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OESA AUTOMOTIVE SUPPLIER BAROMETER™ Q4 2020

CAPITAL MARKETS & INNOVATION

NOVEMBER 17, 2020

Executive Summary



Supplier Barometer Index™ (SBI) SBI Score = 67; up from Q3 level of 53

The index improved substantially as the industry continues to recover, rising 14 points from the third quarter to 67. Regardless of revenue size, responses indicate a much-improved outlook in comparison to the third quarter. The largest firms, over \$1 bil. in revenue, remain the least optimistic on net, but their outlook improved substantially from the prior quarter.



Continued issues related to the COVID-19 pandemic were identified as the biggest threat to the industry

Responses continue pointing towards the pandemic as the biggest risk to the industry, followed by the economy and sales of programs supplied, yet risk ratings moderated sequentially.

There is heightened concern over the ability to address internal labor constraints as suppliers struggle to get their entire labor force back into their plants, ultimately raising the risk of the inability to fulfill customer volumes.



Growing capital needs continue to support robust product innovation investments.



Production breakeven level falls to 13.5m units:

Suppliers' buffer between production and their estimated breakeven point has diminished nearly entirely for 2020, with expected production to exceed break-even by about 500,000 units.

2021 is expected to improve, with the gap between break-even and actual production to widen to 1.5 million units.

Executive Summary



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

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

The greatest confidence in accessing capital is for use in tooling, and plant and equipment investment, while there is less confidence in accessing capital for M&A opportunities, and off-shore manufacturing.



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

Availability, technology, and quality drive the decision to buy new.



Fifty-eight percent of suppliers are very confident that their company will move ahead and implement the needed capital investment to meet their 2021/2022 demand requirements.

Continued issues related to the pandemic, weakness in the U.S. economy, and poor sales of programs supplied are all concern that may delay or hinder investment plans.



North America and China CAPEX is 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-four percent of suppliers believe they are ahead of the industry's pace of innovation while twenty-seven percent feel they are behind.

74% of supplier respondents indicate their capital planning process helps them achieve their innovation objectives by leveraging external partners to accelerate innovation and learning.



Firms across all revenue categories are funding their capital needs primarily through free cash flows.

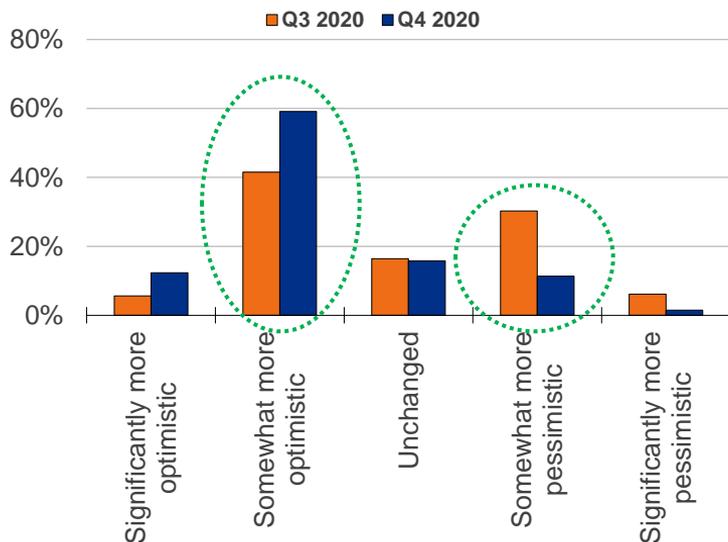
Firms with greater than \$500 million in revenue have the heaviest cash flow position in their weighted average cost of capital in comparison to firms smaller in size.

SUPPLIER OUTLOOK

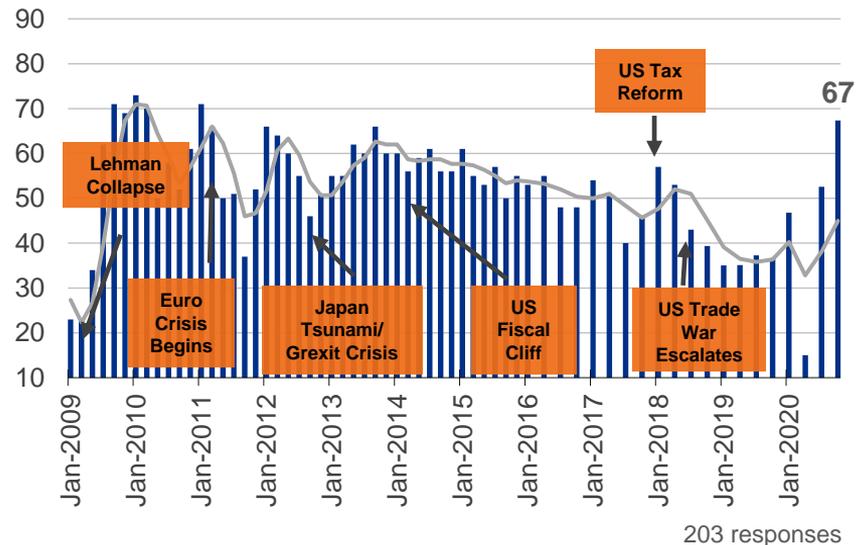
OESA Supplier Barometer: Q4 2020 Results

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

Current Supplier Outlook (Share of Respondents)



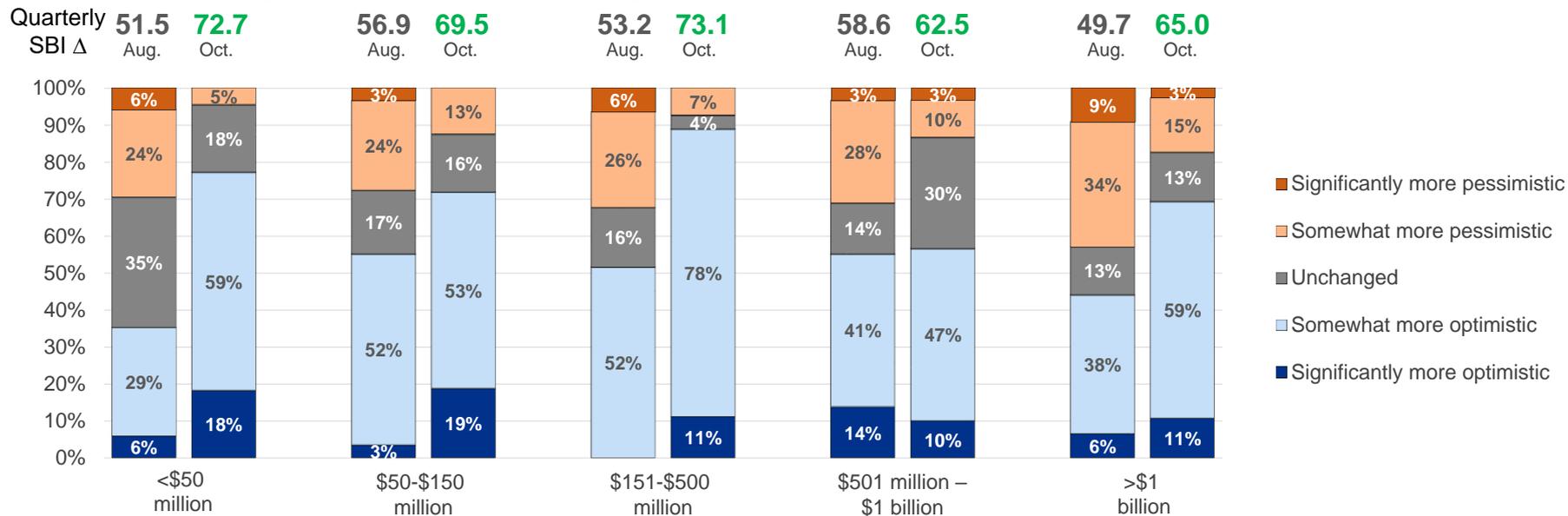
Supplier Barometer Index: (SBI and 6m Average)



