Join. Engage. Advance.

CAPITAL MARKETS

OESA AUTOMOTIVE SUPPLIER BAROMETER

Q2 2018

Executive Summary

Supplier Barometer Index (SBI)

SBI Score = 53;

down from 1Q level of 57

The outlook remains in positive territory though the SBI has slipped 4 points this quarter, albeit from a three year high. U.S. tax reform supports optimism while tariffs, trade and declining sales contribute to pessimism. Optimism increased for small suppliers; others remain relatively stable in their outlook.

Trade policy continues to be identified as the greatest industry threat.

Though some ratings have changed, the order of threats has not, as trade policy and shifting product demand remain persistent concerns.

Suppliers indicate that sustained production levels of 18-19 million units are required before needing to add capacity to operations.

These production levels are higher than was stated in 2015, indicating gains in efficiency or capacity that may have been added over the past three years.

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

Some 70% of supplier respondents plan for higher innovation investments in 2018. General working capital and capital for M&A remain largely unchanged.

Using 2017 as a base, most suppliers are planning for increases in capital expenditures in 2018 and 2020.

Suppliers with less than $151 million in revenue will be making greater investments.

Executive Summary

Twenty-three percent of respondents have, over the past year, significantly altered their capital structure.

Bank loans were the most significant source of funds.

The cost of borrowing is expected to increase.

The greatest of confidence in accessing capital is for use in tooling while accessing capital for re-shoring manufacturing has the lowest level of supplier confidence.

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

Machine technology, capabilities and efficiencies drive the decision to buy new.

Seventy-six percent of suppliers are very confident that their company will move ahead and implement the needed capital investment to meet your 2018/2019 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 is expected to be a cap ex growth region, while South America will contract.

Europe shows some contraction whereas North America shows some growth.

The majority of supplier capital strategies support open innovation.

71% of supplier respondents indicate their capital planning process helps them achieve their innovation objectives by leveraging external partners to accelerate innovation and learning.

Since the Federal Reserve raised its target range for the federal funds rate by 150 bps since December 2015, 44% of respondents indicate their cost of capital rose modestly.

Access to capital remains unchanged for most. Only 16% have seen capital access tighten.

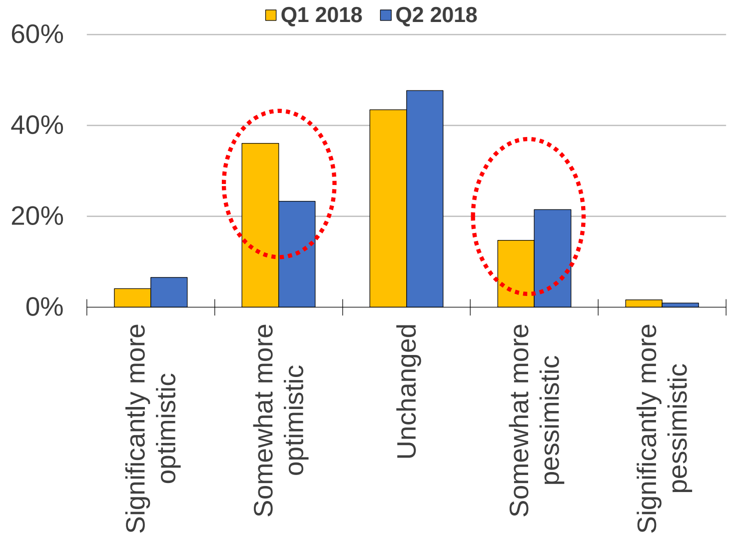
Additional rate hikes will have a moderate negative impact on 44% of companies. There will be no impact to 54% of suppliers.

SUPPLIER OUTLOOK

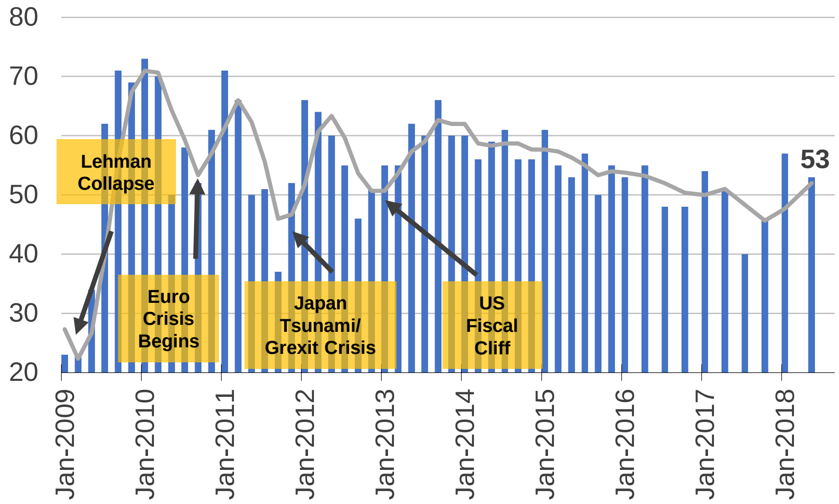
OESA Supplier Barometer: 2Q 2018 Results

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)

