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PARALLEL PATHS OF ENGAGEMENT

AUTOMOTIVE INDUSTRY OUTLOOK

NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
MANUFACTURING ROUNDTABLE WEBINAR

MAY 14, 2020

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Mike Jackson

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Original Equipment Suppliers Association (OESA)



Mike Jackson serves as Executive Director, Strategy and Research of the Original Equipment Suppliers Association (OESA). Jackson has more than 20 years of progressive experience in market forecasting, strategic planning and management consulting. Jackson is a recognized global industry expert, thought leader and public speaker on light vehicle sales and production, manufacturer strategies and OEM product planning. Jackson assists an extensive membership of automotive suppliers, affiliate members and industry stakeholders to anticipate market dynamics, enhance competitiveness and mitigate risk to achieve business success.

Jackson is a highly sought-after public speaker, regularly presenting to executive leadership teams and industry conferences throughout North America and around the world. He is frequently quoted by leading print, radio and television media on the industry and light vehicle sales and production dynamics while also serving to represent the voice of automotive supplier community.

Mike Jackson previously directed the North American Vehicle Production forecasting practice at IHS Markit for more than 15 years. As a global product planning and strategy expert in the automotive/mobility sector, Jackson served as subject matter expert on the North American market for a global client base of automakers and all levels of the supply chain with a deep knowledge of the industry and global markets.

Jackson previously held senior strategy roles for electrical system supplier Alcoa Fujikura, Ltd. (AFL) and French-based automotive interior supplier, Faurecia. Jackson gained international experience during a multi-year stay, living and working in Germany, developing language fluency. Jackson holds a degree in management strategy from Eastern Michigan University and also earned his M.B.A. in international marketing from Wayne State University. Jackson is also a member of the Federal Reserve Bank of Chicago's Automotive Roundtable.





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 over 500 member firms, including over 400 Tier 1,2, and 3 automotive suppliers with North American OE sales that range from \$10 million to \$5 billion. Another 100 Affiliate member firms support the supplier community with thought leadership and vital industry analysis.

Led By supplier industry executives:

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

Trusted Forums for industry executives eager to lead well:

OESA conducts an extensive range of curated member events and councils designed to bring expert insights from thought leaders, access to decision makers and informed discussions from executive peer group councils to foster your success.

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
- Industry In Transition
- Takeaways



Economic Recovery Outlook

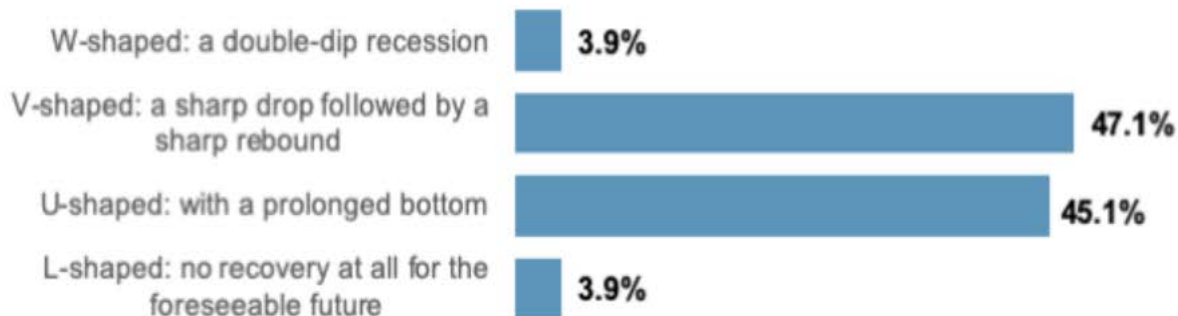
“W” recovery

- Near-term rebound derailed as outbreak returns in Fall
- Double down on more robust, far reaching efforts to recoup

“V” recovery

- Quick rebound despite wide-spread impact
- Less intrusive plans needed to course correct and restart

What Will an Economic Recovery Look Like and What will Determine its Shape?