The outlook for the fourth quarter improved substantially, with the SBI increasing 14 points from Q3 to 67. The proportion of respondents indicating a more pessimistic outlook fell 24 pts. to 13 percent.

OESA Supplier Barometer: Q4 2020 Results By Revenue

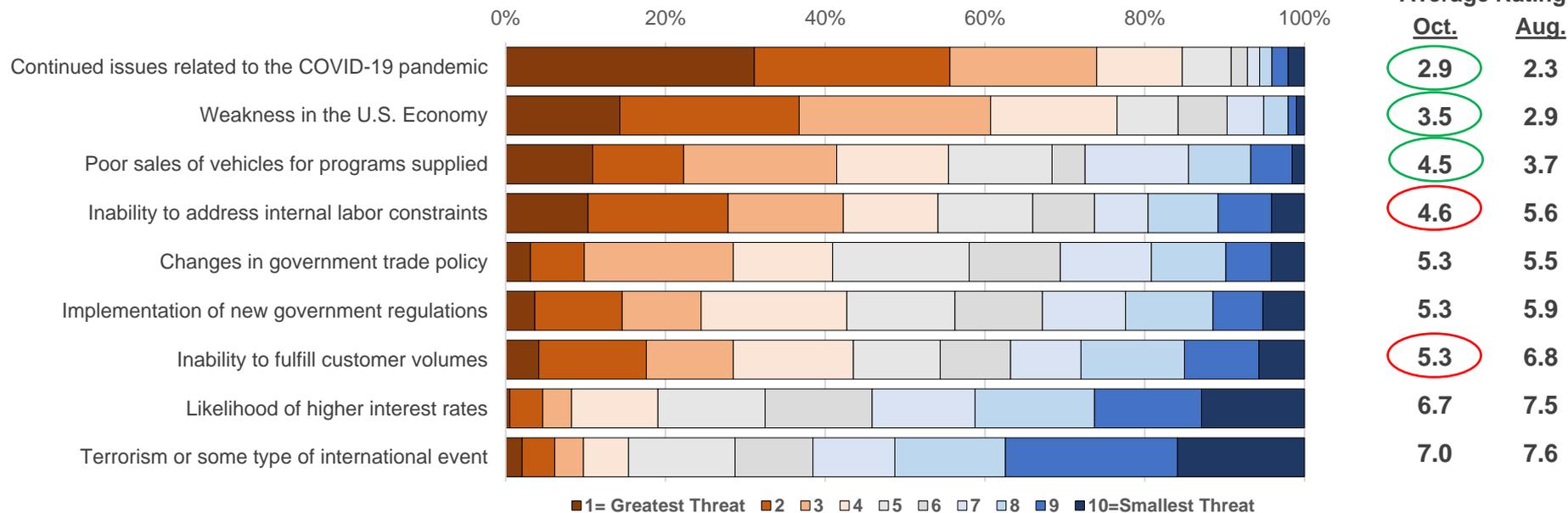
Describe the general twelve-month outlook for your business. Over the past three months, has your opinion become...?



Regardless of revenue size, responses indicate a much improved outlook in comparison to the third quarter. The largest firms remain the least optimistic on net, but their outlook improved substantially from prior quarter.

OESA Supplier Barometer: Industry Threats

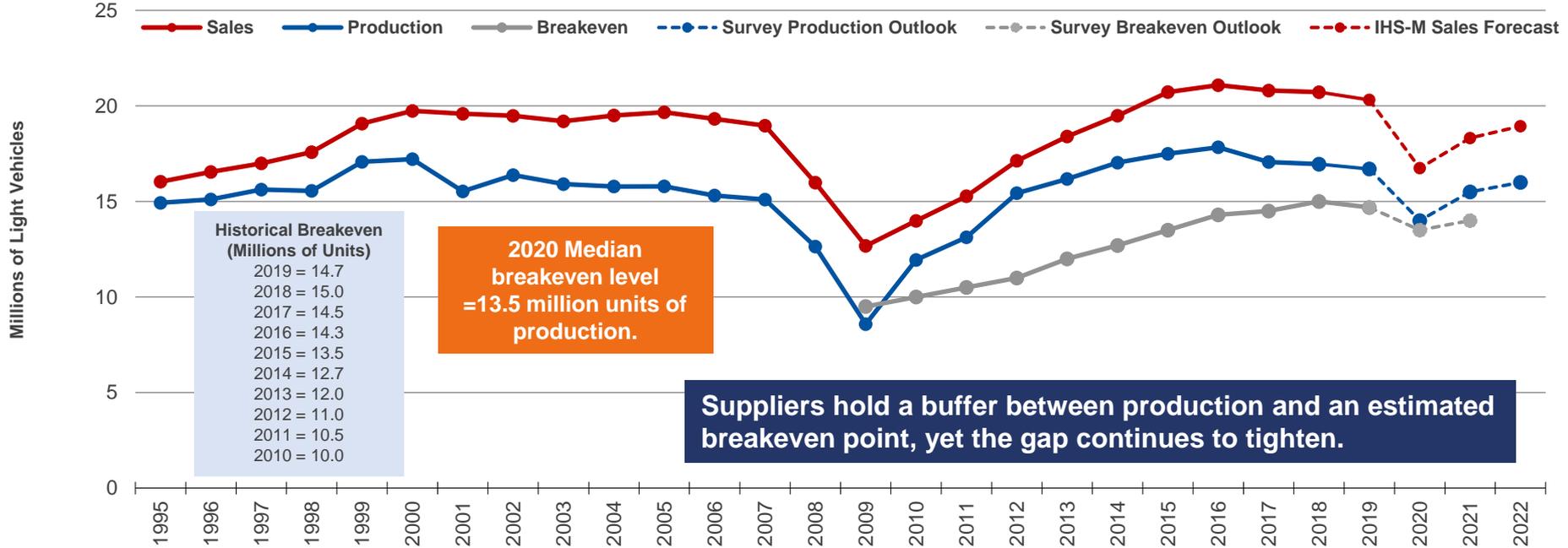
What are the greatest threats to the industry over the next 12 months?



