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OESA AUTOMOTIVE SUPPLIER BAROMETER

Q2 2019

CAPITAL MARKETS &
INNOVATION

Executive Summary



Supplier Barometer Index (SBI)

SBI Score = 35;

unchanged from Q1 level

The outlook remains in deep negative territory, 15 points below the neutral threshold of 50, remaining at the lowest level since 2009. Accelerating trade tensions and poor vehicle sales of programs supplied continue to weigh on the outlook of supplier executives across firms of all sizes.



Trade policy is identified as the greatest industry threat, followed closely by poor vehicle sales.

Trade policy remains the greatest industry threat, as the threat of proposed 232 tariffs on autos and auto parts remains on the table.



Suppliers indicate that sustained production levels of 17-20 million units are required before needing to add capacity to operations.

These production levels are in line with what was stated in Q2 last year, however the distribution of responses is a bit more broad.



Growing capital needs are being allocated to support robust product innovation investments.

Some 55% of supplier respondents plan for higher innovation investments in 2019. Generally speaking the need for additional capital declined in comparison to last year.



Using 2018 as a base, most suppliers are planning for decreases in capital expenditures in 2019 and 2021.

Suppliers with between \$151 and \$500 million in revenue will be making the largest decreases in capex.

Executive Summary



Fifteen percent of respondents have, over the past year, significantly altered their capital structure.

Availability of commercial loans and lines of credit are expected to tighten over the coming year.

The greatest of confidence in accessing capital is for use in plant and equipment investment, while confidence in accessing capital deteriorated sharply for inventory financing, M&A opportunities, and off-shore manufacturing opportunities.



Eighty-five percent (median) of suppliers prefer to purchase new equipment rather than used.

Technology, availability and quality drive the decision to buy new.



Fifty-seven percent of suppliers are very confident that their company will move ahead and implement the needed capital investment to meet their 2019/2020 demand requirements.

Sales and production volumes, customer program launches, technology direction and political decisions are all concern for delayed or hindered investment plans.



Asia Pacific and North America are expected to be capex growth regions, while South America and Europe will contract.



The majority of supplier capital strategies support open innovation.

74% of supplier respondents indicate their capital planning process helps them achieve their innovation objectives by leveraging external partners to accelerate innovation and learning.



Firms across all revenue streams are funding their capital needs primarily through free cash flows

Firms with greater than \$500 million in revenue have the heaviest cash flow position in their weighted average cost of capital in comparison to firms smaller in size.

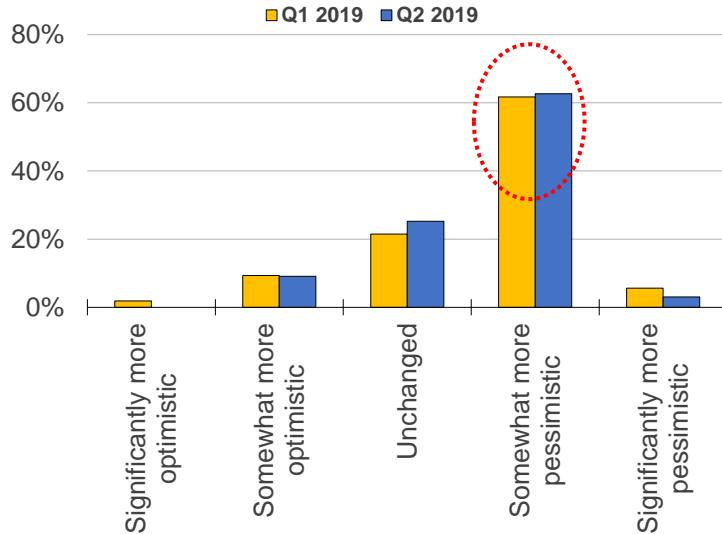


SUPPLIER OUTLOOK

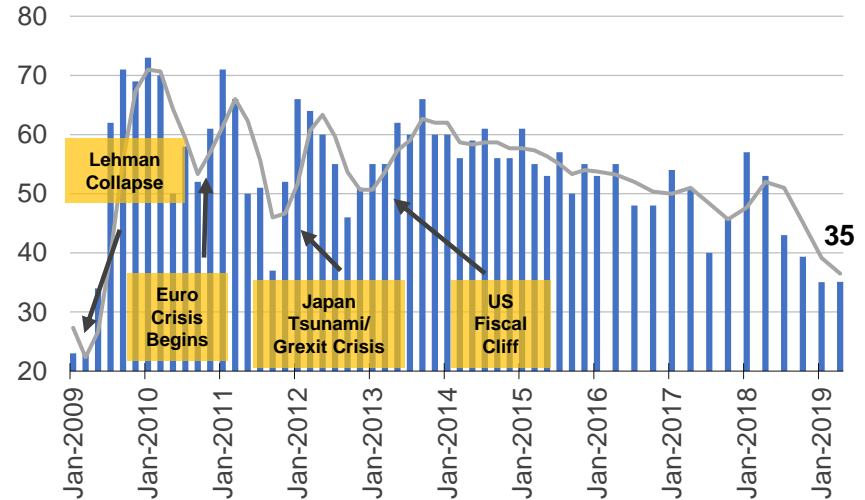
OESA Supplier Barometer: Q2 2019 Results

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)