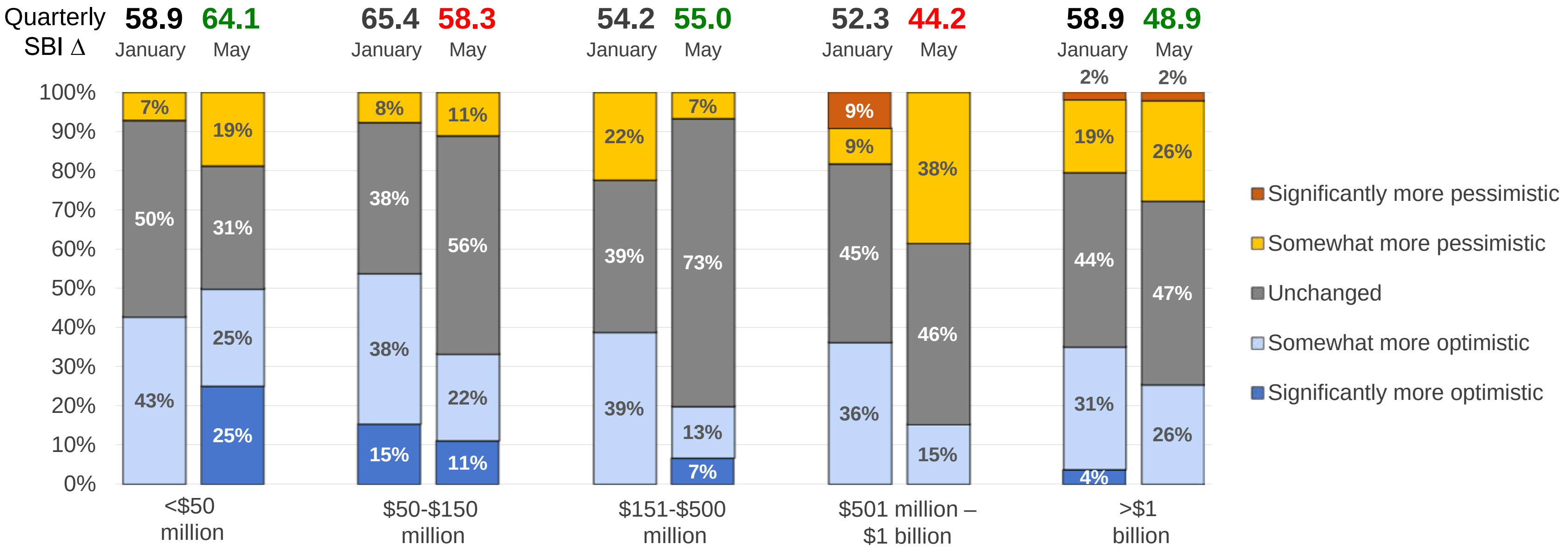


107 responses

SBI Score = 53; slipped 4 points from the 1Q level of 57
Tax reform supports optimism while tariffs, trade and weaker demand contribute to pessimism

OESA Supplier Barometer: 2Q 2018 Results By Revenue Size

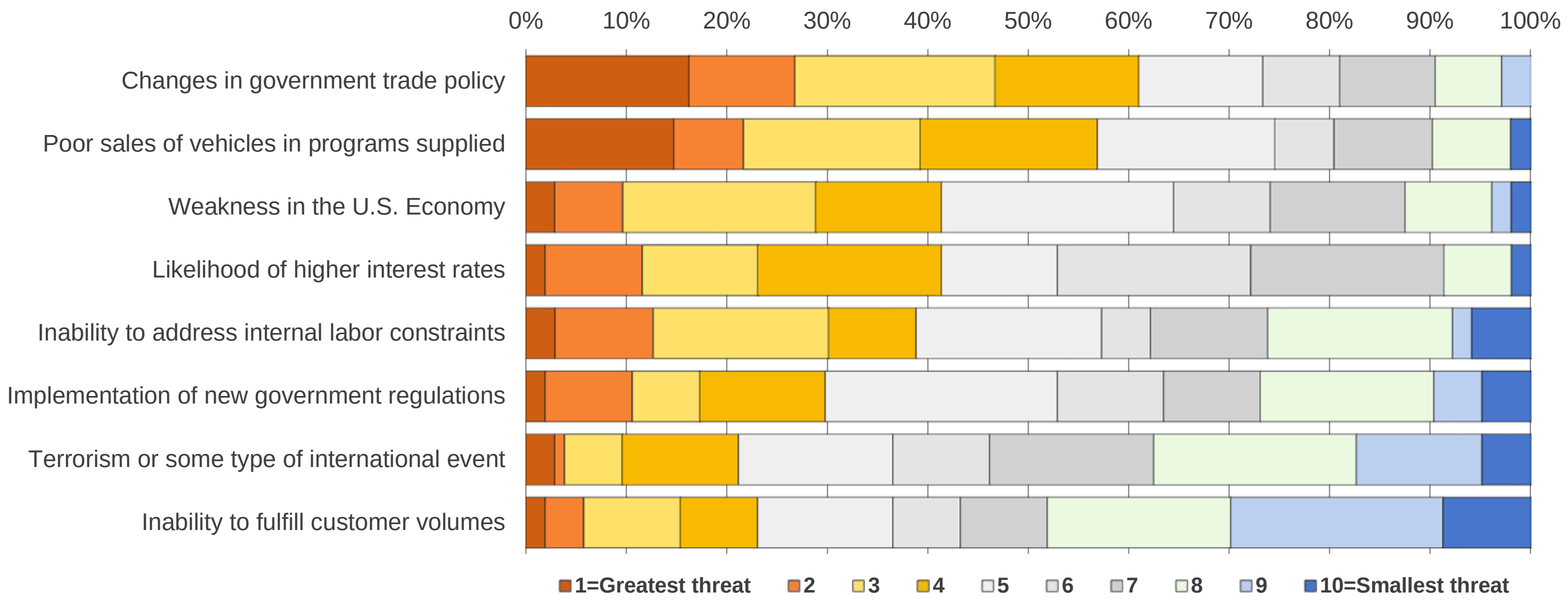
Describe the general twelve month outlook for your business. Over the past three months, has your opinion become…?



Optimism increases for small suppliers; others remain relatively stable in their outlook

OESA Supplier Barometer: Industry Threats

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



Average Rating

May	January
4.1	4.3
4.3	4.4
5.0	5.3
5.1	5.4
5.4	5.7
5.7	5.8
6.4	6.0
6.6	6.6

Trade policy continues to be identified as the greatest industry threat.
Though some ratings have changed, the order of threats has not

