



OESA Automotive Supplier Barometer™ Q3 2022

Capital Markets and Innovation
August 2, 2022

Executive Summary

Supplier Barometer Index™ (SBI)

SBI Score = 32;

down from Q2 level of 40



The outlook for the third quarter fell deep into pessimistic territory due to continued concerns over production shutdowns, and heightened concerns over a weakening U.S. economy. Sentiment deteriorated sequentially across firms of all sizes but fell drastically for mid-level suppliers. The largest, most globally exposed suppliers' outlook remained deeply pessimistic.



Production shutdowns due to supply chain shortages and labor availability remain the top threats to the 12-month outlook.

Continued shortages of semiconductors and other components and materials continue to place immense cost pressure on the supply base. Growing concerns over the strength of the U.S. economy and continued issues with labor scarcity depressed the outlook further.



Supplier executives estimate a recession is more likely to occur in the coming 12 months than not. Fortunately, most feel at least somewhat prepared if a recession were to occur.



Suppliers that feel unprepared for a U.S. recession plan to decrease costs and headcounts, strengthen balance sheets and improve cash flows. Suppliers that feel prepared have already implemented these measures to focus on cash conservation.



Capital needs are expected to broadly increase in terms of use and by company size.

On net, general working capital, product innovation investment, capital investment and capital for M&A opportunities is expected to increase over the coming year.

The industry expects the capital needed to support new program launches and production volumes will increase 4.7% and 6.2% in 2022 and 2023, respectively.

Executive Summary



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

The availability, lead-times, cost, long-term viability and efficiency of high tech, custom equipment drive the decision to buy new.



Very few, suppliers have significantly altered their capital structure as emphasis on debt reduction and balance sheet strengthening are a larger priority in the current environment.

Terms of commercial loans and credit lines are expected to continue to tighten over the coming year with the only exception being the maximum size of commercial loans.

Confidence in capital acquisition remains at strong levels, and suppliers are more confident they will be able to access their needed capital in comparison to last year for all use cases.



Fifty-six percent of suppliers are very confident that their company will move ahead and implement the needed capital investment to meet their 2022 demand requirements, with the outlook for 2023 and 2024 being less certain but strong.

Weakness in the U.S. economy, further supply chain disruptions and the inability to recover increased costs from customers are the leading factors 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.



Forty-five percent of suppliers believe they are ahead of the industry's pace of innovation while eighteen percent feel they are behind.

Focusing on technological R&D and developing products that support the EV market are common practices by firms that consider themselves the most innovative. Firms that are catching up with the pace of the industry are investing in their engineering teams, R&D, and continuously discussing with their customers to find out their needs.



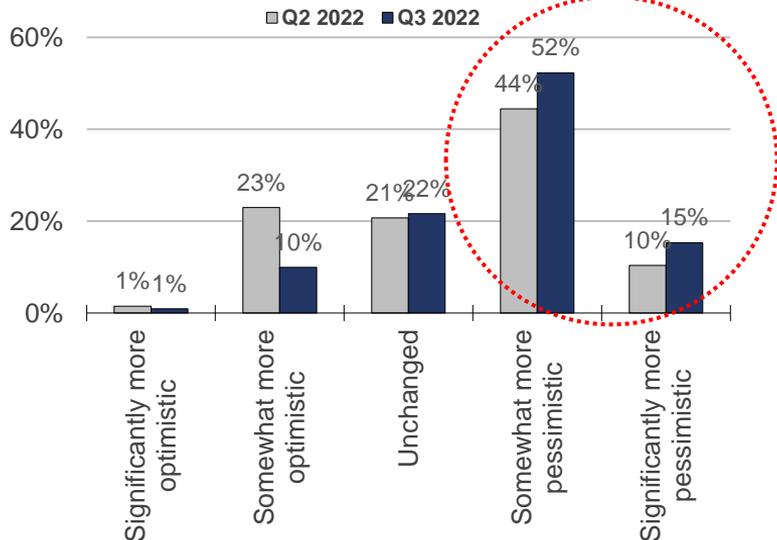
On average, co-creating products with OEM customers after the initial product feasibility has been proven is the most effective strategy to bring new technologies to market. Leveraging venture capital is the most ineffective strategy of launching a new product. Firms of all sizes are utilizing a capital strategy that supports open innovation, including external partners.

Supplier Outlook

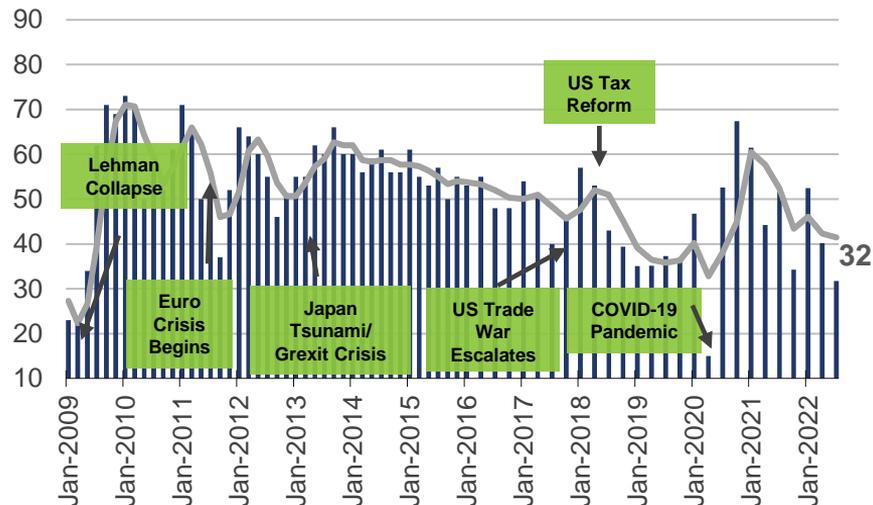
OESA Supplier Barometer: Q3 2022 Results

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)

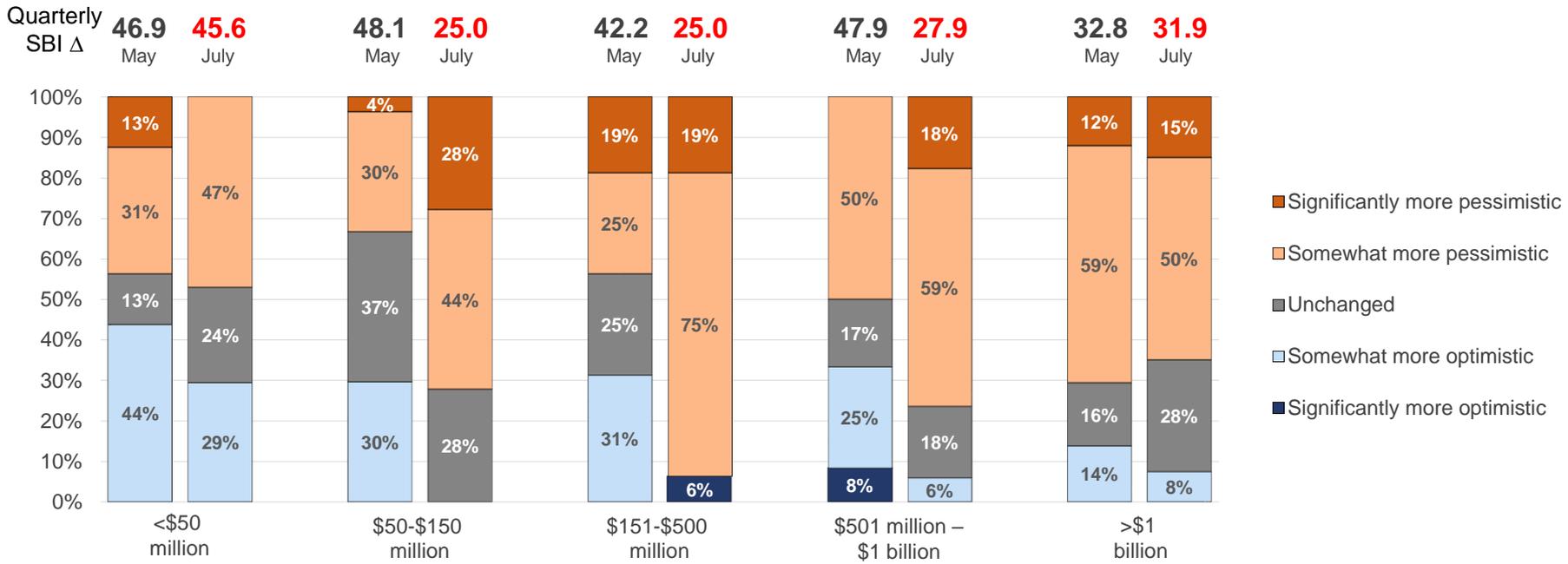


111 responses

The 12-month outlook for the second quarter fell deeper into pessimistic territory as concerns over production shutdowns continue, coupled with increased risk from a weakening U.S. economy.