Continued issues related to the pandemic remains as the greatest threat to the industry but eased sequentially. Internal labor constraints are impacting the ability to fulfill volumes in the face of improving sales.

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?

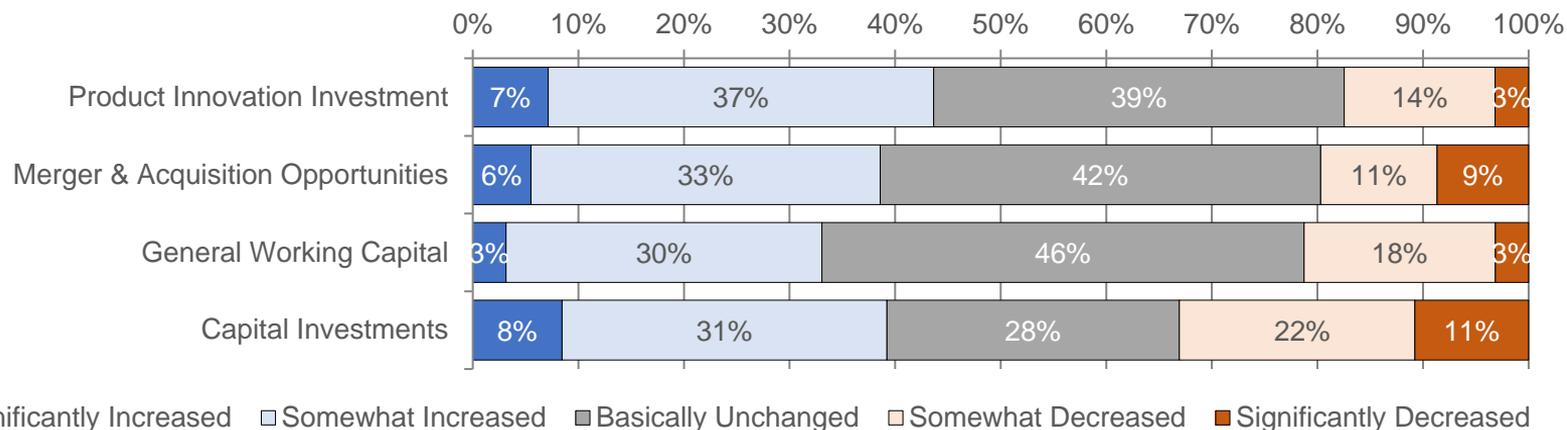


Source: IHS Markit (History, Sales and Production); IHS Markit (Sales Forecast)

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:

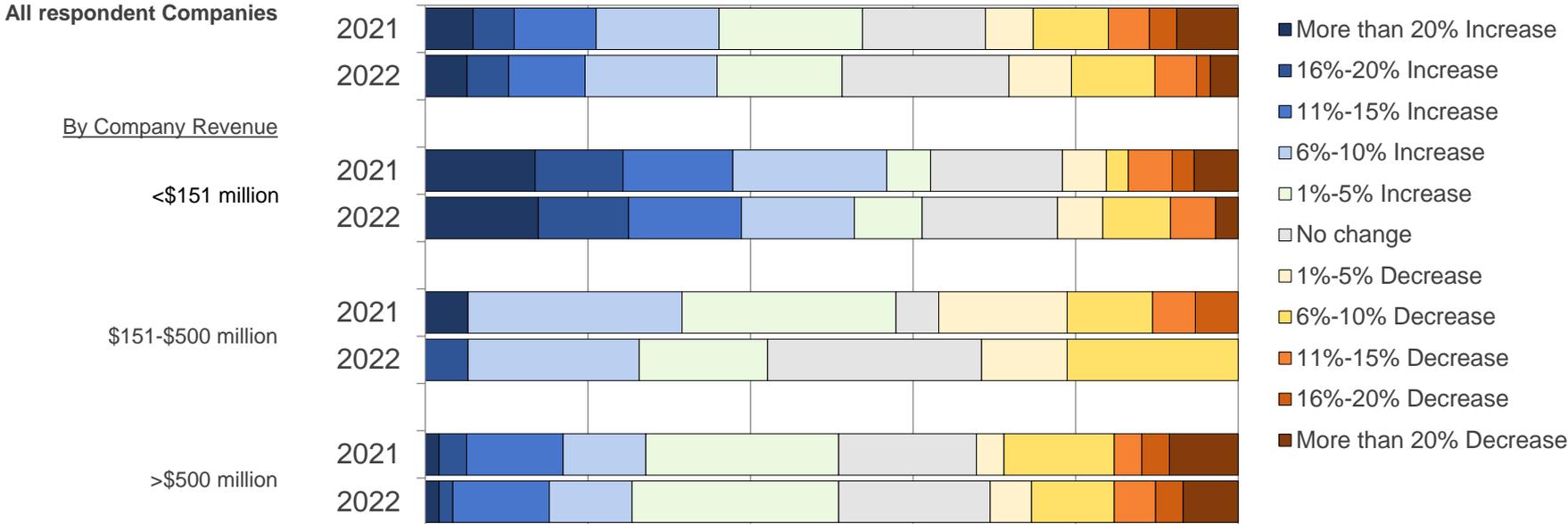
- Electrification needs more review
- Many new products being developed
- Some cutting back already started
- Shifting capital needs from legacy, core assets towards innovative/new capabilities
- Based on current market dynamics, potential for multiple compression for M&A targets
- NPI high priority
- More capital investments in the previous year simply because there was a new factory and this year there is no new factory spending to the same scale.
- Innovation investment increasing to address electrification.
- Spending on Product Innovation as we prepare for a slowing volume/production

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 2019 as the base year.