CAPITAL MARKETS

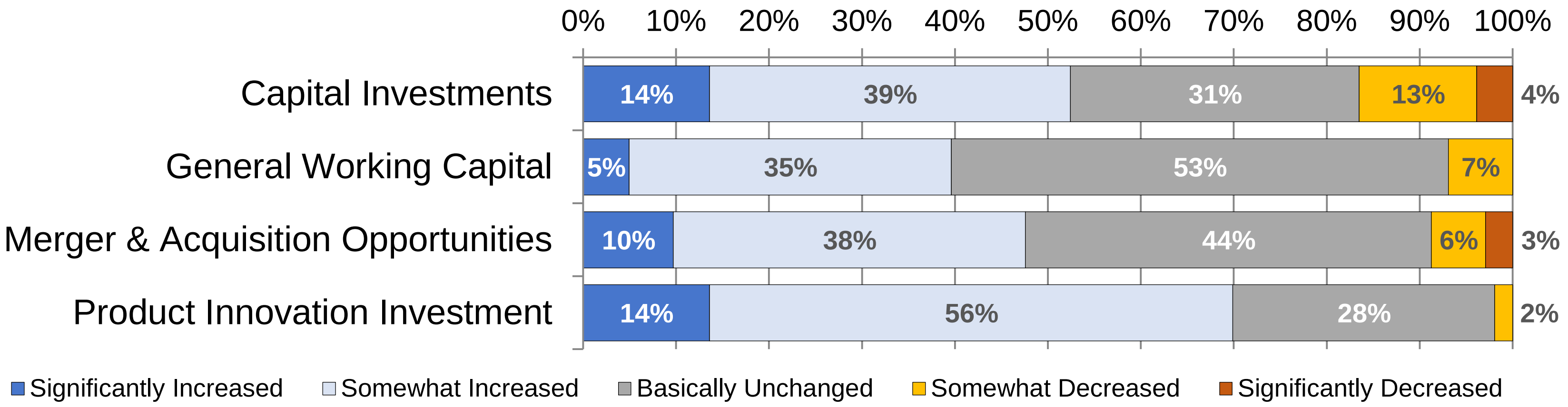
North America Vehicle Production

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		
	2018	2015	2014	**2018**	2015	2014	**2018**	2015	2014
Plant square footage to existing facilities	**17.5 million**	17.5 million	17.0 million	**18.0 million**	18.0 million	18.0 million	**19.0 million**	19.0 million	18.8 million
Plant square footage through new facilities	**18.0 million**	17.0 million	17.5 million	**19.0 million**	17.5 million	19.0 million	**20.0 million**	18.0 million	20.0 million
Equipment beyond normal replacement	**17.5 million**	17.0 million	16.8 million	**18.0 million**	17.5 million	17.0 million	**19.0 million**	18.0 million	17.9 million
Salary headcount beyond normal attrition levels	**17.0 million**	NA	NA	**18.0 million**	NA	NA	**18.4 million**	NA	NA

Capital Needs

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

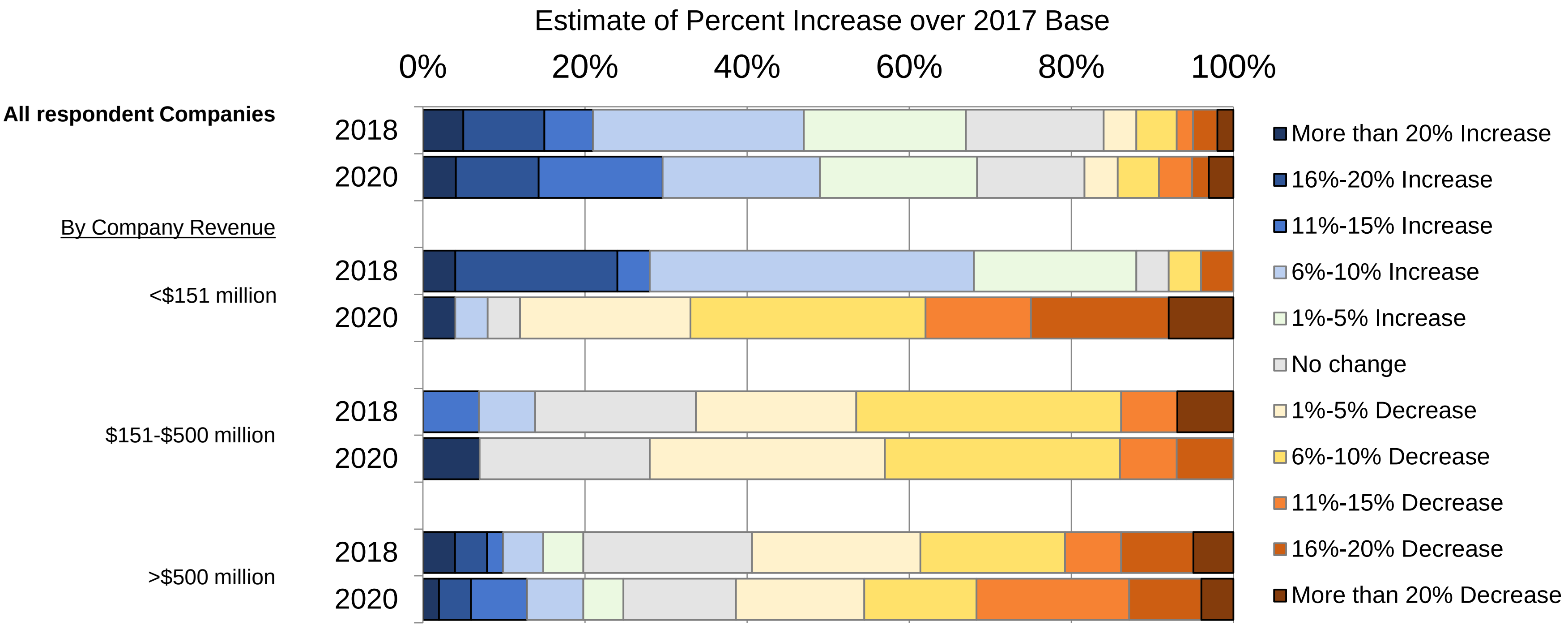


Comments:

- Looking to modernize some equipment and expand capacity, and may need working capital to finance growth in new business opportunities.
- Too many changes in automotive not to be investing in innovation.
- It is clear we need to make capital investments to improve our systems and structures to increase our business efficiency. This is not just operational needs but also in product innovation.
- Product innovation and investment are becoming more and more important for growth. It will be a good market for acquisitions in the next few years and being in the market in 2018 to understand what is available will be important.
- We plan to spend if we get new work otherwise we will be unchanged.
- We have a low capital investment to sales value ratio.
- Recent acquisition and development of new customers will require reinvestment.

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 2017 as the base year.