“U” recovery

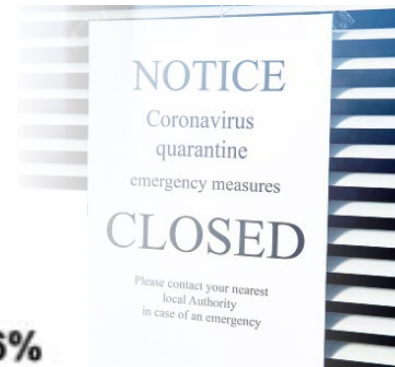
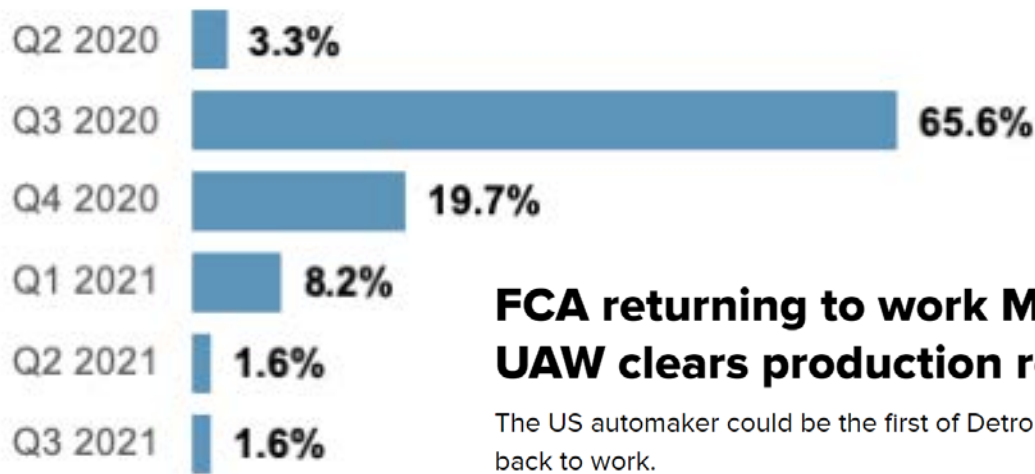
- Downturn is deeper and impact is extended
- Scope of needed actions grows

“L” recovery

- Downturn persists, recovery stalls
- Requires long-term strategies to retrench

Economic Recovery Outlook

When Do You Expect the Economic Recovery to Start?



FCA returning to work May 18 as UAW clears production restart

The US automaker could be the first of Detroit's Big Three to head back to work.