Estimate of Percent Increase over 2019 Base

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



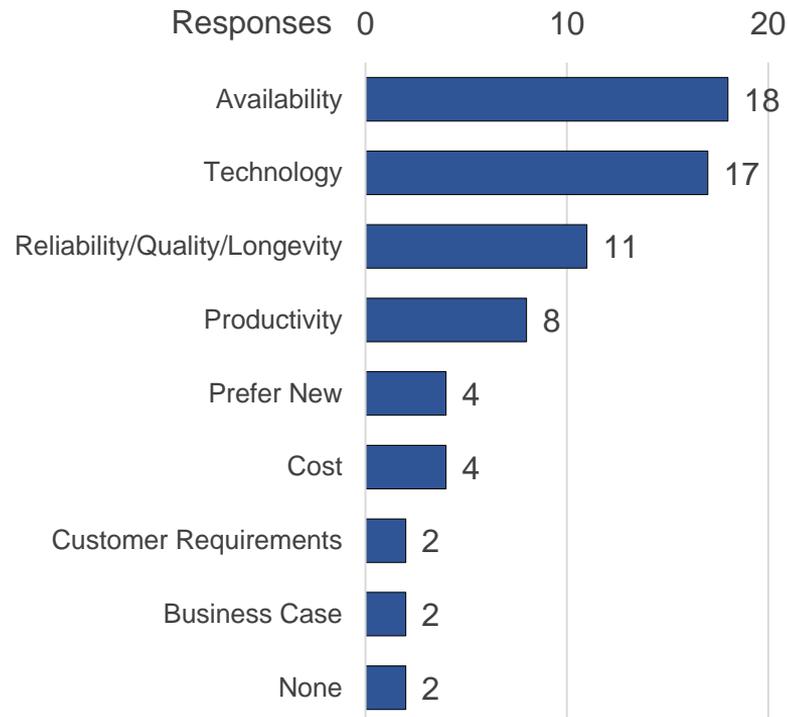
New Versus Used Equipment

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. 2020	70.0	80.0	100.0
May 2019	75.0	85.0	100.0
May 2018	75.0	90.0	100.0

% of spend being allocated to purchase <u>used</u> equipment			
	Lower Quartile Value	Median Value	Upper Quartile Value
Oct. 2020	0	20.0	30.0
May 2019	0	17.5	25.0
May 2018	0	10.0	21.3

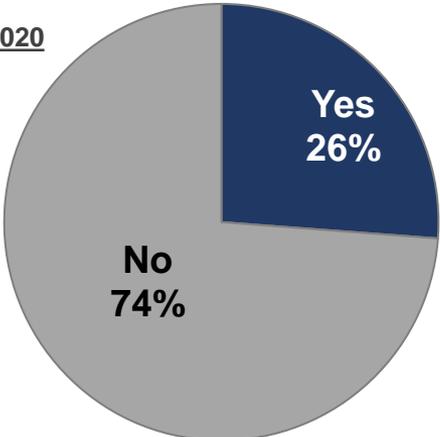
What market issues are driving your decision to buy new versus used?



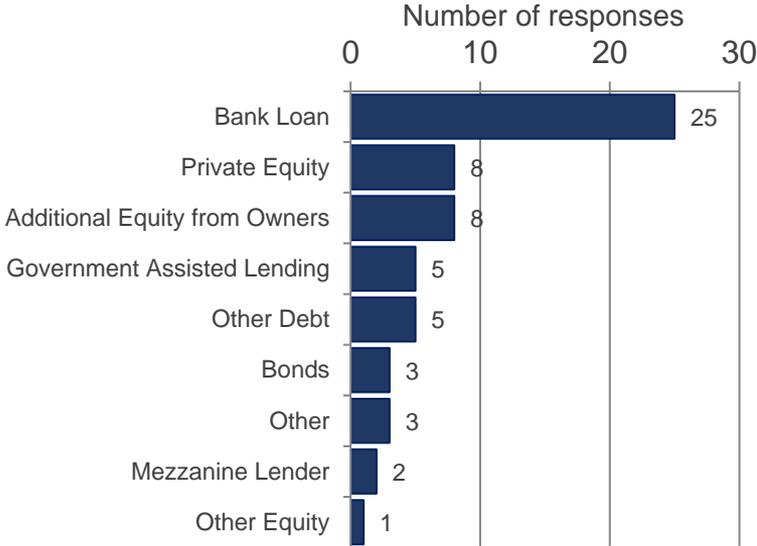
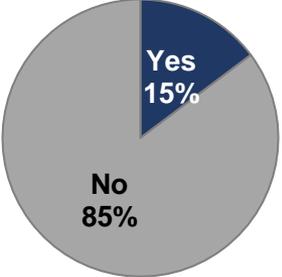
Changing Capital Structure

*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?*

2020



2019



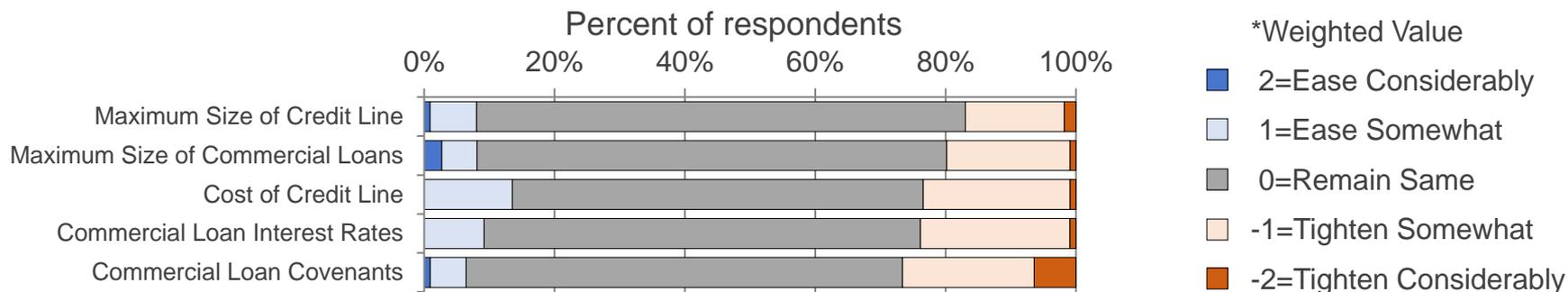
Comments:

- We are being very selective on the new business we bid on and have a much more focused effort to place capital that is not dedicated to a single program.
- 85% reduction for 2020
- 2020 CAPEX was reduced compared to 2019. When COVID hit us, we reduced even more
- Significantly, no. to some degree, yes.
- Capital freeze, no new investment for the next 2+ years.
- Where possible we are more conservative due to the virus and uncertainty and also the belief that there may be deals coming if the economy fail even more
- During the Pandemic we cut back on some of the capital purchases however with the rebound some of them are back on the table
- 20% reduction in headcount and expenses.
- Well funded programs continued
- Company was purchased from lenders and capital was restructured
- Focus on "maintaining" useful life of equipment before procuring equipment; with a benefit consideration. i.e if new eqt has a technology benefit that improves OEE/Yield/Quality higher consideration is considered. Otherwise, we'll forgo.