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 2018	**75.0**	**90.0**	**100.0**
September 2014	75.0	82.5	100.0
July 2012	60.0	80.0	90.0

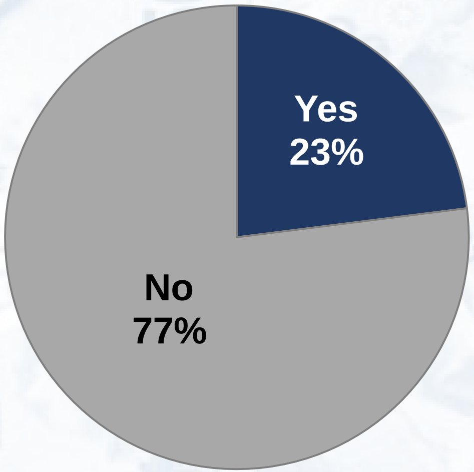
% of spend being allocated to purchase <u>used</u> equipment	Lower Quartile Value	Median Value	Upper Quartile Value
May 2018	**0**	**10.0**	**21.3**
September 2014	5.0	20.0	38.8
July 2012	10.0	20.0	32.5

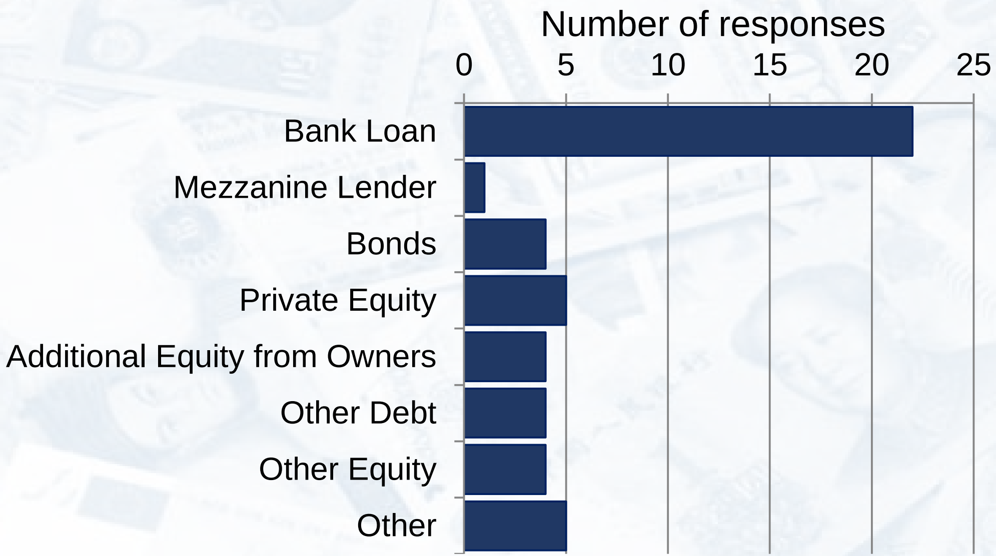
What market issues are driving your decision to buy new versus used?

- Technology, capabilities, efficiency (22 responses)
- Limited availability of used (17 responses)
- Machine Life, dependability of new (5 responses)
- Cost/Price (4 responses)
- Prefer new (4 responses)
- Require specialized equipment (4 responses)
- Capacity/Throughput (2 responses)
- Tax credits
- Low interest rates
- Quality
- Product design standards have increased
- OEE, production safety and competitiveness
- Expecting uptick in product sales with new customer launches
- Long-term needs
- Most of our capital needs are for significant presses, paint lines and such. These are forecasted to be long-term investments.
- Standardization of the equipment
- We would like to buy used if it is in good working condition
- It is specific to the product and project
- Development of new customers
- Safe, green, connected
- Design and SOP/time to launch
- Current equipment is too old
- Type of equipment we require
- Equipment specifics together with our requirements

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?



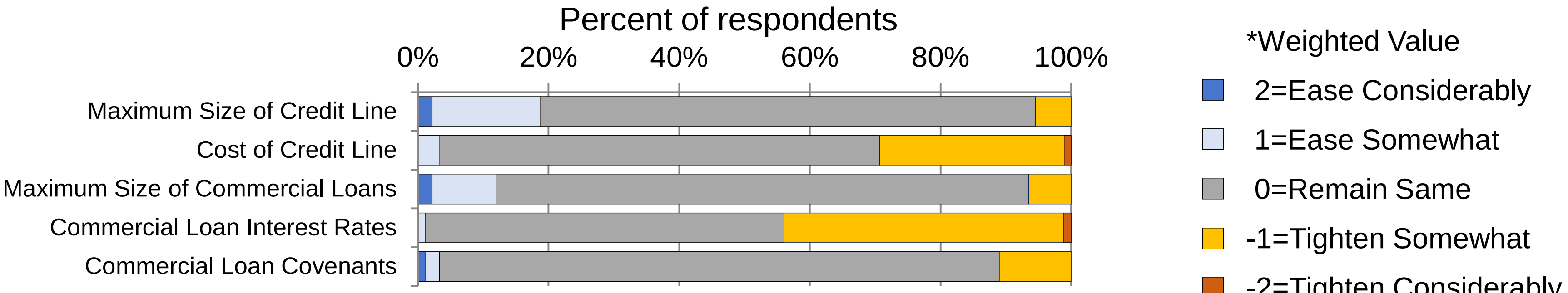


Other sources identified:

- Company cash (2 responses)
- Parent company
- Self
- NWC improvement projects

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	0.15	0.13	0.33	0.12
Cost of Credit Line	-0.27	-0.38	-0.27	-0.23
Maximum Size of Commercial Loans	0.08	0.13	0.07	0.06
Commercial Loan Interest Rates	-0.44	-0.42	-0.47	-0.45
Commercial Loan Covenants	-0.07	-0.17	-0.07	-0.04