Sean Szymkowski May 8, 2020 11:27 a.m. PT

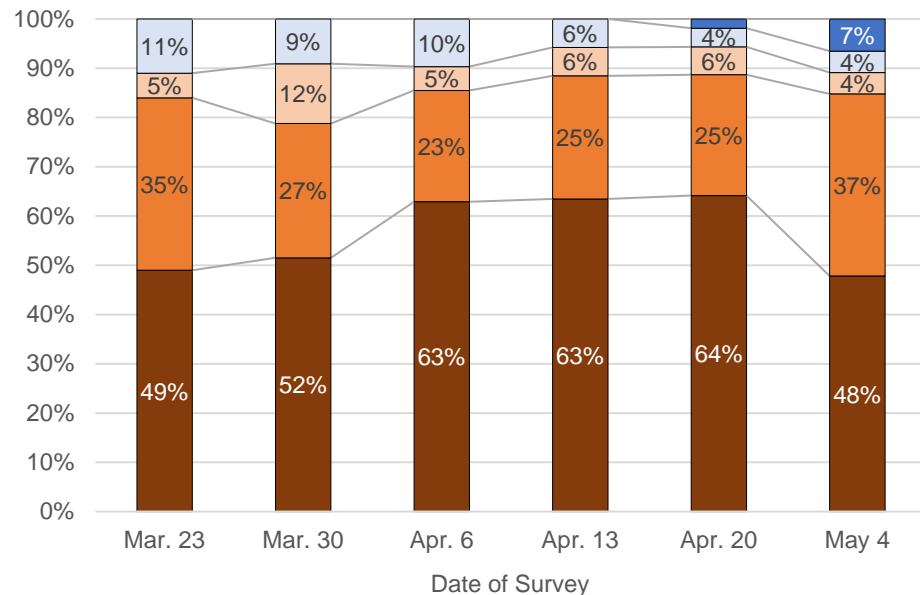


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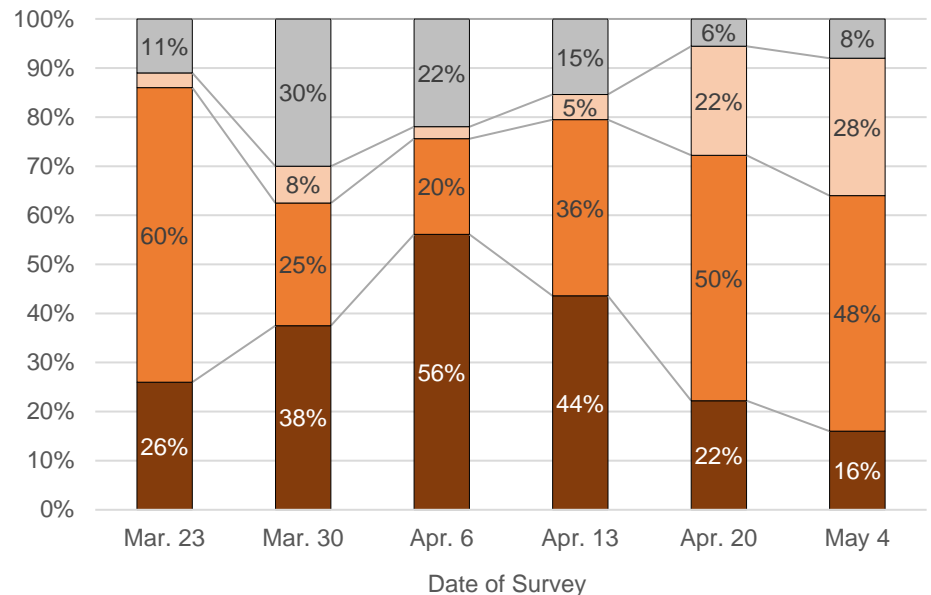
COVID-19 Pandemic Global Production Impact: U.S.

How have you changed your production in response to the announced OEM shutdowns and/or decreased demand?



■ Brought previously idled plant back online
 ■ No changes to production
 ■ Slowed production somewhat
 ■ Slowed production significantly
 ■ Idled plants

For operations affected, from today how long are you planning on idling for?



■ Over two weeks
 ■ Two weeks
 ■ One week or less
 ■ Undetermined at this point

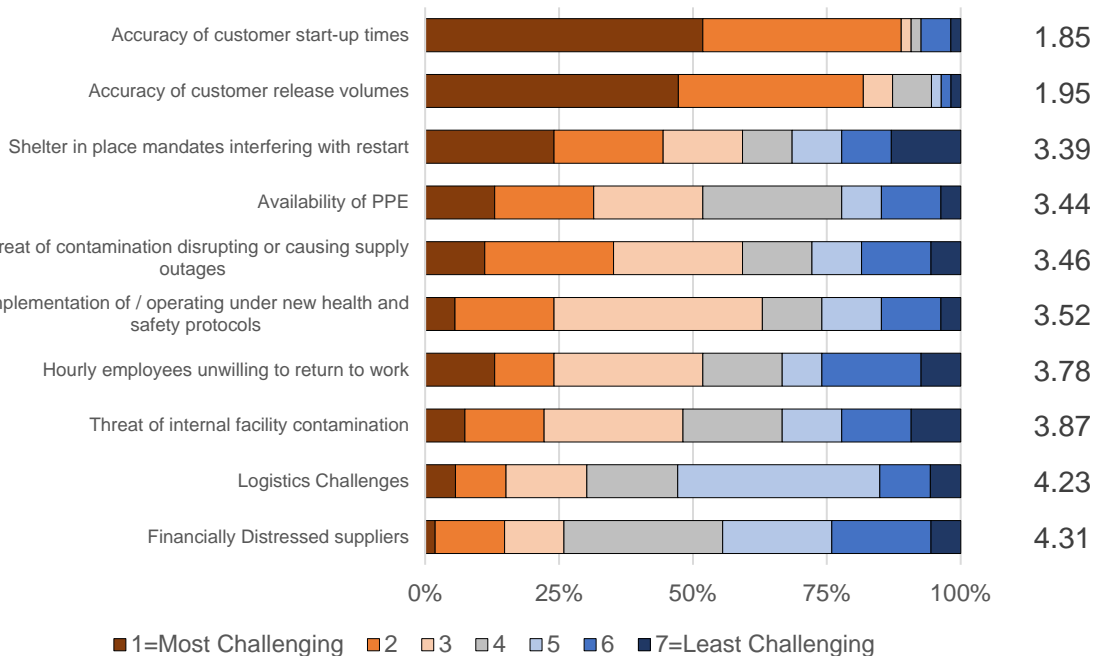
Return to Production Challenges

What are your biggest challenges heading into the restart of operations?