OESA Supplier Barometer: Q3 2022 Results By Revenue

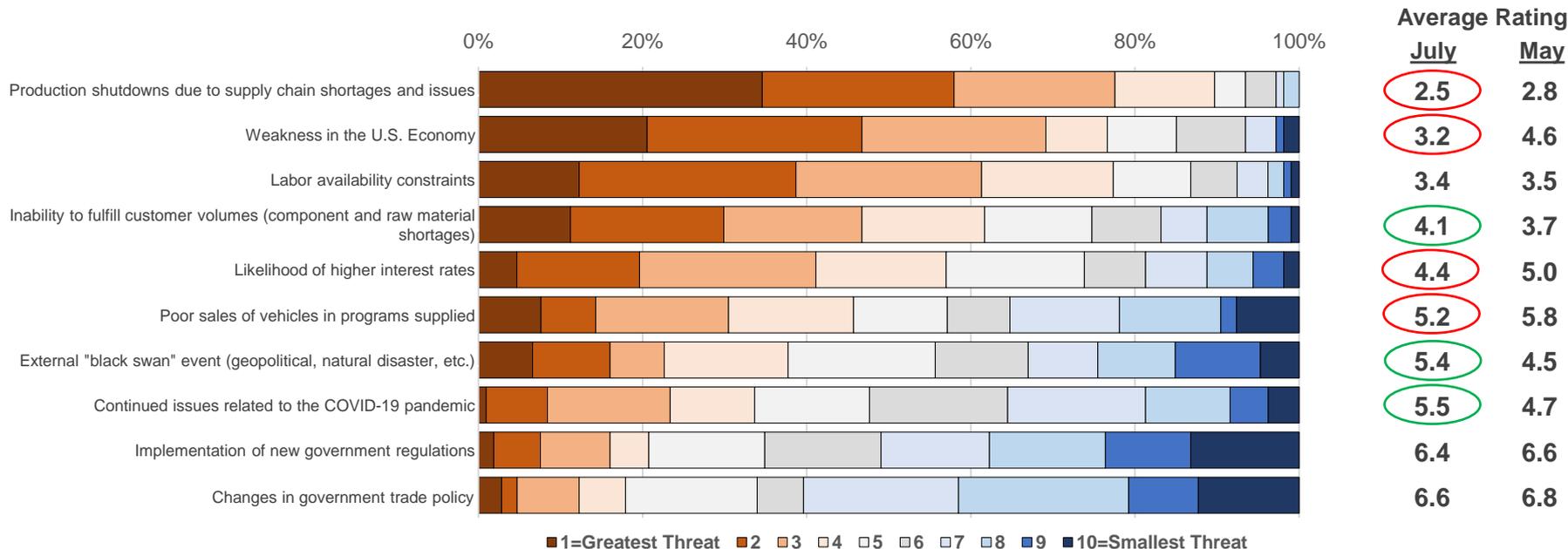
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



The outlook is pessimistic for firms of all sizes.
Sentiment dropped drastically for mid-size domestic suppliers.

OESA Supplier Barometer: Industry Threats

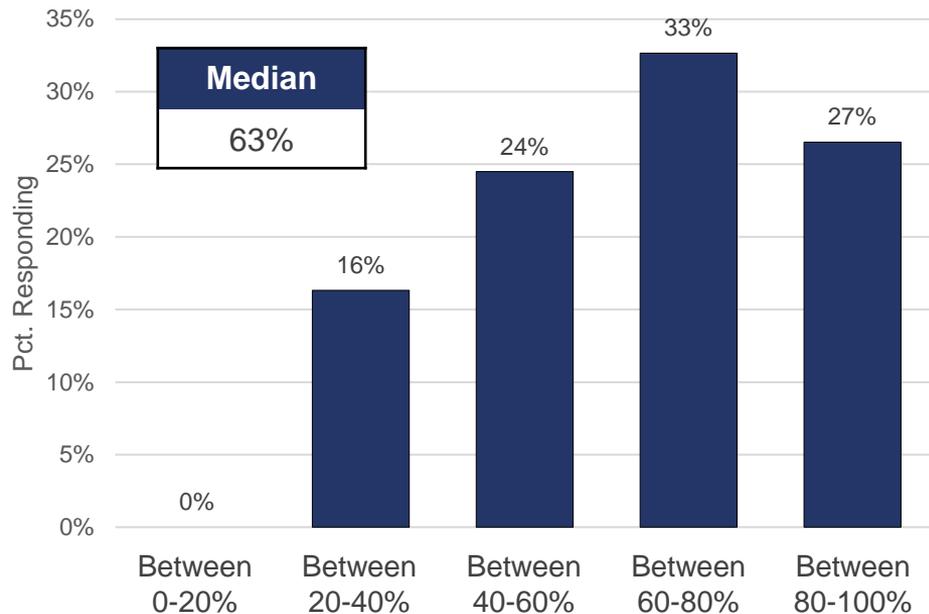
What are the greatest threats to the industry over the next 12 months?



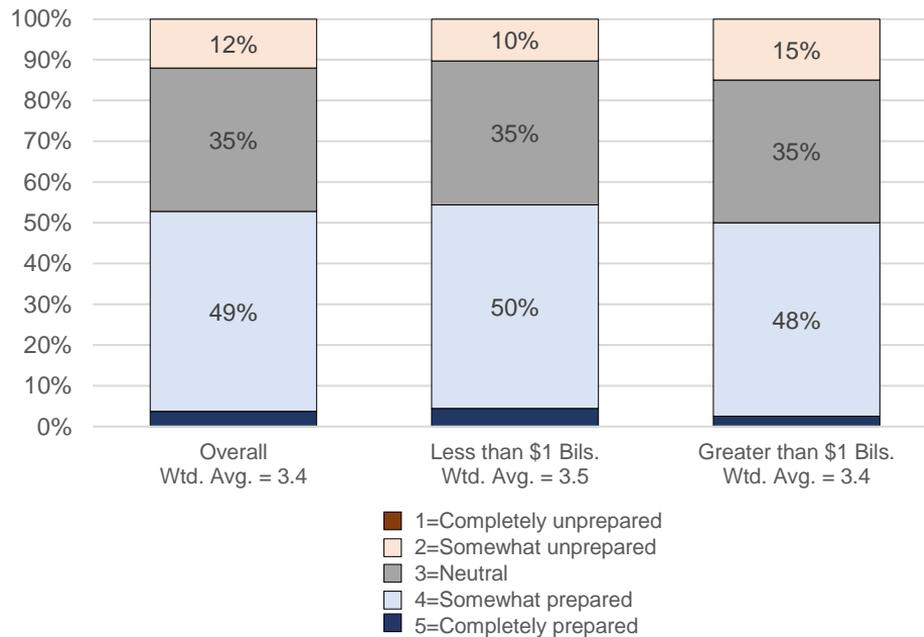
Production shutdowns due to supply chain shortages and issues remain the largest threat to the 12-month outlook. Risk associated with a weakening U.S. economy made a substantial increase sequentially.

OESA Supplier Barometer: Recession Probability and Preparation

Please estimate the probability of a U.S. recession occurring in the next 12-months.



