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OESA AUTOMOTIVE SUPPLIER BAROMETER™ Q4 2021

CAPITAL MARKETS & INNOVATION

NOVEMBER 9, 2021

Executive Summary



Supplier Barometer Index™ (SBI)
SBI Score = 34;
down from Q3 level of 52

The index deteriorated substantially from the prior quarter, falling 18 points to a significantly negative reading of 34. Pessimism has spread throughout suppliers of all sizes however the largest firms are the most pessimistic on net. The deteriorated outlook is attributed to continued production shutdowns due to the semiconductor crisis, tightening labor conditions, and shortages of raw materials and components that are impacting the supply base's ability to fulfill customer volumes.



Production shutdowns due to supply chain shortages and tight labor conditions are the top threats to the 12-month outlook

Shortages of semiconductors and other components and materials continue to disrupt the automotive supply base and conditions have deteriorated from the third quarter.

Labor constraints and sales of vehicles in programs supplied are a growing concern.

Suppliers' optimism towards a strong economy deteriorated as a result of their own challenges, and the residual effects of government policy that was enacted during the pandemic.



Production breakeven levels exceed actual production for second consecutive year

2020 and 2021 production volumes were and are expected to be about 500,000 units below the levels the supply base needs to break-even.

2022 production volumes are expected to return to profitable territory but are subject to the risks of further issues from the semiconductor crisis.

Executive Summary



One fifth of respondents have, over the past year, significantly altered their capital structure.

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

While confidence in capital acquisition remains at strong levels, suppliers are less confident they will be able to access their need capital in comparison to last year.



Ninety percent (median) of suppliers prefer to purchase new equipment rather than used.

The requirements for custom equipment, availability, and technology drive the decision to buy new.



Forty-one percent of suppliers are very confident that their company will move ahead and implement the needed capital investment to meet their 2022/2023 demand requirements.

Supply chain disruptions and continued issues related to the pandemic as well as poor sales of programs supplied are all concerns that may delay or hinder investment plans.

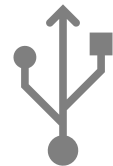


North America and China CAPEX are expected to grow faster than the share of sales while Europe, the Rest of AP, and South America will see less growth in CAPEX than in sales.



Thirty-eight percent of suppliers believe they are ahead of the industry's pace of innovation while twenty-eight percent feel they are behind.

Focusing on partnerships, technological R&D, diversification and developing products that support the EV market are common practices by firms that consider themselves the most innovative.



On average, co-creating products with OEMs 5+ years ahead of production tends to be the best practice in developing technology that is eventually brought to market.

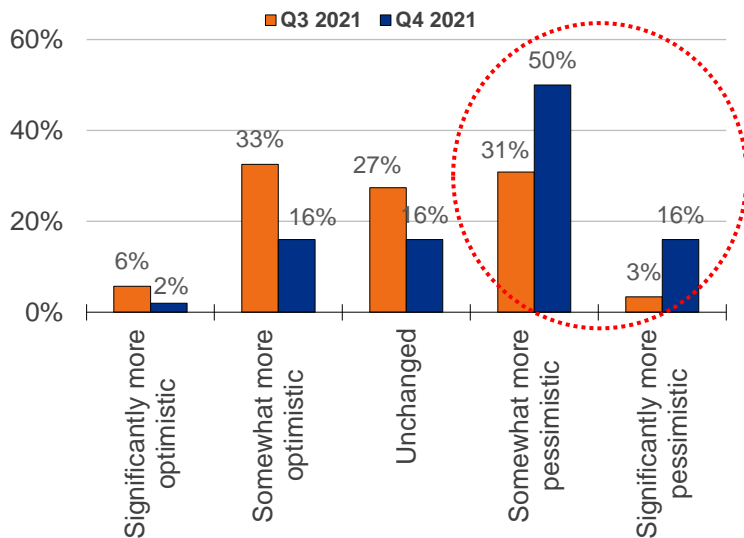
Pitching a developed technology when the idea is already mature tends to be the least effective strategy in bringing a technology to market.

SUPPLIER OUTLOOK

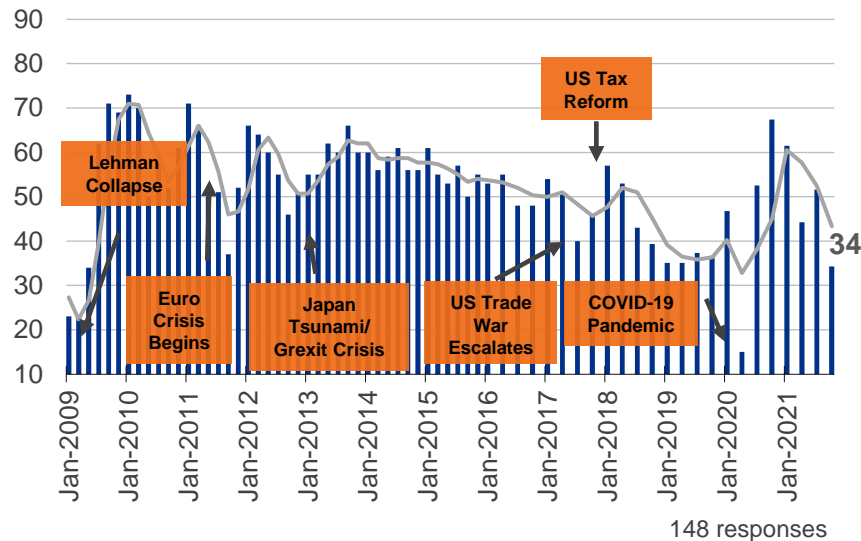
OESA Supplier Barometer: Q4 2021 Results

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

Current Supplier Outlook (Share of Respondents)



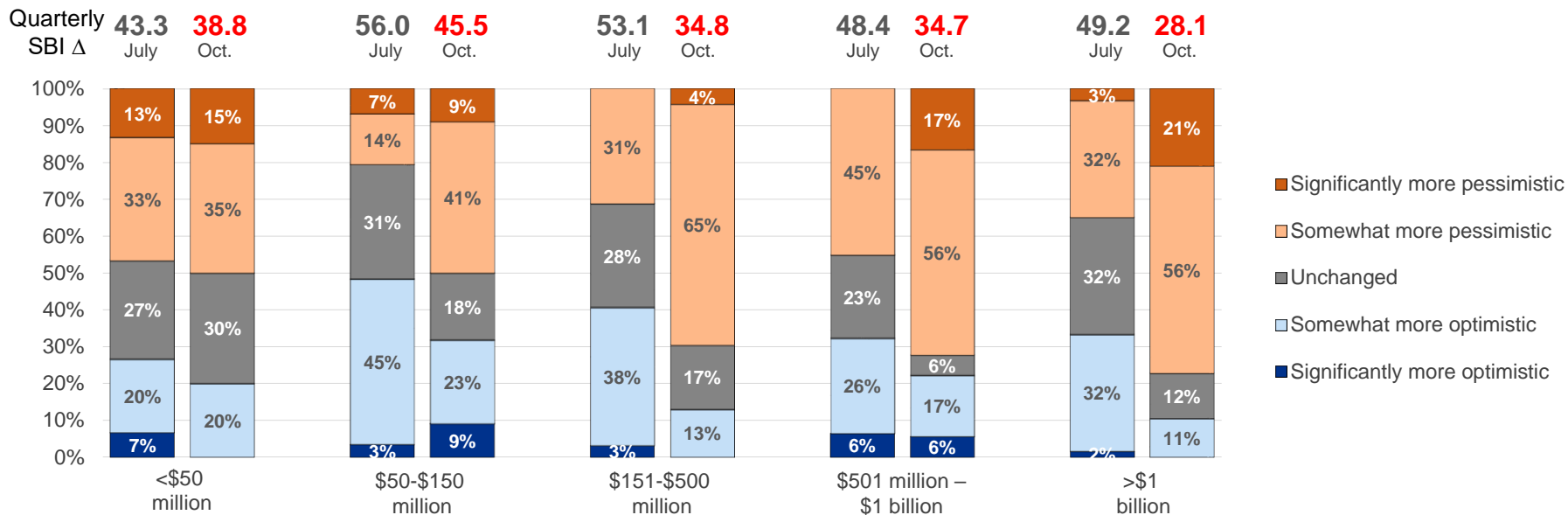
Supplier Barometer Index: (SBI and 6m Average)



The outlook for the fourth quarter fell deep into pessimistic territory as production shutdowns due to prolonged supply chain shortages while sales performance of programs supplied also deteriorated.

