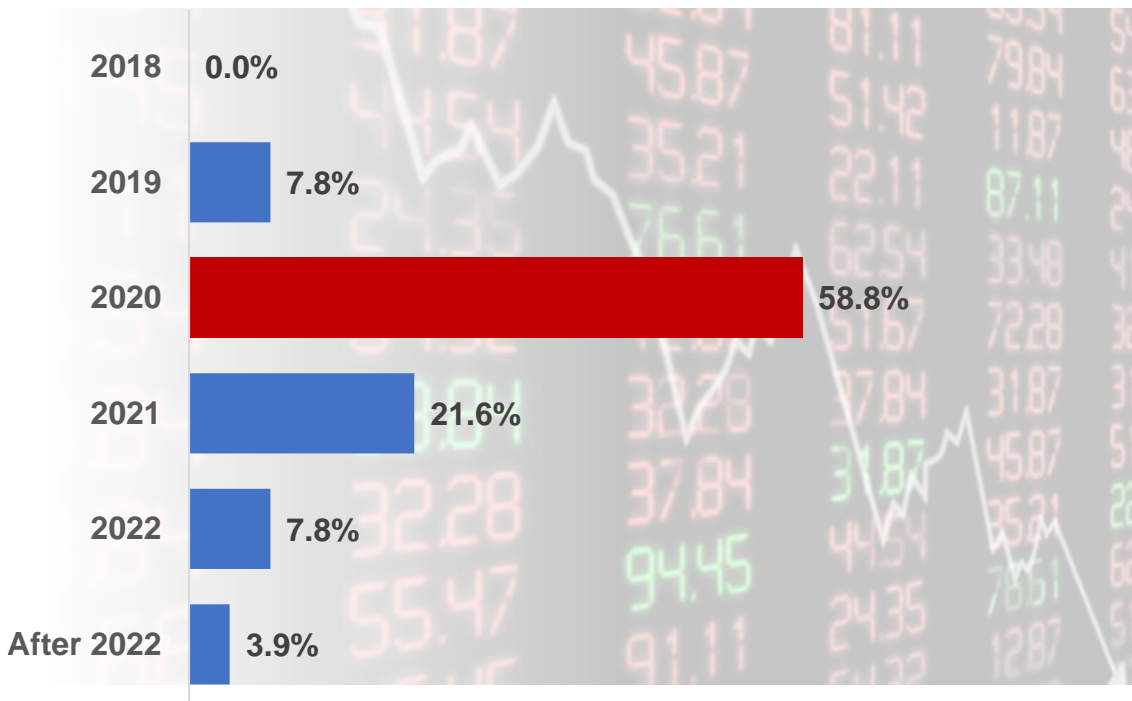


-32%
(1,900K)

US: Recession Probability

The current U.S. economic expansion began in mid-2010.

When is it most likely to end?