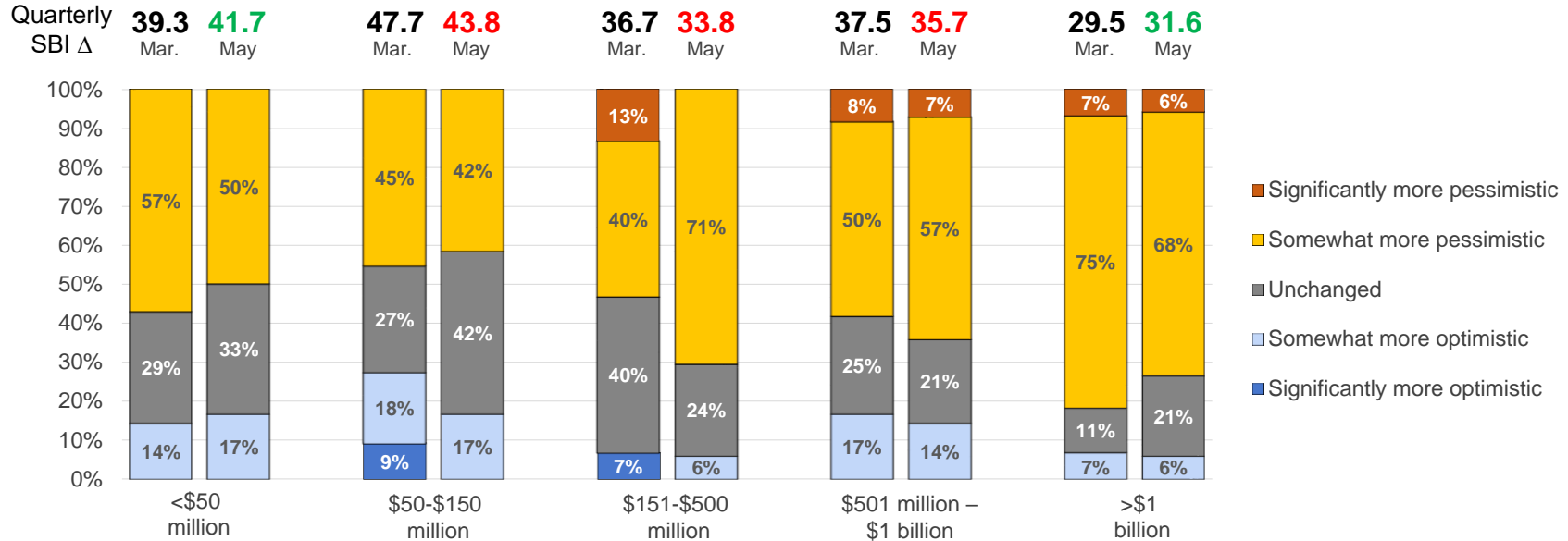


99 responses

SBI Score = 35; unchanged from Q1 and remaining the lowest level since 2009
 Tariffs and weaker demand contribute to pessimism

OESA Supplier Barometer: Q2 2019 Results By Revenue

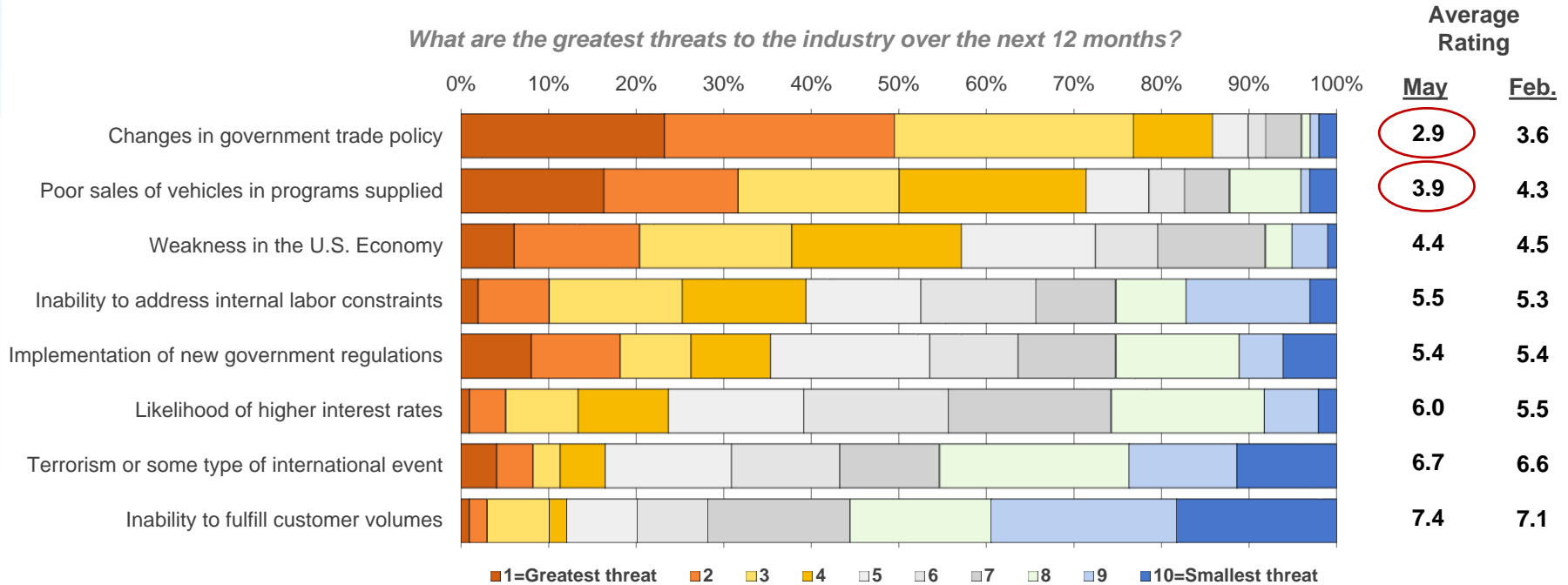
Describe the general twelve month outlook for your business. Over the past three months, has your opinion become..?



Regardless of revenue size, responses continue to reflect a high level of pessimism; Smaller firms were slightly more optimistic in comparison to large firms, but remain pessimistic on net