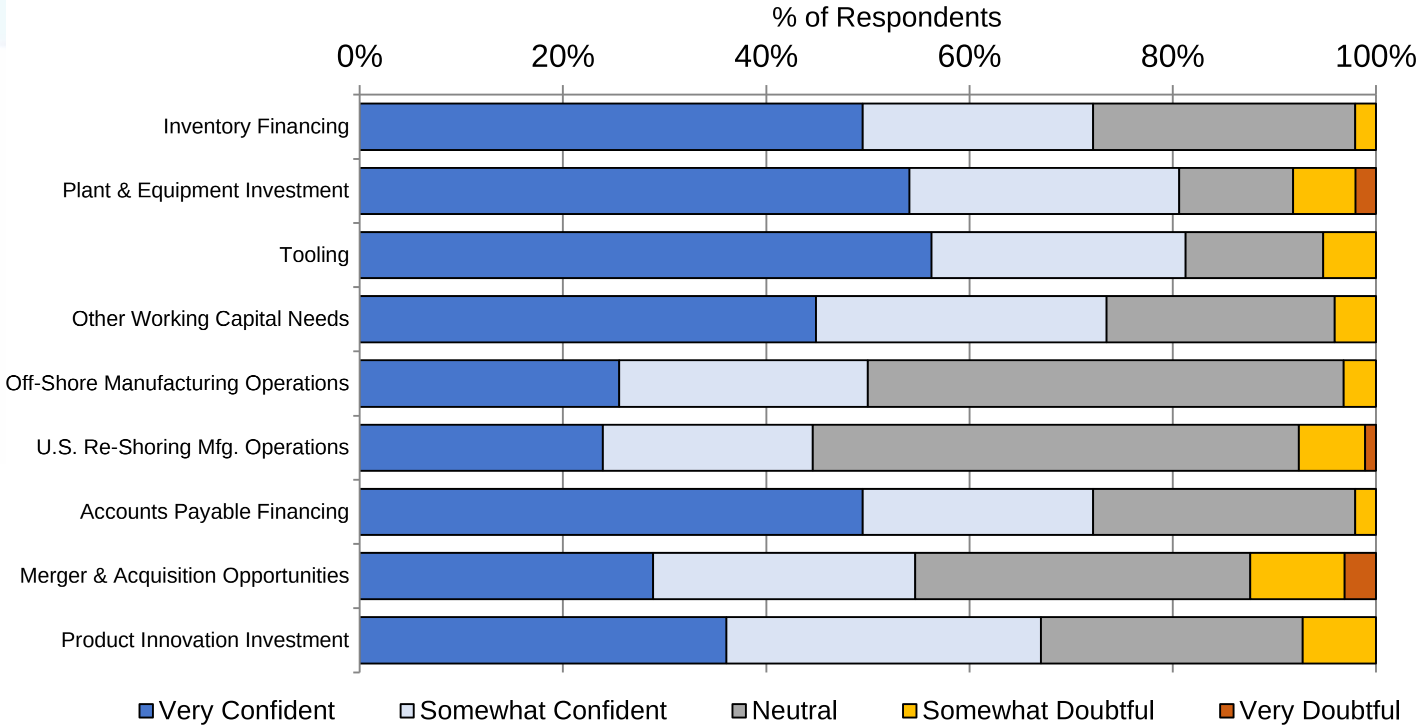
Commercial Bank Lending Environment

Please describe your perceptions of the commercial bank lending environment for your company and companies of similar size.

- **We have a great relationship with a local bank and are incredibly conservative from a leverage standpoint allowing us to be net debt free. That will prevent any changes from having a significant impact over the next 12 months.**
- We have and plan to continue having minimal credit/debt open with banks.
- **Commercial lending environment is likely to be consistent moving forward. However, more equity is driving more bank participation and their lending is increasing interest rate environment.**
- Fairly robust and fair, based on company financial performance and risk minimization.
- Usual cycles.
- We have a more favorable relationship based on past performance.
- We are fortunate in that we have good ratios so banks are contacting us about their rates and services.
- We have a good banking relationship, so they are more than willing to lend to help us grow.
- As rates change the market will tighten in the Industry.
- We are private and are funded by our parent company.
- We are a Canadian company. Canadian banks are giving no indications of change in the coming months.
- Very difficult to secure financing from traditional banking sources.
- Entered new agreement in 2017 - no changes required.
- We're mostly internally financed so no change is expected.
- Secure loan structure and an unused credit line is available to us.
- **The market will dictate the lending environment. When volumes go down it causes supplier revenue and profit to go down creating less ability to pay and/or honor covenants.**
- Rising rates.
- Available credit is not as issue.
- There is capital to be obtained at competitive rates.

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?



Wt. Value*

	2018	2015
Inventory Financing	4.20	4.56
Plant & Equipment Investment	4.24	4.72
Tooling	4.32	4.81
Other Working Capital Needs	4.14	4.54
Off-Shore Manufacturing Operations	3.72	4.54
U.S. Re-Shoring Mfg. Operations	3.60	3.72
Accounts Payable Financing	4.20	4.62
Merger & Acquisition Opportunities	3.68	3.77
Product Innovation Investment	3.96	4.07

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

Access to Capital

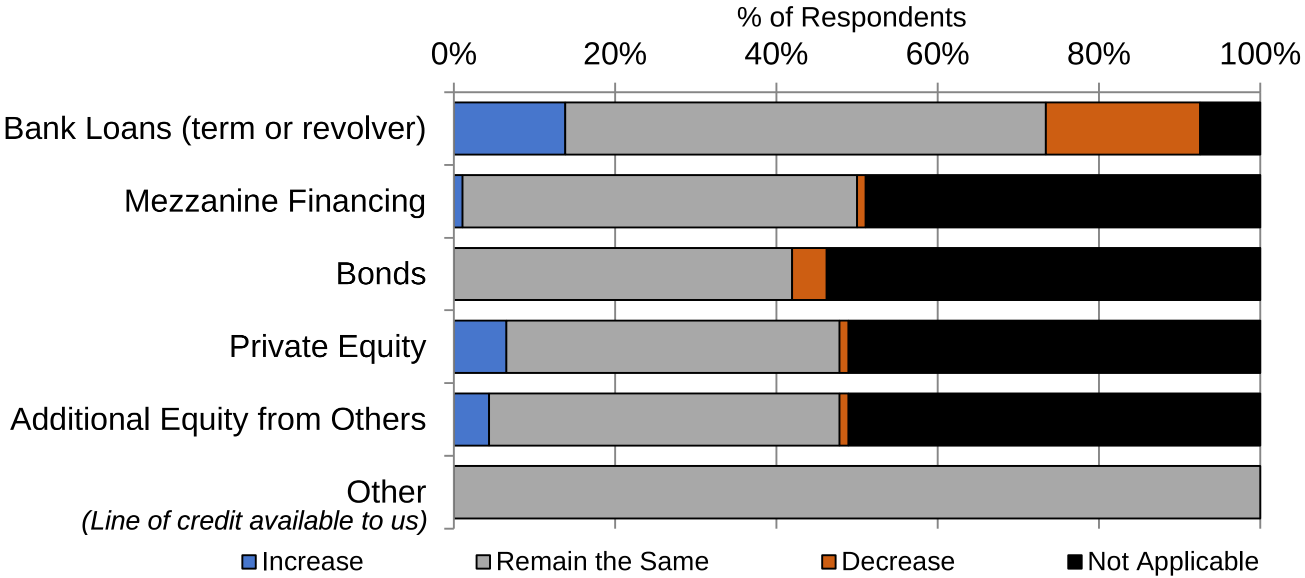
Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?