OESA Supplier Barometer: Q4 2021 Results By Revenue

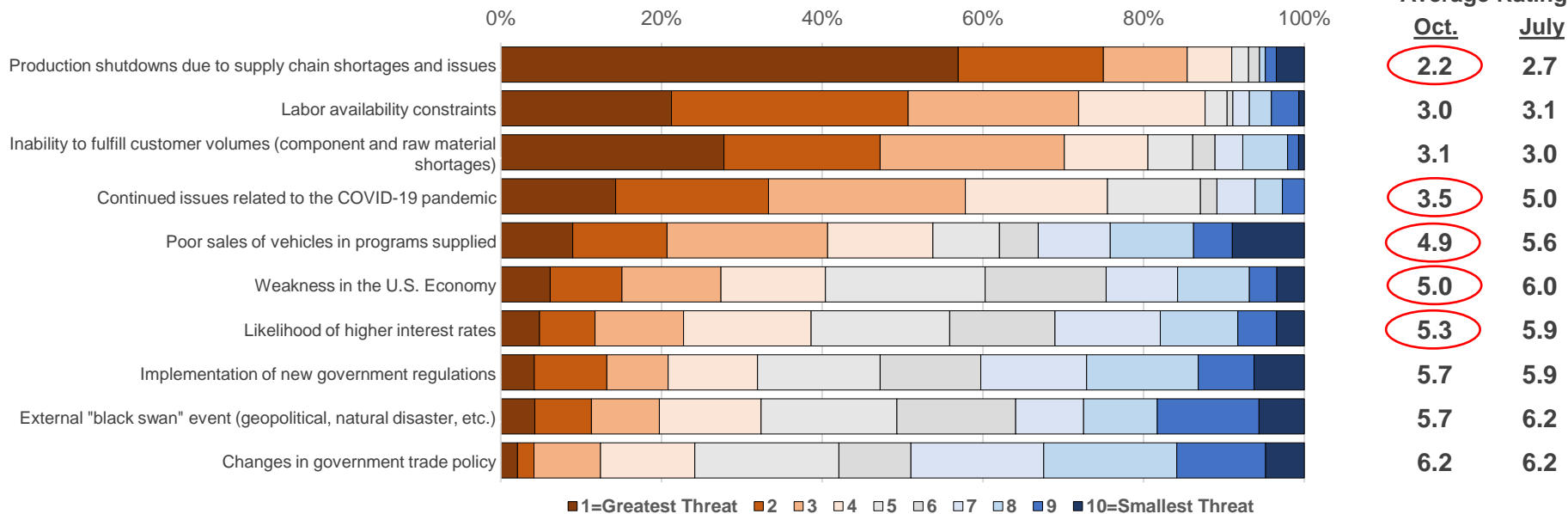
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



The outlook is pessimistic across all revenue sizes, yet sentiment for the largest suppliers is the most pessimistic.

OESA Supplier Barometer: Industry Threats

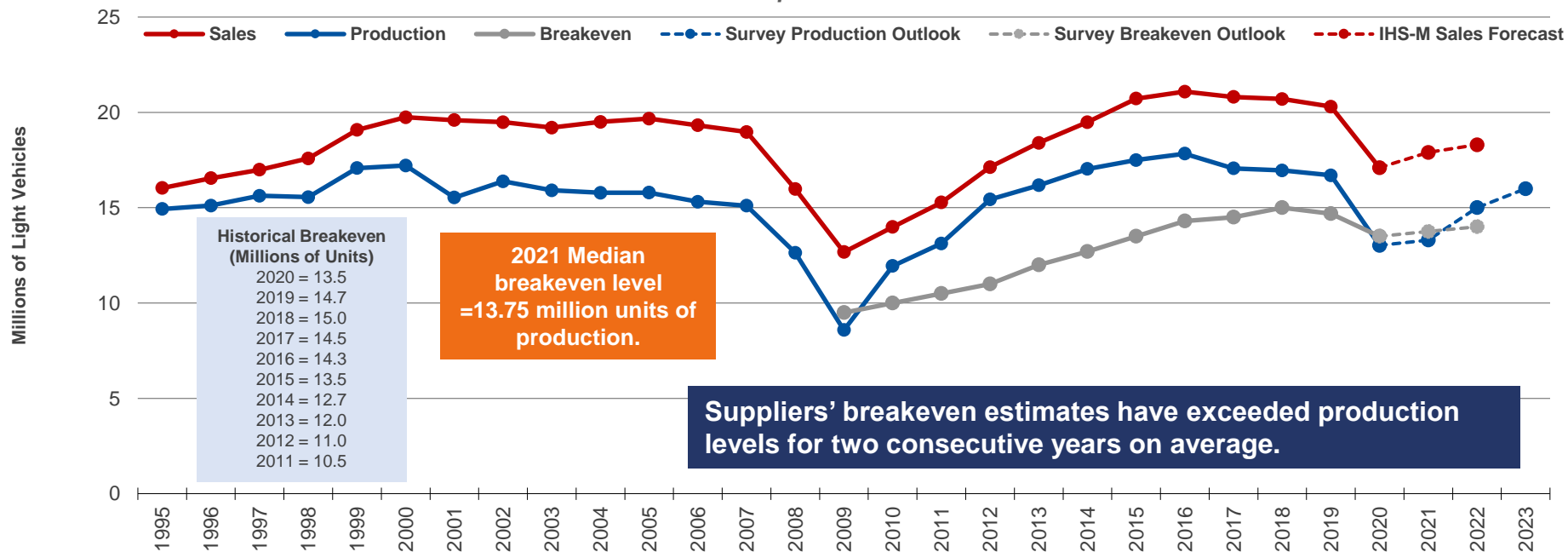
What are the greatest threats to the industry over the next 12 months?



Production shutdowns due to supply chain shortages, and labor availability are the top threats to the 12-month outlook. Suppliers are becoming increasingly concerned over sales of programs supplied.

Production Planning: Breakeven and Year-End Estimates

Considering North America light duty vehicle production, estimate the required 2021 industry volume needed to achieve breakeven in your North American operations?