OESA Supplier Barometer: Industry Threats

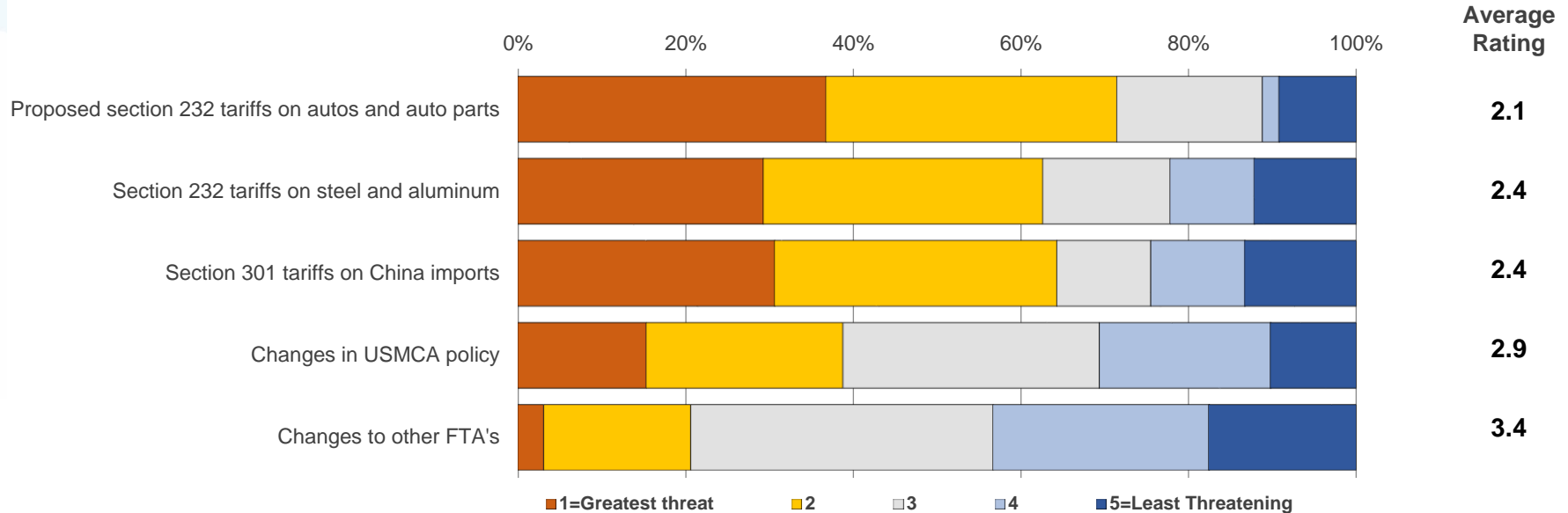
What are the greatest threats to the industry over the next 12 months?



Trade policy remains the greatest industry threat, at 2.9 in the second quarter, down sharply from Q1
 Poor sales of programs supplied was identified as the second largest threat at 3.9

OESA Supplier Barometer: Industry Threats

*Changes in trade policy has been identified as the leading threat to the industry for the past 5 quarters.
Please rate the following changes to government trade policy from 1-5 (1=Most threatening, 5=Least threatening).*



The threat of proposed section 232 tariffs on autos and auto parts is the most threatening aspect of changes to government trade policy, followed by 232 tariffs on steel and aluminum



CAPITAL MARKETS & INNOVATION



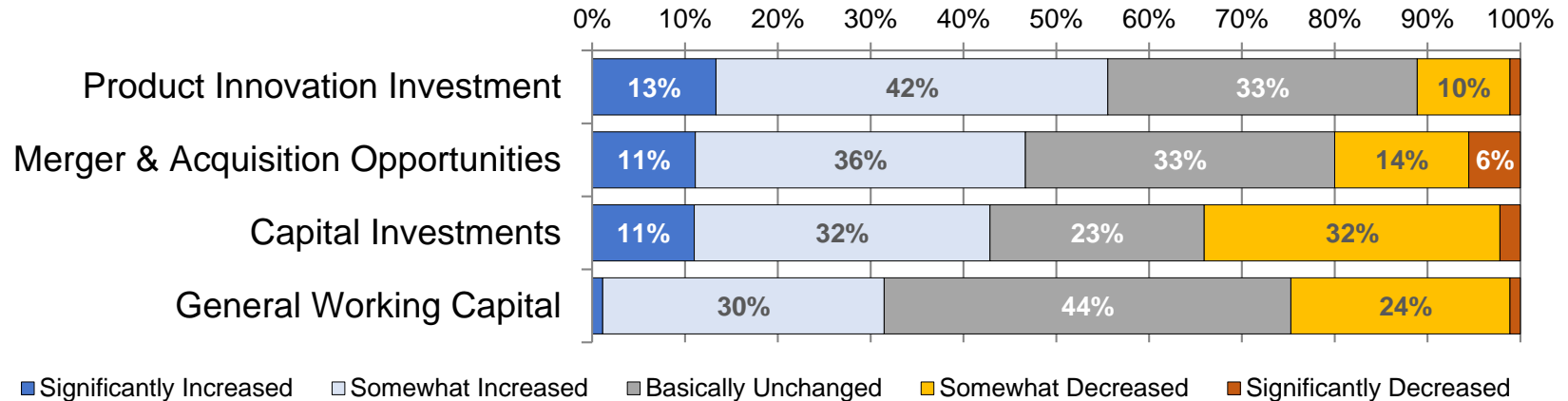
North America Vehicle Production

All else equal, what sustained level of NA production is required before your company needs to add?

	Lower Quartile Value			Median Value			Upper Quartile Value		
	2019	2018	2015	2019	2018	2015	2019	2018	2015
Plant square footage to <u>existing</u> facilities	17.0 million	17.5 million	17.5 million	17.5 million	18.0 million	18.0 million	18.0 million	19.0 million	19.0 million
Plant square footage through <u>new</u> facilities	17.5 million	18.0 million	17.0 million	18.3 million	19.0 million	17.5 million	20.0 million	20.0 million	18.0 million
Equipment beyond normal replacement	17.0 million	17.5 million	17.0 million	17.5 million	18.0 million	17.5 million	18.0 million	19.0 million	18.0 million
Salary headcount beyond normal attrition levels	17.0 million	17.0 million	NA	17.5 million	18.0 million	NA	18.0 million	18.4 million	NA

Capital Needs

For your next fiscal year, how do you see your capital needs changing for the following requirements, compared to current year?



Comments:

- Electrification needs more review
- Many new products being developed
- Some cutting back already started
- Shifting capital needs from legacy, core assets towards innovative/new capabilities
- Based on current market dynamics, potential for multiple compression for M&A targets
- NPI high priority
- More capital investments in the previous year simply because there was a new factory and this year there is no new factory spending to the same scale.
- Innovation investment increasing to address electrification.
- Spending on Product Innovation as we prepare for a slowing volume/production

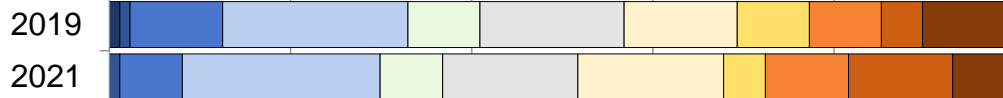
Capital Required

To better understand the capital needed to support the number of new program launches and production volume in North America, please estimate the change in capital expenditures using 2018 as the base year.

