

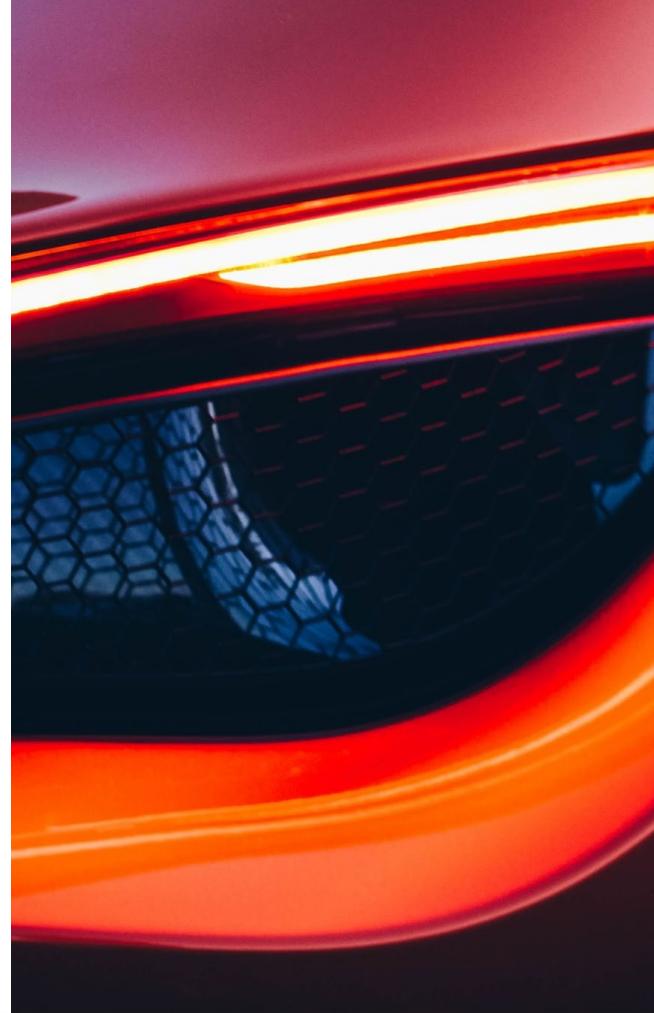
**memma.**  
Original Equipment Suppliers

**Deloitte.**

# MEMA OE Suppliers Automotive Supplier Barometer Q3 2023

Capital Markets and Innovation

August 23, 2023

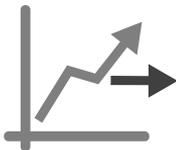


# MEMA OE Supplier Barometer: Executive Summary

## Supplier Barometer Index (SBI)

SBI Score = 49;

up from Q2 level of 44



The outlook for the third quarter is essentially unchanged from prior quarter at a reading of 49 for the period, one point below a neutral level of 50 but up five points from Q2. A strong pessimistic outlook amongst firms with revenue of less than \$150 mils. pulled the index below neutral while the outlook was optimistic, on net, for larger firms.



Concerns related to the upcoming UAW negotiations caused labor constraints to become the greatest threat to the industry over the next 12-months, overtaking weakness in the U.S. economy which eased sequentially.

The inability to fulfill customer volumes, and poor sales of vehicles in programs supplied, extended their improvements from the beginning of the year.



New orders, production, employment and most other leading indicators increased substantially from a year ago and modestly over the past month but are accompanied by widespread increasing costs.



Supplier executives estimate a recession is essentially equally 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 at least somewhat prepared for a possible recession have prepared contingency plans focusing on flexible labor, lean management and financial strength.



Suppliers see their capital needs increasing, on net, across all forms of CAPEX for the coming year. Prioritization is capital investments and R&D for new programs, which is poised to grow twice as fast as CAPEX for existing programs.

# MEMA OE Supplier Barometer: Executive Summary



Few suppliers have significantly altered their capital structure as emphasis on debt reduction and balance sheet strengthening continue to be a larger priority

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

Confidence in capital acquisition strengthened further from last year's already strong levels for all use cases, with the only exception being for offshore manufacturing.



Fifty-seven percent of suppliers are very confident that their company will move ahead and implement the needed capital investment to meet their 2023 demand requirements, with the outlook for 2024 and 2025 being less certain but strong.

The inability to recover increased costs, poor sales of programs supplied and unplanned production shutdowns are leading factors that may delay or hinder investment plans.



United States and Mexico CAPEX are expected to grow faster than the share of sales while Canada and the Rest of the World will see less growth in CAPEX than in sales.



Eighteen percent of suppliers believe they are ahead of their peer groups pace of innovation while forty-five percent feel they are behind.

Focusing on human capital and developing leading edge 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 their peers are developing a plan and looking for partnerships.



On average, co-creating products with OEM customers after the initial product feasibility has been proven is the most effective strategy for 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.

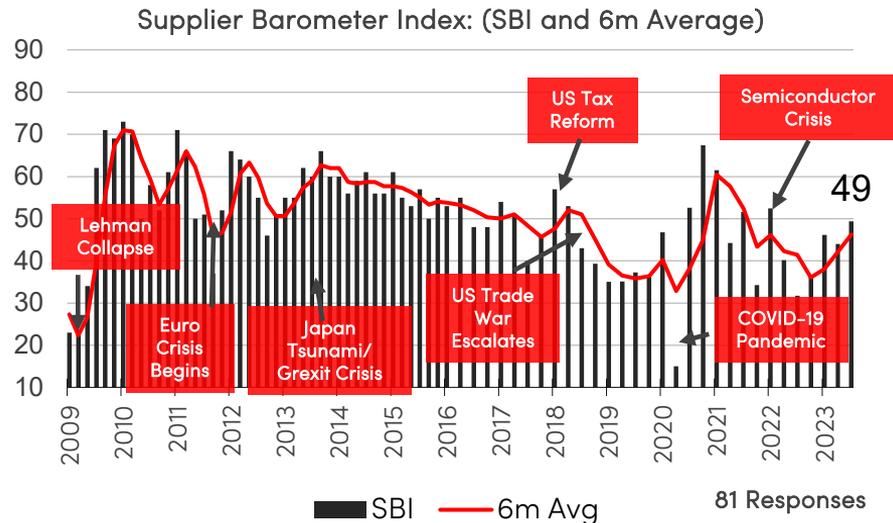
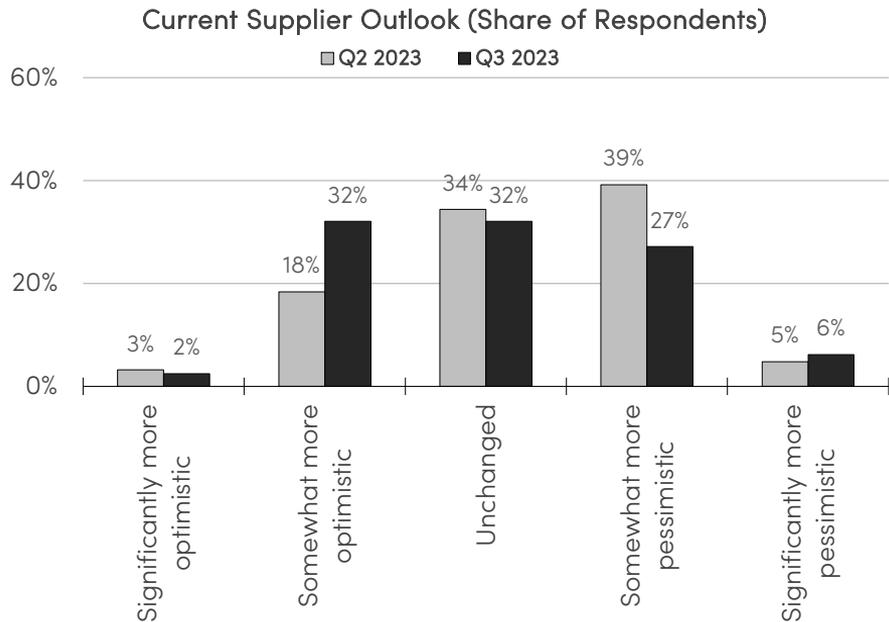