- Other sources identified:**
- No borrowed money
 - Syndicated loan agreement
 - Lease

Commercial Loans and Lines of Credit

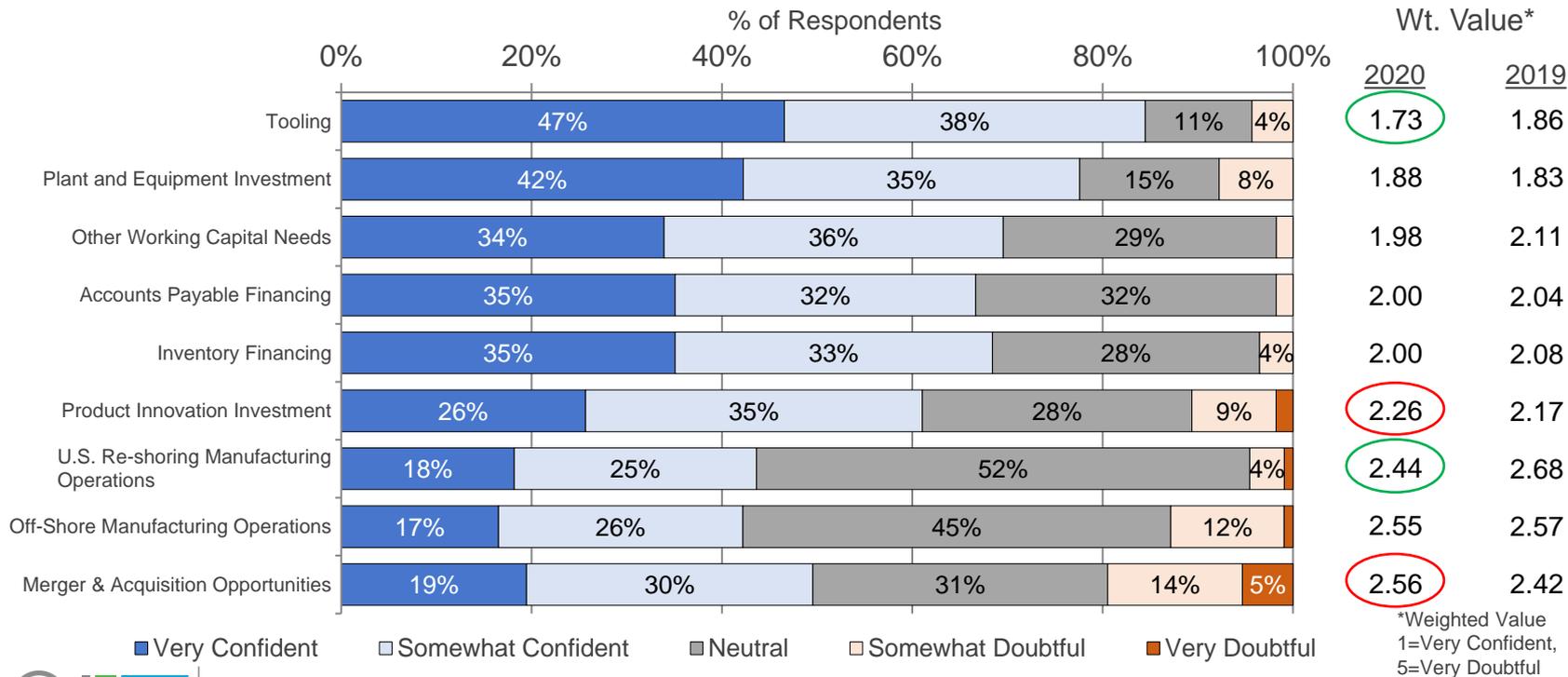
Considering your lead commercial bank, over the next 12 months, how do you anticipate the terms of your commercial loan or credit line applications changing?



Changes in terms by Revenue	Overall	<\$151 Million	\$151-\$500 Million	>\$500 Million
Maximum Size of Credit Line	-0.10	-0.05	0.06	-0.17
Cost of Credit Line	-0.11	0.00	-0.18	-0.15
Maximum Size of Commercial Loans	-0.10	-0.05	-0.28	-0.06
Commercial Loan Interest Rates	-0.15	-0.05	-0.28	-0.20
Commercial Loan Covenants	-0.25	-0.27	-0.17	-0.25

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

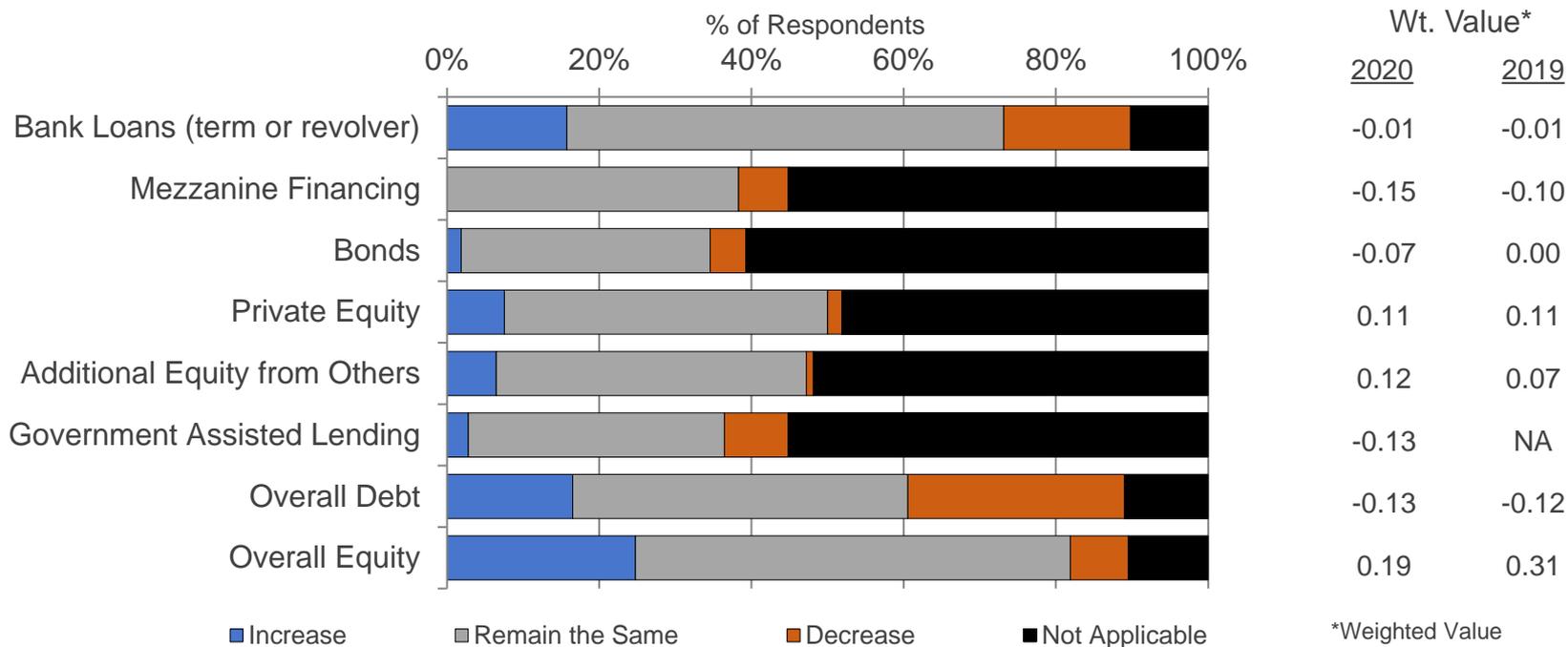
Over the next 12 months, how confident are you that you will be able to access required levels of capital at appropriate costs for the following uses?