Estimate of Percent Increase over 2018 Base

0% 20% 40% 60% 80% 100%

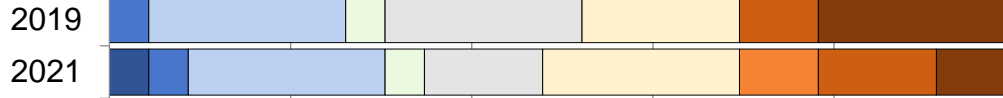
All respondent Companies



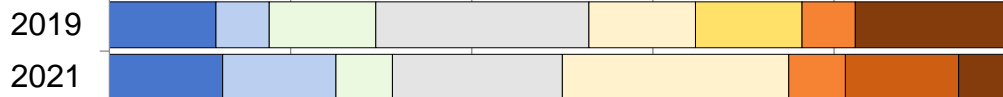
- More than 20% Increase
- 16%-20% Increase
- 11%-15% Increase
- 6%-10% Increase
- 1%-5% Increase
- No change
- 1%-5% Decrease
- 6%-10% Decrease
- 11%-15% Decrease
- 16%-20% Decrease
- More than 20% Decrease

By Company Revenue

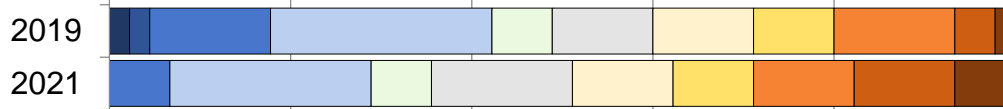
<\$151 million



\$151-\$500 million



>\$500 million



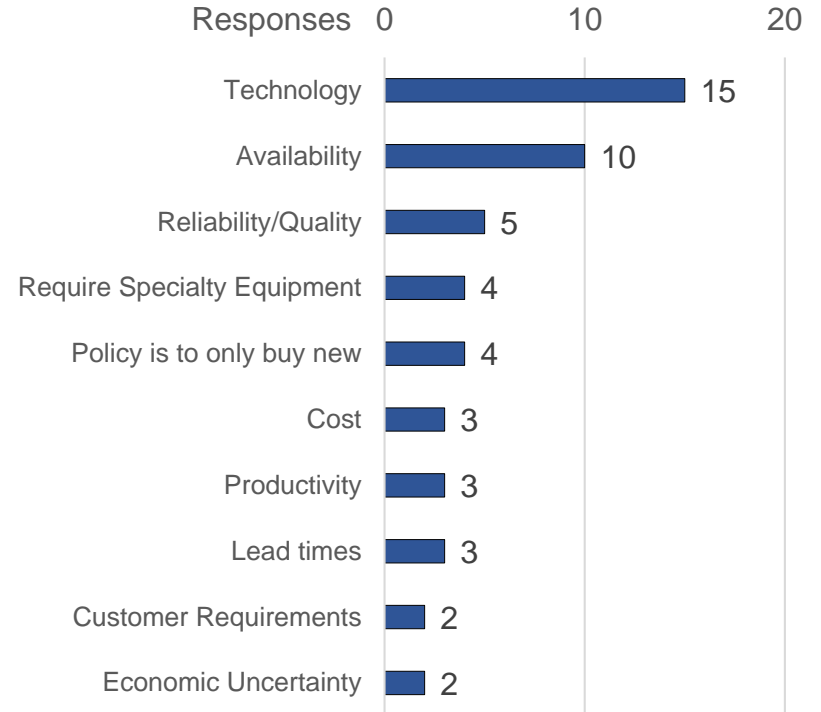
New Versus Used Equipment

For your equipment capital expenditures budgeted in the next fiscal year, estimate what percent of spend you are allocating to the purchase of new vs. used equipment.

% of spend being allocated to purchase <u>new</u> equipment			
	Lower Quartile Value	Median Value	Upper Quartile Value
May 2019	75.0	85.0	100.0
May 2018	75.0	90.0	100.0
September 2014	75.0	82.5	100.0

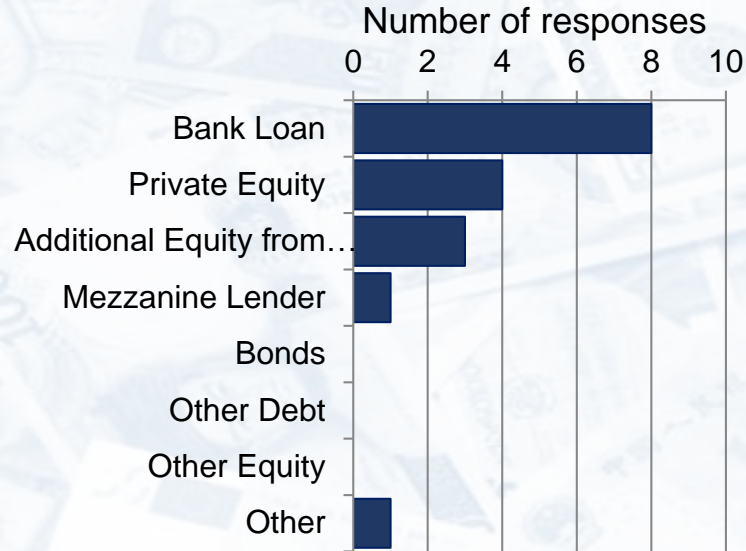
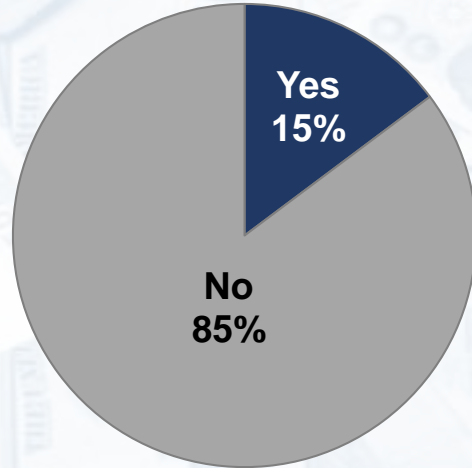
% of spend being allocated to purchase <u>used</u> equipment			
	Lower Quartile Value	Median Value	Upper Quartile Value
May 2019	0	17.5	25.0
May 2018	0	10.0	21.3
September 2014	5.0	20.0	38.8

What market issues are driving your decision to buy new versus used?