# Supplier Outlook

Q3 2023 Automotive Supplier Barometer

# MEMA OE Supplier Barometer: Q3 2023 Results

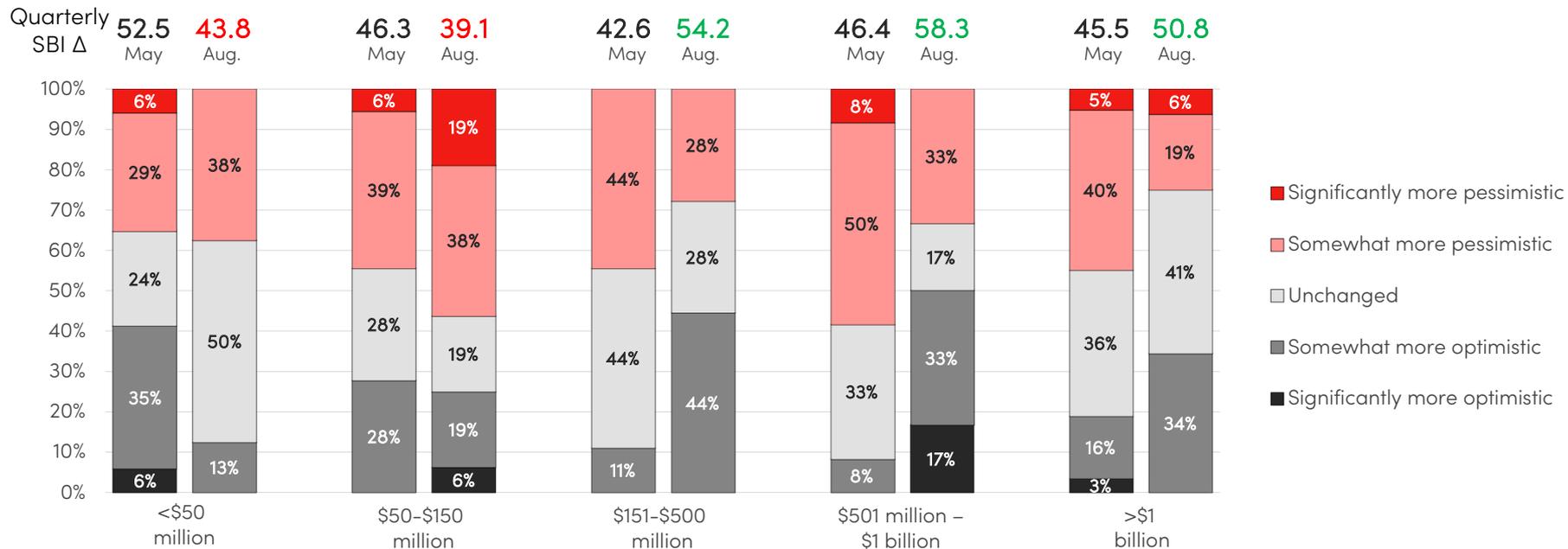
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



The outlook for the third quarter is essentially unchanged from prior quarter at a reading of 49 for the period, one point below a neutral level of 50 but up five points from Q2.

# MEMA OE Supplier Barometer: Q3 2023 Results by Revenue

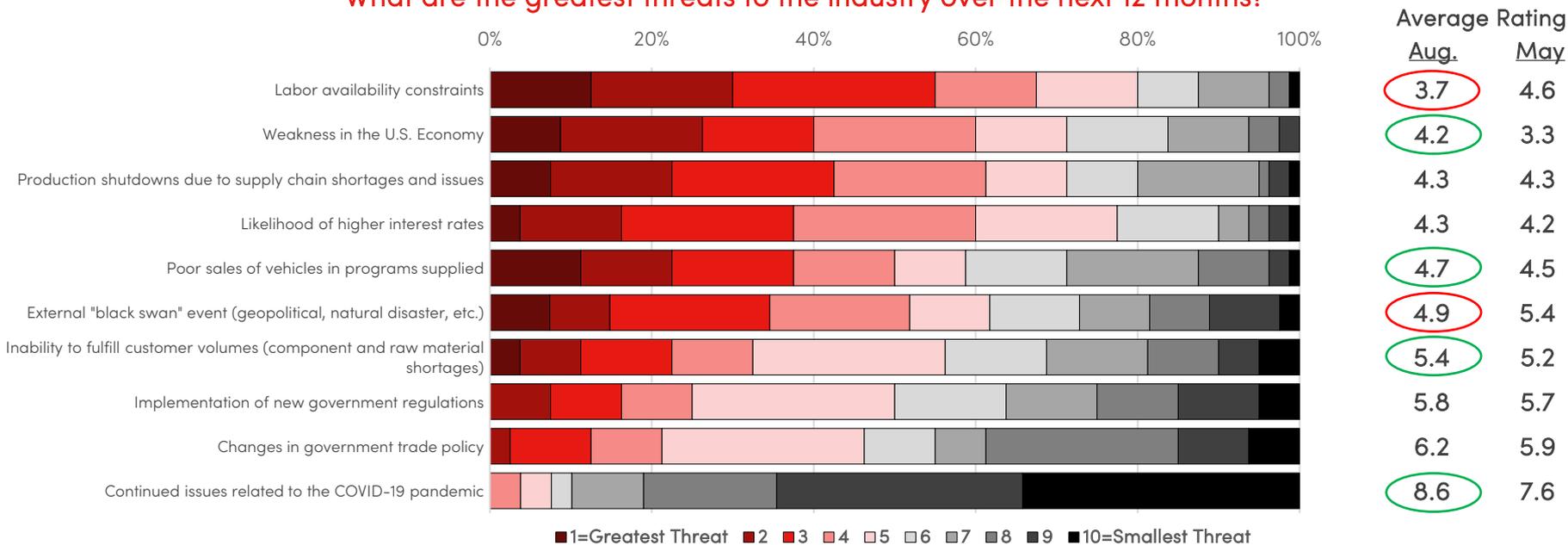
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



A strong pessimistic outlook amongst firms with revenue of less than \$150 mils. pulled the index below neutral while the outlook was optimistic, on net, for larger firms.

# MEMA OE Supplier Barometer: Industry Threats

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



Concerns related to the upcoming UAW negotiations caused labor constraints to become greatest threat to the industry over the next 12-months, overtaking weakness in the U.S. economy which eased sequentially.

# MEMA OE Supplier Barometer: Industry Indicators

For the following indicators, please indicate what change, if any, your company has experienced over the following time frames.

	Total		Less than \$500 mils.		Greater than \$500 mils.	
	12-month chg.	1-month chg.	12-month chg.	1-month chg.	12-month chg.	1-month chg.
New orders	66	52	68	50	66	56
Production	71	53	70	55	74	51
Employment	66	57	65	60	66	53
Supplier Deliveries	61	50	65	54	57	47
Inventories	51	51	50	49	53	53
Customers' Inventories	71	68	67	63	76	73
Costs	83	73	77	66	93	82
Backlog of Orders	52	49	56	53	49	47
New Export Orders	50	51	51	50	49	52
Imports	49	50	53	49	46	52

Diffusion Index =  $\Sigma$  (% Responding Decelerated x 0, % Responding Unchanged x 50, % Responding Accelerated x 100)