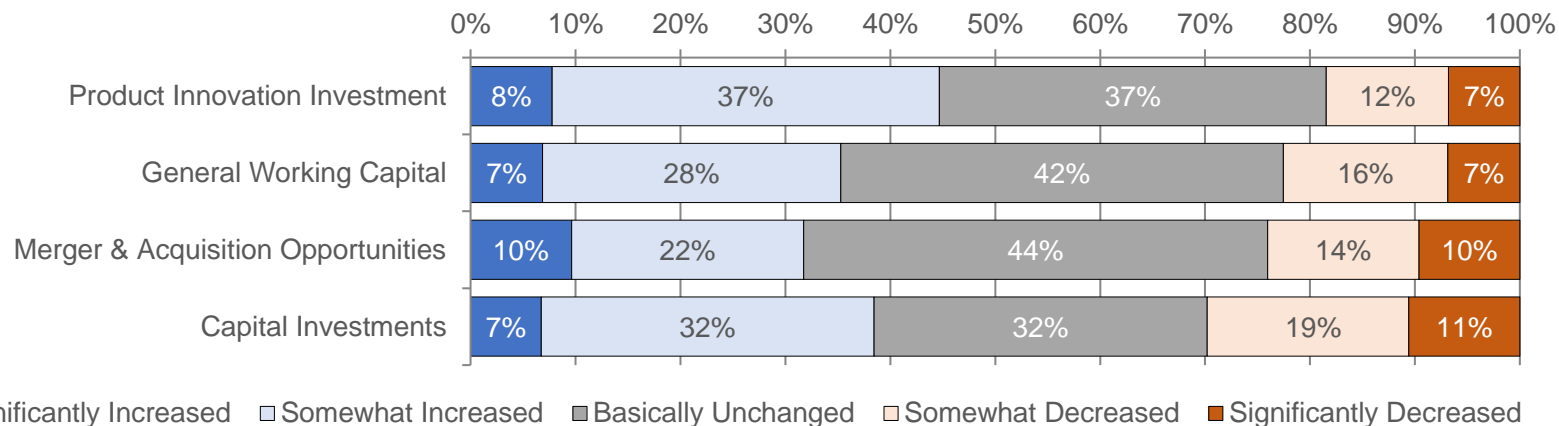


Source: IHS Markit (History, Sales and Production); IHS Markit (Sales Forecast)

CAPITAL MARKETS

Capital Needs

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



Comments:

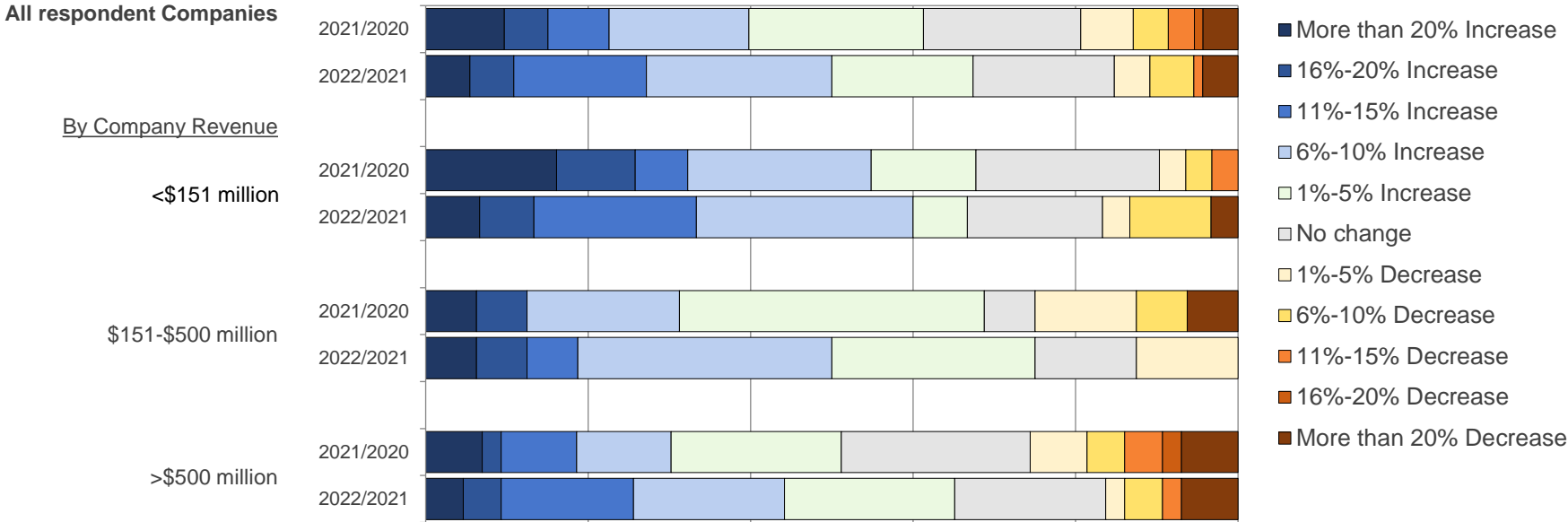
- Need to invest in automation to stay competitive. Having issues with credit due to top line sales fluctuations.
- Acquisitions seem to be the new trend, displacing R&D. If you can't invent it, buy it!
- Investments are being made around the globe to localize production.
- Reducing CapEx in line with sales/profitability.
- Short term cash constraints are hampering investment potential
- Expanding into new markets and products.
- With the loss of volume, capital spending has been significantly tightened to only essential needs.
- Current run rate is slowing investment in the future product sales.
- Working to automate more quickly due to qualified labor shortage

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 prior year as the base year.

Estimate of Percent Increase Over Prior Year Base

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



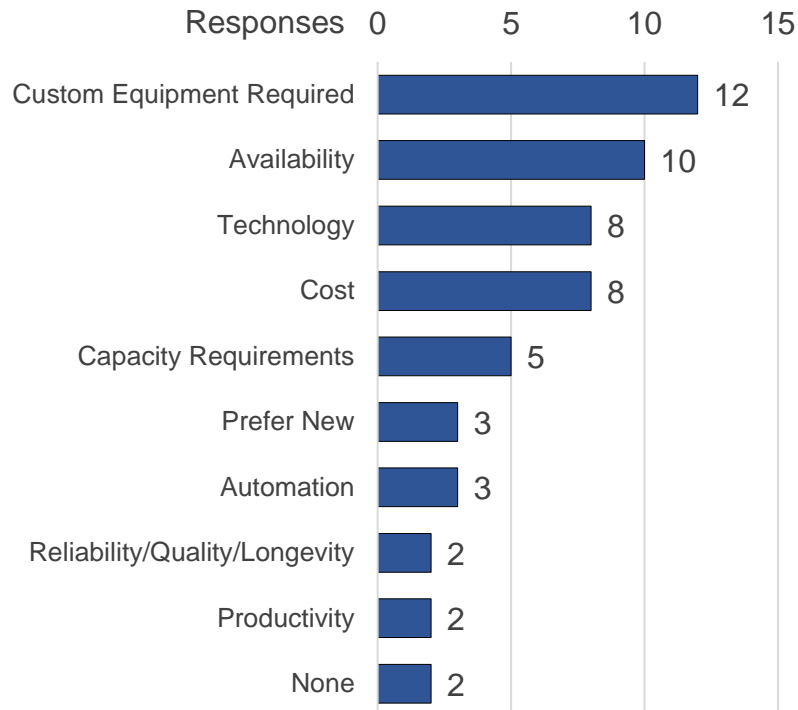
New Versus Used Equipment

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 |
| Oct. 2021 | 50.0 | 90.0 | 100.0 |
| Oct. 2020 | 70.0 | 80.0 | 100.0 |
| May 2019 | 75.0 | 85.0 | 100.0 |

| % of spend being allocated to purchase <u>used</u> equipment | | | |
|--|----------------------|--------------|----------------------|
| | Lower Quartile Value | Median Value | Upper Quartile Value |
| Oct. 2021 | 0 | 10.0 | 50.0 |
| Oct. 2020 | 0 | 20.0 | 30.0 |
| May 2019 | 0 | 17.5 | 25.0 |

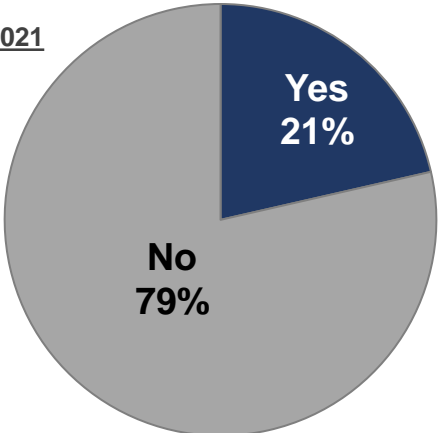
What market issues are driving your decision to buy new versus used?