Level of Confidence in Accessing Capital	Overall	<\$151 Million	\$151-\$500 Million	>\$500 Million
Plant and Equipment Investment	1.88	1.64	1.56	2.11
Tooling	1.73	1.56	1.39	1.93
Accounts Payable Financing	2.00	1.78	1.67	2.22
Inventory Financing	2.00	1.78	1.61	2.26
Other Working Capital Needs	1.98	1.78	1.72	2.18
Off-Shore Manufacturing Operations	2.55	2.68	2.50	2.49
U.S. Re-shoring Manufacturing Operations	2.44	2.20	2.50	2.57
Merger & Acquisition Opportunities	2.56	2.34	2.22	2.76
Product Innovation Investment	2.26	2.06	1.94	2.49

*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?

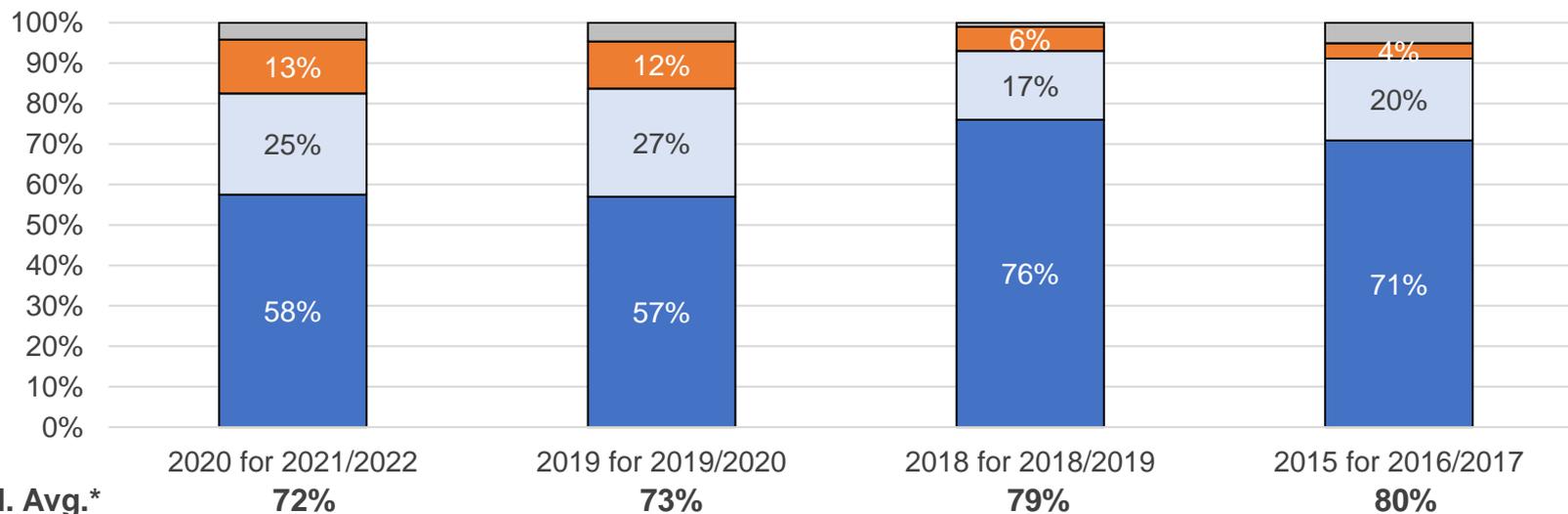
Change in Sources of Funds	Overall	<\$151 Million	\$151-\$500 Million	>\$500 Million
Bank Loans (term or revolver)	-0.01	-0.19	0.00	0.11
Mezzanine Financing	-0.15	-0.23	0.00	-0.17
Bonds	-0.07	-0.17	-0.17	0.00
Private Equity	0.11	0.00	0.13	0.18
Additional Equity from Others	0.12	0.07	0.18	0.12
Government Assisted Lending	-0.13	-0.35	0.13	-0.05
Overall Debt	-0.13	-0.21	-0.07	-0.09

*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 2021/2022 demand requirements?

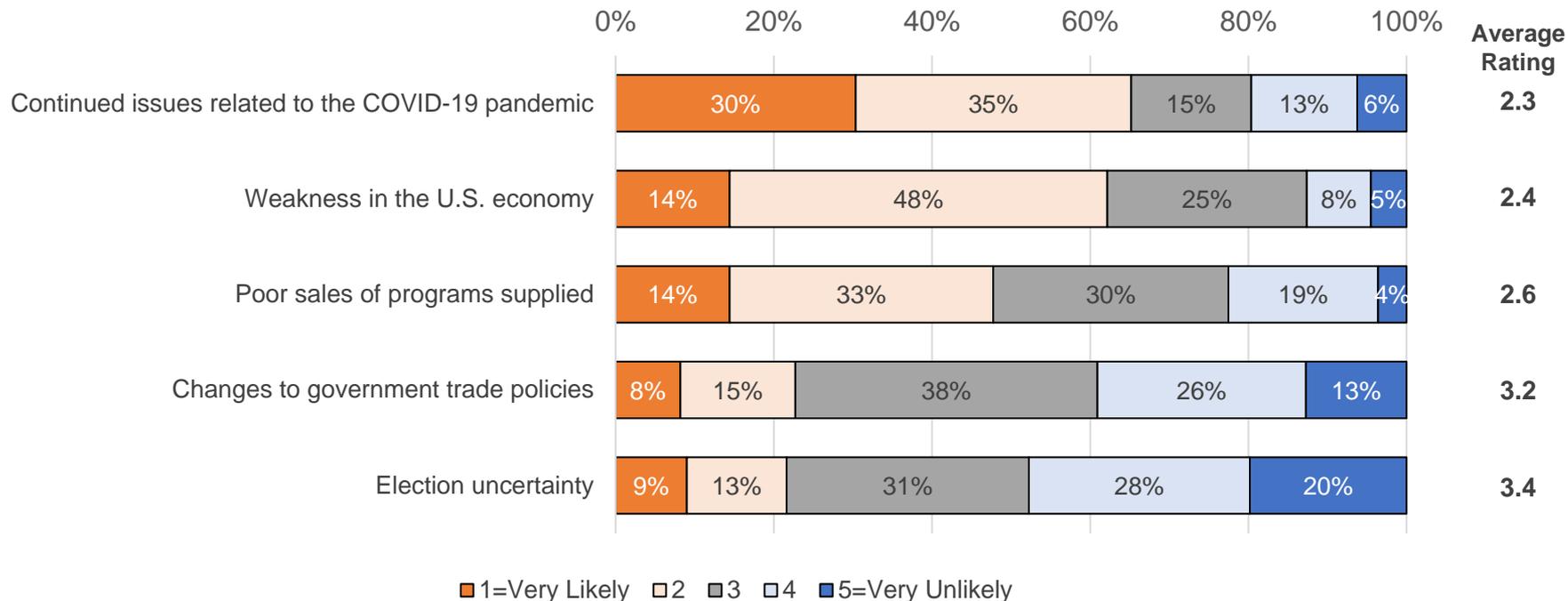


- Not applicable, we are not planning for increased capital expenditure investments
- Slightly confident (<50%)
- Somewhat confident (50-75%)
- Very confident (>75%)