Changing Capital Structure

*In the last 12 months, have you significantly altered your company's capital structure?
If yes, what were the most significant sources of new funds?*



Comments:

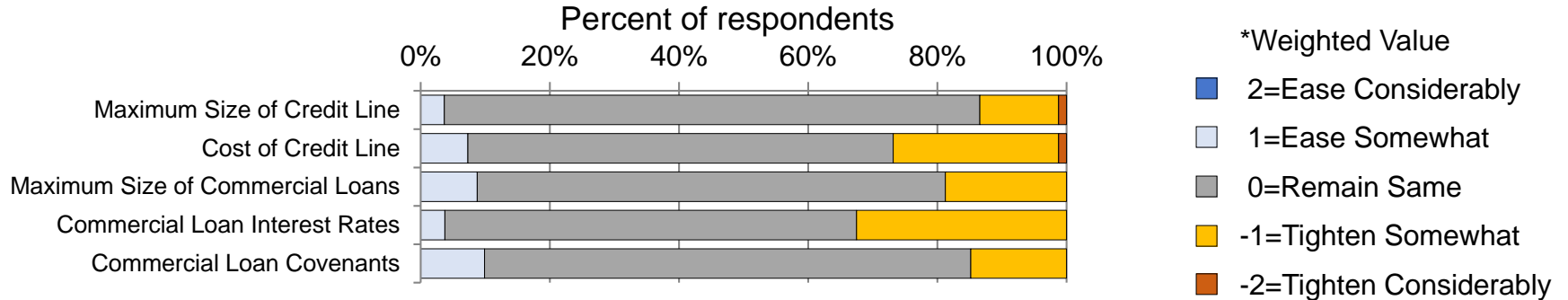
- Invested 10% of 2018 revenue in new capital in 2019
- Received new business requiring capital investment
- Reduced from 5% to 3.5%
- In an effort to improve cash flow we are making major reductions globally.
- one small acquisition
- We are a recent carve out of on OE company.
- Still owned by a private equity company.
- We have a very low capital budget relative to sales.

Other sources identified:

- Retained Earnings - cash

Commercial Loans and Lines of Credit

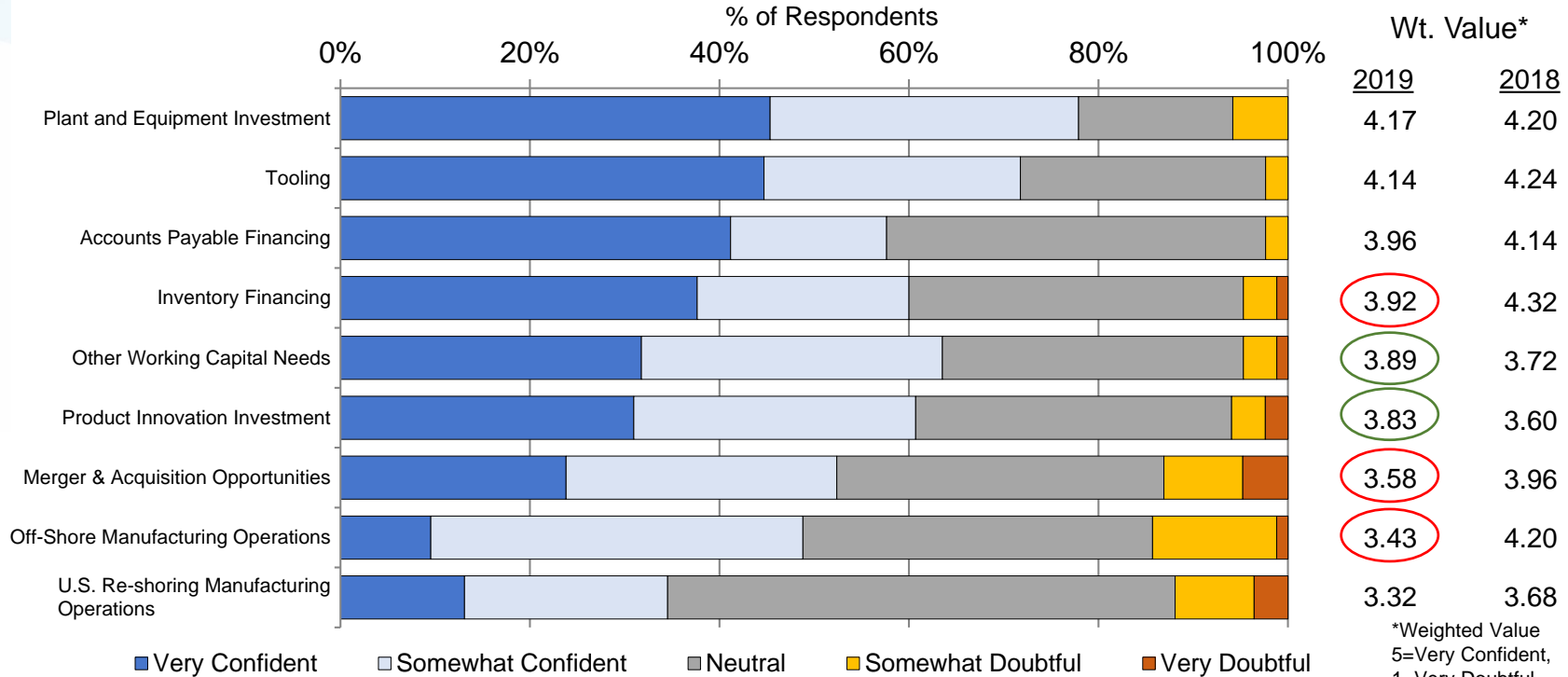
Considering your lead commercial bank, over the next 12 months, how do you anticipate the terms of your commercial loan or credit line applications changing?



Changes in terms by Revenue	Overall	<\$151 Million	\$151-\$500 Million	>\$500 Million
Maximum Size of Credit Line	-0.11	-0.19	0.00	-0.11
Cost of Credit Line	-0.21	-0.29	-0.19	-0.16
Maximum Size of Commercial Loans	-0.10	-0.05	-0.06	-0.14
Commercial Loan Interest Rates	-0.29	-0.29	-0.31	-0.26
Commercial Loan Covenants	-0.05	0.10	0.00	-0.14

Access to Capital

Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?