Lower Limit = 0

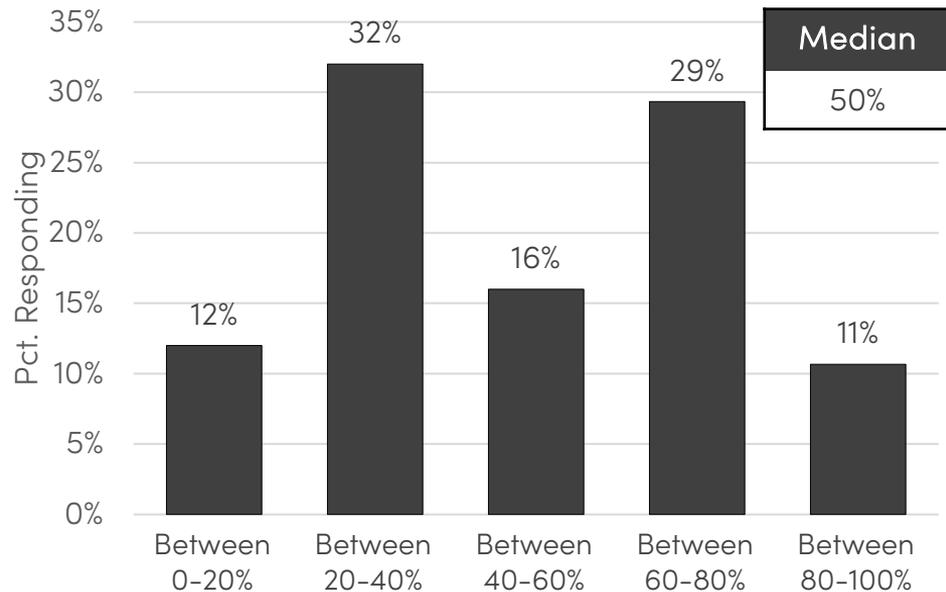
Neutral = 50

Upper Limit = 100

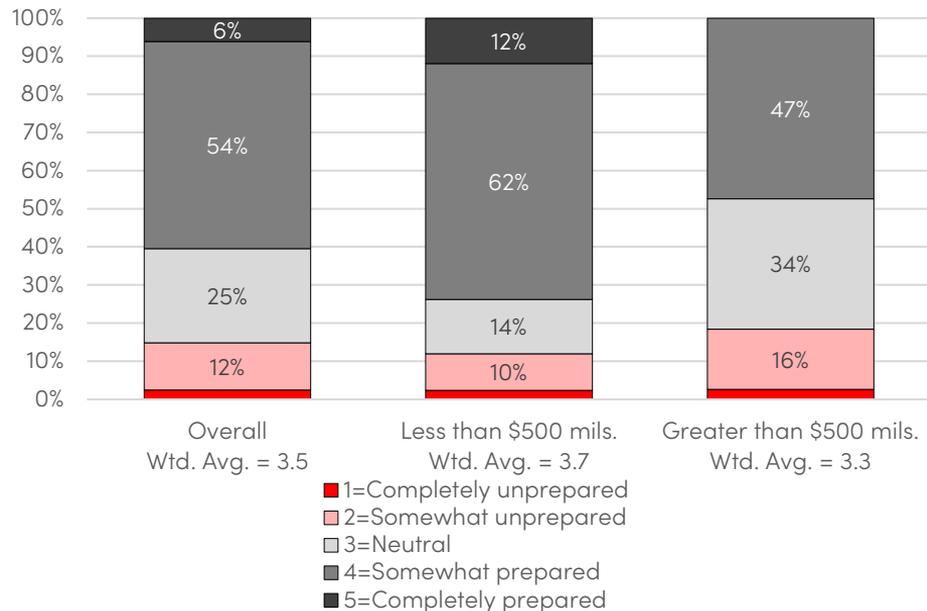
New orders, production, employment and most other leading indicators increased substantially from a year ago and modestly over the past month but are accompanied by substantially increasing costs.

# MEMA OE Supplier Barometer: Recession Probability and Preparation

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



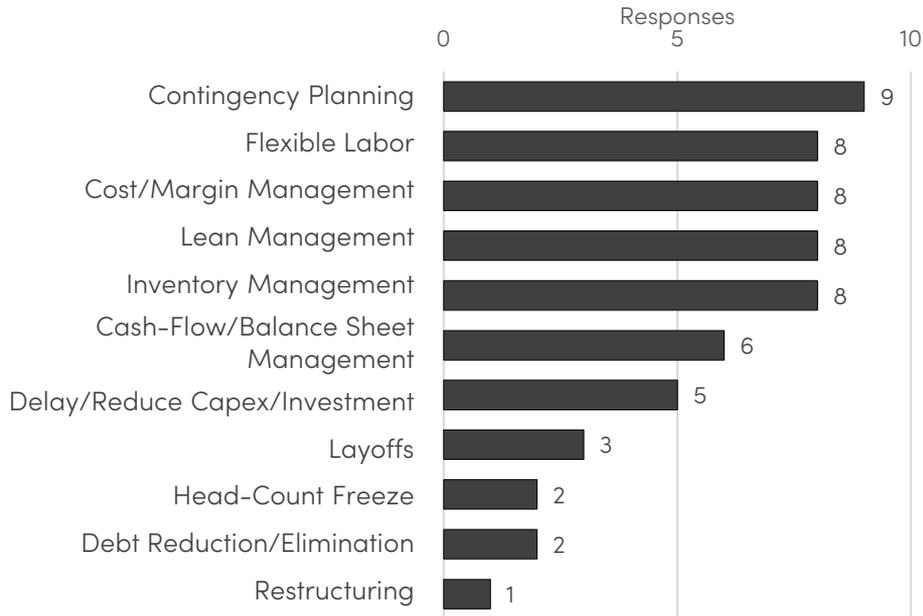
How prepared is your company if a U.S. recession were to occur in the next 12-months?



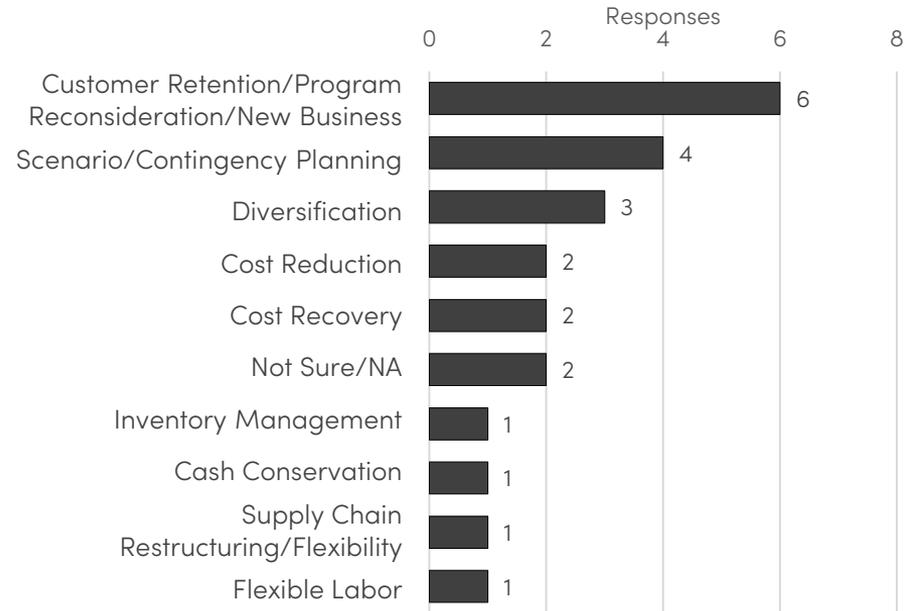
Supplier executives estimate a recession is essentially equally likely to occur in the coming 12 months than not. Fortunately, most feel at least somewhat prepared if a recession were to occur.

# MEMA OE Supplier Barometer: Recession Probability and Preparation

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



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



Suppliers that feel at least somewhat prepared for a possible recession have prepared contingency plans focusing on flexible labor, lean management and financial strength.