How prepared is your company if a U.S. recession were to occur in the next 12-months?



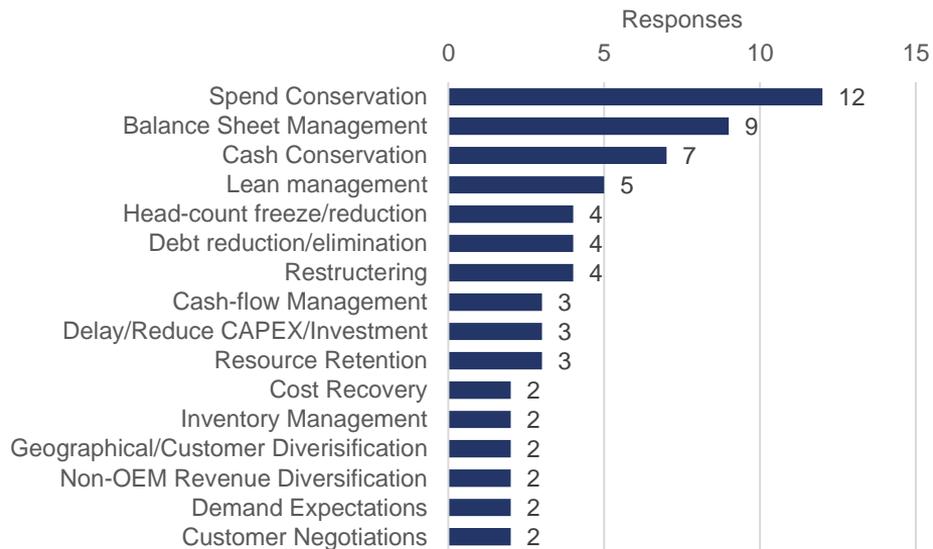
Supplier executives estimate a recession is more likely to occur in the coming 12 months than not. Fortunately, most feel at least somewhat prepared if a recession were to occur.

OESA Supplier Barometer: Recession Preparation

*How could your company better prepare for a possible U.S. recession?
(Unprepared to neutral for possible recession)*



*What has your company done to prepare for a possible U.S. recession?
(Somewhat or completely prepared for possible recession)*

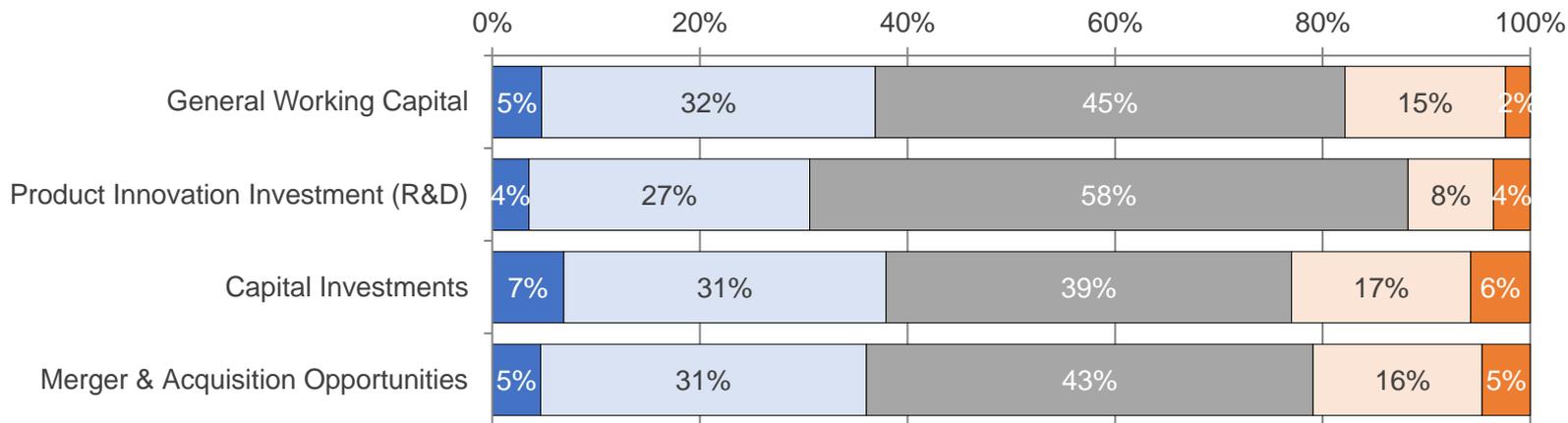


Suppliers that feel unprepared for a U.S. recession plan to cut costs and headcount, strengthen balance sheets and improve cash flows. Suppliers that feel prepared have already implemented these measures to focus on cash conservation.

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?



■ Significantly Increased □ Somewhat Increased ■ Basically Unchanged □ Somewhat Decreased ■ Significantly Decreased

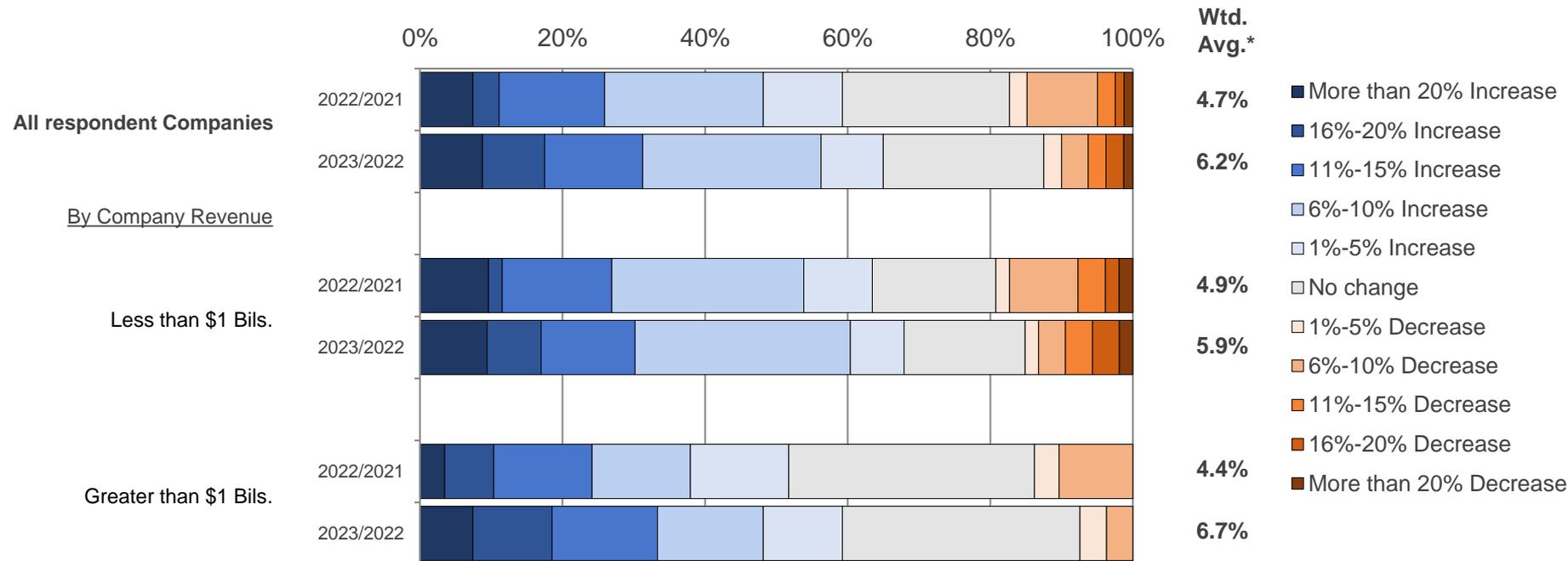
Comments:

- Investment in R&D for EV applications
- Overall business has been good from a new award standpoint. Launching and all that goes with it from labor, raw materials, capital and so on
- Reduced number of R&D projects in order to redirect our resources onto raw material shortages.
- All dependent on recession activity
- Electrification is bringing extra challenge for capital investments. The market is the same, but the investment are needed for ICE projects and also EV projects
- Transition to EV requires Capex/R&D investment
- With increased BEV demand, will stay constant
- We have cut back in all of these areas over the past 2 years. I don't see that changing in this environment.
- eMobility products need way more innovation support and new/different invest
- Transition to e-mobility direction will require acquisitions and product innovation.
- More significant investment related to both R&D and Capital as it pertains to non-ICE business. Majority of decreases are significant for ICE.
- Continue our conservative approach since the onset of Covid, Supply chain issues.