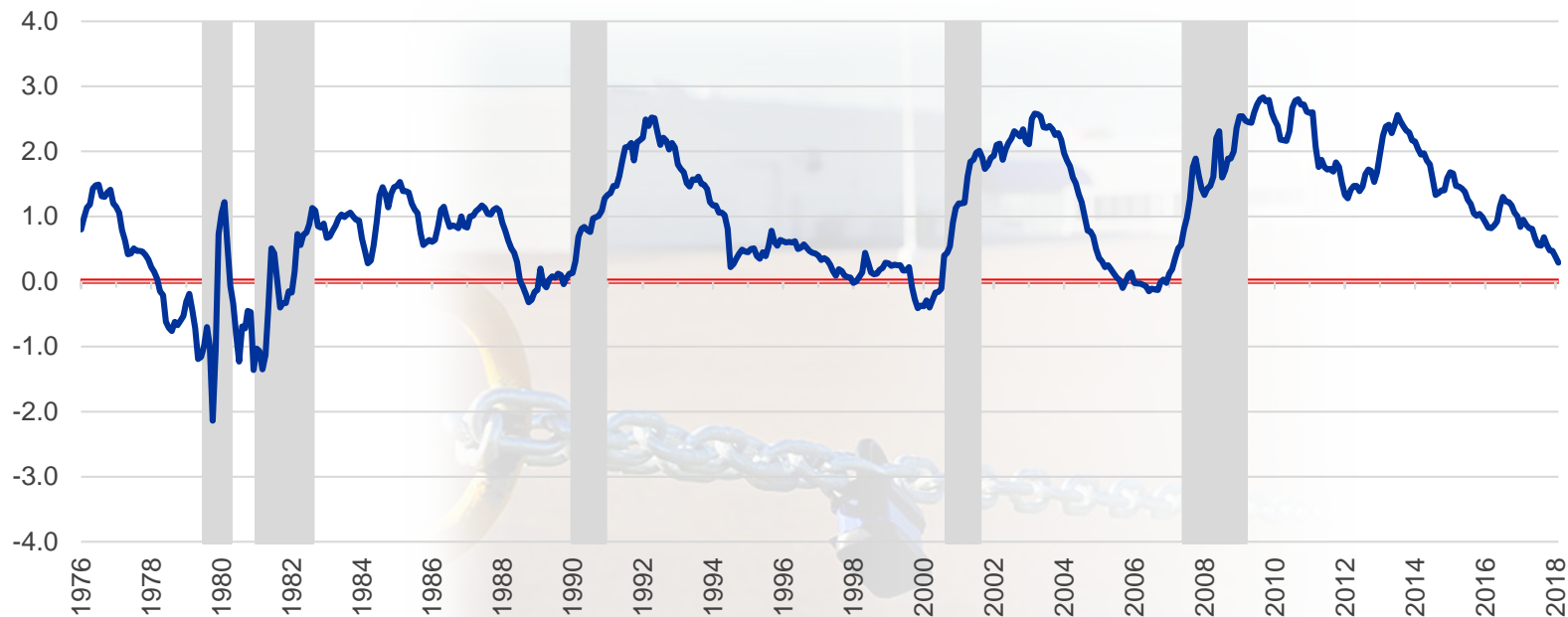


Source: WSJ Monthly Survey of Economists

US: Yield Curve

Past 5 recessions preceded by an inverted yield curve; Latest 10-2 spread at 29 bps.

Yield Curve (10 minus 2 yr. Treasury)



Sources: U.S Federal Reserve, US Bureau of Economic Analysis, Bloomberg

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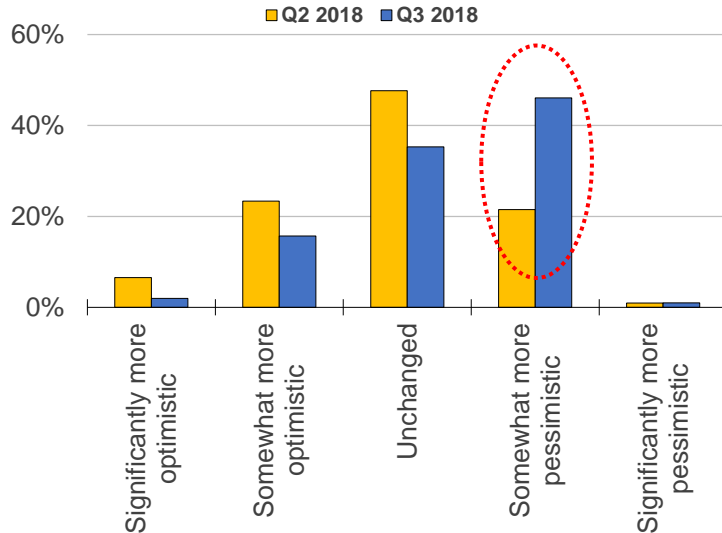


Tariffs & Tripwires

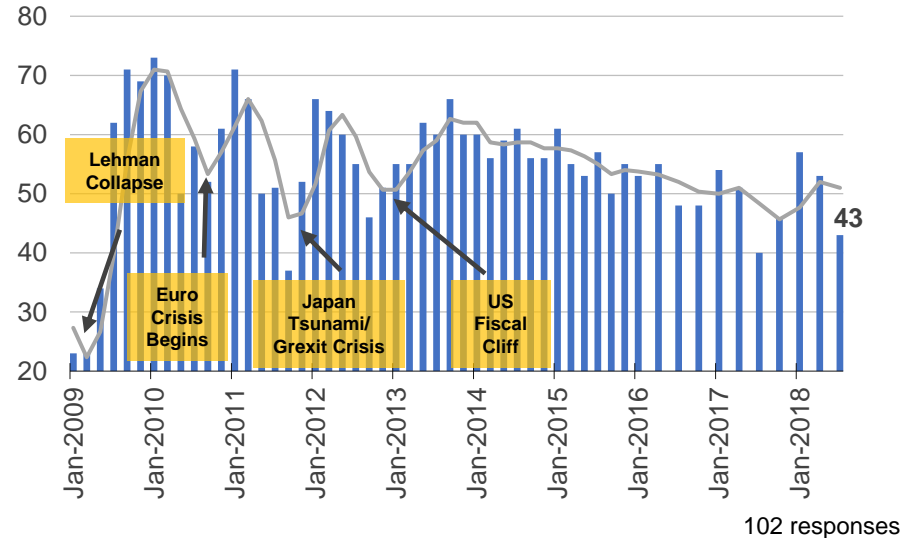
OESA Supplier Barometer: 3Q 2018 Results

Describe the general twelve month outlook for your business. Over the past three months, has your opinion become...?

Current Supplier Outlook (Share of Respondents)



Supplier Barometer Index: (SBI and 6m Average)