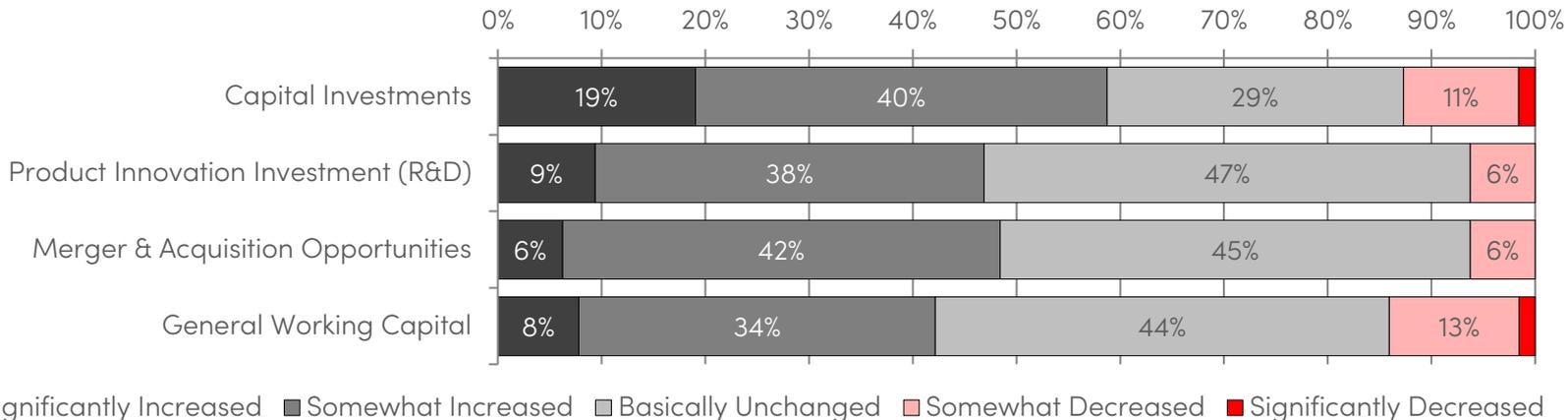


# Capital Markets

Q3 2023 Automotive Supplier Barometer

# MEMA OE Supplier Barometer: Capital Needs

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

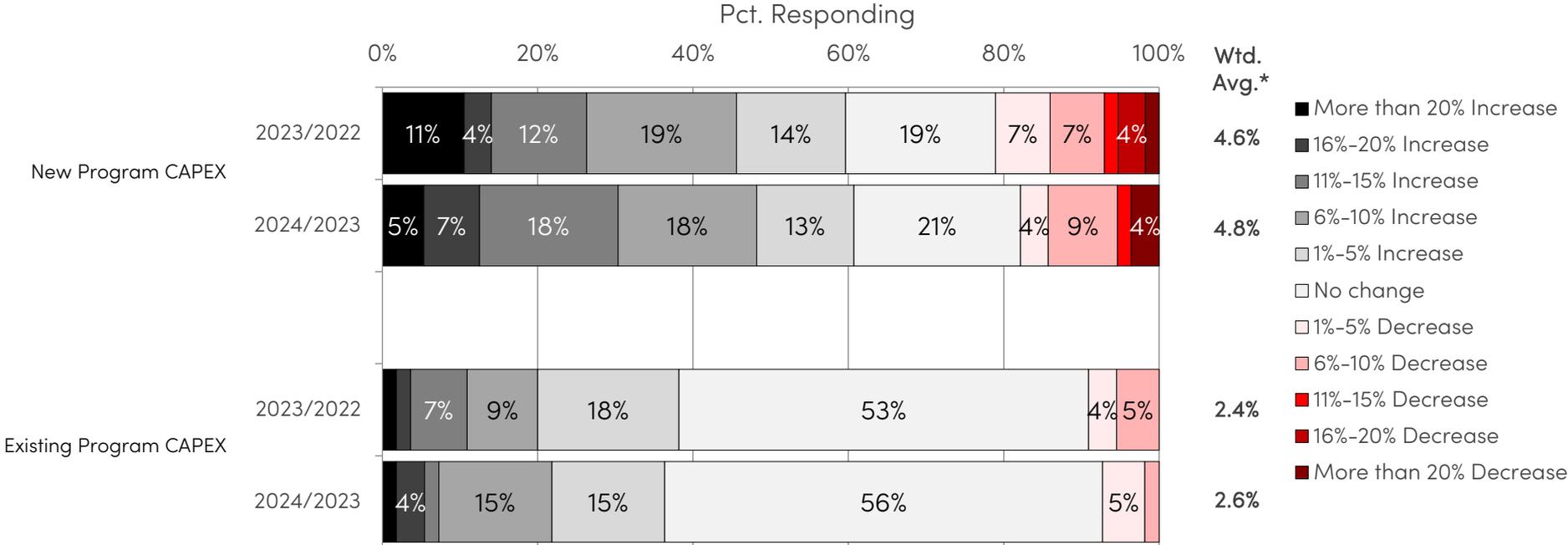


## Comments:

- 2023 is a big year for us from a capital investment standpoint. We have a plan to grow 10% over the next three years so we are currently investing in the infrastructure updates to accommodate the larger volumes.
- We're always on the lookout for a good acquisition
- Our organization continues to invest in the shift to BEV and lower emissions vehicle technologies.
- We need to expand but finding the capital at an affordable rate has been a challenge.
- Invest in EV projects and technologies
- Working toward the longer-term objectives/ambitions. Near term tuning to manage near term financial results.
- Our company has experienced significant investment in years past, the momentum is carrying forward into further business awards, requiring additional capacity.

# MEMA OE Supplier Barometer: 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 2022 as the base year.

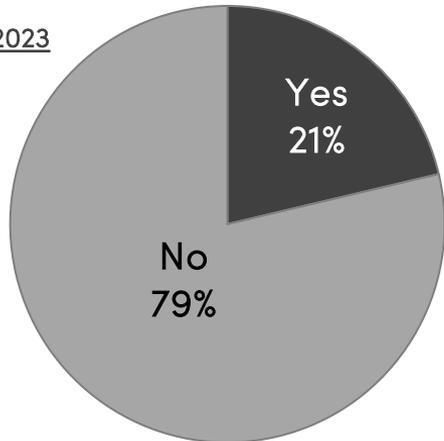


\*Assumes mid-point of each range, >20% = 23%

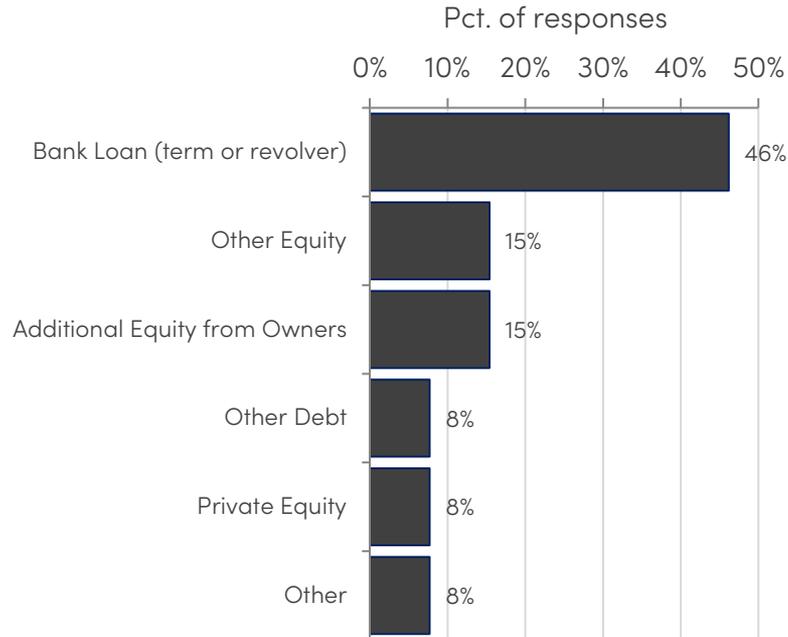
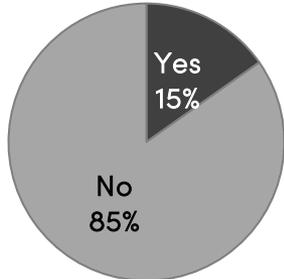
# MEMA OE Supplier Barometer: Changing Capital Structure

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?