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



*Assumes mid-point of each range, >20% = 23%

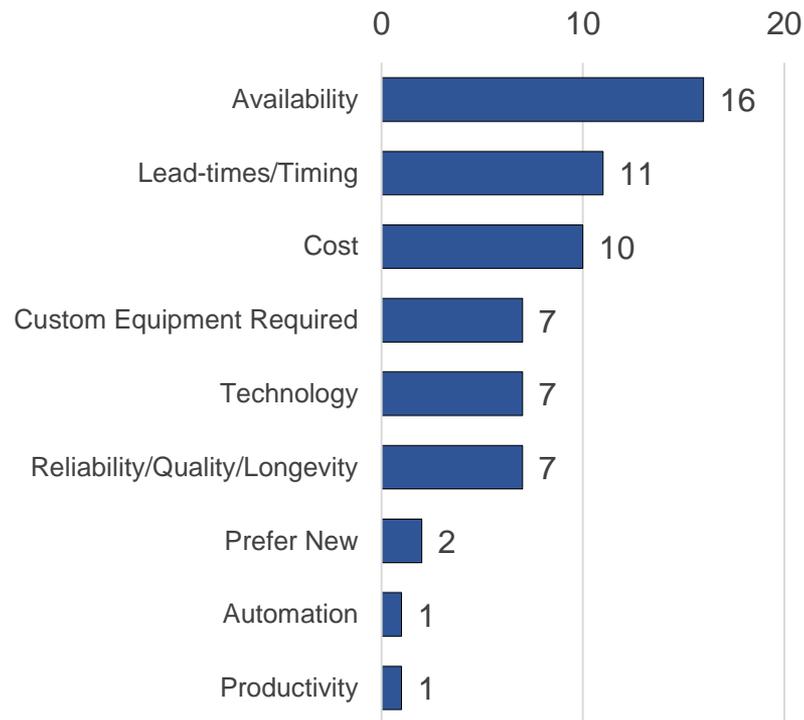
New Versus Used Equipment

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
July 2022	57.5	80.0	91.3
Oct. 2021	50.0	90.0	100.0
Oct. 2020	70.0	80.0	100.0

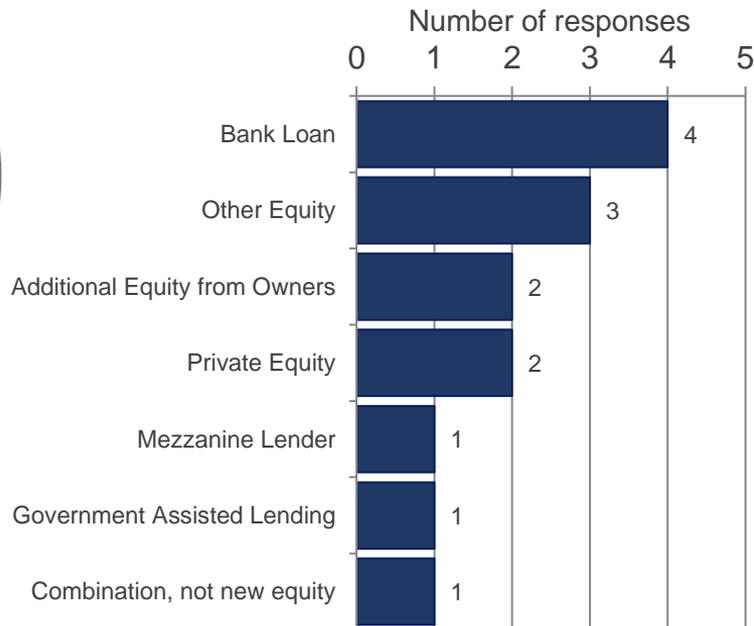
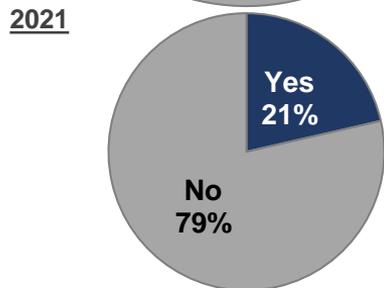
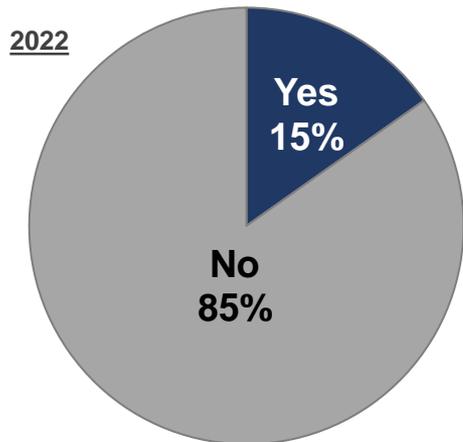
% of spend being allocated to purchase <u>used</u> equipment			
	Lower Quartile Value	Median Value	Upper Quartile Value
July 2022	10.0	20.0	31.5
Oct. 2021	0	10.0	50.0
Oct. 2020	0	20.0	30.0

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?*

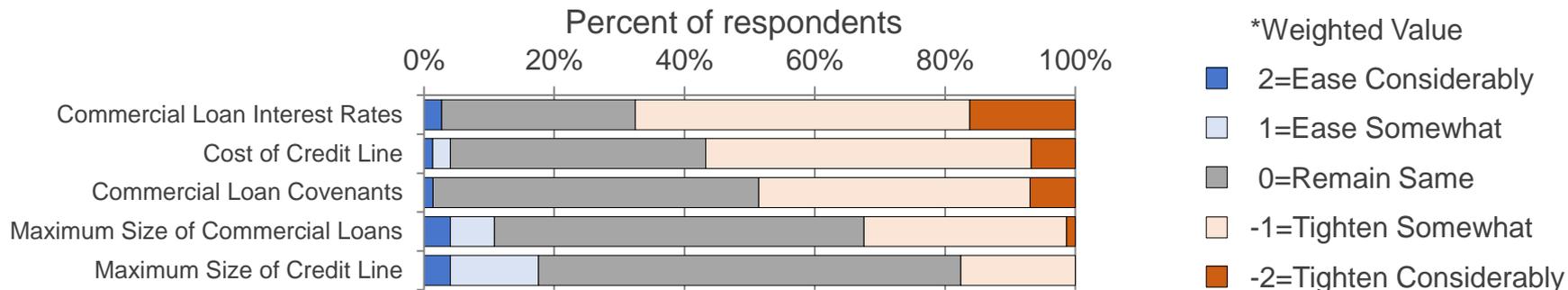


Changing Capital Structure Comments:

- Will not fund capital unless customer 100% guarantees and backs investment should volumes not materialize or customer cancels program.
- Reinvesting in some base equipment...refusing many new programs...we're full
- Increase fixed term debt versus floating to protect interest rates
- No, but thinking about it
- >50% equity financed
- Reduced