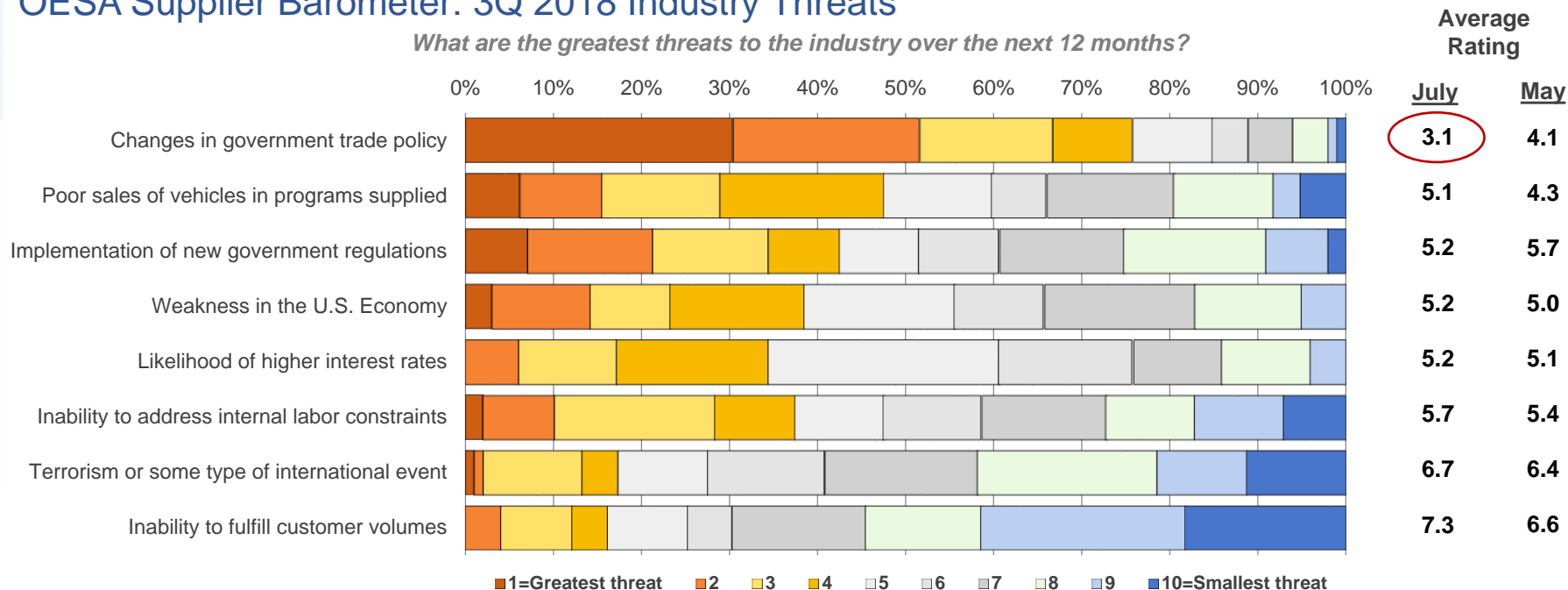


Rising concerns over tariffs and trade policy pulled down the 3Q 2018 OESA Supplier Barometer Index (SBI) by ten points from 53 to 43, seven points below a neutral reading.

Tariffs & Tripwires

OESA Supplier Barometer: 3Q 2018 Industry Threats

What are the greatest threats to the industry over the next 12 months?



Trade policy is the greatest industry threat, at 3.1 in July, down a full point from 4.1 in 2Q 2018. Changes to trade policy stand 2.0 points below the next top threat of *poor sales of programs supplied* at 5.1.

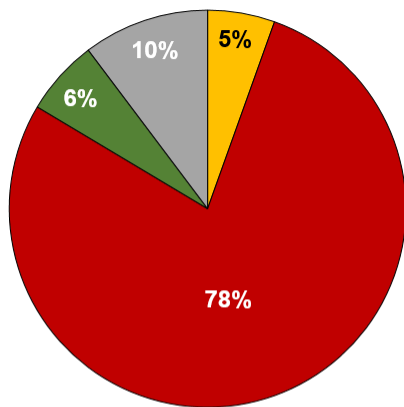


Tariffs & Tripwires

OESA Member Survey

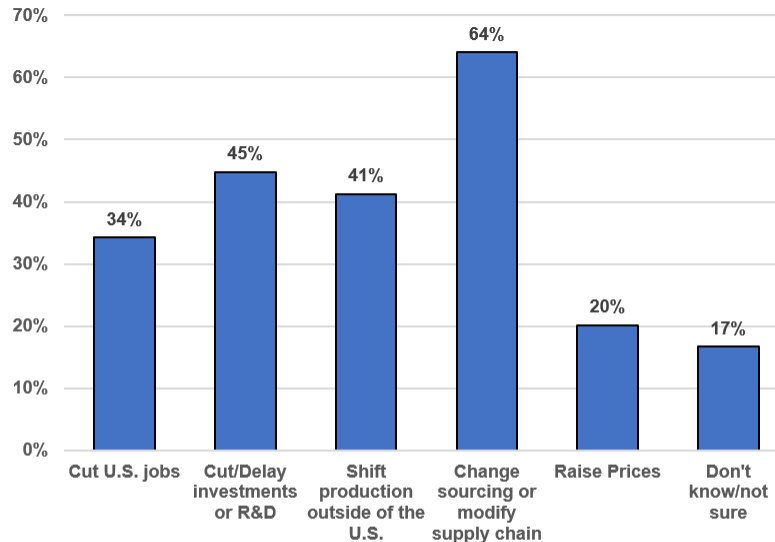
Assume a **20% tariff** was levied on automotive related parts (excluding raw materials) imported into the U.S., the immediate impact would be a...