Wtd. Avg.

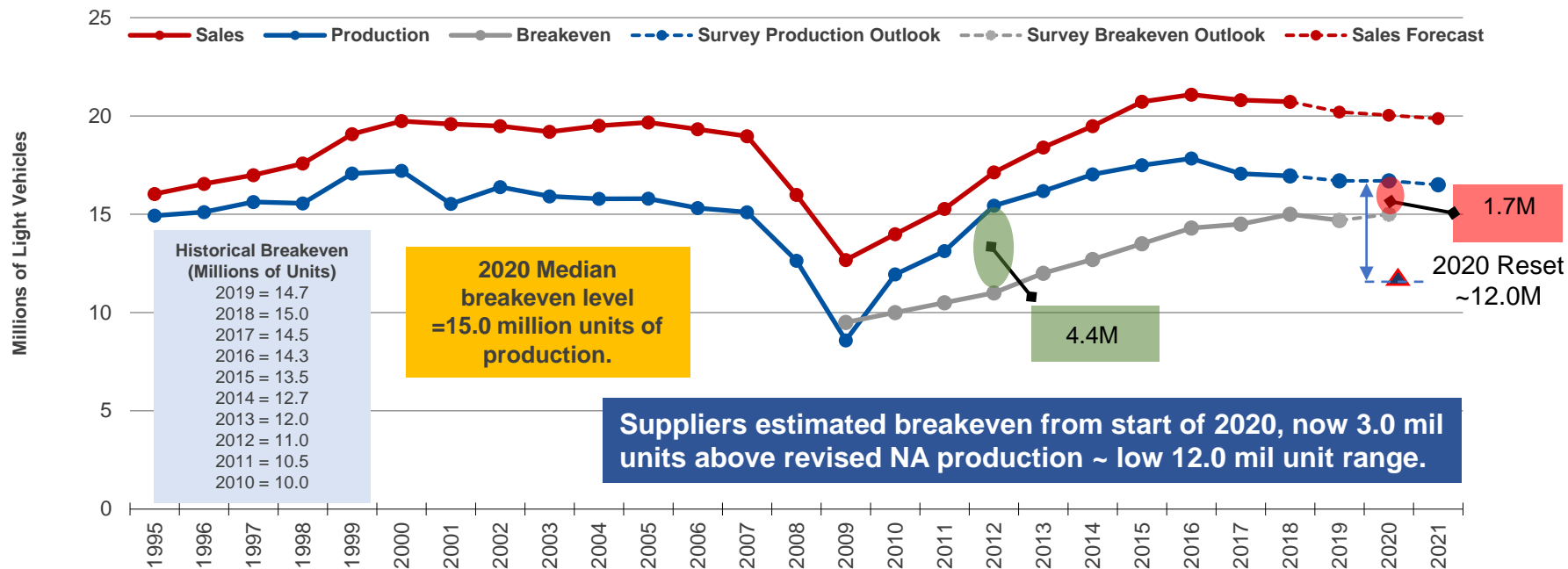
Comments:

- Many hourly deferred to stay home to collect unemployment based on new stimulus proposal rather than coming to work....
- Using paid volunteers for now.
- We have procedures in place to operate safely according to guidelines. To date no supplier has indicated an issue to supply us. Major disruption is the customers release schedules. Other concerns are disruptions due to unknowns