Commercial Loans and Lines of Credit

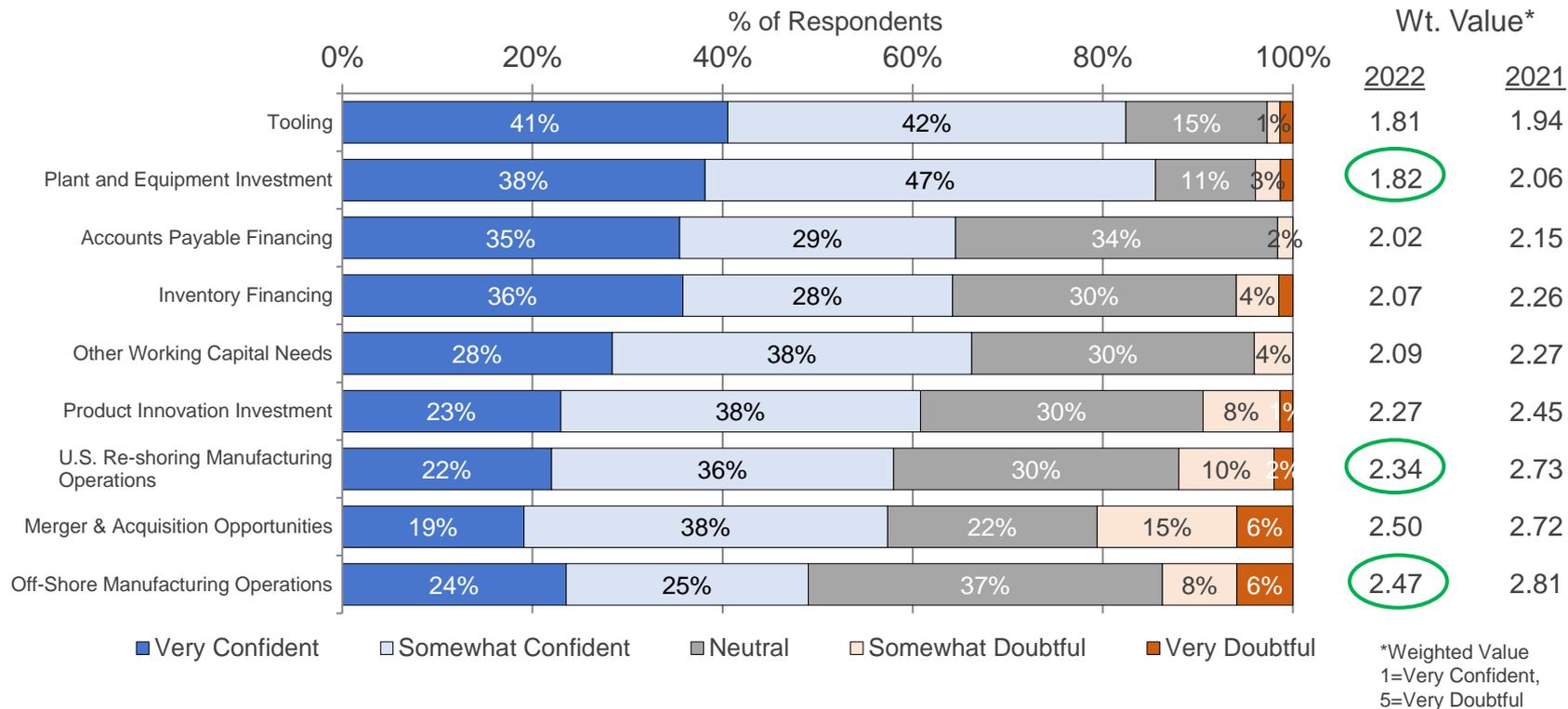
Considering your lead commercial bank, over the next 12 months, how do you anticipate the terms of your commercial loan or credit line applications changing?



Changes in terms by revenue	Overall	Less than \$1 bil.	Greater than \$1 bil.
Commercial Loan Interest Rates	-0.78	-0.80	-0.75
Commercial Loan Covenants	-0.58	-0.54	-0.67
Cost of Credit Line	-0.53	-0.42	-0.75
Maximum Size of Credit Line	-0.19	-0.16	-0.25
Maximum Size of Commercial Loans	0.04	0.12	-0.13

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?



Access to Capital

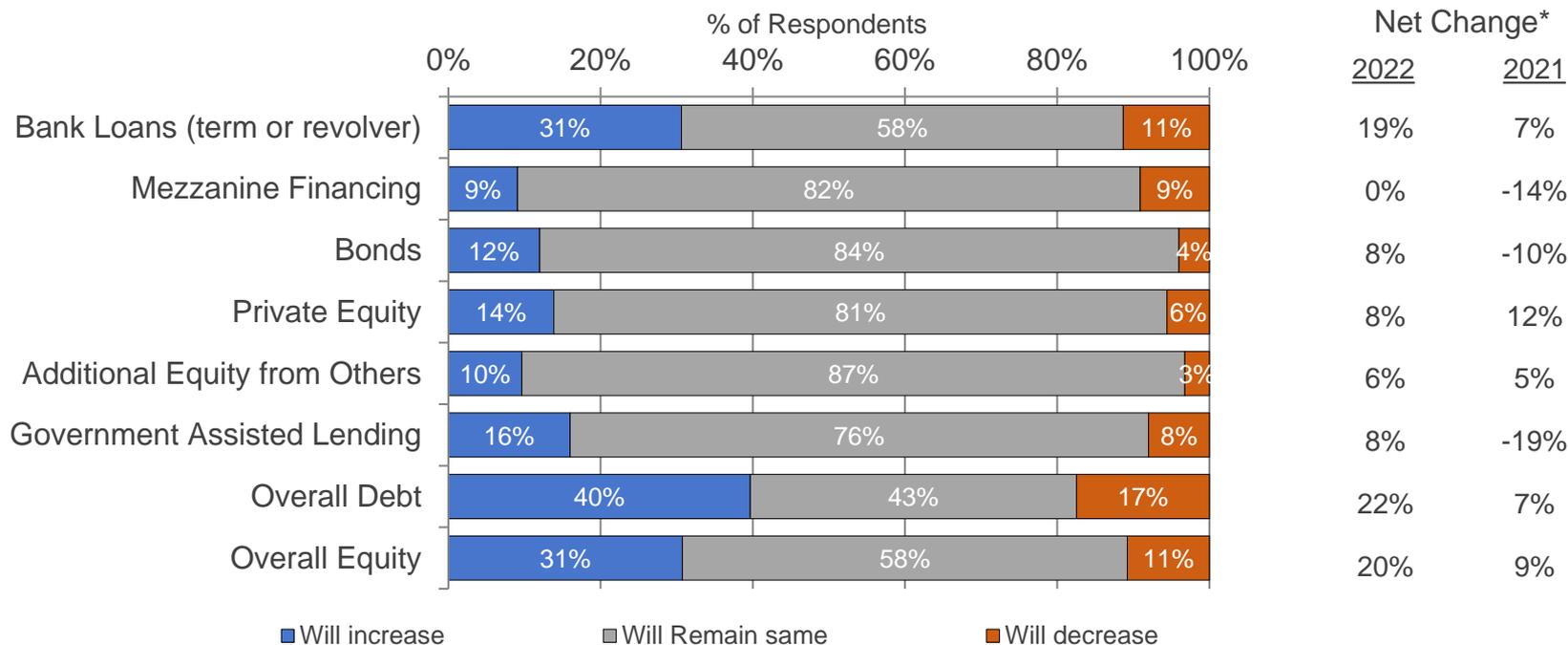
Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?

Level of Confidence in Accessing Capital	Overall	Less than \$1 Bils.	Greater than \$1 Bils.
Tooling	1.81	1.70	2.00
Plant and Equipment Investment	1.82	1.71	2.00
Accounts Payable Financing	2.02	1.92	2.17
Inventory Financing	2.07	1.98	2.25
Other Working Capital Needs	2.09	1.96	2.35
Product Innovation Investment	2.27	2.29	2.23
U.S. Re-shoring Manufacturing Operations	2.34	2.28	2.43
Off-Shore Manufacturing Operations	2.47	2.64	2.26
Merger & Acquisition Opportunities	2.50	2.44	2.61

*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?