20% Tariff Impact



■ Don't know/not sure ■ Net negative impact on your business
■ Net positive impact on your business ■ Neutral impact on your business

20% Tariff Response

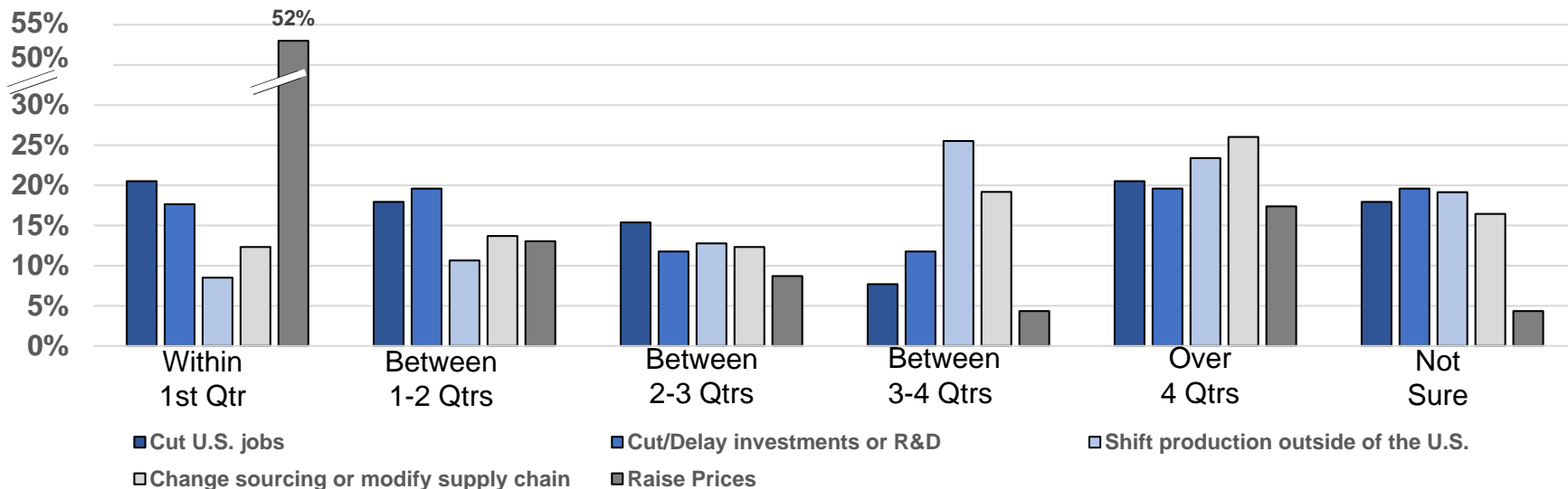


- 78% of suppliers indicate a 20% tariff would have a net negative impact on their business
- For suppliers that responded negatively, the response would be to modify their supply chain to source domestically, shift production outside the U.S., cut investment and U.S. jobs

Tariffs & Tripwires

OESA Member Survey

Assume a **20% tariff** was levied on automotive related parts (excluding raw materials) imported into the U.S., the immediate impact would be a...



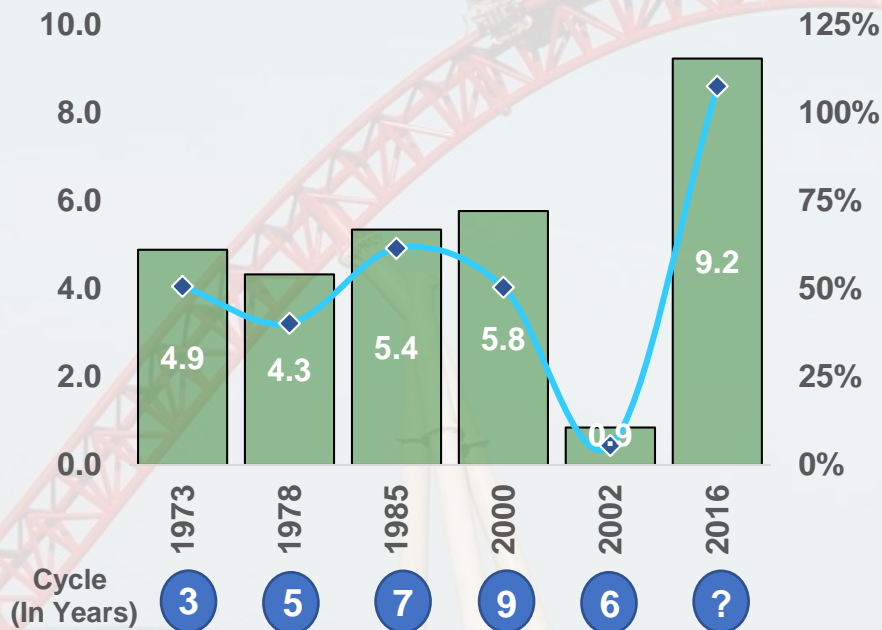
- The most immediate reaction - suppliers to raise their prices
- Most job cuts would occur in the first 6 months; investments would be cut in the first year and beyond
- Shifting production outside the U.S. and changing sourcing would be delayed, giving clarity on the lagging response time to external impacts