2023



2022

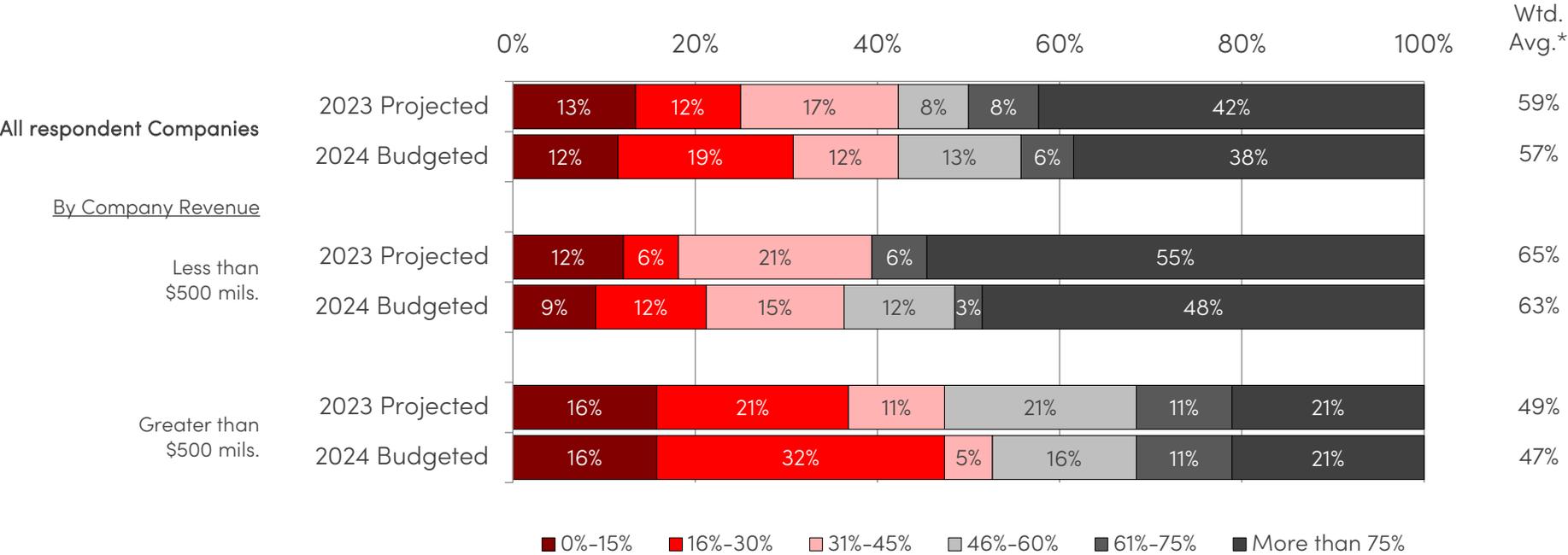


#### Changing Capital Structure Comments:

- Currently preparing for the next growth opportunities.
- Paid down / off Sub-debt
- We have had to find new lenders.
- Acquisition activity

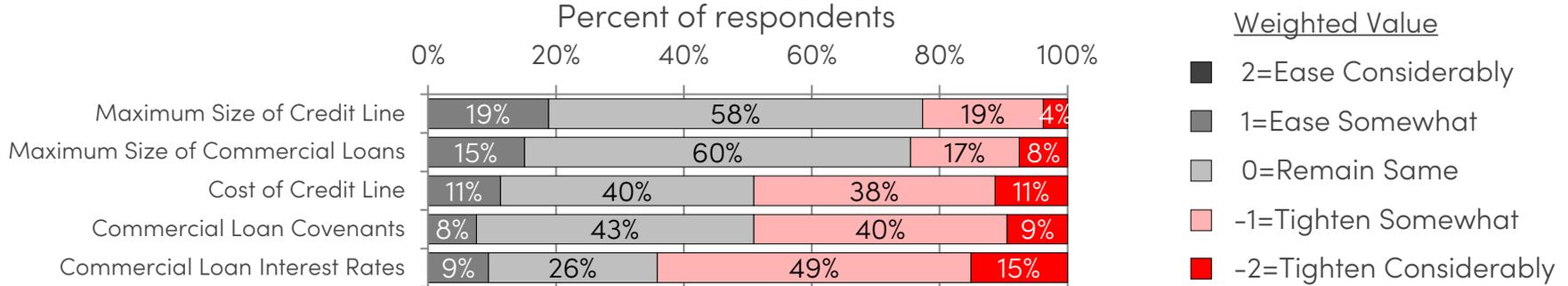
# MEMA OE Supplier Barometer: Capital Planning

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



# MEMA OE Supplier Barometer: Commercial Loans and Lines of Credit

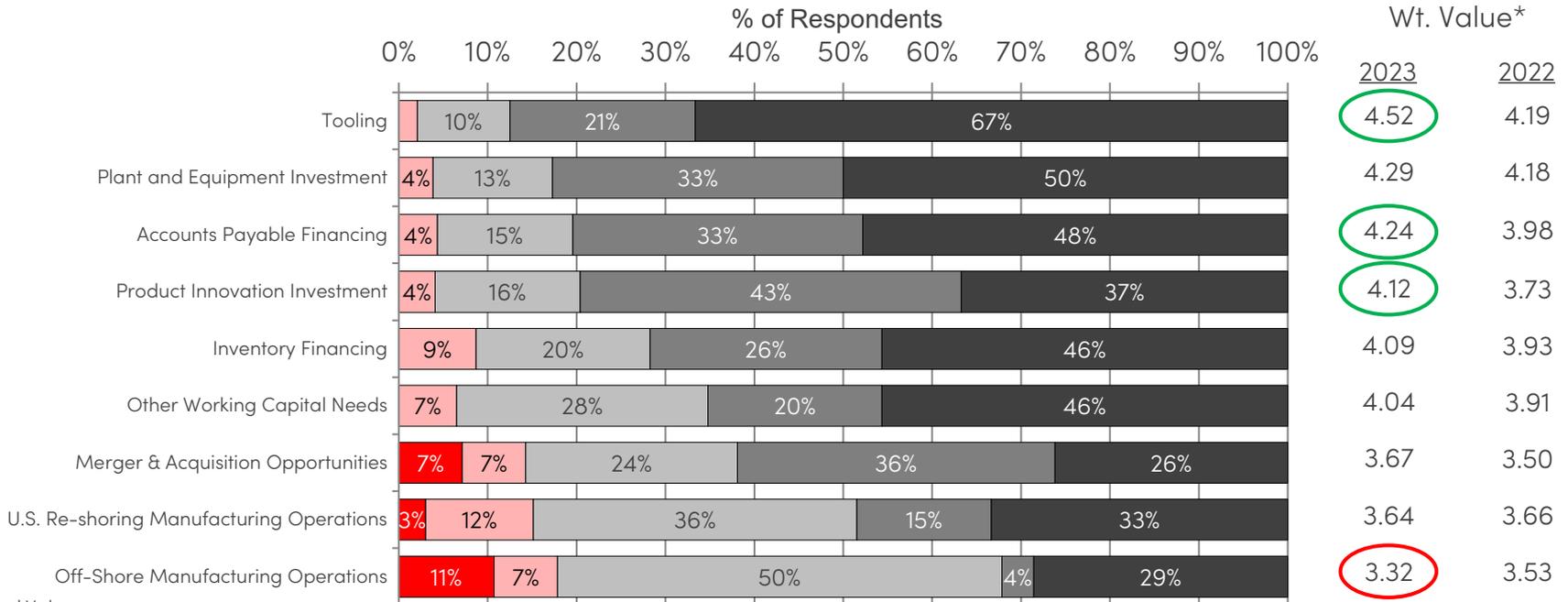
Considering your lead commercial bank, over the next 12 months,  
how do you anticipate the terms of your commercial loan or credit line applications changing?