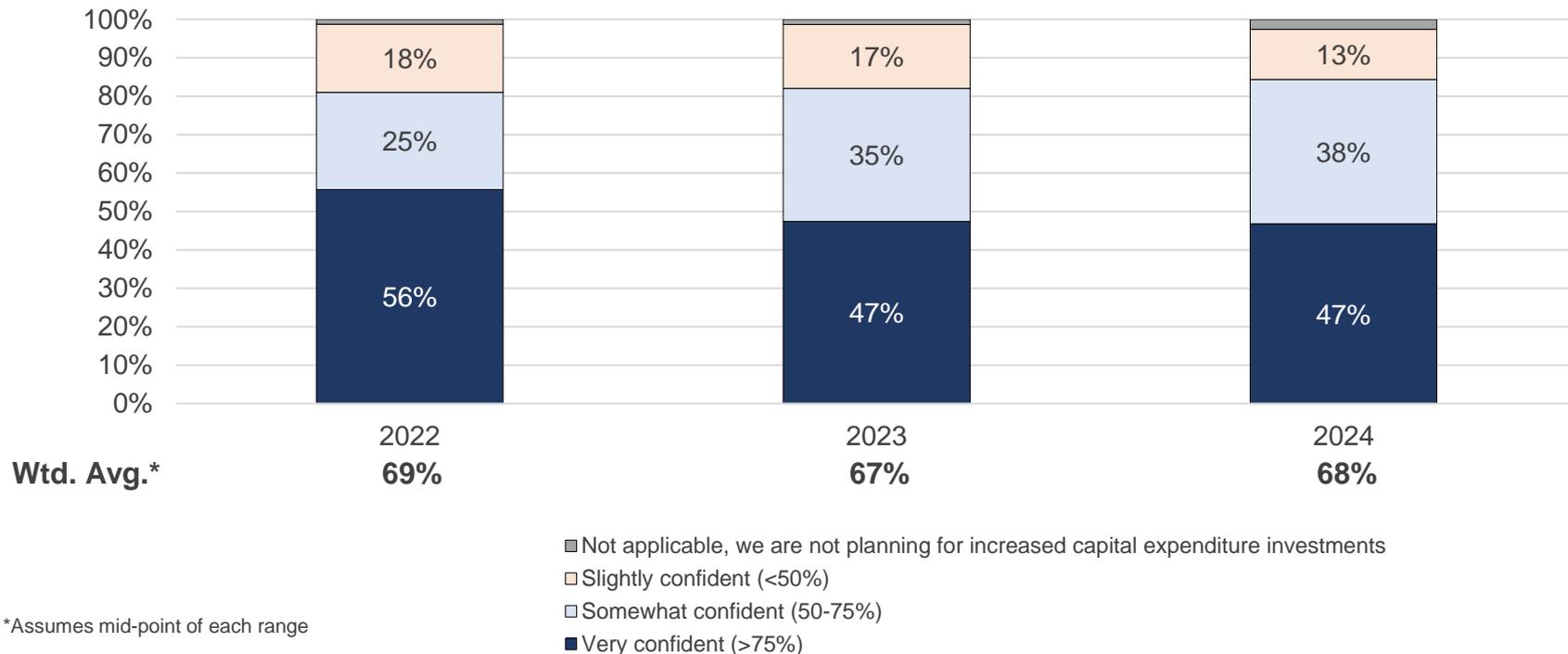
Sources of Capital by Company Revenue

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

Net Change in Sources of Funds	Overall	Less than \$1 Bils.	Greater than \$1 Bils.
Bank Loans (term or revolver)	19%	18%	22%
Mezzanine Financing	0%	11%	-14%
Bonds	8%	-10%	20%
Private Equity	8%	14%	0%
Additional Equity from Others	6%	6%	7%
Government Assisted Lending	8%	0%	14%
Overall Debt	22%	13%	39%
Overall Equity	20%	26%	9%

Capital Planning

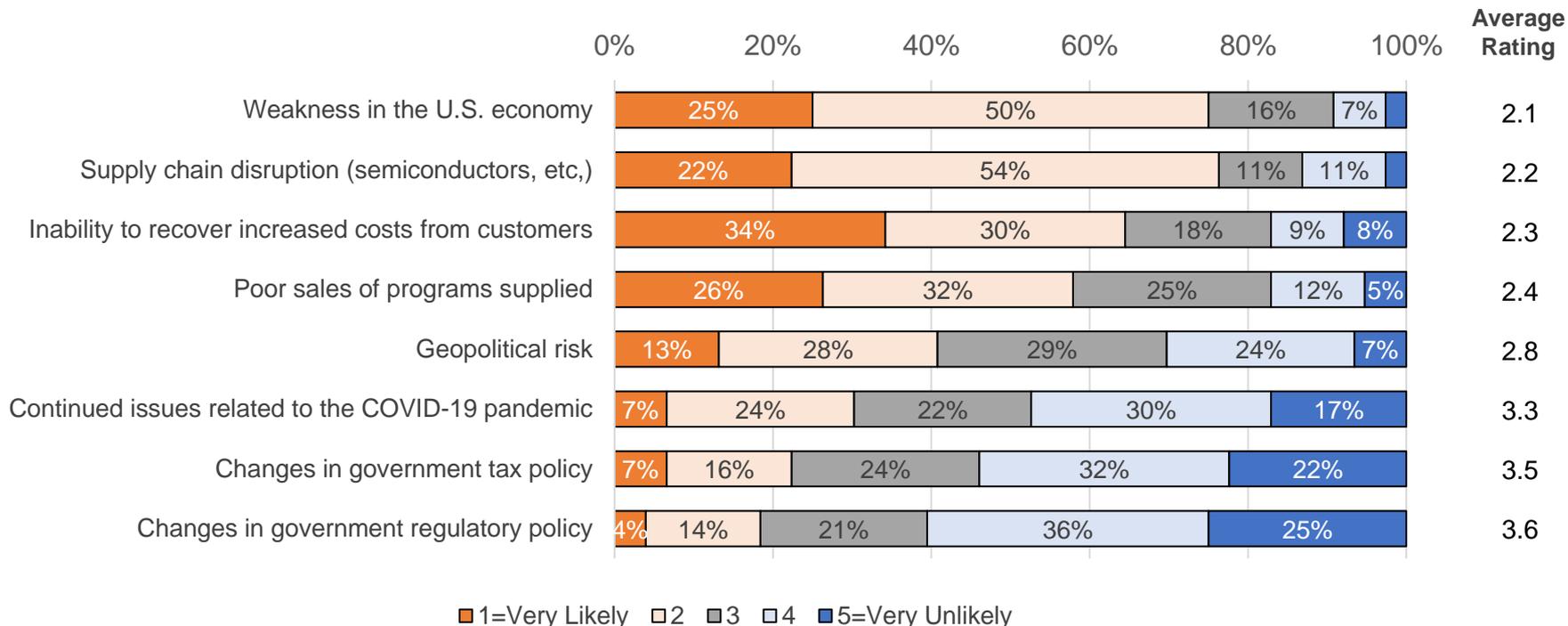
How confident are you that your company will move ahead and implement the needed capital investment to meet your remaining 2022, 2023, and 2024 demand requirements?