Production Planning: Breakeven and Year-End Estimates

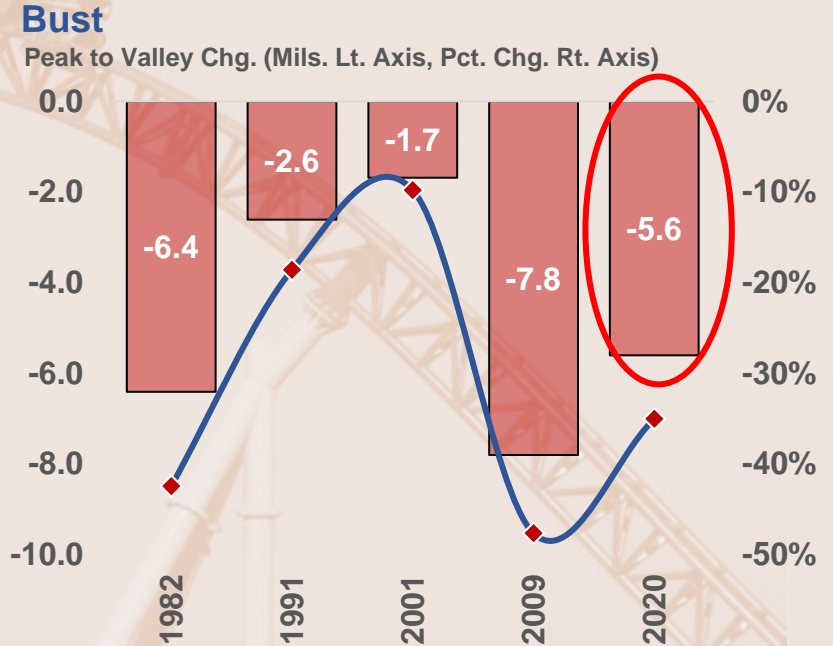
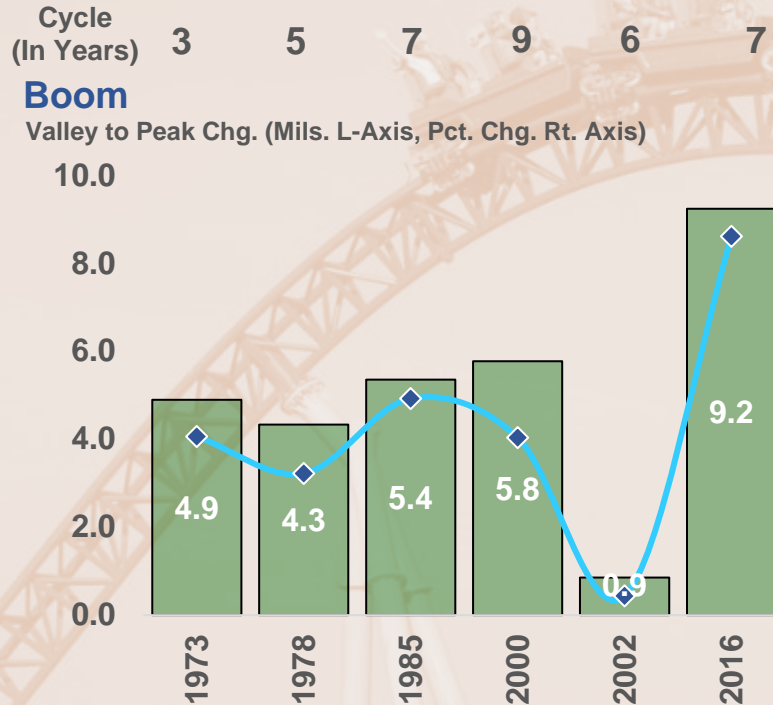
Considering North America light duty vehicle production, estimate the required 2020 industry volume needed to achieve breakeven in your North American operations?