Changes in terms by revenue	Overall	Less than \$500 mils.	Greater than \$500 mils.
Maximum Size of Credit Line	-0.08	-0.03	-0.16
Maximum Size of Commercial Loans	-0.17	-0.12	-0.26
Cost of Credit Line	-0.49	-0.59	-0.32
Commercial Loan Covenants	-0.51	-0.59	-0.37
Commercial Loan Interest Rates	-0.70	-0.82	-0.47

# MEMA OE Supplier Barometer: 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 Doubtful, 5=Very Confident  
 1= Very Doubtful 2= Somewhat Doubtful 3= Neutral 4= Somewhat Confident 5= Very Confident

# MEMA OE Supplier Barometer: Access to Capital

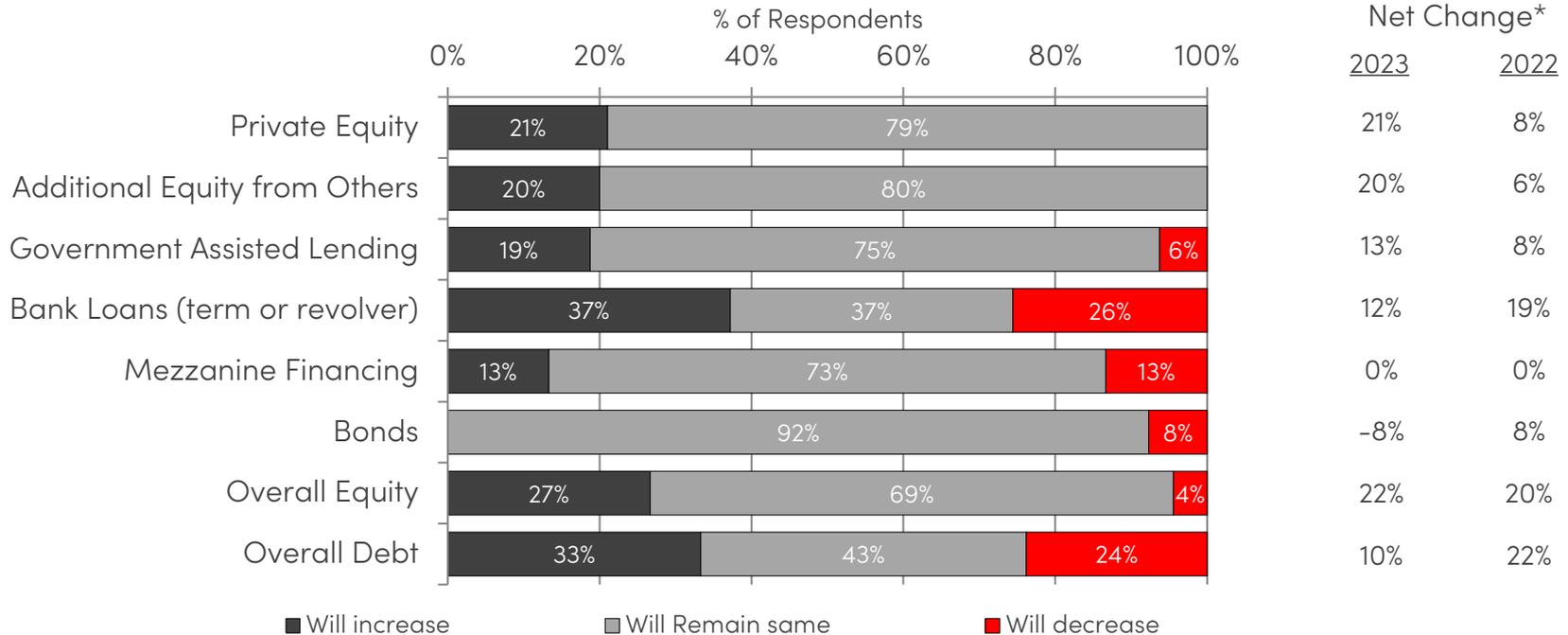
Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?

Level of Confidence in Accessing Capital	Overall	Less than \$500 mils.	Greater than \$500 mils.
Tooling	4.52	4.47	4.61
Plant and Equipment Investment	4.29	4.50	3.95
Accounts Payable Financing	4.24	4.31	4.15
Product Innovation Investment	4.12	4.29	3.83
Inventory Financing	4.09	4.15	4.00
Other Working Capital Needs	4.04	4.31	3.70
Merger & Acquisition Opportunities	3.67	3.81	3.44
U.S. Re-shoring Manufacturing Operations	3.64	3.72	3.53
Off-Shore Manufacturing Operations	3.32	3.25	3.38

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

# MEMA OE Supplier Barometer: 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?



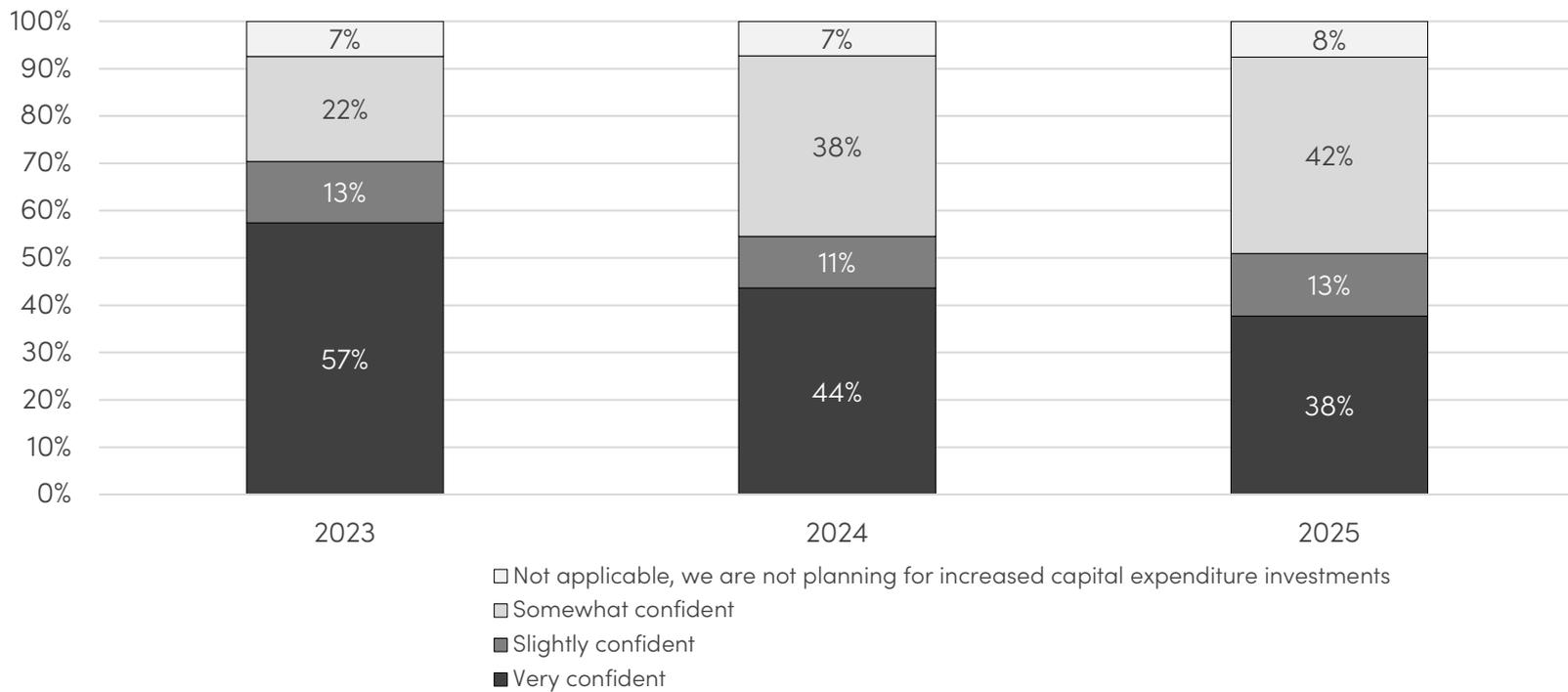
# MEMA OE Supplier Barometer: Sources of Capital by Company Revenue

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.
Private Equity	21%	33%	0%
Additional Equity from Others	20%	20%	20%
Government Assisted Lending	13%	22%	14%
Bank Loans (term or revolver)	12%	27%	24%
Mezzanine Financing	0%	-22%	14%
Bonds	-8%	-33%	0%
Overall Equity	22%	9%	6%
Overall Debt	10%	15%	33%