Level of Confidence in Accessing Capital	Overall	<$151 Million	$151-$500 Million	>$500 Million
Inventory Financing	4.20	4.44	4.43	4.03
Plant & Equipment Investment	4.24	4.48	4.36	4.14
Tooling	4.32	4.46	4.43	4.26
Other Working Capital Needs	4.14	4.40	4.50	3.97
Off-Shore Manufacturing Operations	3.72	4.78	4.85	4.04
U.S. Re-Shoring Manufacturing Operations	3.60	3.61	3.75	3.57
Accounts Payable Financing	4.20	4.38	4.43	4.09
Merger & Acquisition Opportunities	3.68	3.76	3.71	3.65
Product Innovation Investment	3.96	4.04	4.14	3.90

*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?



Wt. Value*	
2018	2015
-0.05	0.28
0.00	0.01
-0.04	0.04
0.05	0.07
0.03	0.15
0.00	0.00

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

Comments:

- May require bank financing on revolver for working capital needs for major new program(s).
- Increase will only result from acquisition of other partnership investment. Our existing business has positive cash flow and very little debt. At a certain minimum level of sales/volumes this will remain so.

Sources of Capital by Company Revenue

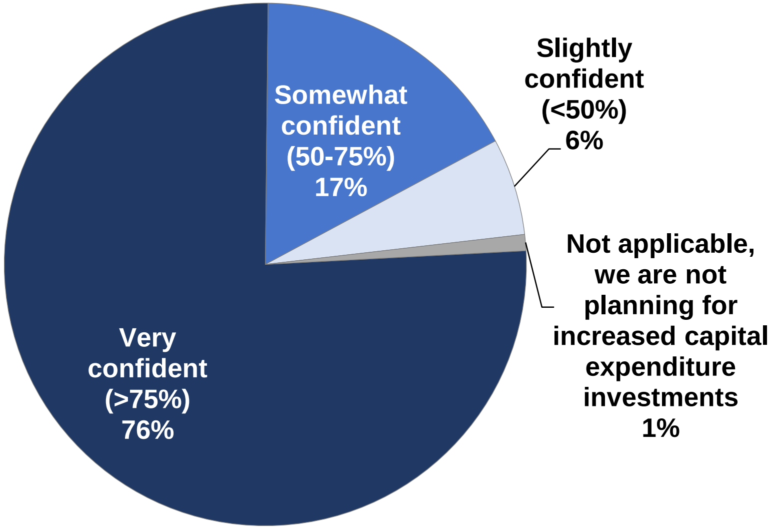
Over the next 12 months, indicate whether the following sources of funds will increase/decrease/remain the same in importance on your balance sheet?

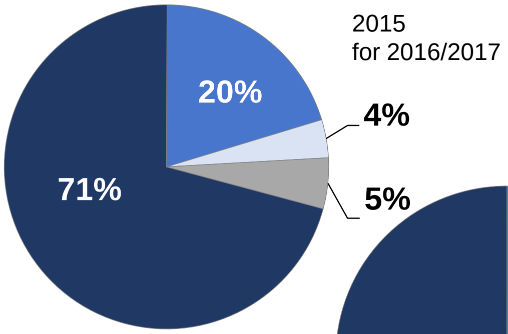
Change in Sources of Funds	Overall	<$151 Million	$151-$500 Million	>$500 Million
Bank Loans (term or revolver)	-0.05	0.16	-0.07	-0.15
Mezzanine Financing	0.00	0.04	0.00	-0.02
Bonds	-0.04	0.00	-0.07	-0.06
Private Equity	0.05	0.04	0.07	0.06
Additional Equity from Others	0.03	0.04	0.08	0.02
Other	0.00	NA	NA	0.00

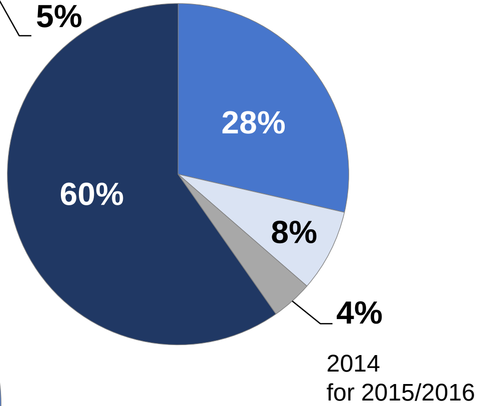
*Weighted Value
1=Increase, 0=Same, -1=Decrease

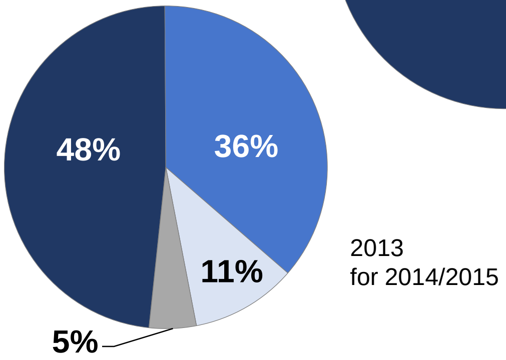
Capital Planning

How confident are you that your company will move ahead and implement the needed capital investment to meet your 2018/2019 demand requirements?