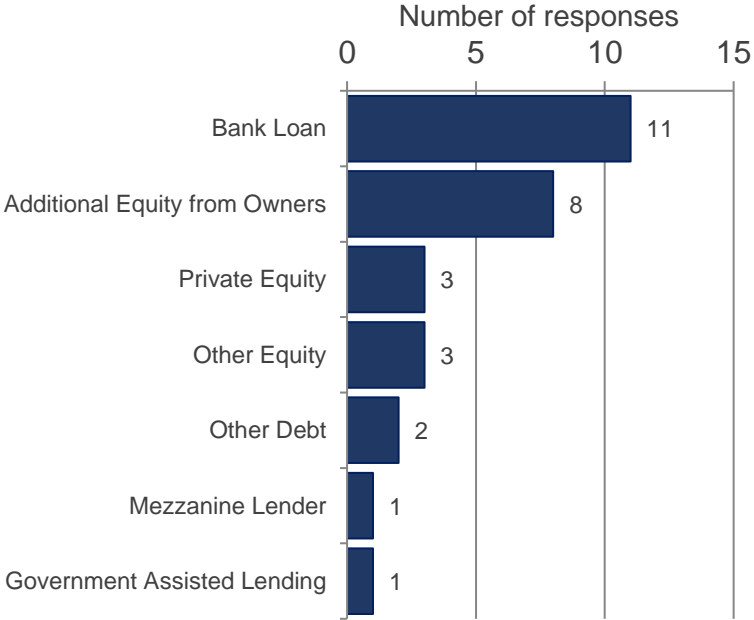
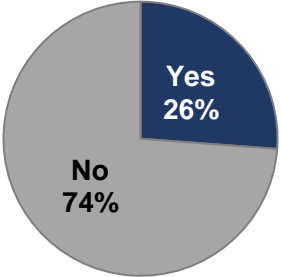
Changing Capital Structure

*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?*

2021



2020



Changing Capital Structure Comments:

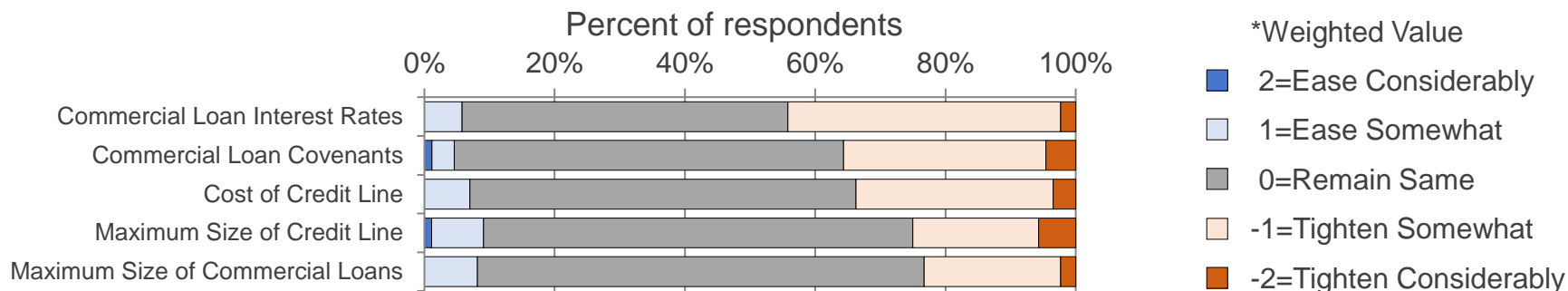
- Global presence has allowed shifting of resources, but basic structure is unchanged.
- Increasing investments in US plants to hit USMCA requirements
- To the best
- Deeper into our revolver
- Switched banks with increased funding availability and improved borrowing rates.

New Funds Comments:

- Overall debt was significantly decreased.

Commercial Loans and Lines of Credit

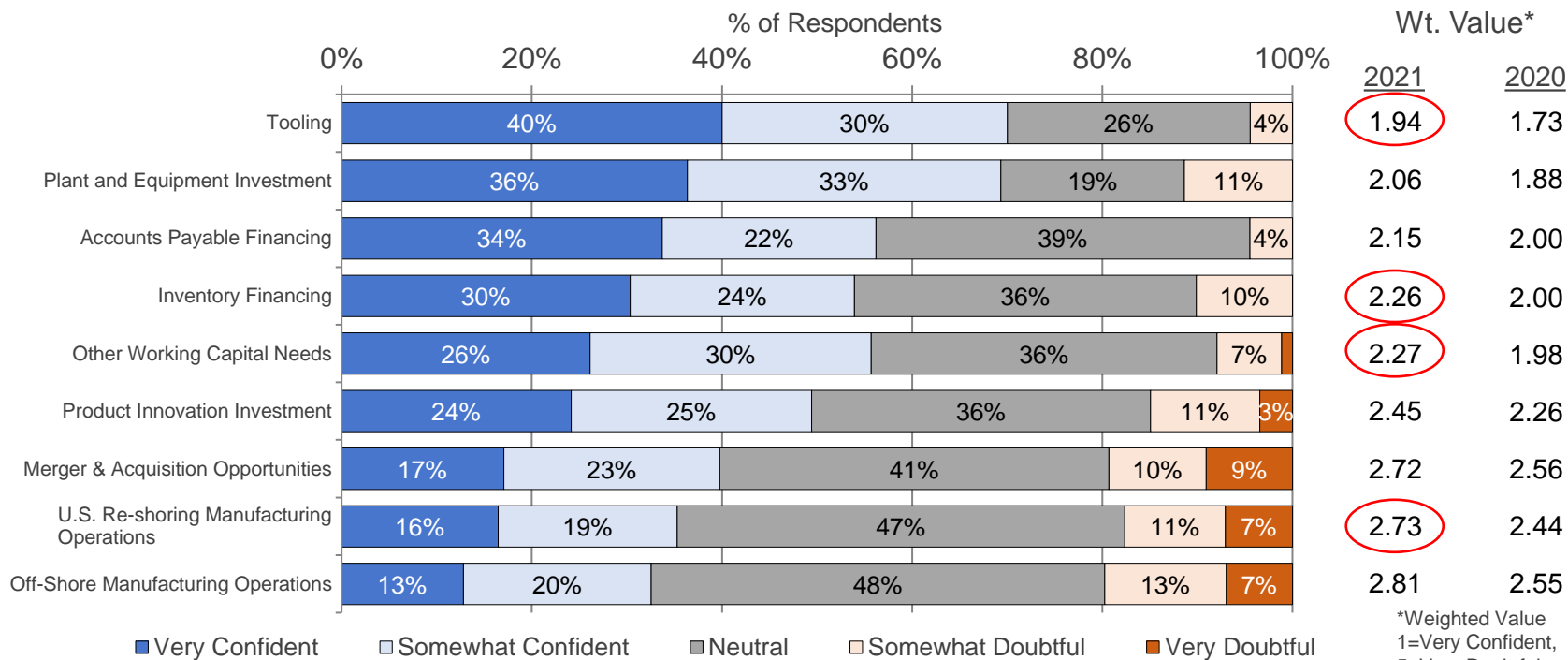
Considering your lead commercial bank, over the next 12 months, how do you anticipate the terms of your commercial loan or credit line applications changing?



| Changes in terms by Revenue | Overall | <\$151 Million | \$151-\$500 Million | >\$500 Million |
|----------------------------------|---------|----------------|---------------------|----------------|
| Commercial Loan Interest Rates | -0.40 | -0.44 | -0.35 | -0.40 |
| Commercial Loan Covenants | -0.34 | -0.24 | -0.35 | -0.43 |
| Cost of Credit Line | -0.30 | -0.27 | -0.29 | -0.30 |
| Maximum Size of Credit Line | -0.20 | -0.18 | -0.24 | -0.17 |
| Maximum Size of Commercial Loans | -0.17 | -0.19 | -0.29 | -0.11 |