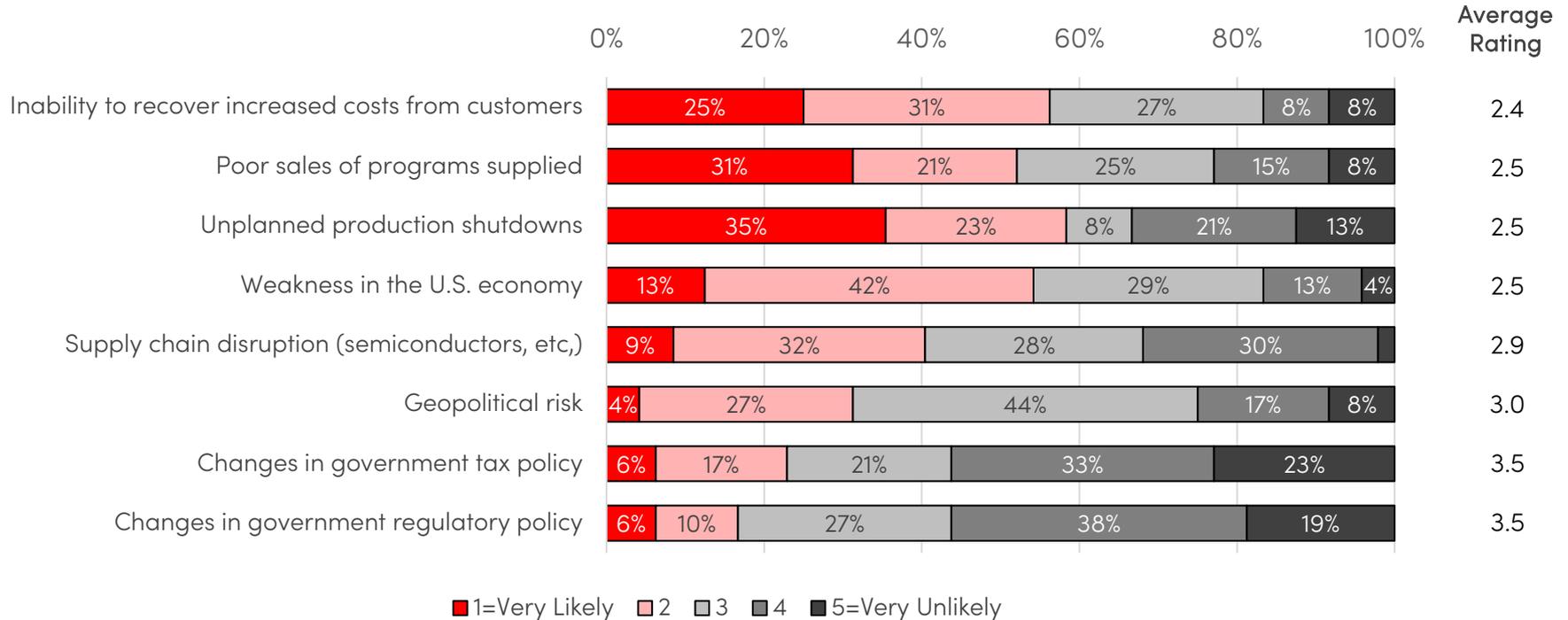
# MEMA OE Supplier Barometer: Capital Planning

How confident are you that your company will move ahead and implement the needed capital investment to meet your remaining 2023, 2024, and 2025 demand requirements?



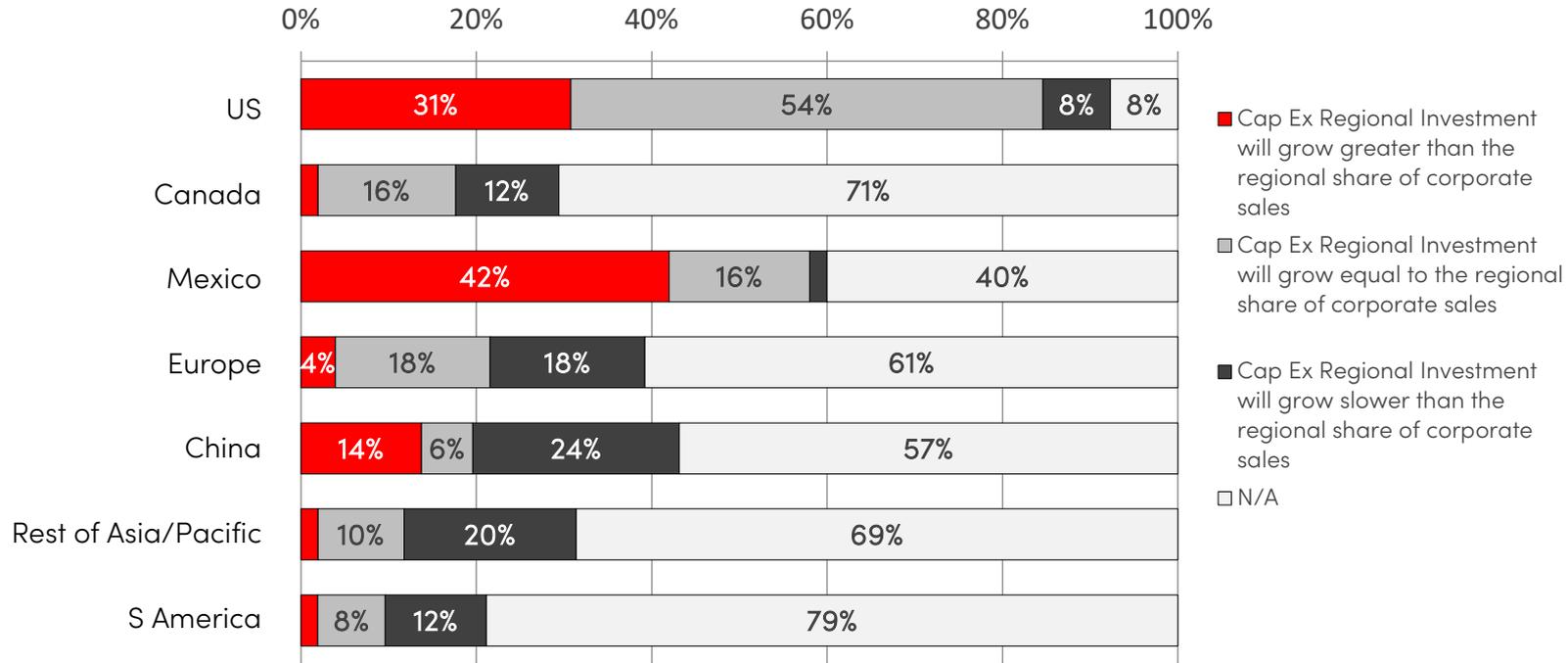
# MEMA OE Supplier Barometer: Capital Planning

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?



# MEMA OE Supplier Barometer: 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

Q3 2023 Automotive Supplier Barometer

# MEMA OE Supplier Barometer: 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 peer group)

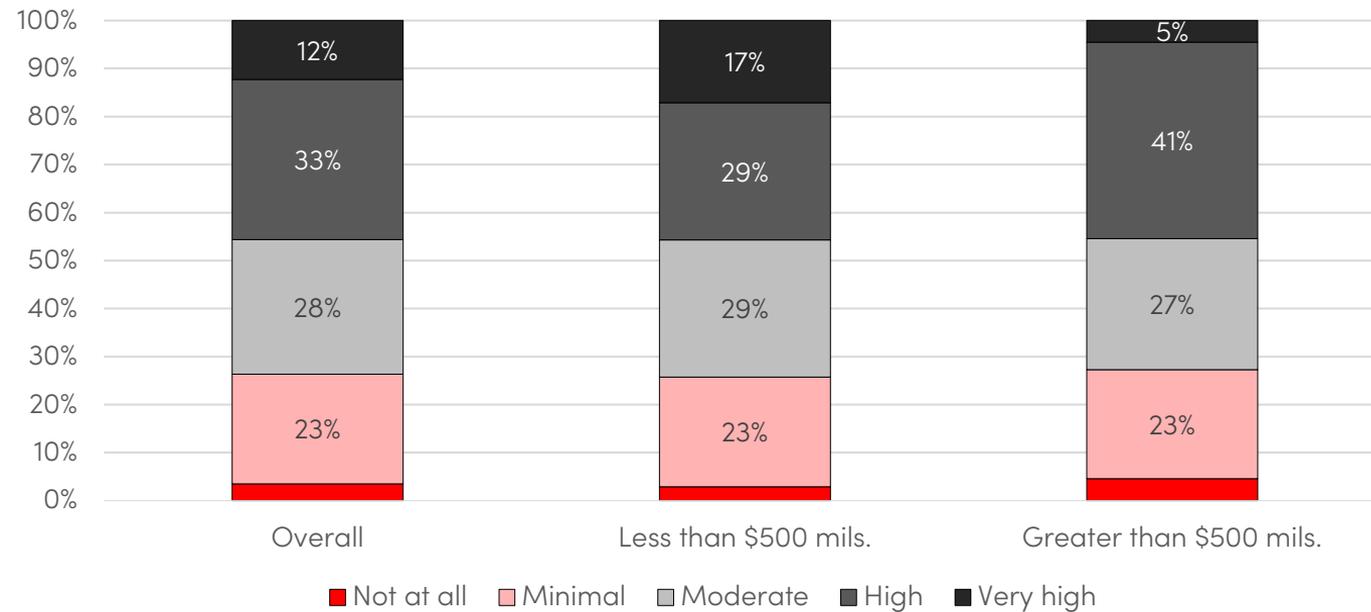
- Working on more leading-edge technology in the fluids area including for BEVs.
- Developed new product and manufacturing technologies and methodologies
- Proactive R&D, investment in human capital, continue to build on nearly 100 years of industry leadership.
- Product development and sales capture methodology
- Invest in EV efficiency technologies
- Investment in battery assembly
- Collaboration with universities
- Engaged teams to explore new industries, and add value in our space via JV, integrations, etc.