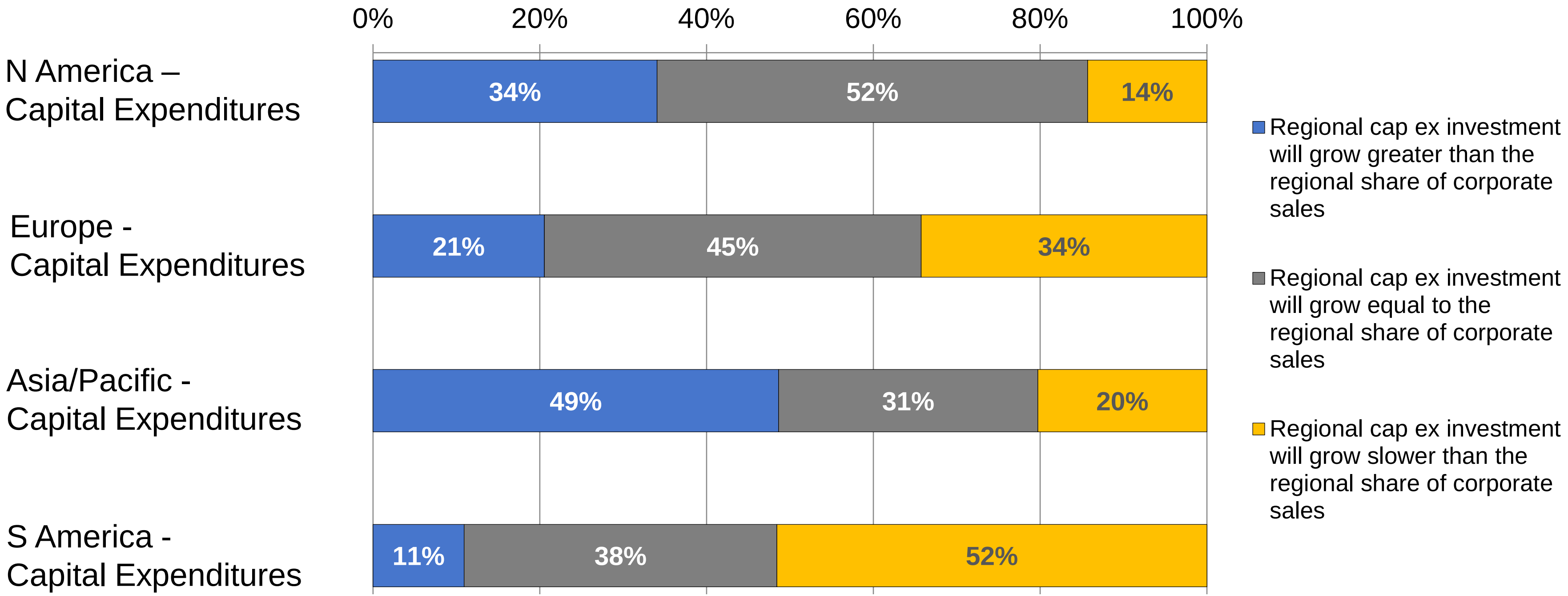
Capital Planning

If you are planning for some level of increased capital expenditure investment,
what factors are you concerned about that may hinder or delay your investment plans?

- Our capital investment is largely tied to new customer programs. Delay or cancellation of these programs by the customer would hinder or delay the investment.
- Industry performance.
- Technological and political risks.
- Company is in very good financial shape in all business units.
- Labor available to run the new capital.
- Recession in North America, investment may have to go to launching new business.
- Change in OEM ownership. Financial viability. Product failure at the OEM level.
- Vehicle delays/cancellations, volume dropping.
- Concerns about product and process technology changes limiting the return on new investment.
- Solid volume numbers from the customers.
- Available machinery.
- A drop in sales.
- Profitability due to overall economic conditions.
- Shareholders need to release funds in a timely fashion.
- The U.S. government adopting bad trade polices that cause other governments to retaliate.
- Global market uncertainty.
- Market events impacting our ability of achieving BP revenue and profit targets.
- Customer decision timing.

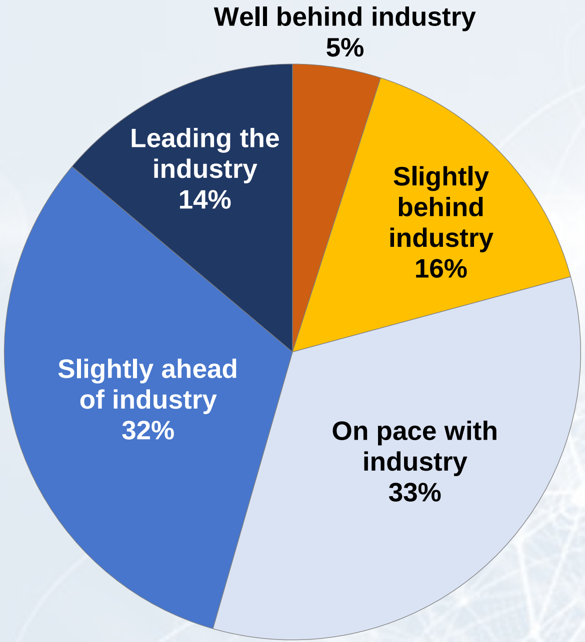
Capital Planning

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.

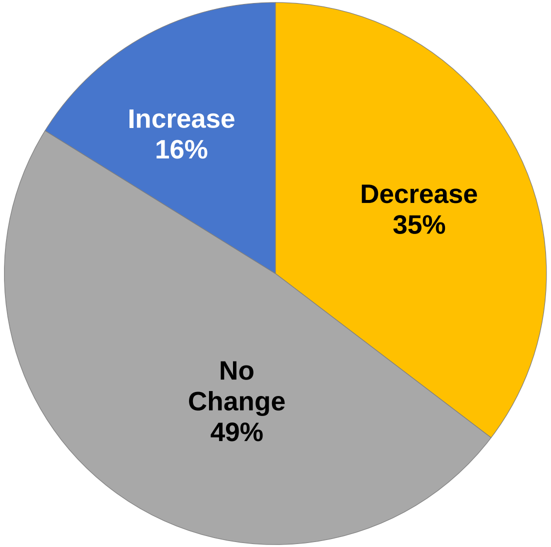


Comments:

- We are a niche player so there is very little competition.
- We need to accelerate our innovation activity in the 2018-2020 period.
- Some areas better than others.

Levels of Debt

In the next 12 months, how will your company change its level of debt?



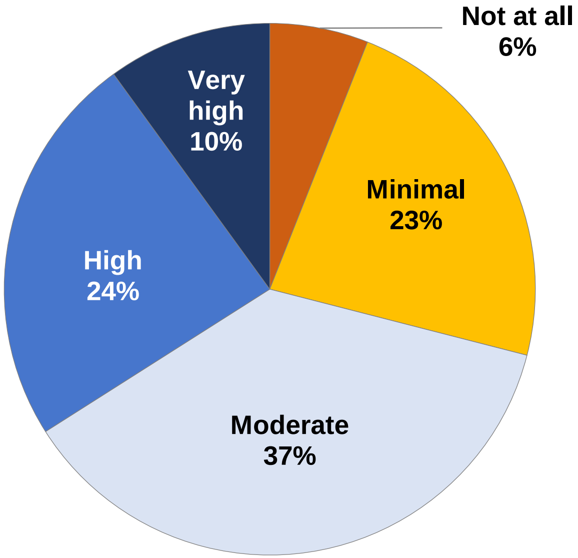
<u>Comments related to decreasing debt</u>
- *None provided*