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
1=Very Confident,
5=Very Doubtful

Access to Capital

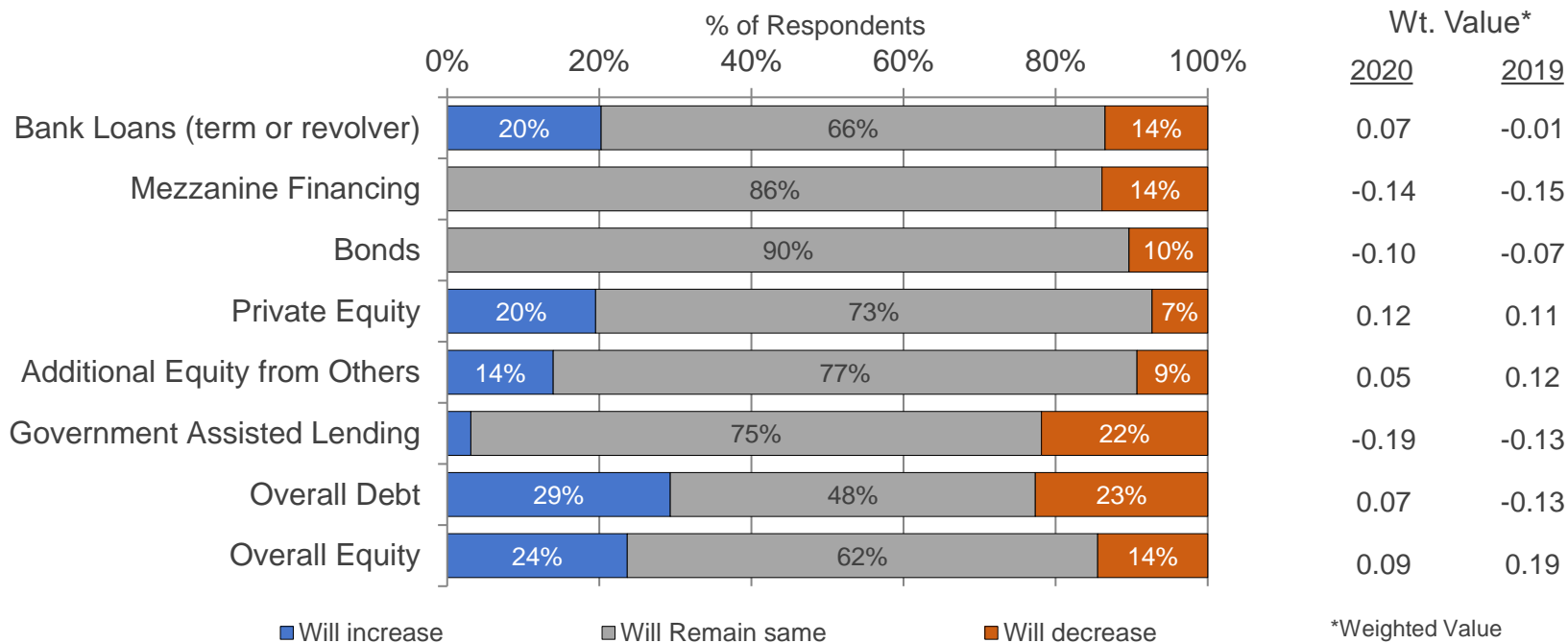
Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?

| Level of Confidence in Accessing Capital | Overall | <\$151 Million | \$151-\$500 Million | >\$500 Million |
|--|---------|----------------|---------------------|----------------|
| Tooling | 1.94 | 1.73 | 1.89 | 2.13 |
| Plant and Equipment Investment` | 2.06 | 1.79 | 2.00 | 2.28 |
| Accounts Payable Financing | 2.15 | 2.07 | 1.94 | 2.30 |
| Inventory Financing | 2.26 | 2.03 | 2.18 | 2.50 |
| Other Working Capital Needs | 2.27 | 2.10 | 2.12 | 2.46 |
| Product Innovation Investment | 2.45 | 2.28 | 2.76 | 2.46 |
| Merger & Acquisition Opportunities | 2.72 | 2.69 | 2.94 | 2.68 |
| U.S. Re-shoring Manufacturing Operations | 2.73 | 2.71 | 2.81 | 2.74 |
| Off-Shore Manufacturing Operations | 2.81 | 2.86 | 2.88 | 2.79 |

*Weighted Value
1=Very Confident,
5=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?

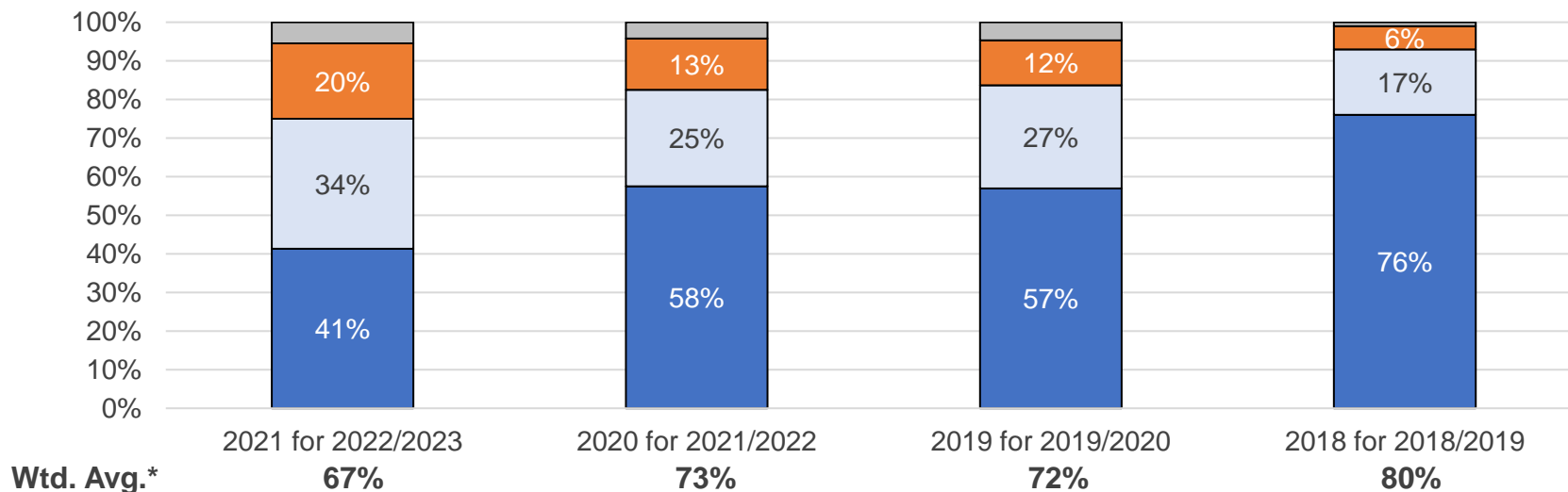
| Change in Sources of Funds | Overall | <\$151 Million | \$151-\$500 Million | >\$500 Million |
|-------------------------------|---------|----------------|---------------------|----------------|
| Bank Loans (term or revolver) | -0.13 | 0.00 | 0.08 | 0.10 |
| Mezzanine Financing | -0.14 | -0.18 | -0.29 | -0.06 |
| Bonds | -0.10 | -0.11 | 0.00 | -0.12 |
| Private Equity | 0.12 | 0.07 | 0.13 | 0.17 |
| Additional Equity from Others | 0.05 | 0.00 | 0.20 | 0.00 |
| Government Assisted Lending | -0.19 | -0.36 | 0.00 | -0.16 |
| Overall Debt | 0.07 | 0.07 | 0.14 | 0.00 |

*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 2022/2023 demand requirements?