Tariffs and Tripwires

Peaks and Valleys - Vehicle Production Cycles

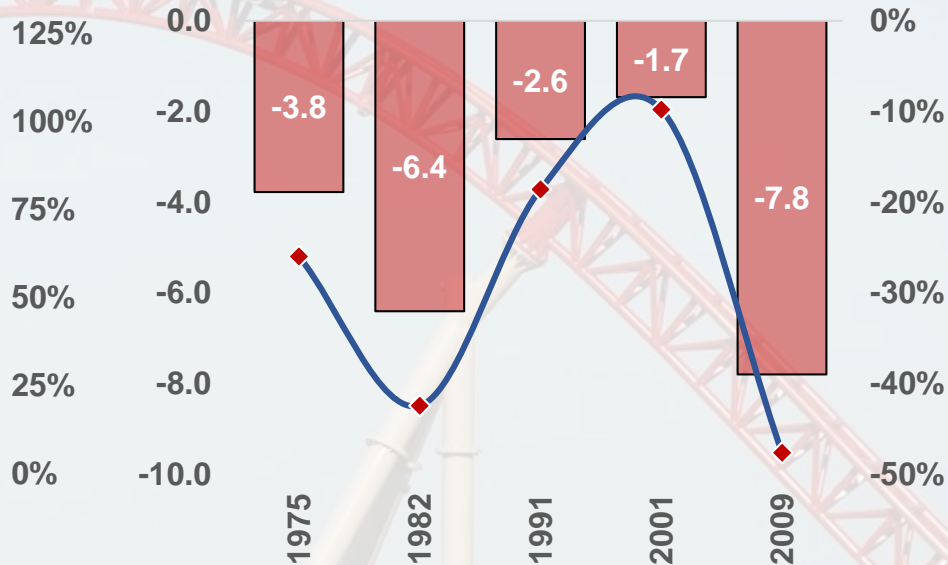
Boom

Valley to Peak Chg. (Mils. L-Axis, Pct. Chg. Rt. Axis)



Bust

Peak to Valley Chg. (Mils. Lt. Axis, Pct. Chg. Rt. Axis)



Source: Wards, LMC Automotive, Authors' Calculations

Roadmap

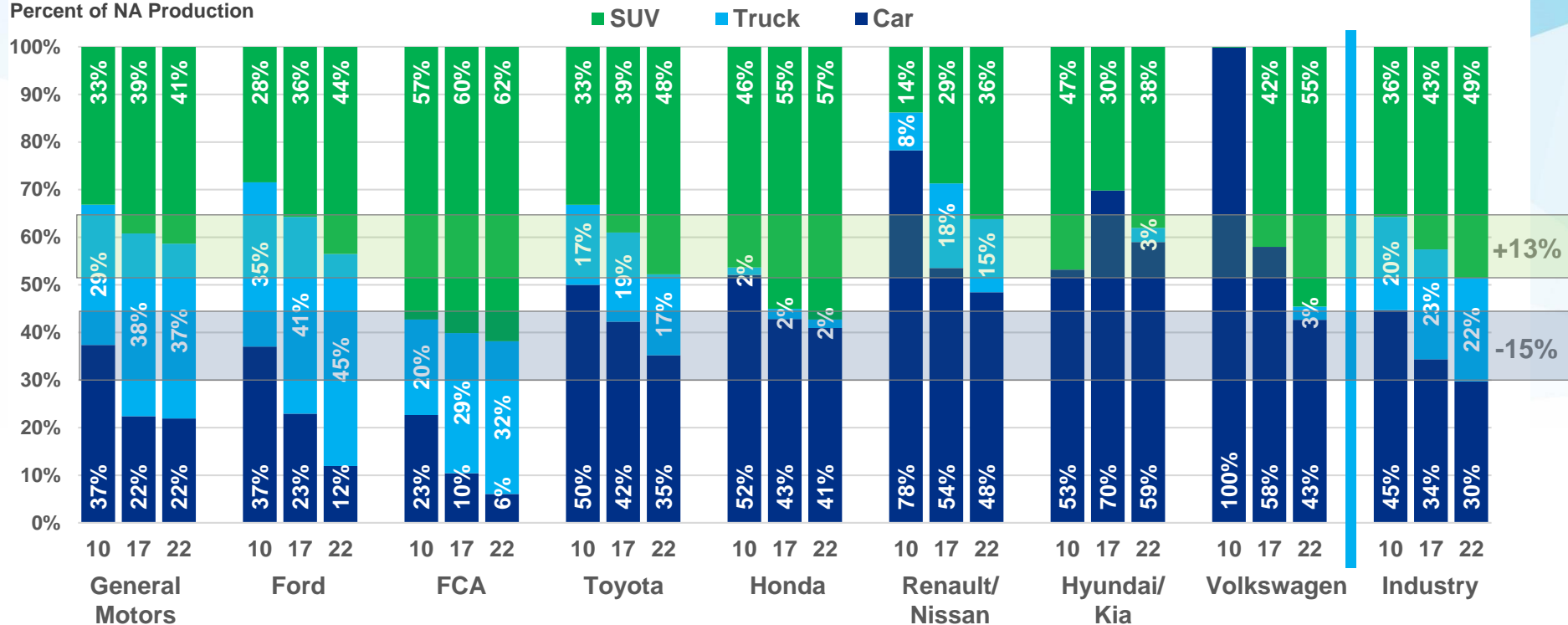
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Production Dynamics