*Weighted Value
5=Very Confident,
1=Very Doubtful

Access to Capital

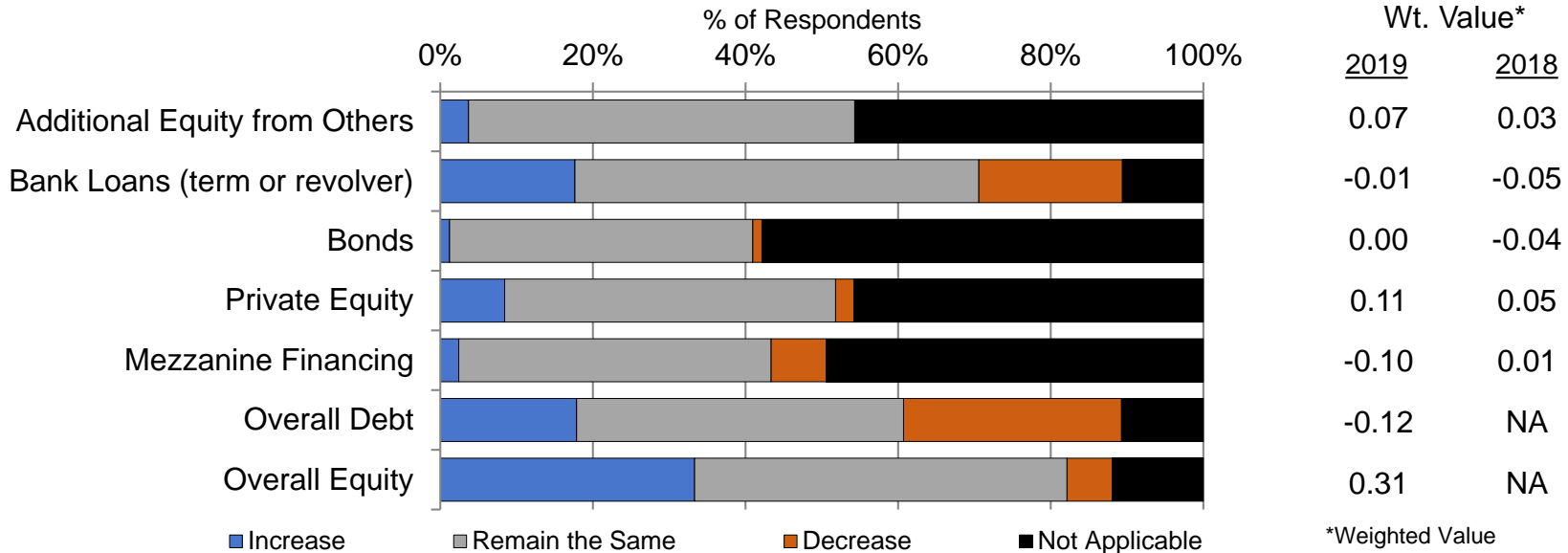
Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?

Level of Confidence in Accessing Capital	Overall	<\$151 Million	\$151-\$500 Million	>\$500 Million
Plant and Equipment Investment	4.17	4.09	4.59	4.04
Tooling	4.14	3.95	4.47	4.09
Accounts Payable Financing	3.96	3.77	4.41	3.78
Inventory Financing	3.92	3.82	4.41	3.84
Other Working Capital Needs	3.89	3.77	4.29	3.78
Product Innovation Investment	3.83	3.14	3.59	3.49
Merger & Acquisition Opportunities	3.58	3.52	4.00	3.93
Off-Shore Manufacturing Operations	3.43	3.05	3.47	3.40
U.S. Re-shoring Manufacturing Operations	3.32	3.57	3.76	3.51

*Weighted Value
5=Very Confident,
1=Very Doubtful

Sources of Capital

Over the next 12 months, indicate whether the following sources of funds will increase/decrease/remain the same in importance on your balance sheet?



*Weighted Value
1=Increase, 0=Same, -1=Decrease

Sources of Capital by Company Revenue

Over the next 12 months, indicate whether the following sources of funds will increase/decrease/remain the same in importance on your balance sheet?

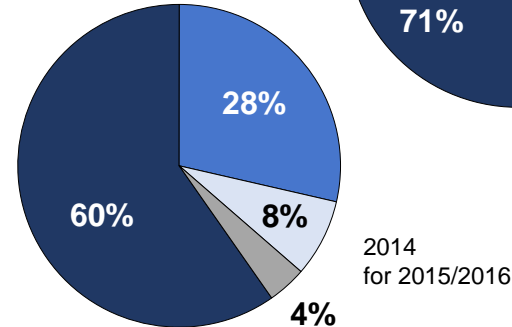
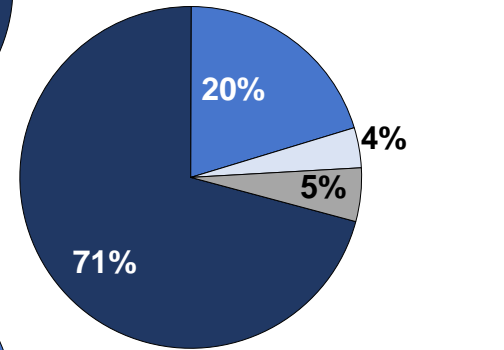
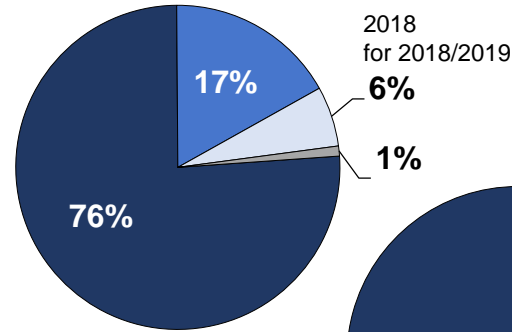
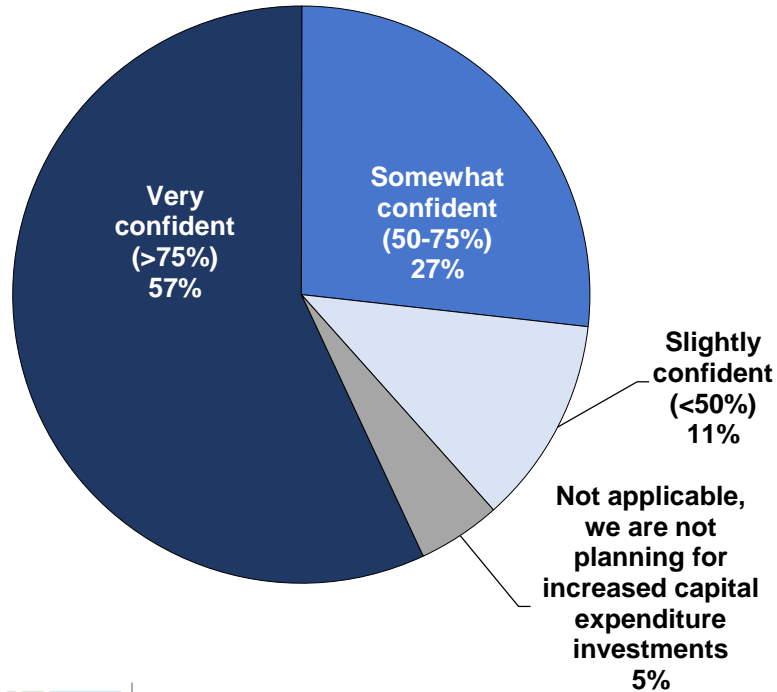
Change in Sources of Funds	Overall	<\$151 Million	\$151-\$500 Million	>\$500 Million
Private Equity	0.11	0.25	0.10	0.08
Additional Equity from Others	0.07	0.14	0.10	0.04
Bonds	0.00	0.00	0.00	0.00
Bank Loans (term or revolver)	-0.01	0.11	-0.07	-0.05
Mezzanine Financing	-0.10	-0.20	0.00	-0.08
Overall Debt	-0.12	0.10	-0.19	-0.18
Overall Equity	0.31	0.45	0.20	0.29