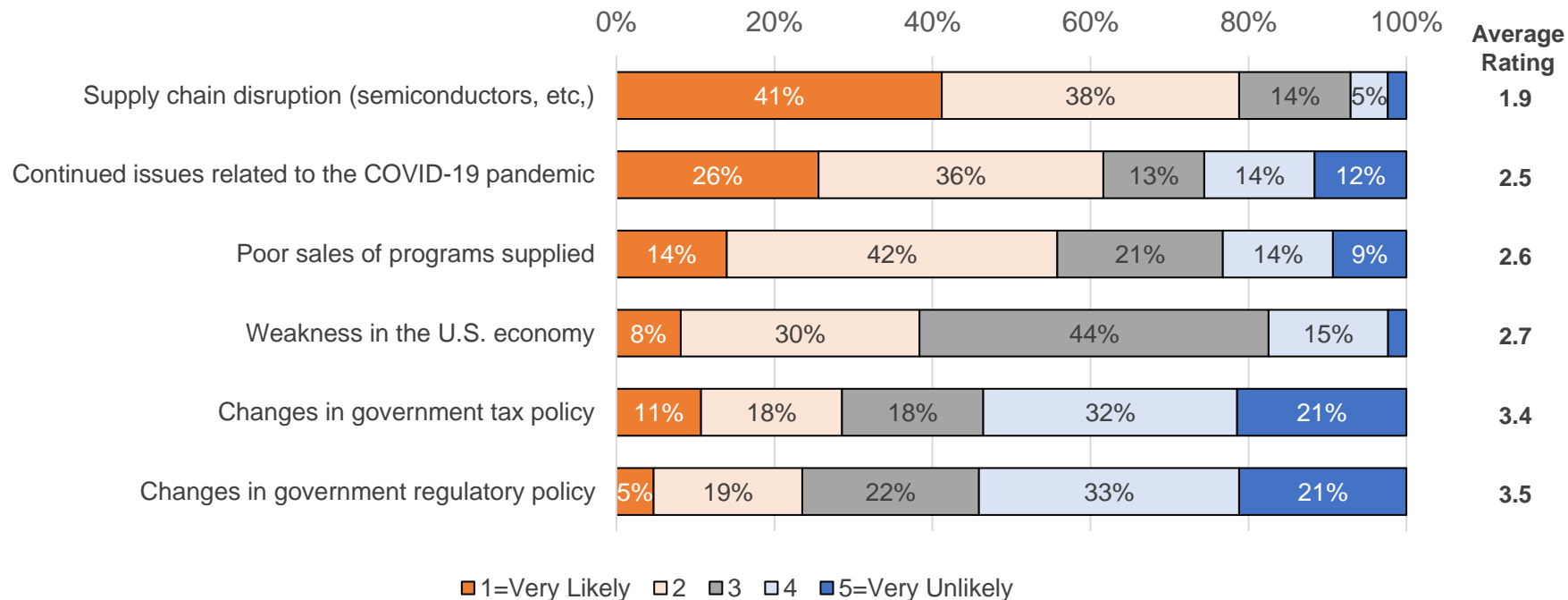


- Not applicable, we are not planning for increased capital expenditure investments
- Slightly confident (<50%)
- Somewhat confident (50-75%)
- Very confident (>75%)

*Assumes mid-point of each range

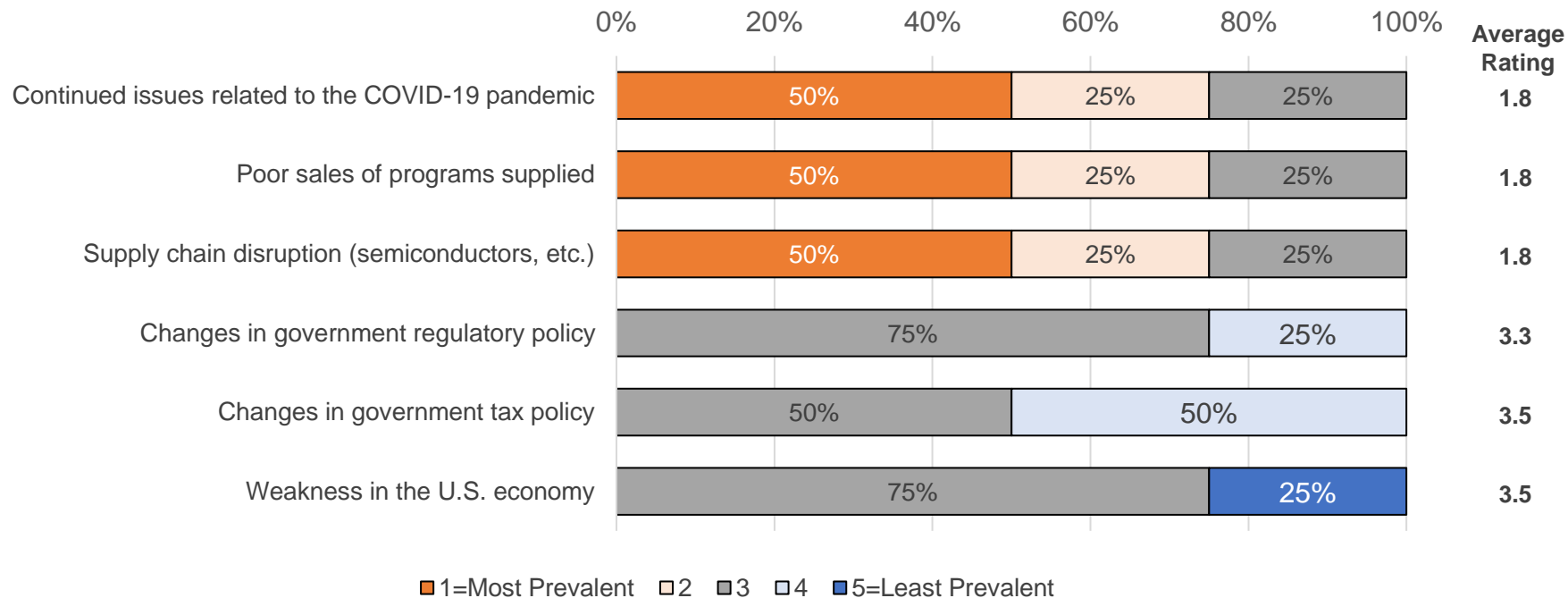
Capital Planning

If you are planning for some level of capital expenditure investment, what is the likelihood that the following factors may hinder or delay your investment plans?