Segment Shares Highlight Portfolio Strategy Differences

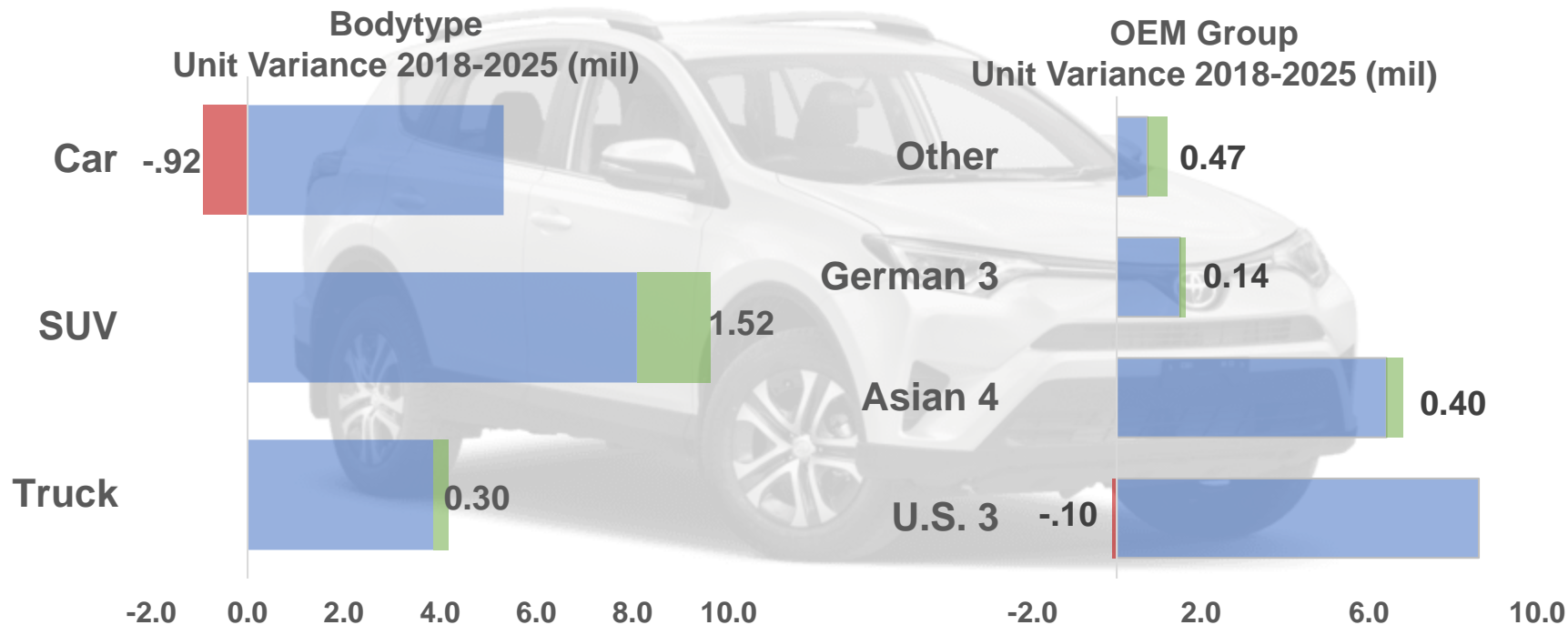
Percent of NA Production



Sources: Automotive News, IHS Markit

Production Dynamics

Opportunity Targeting



Source: LMC Automotive, Authors' Calculations

Production Dynamics

The Race to Fill White Space

Utility



TOYOTA

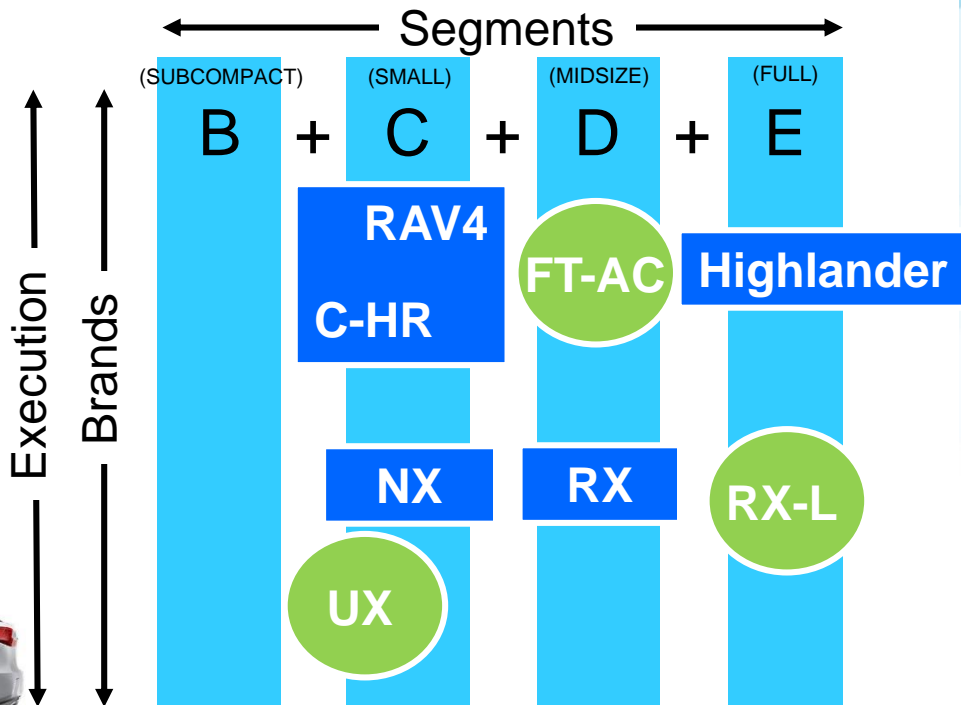
FT-AC



UX

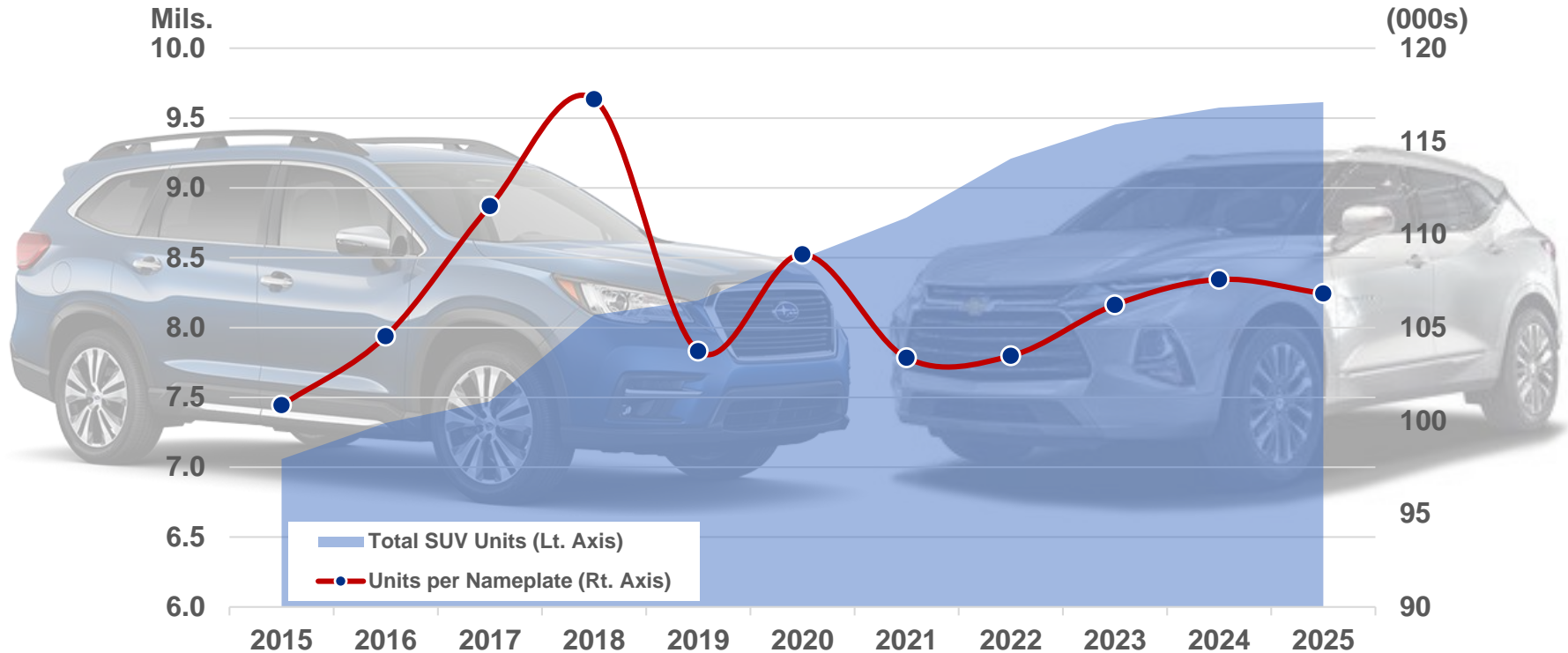


RX 350L



Production Dynamics

Regional SUV Surge: Peak Nameplate Volume Under Pressure

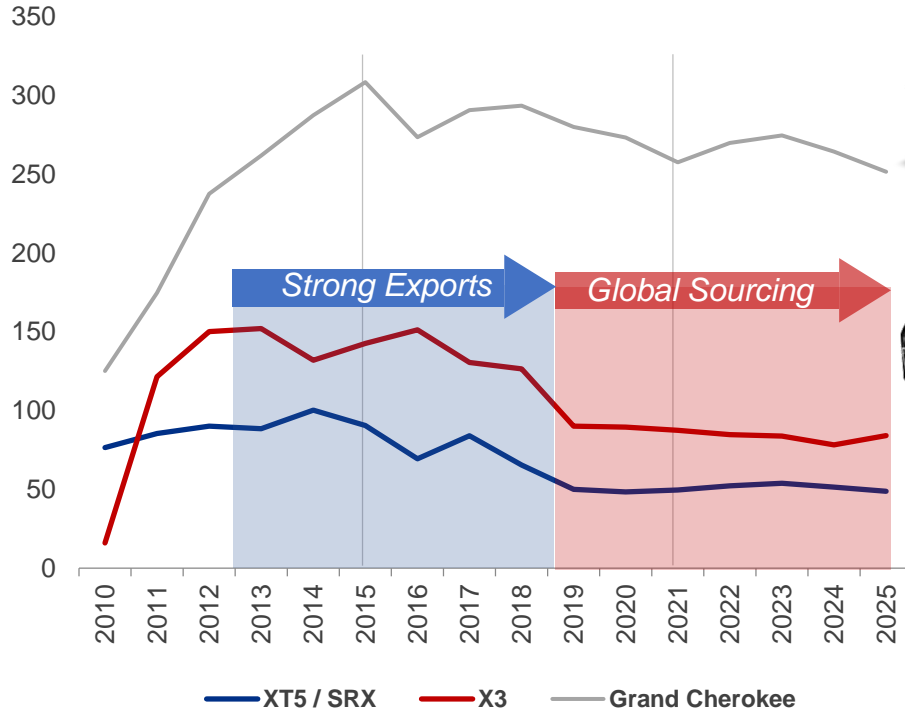


Source: LMC Automotive, OESA Analysis

Production Dynamics

Exports Serve as Bridge Until Local Sourcing is Warranted

Annual Production (Thousands)



-16%
(-51K)



-39%
(-55K)



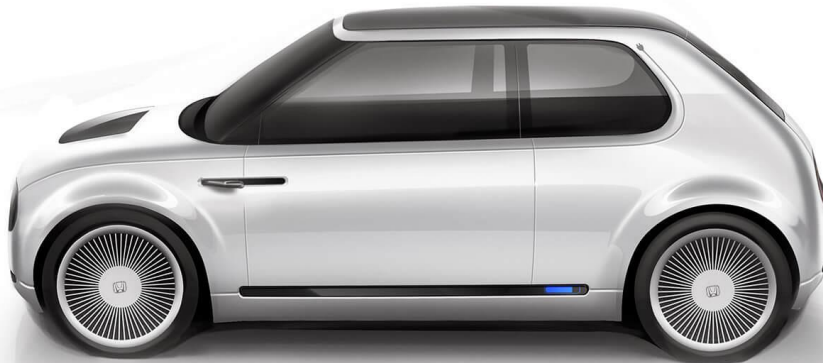
-45%
(-41K)



- 25% import tariff, cut to 15% by 7/1
- Luxury growth