*Assumes mid-point of each range

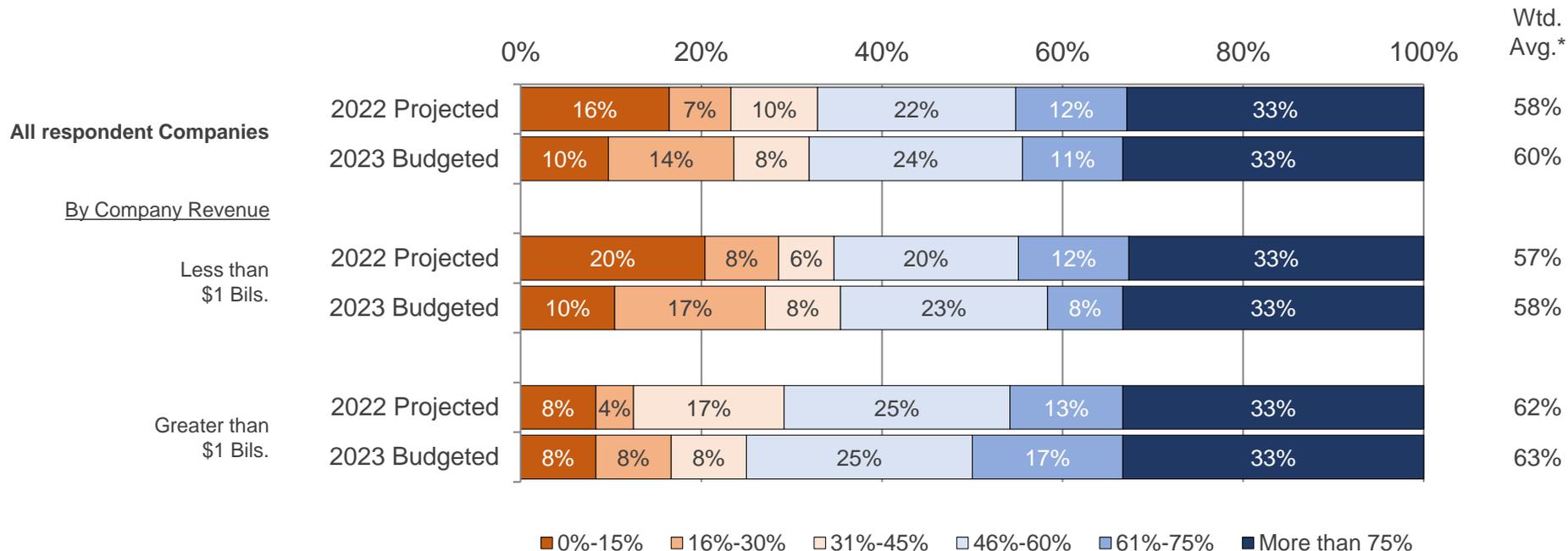
Capital Planning

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?



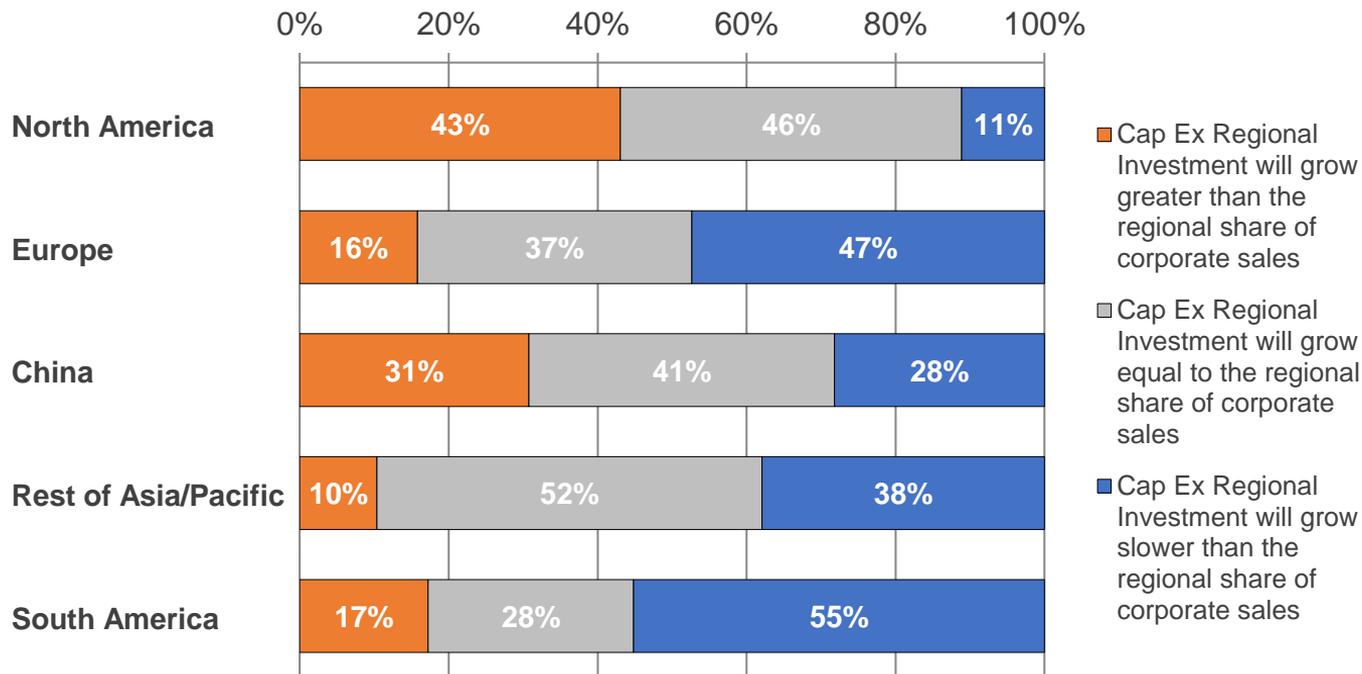
Capital Planning

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



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?



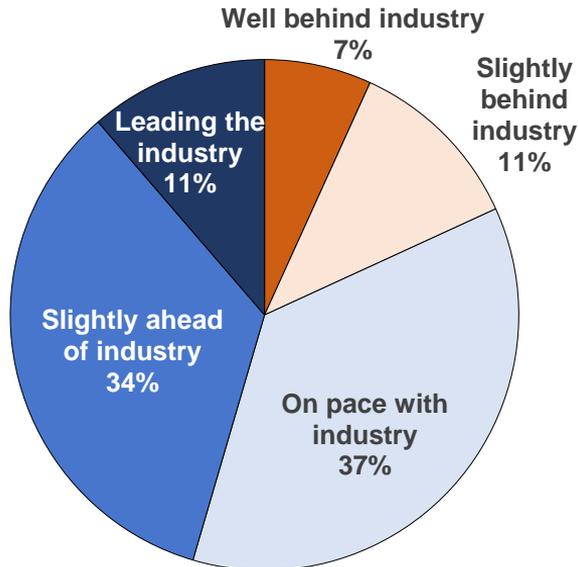
Comments:

- No near-term plans for Cap Ex investment outside of North America at present.

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)

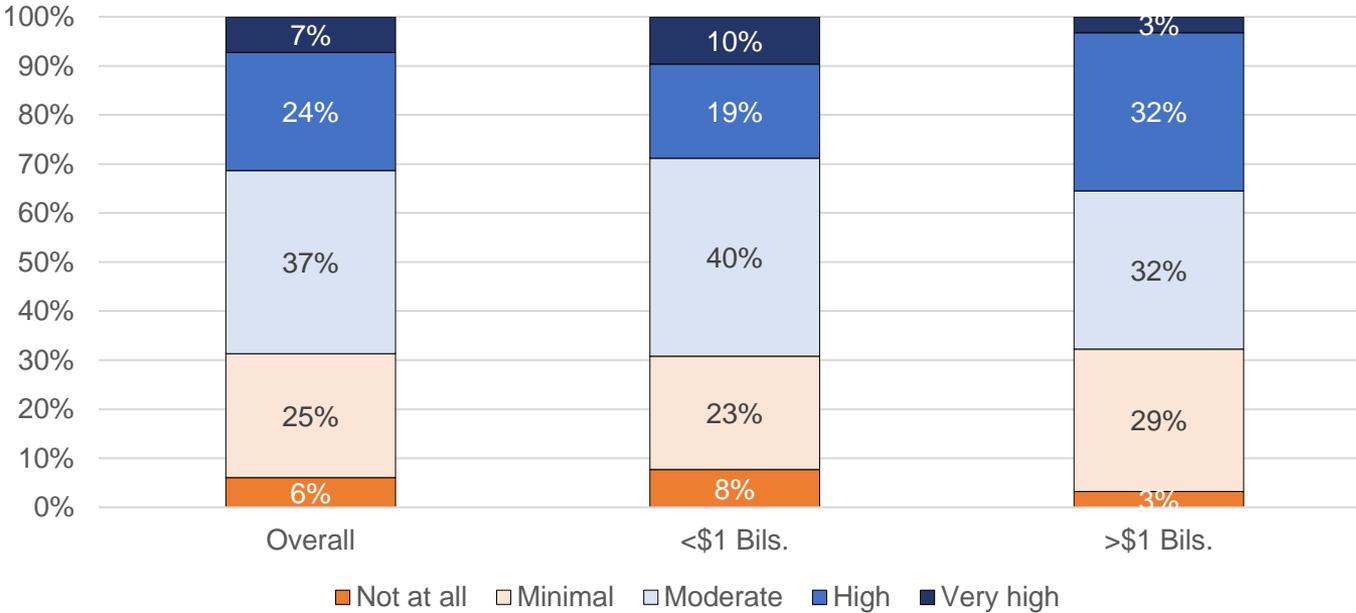
- Continued efforts with R&D despite results behind schedule
- Anticipate trends in the industry and be 'near the leading edge' of technology development to be early in the market development for the new technology.
- R&D in our unique technology for relevance to EV's
- Focus on commodities in need, rapid development, Engineering to validation to prototype to serial production in one company.
- Invest in innovation
- Focus on customer and end customer challenges.
- Waiting
- Taken our experience in the electronic industry and promoted/developed it in the auto space.
- Large investment in R&D combined with an inorganic growth strategy
- Heavy investment into transitional technologies over the past years.
- Close cooperation with OEMs
- Larger than normal R&D group versus industry standard
- Keep high R&D investment rate, shift focus on new-mobility, clearly define and follow innovation projects, reduce efforts in ICE to a reasonable level
- Light-weighting efforts to support EVs and NEVs
- High investment in product innovation in the e-mobility part of automotive.
- Investment in start-up companies
- Acquisition and shifting R&D spending towards innovation vs change management
- Investment in R&D is a core policy of our organization, and we consistently lead the market in this investment.
- Continuously looking for ways to innovate.