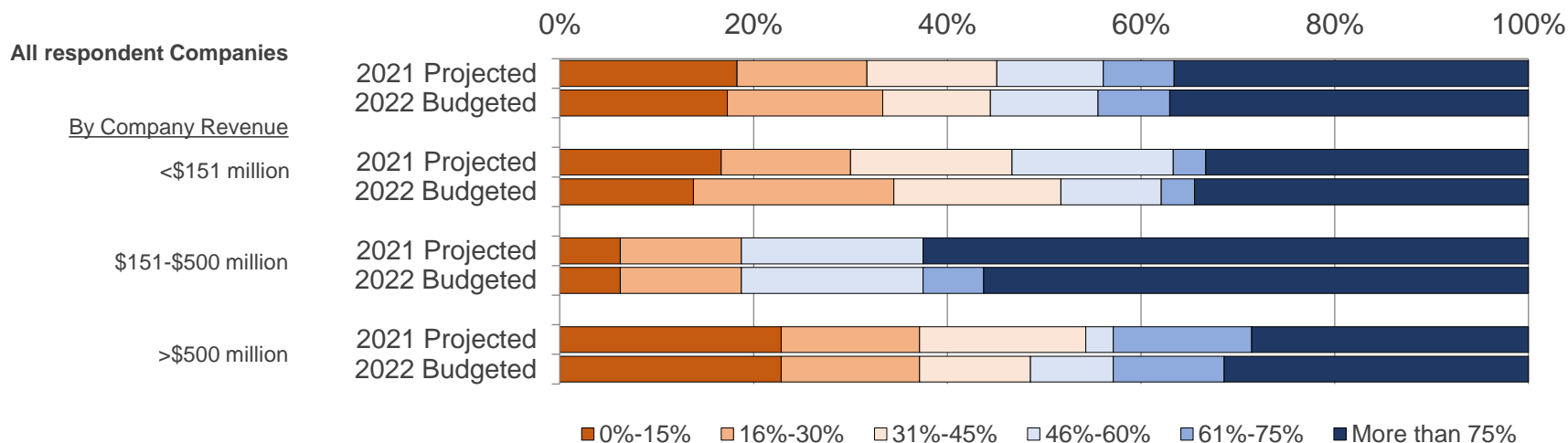
Capital Planning

*If you are **NOT** planning for some level of capital expenditure investment, what are the primary factors that are delaying or preventing your investment plans?*



Capital Planning

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

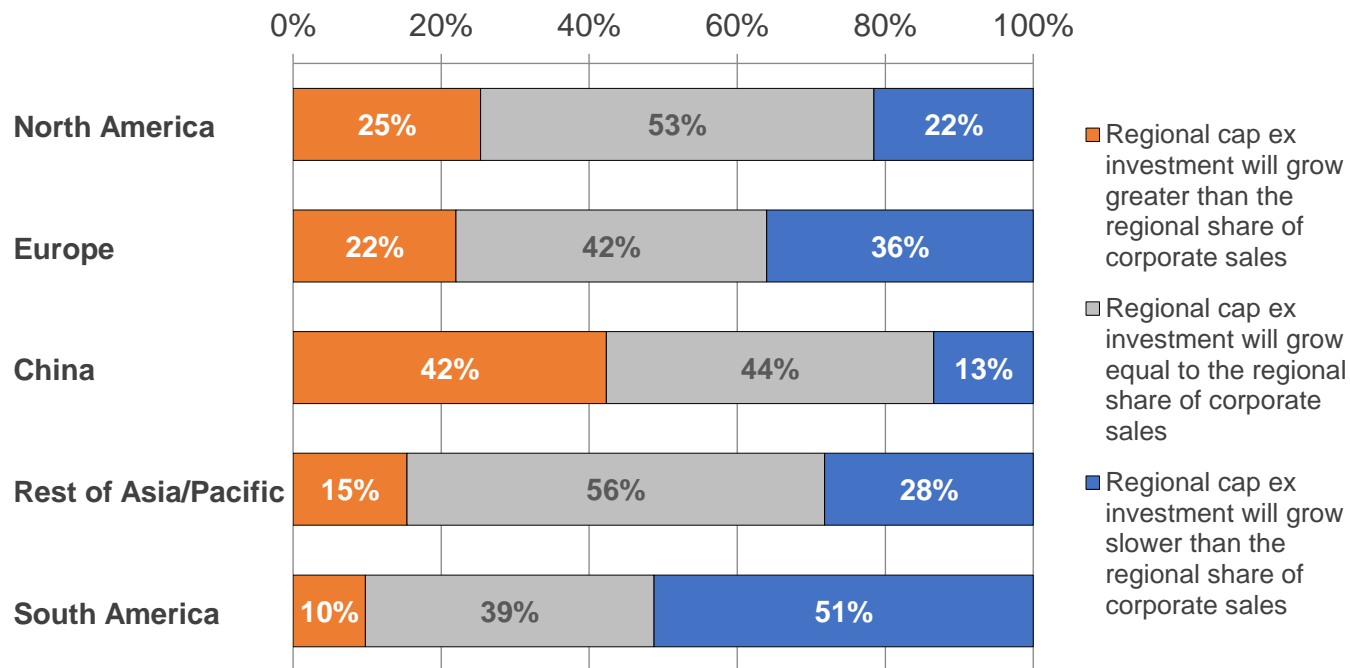


Comments:

- This is historical % for us.
- Free cash will decrease due to low sales volume in 2021.
- Realized and planned debt pay down net of investments
- Not presently borrowing, and free cash flow expected to be sufficient to fund ongoing near-term needs.
- We are not projecting free cash flow in 2022, we are trying to get to break-even.

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?



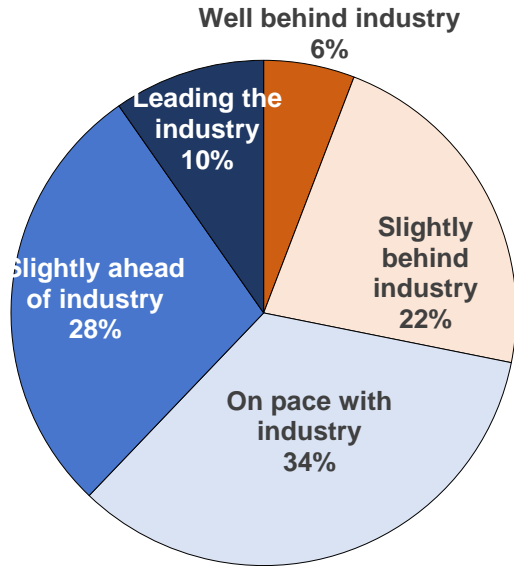
Comments:

- Regional cap ex investment will grow greater than the regional share of corporate sales
 - Money continues to be disproportionately invested in Pacific Rim / Asia.
 - Some divestment in China
 - Only one US manufacturing location.
- Regional cap ex investment will grow equal to the regional share of corporate sales
- Regional cap ex investment will grow slower than the regional share of corporate sales

INNOVATION

Innovation

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



What specific steps has your company taken to become an industry leader in innovation? (Leading or slightly ahead of industry)

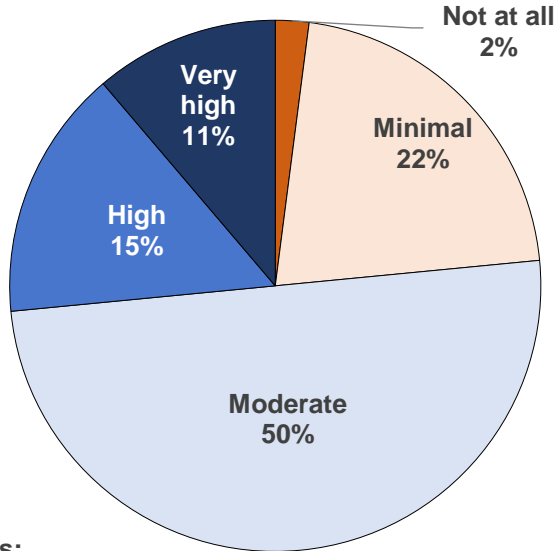
- Partnerships
- Stronger focus on systems, electronics and SW. More aggressive pursuance of new technology with focus on BEV
- Expansion on a revolutionary technology initially patented in 2019 - evolving applications and uses.
- Created a separate department from R&D called Product Innovation
- Working to capitalize on new technology trends as an early adopter/early entrant as a supplier.
- Product development edge
- I believe we could be leading the industry when it comes to supporting OE's for prototype capabilities.
- keep investing and ramping up engineering division
- Investment in R&D, securing of Patents, Collaboration with Development Partners.
- acquisitions
- Diversification of business segments
- Very, very good product innovation by our development team.
- investigation in new technologies and materials
- better raw material usage
- Very heavily involved in developing technologies for the EV market.
- Leveraging suppliers, customers, universities