<u>Comments related to no change in debt</u>
- *None provided*

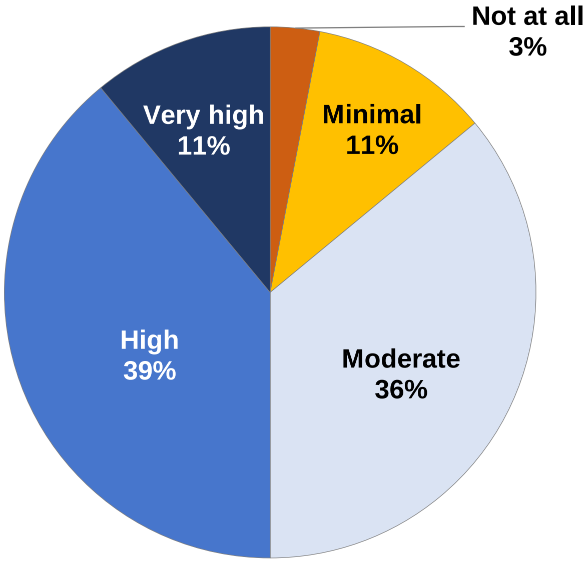
<u>Comments related to decreasing debt</u>
- Short-term revolver only, but only if needed to finance working capital needs for new program(s).
- Financing a major new program will increase our debt which is currently zero.
- Increase will generally only occur with significant acquisition.

Capital Strategy

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

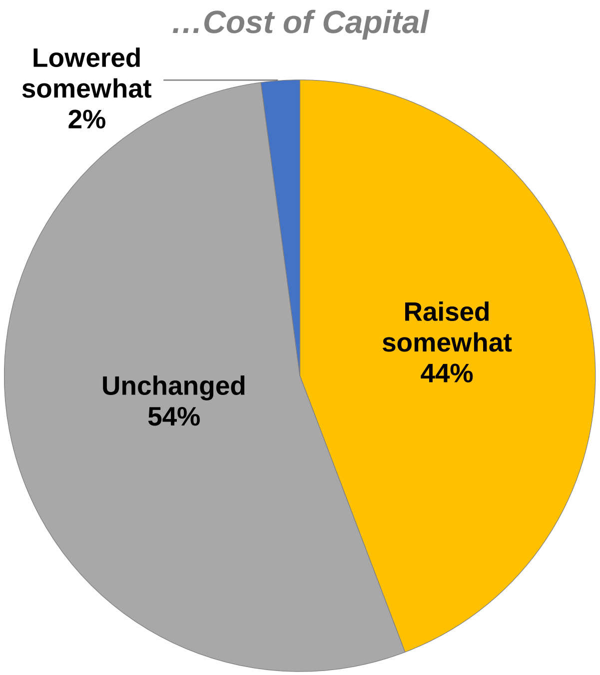


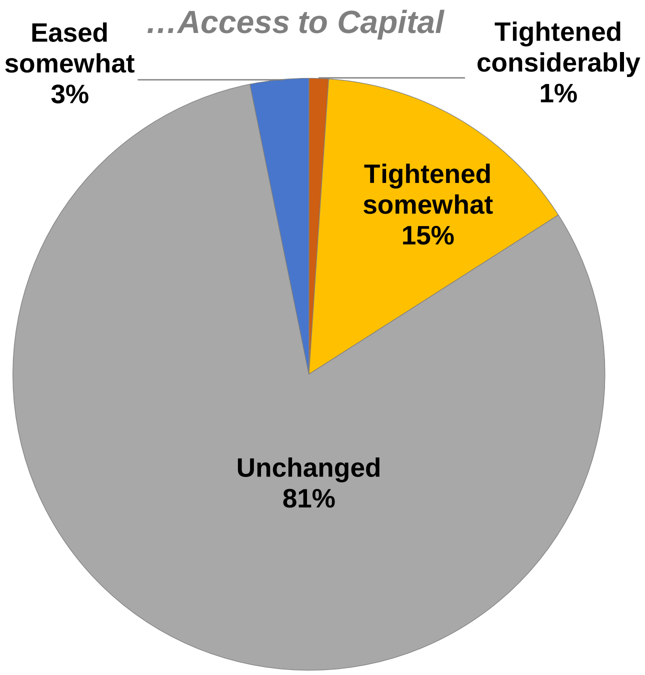
To what extent does your company's capital strategy support dimensions of open innovation, which includes working with external partners?



Federal Reserve Policy Changes

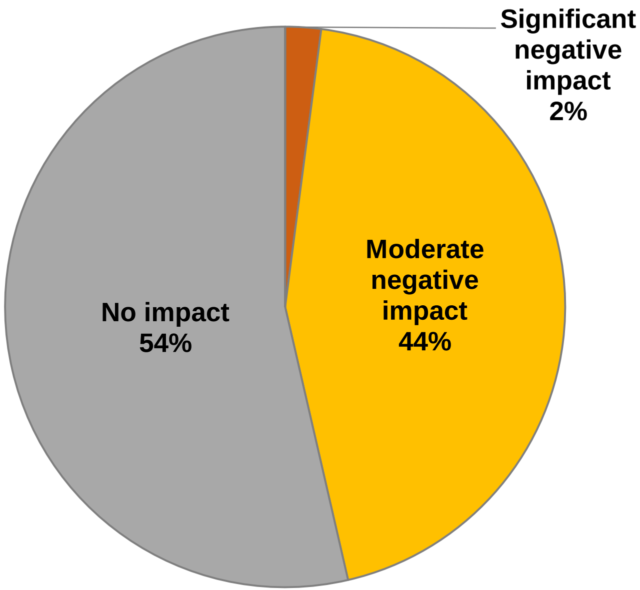
The Federal Reserve has raised its target range for the federal funds rate by 150 bps since December 2015, how has this action impacted your...





Federal Reserve Policy Changes

To what extent will additional rate hikes have on your capital requirements in 2018/19?



Comments:

- Funded by foreign owner
- Will assess capital needs relative to project returns, and will support favorable projects as needed with financing.
- Cost of money plays a significant role in your cost structure for operations.
- Depends on the size of the rate hikes.

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.

Survey Methodology

- Data collected May 9-17 via invitation to online survey.
- Executives of OESA supplier companies.
- 107 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.

Contact

Mike Jackson
Executive Director
Strategy and Research
248.430.5954
mjackson@oesa.org

Kathy Reiss
Director
Research and Industry Analysis
248-430-5960
kreiss@oesa.org

Original Equipment Suppliers Association
25925 Telegraph Road
Suite 350
Southfield, Michigan 48033