*Assumes mid-point of each range

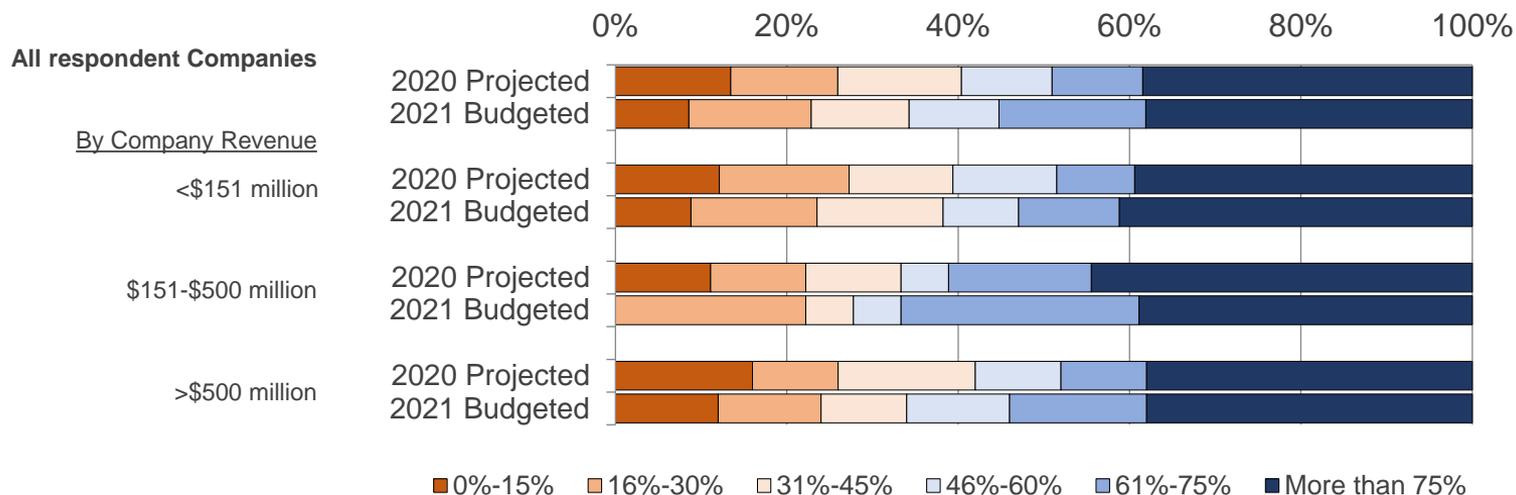
Capital Planning

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

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

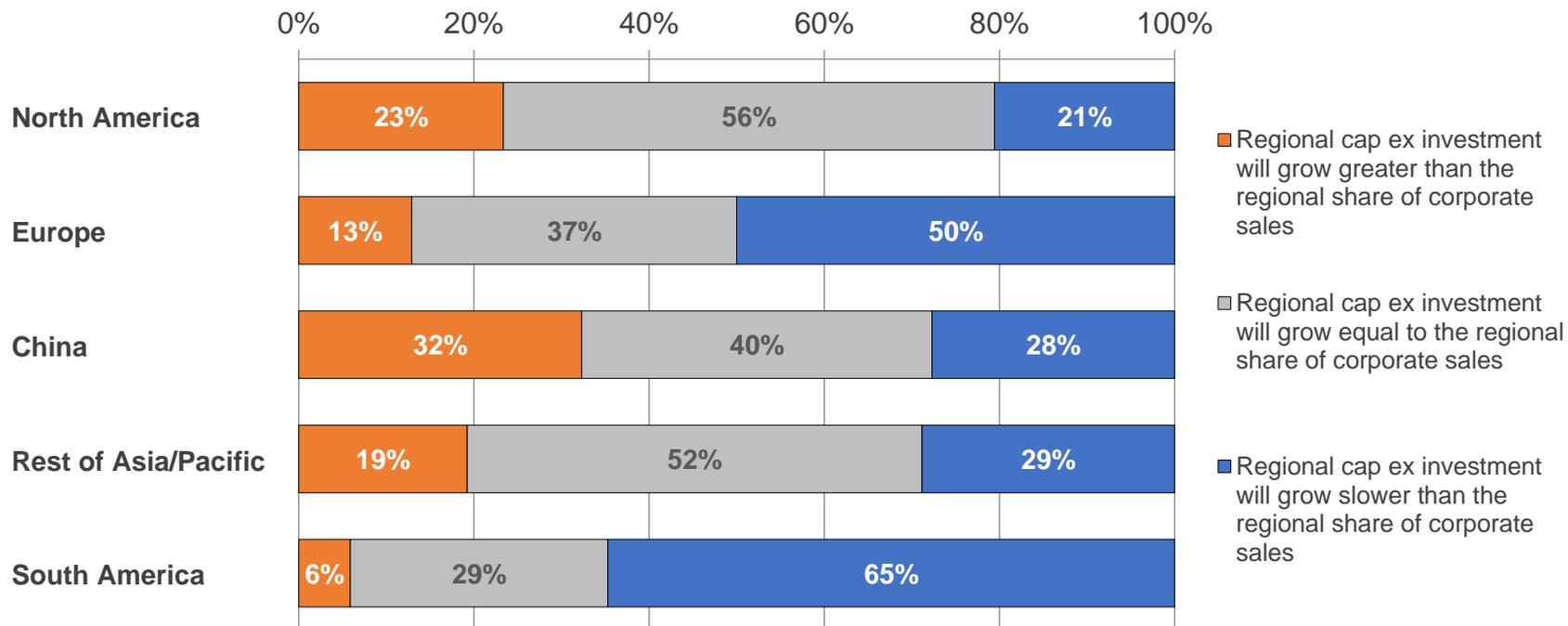


Comments:

- Strong balance sheet and free cash flows enable funding of capital needs, without borrowing.