What specific steps has your company taken in order to increase its pace of innovation? (On pace or slightly/well behind industry)

- Need more capital
- Acquisition of technology companies to shift manufacturing focus. Current core business will become less important, therefore innovation is not given high priority.
- Structural changes
- As the switch to BEV, keeping R&D cost constant over next few years
- Hiring, more C-suite involvement
- Nothing same as before
- Changed our organizational structure to focus on New Product Development
- Increase R&D capabilities
- Monthly meeting to develop new product lines and innovation of existing products
- Current R&D spending is spent on engineering changes to accommodate alternate sourced semiconductors so this may continue into 2022.
- Acquisition of a smaller company which specialized in a "Product of interest," field, of which our company hadn't succeeded in self-developing
- Investing more in MES and new product development
- additional investment in machinery and tooling.
- Major Increases in R&D & Innovation Spending
- Reorganization of R & D. Better strategic planning.
- Aligning with customers to identify opportunities for BEV, lighter weight products and sustainable products
- Access to capital

Capital Strategy

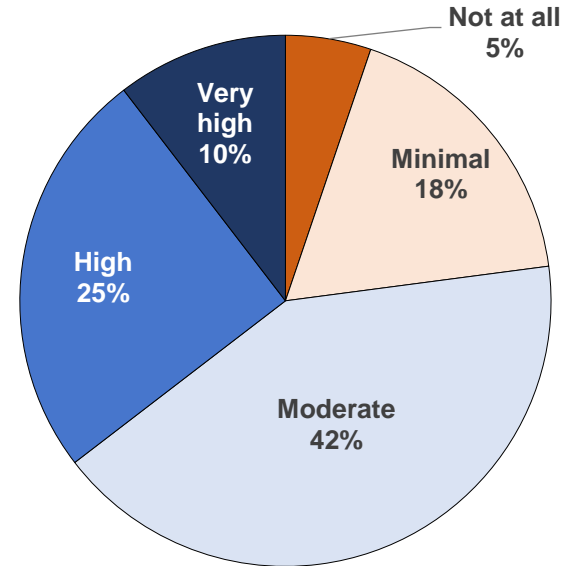
To what extent does your company's capital strategy support dimensions of open innovation, which includes working with external partners?



Comments:

- Very little external collaboration. (Minimal)
- Right now, it is batten down the hatches. (Minimal)

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

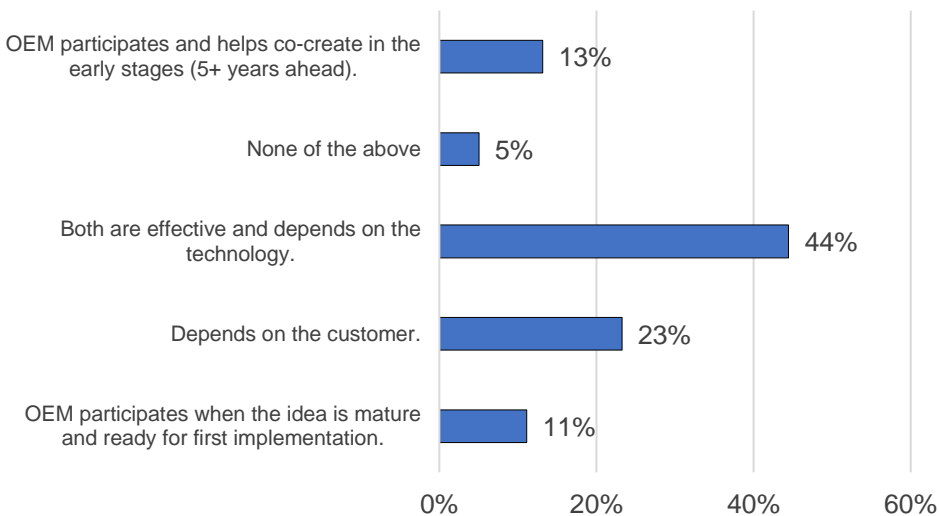


Comments:

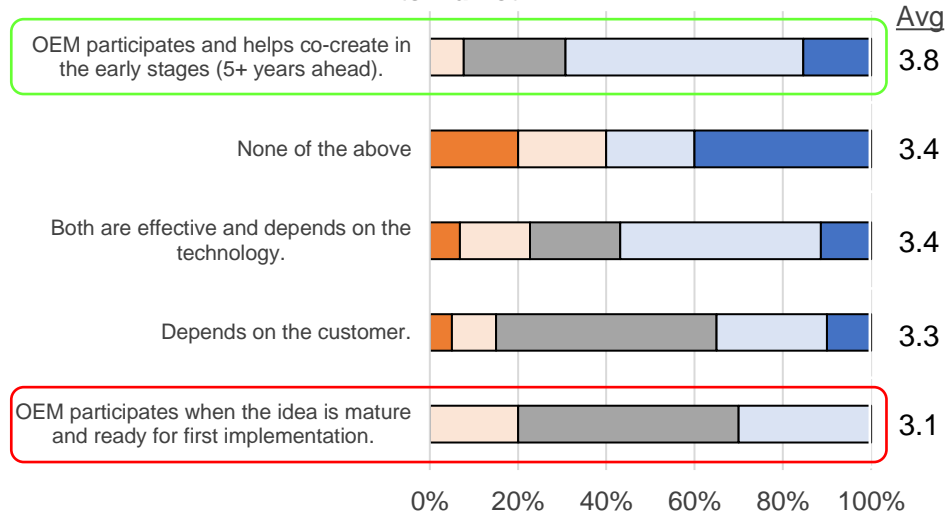
- Capital is spent on acquisition, not innovation. (Minimal)
- 80% of discussion at Board meetings is new innovation. (High)

New Technologies and Innovation Acceptance

Which tends to be a more successful strategy of getting new innovations and first to market ideas to production?



How effective have your company's innovation initiatives been in developing new and accepted technologies that have been brought to market?



1=Not effective at all 2 3=Neutral 4 5=Very effective

Comments:

- Mostly OEMs are defensive in terms of new supplier innovations - mostly the "not invented here" syndrome

New Technologies and Innovation Acceptance

Please elaborate on your success's and/or failures:

- Many OEMS, despite calls for innovation, are reluctant to be the first to market wanting others to work out kinks for them. Furthermore, development with OEMs is tough as they insist on retaining rights to obtain quotes from other companies not part of the development who don't have the development overhead.
- New technology has been focused on products that improve EV efficiencies and solve multiple problems.
- More mature market for our company, but with evolution in fluid technology to address mainly EV's, which requires acceptance by OEM's as 'better' technology than off-the-shelf fluids.
- Very high level of success due to our highly productive and fully staffed engineering department..
- Lightweighting technology is not being adopted as fast as anticipated. IOT and Mechatronics being adopted faster
- Most innovative ideas are introduced in the after market. That's why we created a performance aftermarket division
- Radar system and Center Console for GM
- OEMs are slow to adopt and refuse to lead in the needed change despite government regulations demanding it.
- Our R&D process needs to be improved.
- Very low innovation products. Primarily design.
- We appear to be more followers than leaders. That's driven by the lack of talent that can quickly ascertain and be rallied with technical experts that can not on the concept but the process for many to launch seamlessly. Our issue is talent.
- More system related innovation requires OEM input and sometimes these ideas are shared with our competitors
- We are leading the market with sustainable solutions in most applications. Reach compliant solutions for Europe and Asia and the prevention of PFOS/PFAS in newly developed processes.

Appendix



Join. Engage. Advance.

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. www.oesa.org.

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Survey Methodology

- Data collected October 7-27 via invitation to online survey.
- Executives of OESA supplier companies.
- 111 complete survey responses were received, with 148 responses total.

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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