- Minority ownership cap removed

Roadmap

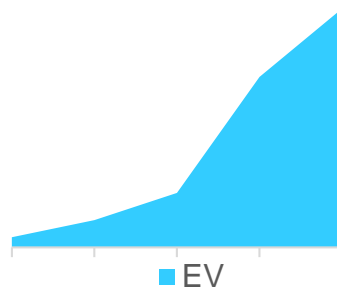
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The EV Profit Challenge



'All In'



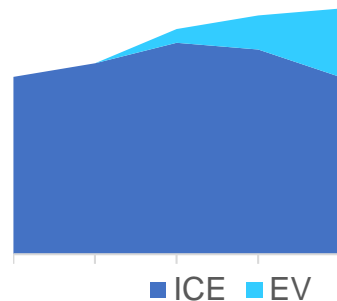
- Clean sheet design
- Ground up capex
- 'New Everything'
- Must scale to survive
- Low margin of error



"We wanted to wait for the fifth generation (to scale) to be much more cost competitive," *BMW CEO Harald Krueger*

Expects its EVs to be profitable by 2020 after first EV launched in 2013.

'Incremental'



- Incremental approach
- Incremental capex
- Weighs on current profits, yet can reinvest proceeds
- Enables transition

Global BEV Demand By Market

2017 BEV Sales ('000s)

China: 465
Europe: 132
USA: 93
Other: 30

720k

China: 65%

2027 BEV Sales (000s) – CAGR from 2017 = 33%

other
(1,900)

USA
(800)

Europe
(3,350)

China
(6,370)

12.4mn

China: 51%

Source: LMC Automotive Global Hybrid & EV Forecast

0 2,000 4,000 6,000 8,000 10,000 12,000

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“A crucial battle has begun -- not one about winning or losing, but one about surviving or dying.”

“This is an era in which the correct answers are unknown.”

“Cost reduction is crucial. It is a fight to restore our original strength.”

**Akio Toyoda
Toyota Motor Corp. President**

Takeaways

- **Growth:** SUV surge intensifies competition; amplifies risks & rewards
- **Culture:** Humble, Curious, Inventive, Collaborative, Resilient
- **Strategy:** Requires counter-cyclical innovation planning
- **Flexibility:** Liquidity is key; vital to balance 'Core' vs Emerging
- **Stretch:** Align BEV opportunities with capabilities, sweet spots



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