Capital Planning

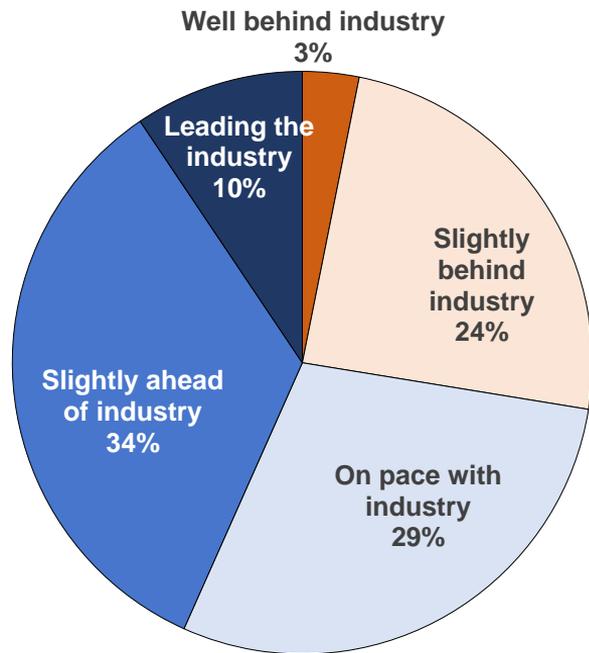
Looking at your current global footprint, for each of the following regions, how do you anticipate your regional cap ex investment levels shifting over the next five years?



INNOVATION

Innovation

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

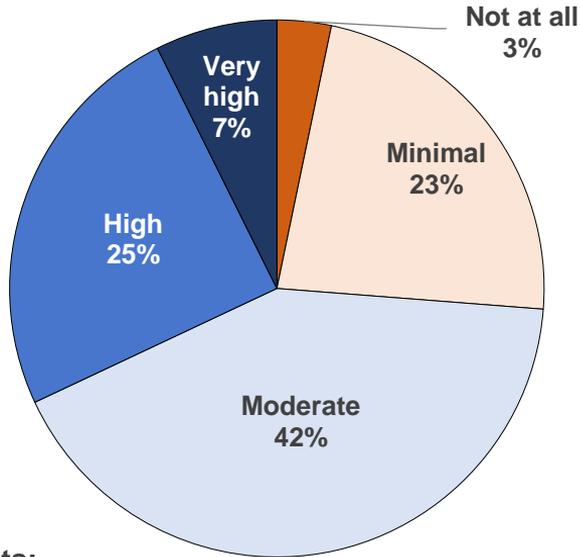


Comments:

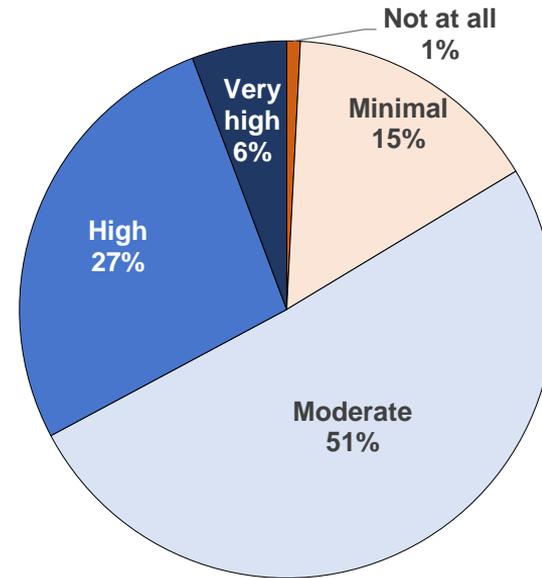
- Working to diversify in new markets with niche offerings
- Depending on commodity and end customer, innovation is ahead of industry or behind innovation per customer; based on customer portion of total sales, we are ahead
- Good on product technology, but well behind the industry on IT
- Slowed projects in pandemic

Capital Strategy

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



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

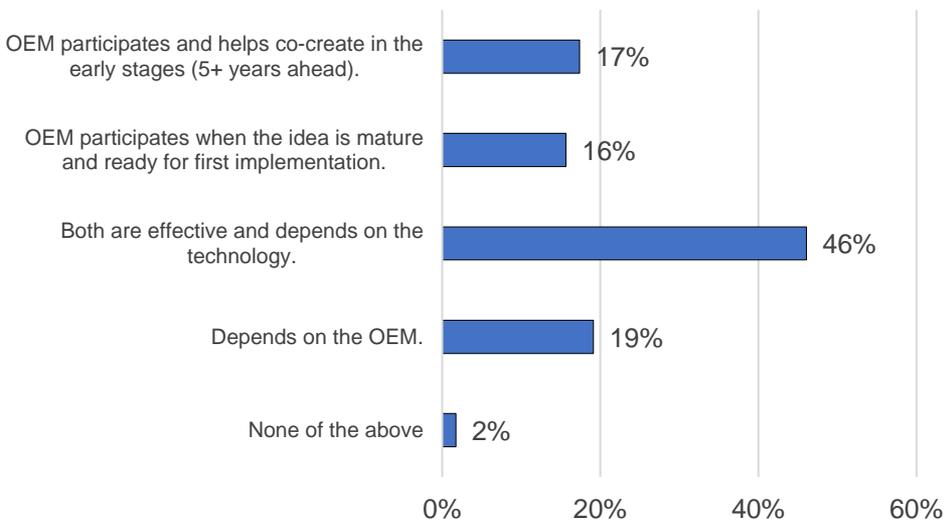


Comments:

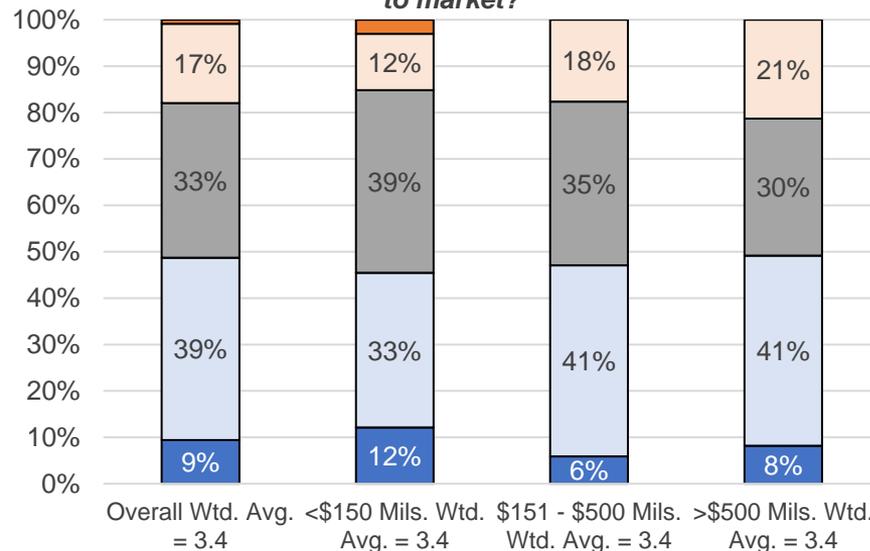
- Work with external partners a great deal as well as collaborate with suppliers and material producers and leaders.

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?



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

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 require 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.
- 133 complete survey responses were received, with 203 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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