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

- Consideration taken in product and business acquisitions
- Exiting certain commodities to enter new commodities and verticals.
- Created new focused R&D group not tied to current business = more focus, less hinderance
- Hired key people assigned to grow the business.
- Invested in engineering and some unique technology
- None
- Continuous discussions with customers about needs
- Invested in more head count in sales & engineering to re-position our company
- Additional innovation resources have been hired.
- Focus of our advanced engineering team to understand customers needed and desires.
- Developed 2030 Plan and just rolled it out
- More focus on sustainability
- Further investment in personnel and material resources.
- Varies with BU. Some ahead some behind, average on pace
- focus on most likely scenarios
- Diversification
- Dedicated resources have been allocated
- We have spent the last 16 months re-designing existing products for component availability so now we can re-focus on innovation.

Capital Strategy

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

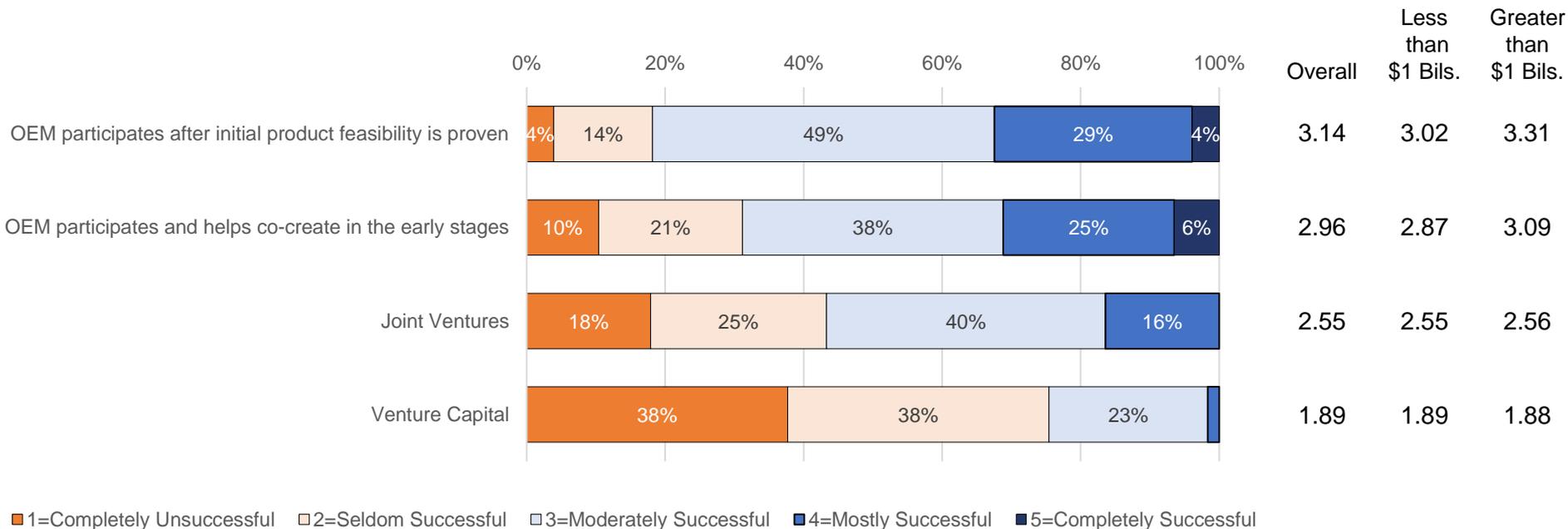


Comments:

- We are doing this where possible

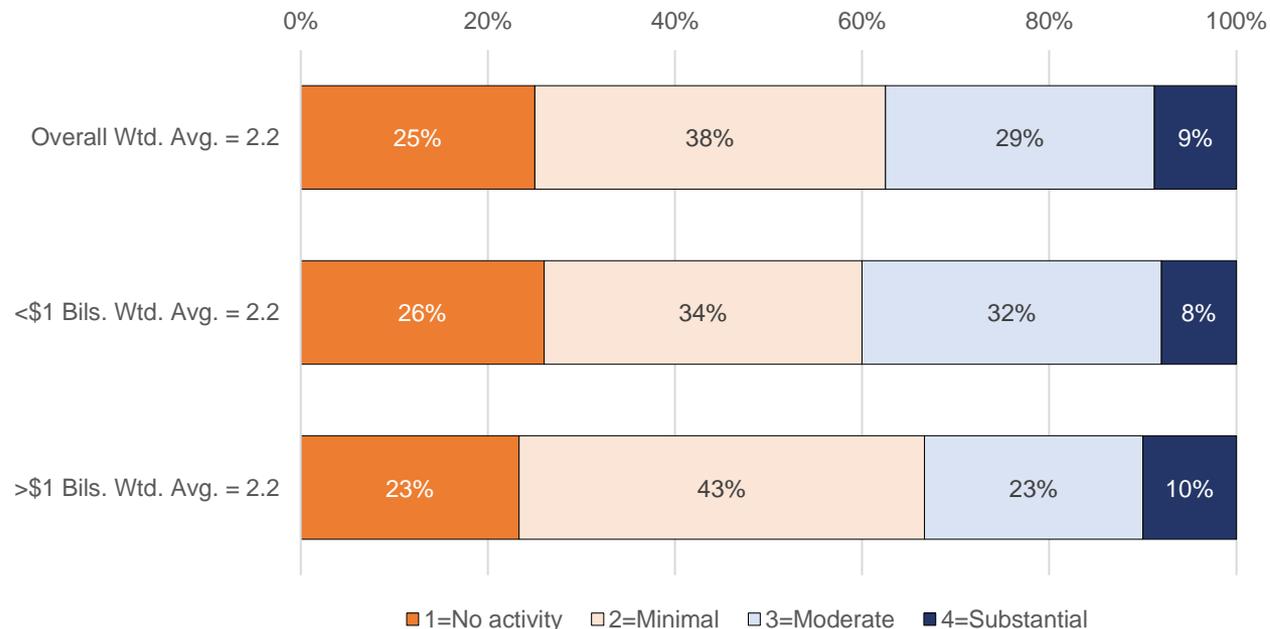
New Technologies and Innovation Acceptance

Rank each of the following approaches on their success in getting new innovations and first to market ideas to production?



Merger and Acquisition Activity

How would you rate your company's current and/or near-term level of merger & acquisition activity as it pertains to its innovation strategy?



Comments:

- Seeking opportunities with little success due to limited deal origination



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 June 22 – July 12 via invitation to online survey.
- Executives of OESA supplier companies.
- 88 complete survey responses were received, with 111 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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