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

- Thinking about it
- We are lacking in innovation and bringing it to market
- More involvement from subsidiary locations with R&D in Germany.
- Working on detailed strategy and innovation plan enlisting outside help
- Increase of resources and funding globalization of innovation organization
- Trying to partner with companies that have new technology.

# MEMA OE Supplier Barometer: Capital Strategy

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

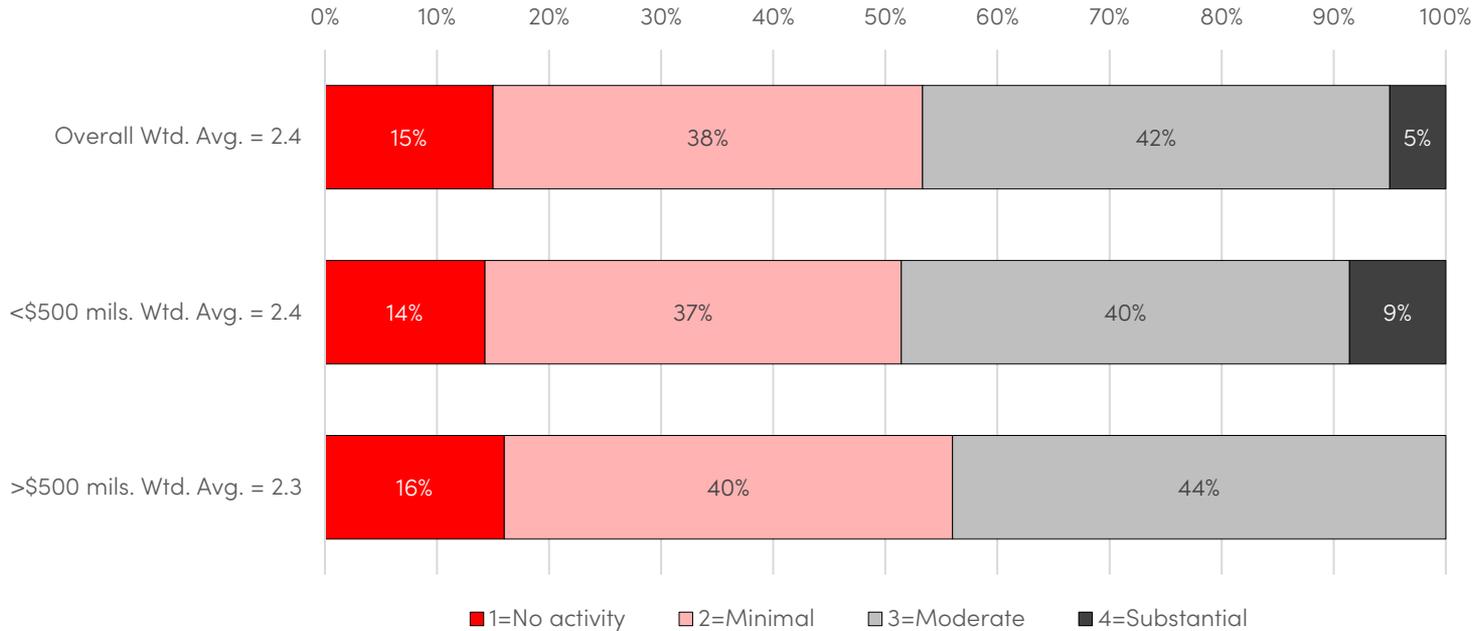


## Comments:

- This is a key aspect of our innovation strategy.

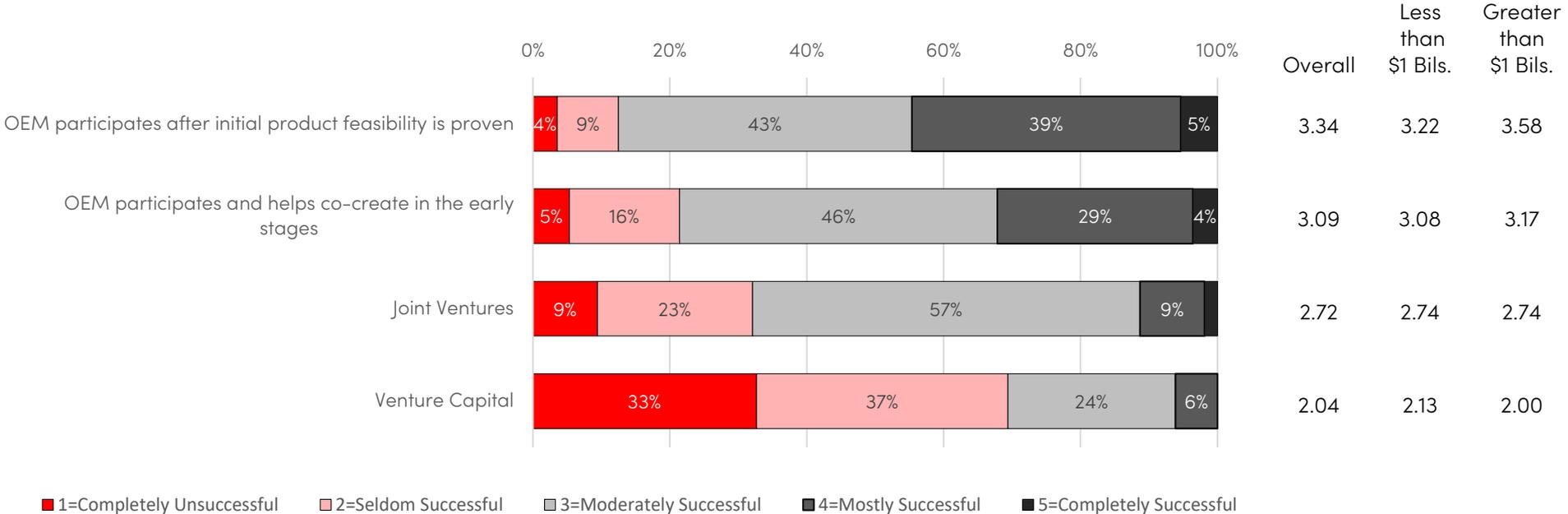
# MEMA OE Supplier Barometer: Merger and Acquisition Activity

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



# MEMA OE Supplier Barometer: 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?



# MEMA OE Supplier Barometer: Appendix



**MEMA OE Automotive Supplier Barometer** is a survey of the top executives of MEMA regular member companies. The MEMA OE 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. [mema.org](https://www.mema.org)

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## Survey Methodology

- Data collected July 11 – 31 via invitation to online survey.
- Executives of MEMA supplier companies.
- 66 complete survey responses were received, with 81 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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