*Weighted Value

1=Increase, 0=Same, -1=Decrease

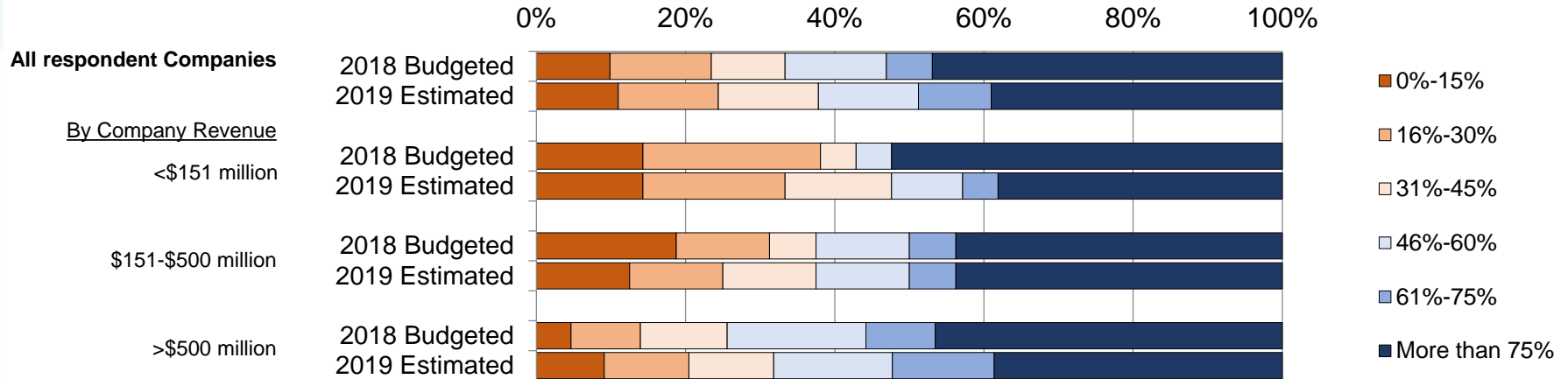
Capital Planning

How confident are you that your company will move ahead and implement the needed capital investment to meet your 2019/2020 demand requirements?



Capital Planning

What percent of your capital needs do you estimate you will fund from free cash flow?

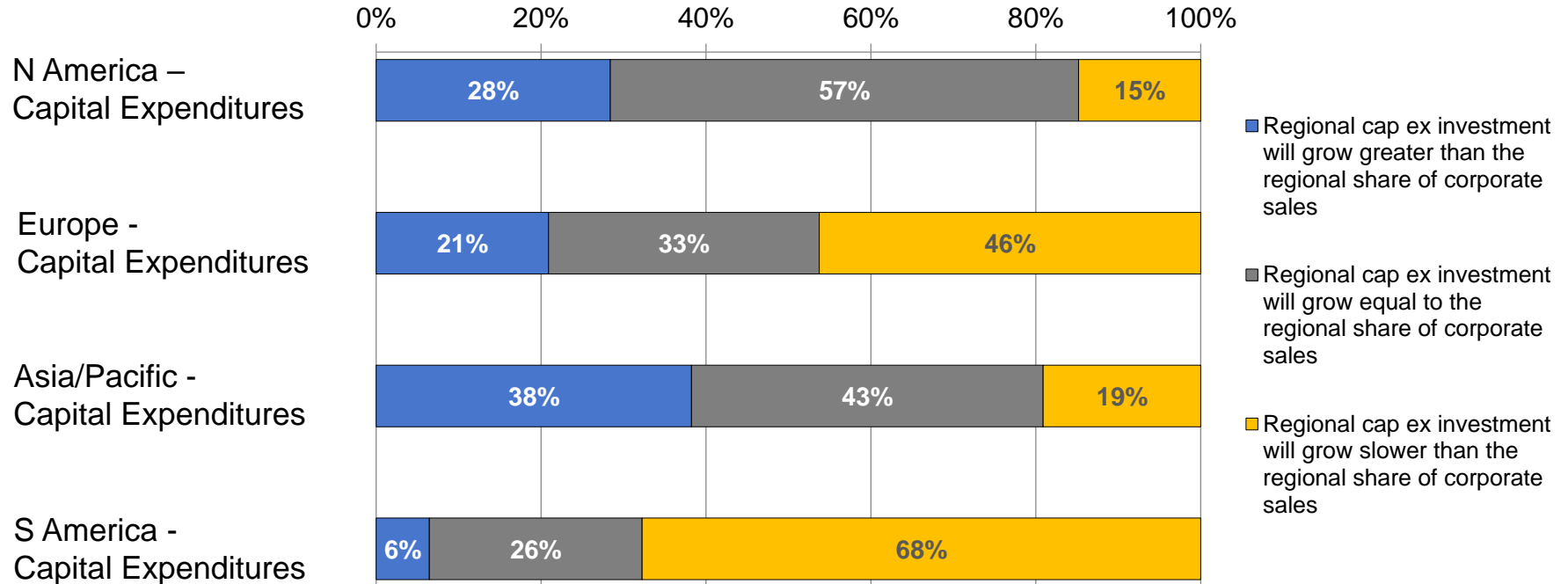


Comments:

- Currently in favorable cash flow situation, with positive net working capital and without borrowing, with great liquidity etc.
- Funding all from free cash flow
- All Capex for programs are funded from Free Cash. Some Capex for innovation products are funded thru lines of credit (i.e. 2021-2012 SOP).
- We will do some short term borrowing beyond free-cash levels.

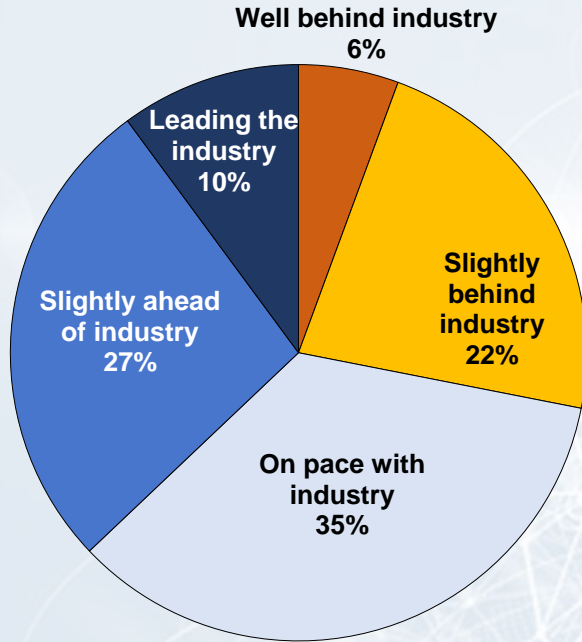
Capital Planning

Looking at your current global footprint, for each of the following regions, how do you anticipate your regional cap ex investment levels shifting over the next five years?



Innovation

Given the dynamic pace of industry change, describe your firm's pace of innovation.

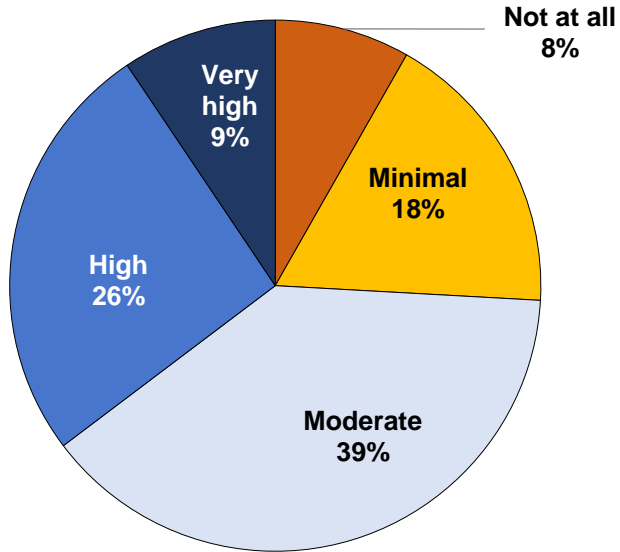


Comments:

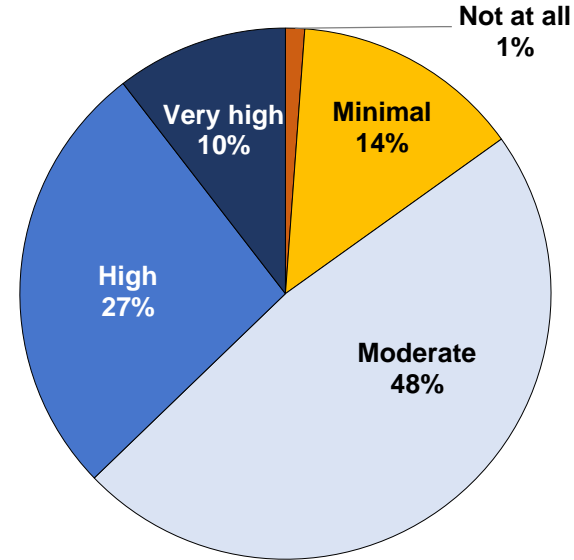
- Behind in one manufacturing area, slightly ahead in many others.
- ERP launch in process has negatively impacted innovation resource availability
- Slightly behind, however added resources to be on pace.
- Ahead in some ways, but behind in others, so let's just say "on pace with industry" here.
- We invest significantly in new technology

Capital Strategy

To what extent does your company's capital strategy support dimensions of open innovation, which includes working with external partners?



How well does your company's capital strategy enable your organization to fully realize its innovation objectives?



Comments:

- Innovation is accepted slowly by traditional OEM companies, however more accepted by the new EV and start up companies.



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OESA Automotive Supplier Barometer is a survey of the top executives of OESA regular member companies. The OESA Automotive Supplier Barometer takes the pulse of the suppliers' twelve month business sentiment. In addition, it provides a snapshot of the industry commercial issues, business environment and business strategies that influence the supplier industry.

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Survey Methodology

- Data collected May 10 - May 24 via invitation to online survey.
- Executives of OESA supplier companies.
- 99 survey responses were received.

The information and opinions contained in this report are for general information purposes. Comments are edited only for spelling and may contain grammatical errors due to their verbatim nature. Responses to this survey are confidential. Therefore, only aggregated results will be reported and individual responses will not be released or shared.

Antitrust Statement:

Respondents/participants should not contact competitors to discuss responses, or to discuss the issues dealt with in the survey. It is an absolute imperative to consult legal counsel about any contacts with competitors. All pricing and other terms of sale decisions and negotiating strategies should be handled on an individual company basis.

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