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

Peaks and Valleys

North America Vehicle Production Cycles

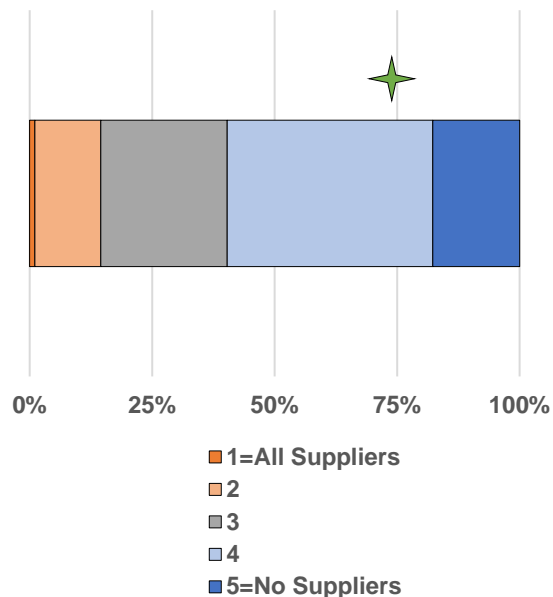


Source: Wards, LMC Automotive, IHS-Markit, Authors' Calculations

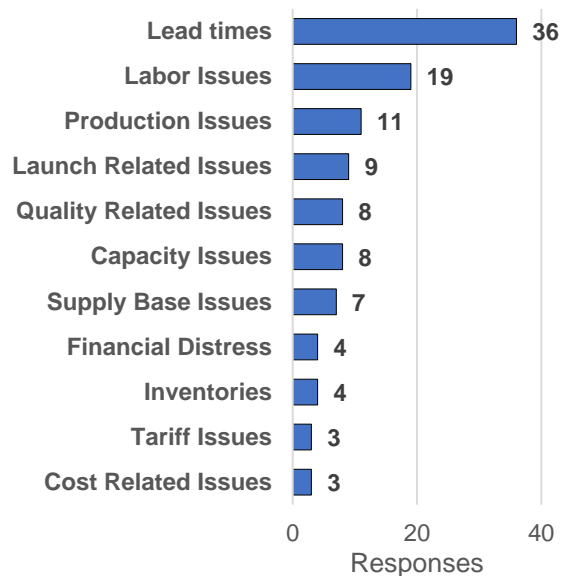
Production Risks

Predominantly timing, and labor related, yet impact of financial distress is rising

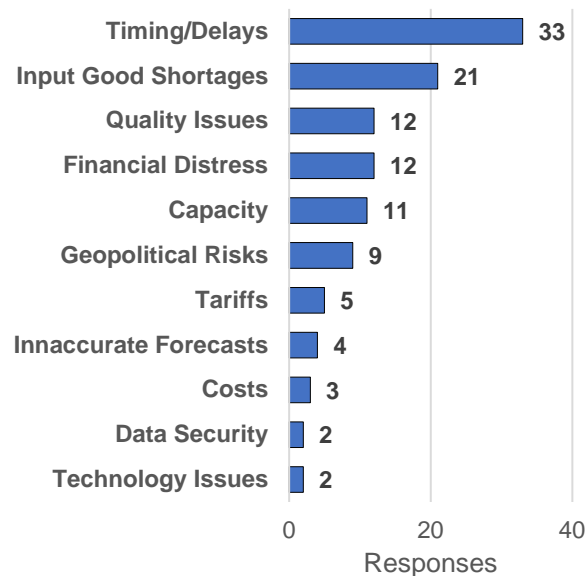
Over the past year have you witnessed an increase in distress within your supply base?



What is your greatest internal risk in meeting customer production requirements?



What is your greatest supply chain risk in meeting customer production requirements?



Roadmap

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The Future of Transportation



Multi-Modal
Transportation



C-V2X
Communications



Self-Driving
Vehicle Fleets



Electrification



Capital Allocation Headwinds

'Billions of dollars will be lost

*by many global automakers' that invest in autonomous
and electric vehicles while consumer buy-in remains
low*

–AlixPartners

2010-2017

~\$25B

R&D + Capex

+200

EV Models

2018-2023

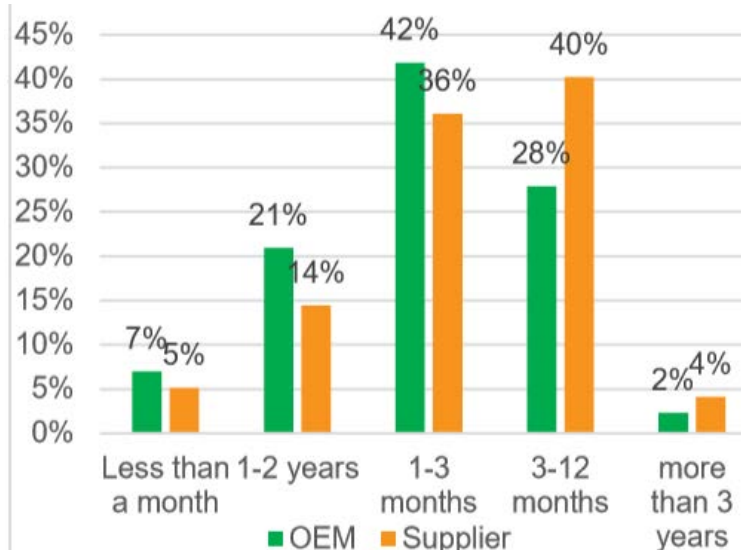
\$255B

R&D + Capex

10X!

- Underscores Role of Opportunity Targeting
- Raises Importance of Due Diligence
- Market pressures to usher in industry consolidation
- Leverage expertise: opens door to set clear terms & limit risk

COVID-19 Automotive R&D Impact Survey



Tech Deployment Delays

Listed as the main impact by 54% of respondents

E-mobility Technology

The most impacted according to 22% of respondents

1 in 5

Respondents think the R&D impact will last longer than 12 months

only 4%

Respondents expect no reduction or delay to development projects



Costly EV/AV Arms Race Drives Alliances



Source: LMC Automotive

Partnership Case Study:



RIVIAN



Business Case:

- Speed to Market
- Threat Mitigation
- Mutual Learning
- Block Competitors
- Scaling Potential

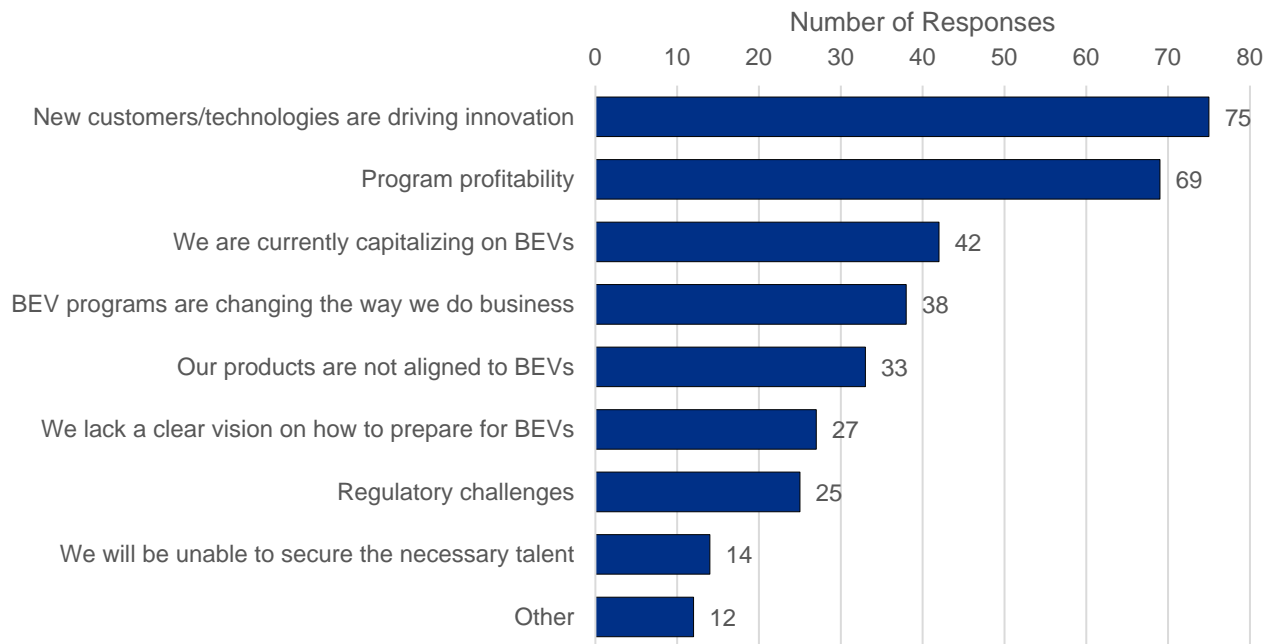
Unique Selling Proposition:

- Rugged Duty Cycle
- Premium Positioning
- Range +400 Miles
- Dimension



Electrification: Risks and Opportunities

What are your biggest challenges/opportunities as the industry prepares for a Battery Electric Vehicle (BEV) future?



Other Issues and Comments:

Growing our knowledge of BEV vehicle to prepare for the new opportunities.

Uncertain how it will affect our product line

Customer acceptance of our solutions

Capacitizing for low volume vehicles

Market penetration of new, innovative product

Neutral impact so far

No clear direction by some of the OEM's

Over capacity vs. market demand

Volume Uncertainty

Infrastructure for BEV adoption, incentives for BEVs, consumer acceptance, battery costs

Low Volume Offerings

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Takeaways

- **Capex:** Boom-Bust intensifies competition; anticipate consolidation
- **Culture:** Resilient, Collaborative, Inventive, Humble, Curious
- **Flexibility:** Liquidity is key; vital to balance 'Core' vs Emerging
- **Strategy:** Weather the storm + future Talent needs + M&A
- **Technology:** Grow partnering competency; Monetize on the journey
- **Stretch:** Align opportunities with capabilities, identify sweet spots



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